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Coming Together for a Better Future



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Abbreviations and Acronyms

APEs	Community Health Workers (<i>Agentes Polivalentes Elementares</i>)
CA	Conservation Area
CEDSIF	Center for Development of Financial Information Systems
CEM	Country Economic Memorandum
CEQ	Commitment to Equity
CHWs	Community health workers
CSA	Climate Smart Agriculture
DHS	Demographic and Health Surveys
DRM	Disaster Risk Management
DUAT	Land Utilization Rights (<i>Direitos de Uso e Aproveitamento da Terra</i>)
EdM	Mozambique Electricity Company (<i>Electricidade de Moçambique</i>)
EITI	Extractive Industries Transparency Initiative
EMATUM	Mozambique Tuna Company (<i>Empresa Moçambicana de Atum</i>)
ENH	Empresa Nacional de Hidrocarbonetos
FAOSTAT	Food and Agriculture Organization Statistical Organization (United Nations)
FDI	Foreign Direct Investment
GCI	Global Competitive Index
GDP	Gross Domestic Product
GER	Gross Enrollment Rate
GHG	Greenhouse Gases
GIC	Growth Incidence Curve
GIS	Geographic Information System
GoM	Government of Mozambique
HCI	Human Capital Index
HIV	Human Immunodeficiency Virus
HOI	Human Opportunity Index
IAS	Agricultural Survey (<i>Inquérito de Agricultura</i>)
ICT	Information and Communication Technology

ID4D	Identification for Development
IFC	International Finance Corporation
IMF	International Monetary Fund
INAS	National Institute of Social Action (<i>Instituto Nacional de Acção Social</i>)
INE	National Institute of Statistics (<i>Instituto Nacional de Estatística</i>)
INGD	National Institute for Disaster Management (<i>Instituto Nacional de Gestão e Redução do Risco de Desastres</i>)
IOF	<i>Inquérito sobre Orçamento Familiar</i> (Household Budget Survey)
LIC	Low Income Countries
LNG	Liquefied Natural Gas
MAPIO	Macroeconomic Assessment of Public Investment Options
MASA	Ministry of Agriculture and Food Security (<i>Ministério da Agricultura e Desenvolvimento Rural</i>)
MFN	Most Favored Nation
MIMAIP	Ministry of the Ocean, Internal Waters, and Fisheries (<i>Ministério do Mar, Águas Interiores e Pescas</i>)
MITADER	Ministry of Land, Environment and Rural Development (<i>Ministério da Terra e Ambiente</i>)
MMR	Maternal Mortality Ratio
MSMEs	Micro, Small, and Medium Enterprises
ND-GAIN	Notre Dame Global Adaptation Initiative
PASD	Programa de Apoio Social Directo
PEFA	Public Expenditure and Financial Accountability
PIM	Public Investment Management
PMT	Proxy Means Test
PPP	Public-Private Partnership
PSSB	Basic Social Subsidy Program (<i>Programa de Subsídio Social Básico</i>)
REER	Real Exchange Rate
SAAJ	Adolescent and Youth Friendly Services (<i>Serviços Amigos dos Adolescentes</i>)
SAPP	Southern Africa Power Pool
SCD	Systematic Country Diagnostic
SDGs	Sustainable Development Goals
SDI	Service Delivery Indicators
SIMA	Agricultural Market Information System (<i>Sistema de Informação de Mercados Agrícolas</i>)
SISE	State Information and Security Service (<i>Serviço de Informação e Segurança do Estado</i>)
SLAs	Service Level Agreements

SME	Small and Medium Enterprise
SOEs	State Owned Enterprises
SPA	Automated Payment System (<i>Sistema de Pagamentos Automáticos</i>)
SSA	Sub-Saharan Africa
SUSTENTA	Agriculture and Natural Resources Landscapes Management Project
TA	Administrative Tribunal (<i>Tribunal Administrativo</i>)
TFP	Total Factor Productivity
TFR	Total Fertility Rate
UN	United Nations
UNICEF	United Nations Children's Emergency Fund
VAT	Value Added Tax
VCs	Value Chains
WASH	Water, Sanitation and Hygiene
WBES	World Bank's Enterprise Survey
WDI	World Development Indicators

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Executive Summary

In the last five years, since the last Systematic Country Diagnostic (SCD) was written in 2016, Mozambique experienced several severe shocks affecting economic growth, poverty reduction, and stability

In the spring of 2016, when it was revealed that 10 percent of gross domestic product (GDP) worth of debt had been hidden from the population, donors, and outside investors, Mozambique's economy took a significant turn for the worse. The revelation not only provided a significant blow to Mozambique's reputation of sound economic management and led its governance ratings to take a plunge, it also marked the departure from its formerly stellar growth performance of two decades. While Mozambique had grown at 8 percent on average between 2001 and 2015, its annual growth rate came down to 3 percent between 2016 and 2019. It contracted for the first time in three decades in 2020 due to the Coronavirus disease (COVID-19). Its public debt stood at 122 percent of GDP in 2020, and a return to debt sustainability hinges on the direct and indirect growth effects and materialization of revenues from an impending gas bonanza.

A series of natural disasters—the two cyclones (Idai and Kenneth) that hit Mozambique in 2019 and COVID-19 in 2020—added to the macroeconomic challenges, erasing a good portion of the social gains that the country had made at the beginning of the decade and worsening the prospects for human capital development. An estimated one million people slipped back into poverty in 2020 on account of the pandemic alone (as measured by the international poverty line of US\$1.90 per day), further delaying Mozambique's already slow progress toward the Sustainable Development Goals (SDGs). The road to a resilient and inclusive recovery from the shock of the COVID-19 pandemic will be long.

There was also some good news. Novel data of GDP growth at the district level shows that the country's lopsided development path with most economic activity happening in the South is slowly changing with some "deconcentration" of growth happening in the industry and service sectors even among smaller cities and poorer rural areas. This trend is contributing, albeit modestly, to a process of structural change, which needs to be accelerated further. Mozambique has also made important progress by securing commitments from liquified natural gas (LNG) investors and advancing the national process of peacebuilding and political decentralization. Unfortunately, some of this progress is now put at risk by the insurgency that has erupted in the Northern State of Cabo Delgado, where most of Mozambique's vast natural gas reserves are located. The recent escalation of violence seen in the region has led the investors that already made commitments to evacuate their staff from Cabo Delgado and put financial investment decisions by other investors on ice.

These events have changed the context for policy making in Mozambique, calling for a greater focus on governance and accountability, productivity, social safety nets, and a stronger social contract

Mozambique's weak economic performance, high debt burden, and the impact of COVID-19 mean that it is entering the new decade with a significantly reduced fiscal space. While Mozambique has protected social spending in the past five years, public investment has fallen to a historically low level, which deprives the country of an important lever to stimulate growth. Because it cannot afford another decade of low growth until the effects from the gas production kick in, Mozambique must start tackling the more difficult reforms now, such as reducing its large wage bill to reasonable levels and raising the efficiency of public spending by strengthening the public investment management and public procurement frameworks. Achieving greater efficiency of spending also means investing in a stronger data environment to inform evidence-based policy making and promoting transparency. To keep Mozambique's already large infrastructure gap from growing in this environment of scarce resources, the country needs to make concerted efforts to entice private investment into this space.

The debt crisis has highlighted the institutional challenges that hold back progress on Mozambique becoming a leaner, more efficient, and equitable state. The high debt burden and a weak macro-fiscal framework are undermining Mozambique's ability to attract much needed private investment by adding policy uncertainty and raising the cost of financing for investors. In the short term, debt and public financial management require further strengthening, including by strengthening the issuance of guarantees and on-lending to state-owned enterprises (SOEs). To enhance resource governance, more efforts must be made to increase transparency and accountability around financial decisions made by Government, especially, in its substantial and under-performing SOE portfolio. In the medium term, the macro-fiscal framework would benefit from the introduction of a simple fiscal rule to manage future revenue volatility from the gas sector. A broader SOE reform, limiting the role of government in the productive sector, will not only reduce fiscal risks but also unlock opportunities for private sector investment.

The low growth performance of the past years has also shone a light on Mozambique's productivity challenge and the low capacity of its private sector to create wage-based jobs. Mozambique historically relied on attracting significant foreign direct investment into so-called "mega-projects," which fueled growth but provided limited employment opportunities to a fast-growing population. To secure inclusive growth going forward, Mozambique needs to accelerate the process of structural transformation by reducing the reach of the state and its elites into the private sector to improve the competition environment, abandon its highly procedural, risk averse and costly approach to private sector regulation, and focus instead on creating an enabling environment for private sector growth and trade. Only if this agenda is taken seriously will Mozambique overcome the very low productivity performance of its firm landscape and incentivize private investment. Raising productivity will also require a great focus on strengthening its human capital and focusing on skills development.

The insurgency in Cabo Delgado encapsulates a long-standing challenge of an uneven state presence and limited mechanisms to redress grievances. An uneven state presence and limited mechanisms to redress grievances have weakened Mozambique's social contract and exacerbate the divide between the state and citizens. Limitations on press freedom, a slow and captured justice system, and limited avenues for civic engagement, particularly for the youth, deprive the

state of a productive contestation of its performance. A strong and sustained commitment to transparency and accountability—including around the impending natural resource boom through the establishment of a sovereign wealth fund—could encourage public support and help ensure that the government pursues policies that benefit the whole nation and not just the elites. In such a context, advancing fiscal decentralization becomes a priority in addressing the challenge of an uneven state presence and expanding the mechanism to redress grievances. This would include revisiting intergovernmental fiscal transfers to strengthen the ability of subnational levels of government to deliver quality public services at the local level and strengthen accountability with local constituencies.

Despite these new challenges, most of the development trials that were already relevant when the last SCD was written in 2016, remain relevant today

Mozambique remains one of the countries with the lowest human capital in the world. Human capital, as measured by the 2020 Human Capital Index (HCI), is the ninth lowest in the world,¹ despite some progress on indicators such as life expectancy and primary school enrollment. Malnutrition, weak educational outcomes, and poor health conditions undermine productivity, well-being, and the long-term sustainability of growth. A child born in Mozambique today will only be 36 percent as productive at age 18 as if she enjoyed full health and education and Mozambique’s adult survival rate is the eleventh lowest in the world. While the Government of Mozambique has protected social sector spending as a share of GDP in recent years and is meeting norms for education spending (as a percent of the national budget), health and social protection spending are well below those of peers and target and largely dependent on donor flows. Inefficiencies in social spending, incentives around performance, and accountability mechanisms remain important issues to be addressed. Lack of proper identification for six out of ten Mozambicans constitutes an important basic constraint to targeting and providing for those in need.

Gender is a key determinant of inclusiveness, and adolescent girls are one of the most vulnerable population groups. Mozambique has the fifth highest rate of child marriage, and one of the highest rates of adolescent fertility in the world. According to the Ministry of Gender, Children and Social Action, as of 2015, 46 percent of girls between 15 and 19 years of age were either mothers or pregnant. About 33 percent of 15-year-old adolescents girls declare that they are survivors of physical violence. Across Mozambique, 70 percent girls report knowing of cases of sexual harassment and abuse in their school. While almost all girls in Mozambique enroll in the first year of primary school, more than one-half drop out by the fifth grade, with the gender gap widening around age 15. Gender disparities persist in the labor market, with women being disproportionately represented in low-productivity, informal sectors. Reforms are needed to ensure greater empowerment of women, who will be key to kicking off Mozambique’s demographic transition to make the most of the country’s youth and future development path. Addressing this challenge includes—first and foremost—tackling the social norms holding back

¹ The HCI calculates the contributions of health and education to worker productivity. The final index score ranges from zero to one and measures the productivity as a future worker of a child born today relative to the benchmark of full health and complete education.

the agency of women.

Even though Mozambique is gradually becoming more urban, the rural space continues to be at the center of economic life for most Mozambicans, characterized by low productivity and high rates of rural poverty. More than half of Mozambique's population is projected to remain in rural areas through 2040 with eight out of ten poor people across the country currently living in the rural space. While urbanization has been picking up speed in recent years, an estimated 450,000 out of the 500,000-youth entering the labor market every year enter it in the rural space. Despite its significant potential, agricultural production and value addition are underdeveloped and underperforming. Mozambique's agricultural productivity is well below that of regional peers and off-farm employment provides supplemental income to only a small share of farmers in the South of the country, near to the capital city and its peri-urban areas. Less than one-fourth of smallholder farmers sell any crops, and few participate in regional or global value chains. Limited access to input and output markets and information as well as weak functioning of other critical markets (such as land and finance) undermine incentives to raise productivity, and value addition and commercialization in agriculture. Weak institutions, regulation, and oversight lead to unsustainable exploitation of other natural resources such as forest, fisheries, and wildlife, accelerating the loss of biodiversity.

Strengthening climate resilience and social safety nets remains imperative to support livelihoods and keep people from falling back into poverty. Mozambique is among the most disaster-prone countries in the world. Climate shocks reduce the consumption of households and create setbacks for Mozambique's efforts at poverty reduction. Cyclones, floods, or droughts lead to crop failures that can cut the capita food consumption of affected households by 25–30 percent. Climate change is also creating significant additional costs for Mozambique's constrained budget, with economic damages estimated to reach between US\$2.3 billion and US\$7.4 billion during the period 2003–2050 if no mitigation measures are taken. A growing but still small and fragmented social protection system and disaster risk management systems leave many poor households vulnerable to natural and policy-induced shocks. Yet, despite the frequency with which shocks occur and the severity with which they impact the population, Mozambique still allocates only 0.62 percent of its GDP to social protection programs, one-half the average allocation of African countries.

A common thread in the development story of Mozambique is a greater need for “coming together”

The title of this SCD Update “Coming Together for a Better Future” borrows from the famous Mozambican adage “*Estamos Juntos*,” a call to solidarity in difficult times but also in everyday life. As Mozambique moves into the next decade and prepares for the economic transformation that the gas boom can bring to it, it needs to focus its efforts on fostering a “Coming Together” of many sorts: greater economic convergence between lagging and leading regions is needed to promote social cohesion and country-wide development and bring down poverty rates. To return to higher growth rates and sustain them, a greater collaboration (rather than competition and rent-seeking behavior) between the public and private sector is needed to promote linkages

between the mega projects that drive growth and those sectors of the economy that can provide employment. And, last, communities and the Government must come together to build strong, efficient, and transparent institutions that rewrite a social contract that paves the way for more stable, inclusive, and sustainable growth.

1. Introduction

1. The “first generation” SCD (henceforth, 2016 SCD) portrayed Mozambique as a fast-growing country that had left its civil war behind and was dealing with the complex, but promising challenges of transforming its natural resource wealth into inclusive and sustained growth.

When the 2016 SCD was written, Mozambique could look proudly back at two decades of 8 percent growth every year, but with very limited progress on poverty reduction to show for it. These developments were the result of a dramatic increase in investment in capital-intensive megaprojects in the extractives sector that had created limited employment, and the SCD posed the question of how Mozambique could leverage the full potential of its resource wealth to accelerate progress on poverty reduction and shared prosperity. In addition to the extractive industries, Mozambique’s rich endowment of natural capital, such as subsoil assets, abundant agricultural land, forests, fisheries, and conservation areas (CAs) were highlighted as key areas that could contribute to the country’s potential to create employment and diversify economic growth.

2. Since the 2016 SCD, some of Mozambique’s aspirations materialized, but there were also setbacks. On the social front, new data that became available showed that the rate of poverty reduction had in fact picked up speed in the years 2008 to 2015. However, demographic dynamics meant that the total number of people in poverty is higher today than it was in the early 2000s, and inequality has risen. On the economic front, the hidden debt crisis of 2016 severely dented Mozambique’s ability to attract donor financing and revealed the low quality of institutions in Mozambique. This played a significant role in cutting its formerly stellar growth rate in half. At the same time, the country made steady progress on developing its liquified natural gas (LNG) industry by securing the final investment decisions for two investments (moving from the investment to the production phase)² and aspires to realize several additional projects to exploit the rest of its vast reserves. But the likelihood and the potential pace of these additional investments is highly unpredictable and complicated by the swings in the global commodity price and demand trends.³ At the same time, a new insurgency in Cabo Delgado, where most of the natural gas reserves are located, creates headwinds for beginning production under the first two projects. On the political front, a new peace deal was brokered in August 2019 between the country’s President and the leader of the main opposition party RENAMO (Mozambican National Resistance)⁴, which offers hope for a more durable and inclusive political settlement.⁵ Finally, a series of natural disasters—the two cyclones (Idai and Kenneth) that hit Mozambique in 2019

² Coral South Floating LNG—approximately US\$7 billion investment started in 2017; and Golfinho/Atum—approximately US\$23 billion in investment started in late 2019.

³ As this report is written, oil markets are in turmoil, having seen a historically unprecedented drop in prices as a result of the COVID-19 pandemic. These swings spill over into market prices for gas and have quickly contributed to setbacks in the investment potential for Mozambique. For instance, Exxon announced a delay to its Area 4 Mozambican LNG Mamba project in early 2020 as oil prices dropped sharply.

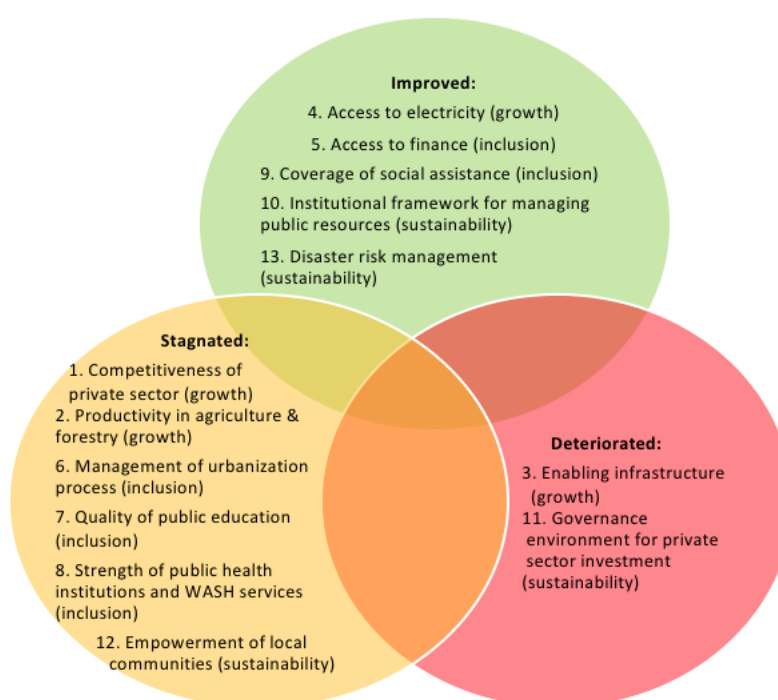
⁴ Resistência Nacional Moçambicana

⁵ The Maputo Accord on Peace and Reconciliation marks the second agreement to end renewed conflict between RENAMO and the government since the 1992 Rome General Peace Accord (GPA) unraveled in 2013. That deal followed a settlement negotiated over two years and ushered in a 21-year peace, during which Mozambique appeared to the world to have overcome its bitter internecine divisions and forged a stable and prosperous path forward.

and COVID-19 in 2020—most likely erased a good portion of the social gains of the past five years and underlined the country’s vulnerability to shocks.

3. The 2016 SCD identified constraints to private sector–led, inclusive, and sustainable growth in several areas and proposed a total of 13 policy objectives for which progress has been mixed. On five out of 13 policy objectives improvements were recorded (see figure 1.1 and Annex A for a more detailed discussion on the objectives and progress made).⁶ On 6 other objectives, available data and evidence suggests that there was no progress, and 2 key objectives even experienced a deterioration (enabling infrastructure and governance). Overall, a stocktaking of where progress was made shows that policy objectives related to private sector–led growth (see reference to the overarching goals of growth, inclusion, and sustainability in brackets in figure 1.1), had the least improvements: the competitiveness of the formal private sector remains low and so does the productivity of the agriculture and forestry sectors, where most Mozambicans work. There has also been a deterioration of enabling infrastructure like roads and the digital connectivity, which affects the expansion of the private sector and explains the low productivity of the agricultural sector.

Figure 1.1. Progress on Policy Objectives (overarching goal in brackets) identified by the 2016 SCD



4. While the broad development narrative for Mozambique remains unchanged, several constraints—highlighted by the 2016 SCD—have gained prominence.

⁶ Appendix A provides a more detailed assessment of progress or reversal across the 13 priority policy objectives identified in the 2016 SCD.

- **First, the weaknesses of governance structures and institutions have been painfully highlighted by the hidden debt crisis,** with corruption, fiscal risk management, and growing domestic debt turning into major challenges for the government to address and threatening economic management and growth. The macroeconomic risks linked to LNG development call for stronger institutions that can adapt to the different states of LNG development. Part of the governance agenda should also be a more effective process of decentralization that would provide greater autonomy to the subnational levels of Government to raise revenues and manage their own expenditures. Improvements in this area would also support recent urbanization trends in the central and northern regions of Mozambique, with the hope of spurring the creation of more productive jobs in secondary cities like Pemba and Nampula through agglomeration economies.
- **Second, Mozambique has neglected to invest in its people, resulting in the lowest levels of human capital in Africa and in the world.** Mozambique's human capital indicators have progressed only marginally despite substantial investments. Malnutrition, low adult survival rates, and low school learning mean that a child born in Mozambique today will only be 36 percent as productive as if she enjoyed full health and education, one of the poorest performances in the world. These weak human capital outcomes affect the country's growth performance and perpetuate the intergenerational cycle of poverty. Reforms are also needed to empower women and kick off Mozambique's demographic transition to make the most of the country's youth and future development path. The challenges associated with COVID-19 have even further underlined the importance of bolstering and protecting Mozambique's human capital, especially since over 8.5 million pupils were affected by school closures for over six months due to the pandemic-related restrictions.
- **Third, the limited inclusiveness of Mozambique's boom years has underscored how constrained and unequal Mozambique's formal private sector is in providing job opportunities to its rapidly growing population.** Every year, an estimated 500,000 youth enter Mozambique's labor market for the first time. Rapid growth in the services sector has offered a wider path to jobs outside agriculture in the last decade, but services remain dominated by low-productivity commerce and informal activities. Additionally, the gradual move out of agriculture has not been evenly distributed, with the southern region registering the greatest growth in industry and services, while the poorer central and northern regions are still dominated by agriculture.
- **Fourth, the rural space remains the center of livelihoods for most Mozambicans.** While the share of the population that lives in urban centers increased from 25 to 35 percent between 1995 and 2017, more than half of the population is projected to remain in rural areas through 2040. Most farmers engage in subsistence farming, producing primarily food crops for household consumption. Less than one-fourth sell any crops, and few are integrated into commercial agriculture arrangements, such as contract farming, or participate in regional or global value chains. High yield gaps—the difference between actual yields and potential yields—indicate that Mozambique has significant unrealized potential to achieve efficiency gains and boost rural incomes, but there has been little progress in the last two decades in closing these yield gaps.
- **Fifth, the 2019 cyclones have highlighted, yet again, that extreme climate events happen often in Mozambique and have a particularly negative impact on the income of rural**

households. Mozambique is one of the most climate change–exposed countries in the world and has one of the weakest capacities to deal with the consequences. Climate change–related shocks take a heavy toll on rural households, with cyclones, floods, or droughts leading to crop failures that significantly reduce the per capita food consumption of affected households and increase poverty. As the rural poor cope with these shocks, they often turn to unsustainable and low value-added practices in the exploitation of natural resources. This in turn has accelerated the loss of biodiversity in and undermines the climate resilience of Mozambique further.

- **Sixth, the escalating conflict in Cabo Delgado has given more urgency to the question of fragility and the challenge of uneven state presence,** as manifested in gaps in public expenditure and delivery of basic services, that remains a source of grievance in the central and northern regions and that fuels discontent and even violence. Improvements to the abovementioned governance challenges are tightly linked to this question. To address social grievances and renew the social contract in the regions affected by unrest, inequities in social expenditures across provinces have to be undone and more efficient spending, more generally, is needed to deliver better public services in times of a severely reduced fiscal space. The ability of Mozambique to deliver on such reforms is closely linked to on-going fiscal decentralization reform and to giving more voice and accountability to its citizens.

5. To reflect on the themes discussed above in a more integrated fashion, the SCD Update will adjust its analytical framework to underline three critical development pathways and one cross-cutting constraint (figure 1.2). The SCD Update modifies the analytical framework underlying the SCD by organizing the development narrative for Mozambique around the three themes of private sector development with a special focus on linkages to the gas sector, the sustainable management of natural assets, and the rural economy and human capital. In addition, Mozambique’s governance challenges—including those surrounding the management of future resource wealth—will be discussed in greater detail and treated as a cross-cutting constraint to Mozambique’s development. Finally, given the increasing fragility in the country’s northern regions and the escalating insurgency in Cabo Delgado that risks spilling over into neighboring provinces and that is gaining a regional dimension, chapter 4 expands on the main drivers of fragility present in the country today.

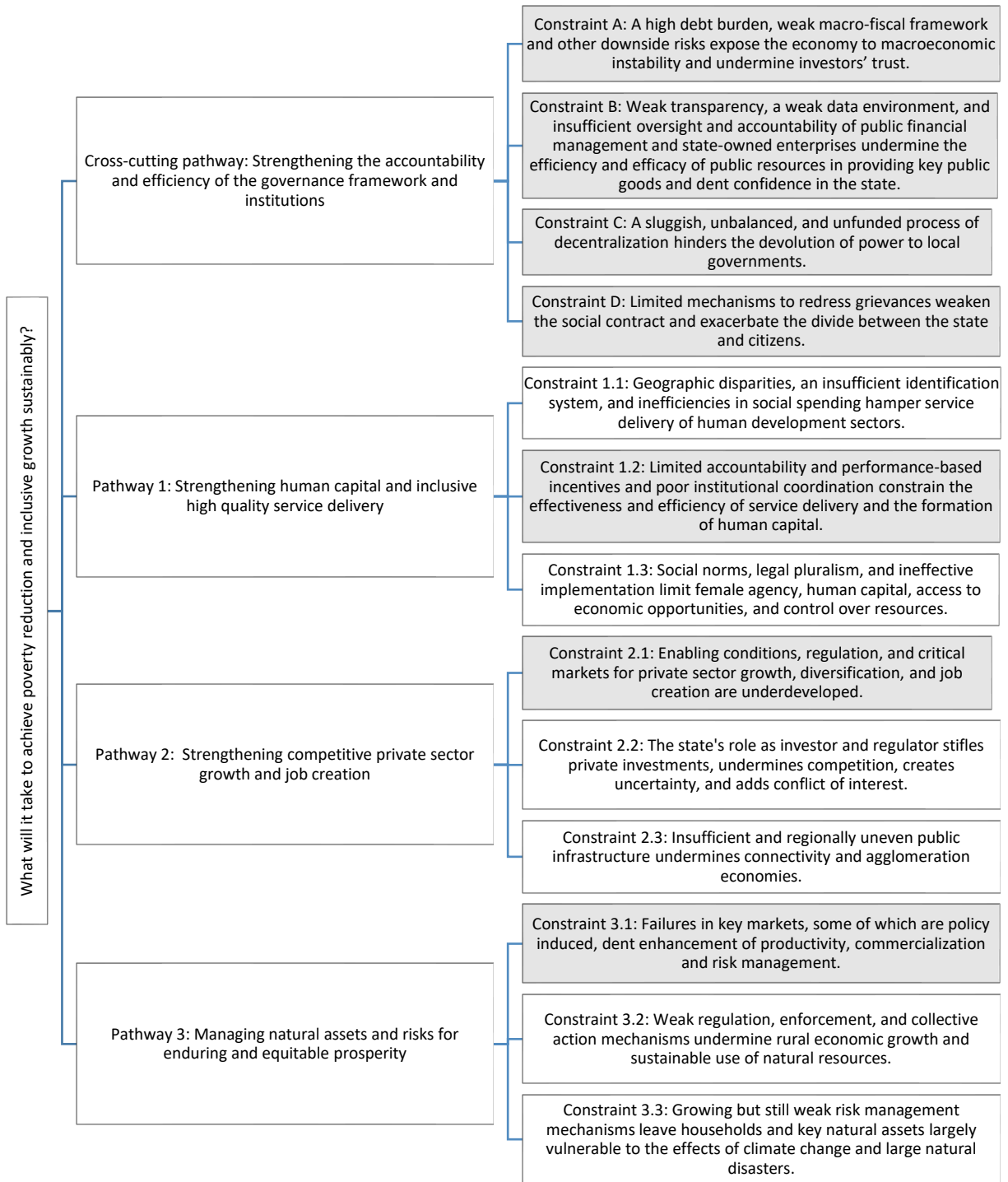
Figure 1.2. Critical Pathways to Poverty Reduction and Shared Prosperity in Mozambique



6. This SCD Update follows a two-step prioritization process. The first step uses the list of priorities identified in the 2016 SCD as a starting point to assess progress, reevaluate their level of priority, and validate their urgency in light of the events that have reshaped the development agenda of the country in the last five years. The criteria applied at this stage of the prioritization process include the following aspects: (1) impact on the twin goals (poverty and shared prosperity), (2) complementarity across priorities, (3) feasibility (financial, political and implementation capacity), (4) time horizon of the impact, and (5) strength of evidence. All these criteria were given an equal weight in the prioritization exercise. Finally, some of the binding constraints identified in the previous SCD were further unpacked to disentangle the symptoms of the problems from their potential root causes to facilitate policy design. This led to a reformulation and revised ranking of a subset of constraints previously flagged as priorities. As shown in figure 1.3, this first phase of the prioritization exercise produced 13 binding constraints organized across the four development pathways.

7. Given the large number and high complexity of development challenges facing Mozambique, the second step in the prioritization process seeks to flag the most critical constraints in order to guide the sequencing of priorities. For this part, the following five criteria are considered (1) essential preconditions, (2) fiscal feasibility and affordability (due to the tight fiscal space in the short to medium term, (3) synergies across pathways, (4) potential for bolstering the confidence of citizens and domestic and foreign investors, and (5) potential to support the resolution of the conflict in the north. The application of this extra priority filter identifies seven “critical binding constraints,” which are highlighted in gray in figure 1.3.

Figure 1.3. Pathways and Constraints to Poverty Reduction and Inclusive Growth in Mozambique



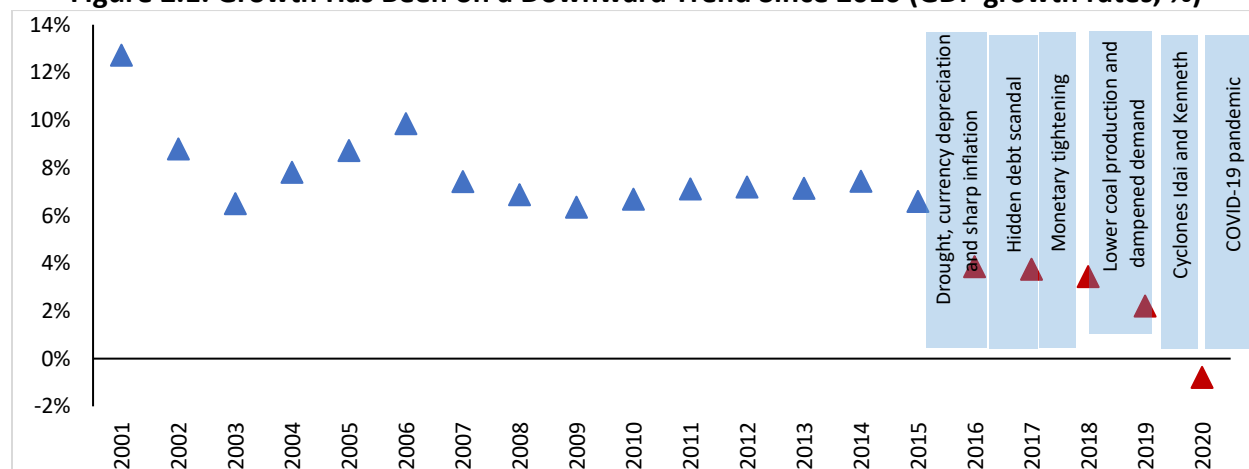
Note: The constraints highlighted in gray are the most critical ones after applying a second priority filter.

2. Growth and Poverty Trends

8. The 2016 SCD was finalized just as Mozambique’s decade-long stellar growth performance was coming to an end. Until 2015, Mozambique had been one of the fastest-growing economies in Sub-Saharan Africa (SSA), supported by the return of peace in the early 1990s. Political stability provided a foundation for sound macroeconomic policies. Improved economic management not only helped attract foreign direct investment (FDI) but also large donor support. Since the mid-2000s, the advent of extractives-focused megaprojects boosted investment growth, supported by a surge in FDI. FDI inflows into Mozambique accounted for 15 percent of total inflows into SSA in recent years. Rapid growth in the services sector offered a wider path to jobs outside agriculture, even though services remained dominated by low-productivity commerce and informal activities.

9. Today, Mozambique is no longer a star growth performer. The revelation of hidden debt of US\$1.3 billion in the spring of 2016, which triggered a sharp currency depreciation, led to a decline in foreign confidence, causing a reduction in external inflows from investors as well as donors. The scandal also marked the end of an extensive public investment boom that had helped fuel growth in the past. As a result, growth decelerated sharply and entered negative territory in 2020 for the first time in almost three decades (figure 2.1). The economic fallout from the debt crisis was further exacerbated by the impact of the tropical cyclones in 2019, highlighting Mozambique’s high level of vulnerability to climatic and policy-induced shocks, and the COVID-19 pandemic in 2020 (see box 7.2). All three shocks have exposed the country’s existing vulnerabilities, stemming from overreliance on exports of primary commodities and capital-intensive mega-investments with limited local linkages.

Figure 2.1. Growth Has Been on a Downward Trend Since 2016 (GDP growth rates, %)

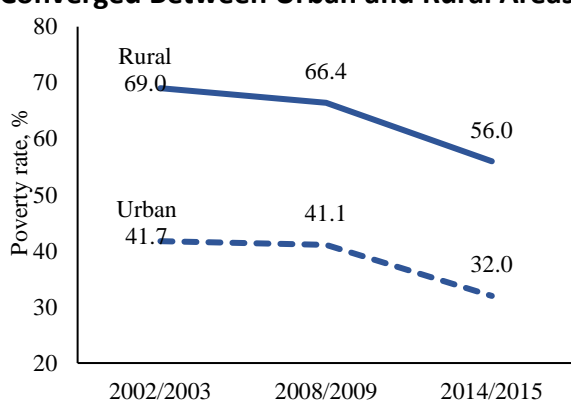


Source: National Institute of Statistics of Mozambique (INE).

10. The slowdown in growth and recent COVID-19 shock are likely reversing the positive poverty trends that were happening just before 2016. In the period just before 2016,

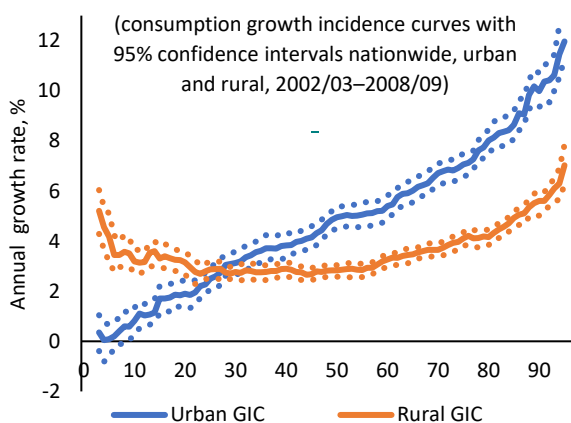
improvements in standards of living had picked up speed. While the national poverty rate had fallen by merely 0.26 percentage points annually between 2002 and 2008, poverty fell markedly faster between 2008/09 and 2014/15, from 66.4 percent to 48.4 percent (on average 1.8 percentage points annually). On the back of heightened inequality in urban areas, Mozambique also saw an increase in the Gini coefficient from 0.47 during the 2000s to 0.56 in 2014–15, placing it among the countries with the most unequal income distribution in SSA. Nonmonetary poverty indicators from the 2017 Census and the 2011 Demographic Health Survey (DHS) also illustrate the widespread deprivation in a wide array of welfare indicators (Egger, Salvucci, and Tarp 2020). Over 50 percent of the population is multidimensionally poor, with this percentage climbing to 70 percent in rural areas. There had also been little convergence between rural and urban poverty and consumption growth, with growth increasingly benefitting the nonpoor in urban settings, as seen in figures 2.2 and 2.3. If growth had been more equally shared, the overall poverty rate could have fallen by twice as much since 2002.

Figure 2.2. Poverty Rates Have Not Converged Between Urban and Rural Areas



Source: World Bank using the national Household Survey - Inquérito sobre Orçamento Familiar (IOF)-2002/03, IOF-2008/09 and IOF-2014/15.

Figure 2.3. Consumption Growth is Increasingly Benefitting the Nonpoor, Chiefly Those in Urban Areas

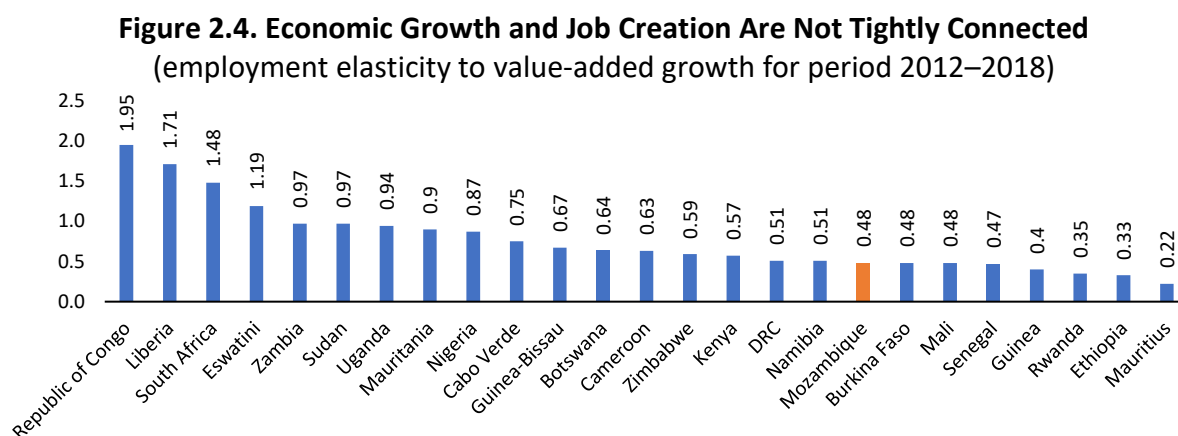


Source: World Bank using IOF-2002/03, IOF-2008/09 and IOF-2014/15.

Note: Dotted lines show 95% confidence intervals. GIC = growth incidence curves.

11. The non-inclusive nature of Mozambique's recent growth raises concerns about its future sustainability. The main driver of growth has been the extractives sector, which has attracted the most investment. However, it has been the least effective in generating jobs. As such, there has been a relatively weak connection between economic growth and job creation in Mozambique over the last several years (figure 2.4). Agriculture, where most people—and the overwhelming majority of the poor—work as subsistence farmers, has had little investment and its productivity growth has been correspondingly slow. The main source of productivity growth over the last years has been between sector shifts, with workers exiting agriculture and entering mostly informal services. This has reduced the overall poverty headcount ratio over the last decade but raises questions about sustainability; in the absence of enough investment in the

services sector to capitalize all the inflow of workers, its sector productivity growth has already started to decline. If this is not corrected, future migrants will crowd increasingly into jobs with declining marginal productivity, which would result in the exchange of rural poverty for urban poverty.⁷



Source: World Bank Global Jobs Indicators Database.

12. Surprisingly, Mozambique’s noninclusive growth pattern did not impede some growth convergence between leading and lagging regions. As opposed to earlier research that found growth to be dominated by the large cities, novel data illustrating GDP growth at the district level⁸ that was collected for the 2020 Country Economic Memorandum (CEM) suggests some spatial “deconcentration” of growth in industry and service sectors with growth nodes even among intermediate, smaller cities and poorer rural areas. This research has shown that the areas with the highest levels of poverty, especially in the rural areas of Niassa, Cabo Delgado, and Nampula, experienced the most rapid levels of growth in industry and services, contributing, albeit modestly, to the process of structural change over the past two decades. Increasing employment in industries and services is associated with a nascent process of urbanization in those poorer regions. Yet, agriculture’s growth rates, the sector which employs most of the poor, were modest with limited signs of improvement, leaving the rural poor in a poverty trap and resulting in an overall noninclusive growth pattern.

⁷ The shift from agriculture into services still generates productivity gains because agricultural productivity is even lower. So long as productivity levels in services are above the national average (which is pulled down by agriculture), inter-sectoral shifts into the services sector will continue to raise overall productivity. However, as more and more labor shifts from agriculture to services, in the absence of significant capital investments in services, within-sector productivity growth in services is bound to decline. Such a decline already appears to have begun during 2008–2014. This indicates that the marginal productivity of new workers entering the services sector is below the average productivity level in the sector and may not be that much higher than average productivity in agriculture.

⁸ The data were collected for the upcoming CEM. GDP is estimated at the subnational level by combining official national accounts with satellite imagery and geographic information system (GIS) data, resulting in the first ever dataset for Mozambique’s GDP at the district level. The data spans the period 2000–2019 for 142 districts and is split by three sectors: agriculture, industry and services, and extractives/megaprojects. The methodology used to generate the dataset innovates on established approaches for using satellite-based information to estimate subnational GDP.

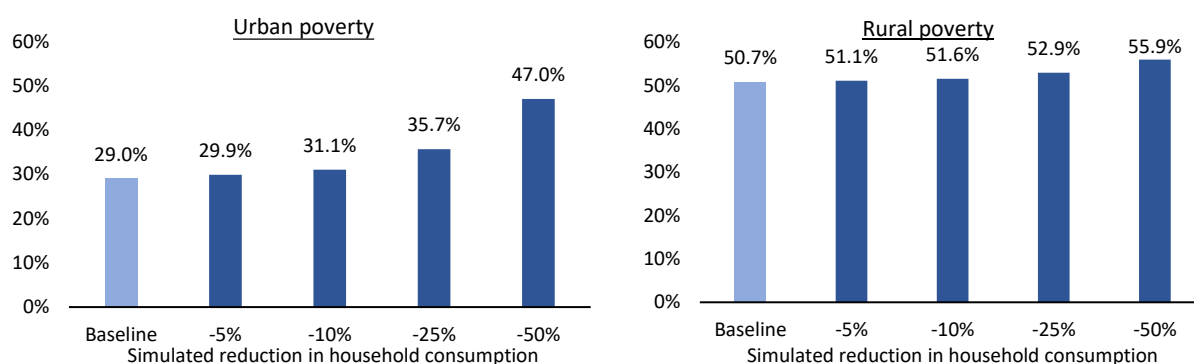
13. To secure inclusive growth going forward, Mozambique needs to accelerate the process of structural transformation. To support sustained growth, poverty reduction, and shared prosperity objectives, Mozambique needs to find ways to boost labor-intensive industries and services, creating economic opportunities for the poor outside of subsistence agriculture. This will require attracting more private investments into the manufacturing (including agribusiness and agro-processing) and services sectors and promoting linkages between all sectors, including with the extractives industries. Mozambique can support this process in several ways that are outlined in the different chapters of this SCD Update by (1) raising investor confidence more generally through better macro-economic management, by improving the efficiency and targeting of public investment and by completing an unfinished decentralization process to ensure that municipalities can provide the public services that increase the productivity of industries and services and promote migration of labor out of rural agriculture (see chapter 4); (2) strengthening the human capital of its people to raise productivity overall (see chapter 5); and (3) improving the enabling environment for the private sector at large and continuing the development of strategic growth and trade corridors to facilitate the transport of goods, people, and services across the country and spur diversification in the non-resource economy (see chapter 6).

14. As the majority of the population will continue to work in agriculture for the next decades, another policy priority has to be to sustainably increase agricultural productivity and local and regional commercialization, focusing on geographic areas with the greatest agricultural potential (see chapter 7). For growth to make a significant dent in poverty, more needs to be done to raise agricultural productivity and increase rural mobility to connect farmers to markets and the growing nonfarm opportunities in their districts. There is significant unrealized potential to achieve efficiency gains in crop production in the north and center of the country. Improving access to major corridors and markets can increase productivity, as seen in eastern Mozambique. Given the Government of Mozambique (GoM's) limited fiscal space, investments should focus on selected types of roads and areas with the greatest agricultural potential. Policies should support the adoption of improved seeds and fertilizer by liberalizing the agricultural input market and expanding smallholders' access to finance. Further, it is crucial to build resilience to climate risks by expanding the coverage of safety nets, increasing the availability and use of local weather information, and fostering risk transfer mechanisms. Finally, Mozambique needs to find ways to maximize forward and backward linkages from the large investments that are planned in mining and extractives to generate better jobs in agriculture.

15. Substantial downside risks remain, given the uncertainty around the course of the pandemic as well as the rollout of COVID-19 vaccines. Real GDP contracted by 1.3 percent in 2020, compared to a pre-COVID-19 estimate of 4.3 percent, as external demand fell, domestic lockdown measures disrupted supply chains and depressed domestic demand, and liquefied natural gas (LNG) investments were delayed. As of June 2020, about 120,000 jobs were lost, and 63,000 employment contracts were suspended. Approximately 2.9 percent of the firms affected

were forced to cease their activity. The northern region, currently facing an escalation of insurgency, has experienced a temporary or permanent closure of 38 percent of businesses. While the impact was significant across the board, small firms were affected the most. COVID-19 is undoing years of progress in poverty reduction (figure 2.5). Job losses have hit household incomes and undermined food security, with over 50 percent of urban households reportedly running out of food, though rural households are less affected. World Bank projections suggested that, because of the pandemic, an additional one million people are likely to slip into poverty in 2020 (as measured by the international poverty line of US\$1.90 per day). Meanwhile, shifting priorities in the health sector and school closures to combat COVID-19 could set back progress in building human capital. While country-specific evidence on the gendered impact of COVID-19 is still scarce, data from other countries and experience from previous shocks suggest the country is likely to experience a surge in gender-based violence.

Figure 2.5. The COVID-19 Crisis Can Destroy Many Jobs and Increase Poverty Dramatically



Source: World Bank.

16. Before COVID-19, improved macroeconomic stability and LNG investments were expected to support economic recovery and transformation in the medium term. Prior to the COVID-19 crisis, policy measures and one-off capital gains had reduced fiscal pressures, putting public debt on a downward trajectory over the medium term. Significant policy efforts, such as downsizing the capital budget and eliminating selected subsidies (fuel, transport, and bread), coupled with a relatively stable tax revenue collection through strengthening of administration mechanisms, led to a reduction of the primary deficit to only 0.3 percent of GDP in 2017.⁹ Despite costs related to cyclones Idai and Kenneth and the election, as well as a growing wage bill, the primary balance even reached a surplus in 2019, mostly due to one-off capital gains receipts from LNG operations. The overall balance also narrowed, albeit at a slower pace as the government continued to battle with high debt servicing costs. Spending on priority sectors was bolstered and remained stable as a share of GDP since 2006 despite investment cuts. In addition, debt was projected to be on a downward trajectory in the medium term due to ongoing debt restructuring, and lenders

⁹ This includes capital gains tax of 2.5 percent of GDP, meaning that excluding this once-off revenue primary deficit was 2.8 percent in 2017.

providing debt service relief and providing time to implement a fiscal consolidation strategy, as well as higher fiscal revenues through the start of the production of the LNG projects.

17. COVID-19 further shrunk the fiscal space to stimulate growth through public investment, giving urgency to more forceful structural policy reforms. Considering COVID-19, projections now suggest that Mozambique's debt levels and service will remain elevated over the next five years. COVID-19 response measures, estimated to cost an equivalent of 2.5 percent of GDP, pushed total expenditure to 33.1 percent in 2020, from 29.8 percent in 2019. Despite this, the overall fiscal deficit stayed at 4.7 percent, compared to the pre-COVID-19 estimate of 4.6 percent. Donor support helped offset expenditure growth and the impact of COVID-19-related tax relief measures. At the same time, the escalating insurgency has led to a sharp increase in defense spending, which doubled to 2 percent of GDP in 2020 (year-on-year). These developments not only call for sound macroeconomic management but also a greater focus on efficiency of spending across government. Recent reform efforts to increase the reach and efficiency of Mozambique's social protection system through digital payments in response to COVID-19 constitute an encouraging example that demonstrates the Government's capacity for regulatory reform and collaboration across ministries and with the private sector when a crisis calls for it (box 2.1).

Box 2.1: How COVID-19 Helped Accelerate a Social Protection Scale Up and Ushered in the Digital Delivery of Payments in Mozambique

The COVID-19 emergency evidenced the significant vulnerabilities of families and their livelihoods, especially among the urban poor and vulnerable, but was also a catalyzer for the regulatory, technical, and the implementation of digital payments for social safety transfers in Mozambique. To support families, especially in areas of higher transmission like urban and peri-urban settlements, the government launched an ambitious plan to eventually cover close to 1 million new beneficiary families in these vulnerable areas.

There were three broader areas critical to achieve this objective: technical, regulatory, and administrative, and ground implementation:

- A first achievement was the technical alignment of the social protection agency INAS systems with the Automated Payment System (SPA) that, in turn, connects with payment providers. Technical integration was gradually achieved with different digital payment and banks opening the scope for alternative providers.
- Second, the government fast tracked regulatory changes to adapt the regulatory framework and ensure rapid registration and opening of digital and bank accounts. As a large fraction of the poor and vulnerable do not have the necessary documentation, this measure also facilitated the opening of beneficiary accounts. Moreover, the government adopted flexible Service Level Agreements (SLAs) with payment agencies avoiding lengthy procurement processes. This also established the basis for further scale up of those digital payment coverages. A first agreement was signed with Vodacom in 2020, and other drafts have been discussed with other mobile payment agencies and banks.
- Third, the effort also required ensuring beneficiaries were adequately trained to manage digital accounts to exploit the benefits and access to other services. The government launched financial literacy sessions aligned with the National Financial Inclusion Strategy (2016-2022) aimed at increasing access and use of financial services, strengthening of financial infrastructure, and consumer protection and financial education. At the ground level, the government established operational teams—supported by the World Bank—to harmonize

delivery of mobile handsets, adequate opening of accounts, training of beneficiaries, and coordination with local payment agents to ensure liquidity.

With these activities the government was able to launch the first social protection payments to close to 9,000 beneficiaries in the district of Montepuez in Cabo Delgado, aiming to next cover more than 50,000 in Maputo City and Province, eventually reaching more than 150,000 digital payments for social assistance. These results have opened the opportunity not only for increased transparency and efficiency in social assistance transfers, but also for increased communications on key areas (e.g., gender and COVID-19 measures) and future referral to other programs supporting economic recovery.

3. Sustainability Trends

18. Mozambique's debt overhang and vastly reduced fiscal space represent important risks to sustainable growth, poverty reduction and social cohesion. After falling steadily to 108 percent of GDP in 2019 (from 127 percent of GDP in 2016), total public debt reached 122 percent in 2020 (see Annex B for a discussion of Mozambique's debt evolution).¹⁰ Domestic debt has also continued to grow, with central government domestic debt increasing from 16 percent in 2019 to 20 percent of GDP in 2020. Apart from the budgetary pressures posed by COVID-19, the increase in domestic debt reflects the short-term financing needs of underperforming SOEs and debt servicing on treasury bonds maturing in 2020. Once the COVID-19 crisis has receded, fiscal consolidation needs to be central to finance recovery measures and enhance debt sustainability. Further progress in improving debt management and transparency, combined with debt restructuring, will be crucial to enhance debt sustainability. This also means enticing private investment to take the space of public investment by implementing policy reforms that help the country regain the trust of investors and the international donor community.

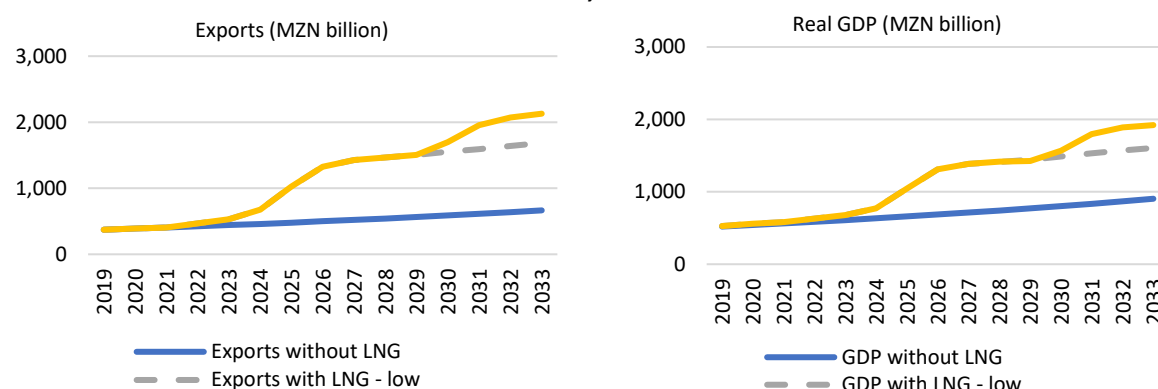
19. The upcoming natural gas boom—upon which much hope for higher growth and faster poverty reduction is built—is subject to significant downside risks. While the production of LNG could create a huge boost to exports and real GDP (figure 3.1), delays regarding the start of production, lower production volumes or lower prices, and lower demand for fossil energies could negatively affect the potential impact of LNG production on government revenues, not allowing it to return to debt sustainability and to make the public investments needed to address Mozambique's large infrastructure and human capital gaps. In addition, the potential of Dutch disease effects could negatively impact the economy if large inflows of foreign currency shift the structure of production further toward non-tradable sectors and lead to a further loss of competitiveness.¹¹ The expected influx of revenues could also strain the government's weak

¹⁰ Debt levels surged in 2020 due to rising financing needs, currency depreciation, and GDP contraction. Debt service levels also remain high with external and public debt service-to-revenue ratios reaching 13 and 48 percent, respectively, in 2020.

¹¹ In Mozambique, Dutch disease effects have been contained during the past investment boom. The International Monetary Fund (IMF's) external balance assessments indicate the real exchange rate (REER) was mostly in line with fundamentals between 2011 and 2015, as during this time, FDI inflows were almost entirely offset by imports of goods and services. As a result, pressures for the REER to appreciate were limited. As LNG investment passes to the development and production stages, the risks of Dutch disease will become more pronounced.

macro-fiscal management capacity, which is already stretched.

Figure 3.1. Impact of LNG on Key Macroeconomic Variables—Baseline and Low Production Scenario, 2019–2033



Source: World Bank staff estimates—Macroeconomic Assessment of Public Investment Options (MAPIO) model.

Note: MZN = metical (Mozambique currency)

20. Mozambique’s weak human capital undermines the prospects for long-term growth. A growth decomposition analysis shows little influence of human capital on growth, as opposed to physical and natural capital, which translates into inadequate job creation in a context where rapid population growth adds over 500,000 youth to the workforce every year. Human capital, as measured by the HCI, is the ninth lowest in the world.¹² In the past five years, the Mozambican Government has spent on average 5.6 percent and 1.7 percent of GDP, respectively, on education and health (plus significant off budget spending by donors on health, bringing the total current health expenditure as a percent of GDP closer to 5 percent. This is one of the highest social spending rates in SSA and remarkable, given the reduced fiscal space of the last years. Yet, despite the government’s and donors’ commitments to spending on social sectors, human capital formation and access to basic services and opportunities remain a critical obstacle to faster and more inclusive growth in Mozambique. Starting in infancy, many Mozambicans—especially those in rural areas and in the central and northern regions—lack access to the services and investments that are essential to enjoy highly productive lives by adulthood. Chapter 5 will discuss what it would take to boost Mozambique’s low level of human capital formation.

21. Gender disparities are striking and persistent, undermining the social and economic inclusion of women and girls. Adolescent girls face unique challenges linked to the intersecting dimensions of gender and poverty. Poverty, school dropout, early marriage, and pregnancy are self-reinforcing challenges that undermine human capital accumulation for young girls and women, and their children. As of 2015, approximately one-half of the young women in Mozambique were married and either had children or were pregnant. The completion rate of

¹² World Bank Data, 2020. The HCI calculates the contributions of health and education to worker productivity. The final index score ranges from zero to one and measures the productivity as a future worker of a child born today relative to the benchmark of full health and complete education.

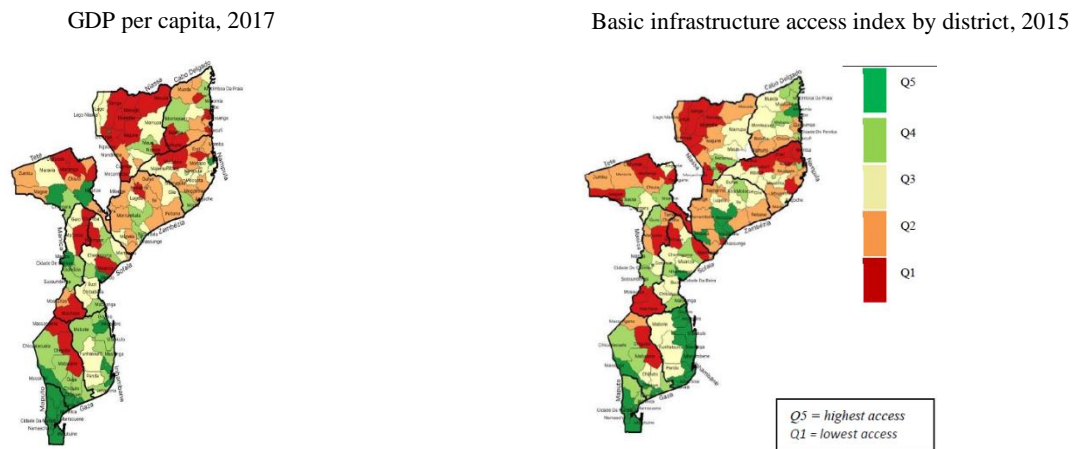
secondary school among girls is only one-half the rate observed among boys. Gender disparities persist later on in the life cycle, with women being disproportionately affected by liquidity and financial constraints both in agriculture and nonagricultural sectors; and being relegated to low-quality jobs in the informal sector.

22. Demographic trends and regional economic disparities will increase the pressure on urban centers. Even though the latest census data from 2017 indicates that on average women may be having fewer children—compared to the 2007 census (with fertility rates falling from 5.7 to 5.2)—current rates still place Mozambique well behind other countries in SSA in kicking off a demographic transition. As a result, although the rate of poverty has been declining, the total number of poor people has increased since 2000 because of rapid population growth, particularly in rural areas and in the central region.¹³ This has led to greater migration from rural to urban centers, a tendency that is likely to increase if economic disparities and differences in access to basic services between northern, central, and southern provinces and rural versus urban areas persist (see map 3.1). In turn, this could put pressure on already strained peri-urban areas and informal settlements, which have been the locus of popular protest rises in fuel and food prices in recent years.

23. The unregulated exploitation of the country's rich natural resource base and environmental degradation are increasingly threatening the future of its natural wealth. The country is rich in a variety of sources of natural capital ranging from 36 million hectares of arable land, 32 million hectares of natural forests, and a large biodiversity of terrestrial and marine ecosystems. One-fourth of the territory is comprised of CAs that provide the habitat for iconic wildlife species well suited for tourism. Around four million hectares of forestry ecosystems provide goods and services to local communities and support the production of high-value hardwood timber and non-timber products for commercial use. But as the rural space remains the backbone of the livelihoods for most of the population and the majority of the poor, the unregulated exploitation and growing utilization of Mozambique's natural wealth continues to put pressure on natural capital stocks.

¹³ The share of the population that lives in urban centers increased from 25 to 35 percent between 1995 and 2017.

Map 3.1. GDP Per Capita is Significantly Higher in the South, Where Investments in Basic Infrastructure Services Have Been Higher

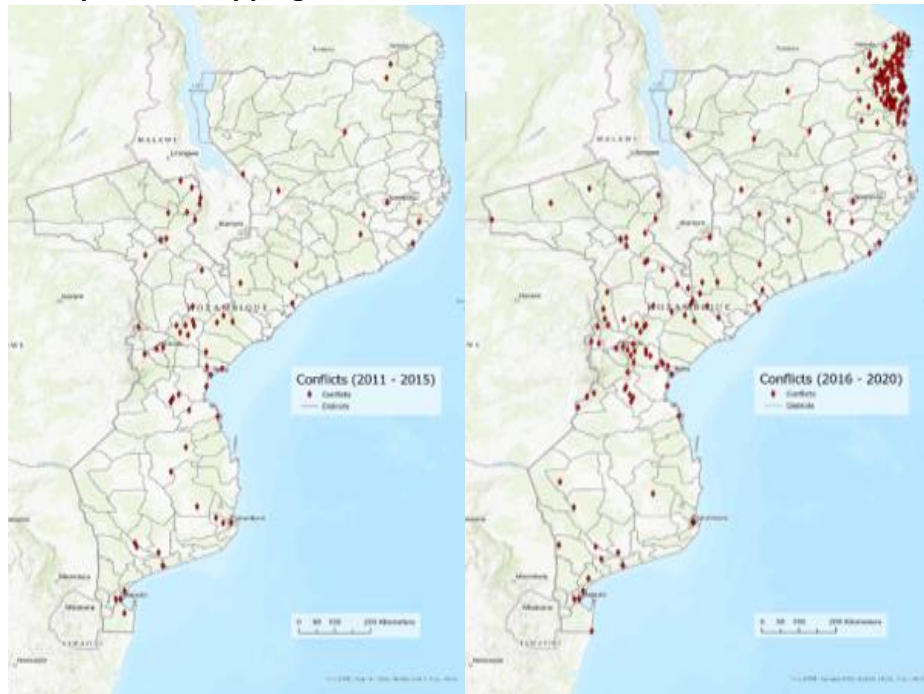


Source: WB staff estimates using IOF-2014/15.

Note: The Basic Infrastructure Access Index is an aggregate ranking of an average households' access to transport, distance to market, distance to primary schools, distance to a clinic, and access to electricity and clean water.

24. The conflict in Cabo Delgado—if left unchecked—could derail Mozambique’s growth prospects from the gas boom and destabilize the country. The rapid intensification and escalation of an insurgency in Mozambique’s marginalized northernmost province of Cabo Delgado (map 3.2) has been fueled by a combination of factors that create social, political, and economic vulnerabilities and that have exposed the region to instability (See box 3.1 on the drivers of fragility). The conflict is a significant constraint to efforts at poverty reduction and economic development in the province. There are also heightened risks of spill-overs into other regions, with reports of youth being recruited from along the coast in Nampula Province. The conflict has also exacerbated the humanitarian crisis that had been left in the wake of Cyclone Kenneth, as international aid groups continue to struggle to provide aid to displaced populations, which stand at over half a million people as of the beginning of December 2019. In this volatile context, international oil and gas companies, including ExxonMobil and Total, have also requested additional security forces from the Mozambican government, which has implications for defense costs. This perpetuates a negative cycle.

Map 3.2. A Mapping of Conflict Incidents in 2011–15 and 2016–20



Source: Armed Conflict Location and Event Data Project.

Box 3.1: Drivers of Fragility in Mozambique

Several “drivers” of fragility, conflict, and violence are central to understanding the potential for onset, escalation, and recurrence of violence and conflict in Mozambique:

- **The nature of the political settlement established since independence has excluded large parts of the population from access to power and resources and deepened horizontal inequalities and regional imbalances.** The nonconclusive outcome of the civil war resulted in a political stalemate between the ruling party and the opposition and has shaped a narrow political settlement, which excludes opposition parties and other groups from the socioeconomic and political benefits of peace, despite having a social base and political representation. The absence of a comprehensive reconciliation process at the national level in the wake of conflict and slow resolution over the fate of former combatants has compounded feelings of unfairness and injustice and perpetuates the use of violence as a form of dispute resolution.
- **The complex regional politics that informed the uneven development of Mozambique have been compounded in the post-independence era by an uneven state presence and service delivery along a North-South divide.** Skewed distribution of public resources, limited voice and decision-making at subnational levels in the allocation of resources, and perceptions of unfairness and inequality in the delivery of basic services along this geographic divide, are accentuated by rapid population growth in the northern and central regions. This has contributed to a sharpening of regional imbalances and entrenching perceptions of marginalization and exclusion in relation to the central government.
- **A historical sense of neglect and “otherness” along a North-South divide that has been compounded by socioeconomic grievances and exacerbated by exclusion from and competition for access to land and resources, drives fragility in Cabo Delgado.** More recently, violent conflict is stoked by allegations of heavy-handed approaches by the security forces that has also reinforced the capture of a local state by power brokers. Violence is further fuelled by the prospect of the local population not reaping the benefits of

extractive resources in the form of jobs or improved services, while also facing increasing competition over access to scarce land and resources from growing in-migration to the province, which particularly impacts the youth.

- **Disconnected from the previous generation’s experiences of conflict and party allegiance, the youth remain in a socioeconomic status of “waithood,” denied of opportunities for economic betterment, education, political voice, and a transition to adulthood.** They are excluded from the benefits of the country’s resource wealth in the form of employment or improved basic services, and without connections and access to credit and technical know-how, have little hope of forging an entrepreneurial path. These factors combine to push them into urban centers in search of opportunities, where they often eke out a living on the margins in poorly serviced informal settlements, or provide fertile ground for recruitment into extremist groups, for co-opting into the illicit economy, or for joining criminal gangs.
- **Rapid population growth, environmental degradation, and the impacts of climate change and natural hazards have placed additional stress on natural resources.** This has contributed to unsustainable practices and is compounded by poor enforcement of governance structures, weak management of the resource base, and the fact that institutions to govern justice and security are often compromised, all of which contributes to competition for resources and can stoke violent conflict.

Source: World Bank (2020), Mozambique Risk and Resilience Assessment.

25. The conflict in Cabo Delgado also underscores the greater challenge of a thriving illicit economy that threatens to perpetuate the fighting and create a war economy. Criminal networks have become socially, economically, and politically embedded in northern Mozambique with a significant increase in various forms of illicit trafficking in the North since 2010. This illicit economy is in part a factor of the province’s distinct geography and history, in terms of historical trading networks and a long, and poorly policed, coastline, and has been facilitated by the absence of the state and the weakness of institutions and rule of law. Estimates point to dhows (boats) arriving weekly, with landings of 10–40 tons of heroin per year, adding up to US\$100 million per year in corrupt money to the local economy (Hanlon 2018). There are reports that al-Shabab has benefitted from this nexus and has carved out “an area of influence” in Cabo Delgado that includes landing sites for illicit trafficking on the coast, and a section of the main North-South road.

4. Getting the Foundations Right—Better Institutions for Economic Development and Social Inclusion

4.1 Key Challenges for Government Effectiveness and Good Governance

The economic cost of the 2016 hidden debt crisis has been substantial, as perceptions of corruption shot up and investor and donor confidence dwindled

26. Mozambique’s hidden debt crisis of 2016 raised significant doubts about the strength and quality of its institutions. Even though corruption was already a challenge for Mozambique

before,¹⁴ perceptions about corruption shot up and governance indicators deteriorated substantially in the wake of the crisis. While Mozambique used to outperform its regional peers on the Worldwide Governance Indicators, the country finds itself now at the bottom of the same indicators. According to the latest Afrobarometer survey for Mozambique, 37 percent of all respondents now consider “all” or “most” government officials corrupt, up from 19 percent in 2016. And, in line with these perceptions by citizens, firms reported in the 2018 World Bank Enterprise Survey that they consider corruption the biggest constraint to their business activity—with high-performance firms most affected.

27. The loss of trust in its institutions and increased perceptions of corruption carry the risk of affecting the performance of Mozambique’s economy at all levels. In the first quarter of 2016, the revelation of previously undeclared loans plunged Mozambique into an economic crisis and macroeconomic instability, derailing its track record for high growth. Donor grants halved from 4 percent of gross domestic product (GDP) in 2014 to an average of less than 2 percent over 2016–2019. The metical depreciated drastically by more than 100 percent between 2014 and 2016, while inflation surged from single digits to above 20 percent. Mozambique has been in debt distress since 2016 with a debt-to-GDP ratio that reached an estimated 120 percent of GDP in 2020. Domestic debt has been growing steeply, reflecting the challenges the government is facing in financing its budget deficit.

28. A weak environment for political participation and representation deprives Mozambique of the voice and accountability mechanisms that could help it turn the crisis into an opportunity. Mozambique scores 31.53 on the World Governance Indicators for Voice and Accountability, down from 39.41 in 2014, and 44.55 in 2009. According to the Freedom in the World 2020 report, Mozambique scored only 14 out of 40 in terms of political rights, and 31 out of 60 in terms of civil liberties—giving it a score of 45 out of 100, down from 51 last year (Freedomhouse 2020). Women’s voice and agency is curtailed by their underrepresentation in positions of power. As of 2018, 39.6 percent of the seats in the national parliament and 28.6 percent of ministerial level positions in Mozambique were held by women. Although press freedom is enshrined in the constitution, there is a great deal of pressure on independent journalists, and attacks against reporters have taken place during elections, placing Mozambique 103 out of 180 countries on the latest World Press Freedom Index.¹⁵ In 2019, the Economist Intelligence Unit noted in its Democracy Index Report—in response to the highly contested 2019 elections—that Mozambique is slipping from a hybrid to an authoritarian system.

¹⁴ A study by the Centre for Public Integrity estimated that the costs of corruption to Mozambique during the period 2002 to 2014 to be US\$4.9 billion (approximately 30 percent of GDP in 2014).

¹⁵ In 2020, attackers set fire to the offices of a newspaper that reported on corruption in the Government, while community radio journalists have been kidnapped and others have been arrested.

The macroeconomic risks linked to the LNG development are substantial, requiring strong institutions

29. The discovery of large natural gas reserves in the Rovuma Basin could be transformative for Mozambique. Mozambique holds the thirteenth largest natural gas reserves globally and the second largest in Africa, behind Nigeria and just ahead of Algeria. Within the next decade, the country could become Africa's largest producer and a leading exporter of LNG. Since the discovery of its gas reserves in the Rovuma basin in 2009–12, Mozambique has secured two investments for LNG production in the area. The country aspires to realize several additional projects to exploit the rest of its vast reserves. But the likelihood and the potential pace of these investments is highly unpredictable and complicated by the swings in the global commodity market.

30. The macroeconomic risks associated with the LNG investments are substantial and need to be mitigated by strategies adapted to each phase of the LNG projects. The major challenges that Mozambique faces during LNG development differ between the investment and production phases. During the investment phase (the first 10 years), the main challenge is to balance the tight fiscal space and need for fiscal consolidation with continued borrowing for the LNG projects in a context of already high levels of debt. During the production phase, Mozambique will need to address the loss of competitiveness of the non-tradable sectors.¹⁶ In addition, the volatility of the LNG price poses a significant risk for government revenues, underscoring their sensitivity to such shocks. A 20 percent drop in the export price relative to the baseline in 2025, similar to the one experienced in 2020 as a result of the COVID-19 impact on oil prices, causes overall revenues to reach only about 80 percent of the revenue expected without the price shock.¹⁷ Given the expected size of the LNG sector in the economy, such shocks could be destabilizing, which highlights the need to develop mechanisms to cushion government resources against them.

Mozambique's institutions also need strengthening to deliver the growth-enhancing infrastructure investments needed for greater regional economic convergence and inclusion

31. Mozambique's incremental approach to decentralization undermines efforts at power sharing and economic agglomeration in areas other than Maputo. Decentralization reforms were already at the core of the Peace Agreement of 1992, which marked the end of the 1977–92 Civil War. As such, decentralization reforms are vital, not only to ensure a more inclusive, efficient, and accountable governance system, but also to fulfil key commitments of the peace accords. An extensive legal framework aims to establish the parameters and processes to devolve

¹⁶ Scenario analysis done in the context of the Country Economic Memorandum (CEM) highlight that, during the development phase of the projects and the first years of production, additional revenue will be limited. Revenue will start to significantly increase from around 2033 when sites are operational and cost recovery on LNG projects has been achieved.

¹⁷ In this scenario it is assumed that despite the lower price, LNG production remains unchanged as LNG producers seek to maintain contracted volume sales. Thus, the impact on revenues would be even more severe if production levels were to drop in a lower price context.

political, fiscal, and administrative autonomy to subnational governments under a unitary state, with the core principal that decisions, resources, and functions should be handled by the smallest and lowest level possible, rather than by a central authority. However, the de facto implementation of decentralization reforms has been very limited, resulting in an over concentration of decisions, resources, and functions at the national level. In fact, a review¹⁸ of 2018 public expenditures revealed that that the centralized institutions (ministries and national agencies, deconcentrated departments at provincial and district levels) were responsible for 98.2 percent of all public expenditure, with only 1.8 percentage of expenditures decentralized to municipalities.

32. Mozambique’s public investment system excessively favors recurrent spending over capital investments, which limits growth at the subnational level. A large proportion of the public investment budget during the 2009–15 investment boom years was spent on recurrent and administrative expenditures, leaving just 42 percent for capital investment in basic infrastructure. While the composition of the investment budget (in favor of capital vs. recurrent and administrative investments) has slightly improved since 2016 onward, there has been insufficient progress in channeling resources to areas lagging in access to basic infrastructure. In addition, under the intergovernmental fiscal transfer mechanism, subnational expenditures in Mozambique have mainly grown for salary payments, with limited deconcentrated capital spending at provincial levels.

4.2 Binding Constraints to Government Effectiveness and Good Governance in Mozambique

A high debt burden, weak macro-fiscal framework, and other downside risks expose the economy to macroeconomic instability and undermine investors’ and citizens’ trust

33. In the last four years, Mozambique has taken important first steps to restore confidence after the hidden debt crisis. Since 2016 the government has taken considerable steps to improve transparency and accountability. On debt, new regulations to strengthen debt and guarantee management were approved. Under this new legal instrument, the government is required to prepare a medium-term debt strategy to orient public borrowing decisions. The instrument also widened the approval authority for guarantees from the finance minister to the council of ministers, among others. To enhance transparency, since 2019 government resumed the publication of periodic debt reports, including information on state-owned enterprises (SOEs). On fiscal risk management, a new SOEs law and regulation was approved in 2018 and 2019, which reinforced transparency, accountability, and risk management, beside unifying the legal framework for SOE governance.

¹⁸ Impacto Financeiro da Descentralizacao Provincial de Funcoes em Mocambique: Relatorio Tecnico de Custei e Semulacao de cenarios prospectivos. Projecto de Desenvolvimento Urbano e Descentralizacao (PDUL). 8 de Julho de 2020.

34. Establishing a clear, simple fiscal rule now as part of a stronger medium-term fiscal framework will be essential for managing revenue volatility in the future. Despite recent progress, Mozambique does not yet have a proactive fiscal policy. Instead, fiscal policy tends to be more an outcome than a determinant of the budget process. While revenue from the LNG projects will only increase in about a decade, establishing a clear fiscal rule now is needed to have a well-functioning framework, including a sovereign wealth fund, in place when surplus LNG revenues start coming in. The fiscal rule will help manage the volatility of resource revenue with a medium- to long-term perspective to avoid pro-cyclical spending and to ensure intergenerational equity. The fiscal rule itself should be simple, based on easily understandable fiscal variables with numerical targets, and flexible yet enforceable to help anchor fiscal policy and ensure debt sustainability. Moreover, it should be possible to monitor and enforce the fiscal rule by putting in place an adequate legal and institutional framework. Given capacity constraints, the government could start with developing well-defined fiscal objectives and anchors and piloting a fiscal rule before its formal adoption. Political support is essential, as is the integration into the country's public financial management framework.

35. Mozambique should continue its ongoing efforts to establish a sovereign wealth fund to enhance the transparency of gas revenues, smooth out uneven revenue streams, and achieve short-term stabilization given revenue volatility. While sovereign wealth funds in countries with weak governance environments can be suboptimal (i.e., the rules of replenishment and the drawdown of resources are not consistently followed), such a fund would still present an important first step for Mozambique to increase accountability around the revenue streams originating from the resource boom. Simulations done for the Country Economic Memorandum (CEM) also show that revenue streams will be highly uneven in the first years—in many years exceeding by far the absorptive capacity of the country for public investment. A sovereign wealth fund would help smooth out these uneven revenue streams and save money for future investments.¹⁹ Finally, when resource revenues are volatile, some of the revenues should also be saved for precautionary reasons so that they can be used in periods when revenues are lower than expected.

36. Establishing trust with investors also requires greater efforts to combat anti-money laundering. These include putting in place institutional frameworks to address governance and corruption across areas such as administration of justice and anti-money laundering/countering financing of terrorism (AML/CFT). These tools have not yet been effectively mobilized to fully support anti-corruption efforts, particularly by ensuring that transactions related to politically exposed persons (PEPs) are properly monitored, including real property transactions. Developing

¹⁹ According to the International Monetary Fund (IMF) (2019), delinking public investment from LNG revenues and gradually scaling up investment through a combination of LNG and non-LNG revenues and debt issuance would result in a more stable path of private investment, consumption, and non-LNG output; the mitigation of the Dutch disease effect through the resources accumulated in the stabilization fund; and a more sustainable debt path than a scenario in which only LNG fiscal revenues are used to fund public investment as they become available (spend-as-you-go-rule).

terms of reference for focal points in each ministry and public institution will help to provide ongoing access to the list of public servants, and greater transparency would help to ensure better compliance with a variety of laws, including those on conflicts of interest, asset declarations, and AML/CFT. Areas that have seen limited progress, and which are still vulnerable to corruption, include (1) lack of effective supervision of Designated Non-Financial Businesses and Professions; (2) lack of enforceable requirements for financial institutions to identify PEPs; (3) identification of national money laundering risks; (4) transparency for the beneficial ownership of corporate vehicles; and (5) mutual legal assistance and asset forfeiture legislation.

37. The state's participation in the business sector and the public sector wage bill need to be reviewed thoroughly. Mozambique's underperforming SOEs have placed added pressure on the budget, with issuance of domestic debt to cover SOE operations, including debt restructuring, which accounts for over one-half of the net issuances between 2016 and 2018. A thorough mapping exercise of the state's enterprise sector, including subsidiaries, autonomous agencies, and other potential sources of fiscal risks, is urgent. A rationalization of the role of SOEs in the economy would be useful to have clear criteria for state engagement in the business sector. Similarly, Mozambique needs to take a firmer stance on its public sector wage bill. Since the hidden debt crisis, Mozambique has taken measures to limit subsidies and staff promotions in the public sector, which helped contain wage bill growth. Yet Mozambique's central government wage bill increased from 8.0 percent of GDP in 2008 to about 11.8 percent in 2019, making it by far one of the highest among low-income countries (LICs). Going forward, wage bill consolidation will require structural reforms that target sectors with excessive employment and wage levels, including non-salary compensations. Aligning job-specific requirements with compensation, a systemic review of pay levels and much-needed institutional-level restructuring of the public sector are among key reforms needed.

38. Significant challenges remain in the implementation of the debt and public finance management (PFM) reform agenda. On debt management, it is critical that the public finance management reform agenda resume the preparation of the debt sustainability analysis and the medium-term debt strategy to guide borrowing and guarantee decisions, as required by the 2017 decree on issuance of debt and guarantees. This will require improving the debt database, including to ensure systematic recording and monitoring of debt, by strengthening debt management capacity and systems. The preparation of annual debt reports was resumed in 2019, after three years of interruption, and this should be consistently done to enhance transparency and credibility. More specifically, domestic debt management needs to be strengthened to reduce maturity concentration and refinancing risk.²⁰ Efforts to improve debt management should be coordinated with reforms in other areas, including fiscal risk assessment and public investment management (PIM). Improving PIM in line with the regulatory framework is essential

²⁰ The domestic debt profile presents considerable levels of maturity concentration. Almost 75 percent of the treasury bonds' stock is due between 2020 and 2022, which increases the likelihood of debt rollovers.

as it increases the likelihood that only productive and environmentally sustainable investments will be debt financed.

39. Despite a first generation of PIM reforms, Mozambique's PIM capacity requires further strengthening. The Government of Mozambique (GoM) recently adopted a regulatory framework for public investment management requiring planned projects to be pre-appraised for social economic impacts before receiving financing. The framework requires projects that have the highest returns to be prioritized and increases fiscal transparency by requiring the publication of the approved project pipeline. Lastly, it requires that infrastructure project design accounts for disaster resilience, given Mozambique's heightened exposure to floods and cyclones. Areas where further improvements can be made are multiyear planning and project selection and considering the recurrent budget implications of capital projects. Improved PIM will help increase productive capacity, especially if the investment strategy is well designed to benefit agriculture and other key non-LNG sectors. Once PFM and PIM reforms have been implemented and the fiscal position has improved, the government will be in a better position to use LNG revenues to finance public investment.

40. Existing weaknesses in expenditure management and control still present risks to the use of public resources in providing services. The 2019 draft Public Expenditure and Financial Accountability (PEFA) diagnostic study indicates that the country performs poorly in most of the areas that were analyzed. In the pillar on Transparency in Public Finances, it attained the lowest scores in respect to budget documentation, the comprehensiveness of the central government reports, transfers to subnational governments performance information for service delivery, and public access to fiscal information. Other PEFA indicators reflect the overall fragility of PFM in the country, including in pillars related to the Management of Assets and Liabilities, Predictability and Control in Budget Execution, and in the External Audit and Legislative Scrutiny.

41. A unique identification system would give citizens access to more public services and contribute to a greater use of digital systems across government, which would increase the efficiency and accountability of the state. Currently, 60 percent of Mozambique's population lacks formal identification, restricting access to (and efficient delivery of) public services and exacerbating disenfranchisement. Without an ID, citizens are unable to exercise basic rights such as voting in elections as well as the ability to demand accountability of subnational and local government, which leads to a weakening of the social contract between the state and its citizens. A weak identification system also undermines government efforts to digitize public services, as the absence of a unique identification system and an operational interoperability framework lead to wasteful duplication of efforts related to data collection and storage, software development, and licensing (See box 4.1 for more details on the state of digitization of public services in Mozambique).

Box 4.1: Obstacles to a Greater Digitization of Government Services in Mozambique

The absence of three core elements—secure connectivity, institutional capacity, and identification systems—impact the state’s capacity to mobilize revenues, monitor expenditures, and deliver services. For instance, despite generous funding throughout the years, the tax authorities have been unable to digitalize the declaration and payments of taxes, and the government still does not have a fully operating integrated financial management system. Most digital initiatives are either abandoned halfway through or malfunctioning.

There is an overall low level of connectivity of government entities. To date, limited investments in the governmental network (GovNet) have been undertaken to increase public sector connectivity. This limitation in investments, combined with a suboptimal strategy for the allocation of scarce resources and weak network performance, has led to low levels of connectivity across central and local governments. It is thus not uncommon to find ministries contracting also with other internet service providers due to bandwidth and quality issues associated with GovNet, and civil servants procuring connectivity services themselves to carry out essential duties, while many other ministries, departments, and agencies (MDAs) are not connected at all.

Opportunities for improved service delivery have also been hampered by the lack of capacity to manage and coordinate digital transformation. Leveraging technology for public service delivery requires good governance arrangements, combined with a strong institutional capacity to design, implement, procure, and coordinate digital efforts across government. Doing so within a robust cybersecurity and data protection framework is also essential. In Mozambique, the absence or limited nature of such arrangements and capacity has led to a situation that can be described as fragmented, inefficient, costly, and vulnerable to cyber threats. Ministries, departments, and agencies often procure technological goods and services without the expertise for doing so, and without taking user centricity into account, leading to costly acquisitions that fail to deliver the expected results. The situation is aggravated by the absence of minimal monitoring systems, and government is unable to provide estimates of its digital presence online or on currently deployed systems. Finally, the absence of an operational interoperability framework leads to wasteful duplication of efforts related to data collection and storage, software development, and licensing.

A fragmented identification infrastructure constitutes another deterrent for greater digitization of public services. As shown by the Identification for Development (ID4D) assessment carried out in-country, the Mozambican identification system is fragmented, lacks a proper service delivery infrastructure, and is prone to security risks and human errors. Sixty percent of the population lacks formal identification, further restricting access to, and efficient delivery of, public services. Barriers to access legal identification are legal (e.g., requirements for late registration), transactional (e.g., time, distance, complex procedures) as well as financial (e.g., payments for registration and for the issuance of credentials), particularly affecting citizens living in remote areas. Functional (sectoral) registers each use their own identification number to track individuals and businesses. This further impedes the use of a unique identification number shared across the government, ultimately undermining interoperability efforts and leading to duplication, inefficiency, and fraudulent enrollment to various benefits and services.

A shallow labor market for digital skills, combined with weak technical capacity and coordination, leads to programs that compete for the same limited pool rather than promoting the growth of digital businesses and the entry of new players. The lack of overarching policy has also led, for instance, to the Center for Development of Financial Information Systems (CEDSIF)—a state-owned enterprise (SOE) whose formal mandate is the development of national financial management systems, to sell services across government, thereby reducing private sector opportunities. Government solutions however tend to favor costly proprietary solutions and “gated data” models that inhibit innovation and public sector transparency. Finally, there is little in the way of financing beyond grants, and digital businesses struggle to navigate the “Valley of Death” by relying on bootstrapping alone.

A sluggish, unbalanced, and unfunded process of decentralization hinders the devolution of power to local governments

42. The lack of objective criteria to distribute public resources to lower levels of government has reinforced regional and inter-regional disparities. A system of intergovernmental fiscal transfers has been put in place to channel resources to finance operations and capital expenditures at the different levels of subnational government, but there remains a significant challenge in ensuring a consistent approach to the intergovernmental fiscal transfer arrangements. Horizontal allocation of public expenditures for deconcentrated provinces and districts are based on budget limits set annually for each deconcentrated provincial and district unit but have not followed objective criteria. The same study that reviewed how public expenditures were distributed horizontally in the 2018 budget found that based on population criteria, some provinces were significantly penalized, and others benefitted. At the bottom sit the poorest provinces of Zambezia (center) and Nampula (north) with an average per capita expenditure of MZN 500. Isolating the province of the City of Maputo which has a different legal statute from all the other 10 provinces, at the top sit the provinces of Gaza (south) and province of Sofala (center) with an average allocation at three times higher MZN 1,500.

43. Similarly, district level public expenditures have not been based on the formula prescribed by an intra-governmental transfer system. District-level public expenditure is defined during the budget proposal, and it is distributed horizontally through the District Development Fund (*Fundo Distrital de Desenvolvimento*, FDD) and the Infrastructure Development Fund (*Fundo de Desenvolvimento de Infraestrutura*, FDI). While, FID and FDD have a formula for horizontal distribution based on population (30 percent), size of territory (20 percent), own revenue collection (15 percent), and poverty levels (30 percent), there are significant variations in the application of the formula. An analysis of the FDD and FID allocations in 2015 shows that allocation varies substantially when controlled for population. It is also not possible to find a correlation of FDD and FID allocations with poverty, as in many cases FDD and FID allocations were inversely related to poverty. Mozambique needs to accelerate the decentralization process and establish an intergovernmental fiscal system that allocates resources in a transparent manner and in accordance with the legal mandate of subnational entities. This will also require strengthening the institutional capacity of decentralized entities, including their capacity to mobilize local revenue and provide local public goods.

44. Moreover, internal and external controls of public expenditure are weak at subnational levels, and mechanisms for public participation and accountability are often superficial. There is no clear and unified format and reporting line for the submission of municipal activity and budget execution reports. The central government does not consolidate and analyze the reports to monitor the municipal's performance. Mozambique's Supreme Audit Court – the *Tribunal Administrativo* (TA)—is tasked with too many mandates, which undermines the court's capacity

to attend to its core function of auditor of public accounts.²¹ There are various forums for direct participation at the local level (starting with the local councils), although their composition, representativeness, and capacity are limited, and often captured by political interests. Competition in local elections, which should provide incentives for local officials' performance, is undermined by the weakness of the electoral system, limited press freedom, and elections-related violence. Finally, the creation of a "secretary of state" at the provincial level limited the effectiveness of elected provincial governments, and thus deviated from the agreed objectives of the recent peace agreement and decentralization reforms.²²

Limited mechanisms to redress grievances weaken the social contract and exacerbate the divide between the state and citizens

45. Limitations on press freedom and imperfect avenues for civic engagement deprive the state of a productive contestation of its performance. Limited space for civic engagement and avenues for voice and dissent exacerbate the divide between the state and citizens, particularly the youth, who represent the majority of the Mozambican population. Opening up spaces for discourse, dialogue, and peaceful contestation, particularly for young people, will be key to addressing this challenge. Specialized programs to promote the socioeconomic inclusion of youth, and the creation of youth clubs to provide young people with forums for dialogue and voice will be critical to ensure that this demographic remains politically engaged and channels their energy and dynamism in a constructive manner. Sufficient data on the performance of agencies legally bound to respond to requests for information and effective feedback mechanisms will be key for ensuring the effective implementation of the right to information legislation, as well as to harness the potential of the media.

46. The justice system, which could provide another venue for contesting state performance, has historically been captured by the executive, and subordinated to political interests. Mozambique's formal justice system is perceived to be corrupt and to favor the powerful and well connected, with references in popular parlance to it working to "arrest chicken thieves" and to let "hashish dealers pay bail." It faces diminished trust and insufficient resources and capacity, which impedes timely, affordable, and transparent justice provision, particularly at the local level.²³ As a result, the majority of the population seeks recourse outside the formal judicial system via community courts, traditional leaders, or faith-based groups, in part reflecting greater trust in informal institutions. Lowering barriers to access forms of justice and recourse, for

²¹ Mozambique's TA presents a unique institutional design in the world, combining under the same institution the functions of (1) a court of administrative contentious, (2) a court of fiscal and customs contentious, and (3) a court of accounts. This overlap of functions, despite the growing complexity of issues, prevents the specialization of judges and undermines the Tribunal's capacity as a Supreme Audit Institution

²² Given that the secretary of state is appointed by the president, the measure reduces the powers of the provincial governors and thus weakens the mechanism of vertical accountability provided through elections. Furthermore, concerns have been raised regarding overlap of competencies, further hampering the capacity of elected governors to fulfill their role.

²³ Public trust in the formal court system stands at 46 percent, according to Afrobarometer, below the 53 percent average among 36 countries on the continent, and down from 74 percent in 2005–2006.

instance through mobile courts, paralegals, and other initiatives, would help to decrease the costs, shorten wait times, and enable access to justice in a timely and affordable fashion. Clarifying the intersection between informal and formal systems of justice, and the mechanisms between the two, would also be crucial to avoid confusion and unevenness in the provision of justice, and broaden access to recourse for the population.

47. Greater access to and transparency and timeliness of government data and monitoring systems are needed to equip those providing commentary on policy making with the information they need. In 2020, Mozambique published for the first time its annual debt report for the year prior with coverage of SOE and LNG debt.²⁴ This represents an important first step in the right direction, but such efforts need to be sustained going forward and extended to more areas of government policy making. Digitizing Government Services (see box 4.1) could help in broadening the reach of transparency across government. In the short run, transparency efforts should at the very least focus on two areas: (1) given the large size of expected future borrowing to finance the GoM's participation in LNG development, adequate reporting by Mozambique's state-owned National Hydrocarbon Company (*Empresa Nacional de Hidrocarbonetos* (ENH)) is a key ingredient for improving fiscal transparency and natural resource governance, and (2) Mozambique's budgetary process already requires greater transparency and a more proactive consultative process during budget preparation. While Mozambique ranks above the SSA average in its overall 2020 Statistical Capacity Index score, in terms of fiscal transparency, the Open Budget Index (2019) gives Mozambique only a score of 42 out of 100.

48. Enhancing accountability mechanisms will be critically important for successful management of the natural resource boom. A strong and sustained commitment to transparency and accountability will encourage public support and help ensure that the government pursues appropriate policies. To ensure success, the GoM should make a clear commitment to implementing transparent and accountable processes and policies for all aspects of resource management. In this regard, Mozambique should continue to work toward full compliance with the Extractive Industries Transparency Initiative (EITI). Mozambique joined the EITI in 2009 and its latest validation by the EITI Board was in October 2019. The country was found to have achieved meaningful progress overall in implementing the 2016 EITI standard, with considerable improvements in specific requirements. The EITI Board encouraged Mozambique to ensure the sustainability of transparency and multi-stakeholder governance in the extractive sector by completing the institutionalization of the EITI Secretariat. This institutionalization, however, will only bear fruit²⁵ if accompanied by additional measures that: (1) build civil society capacity to engage with public and private actors on extractive industries issues, (2) strengthen and enforce beneficial ownership legislation, and (3) increase the governance and accountability

²⁴ ENH published its consolidated financial statements on its website in 2020.

²⁵ The literature on EITI suggests that transparency in the extractive industries sector is only bound to produce results if combined with measures related to beneficial ownership transparency, and governance of SOEs. See, for instance, *The TAP-Plus Approach to Anti-Corruption in the Natural Resource Value Chain* (Brookings 2020).

of SOEs directly or indirectly involved with the extractives sector.

49. Efforts to increase accountability must go all the way down to the community level and avoid stopping at the local leader level to be effective. Various studies have documented that Mozambique’s gas discoveries have delivered a “presource curse,” creating growth disappointments even before production began, with the “hidden debt” scandal as its most blatant symptom. Some even argue that the increased societal conflicts observed in Mozambique in recent years are a manifestation of this “presource curse” (Fryans and Buur 2020). To counter these dynamics and to ensure the success of institutional accountability reforms, such as the creation of a sovereign wealth fund or participation in the EITI, efforts have to be made to ensure the dissemination of information down to the community level and beyond just local leaders. Recent evidence from a large-scale field experiment following the dissemination of information about the substantial natural gas discovery in Mozambique indicates that information targeting citizens and their involvement in public deliberations significantly increases local mobilization and decreases violence (Armand et al. 2020). By contrast, when information reaches only local leaders, it increases elite capture and rent seeking, behaviors that are consistent with the political resource curse. Examples of effective mechanisms to disseminate information at the community level include trained facilitators providing content in the local language and in community theaters.

5. Raising Mozambique’s Human Capital for Future Prosperity

5.1 Key Challenges for the Accumulation of Productive Human Capital

Malnutrition, weak educational outcomes, and poor health and water, sanitation and hygiene (WASH) conditions make a less productive nation and aggravate the intergenerational cycle of poverty

50. According to the HCI, a child born in Mozambique today will only reach 36 percent of her human capital potential by the age of 18 relative to a benchmark of full health and complete education, signaling substantial productivity losses for the next generation (and today’s) workers. The HCI rose from 0.34 in 2012 to 0.36 in 2017, below most of its peers in SSA and below the low-income country (LIC) average. Key factors underlying this weak performance include (1) a high and persistent prevalence of stunting among children under five years of age (43 out of 100 children are stunted), (2) low school learning (almost halving effective school attainment from 7.4 to 4.4 years), and (3) a low adult survival rate (69 percent of 15-year olds survive until age 60). These poor human capital outcomes are the result of a growth trajectory characterized by a lack of inclusiveness and represent an important binding constraint to productivity and future economic growth.

51. Over 40 percent of Mozambican children under five suffer from chronic malnutrition

(stunting), which puts them at risk of experiencing cognitive and physical limitations later in life.²⁶ Less than 5 percent of children under six months are exclusively breastfed, whereas only 13 percent of children ages six to 23 months receive the minimum recommended diet and 66 percent of children 6–60 months old have anemia. High levels of chronic malnutrition have devastating effects on human capital development, contributing to infant deaths, increasing the burden of disease among children, impacting cognitive ability, hampering school attendance and learning, reducing the employability and earnings of adults, and aggravating the intergenerational cycle of poverty. Eighty percent of families are unable to afford an adequate diet, while nearly 30 percent of families are chronically food insecure. The issue of malnutrition is widespread, but it is more acute in the northern provinces of Nampula, Cabo Delgado, Zambezia, and Niassa, where households—mostly engaged on subsistence farming—are vulnerable to chronic food insecurity and extreme weather events.

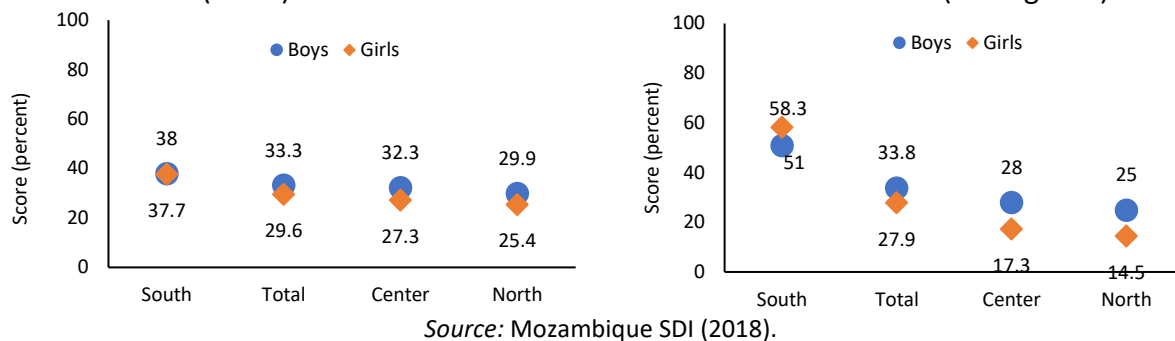
52. While progress has been made to bring more Mozambican children to classrooms, efforts to increase coverage and educational attainment are not translating into learning, which undermines skills and productivity. Government spending on primary school education in Mozambique has been getting more students to the classrooms relative to regional and income level peers; however, the same spending has done little to retain students in school at levels that are comparable to its peers.²⁷ In fact, while Mozambique has achieved a higher primary school enrollment rate and has improved at a faster pace than in LIC and SSA, it is well behind its peers on completion rates and far from reaching universal primary completion. Even more concerning is the worsening of primary completion rates in recent years coupled with low learning outcomes, which suggests that low sector efficiency is hindering performance. Learning poverty is at 90 percent; only 10 percent of ten-year olds can read and understand a simple text.²⁸ The Sector Delivery Indicators survey 2018 (SDI 2018) not only showed low levels of learning but also a considerable underperformance of girls, especially in Portuguese (figure 5.1). Differences between girls' and boys' test scores were particularly large in the northern and center regions of the country, where overall learning levels are significantly lower, pointing to a large inequality in learning outcomes.

²⁶ 42.3 percent of children were stunted in 2015, essentially unchanged from 43 percent in 2011 (DHS 2011). The 2014–2018 period average reported by the Global Hunger Index in 2019 was 28.8 percent.

²⁷ Data from 2019 shows that 7.8 million students are enrolled in basic education (6.7 million in primary and 1.1 million in secondary), 48.2 percent of which are girls. Enrollment in lower primary school is nearly universal, yet average gross enrollment rate (GER) in upper primary is 67 percent and there is a 10-percentage point enrollment gap between boys and girls. The national average hides important regional disparities, with northern and central provinces with GER hovering around 50 percent.

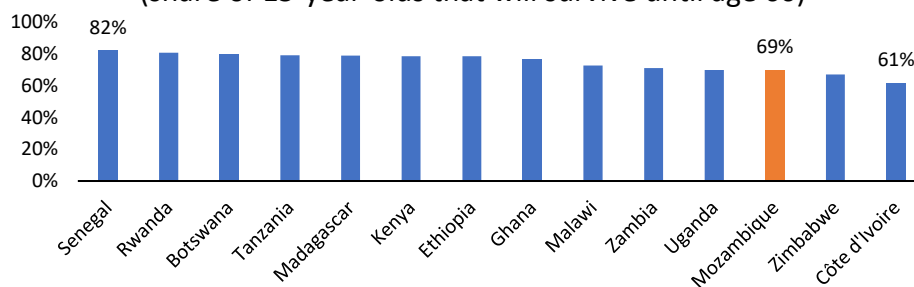
²⁸ This was illustrated in the most recent national assessment, held in 2016, which showed that 5 percent of grade 3 students were able to read at the expected level.

Figure 5.1. Overall, Students Test Scores Are Low, Especially in Some Regions and Among Girls
(Math) (Portuguese)



53. Despite improvements for some health outcomes since the 2016 SCD, the overall health status of adults remains weak, hindering employability and earnings. On average, Mozambicans are expected to live longer now than a decade ago, but life expectancy at birth still only stood at 53.7 years in 2017. While the maternal mortality ratio (MMR) showed a steep decline from 589 deaths per 100,000 live births in 2011 to 289 deaths in 2017, the overall burden of disease and mortality among adults remains high. Only 69 percent of 15-year olds survive to the age of 60, the eleventh lowest adult survival rate across all countries analyzed by the HCI (figure 5.2).²⁹ Mozambique also has one of the world's highest human immunodeficiency virus (HIV) prevalence rates, at almost 13 percent (with women constituting 62 percent of adults living with HIV). Exposure to pathogens as a result of inadequate access to safe water and sanitation cause regular cholera outbreaks (on average 7,500 cases per year), endemic diarrheal disease (on average 715,000 reported cases per year (World Bank 2017c). Close to 15 percent of individuals 15 years old and above report being sick or affected by an accident (IOF 2014/15). Since most miss work due to illnesses or injuries, at any time nearly 10 percent of adults are unable to work, resulting in significant forgone output and earnings.

Figure 5.2. Mozambique's Adult Survival Rate Is the Eleventh Lowest in the World
(share of 15-year-olds that will survive until age 60)



Source: HCI (World Bank), 2018.

54. Population health, especially in rural and isolated areas, is undermined by significant gaps

²⁹ This indicator is a proxy for the range of fatal and nonfatal health outcomes that a child born today would experience as an adult under the current conditions.

in access to safe water and improved sanitation. Nearly 50 percent of the country's population still does not have access to safe water supply, with progress stagnating if not declining in recent years.³⁰ Data from 2017 show a persistent gap in access to safe water sources between urban and rural areas (77 percent against 35 percent) as well as large regional disparities (88 percent in Maputo Province and less than 40 percent in Zambezia and Niassa), which has changed very little over the last five years. Access to sanitation facilities has improved slightly over the last five years, rising from 23 percent in 2012 to 29 percent in 2017. This lack of access to such basic infrastructure has especially detrimental effects on women, given gender roles around domestic tasks, such as water collection. With World Development Indicators (WDI) data suggesting a decline in the percentage of households within a 30-minute round trip to a water supply, from 51 percent to 44 percent between 2015 and 2018, women are likely to now have even less time for income generating activities. Eighty-eight percent of health facilities and only 30 percent of schools have water and sanitation facilities, resulting in frequent diarrheal diseases, particularly among children under five, and contributing to childhood stunting (43 percent in children under five). School sanitation and menstrual hygiene management are also critical to empower girls and support their education.

Demographic trends and disempowerment of women are making equitable progress on human capital an uphill struggle

55. Mozambique is a pre-dividend country that has not been able to significantly reduce fertility, a precondition to benefitting from the demographic dividend. Declining infant mortality rates and persistently high fertility rates have led to a fast-growing population with a high dependency ratio. Infant mortality continued to decline between 2012 and 2019, falling from 64 to 55 deaths per 1,000 live births, as did under-five mortality, falling from 97 to 74 deaths per 1,000 live births. Over the same period, total fertility rates (TFR) fell from 5.9 in 2011 to 4.85 in 2018. However, the number of children per woman is higher among more vulnerable households, such as those in the lowest income quintiles, with no formal education, living in rural areas, and concentrated in the northern and central regions. In addition, the gap between observed and desired fertility is even more prevalent among the poor. Among the poorest 40 percent, women have on average between 1 and 1.5 children more than desired and for men it is between 0.5 and 1 child more children than desired (Demographic Health Survey [DHS]).

56. Nothing will determine Mozambique's future poverty rate and inequality more than forthcoming demographic changes, and the country's ability to benefit from them. Rising working-age population shares can lead to proportionally more income earners in the economy and thus greater growth per capita. Yet, Mozambique will not realize the benefits of its potential demographic dividend unless it can empower its girls and women (determining the human capital levels of both the current and future generations) and provide access to productive employment

³⁰ Access to safe water increased from 35 percent in 2007 to 53 percent in 2011. However, as of 2017, just 49 percent of people reported having access to safe water, a reversal of trends.

for the rising number of young workers entering the labor force (over 500,000 per year). Demography can also reinforce a vicious cycle of poverty and inequality, as low-income households have more children and fewer resources to invest in them. The potential magnitude of the beneficial impact of reducing fertility is clearly laid out in World Bank estimates, which suggest that even reducing the country's fertility rate by just 1 child per woman by 2050 could bring a 31 percent increase in GDP per capita (World Bank, 2017e). From a high-quality service provision perspective, the public investment pressures arising from the demographic challenge are significant. Even in the boom years of 2009–2015, when public investment rates were among the highest in Sub-Saharan Africa, public investment could often not keep up with population growth. In the current fiscal environment with very low public investment rates, this challenge is becoming insurmountable, making increasing the efficiency of spending essential.

An uneven playing field limits access to human and economic opportunities

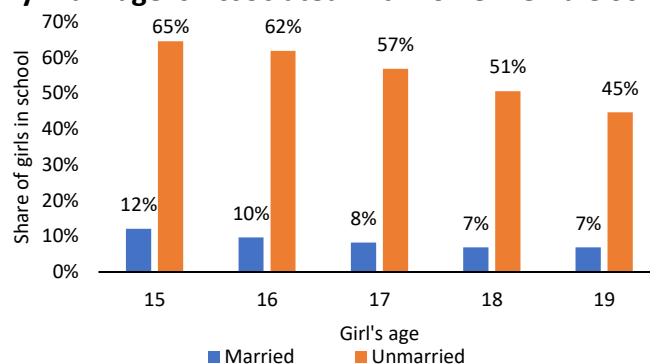
57. The chances of Mozambican children succeeding later in life are largely influenced by personal circumstances such as gender, place of birth, or family incomes.³¹ As of 2015, the Human Opportunity Index (HOI), a measure that summarizes how equitable are basic opportunities distributed in a society, reveals that a child born in the Zambezia Province has a 5 percent chance of having electricity at home, which contrasts with a child raised in Maputo Province (77 percent) or Gaza Province (45 percent). The chances of children succeeding later in life are largely influenced by three personal circumstances: (1) whether the household is located in an urban center, (2) household's per capita consumption, and (3) school attainment of the household head. For instance, these three variables explain 96 percent of the chances of a child growing in a household with access to electricity.

58. Inequity in human opportunities has a clear gender dimension in Mozambique, with negative consequences for women's agency and economic opportunities. Mozambique has one of the highest rates of early female marriage in the world. According to the 2017 census, 41 percent of girls ages 15 to 19 were married. Early marriage dramatically reduces a girl's likelihood of continuing in school. Among 15-year-old girls, 65 percent who were not married reported being in school compared to just 12 percent of married 15-year-old girls (figure 5.3). Early marriage also translates into early motherhood. As of 2015, 46 percent of girls between 15 and 19 years of age were either mothers or pregnant, the fourth highest adolescent fertility rate in the world and an increase from 40 percent in 2008/2009. Relatedly, girls are at high risk of gender-based violence (GBV) in Mozambique. About 33 percent of 15-year-old adolescents girls declare that they are survivors of physical violence and 70 percent of girls report knowing of cases

³¹ The five opportunities considered in the index for children ages five to 11 are (1) the child is enrolled in primary education, (2) the household uses either piped water, public tap, or mineral/bottle water for human consumption; (3) the dwelling is connected to a sewer system or has access to a septic tank and/or improved latrine; (4) the energy for lighting is electricity; and (5) the housing material is adobe, cement, and/or brick. The seven children circumstances defined are (1) location, (2) gender of the child, (3) child's area of residence (urban or rural), (4) per capita household consumption, (5) years of schooling of the family head, (6), number of siblings, and (7) if the child lives in either a single-parent or two-parent household.

of sexual harassment and abuse in their school. Additionally, 19 percent of adolescent girls report forced sexual initiation, a practice that is more common in the northern and central regions of the country. Widows are often dispossessed of their homes and lands after the death of their husbands/partners, and key income-generating assets such as livestock show large gender differences—the average cattle holdings of men in Mozambique are three times larger than those of women.

Figure 5.3. Early Marriage is Associated with Lower Female School Attainment



Source: 2017 Census.

Note: “Married” includes girls formally married, in a marital union, married in the past or currently divorced or widowed.

Climactic events, conflict, and COVID-19 present special challenges to the development of human capital

59. The COVID-19 pandemic is likely to undermine small but steady progress on human capital and especially women and girls’ health and education outcomes. Emerging data from across the region and evidence from previous health crises, such as the West Africa Ebola epidemic, suggest that the pandemic will likely exacerbate many of the existing constraints to poverty reduction and shared prosperity. In terms of health, there is the risk that spending in the health sector is directed away from reproductive and maternal health services (Sochas, Channon, and Nam 2017). This could cause reversals in recent gains in improving access to essential services for the health and nutrition of women, children, and adolescents. On the education front, interruptions to schooling that have been brought on by the crisis may put girls at higher risk of early childbearing and of not returning to schools when they reopen, as was observed during the Ebola outbreak, with research in Sierra Leone showing that villages that were highly disrupted by Ebola saw an 11-percentage point increase in the teenage pregnancy rate (Bandiera et al. 2019). Around the world, there is also evidence that the COVID-19 crisis has entailed a “shadow pandemic” with rising violence against women and girls (United Nations (UN) Women 2020).

60. Internal displacement of populations as a result of conflict and environmental shocks are creating new health challenges. Precarious hygienic conditions due to recent tropical cyclones,

flooding, and internal displacements have caused recent outbreaks of diseases such as malaria, measles, and cholera. In areas hosting internally displaced persons, health services are overburdened and there is a heightened risk of diseases associated with overcrowding, such as COVID-19, tuberculosis, waterborne illnesses, and other communicable diseases. In 2020, an outbreak of cholera resulted in a cumulative number of 2,125 cases and 37 deaths in Cabo Delgado Province. Cases of cholera were identified in six districts including those receiving large numbers of internally displaced persons such as Metuge, Pemba City, and Ibo. An oral cholera vaccine was administered to nearly 315,000 persons between September and October of 2020, which brought the epidemic under control.

Growing but still small social protection coverage provides limited compensation for those with unequal opportunities or affected by shocks

61. COVID-19 has heightened the demands on Mozambique's social protection system. A recent fiscal incidence analysis found that only the top 20 percent of the population are net receivers of the fiscal system, whereas the poorer deciles of the income population are net payers, suggesting that targeted cash transfers are needed to compensate poor households for their tax payments even in normal times (See box 5.1). As of June 2020, the regular social protection programs (net of COVID-19 transfers) combined covered less than 608,724 poor and vulnerable households, which is around a 30 percent increase from 2015 but still less than a quarter (22 percent) of the poor. The COVID-19 crisis has prompted further expansion of the social protection program, more than doubling the pre-COVID-19 level.³² The impacts of COVID-19 on the urban population and groups of people that are typically not covered under social protection have also highlighted the need to develop an adaptive and shock-responsive social protection system with effective targeting and coverage. A recent move toward digitization of the payments will increase sector efficiency, transparency, and accountability. However, the lack of an adequate budget allocation may prevent the sector from moving toward a rapid digital modernization at the grass root level. Strengthening the country's social protection system so that programs such as the Basic Social Subsidy Program (*Programa de Subsídio Social Básico*), (PSSB), and the Direct Social Action Program (*Programa de Apoio Social Directo*), (PASD), have better targeting and coverage among the poor is key to offset the impoverishment effects of indirect taxes (the country's main source of tax revenue).

³² With assistance from the World Bank, the GoM is working to scale up the number of social transfer beneficiaries to 1.7 million households, corresponding to around 7.8 million individuals or 26 percent of the population.

Box 5.1: How Taxes and Transfers Affect Poverty and Inequality in Mozambique

A Fiscal Incidence Analysis undertaken for Mozambique under the Commitment to Equity (CEQ) Methodology found that Mozambique's fiscal system reduces inequality but increases poverty. When considering the effect of all taxes, transfers, and in-kind benefits (going from market income plus pensions to final income), the fiscal system in Mozambique reduces inequality by 3.9 Gini points (from 0.569 to 0.529). However, when considering only the taxes and transfers that affect households' cash position and excluding in-kind benefits (from market income plus pensions to consumable income), the fiscal system in Mozambique increases the national poverty headcount by 4.1 percentage points (from 48.6 percent to 52.7 percent). The large fiscal impoverishment is mostly driven by the fact that large indirect taxes paid by households (mainly value added tax [VAT]) are not compensated by direct transfers; this is also found in other fiscal systems in the African region. Exceptional examples are found in South Africa and Namibia (upper-middle-income countries), with fiscal systems that achieve both inequality reduction and poverty reduction; something in common in these latter two countries is that they have larger (targeted) direct transfers that offset the impoverishment effects of taxes.

Primary education explains most of the inequality reduction whereas VAT explains most of the poverty increase. Primary education benefit is the most equalizing in-kind benefit since poor households have higher access rates at this level of education. While VAT is de facto progressive and the custom duties are slightly regressive, they both have a significant impoverishment effect for being the two largest taxes (e.g., representing about 6.6 percent and 3.0 percent of total households' disposable income in the model). Estimates of VAT in the study account for informality (proxied by the place of purchase variable available from the Household Budget Survey [IOF]), whereas for custom duties we simulated the full tax for the taxable products (e.g. assuming the Law of One Price given data limitations to identify actual imported products in the IOF); hence, it is likely the effects of custom duties are overestimated in the model.

5.2 Binding Constraints to Human Capital Formation and Inclusive Service Delivery

Geographic disparities, an insufficient identification system and inefficiencies in social spending hamper service delivery of human development sectors

62. While the GoM has protected social sector spending as a share of GDP in recent years, health and social protection spending are below that of peers. Mozambique's spending in the education sector has been relatively high compared to that of peers and remains at target levels.³³ In health, on the other hand, the country spends less per capita and GDP than other countries in the region, even after controlling for the significant portion of off-budget funds that Mozambique receives from donors in the health sector (40 percent in 2017). These external funds are also subject to variability and uncertainty, making them an unsustainable source of financing. Furthermore, these funds overwhelmingly focus on disease-specific programs. By contrast, in education, Mozambique has shown an increasing commitment to self-funding, with internal resources growing from a 70 percent share in 2008 to a budgeted 90 percent share in 2019 (United Nations Children's Emergency Fund, (UNICEF), 2019). When it comes to spending on social safety nets, Mozambique's allocation to social protection in 2020 was 0.62 percent of the

³³ Between 2008 and 2018, education spending in Mozambique averaged 19.1 percent of total government expenditure, and 6.3 percent of GDP. By comparison, education sector spending in LIC and SSA countries averaged 16.5 percent and 16.7 percent of government expenditure and 3.8 percent and 4.1 percent of GDP, respectively. In addition, the 2019 Education Sector budget is funded 90 percent through internal resources and 10 percent through external resources, which signals a remarkable self-reliance (UNICEF 2019).

GDP, which is far below the average allocation in African countries (1.20 percent of the GDP).

63. Low efficiency of spending constitutes a drag on effective and high-quality service provision. In education, while investment efforts have been devoted to increase the number of teachers and school infrastructure, education outcomes have not progressed as expected. Primary completion rates have stagnated at around 47 percent, there are wide urban-rural gaps in secondary education, and major teacher quality issues remain. In addition, inefficiencies have grown in recent years. Relative efficiency in primary education worsened for all output indicators between 2006–10 and 2011–14, both on account of lower output performance and higher expenditures. Coupled with the growing number of students needing to enter the school system, this path is clearly unsustainable. Both cross-country and in-country provincial comparisons also indicate the potential for better use of resources in the health sector, with sources of inefficiencies attributed to inequitable resource allocation and composition of staff, which is often skewed toward more administrative staff in provinces that have lower health worker to population ratios. Programs involving community health workers (CHWs) have shown to be of greater cost-effectiveness.³⁴ While the Government of Mozambique is expanding CHW programs, they continue to depend on external funding.

64. The education and health sectors exhibit significant inequities in the allocation of expenditures across provinces. In health, provincial spending is not always proportional to population size or poverty and infant malnutrition rates (figure 5.4). This also bears out in a significant variation in the density of health care professionals in Mozambique by region, with the provinces of Maputo (the province at the outskirts of Maputo City), Nampula, Tete, and Zambezia with less than one-third of the number of health care professionals per capita than Maputo City (figure 5.5).³⁵ In education, as of 2016 teacher to student ratios ranged from 60 in Cabo Delgado and Zambezia, 59 in Nampula, to 43–47 in Manica, Gaza, and Inhambane. In the education sector, inequities persist because a large share of the budget goes to keeping schools in operation because funds are allocated to provinces based on the number of existing schools—overlooking the need to boost areas lagging on the number of schools per district and the number of students enrolled, and therefore perpetuating geographic inequities in infrastructure and output indicators. Inequities could be reduced through the introduction of a formula-based resource allocation mechanism, which includes recurrent and investment components, and includes a specific provision for teacher training.

³⁴ In Mozambique CHWs play a critical role in community involvement and participation because they provide information, mobilize/encourage pregnant women to attend antenatal visits, and help them prepare for the childbirth, thus facilitating decision-making at family levels. CHWs are also instrumental at household levels through implementation of community integrated management of childhood illnesses, which contributes to reducing mortality among children.

³⁵ Mozambique's health sector suffers from significant understaffing compared to neighboring and regional peers. In 2017, there were only 0.76 medical doctors per 10,000 inhabitants in Mozambique contrasting with 7.83 in South Africa and 1.86 in Zimbabwe in the same year. Similarly, while Eswatini enjoys 39.4 nursing and midwifery personnel per 10,000 inhabitants, only 6.84 are available in Mozambique. Zambia and Zimbabwe have 9.31 and 25.97, respectively.

65. Targeting and expansion of the existing social protection system in Mozambique has several components. To improve the distributional impacts of the social protection system in Mozambique, one key aspect is having a systematized targeting criterion so that programs are better equipped to reach poor households. Moreover, improving targeting is important because expanding coverage with weak targeting could lead to inefficiencies of the social protection budget (e.g., leakage). Under the latest social protection strategy, the country envisioned new operating manuals for the main social programs and the application of a unified targeting method (PMT). As of 2020, the PMT was only applied to the PASD. Hence, expanding the PMT to the PSSB and the PASD could be a key area of reform moving forward, so that these programs are better equipped to reach the country's poor. Ongoing reforms to modernize the social protection management information system and payment system need to continue to reach the poor in a more efficient and effective manner. After expanding coverage of social protection (SP) programs, the global generosity of transfers should be assessed, so that they are large enough to offset the effects of taxes paid by poor households.

Figure 5.4. Expenditure, by Province

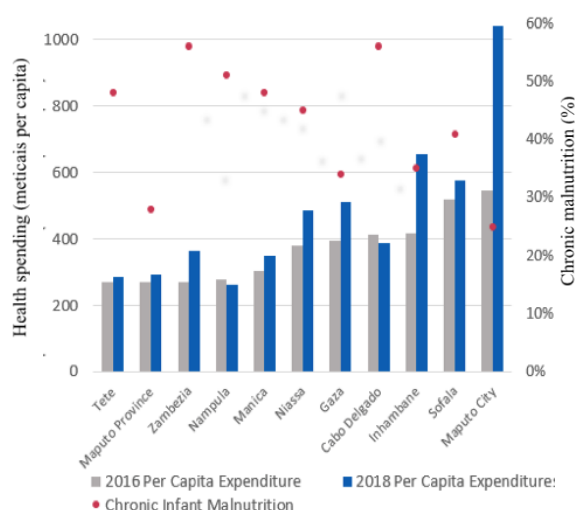
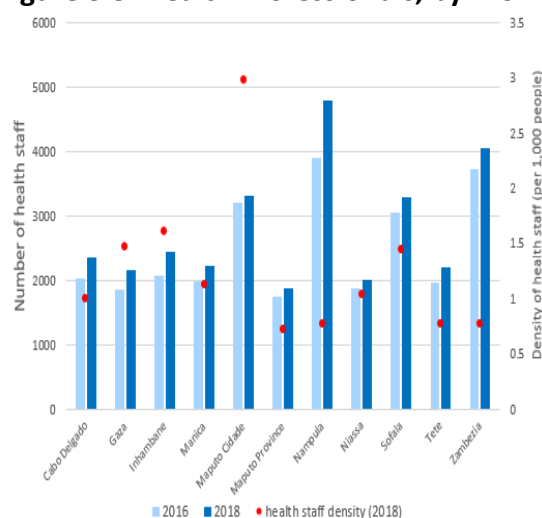


Figure 5.5. Health Professionals, by Province



Sources: Expenditure data extracted from BOOST/e-SISTAFE; population data provided by the National Institute of Statistics (INE); chronic child malnutrition prevalence data (2015) provided by National Directorate of Public Health/Nutrition.

66. In the absence of a proper identification system, most of the population finds it difficult to access the public services that affect their well-being. Sixty percent of the population lacks formal identification further restricting access to, and efficient delivery of, public services and exacerbating disenfranchisement. In addition, there are significant regional variations between urban and rural areas according to the 2017 Census, and a considerable gender gap: 50 percent of women do not have an identity card, compared with 34 percent of men. This robs poorer and more vulnerable segments of the population, including women, from the right to legal identity, and prevents them from accessing schooling, and later in life financial services, pensions, formal

jobs, entitlement claims, and property transactions. These self-reinforcing constraints constitute a sizeable barrier for unregistered populations to climb out of poverty. They also deprive citizens of basic rights such as voting and standing for election, as well as the ability to demand accountability of subnational and local government and leading to a weakening of the social contract between the state and its citizens.

Limited accountability and performance-based incentives and poor institutional coordination constrain the effectiveness of service delivery and the formation of human capital

67. The development of performance-based management frameworks would benefit the more efficient provision of quality services. A crucial challenge to improving student learning is improving teacher quality and reducing absenteeism through stronger incentives and accountability mechanisms.³⁶ While teachers' content knowledge improved in 2018 compared to 2014, on average, teachers still only master around 40 percent of the content they are supposed to teach in Portuguese language and mathematics. Furthermore, in mathematics there is a 17-percentage point difference between an average teacher in the South and an average teacher in the North. While teacher absenteeism decreased remarkably from 45 percent in 2014 to 28 percent in 2018, student absenteeism remains high (46 percent in 2018).³⁷ Incentive frameworks need to take into consideration strong complementarities between teacher skills and attendance (of both teachers and students). Most promising may be reforms aimed at increasing the joint responsibility of communities, school management, and local education officers to ensure children and teachers are at school and that learning takes place. Interventions could include involving school councils in the management of schools and training of school directors, and improving and harmonizing manuals and instruments to guide school management, as well as the introduction of performance-based financing at the school and district levels.³⁸

68. Incentives need to be carefully designed to bring scarce resources to where they are most needed. For example, policies to ensure the minimum requirements for teachers need to be consolidated and enforced, even in light of the strong demand to increase the number of teachers in the system. In parallel, Mozambique may consider actions to attract the best candidates to the teaching profession and improve the social perception of teacher careers. Attracting more female teachers may also be important, especially for secondary schools and for lagging rural regions, with the SDI (2018) survey suggesting that student performance is better

³⁶ Starting in 2017, Mozambique has begun implementing an admission exam for candidates applying to the Teacher Training Institutes and is discussing a change in the academic requirements of applicants from having completed 10th grade to being a secondary education graduate (12th grade completed).

³⁷ The SDI 2018 reported that every 10-percentage point increase in students' absenteeism was associated with a 3.2 percentage point drop in student learning. Furthermore, absenteeism explained more than 12 percent of the total variance in student grades.

³⁸ The capacity in MINEDH to analyze, monitor, and evaluate education performance has improved in the past decade. However, there is limited capacity development at the provincial, district, and school levels. For the government to progress on quality indicators such as learning, retention, and teachers' effectiveness it will be critical to develop the capacities for education policy analysis, planning, administration, and monitoring at the provincial and district levels.

with female teachers, especially for girls. This may include efforts on the supply side, such as those that build on recent improvements in women's access to tertiary education and recent World Bank support³⁹ to help primary teachers, especially women, upgrade their qualifications to be able to teach at the secondary level. On the demand side, efforts to make school postings in remote underserved regions more attractive to women teachers would also be helpful. In this regard, it is encouraging that the percentage of female teachers has been increasing in recent years at both the primary and secondary levels, now standing at 46 percent and 31 percent, respectively, according to WDIs.

69. Improving targeting and distribution of resources with the help of local community leaders can be a more cost-effective way to drive faster progress on key health indicators. Outreach needs to be improved to improve access for the bottom quintile of the population by taking the services closer to the communities. In particular, reducing maternal, infant, and child mortality rates requires addressing social determinants around health seeking behavior and sociocultural norms, especially in relation to pregnancy and childbirth. This involves improving the supply of quality maternal and neonatal care at the periphery with priority to remote districts. To achieve this, pregnant women residing far from facilities have been encouraged to use waiting homes located closer to maternities to allow early diagnosis of complications during labor and to facilitate referral to specialized care. Working with community leaders and traditional birth attendants is critical to facilitate the use of these services by pregnant women. Strengthening referral networks for emergency neonatal and obstetric care is essential and should be based on health data and vital statistics to guide investment. Human resource distribution and more on-the-job reinforcement of clinical capacities need to improve, with a focus on clinical personnel in primary and referral facilities.

70. Poor institutional coordination and a weak data environment contribute to inefficiencies. Poor institutional coordination is one driver of overall low spending efficiency in social sectors. For example, poor coordination undermines the ability of the social protection system to exploit synergies and establish the interoperability among social protection programs and sectors engaged with health, nutrition, family planning, early childhood development, and education services. Data management challenges exacerbate this problem. For example, in the health sector, data management challenges make it difficult to accurately track the amounts and categories of resources spent at the subnational level. This in turn prevents a more careful planning of resource allocation to accommodate such parameters as population size, density, poverty, and infant malnutrition rates. The data analysis would also benefit from spending classification by both level of care and diseases to identify if a program like maternal and child health, for example, is getting enough coverage. To improve the data needed for such analysis, the staff entering data at the health facility level could benefit from specific trainings to understand classifications and comprehend the importance of correct and specific entries.

³⁹ Improving Learning and Empowering Girls in Mozambique Project (P172657).

Social norms, legal pluralism and ineffective implementation limit female agency, human capital, access to economic opportunities and control over resources

71. Demand-side information constraints and behavioral, cultural, and economic factors are drivers of gender inequalities such as early marriage, rising adolescent fertility, and uneven access to opportunities. While formal institutional regulations do not discriminate against women, legal pluralism and ineffective implementation enables customary laws and practices to perpetuate gender inequality. Given the important role of slow changing social norms underpinning the interrelated issues of girls' schooling, early marriage, and fertility, a greater focus on engaging communities on these norms and behaviors may help speed up progress on these issues (Hasan and Moucheraud 2014). In Mozambique, Figueroa et al. (2016) looked at the impacts of a community dialogue program that used videos to highlight the benefits and challenges of developing more gender equitable relations, with a focus on issues such as division of household tasks and protecting one's family from HIV, to spark discussions among male and female community members. They find significant impacts, including increased sharing of household tasks between women and men, more agreement with gender equitable attitudes, and lower levels of HIV social stigma. Given the relatively lower agency of adolescent girls, a supply side approach may be insufficient on its own to tackle the drivers of adolescent pregnancy and underage marriages.

72. Increasing rates of adolescent fertility is one example of a reform agenda where a multisectoral approach to tackling human development challenges is necessary. Over the last several years, there has been large-scale donor commitment and government buy-in for contraceptive procurement. However, distribution and uptake among key segments of the population has not been uniform. As such, the continued scale-up of contraceptive provision through multiple channels is necessary. This may include multiple entry points within the health facility, including integration with other Maternal and Child Health Services, expansion of Adolescent and Youth Friendly Services (SAAJ), and distribution through community health workers and mobile brigades in hard to reach areas. In addition, increasing girls' education has been shown to be one of the most effective ways to reduce adolescent pregnancy, demonstrating the importance of multisectoral strategies. In recent years, financial incentives have been shown to be effective at keeping girls in school.⁴⁰

⁴⁰ In Mozambique, a government reform that included a reduction in direct costs for households and the provision of free textbooks was found to have particularly benefitted girls' enrollment. Fox, L., Santibañez, L., Nguyen, V., and André, P. 2012.

6. Making Growth More Inclusive—Private Sector Growth, Productivity, and Job Creation in Mozambique

6.1 Key Challenges for Private Sector-Led Job Creation and Greater Productivity

History, policy choices focused on “insular investments” and elite interests have resulted in an uneven development of Mozambique’s private sector

73. Mozambique’s history and geography have over time resulted in a private sector excessively focused on the south of the country. While more than half of Mozambique’s population lives in the four northern provinces, economic activity and formal firm creation are heavily skewed toward Maputo, with half of all firms being created in the bigger Maputo region. This relative concentration of wealth and investment in the south traces back to the relocation of the capital from Ilha de Moçambique to Lourenço Marques (today’s Maputo) in 1898 and its proximity to the South African economy. As the new capital developed rail connections to South Africa and then Southern Rhodesia, it grew more disconnected from the rest of Mozambique and became effectively an enclave in Southern Africa, with a seaport and railway terminus serving the mining and industrial complex of the then-Transvaal. By contrast, the central regions had cultural and linguistic affinity to Zimbabwe and via the Beira corridor, and have supported the hinterland as a service economy, whereas the economy of the northern regions have been orientated toward cash crop production and trade with Malawi, Tanzania, and the Indian Ocean. Low levels of public investment in the northern and central zones of the country have accentuated the southern focus of economic activity further.

74. Mozambique’s post-civil war economic strategy to focus on a small number of so-called megaprojects has created “dynamic islands” of private sector activity with insufficient backward linkages. Since the mid-2000s, Mozambique—endowed with a wealth of natural resources—has done extremely well in attracting FDI into several so-called megaprojects in hydropower, the extractive industries, and the giant aluminum smelter Mozal. In recent years, Mozambique attracted 15 percent of total inflows into SSA, providing a great source of resilience to the economy and constituting the main driver of growth. However, limited FDI linkages to the local economy hindered the creation of formal private sector jobs and effectively led to increased inequality. Due to limited backward linkages to other parts of the economy, FDI flows into Mozambique’s megaprojects have also not been associated with the usual technology transfers and knowledge spillovers that lift productivity. Finally, Mozambique’s success at attracting large amounts of FDI may have fostered complacency among policy makers to push reforms in support of overall private sector performance.

75. Elite interests deter new entrants in established industries, depriving Mozambique’s private sector of much needed innovation and competition. Mozambique’s economy displays features of a rentier economy, engaged in quasi-monopolies, with strong correlation between business leaders and political elites. Its dependence on the government and on SOE contracts

means space for new entrants is limited, and it has not been effective in fostering inclusive and broad-based growth. Opportunities for diversification have not been fully realized, as disproportionate attention has been paid to the top 100 companies, the majority of which are transnational and control the most capital-intensive and profitable sectors of the economy (World Bank Group-Chatham House 2020). The rent-based structure of the Mozambican economy makes the private sector extremely dependent on state spending, FDI, and aid inflows.

To accelerate structural transformation and achieve broad-based growth, Mozambique needs to lift the productivity of its non-extractives private sector

76. Mozambique’s private sector today contributes little to productivity growth and generates too little formal employment for its rapidly growing population. Half a million new job seekers enter the labor market every year, far more than the formal jobs that Mozambique’s formal private sector is able to create. As a result, four out of five Mozambicans find their first job in the informal services or agricultural sector, and those who secure a formal sector job are likely to find it in a small firm of low productivity. In 2018, the average labor productivity of formal firms in Mozambique’s manufacturing and services sectors was lower than for the average SSA and LIC. In the informal private sector—which represents 31 percent of GDP—productivity was even lower, with only 7 percent of informal firms matching the productivity of similar sized formal firms (box 6.1).

Box 6.1: Informal Firms in Mozambique—More Survival than Opportunity Driven

Novel survey data collected in 2018 in the three business centers of Maputo, Nampula, and Beira provide new insights on Mozambique’s informal economy. Among the three cities, informality was lowest in Maputo City with four informal firms for every formal firm enumerated, while in Beira the ratio was 17 informal firms per formal firm, and 36 in Nampula. Formal firms in Maputo were also three times as likely to report that they had started out informal and formalized over their life cycle. Sixty-six percent of informal firms surveyed were active in the retail sector. Other common industries were other manufacturing (7.4 percent), personal service activities (6.1 percent), and food manufacturing (4.8 percent). On average informal firms in Mozambique counted one to two employees and were more likely to be owned by women. Compared to formal firms of similar size informal firms sold about 14 times less, made 17 times lower profits, and were two–three times less productive.

More than half of the informal firms surveyed could be categorized as “low resemblance and low performance firms,” i.e., they were neither in their performance nor their firm characteristics showing signs that they could credibly compete with formal firms. Not surprisingly, the overwhelming majority of those owning these firms indicated that they would prefer a wage job. Only a mere 7 percent of Mozambican informal firms performed at levels comparable or above those of micro formal firms and had characteristics like their formal competitors, suggesting that they could benefit from policies that support formalization, for example by reducing the delays, fees, and paperwork associated with business licensing. The remaining 93 percent would benefit more from policies that facilitate the creation of more wage employment, transitions to wage employment (e.g., improving skills to increase employability), or policies that offer social protection or support alternative options (e.g., programs to support migration from rural to urban opportunities) (McKenzie and Woodruff 2014).

Source: Aga et al. 2021b.

77. A low productivity formal sector has provided little avenue for labor movements to high-productivity sectors. A process of structural transformation that yields sustained productivity growth and job creation is marked by (1) declining employment (or hours worked) and output shares in agriculture; (2) rising employment and output share in services; and (3) inverted U-shaped evolution of employment and output shares in manufacturing. In Mozambique, manufacturing's employment share remained stagnant while its output share continues to fall. In addition, despite the decline in agriculture's employment share, the country still has a very large share of agricultural employment compared to countries with similar levels of income per capita. Further, the bulk of the labor force released by agriculture has mostly been absorbed by low-productivity informal services activities.

To raise productivity and support job creation, Mozambique needs to improve the competitiveness of its economy

78. Despite efforts to reform business regulations, Mozambican firms contend with one of the least competitive business environments in the world. Mozambique's level of competitiveness, measured by the Global Competitive Index (GCI), has been on a declining path since the early 2010s. Ranking 133 out of 140 countries in 2018, Mozambique has fallen below other LICs and the average for SSA. While the country has fared relatively well in developing its trade infrastructure (including ports, customs, and primary roads linked to export corridors), a thin internal road network limits domestic market connectivity. Skills development is progressing but at a slow pace, even by regional standards. Deficits in access to electricity, information and communication technology (ICT) adoption, and regulatory constraints further depress firms' competitiveness in Mozambique. Competitiveness and productivity are also constrained by a weak governance setting and corruption. In 2018, corruption was noted by Mozambican firms as the greatest obstacle to their business operations.

79. At its current level of competitiveness Mozambique risks forgoing the significant employment effects of the upcoming LNG bonanza. The potential for indirect employment effects from LNG investments are great but can only be secured if local firms are able to grow to scale and deliver the required quality standards. If Mozambique manages its LNG boom well, it could realize direct and indirect employment opportunities in the order of 1.6 million (mostly low-skilled) jobs in the next 15 years.⁴¹ This could accommodate on average one-sixth of the annual workforce increase projected for Mozambique. However, these employment gains will not be automatic. They will not only require that the LNG investments are not delayed or derailed by conflict in the Northern Region, they will also require that local firms looking for business

⁴¹ Ninety-eight percent of these job opportunities will be of an indirect nature. Surveys of Mozambique's LNG sector suggest that the main opportunities for indirect employment generation are in food supply, including agro-industries like horticultures, poultry and cattle, and catering services; construction services such as site preparation, basic electrical works, and concrete works; and support services including security services, cleaning services, waste management services, transport services, storage services, and utilities.

opportunities around the LNG investments are ready to tap into what is a remote and difficult to access market for them (Cabo Delgado, where the gas fields are located, is 2,500 km away from Maputo) and meet the high supply and quality standard challenges that foreign investors impose on them.⁴²

80. The risk of a Dutch disease is increasing, lending further urgency to the competitiveness agenda. As the LNG projects progress from the current investment to the development and production phase, the risk of Dutch disease effects is becoming more pronounced.⁴³ It has been estimated that a local content share of just 5 to 10 percent in LNG projects could generate sufficient demand effects in the economy to fuel an appreciation of the real exchange rate that could constrain competitiveness of the non-extractives part of the economy. This risk is acute if it is not mitigated by improving the competitiveness of the rest of the economy and an adequate fiscal framework that moderates spending in line with absorptive capacity for productive investment. It also underscores the need for stronger public investment management to ensure the next public investment boom is better targeted than the last one.

6.2 Binding Constraints to Formal Job Creation and Productivity in Mozambique

Enabling conditions, regulation, and critical markets for private sector growth, diversification and job creation are underdeveloped

81. High interest rates, limited credit information, and weak property rights limit firms' access to finance. While in recent years Mozambique has made progress on financial inclusion, thanks to a proliferation of mobile money, SME financing continues to be severely constrained. Interest rates in Mozambique remain high (14.5 percent in September 2020 for prime customers), reflecting high risks to lending, as well as structural issues such as lack of credit information, limited use of non-immovable assets as collateral,⁴⁴ and limited bank competition. Although the banking system is well capitalized and profitable, competition among banks is limited, the sector exhibits a lack of innovation, and its services fail to reach large segments of the market. In 2017, the IFC estimated the SME financing gap at 10 percent of GDP. This will be further exacerbated by the deterioration of the economic outlook arising from the impact of COVID-19. Lending at longer maturities is constrained, as banks rely primarily on short-term deposits and SMEs often do not meet financial accounting standards that would facilitate access to long-term capital.

⁴² Often a sizable skills gap exists at the managerial level of the domestic firm to negotiate contracts and scale production to the additional demand. Local firms also find it difficult to comply with the costly and time-consuming requirements for standard certifications (ranging from US\$7,000 to US\$20,000 in Mozambique) that foreign investors require.

⁴³ Dutch disease effects in the form of an overvalued real exchange rate are likely to have been contained in the LNG exploration phase.

⁴⁴ Recent progress in improving the legal framework for credit information infrastructure and secured transactions is yet to translate into improved access to finance for businesses: challenges remain around the operationalization of the recently licensed private credit bureau and of the new collateral registry; when operational, this infrastructure is likely to improve the quality of credit and collateral information in Mozambique.

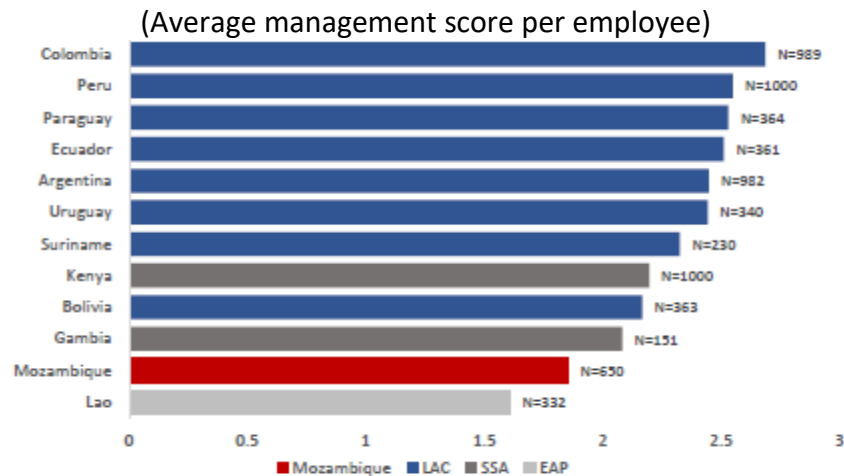
Entrepreneurs and business owners also have very limited access to equity capital due to Mozambique's underdeveloped capital market. Legal uncertainty over property rights and lengthy proceedings to recover collateral also continue to weigh on banks' credit risks.

82. Simplifying and digitalizing—where possible—administrative processes to minimize interactions with officials have the potential of lowering corruption and raising firm performance. Several investment climate reforms were undertaken in recent years, including the establishment of a one-stop shop for business registration (Balcão Unico) and an overhaul of the insolvency regime. Despite these reforms, Mozambique's business regulatory framework remains constrained by bureaucratic red tape and a high administrative burden offering many entry ways for petty corruption. In 2018, Mozambican firms responding to the World Bank's Enterprise Survey (WBES) ranked corruption in connection with licensing, construction permitting, and access to utilities as the biggest obstacle to their business operation (before access to finance).

83. Educating Mozambique's future workforce and investing in the management skills of firms are keys for productivity, job creation, and long-term growth. Mozambican firm-level capabilities—which include worker and management skills—are lagging far behind other countries in the world (figure 6.1), with strong adverse effects on firm productivity.⁴⁵ In fact, differences in firm capabilities explain to a large extent productivity and job creation differences between firms in Mozambique. To strengthen firm capabilities and raise productivity, Mozambique has various options; integrating business relevant skills in school and university curricula can help in the long term. Replacing Mozambique's restrictive foreign labor quota system and labor market tests with knowledge transfer schemes would be an important step toward addressing Mozambique's skills gap where local capacity is scarce. Management skills can also be promoted by fostering linkages with more experienced/skilled firms, with the LNG investments offering an important opportunity in this regard. The training program implemented by Mozambique's Aluminum Smelter Mozal is often regarded as a successful example by the Mozambican business community. Finally, providing consulting services to firms and developing the noncognitive skills of managers are other short-term interventions that have shown success in other countries.

⁴⁵ The weakest management practices implemented by Mozambique's firms include lack of lean manufacturing, limited development of a talent mindset, lack of planning and targeting, and the limited use of documentation to capture lessons.

Figure 6.1. Average Management Practices in Mozambique Are Very Low Compared to International Standards



Source: Aga et al. 2021a.

84. Mozambique’s highly protective labor market legislation can hamper formal jobs growth and labor mobility. While Mozambique is well placed in terms of workers’ rights and labor tax rates, its labor market regulations are deemed to be among the least competitive in the world.⁴⁶ Similarly, the relationship between productivity and pay is deemed very weak.⁴⁷ One of the most restrictive aspects of Mozambique’s regulatory regime is its very high minimum wage (estimated at 140 percent of the average value-added per worker), which is not aligned with labor productivity. In addition, its differentiation by sectors and subsectors risks deterring labor from moving between sectors requiring similar skills. Mozambique also stands out against its SSA peers for its very high level of severance payments, which can serve as a disincentive for hiring in the first place. A gradual reduction of the level of severance payments in tandem with the introduction of active and passive labor market programs and scaled up safety nets could provide more efficient protection to workers in the long run (in lieu of protection of jobs) while supporting job creation by firms.

85. The gradual liberation of the economy has led to one of the most open trade regimes in Africa, but substantial nontariff trade barriers remain. Mozambique’s ranking in the Trade Openness pillar of the GCI climbed from 91 out of 144 countries in 2014 to 75 out of 140 countries in 2018. Tariffs decreased over the past two decades with the simple average Most Favored Nation (MFN) applied tariff rate declining from 13.8 percent in 2001, which was already among the lowest import duties in Southern Africa to 10.3 percent in 2018 and a reduction of the maximum tariff rates. However, high customs duties and nontariff barriers remain obstacles for the further expansion of trade. Nontariff barriers include missing transport standards, the

⁴⁶ Mozambique ranks 138 out of 140 countries on the 2019 GCI in labor markets.

⁴⁷ GCI ranking of 130 out of 140.

malfunctioning of transit procedures, additional taxes and other charges, corruption, and limited local capacity to comply with international sanitary and phyto-sanitary export standards. Customs procedures also require greater harmonization, and the recently introduced electronic customs and trade facilitation system—set up to curb corruption and reduce import procedures—still requires improvements.

86. Mozambique’s (commercial) justice system needs to be improved to decrease investment risks and uncertainty. Enforcing even the most basic contracts in Mozambique can take more than two years. Consistent with the legal maxim “*justice delayed is justice denied*,” such delays mean that entrepreneurs in Mozambique will think twice before they sue a business partner or will avoid lawsuits entirely. This often leads to strategies that affect the dynamism of the private sector. For example, weak contract enforcement pushes larger companies toward vertical integration or deals with other large firms, thereby hindering the growth of smaller players and weakening backward and forward linkages in the economy. Lengthy court processes also lock assets in litigation, affecting their productive use and leading to losses to both businesses and the economy. Finally, cross-country evidence has shown that countries that have weak contract enforcement tend to produce and trade in less sophisticated goods, as those tend to be more contract intensive (Nathan Nunn 2007).

The state's role as investor and regulator stifles private investments, undermines competition, creates uncertainty, and adds conflict of interest

87. To raise productivity and facilitate private sector growth, Mozambique needs to embrace competition and start a strategic process of divestiture from SOEs. The GCI 2019 ranked Mozambique 131 in terms of domestic competition among 141 economies. The main competition constraints include the presence of (mostly loss-making) SOEs in 30 sectors affected by distortive state aid;⁴⁸ lack of competitive neutrality between firms; restrictive sector regulations that prevent entry, facilitate collusion, and discriminate among market players; undue price controls; and absence of an authority able to identify, sanction, and deter anticompetitive market behavior. Unequal access to economic endowments and opportunities extends to the participation in public-private partnerships, and to the boards of state enterprises or multinational megaproject investments, with nonexecutive administration positions on the management boards of these companies usually reserved for members of the ruling party.

88. A more transparent and fair public procurement system could provide a greater stimulus

⁴⁸ Considering only the main companies of the economic group rather than all their subsidiaries, SOEs in Mozambique can be found in more than 30 sectors, from natural monopolies and network sectors to activities that could be fairly provided by private investments without market regulation. Most of these SOEs are either monopolists or hold dominant positions in the markets they are in and have several subsidiaries and minority investments across the economy, often outside of their core activity. For example, CFM, the national railway company, is a main player in the maritime ports and rail transport company network as well as other highly regulated sectors, with participation in companies in cement, tourism, and financial services, sectors that normally face less market failures that would justify SOE presence.

for private sector growth and reduce corruption. Before the hidden debt crisis reduced the fiscal space of Mozambique, public procurement accounted for more than 50 percent of all public expenditures and 22 percent of GDP (2014 numbers). Even in the current environment of drastically reduced fiscal space, it still represents 10 percent of GDP (2018 numbers)—an important fraction of economic activity that if well spent can deliver quality services to citizens and firms and can stimulate domestic demand. To improve the quality of goods and services procured and to stimulate private sector growth, public procurement in Mozambique has to increase its transparency and reduce its excessive reliance on noncompetitive selection processes. In 2018, half of all public contracts were subject to direct contracting. In addition, the efficiency of complaint mechanisms and the capacity of multiple spending agencies to implement tendering procedures must be raised. Mozambique must also significantly improve its payment delays (currently close to two years) to firms to not undermine their cashflows.⁴⁹

Insufficient and regionally uneven public infrastructure undermines connectivity and agglomeration economies

89. Boosting connectivity and reducing transport costs are crucial for growing Mozambique's private sector. Product and labor markets in Mozambique are spatially fragmented, not allowing the country to benefit from economies of specialization and scale. While primary roads have been well maintained by central government, secondary and tertiary roads under the responsibility of subnational governments need to be rehabilitated to reduce transport costs and enable better access to markets. Only about one-fourth of secondary and tertiary roads are in good condition, while the rest are in poor condition and need to be rehabilitated (figure 6.3). Low efficiency of high infrastructure spending, an insufficient focus on lagging regions, and rapid population growth that outpaced improvements explain these weak outcomes. In addition, repeated natural disasters have dealt destructive setbacks to the capital stock. Further, there has been a tendency in Mozambique to neglect North–South connections and strengthen the three main corridors Maputo, Beira, and Nacala, which are linked to the natural ports in the south, center, and north of the country, effectively segregating Mozambique into three smaller markets, which adversely affects the pricing of transport and logistics providers. The transport and logistics sector is also weak due to nonenforcement of competition rules and the awarding of concessions without competitive tenders (figure 6.5). While rail transport would be a cheaper alternative to road transport, weak governance and infrastructure prevent the sector from advancing.

90. Weak digital connectivity undermines firm productivity and the quality of public services. In Mozambique, despite regulatory progress in recent years, the country's digital infrastructure is a long way from achieving broadband universal access, with internet penetration as low as 17.5 percent in 2017—lower than average for the Southern Africa region (29.1 percent) and SSA (19.9 percent). Internet data tariffs are trending down due to Mozambique's connection to two

⁴⁹ According to the 2018 World Bank's Enterprise Survey for Mozambique, the average delay in payments by government was 19 months.

undersea international links and increased competition in the market,⁵⁰ but affordability still remains a challenge compared to peers (figure 6.4).⁵¹ Pushing access further to underserved areas is challenged by high costs of infrastructure deployment (due to difficult terrain, lack of supporting infrastructure like electricity, and lack of infrastructure sharing)⁵² and low expected commercial returns. The legacy of operators investing in proprietary network deployments prevents effective infrastructure sharing and open-access wholesale. Mobile phone penetration stands at 46 percent of the population, which provides opportunities for the provision of multimodal service delivery such as hotlines or SMS, particularly relevant for most citizens who lack access to smart devices and the internet.

91. While connectivity opens markets for firms, electricity is crucial for productivity because it complements capital and allows firms to upgrade their business from traditional to modern technologies. Mozambique has made impressive progress on the energy front in recent years by nearly doubling generation capacity in just 10 years.⁵³ Mozambican firms also enjoy competitive energy tariffs (figure 6.2) but complain increasingly about requests for bribe payments in connection with electricity connections. More progress has to be made in increasing access levels in rural areas, where electrification rates are about 8 percent compared to 72 percent in urban areas. Providing, in particular small towns with better connectivity, could give an important boost to small-scale industries and services that have been the drivers of growth and structural change in the past two decades. Currently better access is hampered by several factors, among others lack of a countrywide interconnected transmission system that could transfer the surplus of energy from the south of the country to other areas.

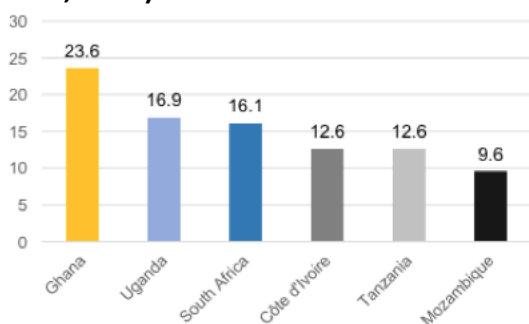
⁵⁰ Regulatory achievements have fostered competition in the telecommunications and broadband market, with the introduction of a second and third mobile operator (Vodacom in 2003 and Movitel in 2011).

⁵¹ Broadband coverage is limited to provincial capitals and major cities, as well as main corridors of development and touristic centers in the coastal line of the country, while rural areas, where most of Mozambique's inhabitants live are unserved or underserved.

⁵² The government has made efforts to expand ICT services through a Universal Access Service Fund (USAF) since 2007. Reform and operationalization of the USAF could accelerate the expansion of ICT services to low-income rural areas.

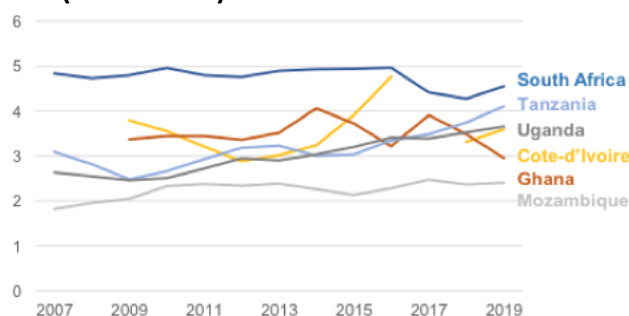
⁵³ Peak demand has increased from about 530 MW in 2010 to about 945 MW in 2019. Mozambique has added 415 MW in four generation plants since 2015, the first significant additions to the power generation fleet in 40 years since Cahora Bassa hydro dam was built in 1975. All of them were public-private partnership (PPP) schemes or fully private.

Figure 6.2. Price of Electricity (US cents per kWh, 2020)



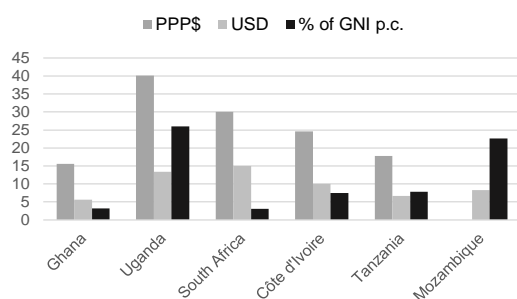
Source: World Bank Getting Electricity Indicator.

Figure 6.3. Road Quality Index by Country (2007–2019)



Source: World Economic Forum GCI, Road Quality Index.

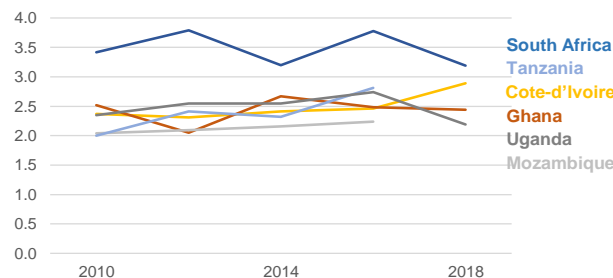
Figure 6.4. Average Price of a Low Usage Mobile Services Bundle (2019)



Source: International Telecommunication Union

Note: Low-usage data and voice basket refers to a monthly allowance of 70 minutes, 20 SMS, and 500 MB.

Figure 6.5. Trade Logistics Performance Index by Country (2010–2018)



Source: World Bank, Logistics Performance Index.

Note: Quality of trade and transport-related infrastructure (1 = low to 5 = high).

92. As government revenues have come under pressure in the last five years, strengthening the regulatory framework for increased private participation, especially in infrastructure, is needed. In recent year, the GoM has made use of PPPs to finance new power generation projects (see box 6.2). While Mozambique has established a regulatory framework for PPPs, further efforts are needed to strengthen the framework. The World Bank benchmarks the regulatory PPP frameworks of 135 economies (including Mozambique) against internationally recognized good practices in preparation, procurement, contract management, and treatment of unsolicited proposals. Comparing Mozambique to the average, the areas with the most scope for development are preparation (score of 46 compared to an average score of 50) and the treatment of unsolicited proposals (score of 33 compared to an average score of 56). Compared to the average SSA country, Mozambique scores above average in all areas except the treatment of unsolicited proposals. Another area distinctly lacking for implementing successful PPPs is the

regulation of concessions.⁵⁴ Finally, PPPs (especially, those contracted by SOEs), can give rise to substantial contingent liabilities, a risk that needs to be managed carefully in the context of Mozambique's constrained fiscal and debt position.

Box 6.2: How Private Sector Investment Helped Boost Mozambique's Generation Capacity in Electricity

In the past decade, Mozambique has seen the successful involvement of private sector investment in power generation in Mozambique. To date, a total of five independent power producers have reached commercial operation, totaling approximately 435 MW across gas and solar photovoltaic (PV) technologies. To finance these investment respective sponsors were able to structure a set of bankable agreements with the Government of Mozambique (GoM), raise the debt financing, built and then operate the plants under long-term power purchase agreements (PPAs) with the state power utility (Mozambique Electricity Company [EDM]). An additional 465 MW (2 projects) are close to reaching financial close, including the large 450 MW gas-fired Independent Power Project financed by the IFC and with World Bank/IDA Partial Risk Guarantee (PRG) support. Looking ahead, various initiatives are being developed to attract private sector investment to increase generation capacity and more so, renewable energy.

Mozambique's legal framework, namely the General Electricity Law and the Large Projects (PPP Law), have enabled the successful implementation of this projects. Important to the success of these projects was the commitment by the GoM to backstop EDM payment obligations and the ability to apply US\$ denominated tariffs but payable in local currency. In addition, EDM has benefitted from significant financial and technical support from the World Bank and other development partners. This support has allowed EDM to increase the country's electrification rate and improve the financial management of the sector.

Despite these achievements in attracting private sector investment by one of the world's poorest countries, challenges for Mozambique to reach universal access and sector financial sustainability remain. Primary examples are the sector's high level of technical and commercial losses (around 36 percent) and the current tariff setting mechanism for end users, which still do not provide a full cost recovery for EDM. These challenges can impact both further private sector investment and the sector's overall sustainability. In terms of private sector participation, more needs to be done in respect of creating conditions for investment in transmission infrastructure and distribution. Private companies are not allowed to manage and operate the national transmission grid, as stipulated by Decree No. 43/2005. In general terms, private sector involvement in the distribution sector does not form part of EDM or the government's plans. Earlier experience with a private sector-operated distribution in Vilanculos/Inhassoro did nothing to encourage further private involvement in distribution. The existing policy supports the concept of a uniform national tariff, and it is unlikely that this will change any time soon. Furthermore, EDM lacks the capacity to evaluate bidding and manage concessions or management contracts.

⁵⁴ Law 15 of 2011, establishing the guiding norms for the process of contracting, implementing, and monitoring of PPPs, of large projects and of concessions, states in Art. 5 that concessions are subject to "sectoral supervision" by the government entity responsible for the sector in which it operates, and that this is "complemented by the respective sector or subsector regulator." In reality, it seems that concessions in ports and railways have been reported upon by the Mozambican Railway Company CFM to the Port Company MTC, de facto making CFM both regulator and operator.

7. Mozambique's Natural Capital—Better Managing the Riches of the Poor for Enduring and Equitable Prosperity

7.1 Key Challenges for Productive and Sustainable Use of Natural Capital

The majority of the population lives in rural Mozambique, relying on natural resources for primarily subsistence-oriented livelihoods

93. Mozambique is gradually becoming more urbanized, but the rural space remains the backbone of the livelihoods for most of the population and will continue to be so over the next several decades. While the share of the population that lives in urban centers increased from 25 to 35 percent between 1995 and 2017, more than 50 percent of the population is projected to remain in rural areas through 2040. On the back of this trend is fast rural population growth, particularly among households in the northern and central regions, where on average 2.1 more children are born per rural women (6.6) than urban women (4.5). This is adding an estimated 450,000 youth to the rural workforce every year.

94. Agriculture is still the predominant economic activity and is supported by favorable agroecological zones in many parts of the country. Over the last decade, more labor has been shifting out of agriculture, dropping from 80.4 percent of the labor force in 2009 to 71.0 percent in 2014, but still well above the regional average.⁵⁵ Additionally, the gradual move out of agriculture has not been evenly distributed, with the southern region registering the greatest growth in industry and services, while the poorer central and northern regions are still dominated by agriculture.

95. In addition to agriculture, Mozambique's rich natural wealth supports the livelihoods of many rural households through fishing and forestry resources. Fisheries—chiefly artisanal fishing—is becoming an increasingly important component of food security and rural livelihoods in certain regions.⁵⁶ Rural households in some parts of the country also earn income from the forestry sector, particularly from timber extraction and harvests from fruit and nut trees. Biomass in the form of wood and charcoal accounts for 80 percent of total energy consumption in Mozambique, with firewood predominantly used in rural areas and charcoal used in peri-urban and urban areas. For rural areas near urban centers, charcoal production is an important source of forest income, generating jobs for between 136,000 to 214,000 people. While still small, the nature-based tourism sector in Mozambique's CAs, which represent 25 percent of the country surface area, offers opportunities for jobs and income generation for local rural communities.⁵⁷

⁵⁵ Nationally, there about 4 million smallholder producers in Mozambique, and they account for approximately 98 percent of the total workforce and production in the agricultural sector.

⁵⁶ Artisanal catches have grown from 259,373 tons in 2015 to 314,470 tons in 2017 and are currently responsible for about 92 percent of total fisheries production in Mozambique (MIMAIP 2019), compared to around 88 percent in 2015. Per capita fish consumption has grown from 4.6 kg/year in 2006 to 14 kg/year in 2017 (MIMAIP 2019).

⁵⁷ In 2019, revenues generated by tourism in CAs amounted to approximately US\$2.6 million, up from US\$1.6 million in 2017.

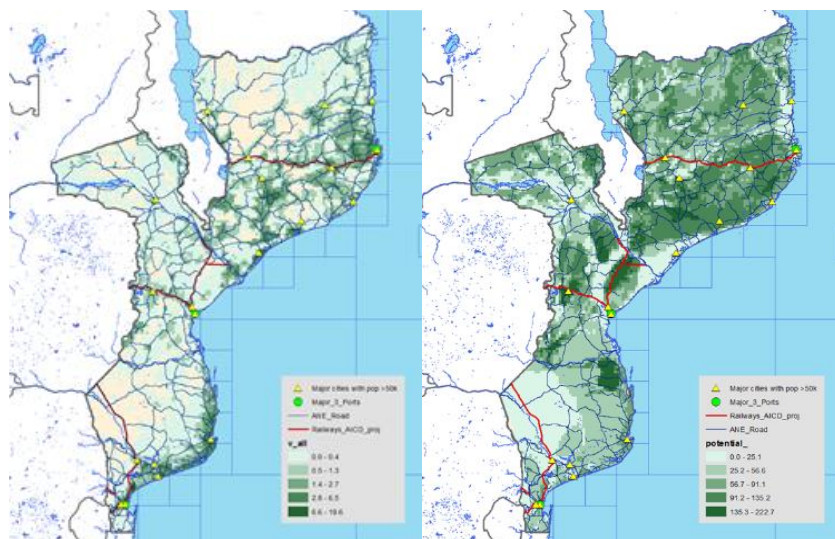
Low productivity and low value addition continue to characterize the agricultural, fisheries, and forestry sectors

96. Despite its significant potential, agricultural production and value addition are underdeveloped and underperforming, resulting in a weak and dysfunctional food system that contributes to high levels of food insecurity and malnutrition. Most farmers engage in subsistence farming, producing primarily food crops for household consumption. Less than one-fourth sell any crops, and few are integrated into commercial agriculture arrangements, such as contract farming, or participate in regional or global value chains. Since the end of Mozambique's civil war, farm area expansion, as opposed to input intensification, has been the largest contributor to agricultural output growth.⁵⁸ Farm size is still very small. Overall, the median area cultivated by smallholders in the main growing season is about one hectare, with farmers in the bottom 40 percent of the income distribution cultivating less than one-third the number of hectares as wealthier farmers.⁵⁹ Farm productivity also remains low. The country has one of the lowest cereal yields per hectare in southern Africa. For example, average yields for maize, the most grown staple crop, are still below 1,000 kg per hectare. Productivity gaps are also observed for other crops that are important in the crop portfolio of small-scale farmers. High yield gaps—the difference between actual yields and potential yields—indicate significant unrealized potential to achieve efficiency gains and boost rural incomes (map 7.1), but there has been little progress in the last two decades in closing these yield gaps. Such poor production results in a weak food system that is incapable of meeting the demands of the population—over 80 percent of the population of Mozambique cannot afford an adequate diet (World Food Program, 2021) and 41 percent faces severe food insecurity (World Development Indicators, 2018).

⁵⁸ The land area cropped has expanded by 50 percent, from around 4 million hectares in the early 1990s to 6 million hectares by 2015, equivalent to an annual growth rate of 1.6 percent (FAOSTAT, 2015).

⁵⁹ At around 1.4 hectares, the median plot is slightly larger in the central region.

Map 7.1. The Current Agricultural Production Value in Mozambique Is Far Below Potential
Agriculture production **value**, US\$ million Agriculture production **potential**, US\$ million



Source: World Bank (2017d).

Note: It is important to note that the agricultural potential map does not consider legal restrictions to agriculture land use. For instance, some areas with high agriculture potential are in protected areas.

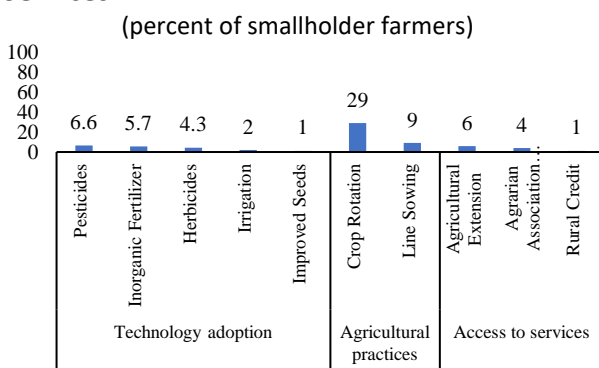
97. Unsustainable and low value-added practices continue to dominate the exploitation of natural resources, accelerating the loss of biodiversity. Annual deforestation rates have increased in recent years, with now more than 267,000 hectares of forest lost every year. Two-thirds of this forest loss is attributed to land use change for small-scale agriculture. However, the timber industry—dominated by unsustainable natural forest management and illegal logging—is also of growing concern. In just two years (2014 to 2016), Mozambique lost an estimated US\$400 million in tax proceeds (approximately 3 percent of GDP) due to illegal logging. Similarly, pressure on fish stocks have increased since the 2016 SCD, with five out of seven key fisheries considered overexploited. The impacts of climate change on fisheries have also become more salient.⁶⁰ Small-scale artisanal fishing in Mozambique is typically unregulated and characterized by low levels of productivity and the lack of a developed cold supply chain and infrastructure necessary to bring production to market, which deters investment and greater commercialization of fish by rural households and artisan fishers. Further, Mozambique remains an important conduit for the illegal poaching, trade, and transportation of wildlife parts—particularly ivory and rhino horn—putting increasing pressure on wildlife populations. A recent census of Mozambique’s African elephant population showed a decline of 48 percent over the past five years.

⁶⁰ This includes changes in sea temperature, oxygen concentration, ocean acidification, and changes in extreme events, etc.

Limited access to input and output markets and information undermine incentives to raise productivity and commercialization in agriculture

98. Input intensification and technology adoption can increase agricultural productivity, strengthen food security, and raise incomes; however, uptake of improved inputs remains low.⁶¹ Given that agriculture is the main driver of land-based degradation in the country, including deforestation, it is important that improving agricultural production focuses on climate-smart intensification, instead of extensification. However, currently, few farmers have access to yield-increasing inputs—less than 6 percent of farmers apply fertilizers, and a very marginal share (around 1 percent) use improved seeds (figure 7.1 and 7.2). Mechanization services are generally inaccessible to smallholder farmers, with mechanization covering 1–2 percent of arable land (World Bank 2020a). Irrigation, which serves as an important risk-reducing mechanism, is only used on 4 percent of Mozambique's cultivated area. This low input intensity contributes to Mozambique's low levels of land and labor productivity relative to comparators in SSA (table 7.1).

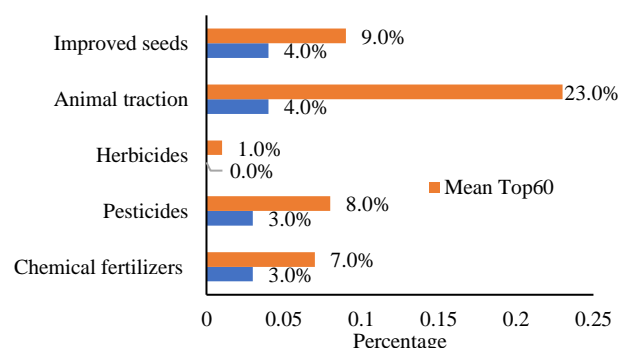
Figure 7.1. Few Farmers Use Modern Inputs and Have Access to Extension or Credit Services



Source: World Bank (2020a) using IAS-2015.

Figure 7.2. Farmers That Do Are Often Better Off

(Percentage of farmers using agricultural inputs)



Source: World Bank (2020a), using IAS 2015.

⁶¹ Statistical analysis using data from Mozambique's AIS-2015 survey shows that the utilization of enhanced seeds, pesticides, or irrigation is positively correlated with yields. For example, maize yields per hectare for farmers that apply fertilizers is 27 percent higher relative to nonadopters.

Table 7.1. Land and Labor Productivity in Mozambique Are among the Lowest in the Region

Country/Region	Land productivity (in constant 2004–2006 US\$)				Labor productivity (in constant 2004–2006 US\$)			
	1990	2000	2010	2014	1990	2000	2010	2014
Sub-Saharan Africa	198	255	321	332	1,326	1,597	1,885	2,105
Kenya	158	176	284	286	513	417	560	532
Malawi	243	404	536	514	302	491	620	531
Mozambique	24	34	60	55	221	230	343	281
Rwanda	599	669	1,037	947	459	420	535	481
Tanzania	139	140	214	262	374	324	469	579
Uganda	382	433	454	434	584	588	517	421
Zambia	39	42	85	93	339	330	579	573
Zimbabwe	127	146	108	101	551	637	499	458

Source: IFPRI. 2018. "Agricultural Total Factor Productivity (TFP), 1991–2014: 2018 Global Food Policy Report Annex Table 5," <https://doi.org/10.7910/DVN/IDOCML>, Harvard Dataverse, V1.

99. Farmers also have weak linkages with output markets, increasing the transaction costs to commercialize their production and thus orienting farmers around subsistence agriculture. Smallholders, who make up 98 percent of Mozambican farmers, have little market orientation and instead are following food security objectives in their production choices. Overall, around 5 percent of the total production of staples and cash crops are traded in local markets, well below the marketing rates observed in neighboring countries such as Tanzania (52 percent), Uganda (42 percent), or Malawi (39 percent).

100. Limited access to knowledge and market information hinders farmers' production and commercialization decisions. Assessments of farmers' knowledge show that most lack agronomic information and know-how to sustainably use inputs and implement improved agricultural practices (International Fertilizer Development Center, 2012). Just 6 percent of farmers reported accessing agricultural extension services in 2015. There is on average one public extension worker per nearly 4,000 farming households, typically limiting services to better-off farmers.⁶² With cellphone ownership rates still low in most rural regions, farmers are overwhelmingly reliant on friends, relatives, and the radio for gathering information on agricultural prices.⁶³ This is important because access to extension services, market information, and cellphone ownership are correlated with growing high-value crops.

⁶² Moreover, wealthier farmers are found to be more likely to implement the technical recommendations because they are financially more capable of purchasing modern inputs (Cungara et al. 2011).

⁶³ In the Northern Region, less than 40 percent of rural households report owning a cellphone compared to 85 percent in the Southern Region, highlighting significant disparities in access. More than 75 percent of farmers that received price information listed their friends or relatives as a source, whereas only 5.6 percent of smallholders obtained that data via mobile phones. Information asymmetries are larger in the Northern Region. In Zambezia, for example, only 9.0 percent of farmers received price information from sources other than relatives, friends, and the radio.

Box 7.1: Potential Agribusiness Value Chains (VCs) in Mozambique

Significant potential exists for Mozambique to invest in the development of promising agribusiness VCs, particularly under contract farming and outgrower business models that can create linkages with smallholders.

In Mozambique's Strategic Plan for Agricultural Development 2011–2020, the analysis of agribusiness investment and market opportunities screened nine VCs with strong potential to scale up, incorporate smallholders for sustainable increases in income and employment, and attract investments from lead firms: poultry, soya, maize, horticulture, sesame, cashew nuts, beans, timber from planted forests, and non-timber forest products such as honey and natural oils. For example, the integrated poultry/maize/soya VC combines animal feed and animal protein production and is in line with a growing national urban demand for poultry products. Pigeon peas have strong, though volatile, export opportunities to markets in Europe and Asia. Sesame is increasingly grown by smallholders, who benefit from high farm gate prices and low input costs in an industry with substantial potential for investments in processing. Investments in production and processing can raise the competitiveness of the cashew VC. Certified non-timber forest natural oils and honey products are increasingly demanded in international markets. There are also promising business opportunities for planted timber products such as sawn wood, particle boards, medium-density fiberboards, and utility poles.

Rural households have high levels of vulnerability due to sharp seasonality and high frequency of severe shocks

101. Mozambique is among the countries in SSA most exposed to weather-related shocks.

Over the last five years, Mozambique has experienced both droughts (2015/2016 in the Southern Region) and various localized flooding episodes (see box 7.2 on the 2019 cyclones Idai and Kenneth). The mean annual temperature in Mozambique increased by 0.6°C between 1960 and 2009, while average rainfall totals declined over the same period. Sea level rise is likely to exceed half a meter by the 2090s, with significant consequences for the 60 percent of Mozambicans who are living in low-lying areas (Reliefweb, 2018). If no further adaptation actions are undertaken, sea level rise could increase economic flood losses in major coastal cities by a factor of five between 2012 and 2030. A catastrophe risk modeling study estimates that the country faces average annual losses of US\$440 million due to floods alone. As such, the ND-GAIN index, which assesses a country's vulnerability and readiness to climate change, ranks Mozambique 154 out of 181 countries (figure 7.3), indicating an urgent need for investment and innovations to improve readiness (ND-GAIN Matrix, 2018).

102. Climate change–related shocks take a heavy toll on rural households through lower agricultural output and reduced consumption.

In the past, cyclones, floods, or drought have led to crop failures, a drop of up to 25–30 percent in per capita food consumption among affected households, increasing poverty by 12.0 to 17.5 percentage points, depending on the type of shock and severity (figure 7.5 and figure 7.6). Intensification of droughts is also expected to reduce crop yields by an average of 11 percent (up to 30–40 percent in some provinces) and reduce general water availability, whereas river floods will become more intense across the main basins due to increases in extreme precipitation during the rainy seasons. It is therefore not surprising that the provinces cyclically most affected by disasters tend to show higher levels of poverty compared to those least affected. Natural hazards and climate change can also amplify

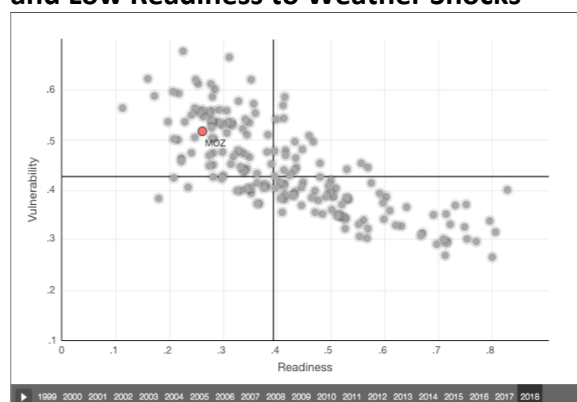
pre-existing institutional weakness and vulnerability and heighten risks of conflict and violence, for instance in Cabo Delgado. Without changes in climate and disaster risk management (DRM) and financing policy, climate change is expected to cause economic damages of between US\$2.3 billion and US\$7.4 billion during the period 2003–2050.⁶⁴

103. The volatility of agricultural output and prices (and thus household well-being) is further exacerbated by marked seasonality. Since agriculture is mostly rain fed, yields are strongly determined by rainfall. Around 90 percent of output is produced during the main growing season. Crop prices in local markets and rural incomes closely track the seasonality of production: they trend downward in the harvest season when crop inventories start to pile up and begin to increase as the lean season unfolds and stocks fall (figure 7.4). For the 1996–2016 period, maize prices fluctuated by up to nearly 70 percent relative to the average maize prices in local markets between one season and the next. Consequently, due to limited access to storage and credit, smallholders sell their production at low prices shortly after harvest and buy at higher prices over the lean season when incomes are lower.

Box 7.2: Cyclones Idai and Cyclone Kenneth

In March and April 2019, Mozambique was struck by two consecutive major cyclones with significant impacts on local populations, business, and core infrastructure. More than 1.7 million people were affected, with damages and losses from houses, business, and core infrastructure amounting to US\$3 billion and an estimated US\$3.4 billion of total cost for recovery and reconstruction. The first event, Cyclone Idai, affected more than 1.5 million people (5.4 percent of the Mozambique population) causing 603 fatalities and 1,600 injuries. The second event, Cyclone Kenneth, affected around 250,000 people and caused 45 casualties. These effects led to food inflation and worsened food insecurity, contributed to the sluggish growth recorded in 2019, and are projected to increase poverty to 79 percent in affected areas, up from 64 percent.

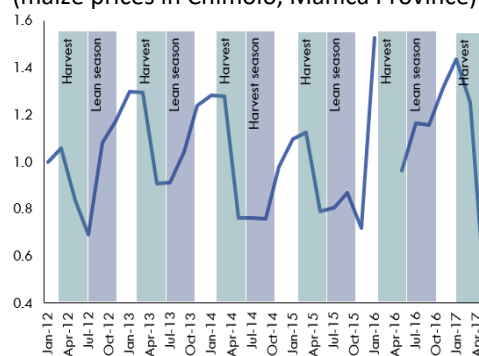
Figure 7.3. Mozambique Has High Vulnerability and Low Readiness to Weather Shocks



Source: ND-GAIN Matrix, 2018.

Figure 7.4. Prices Follow the Seasonality of Production

(maize prices in Chimoio, Manica Province)



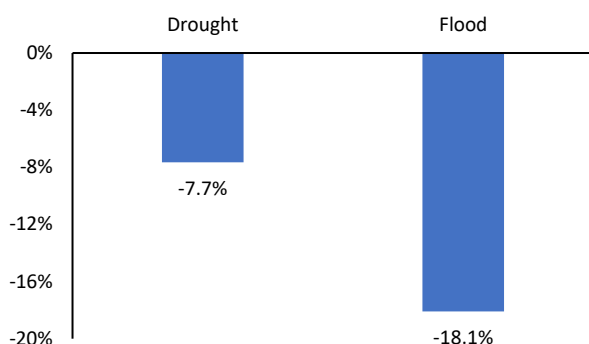
Source: World Bank using SIMA 2017.

Note: Prices in metical (Mt) per kilogram (kg), indexed to January 2012.

⁶⁴ Discounted and in 2003 prices. World Bank (2010); Arndt et al. (2012).

Figure 7.5. Weather Shocks Reduce Agricultural Output

(productivity of farmers affected by shocks relative to nonaffected farmers)

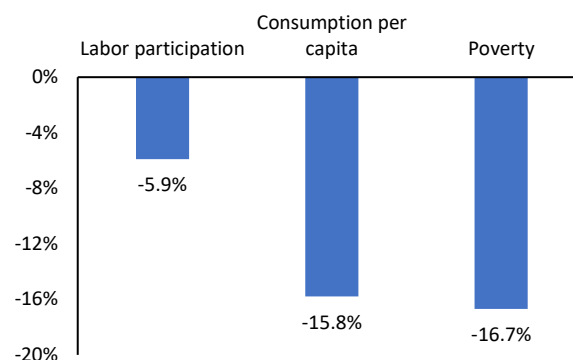


Source: World Bank using IAS 2015.

Note: Productivity measured by maize yields in kg/ha.

Figure 7.6. Weather Shocks Lessen Household Expenditures

(impact effects on household consumption)



Source: Baez, Caruso, and Niu (2019).

Note: Parameter shows effect of a standard deviation in the shock intensity measure.

7.2 Binding Constraints for the Productive and Sustainable Use of Natural Capital

Weak connectivity in most rural areas due to poor or mostly lacking infrastructure is worsened by uneven allocation of public investment

104. Infrastructure gaps contribute to the weak supply and demand of agricultural inputs, limited commercialization orientation, and the weak linkages across different parts of food and forest value chains. Mozambique records low road density, with connectivity challenges being more pressing for most rural parts of the country, particularly in key production areas in the northern and central zones where, on average, 14 percent of the population resides within 2 km of the nearest road in good condition (figure 7.7). Poor connectivity as well as the small and fragmented demand from small and medium scale farmers, especially in the most isolated parts of the country, translate into costly inputs (map 7.2). Mozambique records the highest prices of fertilizers in a sample of 14 countries in SSA, largely due to high transaction costs that account for about 50 percent of the fertilizer farm gate price.⁶⁵ High transaction costs also hamper the commercialization of crops and opportunities to income growth from value addition and diversification, including in forest goods and services, fisheries, and from non-tradable off-farm activities. A georeferenced analysis shows that farmers better connected to markets are more likely to sell part of their produce and engage in off-farm activities (map 7.3).

105. In the last decade, uneven public investment has widened the infrastructure gap between leading regions, notably urban areas, and the lagging rural regions, especially in the northern and central provinces. The infrastructure deficit is explained by limited availability of

⁶⁵ The national average price for urea in Mozambique is nearly three times the global average and 35 percent higher than the average price across the border in Tanzania (Simtowe 2016).

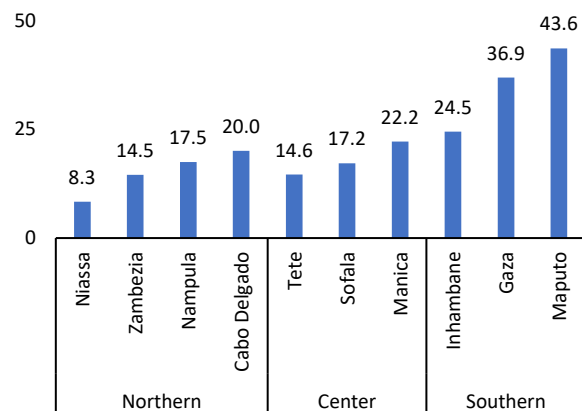
public resources but also uneven regional allocations. Capital investments in roads are particularly skewed toward urban areas (figure 7.8), largely explaining the declining rates of rural connectivity in underserved areas in the northern and Central regions, especially in Nampula, Zambezia, Cabo Delgado, and Sofala provinces. In recent years, over 66 percent of the National Road Administration's budget has been allocated to primary roads, which serve national and regional traffic, including heavy mining transportation. In contrast, only 10 percent of the budget went to nonprimary roads, even though this accounts for 80 percent of total network coverage and more directly supports agricultural production and trade. This bias has led to an ongoing gap in the road infrastructure needed in rural areas, even though a priority of the Government's Road Sector Strategy (2015–2019) is to enhance road access to markets in regions with high agricultural potential.⁶⁶ Current expenditure allocations are reinforcing regional inequities, sporadic maintenance, and roads of low quality.⁶⁷

106. The financial and time requirements to address major infrastructure gaps are substantial, but there are short- and medium-term investments that can yield large benefits at reasonable costs. Rural areas have significant investment gaps for almost every type of infrastructure, but shortages in roads, electricity, irrigation, storage systems, and ICT stand out as the most binding to agricultural incomes. Addressing these gaps entails fiscal commitments, institutional capacity, and an implementation time frame that may be beyond the possibilities of Mozambique in the medium term. Yet, there are realistic options with returns for subsistence and emerging farmers in a reasonable time frame: (1) investments in feeder (secondary) roads in areas with strong agricultural productivity and marketing potential, modest to medium population density, and closeness to corridors and small towns; (2) reconstruction, rehabilitation, and weather-shock resilience of critical parts of the rural network, such as secondary bridges; and (3) stocktaking of existing unclassified rural roads (30,000–45,000 km) to shed light on the areas that have the biggest gaps and thus have been left to informal road development. Similar high-return investments should be identified to tackle key deficits in other sectors.

⁶⁶ The report emphasized the importance of nonprimary roads and the need to balance investment across primary, secondary, and tertiary road networks in order to (1) expand road connectivity to all major productive zones and (2) reduce travel time and vehicle operating costs through maintenance of road networks. However, despite this shifting policy agenda, little gains have been made so far.

⁶⁷ In addition to the classified road network, there is an extensive unclassified road network. Unclassified roads run between 30,000 km to 45,000 km, are under the jurisdiction of the local districts, and are often of very poor quality. Since these routes are not official, they may indicate where rural inhabitants are traveling and the need of improved road investments.

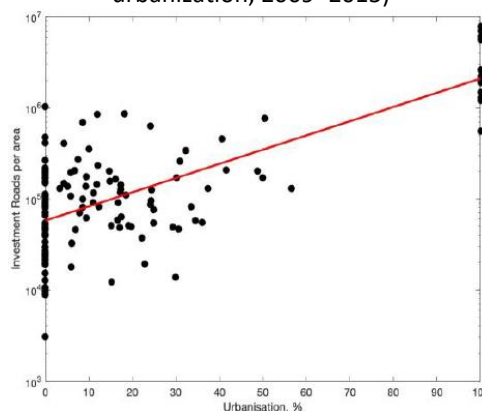
Figure 7.7. Most Smallholders Are Far Away from the Nearest Road in Good Condition
(rural accessibility index by province, 2015)



Source: World Bank (2019c).

Figure 7.8. Urban Areas Have Experienced Higher Public Investments in Roads

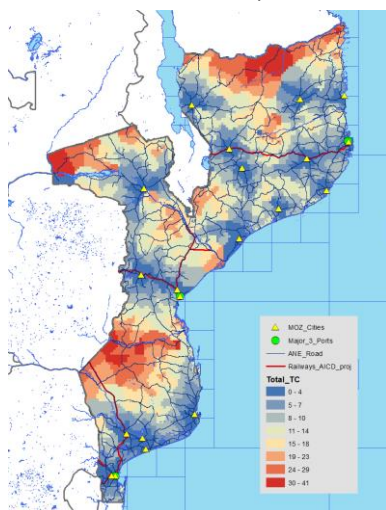
(roads expenditure per area versus level of urbanization, 2009–2015)



Source: World Bank (2019c).

Map 7.2. Transport Costs Are Higher in the Most Isolated Parts of the Country

(transport costs to cities with 50,000 or more inhabitants)

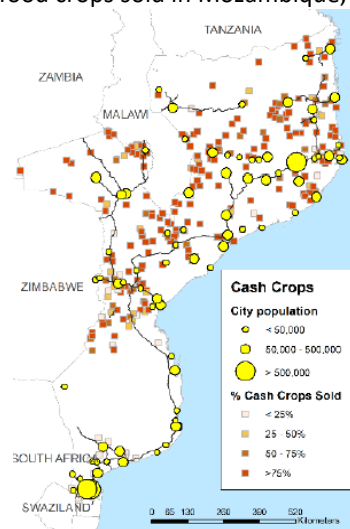


Source: Iimi and Rao (2016)

Note: Costs in US\$/ton.

Map 7.3. Staple Crops Are More Likely to be Sold When Farmers Are Better Connected to Markets

(share of food crops sold in Mozambique, 2014/2015)



Source: World Bank (2017d).

Failures in key markets, some of which are policy-induced, dent enhancement of productivity, commercialization, and risk management

107. Several factors undermine the functioning of markets that are key to expand agricultural production and value addition. The under provision and low demand of critical inputs such as seeds and fertilizers are also driven by issues of imperfect information and policy distortions. Seed quality and origin certification are needed to counter the high prevalence of

counterfeiting and informal trading. An enforceable certification regulation framework will strengthen the incentives of the private sector to invest in the development and distribution of improved seeds and create a culture of trust for farmers who invest in purchased seeds. Similarly, there is scope to simplify the licensing procedures for fertilizer importers, attract investments in local agro-dealers, and increase competition among importers and distributors. Box 7.3 describes how gender differences play out in agricultural markets.

108. Progress in ensuring an adequate supply of inputs will only be sustainable if barriers to their demand are removed. A top priority is to address existing bottlenecks to vertical integration. One of the most effective ways to increase access and affordability of fertilizers is to bring smallholders into aggregator arrangements such as contract farming. However, vertical integration is constrained by lack of financial capital, uncertain land property rights, high transaction costs, weak contract enforcement mechanisms that lead to high risks of side selling, and weak trade standards. Policies to improve the enforcement of contracts, facilitate finance to larger producers, and insurance schemes that can offset the risk that large-scale farmers face in including smallholders into aggregator arrangements can help increase the prevalence of vertically integrated value chains. Emerging pilot schemes, such as the World Bank's Agriculture and Natural Resources Landscapes Management Project (SUSTENTA), offer examples of inclusive interlinked contractual arrangements to promote the development of value chains at a larger scale.

109. Access to finance for small and medium farmers remains very limited. The financial sector is still underdeveloped, with almost no formal credit institutions operating in the rural areas. Agriculture finance is lacking for both smallholders and other actors downstream the VC, such as processors and aggregators. The supply side deals with the standard market failures that prevail in rural credit markets, such as high operational costs and high risks, resulting in expensive financial products. Because of this, just 2 percent of farmers have access to third-party financing. A binding constraint to access finance for farmers remains the inability to use a land title (DUAT) as collateral. Credit constraints inhibit farmers in Mozambique from purchasing improved inputs as well as from taking advantage of inter-temporal arbitrage opportunities, moving stocks from times of low prices to times of high prices. Existing evidence suggests that supporting the emergence of community-based savings and credit groups through technical assistance and training can enable small farmers to amass the financial resources necessary to purchase agricultural inputs (Clark et al. 2015).

Box 7.3: Gender Differences in Agriculture

Women farmers face greater barriers to commercialization, which may be one factor contributing to a gender gap in agricultural productivity between female and male farmers in the center-north. Morgado and Salvucci (2016) found that female-headed households in Mozambique are 20 percent less productive than male-headed households, with the gender gap driven entirely by productivity differences in the central and northern regions.

While differences in the amounts of productive inputs account for part of the gender gap (with those related to use of labor and mechanization especially important), a larger proportion of the gender gap is explained by female-headed households' lower returns, which reflect unobservable factors, such as women's lower technical efficiency or gender discrimination (for example, regarding the quality of land women are able to access). It is estimated that only 21 percent of women producers versus 33 percent of all producers are reached by information provided by extension services. Recent evidence from an Africa Gender Innovation Lab Impact Evaluation of an intervention in Mozambique suggests that programs to support women farmers' noncognitive skills could help women farmers move into cash crop production, increase investments in productive inputs, increase adoption of best farming practices, and increase establishment of off-farm enterprises—in fact, the personal initiative training nearly doubled the share of women running profitable off-farm businesses. Other evidence from Mozambique highlights the importance of designing agricultural extension programs that better target women.

110. The existing land tenure system and complex land-use regulations undermine incentives for domestic and foreign investment in commercial agriculture and forest plantations. The sector is heavily affected by a land titling and management system that is both convoluted and weakly enforced and creates large allocation inefficiencies. The lack of secure land rights also constrains incentives to make long-run investments in agricultural land, leverage land holdings to access capital, or migrate permanently. Unclear and insecure land rights are also an important barrier for foreign private investors to access large pieces of land to develop commercial farms, narrowing the scope for generating wage jobs.

111. Efforts need to be devoted to stimulating digital services in agriculture, such as mobile banking, market information, and extension in agriculture. While several countries in the region have witnessed the emergence of a mass market for affordable and accessible mobile financial services for low-income people, the digital revolution in mobile banking is still in its early stages in Mozambique. This is important because even prior to COVID-19, firms in SSA—formal and informal—that adopted digital technologies were likely to have greater levels of productivity, output, profits, employment, and wages (especially those that used smartphone, digital transaction technologies, and digital management solutions) (World Bank 2021a). Evidence for Mozambique finds that mobile banking increases savings and agricultural investment, particularly fertilizer usage (Batista et al. 2018). Factors such as financial literacy, wealth, and distance to mobile agents appear to correlate with adoption of mobile money services. Overcoming existing structural bottlenecks on the supply side requires increasing the competition in the mobile money sector and facilitating full connectivity between mobile money operators and banks.

112. Agricultural risks, above all excessively high exposure to extreme weather and market uncertainty, contribute to trapping rural households into low-income growth trajectories. Without having formal or fully effective informal insurance mechanisms, rural households are found to opt for planting low-risk, low-return crops instead of investing in inputs or higher-value crops that can be wiped out by bad weather. After shocks hit, households often cope by depleting their assets—including livestock, taking children out of school, or reducing consumption. Large

uncertainty about market opportunities and farm gate prices further reinforce the low-return conservative strategies of farmers. Policy options to help manage risks include (1) promoting risk transfer mechanisms such as micro-level insurance bundled with other risk-reducing products such as drought- or heat-tolerant seeds or credit, (2) increasing the availability and use of local weather information to better manage risks, and (3) continue expanding the coverage of safety nets, including adaptive schemes.

Weak regulation, enforcement, and collective action mechanisms undermine rural economic growth and the sustainable use of natural resources

113. The policy environment in Mozambique is uncondusive to businesses in agricultural input and labor markets. Several bottlenecks, such as difficulties and high costs of starting a business, low domestic credit and limited SME financing, weak property registration mechanisms, complex tax payments, challenges to protect small investors, and high informality of trade, hinder foreign and domestic investment in the sector. Major regulatory gaps also exist in input quality certification, discouraging farmers from buying fertilizers and seeds from the formal commercial sector. Current labor policies regarding the time frame of employment and firing of low-performing workers make hiring seasonal labor challenging for commercial farms. Another disincentive for investors is unsanctioned side-selling of produce by contracted out-growers, which undermines the profits of commercial farmers.

114. Investments to exploit natural resources in a more economically efficient and environmentally sustainable manner are burdened by a less than favorable investment climate. Despite being identified as value chains with substantial potential, investments in industrial fisheries, aquaculture, timber from planted forest, non-timber forest products such as honey and natural oils, or nature-based tourism are limited. They are constrained by low availability of credit for value operators, while limited skills and worker training undermine innovation. But overregulation and red tape also play a role. In the forestry sector, for instance, bureaucratic procedures for establishing plantations are lengthy and expensive, reducing the incentive for investors. Similarly, despite its significant potential, the ecotourism sector remains uncompetitive and growth has been minimal in recent years, with COVID-19 dealing another blow to the sector.⁶⁸ Major infrastructure gaps and poor service quality make many of the country's tourist destinations less accessible than neighboring countries.

115. In recent years, Mozambique has taken steps to strengthen the governance of natural resources, but widespread poor management, regulation gaps, and limited oversight continue to threaten its sustainability. Surveillance and enforcement capacity needed to address challenges in the semi-industrial, industrial, and artisanal fishery segments are largely missing.

⁶⁸ Mozambique's travel and tourism sector registered growth of 2.8 percent in 2018, well below the global (3.9 percent) and regional (3.3 percent) averages.

The forest sector continues to suffer from weak governance, unsustainable management of forest concessions and rates of exploration, low value addition to timber products, and illegal logging. For example, the deforestation rate inside Mozambique's Forest Reserves are three times those observed at the national level, showing that the protection in these areas is not effective. This is partly due to unclear or contradictory mandates of institutions affecting forests, particular law enforcement at the provincial and district levels, and poor coordination among them.⁶⁹ At the same time, inadequate land-use planning, and insecure land tenure are indirect drivers of forest degradation and unsustainable practices. Local communities have limited capacity and involvement in resource management, whereas incentives for the integration of sustainability measures such as silviculture, reforestation, or value-added processing are weak. For the most part, agencies governing the exploitation of natural resources lack adequate human and financial resources.

Growing but still weak risk management mechanisms leave households and key natural assets largely vulnerable to the effects of climate change and large natural disasters

116. Recent catastrophic extreme weather events have catalyzed progress on Mozambique's DRM agenda, but there is still a long road ahead. Over the last five years, the multitude of natural disasters have overstrained the country's financial and institutional response and recovery capacity. Recognizing these challenges, the GoM has put in place increasingly comprehensive legal, strategic, and operational frameworks related to DRM over the last seven years, improving its legal and institutional framework.⁷⁰ The latest DRM Master Plan⁷¹ sets forth an ambitious and comprehensive DRM program for 2017–2030 to promote disaster prevention, preparedness, response, and recovery as well as mainstreaming of DRM in public finance, investments, and development planning across sectors, while building capacity at all levels.⁷² The establishment of the Disaster Management Fund in 2017 has improved the government's ability to prepare for and respond to disasters, successfully reducing the budgetary pressures on the national treasury.⁷³

⁶⁹ This contributes to low transparency and contradicting data on the number of simple licenses and concessions, how they are allocated and to whom, and on how the enforcement of laws, i.e., how the fines are applied, if they are paid, and if these fees go back into the system.

⁷⁰ In 2014, the first Disaster Management Law (No. 15/2014) was enacted. It pushed for comprehensive DRM embedded into national, sectoral, and local development planning and budgeting. A recently (2020) adopted new Disaster Management and Risk Reduction (DM and RR) Law (Law No. 10/2020) expands the scope of disaster management and pushes for the integration and alignment of disaster risk management and climate adaptation actions for building resilience to climate and disaster risk at national, sectoral, and decentralized levels. Furthermore, the GoM's Five-Year Development Program 2020–2024 (*Programa Quinquenal do Governo 2020–2024*) indicates that reducing the vulnerability of the economy, infrastructure, and communities to climate and disaster risks is a key strategic objective.

⁷¹ The “*Plano Director para a Redução do Risco de Desastres 2017–2030—PDRRD*.”

⁷² The enactment of a decentralization package in 2018, which reorganized the structure of provincial and municipal governments, attributed responsibilities for DRM to decentralized institutions.

⁷³ This fund is ringfenced by a manual approved per Ministerial Diploma (No. 96/2019), and its recurrent capitalization by the government since 2019, and by World Bank since 2020, under the Mozambique Disaster Risk Management and Resilience Program (P166437).

117. With still limited social protection coverage and high vulnerability to shocks, the DRM system must be strengthened further to improve the coordination of disaster risk prevention and management, emergency response, and post-disaster reconstruction. Beyond natural disasters, the DRM system must also build on recent initiatives to provide humanitarian support to conflict-induced internally displaced people in central and northern Mozambique. Over the last year, the DRM legal framework has also served as an entry point for addressing the current pandemic-induced crisis.⁷⁴ Looking ahead, it is critical that the National Institute for Disaster Management (INGD) ensure transparency regarding disaster response activities, to further strengthen institutional capacity and effectiveness. Moreover, regulations for preparedness, early warning, emergency response, and post-disaster recovery are needed, including for slow onset events such as droughts.

118. Increasing uptake of soil and water conservation measures, such as climate smart agriculture (CSA), can increase resilience to droughts and floods and strengthen sustainability. Crop losses resulting from drought could be reduced by replacing drought-sensitive maize with more drought-resistant crops (such as maize, sorghum, millet, or cassava) in drought-prone areas, mainly the central and southern regions.⁷⁵ More broadly, crop rotation, integrated soil fertility management, crop residue mulching, and intercropping staples with nitrogen-fixing plants or trees are some of the lower-cost CSA practices, which, in addition, provide an array of ecosystem services. Yet, most farmers still do not adopt these practices. Take-up of other key CSA practices and technologies, such as irrigation, are further hindered by high short-term investment costs and limited access to finance for most smallholders. With the impacts of climate change increasing the stressors on natural resources, these efforts need to be ramped up significantly.

119. Similarly, sustainable forest management and reforestation of productive landscapes can contribute to increased food security as well as greenhouse gas (GHG) emission mitigation goals. Increasing uptake of soil and water conservation measures can increase resilience to droughts and floods and strengthen sustainability. The vast areas of degraded forestland in the country provide much scope for reforestation and further increasing planted areas, as well as opportunities to capture funds from emerging greenhouse gas markets (New Climate Economy 2014). Given that forest and natural resource management, agriculture development, and energy use are inextricably linked, promoting sustainable agroforestry systems requires an integrated approach that addresses the drivers of deforestation in the three sectors—forestry, agriculture, and energy. The development of new technology can further assist these efforts. Remote sensing data with high spatial resolution and temporal frequency are becoming increasingly available and

⁷⁴ In 2020, the GoM approved a new regulatory framework to strengthen the institutional capacity of the National Institute for Disaster Management (INGD, formerly INGC).

⁷⁵ Similarly, crop losses could be reduced by shifting the growing of drought-sensitive crops from the second season, where drought risks are highest, to the first season.

affordable, which have potential for routine monitoring of natural resources due to the readily available history of imagery.⁷⁶

120. In addition, watershed services and green-gray storage infrastructure have a critical role in building climate resilience and environmental sustainability. Watershed management enables the conservation of soil, flora, and water resources of a catchment area in a way that supports human needs for water, food, energy, and habitation, while supporting other values linked to ecologic functions. Green-gray infrastructure, including storage for multiple uses (water supply, agriculture, energy production, and ecological conservation) at different scales, helps buffer against floods and droughts. Indeed, despite its large potential, Mozambique has one of the lowest storage capacities of renewable water in the world, only 0.3 percent of the 216 km³/year of water that crosses the country, diminishing its capacity to better control flows, both in case of dry years and very wet years. The National Water Resources Management Plan indicates that the country is expected to suffer water shortage in most regions, while the provinces of Gaza, Zambezia, and Sofala may experience more frequent and violent floods. The recent prolonged drought in the Umbeluzi river basin, between 2015 and 2020, is an indication of this trend, which has caused severe water restrictions for domestic water consumption, irrigation, and industrial use in the Greater Maputo Region.

8. Conclusions and the Way Forward

121. While this SCD Update confirms many of the finding of the 2016 SCD, it also introduces several changes. First, this Update identifies three pathways for transformation (plus one cross-cutting theme) that have the potential of delivering robust, inclusive, and resilient growth in Mozambique. Second, this Update adjusts the formulation of policy objectives to tie them more closely to the root causes rather than the symptoms of a constraint.⁷⁷ Third, this Update revisits progress, level of priority (based on impact on the twin goals, complementarity, feasibility, time horizon, and strength of evidence), and urgency of the constraints identified in the previous SCD against the context of the last five years. This has led to the inclusion of new constraints and to the reformulation of others. Most noteworthy are the following changes:

122. Recognizing the new challenges that arose for Mozambique over the last five years, the list of reframed policy objectives includes two additional ones:

⁷⁶ Current country systems at Ministry of Agriculture and Food Security (MASA) and Ministry of Land, Environment and Rural Development (MITADER) lack the technical capacity, data, and equipment (software and computers with high processing power) to identify sustainability trends and threats in a timely and comprehensive manner. However, upgrading these systems can enable better monitoring and enforcement of sustainable forest management (Mitchell, Rosenqvist, and Mora 2017).

⁷⁷ For example, the last SCD posited under Policy Objective 6, that “Constraints to Urbanization” had to be addressed. This SCD Update has rephrased the urbanization challenge by highlighting two institutional challenges affecting urbanization: (1) the intragovernmental transfer formula does not deliver on the promises of decentralization to empower lower levels of government; and (2) the public investment management system has failed to prioritize projects with the highest social and economic returns, foregoing opportunities for stronger economic agglomeration, including around secondary cities.

- *Address the downside risks that expose the economy to macroeconomic instability, namely the high debt burden and weak macro-fiscal framework.* To regain the trust of investors in the wake of the hidden debt crisis and to foster an environment of macroeconomic stability, sound macroeconomic management with a particular focus on Mozambique's currently unsustainable debt burden is essential.
- *Enhance mechanisms to redress grievances and strengthen the social contract between the state and citizens.* The escalating conflict in Cabo Delgado has put a spotlight on Mozambique's fragile social fabric and the disconnect that many citizens feel from the state. This has not only underlined the need for better and more even access to public services (as captured by other policy objectives of the SCD), but also heightened the importance of creating more room for contesting the state to foster social cohesion and deliver on its social contract.

123. In a few policy areas, real progress was made in the last five years, which calls for a focus on the next generation of reforms, while deepening the progress already made. The reformulation of the SCD matrix reflects this "graduation" in priorities:

- *Electricity:* Important progress was made in increasing Mozambique's electricity generation capacity. The next challenge that now lies ahead is to crowd private investment into the transmission and distribution sectors (including through renewable energy).
- *Access to finance:* Mozambique has made progress on some measures of financial inclusion (such as the share of people with a bank account and use of mobile money), but financing for SMEs and agriculture remain important challenges that need to be brought into greater focus in the coming years to support private sector-led growth, in addition to continued progress on the financial inclusion agenda to support the resilience of households.
- *Social safety nets:* COVID-19 has shown that the social safety net can be scaled up, including with the use of digital solutions. The Update highlights, however, that more needs to be done to improve targeting and address the adequacy of benefits.
- *DRM:* The cyclones in 2019 prompted substantial progress on reforming the DRM agenda. The SCD Update highlights the need for continued progress on disaster recovery.
- *Institutional framework for managing public resources:* Since the hidden debt crisis, Mozambique has advanced on several key reforms to strengthen fiscal management, including new regulations to strengthen the management of public debt and guarantees. The SCD Update reflects on the next generation of reforms, such as public financial management and transparency and accountability reforms.

124. During the SCD consultations, repeatedly the question was asked which factors were driving the progress that was made on these last five policy objectives. For the first two areas (electricity and access to finance), the supporting role of the private sector (private investors in energy, and mobile operators expanding mobile money) played a big role, but so did strong leadership from the Ministry of Energy and the Central Bank to encourage or build on these tailwinds to the reform agenda. Progress on the other three policy objectives provides a good example of how crises can motivate many players into focused action, creating not only the

political will to reform but also mobilizing the concerted effort and support of international actors, as was seen during the expansion of the social protection system due to COVID-19 and the enhancement of the national DRM system in the aftermath of the cyclones. Similarly, the hidden debt crisis drove the efforts made to strengthen the institutions central to the approval of public debt decisions.

125. As in many other countries, political economy and governance factors contribute to uneven progress of parts of the reform agenda in Mozambique. The five policy areas where real progress was made in the last five years attest to Mozambique’s ability to tackle reforms in collaboration with others and to transform even in a short period of time. In other areas, a better understanding of how political economy and governance factors interact with the decision-making process and how they can be addressed are priorities to help push the reform agenda. In other areas, the knowledge gap is not so big, as is the case for the “elite capture” that has long been known to be holding back private sector development in Mozambique. Finding the right key to unlocking these tendencies is beyond an analytical piece like this SCD Update. But by highlighting the challenge they represent; this document might provide policy makers willing to push for reform and other observers with a basis for discussion.

126. Table 8.1 presents a proposal for prioritizing the reform agenda further. The table presents the 13 revised bindings constraints holding back robust, inclusive, and resilient growth in Mozambique. A second round of prioritization was carried out to flag the most “critical” constraints (shaded in gray in the table) and guide the sequencing of priorities, based on five criteria: (1) essential preconditions, (2) fiscal feasibility and affordability (due to the tight fiscal space in the short to medium term, (3) synergies across pathways, (4) potential for bolstering the confidence of citizens and domestic and foreign investors, and (5) potential to support the resolution of the conflict in the North. Finally, the last column of table 8.1 lists examples of policy actions that were identified by this SCD Update as possible levers for removing the most binding constraints to sustainable growth and poverty reduction in Mozambique.

Table 8.1. Prioritized and Critical Binding Constraints

	Prioritized constraint	Pre-condition	Fiscally feasible	Synergies	Bolster s trust	Reduces fragility	Critical	Examples of policy actions to remove priority constraints
<u>Cross-cutting pathway:</u> Strengthening the accountability and efficiency of the governance framework and institutions	<ul style="list-style-type: none"> • <u>Constraint A:</u> A high debt burden, weak macro-fiscal framework and other downside risks expose the economy to macroeconomic instability and undermine investors' trust. 	1	1	1	1	2	High	<ul style="list-style-type: none"> • Reform debt and public financial management to enhance the effectiveness, transparency, and credibility of fiscal management • Strengthen the public investment management framework to increase the social and economic returns from investments and include disaster resilience in project design • Strengthen public expenditure and financial accountability mechanisms to decrease opportunities for corruption • Encourage the use of digital services across government to improve efficiency and decrease opportunities for corruption • Anchor medium-term fiscal framework through introduction of a simple fiscal rule to manage revenue volatility due to high commodity dependency • Establish a sovereign wealth fund to ensure intragenerational equity • Combat antimoney laundering to decrease perceptions of corruption and elevated investment risks
	<ul style="list-style-type: none"> • <u>Constraint B:</u> Weak transparency, a weak data environment and insufficient oversight and accountability of public financial management and SOEs undermine the efficiency and efficacy of public resources in providing key public goods and dent confidence in the state. 	1	1	1	1	1	High	<ul style="list-style-type: none"> • Revisit and divest parts of the SOE portfolio to reduce fiscal risks from contingent liabilities and strengthen market competition • Increase transparency and fairness of the public procurement system to stimulate private sector growth and reduce corruption • Improve the regulatory framework for increased private participation to facilitate infrastructure investments
	<ul style="list-style-type: none"> • <u>Constraint C:</u> A sluggish, unbalanced, and unfunded process of decentralization hinders the devolution of power to local governments. 	1	2	1	1	1	High	<ul style="list-style-type: none"> • Reform the intragovernmental transfer system to reduce regional and interregional inequities in the provision of public services • Attribute a greater share of expenditures to cities and strengthen their ability to raise revenues to promote economic agglomeration effects • Strengthen external controls for public expenditures sub-nationally

	<ul style="list-style-type: none"> • <u>Constraint D</u>: Limited mechanisms to redress grievances weaken the social contract and exacerbate the divide between the state and citizens 	1	1	2	1	1	High	<ul style="list-style-type: none"> • Increase press freedom and civil society engagement to increase contestability of the state • Lower barriers to the formal justice system to empower citizens and strengthen property rights • Enhance accountability mechanisms related to LNG investments
Pathway 1: Strengthening human capital and inclusive high quality service delivery	<ul style="list-style-type: none"> • <u>Constraint 1.1</u>: Geographic disparities, an insufficient identification system, and inefficiencies in social spending hamper service delivery of human development sectors. 	1	3	1	2	2	Medium	<ul style="list-style-type: none"> • Improve sectoral data availability to better inform policies • Develop a unique identification system to give citizens access to more public services and increase the use of digital systems across government • Improve efficiency and regional allocation of social expenditures to reduce regional inequities • Improve targeting of social protection systems to mitigate external shocks affecting household incomes
	<ul style="list-style-type: none"> • <u>Constraint 1.2</u>: Limited accountability and performance-based incentives and poor institutional coordination constrain the effectiveness and efficiency of service delivery and the formation of human capital. 	1	1	2	2	1	High	<ul style="list-style-type: none"> • Introduce performance-based management frameworks to improve the quality of education • Involve community leaders to improve targeting and distribution of scarce resources in the health sector • Redesign employment incentives to bring teachers and doctors to where they are most needed • Improve institutional coordination to maximize synergies across social sectors
	<ul style="list-style-type: none"> • <u>Constraint 1.3</u>: Social norms, legal pluralism, and ineffective implementation limit female agency, human capital, access to economic opportunities, and control over resources. 	2	1	2	3	2	Medium	<ul style="list-style-type: none"> • Use cash in-kind programs to keep girls in school • Improve agency among vulnerable girls (especially out-of-school) and young women through life skill training, mentoring, and the provision of “Safe Spaces” • Increase dialogue with influencers and gatekeepers (community leaders, parents, partners) to tackle drivers of adolescent pregnancy, underage marriage, and early school dropout • Address institutional, legal, and norms constraints that prevent an effective fight against gender-based violence (GBV) in schools • Increase water, sanitation, and hygiene (WASH) services at household level, health units, and schools for women’s empowerment
Pathway 2: Strengthening competitive	<ul style="list-style-type: none"> • <u>Constraint 2.1</u>: Enabling conditions, regulation, and critical markets for private 	1	1	1	2	2	High	<ul style="list-style-type: none"> • Simplify and digitize administrative processes to lower business regulatory barriers to entrepreneurship

private sector growth and job creation	sector growth, diversification, and job creation are underdeveloped.							<ul style="list-style-type: none"> Invest in training firm managers to help firms grow to scale and increase productivity and innovation Replace restrictive foreign labor quota system and labor market tests with knowledge transfer schemes
	<ul style="list-style-type: none"> <u>Constraint 2.2</u>: The state's role as investor and regulator stifles private investments, undermines competition, creates uncertainty, and adds conflict of interest. 	2	1	3	2	2	Low	<ul style="list-style-type: none"> Review labor market regulations to create incentives to hire Lower nontariff trade barriers to stimulate export-led growth Strengthen credit information infrastructure and property rights to increase access to finance for SMEs Improve commercial justice system to decrease investment risks
	<ul style="list-style-type: none"> <u>Constraint 2.3</u>: Insufficient and regionally uneven public infrastructure undermines connectivity and agglomeration economies. 	1	3	1	2	2	Medium	<ul style="list-style-type: none"> Boost road connectivity and lower transport costs to strengthen North-South connections in the country and increase connectivity along the three economic corridors Expand digital connectivity to support firm productivity Increase access to the electricity grid in small towns to help small-scale industries and services Promote investments in renewable energies to support rural electrification
<u>Pathway 3</u> : Managing natural assets and risks for enduring and equitable prosperity	<ul style="list-style-type: none"> <u>Constraint 3.1</u>: Failures in key markets, some of which are policy-induced, dent enhancement of productivity, commercialization, and risk management. 	1	1	1	2	2	High	<ul style="list-style-type: none"> Mitigate market failure in rural credit markets to help farmers buy productivity enhancing inputs such as fertilizer and seed Promote climate smart agriculture to increase resilience, regenerate landscapes, and reduce losses Strengthen land tenure system to strengthen incentives for investment in commercial farming and increase access to finance Invest in rural feeder roads, warehousing, rural bridges, small-scale irrigation schemes, and water storage to connect rural households to input and output markets in growing urban areas Implement enforceable certification regulation frameworks to strengthen private sector incentives to invest in the development and distribution of high-quality inputs and create trust among farmers Improve access to information (in particular, on rainfall patterns, agricultural techniques, and market prices) to manage weather-related risks and inform production planning and practices Promote CSA and soil and water conservation measures

	<ul style="list-style-type: none"> • <u>Constraint 3.2</u>: Weak regulation, enforcement, and collective action mechanisms undermine rural economic growth and sustainable use of natural resources. 	2	2	2	3	2	Low	<ul style="list-style-type: none"> • Strengthen surveillance/enforcement capacity of forestry institutions to promote sustainable resource exploitation and protect biodiversity • Strengthen land-use planning framework and improve security of land tenure to increase the sustainable management of natural resources and remove incentives for forest degradation • Improve the investment policy framework for natural resource investments to make resource use more sustainable • Strengthen watershed management and optimize water storage at different scales to help manage climate change impacts, helping as buffers against floods and droughts, and ensuring sustainable water availability for multiple uses
	<ul style="list-style-type: none"> • <u>Constraint 3.3</u>: Growing but still weak risk management mechanisms leave households and key natural assets largely vulnerable to the effects of climate change and large natural disasters. 	2	2	2	3	1	Low	<ul style="list-style-type: none"> • Increase coverage and improve targeting of social safety nets to strengthen the resilience of poor households • Strengthen the transparency and effectiveness of DRM to improve preparedness and response to disasters as well as post-recovery • Focus on post-disaster recovery building

Note: Values for identification of critical binding constraints are as follows: 1 (high), 2 (medium) and 3 (low). Constraints shaded in gray are deemed high priority constraints to address.

Annex A: Progress to Date on the Policy Objectives Set Out by the 2016 SCD

(green indicates an improvement; yellow—stagnation; red—deterioration between 2016 and 2021)

Policy objectives last SCD	Progress made toward desired outcomes
1. Bolster economy-wide competitiveness by reducing the cost of doing business and promoting private sector development. Alleviating policy constraints on the business environment, especially the key obstacles faced by micro, small, and medium enterprises (MSMEs), building workforce skills, implementing supportive legislation, increasing productivity, and promoting diversification in the non-resource tradable sectors would encourage investment and promote the growth of non-resource exports.	<ul style="list-style-type: none"> • Marginal improvement in the business environment but little diversification of the economy. • Mozambique's score in the Global Competitiveness Index has decreased slightly from 2015 (3.2) to 2017 (2.89), and it ranks at the lowest end against regional peers.
2. Sustainably increase productivity in the agricultural and forestry sectors. Developing agricultural value chains, strengthening land tenure security, and integrating smallholder farmers into commercial agriculture could boost productivity in the non-resource primary sector.	<ul style="list-style-type: none"> • Agricultural productivity remains low and far below potential; yields for most major crops basically have not increased in the last five years and are highly susceptible to weather shocks. • Most farmers are still subsistence farmers. Less than one-fourth sell any crop, and few are integrated into commercial agriculture arrangements, such as contract farming. • World Bank-financed projects (SUSTENTA - P168940 and MOZFIP - P160033) have supported the registration of about 300,000 land parcels in recent years, but this still falls far short of the total need. • Revitalization of some value chains, like cashew, have seen progress, led by nongovernmental actors.
3. Develop enabling infrastructure. Improving transportation networks and logistical capacity with an emphasis on linking rural and urban areas could improve market access for agriculture and forestry products and promote international trade.	<ul style="list-style-type: none"> • Road density is among the lowest in the region, at 3.8 km per 100 km² of land. Only 27% of roads are paved. 45% of unpaved roads are in very poor condition. Rural accessibility is particularly low at 19.3%. While 82% of registered firms can reach a major city within 2 hours, only 34% have less-than-2-hours access to port. • Mozambique is a long way from achieving broadband universal access. Regulatory achievements have fostered competition in the market, and mobile broadband penetration has grown in recent years, but overall internet penetration remains low, at 17.5% in 2017. • High costs, lengthy time, low reliability, and regulatory issues for facilities and transactions across the Nacala and Beira corridors hinder competitive advances. • Congestion at ports is still an issue, increasing delays and costs. • Rail is less expensive than road, but rail is still uncompetitive due to slow wagon speed and delays in loading and unloading. • Mozambique is among the SSA countries that attain the lowest scores on legal and regulatory practices for the ports sector.

<p>4. Expand access to reliable electricity. Increasing connections, broadening the distribution grid and boosting power generation from both renewable and nonrenewable sources could accelerate growth and diversification in both the urban and rural economies.</p>	<ul style="list-style-type: none"> • Doubling in generation capacity, but electrification rates overall remain low when compared with SSA average access rates (42%). Access is especially low in rural areas but has increased from 24.0% in 2015 to 27.4% 2017. • Promoted significant private participation in power generation since 2015, enabling Mozambique to meet its domestic demand and maintain its position in the Southern Africa Power Pool (SAPP) regional market. Adjusted electricity tariffs so that they are close to cost reflective. • Gains made during the period have been eroded due to the COVID-19 pandemic as demand has been reduced, government is not paying for energy, and companies inefficiencies remain high. • Renewable energy projects are part of the energy mix, but lack of competition has kept solar prices relatively high.
<p>5. Increase access to finance and reduce barriers to the growth of household enterprises and formal sector employment. Reducing borrowing costs, supporting the development of a rural banking network, fostering financial linkages between rural and urban areas, and promoting lending to MSMEs could expand employment opportunities and increase competition in domestic markets.</p>	<ul style="list-style-type: none"> • In 2007, 23 percent of firms reported that access to finance was the biggest obstacle to their operation, in 2018 only 14 percent did. Yet only 10 percent of firms in 2018 reported having a bank loan against 14 percent in 2007. • Credit growth to the private sector declined significantly in 2017–19. • SME financing continues to be constrained. In 2017, the IFC estimated the SME financing gap at 10 percent of GDP. • Real lending rates remain very high for most of the private sector, and among the highest in SSA. • Expansion of social safety net programs to include more of the informal sector through an expansion of digital government-to-person payments provides an opportunity for expanding financial inclusion and supporting individuals operating in the informal sector.
<p>6. Address constraints to urbanization. Promoting investment in urban infrastructure, supporting the development of the nonresource tradable sector, and strengthening the institutional and financial capital of municipalities and district centers would help maximize the social and economic benefits of the urbanization process.</p>	<ul style="list-style-type: none"> • The capacity of city governments to finance urban infrastructure and services for urban growth remains very limited. • Urbanization is still mostly unplanned, and land and housing have become increasingly unaffordable to most city dwellers. • About 70 percent of urban dwellers live in substandard housing conditions located in underserved peri-urban areas or densely populated informal settlements (<i>bairros de caniço</i>). • Most spending remains at the central level, with just 2% at the municipal/urban level (BOOST database).
<p>7. Improve the quality of public education. Addressing the decline in primary completion rates, low levels of secondary completion, particularly for girls, and school governance issues would leverage the impact of increased education spending.</p>	<ul style="list-style-type: none"> • Gross secondary school enrollment increased from 33 percent in 2014 to 37 percent in 2018, but significant gaps in location and economic status remain. In 2017, the upper secondary completion rate was 13 percent, up from 8 percent in 2011. • Teacher quality has improved over the last 5 years, but still remains fairly poor. On a scale of 100, teachers' average math score increased from 30.4 in 2014 to 43.1 in 2018, and average Portuguese scores increased from 32.3 in 2014 to 40.9 in 2018. To improve teacher quality, recent policies have focused on quality pre- and in-service teacher training, continuous support to teachers at school level, merit-based selection, and promotion of teachers. • Teacher absenteeism has decreased from 45.0% of the time in 2014 to 29.8% of the time in 2018. • Student test scores have improved over the last 5 years but are still very low. According to the Service Delivery Indicators, on a scale of 100, average math scores increased from 25.0 in 2014 to 31.4 in 2018. Similarly, Portuguese scores increased from 19.0 in 2014 to 31.2 in 2018. • The new education law (Law 18/2018) and the Education Sector Strategic Plan (ESP 2020–2029) abolished school fees for grades 7–9 and promotes the provision of basic education services closer to communities. To implement this

	<p>reform, MINEDH is planning on upgrading 335 primary schools (currently teaching up to 7th grade) to be able to teach lower secondary (up to 9th grade).</p> <ul style="list-style-type: none"> • The Ministry of Education has been implementing bilingual education in some schools and in 2020 approved the Bilingual Education Strategy (2020–2029).
<p>8. Strengthen public health institutions and improve WASH services. Reducing disparities in access to health care and WASH services based on income, location, and gender would mitigate differential health outcomes—especially stunting—and boost lifetime earnings capacity among the poor.</p>	<ul style="list-style-type: none"> • The GoM has emphasized physical access to health care in its five-year programs and has increased the number of health facilities. • Life expectancy at birth rose from 50.3 years in 2007 to 53.7 in 2017. • Infant mortality continued to decline between 2012 and 2019, falling from 64 to 55 deaths per 1,000 live births, as did under-five mortality, falling from 97 to 74 deaths per 1,000 live births. • Progressive rollout of a comprehensive Nutrition Intervention Package (NIP) for children 0–24 months in 8 provinces with chronic malnutrition over 35%. • Expansion of institutional deliveries nationwide, with targeted support now directed to lagging districts—use of traditional birth attendants and APEs, etc. Expansion of vital statistics on maternal deaths. • Continued scale-up of contraceptive provision through multiple channels, separate facilities for youth, distribution through community health workers (APEs), and mobile brigades in hard to reach areas. • Access to sanitation facilities has improved slightly over the last 5 years, rising from 23% in 2012 to 29% in 2017.
<p>9. Expand the coverage of social assistance programs. Improving program design and targeting would help to ensure that the poorest receive support, and using the expected increase in natural resource revenues to scale up cash transfers would promote a more equitable distribution of the returns to resource-driven growth.</p>	<ul style="list-style-type: none"> • Current SP programs cover around 608,000 poor and vulnerable households (22% of all the poor), around a 30% increase from 2015. • INAS has made significant progress in modernizing its delivery systems since 2015, including creating <i>e-INAS</i>, partnering with third-party contracts for labor-intensive public works projects, and moving toward digitizing payments. • The Second National Social Protection Strategy launched in 2016 has been catalytic for modernizing delivery systems of the sector, and the inclusion of a shock response program that provided the sector flexibility to intervene in natural or man-made shocks.
<p>10. Strengthen the institutional framework for managing public resources. Ensuring the long-term sustainability of the public finances will require continued fiscal consolidation, responsible wage bill management, prudent public investment policies, adequate containment of contingent liabilities and other fiscal risks, and the maintenance of resource–revenue spending in line with the absorptive capacity of the economy.</p>	<ul style="list-style-type: none"> • The hidden debt crisis in 2016 was a step backward in making progress on this objective, leading to a crisis in trust by international partners and a higher debt burden. • Since then, many reforms have been undertaken, improving the country’s framework for managing public resources. • Domestic revenue mobilization and management has improved over the last 5 years, but tax policy still suffers from many issues. • The GoM has taken steps to improve transparency and accountability. New regulations to strengthen debt and guarantee management were approved. The new instruments also widened the approval authority for guarantees from the finance minister to the council of ministers. • Improvements were made in the periodic publication of debt reports, including information for SOEs.
<p>11. Address governance concerns that pose risks to private sector development, public investment quality, and land-</p>	<ul style="list-style-type: none"> • The downward trend of key governance indicators is at odds with the need to bolster private sector confidence and investment.

<p>tenure security. Improving transparency in the use of public resources, including public contract awards, strengthening accountability mechanisms, and encouraging civil society oversight will reduce policy uncertainty and promote public sector efficiency.</p>	<ul style="list-style-type: none"> • While decentralization processes have begun to be implemented, ongoing violence threatens the potential of these reforms. <p>Increasing crime and violence have led to deteriorating ratings on safety and security, with perceptions of personal safety declining by 29 points since 2011, according to the Ibrahim Index of Governance.</p> <ul style="list-style-type: none"> • Mozambique's Freedom of the Press score declined from 2015 to 2017. Civil society's access to information on public affairs is constrained, with the Global Right to Information Rating (RTI Rating) rating Mozambique 60 out of 150.
<p>12. Empower local communities to manage natural resources effectively and sustainably. Mitigating the impact of climate change and eliminating unsustainable agricultural, fishing, and forestry practices will require a strong policy framework and the active involvement of local communities.</p>	<ul style="list-style-type: none"> • While some international accords have set the stage for progress on this objective, the results have yet to be seen. • Pressures on fisheries and forests remain high due to the growing rural population and lack of sustainable management. • In forestry, progress since 2015 includes the institutionalization of the forest carbon trade, the passing of the REDD+ Decree, the signing of the Emissions Reduction Purchase Agreement in 2018, and the expectation of receiving first payments for REDD+ credits in 2021. • For fisheries, the 2020 Fisheries Regulation (REPMAR) provides a big push to empower communities for sustainable fisheries management.
<p>13. Improve disaster risk management and reinforce social and economic resilience. Integrated water management could help alleviate the risk of both floods and droughts while also boosting agricultural production and reinforcing food security; strengthening local social and economic support systems could help attenuate the impact of unpredictable natural disasters.</p>	<ul style="list-style-type: none"> • Institutional capacity to manage disasters and reduce risks has been bolstered by the passing of the new Disaster Management and Risk Reduction Law (No. 10/2020), adopted in August 2020, and complemented by a core regulation (Decree No.76/2020) approved by the Council of Ministers in September 2020. The law includes pandemics, as well as human-made and technological hazards. • The new law and regulation reinforces and consolidates the policy measures and commitments introduced in 2017 by the DRR Master Plan, which set forth an ambitious and comprehensive DRM program for the period 2017–2030 to promote disaster prevention, preparedness, response, and recovery, as well as mainstreaming of DRM in public finance, investments, and development planning across sectors, while building capacity at all levels.

Annex B: Mozambique's Hidden Debts—Background and Steps Taken

In the spring of 2016, it became apparent that Mozambique had contracted a previously undisclosed sum of US\$1.3 billion (equal to about 10 percent of GDP) in non-concessional debt between 2009 and 2014 by issuing guarantees to state-controlled companies. The first loan (US\$622 million), for a company named Proindicus, was arranged by Credit Suisse with the stated objective of financing marine security services to the gas industry sites in northern Mozambique. The second loan (US\$535 million), in favor of a company named MAM, was arranged by VTB Bank to finance the construction of a port logistics base in Pemba, a large town in the Cabo Delgado province that houses Mozambique's large Rovuma basin gas fields. Both loans were covered by a sovereign guarantee. In addition to these guarantees, the previously undisclosed debt included US\$133 million in direct loans from bilateral lenders contracted between 2009 and 2014. This borrowing was in breach of the International Monetary Fund (IMF) program in place at the time, and the IDA nonconcessional borrowing policy. The authorities subsequently disclosed the debt to the IMF and the World Bank during the 2016 Spring Meetings. This set of hidden debts is additional to the Mozambican Tuna Company (*Empresa Moçambicana de Atum*, (EMATUM)) corporate bond, which was originally issued in September 2013 (also backed by a state guarantee) and then restructured as the MOZAM 2023 sovereign bond in March 2016. Although the EMATUM bond was not a hidden loan, it was part of the same package of projects underlying the undisclosed debts scheme.

A summary of important steps taken by the authorities to increase accountability and strengthen economic governance is as follows:

- Mozambique's attorney general initiated proceedings against 18 Mozambican officials involved in contracting the EMATUM, Proindicus, and MAM debts in the administrative tribunal in January 2017. The proceedings were brought forward for noncompliance with guarantee limits in budget laws, and nonobservance of procedures for procurement and contracting external debt were highlighted as infractions.
- In early 2019, Mozambique's attorney general initiated criminal proceedings in relation to the hidden debts case against nine high profile Mozambican individuals. Individuals arrested include the former director general of the security services (SISE), the former SISE head of economic intelligence and chairman of Proindicus, MAM, and EMATUM, the personal secretary to the former President Armando Guebuza and the son of the former president.
- Subsequently, the authorities filed a lawsuit against Credit Suisse and six other defendants (in 2019) and VTB (in 2020) at the High Court of Justice in London. The lawsuit contests the legality of the previously undisclosed debts and cites corruption in the process of their arrangement and approval.

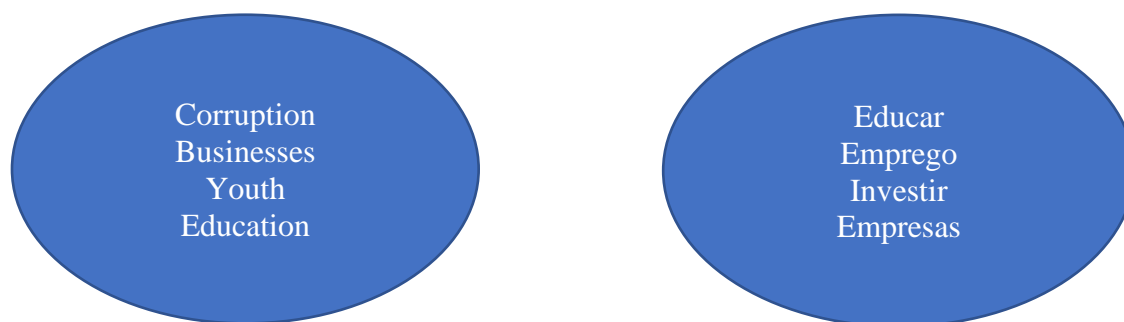
Annex C: Consultations

The preparation of this SCD Update followed on the heels of a number of core analytical products prepared in 2020 that provided the main storyline for the SCD, namely a Rural Income Diagnostic, a Country Economic Memorandum, a Country Private Sector Diagnostic and a Risk and Resilience Assessment (RRA). All these products involved consultations with a wide number of stakeholders from government, the private sector, and other donors, including a Chatham House moderated series of consultations with civil society in the context of the RRA on the themes of decentralization, the extractives sector and sources of diversification, regional imbalances, and cultural sources of resilience.

In addition, an online consultation was launched via social media on January 29, 2021, which also encouraged Mozambicans to share their feedback via an online survey. The key themes that were raised by survey respondents were the following:

- Critical challenge around corruption and bureaucracy, which are constraining businesses, economic growth, and real, democratic governance
- Highlighted decentralization and the need for public service delivery, investment, and job creation to be spread throughout the country
- Key need to invest more in the quality of education
- Promoting education and good stewardship of natural resources is essential for their sustainable use
- Importance of agriculture for the rural sector, but also the need to diversify into non-farm activities in rural areas
- Attention to the social fabric and the issues underlying child marriages, teen pregnancy, and so on
- Support for the informal economy in Mozambique
- Focus on the youth, improving education, skills, entrepreneurship, and job opportunities and involving youth in policy making

Figure C.1. Word cloud of most referenced terms in online survey (English and Portuguese)⁷⁸



⁷⁸ The social media campaign for the SCD Update reached 6.4 million people with the hashtag #MozambiqueSCD 22,700 engagement (likes, comments, shares, link clicks) in English and 9,300 in the Portuguese version. The campaign also included a link to an online survey asking respondents to comment on the greatest development challenges that Mozambique faces. Approximately 50 people left detailed comments in the survey as of April 10, 2021.

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