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INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT
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REPUBLIC OF MOZAMBIQUE
COUNTRY STRATEGIC OPPORTUNITIES PAPER (COSOP)

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CURRENCY EQUIVALENTS (March 2000)

Currency	=	Metical (MZM)
USD 1.00	=	MZM 13 810
MZM 1 000	=	USD 0.07

WEIGHTS AND MEASURES

1 kilogram (kg)	=	2.204 pounds (lb)
1 000 kg	=	1 metric tonne (t)
1 kilometre (km)	=	0.62 miles (mi)
1 metre (m)	=	1.09 yards (yd)
1 square metre (m ²)	=	10.76 square feet (ft ²)
1 acre (ac)	=	0.405 ha
1 hectare (ha)	=	2.47 acres

ABBREVIATIONS AND ACRONYMS

AMODER	<i>Associação Moçambicana para o Desenvolvimento Rural</i> (Mozambique Association for Rural Development)
CARE	Co-operative for Assistance and Relief Everywhere
CLUSA	Co-operative League of the United States of America
COSOP	Country Strategic Opportunities Paper
EC	European Commission
FSLDP	Family Sector Livestock Development Programme
HIPC	Heavily Indebted Poor Country
IDPPE	<i>Instituto de Desenvolvimento da Pesca de Pequena Escala</i> (Institute for the Development of Small-Scale Fisheries)
INDER	<i>Instituto de Desenvolvimento Rural</i> (Institute for Rural Development)
MINADER	Ministry of Agriculture and Rural Development
NGO	Non-Governmental Organization
PAMA	<i>Programa de Apoio aos Mercados Agrícolas</i> (Agricultural Markets Support Programme)
PROAGRI	<i>Programa de Investimentos no Sector Agrícola</i> (Agricultural Sector Investment Programme)
UNDP	United Nations Development Programme
UNOPS	United Nations Office for Project Services
USAID	United States Agency for International Development

GOVERNMENT OF THE REPUBLIC OF MOZAMBIQUE

Fiscal Year

1 January – 31 December



MAP: PREVIOUS IFAD PROJECTS



Source: IFAD

The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.

IFAD LOAN PORTFOLIO OF ONGOING PROJECTS IN MOZAMBIQUE

Project/Programme	Lending Terms ^a	Project Type	Financing Type ^b	IFAD Approved Financing (USD'000)	IFAD Current Financing (USD '000)	Board Approval	Loan Signing	Loan Effectiveness	Project Complet. Date	Current Closing Date	Cooperating Institution
Nampula Artisanal Fisheries Project	HC	fisheries	F	6 025	6 025	15 Sep 93	26 Jan 94	04 Nov 94	31 Dec 01	30 Jun 02	UNOPS
Niassa Agricultural Development Project	HC	rural	F	12 403	12 403	20 Apr 94	16 May 94	19 Oct 94	31 Dec 03	30 Jun 04	UNOPS
Family Sector Livestock Development Programme	HC	livestock	E	19 403	19 403	04 Dec 96	18 Sep 97	12 Feb 98	30 Jun 04	31 Dec 04	UNOPS
PAMA Support Project	HC	marketing	E	22 783	22 783	08 Dec 99	06 Dec 00	Not effective	31 Dec 07	31 Oct 07	UNOPS
Total (4 projects)				60 614	60 614						

^a HC = highly concessional.

^b F refers to IFAD-initiated and cofinanced project; E refers to IFAD-initiated and exclusively financed project.





EXECUTIVE SUMMARY

- 1. Background.** Over the past eight years, Mozambique has moved rapidly from civil war to stable democracy and from a food-deficit to a food-exporting country; its economy has grown at close to 10% per year; and its Government has won a reputation for prudent macroeconomic management, for its commitment to rural poverty alleviation, and for its efforts to manage donor-supported development activities effectively. IFAD has established an important and appreciated dialogue with the Government, and it is well placed to pursue this further. Since 1982 it has financed six projects in Mozambique with a total loan commitment of SDR 73 million. Four are currently ongoing: the Nampula Artisanal Fisheries Project, the Niassa Agricultural Development Project, the Family Sector Livestock Development Programme and, most recently, the PAMA Support Project.
- 2. Country and sectoral context.** Mozambique is one of the world's poorest countries, with 70% of the population defined as poor. However, in recent years, peace, better policies, rising foreign investment and substantial external assistance have all contributed to rapid and broad-based growth in gross domestic product (GDP) and export earnings, and a decline in inflation to less than 1%. Under the Debt Initiative for Heavily Indebted Poor Countries (HIPC) Mozambique has qualified for USD 3.7 billion in debt relief, reducing external public debt by two thirds. Strong and broad-based growth with poverty reduction is the main goal of the Government's economic policy, to which end it is committed to maintaining financial discipline, improving the environment for private-sector activities, and fostering development of a strong export base through liberal trade and investment policies. With its capacity both to promote growth and to reduce poverty, the sector programme for smallholder agriculture is a key element of the Government's development strategy.
- 3. Agriculture.** Agriculture employs 80% of the population but contributes only 26% of GDP. The country's agricultural potential is impressive with 36 million ha of arable land, of which only 5 million are cultivated. Of that, 98% is accounted for by 3.5 million smallholder households. Since 1992, there has been rapid recovery in smallholder assets and production, and nationally the country is now self-sufficient in staple foods. Crop yields remain low, however: the reasons include poor husbandry, little use of improved seeds and fertilizers, limited availability of technical advice and support services, and remote locations with poor access to input and produce markets. With a coastline 2 750 km long and much of the population living close to the coast, the fisheries sector is important, contributing 8% of GDP and 40% of the country's export earnings, and it has potential for considerable further growth. The artisanal subsector is dominant in terms of the total catch, its contribution to local consumption, and the numbers of people involved. Apart from the primary production problems, the main constraints to its development are the poor roads and lack of transport facilities; lack of freezing facilities along the marketing chain; lack of linkages between the artisanal and industrial subsectors; weak demand for high-value products by the rural population; and limited access to credit by potential investors.
- 4. IFAD's strategic niche and proposed thrusts in the country.** First, central to IFAD's intervention strategy in Mozambique is an emphasis on commercialization of production systems as a basis for reducing rural poverty, and on the development of enhanced commercial linkages between small-scale producers and private markets – for inputs, produce and production support services. There is a crucial role for government to play, in establishing a facilitating framework and managing the supply of a limited range of public goods and services, both to expedite the pace of the market development process and to ensure the maximum 'spread' of benefits to as wide a range of rural households as possible, including the rural poor. This analysis provided the basis for the development of the recent PAMA Support Project, and will remain central to any future activities. A second theme is that of empowerment: of communities to enable them to identify, plan and manage their development works and activities; and of small-scale producers to enable them to manage their resources, interact with markets and influence policy towards the sector more effectively. In both areas, IFAD has already gained some experience through its ongoing projects; and both will be key elements in any future support. Third, decentralization has emerged as a crucial issue in developing local ownership and capacity: IFAD is already providing support to strengthen the capacity and authority of provincial-level institutions, and it will continue to do so. Fourth, rationalizing donor-supported projects within an overall sector policy, legislative and financing framework was an important justification for PROAGRI – the Government's agricultural-sector investment programme; it is an explicit objective for the PAMA Support Project, and it will be an important aim of any new intervention.



5. Main opportunities for project interventions and innovations. PROAGRI represents the sum of all activities and expenditures passing through the Ministry of Agriculture and Rural Development, and those activities and expenditures have themselves been clearly defined, circumscribed and financed. As such, within PROAGRI, there is little or no room for either any additional activities or the sort of innovative design that represents IFAD's *raison d'être*; and at this stage, IFAD must seek to work in those areas of the rural economy *not* supported by PROAGRI. In the short term, the artisanal fisheries sector is an obvious area for support: it is outside PROAGRI and free of its restrictions; through the Nampula Artisanal Fisheries Project, IFAD has learned important and useful lessons, which can be built upon; the establishment of market linkages between fishermen and private-sector players is crucial to the development of the subsector; and there is an important opportunity for IFAD to engage the Government in a policy dialogue and support it in developing a programmatic approach. In the medium term, commercialization of smallholder production systems and the establishment of equitable market linkages is expected to be the dominant development paradigm in the region in the coming years; and as such, a range of issues and opportunities for new interventions are expected to emerge from the experience of the PAMA Support Project. One particular element of the commercialization process that IFAD will be following closely will be the development of rural financial services.

6. Areas of policy dialogue. PROAGRI represents not only a financing framework, but also a vehicle for dialogue on agricultural policy issues between the Government and donors. All parties have agreed on what constitute the 'basic principles' of government intervention in the agricultural sector, and have defined a timetable for actions to be taken in support of those principles. IFAD, with its funding for PROAGRI channelled towards the livestock subsector, is taking a particular interest in the policy issues associated with that subsector. The PAMA Support Project provides support for the establishment of a broader programme and policy framework for market linkage development. While the specific policy issues are yet to emerge, IFAD will be alert to the issues arising and will seek to influence the Government in favour of a policy environment supportive of small-farmer participation in the commercial sector. Through the Nampula Artisanal Fisheries Project, IFAD is already engaged in an active policy dialogue on a number of key issues for artisanal fisheries. This has resulted in important changes being made to the legislative framework: the first relating to the minimum size of fish net mesh that artisanal fishermen are permitted to use; and the second to the extension of the fisheries zone exclusively reserved for the artisanal sector. However, further work remains to be done on these issues and others.

7. Partnerships with bilateral/multilateral donors and non-governmental organizations (NGOs). Through PROAGRI, IFAD has established close working relations with a number of donors. Additionally, in the course of developing the PAMA Support Project, IFAD has worked closely with the Governments of Ireland and Norway, the European Commission (EC), the United States Agency for International Development (USAID) and the World Bank. Within the artisanal fisheries sector, IFAD is currently the only donor providing support on a substantial scale. However, the African Development Bank is interested in financing a project, and any future IFAD support will be closely coordinated with theirs, while strategic linkages with other donor agencies will also be sought. Although a number of donors are interested in the provision of support for rural financial services, most of these (notably the Canadian International Development Agency (CIDA), the Government of The Netherlands, the United Nations Capital Development Fund (UNCDF), the United Nations Development Programme (UNDP) and USAID) focus on microfinance. To date, few steps have been taken to link up such activities to formal financial markets; of these, the most substantive have been taken by EC, which would be an obvious strategic partner for IFAD, should this prove to be an appropriate avenue to explore further. In terms of NGO partnerships, through the Nampula project IFAD has established operational relations with the Co-operative for Assistance and Relief Everywhere (CARE), which is managing a credit programme; and the Co-operative League of the United States of America (CLUSA), which is providing support to fishermen's groups. Several other NGOs have been identified as potential collaborators under the PAMA Support Project, notably Technoserve, World Vision, Citizens Network for Foreign Affairs (CNFA) and the Mozambique Association for Rural Development (AMODER).

8. Conclusions and recommendations for follow-up. The recommendations of this country strategic opportunities paper (COSOP) are in essence twofold: first, to explore the scope for a new intervention for the artisanal fisheries subsector, building upon the experience of the current project; and second, to continue to provide the Government with strong and regular implementation support for the ongoing programme portfolio, and to draw out lessons from project experience, which may serve as the basis for a future intervention in the medium term.

REPUBLIC OF MOZAMBIQUE COUNTRY STRATEGIC OPPORTUNITIES PAPER (COSOP)

I. BACKGROUND ¹

1. Mozambique occupies 800 000 km² on the south-east coast of Africa, sharing boundaries with Malawi, South Africa, Swaziland, the United Republic of Tanzania, Zambia and Zimbabwe. The country has a coastline of 2 750 km on the Indian Ocean and is well served by 25 major rivers and several deep ports. The coastal plain rises to a plateau ranging from 200 to 1 450 m above sea level. About 80% of the 16 million people live in rural areas. Many areas are lightly populated, while two of the ten provinces – Nampula and Zambezia – contain 40% of the population. Generally, Mozambique has abundant land, though there is some pressure on the coast, in peri-urban areas and along major transport corridors. The central and northern provinces are characterized by fertile soils and plentiful rainfall but poor accessibility. In the southern provinces, soils are poor and rainfed production marginal, but accessibility is relatively good, particularly to Maputo, the nation's capital and largest market.

2. Mozambique won its independence in 1975. The exodus of most Portuguese settlers and Asian traders, the subsequent adoption of central planning and the nationalization of major enterprises, and the civil war from the late 1970s to the early 1990s, resulted in a collapse in production, the destruction and deterioration of infrastructure and public services, and heavy dependence on foreign aid. Only after the 1992 peace settlement was Mozambique able to pursue economic policies effectively, based on privatization of economic assets and functions, market determination of prices and the exchange rate, and rationalization of public expenditure and fiscal balance. Since 1992, the Government has won a well-earned reputation for prudent macroeconomic management – growth has averaged close to 10% per year – for its commitment to rural poverty alleviation and for its real efforts to manage its donor-supported development activities effectively.

3. Since the peace accord, the country has also made enormous strides in the area of governance. A stable multi-party democracy has been established and consolidated; political and economic decentralization has proceeded gradually, through the creation of 33 municipalities and the election of their representatives; the constitution has been substantially revised, through an open process of public hearing, so as to achieve a better balance of power in the state apparatus; and legislation has been passed in areas such as governance ethics.

4. In February/March 2000, Mozambique was hit by the country's worst floods in 50 years. Floodwaters submerged vast areas of the southern and central parts of the country, particularly in the Save and Limpopo River valleys (mainly Gaza and Inhambane provinces). Infrastructure was destroyed; crops, livestock and seeds were lost; and hundreds of thousands of people (perhaps 10% of the population) were temporarily made homeless. The value of the damage has been tentatively estimated at between USD 400 million and 600 million, and it is estimated that it will take two years for Mozambique to recover from the floods. While their impact has undoubtedly been serious, it is

¹ This Country Strategic Opportunities Paper (COSOP) was prepared in March 2000 and reviewed the following month, after which it was finalized and approved as a basis for the subsequent development of the Sofala Bank Artisanal Fisheries Project. While the document has been edited for presentation to the current session of the IFAD Executive Board, since its purpose is to show how the strategy articulation exercise has fed into the project design process, it has not been retroactively updated to conform to the current format for COSOPs or to take account of events that have taken place since April 2000. It should be read in this context and also taking into account the fact that this is an interim pilot period for COSOP presentations to the Executive Board.

not evident that IFAD has a comparative advantage in the provision of post-emergency support, and it is not proposed that IFAD should reallocate any of its already-approved funds to the effort, for three main reasons. First, a major and coordinated relief effort has been mounted and financed (with grant funds) by the international community, and the main constraint is now one of implementation capacity rather than funding. Second, the Government has shown keen awareness of the dangers of excessive levels of post-emergency support (e.g. food aid supplies undermining local production and markets) and has indicated that it does not wish to see development assistance diverted to flood relief and reconstruction. Third, the floods caused little damage in those areas covered by IFAD-supported projects, and there is thus no need to rehabilitate project infrastructure.

II. ECONOMIC, SECTORAL AND RURAL POVERTY CONTEXT

A. Country Economic Background

5. Mozambique is one of the world's poorest countries, with 70% of the population living below the poverty line. Yet the country is rich in underexploited resources. In recent years, peace, better policies, rising foreign investment and continued external assistance have all contributed to encouraging economic performance: real gross domestic product (GDP) grew at 7% per year through 1993-96 and increased to 11% in 1997 and 1998. Growth has been broad-based in all sectors. Agriculture has grown by 14% per year since 1992, albeit from a low base. During 1996-98, the value of exports, mainly agricultural, increased by 42% and is rising faster than imports, though the value of imports currently exceeds exports by a factor of three. Annual inflation has declined from 70% in 1994 to less than 1% in 1998, and it is expected to hover at 4% in 1999-2000 as the Government loosens monetary policy. Since 1996 the Metical has been relatively stable but will be allowed to depreciate slowly against the currencies of Mozambique's major trading partners. Confidence in the economy has improved dramatically and private investment is growing rapidly, estimated to have reached 25% of GDP in 1999. Under the Debt Initiative for Heavily Indebted Poor Countries (HIPC), Mozambique has qualified for USD 3.7 billion in debt relief, reducing external public debt by two thirds. Average debt service will fall from USD 169 million to 73 million in 1999-2005 and may fall further following recent proposals by the G7 countries to strengthen the Debt Initiative.

6. Strong and broad-based growth with poverty reduction is the main goal of economic policy. To attain this objective, the Government is committed to maintaining financial discipline, improving the environment for the expansion of private-sector activities, and fostering development of a strong export base through liberal trade and investment policies. Key elements of the Government's strategy include an increase in public savings through mobilization of revenue and rationalization of expenditure; improvement in the efficiency of public-sector operations; further development of the financial system; legislative reform aimed at increasing economic security and reducing the cost of conducting business; and implementation of social and sector programmes. With its capacity both to promote growth and reduce poverty, the sector programme for smallholder agriculture is a key element of that development strategy.

B. The Rural Sector: Opportunities and Constraints

7. **Agriculture** employs 80% of the population but contributes only 26% of GDP, indicative of the low returns to agriculture. Nevertheless, the country's agricultural potential is impressive with 36 million ha of arable land, of which only 5 million, or 15%, are cultivated. Of that, 75% is dedicated to food crops – mainly maize, cassava, sorghum, rice and beans – and the remaining 25% used for export crops – cotton, cashew, copra, sugar cane, tobacco, tea and citrus. Two main types of producers exist: smallholders and commercial farms. The 3.5 million smallholder households – 20% of which are headed by women – cultivate on average 1.8 ha each and account for close to 98% of the total cultivated area. The commercial subsector ranges from large estates owned by private

enterprises and large-scale joint venture companies (private/public), both involving foreign investment, to emerging Mozambican-owned commercial farms of generally less than 50 ha.

8. With the end of war, resulting in the resettlement – largely spontaneous – of 1.5 million refugees and 3.2 million displaced people, and in an improved policy environment, there has been rapid recovery in smallholder assets and production. Total cereal production increased from 239 000 to 1.7 million t between 1992 and 1998. The northern and central provinces have moved to a stable surplus situation, and are exporting maize to Malawi, the United Republic of Tanzania, and Zimbabwe. Although internal transport and trade problems need to be resolved, Mozambique is reaching the point where the focus of rural development needs to pass from local and household food self-sufficiency to the establishment of smallholder production systems that are more commercial, operating according to local comparative advantage. Indeed, export production is expanding, with maize, cashew, cotton, coconut and sugar registering large increases over the past five years. Scope for further growth is enormous.

9. Despite both the general improvement in production and favourable growing conditions over much of the country, productivity is low, and crop yields are only half those achieved by smallholders in Zimbabwe. Reasons for low productivity include poor husbandry; little use of improved inputs (7% of farmers use fertilizer, even fewer improved seeds); limited access to technical advice and support services; remote locations with poor transportation and communication; and in the south, poor use of available irrigation. Removal or partial removal of some of these constraints could see the marketing of surpluses become the dominant constraint. It has already been demonstrated that improved access and market penetration alone can stimulate considerable increases in production.

10. The recent establishment of large agroprocessing/marketing companies in the country has resulted in a clear split between those smallholders (less than 10%) located in an area served by one of the companies and those that are not. The former often have a contract with the company, which not only purchases the commodity, but also provides them with technical advice and production inputs². While most of these companies concentrate on one crop – mainly cotton – they are looking to use their networks and sunk investments in infrastructure and commodity buying to handle other crops that have good export market potential. Pigeon pea, sunflower and tobacco are three of the promising crops being tried. In the other areas, by contrast, farmers are reliant either on the extremely limited extension services of the Ministry of Agriculture and Rural Development (MINADER) – there are less than 700 extension workers in the entire country – or in certain areas on the assistance of non-governmental organizations (NGOs).

11. Even the poorest smallholder must earn cash or sell or barter crops for staple food needs and other essentials; and certainly a majority of them are market crops – typically cashew, coconut, maize and cotton. However, given that some communities produce very little to sell or barter, and that roads are often impassable or entirely lacking, only few traders visit many of the villages. As a result, with the general disappearance of rural trade shops and the demise of the state marketing apparatus, farmers in more isolated areas are faced with few, if any, marketing opportunities, and at best have to accept the offer of the first trader who comes along. This provokes farmer discontent regarding the new free market, but unless they are organized and actively seek alternative buyers, they have few alternatives. Inability to market produce means lack of income for production inputs, consumer goods and immediate cash requirements; it also prevents asset accumulation. Market access thus influences farmers' production systems: those who live close to better roads and have more frequent and direct contact with the market are willing to produce more systematically for the

² The cotton processors represent by far the largest source of rural credit, providing production inputs on credit to many of the 230 000 smallholder cotton growers. Microfinancing institutions are at an early stage of their development in Mozambique and, despite substantial donor support, they provide credit to less than 10 000 clients, few of whom borrow for agricultural investment.

market, while those with poor market access are forced to produce for domestic consumption. In such a situation, food consumption is limited to what can be produced on-farm or within the community, in some cases resulting in poorly balanced diets.

12. Mozambique possesses extensive range resources for cattle production, and the production of small stock is a ubiquitous element of smallholder farming systems. Expanded livestock production should make an important contribution to sectoral growth. However, the national cattle herd collapsed from 1.4 million in 1974 to approximately 250 000 in 1995, and although there has been substantial restocking during the past few years, thousands of head were drowned during the recent floods. Furthermore, cattle are owned by a small minority of households in limited areas of the country; more important for most poor households and those large areas suffering from tsetse infestation are small ruminants, poultry and pigs, income from the production and sale of which plays a disproportionate role in the cash economy of the rural poor.

13. **Fisheries.** The agricultural and fisheries sectors are closely linked. Mozambique has a coast line that is 2 750 km long, and nationally over two thirds of the population live within 150 km of the coast. The fisheries sector represents about 8% of GDP and provides the country with close to 40% of its export earnings; it is an important source of food (6.5 kg/person/year); and it provides employment directly to about 90 000 people and indirectly to large numbers involved in the processing and marketing of fish products (the vast majority of whom are also involved in agricultural production).

14. Mozambique has around 100 000 km² of territorial waters and an economic exclusive zone of more than 560 000 km². It also has important inland waters: Lake Niassa and the man-made Cahora Bassa Lake, several smaller lakes and an important river system. These resources are endowed with significant fish biodiversity (1 500 species, of which 400 are commercially important) and significant fisheries resources. Rough estimates suggest that the potential yield amounts to around 350 000 t per year. Current catch levels are around 90 000 t; and while there is concern that overfishing may be occurring in some specific areas, the scope for increasing production is clearly considerable.

15. Fishing in Mozambique is carried out by three types of producers: artisanal, semi-industrial and industrial. While the latter two specialize primarily in catching prawns for export, the artisanal subsector is dominant in terms of the total catch (close to 80 000 t, with a value of over USD 50 million), its contribution to local consumption, and the numbers of people involved (74 000 of whom are fishermen). The artisanal fleet comprises close to 11 000 boats, of which 70% are canoes and only 3% are motorized. In addition, there are some 19 000 fishermen without boats, working from the shore. This means that most of the artisanal fishing activity is carried out in coastal sheltered areas and in fishing grounds close to the shore, using gill-nets, hand-lines, beach-seines, and gear such as traps and fishing spears. However, the relative predominance of different boat types and gear varies considerably from province to province, according to the waters and species of fish sought, as well as the availability of gear. Women are generally not very involved in fisheries activities: a few are to be found in fish trading and processing; but on the whole their main responsibility is for agricultural production, often far from the fishing sites.

16. Over the past few years, a private-sector fishing input supply chain has started to develop, and in a number of areas – particularly those supported by the Government's Institute for the Development of Small-Scale Fisheries (IDPPE) under the IFAD-financed Nampula Artisanal Fisheries Project (paragraphs 27-28) – fishermen are able to access nets and other gear. Fish caught by artisanal fishermen are mainly marketed by informal petty traders who purchase fish either fresh at the landing site or already dried at the fishermen's dwellings. Generally, the marketing chain is made up of fishermen, wholesalers and retailers. Wholesalers buy and often process the fish, aggregate them into amounts of from 100 to 1 500 kg, and transport them in hired pick-ups to the major markets. Retailers buy fish in 50 kg sacks from the wholesalers and sell it in small lots of 50-

150 g to the consumers. In some cases, fish is bartered against farmers' cereals. Prices vary considerably by site, and they may be increased by two to three times in the urban markets.

17. Apart from the primary production problems faced by the artisanal sector, the main constraints to market development are the poor condition of the roads linking the fishing centres and the urban markets and the lack of transport facilities; the lack of ice production and freezing facilities along the marketing chain; the lack of commercial linkages between the artisanal and industrial subsectors; and the low purchasing power of the rural population. Together, these result both in the main domestic demand being for low-quality, low-cost products such as dried and salted small pelagics, and in the fishermen receiving a low price for their produce relative to the final sale price. Yet breaking the cycle is difficult: potential investors in the sector are often decapitalized, and credit remains difficult to access in many areas.

18. Despite the constraints, given the demand trends and existing production potential, there is significant scope both for market development and for improving the terms of trade for fishermen. Investments in both small- and large-scale fish marketing are considered profitable for all grades of fish, and locally marketed fresh fish could be competitive vis-à-vis the relatively cheap Namibian horse mackerel, if investment in ice production, means of transport and refrigeration were provided. In addition, there is potential for tapping overseas markets for fresh fish exports in Europe and the region, particularly for high-value products such as lobster and crab, if quality standards can be maintained. This requires not only the resolution of problems related to transport and refrigeration, but also the establishment of commercial linkages between artisanal fishermen and the industrial and semi-industrial sectors, and/or organized marketing chains.

C. The Rural Poverty Context: Opportunities and Constraints

19. **Poverty.** Despite rapid economic growth, according to the most recent United Nations Development Programme (UNDP) Human Development Report, 70% of the rural population are poor and 50% absolutely poor³. The gross national product (GNP) per capita (USD 180) is rising but well below the average for sub-Saharan Africa (USD 510). Various social indicators confirm Mozambique is one of the world's poorest countries:

- 60% of the population lack access to health services;
- 80% of the rural population lack access to clean water;
- infant mortality (135/1 000 live births) and under-five mortality (201/1 000 live births) are much higher than sub-Saharan African averages of 91 and 147 respectively;
- maternal mortality (1 100/100 000 live births) is one third higher than the sub-Saharan Africa average;
- 26% of children under five suffer from chronic malnutrition;
- life expectancy is 45 years, one of the lowest in the world; and
- 55% of men and 79% of women are illiterate, versus an average of 34% for low-income countries.

20. Poverty in rural Mozambique is widespread. Yet, with the exception of those producers – mainly of cotton – who have established commercial relations with output markets, differences in the level of poverty among the rural population are only slight. This is true by region and within communities, and is largely the result of the structural nature of the poverty, which stems from weak economic and social infrastructure and limited access to services. It is thus appropriate to equate smallholders, including those involved in artisanal fisheries, with the poor in rural Mozambique.

³ Poor are those with incomes insufficient to buy a basket of food and basic non-food needs; absolutely poor are those with incomes insufficient to buy a basket of food needs only.

21. **Food security.** The combination of peace, good rains and the resettlement of refugee and displaced populations has led to steady expansion in the area under cultivation, an increase in the production of staple foods and some recovery of the national livestock population. In aggregate terms, the country has achieved self-sufficiency in maize over the past couple of years, and malnutrition levels have fallen. However, regional differences in productivity occur, and poor communications between food-surplus and chronically deficit areas and the low purchasing power of deficit households both contribute to high levels of household food insecurity. A majority of rural households experience seasonal shortfalls in cereals, protein-rich foods and vegetables. Given land is not a major constraint, shortages are often caused by labour limitations (particularly in woman-headed households) or inability to market crop surpluses. Low incomes are aggravated by seasonal movements in the availability and price of staple foods and by seasonal upsurges in disease and other health problems. Droughts and floods are a further cause of transitory food insecurity.

D. National Strategy for Rural Poverty Eradication

22. Unlike in many countries, where poverty alleviation is seen solely in terms of the provision of social services for the population, the strategy of the Government of Mozambique to alleviate poverty focuses primarily on the promotion of poverty-reducing growth – and, in particular, smallholder-based growth through support for agricultural production and rural development. Its poverty reduction strategy thus identifies three priorities: (i) improvement in rural livelihoods, through maximizing competition in agricultural markets and investment in rural economic infrastructure to increase trade, lower operating costs and improve rural/urban terms of trade; (ii) investment in human capital, entailing increased per capita expenditure to basic services; and (iii) building of disaster safety nets to reduce the vulnerability of the rural poor to natural disasters and to improve nutrition. These priorities are in line with the Charter of the Copenhagen World Summit for Social Development and are endorsed in the recommendations of the platform for action of the Beijing Fourth World Conference on Women.

23. Government actions supportive of the strategy are to be found in the comprehensive, sector-wide investment programmes that it has established with civil-society and donor participation and support. The ongoing, five-year Agricultural Sector Investment Programme (PROAGRI), has a total budget of USD 202 million, and is being supported by a large number of donors – including IFAD. PROAGRI embraces all public and donor expenditure channelled through MINADER; and it is conceived as the means to modernize the Ministry in line with its new role in a market economy and to focus on a reduced set of core functions and public goods supply-side services such as research and extension. Similar programmes have been developed for, and are being supported in, both health and education. The recent incorporation of the formerly autonomous Institute for Rural Development (INDER) into what is now the Ministry of Agriculture and Rural Development also reflects the importance that Government attaches to these cross-sectoral issues as a means to increase rural incomes.

III. LESSONS FROM IFAD EXPERIENCE

A. Projects Financed to Date

24. IFAD has to date financed six projects in Mozambique. The first two, the **National Programme for Food Production in the Cooperative and Family Sector**, and the **Second Agricultural Rehabilitation Project**, played an important role in focusing the Government's attention on smallholder producers rather than on the large-scale sector, and assisted both farmers and fishermen to improve their access to imported inputs. The two projects, both of them now closed, may be considered very much products of the period and the prevailing political and economic environment in Mozambique, and as such are of little relevance to current interventions. The other four projects are all currently ongoing.

25. The **Niassa Agricultural Development Project** (Loan No. 359-MZ) became effective in October 1994. The project initially suffered serious implementation delays, but following the switch in cooperating institution from the World Bank to the United Nations Office for Project Services (UNOPS) and a mid-term review conducted in 1999, implementation responsibilities have been decentralized and the project is poised to have an important impact on the target group. The project's approach to participatory extension and adaptive research has served as an example for the national extension service; the roads rehabilitation component, which is key to the re-establishment of regional markets, has started up; a diagnostic survey of the rural trade network has been undertaken, and a rural trade specialist is being recruited; and a district development fund is being used to respond to locally determined requirements for social infrastructure.

26. The **Family Sector Livestock Development Programme (FSLDP)** (Loan No. 432-MZ) focuses on a redefinition of the public sector's role in the livestock sector, and on establishing the basis for farmer group and private-sector participation in service delivery. Declared effective in February 1998, the programme was intended to assist the establishment of the broader PROAGRI and constitute an element within it. Much of 1999 was spent undertaking a range of preparatory project-specific activities and supporting PROAGRI. It quickly became apparent, however, that the programme had developed a life of its own, independent of PROAGRI. As a result, it was agreed with the Government that a programme review should be undertaken in March/April 2000 to: (i) fully reintegrate the two entities, and (ii) define further support required to operationalize PROAGRI.

27. The **Nampula Artisanal Fisheries Project** (Loan No. 334-MZ) was approved in September 1993 and became effective in November 1994. The USD 11.3 million project is funded by IFAD (USD 6.0 million), the Organization of the Petroleum Exporting Countries (OPEC) Fund and the Government. The project aims to improve the level of income, employment and food security of artisanal fishermen and their families through activities for: (i) provision of fishing inputs and credit; (ii) testing and promoting of new fishing techniques and processing methods; (iii) improving transport and marketing; and (iv) improving access to drinking water and sanitation facilities. Last year, a community development fund was added to the project. The project area is in Nampula Province, and activities are focused on the districts of Angoche and Moma and, more recently, Mogincual. The project is managed and executed through IDPPE. Implementation is planned for a six-year period, with the loan currently planned to close 30 June 2001.

28. Major political, economic and institutional changes have taken place in Mozambique since the appraisal of the project, and these have had a significant impact on its institutional arrangements and on its activities, which only effectively commenced towards the end of 1996. After a slow start, the overall implementation progress has been good; and the project has started to have a real impact on the lives of the fishing communities along the coast. Some of the main achievements are as follows:

- **Fishing input supplies.** The project is stimulating the private-sector trade of fishing gear. Through its support, two firms selling fishing gear are now operational in the project area, and both the availability and price of fishing gear have substantially improved.
- **Fisheries technology.** An experimental programme, aimed at encouraging diversification of fishing techniques, has successfully tested improved fishing gear; and the project is now aiming to convert the results into practical and viable alternatives for local fishermen, and, in particular, to facilitate their access to investment credit.
- **Fish processing and marketing.** Increasing supplies of fish from the project area and improved roads to markets have encouraged a local company to establish an ice production plant. The availability of ice at an affordable price, combined with the

improved catch technologies, is expected to encourage increased catch of higher-value fish.

- **Fisheries policy/institutional support.** Through the project, important changes have been made to the legislative framework for artisanal fishermen. First, the regulations on fish net mesh sizes have been modified to allow fishermen to use nets with a mesh size of 0.5 inches, rather than 1.5 inches as formerly; and second, the fisheries zone reserved for artisanal fishermen, and from which the industrial fleet is excluded, has been extended from one to three miles from the coast. At the same time, the project has assisted the establishment of 13 community-based committees through which fishermen can manage their own local fish resources; and it has financed a study to define a possible legal framework for co-management in the fisheries sector.
- **Financial services.** Savings and credit activities have been promoted by the NGO Co-operative for Assistance and Relief Everywhere (CARE). A number of different models have been piloted; most recently, support for the establishment of women's savings clubs. Some 57 have been formed and credit worth USD 135 000 disbursed, and the early success suggests that the project has found an important channel for supporting the women of the fishing communities. CARE also plans to test both a rotating savings and credit model, and a credit scheme to finance fishermen's diversification to gill nets. A separate formal credit component for small-scale entrepreneurs is operated through the parastatal business development organization, Fund for the Development of Small Industries (FFPI); and so far some 29 loans, worth USD 134 000, have been disbursed.
- **Community development.** Added after the mid-term review, the project is testing a methodology to promote the active participation of communities in identifying local needs and implementing microprojects. Through the use of the new, more participatory approach, a 300-pupil primary school with six classrooms has been built, and there are five new projects in the pipeline.
- **Rural infrastructure.** So far 130 out of the targeted 138 km have been rehabilitated, and the works have contributed to the improvement of fish marketing and the reduction of post-harvest losses. Some 122 wells and boreholes have been rehabilitated/constructed, and community members have been trained to maintain the pumps. Two health posts have also been built.

29. **The PAMA Support Project** (Loan No. 515-MZ) represents the first of a new wave of projects being supported within the Eastern and Southern Africa region. Reflecting the regional strategy for intervention and building upon the 1997 country strategic opportunities paper (COSOP), the overall goal of the project is to increase smallholder incomes and food security and promote broad-based economic growth through improved market organization. More specifically, it seeks to increase: (i) the number of smallholders marketing agricultural produce; (ii) the share of end-market prices obtained by smallholders for their produce; and (iii) the total value of smallholder produce marketed. To this end, the project will initiate and test a range of market linkage interventions targeted at smallholders in selected focal areas. Additionally, however, it will seek to contribute to the development of an enabling framework for a wider Agricultural Market Support Programme (PAMA). This it will achieve working in close collaboration with other interested partners. The project is split into four main components: (i) support for PAMA framework formulation; (ii) PAMA support funds; (iii) institutional capacity-building; and (iv) project facilitation. The total project cost amounts to USD 26.6 million, of which IFAD will contribute USD 22.8 million. The project was approved by the Executive Board in December 1999; Special Operations Facility (SOF)-financed activities are expected to commence in the second quarter of 2000.

30. By virtue of being cross-sectoral, rather than specifically agricultural – in the sense of agricultural production – the PAMA Support Project is considered as being outside PROAGRI. However, it is clearly consistent with, and complementary to it: both seek to increase the incomes of smallholder producers, PROAGRI by supporting the production cycle, and the PAMA Support Project by supporting the elements upstream and downstream of the production process. Put simply, the PAMA Support Project will ensure the availability to smallholder producers of improved inputs; PROAGRI will, through the provision of research and extension services, promote the effective use by producers of those inputs; and the PAMA Support Project will support the development of competitive accessible markets for their produce. To ensure that there is indeed close coordination between the two, various institutional structures and operational processes have been defined and will be established.

B. Lessons Learned

31. Past IFAD experience in Mozambique has limited application to new initiatives in the rapidly changing institutional and economic environment there. However, from three of the four ongoing projects – the Nampula Artisanal Fisheries Project, the Niassa Agricultural Development Project and the FSLDP – several lessons are pertinent:

- The Government has a progressive vision of its role in agriculture. It is committed to focusing on its core functions and is willing to explore innovative approaches to service delivery for smallholder producers. At the same time, there are NGOs with relevant experience and capacity to undertake project activities.
- Provincial government services and linkages with the national level are weak. However, decentralization of planning and day-to-day management and financial responsibility to the provincial level brings out latent capacity, ensures stronger ownership and more timely implementation.
- Committed and capable management and the judicious use of good technical assistance are essential to smooth take-off and effective implementation.
- The economic and institutional environment within which projects and smallholder farmers operate is changing rapidly, pointing to the need for flexible project design with built-in feedback mechanisms that enable project management to take stock of progress regularly and to modify procedures, approaches and workplans as necessary.
- Rationalizing donor-supported projects to ensure coordination and put government in the driving seat was an important justification for formulating PROAGRI, and it is just as relevant to other development activities.

IV. STRATEGIC FRAMEWORK FOR IFAD

A. IFAD's Strategic Niche and Proposed Thrusts in the Country

32. First, central to IFAD's intervention strategy, in Mozambique as elsewhere in the region, is an emphasis on the commercialization of production systems and the development of enhanced **commercial linkages between small-scale producers and private markets** – for inputs, produce and production support services. The 1997 COSOP was one of the first documents to articulate this strategy. It took as its starting point the recognition that continued exclusive emphasis on food crop production will not have a major impact in reducing rural poverty. Rather, increased rural incomes and broad-based economic growth depend upon improving the ability of smallholder producers to

participate in the rapidly expanding market complex. They are constrained from doing so by a number of factors, including their lack of relevant skills; inadequate market and price information; weak infrastructure, particularly roads; low production levels; the lack of an intermediary-level rural trade network; and the concentration of market power in the hands of large-scale intermediaries. All lead directly to low produce prices, consumption-oriented production systems and low household incomes. In Mozambique, there is a gradually emerging vision of how these constraints can be overcome and smallholders and the private sector can develop together in a manner that is efficient and equitable. There are also a number of valuable ongoing initiatives upon which to build.

33. The Government has a crucial role to play in promoting these linkages: in establishing, together with the main stakeholders, a facilitating policy, legislative and financing framework; and in supplying, or managing the supply of, a limited range of public goods and services. Performing this role, it will seek not only to influence the rate at which the market development process takes place – i.e. making it a more rapid process – but also to affect its form, by facilitating the maximum ‘spread’ of benefits to as wide a range of rural households as possible and eliminating those barriers that could inhibit the participation of the poorer members of the community in the market development process. The commercial linkages sought should thus be equitable and sustainable.

34. This strategy provided the basis for the development of the most recent project, the PAMA Support Project, and its design process both confirmed the validity of the analysis and strengthened the conceptual framework underpinning it. At the same time, and independently, through the implementation of the Nampula Artisanal Fisheries Project it has become apparent that a major constraint to the development of that subsector too is the lack of effective market linkages among fishermen and input suppliers, markets for their catches and possibly also the industrial fisheries sector. In response, the project has already initiated activities aimed at overcoming these constraints. Such recognition re-emphasizes the importance of the strategic approach and confirms that it should remain the central theme for any new intervention.

35. A second set of related themes of strategic importance to IFAD are decentralization and empowerment. Under both PROAGRI and the PAMA Support Project – and indeed the Niassa Agricultural Development Project – **decentralization** has emerged as a crucial issue in developing local ownership and capacity. IFAD is already providing support to strengthen the capacity and authority of provincial-level institutions, and it will continue to do so, both within the context of the currently ongoing projects and under any new intervention. **Empowerment** is of importance both to communities (to enable them to identify, plan and manage their development works and activities) and to small-scale producers (to assist them to more effectively manage their resources, interact with markets and influence policy towards the sector). Two observations should be made. First, until recently, Mozambique had little experience of community participation and a political culture that did not encourage it. However, in recent years this has changed, and both the Niassa and Nampula projects are starting to gain useful experience in the development of processes for, and the operationalization of, community-based approaches. Second, during the development of the PAMA Support Project, it rapidly became clear that the development of economic groupings/associations of smallholder farmers is a key intervention, upon which all others depend. A strong implementation capacity has also been identified, centred upon, though not exclusive to, the NGO the Co-operative League of the United States of America (CLUSA). Support to groups/associations will therefore represent a key element of any intervention strategy.

36. Third, **rationalizing donor-supported projects** to ensure coordination and put government in the driving seat was an important justification for PROAGRI. In recognition of the importance of this issue, it was made an explicit objective for the PAMA Support Project, and indeed, during the process of developing the project, important strategic linkages have been established with a number of influential donors, including the European Commission (EC), the Government of Norway, the United States Agency for International Development (USAID) and the World Bank. The Bank has

indicated its interest in actively collaborating in the project, in a loose cofinancing arrangement; while through the commonality of interest established between the Bank and IFAD, IFAD has been participating in the development of the Bank's Rural Development Strategy.

37. While the artisanal fisheries subsector is probably less complex than the agricultural sector, the issue of donor coordination within a government-owned investment and strategic framework remains completely relevant. Any future intervention should thus be designed as a vehicle, and a resource, for the Government to use in order to: (i) develop stakeholder consensus on a policy, legislative and financing framework; (ii) guide all government, donor and NGO support and establish coherence across the subsector; and (iii) promote private-sector investment. In short, a programme. IFAD, as a multilateral financing institution with a privileged relationship with the Government, is ideally placed to provide it with the support necessary for developing such a programme. Alliances with key donors will be developed from the starting point of the project cycle.

B. Main Opportunities for Project Intervention and Innovation

38. Through the donor appraisal in 1998, full agreement was reached with all major stakeholders that PROAGRI should represent the sum of activities and expenditures passing through MINADER; and those activities and expenditures have themselves been clearly defined, circumscribed (including expenditure ceilings) and financed. IFAD is fully committed to PROAGRI, and FSLDP stands squarely in support of it, representing, on one hand, a discrete body of support (within the framework of PROAGRI) to livestock production services in Mozambique and their transformation within a new policy and institutional environment; and, on the other, a resource to be used by the Government in establishing and operationalizing PROAGRI. Significantly, it is to date widely regarded as probably the most successful element within PROAGRI, in terms of both activities financed at the field level and institutional support to the Government.

39. By contrast, the strategic priorities more recently identified by IFAD (particularly market linkages and local-level empowerment) clearly fall outside of those areas in which, it is agreed, PROAGRI is mandated to operate. Given, therefore, that: (i) PROAGRI is fully defined and the donor community (including IFAD) is providing adequate levels of funding to it; and (ii) IFAD has identified various strategic issues not covered by PROAGRI (though consistent with and supportive of it) as being crucial for the continued development of the rural economy, it is evident that there would at this stage be little value added for IFAD to provide further and additional support to PROAGRI. Instead, IFAD's innovation must take place in those areas of the rural economy that are *not* supported by PROAGRI, though they are complementary to it.

40. At this stage, the artisanal fisheries sector is in the short term an obvious area for future IFAD support, for the following reasons:

- The fisheries sector does not represent a part of PROAGRI; it is free of its restrictions and is thus an area in which innovation is possible and in which IFAD can catalyse additional donor support.
- It is a sector in which, through the Nampula Artisanal Fisheries Project, IFAD has gained much positive experience and learned important and useful lessons, which can be built upon and expanded. IFAD has established an important and positive relationship with the Government, which has permitted it to promote significant policy/legislative reforms, and this too provides a basis for future policy dialogue.
- The artisanal subsector is one that suffers many of the same development constraints as the smallholder-farming sector. A number of important lessons have been learned from the experience in developing the PAMA Support Project: in particular, the primacy of

upstream and downstream market linkages between producers (or in this case, fishermen) and private-sector players. These lessons can provide a conceptual basis for the development of similar sorts of solutions for the artisanal fisheries subsector.

- PROAGRI represents a first effort at the development of a programmatic approach to a sector, or subsector. While there have been difficulties associated with its operationalization, these provide useful lessons for the future; and there remains widespread agreement that such an approach is important and valuable. During the development of the PAMA Support Project there was wide agreement – within government and among donors and NGOs – on the value of a programmatic approach. There is an important opportunity for IFAD to support the Government in developing a similar approach for the artisanal fisheries subsector. A start to this process has already been made through the preparation of a preliminary planning instrument for sector development, the National Fisheries Programme (PRONAP).
- Following the recent national elections in Mozambique, a number of ministries were reorganized. In particular, the then Ministry of Agriculture and Fisheries was split, and a new Ministry of Fisheries was established⁴. Such a reorganization is clear evidence of the importance that the Government attaches to the sector; and under new and dedicated leadership, there is likely to be enhanced scope for IFAD to engage in a policy, legislative and operational dialogue with the Government, and for that dialogue to yield positive results.

41. At the same time, the artisanal fisheries sector is not without its complications, and a number of issues have already been highlighted as requiring particular attention in the development of a new intervention. First, the programme must have a clear gender strategy, given that not only fishing itself, but also processing and trading, are activities carried out predominantly by men. Both the savings clubs and the community development activities promoted under the Nampula project would appear to offer important opportunities for reaching rural women, upon which the new intervention could build. Second, traditional fisheries projects have a tendency to show high per-beneficiary costs: this point, which must be a serious consideration in the development of the new intervention, reinforces the importance of advocating a programmatic approach, with a focus on (national) policy, institutional and strategic issues. Third, the sustainability of the fisheries resource base must be carefully assessed. The linked issues of over-fishing and net mesh size, and their influence on fish stock levels, must be taken account of in the programme design; in terms of response to these issues, important lessons may be learned both from the fish catch monitoring system and the community-based fisheries resource management committees, supported under the Nampula project.

42. In the medium-term, commercialization of smallholder production systems is expected to be the dominant development paradigm in the region in the coming years; and as such, a wider range of issues and opportunities are expected to emerge from the experience of the PAMA Support Project. These will focus on the need for further promotion of small-farm commercialization, and for the development of safeguards to prevent the exclusion from the market of small producers and/or their exploitation by suppliers and buyers. Building upon its experience, IFAD will continue to have an important role to play in this area.

43. Without limiting at this stage the emerging opportunities for intervention, it is envisaged that the commercialization process may point to various opportunities for supporting the development of rural financial services. On the one hand, as production systems become more market-driven and market-linked, so the real demand for credit (for purchase of production inputs and agricultural produce, by agricultural producers, input suppliers, traders and processors) will become more

⁴ The Director of IDPPE now reports directly to the Minister for Fisheries.

pressing; while as the banking sector looks for new investment opportunities, so new possibilities for development interventions will emerge. On the other hand, while the commercialization process is expected to lead to local rural economies becoming more market-oriented and monetized, the sort of support being provided under the PAMA Support Project will not respond to the financial service needs of small- and micro-scale entrepreneurs, particularly women. At this point, the value of microfinance, and support for the development of microfinance institutions, is likely to become increasingly evident. In the short term, IFAD will be learning specifically from its own experiences in rural financial service delivery, both those for inventory credit delivery, planned under the PAMA Support Project, and those under the Nampula Artisanal Fisheries Project (paragraphs 27 and 28).

C. Opportunities for Strategic Linkages with Other Bilateral and Multilateral Donors

44. Through PROAGRI, and participation in the Donor Working Group associated with it, IFAD has come to have close working relations with a number of donors⁵. In the course of developing the PAMA Support Project too, close consultation was established with those donors with an interest in the area of market linkage development; in particular EC, the Governments of Ireland and Norway, USAID and the World Bank. While that consultation has not yet led to any formal cofinancing arrangements under that project, there is recognition by all of those partners of the importance of active collaboration, ideally within an overall programmatic framework. The World Bank is actively considering some sort of cofinancing commitment. These strategic alliances will be further pursued during the course of developing a new intervention.

45. Within the artisanal fisheries sector, IFAD is currently the only donor providing support on a substantial scale. However, the African Development Bank (AfDB) is interested in developing an intervention, and in 1999, through the Investment Centre of the Food and Agriculture Organization of the United Nations (FAO), conducted a project identification mission. Any future IFAD support will be closely coordinated with AfDB, ideally within a broad subsectoral programmatic framework, which, building on the experience already gained and alliances developed, IFAD will assist the Government to establish. Strategic linkages with other donor agencies will also be sought through the process of programme development.

46. While a number of donors are interested in the provision of support for rural financial services, most of these (notably the Canadian International Development Agency (CIDA), the Government of The Netherlands, the United Nations Capital Development Fund (UNCDF), UNDP and USAID) focus on microfinance. A number of individual programmes have been implemented, and various important initiatives have also been taken. A major study on microfinance initiatives was conducted in 1998, and a seminar on rural finance and marketing the following year; and there are presently three task forces to support the microcredit environment: (i) the Reference Group on Microfinance, involving the Central Bank, the Ministry of Planning and Financing, and INDER; (ii) the informal working group on microfinance, involving operators, donors and the Government; and (iii) the Action Research Project run by CARE with assistance from the World Bank. However, while there is wide support for microfinance, to date few steps have been taken to link up such activities to formal financial markets; of these, the substantive ones have been taken by EC, which would be an obvious strategic partner for IFAD should this prove to be an appropriate avenue to explore further.

⁵ It should be noted that while, through PROAGRI, there is close – possibly unprecedented – donor collaboration, there is no scope for cofinancing in its traditional sense.

D. Outreach and Partnership Possibilities with NGOs, National and Local Initiatives

47. A number of NGOs are managing important initiatives aimed at linking smallholders more effectively with agricultural input and output markets, including through the provision of financial services. Most of these are international NGOs with a permanent Mozambican presence, and have received support from USAID. There are also a limited number of local NGOs with the management and implementation capacity to handle substantial development programmes. Some of the more successful NGOs are the following:

- CLUSA is setting up and training business/market-based farmer groups to work more effectively with agribusinesses, technical support services, rural traders, credit agencies and others who prefer to deal with groups rather than large numbers of individuals; and it is also piloting activities to promote the provision of inventory credit. Under the Nampula Artisanal Fisheries Project, it has been contracted to provide support to fishermen's groups.
- CARE has numerous rural development programmes and, in particular, has developed expertise in rural financial services. Under the Nampula project, it has managed a number of interesting pilot initiatives for rural financial services, some of which are showing real promise.
- Technoserve brokers links between large agribusinesses and smallholders mainly by developing untapped opportunities that are of benefit to smallholders and companies.
- World Vision, the largest NGO in Mozambique, operates numerous rural development projects including labour-intensive rural road rehabilitation.
- The Mozambique Association for Rural Development (AMODER), a local NGO, concentrates on the provision of credit to traders, and other recipients. It operates mainly in northern Mozambique, particularly Cabo Delgado.

48. During the course of the development cycle for the PAMA Support Project, contacts were established with all of these (and other) NGOs. Most, if not all, are expected to participate in the implementation of the PAMA Support Project, contracted by the Government to deliver specific outputs. The Government is willing to sanction the implementation of project activities by NGOs. However, to promote sustainability, it is keen to encourage and support local rather than international NGOs. It is also anxious to ensure that NGO operations, which represent a large part of overall development assistance, are well coordinated and complementary to its sectoral strategies. A new decree thus stipulates that NGOs will be authorized to operate for an initial renewable period of two years, subject to their activities conforming to sector policies and programmes, and that sector ministries are responsible for sanctioning NGO activities.

49. There is also potential for partnerships with the private sector. An interesting initiative is the contracting of a cotton agro-processing firm by INDER, with cofinancing by the Agence française de développement (AFD), to implement a project in Cabo Delgado. The project provides a model 'win-win' situation: the agribusiness firm required a centre to train outgrowers, wanted to improve its technical support to outgrowers, and needed to improve access roads to get cotton into its ginnery; while for INDER/AFD, which wanted to promote smallholder cotton production, the firm brought strong management capability to the project and shared financing of the activities. This is the first project to involve matching grant funding between an international donor agency and a private firm. With heavy demand on a limited pool of management expertise in Mozambique, it is an interesting option that may be applicable to the fisheries sector.

E. Areas for Policy Dialogue

50. Over the coming three years, policy dialogue is expected principally in the broad areas of agricultural production support services (through PROAGRI), market linkage (through the PAMA Support Project), artisanal fisheries (through Nampula Artisanal Fisheries Project and any possible successor) and rural financial service development.

51. PROAGRI represents not only a financing framework, but also a vehicle for dialogue on policy issues of substance between the Government and the participating donors. The 1998 donor appraisal of PROAGRI resulted in all parties reaching agreement as to what constitute the 'basic principles' of government intervention in the agricultural sector, and defining a timetable for actions to be taken in support of those principles. IFAD, with its funding for PROAGRI channelled towards the livestock subsector, is taking a special interest in those policy issues associated with that subsector. Areas of particular importance, on which progress is being monitored, include: (i) the targeting of government expenditures towards livestock that can maximize the contribution of the subsector to rural poverty alleviation, and the emphasis on small stock, gender and environmental issues; (ii) the creation of an enabling environment for private-sector involvement in the livestock sector; and (iii) the coordination of the various government institutions with responsibilities for livestock services. Beyond the basic principles, two specific and critical policy issues form the focus for detailed and ongoing discussions between the Donor Working Group and the Government: these relate to land tenure and to the financing and operations of the parastatal Agricultural Development Fund (FFA). While, by lack of its field presence, IFAD has not participated actively in these discussions, it has followed and on occasions contributed to them.

52. The PAMA Support Project provides support for facilitating the preparation and establishment of a broader programme and policy framework. While the nature and range of the specific policy issues are still to emerge (although those relating to the provision of rural financial services are likely to be of importance), IFAD will be alert to the issues arising and, both through the project supervision process and through a broader dialogue, will be seeking to influence the Government in favour of a policy environment supportive of small-farmer participation in the commercial sector.

53. The importance of an appropriate policy and legislative framework and its strong enforcement is evident in a sector such as fisheries based upon the exploitation of common property resources. Within the fisheries sector as a whole, the need for a framework that protects the artisanal sector from the larger, more powerful industrial sector is also clear. There has been a clear role for IFAD to play in this area and, through the Nampula Artisanal Fisheries Project, it has already engaged itself in an active, and so far successful, policy dialogue on a number of key issues.

54. Through IFAD's efforts, two important changes have been made to the legislative framework within which artisanal fishermen operate: the first relating to the minimum size of fish net mesh that artisanal fishermen are permitted to use; and the second to the extension of the fisheries zone exclusively reserved for artisanal fishermen (see paragraph 28). However, the changes are for a pilot one-year period, during which time their impact is to be monitored; and they apply to Nampula Province only. Further analysis and follow-up are thus required if the changes are to be made permanent and extended to the entire coastline of Mozambique.

55. Further work also needs to be carried out in order to give legal status to the local fish resource management committees. The study to define the legal framework for co-management in the fisheries sector will advance the issue; however, it will clearly remain a key area for future policy dialogue. The provision of financial services to members of fishing communities is becoming an increasingly important element of the ongoing project; if, as seems likely, it is picked up as an element within any new intervention, then IFAD will be engaging the Government in policy dialogue in this area.

56. In addition to dialogue regarding the policy environment, there is also considerable scope for dialogue regarding sector investment strategies and priorities. While the Government clearly must take the lead in this area, IFAD can assist it by contributing to the development of a subsectoral programme. This it can do, both through the experiences gained in the implementation of activities, and their replication where appropriate, and through the provision of planning and coordination support for the programme formulation process itself. IFAD will achieve this objective working in close collaboration with other interested partners.

F. Action Areas for Improving Portfolio Performance and Management of Debt Servicing

57. The Government has a progressive vision of its role in the economic development process, and it is supportive of innovative project implementation approaches. It has a small cadre of committed and trained staff. Moreover, there is a culture of accountability within the civil service. There is thus much to build upon.

58. On the other hand, there are two key action areas for improving portfolio performance: decentralization and counterpart financing. Mozambique has few trained staff, and most of these are concentrated in Maputo; at the provincial level, therefore, government services are generally weak. In consequence, there has been little delegation of authority to the ten provinces (let alone the districts) either for planning and budgeting or for operational and financial management; linkages with the national-level authorities – which for some provinces are at a distance of more than 2 000 km – are weak; and ownership of development activities is diffuse. Under the various ongoing projects, IFAD has sought to decentralize planning and day-to-day management and financial responsibility to the provincial level, with a view to bringing out latent capacity and ensuring stronger ownership and more timely implementation. At the same time, it has supported the provincial-level institutions through the judicious use of good technical assistance, backed by strong project supervision. This approach is bearing fruit, and is one to which IFAD is attaching increasing importance. It is to be further pursued, under both ongoing and any new interventions.

59. All IFAD-supported projects in Mozambique have managed project resources responsibly and transparently, and have sought to conform to IFAD disbursement regulations. All have faced serious difficulties, however, with regard to the provision of counterpart funds, which have arrived sporadically and late; and all have sought to respond to the exigencies of timely project implementation in ways that, while conforming to the spirit of the loan agreements, have been contrary to the letter of IFAD's disbursement regulations. The difficulty of counterpart funding – and it should be remembered that Mozambique remains one of the poorest countries in the world – has been exacerbated by the Government's recent introduction of a 17% value added tax (VAT) on all transactions, including those undertaken by its own agencies under donor-financed projects. IFAD has sought to respond to this by amending the financing plans of all projects, to limit the Government's contribution to the tax element only; but this does not resolve the problem of the timely availability of the counterpart funds required to pay the taxes. This issue too IFAD has taken up with the Minister for Planning and Finance, and it is likely to require further follow-up, if project implementation is not to be jeopardized.

60. The Government has always regularly serviced its debts to IFAD. In addition, under the Debt Initiative for HIPC Mozambique has qualified for USD 3.7 billion in debt relief. Of this, IFAD is providing relief worth USD 16.6 million in nominal terms and USD 10.46 million in net present value terms. As a result, over the period 1999-2013 Mozambique will make a minimal debt repayment to IFAD of only USD 35 000 per semester, rather than the USD 587 000 otherwise due. Future debt servicing is therefore not anticipated to be a problem.

G. Linkages with Corporate and Regional Strategic Thrusts and Other Cross Cutting Concerns

61. Any new intervention in Mozambique will be based firmly upon IFAD's corporate and intervention strategies. First, central to these strategies, in Mozambique as elsewhere in the region, is an emphasis on commercialization and collaboration with the private sector; in the case of the artisanal fisheries sector, the development of market linkages between fishermen and, on one hand, input suppliers and, on the other, markets for their catches. This is an area in which the ongoing Nampula project has already started to intervene; and it will be built upon. The scope for collaboration between the artisanal and industrial subsectors – rather than confrontation, as has been the case in the past – will also be explored.

62. A second theme of importance to IFAD's corporate strategy is that of empowerment. This applies both to communities, to enable them to participate in, and ultimately take control over, the identification, planning and management of their development works and activities; and to fishermen and their organizations, to enable them to manage their resources, interact with markets and influence policy towards the sector more effectively. Capacity-building is an essential element of empowerment; in this area too, an important start has been made under the current projects, and this will be built upon further under a new intervention. NGO involvement in this process will be a *sine qua non*.

63. Third, the provision of support for the development of a programmatic approach, rather than a discrete project, represents an effort to put government in the driving seat; and to mobilize additional, and coordinated, donor resources by providing an opportunity for donors to respond to those government priorities. The experience of the PAMA Support Project is instructive: while it does not yet have any formal cofinancing, a number of donors are watching the project with keen interest, and the World Bank – with which IFAD has developed a strong partnership in Mozambique – has already indicated its intention to support its efforts.

64. A fourth consideration, as stated earlier (Section E), is the opportunity that such an approach, in a sector in which IFAD has already substantial experience, offers for policy dialogue and policy reforms in favour of the rural poor.

H. Tentative Three-Year Lending Framework and Rolling Programme of Work

65. This COSOP proposes exploring the scope for a new intervention in the artisanal fisheries subsector. Preliminary discussions have been held with government officials on this subject, and IFAD has already received a letter from the then-Vice Minister for Agriculture and Fisheries, requesting IFAD's support for such an intervention. While it will build upon experience and lessons of the Nampula Artisanal Fisheries Project and will aim to commence upon closure of that project (30 June 2001), it will not represent a second phase *per se*, and it will almost certainly not be limited to the Nampula Province. It will be programmatic in perspective, and will have a more explicit orientation towards (i) market linkage development; and (ii) the empowerment of communities and fishermen's associations. IFAD has already planned to undertake an evaluation of the Nampula project, and the conclusions and recommendations emerging from that exercise will provide a valuable input into the process of developing the new intervention.

66. Once the proposed intervention is developed, IFAD's portfolio of investments in Mozambique will still amount to four projects and programmes (as the new fisheries intervention will replace the Nampula project). The earliest of these will be expected to close in mid-2003, while the other two ongoing projects (FSLDP and PAMA Support Project) in 2004 and 2006 respectively. All except the Niassa Agricultural Development Project will be new-style interventions: programmatic in nature and focused on the private sector: as such, the emphasis will be firmly on ensuring their effective and

timely implementation, and drawing out and analysing the experiences for replication where appropriate. During the next three years IFAD will be actively exploring the scope for financing opportunities emerging from the ongoing projects in Mozambique, and in particular the PAMA Support Project. One possible area for future support could be in the area of support to rural financial services.

I. Other Activities and Operations

67. No other activities and operations such as workshops, technical assistance grants (TAGs) and IFAD/NGO Extended Cooperation Programme interventions are presently planned. As a broad principle, other activities will be considered only if they are directly supportive of either ongoing or planned interventions, and are aimed at improving IFAD's understanding of their operating environment or at testing new models, approaches and methods for implementation.

V. CONCLUSIONS AND RECOMMENDATIONS FOR FOLLOW-UP

68. Over the past eight years, Mozambique has made enormous strides, moving from civil war to stable democracy and from a food-deficit country to exporter. It has seen its economy grow at close to 10% per year. At the same time, the Government is committed to prudent macroeconomic management of rural poverty alleviation and better management of its donor-supported development activities. IFAD has established an important and appreciated dialogue with the Government, which has been profitable in a number of different areas. Moreover, it is well placed to pursue that dialogue through the provision of new support.

69. The artisanal fisheries subsector offers IFAD an important opportunity to pursue that dialogue, and to respond to and further develop its corporate and regional strategies. It is an area in which IFAD has a comparative advantage, based on its experience to date, and which Government has already indicated to IFAD to be a priority. At the same time, however, it is necessary to maintain focus on the existing project portfolio. Elements within it are starting to realize real benefits to the IFAD target group, but this must be built upon further; the other, more innovative aspects will require close implementation support, review/analysis and, where necessary, modification; and the problems associated with the timely provision of counterpart financing also require continued and close follow-up on the part of IFAD and its cooperating institutions.

70. The recommendations of this COSOP are thus in essence twofold: first, to explore the scope for a new intervention for the artisanal fisheries subsector, building upon the experience of the current project and drawing out the lessons of the forthcoming evaluation of that project; and second, to continue to provide the Government with strong and regular implementation support for the ongoing programme portfolio and to draw out lessons from the implementation experience, which may serve as the basis for a future intervention in the medium term.

APPENDIX I

**MOZAMBIQUE
COUNTRY BASIC DATA AND INDICATORS**

Land area (km² thousand) 1996 1/	784	GNP per capita (USD) 1997 2/	140
Total population (million) 1997 1/	16.6	Average annual real rate of growth of GNP per capita, 1990-97 2/	2.6
Population density (people per km²) 1996 1/	21	Average annual rate of inflation, 1990-97 2/	45.9
Local currency	Metical (MZM)	Exchange rate: USD 1 =	MZM 13 810
Social Indicators		Economic Indicators	
Population (average annual population growth rate) 1980-97 1/	1.9	GDP (USD million) 1997 1/	2 753
Crude birth rate (per thousand people) 1997 1/	41	Average annual rate of growth of GDP 1/ 1980-90	-0.1
Crude death rate (per thousand people) 1997 1/	20	1990-97	4.9
Infant mortality rate (per thousand live births) 1997 1/	135	Sectoral distribution of GDP, 1997 1/	
Life expectancy at birth (years) 1997 1/	45	% agriculture	31
Number of rural poor (million) (approximate) 1/	n.a.	% industry	24
Poor as % of total rural population 1/	n.a.	% manufacturing	10
Total labour force (million) 1997 1/	8.6	% services	45
Female labour force as % of total, 1997 1/	48	Consumption, 1997 1/	
Education		General government consumption (as % of GDP)	10
Primary school gross enrolment (% of relevant age group) 1996 1/	60	Private consumption (as % of GDP)	76
Adult literacy rate (% of total population) 1995 3/	40	Gross domestic savings (as % of GDP)	14
Nutrition		Balance of Payments (USD million)	
Daily calorie supply per capita, 1995 3/	1 675	Merchandise exports, 1997 1/	272
Index of daily calorie supply per capita (industrial countries=100) 1995 3/	53	Merchandise imports, 1997 1/	1 281
Prevalence of child malnutrition (height for age % of children under 5) 1992-97 1/	36	Balance of merchandise trade	-1 009
Prevalence of child malnutrition (weight for age % of children under 5) 1992-97 1/	26	Current account balances (USD million)	
Health		before official transfers, 1997 1/	- 615
Health expenditure, total (as % of GDP) 1990-97 1/	n.a.	after official transfers, 1997 1/	- 359
Physicians (per thousand people) 1990-97 1/	n.a.	Foreign direct investment, 1997 1/	35
Percentage population without access to safe water 1990-96 3/	37	Government Finance	
Percentage population without access to health services 1990-95 3/	61	Overall budget surplus/deficit (including grants) (as % of GDP) 1996 1/	n.a.
Percentage population without access to sanitation 1990-96 3/	46	Total expenditure (% of GDP) 1996 1/	n.a.
Agriculture and Food		Total external debt (USD million) 1997 1/	5 991
Food imports as percentage of total merchandise imports 1997 1/	22	Present value of debt (as % of GNP) 1997 1/	171
Fertilizer consumption (hundreds of grams per ha of arable land) 1995-97 1/	31	Total debt service (% of exports of goods and services) 1997 1/	18.6
Food production index (1989-91=100) 1995-97 1/	119.5	Nominal lending rate of banks, 1997 1/	n.a.
Land Use		Nominal deposit rate of banks, 1997 1/	n.a.
Arable land as % of land area, 1996 1/	3.8		
Forest area (km ² thousand) 1995 1/	169		
Forest area as % of total land area, 1995 1/	21.5		
Irrigated land as % of cropland, 1994-96 1/	3.4		

n.a. not available.

Figures in italics indicate data that are for years or periods other than those specified.

1/ World Bank, *World Development Report*, 1999

2/ World Bank, *Atlas*, 1999

3/ UNDP, *Human Development Report*, 1998



PREVIOUS IFAD PROJECTS

Project/Programme	Initiating Institution	Cooperating Institution	Lending Terms	Board Approval	Loan Effectiveness	Current Closing Date	Loan/Grant Acronym	Denominated Currency	Approved Loan/grant Amount	Disbursement (as % of approved amount)
National Programme for Food Production in the Cooperative and Family Sector	IFAD	UNOPS	HC	31 Mar 82	23 Feb 83	31 Dec 86	L-I-93-MZ	SDR	17 700 000	100%
Nampula Artisanal Fisheries Project	IFAD	UNOPS	HC	15 Sep 93	04 Nov 94	30 Jun 02	L-I-334-MZ	SDR	4 350 000	88%
Niassa Agricultural Development Project	IFAD	UNOPS	HC	20 Apr 94	19 Oct 94	30 Jun 04	L-I-359-MZ	SDR	8 800 000	50%
Second Agricultural Rehabilitation Project	IFAD	World Bank: IDA	HC	10 Sep 87	26 Apr 88	31 Jan 96	G-S-5-MZ L-S-8-MZ	SDR SDR	800 000 11 850 000	98% 70%
Family Sector Livestock Development Programme	IFAD	UNOPS	HC	04 Dec 96	12 Feb 98	31 Dec 04	G-I-19-MZ L-I-432-MZ	USD SDR	65 000 13 450 000	86% 34%
PAMA Support Project	IFAD	UNOPS	HC	08 Dec 99	05 Jul 01	31 Oct 07	G-I-90-MZ L-I-515-MZ	USD SDR	60 000 16 550 000	95%

MAJOR ISSUES AND RESPONSES UNDER COSOP PROPOSED STRATEGIES

ISSUES/CHALLENGES	ACTIONS NEEDED	ENVISAGED PARTNERSHIPS
Human, physical and financial devastation caused by droughts	Support rural population's immediate needs (food, agri-inputs, etc.) and rehabilitate physical infrastructure.	All donors, government agencies and NGOs
Low agricultural productivity	Improve availability of seeds and fertilizers; strengthen production support services; enhance farmer-to-market linkages; strengthen commercial relations between small- and large-scale productive sectors.	Donors: PROAGRI Donor Working Group, USAID, World Bank; MINADER; NGOs and private-sector representatives
Bad condition of road infrastructure	Within context of national road programmes, ensure prioritization of roads to be rehabilitated according to economic criteria.	Donors: World Bank, (DFID*, UNCDF, NORAD*, SIDA*); National Roads Authority
Lack of community participation in development planning and implementation	Develop and operationalize participatory approaches to prioritization, planning and implementation of development activities, with NGO involvement.	Donors: World Bank, DANIDA*, the Dutch Government; INDER/MINADER, IDPPE*; NGOs
Lack of farmer organization, skills	Provide support for NGO efforts to assist producers to establish economic associations and train them in organizational and business skills.	Donors: USAID, World Bank, the Dutch Government; NGOs (CLUSA); agribusiness
Lack of input suppliers/produce buyers	Contract NGOs to provide business training to local traders/agents and assist them to establish commercial relations with large/medium-scale input distributors and produce buyers.	USAID; MINADER; NGOs (CNFA*, SG 2000*)
Lack of access to financial services in rural areas	Establish preconditions for credit delivery by commercial banks, agribusiness and multilateral financial institutions to farmers' associations/traders, etc., by reducing costs of transactions and reducing risks.	Donors: EC, World Bank; INDER/MINADER, MPF*; NGOs (CARE, AMODER); commercial banks, agribusiness
Unfavourable policy environment for artisanal fisheries	Extend regulations on fish net mesh sizes and on exclusion zone beyond one-year pilot period in Nampula province, and to all other coastal provinces; establish legal framework for fisheries resources management.	AfDB; Ministry of Fisheries
Rapidly changing economic and institutional environment ('moving goal posts')	Design implementation framework for projects with built-in feedback mechanisms that enable project management to regularly take stock of progress and modify procedures, approaches and workplans as necessary.	Major donors; MINADER; Ministry of Fisheries; MPF
Weak government services, particularly at provincial level	Decentralize planning and day-to-day management and financial responsibility – supported by technical assistance as necessary – to bring out latent capacity at provincial level, ensure stronger ownership and more timely implementation.	PROAGRI Donor Working Group; MINADER; provincial governors
Large numbers of discrete donor projects	Rationalize donor-supported projects within programmatic framework to ensure coordination and synergy, and to put government in the driving seat.	All interested donors; INDER/MINADER, Ministry of Fisheries
Problems of government counterpart funding of projects	Reduce government repayment requirements, through the Debt Initiative for HIPCs; and maintain dialogue with MPF concerning the timely contribution of counterpart funding.	IMF*/World Bank; MPF

* Note: CNFA Citizens Network for Foreign Affairs
 DANIDA Danish International Development Assistance
 DFID Department for International Development (United Kingdom)
 IMF International Monetary Fund
 MPF Ministry of Planning and Finance
 NORAD Norwegian Agency for Development
 SG2000 Sasakawa Global 2000
 SIDA Swedish International Development Agency



PRELIMINARY LOGICAL FRAMEWORK ANALYSIS FOR FUTURE INTERVENTION

INTERVENTION LOGIC	KEY PERFORMANCE INDICATORS	MONITORING AND EVALUATION SOURCES	
Development Objective: 1. To increase incomes and food security of rural populations and promote broad-based economic growth			
INTERVENTION LOGIC	KEY PERFORMANCE INDICATORS	MONITORING AND EVALUATION SOURCES	CRITICAL ASSUMPTIONS/RISKS (TO REALIZE DEVELOPMENT OBJECTIVE)
Possible Overall Project/Programme Objective: To increase, on a sustainable basis: the value of produce harvested by smallholder farmers/fishermen; the numbers marketing and buyers purchasing the produce; the value of the produce reaching the market; and the share of end-market prices obtained by farmers/fishermen for their produce.			Economic stability: exchange rate is stable and inflation low. Openness of the economy: liberalization of trade continues and free trade exists with neighbouring countries. Political environment: political environment facilitates participation of local and international NGOs in development process. Policy environment: policy environment for smallholder producers is favourable.
INTERVENTION LOGIC	KEY PERFORMANCE INDICATORS	MONITORING AND EVALUATION SOURCES	CRITICAL ASSUMPTIONS/RISKS (TO REALIZE OVERALL PROJECT OBJECTIVE)
Possible Outputs/Results: 1. Sustainable, equitable commercial linkages between smallholder farmers/fishermen and input supplies and produce markets established 2. Well-managed and sustainable producers' groups/associations formed and operational 3. Participatory processes for planning and implementing development activities fully operational 4. Producers', traders' access to rural financial services established 5. Decentralized planning and management systems established 6. Successfully contributed to process of formulating and establishing programme framework for subsector			

4





IFAD
INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT
Executive Board - Seventy-Fourth Session

Rome, 5-6 December 2001

REPUBLIC OF MOZAMBIQUE

COUNTRY STRATEGIC OPPORTUNITIES PAPER (COSOP)

ADDENDUM

1. The Country Strategic Opportunities Paper (COSOP) for the Republic of Mozambique was prepared in March 2000, reviewed the following month, and subsequently finalized and approved as a basis for the development of the Sofala Bank Artisanal Fisheries Project. Its analysis and the strategic trusts that it defines underpin the design of that project and are also reflected in the President's report approved by the Seventy-Third Session of the Executive Board held in September 2001.
2. The purpose of presenting the COSOP to the Executive Board is to show how the strategy articulation exercise has fed into the project design process. The COSOP has therefore not been retroactively updated to conform to the current format for COSOPs or to take into account events that have taken place since April 2000. However, in response to queries raised by a number of Executive Board members, this Addendum has been prepared. It seeks to provide information both on developments in Mozambique over the past 18 months and on the evolution of IFAD's operational strategy and project portfolio over that period.

Country Background

3. **The economy.** At 2.1%, real gross domestic product (GDP) growth in 2000 was considerably lower than original predictions. The catastrophic flooding in early 2000 was the main cause: its effect was greater than initially thought. Not surprisingly, inflation increased to 11.8% in 2000; however, in early 2001 it fell sharply, and accumulated inflation to May was only 3%. A more surprising trend has been the continuing weakness of the exchange rate. After years of stability, the metical depreciated by 18.6% in nominal terms during 2000, mainly owing to the external shock of the flooding. However, the trend has continued into 2001, and the official rate fell a further 11.5% between January and April. A major factor has been a rise in inflationary expectations by economic agents concerned about the fiscal and monetary implications for the government of the banking sector crisis resulting from the collapse of the privatized Banco Austral. Although currency instability is a concern, the devaluation of the currency is not actually a problem as it is official policy to engineer a gradual fall in the real exchange rate to counteract the effect of the currency's appreciation in real terms in 1996-98.



4. The banking sector crisis temporarily stalled Mozambique's access to the enhanced terms of the Debt Initiative for Heavily Indebted Poor Countries (HIPC). By late September 2001, however, the World Bank and the International Monetary Fund (IMF) had agreed that Mozambique had taken the steps necessary to reach its Debt Initiative completion point. The terms of the enhanced Initiative will increase Mozambique's total debt relief to about USD 4.3 million and reduce its annual debt-service obligations to around USD 50 million, or less than 10% of government revenue over the period 2000-2010, down from the present 23%.

5. **Floods.** As it had been in 2000, Mozambique was again struck by floods in early 2001. The floods, primarily in the Zambezi and Pungue river valleys, destroyed an estimated 42 200 hectares (ha) of crops in the centre of the country. Zambezia was the province worst affected, losing 15 500 ha of crops, about 2% of the harvest in the province; Sofala lost 10 300 ha, Tete 10 700 ha and Manica 5 700 ha. Not surprisingly, given the gravity of the floods in 2000, total production of food crops this year is forecast at 1.68 million tonnes (t), 14% more than the 1.47 million t harvested in 2000.

Poverty and the Government's Poverty Alleviation Strategy

6. With the rapid economic growth of the 1990s, GDP per capita now stands at around USD 230, which is still below the average for sub-Saharan Africa. Absolute poverty affects an average of 70% of the population, while there are notable urban-rural and regional imbalances. Besides suffering from acute material poverty, the poor in Mozambique are also highly vulnerable to natural disasters, as shown by the floods of 2000 and 2001.

7. Since the preparation of the COSOP, the Government has developed its poverty reduction strategy and programme, known as the Action Plan for the Reduction of Absolute Poverty 2001-05 (PARPA). The plan aims to substantially reduce the levels of absolute poverty in Mozambique. Specific targets are a reduction in the prevalence rate of absolute poverty from 70% in 1997 to less than 50% by 2010. The strategy identifies rapid economic growth as an essential tool for poverty reduction in the medium and long term. It therefore emphasizes policies aimed at creating a favourable climate for stimulating investment and productivity, and for achieving an average annual GDP growth rate of 8%. It also aims to ensure that this growth is inclusive so that the poor can benefit substantially from it. In concrete terms, the poverty reduction strategy is based on six priorities aimed at promoting human development and creating a favourable environment for rapid, inclusive and broad-based growth. These are education, health, agriculture and rural development, basic infrastructure, good governance, and macroeconomic and financial management.

8. The PARPA is largely a local product developed by the Government with broad local stakeholder participation and only limited donor community involvement. IFAD's participation has nevertheless been real, but indirect, through policy and strategic dialogue with the Government within the context of both the Agricultural Sector Investment Programme (PROAGRI) and the PAMA Support Project, which provides support for the development of farmer-to-market linkages. Both constitute parts of the strategy for agricultural and rural development within the poverty reduction strategy.

IFAD's Strategy in Mozambique

9. **HIV/AIDS.** The COSOP makes no reference to the HIV/AIDS pandemic. While, at the time of the COSOP's preparation, IFAD was fully aware of the scale and gravity of the problem, it was as yet unclear as to whether this was an issue that it could seek to address. The preparation of a strategy paper on HIV/AIDS for East and Southern Africa in June of this year has given IFAD a clearer idea of why it should be concerned about HIV/AIDS and how it might respond to it. While the project appraisal document for the Sofala Bank Artisanal Fisheries Project pre-dates the strategy document, the project will attempt to respond to the issue in two main ways. First, it will support a community health care component with an emphasis on a limited number of key initiatives. One of these will be a



programme, focusing on training and counselling, aimed at reducing levels of HIV transmission and enhancing the quality of care for home-based AIDS sufferers. Second, the project recognizes that road rehabilitation works (which it will support) and better access through improved roads can contribute to the spread of HIV/AIDs and other sexually transmitted diseases among rural communities. Activities to mitigate against this possibility will include ensuring that road contractors and labour-based construction teams (which are made up of members of the neighbouring communities) are counselled on HIV infection and how it can be prevented and have access to the free distribution of condoms.

10. **Post-flood emergency support.** Although Mozambique was struck by floods for the second year in succession, IFAD's position with regard to the provision of post-emergency support has remained unchanged. It is not an area in which IFAD has a comparative advantage, and it is not proposed that IFAD should reallocate any of its already-approved funds to such support. This is a position fully endorsed by the Government, which does not wish to see development assistance diverted to flood relief and reconstruction.

IFAD Activities

11. Two particular areas should be highlighted:

- (a) **PROAGRI.** As is stated in the COSOP, IFAD's support to PROAGRI is provided through the Family Sector Livestock Development Programme (FSLDP) (Loan 432-MZ). Over the past 18 months, IFAD has sought to gradually merge FSLDP with PROAGRI, and at the September 2001 session of the Executive Board, the President was authorized to channel a part of the remaining balance of the resources available under FSLDP through the PROAGRI Common Flow of Funds Mechanism. This is expected to be operationalized over the coming months.

At the same time, IFAD has been engaged in a substantive policy dialogue with the Ministry of Agriculture and Rural Development. In particular, it is providing active support to the Ministry to update its livestock sector policy and strategy, so as to ensure a strong and consistent focus on rural poverty alleviation, with appropriately defined roles for government, the private sector and civil-society groups. IFAD is providing this support in close collaboration with the Department for International Development (DFID).

- (b) **PAMA Support Project** (Loan 515-MZ). The COSOP indicated that project activities financed by a Special Operations Facility were expected to commence in the second quarter of 2000. In fact, a coincidence of events – first, a ministerial reorganization that resulted in the incorporation of the implementing agency, the Institute for Rural Development, into a newly created Ministry of Agriculture and Rural Development; and second, the prioritization by Government of flood response and rehabilitation – resulted in the project start-up being significantly delayed. However, the loan was finally declared effective in September 2001, and project activities are now starting up.