



MOZAMBIQUE Country Strategic Plan FY 2004 – 2010

Public Version

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I. EXECUTIVE SUMMARY

USAID/Mozambique is beginning the transition from the 1996-2003 Country Strategic Plan (CSP) to a new CSP that will extend from 2004 to 2010. The goal of USAID's 2004-2010 CSP for Mozambique is "broad-based, rapid economic growth sustained through expanded capacities and opportunities." Through extensive analysis and the application of 19 years of development experience in Mozambique, USAID has constructed a strategic framework with five strategic objectives (SOs) essential to the pursuit of this goal:

- **SO6 Rapid Rural Income Growth Sustained in Target Areas:** This is the Mission's priority SO, highlighting the over-arching importance of the agriculture sector to Mozambique's economic growth and poverty reduction goals. USAID will support the transition of Mozambique's smallholder sector to more commercial farming by increasing productivity and commodity sales, linking smallholders to a burgeoning agri-processing industry, and delivering direct assistance to critical points in the value-adding production chain. Mozambique's commercial trading networks will be strengthened by increased access to both markets and financial services.
- **SO7 Labor-Intensive Exports Increased:** This second major prong in the Mission's strategy will continue to support improvements to the enabling environment for private sector growth. It will also exploit sector and firm-level opportunities for maintaining high levels of growth and reducing poverty through increased trade and investment. The focus on labor-intensive industry as well as small and medium enterprises is a proven means of accelerating the creation of non-agricultural employment.
- **SO8 Increased Use of Child Survival and Reproductive Health Services in Target Areas:** This SO is a continuation of the Mission's work under SO3 in the previous CSP to improve the use of essential health services by Mozambican women and children. The Mission intends to couple the increased capacity of the public health sector, created with USAID's help, with community-level organizations and service providers in order to broaden access in under-served communities. At the same time, USAID will engage community groups and leaders to raise awareness about the benefits of essential services in those communities, and advocate for better service.
- **SO9 Transmission of HIV Reduced and Impact of the AIDS Epidemic Mitigated:** This SO is designed as a crisis response to a pandemic that is of a different nature than Mozambique's development challenges. Mozambique's national adult prevalence rate of 13% is daunting, but also offers a clear opportunity to curb the spread of the disease and minimize the societal and economic costs that will be exacted. Through this cross-cutting SO, USAID will partner with national and community-level leaders and organizations to bring about behavior changes that prevent the spread of the disease and help to heal families and communities wounded by HIV and AIDS.
- **SO10 Municipal Governance Increasingly Democratic:** Very limited budget resources restrict this SO to demonstrating how the long-existing disconnect between Mozambican citizens and their governance bodies can be repaired. Good governance is increasingly identified as an essential element of any sound development strategy. USAID will bring municipal communities – leaders, NGOs, individuals, private enterprises, etc. – together to identify and address agreed upon priorities. The lessons learned and models of good governance will be used to show other communities what is possible with participation, cooperation, and initiative; and the lessons and models will strengthen the case for increased democratization in Mozambique.

USAID’s strategic framework tracks closely with the Government of Mozambique’s (GRM) poverty reduction and economic growth strategy, the PARPA (Portuguese acronym for “Action Plan for the Reduction of Absolute Poverty” – usually PRSP in English). Each of the five SOs introduced above contributes to one or more of the six PARPA priorities: agriculture and rural development; health; basic infrastructure; good governance; education; and macroeconomic and financial management.

Critical assumptions at the goal level include:

- Overall political stability in bordering countries will continue, with containment of localized conflicts and unrest.
- Multiple natural disasters with cumulative region-wide impact, particularly sustained regional drought, will be of limited severity, and more localized disasters will be adequately mitigated.
- Private sector-led growth remains the GRM’s primary vehicle for reducing poverty.

The Mission also assumes that program resource and staffing levels will remain relatively consistent throughout the CSP timeframe. USAID’s standing as the lead donor on private sector-led growth underscores the principal role funding, projects, and policy advice play in Mozambique’s continued development. USAID is Mozambique’s most important bilateral partner in dollar terms. The country’s goals of economic growth and poverty reduction are more likely to be achieved if resource levels allow USAID to continue to fill this meaningful role.

Given the Administration’s stated priorities, Mozambique stands as a successful model for U.S. policy and assistance in Africa. Qualification for and receipt of Millennium Challenge Account (MCA) funds would contribute positively to the need for increased investment in development in Mozambique. Mozambique is not far from meeting all of the MCA criteria. Even in the areas where compliance presents a challenge – certain criteria under “investing in people” and “governing justly” – the trends are encouraging. GRM social spending is on the upswing: Over the last 3 years, the GRM has increased expenditures for health and education (see text box). Mozambique has also now demonstrated a national response to corruption, thanks in part to USG support. Although it is too early to report quantifiable results in this complex area, there is noteworthy progress that is increasingly drawing the acclaim of the public.

| GRM Expenditures on Health and Education | | | |
|---|-------------|-------------|-------------|
| (USD) | 1999 | 2000 | 2001 |
| Education | 71,800 | 126,300 | 195,600 |
| Health | 59,700 | 81,500 | 89,400 |

Source: IMF Statistical Annex – July 2002

The GRM’s recent and very ambitious plan for justice sector reform was long overdue; however, that donors now have a plan around which to organize support and the GRM has a plan to implement are major steps forward. The increased capacity and visibility of the Attorney General’s Office, as is its close cooperation with civil society watchdog organizations, are additional signs of progress toward a legal environment that can encourage and sustain sound development. Municipal elections scheduled for November 2003 offer an early opportunity for the expression of community empowerment that is essential for improved governance.

From 2004 through 2010, USAID will achieve five strategic objectives. Realizing these objectives will contribute significantly to Mozambique's national development goals. Under some activity planning scenarios, USAID may focus on achieving results in selected geographic areas and across strategic objectives. These results will also demonstrate to the country as a whole the benefits of continued commitment to the principles of market democracies.

II. OVERVIEW

A. Selection of Strategic Objectives

Following the identification of the strategic focus areas for the new CSP, USAID/Mozambique set about designing a strategy that builds on achievements and successes in the 1996-2003 CSP, while at the same time addresses Mozambique's most pressing development needs. The close links between the SOs and the GRM priorities outlined in the PARPA should prove vital in helping USAID keep pace with Mozambique's development trends through the 2004-2010 period.

The new SOs also fit well with a basic tenet of USAID's successful approach to delivering assistance in Mozambique: Partnerships and Mozambican leadership are a priority. USAID has strong Mozambican partners in each of the target sectors, with more emerging as the country develops. USAID/Mozambique will continue to rely on Mozambican partners for input, guidance, and support.

B. Relationship to Goals and Policies (Particularly the PARPA)

In addition to the promotion of U.S. interests in Mozambique, the CSP contributes directly to all USAID pillars and all six of the PARPA's poverty-reducing, economic growth objectives through the achievement of the following strategic objectives: Accelerated Rural Income Growth Sustained; Increased Labor-Intensive Exports; Increased Use of Maternal and Child Health Services; Transmission of HIV Reduced and Impact of the AIDS Epidemic Mitigated; and More Democratic Municipal Governance.

C. Rationale for Program Focus Areas

USAID will continue dialogue with GRM and non-governmental counterparts about where the Mission should focus interventions. Based on these discussions and a variety of sectoral analyses, each SO presentation in the CSP includes a section on geographic focus and selection criteria. In addition to making every effort to coordinate SO implementation and target common areas, USAID is targeting areas with high populations (i.e. high impact), demonstrated potential (whether economic, political, or in the case of HIV/AIDS, social), and where results can be measured. The Mission will also base selections on the potential for a target area to serve as a model for the rest of Mozambique.

USAID will implement activities at the community level to improve family and social welfare, strengthen local governance, increase incomes, and build economic assets. At the national level, USAID promotes HIV/AIDS prevention and care, trade, agriculture-led growth, and anti-corruption. The target population for all strategic areas is primarily, but not exclusively, rural.

D. Cross-cutting Themes and Linkages

Although there are many themes and issues that cut across the proposed SOs, USAID has identified four that will be addressed by each of the five SOs: gender equity, HIV/AIDS, human capacity development, and anti-corruption. Measurable progress on these issues within the strategic framework is essential to overall success.

Gender Equity

Mozambique's women are the backbone of the agriculture-based economy and the foundation for the social and cultural changes that must sustain the country's development. In spite of attempts to foster greater gender equity in Mozambique, the majority of women – rural women in particular – have yet to see significant positive impacts on their daily lives from Mozambique's overall growth. The GRM has demonstrated some commitment to the integration of women into the political and economic processes of the country. Two examples include the creation of gender working groups in both the agriculture and health sectors, and the focus on gender in the PARPA.

Given the multiple economic, social, and political disadvantages that affect Mozambican women, USAID will emphasize gender awareness and integrate approaches to address gender inequalities into all SO programs, for example through the dissemination of appropriate messages on gender equity delivered in vernacular, based on cultural realities, and relevant to women's lives. The impact of Mission-supported activities on women will be measured wherever feasible and incorporated into the performance monitoring plan through disaggregated data. Illustrative gender equity interventions include:

- Under SO6, women will continue to be beneficiaries of field level activities to improve family farming and introduce labor saving technologies. Microenterprise programs will target women's groups. Market information will be disseminated via channels that effectively reach women producers, distributors, and consumers. USAID will continue to advocate for policies under ProAgri that promote gender equity in the research and extension agenda.
- SO7 will promote self-regulation by businesses working together at the association level to ensure that labor standards are applied and policy research conducted in ways that support gender equality.
- SO8 will expand the concept of women's health to address needs at various stages of a woman's life cycle. Men and youth will be included in the target audiences for reproductive and maternal health campaigns. Community-based care and treatment options will be developed so as not to perpetuate the existing division of labor that places burdens disproportionately on women and girls.
- Under SO9, "community leaders" will include influential women in the communities as well as individuals who demonstrate an interest in contributing to behavior-change at the community level. Special emphasis on gender issues will be a central part of advocacy campaigns; these will focus substantially on the extent to which women are able to identify, formulate, and articulate their concerns. The disproportionate burden of community and home-based care falling on women and girls will also be addressed in SO9 activities.
- SO10 will address some of the reasons why women have less access to information about their rights and fewer opportunities to participate in decision-making. SO10 will ensure that community councils effectively incorporate gender issues into their development plans and promote women's participation in the formulation, implementation, and monitoring of the plans.

HIV/AIDS

Mozambique's success in expanding both economic growth and the benefits of growth is contingent on an effective response to the HIV/AIDS crisis. The HIV/AIDS team will serve as a Mission-wide resource during design and implementation of activities under all SOs. The SO9 team will aid the SO teams in exploring ways to mitigate the potential impact of

HIV/AIDS on their respective intermediate results. This may include the creation of activity components that specifically address a particular HIV/AIDS constraint. During implementation, the teams will also collaborate as needed in areas of common geographic focus.

SO-Level Human Capacity Building Initiative

The generally weak institutional and human capacity in Mozambique is recognized as a constraint under each of USAID's five SOs. Each SO will include activity elements designed to build the capacity needed to achieve results. SO6 will include capacity building that ranges from literacy and numeracy training for smallholder association members, to business development services for enterprises and industry. SO7 will strengthen capacity for trade and economic analysis. SO8 will continue to train and equip the health sector workforce that delivers services in order to gradually shrink the percentage of the population that is under served. SO9 will build the capacity in communities to lead behavior change efforts as well as to provide treatment and care to people infected and affected by HIV/AIDS. Finally, SO10 will work on both sides of the governance equation, strengthening citizens and citizen groups as well as municipal officials to demonstrate the advantages of participation and cooperation.

Corruption

There is a potential for corruption with the implementation of any governmental regulation or the provision of any public service. Results expected under all five SOs are, therefore, at potential risk. As with HIV/AIDS and human capacity building, each SO will develop activity-level interventions to prevent corruption. Systems to manage and control public funds will be introduced by SO6, SO8, and SO10. All SOs will work directly with private sector and NGO partners to expose corruption and advocate for adequate and timely government responses. SO10 will serve as a resource on corruption in much the same manner envisioned for SO9 on HIV/AIDS. SO teams will be able to call on SO10 resources and expertise in the design of anti-corruption efforts. This may include jointly funded activities.

E. Participatory Planning Process

USAID/Mozambique kicked off the strategic planning process with a Strategy Seminar in October 2001. The seminar involved presentations from six ministers, several other prominent Mozambicans, and implementation partners. The approximately 200 invitees took every opportunity to participate and contribute during three days of discussions. In the end, the Mission came away with a very clear view of where USAID's focus should be during the next strategy period and, through the hard work of the Mission's technical staff, translated the findings into the conceptual framework presented to USAID/Washington in February 2002.

After agreeing with USAID/W on parameters for the new CSP, the Mission designed and implemented a detailed analytical agenda. Once again, the Mission's technical staff organized and conducted the necessary analyses; canvassing beneficiaries and partners along the way; ultimately converting all of the findings into results frameworks that linked back to the parameters.

The Mission concluded the analytical phase with a Strategy Retreat October 29-31, 2002. The retreat offered the technical teams the opportunity to present the results of months of analytical work to a Mission-wide audience, and to receive constructive feedback as the Mission entered the drafting phase of the new CSP. The presentations demonstrated that the

strategic options agreed to during parameters setting in February 2002 held up to the rigors of in-depth analysis.

The refined and finalized strategic objectives and intermediate results provided an excellent launching point for drafting the complete CSP. Perhaps just as importantly, the broad knowledge and ownership of the strategic objectives established over the past year and during the retreat will undoubtedly help in both building linkages between the strategic objectives during activity design and implementation, and sustaining the active support of counterparts and beneficiaries.

F. Strategic Alliances

Global Development Alliances (GDAs) have proven to be effective mechanisms in the delivery of comprehensive packages of assistance in Mozambique. The Mission has two major alliances under the current strategy's private sector Special Program Objective, and is considering another under the new strategy's Rural Incomes SO. USAID's experience in Mozambique is proving that GDAs are more than just a good concept, while the Agency's worldwide experience shows that GDAs are applicable to all of USAID's development pillars. As such, GDAs will be considered for delivering project assistance by each of the Mission's SO teams during activity design.

G. Implementation Time Frame

USAID headquarters approved USAID/Mozambique's new CSP in June 2003. Following approval, the Mission signed new Strategic Objective Agreements with the GRM, obligating funds for the new strategy.

During Fiscal Year 2004, a select number of activities now under implementation will be carried forward as the core of USAID's transition to the new CSP, i.e. "transition activities." Simultaneously, Mission technical teams will begin designing new activities. Many of the new activities will begin implementation during the second half of FY 2004, assuming initial CSP funding is available for obligation by mid-year. Quantifiable results for transition activities will be reported in the 2004 Annual Report. New activity results will be reported in the 2005 Annual Report.

III. STRATEGIC OBJECTIVES

A. SO6 - Rapid Rural Income Growth Sustained in Target Areas

1. Development Needs, Constraints, Opportunities and USAID's Comparative Advantage¹

From its near total collapse, the rural economy in Mozambique experienced rapid growth after the re-establishment of peace in 1992 and the return of families to their farms and businesses. Political stability and a favorable macroeconomic environment prevailed and contributed to low inflation and stable exchange rates. This coincided with the adoption of policies moving Mozambique from a “planned” to a “market” economy. With the beginning of market-based economic reforms in the mid to late 1980's, the subsequent decade saw growth rates averaging in excess of 7% per year. Value added in agriculture has been similar to that of the overall economy.

Even with multiple years of economic growth and evidence of progress on several fronts, the extent of poverty in Mozambique is difficult to overstate. A majority of the country (78%) lives on less than \$2 a day, and well over a third live on less than \$1. The severity of the poverty is reflected in the malnutrition suffered by large numbers of children, with more than a quarter of those under five showing signs of stunting, wasting and low weight. More than half of the total population consumes less than the minimum necessary calories, a problem that is even more severe during “hungry” times of the year or during any of the floods or droughts of recent years. In short, despite several years of economic growth, Mozambique still has a long way to go to significantly reduce poverty and malnutrition.

Studies of agroclimatic conditions and comparative advantage indicate that Mozambique could very well attack these problems through income growth, in particular, through growth in the agricultural sector. Indeed, it would be impossible to address the problems of poverty and malnutrition without addressing agricultural development and growth given that more than 80% of the population is engaged in agriculture. The fact that this huge proportion of the population accounts for approximately one quarter of GDP demonstrates that poverty is predominantly, though not exclusively, rural in nature.

Small family farms using traditional farming methods produce the majority of agricultural output. Farming technology has changed very little over the past few decades, yet comparisons with neighboring countries show that there is substantial potential for improvement in yields and outputs, even within the bounds of traditional technologies.

Very few Mozambican farmers have regular access to new improved varieties of major crops. Few smallholder farmers are using improved quality seeds of adapted varieties. Use of commercial fertilizers is one of the lowest in the world and many farmers do not yet employ basic yield-enhancing cultural practices such as optimum spacing and plant density, crop rotation, or conservation tillage. Few farmers are using animal traction, labor-enhancing mechanical devices, small irrigation pumps, or more intensive land-using technologies of relay cropping or multiple-cropping with agro-forestry.

¹ The analytical studies relevant to the SO include: Smallholder Growth Opportunities; Agribusiness Education; Priorities for Rural Infrastructure; Environmental Threats and Opportunities; Agribusiness Development Strategy; Environmental Risk Management.

Constraints

A number of constraints must be overcome if Mozambique is to solve the primary causes of low productivity and low incomes.

Rural investors, whether domestic or foreign, face some of the highest transaction costs in the southern Africa region. Transport and port infrastructure are inadequate and deteriorating. The reach of public utilities is extremely limited. These factors feed into extremely high cost structures for rural enterprises.

Although labor is plentiful in an abstract sense, the low skill base weakens the competitiveness of Mozambique's rural enterprises in national and regional markets. The majority of adults in rural areas have been bypassed by the education system. Basic organizational, literacy and numeracy skills are rare and illusive tools for the majority of rural dwellers.

Mozambican smallholder farmers face a range of natural and man-made hazards that pose a threat to productivity and income growth. These hazards include declining soil fertility in the absence of fertilizer application, and diseases such as malaria, cholera, HIV/AIDS, and other communicable diseases. Farmers must also contend with the recurring threats to crop and livestock productivity created by crop and animal diseases, insect infestations, weeds, and storage pests. Additionally smallholder farmers are vulnerable to external shocks such as global commodity price volatility and the continuing contraction of the migrant labor opportunities in South Africa - both having potential to significantly reduce rural incomes.

In terms of land pressure, this is still not extreme in the central and northern regions of the country even though ready availability of land for poor smallholders is by no means guaranteed. Land availability in the relatively less well-endowed southern regions is more problematic, with consequently greater pressure on existing resources.

A dearth of trained personnel restricts public and private sector capacity. This is particularly true in the area of agricultural research, but is also a problem in other areas such as extension and marketing.

GRM Strategy

Agriculture and rural development are priorities in the strategy for poverty reduction and broad-based growth as outlined in the PARPA. The PARPA has a specific objective to increase productivity per unit of land, and identifies the agricultural sector as an important source of the country's growth and for reducing the incidence of absolute poverty. Ministry of Agriculture and Rural Development (MADER), in line with the objectives of the PARPA, focuses on expanding production through the delivery of agricultural support services and the development of agricultural and rural development policies including those focusing on food security.

ProAgri, the agriculture public investment program, is a rare example of a well-functioning sectoral program. Started in 1999, ProAgri seeks to bring together over 70 donor-funded projects into a restructured MADER that efficiently and effectively delivers agricultural services to Mozambican farmers. Before ProAgri, most agricultural services were delivered through discrete donor funded projects and the ministry's role was somewhat marginal. MADER is strengthening its ability to coordinate the delivery of services either by direct

provision of services in primary areas or outsourcing to the private sector or non-governmental organization (NGO) partners.

To effect this transformation, MADER has virtually built from scratch its financial management, procurement, training, planning and budgeting systems. After several years of progressive building, the impact on ministry activities is starting to be felt. Though the early design and implementation displayed significant donor direction, the program is now fully led by the government.

ProAgri Phase I enters its final year in 2003. A major evaluation is underway and will be followed by the design of Phase II, which is expected to begin in 2004, coinciding with USAID's new CSP. The challenge under Phase II will be to translate the gains of reform at the central and provincial levels into field level results. As of yet, the potential for on-farm gains and the marketing of agricultural output to demand centers in the urban areas and abroad remains underexploited. All stakeholders see a renewed emphasis on effective research and extension services as the necessary condition for field-level impact.

In tandem with strengthening an appropriate role for the public sector in agriculture and rural development, is development of a more constructive framework for private sector involvement in rural enterprises. The private sector is gradually being enlisted to provide goods and services under the ProAgri investment program. More importantly, progress in engaging rural entrepreneurs, individual and associated farmers in market activities is resulting in increased demand for goods and services in rural areas.

USAID's Comparative Advantage

USAID has been a key donor in the agriculture sector. USAID has worked with various rural enterprises such as rural farmers associations, agro-processors and merchants to increase their profitability. This concentration of resources to make market-driven enterprises succeed has been replicated and expanded by other donors². In the rural enterprise sector, USAID-funded activities in support of for-profit farmer enterprises have provided the foundation for commodity market development and the equitable distribution of profits. USAID-funded business development services have been extended to some key growth industries such as cashew and paprika with impressive results.

In addition to being the lead donor in support of the private sector, USAID/Mozambique has become a lead donor in strengthening the public sector in fulfilling its appropriate role in the agricultural sector. Positive results from the previous strategy period show that extension and adaptive research contribute to increased production and income growth in rural Mozambique when coupled with marketing and infrastructure initiatives. This SO will build upon the demonstrated success and lessons learned in USAID's Increased Income SO under the previous strategy. SO6 is in a unique position to expand activities with demonstrated high pay-off by shifting into second-generation investments.

Over the last seven years USAID has fostered a strong relationship with other donors and MADER through its role in the design and implementation of the ProAgri SWAp. USAID has been at the center of ProAgri since implementation of the sector wide program. The

² IFAD, DFID, and the EU are among the donors who have expanded upon USAID-led initiatives in rural enterprise development.

Mission was a key member in the design and the initial funding of the program. For the last two years, USAID has chaired what was first the Donor Working Group for ProAgri and has now been replaced by the ProAgri Working Group, combining the donor and government groups into a single board. USAID is regularly asked to advise other donors on joining ProAgri as well as on developing similar programs in other sectors.

An indirect and positive externality of USAID's program assistance investment in the public sector's capacity has been improved contracting opportunities for the private sector, improved agricultural policies, improved agricultural statistics (quality and frequency) and consensus-building among stakeholders. The Mission will continue this two-pronged approach of support, with a portion of its budget used to assist MADER in implementing its structural and functional transformation.

2. Purpose, Definition and Development Hypothesis

Economic growth is the key to reducing widespread poverty in Mozambique and must originate **in increased production and marketing** in the agricultural sector to most directly benefit the poor. This SO is premised on the explicit link between the principal elements of Mozambique's agricultural sector growth – production and marketing. Rapid rural income growth will be difficult to maintain, but this SO will achieve sustained **rapid increases in rural income in target areas** through increased sales of agriculture production, expanded rural enterprises, and increased marketing due to improved transport infrastructure.

Rapid growth is defined as a growth rate averaging 10% per year. This compares with a growth target set in the PARPA of 8% nationwide. Sustained growth is characterized as maintaining an average 10% rural income growth over the period of the strategy. Given the scope of the challenge of Mozambique's needs, SO6 investments will be clustered in geographical target areas.

The trend toward more market integration on the part of smallholders is one which is fundamental both to alleviation of poverty and to addressing the problem of malnutrition. Increased sales to the market are the basis for increased incomes needed to promote food security while increased production of cash crops, among which are important staple grains such as maize, improve the overall balance of payments of Mozambique as well as the national food balance. Sustained increases in both food production and agricultural GDP will be key to meeting the needs of increased populations in the future. Increasingly integrating these producers with the market provides a way to sustain the impressive rates of income growth that have happened over the past few years.

Reason exists to believe that domestic producers do in fact have a comparative advantage in producing for the domestic urban demand centers, particularly in light of the road improvement programs currently under way. It is nevertheless likely (and is something to be encouraged) that the most favorable grain producing areas in the center and north will continue to export to neighboring countries even as north-south trade within Mozambique continues to grow.

Geographic Focus

The proposed program will focus on the provinces and districts most successful in attracting private sector activities. By clustering investments in target areas, USAID's efforts will demonstrate the necessary conditions for growth, create growth poles for Mozambique, and develop models that can be adapted in other areas.

The following criteria must exist in order to accommodate rapid rural growth in the near term.

Agricultural production. A production base from which to increase yields (with new technologies) and to supply agricultural trading and processing enterprises must exist. There must be potential for significant increases in future production.

Rural enterprises and investors. An existing rural enterprise base from which to grow must be present. Building a commercial sector where none exists is a long-term endeavor.

Market infrastructure (existing, under rehabilitation, planned). Existence of transportation infrastructure is an important determinant of growth in rural Mozambique. Without market access, there will be no incentives for producing surpluses nor a way to move inputs and outputs between farms and markets.

Commitment by local government (provincial, district and municipal). Ownership by local government is necessary in order to prioritize public sector investments, coordinate stakeholders and cut through the maze of administrative barriers.

Rural poor. Population and poverty maps will be used to identify areas with relatively high numbers of rural poor.

The Mission's focus on clustering interventions both in terms of regional concentration on the highest areas of private sector activity and in terms of focusing on all parts of the supply chain for a given commodity presents an opportunity to maximize the returns for the overall portfolio of projects. The focus of activities will be on capacity building and skills transfer that may or may not be commodity focused. Should market research conducted during the activity design phase warrant, specific commodity focused support could result. Agricultural and business skills transfer will impart to beneficiaries a greater degree of market sophistication and engagement that will enhance their opportunities to sustain perpetual increases in income.

3. Intermediate Results and Illustrative Activities

USAID will foster a commercially oriented smallholder sector that is promoted by market-friendly policies, and supported with market-oriented agricultural and financial services. The combination of policies and services will enable farmers to connect with the commercial agriculture sector, and in turn create access for the commercial sector to domestic and international markets.

Selection Criteria Result

The five proposed selection criteria were applied to Mozambique's ten provinces, three principal transport corridors and the Zambezi Valley. Scoring was based on a scale of 1(lowest) to 3(highest) with equal weighting of the criteria. Nacala Corridor, stretching from Nacala Port to Nampula and on to Malawi, scored the highest, followed by the Beira Corridor, which runs from Beira Port to Chimoio, and on to Zimbabwe. The Rural Incomes SO will focus on the Nacala and Beira Corridors immediately, with possible expansion as conditions and budget resources warrant.

Many sectoral and sub-sectoral policy issues warrant attention if rapid rural income growth is to be sustained. Policy issues in this SO refer not just to overall policy formulation, but also to policy implementation, monitoring, and evaluation. This SO is particularly concerned with agricultural sector policies related to production and sale of smallholder food and cash crops. These include implementation of land policies, continued support for liberalization of markets, streamlining of policies for registering producer associations and rural enterprises, and policies to support the development and maintenance of marketing linkages. In this regard, USAID's efforts to reform Mozambique's agricultural and rural development policy environment will be an overarching theme of the SO, contributing to each IR as an essential element of success.

IR1 Increased smallholder sales of agricultural production

IR1 will encourage and facilitate a more rapid transition for Mozambican smallholder farmers from predominantly subsistence-oriented production to more market-oriented production through substantial increases in agricultural production. This market-oriented outlook will increase productivity, meet family food needs, and generate surplus outputs for sale. This translates into cash income for other family needs, e.g. health services, education, improved housing, investments, and savings.

The linkage between agricultural extension and research services in Mozambique is weak. In addition, the foundation for agricultural services delivery and market analyses has been weak. USAID will strengthen the linkage between agricultural research and extension services and market (input markets, commodity markets, agro-processors).

This IR is intentionally stated as increasing sales of production rather than just increasing productivity because the market is the driving force behind the graduation of farmers from subsistence to market production.

Activities under IR1 will increase the productivity of the smallholder sector in Mozambique: more production per unit of labor, more production per unit of land, more value, and more quality produced per unit. Not only are production levels of agricultural commodities low in Mozambique, but the country also has productivity levels that are far below levels common in the region. By improving agricultural support services, strengthening environmental risk management, and by addressing a full range of policy issues, USAID will ensure that Mozambican farmers will be able to compete in domestic and export markets.

Increased agricultural support services: IR1 will increase the development and dissemination of technological change to smallholders. Increased access to new technologies and the application of these technologies to land under cultivation or fallow will significantly raise productivity. Technology improvements will come through improved, demand-driven agriculture research closely coordinated with more demand-responsive and results-oriented extension services.

The gains to be had from basic efforts at crop improvement present the single largest untapped investment opportunity facing the country today. Productivity levels remain low because smallholders make limited use of inputs that could boost yields and improve quality. This is due in part to limited availability of inputs, but also due to limited incentives to adopt new technologies. Agricultural support services delivered under this IR will respond to farmer and market demands. A closer alignment of extension with adaptive research services will provide a more responsive mechanism to continually identify and resolve constraints to increased productivity at the farm and market level through adaptation and adoption of innovative technologies. Farmer field school extension methodology will engage the farmers in solving a range of productivity and farm management problems. Farmers themselves will use demonstration sites and information provided by the research and extension services to evaluate and test newly available technologies and inputs. Once convinced of the value of a new technology through their own evaluation, farmers will create market demand for access to these successful technologies recommended by the public and private sectors. Farmers who adopt technologies through their own initiatives will increase production levels and farm gate sales.

Of the rural enterprises supported under IR 2, farmer associations will serve as the most obvious entry points for improved technologies and inputs on the production side (IR1). Associations can make extension efforts more efficient through their ability to reach more farmers and can also form the nucleus of credit interventions used to purchase inputs.

Improved environmental risk management: Activity elements that address and improve the management of environmental risks will be featured in IR1. Weather-related events exacerbate the man-made hazards to Mozambique's natural resource base and make many agricultural technologies unsuitable and unsustainable for smallholder farmers. The modern and commercial-oriented technologies that are promoted as part of this SO should provide smallholder farmers with the means to manage these environmental risks in ways that safeguard their investments and preserve their productive resources. These approaches include the introduction of drought resistant crops, technologies appropriate to families suffering the productivity losses caused by HIV/AIDS, addressing crop and livestock disease problems and improved natural resource management. Risk proofing the development strategy also implies improving the capacity to conduct vulnerability assessments for populations at risk, assessing farm level impacts from HIV/AIDS, and strengthening disaster warning and response capabilities.

Illustrative Activities

- Support to improve extension and research to Mozambican smallholders through the delivery of field-based agricultural extension services by public, private and PVO service providers;
- Support to improving the policy and regulatory environment thereby improving the environment in which the private sector can lead growth in agriculture;
- Capacity building to analyze and implement progressive agricultural growth policies, including assessing the gender dimension of policies and activities;
- Training of smallholders in the application of improved agricultural technologies and the adoption of drought resistant crops. This includes adapting the methodologies to address the needs of women farmers; and
- Support of initiatives that secure lucrative markets, including contract farming.

ProAgri

USAID/Mozambique has opted for a two-pronged approach in the agricultural sector, providing support to both the private and public sectors. The legacy of central planning is evident in the structure and functioning of the Ministry of Agriculture at the central, provincial and district levels. USAID/Mozambique devotes a portion of its resources to strengthen the Ministry's restructuring exercise thereby contributing to an environment that is more conducive to private sector-led growth.

Willingness to make the needed investments and changes in the public sector are evidenced by the adoption and implementation of the ProAgri program, the public sector investment program designed to strengthen and restructure the government apparatus related to the agriculture sector. Key among the accomplishments of ProAgri is the marked improvement of capacity at the central ministry level together with a decentralization of funding that has resulted in 60% of ministry resources allocated to the provincial level in the past year.

USAID has been a leader and a principal donor to ProAgri from the beginning with both project assistance and NPA disbursements. ProAgri has introduced an open and transparent process of planning, budgeting and policy dialogue with MADER. Through ProAgri, important policy changes have been achieved, public services are improving and capacity has been strengthened at all levels of the ministry. ProAgri has also contributed to decentralization of funds and authority in the ministry and better stakeholder consultation in the agricultural sector.

IR2 Rural enterprises expanded

Increased agricultural productivity is a pre-requisite for farm-level accumulation that can ultimately reduce poverty, but that alone cannot reduce poverty. Rural income growth can only take place in an environment conducive to marketing and one that rewards productivity gains.

IR2 will focus on rural trade, rural industry, and rural finance. In trade, IR2 builds on USAID's success of bulking agricultural commodities through for-profit farmer-owned enterprises. In industry, the IR fosters the adoption of appropriate processing technologies with forward and backward linkages along the value chain. And in finance, IR2 will increase the availability of financial services in rural areas.

Activities supported under this IR will emphasize the transfer of business skills that can contribute to private sector growth. Commodity-specific interventions may result if they afford an opportunity for transferring particularly relevant business skills. The processes by which activities will be identified and designed include a review of USAID's comparative advantage, detailed market analyses, and business strategy development.

IR2 will produce incentives such as higher prices, easier marketing, and more sales opportunities that will motivate rural enterprises, including agro processors and farmers, to adopt appropriate and improved technologies. Much of this will be accomplished through support to profitable rural enterprises including farmer associations.

Business registration procedures and bureaucratic red tape thwart initiatives to increase income. The activities under IR2 are designed to assist entrepreneurs to realize productivity gains in spite of bureaucratic obstacles, while at the same time tackling policy constraints through ProAgri and links to the Labor-Intensive Exports SO.

Rural trade: Rural markets have undergone significant change since GRM's transition from a centrally planned economy to a market economy. ICM, the National Cereals Institute, no longer serves as the buyer of last resort, and with the exception of some agreements in the cotton concession areas, there are no statutory restrictions to the terms and timing of agricultural sales. The convergence of prices between key markets indicates there has been a steady strengthening of trading networks in the country with the movement of surplus commodities to deficit areas.

Nevertheless, trading networks are still quite weak. There are few medium- to large-scale traders; traders fail to penetrate distant rural areas; and investment in business infrastructure remains low. During the past strategic period, USAID provided business development services to rural enterprises, including smallholder farmer associations. This support strengthened the market skills of farmers and traders, leading to increased levels of trade and higher incomes for participating farmers. Some of these farmer associations have evolved enough to qualify for commercial loans.

Investments will focus on the formation of farmer associations, strengthening the governance structure of these associations and their enterprises, and assisting enterprises and associations to engage in formal market transactions with buyers, agricultural input and service providers, and financial institutions.

Rural industry: Rural industry has begun to grow over the last decade, but as with rural trade, the potential for industry greatly outstrips the performance. A major constraint is that few Mozambicans have the experience, training, or capital to begin such enterprises.

Increases in processing and value added activities in rural areas are key elements of the plan to promote smallholder sales to the market. This IR will promote the introduction of new processing technologies and support emerging agro-processors by clustering activities to improve productivity, promote trade, provide financial services, and address red tape.

Revitalizing Cashew Processing

The cashew industry, historically capital intensive, has been dormant in Mozambique since the export of raw cashew was liberalized. Working with a Mozambican investor, USAID provided assistance to the design and adoption of a new technology. Compared to prevailing Mozambican processing technologies, the simple but effective manual cashew processing technology is significantly cheaper, provides superior quality output and offers high economic returns. All of this emerging enterprise's production was sold at premium prices in the European market in 2002. The company has created over 80 full time jobs and paid out \$30,000 to rural farmers for raw cashew nuts.

Over the next three years the business will expand, investing in larger-scale processing plants and a facility to extract valuable cashew nut shell liquid from discarded shells. The planned expansion program will generate 900 jobs, and pay out over \$2.5 million annually to the rural producers by the end of 2005. The commercial success of this venture has had a significant demonstration effect and resulted in at least six new similar start-up ventures.

Rural Finance: The rural enterprise sector is stuck in a "Catch 22" with respect to financial services. Commercial financial institutions do not venture into rural areas because of high costs, high risks, and relatively low pay-off. But without finance, rural enterprises are unable

to make significant strides in productivity that would reduce their risks and make them more profitable.

IR2 will increase access to financial services in rural areas by promoting financial sector innovation initiated under the previous CSP. Experience shows that a broad range of financial services is needed. At early stages in their development, borrowers need assistance with basic concepts of business, organization and mutual responsibility. At later stages, borrowers need more specialized services for expanding operations and reinvesting profits. USAID will develop alliances with banks, micro finance institutions (MFIs), established commercial enterprises (including *cantineiros* where they exist), NGOs and government in developing and delivering financial products. The DA resources to fund the innovative financial services under this IR will be complemented by GRM local currency resources generated by prior USG-funded activities, including USAID's post-flood loan program and Title I and Title III programs.

Illustrative Activities

- Support to rural enterprises including farmers' association development (basic organization, basic business skills, literacy, numeracy, support to farmer-owned businesses including warehouse capacity, commodity grading and quality differential)
- Business development services including business plan development and adoption of appropriate technologies, new market development (high valued crop and niche market identification; and certification activities such as for organic products, fair trade, green trade, and compliance with international standards for quality and safety)
- Support services to the financial sector (private banks, insurance companies, MFIs, leasing companies, input suppliers) to increase the availability of financial products and/or reduce the cost of rural outreach
- Pilot activities in support of group lending, savings mobilization, technical assistance to borrowers, supplier's/buyer's credit, equipment leasing, overdraft facilities, pre- and post-shipment insurance and other innovative financial or insurance instruments

IR3 Transport infrastructure improved

In order to realize the benefits of market orientation, producers and consumers require reliable physical access to markets. IR3 will strengthen strategic market linkages enabling farm families to exploit market opportunities to their advantage. Rehabilitation and construction of specific roads, as well as building local firm capacity to maintain roads, will reduce transaction costs and the price volatility associated with unreliable access. Since these costs are disproportionately borne by smallholder producers and consumers, reliability of access will make for more broad-based participation in markets.

The development of efficient and reliable rural transport infrastructure (roads and bridges) is fundamental to rapid rural income growth, poverty reduction and attracting rural investment. Improved road networks will allow expanded and more reliable access to markets, reduce transaction costs, reduce operating costs and improve mobility and communication for people living in rural areas and dependent on agriculture.

If small farmers are to engage in the market economy then they must have physical access to market and roads that provide this. The reactivation of production for cash crops in many areas is a direct consequence of the reestablishment of road networks. Indeed, many farm

level interventions can have only a limited effect if farmers remain physically isolated from the larger economy.

In terms of the profit margin of smallholders producing for markets, roads have the capacity to both lower input costs and raise the farmgate prices obtainable for output. At the same time, roads increase availability and affordability of consumer items, with a consequent positive effect on incentives to produce for the market.

Road maintenance entails more than providing funds from central coffers. Alternative models of maintenance financing need to be further explored and the institutional capacity for road maintenance in Mozambique strengthened. This IR addresses maintenance issue at four levels:

- Engaging in policy dialogue with sector stakeholders (ANE Road Fund, Ministry of Plan and Finance, and donors) stressing the importance of making timely and adequate budgetary resources available;
- Testing the use of long-term management concessions (toll roads) with private entities along strategic road segments;
- Strengthening of local firm capacity to perform periodic cost-effective maintenance;
- Identifying technologies that increase the life of a road and/or reduce maintenance costs per kilometer.

IR3 will concentrate efforts in three areas: (a) selected market links rehabilitated; (b) capacity for road maintenance improved; and (c) capacity of local firms improved.

Illustrative Activities

- Test pilots for private sector concessions for road maintenance.
- Build the capacity for local road firms using labor intensive road maintenance on secondary and tertiary roads in target areas (pilots with local contractors, agribusiness partners, and/or PVOs).
- Rehabilitate key primary and secondary roads.

Contextual Assumptions

- GRM and a critical number of donors will remain committed to the SWAp in the agricultural sector.
- A significant portion of USG food assistance will continue to be available in monetized form throughout the life of the strategy.
- Timely and adequate resource available for road maintenance will be made available by the GRM.

4. Illustrative Indicators

SO6: Rapid Rural Income Growth Sustained in Target Areas

| Indicators | Baseline | Target 2010 |
|--|------------|-------------|
| Net per capita average real income (2002 PVO baseline figure for Zambezia Province) (target based on an annual increase of 10%) | \$67.00 | \$116.10 |
| Increased productivity of selected crops (2001 FAO national baseline figure for maize) (target based on an annual increase of 10%) | .897 mt/ha | 1.748 mt/ha |
| Adoption of modern agricultural technology (2002 PVO baseline figure for Zambezia Province) (target based on 10% adoption rate per year) | 2.0% | 72.0% |

IR1 Increased smallholder sales of agricultural production

| Indicators |
|---|
| Measures of improved policies (in land, biotechnology, marketing and trade, forestry) measures of improved agricultural services (higher funding for research and extension, establishment of zonal research centers) |
| Measures of improved management of environmental risk (vulnerability assessments, strengthened soil and water management practices) |

IR2 Rural enterprises expanded

| Indicators |
|---|
| Number of associations and rural industries started |
| Number of association members |
| Revenue of USAID assisted associations and industries |
| Number of financial institutions/outlets operating in rural areas |
| Number of loans/savings accounts and volume of credit/savings |

IR3 Transport infrastructure improved

| Indicators |
|--|
| Number of private firms participating in contracts |
| Number of awards to private firms |
| Measurement of traffic volume |

5. Linkages

Links to IEHA

The Rural Incomes SO is directly linked to the Presidential Initiative to End Hunger in Africa (IEHA). The Administration launched IEHA in late 2002 with the primary goal of rapidly and sustainably increasing agricultural growth and rural incomes in sub-Saharan Africa. Through the agriculture sector, IEHA will reduce hunger over the near to medium term, focusing on growth opportunities in the smallholder sector. This goal and focus are entirely consistent with the Rural Incomes SO where all IRs and illustrative activities contribute to IEHA objectives under the six IEHA themes.

Links to RCSA

A number of Rural Incomes activities will be conducted in coordination and in some cases jointly with USAID's Regional Center for Southern Africa (RCSA). These will include: trade policy and harmonization of regional sanitary and phytosanitary regulations; biotechnology policy and applications; regional food security; promotion of regional

agricultural input supply and regional natural resource management (NRM) and community-based natural resource management (CBNRM) activities.

Conformance with Donor and GRM Programs

For the past four years in Mozambique, a critical number of donors have developed a coordinated approach to assisting the private sector and government in agricultural development. The largest donors, including USAID, the EU, the World Bank, and seven others have pooled their resources in support of the government's agricultural sector investment plan, ProAgri. ProAgri serves as an umbrella project through which donors channel resources in a coordinated manner. This approach assures complementarities between donor efforts in support of a mutually agreed development plan.

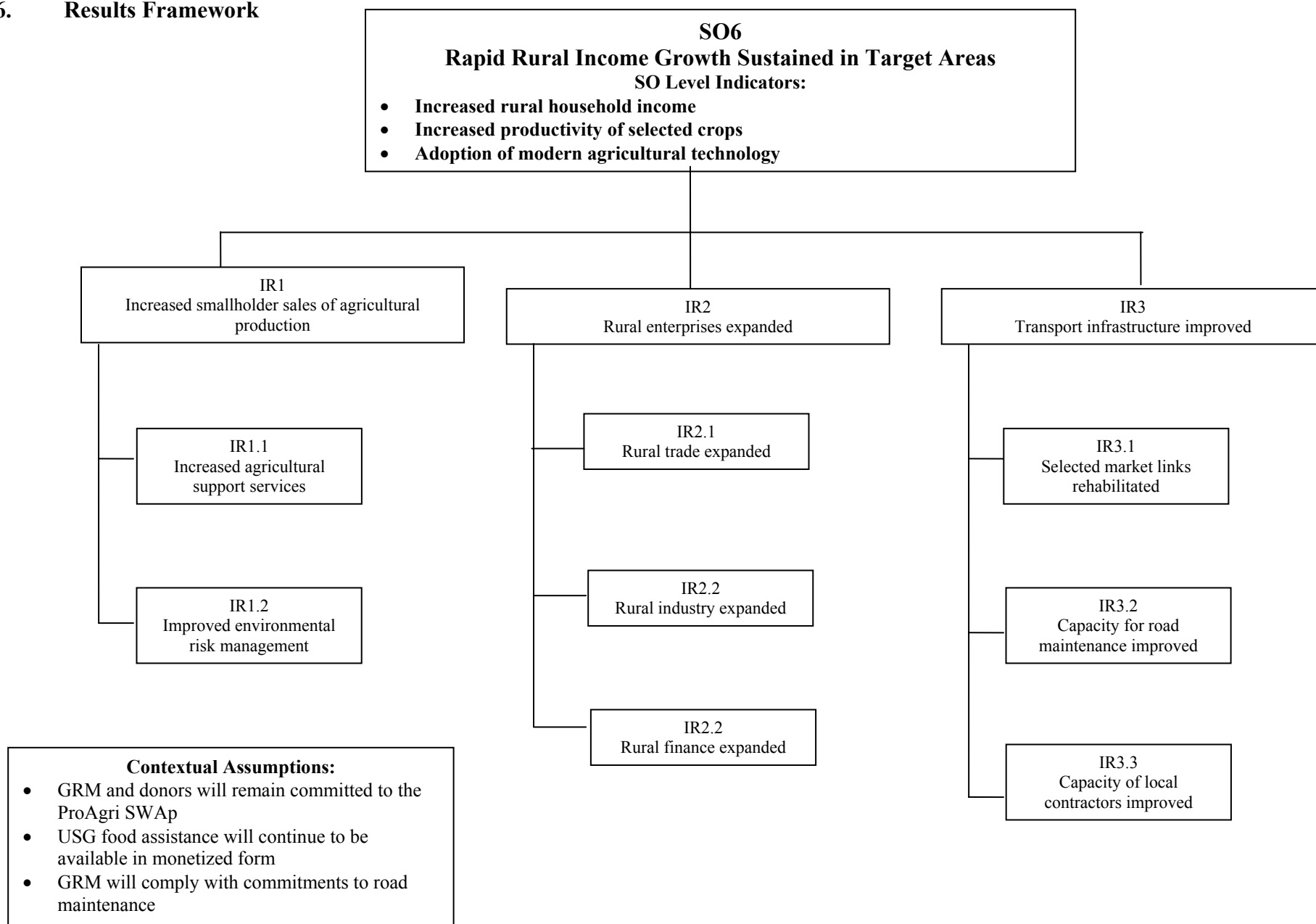
ProAgri has to date focused primarily on restructuring of central ministry functions and is now entering Phase II, which will bring new emphasis to field level interventions. As mentioned above, Phase II should succeed in increasing agricultural productivity through investment in research and extension, and assisting farmers in increasing sales to the market.

Other Donors

USAID also coordinates with donors who contribute to agriculture and or rural development but have not adhered to the common pooling of funds under ProAgri. These include Japan, Germany, France, Spain, and Portugal.

Any listing of donors would be incomplete without acknowledging the many NGOs, both international and national, that are active in rural areas of Mozambique. Indeed, much of the work in agricultural extension to date has been carried out by NGOs, many of them in partnership with USAID and other donors.

6. Results Framework



B. SO7 - Labor-Intensive Exports Increased

1. Development Needs, Constraints, Opportunities, and USAID's Comparative Advantage

From independence to the mid-1980s, Mozambique adopted a command economy modeled on (and accompanied by considerable support from) the Soviet Bloc. Stung by the rejection in 1983 of its bid for Comecon membership, the Machel government turned to the West. By the late 1980's, the GRM had begun its transition to a market economy, gradually dismantling many of its economically disastrous policies of the Marxist-Leninist period. Achievements included the introduction of discipline into fiscal and monetary policy, the privatization of hundreds of small and medium firms, and the removal of price and exchange rate controls. When the civil war ended in late 1992, the economy had the flexibility to respond with a growth surge that has lasted nearly a decade, and has been accompanied by further reforms, notably the privatization of the banking sector in the mid-1990s.

A considerable body of analytic work - beginning with the World Bank's Foreign Investment Advisory Service's (FIAS's) 1996 "Red Tape Analysis" but most rigorously developed in the World Bank's 2001 "Country Economic Memorandum: Growth Prospects and Reform Agenda" - has concluded that high rates of growth will not be sustained unless structural (or "micro") reforms are made. These reforms will continue the evolution of Mozambique's private sector enabling environment and foster the emergence of labor-intensive value-adding enterprises – the key to broad-based growth in Mozambique. Without ongoing reform, however, Mozambican businesses will find it difficult to compete in export markets, to the detriment of growth, employment, and poverty reduction.

As a result of this analysis, the Government (in the PARPA), USAID, and other donors are pursuing a two-pronged approach to stimulate economic growth and reduce poverty: (1) increase productivity in the traditional agricultural sector and facilitate its transformation; and (2) establish an environment where labor-intensive manufacturing exports can thrive. The first prong reduces absolute poverty in the short- to medium-term. The second sustains the high levels of growth, and creates employment alternatives to subsistence agriculture over the medium- to long-term.

The PARPA highlights the importance of establishing the basic conditions that will accelerate the creation of non-agricultural employment by encouraging labor-intensive industry and small and medium enterprise. USAID's program is consistent with and supportive of the GRM's fundamental commitment to reducing poverty by achieving high rates of overall growth, led by exports of agricultural products and labor-intensive manufactures.

Constraints

Overcoming the critical constraints to generating an export response to liberalization has been identified as the "second-level reform agenda" (the first was the achievement of macroeconomic stability in the early 1990s). The most important constraints to be overcome are:

- Customs delays and costs (not tariff levels *per se*, which are low by regional standards, but warehousing charges, VAT, excise taxes and other fees);
- Rigidities in the domestic labor market, low technical and managerial skill levels, and restrictions on the employment of expatriates;

- High costs and poor quality of public infrastructure, particularly transport (roads, rail, ports), telecommunications, and electricity;
- Secure access to land;
- Tax law and administration;
- Generalized petty corruption; and
- High transaction costs, particularly in dealings with government and in the financial sector, including red tape, inspections, fines, and very limited access to financial services in general and credit in particular.

The last five years have seen the build-up of a strong private sector lobby for reform, supported by a significant group within government. In parallel, the analytical work mentioned earlier has built the foundation of a reform agenda that has broad support in many areas. It should be noted, however, that there is still influential dissent in several areas – for example, over the need for land privatization and the effectiveness of protection as a tool of industrial policy. Under this SO, USAID will continue to foster open debate on such issues. This approach has proven effective under the current strategy in gradually shifting public opinion in favor of a market-based economy. In trade, the government has endorsed the conclusions of the USAID-funded “Trade Mainstreaming Report” and is preparing an action plan to ensure the recommendations are integrated into the poverty reduction strategy.

GRM Strategy

Over the last few years, the GRM has promoted exports through the following:

- Negotiation and implementation of the SADC free trade area (FTA) (1998 to present);
- Preparation of a Trade Mainstreaming report, presented to the public in November 2002, and reviewed by the Council of Economic Ministers in December 2002;
- Building a strong investment promotion agency;
- Significant steps in customs reform include, most recently, the introduction of transaction value and a reduction in the high tariff band from 30% to 25%, both implemented in January 2003;
- Implementation of policies such as tax incentives in an effort to achieve sectoral and, especially, geographic “balance” in investment and growth. This proved too complex, however, and multiple investment regimes were simplified in January 2003;
- Export promotion zones, including single factory EPZs especially for AGOA; and
- Continued steps to bring down the costs imposed on business by red tape and bureaucracy.

Partly as a result of these reforms, labor-intensive exports are showing an upward trend, reversing two decades of decline. Examples include garments - two factories export directly to the US under AGOA, cashews - a processing plant is successfully exporting nuts, and several more will open in 2003 and tourism - investment has increased gradually over the last five years. While modest in scope, the fact that they are succeeding is proof that business environment costs are no longer so high as to prevent any business from competing in world markets. There is every reason to believe that further improvements to the environment will induce additional export response.

USAID’s Comparative Advantage

In trade, USAID has provided consistent support to the development and implementation of policy in Mozambique over the last five years, initially to allow Mozambique to participate fully in the SADC FTA negotiations, later to expand its horizons to WTO, and most recently

to define the role of trade in Mozambique's overall development policy. USAID confirmed its lead donor status with the 2002 Trade Mainstreaming Study, which integrates trade policy with the Government's overarching objective of reducing absolute poverty. USAID also has several years experience working through local business groups to lobby for the micro reforms needed to make Mozambique competitive. At the firm and sector levels, USAID/Mozambique can draw on substantial prior achievements in rural enterprise development as well as USAID's experience elsewhere with small and medium enterprises (SME) and export promotion programs.

In summary, USAID/Mozambique enters the new strategy as the pre-eminent donor on issues related to (a) trade, (b) structural reform related to private sector-led growth; and (c) the use of partnerships with local business groups for achieving effective reform. In addition, USAID has earned considerable credibility in the telecom sector because of our successful Leland Program and our support to policy reform through the Africa Trade and Investment Program (ATRIP). Both these areas are high priorities for the current government: the Prime Minister actively leads the ICT policy group, and the Minister of Transport and Communications has made telecommunications reform (privatization, competition, and regulation) his major priority leading up to the 2004 national elections.

2. Purpose, Definition and Development Hypothesis

USAID/Mozambique's SO7 is "Labor-intensive exports increased." "Labor-intensive" refers to direct as well as indirect employment generated by increased exports in a particular sector. "Exports" includes both goods and services.

For developing countries in general, a strong positive correlation has been amply demonstrated between (a) trade and economic growth; (b) growth and a reduction in poverty, and (c) trade and a reduction in poverty. SO7 takes these propositions as its underlying general development hypotheses.

There is no doubt that these global findings apply in full force to Mozambique. Mozambique has, over the last ten years, achieved one of the highest average growth rates in the world. This success was initially a productive response to the reopening of the countryside when the war ended; but since 1997, when a series of tariff and customs reforms began, the high growth rate has been inextricably linked to the gradual opening of the economy to trade, as well as the aggressive pursuit of "mega-project" investments. Mega-projects have pulled in more than \$3 billion – the approximate value of one year's GDP -- in investment over the last five years.

However, the mega-projects (an aluminum smelter at nearly \$2 billion, a natural gas pipeline at \$600 million, and two titanium mines at perhaps \$300 million each) that have driven recent growth have very limited employment effects and linkages to the rest of the economy. For example, the \$2 billion Mozal smelter, now in its second phase, will permanently employ just over 1,000 workers. The mega-projects have also benefited from incentive packages tailored to their individual company. The challenge now is to build on big investment success – which has sent a clear message that Mozambique is seeking foreign investment – by creating an environment where investors, foreign and domestic, can profitably invest without having to change or bend the rules that apply generally. If Mozambique can establish a system that attracts small and medium investors, then the trailblazing of the big projects will pay off handsomely.

These factors lead to SO7's central development hypothesis that increasing labor-intensive exports will increase economic growth and reduce poverty in Mozambique as highlighted below:

- By focusing particularly on labor-intensive exports, USAID will maximize the likelihood of direct positive returns to the poor through employment, in addition to the positive overall growth effect that can be anticipated from expanding exports; and
- A focus on labor-intensive exports, particularly if combined with a concerted effort to improve the general environment for business, will have significant impact on growth throughout the economy.

3. Intermediate Results and Illustrative Activities

USAID/Mozambique's trade and investment strategy has three core components: (1) markets for exports expanded; (2) enabling environment for exports improved; and (3) capacity of labor-intensive industries strengthened. These three components are necessary to successfully and sustainably achieve the strategic objective to increase labor-intensive exports.

IR1 will create an environment in which Mozambique's access to international and regional markets is maximized and in which inputs can be sourced globally without crippling complications and costs. An open regime will also weed out non-competitive Mozambican producers of tradable goods by allowing competition from imports, and encourage Mozambican entrepreneurs to direct their energies towards the provision of goods and services where Mozambique has an edge over global competitors. Liberalization also makes economic distortions and bottlenecks more transparent, thus simplifying the complex process of setting policy priorities and mobilizing political will for structural reform. The main activities under this IR are (1) trade capacity building for the negotiation and implementation of trade agreements; and (2) further liberalization of the trade regime through the reduction of tariffs and elimination of non-tariff barriers.

The second component, improving the enabling environment, will chip away at the unnecessary costs imposed on business by government policy and regulation and their implementation. This IR covers a wide range of activities, including red tape reduction, measures to combat corruption, alternative dispute resolution, labor liberalization, and the establishment of a reasonable regulatory regime for basic infrastructure such as telecommunications and energy.

The third, capacity building for labor-intensive industries, allows direct non-distorting interventions in specific sectors to help establish exports. By adding the sectoral interventions, USAID will promote a virtuous cycle, where openness forces additional reforms, which in turn create the conditions for increases in productivity, employment, and exports. Concentrating attention on particular sectors also provides USAID with a good indicator, in export figures, of whether the program is working. This IR covers direct support to specific sectors such as tourism, garments and floriculture. These could include start-up technical assistance and financing, business linkages, identification of industry specific constraints, and business training.

IR1 Markets for exports expanded

IR1 will expand export markets by addressing “across the border³” questions of market access, including negotiating markets, ensuring that requirements for access to particular markets are met (e.g. visa systems under SADC, AGOA and EBA), and providing necessary government technical support for standards (SPS, APHIS, etc.). This IR will also assist the government to reduce its dependence on trade taxes, establish sensible overall customs legislation that is compliant with WTO requirements, open the economy further, and ensure good coordination of trade policy across ministries. Thus the IR also addresses “at the border” issues.

Underpinning this IR are the following development hypotheses:

- The specific requirements of various trade agreements must be met if Mozambican enterprises are to succeed in certain export markets;
- Government has a crucial role to play in negotiating market access bilaterally, regionally and internationally, and fulfilling this role will improve the prospects for labor-intensive exports;
- For some goods, especially agricultural, the government, by establishing and certifying to

Trade and Poverty in Mozambique – 1996—2003

Despite a widespread bias in favor of capital-intensive industry, and a belief that protection is good policy, Mozambique has gone from a closed to an open economy since the early 1990s. How?

1. Exchange rate reform, beginning with a decision in 1990 to decriminalize the parallel exchange market, complete reform by 1995.
2. External pressure abetted by common sense. In early 1997, as part of the IMF structural adjustment program, the Ministry of Finance simplified the tariff structure with a peak tariff rate of 35%. This was followed by further reductions to 30% in 2000 and 25% in January 2003. At the same time, customs administration was placed under private management.
3. Domestic pressure from the private sector, to negotiate the SADC FTA. In 1998, the private sector (with USAID assistance) successfully argued for a shift in the Government’s negotiating stance, from a request for a 15-year waiver to immediate implementation. The discovery that the domestic market is not a road to riches.
4. A developing consensus built around the “Trade Mainstreaming Report” that trade openness is an essential element of Mozambique’s poverty reduction strategy.

quality standards and carrying out risk assessments, can enhance opportunities in international and regional markets;

- Increased trade policy development capacity is needed (including trained negotiators and economists) to maintain momentum on liberalization; and
- An open economy, with few barriers to imports and exports, will reduce poverty by (a) enhancing growth, employment and productivity; and (b) maintaining reasonably low prices for consumer goods.

³ The relationship to the “border” is a convenient simplifying concept for trade-related constraints and activities. The three categories are: (a) across the border: making sure that Mozambique has access to bilateral, regional and global markets – this involves good negotiators, at least in the bilateral and regional discussions; (b) at the border – anything to do with customs, tariffs or NTBs; (c) behind the border – the enabling business environment in which exporters and importers live (or die).

Illustrative Activities

- Creation of a Mozambican trade coordinating body to effectively integrate the wide range of government activities that directly impinge on trade policy and its implementation;
- Institutional capacity to ensure and certify that export market standards are understood and met;
- Mozambican economy further opened to trade through lower tariffs and fewer, less onerous non-tariff barriers (NTBs); and
- Establishment of a trade database that provides the basis for better analysis and decision-making.

IR2 Enabling environment for exports improved

IR2 will improve the enabling environment for exports by resolving “behind the border” issues related to the structural or “micro” environment that Mozambican businesses face. IR2 will significantly reduce critical constraints that increase transaction costs for Mozambican exporters: (a) an opaque and ineffective judicial system that makes it impossible to enforce contracts; (b) slow and bureaucratic import procedures; (c) a tax regime that penalizes investment and exports and, because it is too complicated to be administered, encourages corruption rather than predictable tax burdens; (d) lack of tradable land; (e) a system of inspections and fines that is punitive without being helpful; (f) a regulatory regime that raises the cost and political difficulty of acquiring skilled expatriate labor – already one of the scarcest inputs; (g) an inflexible labor regime for Mozambican workers that raises the costs of hiring, benefiting very few at the expense of a great many (about 10% of the workforce is in the formal sector); (h) the high cost and poor quality of those basic public services that remain in state hands (telecoms, electricity, water, trash collection, rail, air transport, etc) combined with a price bias against commercial users; and (i) all-encompassing red tape that makes all dealings with government time-consuming and expensive.

USAID is working through both the organized private sector and the government to transform this unwieldy state of affairs. Assistance to the organized private sector, through CTA (see next box), has built an effective Mozambican lobby for the reforms that must be in place if businesses are to take advantage of a more liberal trade environment and a better enabling environment. The Mission’s early support (1998-2002) developed an effective business association while building policy competence on two major issues: trade expansion, particularly within SADC; and red tape reduction. This once *ad hoc* association of businesses that advocated for an improved business climate has since evolved into an effective and respected think tank for change. While USAID is no longer the only source of support to CTA, we remain the predominant donor. In this role, our support now encompasses a wide range of issues, as well as the institutional framework to handle the issues.

CTA has established nine commissions, consisting of a lead CTA member (usually the head of a constituent business association), other interested CTA members, a firm that provides backstop, including some technical work, the relevant Minister and his staff. Beginning in 2003, each group will prepare a two-year agenda and present it to the business community, Council of Ministers, and President of Mozambique at a “Private Sector Conference” (2003’s is the seventh, but the first to attempt agreed action agendas through a democratic process).

The Confederation of Mozambican Businesses: CTA

CTA was created in 1996, the private sector's response to a government request for a strong and coherent partner to address red tape issues. Until early 2000, with strong backing from the Minister of Industry and Trade, it managed to deliver an annual private sector conference – which at least maintained some momentum for reform, and progress on red tape reduction. Prior to 2000, CTA also established its intention to deal with more general issues by taking on two fundamental policy issues -- trade (see earlier box) and labor. Beginning in 2000, however, the scope and nature of CTA's role expanded dramatically – it is now involved in the entire range of issues affecting the private sector. During the current strategy period, CTA has delivered or contributed to the following:

- Requests to government no longer have to be on special 25-line paper (1998);
- National ID cards, rather than notarized documents, are used to establish personal identity in dealings with government (1998);
- Commercial and industrial licensing greatly simplified (note that this does not obviate the need for line ministry approval in tourism, agriculture, mines, etc) (1998);
- Visas are available at most border crossings on demand for a reasonable fee (2000);
- Consultative mechanisms have been established for nine ministries, each with a substantive reform agenda (2002);
- Granting of land “titles” reduced to 90 days after documents prepared (a great but inadequate improvement) (2002);
- Customs reform accelerated with the (a) elimination of a 15% deposit required to obtain approval of an import – often months before duty fell due on arrival; (b) introduction of transaction value to replace Brussels Determination of Value (BVD); (c) pre-shipment inspection requirement lightened considerably (2003);
- Arbitration law passed (1999) and private arbitration center (under CTA) created (2002); and
- Inspection regime under MIC greatly relaxed (2001); though other Ministries continue to impose high costs

USAID's involvement in the trade sector was originally driven by a 1997 request from the Confederation of Mozambican Business Associations (CTA) for more information on the then fledgling SADC FTA. This led to a three-month trade awareness program, after which the private sector succeeded in convincing the government to adopt a more liberal policy than that then prevailing. Since then, CTA's role (with USAID support) as the main promoter of a healthier business environment has been institutionalized.

USAID thus expects to embark on the new strategy at the end of FY2003 with a clear micro reform agenda, as well as functioning commissions to track and report on the agenda for, at the very least, labor, agriculture, finance, industry and trade, and communications.

Underpinning IR2 is the following development hypothesis:

Red tape, inflexible labor markets, and other structural problems are critical constraints to increasing labor-intensive exports; their removal will give businesses in Mozambique a competitive chance.

The Mission CSP analysis of financial systems indicated that some limited interventions to ensure availability of financial products and services might stimulate exports without either undermining the financial system or diverting financial resources. Possible areas of intervention (all of which could fall under the aegis of the Development Credit Authority (DCA) include: (a) export insurance/guarantees; (b) risk sharing; and (c) building reasonable workout arrangements. USAID and the Ministry of Industry and Commerce (MIC) have agreed that reflows from the ACT emergency program may be used to support financial programs in support of increased exports under this SO.

In addition to activities aimed at simplifying procedures and eliminating bureaucratic discretion, USAID will seek to develop a program that allows business to bring forward cases of corruption and abuse, with some hope that corrective action will be taken with no fear of reprisals. One possible model is a pilot non-governmental ombudsman program, funded by Sweden, that is now being tested in the most remote of Mozambique's provinces, Niassa. An analysis conducted by USAID for the CSP also recommended several other interventions, including enhancing efforts to improve corporate governance and stepping up lobbying efforts to stiffen Government's anti-corruption resolve. SO7 will maintain an active collaborative program with SO10, "Municipal governance increasingly democratic", in its efforts to reduce corruption.

The red tape program combines continuing pressure to remove barriers identified (among hundreds, the requirement to publicly post employees' leave schedules, or to provide copies of all contracts to the Ministry of Labor), as well as constant vigilance over emerging law and regulation. Both CTA and MIC's Office for Private Sector Support will carry out these functions.

SO7 will enhance the legal environment for private enterprise by improving contract enforceability through the expansion of a system of Alternative Dispute Resolution, both geographically and to new areas such as labor disputes. Under the current strategy, USAID successfully supported the passage of enabling legislation that guarantees that the formal judicial system will enforce arbitral decisions and awards. Over the next five years, the challenge is to move most contractual and labor disputes out of the overburdened formal system to one or more privately managed ADR centers.

In 2003, with TRADE funding, USAID will begin a program to strengthen human capacity in Mozambique for trade and economic analysis. This is an area of considerable weakness in Mozambique, as well as being a major need identified by developing countries in global trade negotiations. A distance learning linkage between a US and one or more local educational establishments will be created. USAID will send two or three young Mozambicans for Masters degree training (in South Africa or the US) in 2004, while also designing an in-country program to train many others between 2005 and 2006.

Mozambique suffers both from poor quality infrastructure and poor management of existing infrastructure; both of which undermine the competitiveness of Mozambique's exports, especially from more remote (and generally poorer) areas. USAID will support key ministries in their efforts to improve management and delivery of critical basic infrastructure. Interventions will finance better regulation (especially in telecommunications and energy) combined with privatization and the introduction of competition.

Illustrative Activities

- Explore areas for anti-corruption intervention activities.
- Technical and financial support to CTA and MIC in efforts to reduce red tape and improve the legal environment for private enterprise.
- Initiate education exchange programs both regionally and internationally.
- Finance key activities across ministries in support of improving the physical infrastructure that is key to export activities (e.g. ports; telecoms; energy).

IR3 Capacity of labor intensive industries strengthened

IR3 will strengthen the capacity of firms in selected export sectors to respond to the opportunities created by IR1's market access and IR2's improved environment for business. The rationale for selecting a few sectors for concentration is that success on the ground is important to build and sustain political support for an open economy and the structural reforms needed to take advantage of it. USAID has not come to a final decision on the sectors to be examined, but we have developed a short list at this stage.

Under this IR, USAID will develop interventions that aim to increase exports in a few key industries or sectors. During the CSP preparation, USAID identified the key criteria⁴ to be used and a list of 14 potential sectors⁵. Over the next year, USAID will select no more than four sectors for specific interventions.

USAID and the GRM can create a virtuous circle by focusing on a few key sectors, where success in one or two areas creates a political dynamic in support of reform that will generate competitive exports elsewhere. An appropriately designed sector focus can accelerate investment and employment generation, as well as provide feedback to policy makers on which constraints are most important.

Underpinning this IR is the development hypothesis that: Activities designed to strengthen labor-intensive industries will remove more distortions than they create. To the extent that the focus is on general constraints (e.g. expensive and time-consuming immigration procedures hurt tourism, but also affect all businesses that involve expatriates as buyers, sellers, investors or employees) and the sectoral focus is used to concentrate attention on their removal, our program will be on solid ground. Direct firm-level interventions do raise the question of whether USAID might be diverting productive effort away from more efficient use. Our programs will be designed to minimize the likelihood of such distortions and maximize the demonstration and spread effects.

Illustrative Activities

- Promote alliances between Mozambique and U.S. (or regional) businesses and sector business associations.
- Design financial instruments aimed at supporting labor-intensive exports (see IR2).
- Create access to business development services, including limited TA to launch new businesses or new technologies.
- Deliver business training on maximizing the use of ICT as a business tool.
- Deliver business training on how to penetrate new markets.
- Reduce the negative impact of HIV/AIDS in the work place.

Contextual Assumptions

- Government intervention in the area of addressing "across the border" question of market access can be effective. Given the proven difficulty of synchronizing across ministries, a coordinating body may turn out to be ineffectual. To mitigate the risk (at least to reduce the cost of failure), the coordinating body will build on the existing "inter-ministerial trade group" (which includes the apex business association, CTA), with regular review by

⁴ Linkages to poverty (employment and price effects); prospects for success; potential role for USAID; degree of market distortion implied by intervention to promote the sector; degree to which constraints facing the sector affect other sectors as well; interchangeability (or portability) of the technology and skills; and sustainable environmental management.

⁵ Garments, footwear, fresh fruit (bananas, citrus, fruit juice), fresh cut flowers, cashews, coconut oil, wood products, data processing, tourism, tea, sesame oil, essential oils (lime, lemon), paprika and textiles.

the Economic Council, which consists of nine ministers. The Minister of Industry and Trade obtained approval for this arrangement when he presented the trade mainstreaming report in December 2002. It will also be backed by an action plan, to be prepared over the next year.

- Related to the item above, government will set rules that help rather than hinder export – they will not be overly bureaucratic or lead to further proliferation of red tape and related costs.
- Donors, as a group – especially those providing budget support, will press for further trade liberalization.
- Training and public awareness campaigns will help raise awareness of the dangers of protection and benefits of openness; for long-term training, USAID and our partners will be able to identify good candidates and courses of study.
- USAID, CTA and others can overcome the inertia, special interests, and historical baggage that maintain and proliferate over-regulation and protectionism.

4. SO Level Indicators, Baselines and Targets

SO7: Labor-Intensive Exports Increased

| Indicators | Baseline 2002 | Target 2010 |
|---|---------------|--------------|
| Increase in exports (\$ for merchandise, tourist arrivals for tourism – disaggregated into targeted; and non targeted sectors which include sectors where such increases can be partly attributed to policy or regulatory changes promoted by the program) (baseline figure derived from AGOA 2002 figure for textile and clothing sector) (target based on doubling of exports on an annual basis) | \$186,000 | \$23,808,000 |
| Employment generation (indirect and direct) | TBD | TBD |
| *Economic Freedom – Worldwide- Heritage Foundation Index Score | 3.25 | 2.85 |

*Heritage Foundation Economic Freedom indicator was not presented at the SO level in the strategy document, rather at the IR level. Based on last years unreliable data (1997 tariff rates were used) it becomes difficult to accurately set targets. The following is the trend since 1995: 127/4.1; 131/4; 134/4.1; 129/3.9; 127/3.8; 97/3.35; 76/3.05; 94/3.25. Julio and I decided to ask for your assistance in setting the target if we indeed do want to report this at the SO level.

IR 1: Markets for exports expanded

| Indicators |
|--|
| Weighted average tariff falls, dispersion reduced further |
| Trade taxes diminish in importance as a source of revenue |
| Clear procedures established for meeting standards in important export markets |
| Reduction of import times and costs to levels that are competitive with successful exporting countries |

R 2: Enabling environment for businesses improved

| Indicators |
|---|
| ADR efficiency assessed by business association members who access ADR services |
| Economic Freedom ⁶ |
| Competitiveness ⁷ |
| USAID will also select a few key micro-level or firm-level measurable indicators, such as the time it takes to effect an import or a value-added tax reimbursement, and set benchmarks to reduce them |

IR 3: Capacity of labor-intensive industries strengthened

| Indicators |
|--|
| Employment generation (direct and indirect) |
| Increase in tourism (# of visitors; employment generation) |
| Value of new investments |

USAID/Mozambique will explore with the relevant institutions the possibility of sharing the costs of covering Mozambique and of ensuring that the data is of the highest possible quality. If our efforts to improve the data quality or availability are unsuccessful, then these measures will have to be supplemented from other sources, including, perhaps, a directly contracted annual or bi-annual study.

5. Linkages

SO7's program is closely related to the mission's other economic growth strategic objective (SO6: "Rapid Rural Income Growth") with particular overlap in financial services and enterprise development. USAID will consider a joint IR for rural enterprise and ensure that SO6's financial program is designed to serve exporters as well as rural enterprises, especially in the sectors of SO7 concentration. In tourism and natural resource management, RCSA is funding the Great Limpopo Transfrontier Park; and the Quirimbas and Bazaruto coastal national park in northern and central Mozambique are expected to shortly receive substantial support from USAID's Economic Growth, Agriculture & Trade Bureau's Natural Resource Management Office (EGAT/NRM) under the Global Conservation Program (GCP2).

SO7 also will coordinate and, where appropriate, jointly fund and/or manage programs related to corruption with the SO10 (Municipal Governance) and SO9 (HIV/AIDS).

USAID/Mozambique will also work closely with RCSA and the Global Competitiveness Hub on several aspects of the program, most importantly as a source of specialized assistance for trade-related activities (e.g. SPS, AGOA, APHIS). RCSA has also provided assistance for infrastructure (both transport and communications) reforms.

EGAT as well as USAID's Africa Bureau have also provided valuable support to USAID's bilateral trade program and the Mission expects this relationship to continue, particularly now that USAID is the lead Integrated Framework donor for Mozambique.

⁶ The Heritage Foundation's Index of Economic Freedom – provides reasonable criteria and useful formulas for gauging openness and the environment; USAID may rerun the Heritage formulas with more recent data where Heritage's data is misleadingly out of date (as it was in 2002 when a 1997 figure for tariff levels was used)

⁷ The World Economic Forum's Competitiveness Index, if it can be expanded to include Mozambique. Under the previous trade and investment SO, USAID/Mozambique made use of the related Africa Competitiveness Index, but it proved too irregular to be of much use for project management, with only two editions published over the six-year period

Conformance with Donor and GRM Programs

As described above in the comparative advantage section, USAID is the lead donor in three of the areas covered by this SO – (a) trade mainstreaming; (b) red tape and transaction cost reductions; and (c) support to the private sector groups lobbying for a better business environment. In other areas – financial services, tax reform, and infrastructure – other donors are more important.

The group of ten bilateral donors (G-10) that provides general budget support also plays an important role in supporting and encouraging fiscal and monetary discipline by the Ministry of Planning and Finance. In addition, the World Bank’s public sector reform activity (seven additional years beginning in 2003) will directly affect the ability of all government to effectively deliver public goods – including good regulation and decent infrastructure.

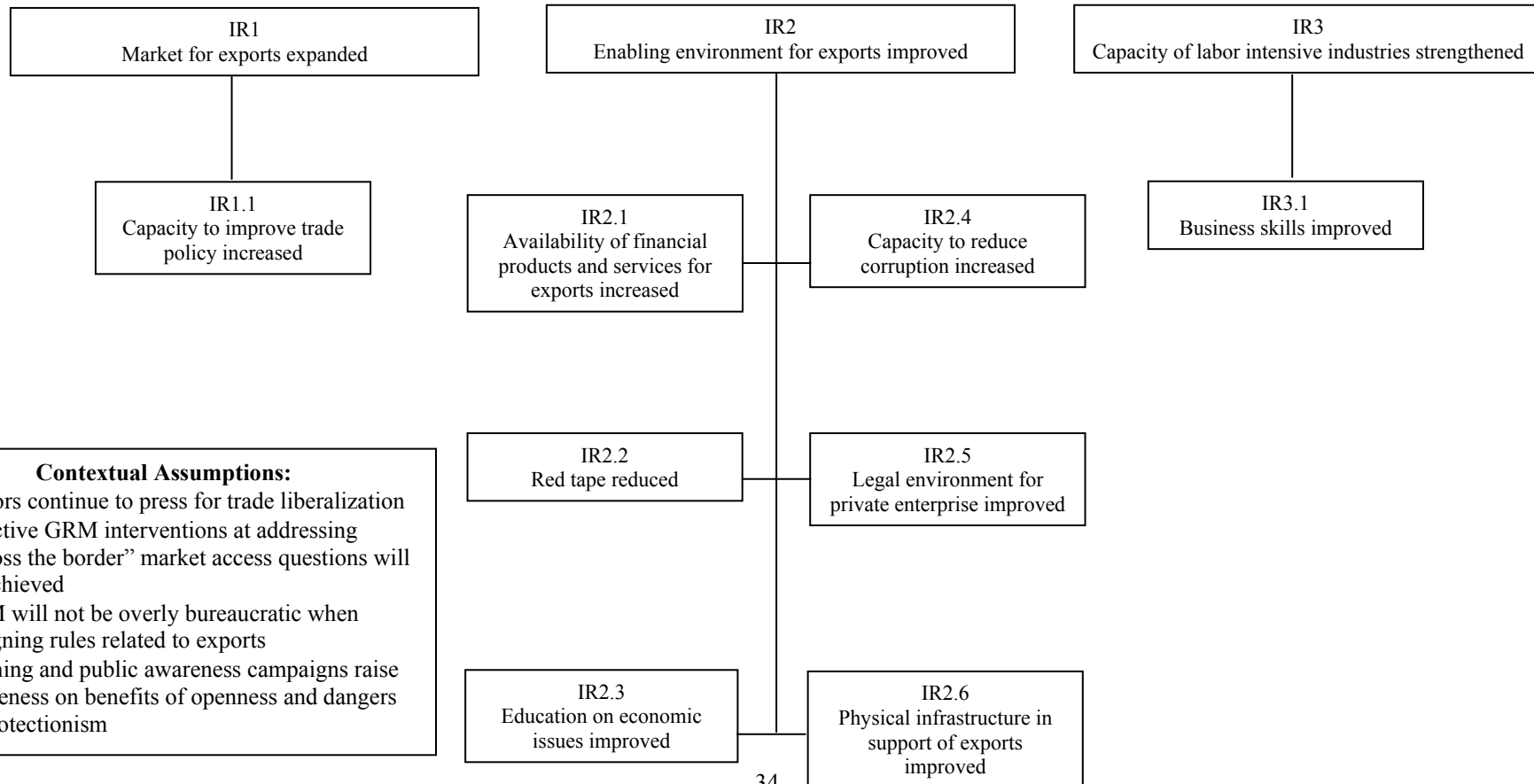
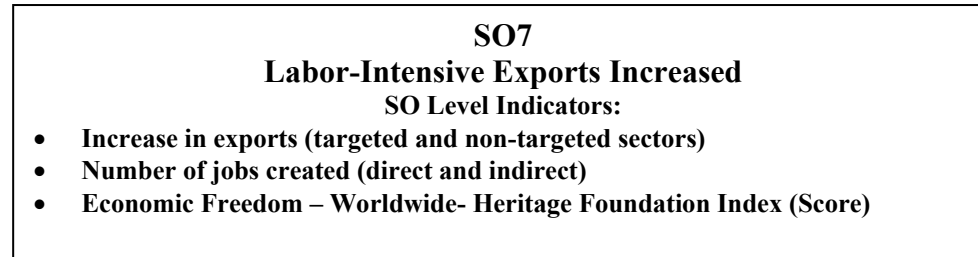
Trade: In the narrow area of assistance to Mozambican institutions involved in trade policy, negotiation, or implementation, the European Union has recently increased its assistance for capacity building in the Ministry of Industry and Trade by providing a long-term intern/economist to the trade inter-ministerial group (which has long been supported by a USAID-funded advisor). The EU office and several EU-funded technical assistants were closely involved with USAID’s trade mainstreaming work. Other donors that have engaged include the IMF/World Bank, which included a reduction in tariff dispersion as a condition of the structural adjustment program; UNIDO, UNCTAD and the WTO, which occasionally provide modest amounts of short term training or advice. DfID has provided assistance to customs, most notably by co-financing with the Government a five-year management contract with Crown Agents.

If “trade” is used in the broad sense to include physical and institutional support for infrastructure, then USAID will coordinate with the many donors involved in these areas.

Enabling Environment: Although USAID is the principal donor focusing on reducing transaction costs to business through changes to the environment, many other donors support programs that contribute to the goal. These include the World Bank (roads, rail, energy and telecom sector reform, other infrastructure, civil service reform), Denmark (judicial sector reform), UNIDO (co-sponsored the red tape analysis with USAID), and others.

Enterprise Development: Many donors are engaged at different levels. The International Finance Corporation, Development Bank of Southern Africa (DBSA), and, more recently, OPIC, provide considerable funding for infrastructure, industry, and tourism, with some success. There are two venture capital/loan funds (DfID and World Bank) which encountered difficulties and a major enterprise technical training project (World Bank, DfID) and none of which has been very successful. Regional venture capital funds (SAEDF and the Nordic Fund) have also failed in Mozambique’s challenging environment.

6. Results Framework



C. SO8 - Increased Use of Child Survival and Reproductive Health Services in Target Areas

1. Development Needs, Constraints, Opportunities, and USAID's Comparative Advantage

The health status of Mozambicans is among the worst in the world. Health infrastructure and service provision remains extremely weak. Communicable, infectious diseases and parasites, namely malaria, diarrhea, tuberculosis, respiratory infections, and the rapid spread of AIDS dominate the country's epidemiological profile. Mozambique also suffers from chronic food insecurity and malnutrition, and regular epidemics of cholera and meningitis in many districts.

The health services network has not developed sufficiently since the end of the civil war, failing to address the health needs of the dispersed population in this very large country. The government is committed to building an equitable health system that is affordable and sustainable, a daunting task given that the combined resources of the state and external donors do not meet the country's estimated total needs for adequate health service delivery.

Child Health

Most food production is for home consumption resulting in provincial and district malnutrition rates that vary depending on rainfall and agriculture production. Over 44% of children under 5 were observed with chronic malnutrition, and 6% from acute malnutrition (QUIBB/2001). One quarter of children showed low weight for age. Malaria accounts for roughly 15% of the country's total disease burden (46% among young people – QUIBB/2001), and is the primary killer. A lack of reliable data on immunization rates exists nationwide as a result of the population movements during floods and other disasters in recent years. In addition, it is difficult to estimate actual catchment populations which complicates measuring coverage rates.

Reproductive Health

Use of pre-natal services, based on 1997 DHS data, is reportedly relatively high in Mozambique although less than half of deliveries were assisted by a trained health worker representing a disconnect in the chain of service delivery. Mozambican women suffer from some of the highest rates of maternal mortality in the world, with between 500 and 1,100 deaths per 100,000 births. Both infant mortality and under 5 mortality are high compared to other African countries at 147 and 219 deaths per 1,000 live births, respectively. The highest rates of infant and child deaths occur in Nampula province. Lack of access to skilled birth attendants and inadequate referral and evacuation for more qualified obstetric care are generally considered among the most important factors contributing to Mozambique's high maternal mortality rate.

HIV/AIDS

As in much of sub-Saharan Africa, HIV/AIDS is devastating the country's most productive population. National HIV prevalence is estimated at 13% and rising, with rates as high as 26% in some provinces. An estimated 535 people are becoming infected with the virus every day in Mozambique, and health facilities are overwhelmed by HIV-related illness. Weakened services and supply chains are unable to cope with this increased burden.

Though Nampula province has an HIV prevalence rate of 5.2%, neighboring Zambezia province, Mozambique's most densely populated province, has an adult HIV prevalence rate of 15.4%. Because of its commercial and transport importance, the Zambezia "rim" has the potential to serve as either the conduit for, or the barrier against, the looming spread of HIV/AIDS from Mozambique's high-prevalence center (average 17.8%) to the relatively low-prevalence north (6.8%).

The following health-related data are national. It should be noted that there exist important geographic differences in these indicators.

**Table 1:
Basic Health-Related Indicators**

| Indicator | |
|--|-------|
| Population growth rate, 1996-97 | 2.4% |
| Fertility rate per 1000 population | 44.4 |
| Median number of children per mother | 5.9 |
| Infant mortality per 1000 births | 145.7 |
| Child mortality per 1000 births | 116.9 |
| Life expectancy in years | 42.3 |
| Avg. Age in years at first sexual experience, males 25-64 | 18.3 |
| Avg. Age in years at first sexual experience, fem 20-49 | 16.0 |
| Children whose mothers received no vaccines during pregnancy | 64.2% |
| Home births | 55.0% |
| Births assisted by doctor or nurse/midwife | 44.2% |
| Females 15-49 using modern method of contraception | 5.1% |
| Population under 15 years of age | 44.8% |
| Median age in years | 17.5 |
| Mortality rate per 1000 | 21.2 |
| Without access to latrine (sanitation) | 66.0% |
| Using wells, rivers, lakes as principal source of water | 83.5% |
| Average family size (number of persons) | 4.1 |
| Illiteracy | 60.5% |
| - male | 44.6% |
| - female | 74.1% |

Source: 1997 census and DHS

Constraints

Profound reform of the health sector is just beginning, and will seek to address some of the most important constraints to improving health status. These constraints, in addition to those previously mentioned, include:

- Access by Mozambicans to basic services, which is hampered by distance to health facilities, inadequate staffing and supplies, and petty corruption at these facilities (estimates show that only 40% of the population have access to adequate health facilities; a survey on corruption in Mozambique found that the most frequent situation in which a bribe was requested or paid was to a health worker)
- Inefficient and inconsistent use of service delivery resources, leading to poor service quality, low client confidence, and reduced use of basic services at primary facilities
- HIV/AIDS is a severe burden on the system in terms of increased demand for services and reduced capacity

- Low education levels, especially among women, and poor access to information limit adoption of positive health behaviors
- Health services provided outside the government facilities are not well integrated into a national network of consistent norms and practices
- Existing systems do not promote effective management of public health resources, do not exploit opportunities to outsource services to the private sector, and do not allow for accountable decentralization of financial management, service delivery, and quality assurance
- Rival informal healers not integrated into the health delivery system
- Roles and responsibilities of various entities involved in health service delivery are imperfectly defined and health sector staff are inadequately trained to fulfill them
- MOH is unable to hire sufficient numbers of technically trained health workers due to budget constraints
- Lack of community participation and ownership in public health services

Popular sentiments that the government is responsible for providing health services has slowed the growth of community ownership and more educated demand for services from public clinics. Many Mozambicans, both urban and rural, seek care from traditional healers, often paying more than they might have at an MOH clinic for treatments.

GRM Strategy

Essential interventions in Mozambique's Health Sector Strategic Plan (PESS) 2001-2005 (to be updated through 2010) reflect the goals of the National Poverty Reduction Strategy (PARPA) to improve the well-being of the poor and the quality of human capital. The PESS will contribute to the PARPA goals in three priority areas:

- *Health care provision:* Ministry of Health (MOH) program priorities will focus on primary health care to reduce the burden of disease on families, including prevention and treatment of malaria, tuberculosis, diarrhea, acute respiratory infections, and vaccine-preventable diseases;
- *Capacity building:* MOH will strengthen efficiency through skills training of its personnel, updated and streamlined organizational structures for key functions, and decentralized management capacity and information management systems; and
- *Health advocacy:* MOH will increase individuals and communities roles in health promotion through improving people's knowledge and information about health issues and healthy lifestyles. Advocacy includes interventions to influence and improve services and environmental changes outside the direct control of the MOH such as improving household sanitation and water supply, nutrition, female education and the status of women in society.

Capacity Building PESS

An important element of capacity building is increasing the autonomy of peripheral health services and empowering community participation in their management. These interventions are closely linked to community level advocacy and democratization of health services management as highlighted in the PESS:

“Supporting individuals and communities is essential if people are to assume increasing responsibility and control over their own health and lives. Democratic processes are important for encouraging participation in national life (particularly community participation in health management). They help to strengthen the community and develop national health partnership with the citizens, under the slogan of ‘health for all and all for health’.”

Implementation of the PESS will be guided by the five fundamental principles of the MOH strategic plan including:

- Efficiency and equity;
- Flexibility and diversification;
- Partnership and community participation;
- Transparency and accountability; and
- Integration and coordination.

Significant forces are at work in Mozambique which may modify or accelerate the implementation of the MOH sector strategy. The Government of Mozambique is in advanced stages of negotiation for three major funding packages related to HIV/AIDS; the Global Fund for AIDS, TB and Malaria (GFATM), the Bill Clinton Foundation, and the World Bank. If all these negotiations are successfully concluded, the GRM will receive over \$125 million in additional resources for programs related to HIV/AIDS and infectious diseases. A significant portion of these funds will pass through the MOH to support service delivery and other aspects of its programs. USAID's approach while these other funding initiatives are pending has been to move ahead and start activities in related areas, focusing on those interventions which will better position the MOH to scale up those programs with these larger budget influxes. By common agreement with the MOH, specific USAID interventions now in final design stages have been pulled from larger MOH planning exercises, including for the GFATM and Clinton Foundation Business Plan. The MOH and donor partners are currently working to strengthen coordination and planning within the sector, as well as strengthening the financial management capacity of the MOH itself.

USAID's Comparative Advantage

USAID has gained extensive experience providing significant support to Mozambique's public health system. For seven years, USAID has worked to improve sexually transmitted infection (STI) prevention and treatment, augment the supply of medicines for treatment of opportunistic infections through day hospitals and clinics, improve and expand antenatal care and other reproductive health services, control malaria, and expand the availability of Voluntary Counseling and Testing (VCT) services.

USAID works in conjunction with US/third-country and Mozambican organizations to strengthen health service delivery and outreach to communities. USAID has ready access to a strong network of technical and program expertise through cooperating agencies operating in multiple other countries, giving the program a strong comparative advantage in rapidly identifying, adapting and applying positive experiences from other countries to the Mozambican situation.

The result of USAID's capacity building efforts with the MOH has been the creation of cadres of master trainers to continue developing and implementing the Ministry's ongoing staff development program. USAID support in these areas is closing the gap in the ministry's ability to manage its staff improvements in the areas of child health, reproductive health and essential obstetric care, and communication approaches.

The program under the previous strategy may not have met all of its ambitious targets by the end of activities in 2004, though DHS 2003 data will illuminate this issue. Available localized survey data from the target area do, however, indicate increases in some key indicators. Assisted births were estimated at roughly 60% in 2001, compared with the national average of 44% in 1997. Use of modern contraceptives has also increased to roughly 9% in program target areas, compared to the 1997 national average of 5.1% (or 1997 estimate

for the 6-province zone of a mere 1.3%). Some constraints to achievement of the SO include changes in implementation approach during the strategy period and delays between conceptualization and start-up of key activities. The Mission is examining the range of issues and constraints faced by the current CSP program, and will draw from lessons from this experience for the design of both technical and structural/managerial aspects of the new CSP program.

2. Purpose, Definition and Development Hypothesis

The health SO will include a combination of national and community-level interventions designed to strengthen the policy and management environment, increase access to proven and effective primary health services, and increase community-level demand for these services by strengthening community⁸ participation in managing or influencing the quality of health care services. These three key intervention areas will lead to healthier, stronger families that are more productive, less vulnerable to disease, and contribute more effectively to economic status.

Women and children are the most vulnerable to disease, and draw other family members away from productive activities to care for them when they fall sick. It is therefore essential to protect these groups and enable the family to continue other activities without interruption. Ensuring women family members remain healthy is particularly important to ensuring uninterrupted care and support to other family members.

A key premise of this program is that quality is an integral element of access, and services must meet a minimum standard of quality before they are deemed to be available (IR1). Clients must understand, value, and seek out those services (IR2). Demand for services includes promotion of healthy behaviors and practices that safeguard health. This includes supporting systems which strengthen interventions at the central level to improve the policies, management, expand health promotion and advocacy, capacity building, and provide targeted support for key national programs (IR3). By guaranteeing that these fundamental conditions are met, the program will stimulate communities to seek out and successfully use health services and information, and subsequently achieve improved health status.

SO8 will focus interventions on those health problems responsible for the largest number of child and maternal deaths: malaria, pregnancy and peri-natal complications, vaccine-preventable diseases, and diarrheal diseases. The expected resource level for this program will oblige USAID and the MOH to make choices about priority interventions that will generate the greatest impact in the selected areas. Among the choices is geographic focus. The strength of this program will derive from its comprehensive, integrated, and community-based approach to combat these problems in a limited number of provinces in Mozambique, with a plan to expand in year three of the strategy. USAID and key partners are continuing to discuss the degree of concentration and size of the program target area with the MOH.

Geographic Focus

At expected levels of USAID funding during the new strategy, it will not be possible to achieve a high level of impact in dispersed geographic area. Though the program envisions a

⁸ For service delivery, “community” will refer to the catchment population of a specific type of service or facility. For local participation, “community” will refer to some appropriate civil society or local governance entity made up of local residents and organized for their common good.

certain level of policy and management technical assistance for critical central MOH functions, the bulk of SO8 interventions will be geographically focused to strengthen service delivery and use. One underlying focus is to ensure a successful health delivery and management model for replication in other provinces with funds from other sources. The Mission is in discussions with the MOH to reach agreement on the geographic coverage area, and expects a final decision soon. This discussion focuses in part on the size of the impact area, and the level of results reasonably expected, given the amount of resources projected for this program. The program will seek to continue building on previous USAID investments in provider skills, community outreach through NGO networks, service delivery improvements including equipment and infrastructure, and mobilization of community leadership for health promotion.

Final selection will also include a comparison of key indicators:

- Contraceptive prevalence
- Nutritional status
- Vaccination coverage
- % assisted births
- Population density

The program will be closely coordinated with health interventions supported by other donors in the same geographic zone. Opportunities for complementarity with a European Union program exist in Zambezia through 2006. The World Bank AIDS program (MAP) is now being finalized and will cover Zambezia province with certain overlapping HIV/AIDS-related service delivery activities (reproductive health and pregnancy-related services, etc.). Neither USAID nor World Bank resources will cover all the needs in this area, and USAID will closely coordinate with the MOH, the Bank, and other donors to maximize benefit from all support available.

One scenario under discussion is that USAID will continue to support the same target districts (33 districts) in the current 6 focus provinces. This would allow the program to capitalize more directly on previous investments in these districts, and offers a certain degree of “halo” effect from program interventions to spill over into neighboring districts. An alternative scenario of covering the entirety of the two largest provinces would offer opportunities to fully engage the MOH service referral network and management structures in a concentrated area, as well as facilitate data gathering and comparison to other provinces in Mozambique. Each of these scenarios covers a target population of roughly 6 million people, including 1.4 million women of reproductive age to be counseled on family planning services, 260,000 births attended annually, and 1.2 million adolescents for whom special user-friendly reproductive health and other services will be designed. These figures are subject to change based on the outcome of negotiations with the MOH.

3. Intermediate Results and Illustrative Activities

SO8 will capitalize on existing networks and ongoing capacity building efforts to strengthen the supply of services under IR1, and to generate expanded, better informed community demand for services under IR2. These strong community networks will also be critical in increasing local participation in health care delivery and building accountability of providers under IR3.

Some major categories of interventions under this program will be quite distinct, such as technical skills training and provision of equipment or supplies for health facilities. Others will be more integrated. One strong desire of the Mission and the MOH is to strengthen community involvement in decision-making for local health services. This is likely to involve strengthening local civil society organizations as well as local government administrative services. There will be common elements of advocacy, leadership strengthening, focus on gender equity in decision-making, improved management capacity and transparency, and many other activities. As USAID moves to greater involvement of communities in health promotion and service outreach, and behavior change, the lines between the IR categories are expected to become more fluid.

Gender issues will also be a fundamental underlying theme throughout this program. Aside from focusing on interventions like couples counseling for reproductive choices, the program will explore socio-cultural barriers to improved health behaviors such as prolonged exclusive breast-feeding (e.g. household or agricultural duties which mitigate against breast-feeding), and other service-related interventions. Other reproductive health and family planning interventions will deal with the status of women, the ability to negotiate sexual encounters, and socio-economic factors contributing to various health and wellness problems. To strengthen community involvement, the program will promote greater involvement of women in community health councils and other meaningful leadership positions.

IR1 Increased access to quality child survival and reproductive health services

This IR will increase access to primary health care by improving the quality and efficiency of existing fixed MOH services and strengthening networks of community-based health agents. The IR will focus on formal and informal child survival and reproductive health interventions for those illnesses most responsible for the largest number of child and maternal deaths in Mozambique. Strengthening specific service delivery and quality improvements for family planning, assisted deliveries and peri-natal care and other services are critical elements of the new program. The program envisions following the approach of strengthening the health system to be fully functional in specific services, and requiring outreach services or fixed facilities to meet minimum standards before they can be considered fully functional. The program will also seek to strengthen community-based care and link it to MOH facilities for referrals and technical guidance.

USAID/Mozambique has strengthened MOH service delivery infrastructure and provider skills under the current program and expects to build on this investment under the new CSP. The Mission has included modern contraceptive prevalence as one of its SO-level indicators, and expects to achieve results in this area through increasing quality and access through MOH fixed facilities, and strong evidence-based advocacy for higher priority accorded to reproductive health and family planning activities by the MOH. Given that roughly 60% of Mozambicans live in remote rural areas where there are no health facilities within 5-km of their homes and no road or transport infrastructure to facilitate travel, the program will also capitalize on existing networks of community outreach agents to promote birth-spacing messages, and extend the reach of the small but growing network of community-based distribution of contraceptives. The program does not envision construction of new fixed health facilities. Under the current program, particularly through NGO activities, USAID has expanded the reach of family planning services deeper into isolated communities through training and supervision of community health agents. The MOH recognizes that it has not afforded family planning service a high priority in the past, and has encouraged this service delivery expansion, and the Mission expects to continue under the new program. KPC survey

data for project areas indicates USAID support has achieved an increase of modern contraceptive prevalence from under 5% to roughly 9% from 1997 to 2001, though more reliable data from the 2003 Demographic and Health Survey (DHS) will verify this.

The program will support targeted nutritional interventions for children under 5, particularly active vitamin A distribution through immunization services and other contacts with children. Other nutritional activities will include promotion of exclusive breast-feeding, not widely practiced in Mozambique beyond the first month of life. Other nutrition interventions will be supported at the community level and through MOH health workers, including technical and policy guidance to the MOH. The Mission will actively seek synergies between nutrition and agricultural/food security interventions, as well as linkages with care and support to HIV-infected individuals and their families. One specific intervention to strengthen these linkages will be the creation of a special cross-cutting nutrition unit to share technical and program experiences between SO8 (health) and SO6 (agriculture).

Various categories of community health agents already exist in Mozambique, and the program will strengthen their technical capacity and network ties to fixed health facilities and other local civil society units. Many of these specific questions will be more appropriate to discuss in depth during the program design phase. The MOH is currently undergoing its own internal debate on how best to support community outreach through NGOs, community-based organizations, and different categories of health extension agents. The Mission looks forward to these discussions in later design work.

The Mission intends to work actively with the traditional care sector, as this cadre of providers has a much greater reach into isolated communities than any other. The formal private medical sector is still very small in Mozambique, and inaccessible to the majority of the population. Therefore, even though the program will seek to collaborate with these groups, this will not be a major program focus.

USAID will strengthen and improve the quality of basic health services at fixed facilities in the program's target areas. Support for each of these areas will include:

- Promote efficient and consistent use of service delivery resources
- Equip facilities with a cadre of technically trained health workers who are integrated into a national network of consistent norms and practices
- Ensure that facilities are equipped and stocked with essential medicines and commodities
- Improve the basic service delivery organization
- Collaborate with community and client groups and networks of community-based health agents to refer cases requiring higher levels of skill
- Provide care and counseling in the community for health needs not requiring formal services or facilities

USAID Experience

The Health Service Delivery and Support (HSDS) project has trained over 2,200 MOH health workers in improved child health practices, including the Ministry's recently adopted strategy of integrated management of childhood illness (IMCI). Over 80% of MOH health workers responsible for caring for children in the target area (six provinces) have been trained in the IMCI approach of clinical assessment and treatment. Field supervision reports suggest that training efforts have begun to result in measurable improvements in clinical services. The MOH will continue on the job training and close technical supervision of its staff.

SO8 will expand the delivery of basic health services outside the direct coverage of MOH health facilities through Community Health Agents⁹ (CHAs). CHAs and traditional healers will interact with MOH referral facilities and within national treatment guidelines to provide first-line health care to their communities. Services may include early screening for malaria, treatment of diarrhea, and low-tech family hygiene and sanitation interventions.

Leading cause of child mortality: Malaria

Malaria is the leading cause of child mortality in Mozambique, contributing to approximately 26% of deaths among children. Pregnant women with malaria produce low-birth-weight babies who are at higher risk of death from other causes. The largest proportion of malaria mortality is in rural areas; generally these areas are characterized by lack of access and anti-malarial drugs. USAID will support an integrated program at the central policy level in addition to a combination of specific preventative interventions for reducing the risk (behavior change and awareness) and increased access to and use of anti-malarial drugs and bed nets. USAID/Mozambique fully intends to focus on malaria interventions for pregnant women, in particular to improve provision of intermittent presumptive treatment (IPT). Malaria activities under this program will conform to and support the Agency's commitment to the Roll-Back Malaria initiative. The program also expects to benefit from best practices and lessons learned from USAID interventions across the globe. The modest level of projected resources for the overall health program will severely limit the Mission's ability to act at the national level in a meaningful way for the malaria program. The program envisions supporting treatment efficacy studies, improved analysis and use of technical information, and other interventions to inform important MOH policy decisions.

USAID/Mozambique is developing a support program for the MOH integrated approach to the prevention of mother to child transmission of HIV (PMTCT), including clinical and community-based interventions, that will contribute to results under the new CSP. This package will include nutrition interventions and vitamin A distribution, family planning counseling for sero-positive women, strengthened peri-natal care, aggressive treatment of opportunistic infections including TB, malaria treatment for pregnant women, and other interventions. Aside from specific expertise in each of these technical service areas, USAID sees its comparative advantage in strengthening the coordination and integration among these clinical services with strong community-based outreach networks for home-based care and family-level mitigation of HIV.

Achievement of this IR will require mobilization and empowerment of communities to identify and begin to solve their own health problems. Local empowerment and education, especially for girls and women, will result in more active local initiatives for health promotion and outreach.

While central and provincial coordination is slowly improving, the MOH and its partners frequently find themselves duplicating efforts, or leaving important programmatic gaps in their collective interventions. At the central level, the program will support coordination and program planning, and strengthening of resource management systems. This IR will devise approaches to expand meaningful coordination among donors to program resources as equitably as possible to meet national needs. Similarly, USAID will work collaboratively with other donors and the MOH to ensure that our geographically focused program will complement programs in other provinces supported by other donors.

⁹ Community Health Agents are locally trained individuals (including traditional healers) who will serve their communities by promoting/advocating healthy behavior.

Illustrative Activities

Provider skill building and specific material and technical support will cover the service components mentioned above: family planning, safe motherhood and reproductive health, vitamin A and other nutrition interventions, immunization and other child health services, as well as other critical preventive and curative services relating to malaria, tuberculosis and other infectious diseases.

- Provide technical and operational assistance to MOH pre-service and in-service health worker training in critical technical areas, including birth spacing and safer delivery techniques, screening and treatment for malaria, and other services.
- Strengthen MOH logistical support systems for distribution and management of essential drugs and consumable supplies for targeted services, including contraceptives, vitamin A, and other supplies.
- Provide technical assistance to the MOH to update treatment protocols and program guidelines for targeted services.
- Strengthen community outreach to: promote birth spacing, vitamin A distribution, and use of other basic health services, improve prevention of communicable disease; instill proper sanitation techniques; identify environmental threats; and increase access to adequate water supplies.
- Support expanded community health education and outreach through local health agents to promote healthy behaviors, including exclusive breast-feeding and improved nutritional practices, and others.
- Strengthen local civil society groups to identify and address their own health problems.
- Promote active partnerships between community health workers, including traditional healers, MOH health centers, and the community groups.
- Support nationwide social marketing activities for bednets, condoms, and other essential health products.
- Establish community managed emergency transport and evacuation plans/services for complicated deliveries.

IR2 Increased demand at community level for child survival and reproductive health services

This IR will educate families and individuals to seek out and demand essential services, and to adopt healthy behaviors. Increased use of primary health services depends not only on those services being available, but also on informed clients understanding the need for them, seeking them out, and demanding that they perform.

Increased awareness of the benefits of essential services, like family planning and child immunization, will prompt clients to demand services. Widespread knowledge of where, when, and under what conditions clients can obtain those specific services will facilitate service utilization. Adoption of healthy behaviors, such as prolonged exclusive breast feeding, knowing effective home treatment for diarrhea, and awareness of disease “danger signs,” will be achieved through community education initiatives using a full range of media and partners.

This IR will improve accountability for health services by stimulating participation of local, provincial and national leadership in advocacy for and management of health resources. Communities will participate in local decisions pertaining to their own health services and demands. Communities will also support improvements in quality through more direct

accountability. Leadership and advocacy are critical elements in the process of changing community beliefs and encouraging community participation in their own health services. USAID partner NGOs have supported the creation and empowerment of community leadership councils that focus on local health improvements and community responsibility. Prominent people from all levels of society will provide leadership and advocate for increasing client involvement in primary health services, both at public health facilities and in the community.

While the focus of this component is primarily on the community level, the program will support active national leadership and advocacy to maintain important debate and influence improvements in policy, legislation and social norms. Activities at the central level will inform policymakers and key officials of their roles and responsibilities in both leadership and advocacy for primary health services.

Illustrative Activities

- Conduct specific information, education and communication (IEC) interventions in target areas to increase awareness and demand for essential services, and to promote healthy behaviors.
- Provide technical and operational assistance for IEC and advocacy capacity building.
- Conduct leadership and advocacy training at community and national level to strengthen involvement and ownership in health services.

IR3 More accountable policy and management

This IR will improve the efficient and transparent management of scarce health resources to enable Mozambique's health sector to derive maximum benefit from all available support. The program will strengthen critical systems within the central MOH and other decentralized local government units for planning and budgeting of health services, analyzing cost and utilization, and monitoring program performance.

Donor support to the MOH is generally divided into two categories: (1) pooled funds contributed by donors through a sector-wide approach (SWAp) and utilized without restriction by the MOH; and (2) technical assistance, equipment, and other resources tied to a specific program (e.g., child survival services) and provided directly by donors with the mutual agreement of the MOH. Although USAID does not contribute to the health SWAp, the Health SO has supported the MOH to strengthen management and effectiveness of its pooled funds. This IR will continue to build on that work and strengthen program coordination to leverage additional resources and derive maximum benefit from those resources available.

The IR will strengthen and expand priority, interrelated management systems that will improve the MOH's effectiveness in managing scarce health resources. Strengthened planning and management systems will allow the MOH to more effectively utilize financial, human, and other resources available. Improved systems and procedures will allow for more comprehensive coordination of internal programs, and outsourcing of cost-effective services to the NGO or private sector. These improved systems will enable accountable decentralization of financial and operational management. The program will assist the MOH in better defining roles and responsibilities of their operating units and ensuring that staff are adequately trained. This IR is critical not only to assist the MOH in increasing the

effectiveness of allocating human and financial resources, but also ensuring that management systems and related interventions are consistent with the increased involvement of stakeholders.

The USAID-funded Health Sector Support (HSS) Project has provided technical assistance to the MOH in strengthening financial, program, and logistics management at central and provincial levels. Strengthened management systems will help to ensure improvement in the allocation of scarce financial and human resources. This is a critical need, to ensure sufficient resources at the primary health level to achieve increased use. To further expand community-level programs, USAID will investigate and test new approaches to service delivery, financing, decentralization, and promising models for community involvement.

Illustrative Activities

- Provide technical support and oversight of MOH coordination activities.
- Develop and strengthen management systems policies and guidelines.
- Support the development and strengthening of an integrated set of MOH financial management systems.
- Support increased involvement of local governance entities in health service decision-making and resource management.
- Support community and client advocacy and management transparency to reduce petty corruption in health facilities.
- Pilot test decentralized management interventions involving community or municipal governance and financing mechanisms.

Contextual Assumption

- The GRM will accelerate public health sector reform through transparent, decentralized management including greater involvement by municipal governments and civil society.
- The MOH will continue progress in implementing the MOH strategic plan and transforming this into a functioning national program coordination platform through a SWAp mechanism.
- The GRM continues positive trends in investment in social sectors of health and education.
- Continued involvement and financial support by other major donors in the sector, including increased participation by other donors in a pooled SWAp fund and programming system.
- Other major donors will administer support for essential services in remaining provinces.

4. Illustrative Indicators

For specific target setting, the Mission is supporting the Mozambique Demographic and Health Survey (DHS) for 2003, with preliminary data expected by mid-December 2003. In the interim, baselines for key indicators based on available data have been provided below. The Mission will update these with more reliable information from the 2003 DHS in December 2003.

SO8: Increased Use of Child Survival and Reproductive Health Services in Target Areas

| Indicators | Baseline 2001 | Target 2010 |
|--|---------------|-------------|
| % Women 15-49 using modern contraception | 9 | 14.25 |
| % Children 6-59 months receiving vitamin A supplement in the past 6 months * | TBD | 70 |
| % Pregnant women receiving intermittent presumptive treatment for malaria | 0 | 30 |
| % Deliveries assisted by a trained health worker | 67 | 80 |
| % Children 12-23 months old fully immunized (DTP3 proxy) | 44 | 68 |

Note: Baseline data taken from the KPC (Knowledge, Practice and Coverage) Survey conducted in 2001 in 33 districts across 6 provinces; cross-referenced with the 1997 DHS data for comparison/validity purposes.

* MOH vitamin A distribution data is based on commodities distributed, and so is less reliable than population-based data, as expected from DHS 2003. Baseline and target will be revised in Mission PMP

These indicators will be measured both at the national level and for the specific target area of the USAID direct program. Due to the relatively large expected target population, and additional systems strengthening support to the central MOH, USAID will project a reasonable attribution to national level improvements in the SO-level indicators of the program. Figures above are estimated for the specific target area. These, and national targets, will be revised as the Mission completes its PMP in consultation with USAID/Washington.

The last comprehensive nationwide health survey, the Demographic and Health Survey (DHS), was completed in 1997. USAID and the GRM are planning to complete another DHS in 2003 to provide a broad range of baseline health data for this strategy period. The survey will provide the needed data for IR and sub-IR indicators.

5. Linkages

The Mission intends to closely integrate HIV/AIDS related programs with health interventions across a number of bridge activities and through common community-based partner organizations. Several traditional MOH health services are clearly and closely linked to HIV/AIDS and USAID intends to follow the growing trend of integrated services in the context of prevention of mother to child transmission of HIV: strengthened peri-natal care with assisted deliveries at home or in health centers, family planning counseling for sero-positive women, aggressive screening and treatment of TB and other opportunistic infections, and active referrals to and from VCT within the circuit of maternity and other clinical services. Common target groups and risk factors for HIV strongly link the Health and HIV/AIDS SOs. The GRM has adopted an integrated approach to HIV/AIDS prevention and care including treatment of HIV opportunistic infections, nutritional support, prevention of vertical HIV transmission and an expanded home-care initiative. A reproductive health component supporting family planning and treatment of STIs will form a strong programmatic bridge with the Mission's HIV/AIDS interventions under SO9.

Strong commonalities exist with the Municipal Governance SO10 program to strengthen community participation and build a sense of accountability from public services to their client communities. SO10 activities will contribute to IR1 and IR2 through activities that

help community groups and leaders define and prioritize health care needs. SO 9 will also foster community-based oversight, which will play a role in quality control of local health service delivery.

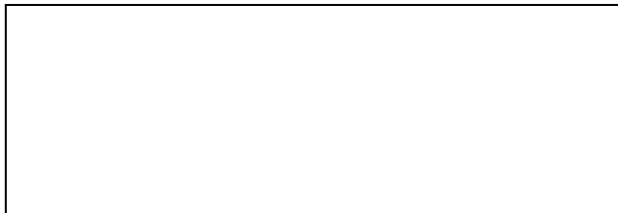
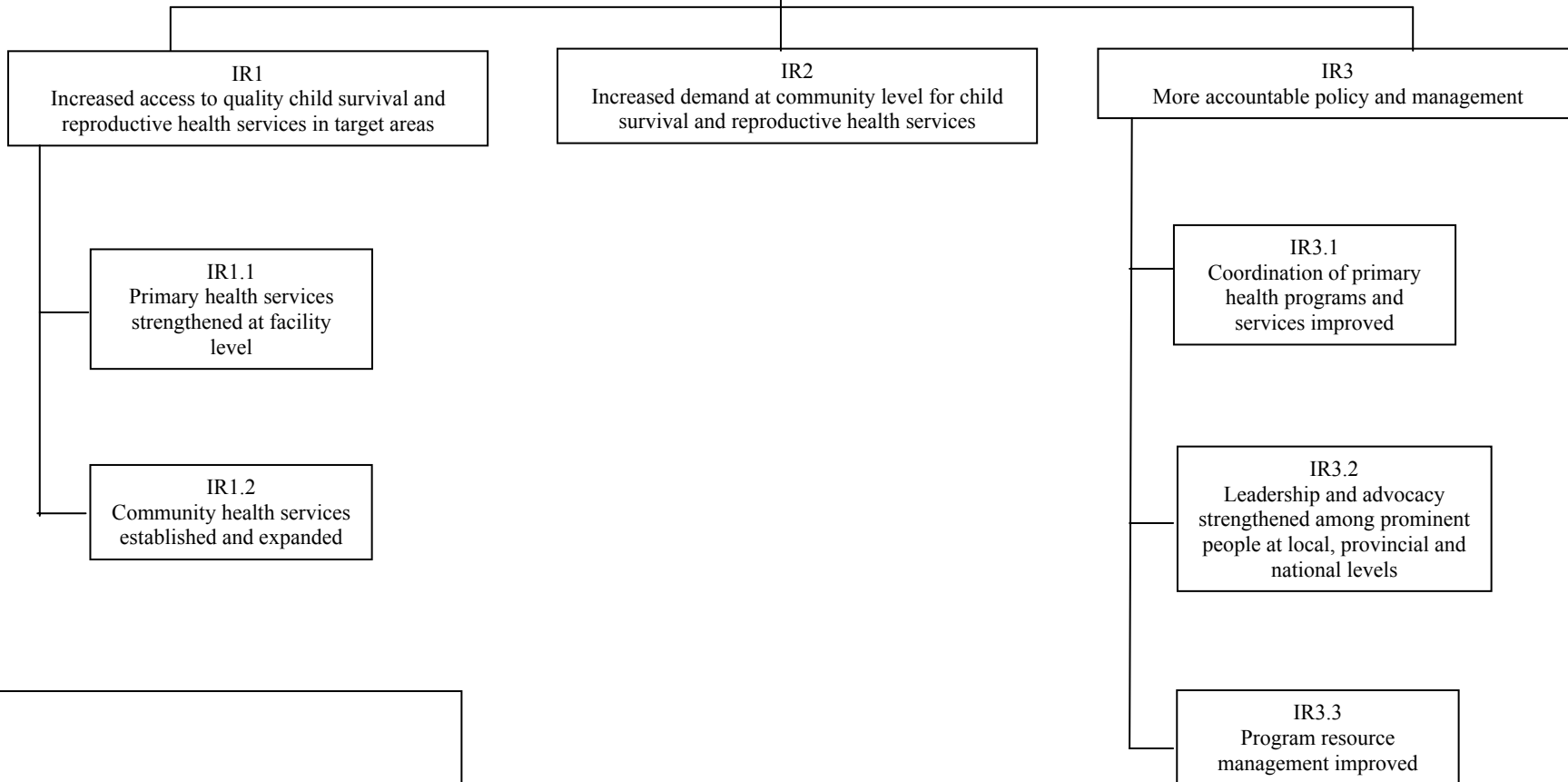
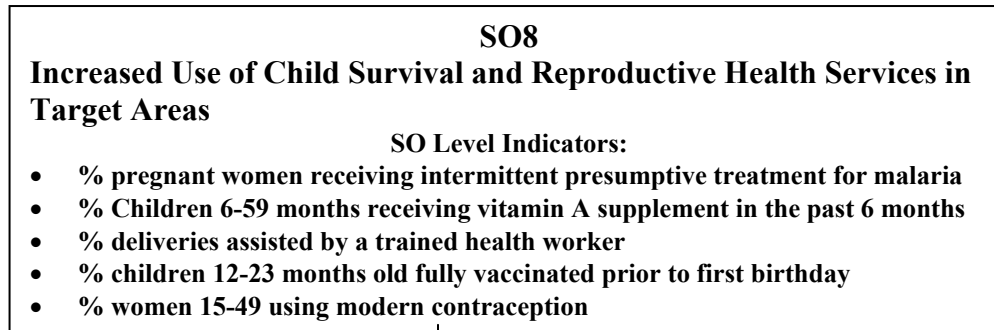
Under this program, health and nutrition activities will be linked with improved agricultural practices and choices of planting or purchasing nutritionally dense foods for family consumption. The health program will support enhanced community outreach through agricultural extension networks for nutrition and other health promotion. The Mission will organize a special nutrition unit with SO6 and SO8 technical expertise. As community involvement will be a strong focus of both the health and HIV/AIDS programs, there are expected to be opportunities to collaborate in strengthening local leadership and organizations. The Mission will ensure close collaboration between SO8 and SO9, and between these SOs and the SO10 democracy and governance portfolio as well.

Some major categories of interventions will be quite distinct, such as technical skills training and provision of equipment or supplies for health facilities. Others will be more integrated. One strong desire of the Mission and the MOH is to strengthen community involvement in decision-making for local health services. This is likely to involve strengthening local civil society organizations as well as local government administrative services. There will be common elements of advocacy, leadership strengthening, a shared focus on gender equity in decision-making, improved management capacity and transparency, and many other activities. As USAID moves to greater involvement of communities in health promotion, service outreach, and behavior change, the lines between the IR categories are expected to become more fluid.

Conformance with Donor and GRM Programs

SO8 will be implemented in close collaboration with the GRM, the MOH, and other donors and development partners. In addition, USAID will continue to collaborate closely with the family of UN agencies and other bilateral donors in designing the detailed SO8 program. This will help to promote equity in primary health delivery, ensure the effective use of available resources in the health sector, and emphasize each organization's comparative advantages.

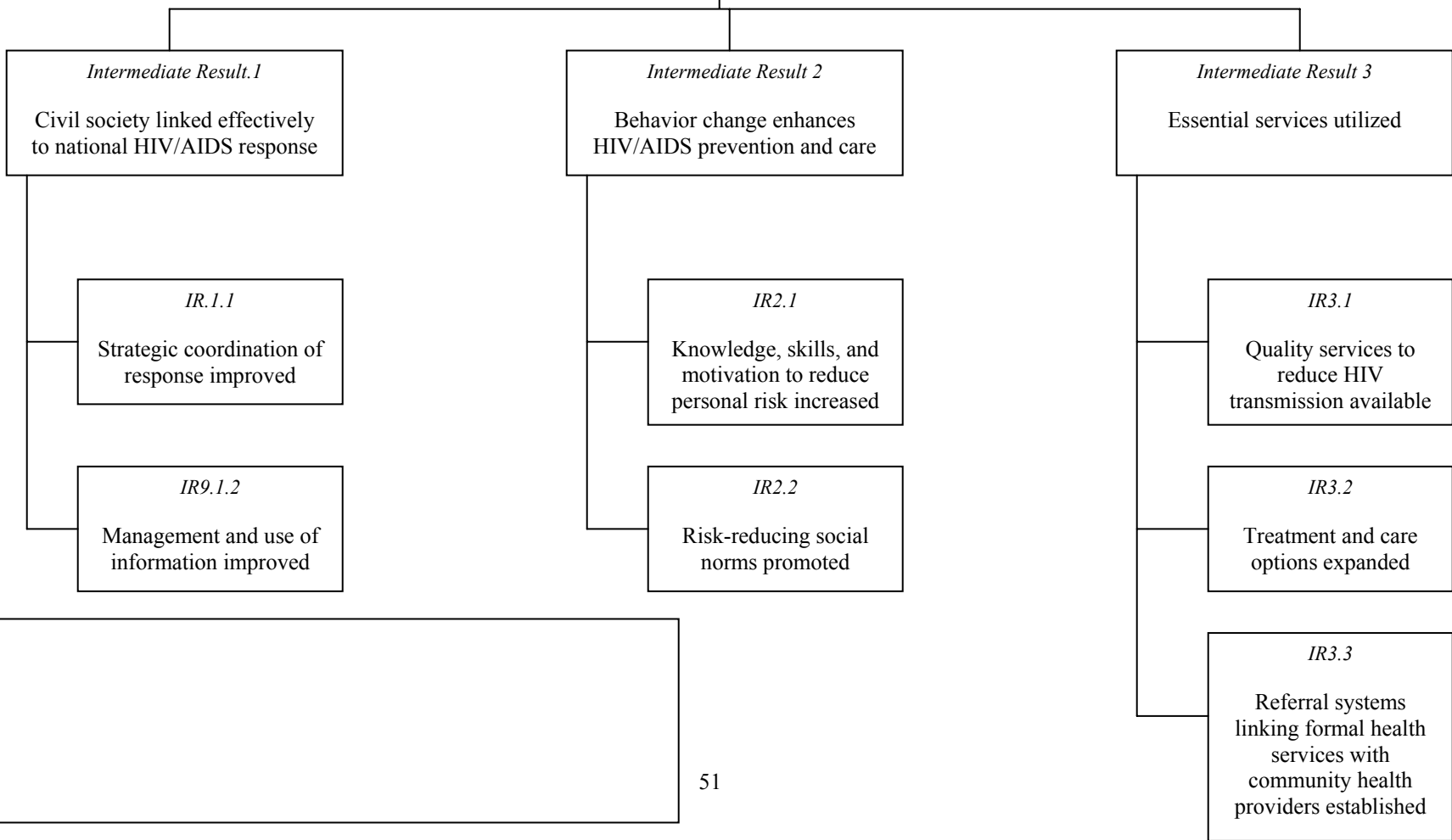
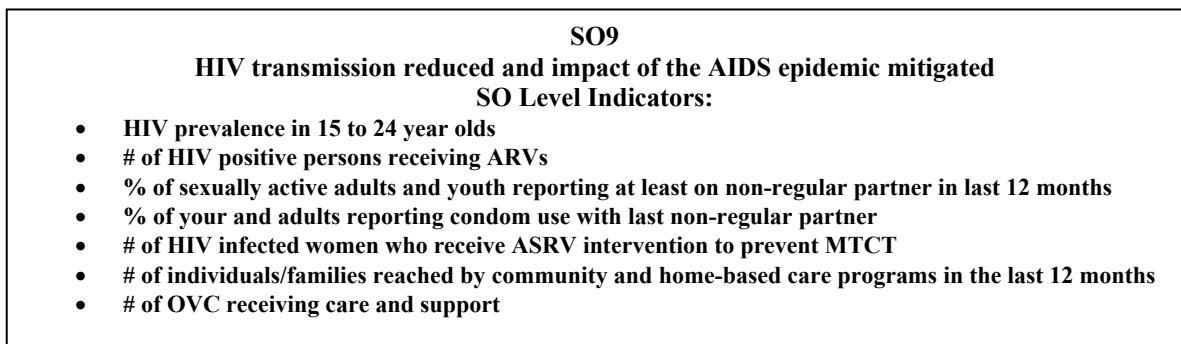
6. Results Framework



D. SO9 – HIV Transmission Reduced and Impact of the AIDS Epidemic Mitigated

USAID/Mozambique’s HIV/AIDS Strategy is currently still under review and pending USAID/Washington approval.

1. Results Framework



E. SO 10 - Municipal Governance Increasingly Democratic

1. Development Needs, Constraints and Opportunities and USAID's Comparative Advantage

On 4 October 2002, Mozambique marked the 10th anniversary of the General Peace Agreement - the peace that some doubted would hold after 16 years of bitter civil war. Since 1994, two genuinely competitive multiparty general elections were held, both won by the governing party. More political and economic competition, with space for open exchange of divergent views, is evident. In 1997 a law creating 33 municipalities represented an important first step towards the decentralization of power. The following year Mozambicans voted in the first municipal elections, albeit marred by a RENAMO¹² boycott.

While consecutive national elections, local elections and continuing parliamentary debate would suggest the consolidation of democratic values and practices, serious concerns remain about the prospects for democracy and good governance in Mozambique. USAID's September 2002 assessment of democracy and governance in Mozambique identified priority needs to advance the democratic system and good governance. The priorities are:

- more pluralistic and representative decision-making
- more open and transparent exchange of views, including increased social trust and tolerance for deliberation and bargaining
- more effective and efficient management of public resources and delivery of public services
- strengthened rule of law
- decentralization

FRELIMO, the governing political party, continues to dominate politics and governance at the central, provincial and district levels, blurring the lines between party and state. RENAMO has struggled to transform itself from a guerilla movement into a political party. Their 1998 municipal elections boycott cost the party the chance to demonstrate their capacity to govern in Mozambique. Besides poorly developed party politics, other factors, including a legacy of authoritarianism, poverty, illiteracy and isolation, contribute to a deficit in democratic culture in Mozambique.

Political competition, competition between branches of government, and competition of ideas are fragile. Participation of citizens in government decision-making outside electoral periods remains extremely limited. Across all these dimensions of democracy and governance, patterns of authoritarianism and patronage/clientelism are asserting themselves. The historic absence of a plural, democratic culture that regards government as an instrument of the people is a significant impediment to developing participatory democracy.

Corruption and poor service delivery erode public confidence in government and create disincentives for transparency and accountability. According to the landmark study on corruption by *Ética Moçambique*, 61% of Mozambicans were the direct victims of at least one act of corruption during the six months preceding the survey, and almost 20% fell victim

¹² RENAMO is Mozambique's main opposition political party.

to three or more such acts.¹³ Corruption is hardly limited to petty officials and bureaucrats. Mozambique's long borders and undefended coastline, poorly paid and trained police forces, and dysfunctional legal system make the country an easy target for organized crime.

Failure by the GRM to issue implementing rules and regulations related to municipal authority is a serious impediment to decentralization. In the areas of health and education particularly, there is overlap in the jurisdiction of municipalities and provincial governments which requires clarification. Revenues come from transfers from the national government, fees and license charges, and five different taxes collected by municipalities. In reality only one of these taxes is collected because the Ministry of Finance has failed to issue regulations for collection of the other four.

It is not common in Mozambican political culture, especially in rural areas, for citizens to criticize, question, make demands, or require explanation from government officials. Decision making through deliberation and bargaining is rare and views opposing those in power are generally not encouraged, articulated, or accepted. Compounding this is a low tolerance for dissent and general exclusion of many groups (e.g. women, youth, and political minorities) in political and economic decision-making.

1997 legislation established autonomous municipal governments in Mozambique. The municipal council is the executive body, with responsibility for strategic planning, budgeting, and reporting to the municipal assembly. The municipal president is elected directly and has responsibility for the day-to-day operations of the municipal government. The position carries the authority to grant licenses, sign contracts, and control expenditures. The municipal assembly, elected via party list system, has authority to approve regulations, plans and budgets, monitor the executive branch, and introduce and approve legislation.

Municipalities have financial and administrative autonomy and control over their own property, subject to national oversight. Municipalities are responsible for local roads, land zoning and licensing, cemeteries, markets, water and sewage, garbage collection, electricity and street lighting, facilities construction and maintenance (including schools and health facilities), sports and recreation, and environmental protection. Although municipal governments have yet to achieve a significant level of financial autonomy, they are the first and only local authority with an independent electoral basis in Mozambique's history. As such, their democratic development is vital for the improving political culture in Mozambique. Municipalities represent an excellent opportunity for increased competition related to economic and political decision making, and this fact is underscored by the likelihood of multiple parties competing in the upcoming municipal elections. There also seems to be growing support by both government and non-government actors for additional clarification and expansion of municipal authorities and autonomy. Constituents consider the country's initial attempts at decentralization to have been worthwhile. In fact, many municipal governments are reporting increased own-source revenue while their constituents applaud improved service delivery.

Mozambique's efforts at decentralization resulted in municipalities becoming models for more democratic governance due to greater opportunities by law for citizen participation and oversight. Municipalities are seen as a promising level for investment because of three additional factors: (1) substantial opportunity for involvement and impact on decision making

¹³ Ética Moçambique. Estudo sobre Corrupção em Moçambique. (Maputo: Ética Moçambique), June 2001, p. 41.

by multiple political parties; (2) less ‘interference’ from outside political actors and central government; and (3) citizens are more inclined toward participation and oversight when issues are involved that they consider closer to home.

The prospects for fighting corruption are also improving. The Attorney General’s Anti-Corruption Unit is hard at work and the unit’s first corruption cases are being investigated. Parliament is considering anti-corruption legislation that would strengthen the legal and institutional environment for prosecuting corruption: strengthen the authorities of the Anti-Corruption Unit; add new corruption-related crimes; and toughen requirements for public officials to declare their assets. Although political will and institutional capacity for fighting corruption are limited to a handful of individuals and institutions, demands from citizens, civil society, and the donor community for action are growing quite strong.

GRM Strategy

The GRM is undertaking reforms both in the legal and public sectors to address some of the constraints identified above, namely anti-corruption, civil service reform, citizen participation, service delivery, judicial reform, and reduced red tape. All of these contribute to the “good governance” identified as one of the six fundamental areas of action in the PARPA. The PARPA establishes “good governance” as “a fundamental condition for the success of the poverty reduction strategy” and “a critical factor for achieving rapid and sustained growth.” The PARPA also recognizes that poverty alleviation is more effective if economic and political decision-making is legitimized through citizen participation. The three priorities for the second wave of municipal governments are: greater financial autonomy through increased local revenues; increased citizen participation and oversight; and improved implementation of current municipal legislation.

USAID’s Comparative Advantage

Among donors in Mozambique, USAID has a unique history as a leader in promoting advocacy programs and assisting civil society organizations to become more effective agents of change. Such institutional knowledge will be instrumental in designing programs for the promotion of democratic governance. USAID’s standing among governmental and non-governmental partners as a technically competent and politically neutral development organization is also an advantage that the Mission can use to foster progress in improved local governance, greater citizen participation and the fight against corruption. USAID’s multi-sector approach will allow SO10 to leverage the Mission in-house expertise and program funding across the SOs working in private sector development, health, and rural incomes in the push for positive changes in local governance issues and anti-corruption.

With a proposed budget of under \$2 million a year and a time line of seven years, USAID will increase democratic governance via a demonstration effect, by fostering participation, transparency, and accountable governance in selected municipalities. Unlike many other donor programs that focus either on governmental capacity-building or civil society strengthening and advocacy, USAID’s approach builds sustainable bridges between these two equally important pillars of democratic governance.

2. Purpose, Definition and Development Hypothesis

The Municipal Governance SO will create models of democratic governance, characterized by accountable elected officials, increased civic action, more ethical public servants, and more administrative and financial capacity and autonomy. The Municipal Governance SO will lead citizens and government officials to demonstrate that civic participation is a shared responsibility and a prerequisite to more democratic municipal governance. This SO will also develop more inclusive community decision-making, and more responsive, transparent, and capable municipal governments that contribute to efficient and effective public service delivery, social and political stability, economic growth and poverty reduction. The increasingly democratic municipal governments fostered by this SO will play a vital role in increasing and sustaining the impact of a broad range of development projects. Strengthening of democratic governance is needed at all levels in Mozambique, however in this strategy, activities will be targeted and results will be measured at the municipal level. The approach outlined in this SO builds on USAID's past achievements in strengthening bottom-up pressure for development and reform. Targeted interventions at the provincial and central government levels are envisioned when deemed necessary for achievement of municipal level results.

As these results are achieved, citizens and government officials will come to value the mechanics and the benefits of democratic decision-making and good governance. Elected officials will increasingly work towards meeting the needs of their constituents recognizing the link between performance and elections. Targeted government officials will acquire the managerial and leadership skills to sustain and to advocate for accountable governance beyond the period of USAID assistance.

Support for anti-corruption initiatives is an area of special emphasis for the Municipal Governance SO. At the municipal level USAID has identified three forms of corruption that erode public confidence: (1) demands for or offers of bribes in routine service; (2) fraudulent procurement of goods; and (3) dispensing special favors to political leaders in exchange for political protection and career advancement. Activities will focus on all three forms of corruption with different approaches and degrees of intensity. Anti-corruption initiatives will target government service delivery at the local level with particular emphasis on the sectors of strategic importance to USAID, health, HIV/AIDS, agricultural marketing, and business registration/licensing. Recognizing that corruption is nationwide challenge and it includes forms that are more entrenched at central level, anti-corruption activities will also be conducted at the national and provincial levels, as funding permits. Higher level activities are required to strengthen the enabling environment for local action to reduce corruption, to promote civil society advocacy, and to strengthen enforcement mechanisms, by nature a national level activity. Complementary national level activities will also be included to strengthen the legal framework for fighting corruption and limited prevention and public education activities.

Geographic Focus

USAID will deliver a comprehensive package of training, technical assistance and commodity support in four to six municipalities. USAID will collect and compile information on the successful models and broadly share lessons learned in these target municipalities with the expectation that other cities will adopt successful approaches.

Five criteria will be used for selecting municipalities to be assisted under this strategy:

- a) Municipalities in USAID’s other SO geographic focus areas;
- b) Post-election balanced political makeup within municipal governments.
- c) Commitment by municipal authorities to participate in proposed reform initiatives
- d) Municipalities where population size is between 50,000 and 250,000; and
- e) Municipalities not receiving similar assistance from other donors;

Initial application of three of these five criteria results in the following eleven potential municipalities meeting the selection criteria. From this group of eleven, USAID will assist four to six, depending on funding available. Monitoring and evaluation data will be collected in all eleven municipalities, providing a comparison group to better gauge impact of USAID investments.

| | Population | Revenue Per Capita | Mission Focus |
|---------------------|------------|--------------------|---------------|
| Gaza | | | |
| • Xai-Xai | 150,000 | \$0.80 | Yes |
| • Chibuto | 85,000 | \$1.20 | Yes |
| Inhambane | | | |
| • Maxixe | 95,000 | \$1.50 | Yes |
| • Vilanculo | 50,000 | \$2.20 | Yes |
| Sofala | | | |
| • Dondo | 67,000 | \$4 | Yes |
| Manica | | | |
| • Chimoio | 190,000 | \$1.50 | Yes |
| Zambézia | | | |
| • Gurué | 110,000 | \$0.60 | Yes |
| Tete | | | |
| • Tete | 138,000 | \$2.10 | Yes |
| Nampula | | | |
| • Nacala | 220,000 | \$1.20 | Yes |
| • Angoche | 95,000 | \$0.60 | Yes |
| Cabo Delgado | | | |
| • Pemba | 90,000 | \$2.20 | No |

3. Intermediate Results and Illustrative Activities

IR1 Increased participation by citizens and civil society in target areas

IR1 will increase citizen and civil society capacity and demand to participate in community and municipal decision making resulting in more inclusive decision-making and bottom-up pressure for increased transparency and accountability. IR1 activities will also ensure that constituents are better informed about political and economic decisions and more actively conduct oversight of government activities. Emphasis will be placed under IR1 for communities to identify their role and contribution to the solution of common problems and development constraints, rather than solely depending on outside assistance. IR1 activities will also encourage citizens to denounce corrupt practices rather than accept bribery as an unavoidable element of government service delivery, and provide a vehicle for communication of citizen views on how to improve service delivery in various sectors to responsible public officials.

Illustrative Activities

- Support the constructive participation of citizens and community-based organizations in government-citizen Municipal Consultation Fora, assuring the participation of commonly excluded groups.
- Mobilize community groups to identify issues, develop civic coalitions, articulate needs and priorities, and muster community resources.
- Promote citizen understanding of the duties and authorities of municipal governments.
- Educate citizens on their rights and duties in order to reduce opportunities for corruption.
- Establish community watchdog and oversight mechanisms and channel feedback to service providers.
- Strengthen enabling regulation for citizen participation in municipal governance.

IR2 Targeted municipal governments demonstrate more democratic decision making

IR2 will improve the performance of targeted municipal governments by strengthening accountability, responsiveness and transparency. IR2 activities will establish systems and procedures that require elected officials to regularly inform citizens about their performance, implement community decisions and efficiently manage public resources.

Under IR2 activities will reduce opportunities for corruption in municipal governments and public service delivery institutions such as health clinics, schools, and business licensing services through improved staff and financial management, establishment of ethical standards for public servants, implementation of disciplinary actions against those that violate those standards, and improved oversight.

Illustrative Activities

- Establish government-citizen Municipal Consultation Fora to serve as vehicles for government-citizen dialogue and decision making and promote open information sharing.
- Provide technical assistance and training on planning, management, budget formulation and execution for assemblies and councils.
- Conduct ethics training for public officials.
- Design and implement a system of incentives (non-salary benefits and awards) and sanctions for municipal officials and service providers.
- Strengthen enabling regulations for municipal management and financial autonomy
- Support public awareness and anti-corruption advocacy campaigns.
- Strengthen institutional capacity for disciplinary action and criminal prosecution of corrupt officials.

Contextual Assumptions

- Political will and national support for decentralization continues.
- Elections will be free, fair, and transparent; the results will be accepted by major parties; and post-election Governments will function normally.
- Municipal governments and central authorities operating at the local level will cooperate effectively.

4. SO Level Indicators, Baselines and Targets

SO10: Municipal Governance Increasingly Democratic

| Indicators | Baseline 2004 | 2010 |
|---|---------------|------|
| Number of municipalities with operational plans reflecting expressed community priorities | 0 | 5/6 |
| Number of issue-oriented civic initiatives in target municipalities (per annum) | 0 | 20 |
| Number of municipal governments who openly share budget and operational plans with citizens | 0 | 6 |

IR 1 Increased participation by citizens and civil society in target areas

| Indicator |
|---|
| Percent of municipal projects with beneficiaries represented on planning, management and oversight committees |
| Number of members in community groups, disaggregated by M/F |

IR 2 Targeted municipal governments demonstrate more democratic decision making

| Indicator |
|--|
| Number of municipalities with functional systems to solicit citizen input for planning |
| Milestone progress on implementation of regulations by GRM related to municipal administration and financing |
| Number of municipalities and service providers that implement systems to promote ethical behavior and fight corruption |
| Number of policy issues raised by coalitions of municipal leaders to national government |

5. Linkages

USAID's Municipal Governance and Health SOs will be linked at the IR level. Municipal governance activities will contribute to IR1 and IR2 under the Health SO through activities that help community groups and leaders define and prioritize health care needs. SO10 activities will also foster community-based oversight, which should play an important role in quality control of local health service delivery. SO10's anti-corruption activities, such as ethics training, sanctions, and incentive mechanisms, will also contribute to better health service delivery leading to increased use of health services.

SO10's definition of community groups will include farmer associations and rural enterprises targeted by both the Rural Incomes and Labor-intensive Exports SOs. One area of immediate linkage between the SOs is in the improvement of municipal markets. The markets are important due to the services they provide to farmers and enterprises, and for the revenue collected by the municipalities.

The HIV/AIDS SO will be implemented in two corridors. The crucial role of community groups and leaders offers a natural link to the municipal governance IRs. These community groups identified under SO9 will be involved directly in Municipal Governance SO activities (e.g. priority setting, oversight, and service delivery).

Conformance with Donor and GRM Programs

A number of donors have projects to strengthen good governance at the sub-national level that are implemented through various methodologies. The following matrix presents information on other donor activities within municipalities.

| Donor Agency | Municipality | Activities |
|-------------------|---|---|
| Austria | Dondo, Beira, Marromeu | Water, agriculture, small and medium enterprises |
| Swiss Cooperation | Montepuez, Mocimba de Praia, Iha de Mocambique, Cuamba, Metangula | Financial training, small credit |
| Ireland | Vilanculos | Judicial training and good governance |
| NORAD | Pemba | Financial management training |
| The Netherlands | Nampula | Financial management, civil society support |
| Portugal | Nation wide training | Training of municipal officials, Sister City arrangements |
| UNCDF | Nampula | Participatory planning |
| European Union | Selected municipalities | Justice sector, corruption- district level |
| GTZ | Vilanculo, Chimoio, Sussunenga, Chibabava, Inhimanga | Municipal governance |
| World Bank | Maputo, Beira, Quelimane, Pemba, Chimoio, with possible extension to additional 'medium-sized' cities | Credit, legal reform, and municipal capacity development |

Discussions with other donors indicate that USAID's plan to target an additional four to six municipalities could very well ensure that all 33 municipalities receive some donor assistance during the strategy period. USAID's focus on medium sized municipalities will not duplicate other donor support, while at the same time presenting opportunities for coordination. The World Bank has approached USAID with an interest in coordinating support in some target cities. USAID will link IR2 activities to the World Bank's plans to standardize financial management systems; and link planning, dialogue, and oversight activities under IR1 to the World Bank's plans to create municipally managed capital investment funds.

6. Results Framework

