

Mozambique—The Elusive Quest for Pro-poor Growth

Mozambique's economy grew at a phenomenal 12% in 2002, with strong performance forecast for 2003. Despite several natural disasters over the past decade, Mozambique was one of the fastest growing economies in Africa. Per capita incomes almost doubled—from \$139 in 1990 to about \$220 in 2001, laying the foundation for achieving several of the Millennium Development Goal targets (table 4.1). This remarkable performance is attributable largely to the end of civil conflict and a comprehensive economic reform that abandoned central planning and embraced a market approach to growth and development.

The better policy environment brought in more official development assistance—averaging 60% of the government budget for 1996–2001. Those aid inflows have also catalyzed a surge in foreign direct investment to \$300 million a year, well above the African average. Mozambique receives more than \$40 per capita in aid flows, and gross investment stands at 30% of GDP—much higher than the African average of \$19 per capita in aid, and investment of 18% of GDP for 1995–2001.

Yet an estimated 64% of the population was below the poverty line in 2001, down from 69% in 1996 (Mozambique 2001). The reasons for the slow response of poverty to Mozambique's high rate of growth hark back to the aftermath of the colonial period, when the country was plunged into war. The conflict raged from 1975 until the 1992 Rome Agreement between the ruling Front for the Liberation of Mozambique (Frelimo) and the Mozambique National Resistance (Renamo).¹ The war polarized the population, devastated agriculture, and destroyed social and economic infrastructure, including much of the transport system. Despite attempts to target the poorest in society, many benefits of the recent economic growth have been channelled into social and physical infrastructure that benefits both the poor and the nonpoor.

If Mozambique sustains the current average GDP growth rate, spurred by manufacturing, and implements effective pro-poor action programmes, poverty could be reduced from 64% to between 32% and 36% by 2006.

Given the massive inflow of external funds, a major objective of macroeconomic policy has been to keep the economy from overheating, without diminishing government spending on poverty reduction and other social sector activities. The Bank of Mozambique's strategy has been to keep the bank rate high to minimize growth in demand for money. Rising oil prices could push inflation up in 2003, but it is expected

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to be in single digits, given the growth in the money supply and the improvement in the food supply. Annual inflation for 2002 was 9%, down from 22% in 2001, thanks to tight monetary policy and a 5% increase in cereal production. With the expansion in aluminium exports and the completion of the Pande Gasfield project, the country's balance of trade is expected to improve.

A major challenge is to implement second-generation reforms, such as privatization, decentralization of development programmes, and reform of public services, including the judiciary and tax administration. Earlier economic reforms eliminated subsidies and quantitative restrictions on imports, simplified import tariffs, and liberalized crop marketing. Foreign exchange and interest rates have also been liberalized, with macroeconomic policy adjusted accordingly.

Mozambique faces three big challenges:

- Reducing income and spatial inequalities.
- Reducing the vulnerability of the population to floods, cyclones, and drought, which in 2000 reduced GDP growth to a mere 1.6% from the previous average of 9%.
- Producing the human resources for effective fiscal decentralization and better public service delivery.

To meet these challenges pro-poor growth strategies need to be coordinated in a comprehensive framework, targeting agriculture, with the majority of the population engaged in subsistence activities. Of particular concern is the lack of credit for small businesses. A micro and rural finance system should be developed to help allocate resources efficiently. Capacity weaknesses in the public services have to be overcome through retraining and institutional reforms, and social infrastructure has to be expanded in rural areas. The domestic transport network, especially linking north and

Table 4.1
Mozambique's progress towards the Millennium Development Goals

Target	Will target be met?
Reduce extreme poverty by half	Possibly
Reverse the spread of HIV	Possibly
Reduce food poverty	Unlikely
Increase access to safe water	Unlikely
Achieve universal access to primary education	Unlikely
Eliminate gender disparity in primary and secondary education	Unlikely
Reduce under-five mortality rate	Unlikely
Reduce maternal mortality ratio	Possibly
Halt and begin to reverse the incidence of malaria	Unlikely
Integrate principles of sustainable development in policy	Possibly

Source: UNDP and Mozambique 2002.

south, needs attention. Transparency and accountability in public finance management has to increase significantly (box 4.1). Reform of the judiciary has to speed the effort towards good governance.

To promote democracy and good governance, President Chissano has announced that he will step down in 2004, and a new candidate has been nominated by the ruling party to contest the 2004 elections. But more needs to be done to promote faster national reconciliation and integration.

Macroeconomic developments

Economic growth is accelerating, export revenues are rising, and the structure of the economy is changing, with agriculture's share falling and industry's rising. Inflation is on the decline, and while financial sector recovery has been slow, social spending is up and military spending is down.

Economic growth—strong and accelerating

Real GDP growth is accelerating, from an average of 6.5% for 1987–96 to 11% in 1997–99 and 13% in 2001–02, though it dropped slightly to 12% in 2002 (figure 4.1 and table 4.2). The major sources of growth since 2000 have been post-flood reconstruction, the large investment in aluminium production, and recovery in agricultural output (Mozambique and EU 2002).

Export revenues in dollars increased, but the trade and current account deficits remained high due to the high import requirements of large projects, notably the Mozal aluminium plant and the gas pipeline (figures 4.2 and figure 4.3).

Sectoral performance—signs of structural transformation

The structure of the Mozambican economy, dominated by agriculture and services in the 1980s and 1990s, is changing as the aluminium and gas projects reach full capacity. The share of agriculture in GDP dropped from 34% in 1991 to 22% in 2001, while that of industry, buoyed by aluminium, gas, and electricity production, rose from 9.2% to 26% (figure 4.4 and table 4.3). The industrial sector is thus poised to become the country's largest sector, with growth of 34% in 2001 and an estimated 12% in 2002, with 6% growth in manufacturing and 108% growth in construction works related to the gas pipeline and other big projects.

Agriculture—imperative for modernization. Mozambique has great potential for faster agricultural growth, especially for export. Agriculture is the main source of livelihood for rural households, 80% of the country's population. The principal cash crops are cotton, cashews, maize, tobacco, sugar, coconut, tea, and fruit. The largest export earners are prawns, cotton, and cashews. Prawn exports in 2001 amounted to \$86 million, and cashew exports to about \$13 million. Cotton has a workforce of about 250,000 farm households, and annual exports of more than \$20 million.

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Box 4.1

What do residents want the government to know and do?

Area	Issues, concerns, and suggestions
<i>Governance</i>	<ul style="list-style-type: none">• Commitment to public sector reform is evident from the top of the political hierarchy but not middle-level personnel.• Reorientation and retraining of middle-level personnel is required.• Decentralization is a key factor in improving public service delivery and reducing corruption.• Progress on decentralization is too slow.• Human and material capacity at the local government level are weak.• An independent judiciary must be ensured.• Progress on judicial reforms is too slow.• Pace towards national reconciliation and integration is slow.
<i>Trade and investment</i>	<ul style="list-style-type: none">• The Investment Promotion Centre should be strengthened and made independent of the Ministry of Planning and Finance.• Incentives created for foreign direct investment should be extended to local investors, particularly in agriculture and industry.• Small and medium-size enterprises face management and financial problems, due to weakness in human resource capacity and in the banking system.• Customs and tax regulations are cumbersome and uncertain, with a lack of coordination among revenue agencies.• Business wants a logical, rational tax system—not necessarily lower tax rates—to reduce uncertainty in financial planning.• The high value-added tax (VAT) rate is encouraging underground cross-border trade, undermining local legal business. Prompt refunds of VATs must be ensured.• Opportunities for trade—under the South African Development Community, World Trade Organization, U.S. African Growth and Opportunity Act—are growing but the capacity of local firms to meet international standards is low. Need a national trade strategy incorporating training, research, information-sharing, technology, and finance and a supportive regulatory environment.
<i>Business and regulation</i>	<ul style="list-style-type: none">• Many rules and regulations—particularly for registration, licensing, and corporate taxation—are outmoded, cumbersome, and ambiguous.• Due to underfinancing from central government, municipalities harass local businesses for revenue.
<i>The rural poor</i>	<ul style="list-style-type: none">• Measures may be needed to reduce the impact of trade liberalization on the rural poor in agriculture and agro-processing.

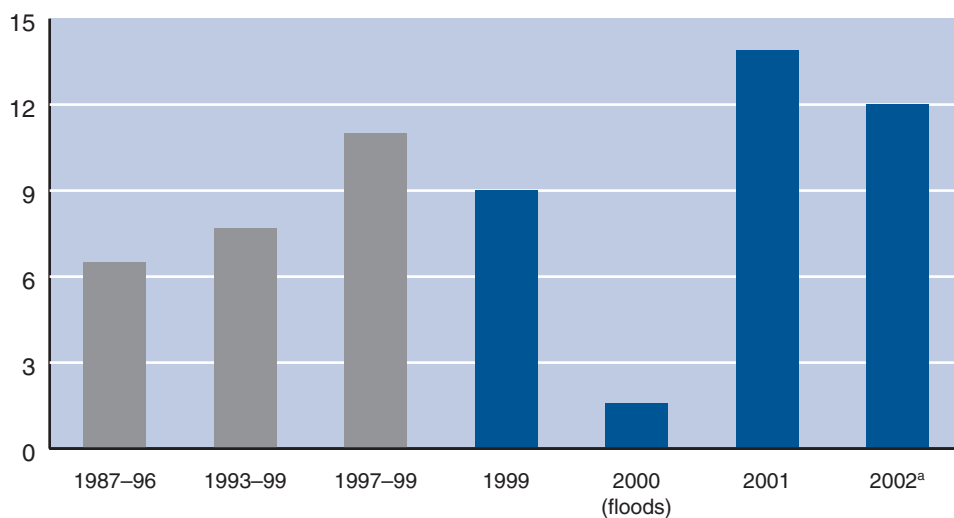
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Box 4.1 (continued)

What do residents want the government to know and do?

<i>The rural poor (continued)</i>	<ul style="list-style-type: none">• Access to primary, secondary, and tertiary education is key to rural poverty reduction. Teachers and private investors need incentives to move to rural areas.• The agro-processing business for cashews, sugar, and fish needs to be revived.• Food security should be strengthened by installing rural food storage facilities, improving transportation networks, and providing small irrigation facilities.
<i>Financial sector</i>	<ul style="list-style-type: none">• Interest rates are too high.• The central bank needs to develop an effective microfinance system, linking informal and rural business to modern banking and finance with a supportive policy and regulatory environment.
<i>Education and training</i>	<ul style="list-style-type: none">• Lack of an educated and skilled workforce could hinder long-term growth.• Access to education is a key to reducing poverty and inequality.• Private participation in the provision of higher education and professional training must be facilitated.
<i>Infrastructure and utilities</i>	<ul style="list-style-type: none">• The infrastructure linkages between regions and provinces need to be strengthened.• Effective competition in the sector should be ensured.
<i>Labour laws</i>	<ul style="list-style-type: none">• Regulations for hiring foreign workers are too cumbersome. Obtaining a work permit is time-consuming.• The bureaucracy intervenes too much in industrial relations.• Modern, flexible, and user-friendly labour laws are needed.• The industrial labour force needs training and re-orientation from its socialist mindset.
<i>Land acquisition</i>	<ul style="list-style-type: none">• Land is not easily marketed. It is vested in the government but changing hands on the black market at exorbitant prices.
<i>Medium-term economic prospects</i>	<ul style="list-style-type: none">• Weak, because of the high failure rate of local enterprises. There is a need for national corporate empowerment.• Good, because improved governance is generating inflows of foreign direct investment and donor funds and new opportunities for trade in agro-industry and tourism. Implementation of reforms, especially in governance and business regulations, and commitment to the rule of law must be adhered to.

Source: Economic Commission for Africa, from official sources.

Figure 4.1*GDP rising, with one bad year and down a bit in 2002***Real GDP growth, 1999–2002 (%)***a. Estimated.***Source:** Economic Commission for Africa, from official sources.**Table 4.2****Macroeconomic trends, 1999–2002**

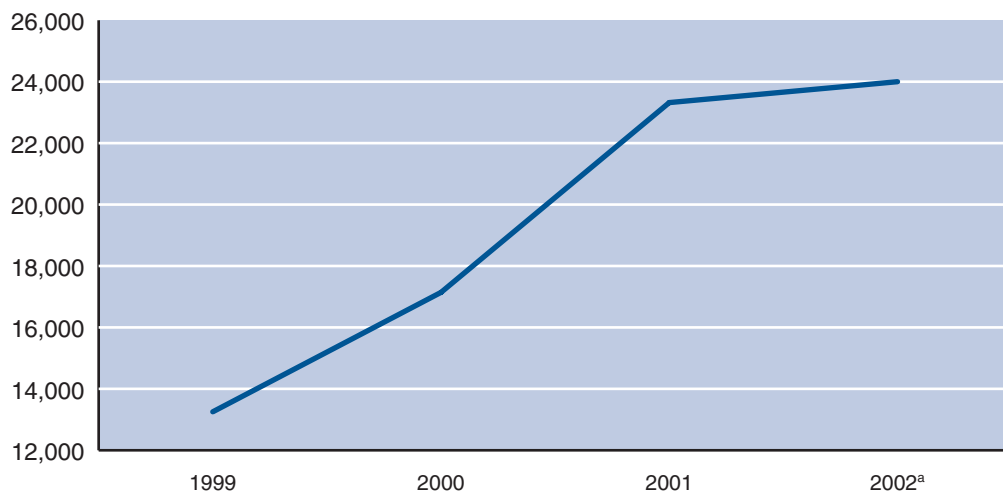
Indicator	1999	2000	2001	2002 ^a
Real GDP (US\$ billions)	4.1	3.9	3.8	4.4
Real GDP growth (%)	7.5	1.6	13.9	12.0
Inflation, end of period (% year on year)	4.8	11.4	21.9	9.1
Exchange rate (meticaïls per dollar, end of period)	13,253	17,141	23,320	24,000
Exports (fob, US\$ millions)	284	364	704	850
Imports (fob, US\$ millions)	1,090	1,162	1,300	1,400
Trade balance (fob, US\$ millions)	-806	-798	-596	-550
Current account balance (US\$ millions)	-912	-880	-736 ^a	-700
Reserves (excluding gold, US\$ millions)	652	725	716	790
Import cover (months)	5.2	5.4	4.9	5.0
Total external debt (US\$ billions) ^b	5.65	5.37	5.0 ^a	6.0
External debt to GDP ratio (%) ^b	138	146	153 ^a	189
Net foreign direct investment (US\$ millions)	382	139	255	805
Net official development assistance (US\$ millions)	804	876	540 ^a	565

*a. Estimated.**b. Before debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative.***Source:** Economic Commission for Africa, from official sources.

Figure 4.2

Metical slipping against the dollar

Nominal exchange rate, 1999–2002 (metical per dollar)



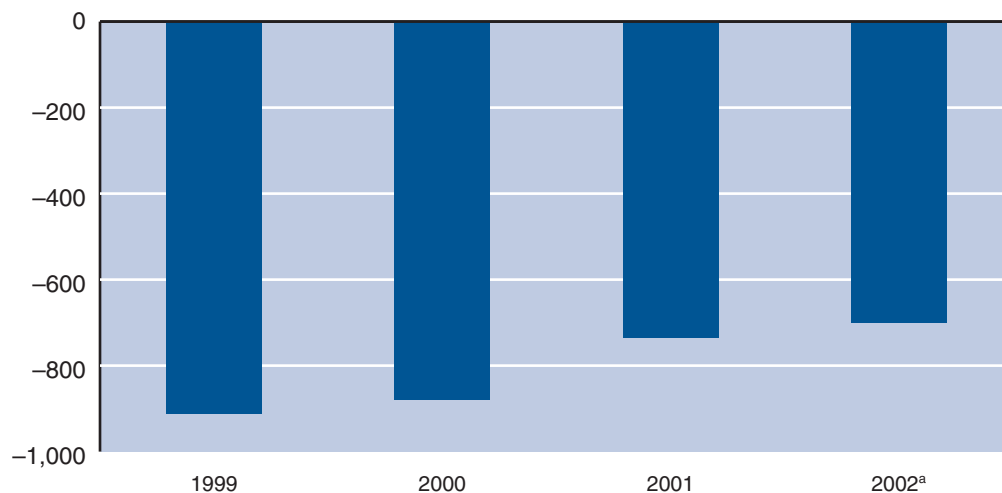
a. Estimated.

Source: Economic Commission for Africa, from official sources.

Figure 4.3

Trade balance gradually improving

Current account balance, 1999–2002 (US\$ millions)



a. Estimated.

Source: Economic Commission for Africa, from official sources.

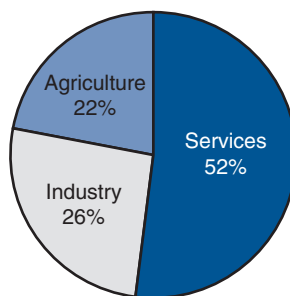
“*Small irrigation schemes could provide some protection for poor farmers against both floods and drought, helping to stabilize production and boost incomes*”

About 46% of the country’s land area is suitable for agricultural production, but the supportive environment—the production, storage, and distribution infrastructure, credit and extension services—necessary for take-off is lacking. Largely rainfed, agriculture is dominated by smallholders, with an average farm size of 2.4 hectares and low yields.² Of the arable land area of 36 million hectares, only 5.4 million hectares (about 15%) are under cultivation and only 120,000 hectares are irrigated.

But the country’s agriculture is subject to severe droughts and flood in the south and devastating cyclones in the north. In 2001/02 drought in the south cut the region’s cereal production by a third, leaving half a million people at risk of famine (table 4.4). Small irrigation schemes could provide some protection for poor farmers against both floods and drought, helping to stabilize production and boost incomes.

Cashew production, once the most important source of livelihood and export earnings, virtually collapsed with the closing of processing plants (box 4.2). In May 2002 a new plant was opened in Namige, Nambula Province. Research findings show that labour-intensive techniques, not the highly mechanized factories of the past, could add value to processed nuts at a competitive cost, making local processing internationally com-

Figure 4.4
Industry poised to become largest sector
Sectoral distribution of GDP, 2001



Source: Economic Commission for Africa, from official sources.

Table 4.3
Average annual sectoral growth rates, 2000–01 (%)

Sector	2000	2001
Agriculture	-10.3	14.0
Mining	-29.4	12.6
Industry (manufacturing and construction)	4.3	34.1
Services (trade, transport, and communications)	11.3	-8.3
All sectors	1.6	13.9

Source: Economic Commission of Africa, from official sources.

petitive (McMillan, Rodrik, and Welch 2002; Mozambique, Ministry of Agriculture 2001). A World Bank (1995) study had shown that the value added by the mechanized processing industry was marginal or negative in 1988–92.

Fisheries accounted for almost 40% of Mozambique’s exports in 2001. Direct employment in the sector is estimated to be between 75,000 and 80,000, 90% of them artisanal fishers or people associated with handling and distributing an artisanal catch (Nathan Associates 2002). Almost no growth is expected from fisheries in 2002, because of measures to conserve prawn stocks.

Sugar is now receiving government support to improve the regulatory environment and access to credit—and to attract more investment, particularly from Mauritius and South Africa. Showing the sector’s export, employment, and poverty reduction potential, several

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Table 4.4
Cereal production, 2001/02

Region	Volume of output (thousand tons)	Change from previous year (%)
North	619	22
South	163	–34
Centre	992	6
National	1,773	5

Note: Cereal comprises maize, sorghum, rice, and millet, in order of volume.

Source: EIU 2002.

Box 4.2

When economic reform goes wrong: cashews

In the 1960s Mozambique produced half the world’s cashews, with production at 156,000 tons in 1964. In 1975 the government banned the export of raw cashews, and the country became the first in Africa to process cashews on a large scale, with 14 processing factories by 1980. In 1992 the export ban on raw cashews was lifted as part of a policy reform agenda proposed by the World Bank. An export tax of 20–40% of the fob price was imposed in 1994, gradually reduced to 14% by 1997. It was hoped that resources would be allocated more efficiently and the incomes of cashew farmers would be boosted. Competition among buyers increased the farmgate prices of raw cashews, though only about 40–50% of this rise went to farmers (around \$2.1–2.6 million). The rest went to traders.

Liberalization effectively killed cashew processing because plants were not efficient enough to withstand the competition. Of the sector’s labour force of 11,000, 90% lost their jobs. It is estimated that poor households and workers lost \$3.5–4.0 million as a result of the liberalization policy—simply because the dynamic consequences of the policy on an imperfect market situation were not adequately addressed.

Source: Adapted from McMillan, Rodrik, and Welch 2002.

scientific studies justify continuing government support (box 4.3). Three processing plants have been rehabilitated to ensure a steady market for higher farm production, generating an estimated 20,000 new jobs.

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Industry, mining, and construction have been the fastest growing sectors over the last 10 years, and aluminium has been a major source of growth of manufacturing output
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Industry, mining, and construction. Industry, mining, and construction have been the fastest growing sectors over the last 10 years, with growth rates of 10%, 12%, and 54% in 2001. Metallurgical products, beverages, and food processing lead manufacturing. Aluminium has been a major source of growth of manufacturing output. BHP Billiton Aluminium SA is expanding its plants in the country, at Mozal 2, to double its aluminium production to 500,000 tons. Sugar processing is receiving more attention, with investments expected to reach \$312 million in 2005.

Mining—mainly marble, granite, gold, and bauxite—contributes 2% of GDP and 7% of exports. The unlicensed production of gold and gemstones, not included in official statistics, is said to be on the increase, with an estimated 50,000 artisanal workers in alluvial gold and gemstone work. The titanium project by Southern Mining Company, on its completion in 2006, will be the country's largest mining enterprise. Construction is due to start in 2004, involving an investment of about \$1.5 billion, \$495 million in the first phase alone. In addition, Kenmore Resources of Ireland has entered into the development and construction stage of its titanium project in the northern province of Nambula.

A major constraint facing these growing sectors: human resources. Professional and other high-skill workers are not readily available, and recruitment of expatriates faces cumbersome administrative procedures.

Services. Services are dominated by internal trade, transport, and communication—and government services. Tourism's contribution is small, even though the country boasts exceptional flora and fauna. The Investment Promotion Centre has identified tourism as one of the most viable investment opportunities in the country. Most tourism investments

Box 4.3

Sugar production has great potential for poverty reduction

Sugar production can do much to reduce poverty—through direct and indirect employment creation and income generation. Employment is projected to reach 21,000 full-time and seasonal jobs, at an average capital expenditure of \$20,000 per job, and domestic consumption is increasing. Market access to the South African Development Community and EU amounts to 160,000–280,000 tons a year. Currently a net importer of sugar, Mozambique has the potential to produce 428,000 tons a year. With an average field and factory cost of \$180 a ton, it has the potential to be one of the lowest cost global producers of sugar. Investment in sugar is projected to reach more than \$300 million by 2005, but it needs supportive trade and investment policies to realize its full potential.

Source: FAO 2000.

are for beach destinations, such as the Sodetur-Balanchard project, estimated at \$800 million. Other attractions include the Bazaratu Archipelago and the Ibo Islands. The new Ministry of Tourism has identified several community-based ecotourism projects (around the Gorongosa National Park and the Ponta do Ouro zone), good for poverty reduction and conservation. But the lack of air and road transport and telecommunications poses a major constraint to tourism development.

Mozambique has focused on developing transportation corridors to capitalize on its natural resources and trading location. The demand for transport and shipping facilities is high among the three neighbouring landlocked countries—Malawi, Zambia, and Zimbabwe—as well as South Africa. In 2000 the three main ports of Maputo, Beira, and Nacala and the two secondary ports of Quelimane and Pemba handled about 6 million tons of cargo for Mozambique’s neighbours, 48% of it for Zimbabwe and 34% for South Africa (Mozambique and EU 2002). Development of the Maputo Corridor between Maputo Port and Witbank, South Africa, could reduce travel distances and facilitate exports and foreign investment. But north-south road links are still poor and vulnerable to natural disasters.

“*Inflation slowed in 2002, a result of tight monetary policy and higher cereal production*”

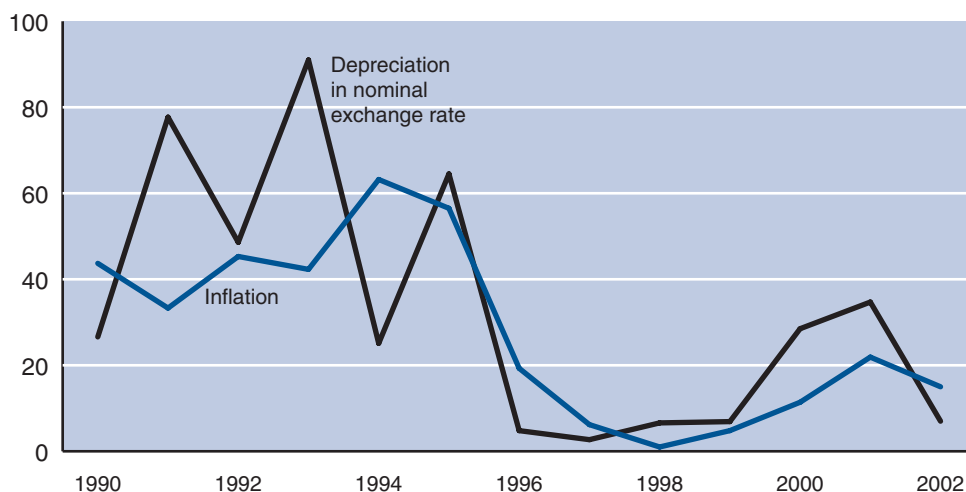
Monetary policy—inflation on the decline

Inflation slowed in 2002, to 9.1% from 21.9% in 2001 (figure 4.5), a result of tight monetary policy and higher cereal production. Holding the increase in the minimum wage to 22%, the rate of inflation in 2001, helped contain cost inflation. (Before 2002

Figure 4.5

Exchange rate down—inflation stabilizing

Inflation and exchange rate movement, 1990–2002 (%)



Source: Economic Commission for Africa, from official sources.

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the minimum-wage increments had exceeded the previous year's inflation rate, stoking inflation.) Higher reserve requirements (from 7.9% in 2000 to 11.5% in April 2002) and treasury bill rates (from 21.4% to 31.7%) also helped slow inflation. Reinforcing the measures: strict monitoring of prudential norms by the central bank.

To sterilize the increased liquidity caused by foreign aid inflows and the impact of treasury operations, annual expansion of the money stock (M2, currency in circulation plus current and time deposits) has been set at 19%. In 2001 and 2002 the growth in M2 was 25%, better than the 42% in 2000 (Bank of Mozambique 2001, 2002). The main sources of monetary expansion in 2002 were the increase in credit to the economy, the exchange rate depreciation (which resulted in a revaluation of deposits denominated in dollars and other foreign exchange), and deterioration in the net position of government accounts with the banking sector—together accounting for more than 80% of the growth in M2. Credit to the economy increased 23% between December 2001 and June 2002, with about 82% to the private economy. The largest beneficiaries were industry (18%) and agriculture (16%), where 55% of net credit went to capital investments.

Exchange rate depreciation slowed with restrictive monetary policy, higher aluminium exports, and rising donor and foreign direct investment inflows. The local currency slipped by less than 4% in 2002. Nominal exchange rate depreciation has generally been above annual inflation, implying a depreciation in the real exchange rate, improving the competitiveness of Mozambique's exports (Bank of Mozambique 2001).

Financial sector—recovering slowly

The financial sector's health has been closely linked to that of the two largest banks, Banco Austral and Banco Commercial de Moçambique (box 4.4). Nonperforming loans, poor loan recovery, and links to the country's elite call for comprehensive reforms—and for strengthening the regulatory oversight of the banking sector, to maintain investor confidence.

Given the high cost of recapitalizing the failing banks, costs that compete with pro-poor expenditures, strengthening banking supervision should be a government priority. The supervision department of the central bank should receive full authority to implement prudential regulations. Banks should be monitored for compliance with the recently introduced monthly reporting on capital adequacy ratios—and penalized for incomplete or erroneous data. To send a strong signal that the government will not bail out ailing banks, it needs to divest its holdings in the banking sector.

Fiscal policy—military expenditures down, social spending up

The structure of public expenditures has changed significantly since the 1992 peace accord. Reported military expenditures dropped from 10% of GDP in 1990 to 2.4% in 1999. Social expenditures have increased—to rebuild the economy, reduce poverty, and improve literacy (table 4.5).

The aim of fiscal policy is to rebuild the country's economic and social infrastructure and stimulate growth while keeping inflation low. That requires elimination of monetary financing of the budget deficit and the adoption of overall parameters for both external and domestic debt policy and sustainability (World Bank 2001b).

Net domestic financing of the budget deficit declined from 1.8% of GDP in 1992 to -1.2% in 1994 and remained negative until 2001, consistent with the central bank policy of not monetizing fiscal deficits. In contrast, net external borrowing has averaged

Box 4.4

Privatizing major banks to avert a financial meltdown

Banco Austral and Banco Comercial de Moçambique, two of the four major commercial banks in Mozambique, had 47% of the credit market, 48% of deposits, and 62% of bank branches in 2000.

After Banco Austral was privatized in 1996, it started recording heavy financial losses, which led to the withdrawal of the successful bidder. Several of the bank's nonperforming loans were linked to powerful political figures. An attempt to investigate these loans led to the death of a central bank official, Antonio Siba-Siba, in August 2001. In advance of its sale the bank was restructured by the central bank to protect banking sector integrity. Banco Austral was successfully re-privatized in December 2001 and sold to the Amalgamated Banks of South Africa in 2002, for \$10 million.

Before Banco Comercial de Moçambique, a former state-owned bank, was privatized in 1996, \$14 million was stolen from the bank's vaults. Carlos Cardoso, a newspaper editor investigating the fraud, was murdered. In 2001 the government merged Banco Comercial de Moçambique with Banco Internationale de Moçambique, which increased its share of the credit market to 56%, up from 16% in 2000. The merger is a major step in cleaning up the banking sector and establishing confidence.

Source: Economic Commission for Africa, from official sources.

Table 4.5

Fiscal performance, 2000–02

Indicator	2000	2001	2002 ^a
Government expenditure (trillions of meticais)	16.6	22.7	27.4
As % of GDP	28.1	28.9	32.3
Social expenditures (% of government expenditure) ^b	28.6	30.4	35.8
Total domestic revenue (trillions of meticais)	7.5	9.6	11.2
As % of GDP	12.6	12.3	13.2
Fiscal deficit, excluding grants (trillions of meticais)	11.1	13.1	16.2
As % of GDP	15.5	17.6	19.1
Grants as % of GDP	10.9	12.3	10.8

a. *Estimated.*

b. *Includes only education and health expenditures.*

Source: Economic Commission on Africa, from official sources.

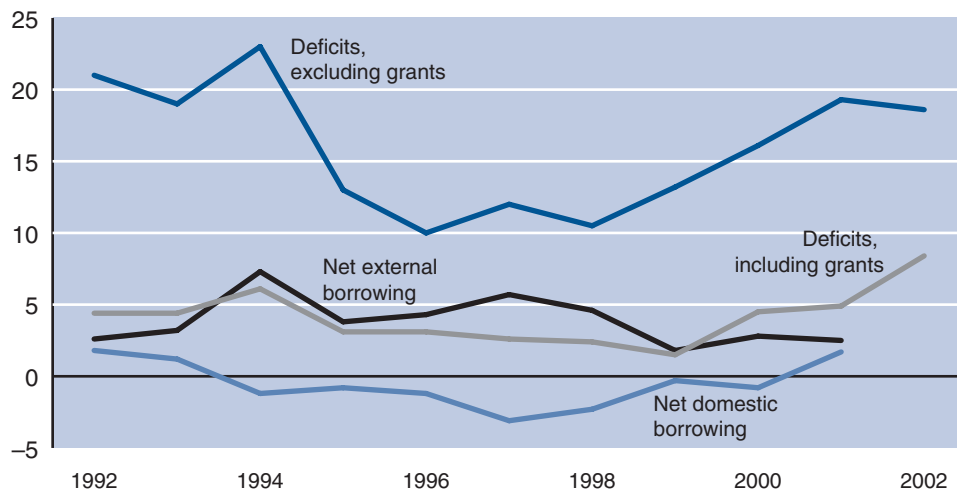
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With tax revenue at 13% of GDP, Mozambique needs to mobilize domestic revenue and adjust expenditures to ensure sustainability
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3% of GDP since 1992, peaking at 7.3% of GDP in 1994. Excluding grants, deficits fell from 21% of GDP in 1992 to 10% in 1996, but then rose to 20% in 1998. Including grants, deficits declined from about 5% of GDP in 1992 to less than 2% in 1999, but are also rising, reflecting the underlying fiscal expansion and domestic funding of poverty-related activities.

Overall, the fiscal situation continues to suffer from high deficits and heavy aid dependence (figures 4.6 and 4.7). Grants, external borrowing, and debt relief through the Heavily Indebted Poor Countries (HIPC) Initiative provided 49% of the funding for public expenditures in 2000, 51% in 2001, and 49% in 2002. With a large amount of additional external assistance not passing through the treasury account at the central bank, fiscal sustainability is a serious challenge.³

With tax revenue at 13% of GDP, well below the Sub-Saharan average of 18–20%, Mozambique needs to mobilize domestic revenue and adjust expenditures to ensure sustainability in the medium term. A 17% value-added tax was introduced, but given the regressive nature of indirect taxation, revenue growth has to be supported by increasing the scope and efficiency of income tax administration. New tax regulations meant to broaden coverage, particularly to corporate and personal incomes, were approved by parliament in April 2002. Under the new regulations, the personal income tax bracket has been extended from 10–20% to 10–35%, and the tax break enjoyed by civil servants to compensate for their low pay has been removed. In addition, the new tax regulations seek to ensure greater coordination and sharing of information between the tax administration and customs, through a computerized management information

Figure 4.6
High deficits and aid dependence
Fiscal performance and borrowing, 1992–2002 (% of GDP)



Source: Mozambique, Ministry of Planning and Finance 2002b.

system. The authorities are also planning to improve public financial management through more effective auditing and budget execution.

Coordination between the government and donors has improved, but project aid that bypasses national priorities is fragmenting ministries, weakening national identity, and undermining authority (OECD 2002). That makes it crucial to develop and implement an accounting and disbursement mechanism that coincides with the government's financial management system.

External trade—new trading partners

The EU share of Mozambique's exports dropped from 35% in 1990 to less than 30% in 1999. The import share fell from 33% to less than 16%, while South Africa's share increased to 44%. Mozambique overtook Zimbabwe as South Africa's largest African trading partner in 2001.

The composition of exports is changing from largely agriculture and fisheries to merchandise. Total merchandise exports rose from \$364 million in 2000 to \$704 million in 2001, an increase of 93%. Aluminium exports from the Mozal smelter accounted for \$384 million, about 55% of merchandise exports, up from \$60.2 million a year before.

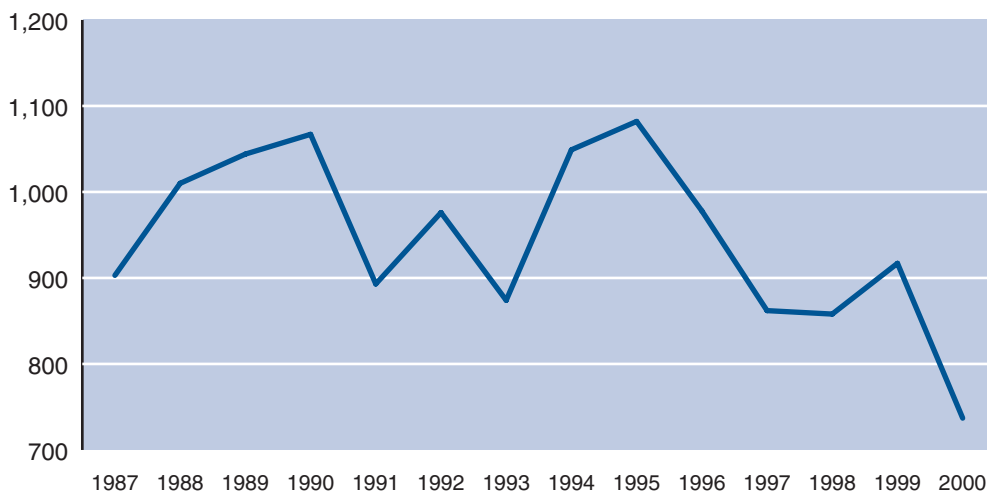
Imports of roughly \$1.2 billion a year comprise mainly raw materials, industrial equipment, and consumer goods. In 2001 imports for the Mozal plant and raw materials accounted for nearly half the total, and consumer goods for about a quarter.

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Figure 4.7

Heavy aid dependence

Aid flows to Mozambique, 1987–2000 (US\$ millions)



Source: UNDP and Mozambique 2002.

“ Under the new Southern African Customs Union, Mozambique will benefit from the elimination of the common external tariff ”

Exports covered only a third of imports in 2000 (table 4.6). But with the Mozal aluminium plant, that improved to 54% in 2001 and 61% in 2002, for a current account deficit of 18% of GDP in 2002. External debt service in 2002 was about 5% of exports, compared with 9% in 2000 and 3.6% in 2001, the decline in 2001 resulting from HIPC debt relief and increased aluminium exports.

Mozambique is implementing a formal trade strategy to modernize the economy and take advantage of opportunities from the World Trade Organization (WTO) and the Southern Africa Development Community (SADC). The SADC Trade Protocol, which establishes a free trade agreement among the 14 member states, became effective in September 2000. Mozambique’s southern provinces are rapidly converging with their South African neighbours, with travel and trade on the increase.

The benefits of closer regional integration have already appeared in the trade with South Africa and in higher revenues from the transport corridors to Mozambique’s ports. Mozambique has several new export opportunities within the region, which already accounts for 46% of its exports. But the crisis in Zimbabwe, though it has led to some movement of farm investment towards Mozambique, has poisoned the regional investment environment.

Under the new Southern African Customs Union (with Botswana, Lesotho, Namibia, South Africa, and Swaziland), Mozambique will benefit from the elimination of the common external tariff. In 2002 the base tariff on clothing exports from Mozambique was reduced from 72% to 25%, and that on fishery products, fruits, and vegetables to zero. Mozambique is a crucial transit country in the Zambia–Malawi–Mozambique Growth Triangle. In addition, certain Mozambican products are no longer subject to quotas under a bilateral trade agreement with South Africa.

In December 2001 Mozambique was declared eligible for duty-free trade privileges under the U.S. African Growth and Opportunities Act after fulfilling the conditions of progress

Table 4.6
External trade, balance of payments, and debt, 2000–02

Indicator	2000	2001	2002 ^a
Exports (% of imports)	31.3	54.1	60.7
Trade balance (% of GDP)	-20.8	-18.4	-13.7
Current account balance (% of GDP)	-27.7	-23.6	-17.6
Nominal depreciation of the metical against the dollar (annual %)	28.5	34.7	10.0
Debt service (% of exports, after HIPC Initiative debt relief)	9.1	3.6	5.2
Debt outstanding (% of GDP)	58.0	59.4	58.8
Present value of debt (% of GDP)	24.6	25.3	25.4
Reserves, including gold (millions of dollars)	746	680	695

a. Estimated.

Source: Economic Commission on Africa, from official sources.

towards market-based economic policies, improvement in the rule of law, implementation of poverty reduction programmes, and the protection of workers' rights. Because of this new status, Mozambique is likely to attract investors into its textile industry from Mauritius and South Africa.

Human development

With social conditions weakened by exposure to floods and droughts and by the long war in the 1980s, indicators of human development are generally lower in Mozambique than among its neighbours (table 4.7).

Between 1965 and 1999 there were 12 major floods, 9 major droughts, and 4 major cyclones (almost one major disaster a year). The floods in February and March 2000 left 491,000 people displaced, 140,000 hectares of farmland inundated, and 52 rural health facilities and 500 primary schools damaged. There was also extensive damage to housing, roads, railways, and key utilities. The direct cost was estimated at \$273 million, and the cost of reconstruction at \$430 million (World Bank 2002a).

Education and employment

The adult literacy rate of 44.0% in 2000 is a big improvement over the 28.9% rate in 1985 and 40% in 1997, but it is still well below the Sub-Saharan average of 61.5% and the Least Developed Countries average of 52.8% (UNDP 2002). And the gender gap is wide, with female literacy at 28% and male literacy at 60%. About 87% of the population in rural areas and 50% in urban areas live in households where at least one adult female is illiterate.

“The adult literacy rate of 44% in 2000 is a big improvement, but it is still well below the Sub-Saharan average of 61.5%”

Table 4.7

Human development indicators in Mozambique and neighboring countries, 2000

Indicator	Mozambique	Malawi	Tanzania	Zambia
Adult literacy (%)	44	60	75	78
Combined enrolment rate (%)	23	73	32	49
Life expectancy (years)	44	40	51	41
Undernourished (%)	54	35	46	47
GDP per capita (PPP \$)	854	943	523	780
Population below \$1/day (%)	38	na	20	64
Population using improved water (%)	60	57	54	64
Population with access to essential drugs (%)	50–79	>50	50–79	50–79
Per capita health expenditure				
PPP \$, 1998	8	11	8	23
Share of public expenditures (%)	80	43	40	51
Adults with HIV/AIDS, 2001 (%)	13	15	8	22

Note: PPP is purchasing power parity.

Source: UNDP and Mozambique 2002.

The combined primary, secondary, and tertiary enrolment rate of 23% is significantly lower than the Sub-Saharan average of 42%. The main reason for the low enrolment: only 65% of the population live in villages with a primary school, and only 2% live close to a secondary school.

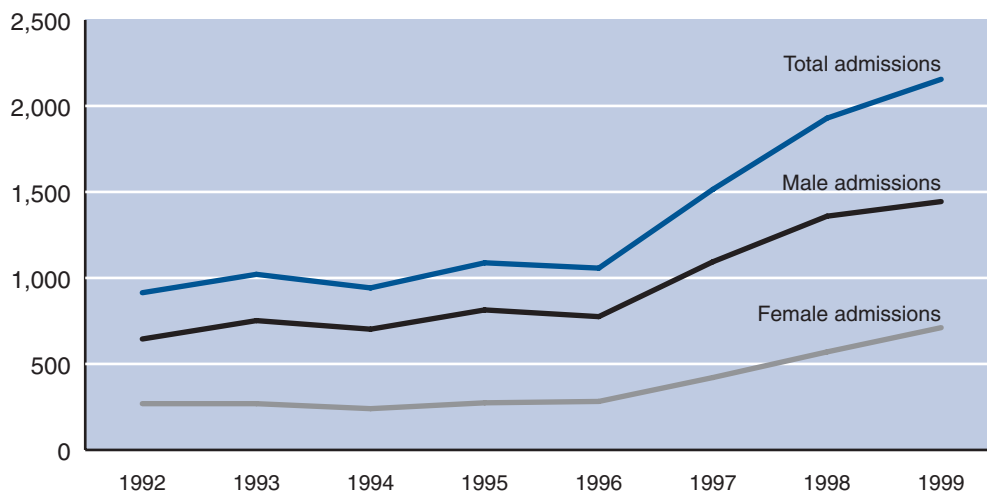
“*The main issues in higher education are gender and regional inequality, low graduation rates, and poor management of financial resources*”

Little surprise, then, that there is an acute shortage of highly educated workers. In 1999 only 483 students graduated from higher education, far shy of the 1,200 professionals needed each year to fill vacancies in the public sector alone. Of the labour force of about 7 million, only 12% is in paid employment, 60% of them in the private sector. About 84% of the labour force can be classified as unskilled. Unemployment is estimated at about 21% (Harber 1999).

The government is improving public education administration, with funding under a fast-track provision of the World Bank’s Education for All Initiative. It is also working on increasing quality and efficiency and reducing cost. The Education Sector Strategic Plan of 1998—with the motto “Fight Exclusion: Renew the School”—targets all levels of education, but with little detail for secondary and tertiary education.

The main issues in higher education are gender and regional inequality, low graduation rates, and poor management of financial resources (World Bank 2002c). Female enrolment in higher education remains at about one-third of new admissions, though there has been some improvement since 1995 (figure 4.8). This is attributable largely to the opening of private institutions, where women make up about 43% of students, compared with about 25% in the public sector (Mozambique, Ministry of Higher

Figure 4.8
Female enrolments—low but rising
New admissions into higher education institutions, 1992–99



Source: Mozambique, Ministry of Higher Education, Science, and Technology 2000.

Education, Science, and Technology 2000). Private institutions are fee-paying while public ones are highly subsidized and have better facilities—another issue of gender inequality.

Regionally, the distribution of higher education enrolments is skewed in favour of Maputo Province, where most of the public higher education institutions are located. About 60% of newly admitted students in 1999 were from southern provinces, two-thirds of them from Maputo City alone.

Current government strategies for higher education are driven by three needs: to meet social demand for higher education through expansion in access and enhanced equity, to respond to labour market and national skill requirements, and to increase efficiency in resource use. Strategies include building the capacity of the Ministry for Higher Education, reforming curricula, expanding remedial programmes, introducing shorter duration programmes based on need, and improving learning environments, in particular, library and information technology facilities.

Despite these efforts the demand for places far outstrips the capacity of the government to fund them. New admissions in both public and private institutions of higher education are still under 2,500 a year, compared with the secondary education output of 4,000 students. With more investment in the country, the shortfall in the supply of professionals and educated labour could increase, calling for a new strategy (box 4.5).

Health—improving but still below Sub-Saharan averages

The average life expectancy is about 44 years, with significant regional disparities. The average is 62 years for women and 55 for men in Maputo Province, but 38 years for women and 36 for men in Zambezia Province.

Box 4.5

Could fees increase enrolments?

Public universities are constrained by low budgets. Only 100 of the more than 2,000 applicants to the economics department at the University of Eduardo Mondlane (UEM) are admitted each year. And the rate of graduation has been low because of ineffective faculty supervision.

Recently a partial fee-paying scheme has been introduced in some teaching departments of UEM, including the economics department. Students pay only one-third of the tuition charged at private universities, attending classes in the afternoon, after regular classes for government-sponsored students. The proceeds have been used to supplement faculty pay, paint the offices in the department, and buy new equipment, including computers, photocopying machines, and air conditioners. The faculty is spending more time with the students—enhancing supervision and the rate of graduation.

Source: *Economic Commission on Africa interviews with UEM staff.*

“
The average life expectancy is about 44 years, with significant regional disparities
”

“
About 13% (710,000) of the adult population 15 to 49 years old was living with HIV/AIDS in 2001, and malaria and tuberculosis are rising at alarming rates
”

The infant mortality rate declined to 127 per 1,000 live births in 2000, compared with 162 in 1970, but remains higher than the Sub-Saharan average of 107. Maternal mortality is very high at 1,100 deaths per 100,000 live births, compared with 530 in Tanzania and 650 in Zambia. Less than 20% of the populace lives in a village with a nurse, midwife, or health post, only 2% near a doctor, and the average distance to a health post is 20–30 kilometres.

About 13% (710,000) of the adult population 15 to 49 years old was living with HIV/AIDS in 2001. And malaria and tuberculosis are rising at alarming rates.

The government has taken a robust stance in addressing the HIV/AIDS epidemic. It has established the National AIDS Council and adopted a multisectoral action plan to coordinate all AIDS-related activities in the provinces and regions. The main strategy is to improve access to voluntary testing and counselling, with assistance focusing on primary and secondary care. Public expenditure on health is projected to rise by about 25%, to \$150 million by 2005, from \$120 million today, because of the HIV/AIDS epidemic, which threatens to reduce GDP growth by 4 percentage points by 2010.

The Health Sector Strategic Plan (2001–2005–2010) attributes the poor health situation to low education, lack of safe drinking water, and the consequences of war. It seeks to promote quality health care for all by:

- Developing appropriate systems and programmes for the delivery of health care.
- Having communities participate in health care provision and administration.
- Collaborating with local and external partners in the delivery and financing of health care.

Poverty reduction—slow progress

The incidence of poverty—as measured by the head count index based on the basic consumption poverty line of 160,780 meticais (about \$14) a month in 1996–97—was 69%, or roughly 12 million of the country’s 17 million people.⁴ In 2001 the estimated poverty incidence was 64%.

As in other developing countries, poverty in Mozambique is largely rural, highest in Sofala, Tete, and Inhambane provinces, with 80% of the people poor, and lowest in Maputo City, with 48% poor (table 4.8).⁵ Why the disparities? Unbalanced growth and differences in access to health and education.

Other demographic factors that influence the incidence of poverty are gender, education, and type and sector of employment. Male-headed households have lower incidences of poverty than female-headed households. Real consumption per capita is 15–18% higher in male-headed households than in female-headed households in urban areas, and 4–9% higher in the rural areas. The effects of literacy and education of the household head on per capita real consumption are stronger in the southern provinces than in the northern because of the greater opportunities for paid employment.

Poverty in Mozambique can also be attributed to low productivity in agriculture, lack of employment opportunities, weak physical infrastructure, and poor access to potable water, communications, and markets (Datt and others 2000). Poor integration of regional and local markets, because of weak transport infrastructure, also contributes to wide variations in welfare across regions. Disparities may deepen with the concentration of infrastructure investments in the Maputo area (table 4.9). Some parts of the country receive almost no direct investment.

Table 4.8
Poverty indices, 1996–97

Regions/provinces	Food poverty		Basic consumption poverty	
	Headcount index		Poverty gap index	
	1996	1997	1996	1997
Rural	55.7	20.3	71.2	29.9
Urban	44.5	16.0	62.0	26.7
Northern provinces	50.0	17.4	66.3	26.6
Central	59.4	22.6	73.8	32.7
South, with Maputo	47.7	16.5	65.8	26.8
South, without Maputo	54.1	19.3	71.7	30.2
National	53.4	19.4	69.4	29.3

Note: Disaggregated poverty data are not available for later years.

Source: Datt and others 2000.

Table 4.9
Distribution of foreign and local direct investment, by province, 2001

Province	Foreign direct investment		National direct investment	
	US\$ thousands	% of total	US\$ thousands	% of total
Maputo (city and province)	479,630	92.7	23,844	71.4
Sofala (centre)	17,370	3.4	137	0.4
Cabo Delgado (north)	8,859	1.7	3,694	11.0
Nampula (north)	5,818	1.1	455	1.4
Inhambane (south)	3,006	0.6	2,842	8.5
Manica (centre)	740	0.1	220	0.7
Zambezi Valley	706	0.1	805	2.4
Zambezia (centre)	706	0.1	916	2.7
Gaza (south)	445	0.1	478	1.4
Tete (south)	280	0.1	5	0.0
Niassa (north)	0	0.0	0	0.0
Total	517,561	100.0	33,396	100.0

Source: Mozambique, Investment Promotion Centre 2002.

“
Mozambique reached the enhanced HIPC completion point in September 2001, reducing its foreign debt stock from about \$6.1 billion to \$1.6 billion
”

The country's new investment law calls the disadvantaged regions Rapid Development Zones, allowing special tax benefits for investors who establish operations in Niassa Province, Nacala District, Mozambique Island, Ibo Island, and Zambezi Valley (all the districts in Tete Province, and certain specified districts in Zambezia, Sofala, and Manica provinces). To ensure effective local participation in the new businesses, the activities eligible for fiscal benefits must promote development based on local comparative advantage: agriculture, forestry, aquaculture, livestock raising, lumbering, telecommunication, game animal exploitation, water supply, and electric energy generation, transmission, and distribution.

The government hopes to develop the Zambezi River Valley along the lines of the Tennessee Valley Authority (TVA) in the United States, and in February 2002 it opened discussions for possible assistance with TVA, the U.S. Agency for International Development, and the U.S. Army Corps of Engineers. When completed, the project would improve navigability, flood control, and reforestation and assist in industrial and agricultural development for a third of the country's people.

The government also aims for high rates of sustainable, poverty-reducing growth by consolidating macroeconomic stability and increasing the provision of social services, based on:

- Pro-poor and pro-rural growth and development.
- Higher and more effective public expenditure, especially in education, health, and infrastructure.
- Conducive macroeconomic and business conditions.
- Private sector development.
- Good governance and justice.
- Strong central and local government institutional capacity to define, implement, and monitor public policies.

The medium-term expenditure framework seeks more effective use of public resources in education, health, agriculture, and rural development, for greater impact on poverty (table 4.10). The country reached the enhanced HIPC completion point in September 2001, reducing its foreign debt stock from about \$6.1 billion to \$1.6 billion. Debt relief will reduce annual debt repayment to \$56 million between 2001 and 2012, half the \$112 million due before June 1999. Though reduced, remaining debt is still close to half the budget for health.

Private sector—poised to benefit from regional markets

The private sector in Mozambique, weak after 15 years of socialism and state intervention, is moving away from a closed, centrally planned regime toward a market system underpinned by private ownership.

The quality and efficiency of business applications and queries has improved considerably in the last five years, with one-stop shops to deal with business registration and related issues (UNIDO 2002). The government has entered an agreement with the African Development Bank to set up a \$4.7 million credit fund for small and medium-size enterprises, to complement UNIDO's Integrated Programme for Small and Medium-Size Enterprises.

But bottlenecks remain: red tape, undercapitalization, a lack of skilled labour, investor-unfriendly labour laws, and weak infrastructure. The high cost of doing business in Mozambique is also attributed to outmoded and unclear rules and regulations and ineffective private-public consultative mechanisms (UNDP, UNIDO, and Mozambique Ministry of Industry and Commerce 2001; Nathan Associates 2002).⁷

Foreign direct investment—from regional powerhouses

In 1999 net flows of foreign direct investment hit 9.7% of GDP, 20 times the 0.4% in 1990. Flows are projected to reach \$800 million, more than 20% of GDP, in 2002. Between January and August 2002 the Investment Promotion Centre approved about \$1.7 billion in new projects, many of them large. The average investment rose from \$21 million a year in 1989–94 to \$800 million in 2002.

One of the main features of foreign direct investment flowing to Mozambique is this dominance of large projects. Another is the diversity of sources, from about 45 economies, ranging from Hong Kong to the United States (Mozambique, Ministry of Planning and Finance 2002b). South Africa has become the largest source of foreign direct investment in recent years, accounting for 70%, followed by Portugal (10%) and the United Kingdom (4%).

“The quality and efficiency of business applications and queries has improved considerably in the last five years, but bottlenecks remain”

Table 4.10

Medium-term expenditures under the Action Plan for the Reduction of Absolute Poverty, 2001–05 (% in 2001 prices)

Sector	2001	2002	2003	2004	2005
Priority areas	69.1	72.4	74.0	75.3	74.9
Education	24.1	20.7	21.3	21.4	21.5
Health	11.7	13.6	14.4	14.7	14.9
Infrastructure	20.2	22.4	21.5	21.8	20.7
Agriculture and rural development	3.9	4.7	5.0	5.1	5.1
Governance	8.1	9.1	9.7	10.1	10.4
Other	1.1	1.7	2.1	2.2	2.3
Other sectors	30.9	27.6	26.0	24.7	25.1
Total	100.0	100.0	100.0	100.0	100.0
Total (billions of meticais)	17,704	17,081	18,008	19,936	20,967

Source: Economic Commission for Africa, from official sources.

“ *More than 840 companies were privatized between 1989 and 1997, 90% of them acquired by Mozambican companies and individuals* ”

A major concern is that foreign investment projects provide limited employment opportunities for local labour because of the high skill requirements—and are insulated from the domestic economy through fiscal incentives and exemptions from administrative red tape. BHP-Billiton, owners of the Mozal aluminium smelter, have responded with a small and medium-size enterprise empowerment and linkages programme to provide technical support to local businesses, to train them in tendering procedures, and to improve their cost and financial management.

Privatization—mixed results

Second-generation reforms have focused on the public sector, privatization, the judiciary, tax administration and public financial management, and the legal and institutional environment for private sector development, all to reduce the cost of doing business and enhance the competitiveness of local production.

More than 840 companies were privatized between 1989 and 1997, of the 1,248 companies slated for privatization, 90% of them acquired by Mozambican companies and individuals. Privatization has been most successful in services, notably utilities and transport, probably thanks to the ease of valuing assets and the high interest of foreign investors. The energy sector has been liberalized, and the transport sector, including railways, has been partially liberalized. In May 2002 the domestic airline market was fully liberalized, to allow other airlines to operate on domestic routes previously monopolized by the state-owned airline, as specified under the Yamossoukro Declaration on the Liberalization of Air Spaces in Africa. This is expected to result in lower domestic airfares as foreign companies enter the industry. In the telecommunication sector, Vodacom Mozambique, which has Vodacom South Africa as its majority owner, was awarded a license to set up the country's second mobile telephone network in 2002.

Information and communication infrastructure—closing the digital divide

Telecommunication infrastructure is improving in Maputo and other urban centres, but remains weak in the rural areas. There are 4 telephone mainlines per 1,000 people (the average for Sub-Saharan Africa is 15), 2 cellular phone subscribers per 1,000 people (19 for Sub-Saharan Africa), and less than 0.1 internet host per 1,000 people (0.4 for Sub-Saharan Africa).

The government's strategy is to develop information and communication technology policies to promote competition by liberalizing the telecommunications market and awarding new mobile telephony licenses, to provide universal access to communications services, and to coordinate public-private action to foster information and communication technology in education, health, human resources, information infrastructure, and government.

Public-private partnerships

Alone, neither the public sector nor the private sector can ensure sustained economic growth. But together they can promote Mozambique's economic development, especially

in the provision of social services and public decisionmaking. Public-private consultations could help overcome the shortcomings in public resource management and enhance the delivery of public services. But the dialogue between the private sector and the central government is constrained by red tape, heavy bureaucracy, and a lack of incentives (Mozambique and EU 2002).

The government, the private sector, the donor community, and the universities agree that a sustained national consultative platform is critical to competitiveness and the inflow of foreign investment (UNDP, UNIDO, and Mozambique Ministry of Industry and Commerce 2001). So a secretariat for private-public dialogue has been set up to carry forward Mozambique's development agenda.

Current policy is to involve the private sector in the construction and rehabilitation of transport infrastructure, in the management by contract or concession of ports, railways, airports, and air services and shipping.

“*The medium-term outlook is favourable because of improving agricultural production, new investments in aluminium and natural gas, and favourable international prices*”

Medium-term outlook—fairly favourable

The medium-term outlook is favourable because of improving agricultural production, new investments in aluminium and natural gas, and favourable international prices for aluminium, cotton, and shrimp. The economy is expected to grow 9–10% a year in 2003–05 (table 4.11). And aluminium production from the Mozal plant should generate about \$3 billion in exports by 2006.

Higher oil prices would put pressure on local prices, as would growing social expenditures, especially on HIPC-related programmes. The government should thus continue its tight monetary stance and expand revenue collection efforts.

With poverty a major concern, implementation strategies for the Action Plan for the Reduction of Absolute Poverty should focus on labour-intensive export-oriented activities and on linkages between agriculture and agro-processing. The country also needs

Table 4.11
Medium-term economic prospects, 2003–05

Indicator	2003 ^a	2004 ^b	2005
GDP growth (%)	9.5	9.0	9.0
Inflation (%)	8.0	5.0	5.0
Fiscal balance excluding grants (% of GDP)	-14.7	-13.2	-12.0
Trade balance (% of GDP)	-6.7	-2.4	4.1
Current account balance (% of GDP)	-10.0	-3.5	-3.5

a. Forecast.

b. Targeted.

Source: Economic Commission on Africa, from official sources.

to develop stronger links between the large foreign investment projects and the rest of the economy—to ensure faster growth, employment generation, and poverty reduction (box 4.6). In addition, the transfer mechanisms for getting public funds to provinces with development difficulties should be made more efficient.

Mozambique has to meet the standards of its neighbours in improving competitiveness—innovating with policies, deepening reform of the public services, and streamlining banking procedures. President Chissano's decision to step down in 2004 augurs well for national governance and the solidification of democratic institutions. But the challenges of good governance, national reconciliation, and political stability remain considerable, with accountability and transparency at the top of the agenda.

Box 4.6

Threats to poverty reduction in Mozambique

Mozambique's economy has been growing at an average of 8% a year over the past decade, but the population living below \$0.40 a day (the national poverty line) remains above 60%. The government has put in place a major effort under the Action Plan for the Reduction of Absolute Poverty to meet the challenges. But some serious questions remain.

- What is the capacity for the economy to continue to grow by at least 7% a year in the absence of generous development assistance?
- What would be the impact of natural disasters, notably floods in agricultural areas, for which there are no contingency plans?
- How can the mega projects, vulnerable to unforeseen international market developments, increase employment opportunities for the poor and unskilled?
- How can human resources be developed to support programme implementation?
- What will be the impact of HIV/AIDs?
- What needs to be done to increase the capacity of public and private institutions, particularly with decentralization?

Source: UNDP and Mozambique 2002.

Notes

1. In Portuguese Frelimo stands for Frente de Libertação de Moçambique, and Renamo for Resistência Nacional de Moçambique.
2. Maize yields vary between 0.7 and 0.9 tons a hectare, against an average yield in Southern Africa of 1.2 tons a hectare (Mozambique and EU 2002).
3. Fiscal sustainability is achieved when the levels of domestic and external borrowing necessary to finance the budget deficit are not likely to lead to a debt crisis over time and rising interest rates do not crowd out domestic private investment.

4. There are two poverty lines, the food poverty line and the basic consumption poverty line, which includes nonfood consumption. For each poverty line there are different poverty lines for each province and for rural and urban areas. The national poverty line is a weighted average of the different regional poverty lines.

5. The national basic consumption poverty line of 160,780 meticaïs per month per person (about \$170 per person per year, at the average exchange rate prevailing during the survey period), obtained from the 1996–97 National Household Survey of Living Conditions data, was based on estimates of mean per capita daily calorie requirements (food consumption) and nonfood components (see Datt and others 2000). The national food poverty line is 130,377 meticaïs (about \$0.40) a day per person.

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