

Mozambique



key figures

• Land area, thousands of km ²	802
• Population, thousands (2007)	21 397
• GDP per capita, USD at constant 2000 prices (2007)	348
• Life expectancy (2007)	36.9
• Illiteracy rate (2007)	47.0

Mozambique



Mozambique

MOZAMBIQUE REMAINS A SUCCESSFUL example of post-conflict transition, with impressive economic growth averaging 8 per cent from 2000 to 2006 and sustained macroeconomic and political stability. Strong economic growth continues to be driven primarily by foreign-financed “mega-projects” and large aid inflows.

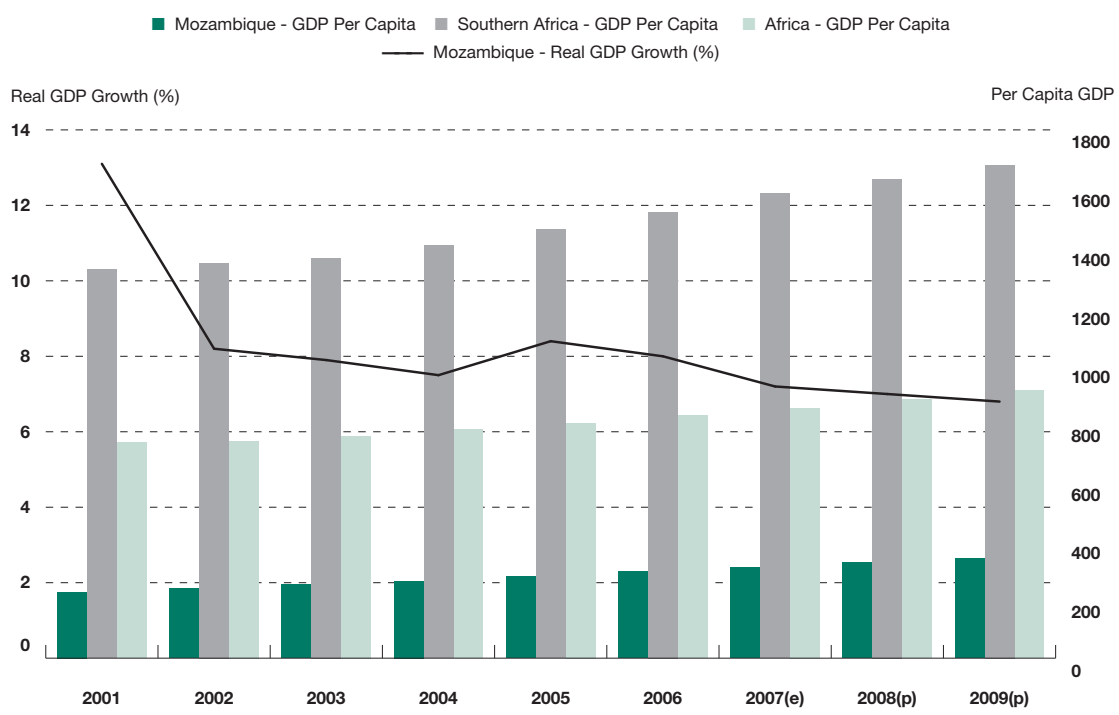
Real GDP growth moderated slightly to an estimated 7.2 per cent in 2007, down from 8 per cent in 2006, because of oil price increases and a downturn in traditional exports. Growth was driven mainly by booming investment in mineral resources, industry, services, and agro-industry, as well as by the good performance of the construction sector as a result of

donor-financed infrastructure projects. Overall, economic expansion in Mozambique will be robust in the short term, with GDP growth expected to be 7 per cent and 6.8 per cent in 2008 and 2009 respectively.

The country has made major progress on the macroeconomic front, thanks mainly to prudent fiscal and monetary policies. Inflation declined from an average of 13 per cent in 2002-04 to 9 per cent in 2005-07. Substantial improvements have been made in the reporting and management of expenditure and revenue collection. Nevertheless, further revision of the tax

More needs to be done to collect tax revenues from the private sector.

Figure 1 - Real GDP Growth and Per Capita GDP
(USD at constant 2000 prices)



Source: IMF and National Institute of Statistics data; projections based on authors' estimates (e) and projections (p).
StatLink <http://dx.doi.org/10.1787/316667717047>

treatment of mega-projects, which have historically benefited from substantial incentives, is desirable. Regulations on the new mining and petroleum fiscal regime laws must be issued in time to ensure that all new projects are subject to the new fiscal regime. In addition, mega-projects, public-private partnerships (PPPs) and concessions should be monitored more systematically.

Important revisions of the tax code governing mining and oil investments and reforms of labour regulations were approved in 2007. A more vigorous pursuit of “second wave” reforms is nevertheless still needed, notably of the judicial system and in the fight against corruption.

Mozambique’s foreign trade continues to be dominated by the mega-projects, including the Mozal aluminium smelter, the Sasol natural gas pipeline and the Cahora Bassa hydro-electric facility. Though those projects have reached a certain maturity, new mega-projects, particularly linked to coal production, promise continued vitality. Concerns about the limited job-creation capacity of mega-projects linger. The capital-intensive nature of those projects pushes up demand for skilled labour, doing little to absorb the surplus of unskilled labour.

Official development assistance (ODA) will finance more than half of government expenditure in 2008: nearly half of ODA takes the form of direct budget support, a sign of donors’ continued confidence in Mozambique. Donor support is expected to decrease in the medium term, increasing the urgency of mobilising additional tax revenue.

Elections for provincial assemblies have been postponed, raising the possibility of joint provincial, presidential and parliamentary elections in late 2009.

Poverty dropped 22 percentage points between 1997 and 2003. While more recent data are not available, poverty reduction has apparently stalled, with some sectors and regions not benefiting from good economic performance. Already vulnerable sectors of the population were buffeted by flooding of the Zambezi River in early 2007 and again in early 2008, and by cyclone Favio in early 2007.

Recent Economic Developments

The 2006/07 agriculture season in much of the southern region and parts of the central region was affected by moderate to severe rainfall deficits. According to the production estimates from the ministry of agriculture, the southern region’s main season cereal harvest in 2006/07 was about 30 per cent below average, leaving some 469 000 Mozambicans in need of food assistance.

The government predicts growth of agricultural production of about 7.5 per cent in 2007/08, through increases in the area under cultivation and gains in productivity. The latter will include increased use of animal traction, and the spread of improved agricultural technologies as part of the “Green Revolution” that the government is promoting. The plan envisages growth of output of 9 per cent in grains and 12 per cent in beans and groundnuts.

But the outlook for success in raising agricultural output is uncertain. Although the start of the 2007/08 agriculture season was characterised by satisfactory rains, farmers were short of seeds, particularly in the south. In addition the areas under cultivation in Central Mozambique are expected to suffer from the floods of early 2008.

Droughts in 2007 led to a decline in cotton production in 2007 to about 90 000 tonnes, a significant decline compared to the 2006 harvest, when production reached 122 000 tonnes, the highest level in more than three decades. The ministry of agriculture expects that cotton will rebound in 2008 to near its 2006 level.

Over the last few years, sugar has boomed, with production growing by about 60 per cent per annum. South African and Mauritian investments of about USD 300 million for the rehabilitation and partial privatisation of four sugar-processing plants in the Maputo and Sofala provinces have enabled the country to become a net exporter. The industry employs about 26 000 workers and is a catalyst for the development of rural areas, especially around Marromeu and Mafambisse. For 2008, the government foresees an

increase of 16.5 per cent in the area under sugar cane cultivation, while the four sugar mills (at Marromeu, Mafambisse, Xinavane and Maragra) are expected to produce 273 000 tonnes of sugar, an increase of 36.2 per cent compared with 2007.

Nevertheless, Mozambique's sugar mills are small compared with those of the world's major sugar-exporting countries, translating into higher milling costs. In addition, Mozambican competitiveness is hampered by poor transport links and lack of sugar storage and loading facilities at the port of Beira.

Increased market access over the next few years could provide the sugar industry with the opportunity to expand and achieve greater economies of scale. In particular, Mozambique will benefit from the granting of unlimited duty-free access to the lucrative EU market under the Everything But Arms (EBA) initiative. EU sugar prices remain well above world market levels, although they started converging towards the world price in 2006 and are due to continue to do so in the next few years.

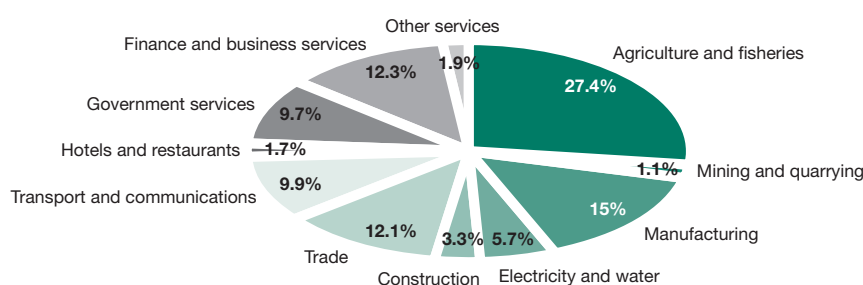
Mozambique's government is considering a series of projects to produce bio-fuels in the country. Recent studies show that the country could produce 40 million litres of bio-diesel and 21 million litres of bio-ethanol per year. Jatropha, ricin, African palm and coconuts could be used to produce bio-diesel, and sugar cane, maize and cassava to produce bio-ethanol. Several investment projects have already been approved, and the government is currently drawing up a new bio-fuel law to make the bio-fuel sector more attractive for investors.

Industry's share of GDP has expanded sharply in the last 10 years largely because of mega-projects. The Mozal aluminium smelter in Maputo province, created with a USD 2.1 billion investment by Australian and South African interests, now accounts for half of manufacturing output, and has made Mozambique one of the world's leading exporters of aluminium. Other capital-intensive manufacturing industries, such as cement, beverages and tobacco-processing all recorded good performances. Industrial output is expected to expand further in 2008 and 2009, with a USD 5 billion oil refinery and a large bio-ethanol fuel project under construction.


The mining sector has registered strong growth, at about 40 per cent in recent years, and is expected to grow at more than 30 per cent in 2008 as the Moma titanium smelter enters its first full year of production. Mining for titanium minerals began in September 2007. The first exports consisted of 23 000 tonnes of ilmenite. It is estimated that the Moma mine will provide 6 per cent of the world production of ilmenite, rutile and zircon. Currently Kenmare intends to produce annually 800 000 tonnes of ilmenite, 56 000 tonnes of zircon and 21 000 tonnes of rutile. If market conditions allow, this will be increased by 2010 to 1.2 million tonnes of ilmenite, 80 000 tonnes of zircon and 30 000 tonnes of rutile.

The most dynamic mining sector is coal. Most recently, steel giant Arcelor-Mittal declared in November 2007 its intention to purchase 35 per cent of the Rio Minjova company, with the option to become the majority owner if coal exploration in the western

Figure 2 - GDP by Sector in 2006 (percentage)



Source: Authors' estimates based on National Institute of Statistics data.

StatLink  <http://dx.doi.org/10.1787/318001142574>

province of Tete proves successful. Also in Tete, a joint venture of Indian Tata Steel and Australian Riversdale Mining is carrying out a feasibility study to produce coal from land on which it holds rights. In June 2007, the Mozambican government and the Brazilian mining giant Companhia Vale do Rio Doce (Vale), the world's largest iron ore producer, reached a contractual agreement on the Moatize coal project in Tete. The exploitation of the Moatize coal project will begin in 2010. The Moatize basin contains at least 2.4 billion tonnes of coal. Vale believes Moatize represents the last great unexploited coal reserves in the world. The company plans to produce about 26 million tonnes of coal a year, most of which is to feed its Brazilian steel plant.

Negotiating with multinational companies such as Mozal is a challenge for the Mozambican government, and it may not have secured the most favourable terms. Moreover, there is some basis to the view that the mega-projects have brought limited benefits in terms of job creation and fiscal revenue. Mozambique has taken these criticisms seriously and is now setting tougher conditions for new foreign investment projects. It should be stressed that given the complexity of the contracts for the existing mega-projects, the new legislation for the mining and petroleum sector will only apply to new investments, and, as a result, some experts claim that it is uncertain whether the legislation will significantly boost tax revenue. Nevertheless, although the contract for the Moatize coal mine was signed before the new stricter mining legislation went into effect, it is reportedly broadly in line with the new rules.

The construction sector also continues to grow, spurred by the mega-projects as well as by donor-funded infrastructure rehabilitation. Further expansion in construction is expected in 2008, thanks to continued road rehabilitation and the continuing construction of the Corridor Sands titanium project. Transport and communications are benefiting from private and public investment in ports, railways, airports, roads and mobile telephony, and are expected to grow by 22.7 per cent. In particular, 150 new buses will enter service on the country's roads, and new air traffic routes will be

inaugurated, while communication services will continue to expand (dominated by the mobile phone companies M-cel and its South African rival Vodacom). Services, which account for more than 20 per cent of GDP, are benefiting from higher domestic demand and growth in local companies supplying services.


A total of 186 foreign direct investment (FDI) projects worth USD 7.5 billion, with a potential to generate about 20 000 jobs, were approved in 2007, making it one of the best years since independence for FDI, surpassing by far the years of the Mozal aluminium smelter project (USD 2 billion) and Sasol's natural gas project (USD 1.3 billion). Minerals, industry, tourism, services, agriculture and agro-industry received the largest volumes of FDI. The provinces of Nampula, Tete, Sofala and Gaza received the biggest number of such projects. The FDI originates from 34 countries, notably the United States, Switzerland, Mauritius, South Africa, the United Kingdom, China, Portugal, Tanzania, Spain and Canada.

Private investment contributed strongly to growth in 2007 and is expected to play an increasingly important role in 2008 and 2009 as a result of continued FDI in mining and industry. Public investment, notably in donor-supported infrastructure development, increased dramatically in 2007 and is expected to grow further in 2008 before moderating in 2009. Government consumption also grew in 2007 and is expected to continue growing in 2008, although at a more moderate pace as authorities intend to recruit 12 000 teachers and 5 000 health workers. Private consumption slowed in 2007, as a consequence of the poor harvest. Thanks to better agriculture output in 2008 and 2009, private consumption is expected to grow. In spite of strong exports of gas, electricity and aluminium, the external demand deteriorated in 2007, reflecting a downturn of traditional exports and a high oil import bill. Although export volumes are expected to increase in 2008, and 2009, reflecting increased exports of minerals, the external demand will be affected by lower metal prices, notably for aluminium. At the same time, imports are expected to increase, reflecting the rising oil import bill, and the need for capital goods imports for the new wave of mega-projects.

Table 1 - Demand Composition

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	1999	2006	2007(e)	2008(p)	2009(p)	2007(e)	2008(p)	2009(p)
Gross capital formation	36.7	24.9	20.0	12.5	8.2	5.4	3.8	2.6
Public	11.6	11.0	30.0	12.0	0.8	3.6	1.8	0.1
Private	25.1	13.9	12.0	13.0	15.0	1.8	2.1	2.5
Consumption	86.7	81.2	2.4	3.5	3.3	2.4	3.3	3.0
Public	9.5	10.0	11.2	6.9	2.0	0.9	0.6	0.2
Private	77.2	71.3	1.6	3.2	3.4	1.5	2.7	2.8
External demand	-23.4	-6.1				-0.6	-0.1	1.1
Exports	14.7	37.3	1.5	6.6	13.6	0.2	1.0	2.1
Imports	-38.0	-43.5	2.0	2.7	2.5	-0.9	-1.1	-1.0
Real GDP growth						7.2	7.0	6.8

Source: IMF and National Institute of Statistics data; projections based on authors' calculations.

StatLink  <http://dx.doi.org/10.1787/321305683381>

Macroeconomic Policies

Mozambique has achieved reasonable macroeconomic stability, through prudent fiscal and monetary policies as mandated by the 2005-2010 Action Plan for the Reduction of Absolute Poverty (PARPA) and the three-year Poverty Reduction Growth Facility (PRGF) agreed with the International Monetary Fund (IMF) in July 2004. A recently approved IMF policy support instrument (PSI) has replaced the PRGF, which expired in July 2007.

Fiscal Policy

Substantial progress has been made in the reporting and management of public expenditure. Nevertheless, more should be done to mobilise tax revenues, especially from mega-projects, in order to reduce dependence on foreign aid, which currently finances more than 50 per cent of the budget. It is particularly important to strengthen fiscal transparency in light of the number of large investment projects and concessions in the pipeline. The authorities are committed to implementing the new mining and petroleum fiscal regime laws and to adhering to the principles of the Extractive Industries Transparency Initiative.

Revenues increased in 2007, largely thanks to rising income tax receipts and revenue from

privatisation, mining concessions and dividends. Revenue collection procedures improved, leading to tax revenue reaching an estimated 13.6 per cent of GDP in 2007 from 11 per cent of GDP in 1999. In the first half of 2007 alone, income tax revenue reached 60.8 per cent of the target for the year and was 12.3 percentage points of GDP higher than that collected in the first half of 2006. Tax revenue from goods and services also increased by 13.8 per cent as the fall from custom tariffs caused by the phasing down of customs duties in accordance with the South African Development Community's (SADC) Free Trade Protocol was more than offset by improvement in VAT collections

The government boosted fiscal spending substantially in 2007, in particular on public sector wages and priority social sectors (health, education, infrastructure, agriculture), a third of which was financed by donor inflows. Capital expenditure increased by more than 3 per cent of GDP compared with 2006 and almost doubled in percentage of GDP compared with 2005. The implementation of the SISTAFE (Integrated System for the Administration of State Finances) system, helped improve management of spending. Despite lower execution rates in the first half of 2007, donor-financed project execution picked up toward the year's end, approaching the PARPA target of 65 per cent.

Total debt service in 2007 was equivalent to USD 54 million, over two thirds of which was paid on domestic debt. Overall, although revenue collection was above expectations in 2007, expenditure increased at a faster rate, and in turn the budget deficit inclusive of grants for 2007 as a whole is estimated at 5.1 per cent, above the 4.5 per cent target.

In 2008, tax revenue is planned to increase by 0.4 percentage points of GDP over 2007. The 2008 budget foresees an increase of donor support, in part as a result of the appreciation of the euro and other currencies against the US dollar, thereby increasing the value of aid in dollar terms. Increased spending is focused on achieving the Millennium Development Objectives. Nevertheless, aid is expected to decline in the medium term from a projected 14.2 per cent of GDP in 2008 to 12 per cent in 2010. Mobilising additional tax revenue is therefore essential to compensate for declining aid as well as loss of customs revenue.

The authorities intend to widen the tax base through the continued increase in the identification of tax arrears and through simplification of tax laws to encourage compliance, but the effects of these reforms are likely to be limited. More also remains to be done to rationalise tax incentives across key sectors, including agriculture and special economic zones, and to

strengthen the fiscal contribution of mega-projects, which have benefited from substantial tax holidays.

In 2008 Official Development Assistance (ODA) is expected to finance 56 per cent of government expenditure. It is expected that 48.8 per cent of ODA to Mozambique in 2008 will take the form of direct budget support. Indeed, the 19 donors who provide direct budget support to Mozambique – led by the United Kingdom, the World Bank, the European Commission and Sweden – announced that direct budget support for 2008 would total USD 435 million, an increase over earlier announcements caused largely by the appreciation of the euro relative to the US dollar. Some 68.1 per cent of 2008 ODA (budget support and earmarked spending taken together) will take the form of grants and 31.9 per cent will be loans.


On the expenditure side, the government aims to boost investment in the priority sectors of education, health, agriculture, infrastructure and governance, particularly at provincial and district levels. Public expenditures in 2008 are expected to reach 36.6 per cent of GDP, an increase of three percentage points over 2007. The majority of this increase will be for investment, much of which is funded by foreign aid. Current expenditures are also expected to rise, mainly for the recruiting of 12 000 teachers and 5 000 health

Table 2 - **Public Finances** (percentage of GDP)

	1999	2004	2005	2006	2007(e)	2008(p)	2009(p)
Total revenue and grants^a	23.7	20.2	20.7	26.6	28.5	30.4	29.6
Tax revenue	11.0	11.7	12.2	13.4	13.6	14.0	14.1
Grants	11.7	7.5	6.6	11.0	12.8	14.2	13.4
Total expenditure and net lending	25.1	24.7	23.0	28.0	33.6	36.6	35.1
Current expenditure	12.6	14.5	14.2	14.7	15.5	16.8	16.5
<i>Excluding interest</i>	12.0	13.5	13.3	13.9	14.8	16.0	15.6
Wages and salaries	5.8	6.9	7.0	7.5	7.7	8.2	7.8
Interest on public debt	0.6	1.0	0.8	0.8	0.7	0.7	0.9
Capital expenditure	11.6	9.4	8.4	12.3	15.6	17.2	16.9
Primary balance	-0.8	-3.5	-1.5	-0.6	-4.4	-5.4	-4.6
Overall balance	-1.5	-4.5	-2.4	-1.4	-5.1	-6.2	-5.6

a. Only major items are reported

Source: IMF and Ministry of Finance and Planning data; estimates (e) and projections (p) based on authors' calculations.

StatLink  <http://dx.doi.org/10.1787/322123511570>

workers and improving public services. Initiatives to strengthen internal controls and external audits are expected to continue in 2008 at central and provincial levels. At the same time, the rollout of e-SISTAFE (a computerised integrated financial management information system) to all public entities (central and provincial) and a number of districts in early 2008 should improve expenditure monitoring.

As a result of higher capital and current spending, the overall fiscal deficit is expected to widen in 2008 to 6.2 per cent of GDP and then narrow slightly in 2009 to 5.6 per cent.

Monetary Policy

Since 2004 the Bank of Mozambique has undertaken a series of measures to strengthen monetary management, through daily liquidity forecasting and the use of foreign exchange and Treasury bill sales to sterilise the changes in the monetary base that are associated with balance-of-payments shocks.

Inflation remained in single digits during 2007 but it accelerated to 9 per cent in the last quarter, on the back of rising food prices, reflecting the start of the lean season. The lean season typically lasts until February, so food inflation pressures continued through early 2008. In addition, in late November, as the world oil prices surged, the prices of petrol, diesel, kerosene and liquefied petroleum increased by 20 per cent. For the year as a whole, inflation is estimated at 7.9 per cent in 2007, above the target of 6.4 per cent.

To reduce inflationary pressures, the Bank of Mozambique is expected to continue pursuing a tight monetary policy in 2008, restraining broad money growth to below 16 per cent and reducing liquidity in the economy through the issuing of Treasury bills and the sale of foreign exchange. For 2008 and 2009 food and fuel prices are expected to continue to pose some inflationary risks as does the likelihood that the government will increase expenditure in the run-up to municipal and national elections. Overall, inflation is expected to average 7 per cent in 2008 and to decrease to 5.3 per cent in 2009.

External Position

After an improvement of the trade balance in 2006 due to high aluminium prices and strong growth of traditional exports, particularly cashew nuts, sugar, tobacco and prawns, the trade deficit widened in 2007, reflecting the high oil import bill and the deterioration in the performance of traditional exports. The poor performance of traditional exports was largely caused by the poaching of prawns by illegal foreign fishing boats. Lower cashew nut prices more than offset the improvement in output. On the other hand, cotton exports grew strongly. Electricity and natural gas exports boomed. Electricity exports responded to shortages in Mozambique's two biggest markets, South Africa and Zimbabwe. Imports rose because of high oil prices, and spending on consumer durables (automobiles) and capital goods.

The mega-projects loom large in Mozambique's foreign trade: for the first quarter 2007, for example, mega-projects accounted for 81 per cent of exports, but for only 24 per cent of imports, largely because of completion of major projects at Cahora Bassa and Kenmare.

In spite of higher export volumes of minerals and the country's first titanium exports, the trade balance is expected to deteriorate over 2008 and 2009 given the expected downturn of metal prices, notably for aluminium, the lack of manufacturing or other high-value exports, and the rising oil import bill. However, while the impact of older mega-projects on imports and exports is less than in previous years, new foreign direct investments hold the promise of generating substantial exports in the medium term, notably in coal, as discussed above.


The Free Trade Area of the SADC has been in force since 1 January 2008, and in principle the vast majority of goods (85 per cent) produced in other SADC countries can now enter Mozambique free of customs duties. For goods from South Africa, however, higher tariffs often apply. To benefit from the scrapping of customs duties, importers will need to produce a certificate of origin, guaranteeing that the goods come

Table 3 - Current Account (percentage of GDP)

	1999	2004	2005	2006	2007(e)	2008(p)	2009(p)
Trade balance	-22.4	-9.0	-11.0	-7.7	-9.4	-13.9	-15.5
Exports of goods (f.o.b.)	6.9	25.5	26.5	34.3	34.1	32.7	30.3
Imports of goods (f.o.b.)	29.3	34.5	37.5	41.9	43.5	46.5	45.8
Services	-0.5	0.7	0.8	1.8	1.8	2.0	1.9
Factor income	-5.2	-5.8	-6.3	-10.3	-13.9	-12.4	-11.0
Current transfers	6.2	5.5	7.0	37.0	13.8	15.7	14.8
Current account balance	-22.0	-8.6	-9.4	20.8	-7.6	-8.6	-9.8

a. Factor income is included in services.

Source: IMF and Bank of Mozambique data; estimates (e) and projections (p) based on authors' estimates.

StatLink  <http://dx.doi.org/10.1787/323143310015>

from other SADC member states. In order to protect Mozambican producers, tariffs remain in place on certain agricultural goods for another four years.

Member countries of the OECD's Development Assistance Committee (DAC) made commitments to Mozambique of USD 1.6 billion in ODA in 2006, an increase of 26.2 per cent over 2005, above the 24.5 per cent increase in overall ODA commitments to all of Africa during the same period. Net disbursement of aid


to Mozambique in 2006 was over 97 per cent of the committed amount. This aid spending is equivalent to 23.3 per cent of Mozambican GDP, much higher than the sub-Saharan African average of 6.1 per cent.

External debt service in 2006 fell to 1.2 per cent of GDP, down from 2 per cent in 2005 thanks to debt relief; debt service is estimated to have fallen further to 1.1 per cent of GDP in 2007. Mozambique benefited from debt-relief efforts including the Multilateral Debt Relief

Figure 3 - Stock of Total External Debt (percentage of GDP) and Debt Service (percentage of exports of goods and services)



Source: IMF.

StatLink  <http://dx.doi.org/10.1787/320058808544>

Initiative (MDRI) and the enhanced Heavily Indebted Poor Country (HIPC) initiative. In 2006, MDRI relief consisted of USD 1.32 billion from the International Development Association, USD 465 million from the African Development Bank and USD 120 million from the IMF.

Mozambique successfully bought back its commercial debt (worth USD 153 million), with the assistance of the World Bank and Norway, in October 2007 at 9 cents per dollar. Debt relief discussions are continuing or soon to start, partly in the context of the enhanced HIPC initiative, with other creditors, including Bulgaria, Hungary, Iraq, Libya, Portugal, Romania and Russia

Structural Issues

Recent Developments

To sustain its remarkable recent growth, the Mozambican economy will need to generate increased foreign and domestic investment. The investment climate, however, remains dissuasive. Investment has been substantial, but concentrated in a few mega-projects. For example, there was USD 7.3 billion in approved investment during the first three quarters of 2007, but the lion's share of that amount was accounted for by a single project, the oil refinery at Nacala-a-Velha in Nampula province.

Mozambique continues to occupy a low ranking in the International Finance Corporation's annual *Doing Business* report comparing the business environment in 178 economies. Nevertheless, the country improved from 140th in 2007 to 134th in 2008, reflecting substantial improvements in two dimensions of the IFC's index: protecting investors and starting a business. Mozambique's *Doing Business* ranking was surely helped by new rules allowing electronic publication of firms' bylaws, which reduce from 113 to 29 days the amount of time it takes to start a new business.

The passage by the legislature of a new labour law in May 2007, long sought by employers and promoted

by donors including the World Bank and the IMF, was another step forward. The bill was the result of a compromise between labour unions and employer groups. The bill eases several labour-market rigidities that allegedly inhibit job creation. The bill permits, for example, a wider range of contracts, including short-term contracts for fixed periods. On the other hand, severance payments to laid-off workers will be linked to their earnings and the duration of employment, as had been sought by the unions. The new law will have little or no effect on the overwhelming majority of Mozambican workers in the informal sector, except insofar as it succeeds in boosting formal sector employment.

The government's priorities for improving the business environment in 2008/09 are: reducing the cost of inspections and fines while improving compliance; reducing the regulatory burden; simplifying the procedures for closing businesses; facilitating customs procedures; improving the system for VAT refunds; simplification of tax filing; and speeding up property registration.

Eliminating red tape by itself is insufficient to bolster investment; the managerial and technical capacities of firms and entrepreneurs must also be upgraded. Some increases in regulations and taxation are in the public interest. For example, new tax regimes were adopted in 2007 for extractive industries. These new regulations establish rates of tax on oil (10 per cent) and natural gas (6 per cent) production, as well as for mining products (10 per cent for diamonds and precious stones, gold, silver and platinum, less for semi-precious stones, base metals, coal and other products). Mining producers will also pay a tax on the surface area of the mine. These reforms and others enacted in 2007 regarding tax incentives for mega-projects increase the tax burden. The generosity of the previous set of taxes and exemptions was increasingly seen by the authorities as too costly in foregone revenues, and given the increased stability of Mozambique's macroeconomic situation, such incentives are no longer viewed as necessary.

Improvements of Mozambique's physical infrastructure will contribute to growth. The country recently formally took control of Africa's second-largest

dam, Cahora Bassa, with a capacity of 2 075 MW. In November 2007, the governments of Portugal and Mozambique transferred ownership of the operating company Hidroelétrica de Cahora Bassa (HCB) to Mozambique. With financing from a consortium led by Calyon of France, Mozambique will pay Portugal USD 700 million and control 85 per cent of HCB. The minister of energy has given assurances that loan repayment will be financed by earnings from sales of electricity generated by the dam, largely to South Africa, Zimbabwe and Mozambique, rather than from the general budget.

Transport infrastructure improvements are underway. The integrated port facilities at Nacala, in particular, are attracting consequential investment flows, linked in part with investment in a nearby oil refinery. Meanwhile, the publicly owned national railroad company, with aid from the World Bank, has become profitable after years of restructuring. An investment of USD 20 million is under way on the Ressano Garcia line, which connects Mozambique and South Africa. The intention is to increase cargo traffic to 9 million tonnes annually by 2009. Other lines have been leased to private operating companies.

The government's Economic and Social Plan for 2007 (PES) planned to increase the proportion of Mozambicans with access to clean drinking water to 48.5 per cent (up from 46 per cent a year earlier). New water supply systems were inaugurated in 2007 for the cities of Quelimane, Beira and Donodo, more than doubling water availability. These efforts will be bolstered by an agreement with the United States Millennium Challenge Corporation, signed in July 2007, to provide over USD 200 million for water and sanitation projects in the northern provinces of Zambezia, Nampula, Cabo Delgado and Niassa over five years. Also, a EUR 95 million multi-year project to increase water supply coverage in Maputo, Matola and Boane from 40 per cent today to 73 per cent in 2010 was launched by the prime minister in April 2007.

Technical and Vocational Skills Development

The vast majority of the population, in agriculture and in micro enterprises in urban areas, are in need of

training. The mega-projects have increased the demand for medium to high skills, especially in the areas of the metal, gas and telecommunication industries, where about 10 000 to 20 000 jobs have been created. The existing technical education and vocational training system has been slow to respond to changing labour market demands in both the formal and informal sectors.

Overall, the Mozambican workforce is poorly educated and lacks technical skills. More than 75 per cent of the population have five years or fewer of school attendance and only 8.5 per cent have achieved secondary or tertiary education. A mere 1 per cent of the total school enrolment, or 15 per cent of the total of secondary level students, participate in formal technical and vocational education and training (TVET) courses each year, of which about 90 per cent are in the 45 technical schools managed by the ministry of education and culture (MEC). Failure rates (50 per cent) and drop out rates (30 per cent) remain consistently high as a result in part of under-qualified instructors, a shortage of learning materials, and dilapidated workshop facilities.

The increasingly large numbers of primary school graduates who do not move on to secondary schooling are increasing pressure on the technical education system. Access to technical schools is further restricted by an urban bias in that nearly all the formal technical schools are located in the major towns and cities.

In addition to those provided by the MEC, vocational training courses are offered by various other ministries, including the Institute of Employment and Training (INEFP) under the ministry of labour, the ministry of agriculture, and the ministry of transport, tourism, and public works. There are also a number of private training providers that offer specialised skills training for niche markets. One of the most successful is a company that provides skills training on a fee-for-service basis for some of the largest multinational firms in the country such as Mozal, based in one of INEFP's training centres in Maputo. This centre is in fact the only viable fully functional TVET institution in the country offering mechanical/electrical skills training of a quality standard recognised by industry.

The overall technical and vocational education and training system in Mozambique is managed in a fragmented and unco-ordinated manner. The system lacks an overall institutional and planning framework to organise, integrate and regulate the system and to ensure the quality of training interventions and programmes. Since its inception the TVET system has been dominated by a supply-led approach to planning and training delivery completely disconnected from industry needs. An additional cause for concern is the acute shortage of relevant training targeted at the informal sector, particularly for those with only a primary education.

The TVET system is almost entirely dependent on government resources, which are inadequate even in comparison to the general education system. In 2003 the government spent 0.2 per cent of GDP, or 2.3 per cent of the education budget, on TVET.

In 2005, in response to these challenges, the government launched new policy measures and a strategic plan for a new TVET co-ordinating body, including the private sector and civil society. The first implementation phase of the TVET reform process (known as PIREP, or integrated professional reform programme) covers the period 2006-11 and is financed by several donors. PIREP's objectives are to facilitate the transition to a demand-led training system and provide the beneficiaries with more market-relevant skills, through the following mechanisms: the establishment of a TVET governance framework with representation from government, industry and civil society; the setting up a new TVET qualifications framework with occupational standards for sectors experiencing employment growth and skill shortages; and the diversification of funding sources of TVET to ensure its sustainability. Further steps include decentralised management of TVET institutions by 2009, increasing curriculum relevance, improved teacher training and greater focus on the informal sector.

Sixteen different institutions have been chosen as pilot sites for testing of the new Competency-Based Training (CBT) courses, in four sectors: tourism, agriculture, industrial maintenance and administration.

PIREP has also introduced a Skills Development Fund (FUNDEC) for employment-oriented TVET for underserved population groups (children and adults in rural areas), through small grants offered to public, private and NGO providers.

The implementation of the pilot project is proceeding at a slow pace. Only six schools will be ready to host new pilot projects by the middle of 2008. This is mainly because of the poor condition of the training facilities, which require substantial rehabilitation and re-equipping, and the shortage of funds. Little progress has been made so far in the introduction of a new competency-based curriculum and training of qualified teachers. No incentives have yet been put in place to attract the best qualified teachers operating in the private sector.

Two years after the start of the PIREP project, there is also no progress in bringing the planning processes of different ministries under a single institutional umbrella and on the development of a national strategic plan, and there is no unified accreditation and qualification framework. Some donors contribute to the fragmentation through their own pet projects in collaboration with various ministries, disregarding the PIREP guidelines. INEFP needs to set more realistic targets and to provide more detailed financial, physical and human resource planning. Furthermore, very little has been done with regard to the critical problem of providing training for the informal sector.

Political Context

In the 2004 elections FRELIMO (Liberation Front of Mozambique) remained in power, with new President Armando Emílio Guebuza replacing Joaquim Chissano who had been in office for 18 years. Elections for provincial assemblies, originally scheduled for January 2008, were postponed by a presidential decree in November 2007 because of delays in voter registration. The provincial elections may be held concurrently with the presidential and parliamentary elections scheduled for late 2009.

Reducing corruption has been a centre-piece of President Guebuza's political programme. The

appointment of Augusto Paulino as the new attorney-general in August 2007 sent a strong signal about the president's commitment. Paulino, previously presiding judge of the Maputo city court, came into the spotlight when he presided over the trial of six men accused of the murder of investigative journalist Carlos Cardoso. (The men were sentenced to long prison terms.) Nevertheless, donors express concern that the government's anti-corruption strategy has delivered too few visible results. In particular, there are worries in relation to the irregularity of the publication of data about the fight against corruption and about the lack of trials of corruption cases in 2006 and 2007. Donors advocate the setting up of measurable targets for anti-corruption plans to allow progress in monitoring and assessment of the impact of these activities.

Social Context and Human Resources Development

Mozambique, perennially vulnerable to natural disasters, was hit both by flooding of the Zambezi River and by cyclone Favio in early 2007. The flooding killed at least 29 people and affected some 285 000 more in January and February 2007. Cyclone Favio, in late February, killed 10 people and affected 162 700 others in Vilanculo (Inhambane province). A July 2007 assessment by the Mozambican authorities of the effects of these disasters on food security found that 520 000 people faced high levels of food insecurity and an additional 140 000 were at risk. The government and donors funded relief and reconstruction, to continue at least until the end of March 2008. Again in 2008, heavy rainfall at the beginning of the year resulted in flooding of a large portion of central Mozambique. Some 76 000 people were displaced and up to 1 million were adversely affected by the floods, including lack of accessibility to roads and growing levels of water-borne diseases.

Mozambique has experienced one of the most dramatic reductions in poverty in the world in recent decades. Based on a national poverty line, income

poverty fell from 69.4 per cent of the population in 1997 to 54.1 per cent in 2003. Measures of the depth and severity of poverty declined even more.

Nevertheless, Mozambique remains among the poorest countries in the world. Moreover, the country's poverty reduction efforts have had uneven results across regions. In particular, poverty rates increased in Maputo city and province. Moreover, a recent report by the World Bank¹ provides evidence of a "nutritional paradox": while real consumption levels have risen across the country, chronic malnutrition has not declined apace, and has even worsened in some areas (Zambezia, Sofala, Inhambane, Gaza, Maputo province).

Household survey data that would permit an updating of poverty rates since 2003 are not available. But a poverty and vulnerability survey (PVS) carried out by the Universidade Eduardo Mondlane in 2006 and analysed by the World Bank suggests that poverty reduction may be slowing and that inequality is an increasing problem. Some 40 per cent of poor households surveyed by the PVS reported that their level of income – low to begin with – had remained the same or deteriorated over the previous five years. Rising national income is apparently not leading to an across-the-board alleviation of poverty, particularly in rural areas where more than 60 per cent of Mozambicans live. In short, the gains from growth are apparently not reaching many of the poor.

During the first half of 2007, primary level school enrolment reached 94.1 per cent of school-age children, according to national sources. For girls the rate was 90.9 per cent. Although the government's commitments and strong donor support aimed at reaching the Millennium Development Goals have led to a significant expansion of enrolment in primary education, this has taken place at the expense of quality and of the development of post-primary education. It is estimated that each year more than 160 000 primary school leavers cannot find places in secondary schools because of a lack of schools and qualified teachers.

1. The World Bank, *Beating the Odds: Sustaining Inclusion in a Growing Economy. A Mozambique Poverty, Gender and Social Assessment. Africa Region, Poverty Reduction and Economic Management, Report No. 40048-MZ, 2007.*

Recently published results of a 2004/2005 labour-force survey allow an assessment of levels and trends of unemployment, underemployment and earnings². Using an international definition, the survey found unemployment rates of 1.3 per cent in rural regions and 21 per cent in urban regions. Using a broader definition that counts occasional workers and idle self-employed and family workers as unemployed, the unemployment rate rises to 12.9 per cent in rural regions and 31 per cent in urban regions. Underemployment – the proportion of workers who work fewer than 40 hours per week though they want to work more – affects 18.6 per cent of men and 8.3 per cent of women.

In Mozambique 75 per cent of the labour force operate in the informal sector. Another 17 per cent are unemployed, with only 8 per cent having jobs in the formal labour market³. In the rural areas 87 per cent of workers are informal, compared with only 50 per cent of urban workers. Regionally, Maputo city leads in formal employment, with 33 per cent of workers in the formal sector, but with even more – 40 per cent – unemployed. Of informal-sector workers 90 per cent are in agriculture, with only 2 per cent in manufacturing and construction, 5 per cent in trade and tourism, and 2 per cent in other services.

The government is taking steps to stem the effects of malaria, the deadliest disease in Mozambique. Between 2004 and 2007, 2.23 million mosquito nets were distributed, reaching 54.6 per cent of children under five and pregnant women. Nevertheless, according to the latest joint review of the Mozambican government and donors, the country has registered an increase of maternal mortality by 38.7 per cent.

The incidence rate of HIV/AIDS in Mozambique was estimated at a very high 16.2 per cent of the adult population in 2004, and the ministry of health estimates the national rate is little changed since that time. The regional variations in HIV/AIDS incidence, however,

have changed in recent years. The central provinces of Mozambique, long marked by the highest incidence rates, have seen declines with the maturation of the epidemic. In Sofala, for example, the incidence rate fell from 26.5 per cent to 23 per cent between 2004 and 2007. At the same time, however, the incidence rate in southern Mozambique has risen, quite markedly in some cases, e.g. from 19.9 per cent to 27 per cent in Gaza province, and from 20.7 per cent to 26 per cent in Maputo province.

According to a report presented to the parliament in March 2007, just over 50 000 HIV-positive Mozambicans were receiving anti-retroviral therapy (ART), well short of the 300 000 in need of treatment. The cost of ART in Mozambique is estimated at USD 140 per patient per year.

2. Instituto Nacional de Estatística (INE), Inquérito Integrado à Força de Trabalho (IFTRAB 2004/2005). Relatório Final, 2006.

3. Instituto Nacional de Estatística (INE), O Sector Informal em Moçambique. Resultados do Primeiro Inquérito Nacional (2005), 2006.

