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FROM: The Secretary

December 28, 1998

CONSULTATIVE GROUP FOR MOZAMBIQUE**Maputo, September 23-24, 1998****CHAIRMAN'S REPORT OF PROCEEDINGS**

Attached is the Chairman's Report of Proceedings of the Meeting of the Consultative Group for Mozambique held in Maputo, September 23-24, 1998.

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CONSULTATIVE GROUP FOR MOZAMBIQUE

Maputo, September 23-24, 1998

Chairman's Report of Proceedings

Background

1. The Consultative Group for Mozambique (CG) held its eleventh meeting in Maputo, Mozambique on September 23 and 24, 1998. It was the first Mozambique CG meeting hosted in-country. The meeting was chaired by Mr. Callisto Madavo, Vice President for Africa for the World Bank. The World Bank's Country Director for Mozambique, Ms. Phyllis Pomerantz, and the Executive Director for the group of countries that includes Mozambique, Mr. Joaquim R. Carvalho, also attended. The Mozambican delegation was led by HE the Prime Minister Pascoal Mocumbi, and included HE Tomaz Salomão, Minister of Planning and Finance, HE Oldemiro Baloi, Minister of Commerce, Industry and Tourism, HE Alfredo Gamito, Minister of State Administration, HE Dr. Aurelio Zilho, Minister of Health, HE Carlos Agostinho do Rosario, Minister of Agriculture and Fisheries, HE Luisa Diogo, Vice-Minister of Planning and Finance, HE Adriano Maleiane, Governor of the Bank of Mozambique, and other senior Government officials. Two special sessions were organized between meeting delegates and Mozambican NGOs and representatives of the private sector.

2. The meeting was attended by delegations from Australia, Austria, Belgium, Brazil, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom and the United States. Also represented were the African Development Bank, the Arab Bank for Economic Development in Africa (also representing the Kuwait Fund for Arab Economic Development), the European Commission, the European Investment Bank, the Food and Agriculture Organization, the International Finance Corporation, the International Fund for Agricultural Development, the International Monetary Fund, the Nordic Development Fund, the Organization for Economic Co-operation and Development, the United Nations Children's Fund, the United Nations Development Program, the World Bank, the World Food Program and the World Health Organization. South Africa and the Russian Federation attended as observers.

3. The following documents were distributed in advance of the meeting:

Mozambique Government:

- "A View into the Future: Investing Today in the Development and Sustainability of Tomorrow;"
 - "Reform of the Mozambican Public Sector: Strategy and Actions;" and the
 - "Policy Framework Paper, 1998-2000," prepared in collaboration with the staffs of the World Bank and the International Monetary Fund.
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Opening Statement by the Chairman

4. In his opening statement (Annex III), Mr. Madavo welcomed delegates to the first Mozambique Consultative Group meeting held in Maputo. He extended greetings and gratitude to the Mozambican Government. He observed that Mozambique stood out in Africa as a country at peace and on the move. The Chairman stated that with a 1997 growth rate of over 12 percent, Mozambique had one of the highest growth rates in Africa and, indeed, the world. This could be traced to the Government's steadfast adherence to its economic reform program. After all, he noted, while storm clouds were over many countries in the region and the world, "the sun is shining over Mozambique."

5. Mr. Madavo stated that the Mozambican economy's successful track record was a credit to the strong partnerships the country has fostered over ten years of consecutive Consultative Group meetings. The Chairman acknowledged how the partnership's success was recognized last April by the World Bank, the IMF and the larger donor community, with the decision to provide Mozambique with debt relief under the HIPC Initiative. He reminded participants that the HIPC debt reduction package for Mozambique amounts to forgiveness of some US\$ 3 billion of Mozambique's debt and thanked Mozambique's aid partners for having gone "the extra mile" to provide debt relief. He shared his expectations that Mozambique will successfully implement the needed reforms to achieve the HIPC completion point by June 1999.

6. Mr. Madavo observed that even though Mozambique has made impressive progress in its reform agenda, the country and its aid partners still face the daunting challenge of reducing poverty and promoting the kind of rapid growth which benefits the poor. Also, Mr. Madavo noted the additional challenge of reforming the public sector in order to build a better managed and more accountable government service that is more capable of directing growth benefits to all sectors of society. He noted that next year's national elections will be a watershed in Mozambique's history as a young democracy.

7. To conclude, Mr. Madavo commented that he had come to Mozambique to salute the country's achievements and to convey personally the importance of building on the success of the reform program and the development partnership. He hoped that the Consultative Group meeting would further cement the relationship between the Government and its partners, as all parties continue their endeavors to improve Mozambique's living conditions.

Statement by the Mozambique Delegation

8. In his opening statement (Annex IV) the leader of the Mozambican delegation, the Prime Minister, HE Dr. Pascoal Mocumbi, welcomed participants to the first Consultative Group Meeting held in Mozambique. He explained that he proposed the 1998 Meeting take place in Maputo during the last CG meeting so delegates could witness directly the socio-economic advances that Mozambique has experienced, advances that are sometimes difficult to translate into statistics. He welcomed the opportunity for delegates to communicate with members of Mozambique's civil society through visits to local villages.

declined from 70 percent in 1994, to 5.8 percent in 1997, and continued to decline in 1998. The external account deficit narrowed to about eight percent of GDP during 1996-97, and net international reserves rose to four months of imports by the end of 1997. Mr. Reitmaier stated that while these results indicated that the Government's policies were on track, Mozambique's social indicators were below the averages for sub-Saharan Africa. There remains a need to rebuild infrastructure, reduce the external debt burden and eliminate remaining structural impediments to growth. The Government will need to be vigilant in maintaining financial discipline and the pace of reform, especially given currency's recent appreciation.

14. Turning to the future, Mr. Reitmaier commented on the Government's medium-term economic strategy, as outlined in the latest Policy Framework Paper, which emphasizes private-sector-led and export-oriented growth, financial discipline, and the removal of supply bottlenecks. Mr. Reitmaier reiterated the main elements of the Government's medium-term structural program as the following: (a) increasing public sector saving; (b) improving fiscal management; (c) increasing the efficiency of public investment; (d) increasing private investment; (e) increasing private sector saving; (f) improving monetary management; (g) ensuring a competitive and sound banking system; (h) strengthening the capacity for national economic management; (i) increasing economic efficiency; and (j) increasing total outlays in the social sectors. Overall, the authorities made progress in implementing structural reforms, including changes to strengthen the country's tax administration, and the preparation of the value added tax, to be introduced in April 1999. On the expenditure side, he noted the passage of a new budget law in 1997, and stated that the medium-term expenditure framework was being developed to enable expenditure priorities to match resource availability. He also noted the importance of the ongoing public administration reform.

15. Mr. Reitmaier indicated that the program for 1998-1999 will seek to achieve real GDP growth of over 7 percent a year, excluding the impact of large projects, or 9 percent if large projects are included. Inflation is anticipated to fall below 6 percent in 1998, with an estimated inflation rate of 6 percent for 1999 and an increase in net international reserves by about US\$ 30 million a year in 1998 and 1999. Mr. Reitmaier noted the authorities' program targets zero net domestic borrowing by the Government in 1998 and 1999 as well as a decline in net external financing in 1998 by 2.2 percentage points of GDP. On the Government's monetary policy, Mr. Reitmaier noted continued restraint. Further, he recognized the Government's commitment to expand outlays on education and health and to assist poverty reduction through a five-year expenditure program in agriculture, a roads and coastal shipping project and a projected doubling of spending on formal social safety net programs in 1999.

16. Mr. Reitmaier concluded that while Mozambique has a heavy external debt burden, the Mozambican authorities' good track record under structural adjustment arrangements had permitted the Boards of the IMF and World Bank to declare the country eligible for assistance under the HIPC Initiative in April 1998. If program implementation remains satisfactory, Mozambique could reach the HIPC Initiative completion point in mid-1999. He went on to report the country's external financing needs and to state that the IMF considers continued donor support to be fully warranted and crucial for the country to maintain its growth momentum in the medium term.

Statement by the Minister of Finance

22. Minister Salomão presented the main Government document “A View Into the Future” (Annex VIII). He began by welcoming delegates to Mozambique and reported on the country’s vigorous economic growth and stability. For example, GDP had increased cumulatively by almost 90 percent since the end of the war in 1992. He noted that economic growth had been broad-based, with a particular focus on the manufacturing industry, with an average growth rate of 26 percent in 1996 and 1997, partly due to several large investment projects. Further, a cautious fiscal and monetary policy succeeded in reducing inflation from 60 percent in 1995 to an expected level of 4 percent in 1998. He reiterated the Government’s intentions to increase international reserves in 1998 and accelerate structural reforms in order to sustain growth in the medium term.

23. The Finance Minister outlined the 1998 national budget and the Government’s strategy to implement cuts in income tax, combat tax evasion, continue the liberalization of trade by reducing customs duties and introducing a VAT, and enhance the efficiency of the Government through the development of a new accounting and budgeting system. He noted the Government’s steady increase in the proportion of resources allocated to the social sectors, particularly health and education, and he thanked the donor community for its assistance to social sectors through the Debt Relief Fund.

24. Minister Salomão then presented the initial results of the 1996-97 Household Expenditure Survey. He noted that around 80 percent of the total population lives in rural areas while 82 percent of the country’s poor are concentrated here as well. The average Mozambican has to travel 46 km. to find a doctor, 66 km. to reach a secondary school, 48 km. to reach the nearest telephone and 16 km. to sell and buy essential goods at market.

25. The Minister outlined education, health, water, agriculture and road sector strategies in detail, noting their importance in sustaining Mozambique’s development. In education, the Minister stated the Government’s intent to improve access to primary education, enhance access and participation for girls, upgrade the quality of teaching, and strengthen the institutional capacity to define and implement policy. In the health sector, the Minister noted the Government’s primary objective of expanding health service coverage through increasing the number and distribution of health facilities. He noted the link between poverty and education on the one hand and the overall population’s health on the other. Minister Salomão further stated that as only 7 percent of the population had access to running water, the Government’s water and sanitation sector strategy included privatizing the management of the five main cities’ water supply companies, increasing water tariffs and improving rural financing capabilities for water supply and sanitation.

26. The Finance Minister went on to outline the Government’s program for agricultural development, PROAGRI. Noting that approximately 80 percent of the population live in rural areas, he underlined the importance of agricultural development to poverty reduction and food security. The agriculture program includes the privatization of agricultural activities and services, capacity building in the Ministry of Agriculture and Fishing, improvements to

30. An issue which spanned across all themes was HIV/AIDS. Delegates noted that sustainable growth, and indeed even the gains which have been achieved to date, could be seriously at risk if the threat posed by the spread of HIV/AIDS was not addressed. Participants appreciated the Minister of Health's strong statement of commitment to combat this disease through a multisectoral HIV/AIDS program.

Special Session

31. A Special Session was held to discuss the Government's strategy for public sector management and fiscal reform. The Minister for State Administration, HE Alfredo Gamito, presented the Government's paper, entitled "Reform of the Mozambican Public Sector: Strategy and Actions." During his presentation, the Minister gave a summary of the reforms now being undertaken in Mozambique, including the creation of a Human Resources System, a new careers and remuneration system, the decompression of salaries, the rationalizing of the civil service career framework, training of civil servants, and the reform of the budget system. During the special session, the Minister for State Administration outlined the proposed organizational structures for the coordination, management and implementation of the planned public sector reform. He placed particular emphasis on encouraging leadership and empowering management during the reform process.

Statement of Financing Requirements

32. Ms. Ferro, who made the statement on external financing (Annex X), stated that Mozambique's positive performance results for 1997 are expected to continue into 1998, with the economy estimated to grow at over 8 percent. Some volatility in the country's external position is anticipated in 1998, following the construction of large investments such as Mozal, and a corresponding increase in imports. Exports are also expected to increase, though at a slower rate than imports. Joint efforts must continue to ensure that the Government implements policies aimed at maintaining a stable macroeconomic environment, including prudent and equitable fiscal policies, close supervision of the financial sector, and maintenance of a sustainable and competitive exchange rate.

33. Ms. Ferro noted how over the years external aid to Mozambique had changed to match the country's conditions. Financial support for food and emergency aid had declined, while balance of payments support, debt relief, and sector expenditure program financing had increased. She noted the Government's ongoing efforts to improve the management of domestic and donor resources through budgetary reform. Ms. Ferro emphasized support for the Government's request that partners continue to move toward medium-term financing plans through the Government's sector expenditure programs.

34. On financial assistance, Ms. Ferro noted that external financing needs before debt relief amounted to about US\$1.8 billion in 1998, and US\$1.4 billion in 1999. Private sector financing is projected to increase, contributing US\$250 million in 1998 and US\$530 million in 1999. Multilateral and bilateral grants and credits, including IDA's interim debt relief prior to the completion point, are projected at US\$900 million in 1998 and US\$300 million for 1999. The

9. The Prime Minister observed that the restoration of macroeconomic stability made it possible for the 1998 Consultative Group to discuss a medium-term development strategy and its implementation. He underlined that inflation remained under control and that the Government projects medium-term economic growth at about 10 percent. Further, the Prime Minister noted that the strength of the economy was illustrated by economic actors' trust in the currency and their willingness to invest in domestic production.

10. The Prime Minister drew the participants' attention to the challenges the Government faces and emphasized the pervasive poverty, particularly in the countryside where around 80 percent of the population resides. He noted the need to quickly reduce regional differences while at the same time broadening the benefits of economic growth. To this end, the Prime Minister announced that the Government will continue to allocate greater resources to the health and education sectors. He recognized the country's need for skilled staff to successfully promote sustainable growth and social development. In order to help build the nation's capacity, he advocated a comprehensive effort in the education sector, with a focus on primary schools, training in vocations and trades, technical and professional education, and higher education. The Prime Minister underscored the Government's commitment to quality in all social sectors, and drew on the examples of how quality teaching in schools can improve a country's overall development and how access to sanitation and drinking water and effective health services can contribute to the population's overall welfare.

11. The Prime Minister went on to state the Government's commitment to rehabilitate the country's infrastructure, including communication routes and water supplies, to link regions, expand rural markets, stimulate the private sector and improve living conditions in rural areas. Moreover, he stressed the crucial role that motivated civil servants can play in the process of implementing the Government's programs on the ground. He also emphasized the role agriculture will play in sustaining Mozambique's medium-term growth, and pointed to the Government's efforts to design a strategy for the agriculture sector, known as PROAGRI. As the Government continues to implement reforms through, for example, the privatization of state-owned assets, there is a corresponding need for public institutions to have the technical and human capacity to carry out these adjustments. He noted the Government will continue to create favorable conditions for investment and business development as the private sector takes on greater economic relevance.

12. The Prime Minister concluded his speech by thanking the aid partners for Mozambique's qualification for debt relief under the HIPC Initiative, observing that debt relief will allow more resources to be channeled to social services. In sum, he trusted that, with continued financial support from its partners, Mozambique will reach its medium-term objectives.

Statement by the IMF

13. Mr. Reitmaier of the IMF began his statement (Annex V) by stating that Mozambique enjoyed a strong macroeconomic performance in 1997 and that results for 1998 were positive. He reported that Mozambique's real GDP growth rate averaged 6.3 percent from 1994 to 1996, rose to 12.4 percent in 1997, and remained strong in the first few months of 1998. Inflation

Civil Society Sessions

39. In addition to the formal Consultative Group sessions, two separate sessions were held with members of Mozambican civil society, Government, and aid partners. Both sessions were chaired by H.E. Minister of Finance Tomas Salomão. The first session, entitled "The Development Agenda and Civil Society," included representatives from over fifty local and international non-governmental organizations (NGOs). Opening the session, Minister Salomão stated his belief that civil society has an important role to play in the country's continued development and noted that the dialogue between Government and civil society was not an event but an ongoing process. In response, the NGO representatives welcomed the opportunity to participate for the first time in the CG meeting and focused their concerns specifically on the situation of Mozambique's debt and on ways to ensure that the benefits of economic growth reach all levels of society.

40. The second session, entitled "Promoting Private Sector Development," included many representatives from Mozambique's private sector. The main issue discussed during the private sector session was the timing of the introduction of the Value Added Tax (VAT), scheduled for next April 1999. On behalf of the Government, Minister Salomão stated his understanding of the private sector's concerns regarding the VAT and agreed to continue to consult with them. Both sessions involved an open and wide-ranging discussion with interventions from Government, donors and members of civil society.

Statement by the World Bank

17. In the World Bank's statement (Annex VI), Ms. Pomerantz began by thanking the hosts and noting Mozambique's accomplishments since the Peace Accords of 1992. She noted that the challenge of private sector-led growth in an increasingly turbulent regional and global marketplace reinforced the need for sustained macroeconomic vigilance. She emphasized that sustainability is the watchword for Mozambique, if the benefits of economic growth are to reach the poor throughout the country.

18. Ms. Pomerantz praised the Government for its successful privatization program, and stressed the importance of continued liberalization and privatization, specifically in the transport and utility industries. Removing barriers to trade, introducing the VAT, changing the tax regime, and simplifying import procedures and registration requirements were all positive developments. Nonetheless, red tape and inadequate regulation remain impediments to further growth.

19. Ms. Pomerantz then turned to public sector management and noted its crucial role as a catalyst for broad-based growth. She stressed the importance of the Government's initiative to develop a medium-term fiscal framework, and how this framework, combined with HIPC debt relief, will assist the Government in managing its own future. The Government's effort to reform budget planning, auditing and management systems is an area where the Bank and many development partners are ready to provide assistance. Ms. Pomerantz went on to note that improved fiscal management will include reforming the public sector administration, particularly through the Government's initiative to implement salary decompression and a new career stream system. She noted several partners' concerns on governance matters and stressed the importance of the Government's continuing efforts to combat corruption, improve financial accountability and further legal reform.

20. Ms. Pomerantz stressed that the greatest challenge facing Mozambique remains reducing poverty and ensuring that economic growth reaches the poor. Mozambique needs to approach the problem from several fronts with a wide range of instruments. Sector programs in place or being developed in roads, health, education, water, and agriculture need to be designed and implemented with the poor in mind. A pro-poor fiscal policy will ensure that the benefits of economic growth, even from enclave sectors and the mega-projects, can be tapped to provide programs and services to the poor. She noted the need for more information and analysis on poverty and stated that the Bank and many partners look forward to the Government's national household survey as a basis for developing and implementing a poverty action plan.

21. Ms. Pomerantz concluded by recognizing the strength of partnerships, particularly on the local level. She welcomed the planned interaction between representatives of civil society and meeting delegates. She noted that the positive evolution of the dialogue among Mozambique and its partners will strengthen a common vision of a Mozambique in which all members of society share the benefits of rapid development.

agricultural extension services, and measures to give smallholders security of land use. Turning to the road sector, Minister Salomão noted its overall importance to the country's development, particularly in order to increase farmers' access to markets. The Government placed particular emphasis on road rehabilitation and periodic maintenance. In closing, the Finance Minister expressed the hope that he had clarified the country's challenges, and the Government's strategies for addressing these with support from its external partners.

Plenary Discussion

27. Plenary discussion during the 1998 Consultative Group Meeting centered on three main themes: balanced, broad-based growth and poverty reduction, public sector reform and capacity building, and governance. Regarding the theme of balanced growth and poverty reduction, many delegates noted that Mozambique remains one of the poorest countries in the world. Participants recognized the challenge Mozambique has of ensuring that economic growth is balanced and broad-based. In this vein, many recognized that agriculture and rural development are of particular importance for poverty reduction, given that 82 percent of the country's poor live in rural areas. Delegates noted the Government's plans under PROAGRI to improve the welfare of rural smallholders, by ensuring access to markets and extending services to improve yields. Participants welcomed the Minister of Agriculture's statement that government regulations would be implemented in a way that recognized communal rights of land tenure. Delegates also emphasized the roles of small and medium scale enterprises as engines of economic growth. Several participants encouraged the Government to use its fiscal policy to tap the "mega projects" so as to spread the benefits of growth more evenly. The participants recognized that reducing Mozambique's debt burden to sustainable levels was essential if the benefits of growth were to be employed in poverty reduction. To this end, participants stressed the importance of the Government successfully reaching the completion point under the HIPC Initiative in mid-1999. Several speakers also pointed the need for continued prudent exchange rate management to safeguard Mozambique's external competitiveness.

28. The second theme was public sector reform and capacity building. Mozambique's aid partners appreciated the Government's efforts to reform its public sector and build capacity among civil servants. The development of human capital (with an emphasis on women's and girl's education), and public sector reform are key factors in improving social conditions. Participants agreed that an efficient public sector was critical to the Government's ongoing efforts to reduce poverty and stimulate rapid growth. Continuing civil service reform, eliminating red tape and accelerating regulatory, legal and judicial reform were all seen as central to creating a transparent justice system and a business-supportive environment for small entrepreneurs and global investors alike.

29. On questions relating to governance, Mozambique's partners recognized the commitment of the Government to build a sustainable democracy. There was a consensus that ongoing legislative and constitutional reform and the preparation and conduct of next year's national elections represent progress toward this goal. The importance of consensus building on electoral procedures was also emphasized.

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Head of Delegation

remainder is expected to be covered by multilateral and bilateral debt relief, including assistance under the HIPC Initiative. Firm financial commitments by the aid partners for 1999 were not possible due to the timing of the meeting. However, based on previous information and pledges made during the meeting, it is expected that Mozambique's financing needs (excluding debt relief) of US\$606 million for 1998 and US\$570 million for 1999 will be met.

The Chairman's Closing Remarks

35. In the Chairman's closing statement (Annex XI), Mr. Madavo thanked Prime Minister Mocumbi and the Mozambican Government for their presentations as well as expressing gratitude to all participants for their openness during the discussions. Mr. Madavo remarked that the 1998 CG Meeting marked another step in the evolution of the partnership among all stakeholders in Mozambique's economic and social development, and referred to the meeting as the "CG of sustainability," in contrast to previous CGs which had been termed the "CG of good intentions" in 1995, the "CG of accountability" in 1996, and the "CG of accomplishments" last year. The Chairman, reflecting comments made by the Prime Minister and other participants, observed the shift the meetings have taken from focusing on short-term issues to discussing medium and long-term issues of consolidating macroeconomic stability and creating the conditions for sustainable, balanced and broad-based growth.

36. Reviewing the main themes of the discussion, Mr. Madavo noted that for growth to be broad-based, policies and programs need to improve the welfare of the rural smallholder. Small and medium-scale enterprises also serve as engines for growth. And, the Government needs to increase its social expenditures, particularly in health and education, as it plans to do. The Chair added a personal plea for increased action to combat HIV/AIDS. He stressed the need for poverty information, analysis and monitoring as a component of alleviating poverty and improving the welfare of the Mozambican people and looked to the Government's Poverty Assessment data as an input into formulating the Government's Poverty Action Plan.

37. Mr. Madavo observed that participants had concerns over the issue of governance. The Government's current efforts to reform the public sector, build capacity, combat corruption, and its planned reform of the electoral law and constitution were all important steps toward building a sustainable democracy and delivering vital public services to all members of society.

38. Mr. Madavo applauded the use of a medium-term expenditure framework in improving the management of public expenditures. He noted that the medium-term framework will support sector programs by directing resource allocations more flexibly and ensuring sustainability by matching expenditure decisions with revenues. Sector programs were a good illustration of the evolving partnership, especially as donors work to improve coordination and the Government strives to improve its financial control and auditing capabilities. In conclusion, the Chairman underscored the need for Mozambique to reduce its dependence on external assistance. After recognizing the frankness of the discussions and noting suggestions for future CG meetings, the Chairman expressed satisfaction that the donor community had met the bulk of the financing requirement for Mozambique in 1998, and, after thanking participants, he declared the meeting closed.

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Proposed Agenda
Mozambique: Eleventh Consultative Group Meeting
 September 23-24, 1998
 Maputo, Mozambique

Wednesday, September 23, 1998

- | | |
|-------------|---|
| 08:00-09:00 | Registration |
| 09:00-10:15 | Opening Statements
Chairman's Opening Statement
Mozambique Government Statement
IMF Statement
World Bank Statement
UNDP Statement |
| 10:15-10:45 | Coffee Break |
| 10:45-12:30 | The Economic Reform Program
Presentation by the Government
General Discussion |
| 12:30-14:00 | Buffet Luncheon for all Participants |
| 14:00-16:00 | Continuation of Discussion |
| 16:00-16:30 | Coffee Break |
| 16:30-18:30 | Special Session: Public Sector Management and Fiscal Reform |

Thursday, September 24, 1998

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|-------------|---|
| 08:30-10:30 | External Financing Requirements
Mozambique Government Statement
World Bank Statement
Participants' Statements |
| 10:30-11:30 | Coffee Break |
| 11:30-11:45 | Consideration of Press Release |
| 11:45-12:30 | Closing Statements
Presentation by the Government of Mozambique
Statement by Chairman |
| ***** | |
| 14:30-16:00 | The Development Agenda and Civil Society
Discussion with NGOs and Other Representatives of Civil Society |
| 16:00-17:30 | Promoting Private Sector Development
Discussion with Representatives of the Private Sector |
| ***** | |
| 18:00 | Press Conference |

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**CONSULTATIVE GROUP MEETING FOR MOZAMBIQUE
Maputo, September 23-24,1998**

Chairman:
Mr. Callisto E. Madavo
Vice President for Africa
The World Bank

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Mozambique's achievements, I believe, are a credit to the strong development partnerships it has fostered. Indeed, this Consultative Group represents success in its own right. This Group has faithfully met for more than a decade now, supporting Mozambique through the bad times and now the good times. It has been a flexible partnership, adapting, as the country itself changes and develops.

Our Consultative Group meetings are really just one example of how our international partnership has touched this country. Earlier this year, most of our institutions and countries came together and, under the HIPC Initiative, put together a debt reduction package amounting to the forgiveness of some US\$ 3 billion dollars of Mozambique's debt. This extraordinary effort surpasses even the initial guidelines of the HIPC framework, with many of us contributing additional relief on a voluntary basis. I would like to commend and thank all of Mozambique's aid partners for having gone "the extra mile" in allowing us to jointly put together the HIPC. We trust that Mozambique will successfully implement the reforms needed to achieve the HIPC completion point by June.

Still, we, as a partners, face a number of challenges. The most daunting challenge in Mozambique remains the reduction of poverty. Although Mozambique has made impressive progress on its reform agenda, the Government and its partners must continue to promote the kind of rapid growth which benefits the poor. Another challenge I see today relates to the role of government. Public sector reform, the subject of the special session later today, is an essential part of building a better managed, more accountable government service - one able to create a facilitating environment for growth and to direct the benefits of that growth to the poor. Next year's national elections will also mark an important watershed in the history of this young democracy.

So, this is an exciting time of change for Mozambique, a time which is filled by the promise, and the challenges, of tomorrow. This is why I wanted to be here: to salute Mozambique's achievements and to personally convey the importance that I, and I think all of us, attach to the continued success of the Government's reform program and to our joint development partnership. I am sure that this CG meeting will help cement the relationship between the Government and its partners as we endeavor to improve living conditions in every corner of this country.

Agenda for the Meeting and Logistical Arrangements

Now let me turn to the proposed agenda for this meeting and various logistical arrangements. We will begin the discussion this morning with a statement from His Excellency, the Prime Minister Mocumbi. This will be followed by a statement by Mr. Reitmaier of the IMF. A statement by Ms. Pomerantz, Country Director for the World Bank, will then be followed by a statement by Mr. de Casterle of the UNDP. Following a coffee break, His Excellency the Minister of Planning and Finance, Minister Salomão, will give us a presentation on the Government's economic reform program. We will then open the meeting for a plenary discussion.

We would then like to invite you to an informal lunch, outside this room, beginning at 12:30pm. As in past years, we plan to designate some tables for discussion of topics of particular interest to participants. Tentatively, we plan to have tables for HIPC, Agriculture and Land, Social Sectors, Public Sector Reform and Fiscal Management, Regional Cooperation, Roads and Transport,

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**Consultative Group Meeting for Mozambique
Maputo, September 23-24, 1998**

Chairman's Opening Statement

Mr. Callisto Madavo
Vice President
Africa Region
World Bank

Ladies and Gentlemen:

Introduction

Good morning. *Bom dia*. Welcome to the 1998 Consultative Group Meeting for Mozambique. It is the first time that the Consultative Group meets in Mozambique, and it truly is a pleasure to welcome you all here to Maputo. In particular, I am honored to extend our greetings and gratitude to our hosts, the distinguished Government delegation, led by His Excellency Prime Minister Mocumbi. I know I am speaking on behalf of all the delegates here when I say how much we appreciate this opportunity to meet in your beautiful country and to get a chance to know it better. I also want to thank you for the productive and enjoyable field trip you organized for us yesterday.

Meeting in Maputo will allow us to bring many of the issues we discuss at our SPA meetings to the country level. More importantly, meeting in Maputo gives us the opportunity to interact with so many more of our Mozambican partners. I am honored to see so many representatives of the Council of Ministers, the Board of the Central Bank, and other Government agencies. And tomorrow we will have an opportunity to exchange ideas with a broad cross-section of Mozambique's civil society. I am looking forward to productive - and lively - discussions.

When I was asked by my colleague, the Country Director, to chair this meeting, I was honored to accept. As the Bank's Vice President for Africa I have traveled throughout this continent. Mozambique stands out; I am impressed by what I see here. In just six years, Mozambique has moved from a devastated, war-torn country with a crippled economy, to a country at peace and on the move. Last year the Mozambican economy grew at over 12 percent, one of the fastest growth rates recorded in Africa, and indeed, the world. Inflation has come down from 70 percent in 1994 to less than 6 percent in 1997. These achievements can be traced back to the Government's steadfast adherence to its economic reform program. The Mozambican economy has been radically transformed over the last decade, and is now one of the most dynamic in the region. The Bank and the Fund, and indeed the larger international community, recognized Mozambique's successful track record this April when the decision was taken to provide debt relief under the HIPC initiative. While storm clouds are sweeping over many countries in this region and the world, the sun is shining over Mozambique.

Ladies and Gentlemen,

When we look to the future we first and foremost have to know the challenges that face us. Fighting structural poverty is our main challenge. It is an atrocious reality, especially in the countryside, where 80% of the population resides. The reduction of regional asymmetries cannot be postponed. Fairer access and greater equity in the results of economic development, will deserve our attention.

Along this line of thinking, we will continue to allocate ever-greater resources to the health and education sectors. Keeping in mind our purpose of pushing forward significantly in the building up of national capacities, we advocate a comprehensive effort in the education sector which, in addition to primary schooling, includes vocational and trades training, technical/professional education at all levels, as well as higher education. We believe that only in this way we will be able to significantly increase the supply of human capital, minimizing and perhaps overcoming, the dramatic shortage of skilled staff which is one of the most critical constraints to growth and sustainable economic and social development.

A commitment to quality underlies our programs in the social sectors. This isn't something that follows later. Thus, in education, more than the number of schools and teachers, we want improvement in the teaching to serve the country's development. In health we promote the well-being of the population through improvement in sanitary conditions, drinking water supply, and more humane treatment of patients.

Rehabilitation of basic infrastructures (including communication routes and water supply) is another priority sphere of action in the medium term. Its critical role is obvious in linking the various regions of the country, in linking the rural and urban areas, and consequently in the expansion of rural production and of markets in general, in the expansion of the private sector and in the improvement in the incomes and living conditions of the rural population, which is hardest hit by the indices of absolute poverty.

Public administration plays a crucial paper in the whole process aiming at improvement of the services that we have to provide. With unmotivated civil servants, no program can produce its desired effects. This will be a question that will merit more detailed exposition throughout the Meeting.

Given that the majority of the Mozambican people lives in the countryside, agriculture will deserve special attention in our actions in the medium term, and with a view to dynamizing accelerated and sustainable growth. It is in that context that the government has been engaged in an exercise to design and perfect a strategy for the agricultural sector, known as PROAGRI.

Essentially the question is raised in the determination of the role and development of capacity in public institutions, in a context in which productive agricultural activities are fundamentally up to the economic actors in the family sector and from the private business class.

and Governance. Please let members of the Bank delegation know, during the coffee break, if you have additional suggestions. As always, some tables will be reserved for more general conversation. After lunch we will continue our discussions at 2pm. Following the afternoon coffee break we will turn to a presentation by the Government on Public Sector Management and Fiscal Reform, followed by a plenary discussion. I hope to close today's session by about 6:30pm. The Mozambican Government has kindly invited us to a cocktail reception tonight, beginning at 7:30pm in the Cardoso Hotel.

Tomorrow morning we will reconvene at 8:30am, with brief statements on external financing by the Mozambican Government and the Bank, followed by statements and comments on this topic by participants. After coffee, we will turn to the draft press statement. After closing remarks, we will conclude the main meeting at 12:30pm. In the afternoon, we will hold two sessions with civil society. The first from 2:30 to 4pm is with non-governmental organizations; and the second, from 4 to 5:30pm is with the private sector. A press conference at 6pm, followed by a cocktail reception offered by the local development partners, will be the final event. So, I now propose to launch this meeting by calling on Prime Minister Mocumbi for his statement.

**Consultative Group Meeting for Mozambique
Maputo, September 23-24, 1998**

**Statement by the Prime Minister
Dr. Pascoal Mocumbi***

Mister Chairperson,

Distinguished representatives of the donor community,

Distinguished representatives of the multi-lateral financial institutions,

Ladies and Gentlemen,

I would like in the first place to wish all of you welcome to this Meeting of the Consultative Group, which for the first time is being held in Mozambique.

In taking the initiative last year of proposing to you that the Meeting take place in Mozambique, we wanted first and foremost for you to be able to witness *in loco*, the socio-economic advances which at times statistics don't manage to translate. The city of Maputo is perhaps not the best place to take the pulse of our economy, given the asymmetries in the country's economic development. You will certainly have the opportunity to dialogue with the economic actors and with civil society, and we will provide visits to some socio-economic undertakings in order that along with us and with the Mozambican people, you may share the satisfaction in us having created the bases for the country's economic development. *(Some visits were carried out yesterday)*

It is possible today to discuss the country's development prospects, in the medium term, because the basic conditions are being created. Indeed, macro-economic stabilization is a fact and is a necessary condition, *sine qua non*, for it to be possible to delineate a development strategy.

The meeting that we initiate today emphasizes this aspect, that is, the economy's medium-term objectives as well as the mechanisms, instruments and means in order that we may attain that which we propose to do. Once more we are counting on your cooperation.

Inflation is under control. We are thinking to grow at around 10% in the medium term, and with only single-digit inflation. The economic actors trust our currency. The fact that the economic actors begin to give credit and the structure of credit to the economy begins by degrees to put productive sectors first, is symptomatic of an economy that is moving to a state of good economic health.

We are, however, clear and conscious that the victories achieved in all spheres of social life have to be broadened and consolidated. Political stability, which is reflected and consolidated in greater democratization of society, deserves special attention. Next year, Mozambicans are called on to give their opinion in relation to political life, through the ballot. On the other hand, it's necessary to keep a *short rein* on control of the macro-economic variables.

* This is an English translation from the original statement given by the Prime Minister in Portuguese.

being given to aid coordination and to raising the efficiency of investment. Last month, the Executive Board of the Fund endorsed this strategy and approved the third annual ESAF arrangement in support of the authorities' economic program for the period July 1998-June 1999.

6. Now that inflation has been brought under control and net international reserves raised to a comfortable level, the authorities are seeking to push ahead with the structural reform program while maintaining the prudent stance of financial policies that has served Mozambique so well in the past. Their medium-term structural program focuses on the following areas:

- *increasing public sector saving* by strengthening tax administration, widening the tax base, improving expenditure controls, and maintaining appropriate pricing policies for public enterprises;
- *improving fiscal management* by revising budgetary and accounting procedures, and by designing sector expenditure programs that are consistent with macroeconomic objectives and targets;
- *increasing the efficiency of public investment* through greater coordination of external aid, review and restructuring of the investment portfolio, and implementation of sector-wide programs;
- *increasing private investment* through, inter alia, privatization of state enterprises, removal of administrative barriers to trade and investment, and elimination of tax disincentives such as excessively high tax rates;
- *increasing private sector saving* through the development of financial instruments and markets;
- *improving monetary management* by introducing indirect instruments of monetary control, revising accounting procedures, and modernizing the payments system;
- *ensuring a competitive and sound banking system* through the strengthening of bank supervision and revision of financial legislation; *strengthening the capacity for national economic management* through reform of the civil service, development of the human capital of the public sector, and improvement of the statistical data base;
- *increasing economic efficiency* by encouraging competition (through removal of public enterprise monopolies), reducing barriers to trade, and minimizing tax distortions; and
- *increasing total outlays in the social sectors*, particularly on education and health, and improving their effectiveness.

7. Overall, the authorities are making good progress in implementing the structural reforms. Efforts to strengthen tax administration and widen the tax base by cutting back on import tax exemptions are beginning to pay off, as reflected in rising government revenue in relation to GDP. As a result, the government feels emboldened to restructure and lower direct tax rates, and to lower the maximum import tariff from 35 percent to 30 percent, in the interest of economic efficiency and

Public institutions should be provided with the capacity in human, technical and financial terms, to carry out the necessary adjustments on an ongoing basis to the new context, and to supply the services that are essential for productive expansion with a leading role for the above-mentioned economic actors.

In our perspective, beyond the expansion of the private sector in the areas traditionally classified as economic, and from which the state has already undertaken a significant withdrawal with the

process of privatisations, broad opportunities and possibilities are open for participation and partnership in carrying out undertakings in infrastructures (including social infrastructures) and in the provision of services in the priority action areas included in the government's medium-term programs of action. Here we refer to both Mozambican and foreign private enterprise.

Due to the relevance of the role to be played by private enterprise, the government, through dialogue and in collaboration with the latter, will carry on with actions in the creation of favorable conditions for the expansion of investment and development of business.

These actions fundamentally affect institutional improvement, particularly in the spheres of licensing, fiscal administration and inspection, involving the decentralization of services and powers and further, in the removal of obstacles imposed by superfluous red tape.

In the promotion of the expansion of the private sector, and within the context of a broad vision of creation of national capacities, the government has a particular concern in the creation of conditions and in the mobilization of resources for making real the hoped-for role as protagonist for the Mozambican business class in the economic and social development of the country.

Ladies and Gentlemen,

Allow me, on behalf of the government, to once again manifest our thanks to the cooperation partners for the effort made so that the country might qualify for the benefit of debt alleviation under the HIPC Initiative. In practice, that will make possible the channeling of a little more resources into the social areas.

In closing I would like to place my government's delegation at the disposal of the honorable persons present, for the clarification and going into greater depth on those issues that you may deem necessary. Once more, I reiterate my thanks for the support that has been given to my country, the results of which constitute a cause for satisfaction for all of us. We are certain that with the indispensable financial support that the honorable persons present will provide, we will reach the medium-term objectives which we have set ourselves.

I wish you every success in the work and a good stay for those who are visiting.

Thank you very much.

12. The government is committed to expanding both total outlays on education and health and the share of these sectors in total spending, while maintaining a prudent fiscal policy, and the economic program makes provision for such an expansion. In real terms, current spending on education and health is each projected to increase by almost one quarter in 1998. Furthermore, the share of education in total current expenditure is projected to rise from 17.3 percent in 1997 to 18.2 percent in 1998, and the share of health to rise from 8.3 percent to 8.8 percent.

13. Development of smallholder agriculture is the key to the government's policy of poverty reduction through economic growth, and a five-year expenditure program for the agriculture sector is being formulated in close collaboration with interested donors. The roads and coastal shipping project is also crucial to rural development. The program also makes provision for direct poverty alleviation. Spending on formal social safety net programs is targeted to double to 0.2 percent of GDP in 1999. In addition, the authorities are preparing a National Poverty Assessment and a Poverty Action Plan, completion of which by end- 1998 is a structural benchmark under the program.

IV. External Financing Requirements

14. Mozambique's external debt burden is heavy, and the external financing needs are substantial. In recognition of this, and of the authorities' good track record of performance under successive SAF and ESAF arrangements with the Fund and under Bank-supported programs, the Executive Boards of the Fund and the Bank in April 1998 declared Mozambique eligible for assistance under the HIPC Initiative, and agreed to a shortening of the period between the decision and completion points. Provided program implementation remains satisfactory, including in the social area, and the government continues to pursue its adjustment efforts in the context of a Fund arrangement, Mozambique could reach the completion point under the HIPC Initiative in mid- 1999.

15. External financing needs will amount to about US\$1.8 billion in 1998 and US\$1.4 billion in 1999. Commercial loans to the private sector and direct foreign investment are projected at about US\$250 million in 1998 and US\$530 million in 1999. Multilateral loan disbursements are expected to total about US\$260 million in 1998 and US\$200 million in 1999, including expected new loan commitments of about US\$40 million a year. Multilateral and bilateral grants, including IDA interim assistance under the HIPC Initiative, are projected at about US\$350 million in 1998 and US\$370 million in 1999. The remaining financing gap, amounting to roughly US\$900 million in 1998 and US\$300 million in 1999, is expected to be filled by multilateral and bilateral debt relief, including assistance under the HIPC Initiative.

16. Overall, the Fund staff believes that Mozambique's track record demonstrates the authorities' commitment to implementing appropriate financial and economic policies and addressing in a comprehensive fashion the structural impediments facing the economy. The Fund staff therefore considers that continued donor support is fully warranted and, indeed, crucial if Mozambique is to maintain the growth momentum into the medium term and lift living standards to at least the average of those of sub-Saharan African countries.

**Consultative Group Meeting for Mozambique
Maputo, September 23-24, 1998**

Statement by the IMF Staff Representative

I. The Current Economic Situation

1. At the last consultative group meeting a year and a half ago, we reported that Mozambique had made significant progress in reducing its macroeconomic imbalances. I am pleased to bring you good news again. Mozambique's economic performance strengthened in 1997, and developments to date point to another good year in 1998.

2. Real GDP growth averaged 6.3 percent during 1994-96, rose to 12.4 percent in 1997, and remains strong in 1998. Inflation declined from 70 percent during 1994 to 5.8 percent during 1997 (the lowest annual rate since independence in 1975), and continued to decline in recent months. The external current account deficit narrowed by about eight percentage points of GDP during 1996-97, and the net international reserves rose from close to zero at end- 1996 to 4 months of imports at end-1997. Confidence in the economy is improving, and private investment is expected to pick up from 1998.

3. These results indicate that the government's economic policies are on the right track. Certainly, the authorities' diligence in implementing their economic program is now paying off. However, while not detracting from the accomplishments to date, we must remember that pressing economic problems remain. Despite the recent rapid economic growth, most social indicators for Mozambique still stand well below averages for sub-Saharan Africa. There is urgent need to rebuild the infrastructure, to reduce the external debt burden, to strengthen the capacity for national economic management, and to eliminate the many remaining structural impediments to growth. Mozambique's financial and technical assistance needs will remain large in the medium term.

4. In the short term, the authorities will need to be vigilant to maintain financial discipline and the pace of reform in the run-up to the presidential elections in 1999. While the nominal exchange rate has been stable in recent years, in real effective terms the metical has appreciated, raising concerns about Mozambique's external competitiveness. To some extent, this real effective appreciation was the result of successful adjustment in Mozambique, which has attracted additional capital flows and assistance and so tended to strengthen the metical. It is important to maintain the economy's external competitiveness, and the authorities are aware that continued real effective appreciation of the metical is not desirable.

II. The Medium-Term Economic Strategy

5. The authorities' medium-term economic strategy set out in the latest policy framework paper, which the authorities have now decided to publish, remains an appropriate response to these challenges. The strategy emphasizes private-sector-led, export-oriented growth, which will be fostered through financial discipline, removal of supply bottlenecks such as inadequate infrastructure and insufficient human capital, and implementation of business-friendly policies. More attention is

what it says it is was going to do. After next year, only twenty or so public enterprises will remain in state hands. These are primarily transport companies -- such as the railroad and airlines -- as well as utility companies -- water, electricity, and telecommunications. These sectors are pivotal to lubricating economic growth, and the services they deliver take a large share of the budget of urban Mozambican households. We are pleased with the progress being made with CFM and the urban water companies to privatize management and operations, and look to the Government to rapidly define and execute its plans for liberalization and privatization in all of these areas.

So, new private companies are flourishing in Mozambique, and they are serious about doing business and being competitive. To do so requires an enabling environment. The Government is simplifying import procedures and business registration requirements. It is removing barriers to trade, and when it introduces the VAT, the tax regime will be less distortive. But red tape and inadequate regulation remain impediments to private sector development. At the Fourth Annual Private Sector Conference, held here last week, the private sector asked that more be done more rapidly to remove these impediments. Clearly reforms in this area have a direct bearing on Mozambique's hopes not only to grow, but to have its small entrepreneurs successfully compete in national and regional markets.

Public Sector Management and Governance

Now let me turn to the public sector, which also has a pivotal role to play in Mozambique's development. As we all know, an efficient public sector can act as a catalyst for growth, support vibrant private sector development, provide social and other services, and ensure that development benefits the majority of citizens. Critical in this regard are sound and effective fiscal policies. We place great importance on the Government's initiative to develop a medium term fiscal framework. This effort to better prioritize and improve the strategic focus of expenditure programs is testimony to the fact that Mozambique is taking charge of its destiny. That is also why debt relief under the HIPC initiative is so important: by reducing debt to levels that Mozambique can manage, HIPC more firmly places Mozambique's future in its own hands. The Government is also undertaking resolute measures to better manage its public spending and has made good progress in the past year in reforming its budgetary planning and management system. Similarly improving budgetary accounting, execution, and auditing over the next year - as the Government is planning to do - will cement this process. This is an area where the Bank and most development partners stand ready to provide assistance.

Revenue growth is another important aspect of ensuring sustainability and decreasing Mozambique's dependence on aid. The benefits of economic growth, including from the new mega-projects, need to be harnessed to increase resources for the public sector and, hence, services to the poor.

In addition to improved fiscal management, a critical challenge to an effective public sector will hinge on reform of the public sector administration itself. All over Africa, poor salary and career incentives plague civil services and have led to the departure of capable people from the ranks of government. Mozambique is no different. But, here again, the Government has taken the initiative over the past year to define a comprehensive public sector reform strategy.

growth. Also, preparations are advanced for the introduction of the value added tax in April 1999. On the expenditure side of the budget, the new budget law was adopted in 1997, and a medium-term expenditure framework is being developed to help match expenditure priorities with resource availability. Of major importance is the ongoing public administration reform, which involves civil service reform, decentralization of government, increased attention to training and human resource management, and efforts to increase transparency and accountability in public affairs.

8. The program of privatization of large enterprises is virtually completed, and remaining small- and medium-sized enterprises are expected to be sold by mid- 1999. Public enterprises, once dominant, now account for only a very small proportion of industrial output. Complementing privatization are efforts to remove bureaucratic obstacles to private sector development. Financial sector reforms are proceeding on several fronts. Indirect monetary policy instruments are to be gradually introduced; immediate priority is being given to the development of short-term markets for government and central bank paper; the payments system is being modernized; accounting procedures of the commercial banks as well as of the Bank of Mozambique are being improved; and financial legislation is being revised.

III. The Financial Program for 1998/99

9. The authorities' financial program for 1998/99 was formulated in the expectation of real GDP growth of over 7 percent a year, excluding the impact of large projects, and of over 9 percent, including the impact of these projects. The industrial, energy, construction, and services sectors are again expected to lead growth. The latest available price data indicate that end-period inflation may fall below 6 percent in 1998, while for 1999 the program assumes an inflation of 6 percent. The program aims at increasing net international reserves by about US\$30 million a year in 1998 and 1999. However, in terms of import cover, net reserves are projected to fall to 3.5 months of imports in 1998 and to 3 months in 1999 because of rapid import growth associated with large projects.

10. The program targets zero net domestic borrowing by the government in 1998 and 1999. This fiscal position is consistent with the provision of adequate credit to the economy and with the attainment of the inflation and international reserve objectives. Net external financing in 1998 is projected to decline by about 2.2 percentage points of GDP, because of lower disbursements of loans and grants as well as higher amortization. Meanwhile, total expenditure and net lending (relative to GDP) has been kept at its 1997 level, and the overall deficit before grants is expected to decline to 13.8 percent of GDP, from 14.3 percent in 1997, because of higher revenue. In 1999, lower revenue (as a result of the tax cuts) and higher expenditure (mainly as a result of the decompression of civil service salaries) are expected to widen the overall deficit before grants to 14.7 percent of GDP.

11. The authorities will continue to pursue a restrained monetary policy. In real terms, credit to the private sector is projected to increase by 21 percent in 1998 and by 14 percent in 1999, compared with 44 percent in 1997. The targeted decline in credit growth is appropriate in light of the projected fall in external resources to the banking system through the government, and of concerns about the possible adverse effects of rapid credit growth on the quality of the banks' loan portfolios. The high credit demand of 1997 coincided with exceptionally high economic growth, and is not expected to be repeated in 1998 or in 1999. Preliminary figures show that, in real terms, credit to the private sector grew by 10 percent in the first half of 1998, slightly less than programmed.

are looking forward to seeing the Government's completed poverty assessment later this year. It will be the cornerstone to the development of a poverty action plan and measurable targets. The Bank and many of you, I know, will be keen to support that effort.

Strong Partnerships

Finally, Mr. Chairman, let me turn to the theme of partnerships that you highlighted already. This country has indeed come a long way. Its success in meeting so many daunting challenges speaks also to the powerful development partnership here. It really is a credit to the Government that the partnerships it has fostered have been so productive and constructive.

Mr. Chairman, you spoke about the strength of Mozambique's global partnerships. As we hold this CG here in Maputo, I want to salute the level and intensity of the rich local partnership, here in Mozambique. The local aid partners, through various working groups, keep up an active and vigorous dialogue with Government and allow our agencies to be much more responsive to the needs on the ground. It is a credit to these local donor efforts, for example, that external financing commitments of donors are now compiled locally, and outside the forum of the meeting. Those efforts will allow tomorrow's financing session to focus on issues and trends rather than numbers. The local donor strategy meeting held last month was also an important first effort to better coordinate the efforts of this partnership, and we need to build upon it. NGOs and the private sector are also pro-actively involved in the development effort, and Mozambique has an engaged and organized group of civil society associations and a vocal and diverse press. We will have an opportunity to meet with civil society tomorrow. Just let me say now that the entire World Bank team have benefited greatly from our continuing discussions with representatives from local organizations.

All of these partnerships have ensured that dialogue and debate are an important part of the development process here and they have strengthened and enriched that process. That does not mean the debate is always harmonious or that the dialogue always ends in agreement. Development is about change, and change brings conflicts. But dialogue is key to furthering understanding and, to the extent possible, a shared vision. I believe most of us do share a common vision of what we want to achieve. The Bank is committed to working with Mozambique and all of its partners to further this shared vision – that of a Mozambique in which all members of society share the benefits of rapid development.

I look forward to the discussion today and tomorrow. I am sure that, as in the past, this meeting will provide us with food for thought; it will help bring us closer together; and especially this year, it will give us new insight into the reality that is Mozambique today and the challenges that we will face together.

Thank you.

**Mozambique
Consultative Group Meeting
Maputo, September 23-24, 1998**

World Bank Statement

Ms. Phyllis Pomerantz
Country Director, Mozambique
Africa Region
World Bank

Mr. Chairman; Honorable Mr. Prime Minister; Honorable Members of the Council of Ministers; Ladies and Gentlemen:

Bom Dia. It is nice to see so many familiar faces here. And let me say just how special it is for me to be able to address you at a Consultative Group Meeting here in Maputo. My first visit to Mozambique was in July 1992, just prior to the signing of the Peace Accords. I have been an admiring witness to this nation's tremendous efforts and accomplishments over the past six years. The changes have been breathtaking, and are a credit to the will of the Mozambican people, the resolve of the Government, the strength of Mozambique's economic program, and the steadfast support of its partners. Our meeting here today symbolizes how far we all have traveled together.

Private Sector Led Growth

Now let me quickly turn to a few of the challenges which lie ahead. Mozambique's economic reform program was launched on the principle that the private sector would be an engine of growth. When we travel through Mozambique, as some of us did yesterday, we see signs everywhere that this engine is revving up: more farmers are working the fields; there are bigger markets, with more maize and more vegetables; more trucks are carrying produce and people up and down the coast; and there are new banks, new factories, new investment, and mega-projects like the Mozal project we visited yesterday.

Critical has been the macroeconomic stability of the past two years. Low inflation, a stable exchange rate, and falling interest rates have reassured entrepreneurs and stimulated business. We join the Fund in commending the Government on its disciplined macroeconomic management. However, in the face of increasingly turbulent markets in this region, and indeed the world over, there is a new urgency for macroeconomic vigilance. We encourage the Government to stay on course. Stabilization does not mean standing still. Moving forward is fundamental to sustaining and building on past gains. I think we all agree that *sustainability* is the watchword for Mozambique over the next few years if the benefits of growth are to be carried to the poor throughout the country.

The Government's ambitious privatization program, one of the most successful in Africa, has helped bring about a burgeoning private sector activity. Almost all economic activity will be in the hands of the private sector by the middle of next year. This is a Government that has done

and strategies. In the meantime, a highly necessary first decompression of salaries was implemented in 1998, a new system for careers and remunerations is being approved by the Council of Ministers and progress is on-going toward the preparation of a comprehensive training strategy for civil servants for which UNDP and other donor partners are offering collaboration. We look forward to the second step of the decompression early next year which can alleviate the need for the current unsustainable practice of topping up salaries. The decentralisation process will need energetic support, through the new law on local authorities, to create appropriate working conditions for municipal authorities.

The costs associated with democracy are significant: holding elections, operating a strengthened National Assembly, an expanded judiciary system, and other activities such as building a competent Police Force will eventually have to be fully financed from Mozambique's own resources. UNDP believes that security forces such as the National Police, are key to sustainable development for all citizens. Such activities should decisively appeal to other donors as well.

Human Development

Mozambique still remains one of the ten poorest countries in the world according to the 1998 UNDP Human Development Report, ranking 166 of 174 countries. The Human Development Index rating is far below neighbouring countries and sub-Saharan Africa in general. It should be noted, however, that the 1998 Report is based on 1995 data and it will therefore take another two or three years before real improvements are revealed in the statistics.

As UN Coordinator, I am pleased to note that the Government, in its new Medium Term Strategy, sets forth objectives to facilitate uninterrupted rapid growth in the economy, improvements in social conditions (in particular the development of human capital), equity in distribution of income, the creation of jobs, and the reduction of poverty, all of which fall within the areas of the development of good governance and poverty alleviation.

The Government's targets for Education and Health in its Medium Term Strategy, which are very welcomed features in the CG documentation, will go a long way towards the enhancement of the primary and essential right, especially of women and children, to improved social services. In the same UNDP Report, while opportunities for women to participate in economic and political activity in Mozambique are well above many countries according to Gender Empowerment Measures, let us not forget the devastating ratio of infant mortality in this country, one the highest in the world reaching 1500 infant deaths per 100,000 live births. This means that 8000 women will die needlessly during child birth this year resulting in an astounding 30,000 orphans. The UN Agencies and donor partners therefore urge overall gender equity and full and active participation of women in all aspects of social and economic development.

As regards debt relief, the donor community and the UN Agencies fully support the HIPC initiative as promoted by the IMF and the World Bank and we encourage further budgetary support measures from partner countries. The Mozambican Government must have a chance, as soon as possible, when meeting the completion point next year, to channel financial resources to the provinces and to support micro-financing as one key instrument for employment creation and sustainable livelihoods.

The implementation of the salary decompression and new career stream system that the Government introduced to us at the last CG meeting are central components; structural reforms and sectoral programs are also part of a more comprehensive reform agenda. I look forward to hearing the Government's strategy and plans at the special session on this topic later this afternoon. Given our collective experience elsewhere in Africa and in other parts of the world, we know that these reforms will be challenging, they will take a long time, and they will require the patient and long-term support of Mozambique's partners.

I cannot talk about improved public sector responsiveness without speaking of governance. I know that several partners have expressed concerns on governance matters, ranging from issues relating to corruption to those relating to proper and fair elections, and to legislative and constitutional reform. Good governance is fundamentally about the confidence and trust that a people places in its government - the confidence and trust that the Government is reliable, fair, and transparent. Increasingly, we are seeing a link between good governance, stability, and broad-based economic development. Sadly, elsewhere, we are also seeing that the converse is true. The Mozambican Government continuing efforts to combat corruption, improve financial accountability, and further legal reform will receive our wholehearted support.

Poverty Reduction

I have now mentioned the dual challenges of promoting private sector growth and improving public sector management and governance. But let us reflect for a moment on why we are talking about growth and development in the first place. Mozambique remains one of the poorest countries in the world. More than one out of every ten infants born in this country does not live until his or her first birthday; most of the population is illiterate. As you mentioned Mr. Chairman and Mr. Prime Minister, reducing poverty and improving the well-being of the majority of Mozambicans must be the number one priority of all our collective efforts. The previous speakers talked about how this country is on the move. The real challenge will be in ensuring that the poor participate in this growth and that their living standards improve.

The Government has a crucial role in ensuring that development means poverty reduction. Programs must be oriented to effectively benefit the poor. The poor family in rural Mozambique needs a road to take its goods to market and to buy cheap products. It needs access to basic health care, basic education, and water. The sector programs in place or being developed in roads, health, education, water, and agriculture have to be designed and implemented with this poor family in mind. Moreover, throughout the world we see the power of policy in reducing poverty. Sound policy can improve producer prices to farmers, reduce costs to consumers, increase employment, and improve the delivery of services. A pro-poor fiscal policy can ensure that economic growth, even from enclave sectors and the mega-projects, can be tapped to direct programs and services to the poor. As Mozambique develops, that poor Mozambican family ought to share the benefits.

Critical at this juncture is badly needed information and analysis on poverty, as well as performance indicators. Who are the poor, and what are the determinants of poverty? What are our programs accomplishing? How can our programs be better designed to reduce poverty or protect the poor? The Government has completed the first ever national household survey. We

The Sector-Wide Approach also presupposes a strengthened accounting and auditing role of central government insofar as the state budget is concerned. Capacity building in financial management, accountability and transparency is crucial. The progress in the areas of public sector reforms and the development of human resources, areas identified by the Government as high priorities for its Medium Term Strategy, will be crucial for the implementation of the Sector-Wide Approaches. Similarly, major changes need to be implemented amongst the external partners in their planning, monitoring and procedures for development co-operation to be able to respond to the demands of sector-wide approaches. Tied-aid will continue to offer resistance to integrative efforts.

A Longer Term Perspective

Until now, development strategies in Mozambique have focused on short-term macro-economic stabilisation. The macro-economic structural adjustments have led to tangible gains and renewed optimism. Clearly, Mozambique is one country where the ESAF has worked well and we acknowledge the new PFP as the defining statement on national policies and strategies. The long-term success of the present reform programmes now also depend on Mozambique's ability to consolidate its democracy and human development gains, to plan consensually for the future, to manage change in a participatory fashion, and to deal with strategic long-term challenges directly with civil society and the private sector.

President Chissano, in his speech to the Nation on Independence Day, 25 June 1998, announced the launching of Agenda 2020, a visionary exercise intended to consolidate peace and nationbuilding through a highly participatory consensus-seeking process, including the development of "smart partnerships". UNDP fully welcomes this exercise and will, with other partners, offer collaboration and experiences from other African countries.

Conclusion

Mr. Prime Minister, Honourable Ministers, Mr. Chairman, Distinguished Participants and Colleagues: The UN System in Mozambique, through its development assistance framework (the UNDAF) is reaffirming its commitment to promote basic human rights and adherence to ' international conferences and conventions through sustainable human development seeking to empower all Mozambicans independent of gender, age, religion, political affiliation or economic or social status to participate in and benefit from the development process. Along with its donor partners, we pledge our commitment to support a coordinated and economically and socially sound approach to the medium term development initiatives as proposed by the Government of Mozambique in this Consultative Group.

Finally, as UN Coordinator, and co-chair of the Development Partners Group, I should like to congratulate and thank the Government of Mozambique for hosting this momentous coordination conference in Maputo. It will mark a turning point in our relationships as ever-more reliable and trusting partners, confident in the bright future of Mozambique.

In concluding, I would like to extend to our colleagues of the World Bank and the IMF our vibrant wishes for the most successful ever Consultative Group Meeting, at this historical point in Mozambique's development.

**Consultative Group Meeting for Mozambique
Maputo, September 23-24, 1998**

**Statement by the UNDP Resident Representative/UN Resident Coordinator
Mr. Emmanuel Dierckx de Casterle**

Mr. Prime Minister, Honorable Ministers, Mr. Chairman, Distinguished Participants and Colleagues:

Already when we met last year in Paris and agreed to meet next in Maputo, we talked about the very encouraging developments, both economically and politically, achieved during the period since the signature of the Peace Agreement in 1992.

We can today add yet another year of positive progress in the area of macro economic performance. Gross Domestic Production grew last year by 12.5 per cent without significant inflation, a remarkable accomplishment indeed, and with donors' support, Government was able to spend one quarter of its current budget in the health and education sectors.

Similar brilliant economic performance is expected in coming years. The on-going, far-reaching privatisation programme combined with the rehabilitation of economic and physical infrastructure in many areas are expected to promote the revival of sustainable economic activity. However, sustainability requires that we look beyond the confines of development's economic growth dimension, to the political and social context. The strengthening of sustainable democracy rests on the two crucial pillars of good governance and poverty alleviation as we have suggested in the Development Partners Group which, as UNDP Representative, I have the honour to co-chair with the World Bank Representative.

Good Governance

In the area of good governance, notable achievements were made over the past year:

- Approval of the Law on Governance Ethics
- Creation of 33 municipalities
- Training and restructuring the Police with the help of the Dutch and Spanish Governments
- Preparation by Parliament of a substantial revision of the Constitution through an open process of public hearings. I am pleased to note Italian, US and UNDP support in this endeavour very welcomed by the Partners Group.

We salute the Government's plan for comprehensive reforms in the Public Sector which will render civil servants more efficient both at central and local levels. As UN Resident Coordinator, I should like to state the need for and our readiness in the UN Agencies to strengthen capacities at the provincial and district levels as a matter of urgency. In the collective view of the United Nations, while Government is wisely devolving all operational and production activities to private partners, the country needs an ever-stronger State capacity focused on formulating and monitoring policies

**Consultative Group Meeting for Mozambique
Maputo, September 23-24, 1998**

**Statement by the Minister of Finance and Planning
HE Tomaz Salomao
“A View into the Future”***

Mr. Vice President of the World Bank and Chairman of the XI Consultative Group Meeting on Mozambique,

Mr. President,

Members of the Donor Community,

Ladies and Gentlemen,

I would first like to welcome you to Mozambique. It is a great pleasure to receive you in our country, where you can see for yourselves the advances we have made and the problems that we continue to face.

Contrary to the tradition of recent years, I will take up relatively little time in discussing stabilisation programmes. I will try to give as full a picture as possible of our current concerns, the manner in which we plan to resolve our current problems and the support that we need from the Donor Community.

We begin, therefore, with the area of stabilisation. Here results continue to be positive.

Economic growth has been vigorous, at more than 10%. Our forecasts suggest that we will repeat that result in 1998 and 1999. By 1999, at the turn of the century, we will have managed to double the GDP in relation to the levels attained in 1980. Compared with the situation in 1992, at the end of the war, the result expected for 1999 represents a cumulative increase of almost 90%.

This growth reflects positive results in all sectors of the economy, but particularly so in the case of manufacturing industry, which had an average growth rate of 26% in 1996 and 1997.

Economic growth has shown a tendency to accelerate as some large investment projects are implemented. To give only one example, growth in the area of construction is expected to attain 40% in 1998, reflecting the rapid growth in investment from the current year.

The cautious approach to fiscal and monetary policy, in the context of rapid economic growth, has allowed us to reduce inflation from 60% in 1995 to an average near 4% expected in 1998. This year, the accumulated rate from January to August shows a reduction of 3.1 %.

* This is an English translation from the original statement given by the Finance Minister in Portuguese.

Just as important as this rapid decline is the fact that inflationary expectations have been overcome and we are now experiencing the second consecutive year of price stability. The reduction in inflationary expectations has also contributed to a strengthening of the currency, whose tendency towards stability in relation to the dollar accompanies the slowing down of inflation. In 1997, the average devaluation was about 2.2% and in 1998 policies aimed at increasing international reserves and competitiveness will be implemented.

The progress I have described is not a justification for a relaxation of our stabilisation policy. It continues and will continue to be necessary to maintain a compromise between the promotion of development and the consolidation of single digit rates of inflation.

At the same time, we are trying to accelerate structural reforms which will secure the medium term sustainability of the results that have been achieved.

The 1999 State Budget reflects this option.

Before continuing, I would like to open a short parentheses, to explain that I will use the old GDP figure in this presentation. A new figure, which takes into consideration of the recent Census and Household Expenditure Survey, is now being finalised and will be used as the official series from January of next year.

Having clarified this point, I would like to inform you that government receipts have risen by 1.4% of GDP in 1997, as a consequence of the effort taken to reduce tax evasion.

As I have already had the opportunity to point out, our strategy in this area is not short-term. We want to create a fiscal system that is just and equitable, whilst at the same time being attractive to investment.

Thus, we are implementing cuts in taxes on income, in order to reduce tax evasion on the one hand, whilst, on the other, making the level of taxation equivalent to other countries.

Continuing the process of trade liberalisation we intend to reduce customs duties next year.

Finally, we will introduce the Value Added Tax, which, we are sure, will constitute an important step in the reduction of tax evasion.

As a result of these options, all of which are aimed at creating a modern fiscal system for the future, fiscal revenues will grow by 0.8% of GDP in 1998 and will fall by the same amount in 1999, reaching the same proportion of GDP as registered in 1997.

As we continue to hold to our promise not to recourse to bank lending to finance the Budget, we will have to balance the enormous expenditure needs, our fiscal capacity and the aid we receive from donors.

As you know, the Government has made a considerable effort to improve efficiency in the use of budget resources, creating instruments which make the process of allocating resources and analysis of Budget execution transparent.

This effort will be continued in 1999, with the identification of off-budget flows, their consequent integration in the budget and the development of a new, consolidated accounting system for public accounting.

On the other hand, efforts have also been made, together with the donor community, to formulate integrated investment programs in those sectors considered fundamental for economic development.

I would further like to point out that the creation of a modern fiscal system will also absorb resources in the short-term.

Thus, it is easy to understand the pressures to increase expenditures, both recurrent and investment, coming from different sectors and reflecting our efforts to speed up development.

During my presentation I will have the opportunity to give a general vision of these needs and show what we are going to do in each of the priority areas. You will see that in almost all of these sectors it has not been possible to close the financing gap, despite the efforts of the Government and of the Donor Community.

In this context, the Budget for 1999 reflects a widening of the deficit before grants of 0.9 percentage points of GDP, while the deficit after grants will increase by 1.1 percentage points of GDP.

Thus the financing through external credit will increase in 1999, reflecting a reduction in amortisation, which will drop in relation to 1998 by 0.8 percentage points of GDP, reflecting the debt relief that the Government expects through HIPC.

As we have just seen, Mozambique has followed a long path of reform to reach the point at which we find ourselves today. It required a considerable commitment on the part of Government and civil society to achieve some of these reforms.

It has consistently been the Government's aim to follow policies that will contribute to the alleviation of poverty and the improvement of the living conditions of our population.

The proportion of resources allocated to the social sectors has increased steadily in recent years, to the detriment of other sectors, which are not necessarily less important, but with a lower impact on the provision of basic public services. As a proportion of recurrent expenditures, the education and health sectors together have passed from a position of 14% in 1995 to 28% in 1999.

We have received a considerable contribution from the Donor Community in implementing this policy, not just through the general assistance which it provides the country, but also through The Debt Relief Fund, which has provided important support. A considerable part of the financing needed to eradicate the cholera epidemic was financed from this Fund.

Looking at recent trends, one might think that Mozambique has reached the point where it can follow the path to development alone.

However, this is not yet the case. We would like to show some of the results of the Household Expenditure Survey undertaken in 1996-97. From the results of this survey it was possible to draw a poverty profile in Mozambique. The indicators speak for themselves.

Around 80% of the population of Mozambique lives in rural areas, while 82% of the poor live in rural areas.

Considering the country as a whole, 69% of the population lives below the poverty line.

The incidence of poverty in Mozambique is higher than other countries of the region, which, in large part, is due to the war that came to an end in 1992.

But these statistics give little idea of the conditions in which the majority of the population lives.

Around 90% of Mozambicans have land, with an average plot of 0.4 hectares per capita, or 2.4 hectares per family of 6 persons. But only 9% of the population uses some kind of equipment to work this land; only 7% use mechanical or animal traction and only 2% use some kind of fertiliser or insecticide.

This gives a good idea of the levels of productivity in the family sector - which constitutes the majority of the population of Mozambique - living from the land, but with a low productivity owing to the use of inadequate technologies.

This is the principal cause of the level of income in Mozambique being amongst the lowest in the world.

Only 7% of the population as a whole has access to in-house piped water, 58% have access to standpipes or wells and the remaining 35% take their water directly from rivers or lakes.

In spite of the effort made to improve the provision of public services, the numbers speak for themselves. On average, a Mozambican has to travel 46km to find a doctor, 66km to reach a secondary school, that is to receive education beyond 9th Grade. The nearest telephone is 48km away and even to sell products and buy essential goods the average Mozambican has to walk 16km to a market.

Your Excellencies,

Ladies and Gentlemen,

This is the reality of Mozambique. A reality which often passes unseen when we look at the capital of the country, whose conditions do not reflect our problems.

We must struggle to change this state of affairs. When we speak of developing the country, we are not talking in the abstract, but of reducing the suffering of those that live daily in the conditions I have described.

It is for this reason that - at the risk of prolonging my intervention a little longer - I would like to describe the point which we have reached and outline our medium-term targets in those sectors that are fundamental to the well being of the population.

I will begin with education, since it is the sector which, I believe, is fundamental in assuring the sustainability of the reforms which are being undertaken and also crucial in supporting the future development of our country.

In spite of the efforts made access to education is still limited. The gross admission rate, which had reached 110% in 1981, fell to 59% in 1992. Owing to the efforts made to widen access, the gross admission rate will be around 82% in 1999. But this is still far from achieving the objective of universal access to education.

The possibilities for girls are even more limited: they represent only 45% of the total number of students in First Grade.

The second major problem that the sector faces is the quality of education. To characterise the low quality of education it is enough to cite a few indicators:

- Firstly**, the majority of teachers have only 6 years of schooling and one year of teacher training; 25% of primary school teachers have no teacher training whatsoever;
- Secondly**, there are more than 60 students for each primary school teacher;
- Thirdly**, teaching is undertaken with a shortage of materials and in poor working conditions.

The costs involved in the expansion and improvement of teaching by far exceed the country's internal financing capacity. This obliges us to look for solutions that will guarantee the sustainability of our efforts to expand education.

The Strategic Plan for Education aims to tackle these problems by setting the following objectives:

- Guarantee universal access to primary education;
- Improve access and the participation of girls;
- Improve the quality of teaching;
- Strengthen institutional capacity to define policy, to plan and to manage the national education system; and,
- Find solutions, together with other partners in society, which will guarantee the sustainability of the achievements that are made.

I will now try to present an overview of the scale of the task in the education sector.

Between 1992 and 1999, there was an increase of about 56% in the number of students in the first seven years of schooling. It is expected that this number will increase by a further 44% to the year 2002. This means that the number of primary school students will have more than doubled between 1992 and 2002, reaching almost 3 million. To satisfy this growth, 12,700 new classrooms will have to be built and 18,000 new teachers recruited.

When these objectives are achieved, the gross enrolment rate for the first five grades of primary education will have risen from 70% in 1998 to 86% in 2002.

For 6th and Ph Grade the gross enrolment rate is significantly lower, reaching 17% in 1998 and 24% in the year 2002.

Another objective of the Education Programme is to increase the participation of girls so that they account for 50% of the students in the first year of schooling.

The education sector absorbs a substantial proportion of the resources available in the Budget. Even so, internal resources covered only 66% of total financing needs in 1998.

It is the Government's strategy to transfer part of these costs to parents, communities, NGOs and the private sector, reserving public resources to assist the poorest communities and families. Dialogue with the different stakeholders in education will be encouraged so as to ensure that the solutions adopted reflect the consensus of these groups.

This is the only sector where needs are well covered. Even so, for 1999 there is a gap of 9 million dollars, which grows over the period until 2002.

Also in the health sector, considerable efforts have been made to improve the situation. The trends have been positive, but much remains to be done.

To illustrate this point, it is enough to refer to the fact that, of every 100 births only 30 are assisted and inequality index between provinces with highest and lowest coverage of services ranges from 1 to 7.

To increase the coverage of health services, the primary objective is to expand the number and distribution of health facilities. The target fixed for coverage is 70% in the year 2001. To achieve this level, 350 to 400 new health facilities will be needed.

The principal causes of mortality in Mozambique continue to be malaria, contagious diseases and complications arising from pregnancy and birth.

At the heart of this problem are the poor conditions in which the majority of the population lives. Only with the eradication of poverty and the improvement of the education of the population can we hope, in the long term, to improve this situation. In the short term, our efforts are concentrated in education campaigns which have an important role to play in the prevention and early treatment of disease.

Together with the expansion of the health care network and the improvement in the quality of services, significant improvements must be made in the management of services and the training of health workers. These are some of the key objectives of the health programme.

The sustainability and consolidation of the advances we have made is a central concern.

Consequently, the Government is currently developing a medium-term strategy in which the role of each partner will be clearly defined:

- on the part of donors, in terms of the assistance which they intend to provide in the medium-term;
- on the part of beneficiary communities in terms of their participation in the financing of health facilities;
- on the part of new systems, which can provide health facilities without constituting a direct burden on the State, as in the case of health insure systems.

The central objectives to be reached by 2001 include, amongst others, an increase the coverage of IDPT vaccinations from 63% in 1997 to 80%, and a reduction in the infant mortality rate of children below the age of 1 from 135 per thousand to 120.

The financial needs of the health sector will exceed 129 million dollars in 1999. It is expected that, with the adoption of the measures indicated above, leading to increased financing by users, the financial needs of the sector will rise to 137 million dollars in 2003. This implies an increase of 6.2% in four years.

Even with these restrictions, the program is not fully financed. The average financing gap in the period from 1999 to 2003 is close to 40 million dollars.

I have spoken of education and of health. The third sector in the hierarchy of priorities for improving the well being of the population is the water sector. Many of the diseases and epidemics that cause death in Mozambique are linked the limited access to water and poor sanitary conditions in which the majority of the population lives.

As I have already noted, only 7% of the population has access to running water. In urban areas, coverage is currently at only 30%.

The major problems facing the sector have been studied and the following points stand out:

- the deficient management of water systems results in 60% of water being lost or not charged for,
- water tariffs in urban areas do not cover the operating and maintenance costs;
- the expansion of coverage in rural areas was done on a supply basis, which permitted a rapid expansion in coverage. However, the growing number of non-operational facilities shows that the efforts of education and community participation had limited impact.

The strategy to overcome these problems encompasses a range of actions. I will only mention those that are most important.

Firstly, the management of the companies responsible for water supply in the five main cities will be privatised. We hope that this measure will lead to improved efficiency and a more rigorous approach to charging for water, thereby reducing losses to 25%.

Tariffs will be increased in order to render systems sustainable, ensuring that costs and 50% of the amortisation of capital are covered.

In rural areas, policy will be altered so as to better reflect demand conditions, permitting communities to participate and co-finance the development and maintenance of water facilities.

To complement these measures, an integrated strategy for water and sanitation will be developed, while at the same time developing education campaigns on health and hygiene.

The financial needs implied by this program reach 67 million dollars in 1999, and increase to 122 million dollars in 2002. While 76% of the program is currently financed for 1999, this percentage falls to 57% in the final year of the program. The significant effort to be made by the Government in this sector is reflected in the fact that budget financing will more than double during this period.

The improvement of living conditions - education, health and water supply -are ways to reduce the problems. But we must also attack the fundamental causes of poverty. In a country where 80% of the population live in rural areas on what the land produces, the only means to improve living conditions is to increase the productivity of those live at subsistence levels.

Agricultural development is therefore fundamental to achieving a reduction in poverty and food security. It also plays an important role in supplying industry with inputs, and in permitting a growth in exports.

In order to respond to these challenges, a national program of agricultural development has been prepared (PROAGRI).

Amongst the different components of this program, the following stand out:

- privatisation of activities and services that may be more efficiently undertaken by the private sector, thus guaranteeing long term sustainability. The Government will support the development of these services to ensure that the interests of the poor are protected.
- capacity building in the Ministry of Agriculture and Fishing at central, provincial and local level strengthening its ability to define and implement effective policies, and analyse their impact.

Agricultural extension services are essential to increase the productivity of the family sector. This is one of the areas in which the Government will act in partnership with the private, sector and with NGOs.

Other important services targeting agricultural development to be undertaken in the context of PROAGRI include: the supply of seeds suitable for climatic conditions and that will contribute to increased productivity; the development of an early warning service; and support to the development and implementation of methods for combating diseases in plants and animals.

Aside from these measures, rural development centres will be put in place, particularly in the areas of greatest agricultural potential.

One of the keys to the success of this programme is that land is used and managed in a sustainable manner. The government will take the necessary measures to give smallholders security of land use, while at the same time seeking to expand cultivation. The land regulation will be published, and a public system of information about land issues is to be developed.

The transparency illustrates, for cereals and cashew, the expected impact of the program. In the case of cereals, an average growth rate of 10% is expected, while the production of cashew is expected to grow at an average rate of 15%.

The total cost of implementing the program is 202 million dollars. Of these, the Government will finance 10%. It is expected that the remaining 182 million dollars will be financed by external funds. At the moment, 50% of this amount is financed, leaving a financing gap of 91 million dollars.

Finally, I will refer to the road program. This program is of enormous importance to the development of the country. Without roads, surplus production of farmers will not reach markets; without roads, goods and people cannot move about the country, limiting the extent to which a true market economy functions.

At the moment, poor roads result in considerable wear on vehicles, and thus in exorbitant transport costs.

The Government, in partnership with the international community, has developed a program of road rehabilitation. Between 1992 and the present, significant progress has been made: the percentage of roads in poor condition or impassable fell from 76% to 42%. However, much work lies ahead before a one might consider the situation reasonable.

If the program is successfully implemented, the percentage of poor or impassable roads should fall to 30% by 2001, requiring the periodic and routine maintenance of 29,000 km of roads.

The program is expected entail annual costs of up to 135 million dollars until 2001. Clearly this amount exceeds the Government's financing capacity. The financing gap remaining in 1999 is 31 million dollars.

Ladies and Gentlemen,

I hope to have presented a clear picture of the considerable problems that the country faces. The brief review of key sectors reveals the significant pressures on budget resources discussed in the

opening of this talk. You may find more detailed information about these sectors in the supporting documents that we have prepared.

I would also like to mention a further sector, which is very important in ensuring the sustainability of the actions that we are taking - public administration reform. We will have a special meeting on this subject, but I want to stress that it is a priority of the Government to restructure the public administration in order to render it more modern, flexible and output oriented. To improve the performance of public servants, we have to adopt a policy to increase wages, and thereby bring public salary scales more in line with the private sector. Moreover, intensive and extensive training of public servants will be undertaken.

Having come to the end of this presentation you may ask - how did you close the 1999 budget if all the sectors mentioned have financing gaps?

In fact, the pace of program implementations was reduced in line with financing capacity, in order to ensure that public expenditure was not financed through bank credit

However, this reduction means that we need more time to reach the targets of the programs; it means also that we need more time to reach the development and welfare of the population that we all aim for. We must progress as quickly as possible in the coming years so that Mozambique can reach a position where the dependence on foreign aid can be significantly reduced.

The time required to reach such a situation clearly depends on the Government, but also on the donor community. The harmonisation of efforts and the creation of consensus regarding the utilisation of disposable funds is crucial in this respect.

I thank you for your attention and patience. I hope to have contributed to a clearer view of what is the reality of Mozambique today. We have confidence in your support in facing up to the enormous task of developing the country.

I conclude as I began - welcome to Mozambique.

Thank you.

**Consultative Group Meeting for Mozambique
Maputo, September 23-24, 1998**

Statement by the Governor of the Central Bank*

**HE Adriano Maleiane
Governor**

**Mr. Chairman
Ladies and Gentlemen,**

I wish to start by joining the previous speakers in wishing you a pleasant stay in our country.

At the meeting of the Consultative Group last year, the Government announced to the international community the main objectives of its economic policy for 1997, emphasising macro-economic stability and the structural reforms started more a decade ago. The economic performance indicators presented earlier, together with the growth in inflows of foreign capital, illustrate well what has been accomplished in creating an enabling environment for business.

In 1997, the overarching goal was to monitor the liquidity of the banking system in order to maintain price stability. Measures geared to creating the basis for a gradual transition to indirect instruments of monetary control were also implemented. Since 12 months have elapsed from the start of the inter-bank money market, there's been an increased volume of operations, coupled with an increase in the sophistication of instruments and improvements in the regulatory framework.

From January of this year, net domestic asset ceilings, the main monetary control instrument, were set on a six months basis rather than on a quarterly basis. These efforts are geared at gradually abandoning direct monetary control.

During this period, the rate of required reserves underwent significant changes, as we sought to match it with the liquidity management policy of the banking system. Currently, reserves are at 9% in real terms, which is the lowest level since introduction.

Domestic credit to the economy increased by 57 %, of which 19 % was in the agricultural sector and 29 % in industry. This reflects the policy, whereby a restrictive monetary policy translates into allocating scarce resources to the most dynamic and productive sector; those capable of yielding high returns and having a positive impact on employment and exports.

We progressed in reforming the financial system. In 1997, the last state owned bank was privatised, the Banco Popular de Desenvolvimento. New procedures and instruments of prudential management were introduced, which will contribute to greater efficiency of the financial system. The country remains open to the entry of new banks: Currently we have seven commercial banks, an investment bank, a leasing company, a credit co-operative, four offices of foreign banks, twenty exchange bureaux and four insurance companies.

* This is an English translation from the original statement given by the Governor in Portuguese, entitled "Necessidades de Financiamentos."

In 1997, the foreign exchange Northern Regional Branch of the Banco de Mocambique was opened in Nampula and this has contributed to lowering transaction costs of commercial banks and to the establishment of a wider payments system in the country.

Likewise, headway has been made in legislative reforms. The new Financial Institutions Law was approved by the Cabinet and will be submitted to the next session of Parliament and will, for example, provide for a faster licensing of credit and financial institutions and grant more oversight powers. Regulations regarding the regulation of group purchase companies and venture capital firms will both be submitted for approval by the Cabinet.

The new law regarding check use is already in force. The Cabinet recently approved a regulation regarding credit activity by individuals and companies, with the objective of providing micro-credit services. This is an important instrument to re-establish the rural commercial network, particularly rural shops, to market agricultural surpluses, and to create micro-projects.

At the 1996 Consultative Group meeting, we made an appeal to the international community for wider acceptance of the new and more efficient system of allocating external funds. This system includes quicker disbursement procedures, registration and sales to commercial banks of the external funds allocated to our country, the generation of local currency and its allocation to the general State Budget, and rules for procurement, auditing and monitoring. Today, we note with satisfaction the fact that more than 77% of donors and multilateral institutions that support the Balance of Payments have adhered to this system. This has contributed to a more active inter-bank foreign exchange market and has increased transparency in the use of foreign aid.

In order to improve the programming and management of foreign aid, it is necessary that Balance of Payments support funds be pledged on a multi-year basis and that the procurement process conforms with the foreign exchange management system. From this perspective, we welcome the new methodology for the management of these funds, outlined in the document which is being circulated to the donor community represented in this hall.

Regarding external debt, the Addendum signed on May 25, 1998, and the Minutes of November 1996, widens the discount from 67% to 80% and integrates in the 5th rescheduling part of the debt already rescheduled in the 4th rescheduling exercise.

Let me take this opportunity to thank the Bretton Woods institutions, and other bilateral and multilateral institutions, for their support in the qualification process of Mozambique to the HIPC initiative, which took place in April 1998. After completing the requirements of this assistance, Mozambique will benefit from debt reduction of about \$1.4 billion, starting in June 1999. It is worthwhile emphasising that in view of the magnitude of this debt relief, my country will be able to reallocate public spending toward social sectors and thereby further sustain macroeconomic stability.

Mr. Chairman
Ladies and Gentlemen

Regarding the \$596 million funding requirements submitted in 1997, we are delighted to note about 98% financing of our Balance of Payments. Mention should equally be made of the fact that while we requested an amount of \$335 million, the donor community financed \$355 million.

Our economic program for 1998 provides for consolidating macro-economic stability, while continuing to correct internal and external imbalances, the growth of savings and investments, and continuing to control inflation.

As far as the management of the monetary policy instruments is concerned, we have been consolidating the implementation of indirect control mechanisms.

And, within the framework of external debt, we continued negotiations and conclusion of bilateral debt rescheduling agreements with Paris Club creditors, and other parties. We shall continue to work together with our bilateral and multi-lateral creditors towards benefiting from debt relief so that we may reduce its heavy burden on external and budgetary accounts in the short, medium and long term.

Despite the results in 1997 and the internal efforts made during the first semester of 1998, we will continue to need financial support from the International Community. According to Balance of Payments forecasts, the overall financing requirements of the economy for this year are around \$1.8 billion, and \$1.4 billion for 1999, including external debt relief.

In these fora, it has been our tradition to specifically address issues pertaining to flows from official aid we would like to obtain from the donors represented here. In this connection, for current year, the estimates are \$605.5 million for investments and recurrent financing of the economy, of which \$262.3 million are concessional credits and \$344.2 million are grants. By the end of the first semester, the official aid we received amounted to \$239.4 million, of which \$137.7 million were grants and \$101.7 were credits.

For 1999, the financing needs total \$570 million, of which \$198 million are concessional credits and \$372 million are in grants. At the same time, we anticipate financing from private sector direct flows to reach \$533 million with some \$273 million from foreign direct investments and the remaining \$260 million from credits to the private sector without official guarantees.

Additionally, we would like to receive from the donor community financial resources worth some \$74.4 million for the external debt relief fund, and some \$25 million for the rehabilitation of the rural trade network and support for rural economic rehabilitation. These funds will be managed by appropriate financial mechanisms with the involvement of the private sector and the other partners. We are confident that from this meeting new support initiatives will emerge against the backdrop of our past fruitful relationship and also against the backdrop of mutual trust we have been able to build.

On a closing note, I wish to thank the Bretton Woods institutions for their valuable contribution in convening this very important meeting and for the efforts which, for more than a decade now, we have been jointly developing and successfully involving the donor and creditor community in Mozambique's economic and social recovery.

Thank you very much.

**Consultative Group Meeting for Mozambique
Maputo, September 23-24, 1998**

**Statement of Financing Requirements
by
The World Bank**

Excelentísimos Senhores e Senhoras, bom dia.

Many of you have pointed out the progress achieved so far. Mozambique's performance is indeed worth emphasizing, as these results show that the Government's reform efforts, coupled with the support from the international community, are paying off.

In 1997, continued macroeconomic stability, external support, and favorable weather led to broad-based, double-digit growth. The external account deficit narrowed by almost eight percentage points since 1996, to 9.6 percent of GDP in 1997.

For 1998, we expect overall positive results, with the continuation of macroeconomic stability and the economy continuing to grow at over 8 percent. The country's external position may show some volatility over the near future, as construction of large, lumpy investments takes off. Early estimates indicate that the external account deficit may worsen in 1998, with first quarter imports increasing almost 10 percent over the same period in 1997. This increase in imports may already reflect the start of large investment projects, such as Mozal. In 1998, exports are expected to grow as a share of GDP, although not as rapidly as imports. Private investment is expected to continue growing, reflecting improved confidence in the economy. And for the first time since we started reporting to you on Mozambique eleven years ago, the country's external position will be viable after debt relief is provided under the HIPC initiative. In light of Mozambique's external and fiscal vulnerability, debt relief will be instrumental in resolving the debt overhang problem and thereby permitting the people of Mozambique to share more fully in the benefits of rapid economic growth.

We need to continue joint efforts to ensure that these good prospects are fulfilled and that Mozambique's external position remains viable after HIPC debt relief. To that effect, we encourage the Government to continue implementing policies aimed at maintaining a stable macroeconomic environment, including prudent and equitable fiscal policies, close supervision of the financial sector, and maintenance of a sustainable and competitive exchange rate.

As you are aware, the Government is implementing a number of reforms in the fiscal area. During 1997 and 1998, a medium-term fiscal framework was developed and is being adopted, the budgetary process is being improved, and the tax and trade system is being rationalized. We would like to reiterate our support for this work, as it contributes to not only a more sustainable fiscal position but also a much improved and increasingly transparent budget management, including its domestic and externally financed components. Ultimately, these reforms will allow the Government to ensure that priority programs such as those in health, education and roads, among others, can be sustained and expanded over the medium term. Management of balance of payments support has also continued to improve over 1997 and early 1998, which has been greatly facilitated by the increased availability of

“untied” external funds and use of simplified disbursement procedures. We would encourage donors who have not yet done so, to adopt these more liberalized procedures.

Over the years, Mozambique has enjoyed strong financial support from all of us, starting in the difficult period of emergency aid, to the post-conflict years, and now to this development phase. Correspondingly, the composition of external aid has changed to match the country’s changing needs. Food and emergency aid have declined and balance of payments support, debt relief, and more recently sector expenditure program financing have increased. The improved management of domestic and donor resources brought about by the budgetary reform will continue facilitating this shift. We would like, therefore, to support the Government’s request that our partners continue to move towards medium-term financing plans through mechanisms such as the Government’s sector expenditure programs.

Over the short and medium run, Mozambique will continue to have substantial external financing needs. These will continue to reflect substantial external current account deficits, as well as debt service obligations. For 1998, the balance of payments financing needs are expected to increase, due to a faster growth of imports relative to exports. External financing needs before debt relief amount to about US\$1.8 billion in 1998 and US\$1.4 billion in 1999. Private sector financing is projected to continue increasing and contribute US\$250 million in 1998 and US\$530 million in 1999 to the country’s financing needs. Multilateral and bilateral grants and credits, including IDA’s interim debt relief prior to the completion point, are projected at US\$610 million in 1998 and US\$570 million in 1999. The remaining financing gap is projected at US\$900 million in 1998 and US\$300 million for 1999 and is expected to be covered by multilateral and bilateral debt relief, including assistance under the HIPC initiative.

We understand that, for many donors, firm financial commitments for 1999 are not possible at this time, as budget discussions are still taking place at the national level. However, we would like to highlight the importance of continuing financial and technical support to Mozambique, and to work towards increased effectiveness and sustainability of the programs we finance.

All of Mozambique’s development partners will thus continue to have an important role to play in supporting this country’s development program, while continuing our joint efforts towards a reduced reliance on external aid.

Muito obrigada.

Chairman's Closing Statement

Mr. Callisto Madavo
Vice President, Africa Region

It is time to bring this Consultative Group meeting for Mozambique to a close. Let me begin by thanking all of you for your participation and for the openness with which we have been able to conduct these discussions over the past two days. I especially want to thank Prime Minister Mocumbi and his colleagues for their clear presentations and candid responses to the issues that have been-raised. There is no question that this meeting has been a big success. I also know I speak for all of us -- Mozambique's cooperating partners -- when I thank the Government for its hospitality in hosting this meeting in Maputo. It gave us a chance to see and appreciate for ourselves many of the themes we have discussed over the past two days as well as an opportunity to get to know each other better.

This CG meeting marks another step in our partnership. From what we called the CG of good intentions in 1995, we progressed to the CG of accountability in 1996, and to the CG of accomplishments in 1997. In that spirit, this meeting can be termed the CG of sustainability. As Prime Minister Mocumbi said yesterday, the Mozambican economy is strong and flourishing, and a firm basis for development has been established. But, as he also acknowledged, and as has been echoed by several others in our discussions, the challenge is now to sustain this growth and ensure that its benefits are broadly shared.

We all agreed that the economic successes of the recent past reflect the commitment and dedication of this Government and the Mozambican people. As summarized at the outset by Minister Salomao in his excellent statement, growth has been vigorous with a near-doubling of real GDP since the war ended. Inflation is now in single digits and external imbalances have fallen sharply in the last two years. Macroeconomic stability has been combined with structural reforms that have encouraged private enterprise and opened the economy to trade and capital flows. And, social sector expenditures have increased both in absolute terms and as a share of total spending. This commitment to far-reaching economic reform has been recognized in the decision by the international community earlier this year to provide debt relief to Mozambique under the HIPC initiative.

But many of you have also reminded us of the unfinished agenda. Mozambique is still one of the poorest countries in the world and its social indicators are grim. And, the -rapid growth of recent years has only scratched the surface of widespread poverty. With growth now a reality, and sustainable growth a distinct hope, I think we would all agree with H.E. Brito e Cunha that the primary challenge is to ensure that the fruits of growth benefit all Mozambicans, and particularly the poor. A theme I heard resonate throughout this meeting was that growth needs to be balanced and broad-based. And as Mr. Cedergren said, balanced growth has many dimensions: urban/rural; regional; and gender, among others.

One thing is clear to all of us. For growth in Mozambique to be broad-based and poverty-reducing, agriculture must grow. Minister Salomao pointed out that 82 percent of the poor

live in rural areas with the vast majority relying on smallholder agriculture. It is, therefore, not surprising that many of you stressed the importance of policies and programs aimed at improving the welfare of the rural smallholder -- roads to ensure access to markets, and extension services to improve yields. Therefore, it is important that PROAGRI, the Government's agriculture sector program, is being designed with a view to enhancing productivity and production, and lowering costs for these smallholders. In addition, for smallholders to benefit from and to invest in agriculture, security of land tenure is key. In this regard, Minister do Rosdrio's statement about the regulations for the land law, including that the regulations would be implemented in a way that recognizes communal rights of tenure, was welcome.

Needless to say, growth outside agriculture will also be important. The challenge here, as several of you indicated, will be how to harness the fast growth in other sectors so that it improves the livelihood of the average Mozambican. Growth in labor-intensive services, manufacturing and industry can create jobs and generate incomes. In particular, small and medium scale enterprises -- many quite small indeed -- must play an increasing role as the engines of growth. Many participants encouraged the Government to use fiscal policy to tap the "mega projects" so as to spread the benefits of growth more evenly.

More generally, the Government has an important role to play in increasing social expenditures and redirecting them towards the poor. Access to education and health care remain poor. On average, a Mozambican must still travel 46 km. to see a doctor and 66 km. to reach a secondary school. In addition, as Ms. Cullen stressed, the quality of education and health care also need to be improved. The health sector program that is in place and the education sector program under preparation are, therefore, critical areas for our cooperation, and we must work hard to see that they succeed. But we must also heed Mr. Storlokken's caution that expansion in these sectors needs to be sustainable.

Sustainable growth, and indeed even the gains we have achieved to date could be seriously at risk if we do not act quickly to address the threat posed by the spread of HIV/AIDS. Let me add my personal plea as well as that of the World Bank to those of Mr. de Casterle and several others who urged urgent action on this front. In this respect, we appreciated the Minister of Health's strong statement of commitment to combat this disease and we support the Government's multisectoral HIV/AIDS program. As Mozambique's partners, we should all make a particular effort to evaluate the effect of HIV/AIDS in reviewing all our projects and programs, and in particular with respect to the sectoral programs. We will need to take stock of our progress at the next CG meeting.

Alleviating poverty and improving the welfare of the Mozambican people is our overriding objective. I don't think this can be said often enough. We recognized once again during the last two days the pressing need for information, analysis, and monitoring of poverty and welfare indicators. Many participants stressed the importance of completing and disseminating the Government's Poverty Assessment in a timely fashion. These results will be important in formulating the Government's Poverty Action Plan, recasting its social safety nets, developing a monitoring system of key social and poverty indicators, and improving the focus and targeting of sectoral programs. In this regard, the data from the new national household survey that were included in the Government's presentation whet our appetite to know more. Several partners encouraged the Government to disseminate these findings broadly.

The issue of governance was also a recurrent theme throughout our discussions. As Minister Salomao put it eloquently, "we are not specialists in creating a democracy. But we are learning. And our determination is genuine to go forward on this road." And he emphasized that the Government intends to reform the electoral law to ensure that next year's elections are free and fair, and to carry out constitutional reforms in a way that ensures their broad acceptance by all Mozambicans. Many of you offered assurances of support for these activities, and I know that many of you want to underline the importance this holds for the nation's future.

But, as Ms. Derryck neatly put it, "one election does not a democracy make." For a democracy to work, people must not only be able to choose their government, there must also be the means for that government to deliver on its promises. The Government's aim is to transform the public sector from one that provides goods and services to one that facilitates the work of the private sector while still providing vital public services. In this, civil service reform is a critical ingredient. A number of you noted the progress the Government has made in reforming the civil service since we discussed this topic last year. The first of two salary decompressions, linked with the new career and remuneration systems, was an important first step. Minister Gamito's presentation helpfully took our discussion to the next stage. He broached the more challenging and longer-term plan. This includes changing the attitudes of the civil service, enhancing the capabilities of its members through education and training, and reorienting and motivating the civil service to be responsive to citizens and deliver a higher quality of service. In addition, the government's program to decentralize responsibilities to the provincial and municipal levels will enhance its responsiveness to the needs to the population. It is clear from the structures that the Government is putting in place to manage these issues that it knows that tackling them will need careful planning and a long term approach.

Our conversation over the last two days also dealt with the improved management of public expenditures, and this too is a central feature of public sector reform. Many of you welcomed the Government's medium term expenditure framework that will link the macroeconomic framework with sector programs so as to make possible more appropriate inter-sectoral allocations that are in line with priorities. At the sectoral level, you reaffirmed your support of sector-wide approaches that reduce the number of individual projects, thereby strengthening the Government's ability to take the lead in managing its programs. At the macroeconomic level, the medium-term expenditure framework supports these efforts by directing resource allocations more flexibly and ensuring sustainability by matching expenditure decisions with revenues. Another aspect of an improved expenditure framework is effective budget management. But, there is still a need to complement these efforts. In particular, as Mr. Moore mentioned, better implementation, along with better accounting and auditing practices are needed to increase the efficiency, transparency and accountability of public expenditures.

While we spoke about public expenditures and reform, concerns about corruption emerged during our discussion. I think many of us joined in commending the Government on its actions to curb corruption while urging it to redouble its efforts. The reforms of the public sector, which include reducing bureaucracy and simplifying procedures, will be a central component of those efforts. As some of you suggested, corruption is also linked to capacity, human and institutional. A weak and under-staffed judicial system, an inadequately trained police force, and poor dissemination and understanding of the law all contribute to the conditions that encourage, or at least do not

discourage, the abuse of power. Better training, greater transparency, more accountability, and better working conditions for civil servants together will help to eliminate the opportunity and the desire for corruption.

As Mr. Drummond reminded us, less corruption, less red tape, better services and a more efficient public sector are fundamental to an enabling environment for private sector development, particularly for the small and medium enterprises that are the real engine for broad based growth. A growing economy, led by the private sector, is Mozambique's best hope for eliminating poverty.

While we all recognized Mozambique's accomplishment in restoring macroeconomic stability, many speakers stressed the need to remain vigilant in these turbulent times if these achievements are to be sustained in the longer term. One aspect that was touched upon was the management of the exchange rate. Some partners, including Mr. Reitmaier of the IMF, noted the recent real appreciation of the metical and the need to safeguard Mozambique's external competitiveness.

The Government and its partners also recognized the need for Mozambique to reduce its dependency on external assistance as another aspect of sustainability in the longer term. In addition to improving expenditure management, which I have already mentioned, this will require the delivery of HIPC debt relief. I hope we will all continue working together to ensure that this happens by June 1999. Reducing aid dependency will also hinge on mobilizing additional domestic fiscal resources. The increase in revenues that have resulted from recent improvements in customs administration is encouraging in this regard. Vigorous private sector growth will also help provided exemptions are minimized. Several speakers noted the need for the Government to ensure that planned mega-projects yield commensurate fiscal revenues and result in a broadening of the tax base. The Government assured us that it was examining its tax and revenue structure and prospects in a comprehensive fashion. As part of its plans in this area, the Government reiterated its intention to implement the VAT by April next year.

Let me turn now to our partnership and how we might make it even more effective in assisting Mozambique. Sector programs illustrate one aspect of this partnership. Several partners indicated their support for this approach, including some who have shifted their financing towards sector programs. But as Mr. Moesby stressed, the Government needs to improve its financial control and auditing capabilities. Many of you also acknowledged that the donors in turn will need to improve the coordination of their sector programs and harmonize their procedures and approaches. These programs are an aspect of our partnership that both the Government and its partners will need to improve.

This CG meeting represents another aspect of our partnership. Mr. Frieden's intervention during our discussion yesterday of "topping up" in the context of the Government's Public Service Reform Program showed that we are moving in this forum towards greater frankness in our discussions. A number of you endorsed Mr. Houliston's suggestions on how to improve the CG process at this stage of our partnership. These suggestions included greater informality in our proceedings and an increased focus on policy implementation. I propose that over the next few months we think about these and other options for making the CG process more effective.

Turning to financing, this meeting has not compiled the commitments of donors, since those are now compiled locally. However, based on the statements at this meeting, I expect that the projected financing needs (excluding debt relief) of \$606 million for 1998 and \$570 million for 1999 will be met provided the Government continues to successfully implement its reform program.

Now, I would like to thank the translators for their contributions to our proceedings. We are all grateful to the Maputo office of the World Bank, which went far beyond the call of duty in organizing this meeting. I also want to thank the Bank team from Washington for their dedication and hard work. Let me add a personal note. This CG will be Mr. Carvalho's last as the Bank Group's Executive - Director for Mozambique. Joaquim has been an untiring advocate for Mozambique and more generally for Southern Africa at the World Bank, and I want to thank him for his advice, efforts, and friendship with all of us at the Bank.

Finally, I would like to say how much I enjoyed chairing this CG in this beautiful city. And, on behalf of all of us, I would once again like to extend our heartfelt thanks to our hosts, and especially to the Mozambican Government team who worked hard to make this a great success.

With that I close this eleventh Consultative Group meeting for Mozambique. This meeting is now officially adjourned but our work will continue after lunch at the sessions with representatives of NGOs and the private sector. These sessions will be chaired by the Government, and I now will hand over the gavel to Minister Salomao.

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MOZAMBIQUE PLEDGES CONTINUED GROWTH AND COMMITMENT TO REFORM

MAPUTO, September 24, 1998. -- The eleventh Consultative Group meeting of the Government of Mozambique and its international development partners was held in Maputo for the first time, with the Government playing host to 37 bilateral and multilateral agencies on September 23 and 24. Mr. Callisto Madavo, Vice President of the Africa Region of the World Bank, chaired the meeting. The Mozambican Delegation was led by H.E. Dr. Pascoal Mocumbi, the Prime Minister, and included H.E. Tomaz Salomão, Minister of Plan and Finance, H.E. Alfredo Gamito, Minister of State Administration, H.E. Adriano Maleiane, Governor of the Bank of Mozambique, and other prominent members of the Mozambican Government. The Consultative Group meeting focused on the challenges of sustaining growth in Mozambique, promoting good governance, and ensuring that the benefits reach the poor. Participants also held discussions with representatives of the private sector and non-governmental organizations.

An Emerging Success

Mozambique's economy grew at more than 12 percent in 1997. This makes it one of the fastest-growing countries in the world. Enduring peace, sound economic policies, and the continuing support of the international community have combined to produce low inflation and broad-based growth. In recent years, Mozambique has carried out a wide array of economic reforms and has attracted the interest of international investors. Construction of several large projects has begun and more are on the drawing board, as well as many smaller investments. Mozambique's international partners applauded the reforms and congratulated the Government on its sound economic management and performance.

The Challenge of Broad-Based Growth

Participants recognized that the foremost challenge in the years ahead is to spread the benefits of development to the nation's poor. The development partners encouraged the Government to continue reforms, especially efforts to increase implementation capacity and fiscal reforms aimed at increasing revenue and sharpening spending decisions. Mozambique remains one of the poorest countries in the world with close to 70 percent of its citizens living below the poverty line. Poverty is particularly severe in rural areas, where access to social services is limited. On average, a Mozambican has to travel 46 km to find a doctor and 66 km to reach a secondary school. Meeting participants supported Mozambique's efforts to develop multi-year sector programs, focusing on critical needs such as health, agriculture, water, roads and education. A number of these programs focus on women: in education, for example, a special

drive will begin shortly to increase school enrollment among girls. These sector programs will bring together the efforts of Government, various international development partners and civil society in the delivery of services to and supporting initiatives of poor communities throughout the country. Development partners expressed a willingness to review their procedures to assist this joint effort. This kind of broad-based cooperation among Government, international development partners and citizens was also seen as fundamental to the battle against major health problems, including malaria and HIV/AIDS. An estimated one million Mozambicans are infected with the HIV virus. Consultative Group members emphasized the importance of supporting the Government's existing program and assessing the impact of HIV/AIDS in the design of all new projects.

Continuing Reforms

Participants agreed that an efficient public sector was critical to the Government's ongoing efforts to reduce poverty and stimulate rapid growth. Continuing civil service reform, eliminating red tape, and accelerating regulatory, legal and judicial reform are all central to creating a transparent justice system and a business-supportive environment for small entrepreneurs and global investors alike. Mozambique's development partners underlined the importance of the Government's continuing efforts to establish clear rules of the game, increase transparency, and combat corruption. These reforms, in conjunction with Government plans for decentralization and local capacity building, will also benefit the average Mozambican citizen.

The development partners recognized the commitment of the Government of Mozambique to build a sustainable democracy. There was a consensus that ongoing legislative and constitutional reform and the preparation and conduct of next year's national elections present opportunities for further progress towards this goal. The importance of consensus-building on electoral procedures was emphasized.

Mozambique's Financing Needs Met

Mozambique's official financing needs for 1999 are estimated at US\$570 million, excluding debt relief. Based on the discussions during the CG meeting, and the Mozambique's Government's commitment to continue the implementation of its reform program as highlighted during the meeting, international development partners are expected to fully meet the country's 1999 financing requirements. (In recent years, international aid partners have financed over 50 percent of the Government's annual budget.) Mozambique also qualified for nearly US\$3 billion in debt relief in April this year under the Heavily Indebted Poor Countries Initiative. It is expected that Mozambique will successfully complete the requirements and receive the expected relief by the end of June next year.

Members of the Consultative Group attending the meeting were Australia, Austria, Belgium, Brazil, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom and the United States. Also represented were the African Development Bank, the Arab Bank for Economic Development in Africa (also representing the Kuwait Fund for Arab Economic Development), the European Commission, the European Investment Bank, the Food and Agriculture Organization, the International Finance Corporation, the International Fund for Agricultural Development, the International Monetary Fund, the Nordic Development Fund, the Organisation for Economic Co-operation and Development, the United Nations Children's Fund, the United Nations Development Program, the World Bank, the World Food Program and the World Health Organization. South Africa and the Russian Federation attended as observers.