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FROM: Vice President and Secretary

CONSULTATIVE GROUP FOR MOZAMBIQUE


CHAIRMAN’S REPORT OF PROCEEDINGS


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CONSULTATIVE GROUP FOR MOZAMBIQUE


Chairman’s Report of Proceedings

Background

1. The Consultative Group for Mozambique held its eighth meeting at the World Bank’s European Office in Paris on March 14 and 15, 1995. The meeting was chaired by Ms. Katherine Marshall, Director of the Southern Africa Department of the World Bank. The World Bank’s Alternate Executive Director for the group of countries that includes Mozambique also attended. The Mozambican delegation was led by HE the Prime Minister Pascoal Mocumbi, and included HE Tomaz Augusto Salomão, Minister of Planning and Finance, HE Oldemiro Baloí, Minister of Commerce, Industry and Tourism, and HE Adriano Maleiane, Governor of the Bank of Mozambique. The Mozambique delegation also included senior Government officials and Mozambique’s ambassadors to France and to the United States. The meeting was attended by delegations from Austria, Brazil, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom, United States. Also represented were the African Development Bank, European Investment Bank, European Union, International Finance Corporation, International Fund for Agricultural Development, International Monetary Fund, Organization for Economic Cooperation and Development, United Nations Children’s Fund, United Nations Development Program, United Nations High Commissioner for Refugees, and World Food Program. A representative from South Africa attended as an observer.

2. The following documents were distributed for the meeting:

Mozambique Government:
- “Establishing the Basis for Economic and Social Development: Key Policies”
- “The Poverty Reduction Strategy for Mozambique”

The World Bank:
- “Impediments to Industrial Sector Recovery”

Opening Statement by the Chair

3. In her opening statement (Annex III), Ms. Marshall highlighted Mozambique’s achievements since the previous CG meeting. She noted that in December 1993 the central challenge was to complete the peace process, a prerequisite for longer-term development. In 1995, she said, Mozambique was again at another crucial moment in its history. While peace and new democratic institutions had been established, these needed
to be strengthened. Equally important, Mozambique long standing challenges, related to growth and poverty reduction, needed to be addressed.

4. Ms. Marshall complimented the Government on the documentation prepared for the meeting. As mentioned in the government document, she reiterated that the immediate priority was to restore productive livelihoods in rural areas, where the majority of the poor are, through (a) active support for the resettlement of households and the economic reintegration of demobilized soldiers; (b) aggressive and determined efforts to ensure the provision of basic social services; (c) improved security in rural areas; and (d) active support of agricultural production, focusing on the rehabilitation of rural roads and the restoration of the marketing network.

5. Turning to the means to achieve the proposed Government’s objectives, Ms. Marshall said that, in the medium-term, poverty reduction will depend on a profound transformation of the agricultural sector, moving from subsistence to a more commercial orientation; and on the rapid development of human resources, increasing current budgetary allocations for the social sectors, followed by a restructuring of the investment budget to ensure funding of priority programs. In the longer-term, the strategy for reducing poverty would be based on an aggressive growth policy and would require macroeconomic stability, clear priorities for public expenditures, an enabling policy environment for growth, and export promotion. Finally, she suggested that in focusing the discussions on poverty and economic growth strategies, two central and related themes be kept in mind: the need for capacity development and the vital importance of information as a basis for decision-making and to assess progress.

6. To conclude, Ms. Marshall suggested four objectives for the meeting, asking participants to: (a) review the strategy statements and issues and consider the plans put forward by Government; (b) agree on the financing needs and likely financing available for 1995, set in the context of longer term programs and projections; (c) focus attention on aid modalities, or the how beyond the how much; and (d) consider more broadly the nature of this partnership and the role to be played by the Consultative Group.

Statement by the Mozambican Delegation

7. In his opening statement (Annex IV) the Prime Minister, HE Pascoal Mocumbi, thanked the donor community for its continued assistance to Mozambique. He highlighted recent political achievements by Mozambique, namely the first free presidential elections with a high voter turn out, and the demobilization of soldiers, for which he particularly acknowledged and expressed appreciation for the role played by the United Nations (ONUMOZ).

8. He noted that in addition to the priority task of preserving the peace and consolidating national unity, the Government’s immediate priorities were: (a) strengthening governance; (b) poverty reduction; (c) health and education improvements,
particularly in rural areas; and (d) regional cooperation and integration within the Southern Africa Development Community (SADC).

9. The Prime Minister emphasized that in Mozambique institutions were still young and undergoing reorganization and development. He concluded by encouraging the international donor community to maintain its support for the consolidation of democracy and improvements in the economy in Mozambique.

Statement by the IMF

10. Mr. Leite from the IMF (Annex V) noted that although adjustment efforts have been made, the objectives of the initial structural adjustment program, the 1987-89 Economic Rehabilitation Program (ERP), were still relevant and would be easier to attain under peace. He then described the macroeconomic developments in 1994 and the Government’s 1995 program discussed during a recent IMF mission. The 1995 program was still subject to approval by the Fund’s Executive Board and involved an extension of the ongoing ESAF arrangement through end-1995. Mr. Leite welcomed the Government’s new approach of making available to the CG meeting participants the substance of its program and the draft 1995 budget.

11. Mr. Leite pointed out that the key objectives of the 1995 program were a sharp reduction in the inflation rate, enhanced support for education and health, and a reduction in Mozambique’s dependence on foreign assistance. This would require a reduction in the overall government deficit before grants; a tight monetary policy stance backed by penalties on financial institutions that do not comply with banking regulations; the continuation of a market-determined exchange rate policy, coupled with a strengthening of the net foreign asset position; and greater transparency and accountability in public matters.

12. Based on the Government’s determination in putting together the 1995 program and on the measures already taken, Mr. Leite made a strong plea for support for the program to the participants. He pointed out that the program requires foreign assistance, which should be timely and supportive of the priorities of the program. In conclusion, Mr. Leite stressed the need to enhance economic and social statistics in Mozambique, asking the donor community to support the Government through technical assistance and financial support for field surveys in critical areas.

Minister Salomão’s Presentation

13. Minister Salomão presented the main government document “Establishing the Basis for Economic and Social Development” (Annex VII). He began by acknowledging the donor community’s past financial contribution to the peace and democratization processes in Mozambique, adding that it was necessary to consolidate what had been achieved in terms of peace, democracy, and national reconciliation. Minister Salomão then spoke of two challenges facing the new Government. The first is the creation of an
environment conducive to the participation of all citizens and in which civil rights will be protected. He noted that earning public confidence in governmental institutions would also require greater transparency in public administration. The second challenge was to lay down the foundations for economic and social development in Mozambique.

14. Minister Salomão discussed at length the four fundamental areas on which the Government strategy for increasing growth was based. These included: (a) development of human capital through the increase and improvement of education and health services; (b) rehabilitation of basic infrastructure; (c) strengthening of the agricultural sector as a means to alleviate poverty; and (d) creation of incentives for private investment through the implementation of economic measures aimed at reducing inflation and achieving balance of payments equilibrium in the medium term.

15. He then turned to a detailed discussion of the budget, seen as a fundamental instrument in the management of public resources and guaranteeing execution of the government priorities mentioned above. The Minister also presented the major reforms to be carried out by the Government, including macroeconomic stabilization, customs reform, restructuring of the financial sector, decentralization, privatization, and institutional capacity building in the public sector. To conclude, he expressed his wish for the open dialogue with the donor community to continue.

Plenary Discussion

16. In the ensuing discussion, participants congratulated the Government on the first free elections in Mozambique and the manner in which they were carried out, praising its leaders for the steps being taken towards the adoption of a more open and participatory political system. Participants commented favorably on the Government’s documentation for the meeting and on the initiative to hold preparatory meetings in Maputo, thus initiating the dialogue between the Government and the donors prior to the Paris meeting.

17. Participants urged the Government to keep working toward consolidation of the peace, national reconciliation, and the elimination of corruption. More specifically, it was noted that peace and prosperity would depend on the Government taking immediate measures to reduce corruption; to set the right framework for increased private sector enterprise and privatization, particularly in the banking sector; to cut military and security expenditures; and to reconstruct social infrastructure. Most participants noted that an acceleration of the reform process and measurable progress over the next months were now essential, and that the donor community would be closely monitoring the implementation of the Government’s actions.

18. Overall, participants welcomed the strategy and implementation plan put forth in the government document. In discussing the current economic situation, participants stressed the need to: (i) reduce inflation as a major source of macroeconomic instability; (ii) accelerate the reform of the financial sector, including the privatization of the state
banks; (iii) strive for transparency and accountability in the budgetary process; (iv) reform the area of tax and customs, stepping up the fight against tax evasion and corruption; (v) improve the business climate and earn the confidence of foreign and domestic investors; (vi) promote the security of land access, rights, and tenure; and (vii) increase efforts at decentralization which would bring the Government closer to the people, increase the participation of all Mozambicans in the Government, and provide a greater role for local communities and structures.

19. Following the donor representatives’ statements, the government delegation responded by addressing the main concerns raised. It was pointed out that the 1995 budget had been made public after submission to Parliament and that budget items had been discussed with donors in the budget working group meetings in Maputo. The Governor of the Bank of Mozambique clarified that reform of the financial sector had include three phases: (a) bringing the legislation up to date; (b) completing the audits of the state banks; and (c) adjusting capital requirements for the Commercial (BCM) and the Development (BPD) banks. He added that the privatization of BCM had started and hopefully would be completed by end-1995, and that BPD’s privatization was expected by 1996. Minister Salomão concluded by saying that the Government shared the donor community’s concerns on the issues of corruption, reduction in military spending, freedom of the press, customs reform, and the need for coherent and integrated sector strategies and investment frameworks.

20. The Chair expressed her appreciation to the participants for the open and frank discussion of important issues, noting that the issue of Mozambique’s external debt remained to be addressed. It was agreed that a note on the debt situation would be prepared by the Bank as an attachment to this report.

Special Sessions

21. Special sessions were then held to discuss two documents which had been prepared for the meeting. One was “The Poverty Reduction Strategy for Mozambique”, presented by Ms. Yolanda Fortes from the Ministry of Planning and Finance, and the other was “Impediments to Industrial Sector Recovery”, presented by Ms. Rocio Castro, from the Bank.

22. In her discussion of the poverty paper Ms. Fortes recalled a similar paper prepared for the CG meeting in 1990. She noted that although there had been progress in implementing the objectives recommended in that paper (i.e., job creation, improvement in basic social services, safety nets for the poor), much remained to be accomplished. With the advent of peace the Government would have more opportunities to concentrate on the reduction of poverty, which can only be attained through economic growth. She added that as the poor in Mozambique are more concentrated in the rural areas, the government poverty strategy emphasized the rural poor, although the urban poor will not be neglected. She mentioned the creation of a Poverty Alleviation Unit (UAP: Unidade de Alívio da Pobreza) within the Ministry of Finance, which would create a data base, propose and
coordinate a strategy for the alleviation of poverty, and advise the Government on this matter.

23. Ms. Ribe, from the World Bank noted that the strategy presented was built on lessons from experience since the 1990 CG meeting. She then highlighted the main elements of the strategy, which include improving rural livelihoods, developing human resources, reorienting the safety net, and policy formulation and monitoring. Finally, Ms. Ribe emphasized that the next step would be to define a specific action plan and move forward towards implementation, with agriculture, health and education as priority sectors and focusing on developing an integrated approach in those sectors.

24. A general discussion on poverty followed. It was reiterated that the reduction of poverty would depend on economic growth, especially in the agricultural sector, and on an increase in health, education, and social services expenditures. Related issues were raised including the importance of secure land tenure, the role of women, decentralization, and participation of local governments. Ms. Fortes noted that the participation of women in education is still low. As a result, the Government would further emphasize rural education and extension programs for women. On the land tenure issue, she said that an inter-ministerial commission had been formed to define policy in that area. Government decentralization plans and the need to continue NGO involvement at the grassroots level were also mentioned.

25. During the second special session, Ms. Castro presented the Bank paper on impediments to industrial recovery. She pointed out that the industrial sector in Mozambique has been declining steadily since 1990, and highlighted four main constraints to private sector development: (a) the existence of negative protection which hinders domestic competition against imports; (b) trade constraints on export firms, making it difficult for them to compete in international markets; (c) the generally unfavorable business environment that undermines firms’ ability to compete; and (d) the large share of state firms which have been slow in privatizing, thus delaying the restructuring of half of the industrial output.

26. Minister Baloi acknowledged the merit of the paper prepared by the Bank in specifically identifying the constraints to industrial recovery and in providing a good basis for government action with which to address those problems. With reference to the part of the report dealing with the cashew sector issue, he said that it was his intention to hold a seminar in Maputo with all interested parties (the growers, the processors, the buyers) to discuss what the Government’s policy should be in this case.

External Financing Requirements

27. Total external financing requirements in 1995 are estimated to be about US$1.1 billion (Annex IX). Ms. Castro, who made the statement on external financing requirements, pointed out that the level of external assistance was expected to be lower than that required in 1994, which had been an exceptional year in terms of special
programs (demobilization, reintegration of soldiers, elections). At the end of the meeting, the Chair indicated that the external financing requirements had been met with donor pledges of US$780 million and debt relief of US$327 million. Half of the total expected debt relief would be secured with the eventual extension of the 1993 Paris Club Agreement through end-1995. Total donor financing was pledged in the form of balance of payments support (30 percent) and food aid (16 percent), as well as investment finance and other programs (54 percent).

Closing Remarks

28. In his closing statement, the Prime Minister noted that the meeting had provided participants with the opportunity to engage in a constructive dialogue on Mozambique’s Economic and Social Program and to discuss the role of the donor community in implementing that program. He reaffirmed that the 1995 program will emphasize the consolidation of democracy and national reconciliation, transparency in government, poverty reduction and improvement of basic services in health and education, enterprise restructuring and privatization, monetary and fiscal reforms. The Prime Minister thanked all of the participating delegations for their support, cooperation and valuable advice.

29. In the Chair’s closing statement (Annex X), Ms. Marshall paid tribute to the breadth and high caliber of the Government delegation. She noted that the Government had shown itself firmly installed in the “driver’s seat”. She congratulated all participants for the depth of their participation in the discussions, their presentations and interventions, all of which contributed decisively to the meeting’s success. She then reviewed the main themes of discussion at the meeting: recognizing major achievements; nurturing the democratic process; accelerating economic reforms; and strengthening the aid partnership.

30. While noting the achievements of demobilization, resettlement of several million refugees and the elections over the last twelve months, Ms. Marshall emphasized that further actions were needed to consolidate peace and democracy. Free debate within the National Assembly, ensuring a role for the opposition, freedom of the press, decentralization, maintaining an independent judiciary, and measures to improve governance all merited the Government’s attention. On the economic front, the consensus of the meeting was that much more forceful action was needed. Reducing the fiscal deficit, increasing budget transparency, tightening monetary policy and reducing inflation, privatizing the state banks and the strategic service parastatals, reforming customs, liberalizing cashew marketing and exports, and streamlining regulations to improve the business climate were key reforms on which progress needed to be made. Implementing an effective poverty reduction strategy based on promoting growth, improving social services and restructuring safety nets; ensuring land tenure security; and improving statistical information were also priorities. Finally, Ms. Marshall noted that three actions -- designing and implementing integrated sector programs; continuing the donor/Government working groups; and the agreement that periodic meetings between the Government and aid partners would be held in Maputo to discuss progress on the reform agenda -- were important for strengthening the aid partnership.
31. After expressing satisfaction that the donor community had met the bulk of the financing requirement for Mozambique for 1995, the Chair declared the meeting closed.
1. Mozambique's indebtedness increased sharply in the early 1980's while increasing domestic insecurity led to a collapse of export earnings and import capacity. In aggregate, the external debt rose from US$2.7 billion in 1985 to US$5.5 billion in 1994. At the end of 1994, Mozambique's external debt amounted therefore to an estimated 3.7 times its GDP and its scheduled debt service payments (without debt relief) would equal 119 percent of its exports of goods and services. In effect, the debt service ratio over the last five years or so would have exceeded exports by about 30 percent in the absence of debt relief. This places Mozambique as one of the most highly indebted, low income countries in the world.

2. Mozambique's external debt is predominantly from bilateral sources. Of the total stock of debt (US$5.5 million at end-1994), 75.4 percent was owed to official bilateral creditors (US$4.1 billion). Of this, US$2.1 billion was owed to Paris Club creditors (mainly France, Italy, Portugal, the UK, the USA and Japan) and US$2 billion to other bilateral creditors, mainly the Former Soviet Union (FSU), OPEC countries (Algeria, Iraq, Libya and Kuwait) and Brazil. About 41 percent of the bilateral debt consisted of arrears owed essentially to the FSU and other OPEC countries. Less than 23% of Mozambique’s debt (US$1.2 billion) was owed to multilateral creditors (US$714 million to IDA, US$207 million to the IMF and US$319 million to other multilateral creditors including the African Development Bank). Debt to private creditors accounted for less than 2 percent of total debt.
3. In 1994 bilateral debt accounted for 92 percent of the 1994 scheduled debt service with the remaining attributable to multilateral debt (7.8 percent, with IDA alone representing 1.3 percent) and to commercial debt (0.2 percent).

4. As a result of the rescheduling agreement with the Paris Club currently in effect and the nonpayment of the debt owed to the Former Soviet Union (FSU) and OPEC countries, actual debt service payments in 1994 amounted to 23.8 percent (US$ 94 million) of exports of goods and services. Of that total a little under 60 percent was paid to bilateral creditors and 40 percent to multilateral institutions, of which 13.5 percent to IDA, 33 percent to the IMF, and 53.5 percent to other multilaterals.

5. To improve the balance of payments, the Government is implementing a series of measures aimed at macroeconomic stabilization and export promotion, including importantly a drastic reform of the exchange rate regime. A more specific component of the government’s debt strategy has been debt rescheduling. However, while the 1984 and 1987 debt reschedulings with the Paris Club improved Mozambique’s external financial situation in the short-term, payment obligations in the subsequent years exceeded the country’s payment capacity and arrears accumulated in 1988 and 1989. Successive reschedulings on more favorable terms in 1990 and again in 1993 (on Toronto terms) gave the country much needed breathing space. Several donors provided debt relief in the form of debt cancellation, and nearly all donors shifted their external assistance from loans to grants. As a result, the bilateral debt owed to Paris Club creditors declined by about US$540 million from 1989 to 1993 and arrears to this group were eliminated.

6. Mozambique also reduced its commercial debt arrears during the 1992-94 period. In 1991, a buy-back operation financed entirely by donor grants (US$13 million), including a grant from the World Bank (US$10 million), eliminated US$204 million or over 60 percent of Mozambique’s commercial debt. In mid-1992, agreement was reached to reschedule Mozambique’s commercial and official debt with Brazil, one of its large non-Paris Club creditors. However, little progress has been made in reaching an agreement concerning the debt owed to the former Soviet Union and OPEC countries. Most of it is in arrears. A Mozambican team visited Russia in September 1994, but no agreement was concluded. Further rounds of discussions are planned.

7. Despite the very real efforts made by the donor community and Mozambique’s much improved policy stance, the debt problem remains. Scenarios for the future that assume reasonably rapid growth of GDP (6.6 % p.a.) and no more than parallel import growth, combined with exports increasing vigorously at 13% p.a., still show large financing gaps over a projected 10 year period. Beyond the particular numbers involved, the exercise, and variations thereon, simply lead to the conclusion that in the absence of unusually strong support from the international community, only under highly implausible growth assumptions would the country be able to extract itself from the morass of its external debt.
8. It would appear, in summary, that for Mozambique to achieve sustained economic growth with external viability four critical elements are necessary: (i) strengthening macroeconomic policy to reduce internal imbalances and contain imports, particularly through restrictive credit policy; (ii) a policy environment including exchange rate, export promotion, and customs reform that provides adequate incentives for exports and for efficient import substitution; (iii) continued high levels of fresh external financing on highly concessional terms, and (iv) substantial debt relief.
ANNEXES
Agenda
Mozambique: Eighth Consultative Group Meeting
March 14-15, 1995

**Tuesday, March 14**

08:00-09:00  Registration

09:00-10:30  **Opening Statements**
Opening Statement by the Chair
Government Statement (Prime Minister)
IMF Statement
UNDP Statement

10:30-10:45  Coffee Break

10:45-12:30  **Government Strategy for a New Mozambique**
Government Presentation
General Discussion

12:30-14:00  **Buffet Luncheon** for all participants at Paris Office

14:00-15:00  Continuation of Discussion

15:00-16:30  **Special Session:** “Poverty Reduction Strategy”
Government Presentation
Comments by Bank

16:30-16:45  Coffee Break

16:45-18:15  **Special Session:** “Private Sector Development”
Bank Presentation
Comments by Government

18:15-19:00  **External Financing Requirements**
Government Statement
Bank Statement

**Cocktail Reception** hosted by Government for all participants at Paris Office

**Wednesday, March 15**

08:30-10:30  **Donor Statements**

10:30-11:30  Coffee Break/Working Discussions

11:30-11:45  Consideration of Press Release

11:45-12:30  **Closing Statements**
Statement by Government of Mozambique
Statement by the Chair

12:30 p.m.  Meeting adjourns
March 15, 1995: 11.00

MOZAMBIQUE CONSULTATIVE GROUP MEETING

Chair
Ms. Katherine Marshall
Director, Southern Africa Department (AFI)

List of Participants

AUSTRIA

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Senior Advisor for Small Scale Enterprise Development
Federal Chancellery

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Counsellor (Commercial)
Embassy of Brazil, Paris

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Head of Delegation
Director General
Southern Africa Division

Mr. George Saibel
Counsellor (Development)
Canadian High Commission, Harare

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Mr. Bo Jensen
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Ministère de l'Economie

M. Harold Valentin
Chargé de Mission
Ministère des Affaires Étrangères

M. Chastenet de Castaing
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Mrs. Eldbjorg Haug
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Head of Delegation
Ladies and Gentlemen,

I am delighted to welcome all of you to the eighth meeting of the Consultative Group for Mozambique. I would like particularly to extend a warm welcome to the distinguished Government delegation, led by His Excellency the Prime Minister of Mozambique, and including the Minister of Planning and Finance, Ambassador Patricio, the Minister of Commerce, Industry and Tourism, and the Governor of the Bank of Mozambique. The breadth and high caliber of your representation here, with so many old and new participants, is a measure of the strength of this partnership and its keen interest in Mozambique's development.

When the Consultative Group last met formally, in December 1993, my predecessor and colleague, Steve Denning, took special note of both the historic dimensions of the moment facing Mozambique and the vital importance of solidifying peace. He also underscored, as did all participants, the extraordinary and often unique challenges along Mozambique's future development path. The challenge put forward was to move ahead to complete the peace process, as a prerequisite for long-term development.

As we meet now, again at another crucial moment in Mozambique's history, we can look with satisfaction to developments since we last met. Many achievements, to which all participants here have contributed, now lie behind us, and the new Government is ready to present to us their new development visions and priorities. These achievements fall in the political domain, with national elections concluded and new institutions and leadership in place, in peacekeeping, with demobilization and massive return of people to a more normal life, and in economic and social reform, the central focus of our meeting here. These are key elements that have set the stage for a new phase in Mozambique's history. The magnitude of these accomplishments should not be underestimated, and we heartily congratulate the Government for its achievements. For the millions of Mozambicans who have experienced so much hardship, peace brings renewed hope. Their hope is that national reconciliation will last, that normal life will return to rural areas, and that they can help build the basic social and economic infrastructure that will spell future progress.

As we look to this meeting, in March 1995, the central challenge before us all is firmly anchored in the goal of improving human welfare and security. We have taken much hope from the Government's strong policy commitment to the national goal of
poverty reduction through economic and social development. How to meet this goal is a formidable challenge. I hope that during this meeting of the Consultative Group we can have a far-reaching discussion, and if possible, reach agreement on the specific steps that both the Government and donors can take over the next months to assist the Mozambican people in improving their economic and social conditions.

At this critical juncture, the key issue is how to improve human welfare, and tackle the enormous problems of poverty facing Mozambique. The strategy therefore, is to focus on the imperative of economic growth, because plainly redistributive policies alone will offer little benefit or hope to of a better life for the two-thirds of the population whom we must consider poor by any international standard. We will no doubt be reminded often of the social indicators that set Mozambique in a special if not unique category of international poverty. This helps bring a sharp focus to the specific challenge of investing in people, most directly through a focus on education and health. These two facets of the challenge: poverty and people, and the push to speed economic growth, are thus the focal themes, the basic compass for our meeting.

The Government’s objectives are set out with particular clarity in the documents prepared for this meeting, and the participants have endorsed, with ringing clarity, their essential agreement on the underlying strategy and objectives. The specific challenge before us is therefore to focus on HOW to translate goals into action, and thence into practical achievements. What this means, for example, is that an immediate priority is to restore productive livelihoods in rural areas, because this is where the majority of the poor are. As stressed by the Government, this is to be achieved through (i) supporting actively the resettlement of households and the economic reintegration of demobilized soldiers; (ii) aggressive and determined efforts to ensure the provision of basic social services; (iii) improved security in rural areas; and (iv) active support of agricultural production, focusing on the rehabilitation of rural roads and the restoration of the marketing network.

Over the medium-term, poverty reduction will depend on a more profound transformation of the agricultural sector and on the rapid development of the nation’s human resources. In agriculture, the issue is how to move from subsistence to a more commercial orientation. This will require reforms in pricing and marketing -- particularly for cashew and other export crops -- in land tenure, and in agricultural support services. The Government has indicated its interest in working together with its aid partners in establishing a comprehensive policy framework and medium-term investment program to revitalize the agriculture sector. I hope that together we can discuss ways to facilitate this process.

Regarding the development of human resources, programs to restore at least the most basic services cannot be postponed in Mozambique. The first step -- increasing current budgetary allocations for the social sectors -- has been taken. This now needs to be followed by a restructuring of the investment budget to ensure that priority programs are adequately funded. Creative efforts to enhance quality and to harness the energies of all interested partners are essential. The intense collaboration among the many institutions
involved in launching a new, sector-wide program for the health sector is a very encouraging development.

The poverty challenge, and the legacy of delayed development for Mozambique both call clearly for an aggressive growth policy. Unless we all succeed in this effort, it will simply be impossible to ensure the productive employment opportunities needed to improve welfare over the long-term. Already, improved security and the resettlement of households in rural areas are resulting in concrete increases in economic activity. But these need to be sustained over the longer-term through a solid and credible policy framework aimed at growth. Some of the key components of this framework are:

(i) First and foremost comes macroeconomic stability. While Mozambique has made progress in establishing the necessary conditions for a market economy, many destabilizing forces persist, as evidenced by a continuing high level of inflation. Because the efficiency of the fiscal and monetary instruments are closely linked to structural reforms, macroeconomic stabilization will have to be pursued in the context of fiscal, enterprise and financial sector reform.

(ii) A second imperative is to set clear priorities for public expenditure, to ensure the rehabilitation of the key economic and social infrastructure needed for the recovery of production and trade.

(iii) A third challenge is to ensure an enabling policy environment for growth, which would include (i) reforming the system of incentives related to customs policy and taxation; (ii) accelerating financial sector reform; (iii) speeding up the process of privatization for large state enterprises; and (iv) stimulating both local and foreign private investment;

(iv) A final component of a pro-growth policy framework would be export promotion through the establishment of a neutral trade regime for exporters, which would allow access to inputs and exports at world market prices.

We will have an opportunity to discuss some of these themes in greater detail this afternoon in a special session on private sector development and impediments to industrial recovery.

The gamut of issues facing Mozambique, and thus before its partners, is long, and we also will need a keen sense of priority as we pursue our discussions. I would suggest, nonetheless, that as we focus on the central themes of poverty and human development, and economic growth strategies, we bear in mind two central and related themes: the imperative of capacity development, and the vital importance of information.
Mozambique faces momentous challenges in building institutions that can achieve the objectives defined. A judicious blend of realism, creativity, determination to solve problems, focus on priorities, and careful planning of next step are vitally needed. As we focus on the issues of how, we need to keep the issues of institutional development and capacity needs very much in mind. Second, the themes of information, transparency, and accountability will emerge often here, and they are linked. Information offers the compass to guide our work, the threads that allow us to link issues (poverty to environment, budget to school enrollment trends, training to employment), and to judge what we have achieved. It is also vital to the common understanding of the challenges and the objectives of development strategies, inside and outside Government. It may be useful for us all to focus on both the what: what information is needs, and the how: how can it best be obtained and disseminated?

Turning specifically to this meeting and to the challenges facing the Consultative Group for Mozambique, I would suggest that we set ourselves four objectives:

- **First, as we review the strategy statements and issues**, and consider the plans put forward by the Government, we will have an opportunity to comment on and reach a better understanding of objectives, priorities, constraints, and specific targets and landmarks along the way. This broad and common understanding of the Government's vision and program is an essential aim of our meeting. The dual focus on poverty and growth issues should offer beacons that will allow us to translate the broad goals to more specific actions. I would therefore encourage all of us to focus our discussion on identifying the highest priority actions that could feasibly be implemented over the course of 1995 concerning governance, economic development and social policies.

- **Second, we will aim to emerge with a clear picture of the financing needs and likely financing available for 1995, set in the context of longer term programs and projections.** Mozambique's financing needs are extraordinary, and they are particularly complex, and efforts to give clear indications of plans and issues for decision-making will be useful for us all.

- **Third, we should focus attention on aid modalities: the how beyond the how much.** As we have discussed on various occasions, there is a need to find new ways to deliver more efficiently the substantial amounts of external assistance still needed by Mozambique. These new mechanisms include the important and ambitious goal of working together under a coherent program for sector development (the "integrated sector approach"), with the living examples of work in the transport and health sectors. I hope that through our discussions, we will identify additional steps to improve the quality and efficiency of external assistance. Management of technical assistance support is another vital issue on the agenda.
• Fourth, I hope that we can consider more broadly the nature of our partnership, and specifically the role that you look to for the Consultative Group. Preparations for this meeting have entailed a long period of active collaboration, over many months, involving many participants here. This collaboration is most vividly illustrated by the spirit of partnership that has characterized the donors’ working groups in Maputo. This meeting is thus the culmination of a long process, more than an event per se. The Government, and I am sure, all of us, hope that the same collaborative process will extend to the implementation of the agreed policy agenda. I would welcome suggestions on how to improve and expand the existing mechanisms of cooperation and collaboration.

On the tenor and tone of the meeting, I believe all participants will need little urging to pursue discussions in the frank, open and positive tradition that this Group has long established, and which were exemplified in the rich discussion we were privileged to have yesterday evening.

I would like to turn briefly to the practical issues of the agenda for the meeting and logistic arrangements:

• We will begin the discussion with a statement from His Excellency the Prime Minister. This will be followed by comments on the economic situation by Mr. Leite of the IMF and a statement by the UNDP.

• Following a coffee break, Minister Salomaõ will give us a presentation of the Government’s economic and development strategy, and we will then open meeting for a plenary discussion of these issues.

• We would like then to invite you to an informal lunch, outside this room, beginning at 12:30. Again this year, we plan to designate some tables for discussion of topics of particular interest to participants. Please let members of the Bank delegation know, during the coffee break, if you have suggestions. Tentatively, the intent is to organize these around the themes of agricultural development and project implementation (broadly), governance issues, poverty reduction, fiscal policy, and private sector development. Some tables will be reserved for general discussion.

• We will continue our general discussion of economic and social development after lunch.

• We will then turn to discussion on two special topics, taking a coffee break at an appropriate moment. We will begin this segment with a Government presentation of its “Poverty Reduction Strategy” followed by comments by the World Bank. Following a brief discussion, we will turn to a second session on
“Impediments to Industrial Recovery” with a presentation by the World Bank, comments by the Government, and a general discussion.

- At about 6:00 p.m., we will turn to the issues around financing requirements, opening with a statement from His Excellency Governor Maleiane, followed by Ms. Rocio Castro of the World Bank.

- I would like to confirm that the Mozambican Government has kindly invited us to a cocktail reception tonight on the Bank premises, beginning at 7:30 p.m.

- Tomorrow morning (Wednesday), we will convene at 8:30, moving immediately to statements on the external financing by participants. After coffee, we will turn to a summary of the financing position and to the draft of our press statement. After closing remarks, we need to conclude the meeting at 12:30 p.m.

If these arrangements are satisfactory to you, I would propose that we launch the meeting by calling on the Prime Minister for his statement.
8TH CG MEETING

STATEMENT BY
THE PRIME MINISTER
DR. PASCOAL MOCUMBI

PARIS, MARCH 1995
On behalf of my Government, and on my own behalf, I would like to take this opportunity to welcome you to this important meeting. I would also like to express the great appreciation of the Mozambican people and its government, for the comprehension and assistance it has received from the international community in recent years.

The last Consultative Group meeting was held in December 1993.

At that time, the Government was facing great challenges:

- to ensure the continuity of the peace process so that elections could take place on the planned dates; and
- to pursue the implementation of the Economic and Social Rehabilitation Programme.

General multiparty elections have been held successfully, a fact closely linked to the substantial bilateral and multilateral assistance provided by the international community.

Some 85 to 90% of the electorate participated in the elections and the results were accepted by all the political forces which took part.

The elected President of the Republic and the multiparty Assembly have taken office and the democratic institutions have started to function.

We have successfully concluded the demobilization of about 80,000 men and the new non-party army has been formed. The whole process illustrated the maturity of the Mozambican people, a fact which imbues us with the necessary confidence to continue to fight for a better future for all.

In this regard, we would also like to reiterate our appreciation of the role played by the United Nations, through ONUMUZ, in the successful outcome - the participation and democratization of Mozambique - of which we can all be proud.

LADIES AND GENTLEMEN

The elections marked an unparalleled moment, when the Mozambican people reaffirmed their commitment to peace, stability and national reconciliation.
Duly recognized by the international community as free and democratic, these elections resulted in a multiparty Assembly and the new Government, which we have the honor to represent for the first time in this meeting.

It is a Government with the priority task of preserving peace and consolidating national unity, getting the country’s life back to normal, and creating the foundations for economic and social development.

The transformations which have taken place in the country with the advent of peace, together with the favourable conditions established in the region by the democratic processes in South Africa and Malawi, enable us to face the future with optimism.

LADIES AND GENTLEMEN,

Immediately after the formation of the Government, it concentrated on preparing its five-year programme, which was submitted for approval by the Assembly of the Republic. The Economic and Social Plan and the State Budget for 1995, now awaiting Assembly approval, were also prepared.

The Government’s economic agenda for 1995 also includes, among other matters, special attention to the mechanisms for facilitating a favourable climate for attracting and developing national and foreign private investment.

I would also like to provide the Consultative Group with a general outline of the immediate priorities in the Government programme.

CONSOLIDATION OF PEACE, DEMOCRACY AND NATIONAL RECONCILIATION

The new legal and institutional framework in the country is characterised by political pluralism, and hence complete freedom of expression for all citizens and civil society in general. The resulting political dialogue must be preserved and developed.

In this respect, the Government has taken the following measures:

- to include in the State Budget proposal, financial resources for the functioning of the Assembly of the Republic and to support the political parties which have parliamentary seats;

- until the approval of the State Budget, to continue to support the current expenditure of Renamo which result from the General Peace Agreement;

- to finance improvements in the effectiveness of the judicial system, namely the courts and the Attorney General’s Office, institutions which guarantee the rights of citizens and control administrative acts;

- to define the status and establish privileges for the leader of Renamo;

- to create the Presidential Consultative Forum, with the aim of sounding out the opinions of personalities from various sectors in society.
These are some of the measures aimed at reconciliation and strengthening national unity.

STRENGTHENING GOVERNANCE

The Government has already introduced significant alterations into the organization, competence, and functioning of the Public Administration bodies, in order to improve their efficiency and effectiveness.

The Government is determined to fight corruption.

In this regard, the following measures are being taken:

- the institutionalization of procedures and operating criteria which ensure greater transparency and effectiveness in administrative activity;
- the professionalization of the civil service, such that technico-professional merit and the rigorous observance of ethical and professional rules are demanded of civil servants;
- heightened morality within society and among public administration officials, inculcating in the citizen and the civil servant a culture of respect for and rigorous observance of the law;
- the decentralization of administration, within the context of local government reform. On the basis of the Municipalities Law, already approved by the Assembly of the Republic, local authorities will have administrative, financial and patrimonial authority;
- the creation of a permanent institution for electoral administration, so as to ensure that local elections are held in 1996;
- approval of the Code of Conduct for Public Officials and improvements in the procedures which guarantee independent monitoring of the property declarations by senior State leaders.

POVERTY REDUCTION

The Government will continue the programme for the resettlement and reintegration of refugees, displaced and demobilized populations in their home areas or in areas of their choice.

With the support of the donor community, we shall continue to give priority to the provision of tools and seeds in order to reactivate production in rural areas and rehabilitate the commercial network, including improvements in access routes.

HEALTH AND EDUCATION

The Government is promoting improvements in basic health and education services, particularly in rural areas.

We intend to ensure immediate improvements in the basic conditions for the provision of health services, and to ensure that more school-age children can have access to basic education.
The Government considers health and education to be essential for the development of human capital, a determining factor in any economic and social development project.

In this respect, and given the scarce budgetary resources, the Government as proposed to the Assembly of Republic that military expenditure be reduced, in order to free resources for the social sectors.

REGIONAL COOPERATION

Given the country’s geographical location and its economic potential, and also its responsibilities in the region, the Government shall remain committed to the development of regional cooperation and integration within Southern Africa Development Community (SADC).

We shall continue to promote mutually advantageous economic relations with the countries of the region, based on complementarity of interests. The Government will attribute particular importance to the rail-port corridors and to taking advantage of energy resources, namely, Cahora Bassa hydroelectric power and Pande gas.

LADIES AND GENTLEMEN

The Republic of Mozambique is still a young country, and its state and non-state institutions are going through a phase of reorganization and development.

The successes we achieved in the application of the General Peace Agreement benefitted from the contribution of the international community, which made available substantial resources.

Our hope for this Consultative Group is that the commitment demonstrated by the international community throughout these years, in particular by the governments and institutions which represent, will be maintained during the consolidation of democracy and the relaunching of our country’s economy.

Thank you.
In looking back at early Fund documents on Mozambique's initial structural adjustment program, the 1987-89 Economic Rehabilitation Program, I was reminded that its overall objectives were to "(a) reverse the decline in production; (b) curtail domestic financial imbalances; and (c) establish the conditions for more rapid and more efficient economic growth in the medium and longer term when the security situation and other exogenous constraints have eased." Despite impressive adjustment efforts and economic recovery since 1987, these objectives remain relevant today. Under peace, it should be possible for Mozambique to make visible and accelerated progress toward these goals now. This is why this Consultative Group meeting is not "business as usual" but a special occasion for Mozambique and its development partners to renew their commitment to high-quality growth in a stable macroeconomic environment.

Let me therefore provide a brief overview of macroeconomic developments in 1994 and of the program for 1995 discussed between the authorities and our mission last month. As you know, the program for 1994, supported by an ESAF arrangement, sought to reduce financial imbalances under rather exceptional circumstances. These included major transitional expenditures for demobilization, resettlement and elections, as well as the presence of a large U.N. peacekeeping force. Despite good-faith efforts, program implementation was not altogether successful, and by September it was evident that the key quantitative financial targets had been missed. In response, the authorities tightened financial policies late in the year, notably by imposing sanctions on overextended banks. As a result, credit expansion was brought closer to target by year-end, and the net foreign assets target was observed. It should also be noted that all structural benchmarks under the program except one--the quest for timely monetary statistics--were met during the year. Still, and despite containment of current expenditures, the budget deficit turned out larger than sought--at a level, 30 percent of GDP, that underscores the extent of aid-dependence--and government repayment to the banking system fell below target. Monetary expansion reached 49 percent, as against a targeted 40 percent. Although economic recovery continued, with GDP growing by an estimated 5.4 percent, consumer prices in Maputo increased by 71 percent in 1994, far in excess of the 30 percent sought.

The 1995 program, which is still subject to acceptance by Fund management and approval by the Executive Board, would involve an extension of the ongoing ESAF arrangement through the end of 1995. In the interest of transparency and of informing the participants in this meeting, the Government has made public the substance of its program, as well as the draft 1995 budget, and has circulated to you a policy matrix that summarizes the measures envisaged. The increase in transparency and the invitation to
public debate of the budget are, in themselves, a welcome break with the past.

The key objectives of the 1995 program are a sharp reduction in the inflation rate, enhanced support for education and health, and a reduction in Mozambique's dependence on foreign assistance. The 1995 targets for inflation and growth are 24 percent and 4 percent, respectively. The program entails (i) a major reduction in the overall government deficit before grants; (ii) a tight monetary policy stance backed by penalties on financial institutions that are found to be in noncompliance with sector regulations; (iii) the continuation of a market-determined exchange rate policy, coupled with a strengthening of the net foreign asset position; and (iv) closer monitoring of foreign aid flows and uses and of counterpart funds generation. Structural measures focus on privatization, public administration and financial sector reforms, export promotion, and greater transparency and accountability in public matters.

Net foreign assets of the banking system are targeted to increase by at least US$40 million in 1995, and net domestic assets by no more than 24 percent, with broad money expansion targeted at 26.5 percent, or slightly above the projected inflation rate. Within the overall credit limit, net credit outstanding to Government will be reduced by 3 percentage points of GDP, allowing credit to the economy to expand at a rate substantially in excess of nominal GDP growth. In addition to the phasing out of special programs related to demobilization and election, the reduction in the budget deficit--by 8 percentage points of GDP--will be accomplished mostly by cutting military expenditures, prioritizing investment outlays, restoring taxes on petroleum products and improving customs revenues, through major customs reforms that have been agreed with an IMF technical assistance mission.

The Government has undertaken to implement a number of measures early in the year. These actions include increases in prices of petroleum products, energy tariffs and rents on state-owned property; hiring of experts to help the Treasury monitor counterpart fund generation; abrogation of the decree permitting ad hoc tariff exemptions; strict enforcement of bank regulations; linking the interest rates on all Bank of Mozambique credit to the rediscount rate; and ensuring the timely approval and dissemination of the 1995 budget. A timetable for the introduction of a value added tax, based on the recommendations of a recent IMF technical assistance mission has also been agreed on.

Of particular importance to donors supporting the investment program is the Government's intention to reassess the existing investment program with a view to prioritizing all projects and identifying the domestic resources available for each project. Present and future recurrent expenditures associated with each project will also be clearly identified. Both these recurrent costs and the type of foreign financing (grants or concessional loans) available will be taken into account in the selection process. We
would expect all projects to come under scrutiny in this process, and we hope that all parties will work cooperatively to establish a more focused, efficient, and affordable investment program.

I am very impressed with the seriousness and determination that the new Government has shown in putting together this program, and I am encouraged by the measures already taken. I believe that this is a strong program that deserves your support. But the program requires foreign assistance to be doable. To withhold assistance until the program proves to be a success is to ensure that it will fail. Foreign assistance, to be really useful, needs to have a degree of predictability and continuity; it should be timely and supportive in achieving the priorities of the program; it should seek to minimize the short-term burden of the measures that are being taken; and it should be transparent.

This last point, transparency, requires the compilation of meaningful fiscal and balance of payments statistics, and is critical to a better understanding of economic developments in Mozambique. The Mozambican authorities have been trying for some time to set up and maintain a database on foreign aid inflows and uses. Enhancements of this database are needed to permit the Government to report with more transparency and accuracy on the breakdown between investment and current expenditures and on public expenditures by sector. To carry out these improvements, the Government will need the collaboration of the donor community in regularly providing detailed information on foreign aid flows and uses. Please make your best efforts to collaborate. It is important.

Another matter associated with foreign assistance that I would like to mention is counterpart funds, which play an important role in the financing of the budget deficit. With the help of the European Union, the Government is reinforcing its procedures to monitor and account for these resources. This is a crucial initiative. We encourage donors not to earmark counterpart funds, as earmarking is inefficient. The desire to ensure local currency funding for one's particular project is understandable, but it denies the Government the ability—and responsibility—for setting priorities, which it ultimately must retain. Also, shifting foreign assistance from uses that generate counterpart funds, such as import-support facilities, to other uses—a problem faced by the 1994 program—often has serious macroeconomic implications, and should be avoided in the middle of an adjustment program.

The financial requirements of the 1995 program are clearly spelled out in the documents circulated by the Government. The current account deficit plus amortization is expected to decline by about US$80 million in 1995, a step toward reducing Mozambique's financing needs. Except for the phasing out of the special programs, the amounts that have been assumed for official transfers and concessional loans are broadly in line with donors' past contributions to Mozambique's development efforts. The remaining financing gap could be covered by the extension of the 1993 Paris Club Agreement
through end-1995. As I mentioned before, Mozambique still faces a heavy
debt service burden. Although future rescheduling under "Naples terms"
would help reduce this burden, additional debt forgiveness would facilitate
the achievement of external viability by Mozambique.

I would like to end by emphasizing the need to enhance economic and
social statistics in Mozambique. The Government is fully aware of the
importance of adequate statistics for policy making and intends to make
substantial progress in this area. I hope the donor community will provide
strong support to this effort, through not only technical assistance but
also financial support for field surveys in critical areas. Key priorities
include national accounts, price, trade, monetary, and fiscal statistics, as
well as social indicators. Without a major effort in this area, the
Government will continue to be navigating without a compass, in still-
dangerous seas, as it sets course for sustainable economic growth and social
equity.
STATEMENT
by Erick de Mul
Resident Representative, Mozambique
United Nations Development Programme

1. Mr. Chairman, Honorable Ministers, Distinguished Members of the Mozambican Delegation, Ladies and Gentlemen: it is a great pleasure for me to represent the Director of the Regional Bureau for Africa and participate in this Consultative Group Meeting for Mozambique. I would also like to commend the Government of Mozambique and the World Bank for the insightful documentation prepared for this meeting. Mr. Chairman, allow me to seize this opportunity to highlight some UNDP’s views on the requirements of the present stage of Mozambique’s development.

The Challenges Ahead

2. Mr. Chairman, Mozambique is to be praised for the successful implementation of the General Peace Agreement, which culminated with the holding of free and fair multi-party elections. Nonetheless, the short- and longer-term challenges facing the country are still formidable.

3. The future effectiveness of the Government’s economic policies will depend first and foremost on the country’s ability to ensure the prevalence of a stable, predictable and supportive climate from the political, social and macroeconomic standpoints. Such climate is a prerequisite for restoring productive activities, attracting foreign investment, exploiting the country’s natural resources, and generally providing the basis for much needed higher economic growth.

4. Conversely, rapid, sustained and equitable economic growth based on the private sector, agriculture, labor-intensive activities and exports is in turn essential for reducing poverty, strengthening the market-driven economy, regaining external viability, and generally establishing a solid foundation for reconstruction, human development and the consolidation of democracy.

5. Furthermore, given Mozambique’s limited domestic market, its negative domestic savings and enormous current account deficit before grants, another obvious inference is that reconstruction, growth and balance-of-payments viability will have to rely significantly on export-oriented industries, foreign direct investment and, for years to come, on sizeable inflows of development aid.

6. However, the magnitude and diversity of the requirements for managing the changes
associated with such a complex development process contrast sharply with the Government's overstretched and weakening management and implementation capacities. The difficulties are exacerbated by a situation of structural and widespread absolute poverty, afflicting more than 60 per cent of the population and exhibiting some of the lowest human development indicators in Sub-Saharan Africa, as well as by other deep-rooted structural problems that can only be overcome in the long-run. In particular, there is an acute scarcity of skilled human resources in all sectors and at all levels, which may well represent the major bottleneck to sustainable growth, development and capacity building; the modern domestic private sector is embryonic and indigenous entrepreneurial capacity is scarce, lacking capital and managerial expertise; and the country is extremely dependent on external aid, which amounts to around 70 per cent of GDP. Moreover, the combination of a limited supply of skilled labor with a weak Government capacity has given rise to massive inflows of technical assistance, accounting for an average of 25 per cent of total official development aid.

7. The huge and mounting debt burden, already at nearly 4 times GDP, is another serious handicap on the road to external viability and development, for it diverts to debt service a substantial and increasing amount of the meager foreign exchange resources generated by exports of goods and services. At present, debt service before debt relief stands at about 1.5 times export earnings, which is clearly untenable. It follows that the drastic reduction of the negotiable debt on the most favorable terms available and the restructuring of loan portfolios with international financing institutions ought to be addressed more aggressively.

8. Mr. Chairman, I would now like to briefly elaborate on a number of issues that arise from the preceding introductory remarks, namely: consolidation of the democratic process; good governance and public sector management; economic policy and sustainable human development; aid coordination and management; and technical cooperation and capacity building policy.

**Consolidation of the Democratic Process**

9. Confidence of private investors and other economic agents to stimulate economic growth requires political and social stability and the respect for the rule of law. The donor community is looking into ways to help Mozambique strengthen its new-born democracy and preserve a climate of internal peace and security. These are key elements for deepening national reconciliation and sustaining the rehabilitation and development efforts by the civil society at large. We, therefore, strongly endorse the emerging and wide-ranging donor initiatives directed toward democratic institution-building, which envisage support to such important areas as the Assembly of the Republic, a permanent electoral structure, the 1996 local government elections, the civilian police, human and civil rights protection, independent media, and civic education, especially at the grassroots level. The donor community has asked UNDP to coordinate programming and resource mobilization in this broad area.
10. Mr. Chairman, recently, there have been encouraging signs that the Government has a renewed commitment to greater transparency and accountability in public finance and public sector management. In preparation for this Consultative Group Meeting, the Government has met with donors since September 1994 under the Bank's leadership in two working groups, one dealing with Budget process and analysis, and another with civil service reform, local government reform, and ways to clamp down on official or bureaucratic corruption.

11. These mechanisms for local consultations are especially important in an environment of limited domestic resources and where over 50 per cent of total budget expenditure and more than 70 per cent of public investment are directly financed by external aid. The donor community legitimately wants to be assured that development aid does contribute to development by being efficiently allocated to the stated Government priorities, and in particular that the health and education sectors receive a rising share of budgetary resources.

12. As this principle will increasingly tend to become a condition for further budgetary aid, local consultations between Government and donors should be followed up on the basis of concrete action plans and realistic performance benchmarks, to be established by the Government in cooperation with its development partners. Areas of special concern for the donors that are also tied to the need for curbing corruption include customs administration reform, rigorous management of counterpart funds, revenue collection, and monitoring of Budget execution.

13. Mr. Chairman, we believe that the role of the Government in Mozambique, which already underwent substantive transformation, ought to be further readjusted in order for it to respond more effectively to the demands associated with the management of a peace, market-based economy and of a democratic and decentralized state. The Government should gradually confine its role to that of guarantor of democratic public order; regulator of the economic system; promoter of development; provider of basic economic infrastructure and social services; and responsible and rigorous manager of public finances and external aid.

14. Nonetheless, it is also apparent that Mozambique needs a strong Government, albeit redefined and streamlined, if the country is to be capable of effecting a smooth transition to a full market economy, decentralized state, and democratic society. It is, therefore, of special concern to witness the declining capacity of the Government to manage the multiple and far-reaching economic, public sector, decentralization and local government reforms it intends to pursue.

15. Together with the Government we must search for innovative modalities to support civil service and organizational development reforms that aim at arresting the "brain drain" from the public sector, at attaining a critical mass of skilled civil servants and at improving its efficiency and managerial capacity. This might imply a review of current international cooperation policy and aid priorities, a rationalization of technical cooperation, and especially a concerted effort to reallocate part of the technical and capital assistance to public sector pay and human resource
Economic Policy Reform and Sustainable Human Development

16. Mr. Chairman, despite the war and drought, Mozambique has made remarkable strides toward economic liberalization and the establishment of a market-based economic system. The Government intends to pursue vigorously the stabilization policies and structural adjustment reforms initiated in 1987 with the Economic and Social Rehabilitation Programme.

17. In 1993, just one year after the signature of the General Peace Agreement, economic activity rebounded sharply and GDP grew at the record and impressive rate of 19.2 per cent as a result of the strong recovery experienced by agricultural production, transport and trade services. However, preliminary estimates indicate that GDP growth in 1994 dropped to 5.3 per cent and projected growth for 1995 is only 4.3 per cent. Although fair by international standards, these growth rates appear to be too modest to make a tangible contribution to, or to sustain, the goals of poverty reduction, social sector development, resettlement, reconstruction, and restoration of external balances. In sum, such levels of growth are likely to be insufficient to propel the country decisively forward along the relief-to-development continuum.

18. Mr. Chairman, if the Government is to achieve its goals, there seems to be a clear need for a sharply-focused and implementable strategy for speeding up economic growth in the short run that is coherent with a longer-term development perspective. This is a tall order for the Government since ensuring consistency between higher economic growth and tight fiscal, monetary and inflation targets may turn out to be very problematic to obtain.

19. Poverty alleviation is one of the basic dimensions of the sustainable human development paradigm, which contends that development must be people's centered, equitable and socially and environmentally sustainable, hence that development must give priority to the poor, the creation of jobs, the advancement of women, and the protection of the environment.

20. In Mozambique, a poverty reduction strategy must of necessity be grounded on economic growth with as much equity as possible. And growth hinges critically upon the revitalization and development of the rural economy, especially of the family-farm agriculture and marketing network, which constitute the foundation for bettering rural livelihoods and the main sources employment and income for the resettled population and demobilized military personnel. Having assigned the highest of immediate priorities to agricultural and rural development at the community level, the Government deserves our full support in this area of fundamental importance for social stabilization.

21. Restoring smallholder agriculture is part of the broader strategy for developing the private sector, which is to become the primary engine of growth in Mozambique. Since the adoption of the structural adjustment programme in 1987 the environment for business development has improved markedly as a result of the gradual liberalization of prices, exchange rate, foreign
exchange market and credit, the introduction of a new foreign investment code, and the privatization of state enterprises.

22. Nonetheless, greater efforts will have to be made to enhance economic freedom, through more effective policies targeted at the promotion of domestic and foreign private investment, competitive exports and import substitution as well as at closer integration with regional and world markets, in particular to take advantage of Mozambique's abundant natural and energy resources—such as cash crops, fisheries, agro-industry, mining products, hydroelectric power, and natural gas. Key elements of the current Government's strategy for a more conducive environment for promoting private investment and exports, which point to the right direction, include: removing the bureaucratic obstacles that still constrain industrial, export and private investment growth; revising the structure of export and investment incentives; further simplifying the investment approval process; and expanding the reform of the financial services sector. A recovery and modernization strategy is especially required for the manufacturing sector, which, unlike the agriculture, transport and trade sectors, has been mired in a depression that has its roots in a host of interrelated factors: lack of capital, weak managerial and technological capacity, low productivity, and general lack of competitiveness in open, liberalized markets.

23. Mr. Chairman, a country's development potential depends principally on the size of its qualified human resources. As we already argued, the major obstacle to fast growth, development and capacity building is likely to be the severe shortage of skilled personnel. Although since independence Mozambique has made considerable progress toward increasing literacy, secondary schooling, and the number of university graduates, the supply of skilled labor still falls far short of requirements. For instance, adult literacy is a low 34 per cent, enrollment in secondary-level education is only about 8 per cent, and there are fewer than 4,000 university graduates which, for a population estimated at 16.6 million in 1994 and the daunting development challenges confronting Mozambique, represent an extremely modest stock of national higher-level professionals.

24. We thus welcome the Government's priority to increase budgetary spending in real terms in the social sectors—education, health, water supply and sanitation—which are central to human development and higher productivity. This priority is already clearly reflected in the draft Budget for 1995. Within the context of very tight fiscal policy constraints, the Government is proposing, mainly through expenditure reallocations (in particular from defense), a significant rise of the share of education and health in total recurrent expenditures. But to ensure sustainability of these efforts Mozambique will probably necessitate future budget support.

25. Environmental preservation is another basic vector of sustainable human development. In the new peace situation there is a recognized need for incorporating environmentally sustainable policies into development planning, notably with respect to natural resources management and the likely environmental impact of the resettlement of millions of people. In order to minimize the impact of resettlement on the environment, the short-term strategy is to assign high priority to the implementation of sanitation, water supply and alternative energy projects in rural areas. We commend the Government for its attempts to develop environment
and natural resources management in a coherent fashion through the formulation of a National Environmental Management Programme.

Aid Coordination and Management

26. Mr. Chairman, confronted with a probable scenario of stagnating or declining external aid inflows, it becomes vitally important for Mozambique to improve the management of external resources and the effectiveness of aid. In regard to aid management, this implies, in particular: (i) defining a coherent international cooperation policy, a process already initiated by the Government, as well as reinforcing aid coordination mechanisms both between Government institutions and between Government and donors; (ii) making donors’ approaches to capacity building and technical cooperation modalities more effective; and (iii) systematically and periodically tracking all aid flows from donors, in order to enable the Government to exercise effective control over Budget and Balance-of-Payments financing.

27. In our judgement, to improve aid coordination across institutions the Government should undertake to review the operational effectiveness of the National System for International Cooperation; clarify the roles of the system’s central ministries dealing with financial and technical aid; assess the decision-making and coordinating arrangements between these ministries (and with other sectoral ministries and the provinces), including the interface with the inter-ministerial Commission for External Economic Relations; and strengthen the capabilities for negotiation, monitoring and evaluation of international cooperation.

28. To improve coordination with donors, apart from the Consultative Group process and ad hoc fora, in-country sectoral and thematic consultations should be strengthened and expanded, especially by means of Government-donor working groups. This mechanism, which has functioned with varying degrees of success in a few sectors, provides a potentially effective local forum for information exchange; joint review of issues of policy, programming, monitoring and evaluation of projects and programmes; overlapping activities; and allocation and mobilization of financial and technical cooperation resources.

29. We are pleased to acknowledge that coordination and cooperation within the local donor community has moved significantly forward. Donors have been meeting regularly to collaborate on issues of common interest such as emergency relief and humanitarian assistance, resettlement and infrastructure rehabilitation, demobilization and reintegration, demining, support to the electoral process, consolidation of the democratic process, and so forth. In the aftermath of the implementation of the Peace Agreement and as the country progressively makes the transition from a humanitarian assistance and resettlement footing to reconstruction and development, it is our belief that donors’ collaborative efforts should be extended to encompass other areas of mutual concern, concentrating more on support to long-term development strategies.

30. However, carrying out mine clearance more effectively remains a major Government and donor concern. We wish to announce that recently an agreement has been reached with the
Government on the course of action to speed up the process through a financing arrangement that will allow proper transfer of responsibilities for demining operations from the United Nations system to the Government.

31. With respect to the United Nations system, the Resident Coordinator chairs regular local inter-agency meetings to examine, coordinate and make collective decisions on matters of policy, programming and management. In this context, a draft Country Strategy Note for Mozambique is now under consideration by the Government. We expect that the Country Strategy Note will increase the effectiveness of agency cooperation and the impact of interventions by gradually putting into practice a concerted team approach in responding to national priorities and programmes, especially through harmonization of planning cycles and joint programming.

**Technical Cooperation and Capacity Building Policy**

32. Mr. Chairman, it is already Government policy that technical cooperation should be programmed, with donor interventions coordinated and rationalized to deliver the required assistance efficiently in cost and operational terms. But such coordinated assistance should ensure that institutional capacity is strengthened on a sustainable basis. To contribute to sustainability, technical cooperation must be a process of transferring skills and know-how that is primarily concerned with the development of human resources and institution-building and only secondarily with directly carrying out specific tasks in the form of "gap-filling". This entails, in particular, that technical cooperation management must place greater emphasis on training and organizational development plans. Furthermore, future capacity building and technical cooperation initiatives should be shaped in the light of a redefined role for the Government within a market economy, democratic society and decentralized public management.

33. Under the NaTCAP exercise, the Government produced so far three rolling triennial National Technical Cooperation Programmes. However, there is a need for refining their methodology so as to convert them into a more solid programming and budgeting instrument. As it stands, the Technical Cooperation Programme remains essentially an incomplete survey of ongoing and some foreseen technical cooperation, linked primarily to the Triennial Public Investment Plan. Programming of technical cooperation requirements ought to rely on in-depth capacity and human resource assessments in the light of institutional roles, national priorities and strategies, and the relatively inelastic supply of local skilled labor. Technical cooperation programming is essential for the comprehensiveness and transparency of the Budget and Balance of Payments; hence, it should be part of the overall resource allocation process from both national and external sources, that is, part of the planning and budgeting process.

34. We urge the Government to examine and follow up on recommendations made in the issues paper, "Technical Cooperation and the Labor Market in Mozambique", which was distributed at the 1993 CG. In particular, the Government should revise the Technical Cooperation Policy Framework Paper, approved in 1990, and to strengthen technical cooperation programming with a view to: reduce competition among donors for local skilled labor; cut
aggregate demand for technical assistance, thus allowing for the release of aid funds to other priority needs, such as support to public sector pay; improve technical cooperation management and efficiency, namely through greater use of more cost-effective technical assistance modalities as "cooperantes", volunteers, and regional and national expertise; and fully reflect technical cooperation costs in the Budget and Balance of Payments.

35. Mr. Chairman, a wider use of the programme approach or programme-based assistance, while enhancing Government ownership of donor-funded support, its ability to develop homegrown policies and national execution, would also contribute to improving coordination of aid, technical cooperation included, and would help Mozambique build capacity and allocate resources more efficiently to attaining national development objectives. Because the approach requires joint programming with donors, it would also imply reinforcing or setting up coordinating mechanisms such as the advocated Government-donor working groups.

36. Of special concern are the capacity development needs in the area of economic management, which is of central importance to the Government for managing its extensive economic and financial reforms. It is also an area where support from donors is somewhat disjoint and shows significant gaps. We are therefore encouraged by the Government's intention to approve an Economic Management Capacity Building Programme, in short, Economic Management Programme, which builds on the work initiated in 1992 by the Inter-Agency Programming Mission and has been prepared with UNDP assistance. The Economic Management Programme is a prioritized plan of action aimed at strengthening national capacities on a sustainable basis for effective performance of essential economic management functions by key Government institutions from the viewpoints of human resources and management development, organizational structures, processes, systems and technical cooperation needs. Core features of the programme are the support to capacity assessments and preparation of institutional development plans as well as the promotion of enabling conditions for retaining and recruiting skilled civil servants. Five functional areas or major components are contemplated in its first phase, spanning 1995-1997: economic policy and planning, including sub-national development planning; public finance management; monetary policy and financial sector; aid management; public sector management and decentralization; and statistical system. The programme is meant to be a rolling programme and to serve as the focal reference for donor assistance and cooperation in the area of economic management. To facilitate coordination between Government and donors it is envisaged to establish an Economic Management or Macroeconomic Working Group.

Closing Remark

37. Mr. Chairman, to consolidate national reconciliation, carry out reconstruction, enter a sustainable growth and human development path, and in general strengthen national capacities, Mozambique will continue to need significant inflows of financial and technical assistance for years to come. We thus urge the donor community to extend the support which Mozambique is requesting. We all realize, however, that aid must be made more effective by allocating external
resources, that are expected to become more scarce, to the uses likely to yield the highest social and economic returns. This, in turn, will require a higher degree of joint programming and coordination by Government and donors as well as improved aid management machinery.

Thank you, Mr. Chairman.
8TH CG MEETING

ESTABLISHING THE BASIS FOR ECONOMIC AND SOCIAL DEVELOPMENT

STATEMENT BY
THE MINISTRY OF PLANNING AND FINANCE
DR. TOMAZ SALOMÃO

PARIS, MARCH 1995
ESTABLISHING THE BASIS FOR ECONOMIC AND SOCIAL DEVELOPMENT

MR. CHAIRMAN,
DISTINGUISHED REPRESENTATIVES OF THE DONOR COMMUNITY,
LADIES AND GENTLEMEN,

I have the pleasure and the responsibility of presenting, on behalf of the Government, its document "Establishing the Basis for Economic and Social Development".

But first, I would like to welcome you and express our gratitude for your continued attention and cooperation, the firm expression of the solidarity of people's and the international community with the Mozambican people.

As the Prime Minister as already said, 1994 was decisive for the establishment and development of a society in Mozambique, based on:

- peace;
- national reconciliation; and
- multiparty democracy.

In this context, it should be noted that the international community contributed about 500 million American Dollars for the pacification and democratization process in Mozambique.

The heavy responsibility we now bear towards our society, the donor community and the world in general is to preserve what has been achieved with this great investment.

MR. CHAIRMAN,
LADIES AND GENTLEMEN,

There are new challenges in 1995, as difficult, or even more so,
then those in the previous years.

One of the fundamental objectives to be achieved this year is the consolidation of the democracy and the proper functioning of the democratic institutions.

The structuring of Assembly of the Republic - the establishment of its commissions, the revision of its regulation, and the definition of the status of deputies - is vital step in assuring democratic stability.

National reconciliation must be consolidated. Consequently mechanisms are being developed which promote the participation of civil society in national life.

Public information as an important role to play in the consolidation of democracy. It is thus the Government's intention to guarantee of the freedom of the press.

The rights of each citizen within society must be protected, and those who break the law must be rigorously punished. The Government is intent on strengthening the climate of legality and judicial system trough:

- the allocation of more budgetary resources;
- revision and updating of legislation;
- the development of training programs for judiciary officials;
- strengthening the Attorney General's office and the Administrative Court.

Swifter and more effective application of the law is an essential precondition for restoring society's confidence in its institutions.

The establishment of the new non-party army was one of the important objectives achieved in 1994. It is currently less than
half the size originally anticipated. Given the budgetary restrictions faced by the Government, its strategy is that, if necessary, the army should only grow in the medium to long term and on the basis of voluntary recruitment.

However, there is an urgent need to guarantee the means for the effective operation of existing manpower, promoting order and discipline within the Armed Forces, and their participation in national reconstruction.

In addition, the creation of propitious conditions for economic activity means ensuring tranquility and security for citizens and their property. The Government will therefore strengthen the role of the police force, and provide it with the necessary professional training and logistical support. The aim is to create a disciplined and respected body of police, which know its rights and duties, and where corruption will receive exemplary punishment.

The re-establishment of citizen’s confidence in institutions also requires greater transparency in all Public Administration activities.

The Government is already promoting the dissemination of the major economic and social policy options to be implemented in 1995.

With regard to corruption, in addition to the measures already announced, the Government believes that civil society should be involved, since this is a phenomenon which appears and develops among various segments of society, both public and private.

Discussions with civil society will enable us to decide whether or not we should move towards the establishment of a High Authority against corruption, or whether there might be a better way of ensuring transparency. We are completely open to any of these solutions.
LADIES AND GENTLEMEN,

All the measures announced by the Government illustrate its firm intention to consolidate democracy on solid foundations, to promote national reconciliation and National Unity, and to create a favourable environment for the exercise of economic activity.

But this is not the only one challenge facing the new Government. Laying the foundations for economic and social development in Mozambique is a complex task, one which the future of all Mozambicans depends.

The Government's development strategy is based in four fundamental areas:

- to develop human capital, by improving the quality and quantity of public education and health services;
- to rehabilitate basic infrastructures so as to promote the growth of economic activity particularly roads and ports;
- to support the family agriculture sector, the main vector for economic recovery and poverty alleviation;
- to create a good business climate for private investment, through the implementation of economic policy measures aimed at reducing inflation and achieving balance of payments equilibrium in the medium term.

The growth of family sector production is fundamental to the reduction of the country's food dependency.

The Government therefore intends to promote the essential conditions for the resettlement of population and develop activities aimed at expanding the network of basic education and
Another fundamental activity in support of the familia sector is ensuring the supply of seeds and agricultural tools.

We request the attention and assistance of the donor community in this respect, while internal efforts are being made to established the capacity to provide such means of production.

Road rehabilitation is another key item in the strategy for agricultural growth. Only when the roads have been repaired will it be profitable for the country's traders to buy agricultural crops.

Emergency grants should gradually decline and be substituted by means of production which enable the family sector to undertake its activities, and to increase the productivity of the areas cultivated.

LADIES AND GENTLEMEN,

I am convinced that the only way to promote the country's development in the medium term is by investing in human capital.

Education will receive additional resources in 1995 in order to open 1,500 classrooms and contract 6,500 teachers. The teachers are the main agents in the strategy for improving the quality of education.

The Government intends to invest in improving their training, working conditions and housing. In exchange, it will demand greater professionalism and dedication, which will be duly controlled.

Health is another key to the development of human capital. This sector will also receive additional resources in 1995, aimed essentially at improving the quality of primary health care and
its expansion to priority rural resettlement areas.

Donor community participation in the provision of drugs and medical supplies is particularly necessary, since the country's resources are insufficient to meet requirements.

Efforts have also begun, albeit tentatively, to stimulate community participation in supporting health and education expenditure. However, only economic growth will permit any substantial increase in this participation.

Since the budget is the fundamental instrument for the management of public resources, in 1995, it reflects all the priorities I have announced.

The Government worked with the donor community in analysing requirements, and also in mediating between priorities, given the limited resources available. We reaffirm our intention to carry on promoting this way of working together on a regular basis, and to extend it to other sectors of Mozambican society.

MR CHAIRMAN,
LADIES AND GENTLEMEN,

Achieving all that foreseen under the 1995 budget, will require a tremendous effort on the part of the State, which will have to improve its efficiency and revenues collection by 3.4 percentage points of GDP.

Current expenditure should fall by 3.3 percentage points of GDP, resulting in an annual per capita expenditure of 16.8 dollars, compared to 20 dollars in 1993 and 1994.

As a result of this adjustment efforts, for the first time the balance of current account will have a surplus of 187 million contos, or 7% of current revenues.
In this adjustment context, available resources have been redirected in accordance with the fundamental priorities. Expenditure on education and health will grow 44% in real terms, its share of current expenditure increasing for 19.2% in 1994 to 22.5% in 1995.

Expenditure for the operation of democratic institutions has also increased substantially, and they now require additional budgetary resources. In the 1995 budget, expenditures on the Assembly of the Republic and subsidies for political parties correspond to 3% of total expenditure, whereas last year they were only 0.2%.

In order to redirect resources in this manner, military expenditure has been reduced by 1.5 percentage points of GDP.

These efforts form part of a strategy aimed at promoting sustained, non-inflationary economic growth. Activities in this context will include the following:

- the creation of favourable macroeconomic environment for the expansion of private investment, both national and foreign;
- the careful selection of public investment projects, so as to ensure that resources are allocated to priority development areas;
- the promotion of activities aimed at the export of goods and services, in order to reduce the country's external dependency in the medium term;
- acceleration of the privatization process, in order to motivate private investment and the growth of economic activity.

We are aware that budget resources for reconstruction are meager,
given the extensive destruction of the country's basic infrastructures.

We are conscious of the fact that we cannot do everything at once. The sacrifices requested in terms of public expenditure are aimed at creating space for growth in credit to the private sector.

With the negative adjustment in the budget the State will not resort to bank credit to finance its expenditure. Indeed, it will make payments of 391 million contos to the banking system, equivalent to 15% of fiscal revenue.

This effort will enable the banking system to expand its credit to the private sector by 84% in nominal terms, without creating inflationary pressures on the economy.

In 1995 conditions will be particularly favourable for dampening down inflation, with the conclusion of the special programmes, there will be a contraction in demand.

Monetary policy will be particularly restrictive, in order to ensure the conditions for slowing down inflation by about 46 percentage points of the inflation rate.

Consequently, money will only grow by 26.5%, compared with a nominal rise in GDP of more than 50%.

Illegal competition from imports which enter the country without paying customs duties has been one of the major obstacles to the viability of national industry.

In 1995 the Government will take energetic action to fight fiscal evasion, particularly in the customs field. The customs service will be strengthened and a company will be contracted to guarantee more efficient pre-shipment inspection and to assist in customs management, particularly with regard to the
LADIES AND GENTLEMEN,

Restructuring the financial system is another of the Government's priorities in its strategy of creating a favourable climate for private investment.

Last week the Government approved a package of measures aimed at restructuring the State banks - the Commercial Bank of Mozambique, the Popular Development Bank. This will be implemented immediately.

The aim is to increase competitiveness in the financial market and to promote greater efficiency both in mobilising savings and in providing services to the economy.

The creation of new financial instruments, namely the launching of Treasury bonds, will be another development this year.

The portfolio of public projects will have to be reanalysed in the light of the limited resources available. In 1995 domestic financing in the investment budget is only 5% of GDP, a little over 4 dollars per capita per year.

The projects which will receive priority are those in areas already mentioned as being fundamental, and cover health, education, roads and water. The other area which will warrant special attention is the enhancement of public administration capacity, particularly at local level.

This capacitation, forms part of the current decentralisation process aimed at creating the necessary conditions for deconcentration of functions within the State apparatus, from central to provincial level.

The growth of Mozambican exports of goods and services is
essential for the country's increased self-sufficiency. In 1995 the strategy of providing facilities for exporters, both fiscal and customs, as well as financial and exchange, will continue.

Various investment projects are being implemented which will help increase our exports substantially from 1997 onwards. These include power lines to South Africa and Zimbabwe and the export of Pande gas.

The rehabilitation of the mining and agricultural sectors, by private sector, especially sugar, cashew, tea, cotton, copra, and more efficient railways and ports services will also contribute to this objective.

We are convinced that these and other projects will enable the country to achieve exports of around 800 million dollars within 7 to 10 years.

The privatisation of companies, which has been underway since 1989, was intensified in 1994 when more than 119 companies were privatised. Following this new thrust the percentage of public companies in industrial production fell from 58% in 1992 to 34% in 1994.

In 1995 the Government aims to finalise the privatisation of more than 40 companies, 10 of which are of medium or large size.

The Government has also decided to begin restructuring Mozambique Airlines.

MR CHAIRMAN,
LADIES AND GENTLEMEN,

In short, during 1995 Government activity will establish the foundations for relaunching the economy, promoting the consolidation of democracy and tackling problems of corruption and lack of transparency.
This is the complicated and delicate agenda which the Government has before it.

This agenda illustrates our unequivocal desire to introduce significant changes in fundamental aspects of management; it also illustrates our commitment to face up to problems and to deal with them in the best way possible.

A newly elected Government cannot be expected to resolve all problems simultaneously, in addition to correcting past mistakes. We must have a strategy which enable us to advance soundly step by step on the road to development, which we all want in Mozambique.

We are aware that our commitment is a very important factor in resolving problems; but we are also convinced that without the assistance of the donor community, it will not be possible to achieve our objectives in 1995.

Your assistance in support of the activities we intend to undertake is essential.

We must be more and more efficient in using the aid which is provided to us, trying to orient it towards fundamental areas, so that it can truly support our development efforts.

The areas with the highest priority within the strategy outlines above are:

- support for imports, without which there can be no productive activity;
- demining;
- support for the sectors of fundamental importance for resettlement of the population: education, health, water and roads. The support should cover investment
projects and the essential goods which the State cannot import for lack of funds, such as drugs, school materials etc.

- commercial food aid, which will generate counterpart funds to finance the budget and which is a way of increasing the supply of essential goods and reducing inflationary pressures;

- access to more favourable conditions for external debt rescheduling.

Improving the technical and professional capacity of public administration, particularly in the provinces and districts is another area which requires help. However, we would request that, when providing this assistance, every attempt be made to use technical potential which already exists in the country, so as to make the projects cheaper and expand their coverage.

We shall continue to articulate with the donor representatives located in Maputo, in the hope that they will provide adequate linkage and dialogue with the donor community.

LADIES AND GENTLEMEN,

I cannot close without a word of thanks to the multilateral and bilateral institutions for their assistance.

It is our desire that open dialogue with donor community should continue, so that it can participate closely in the discussion and resolution on our problems. Only in this way we can coordinate our efforts to achieve our common aims and to face the future with greater optimism.

Thank You.
Ms Chair
Distinguished members of the donor community
Ladies and Gentlemen

I am honored to have this opportunity to address this important Eighth Meeting of the Consultative Group for Mozambique.

Permit me to express to all those present here today my profound recognition of the unambiguous commitment with which the international donor community has been supporting and following Mozambique's structural adjustment program.

During the current phase, in which Mozambique is making the difficult transition to a market economy, it is gratifying to note the encouragement of the international donor community. I am certain that the Consultative Group will once again agree to share with us the difficult road towards reconstruction and development, now under the new conditions of peace and democracy.

The current politico-institutional framework opens up new perspectives for relaunching economic activity overall, an aim that requires increased coordination of efforts in order to concretise in the short and medium term the actions set out in the Economic and Social Rehabilitation Programme initiated in 1987.

Ms Chair
Ladies and Gentlemen,

The reform of the financial system that began in 1992 with the separation of the then Bank of Mozambique's functions, has proceeded at a notable rate. Despite various constraints, visible progress has already been made towards strengthening the role and institutional capacity of the central bank as one of the institutions managing the national economy.

Within the Bank of Mozambique our programmatic action has been in accordance with the following guidelines:

Improving handling of the instruments of monetary and exchange management, adapted to the current stage of liberalization of the national financial system and taking its specificities into account;
Improving the process of gathering, treatment and appraisal of statistical information, which has enabled the Bank to expand its communication channels with its partners and with the general public, through the regular publication of statistics and the production of internal documents;

Bringing human resources into line with the institution's structure and profile to ensure the ability to respond to the increasing demands of the market;

Deepening financial reforms with the aim of improving the services provided by financial system operators.

In my opinion these actions are gradually strengthening the role of the Bank of Mozambique as the monetary and exchange authority and supervisor of the financial system.

Monetary policy has been consistent with the objectives of reducing domestic inflation and improving the external accounts. If on the one hand the country has had extremely positive growth in production over the last two years, on the other the economy continues to live with an inflation rate that has exceeded forecasts and has been an object of major concern for the central bank.

The 1994 inflation rate reflected essentially the costs of the peace and democratization processes, and was closely correlated to the reorientation of external assistance and a significant portion of budget expenditure that the Government was obliged to undertake by the need to support the activities laid down in the General Peace Agreement. Domestic demand, which is extremely dependent on imports, was thus penalized.

In saying this we do not mean to underestimate the importance of the negative impact of successive public deficits over the foregoing periods, and still less to minimise the structural imbalances and lack of competitiveness that the national economy, seriously affected by the war, continues to face.

Control of the net domestic assets of the banking system continues to be the main instrument for monetary control.

In 1994 the Bank of Mozambique introduced a set of measures aimed at granting increased autonomy to the commercial banks in the distribution of monetary aggregates, conserving the principles of financial and accounting discipline required for the credibility of a balanced financial system.

The total liberalization of interest rates for loans and deposit operations, put into effect in June 1994, falls within this context, the only responsibility retained by the Central Bank being the fixing of the rediscount rate. Implementing this measure in a year of considerable uneasiness reflects the Bank's responsible position with regard to asset portfolio management and the implicit risk of the commercial banks, which thus began to negotiate with their clients the financial costs of the loans granted and the deposits obtained.

In 1994, we introduced a new methodology for distribution and control of net
domestic assets to the banking system, more consistent with the current stage of liberalization and technically more coherent and transparent.

The results of the first six months of using this methodology have been encouraging, with the banking system responding positively to its guiding principles - an increase in financial savings, both via deposits in local currency and by improving net foreign assets and strengthening accounting and financial discipline.

In 1994 credit of policy continued to prioritise the rehabilititating infrastructures damaged during the war, job creation, projects generating increased added value and programs to improve the value of traditional and non-traditional exports. The central bank has also guaranteed special credit mechanisms for the agricultural marketing campaigns and the programmes for creating and developing micro-businesses.

The credit available to the economy is far below the needs, so we have been working to find alternative ways of financing the State Budget and promoting domestic savings.

The 1994 exchange policy and management of net foreign assets was guided by the principles of free functioning of the market and increased links between the monetary and external sectors.

Contrary to the more pessimistic expectations concerning political developments expressed by some on the fringe of the market, there was considerable currency stability in 1994.

The estimate outlined in the monetary programme were observed, with the Bank’s exchange rate fluctuating on average in the band of 1-2% of the market rate, and the gap with the average rate in the parallel market not exceeding 10%.

Transparency in managing foreign aid funds, within the framework of the import support programme joint working group made up of donors and creditors and chaired by the Bank of Mozambique, and an active monetary policy, contributed towards the objective of exchange stability.

The improvement in managing net foreign assets enabled the 1994 target to be exceeded by around 10 million dollars, for the first time since the beginning of the Economic Rehabilitation Programme.

Financial sector reform has been accompanied by the approval of important regulations, with 1994 seeing increased activity in this field. In this context, prudential norms were adopted defining ratios for solvency, fixed assets, financial shareholdings and exchange risks.

I should additionally mention the fact that the banking system’s accounts began to be audited by specialized firms of international repute in 1994, which will enable increased transparency in bank management.
Legislation was also introduced to regulate the creation and operation of financial leasing companies and foreign exchange houses. This will be important in facilitating the expansion of the financial sector and the diversification of its products.

Today we have a financial system comprising five commercial banks in operation and two that are in the process of starting up, two financial institutions, two insurance companies and sixteen foreign exchange operators, a situation that is both quantitatively and qualitatively different from that of 1987, when there were only three banks operating, one of which accumulating the functions of the Central Bank.

Financial system reform is intrinsically linked to the programme for strengthening the Central Bank's institutional capacity. Particular attention has been given to the selection, recruitment and training of qualified technical staff for the bank's most sensitive areas, such as banking supervision, economic and statistical studies, foreign operations, credit operations and the area of organizations and methods.

We have been relying on the support of the IMF/WB and other institutions to carry out these activities, which have contributed to the technical upgrading and capacity-building of the Bank of Mozambique.

Ms. Chair,
Ladies and gentlemen

In 1995 the Bank of Mozambique will continue to adopt a monetary policy that is consistent with the Government's economic policy objectives and that facilitates the development and consolidation of the market. Priority will be given to measures that stimulate the GDP growth, strengthen the fight against inflation and improve balance of payments performance.

Within this framework, measures will be introduced that enable the use of indirect instruments of monetary control and forms of non-monetary financing, for the state through the launching of Treasury bonds.

Exchange policy will be orientated towards improving the mechanisms for liberalizing, decentralizing and simplifying current invisible operations and respective procedures. Increasing exports and creating incentives for exporters will also be a high priority on our agenda.

In this field, the Bank of Mozambique recently authorized the retention by exporters of 35% of their income in accounts in the national banking system, with a view to stimulating the exporter and facilitating the rapid restocking of factors of production. Further measures were taken to ease the procedures for registration of current invisible operations, benefiting the exchange market operators and the general public.

Action in the field of financial sector reform and development will be orientated in such a way as to facilitate the entry of new banks and financial institutions, stimulating increased geographic coverage and the diversification of banking products, and thus attracting the financial savings needed for public and private
investment.

This year the Central Bank will introduce financial mechanisms that guarantee the balance of liquidity between the institutions, and a risk information center for providing the banking system with information about clients.

Within the framework of credit policy, the Central Bank will pay particular attention to the banking system support to finance rural development projects and private sector investment projects.

Ms. Chair,  
Ladies and Gentlemen,

Privatization has been seen as necessary to re-instituting the rules of competitiveness and maximizing the allocation of resources.

In this perspective, following a meticulous analysis of the financial sector, we have decided that the time has come for privatization to extend to the state owned banks.

To this extent, the privatization of the BCM will take into account the conclusions of the evaluation carried out by technical assistance, the final report of which will be presented in March, and the evaluation of patrimony to be done in April by independent consultants.

On the basis of these assessments and current legislation, the Bank of Mozambique will formulate the conditions for offering the first batch of shares. We believe that this process will be completed by the end of the year at which point the full privatization of the Commercial Bank of Mozambique will take place.

With regard to the People's Development Bank, by the end of this month its statutes will have been altered to convert into a joint stock company, in order to facilitate privatization. Preparatory work will be concluded by the end of 1995, and it is hoped to launch the first share offer in mid-1996 and complete privatization by the end of that year.

We believe that privatizing the State owned banks will give new dynamism to the financial sector, contributing to greater market competitiveness and increased assistance to national economic development.

Mrs. Chair,  
Ladies and Gentlemen,

The foreign debt has been a serious obstacle to our country's self-reliant development. In fact, the debt service resulting from bilateral agreements continues to absorb a significant portion of our international reserves and constitutes a heavy burden for the Government accounts.

Though in recent years the rescheduling obtained with the Paris Club have been on more favorable terms, they are still not appropriate to our reality.
In Mozambique’s current conditions, we renew our appeal for large scale forgiveness of our foreign debt or the channelling of external resources towards operations that lead to the effective reduction of debt stock, as the most realistic way in which to deal with this problem and improve the profile of our balance of payments.

In the medium term, sustainability of the balance of payments will continue to require an additional effort by the international donor community represented here.

The balance of payments financing requirements for 1995 total 1,105 million dollars, of which 375 million for investment - projects and a part of services; 327 million for debt relief; 302 million for the import support fund, which according to replies to the survey given by donors in Maputo has an unfinanced gap of 87 million; 8 million for special programmes for reintegrating demobilized soldiers and supporting population resettlement; and the remaining 91 million in the form of food aid and agricultural tools.

It is my hope that Mozambique will continue to deserve the indispensable support of the international donor community, so that the structural adjustment programme can achieve its objective.

Ms. Chair,
Ladies and gentlemen,

In conclusion I would like to reiterate my sincere thanks to the international donor community for its continued support to Mozambique’s economic reconstruction, particularly in this phase of consolidating peace and democracy.

I extend my thanks in particular to the Bretton Wood institutions, for their valuable contribution and support to our Economic and Social Rehabilitation Programme.

Thank you very much.
Ladies and Gentlemen,

Mozambique is indeed moving into a new phase of its history. The successful completion of the Peace Agreement has set the stage for lasting peace and political stability. Over four million people have been resettled in rural areas. Agricultural production is recovering. Transport and construction activities have picked up. Now, the new Government faces the challenge to transform this short-term recovery into sustainable economic growth.

As stated in earlier presentations, the establishment of sustainable growth underpins the Government’s strategy for poverty reduction and external financial viability. The policy agenda to attain this goal is vast. In this new phase five areas appear particularly essential. First, the preservation of peace and internal security; second, the
restoration of macro-economic stability; third, the support for small-holder agriculture; fourth, the promotion of private sector and exports; and fifth, increasing the efficiency of external assistance.

As mentioned elsewhere, the preservation of internal security and political stability is an essential pre-condition for the attainment of sustainable economic growth and poverty reduction. In this regard, efforts to strengthen governance, consolidate democratic institutions, and promote decentralization, deserve our full support. At the same time, visible progress in reducing poverty through an aggressive growth policy will be required to help secure future political stability.

The restoration of macroeconomic stability is another key pre-condition to achieve sustainable development. The poor are the ones who suffer the most in periods of high inflation. It is therefore urgent that currently high levels of inflation be drastically curtailed in the coming years. Meeting the inflation target of 24 percent in 1995 will require a drastic cut in credit expansion, continued fiscal restraint, and increased revenues, particularly from customs. In addition to keeping a tight rein on fiscal and monetary targets, further progress in enterprise and financial sector reform will play a critical role in supporting stabilization efforts.

To build-on the on-going recovery in small-holder agriculture and fully capitalize the growth potential of this sector, a more aggressive policy stance needs to be articulated
and adopted. First, there is a need to accelerate the formulation of a sector investment program to guide the re-orientation of the emergency and development programs toward sectoral priorities. Second, remaining price and marketing distortions on essential crops such as cashew and maize need to be removed as soon as possible. Finally, land tenure issues need also to be addressed within the context of on-going legislative changes.

In this new phase, the creation of an enabling business environment to promote private sector development and exports, is another central component of the Government's strategy. Building on the progress made so far, the restructuring of the state-owned banks and the privatization of large enterprises need to be accelerated. Another critical area concerns customs and tax reform and the provision of exemption regimes for exporters. Finally, regulations and procedures affecting private investment will need to be greatly simplified.

If the Government is to move forward on this ambitious agenda, substantial external assistance will continue to be required to finance the rehabilitation of the economy and the expansion of productive activities. Total external financing requirements in 1995 amount to US$1.105 billion. Of this total, US$852 million will come from existing and proposed commitments, including US$434 million in grants, US$255 million in loans, and US$163 million in agreed debt relief. Therefore, new commitments of US$87 million are needed in 1995 as well as an extension of the Paris Club Agreement until the end of this year to obtain a further US$163 million in debt relief. Overall, the
level of external assistance is similar to that obtained in 1993 and is significantly lower than that of 1994 which was an exceptional year. As special programs related to the demobilization, elections, and reintegration process have essentially been concluded, no extraordinary financing needs are anticipated for 1995.

While securing adequate levels of external assistance is very important to support the Government's economic program, perhaps equally or more important is the form in which this assistance is granted and the manner it is disbursed. The efficiency of external assistance needs to be raised, as the overall level, excluding the exceptional year of 1994, is not increasing in real terms. The composition of external assistance must therefore correspond to the country's emerging needs. In this new phase, this means (i) phasing out food aid in line with agricultural recovery; (ii) providing import support funds to finance increasing private sector imports; (iii) financing the rehabilitation of priority economic and social infrastructure; and (iv) rationalizing and decreasing long-term foreign technical assistance.

Provided that the effects of the regional drought remain moderate for Mozambique, food aid requirements are projected to remain at the 1994 level, which was already well below 1993. However, 1994 saw a shift in aid flows from import support to investment financing which is a source of concern. In 1994, grant disbursements for import support amounted to only US$71 million compared to US$140 million in 1993. On the other hand, investment financing to support the reconstruction program rose by
about US$100 million that year, largely reflecting increased technical assistance. Clearly, a shortfall in import support funds has a negative impact both on private sector imports and counterpart fund collections. Moreover, the rapid increase in investment creates additional pressures on the already stretched recurrent budget. It is therefore, essential that investment and import support financing be better balanced. This will require raising the level of import support financing and rationalizing investment financing, including technical assistance, in line with sectoral priorities.

In order to enhance the disbursement mechanisms for import support funds, it is important that all funds be channeled through the banking system, so as to ensure appropriate monitoring, with increased reliance on private commercial banks. Overall, the systems to monitor the execution of external flows - including investment, import support and counterpart funds - need to be improved as a matter of priority. By doing so, Mozambique's ability to manage the macroeconomic program will be greatly enhanced.

On the basis of the elements outlined above, namely improved security, a significant deepening of the reform program, and increased efficiency of external assistance, Mozambique could be expected to set a sustainable path of growth and poverty reduction.
Finally, let me say a few words about Mozambique’s medium term prospects to achieve external financial viability. Imports are expected to increase only slowly over time in line with the anticipated recovery in domestic production. However, because of Mozambique’s small export base, substantial external imbalances will remain in the medium term, even assuming a rapid GDP and export growth. Hence, the gap between exports and imports (excluding financial services) will narrow only gradually from 65 percent in 1995 to 40 percent by the year 2,000. This gap will need to be closed by external resources. While private capital flows, namely foreign investment, are likely to play an increasing role in meeting this gap, Mozambique will continue to depend on external aid over the medium term.

It is also be important that a radical solution to Mozambique’s debt problem be found. Despite the on-going rescheduling of Mozambique’s official bilateral debt, under generous terms, the debt service ratio, after debt relief, will remain high at around 30 percent of total exports. This compares with a regional average of 15 percent. In addition, a large proportion of the Government’s recurrent budget will continue to be devoted to service the external debt. A debt stock cancellation, along the terms agreed in Naples, will be a more effective way to reduce Mozambique’s debt burden, and therefore an important step for the country to achieve growth and poverty reduction.

Thank you very much.
Ladies and Gentlemen,

I said at the opening of this Eighth Consultative Group meeting for Mozambique that we were privileged to welcome “the breadth and high caliber” of the Government Delegation led by His Excellency the Prime Minister of Mozambique, and including the Minister of Planning and Finance, Ambassador Patricio, the Minister of Commerce, Industry and Tourism, and the Governor of Banco de Moçambique. We have heard the presentations or comments, at the dinner and in these sessions, of the Vice Minister of Finance (and former colleague of the World Bank) Luisa Diogo and Iolande Fortes, Head of the Poverty Unit in the Ministry of Finance and Planning. We have indeed gained immensely from the participation of so many members of the delegations.

Participants have noted also the intensity of the preparation for this meeting in Maputo through the various joint working groups operating there over the past five months, and they have noted the high quality of the documentation presented by the Mozambique Delegation. In other words, as my predecessor Stephen Denning had wished and predicted and several of you have echoed, the Government has shown itself firmly installed in the Driver’s Seat! This in itself is a source of satisfaction, and one decisive reason why this meeting has been a success. The other reason is the width and depth of your participation in the discussions.

I also said that the last meeting of this group, in December 1993, occurred at a historic moment, following on the Rome Peace Accord -- and the enormous challenges which then faced the Government in its efforts to solidify the peace process. In fact, many doubted the future and many feared that the challenge would be too great .... However, as virtually every delegate has noted with admiration the challenge has been met. The national elections took place, as planned, in October 1994, and they were “free and fair”. And thus we meet again at another historic moment -- a watershed -- in the words of the Canadian delegation.

So many, and so rich were the presentations, interventions, and comments that, as you realize, we were continually short of time. My fear was, as you were all taking turns to speak, that it would be impossible to summarize, or synthesize, all your contributions. But I found the task reasonably easy as we prepared these remarks. Indeed, I found, to my profound satisfaction, that the sum total of interventions amount ultimately to a consistent, strong, and harmonious message. This is why, I suppose, the reference to a symphony, sprung to my mind yesterday. From that point, the different themes and rhythms took on a specially harmonious and musical quality.

A symphony as a rule, has four movements. Let me then try and convey to you my impressions and my conclusions in four parts.
I. RECOGNIZING MAJOR ACHIEVEMENTS.

Unquestionably, there was unanimity in recognizing the tremendous achievements since the last Consultative Group meeting. Every delegation, starting with France as current President of the European Union and including ourselves, has justly congratulated the Government for the first successful elections of October 1994, which resulted in a smooth transition to a new government -- and contributed thereby to consolidating peace and stability. This remarkable process of reconciliation now seems well on the road to completion. The demobilization is complete and several million persons have returned to their homes including 1.6 million returning from neighboring countries, as the UNHCR Resident Representative told us yesterday. That this has been accomplished without major incidents is in itself remarkable and is a tribute to the aspirations and willingness of the people of Mozambique to achieve a lasting peace for their country. At the same time as the Government has moved towards peace and stability it has endeavored to continue the structural adjustment program launched in 1987 even in the face of enormous difficulties. However, unavoidably the process of democratization and consolidation is still fragile and economic policy performance has been less than perfect.

II. NURTURING THE DEMOCRATIC PROCESS

The democratic process needs to be nurtured and taken care of both carefully and forcefully. Let me highlight six re-occurring themes that we have heard from you related to this issue:

(1) National Assembly. Most participants, as well as the Government delegation, noted that it was essential for growth and poverty alleviation to have working democratic institutions and stable socio political processes in place in Mozambique. It is thus essential to see an active National Assembly where issues of national importance, including the budget, are freely debated. This implies that there are long sessions and appropriate rules and procedures. We note that the Government is in the process of having such rules and procedures finalized by experts. The upcoming debate on the budget, starting this month, will have special importance in Mozambique, as in all democratic countries.

(2) Opposition. In a democratic system, the opposition must have a role. It is necessary that the Government talk to the opposition and the opposition needs to have a status. In this respect some delegates commented with some apprehension that the dialogue between the Government and the opposition seemed weaker than it should be. At the same time most participants expressed satisfaction at the statements given by the Mozambican Delegation relating to the status, finance and general treatment of the opposition (notably the treatment of its leader).

(3) A Free Press. Donors further stressed the need for a free press -- as a vital institution within a democratic system. We have also heard the Government's reply on this theme: an unequivocal commitment to totally free expression and debate in the new Mozambique. Some participants suggested that a greater effort should be made by the Government to enliven the political and economic debate within the media and the society. This would certainly be seen as a welcome development.

(4) Decentralization and Civil Society. Giving more authority and financial powers to local authorities is an area where the Government assured the aid partners that it intended to move boldly. The Government gave a very clear promise that things are moving in the right direction culminate in nationwide local elections in 1996. Different from, but complementary to decentralization, is the need to give space to the full involvement of the
Non Governmental Bodies in public life, such as NGOs, unions, church groups, peasant associations, in daily life. This aspect was rightly emphasized by several delegates including Canada, the Netherlands, and the Nordic countries.

(5) Good Governance, as the Dutch delegate indicated, means an efficient, transparent, and accountable administration where corrupt practices are more difficult and riskier to undertake and where they will be uncovered and appropriately sanctioned if they are undertaken. Here the main objective is not to deploy enormous resources to act ex post to provide punishment but the effort should go instead to creating conditions whereby malpractice is difficult and highly risky. Most participants, with Mozambique in the lead, highlighted this issue and the need for action. In that respect the participants noted with satisfaction some of the measures being implemented by the Government including a significantly stronger Administrative Inspectorate. Another aspect of Good Governance while highly desirable, is understandably difficult to implement. This is the much needed overall Civil Service Reform including enhanced remuneration for public servants. Nonetheless, several participants insisted that a broad based Civil Service Reform was a high priority, not only as an instrument of democratic Governance but also as an indispensable instrument of good economic management.

(6) An Independent Judiciary -- several speakers mentioned that, inherent in any democratic structure is an independent judiciary. The Group noted with satisfaction several actions, including training and review of the legal framework, that the Government had undertaken.

While virtually all of the interventions by the aid partners stressed some of the above components in nurturing democracy, there were some differences in approach. We heard that the American delegation would wish to see agreed specific benchmarks in order to monitor progress. On the other hand, the Danish Representative said, “This is not the time (in this area of political processes) for rigid conditionalities”. Nonetheless, what emerged loud and clear from the interventions and the debate is that the aid partners as a whole hope, and do expect to see, measurable progress on several fronts by the time of the next Consultative Group meeting.

III. ACCELERATING ECONOMIC REFORMS

While, as I have noted in some detail, that there was general satisfaction with the beginnings of the democratic process everybody -- the Bank and the IMF included -- noted with some regret that progress on the implementation of the macro stabilization program had been less than satisfactory. In varying degrees, the participants, stressed the need for much more forceful action on the following issues lest the program with the IMF (and the Bank) goes off-track.

(1) Fiscal Policy. This in turn has several dimensions.

- THE DEFICIT. The fiscal deficit clearly has to be reduced from its very high, and unsustainable level (close to 30 percent of GDP before grants in 1994).

- REVENUES declined, as the French delegate noted, from over 20 percent of GDP to around 17 percent, a situation which calls for forceful action on four fronts (a) Customs Reform (including the possible use of a private company to support/substitute the current Customs Administration for a period of time) and (b) better collection of existing taxes; (c) at the same time, while accepting that the introduction of VAT is a long term
proposition, most participants encouraged the Government, for precisely that reason, to initiate that process without delay; (d) finally there is clearly a need to ensure that counterpart funds from balance of payments support and other donor programs are adequately collected to fully impact on the budget. This is particularly important, as the German Delegate and others remarked, since 30 percent of budget revenues now come from counterpart funds.

- **EXPENDITURE.** Virtually all participants noted with great concern that social expenditures in 1994 declined in real terms, contrary to commitments made to the donors. At the same time it was noted with hope that these expenditures are budgeted to increase by 40 percent in real terms in 1995. It would be sad if, at the next CG meeting, any shortfall in expenditures in these two crucial sectors is observed. On the contrary, one would wish to see further real increases in expenditures in the 1996. Although it was noted that military and security expenditures were on the decline, most delegates felt that they were still too high. (I believe that the American, British, and German delegations, among others, were of that opinion).

- **TRANSPARENCY.** The call for transparency, particularly as regards budgetary processes and operations was another universal theme. This in turn, refers to the need for an open debate on the budget in Parliament and also in civil society at large, to the extent possible. This in turn implies that a much greater effort be made by Government in providing information to the general public. In this regard, many participants expressed their satisfaction at the activity in the Budget Working Group which has been operating in Maputo over the past six months very useful ideas surfaced here on how to elaborate and extend the work of this group. Equally important in the above debate, is the issue of information on budget execution.

(2) **Monetary Policy and the Financial Sector.** Possibly the most negative, and most general, comments were made regarding the untenable rate of inflation (71 percent in 1994). Although high inflation has been attributed to some exogenous factors (most importantly the demobilization and the elections) which occurred last year, the structural underpinnings of the phenomenon are to be found in weaknesses of monetary policy and the workings --or rather non-working-- of the financial sector. In this respect, the participants noted with a great deal of enthusiasm Governor Maleiane’s announcements concerning the planned, rapid privatization of BCM in 1995 and of BPD in 1996. I am sure that progress in meeting these objectives will be keenly awaited by the aid partners, and closely monitored in the intervening period. Indeed, drastic reform of the financial sector is needed in order to permit efficient monetary policy and, in the long term, in order for the legitimate financing needs of a growing modern economy to be met.

(3) **Privatization.** Many delegates noted the good progress made on privatization to date, and look forward to even more substantial action over the coming year: about 40 enterprises are to be privatized in 1995, of which 10 medium to large ones. More specifically, I noted with interest that the focus of the debate among the participants is now turning from the privatization of the industrial parastatals to the issue of privatizing the group of strategic service parastatals -- including, not only the banks, but also the railways (CFM), the airlines (LAM), the insurance company (EMOSE), and even the utility companies (for example, the telecommunications corporation - TDM, and the electricity authority - EDM).

(4) **Business Environment.** I hope that, despite the rush, the participants found the presentation “Impediments to Industrial Sector Recovery” of interest. I note with satisfaction, that the Minister of Industry and the Minister of Planning and Finance indicated
that this type of analysis would be useful for the design of policies. And the representative
of the European Union indicated that such studies could be an input into their own thinking
as part of their own analyses of industrial issues. Two points in particular emerged from that
session on industry. The first was the pressing need to reform the regulatory environment and
the second was the no less urgent need to make progress with respect to the liberalization of
the cashew nut sector. We agreed, at the same time, to continue the dialogue on these
complex issues.

(5) Poverty. Mozambique’s past circumstances so far have clearly created an
environment of disruption where an effective poverty reduction strategy could hardly be
debated, much less pursued. Therefore, in light of the new circumstances, the participants
keenly welcomed the strategy for the future presented by the Government. This strategy has
essentially three simultaneous components: growth promotion particularly coming from
agriculture (as there is virtually no scope for redistribute policies); improved supply of social
services -- namely primary health care and primary education, and water and sanitation
facilities; and targeted safety nets, including a disaster protection scheme -- still to be
designed -- for the rural population. Meanwhile, the existing urban safety nets are being
reviewed and will be adapted, within available resources, as required. Some participants
noted that gender issues were not prominent in the Strategy. We were glad therefore to hear
the Minister’s assurances that this was not by design and that gender issues were the subject
of an established ad hoc commission. There is a strong expectation for action to define
meaningful activities to give women the central role they deserve. This includes most
importantly increased access of girls to education.

(6) Land Tenure. The land tenure security question was raised within several contexts,
including agricultural production, equity, women’s access to assets, and poverty. We are
particularly grateful for the Swiss representative’s elaboration on this important issue. Again,
this is an area where expectations from aid partners are high.

(7) Statistics. The Government has indicated that it plans to undertake a concerted
effort to improve the statistical information base and several donors are either already
involved, or are ready to offer their services -- including the World Bank which is prepared
to take a key role in this endeavor. I understand that it is the general hope and expectation of
this group that improvement in statistics will materialize gradually, but beginning in the very
near future.

In short, relating to economic matters, the various parties were concerned about the danger of
the economic program drifting away from the path agreed with the International Monetary
Fund and the World Bank. The danger of a derive budetaire was noted, with many others,
by the representative of the African Development Bank. On the other hand, there was general
and strong support for the Government’s Strategy for the Future so brilliantly illustrated by
the Minister of Planning and Finance. In particular, the aid partners applauded the emphasis
on macroeconomic stability as an absolute prerequisite, and the four pronged strategy
consisting of infrastructure rehabilitation, restoration of agricultural production, enhanced
emphasis on human resources, and creation of an enabling business environment.

IV. STRENGTHENING THE AID PARTNERSHIP

I sense that both the donors and the Government are reasonably happy with the existing aid
arrangements, including the formal annual CG meeting (such as this one), although we can
certainly work on improving the format, and the numerous and varied forms of cooperation
in the field -- in particular the specialized working groups which are now active.
We highlighted three forms in which cooperation can be significantly strengthened. One has been mentioned repeatedly, with approval, which is the design and implementation of integrated sector programs, such as the Government's program in the health sector -- which needs to be replicated in the education and agriculture sector. The second is a continuation and a strengthening of the donor working groups which have been so successful in preparing us all for this CG meeting. The last one would be follow up periodic meetings (every six weeks or so) of the Government and the donors in Maputo, in which the Government would report on progress of the broad front on the issues discussed over the past few days. This could be a useful instrument for monitoring progress on a more regular basis.

We agree, as the UNDP Coordinator reminded us, that we the donor community must continue thinking or rather re-thinking the most appropriate forms of technical assistance, of which there may well be an excess supply and which is certainly not used in an optimal fashion. We must learn to ration this super-abundant good in a way that best serves the interests of the recipient, not just those of some of our bureaucracies, whether bilateral or multilateral.

A further useful suggestion, made by the Swedish representative, was the establishment of an analytical working group on External Debt. This proposal responds to a real need in view of both the size and the peculiarities of the debt problem in Mozambique. This is consequently an area where we, at the World Bank, would be happy to either take a lead or to serve as an active participant. As a first step I proposed that, with the IMF, we prepare an information note on the structure of the debt and debt service and circulate it with the Chairman’s report on this meeting.

x x x

All in all, the aid partners have expressed their satisfaction in more than words, as the donors have met the bulk of the financing requirement for Mozambique for 1995. In total, the aid community has pledged around US$780 million -- of which approximately 30 percent is balance of payments support, 16 percent is food aid, and the remaining 54 percent is investment finance and “other” programs. The remaining financing gap could be covered by the extension of the 1993 Paris Club agreement through end 1995.

Despite what I said at the very beginning of this address, I realize that I have not done justice to the full richness of our discussions over the past two days. The excellent preparation and presentation by the Government delegation, headed by His Excellency, the Prime Minister of Mozambique, has provided a clear vision and a candid review of the issues, accomplishments, and short comings. We hope that the Mozambican Delegation has found the response from the aid partners commensurate with the challenge -- the 'formidable agenda' as the OECD expressed it -- that they have put to us --- and to themselves.

I declare this eighth meeting of the Consultative Group for Mozambique closed, and I wish you Bon Voyage and Boa Viagem ! .............

March 12, 1995
Paris
PRESS RELEASE
For Immediate Publication

CONSULTATIVE GROUP SUPPORTS MOZAMBIQUE'S POLITICAL AND ECONOMIC REFORM PROGRAM

PARIS, March 15, 1995. The Consultative Group for Mozambique held its eighth meeting in Paris on March 14 and 15, under the chairmanship of Ms. Katherine Marshall, Director of the Southern Africa Department of the World Bank. The Mozambican Delegation was led by His Excellency Pascoal Mocumbi, the Prime Minister.

With the completion of the peace agreement, the successful first multiparty election and the establishment of a new government, the meeting took place at a watershed for Mozambique. Peace and democracy offer the country a fresh possibility of accelerating economic growth over the medium term and thus reducing the severe poverty in which the majority of the Mozambican people still live.

The Consultative Group focused on the reforms the Government proposes to undertake to consolidate peace, revitalize the economy and reduce poverty. It was recognized that strengthening democratic institutions, increasing transparency, and promoting national unity and reconciliation are a vital part of the peace consolidation process. On the economic front, the Government delegation stated its intention to restore macroeconomic balance and to pursue economic development by rehabilitating infrastructure, restoring agricultural productivity, developing human resources, and prioritizing public sector investments. Specific reforms include increasing expenditures in health and education, while reducing the defense budget to 2.4% of GDP. The Government also plans a wide range of measures to promote an enabling environment for private investment and to encourage private sector development. These include firm efforts to fight corruption and deepen the financial sector reforms. The Government stressed that, in order for the program to succeed, aid partners must do their part to increase coordination through integrated sector programs, pooling arrangements and balance of payment and budgetary support, as well as by providing timely information regarding planned commitments and disbursements.

The participants commended the Government for the successful way in which the elections were held in October 1994 and for its proposed reform program. They expressed their satisfaction with the in-depth dialogue which transpired with the Government prior to the CG meeting, and expressed appreciation for the quality of the Government's presentation. The Government was also commended for having prepared and presented the current year's budget prior to the meeting and for having increased the education and health budgets by about 44%, in light of the critical importance all see to develop human resources in the next period.
While participants applauded the Government's initial steps and proposed reform agenda, they also agreed that it is important for continued international support that tangible actions to achieve agreed objectives be undertaken during the course of 1995. They noted that the emergency program, including the reintegration of displaced persons and the demobilization and demining programs, had made very significant achievements during the last year, but still needed to be completed. Participants stressed the importance of maintaining the overall macroeconomic stabilization program on track, while making progress on decentralization, strengthening democratic institutions, good governance, budget transparency and accountability. Other priority areas for reform included restructuring the state owned banking sector, accelerating the privatization program, improving land tenure security, reforming the civil service, revamping the customs administration and further reducing military and security expenditures.

The Consultative Group also focused on two key development issues - poverty reduction and private sector development. Insightful presentations and discussions took place during the meeting on the Government's strategy for reducing poverty and on the constraints to industrial recovery.

The full amount of external financing for credits and grants (including food aid and excluding debt relief) of about US$780 million was committed at the meeting. Of this amount, 55% was for investments and other grants, 29% was for import support, and 16% was for food aid. In this regard, participants noted that continued improvements in the management of external aid would enable funds to be provided in a more flexible manner, thereby facilitating the implementation of the Government's reform program. Participants agreed with the need for improved aid coordination and to work closely with the Government to harmonize their procedures on procurement and assure more timely disbursement. They also agreed that more joint work was needed on preparing integrated sector strategies. All participants also recognized the magnitude of Mozambique's external debt. Analysis of the debt and possible options will be a major challenge over the coming year. Members of the Consultative Group also agreed to continue the successful dialogue established in the budget and governance working groups. The Government expressed its gratitude for the continued support by the international community for its efforts to attain a lasting peace, the consolidation of democracy and sustainable social and economic development.

The meeting was attended by delegations of Austria, Brazil, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, the Netherlands, Norway, Portugal, Spain, South Africa, Sweden, Switzerland, the United Kingdom and the United States. Also represented were the African Development Bank, the European Investment Bank, the European Union, the International Finance Corporation, the International Monetary Fund, the Organization for Economic Co-operation and Development, the United Nations Children's Fund, the United Nations Development Programme, the United Nations High Commission for Refugees and the World Food Program. South Africa attended as an observer.