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FROM: Vice President and Secretary

July 24, 1997

CONSULTATIVE GROUP FOR MOZAMBIQUE**Paris, May 15 - 16, 1997****CHAIRMAN'S REPORT OF PROCEEDINGS**

Attached is the Chairman's Report of Proceedings of the Meeting of the Consultative Group for Mozambique held in Paris, May 15 -16, 1997.

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CONSULTATIVE GROUP FOR MOZAMBIQUE

Paris, May 15-16, 1997

Chairman's Report of Proceedings

Background

1. The Consultative Group for Mozambique (CG) held its tenth meeting at the World Bank's European Office in Paris on May 15 and 16, 1997. The meeting was chaired by Phyllis Pomerantz, Country Director for Mozambique for the World Bank. The World Bank's 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 Salomão, Minister of Planning and Finance, HE Oldemiro Baloi, Minister of Commerce, Industry and Tourism, HE Alfredo Gamito, Minister of State Administration, HE Luisa Diogo, Vice-Minister of Planning and Finance, HE Adriano Maleiane, Governor of the Bank of Mozambique, and HE José Rui Amaral, Ambassador of the Republic of Mozambique to France, and other senior Government officials. The meeting was attended by delegations from Australia, Austria, Brazil, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom and the United States. Also represented were the African Development Bank, the European Commission, the European Investment Bank, the Food and Agriculture Organization, the International Fund for Agricultural Development, the International Monetary Fund, the Islamic Development Bank, the Kuwait Fund for Arab Economic Development, the Organization for Economic Co-operation and Development, the United Nations Children's Fund, the United Nations Development Program, the World Bank, the World Food Program and the World Health Organization. South Africa and Russia attended as observers.

2. The following documents were distributed for the meeting:

Mozambique Government:

- "The Challenges Ahead"
- The Proceedings of the Second Private Sector Conference in Mozambique, Ministry of Industry, Commerce and Tourism of Mozambique.

The World Bank:

- "Mozambique: Administrative Barriers to Investment: the Red Tape Analysis"

Opening Statement by the Chairman

3. In her opening statement (Annex III), Ms. Pomerantz observed that, at the conclusion of the first decade of the partnership between Mozambique and its development partners, the country had come further than most people had dared hope ten years ago, and that things were continuing to change fast. In particular the growth rate accelerated to over 6 percent last year, the grain harvest was the highest in twenty years, the cashew output more than doubled, and the recovery of the industrial sector continued for the second consecutive year.

4. Referring to the agenda set during the last CG meeting, she noted that the Government had brought the annual inflation rate down to single digits during the first quarter of this year for the first time since adjustment began in 1987. At the same time, the nominal exchange rate remained stable and interest rates were declining. In addition, with the privatization all but complete of the BPD and BCM, the two previously state-owned banks, monetary policy had become much more effective. On the revenue side there had also been progress on customs reform, while on the expenditure side, the Government had been able to protect recurrent expenditures in health and education. Finally, she commended the Government on encouraging first steps in tackling a range of governance issues.

5. These changes in Mozambique are forcing people to look at the country with new eyes. The Chairman drew a picture of her vision for Mozambique, acknowledging it was optimistic but suggesting that it was not unrealistic given the progress the country has seen over the last few years. However, she went on to say the Government faces many challenges to reach this vision. She put its task in perspective by reminding delegates that even with 9 or 10 percent growth rates over the next ten years, Mozambique will still be among the poorest countries in the world.

6. Turning to the future, she outlined the most urgent set of challenges facing the Government. The first will be to spur a dynamic rural economy. She noted that the PROAGRI sector program for agriculture, currently under preparation, will lay the policy framework and strategy for sustained and rapid agricultural growth.

7. The second will be to create an environment that will foster private sector development and accelerate growth. Consolidating macroeconomic stability continues to be of primary importance. The focus now needs to shift to fiscal reform, particularly to expand domestic revenue, especially through continued customs reform and the introduction of a VAT. She stressed the importance of the fiscal management review now under way. In addition, fiscal sustainability hinges on debt relief, and she commended the initiative of some donors in creating a debt fund and informed delegates that Bank and Fund staff soon hope to have their respective Boards establish Mozambique's eligibility for debt relief under the HIPC initiative. Finally, beyond macroeconomic stability, continuing structural reform will be critical to private sector growth, including legal reform and reducing administrative barriers. However she

cautioned that it is essential to the sustainability of growth that Mozambicans benefit from growth, and therefore that the nascent entrepreneurial sector be encouraged.

8. The Chairman went on to note that a number of 'mega-projects', such as the Pande and Buzi gas fields, the Maputo Development Corridor, a new hydroelectric plant on the Zambezi, and the MOZAL aluminum smelter outside Maputo, are now becoming reality, and represent both opportunities and some risks to Mozambique. She emphasized that the potential for increased revenue brought new possibilities to the Mozambican Government and its people. However, since these projects, like Mozambique's growth prospects more generally, are based on natural resources, the Government must be sure that the investments are environmentally sustainable.

9. The Chairman stressed, however, that the greatest challenge facing Mozambique, and its most urgent priority, will be to build capacity. She emphasized that Mozambique needs to approach the problem from several fronts and with a wide range of instruments, including education from primary through secondary to university and vocational instruction; improvements in health; and progress on public sector reform from defining the role and responsibilities of government to providing adequate incentives for civil servants.

10. To conclude, the Chairman reminded delegates that as Mozambique changed, so the relationship between Mozambique and its partners needed to change, and welcomed their suggestion on how the partnership could be strengthened. In addition, she appealed to the Government to enlarge the partnership by joining forces with civil society more broadly, and strengthening ties with its neighboring countries.

Statement by the Mozambique Delegation

11. In his opening statement (Annex IV) the Prime Minister, HE Dr. Pascoal Mocumbi welcomed the representatives of the donor community and thanked them for their continued support. He noted the encouraging advances that have taken place over the last ten years during which Mozambique has been implementing fundamental social, political and economic reforms. However, he also noted the serious challenges that lie ahead.

12. Noting his Government's efforts at consolidating political stability, the Prime Minister drew the meeting's attention to the legislative package on creating local authorities that was recently approved by the assembly. The laws enable more direct participation by citizens in managing national life and development and lay the ground for the first ever local elections in Mozambique, which he announced would take place before the end of the year. The Prime Minister then pointed to the recent successes at establishing economic stability and underscored the favorable impact on stimulating private sector development. He also underlined the encouraging pace of the privatization program, noting the privatization of BCM and the decision to privatize 51 percent on the national airline, LAM. In all, he observed, recent events suggest that the foundations for a market economy have now been laid, and that the economy is stabilizing.

13. The Prime Minister then listed the principal challenges that face his government in the immediate future, including persistent high levels of unemployment and poverty, and worsening regional imbalances; lack of capacity; weak expansion of private investment; low efficiency of public administration and public investment; and a continued high dependence on external resources. He announced that to overcome these problems the Government was continuing to focus on short-term macroeconomic management, but now must compliment these measures with medium- and long-term structural reforms. These encompass continuing administrative reform, including measures to reduce corruption and increase the transparency of the administration of public funds; building capacity, particularly in the public sector and by providing greater and better quality education at all levels with the participation of the private sector; continuing to increase health care coverage; improving infrastructure, especially in rural areas; improving the environment for private sector expansion; and addressing poverty directly, through local planning units as part of administrative decentralization. Finally, the Prime Minister urged Mozambique's aid partners to support the HIPC initiative.

Statement by the IMF

14. Mr. Leite of the IMF (Annex V) began by congratulating the Government for vigorously pursuing its economic strategy and for the remarkable achievements of the last year. He reported that Mozambique's economic performance was strong in 1996 and that early results for 1997 seem to indicate that another good year lies ahead. Real GDP growth reached 6.4 percent (up from 1.5 percent in 1995), and inflation declined to 17 percent (down from 54 percent in 1995). Moreover, he emphasized that these positive results were achieved under difficult conditions. Grant financing for the budget declined by 4 percentage points of GDP, and tax revenue declined slightly. In addition, broad money expansion was only 21.6 percent, less than half its expansion in 1995, due to improved monetary control in 1996, partly as a result of the privatization of BCM.

15. Turning to the future, Mr. Leite observed that Mozambique's economic strategy for 1997 to 1999 is to capitalize on the gains achieved in 1996 in both macroeconomic stabilization and economic liberalization to encourage rapid growth in the private sector. The main elements of this strategy are: (a) fiscal adjustment to put the budget on a sustainable trajectory, including tax and customs reforms, and expenditure restraint, along with increased allocations to the social sectors; and (b) structural reforms in key areas such as privatization and private sector development, deepening of financial and exchange markets, and public administration (civil service and decentralization). He went on to announce that in late June 1997, the IMF Board is expected to consider a request by the Government of Mozambique for a second annual ESAF arrangement.

16. Mr. Leite indicated that the program for 1997 will seek to achieve real growth of 6 percent, a further decline in inflation to 14 percent in 1997 and 10 percent in 1998, and an increase in the net foreign assets of the banking system by \$90 million. He concluded by observing that the Mozambican economy has an excellent opportunity to maintain its growth momentum in the next three years, provided that macroeconomic conditions

remain stable, but cautioned that the debt burden is heavy, and foreign assistance will remain crucial. He also indicated that, once agreement had been reached between Russia and the Paris Club on the handling of Russia's claims, the IMF staff hope that the Boards of the Bank and the Fund will be able to reach a decision quickly on Mozambique's eligibility for the HIPC initiative.

Minister Salomão's Presentation

17. Minister Salomão presented the main Government document "the Challenges Ahead" (Annex VII). He began by acknowledging the donor community's continuing support during the ten years during which economic, social and political reform have been under way in Mozambique. He reminded delegates that together Mozambique and its partners had come through some difficult times, but that the country had held firm to its adjustment program. He went on to note that the medium-term strategy on which the country had been launched in 1995 had already brought positive results in 1996. Most notably, Mozambique was able simultaneously to achieve a significant reduction in inflation and strong economic growth. The Minister then went on to describe the achievements in 1996.

18. The Minister stressed, however, that the Government is fully aware that the challenges ahead are as great if not greater than those it is leaving behind. During 1997 economic policy in Mozambique will seek to consolidate and broaden the successes of the past. Specifically it will focus on four fundamental areas: macroeconomic stabilization, especially further reductions in the rate of inflation; promotion of increased private investment; promotion of social equity, through redistributive policies; and strengthening of public administration. He emphasized that the Government's fiscal strategy should be viewed in the context of the Government's efforts to shift from exclusively annual programs to a medium-term budget framework, and that this in turn indicated a shift away from short-term emergency management towards a longer term strategy for sustainable development. He added that implementing such a budget framework successfully would require a commitment from all partners, Government, bilaterals and multilaterals alike, to abide by the priorities, financing and procedures of the framework.

Plenary Discussion

19. Plenary discussion during the CG meeting centered on three principal themes. The first of these was agriculture and rural development. The Government and its partners agreed wholeheartedly on the central role of smallholder agriculture for broad based growth and poverty alleviation. There was considerable discussion and a variety of views on the specific role and activities of the public sector in promoting rural development. All participants agreed on the importance of completing the preparation of and launching the Government's sector program in agriculture, PROAGRI. Participants also stressed the importance of clarifying land issues and underscored the fundamental role of women in agriculture and rural development. All agreed that product and input

market development and the associated development of rural financial services were critical, but a number of aid partners questioned the Government's proposed program of support for *cantina* (small rural stores) development. The Government welcomed alternative suggestions, and a number were tabled, including the adoption of a multifaceted approach which would increase work on feeder roads and the development of micro and small scale financial services.

20. The second theme was private sector development. Mozambique's aid partners expressed satisfaction at the progress so far, but stressed the importance of maintaining the pace of reform and ensuring that important privatizations now underway were completed, specifically the privatization of BPD (the state bank) and LAM (the national airline) and the private concessioning of CFM South (part of the national railways). Participants also complimented the Government on the 'Red Tape' study and emphasized the need for rapid action on the issues that had been identified. Delegates also noted that that additional work needs to be done on the regulatory framework for environmental management and labor health and safety requirements. This was considered to be especially important, given the potentially large mineral, gas, power, forestry and industrial development projects currently on the drawing board. Delegates also shared the Government's concern that Mozambicans participate to the fullest extent in the country's economic growth. They supported the Government's desire to seek instruments that help enhance the skills of local entrepreneurs, increase their technical know-how, provide them with credit facilities, and create a supportive regulatory and legal environment.

21. The third principal theme was capacity building, and the discussion ranged well beyond the traditional areas of primary and secondary education and focused particularly on building capacity in the public sector. The presentation by the Minister for State Administration set the scene (para. 25.) While indicating that parts of the strategy still needs further elaboration, Mozambique's aid partners indicated their willingness to support a comprehensive public sector reform. All agreed that this was an area for further discussion in the coming months.

22. On questions related to governance, Mozambique's partners applauded the Government's progress in enacting the legislation for holding local elections and decentralizing responsibilities to the provincial level. Participants looked forward to the local elections planned in 33 municipalities for December 1997 or shortly thereafter. They also welcomed the commitment made by the Government to prepare plans to extend local elections countrywide. On another governance issue, participants commended the Government for the anti-corruption legislation submitted to the National Assembly, but stressed that this was a first step that would need to be complemented by creating the necessary institutions and taking rapid action.

23. Participants also agreed that reducing Mozambique's debt burden to sustainable levels was an urgent necessity. They recognized Mozambique's initiative in this area by

setting up a multilateral debt fund which was supported by several of the aid partners. In this context, Consultative Group members made a strong appeal for Mozambique's participation in the HIPC initiative at the earliest possible date.

24. Finally, several participants suggested that the next Consultative Group Meeting be held in Maputo. At the end of the meeting, the Government indicated its agreement with this suggestion.

Special Session

25. A Special Session was held to discuss the Government's strategy for Public Sector Reform. The Minister for State Administration, HE Alfredo Gamito, presented the Government's paper, entitled "Public Administration Reform; Perspectives and Strategies".

26. In his presentation, the Minister gave a summary of the reforms now being undertaken in Mozambique. Among these he stressed the work on rationalizing the civil service career framework and decompressing the civil service pay structure. He reminded delegates that the current civil service wage bill, which stands at 4.2 percent of GDP, is low by international standards. In addition, a combination of across-the-board salary raises and the erosion of already low wages through inflation has resulted in only a 7.6 differential between the highest and the lowest wage levels, leading to high levels of absenteeism, poor staff performance, and flight of skilled technicians from the civil service. The new framework will help correct this situation, and improve civil service performance more generally, but there are still several stages to be completed before it can be implemented. The Government expects to begin implementing the new system in 1999. In the meantime, he announced that the Government planned to begin decompressing salaries to stem the flight of technical staff, as an interim measure under the current framework. He requested the cooperation of Mozambique's partners in financing it. Delegates applauded the Government's initiative, emphasizing the urgency of Public Sector Reform to Mozambique's development, and agreed in principle with the strategy presented. Delegates encouraged the Government to finalize the details of the interim plan.

External Financing Requirements

27. Ms. Castro, who made the statement on external financing (Annex IX), reported that in 1997, the financing requirement, excluding possible debt relief, was estimated at \$560 million. She went on to note the composition of external financing has changed, reflecting the country's new economic realities and development needs. Ms. Castro drew the meeting's attention to the encouraging fact that private capital flows continued to increase and would amount to around \$165 million, equally distributed between private borrowing and direct foreign investment. At the end of the meeting, the Chair indicated that the external financing requirements had been met through a combination of investment (55%), balance of payments support (28%), food aid (6%), and other programs (11%).

Closing Remarks

28. In his closing statement the Prime Minister thanked Mozambique's development partners for their continued support. He declared that the increasing candor, constructive nature and depth of the dialogue between the Government and its partners over the last decade has brought a deeper understanding of Mozambique by the international community, leading to a richer debate and a singular convergence of points-of-view. He underscored the fact that the two overarching challenges that faced Mozambique were poverty and aid dependence. To address them he observed that the following activities, among others, had met with unanimous agreement: i) ensuring Mozambique's participation in the HIPC initiative at the earliest possible date; ii) rehabilitating rural infrastructure and expand coverage of services in health and education; iii) improving the capacity and efficiency of the public sector; iv) supporting initiatives that will enable greater participation of local entrepreneurs in Mozambique's private sector-led growth, and correct growing regional imbalances; v) integrating gender and environmental issues in Mozambique's development strategy; and vi) decentralizing Public Administration. Finally, he announced that with increasing macroeconomic stability the Government was now able to turn to pressing medium- and long-term issues.

29. In the Chairman's closing statement (Annex X), Ms. Pomerantz expressed thanks to the Prime Minister and his team on behalf of all participants for their contributions, noting that the success of the meeting was due in large part to their lucid presentations and thoughtful responses to issues raised. She added that the consensus among delegates this year was that this CG meeting was one of accomplishments. All agreed that the list of the Government's achievements over the last year was truly impressive, and that Mozambique had proved that it is possible to have both lower inflation and higher growth. In this respect, she felt that Mozambique's success had wider implications for Africa, by showing that persistent effort on structural adjustment does bear fruit, and by illustrating the importance of external support for committed economic reformers. However, she emphasized that despite these achievements, Mozambique remains one of the poorest countries in the world, and observed that the discussion during the meeting had, appropriately, focused mostly on what must be done in the future. Most striking, she suggested, was that this meeting marked a shift in emphasis from emergency and short-term stabilization to medium-term development issues. She then reviewed the main themes of the discussion: agriculture and rural development; private sector development; capacity building; and the future of the relationship between Mozambique and its external partners.

30. On the subject of agriculture and rural development, the Chair stressed the importance of the family and smallholder sector, and re-emphasized the willingness of Mozambique's partners to join the Government in finding solutions to developing rural markets and rural infrastructure as rapidly as possible. On private sector development, she emphasized the need to maintain macroeconomic stability and establishing a supportive physical and institutional infrastructure. She added that an emerging theme is to ensure that Mozambicans participate to the fullest extent in the development of the

economy. On capacity building, she reiterated that the Government must address this issue on several fronts, but noted that building capacity within the public sector was central to ensuring that Mozambique fully realized its development potential. Finally, on the future of the relationship between Mozambique and its development partners, she underscored the importance of reducing Mozambique's aid dependency, and of supporting increased Government leadership through such instruments as the medium-term expenditure framework and Sector Investment Programs. After expressing satisfaction that the donor community had met the bulk of the financing requirement for Mozambique in 1997, the Chair declared the meeting closed.

ANNEXES

**Proposed Agenda
Mozambique: Tenth Consultative Group Meeting
May 15-16, 1997**

Thursday May 15

- 08:00-09:00 Registration
- 09:00-10:15 **Opening Statements**
Chairman's Opening Statement
Government Statement
IMF Statement
UNDP Statement
- 10:15-10:45 Coffee break
- 10:45 - 12:30 **The Economic Reform Program and Private Sector Development**
Presentation by the Government
General discussion
- 12:30-14:00 **Buffet Luncheon for all participants at the Paris Office**
- 14:00-16:00 Continuation of discussion
- 16:00-16:30 Coffee break
- 16:30-17:30 **Special Session: "Public Sector Reform"**
Presentation by the Government
General discussion
- 17:30-18:15 **External Financing Requirements**
Government statement
Bank statement
- 18:15 Close of session
- 18:15- **Cocktail Reception hosted by Government for participants at Paris Office**

Friday May 16

- 8:30-10:30 **Participants' 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 Chairman
- 12:30 Meeting adjourns

MEETING OF THE CONSULTATIVE GROUP FOR MOZAMBIQUE
Paris, May 15-16, 1997

Chair:

Ms. Phyllis Pomerantz
Country Director
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Prime Minister

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Mozambique**Consultative Group Meeting
Paris, May 15-16, 1997**

Chairman's Opening Statement
Phyllis Pomerantz
Country Director for Mozambique
Africa Region
World Bank

Ladies and Gentlemen:

1. *Bom dia e bemvindos a esta reunião do Grupo Consultativo para Moçambique.* Good morning and welcome to the 1997 Consultative Group Meeting for Mozambique. This is the tenth formal meeting of this group, and it is a real pleasure to welcome so many familiar faces. In particular, I would like to extend a warm welcome to the distinguished Government delegation, led by His Excellency Prime Minister Mocumbi.
2. The conclusion of this first decade of our partnership marks a milestone. Mozambique has come a long way -- further, perhaps, than we dared to hope ten years ago, or even five years ago. Things are changing fast in Mozambique! Peace, the consolidation of Mozambique's young democracy, and steady reforms have injected a new dynamism into the economy that catches the eye of even the casual observer. The momentum for economic growth which began with the end of the war continues: GDP growth accelerated to over 6 percent last year; the grain harvest was the highest in twenty years; cashew output more than doubled; and the recovery of the industrial sector continued for the second consecutive year. At the same time, more people have access to health services and more children are going to school, especially in rural areas. Our objective today and tomorrow is to take stock of where we are, to take a new look at where we want to go, and to define our work in partnership for the next year. We are delighted and congratulate the Government on what it has achieved so far, while we recognize that there are many serious challenges ahead. We must be sure that progress is maintained, and built upon, through the next decade and beyond.
3. Every year the agenda we have traced together at these meetings has been more ambitious, and last year was no exception. Perhaps the most outstanding achievement over the last year is that growth with stabilization has become a reality. For the first time since adjustment began in 1987, the Government has succeeded in bringing down the annual inflation rate to single digits. At the same time, the nominal exchange rate remains stable and interest rates are beginning to come down. With the privatization all but complete of BPD and BCM, the two state-owned banks, monetary policy has become much more effective. In fact, Mozambique may be one of the few countries in Africa where financial sector reform is taking hold. There has also been progress on customs reform. And, perhaps most importantly especially for the poor in Mozambique, the Government has been able to protect recurrent expenditures in health and education despite a very tight budget constraint.

4. At this meeting last year Mozambique's partners also expressed concern about a range of governance issues. During the past year the Government has gone some way towards addressing these concerns. After extensive discussion in the Assembly, the role of local authorities has been redefined to allow for the decentralization of public administration, and new laws are now in place which provide the framework for local elections. Moreover, the Government has presented to the National Assembly the Government Ethics Bill and the High Authority Against Corruption Bill. The Government should be commended for these initiatives -- they are important first steps.

5. These changes are forcing us to look at Mozambique with new eyes. If ten years ago we hardly dared hope to be where we are today, then surely we can be even more ambitious for the future. I would like to share some of my vision for Mozambique's future with you.

6. The first thing I see as I cast my eye over the future is a rural scene. Country markets are thriving; and farmers, secure on their land, are growing food for their families and cash crops to trade. Children are going to school in an adequate classroom with a trained teacher and a good supply of textbooks, and people who are ill are being tended at a well equipped clinic. As I turn to the cities, I see they are bustling hubs where Mozambican private businesses are growing and competing freely. These businesses are based on the immense natural and human resources this country possesses. I see busy ports, railways and roads bringing prosperity to Mozambique and beyond. And as I look more closely, I see a population with the skills to run its own affairs in an open, vibrant and transparent civil society. And, no matter how hard I look, I can find very few of us -- the aid donors! --- Given what we have seen over the last few years, I don't think my vision is a mere dream.

7. But to get there the Government faces many challenges. To put things in perspective, even if Mozambique grows at 9 or 10 percent annually for the next ten years, it will still among the world's poorest countries. So what will it need to get there? Raising rural incomes means building better roads and getting rural markets to work so that farmers can get the farming supplies they need and market their crops at attractive prices. The foundation for a dynamic rural economy also calls for a land policy that provides secure access to land for small farmers and that allows an active land market to develop. PROAGRI, the sector program for agriculture that the Government is now preparing -- with cooperation from many of us -- will lay down the policy framework and strategy for sustained and rapid agricultural growth. We look forward to it starting soon.

8. Encouraged by the reforms and the drop in inflation, the private sector has begun to move in Mozambique, and the Government, together with its partners, must be sure to encourage this trend. It almost goes without saying that the first thing to do is to consolidate macroeconomic stability. As part of this, the spotlight now needs to focus on fiscal reform. Mozambique's most pressing priority over the next few years will be to expand domestic revenue, especially given falling aid levels and the country's still enormous needs. Both customs reform and the introduction of a VAT will be critical. These will be difficult reforms and we must stand ready to help. In addition, given the country's limited resources, every metical must be used wisely. The

Government deserves our full support of their ongoing fiscal management review process.

9. Fiscal sustainability also hinges on Mozambique's receiving deep and meaningful debt relief. Mozambique's debt fund, established with the support of some bilateral donors, will be helpful in the short term as it will release resources for social programs. In addition, by mid-1997, Bank and Fund staff hope to have their respective Boards establish Mozambique's eligibility for debt relief under the HIPC Initiative. As you know, the HIPC Initiative would mean bilateral and multilateral debt relief so that Mozambique's external debt is brought to sustainable levels as soon as possible. This is an area where we, Mozambique's external partners, must lend our full support.

10. Macroeconomic stabilization, including debt relief, will not be enough to foster private sector-led growth. The Government must also accelerate the pace of structural reform. The privatization program, one of the largest in Africa, is almost complete, and new private firms are emerging every day. The Government is now taking steps to make the laws of the country clearer and more up-to-date. It is also taking a closer look at the "red tape" of its bureaucracy and how to enforce its laws more effectively. This will allow private operators to enter, invest, and function easily throughout the economy. The Government is also very concerned about and committed to stimulating the nascent local entrepreneurial sector, so that Mozambicans from all walks of life can participate in the growth we foresee. There is a lot to do, and Mozambique's partners will need to continue to help.

11. Some of you, by now, will have heard the new term 'mega-projects' that is being used to describe some of the most exciting opportunities emerging for Mozambique. These projects, such as the Pande and Buzi Gas fields, the Maputo Development Corridor, a new hydroelectric plant on the Zambezi, the MOZAL aluminum smelter outside Maputo, and the proposed eco-tourism development in the south, are no longer just possibilities. They are on the drawing board and are rapidly being transformed into reality. Again, this is happening faster than many of us dared hope. These projects offer tremendous opportunities and tremendous risks. With them, Mozambique's economy could benefit from a real boost -- soon. They promise the sort of rapid growth that, under the right circumstances will provide the resources to put a real dent in Mozambique's poverty. But it is important that the Mozambican Government and its people are in a position to take full advantage of these opportunities and to benefit from them. We also need to recognize that Mozambique's growth comes primarily from natural resources. In the efforts to increase growth, there is a need to ensure that Mozambique's development is environmentally sustainable. We must be careful not to kill the goose that lays the golden egg.

12. Given all this, building capacity has to be Mozambique's greatest challenge and first priority. The new vibrancy in the economy is like the roaring of the engine of a brand new car. But to actually get somewhere, there have to be roads to drive on, there has to be gas to refill the tank, and the driver needs the skills to firmly control the wheel -- even on the most dangerous curves. Now, more than ever, building capacity is at the heart of the development challenge. In today's world, capacity extends far beyond basic education or skills training. The complexity of this challenge requires that Mozambique approach it from several fronts and with a wide range of instruments.

The coverage and quality of primary and secondary education must be increased, so starting the education sector investment program as fast as possible will be essential. The Government has also rightly expressed the urgency of increasing local skills through vocational education, training, and a university grounded on excellence and leaping into the twenty-first century through technology. In health, the Government's sector program is already making progress and is expected to increase the basic health coverage from 40 to 60 percent of the population by the year 2000. We must be sure that it keeps up the pace. And finally, progress in public sector reform -- from taking a careful look at the role and responsibilities of government to providing adequate incentives for civil servants -- is sorely needed. A Special Session on Public Sector Reform later today will provide an opportunity for the Government to present its plans in this area.

13. I have shared some of my vision with you today. I am sure it is not so different than that of many of yours -- I may not even be as brave and bold as some of you. This meeting is our opportunity to think how our partnership can help realize this vision. As the situation changes in Mozambique, the nature of our partnership must also change. In past CG meetings, we noted that the Government was firmly in the driver's seat; today, more than ever, Mozambique is in control of its own destiny. The Government's leadership and our evolving experience together is resulting in a more open, frank, and productive dialogue between the Government and us, its aid partners. As Mozambique's partners, we must continually nurture this dialogue and strive to improve the focus of our efforts. The sector investment programs, the fiscal management review and now the public sector reform process will all enhance the Government's leadership and sharpen the focus of our activities.

14. As we look to the future, we will need to think about introducing other changes in the way we work together, and I would urge you to air some of your thoughts on this topic today. I would also like to urge the Government to continue its efforts to build on our partnership for development -- making it deeper by joining forces with NGOs, private sector associations, and civil society in general; and making it broader by embracing common objectives and actions with neighboring countries. With the Government's strong leadership, the combined energies of all of us together can make the vision of Mozambique's future come true.

15. Now, turning for a moment from the visionary to the practical, let me talk briefly about the proposed agenda for the meeting and logistical arrangements:

- First, let me apologize for the limited seating at the table. The interest in Mozambique has grown beyond the capacity of our table, so we have had to limit delegations to one seat at the table.
- We will begin the discussion this morning with a statement from His Excellency the Prime Minister. This will be followed by a statement by Mr. Leite of the IMF and a statement by the UNDP.
- Following a coffee break, His Excellency the Minister of Finance and Planning, Minister Salomão, will give us a presentation on the Government's economic reform program and private sector development strategy. We will then open the meeting for a plenary discussion.

- We would then like to invite you to an informal lunch, outside this room, beginning at 12:30. As in past years, we plan to designate some tables for discussion of topics of particular interest to participants. Tentatively, we plan to have tables for Private Sector Development, Public Sector Reform, the Fiscal Management Review, Agriculture and the Maputo Development Corridor. Please let members of the Bank delegation know, during the coffee break, if you have additional suggestions. As always, some tables will be reserved for more general conversation.
- After lunch we will continue our discussions.
- Following the afternoon coffee break we will turn to a presentation by the Government on Public Sector Reform, followed by a plenary discussion.
- At about 5:30, we will turn to 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 here, on the Bank premises, beginning at the close of this session, hopefully at about 6:15 p.m.
- Tomorrow morning we will reconvene at 8:30, moving immediately to statements on external financing by participants. After coffee, we will turn to a summary of the financing position and to the draft of the press statement. After closing remarks, we will conclude the main meeting at 12:30. The Government and the Bank will hold a press conference on these premises starting at 1:00 p.m.

16. If these arrangements are satisfactory to you, I propose to launch the meeting by calling on HE Prime Minister Mocumbi for his statement.

**Consultative Group on Mozambique
10th Meeting**

Speech by S.E. Dr. PASCOAL MOCUMBI
PRIME-MINISTER
OF THE
REPUBLIC OF MOZAMBIQUE

Paris, 15 May 1997

Mr. Chairman

Distinguished Representatives of the Donor Community

Ladies and Gentlemen,

Allow me to begin by welcoming you on behalf of my government, my delegation and on my own behalf to this Consultative Group Meeting on Mozambique, and by wishing you every success in the work of the meeting. I would also like to take this opportunity to express once again the appreciation and gratitude of the people and government of Mozambique for the support we have received from the governments and organizations you are representing here.

This meeting is taking place at a moment when Mozambique has completed its tenth year of implementing fundamental social, political and economic reforms. Encouraging though they are, serious challenges nonetheless lie ahead if we are to consolidate the steps already taken and take our country to higher levels of social and political stability and accelerated, sustainable economic growth. My government's current activities are essentially focused on these challenges and a systematic search for ways of meeting them. We therefore wish to bring to this meeting our vision and our choices, in order that we may share them with you. We have no doubt that as in the past we will emerge enriched by your contributions, and that our programmes will continue to deserve your invaluable support.

Ladies and Gentlemen,

As you have been able to observe over the last 10 years, enormous progress has been made in re-establishing peace and socio-political stability, deepening democracy, and liberalising and stabilising the economy.

Following the general multi-party elections and unceasing labours in favour of national reconciliation, today's environment is one of growing stability with widespread participation of political forces and civil society in public affairs. The Assembly of the Republic (the national Parliament) is proving to be increasingly active and efficient in discussing and taking decisions on fundamental national issues. The Parliament and government that emerged from the general elections continue committed to preserving peace, deepening national reconciliation and promoting citizen's broad democratic participation. In this context I would like to mention the Assembly's recent approval of the legislative package on creating local authorities.

A fundamental change in the direction of large scale decentralisation will take place in Mozambique's public administration, enabling more direct public participation in managing national life and development. The first ever local elections will take place before the end of this year, covering the main cities and towns. Any political party as well as independent candidates may stand for election.

Ladies and Gentlemen,

In the economic sphere, the government will continue to implement a macro-economic stabilisation and structural adjustment programme. In addition to restrictive fiscal and monetary policies, price liberalisation, exchange rate liberalisation and commercial and financial liberalisation, the reforms have included redirecting public spending towards the education and health sectors and basic infrastructures, and a far-reaching privatisation process. More recently, and particularly since 1996, the reforms have been gaining unprecedented impetus with measures that have a major impact on increasing the space and developing a favourable climate for the expansion of the private

sector. The pace for privatisation, including in the financial sector (not least privatising the largest commercial bank in the country) and in air transport (with the decision to privatise 51% of the national airline company already taken), should also be mentioned, as should the first efforts towards reducing the tax burden on the private sector, with the reform of customs tariffs that was introduced in the second half of 1996. This latter measure required additional actions to increase the efficiency of the customs services and apply the new tariffs in a transparent manner. The government thus decided to contract customs management out to a private company for a 3-year period.

As an overall objective, I can state that the government aims to adopt a style of economic management which is increasingly based on indirect forms of intervention.

The combined effects of the peace and political stability and the economic reforms resulted in 1996 being the most successful year since the reforms began in 1987. It has been a cumulative learning process, sometimes carried out in adverse conditions, in which we all learned by doing. Effectively, the bases for the operation of a market economy have been established and the economy is tending to greater stability. Gross domestic product grew by around 6,4% and exports of goods by 30%. These results came in parallel with both a lower inflation rate, 16.6% against over 50% in the two previous years, and lower levels of currency depreciation, of only around 5%.

Ladies and Gentlemen,

An ability to identify the main challenges of the future is indispensable to guaranteeing that the road we have already travelled and the successes we have achieved are irreversible. We

cannot forget that serious structural problems persist and require appropriate solutions, for example:

- High levels of unemployment and poverty. Mozambique continues to have one of the lowest per capita incomes in the world, and around 60% of the population are living in absolute poverty, mainly in the rural and peri-urban areas;
- High illiteracy rates, low levels of skills in the national labour force, the prevalence of endemic diseases and low levels of coverage by the public health and education networks;
- A weak export recovery that continues to be based on traditional goods from the primary sectors;
- Low efficiency and poor supply of goods to meet domestic demand (including non-tradable);
- Weak expansion of private investment, both national and foreign;
- Low efficiency of public investment;
- Low efficiency of the public administration;
- Continued, and worsening, regional imbalances;
- High dependency on external resources, creating unsustainable balance of payments positions with debt growing to unsustainable levels or implying extreme dependency on grants.

With a view to overcoming these problems, the government's option is to continue its rigorous short term macro-economic management, allied and adapted to the need to introduce medium and long term structural measures:

- The process of administrative reform is a requirement for good governance. Excessive bureaucracy and associated corruption are obstacles that must be removed with the necessary urgency and decisiveness. Efficient management of the state requires competent civil servants who are concerned with *res publica*. The common citizen, the investor (national and foreign) must have confidence in the public institutions. Along this line of thinking, the government has sent bills on Governments Ethics and creating the High Authority Against Corruption to the Assembly for approval. Laws on (i) the integration of the State Budget and General Accounts, (ii) the Procedures of the 3rd Section of the Administrative Tribunal and (iii) supervision of the Public Accounts have already been approved, and will also contribute to increased transparency in the use of public funds.
- An essential feature of administrative reform is the Capacity Building programme. In the government's view, this programme is intimately linked to training and being able to retain highly qualified national technicians is another factor for achieving this goal.
- In the health sector, the government will continue to implement policies aimed at increasing the availability of essential health care and expanding coverage. With regard to education, the goal is to carry out large scale training as a key element in effective capacity building, in a context of the free mobility of human resources. In a long term perspective the training programme takes basic education as its priority, but also necessarily covers higher education and technical education

(basic, middle level, craft and professional training). There will be a systematic effort to improve the quality education system at all levels. The involvement of the private sector is very welcome in the education and health sector activities.

- In view of the accelerated growth of the economy, programmes to develop basic infrastructures continue to be a government priority, particularly those in the rural areas such as water supply, irrigation, storage and conservation of produce, roads, transport, communications and marketing networks.
- At the same time, the effort to improve the environment for the private sector expansion and development will be taken concerning privatisations, introducing favourable fiscal regimes, revising commercial and investment legislation and reviewing procedures with a view to simplifying and “de-bureaucratising” them. The government is also concerned to develop specific actions in favour of the national private business class, which is still nascent and lacking in financial resources. This group has to an extent been penalised by the restrictive policies that help slow down inflation, particularly in the decapitalised rural areas. It is therefore the government’s intention to request the support of the international community also in mobilising resources for:
 - clearing the debt contracted by the national private sector during the war, which became unrevocable for this reason, and creating the bases for recapitalising the sector;
 - transforming and expanding the existing Economic Rehabilitation Fund (FARE) into a financial institution that will promote the development of the national private business class, particularly the segment operating on a

small scale and linked to the rural areas. This institution will be open to financial and management participation from the private sector itself, non-governmental organizations, donors and other interested parties; and

- Finally, the existing social inequalities and regional asymmetry could endanger the climate of peace, calm and social harmony that is a basic prerequisite for balanced and self-sustaining socio-economic development. Full citizenship rights imply equality of access to available resources and to enjoyment of the results of economic growth. Within this decidedly moral framework, eliminating poverty is one of the priorities in our 1995-1999 Government Programme. Thus, as a part of our search for greater equity in regional development, in addition to the joint ventures referred to above we will continue to promote local planning units as part of the administrative decentralisation - bodies that are autonomous from the public administration or operate as private institutions with state participation. We would cite the recent creation of the Zambeze Planning Office as an example for this. These units will have the task of identifying basic infrastructure development activities, promoting preparation of the relevant programmes and projects and mobilising resources for their implementation. They will also work to identify and promote business opportunities.

Ladies and Gentlemen,

Continuing with the political and economic reforms and establishing secure bases for growth and sustainable development in Mozambique is still dependent on the availability of external resources. As we have already said, this need has generated an accumulated foreign debt at unsustainable levels, with debt service exercising a constraining pressure on the social and other

basic public programmes. The perspectives for growth based on the private sector show no sign that resources for paying the public debt will also have to be met. Concessionary debt alleviation at the level of the Paris Club or bilaterally is therefore of utmost importance. The initiatives of bilateral donors in supporting service payments on multilateral debt, the question of Mozambique's eligibility for the debt reduction initiative for highly indebted poor countries (HIPC) is crucial. Your support in favour of an urgent final decision on this matter would be greatly appreciated by my government.

Ladies and Gentlemen,

My delegation is at your disposal to go into a greater depth regarding these and other questions on the course of reforms in Mozambique and the perspectives for socio-economic development.

I wish the meeting every success and thank you for your attention.

Thank you very much.

Paris, 15 May 1997.

**Statement of the Staff Representative
of the International Monetary Fund at the
Mozambique Consultative Group Meeting
Paris, May 15-16, 1997**

1. When we last met in April 1996, we were concerned that Mozambique's inflation rate had remained stubbornly above 35 percent since the beginning of the structural adjustment effort in 1987. I am glad to report that Mozambique's economic performance was strong in 1996 and that early results for 1997 seem to indicate that another good year may lie ahead of us. Real GDP growth reached 6.4 percent in 1996 (up from 1.5 percent in 1995), and the inflation rate declined to only 17 percent (down from 54 percent in 1995). For the first four months of 1997 cumulative inflation was 5.7 percent, compared with 17.5 percent in the same period of 1996. Furthermore, structural reforms continued to move ahead at a good pace. These are remarkable achievements, and I would like to start by congratulating the Mozambican authorities for vigorously pursuing their economic strategy. The authorities' efforts certainly paid off in 1996, suggesting that stabilization may be conducive to growth, even in the short run.
2. It is important to note that these positive results were achieved under difficult conditions. Grant financing of the budget declined by 4 percentage points of GDP in 1996. Tax revenue also declined slightly as a percent of GDP on account of widespread duty exemptions, the deterioration of customs administration, and tax arrears by the state-owned oil company, stemming from domestic price controls and rising international oil prices. The authorities reacted to the decline in revenue and grant financing by reducing expenditures and net lending by 4 percentage points of GDP and by increasing net foreign borrowing by 1 percentage point of GDP. The cut in expenditures (mostly in investment) was sufficient to offset the decline in grant financing, but the overall deficit after grants increased slightly (by 0.2 percentage point of GDP), because of the decline in revenue.
3. Improved monetary control in 1996, partly as a result of the privatization of the Commercial Bank of Mozambique in mid-1996, allowed broad money expansion to decelerate sharply. For the year, broad money increased by 21.6 percent, less than half its expansion in 1995. The monetary expansion was driven mostly by the accumulation of net foreign assets, as the behavior of net domestic assets was contractionary. However, as the government was once again able to provide resources to the banking system, credit to the economy grew strongly without rekindling inflationary pressures.
4. The balance of payments position strengthened in 1996, exceeding program objectives. Merchandise exports and imports both grew rapidly, net service exports increased, and official transfers declined. The external current account deficit narrowed from 23 percent of GDP in 1995 to 21 percent in 1996. The capital account surplus nearly quadrupled, reflecting substantially higher official and private sector net borrowing and a strong increase in direct

private investment. Consequently, gross international reserves increased to about 4.4 months of imports of goods and nonfactor services at end-1996, and the metical was relatively stable during the year.

5. Mozambique's economic strategy for 1997-99 is to capitalize on the gains achieved in 1996 in both macroeconomic stabilization and economic liberalization to encourage a takeoff of the private sector. The main elements of the strategy are (a) fiscal adjustment to put the budget on a sustainable trajectory, including tax and customs reforms, and expenditure restraint, along with increased allocations to the social sectors and investment; and (b) structural reforms in key areas such as privatization and private sector development, deepening of financial and exchange rate markets, and public administration (civil service and decentralization). In late June 1997, the Executive Board of the IMF is expected to consider a request by the Government of Mozambique for continued support of its economic program in the form of a second annual ESAF arrangement.

6. The 1997/98 program will seek to achieve a real growth rate in the nonenergy sector of 5 percent in 1997, a further decline of inflation (on an end-period basis) to 14 percent in 1997 (end-period basis) and to 10 percent in 1998, and an increase in the net foreign assets of the banking system by US\$90 million. Ongoing investments in the energy sector should raise total real GDP growth to about 6 percent in 1997. To improve the business environment, the government plans to simplify licensing requirements, to review the commercial code, and, more generally, to ensure that businesses located in Mozambique can successfully compete domestically and abroad.

7. Measures will be taken to increase tax revenue by 1.3 percentage points of GDP in 1997, including improvements in customs and internal tax administration, a further reduction of customs duty exemptions, quarterly adjustments of the excise tax on petroleum products to keep petroleum tax revenues growing in line with inflation, and monthly adjustments of the domestic price of petroleum products to protect the cash-flow position of the state-owned oil company. However, further efforts are required to improve the efficiency and equity of the tax system. The 1996 tariff reform was a step forward, but additional adjustments are still needed to reduce tariff dispersion, and to avoid distortions caused by efforts to protect domestic production. Reforms to reduce tax rates and broaden the tax base are also needed, including the introduction of the value-added tax as scheduled in mid-1998.

8. Total expenditure and net lending will increase by 5.8 percentage points of GDP, reflecting mainly the incorporation into the budget of spending that was previously outside the budget (government on-lending and transfers to public enterprises, and the cost of the contract for preshipment inspection), as well as new special programs, such as the contract for customs management and social expenditures financed with counterpart funds associated with the early repayment of debt to multilateral institutions. As a safeguard, the authorization for expenditures amounting to 1 percent of GDP is contingent upon meeting the revenue targets in the first half of 1997. The program envisages an increase in education and health

expenditures by 1 percentage point of GDP, and we urge the authorities to conduct regular surveys to assess whether social indicators are improving as a result.

9. In 1997, the government aims at limiting the overall budget deficit after grants to 6.2 percent of GDP or lower, and accumulating deposits in the banking system amounting to about 1.1 percent of GDP. These targets assume net external financing of 22.5 percent of GDP, an increase over 1996.

10. The 1997 program envisages a prudent monetary policy backed by close monitoring of financial trends and strict enforcement of regulations. The restructuring and privatization of the Banco Popular de Desenvolvimento will be a milestone in working toward these objectives. Broad money growth will be limited to about 20 percent. Some further build-up of net foreign assets is envisaged, partly to relieve pressure on the exchange rate. However, continued government repayments to the banking system will permit an extension of credit sufficient to sustain growth.

11. Despite the good progress to date, Mozambique's adjustment effort in the next few years will remain challenging. The potential for agricultural development is considerable, but will need to be unlocked by a concerted effort to ensure equitable access to land, encourage smallholders to increase yields, and expand marketable surpluses. Development of a rural marketing network, road access to areas with agricultural potential, and improvement of the delivery of government services in rural areas, particularly education and health, will be crucial to ensure that agriculture becomes an engine of growth and poverty reduction.

12. Local elections and government decentralization are expected to take place in the near future, which would bring government programs under closer public scrutiny and require a better alignment between government expenditures and local economic development needs. Accordingly, local finances will need to be transparent and to be reported accurately and in a timely manner to enable a proper assessment to be made of the state of the government finances. The expected increase in government employment at the local level will need to be coordinated with reductions at the central level to prevent an excessive growth of the civil service, a problem that Mozambique has avoided so far. The devolution of responsibilities to local governments also presents a good opportunity for the central government to eliminate duplication, low priority activities, and activities that can be efficiently contracted out to the private sector.

13. External financing requirements for 1997 will amount to about US\$5.5 billion, including regularization of obligations to the Russian Federation (estimated at about US\$2.2 billion) and other non-Paris Club bilateral creditors, as well as arrears on the private sector commercial debt of the Cahora Bassa project (about US\$1.7 billion). About US\$3 billion of the financing gap could be covered by the completion of bilateral agreements with non-Paris Club creditors on terms at least comparable to those obtained from Paris Club creditors. An additional US\$135 million in current maturities falling due to Paris Club creditors in 1997 will be rescheduled under the terms of the 1996 Paris Club agreement. A further US\$1.7

billion—corresponding to the Cahora Bassa project—is assumed to be rescheduled privately. Of the remaining US\$760 million, it is expected that disbursements from existing commitments from multilateral creditors would account for US\$260 million, direct foreign investment and commercial loans to the private sector would amount to about US\$165 million, with US\$335 million expected from bilateral creditors.

14. The improvement in economic performance, together with peace and democracy, has led to increased investor interest in Mozambique. The Mozambican economy has an excellent opportunity to maintain its growth momentum in the next three years, provided that macroeconomic conditions remain stable. However, the debt burden is heavy, and foreign assistance will remain crucial, as there is still much to be accomplished in reconstructing the economy, improving social conditions, and in creating a dynamic export base to ensure the long-term viability of the balance of payments. This is why it will be important for the donor community to provide adequate amounts of concessional assistance to meet the financing requirements of Mozambique.

15. It should also be noted that Mozambique's economic performance and heavy debt burden make it a potential candidate for assistance under the HIPC Initiative. However, a complete debt sustainability analysis for Mozambique requires information on the expected treatment of Mozambique's debt to the Russian Federation. Discussions are ongoing between the Paris Club and the Russian Federation on the issue of comparability of treatment among creditors. The staff hopes that, once agreement has been reached between Russia and the Paris Club on the handling of Russia's claims, it will be possible in the near future—though the timing would have to be decided by the Boards of the Bank and the Fund—to reach a decision on Mozambique's eligibility for assistance under the HIPC Initiative.

*Consultative Group Meeting on Mozambique
Paris, 15-16th May, 1997*

STATEMENT BY
UNITED NATIONS DEVELOPMENT PROGRAMME
(UNDP)

*By Solomon S. O. AKPATA, Chief, Southern Africa Division,
Regional Bureau for Africa*

Madam Chairperson, Honourable Prime Minister, Honourable Ministers, distinguished members of the Mozambican Delegation, Ladies and Gentlemen. Let me first and foremost thank the World Bank for arranging this timely CG meeting and for this opportunity given the UNDP and indeed the UN agencies to participate in it. With me this morning is Mr Emmanuel de Casterle, the UN Resident Co-ordinator and UNDP Resident Representative for Mozambique. He will take over this seat after this statement. You will agree with me that he is closer to the scene and more akin to the deliberations which we will have in the next two days. Mozambique, because of our role in the peace process amongst others, is a nation close to the heart of the United Nations. The presence of several of the UN agencies here today is a proof of our continued interest in the socio-economic development of Mozambique.

I acknowledge the comprehensive statement made by the Honourable Prime Minister. It is full of hope and achievements. It calls for the continuation of our joint efforts in seeing Mozambique succeed in their determined drive towards sustainable growth that will lead to an improved livelihood for all its people.

Madam Chairperson, only four years ago, Mozambique signed the peace agreement that ended a long drawn out devastating civil war. Today, we note the tremendous achievements registered so far in the country. Peace has been consolidated, democratic rule is in place with a strong opposition party. Positive and significant economic growth has been registered with an advent of an apparent buoyant private sector.

UNDP congratulates the Government of Mozambique for these achievements and we hope that the present consolidation will lay a stronger foundation for the needed impetus for a higher sustainable growth. Madam Chairperson, while we speak of consolidation, and the recognition of the gains already made, at the same time we note the major challenges that still persist, that must be tackled now and in the near future.

Madam Chair, Ladies and Gentlemen, there is still a lot to be done, especially in the areas of good governance and poverty alteration. UNDP, as you all know by now, strives through its development interventions in our programme countries, for sustainable human development, a development that perpetuates equality that is sustainable and worth sustaining. In this effort, the private sector has a very important role to play. This is very true for Mozambique. While external aid is still needed to solidify this development, an internally stimulated growth and thus ownership is a must.

Madam Chairperson, the UN System wide Initiative on Africa which is fully supported by the World Bank and EC-A, has as one of its pillars the issue of Governance. UNDP finds a direct relevance to Mozambique's development to good governance. As the UNDP Administrator, Mr Gus Speth recently stated, "the effectiveness of government and its relationships to civil society are key determinants in whether a nation is able to create and sustain equitable opportunities for all its people".

In this regard, UNDP in conjunction with other Donors, is committed in assisting the government of Mozambique in its efforts to decentralise, hold local elections, strengthen the legal sector and carry out public sector reform. UNDP recognises that Public Sector Reform is a decisive issue to ensure effective and efficient management of resources, while being at the same time, a complex issue involving not just wages and career paths, but also institutional restructuring and access to new approaches and information. UNDP is prepared to continue to facilitate the determined partnership, between Government and donors in this area. We believe that this is more needed now, since the already overstretched and understrength capacity existent in Government, risks becoming even weaker.

ECONOMIC POLICY

Madam Chair, UNDP is very pleased to note the Government's determination to pursue its present economic course given the performance already registered, especially in terms of growth and economic policy. We now feel that these gains need to be consolidated in order to assist the development of a strong private sector, through a five front approach.

1) The country needs to continue with its stabilisation policy focused on monetary control, deflationary measures and to see through the process of privatisation. However, UNDP also feels that the Government should aim for higher growth figures, aiming for 8% as a minimum, while striving for double digits figure.

2) In terms of increased support to rural areas and the promotion of rural trade, rural Mozambique is still the heart of Mozambique's private sector in the form of small farmers, artisans and particularly commercial traders. We therefore support the Government's focus on rural areas and the promotion of the rural commercial network, through the rehabilitation of infrastructure, particularly roads to link producers to markets, and improve the benefits to expand the concession of credit and protect the rights of local producers.

Let me take this opportunity to congratulate the Government on the new strategic master plans being developed. We look forward to concluding discussions on PROAGRI.

3) Whether in rural or urban areas, employment creation in Mozambique is closely tied to micro and small business, many of which operate in the informal sector. We recognise the role of the informal sector as an employment creator and UNDP stands ready to assist

the Government's efforts through the Ministry of Labour in partnership with the private sector to establish a national policy to promote small-scale industry and vocational training. Such a policy can increase access to credit, to advice and information as well as vocational training.

4) Equitable growth relies to a large extent on the Government's ability to reallocate revenues to the needy, which is most of the population in Mozambique and to create equal opportunities. While economic growth through a well performing private sector will be the key to bolstering state revenues in the long-run, we also look forward to a swift streamlining of the national tax system and customs administration in the short to middle run.

5) Mozambique's integration in the global economic market requires serious sustained policy and management in order to maximise gains. Mozambique will need strategic master plans for areas such as the transport sector, particularly at regional level, promotion of exports, industry, investment and tourism, especially eco-tourism. UNDP avails itself of the opportunity and is at the disposal of all present to assist with the establishment of a permanent mechanism to foster increased public/private sector debate on policies linked to Mozambique's growing economy as it moves into the international arena.

Madam Chairperson, the country's continuing high indebtedness is a major handicap to development. UNDP is concerned at the growing size of the debt problem : Total debt service is now four times GDP, while debt service represents 116% of exports. Debt service for 1997 is higher than the total wage bill for the civil service. Net debt service increased from \$69 million in 1995 to a scheduled \$110 million in 1997. We agree with the Government that the benefits of liberalisation ought to have a swifter impact on people's everyday life and that the debt problem prevents this to an extent that it reduces the Government's already scarce resources at a time when we are encouraging the Government to reallocate resources to ensure equitable growth for poverty alleviation.

The recent debt rescheduling on the Naples terms already represents a positive development and provided the Government with an additional resources for its 1997 budget. We now hope that Mozambique qualifies for HIPC status.

SOCIAL DEVELOPMENT

Madame Chairperson, the social dimension of economic growth is decisive not only in terms of quality of life for the people, but also in terms of improving national developmental opportunities. A World Bank study highlighted that 64% of growth is attributed to human and social capital as opposed to physical or natural capital. In other words, not only are investments in the social sector fundamental for poverty alleviation and improved opportunities, but they are crucial to the emergence of a strong private sector.

We do welcome the Government's financial and policy efforts over the last few years in health and education sectors as well as in matters relating to population policy and the fight against HIV/AIDS. At the same time, we look forward to seeing major spending in education and health as the basis for a poverty alleviation strategy. We also expect the formulation of a National Population strategy and a National Food Security Strategy.

UNDP also looks forward to a strong alliance between the Ministries of Culture, Youth and Sports, Labour and Social Action Co-ordination to revitalise the formulation of a poverty alleviation network.

Finally, UNDP encourages the donor community to support the Government's Debt Alleviation Fund as a means to foster real public spending in the key sectors of education, health and water. In this regard, we also hope that the new UN Special Initiative on Africa will lead to the efforts of the Government in these key priority areas.

I thank you.



República de Moçambique

**TENTH CONSULTATIVE GROUP
MEETING FOR MOZAMBIQUE**

THE CHALLENGES AHEAD

**Speech of His Excellency the Minister of Planning and Finance
Dr Tomaz Augusto Salomão**

Paris, May 1997

MR CHAIRMAN

REPRESENTATIVES OF THE DONOR COMMUNITY

LADIES AND GENTLEMEN

I would like to start by greeting all those present at this forum, and express my gratitude for the continued interest in supporting the development of my country.

Implementation of economic, social and political reform in Mozambique has now been underway for ten years. We have come through difficult moments, persisting with structural adjustment policies despite the adverse conditions imposed by the war.

[Transparency 1]

Looking back to the medium term strategy, which we have been pursuing since 1995, the fundamental areas are:

- A. rehabilitation of infra-structure;
- B. developing human capital;
- C. promoting growth of agricultural production;
- D. creating a favorable investment climate.

It is with this strategy that we have been working and I am pleased to announce that our efforts have had positive results in 1996. Indeed, for the first time, we were able to simultaneously achieve strong reduction in inflation alongside satisfactory economic growth.

[Transparency 2]

I will go through the essential points of these results.

The inflation rate fell by 38 percentage points in relation to 1995, reaching only 17%. Thus it was possible to achieve a rate 5% below the target established in the economic program.

This result reflects, essentially, the restrictive stance maintained in fiscal and monetary policies, as well as the effects of the good agricultural year.

[Transparency 3]

The main objective of fiscal policy continued to be the deceleration of inflation. In order to achieve this, a part of the resources available to the state, to be exact

1.9% of GDP, were deposited with the banking system. This permitted expansion of credit to the private sector within the context of marked deceleration in inflation.

Another important element in the fiscal policy strategy adopted for 1996 was to pursue actions designed to improve the allocation of resources. With this end, the process of revising the investment portfolio was started, beginning with the World Bank.

Another path pursued within this strategy can be seen in the way resource allocation was managed, giving priority to the social sectors.

The strategy just described, which was substantially fulfilled in 1996, did however, have some negative results. Expenditure cuts, after several consecutive years of reductions, had a negative impact in several sectors. Economic growth itself depends to a great extent on the existence of a properly functioning public sector, and on public investment in infrastructure.

[Transparency 4]

However, growth in expenditures depends first and foremost on growth in receipts. Meanwhile, in the short run, increases in revenues must be achieved not through raising taxes, but through reducing fraud and evasion. The objective of stimulating growth in private investment must be complemented by measures on the fiscal side. This means that the tax burden should be light and fair, in order to ensure incentives for the investor. Thus, not only is it not advisable to increase taxes, but in some specific areas they should be reduced.

[Transparency 5]

It therefore becomes essential to balance reductions in some taxes by increased efficiency in tax collection. This was what was done in 1996.

Proceeding with efforts to create a good investment climate, tariffs were revised. Average import duties were reduced from 17.7% to 10.8%. Likewise, consumption taxes were drastically reduced, now covering only luxury goods and items considered bad for health.

We hope that, from the point of view of receipts these reductions in tax levels can be balanced by broadening the fiscal base, either because incentives for evasion and fraud have been reduced, or because measures have been taken to increase control.

Amongst the measures adopted to increase efficiency of collection, as already mentioned on previous occasions, a pre-shipment inspection firm was contracted, with a mandate to reconcile taxes due and paid. In Customs management, a company was hired which, over the next three years, will

modernize the system and train Mozambican staff. Actions to reduce evasion of internal taxes were intensified.

[Transparency 6]

Also of note was the rise in the tax on fuel, which had two important effects—increasing revenues and contributing to the equalizing of consumer prices with neighboring countries. Another principle that was followed was that of adjusting taxes fixed in value to reflect past inflation.

Finally, I would mention that the preparatory work for the introduction of VAT is underway. This is an extremely complex task, which will require the complete modernization of the tax collection system. However, we are confident of success.

[Transparency 7]

The quantitative result of the actions just described was real growth in revenues of 5.6%. This result was achieved exclusively through increases in internal tax receipts, which rose by 10%. Taxes on international trade did not reach the target planned for the year, and in fact fell in real terms by 4%. Overall, fiscal revenues maintained about the same levels achieved in 1995 relative to GDP, despite taxes on international trade having fallen by 1% as a proportion of GDP, to 5%.

[Transparency 8]

The lack of growth in receipts relative to GDP proved to be incompatible with rising expenditure needs, resulting in the necessity to make cuts in programmed expenditures. These reductions were selective wherever possible, conditioned by the responsibilities assumed by the state in terms of ensuring payment of salaries, supporting the social sector and debt servicing.

[Transparency 9]

Compared to 1995, current expenditures as a percentage of GDP fell by close to one percentage point, and overall expenditures by more than 3%.

[Transparency 10]

In this adjustment process it was attempted to maintain the resource allocation priorities defined in the budget, which meant that the social sectors were prioritized. The resources allocated to these sectors for current expenditures grew in real terms by close to 3%, equaling in total 4% of GDP.

[Transparency 11]

Overall, this adjustment process has resulted in a reduction in the fiscal deficit before grants of 3.8 percentage points of GDP relative to 1995. Thus it was possible to ensure public saving in the banking sector of 1.9% of GDP, which is consistent with the aim of reducing inflation.

[Transparency 12]

In terms of monetary policy, the strategy followed had the main objective of reducing inflation. To achieve this aim, the program followed was of a markedly restrictive nature, with great attention played to reinforcing discipline in the banking system and improving the instruments of monetary policy management.

[Transparency 13]

Amongst the measures adopted in 1996, of chief importance is the privatization of the largest state bank, dealing with the majority of operations on the market. Another measure adopted was the creation of the interbank exchange market, which had stabilizing effects on Metical depreciation by permitting greater fluidity in foreign exchange flows financing imports.

In order to reinforce discipline in the banking system, the rediscount rate was more actively used to penalize shortfalls in legal reserves. In terms of bank supervision, major steps were taken with the same objective.

The credibility of the market, which is consolidating, was reflected by the entry into the market of a new bank and a new insurance firm.

[Transparency 14]

With regard to the quantitative goals set for monetary policy in 1996, it should be noted that they were all met. The process of strengthening international reserves was continued, with a positive flow of US\$ 158 million. The number of months of import covered by reserves rose from 2.7 in 1995 to 4.4 in 1996.

Net domestic assets fell by 45%, a decrease that was compatible with a rise in credit to the private sector of 43%.

[Transparency 15]

The quantity of money rose by 22%, as opposed to growth in the previous year of 55%.

For the first time since the liberalization of the exchange market, 1996 saw marked stability in the Metical, with depreciation against the dollar barely reaching 5% over the year.

This result, along with rapid growth in exports and the positive influence of the introduction of the interbank exchange market, reflects growing confidence in the Metical amongst economic agents.

One of the measures adopted which reinforced this confidence was the increase in the proportion of export revenues which it is permitted to retain in foreign currency. It was first raised to 65%, and then again, to 100%, in January 1997.

[Transparency 16]

With regard to economic growth, the results in 1996 were also very positive. Gross Domestic Product rose by 6.4%, with significant growth in all sectors of the economy.

Agriculture, impelled by a good year, registered growth of 9%. Industry showed remarkable growth overall, of 13%, despite the fact that this was concentrated in only a few branches. In all other sectors of the economy, including services, growth was between 7% and 8%.

LADIES AND GENTLEMEN,

[Transparency 17]

As well as fiscal and monetary policies, actions in other domains continued, with the aim of restructuring the economy and achieving a solid, competitive base. In this context, the continuing privatization process should be highlighted; 22 large companies were alienated.

Following the identification by the private sector of the barriers to investment growth existent in Mozambique, a study was commissioned to more precisely identify the bureaucratic procedures that are most onerous for investors. This study has led to the undertaking of concrete actions to remove these barriers.

In the area of prices, automatic revisions in line with inflation and depreciation were extended to water services, and now cover almost all the public utilities. Also noteworthy were the six-monthly revision in rents on state-owned houses.

[Transparency 18]

The favorable climate created by the reforms I have just described was reflected in the volume of new investments approved in 1996. These reached a total of 557 million dollars, more than double the total in 1995.

These investments cover all areas of economic activity, with greater emphasis on agriculture and industry, where more than half of the authorized investments are concentrated.

[Transparency 19]

In terms of external disequilibria, positive results can also be reported for 1996. Exports of goods increased by almost 30%, as opposed to an increase in imports of 10%. The current account deficit fell to 665 millions. Due to greater borrowing from public and private sectors and the increased inflow of foreign capital, the overall deficit fell to its lowest level since the beginning of the adjustment process, totaling only 90 million dollars. This is equivalent to a fall of 166 million dollars relative to 1995.

Modernization and capacity building in the public administration constitute important objectives that Government has been pursuing for a number of years.

This is a complex task, which, in order to be properly executed, has to begin with the establishment of adequate flows of information in order to manage the state's human resources properly.

I would like to cite only the key steps taken in 1996 in the direction of decentralization with the submission to the National Assembly of the Framework Law for Local government and the legislation which will permit the functioning of the municipalities.

Also worth emphasizing are the actions undertaken to combat corruption and make all the processes in which the state is involved more transparent.

The elimination of corruption is a process which must be based, clearly, on two main pillars; (1) the re-establishment amongst public servants of professional ethics; and (2) increases in salaries to levels that value their contribution and are consistent with the cost of living. Additional to these two precepts, I would add a third one that is the easiest to execute; the implementation of preventive and punitive anti-corruption legislation.

In 1996 some positive steps were taken in this last respect with the submission to the National Assembly of the Law of the High Authority Against Corruption and the Law of Government Ethics. With regard to training, the Maputo Public Administration Institute was created, and courses were given nationwide for specific target groups of public servants.

[Transparency 20]

he prioritization in public resources allocation for the social sectors resulted in a positive impact in the ability to meet the population' basic needs.

In the area of health, important steps were taken in 1996. Despite the fact that infectious diseases still predominate, declines were registered in both the number of cases and in the mortality rates associated with them. The coverage

rates for the vaccination program rose, reaching 82% of the target group for tuberculosis. The maternal and child health and family planning program extended its coverage, with an average increase in consultancies of 47%. The construction and rehabilitation of the health network continued, with 110 new health posts and centres being completed, as well as fifteen maternity wards and two hospitals.

[Transparency 21]

The education sector also showed positive results. The gross admissions rate for primary education rose from 67% in 1995 to 75% in 1996. Likewise the gross enrollment rate for school years one to five rose from 57 to 62%.

The increase in demand for education services continued to make itself felt with an increase in the number of students in the general education system of 15.7%. To meet this new demand, the number of schools rose by 11% and the number of teachers by 7%. With the objective of improving the quality of schooling, 4,200 teachers received training. In an effort to improve learning conditions, schoolbooks were freely distributed throughout the country, covering 92% of total needs in the first and second years of school, and 70% of those for the third to the seventh years.

LADIES AND GENTLEMEN,

To summarize, 1996 was noteworthy for positive developments in all areas of national life, with major steps having been taken in the reforms currently underway.

This surely constitutes a reason to congratulate ourselves. However, we are fully aware that the road ahead involves challenges, as great or greater, than those we are leaving behind us.

[Transparency 22]

Without doubt Mozambique has enormous potential for development. I believe that the policies that we are implementing are the most likely to turn this potential into reality.

But, at the present time, we still have the lowest per capita income in the world, with more than half the population living in absolute poverty.

Efforts have been made to rehabilitate social and economic infrastructure. But given the dimensions of the country there is still a great deal to be done. The rhythm of rehabilitation is strongly conditioned by the availability of resources. It is urgent for the country to receive significant support in the area of external debt alleviation, without which Mozambique's development potential will be strangled.

[Transparency 23]

During 1997 economic policy will seek to consolidate and broaden the successes already achieved.

The Government will concentrate on the implementation of policies in four fundamental areas:

- A. macro-economic, aimed at a further reduction in the rate of inflation;
- B. promotion of increased private investment;
- C. promotion of social equity, through redistributive policies; and
- D. strengthening of the public administration.

[Transparency 24]

The Government's primary objective in 1997 is to further reduce the rate of inflation to 14% by December 1997.

Economic growth projections are optimistic, pointing to a GDP growth rate higher than 7%. Nevertheless, as a precaution, we have adopted a target growth rate of 6% including the energy sector.

Our fiscal and monetary policies are based on these objectives. Consequently, a restrictive stance will be maintained, whilst seeking to accommodate as much as possible the needs arising from the target economic growth rate.

[Transparency 25]

Fiscal policy will seek to increase revenues by 1.4 percentage points of GDP.

Taxes on international trade will contribute to this objective, with an increase in revenues equivalent to one percent of GDP, reaching the equivalent of 6% of GDP.

This target should be possible given the measures taken in 1996 to improve controls and the management of Customs. Growth should be equivalent to 0.4% of GDP for tax revenues from internal economic activity. In this case, the reductions in revenues in certain areas aimed at promoting investment will be compensated by more efficient tax collection, in order that these targets can be met.

[Transparency 26]

The fiscal reform underway will continue during 1997. In the area of Customs, several Customs Offices will be rehabilitated and the process of reassigning and training of national personnel will begin. Changes in legislation, making fiscal fraud a civil crime, will be one of the other measures taken.

In the area of internal taxes, we will continue to lay the foundations for the introduction of VAT, including the training of personnel and computerization. To increase efficiency changes will be made in collection procedures of turnover tax.

Taxes fixed in absolute value and the tax scale for income tax will be revised to reflect inflation. In those areas where it is recognised that current levels of taxation are too high, as is the case with the business profit tax, reductions will be made.

[Transparency 27]

Current expenditures will increase by the equivalent of 2.5% of GDP in relation to 1995. Of this increase, 1.1 percentage points is a consequence of contractual obligations assumed with the company managing Customs and the additional financing provided from counterpart funds from the debt alleviation fund.

The needs for domestically-financed investment, principally in the area of roads, explain an increase of 0.6 percent of GDP in capital expenditures in 1997.

The inclusion of credit and grant financing for public enterprises in the budget for the first time in 1997, accounts for an increase in expenditures equivalent to 2.1 percent of GDP.

The financing is for the programs contracted between government and some public enterprises providing essential services.

[Transparency 28]

In summary, total public expenditures, including capital transfers to public enterprises, will grow by 5.8 percent of GDP in 1997.

This will be financed by an increase in revenues, from grants and credits and from a decrease, compared to 1996, of 0.9 percentage points of GDP in net public savings.

[Transparency 29]

The social sectors will continue to be prioritized in the allocation of public funds during 1997. Together health and education will receive, in real terms, a 4 percent increase in financing for recurrent expenditures funded with internal resources. In addition, they will receive the equivalent of 0.5 percent of GDP financed from counterpart funds from the External Debt Alleviation Fund.

It is currently programmed to progressively replace this additional financing with domestic resources, until an optimal level for the financing of the social sectors has been reached. Consequently, should the country continue to receive resources for debt alleviation it should be possible to annually expand expenditure in the social sectors by the equivalent to 0.5 percent of GDP and successively replace this financing with domestic resources.

[Transparency 30]

This program should be seen in the context of our efforts to create a medium term budget framework which is indispensable to rationalizing the needs and capacity for financing. In the past ten years, Mozambique has lived exclusively on annual programmes, which result in an economic management geared entirely to short-term stabilization. It has now become imperative, that we create a medium term framework that shows the path towards development.

This framework will have to reflect the equilibrium between resolving the basic problems constraining development and a progressive reduction of external dependence. The creation of this framework will require a commitment of all parts - the Government, the international community and the multilateral institutions - as to priorities, financing and the procedures to be followed in the future.

[Transparency 31]

We are currently preparing the instruments necessary for this task. In 1996 the Budget Framework Law and the Law regulating auditing procedures for the public accounts were approved.

Both laws will guarantee transparency in the allocation and use of public funds. The Budget Reform Strategy has already been decided. The main objectives are to increase efficiency in the use of resources and ensure greater transparency in the budget.

[Transparency 32]

This strategy covers all the actions which will be developed over the short to medium term.

In 1997 improvement in programming, execution and control of the budget in order to increase transparency and coverage will be priorities. Strengthening management capacity within the Ministry of Planning and Finance will also be a priority aiming at guaranteeing the sustainability of the current reforms.

It is in this context that the medium term expenditure scenario will be elaborated within the framework of macro-economic and sectoral policies.

[Transparency 33]

Monetary policy will have essentially the same objectives of those followed in 1996, contributing for the reduction in the rate of inflation and increasing the efficiency in the money and financial markets.

Thus, to build international reserves remains a central objective. The target is to achieve a further increase of 108 million dollars. The money supply will expand by 15.5 percent and a negative flow of net credit to the Government, corresponding to a rate of reduction of 62%, is expected.

LADIES AND GENTLEMEN,**[Transparency 34]**

The creation of favourable conditions for the growth of private sector investment has a central place in the Government's agenda. After identification of the administrative barriers to investment the action program for their elimination is underway. In this context, the procedures for the registration of companies, traders and importers will be simplified and the Law on Private Commerce will be revised. The revision of the commercial code will begin.

[Transparency 35]

With the objective of widening and modernising the financial system the process of privatising the last state bank will be completed, together with the revision of monetary and financial legislation. Improved efficiency of the banks, reflected in a reduction of the difference between the deposit and lending rates, constitutes another objective for 1997. To achieve this objective, interbank money market operations will begin in 1997, this will, moreover, prepare the banking system for a more indirect management of monetary policy.

[Transparency 36]

The rehabilitation of economic and social infrastructures has an important impact on private investment. In this context, 30 percent of the public investment programme will be assigned to the rehabilitation of roads. In the area of social services, education will receive 9% of resources, health 18% and water supply 8%. The agriculture and fisheries sector will also be given priority with 9% of total resources. In this programme special attention is given to the strengthening of capacity in the public sector which will absorb 12% of resources.

[Transparency 37]

The creation of business opportunities that can attract investment is one of the Government's objectives. In this context 16 large enterprises will be privatised in 1997, including the Airlines of Mozambique.

The Maputo corridor is another of these opportunities. This is a large project, which, we have the pleasure to announce, will begin implementation in 1997. An agreement with the consortium that will build the highway from Maputo to Witbank was recently signed by the governments of Mozambique and South Africa. This will create 7,900 jobs directly and, indirectly, a further 19,900.

By the granting of concessions for the private management of Maputo Port and the railways-South conditions will be created for Mozambique to assume an important role in the transporting of goods from hinterland countries. The excellent geographical position of this project will, we are convinced, make it a pole of attraction for investors giving them easy access to a very large market.

[Transparency 38]

I will now pass to an exposition of the Government's programme in the area of policies that promote social equity. The principle of this social equity cannot be based in a Welfare State that provides the means of subsistence.

Nevertheless, the State cannot ignore its fundamental role in the promotion of social and regional equilibrium. We are clear that the future stability of the country depends, in large measure, on the success with which we are able to address these issues today.

Among the concerns in this area, the need to improve the standard of living of agricultural family sector is the priority. This sector represents about 65% of the population. If we are to reduce poverty significantly we must create conditions for this sector to develop. The Government has taken steps to achieve this objective, giving priority in public expenditures to health, education, water and roads. There also are small credit programmes for the rehabilitation of rural shops.

[Transparency 39]

Our evaluation of progress achieved so far is that these programmes are insufficient. In a situation where the whole income of the agricultural worker derives from what he manages to produce, it is essential that he should be able to market his production. This is not happening.

Produce rots in the hands of farmers because traders do not go to fetch it. We believe that it is important to change this situation quickly. We will increase the amount of money available to finance the rehabilitation of roads, as I already mentioned. But we also need to increase the concession of credit for the rehabilitation of rural shops. These are, at the national scale, the only structure

which can ensure the purchase of agricultural surpluses; they are an important instrument for the monetarization of the economy; and, finally, they are a point from which to disseminate new techniques that increase productivity in the family sector.

Based on this analysis we request additional support from the donor community for a larger programme for the financing of rural shops. Given the small amount involved for each shop, we believe that 10 million dollars could have a significant impact on the commercial network.

REPRESENTATIVES OF THE DONOR COMMUNITY

LADIES AND GENTLEMEN

[Transparency 40]

The development of small and medium size business, aside from creating employment is above all a way to promote national entrepreneurs.

The government has been promoting start ups for small businesses. Given the importance of this objective net revenues from privatization have been directed to the Economic Rehabilitation Fund which aims at supporting small business in agriculture, fishing, small industry and rural stores.

[Transparency 41]

However the available resources are insufficient to have the necessary impact. We request the support of the International Community in the amount of US\$ 5 millions for this end.

[Transparency 42]

We are open to discussion on the best ways of implementing these support mechanisms in order to achieve the desired result.

Another problem that concerns the Government and the private sector are the debts with banks imputed to the war. The clean-up of public enterprises' debt has been accomplished with the Commercial Bank of Mozambique privatization.

However, these are not the only companies that suffered losses during the war. Many private companies saw their installations destroyed and activities paralysed. These bank debts prevent the companies from new borrowing and leave them in a difficult financial position.

[Transparency 43]

The government believes it should act in this area by creating a fund for the liquidation of these debts. We request the support of the donor community in the financing of US\$10 million for this purpose.

Finally, I will briefly refer to our requests in the area of the Debt Alleviation Fund. This fund received the support of Denmark and the Netherlands in 1996, generating the counterpart funds that will finance additional resources for the social sectors and in future years will be absorbed by the budget. In 1997, public external debt service will amount to 22% of total revenues, equivalent to US\$ 80 million. The support of donors for the reduction of this burden would enable the government to reallocate internal resources, either for the social sectors or for the strengthening of the civil service.

I believe that there is a shared understanding between the donor community and the Government that the sustainability of the reform of the civil service depends on the creation of a just salary structure for public servants that will permit their retention in the civil service. This is an objective that will take several years to achieve.

Our proposal in this area is to decompress civil service salary structure in three successive years, beginning in 1997. To do this, the support of the Donor Community is indispensable in the relation to debt service. The internal resources that could be freed would be allocated in accordance with a calendar to be agreed.

[Transparency 44]

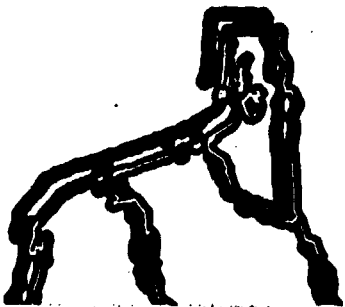
Summarizing, the government will give continuity in 1997 to the policies which have been implemented. These policies will aim at:

- A. reducing macro-economic imbalances;
- B. creating a good business climate to promote investment growth;
- C. reducing poverty and promoting balanced economic and social development;
- D. strengthening management capacity in the public administration.

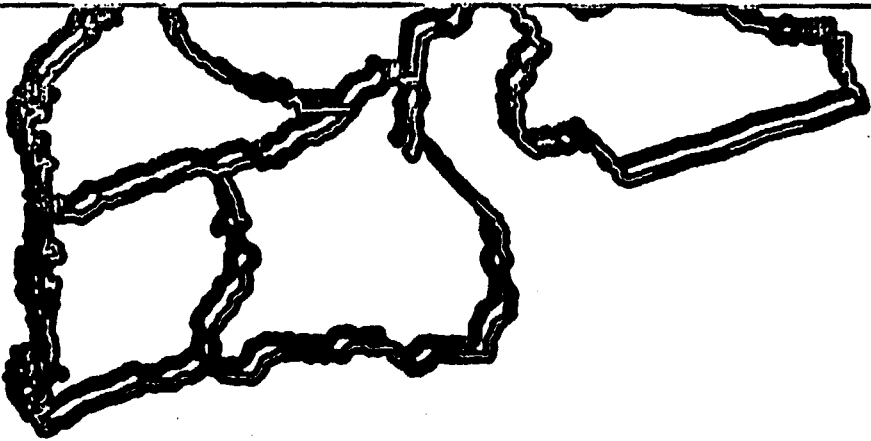
I would like to end by thanking you firstly for your patience in listening to me. As you can see, there are still many problems to resolve which make up the Governments agenda for 1997.

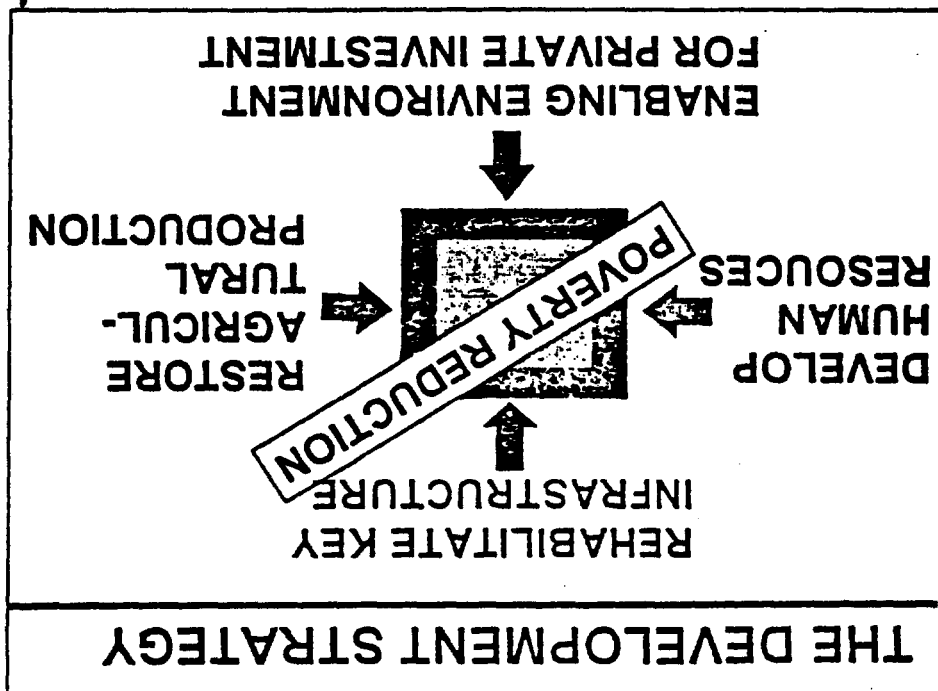
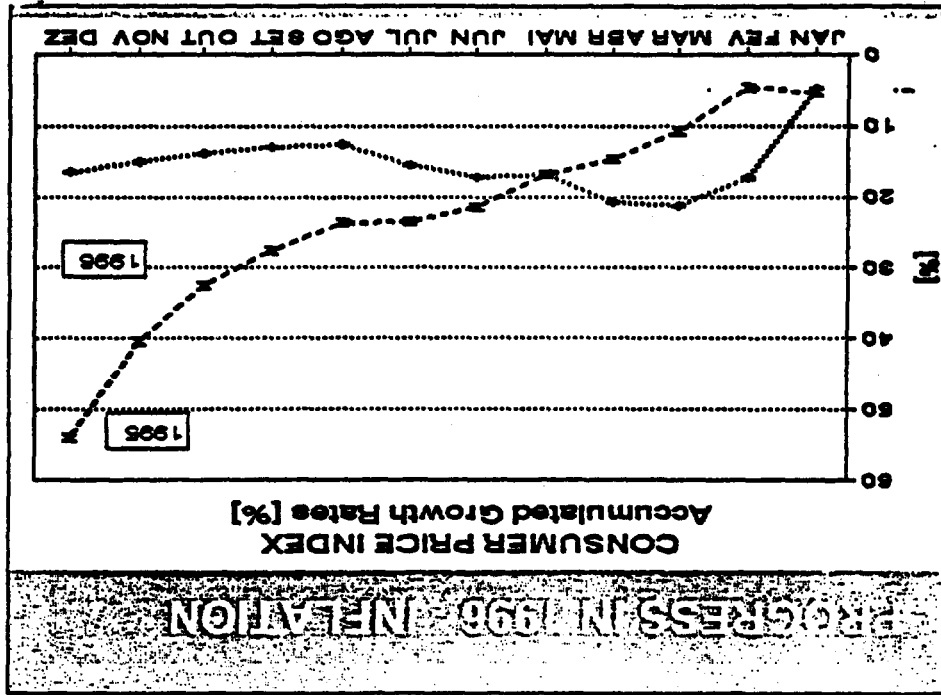
From our part, we guarantee to persevere with the tasks we have proposed. We hope that the international community will share in the efforts and enthusiasm required for the challenge to develop Mozambique.

Thank you.



**THE
CHALLENGES
AHEAD**





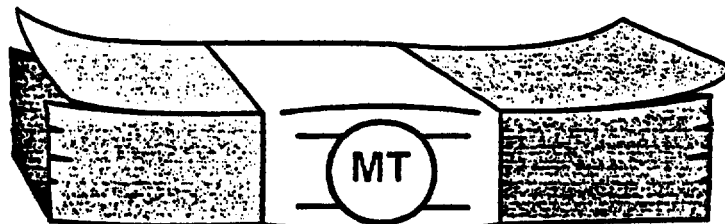
FISCAL POLICY STRATEGY IN 1996

- ➔ to improve allocation of resources;
- ➔ to increase revenues;
- ➔ to decelerate inflation;
- ➔ to increase public saving to expand credit to the private sector.

3

STRATEGY TO INCREASE REVENUES

- ➔ Reduce tax rates in selected areas;
- ➔ Combat fraud and tax evasion.



4

**STEPS IN 1996 TO INCREASE REVENUES:
TAXES ON INTERNATIONAL TRADE**

☞ REVISION OF CUSTOMS CODE:



- Average duty tax reduced from 17.7 % to 10.8 %;
- Duties on capital goods reduced to 5%;
- Average consumption tax reduced by half.

**☞ MEASURES TO REDUCE FRAUD AND
TAX EVASION**

- New pre-shipment inspection with reconciliation of duties due and paid;
- Contracting of a private firm to manage customs management.

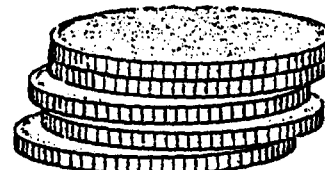
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**STEPS IN 1996 TO INCREASE REVENUES:
TAXES ON DOMESTIC ACTIVITY**

**☞ REVISION OF ALL FIXED VALUE TAXES
IN LINE WITH INFLATION;**

☞ INCREASE IN FUEL TAX;

**☞ PREPARATION FOR THE INTRODUCTION
OF VAT IN 1998.**



6

TAX REVENUES IN 1996

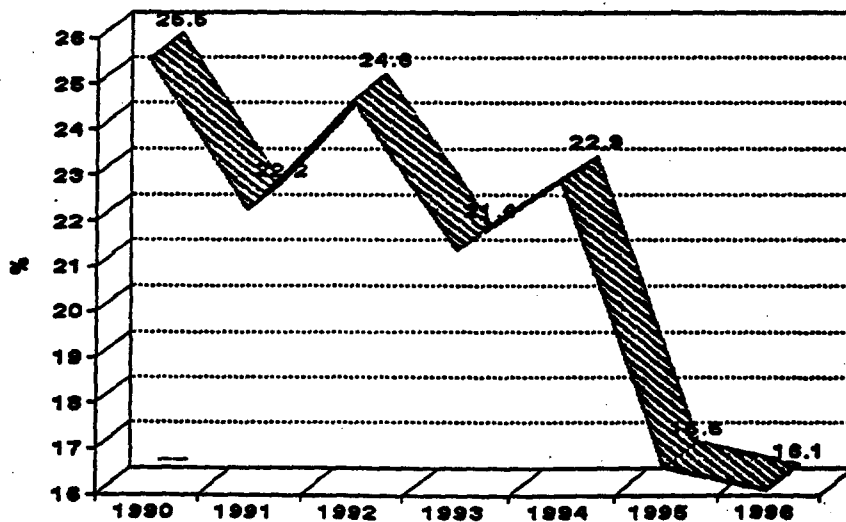
- ➔ **REAL GROWTH RATE: +5.6%**
- Taxes on domestic activity: +10%
 - Taxes on international trade: - 3.8%

➔ **AS A PERCENTAGE OF GDP:**

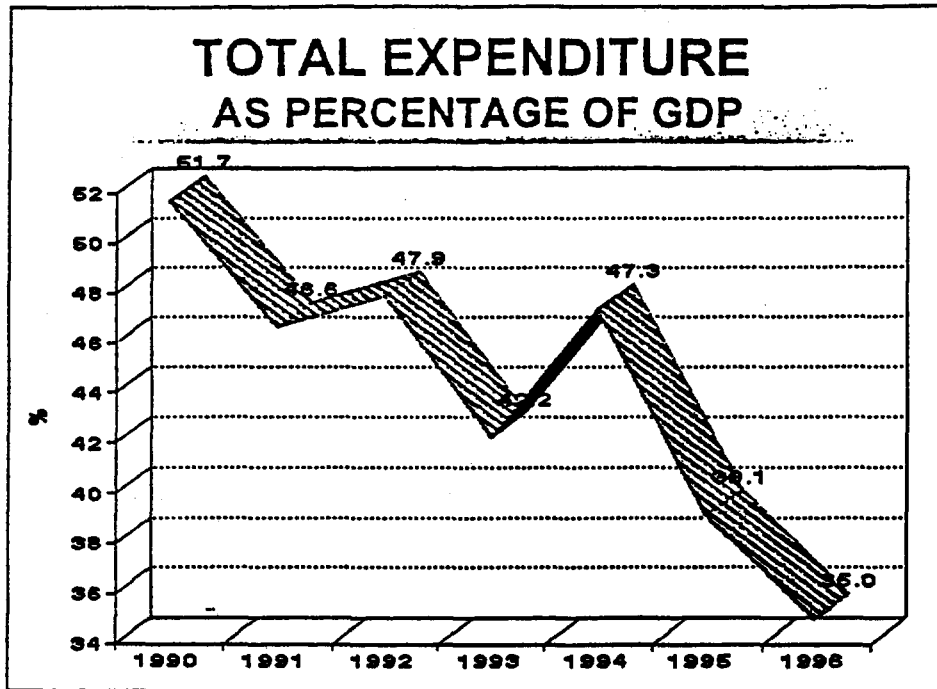
	1995	1996
T. on Domestic Activity	6.1	5.0
T. on International Trade	10.6	11.5
TOTAL	16.7	16.5

7

CURRENT EXPENDITURES AS PERCENTAGE OF GDP



8



9

EXPENDITURE IN SOCIAL SECTORS IN 1996:

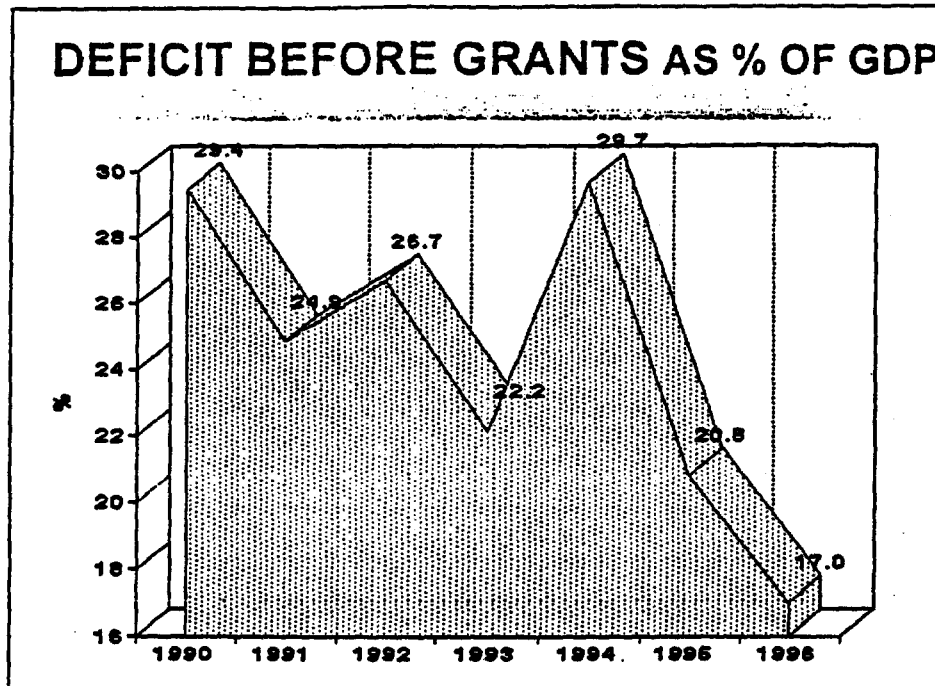
REAL GROWTH RATE:

▲ HEALTH AND EDUCATION.... +2.8%

EXPENDITURE IN PERCENTAGE OF GDP:

▲ HEALTH AND EDUCATION.... 4.0 %

10



11

MONETARY POLICY IN 1996

MAIN OBJECTIVES

- ➔ **DECELERATION IN INFLATION;**
- ➔ **INCREASE INTERNATIONAL RESERVES;**
- ➔ **IMPROVE EFFICIENCY OF MONETARY INSTRUMENTS;**
- ➔ **IMPROVE EFFICIENCY IN THE FINANCIAL SECTOR.**

12

MONETARY POLICY IN 1996

MAIN POLICY MEASURES

- ⇒ PRIVATIZATION OF THE LARGEST STATE-OWNED BANK;
- ⇒ LAUNCHING OF THE INTER-BANK FOREIGN EXCHANGE MARKET;
- ⇒ MORE ACTIVE USE OF THE REDISCOUNT RATE AND PENALTIES TO ENFORCE DISCIPLINE IN THE MARKET;
- ⇒ EXPANSION OF FINANCIAL MARKET.

13

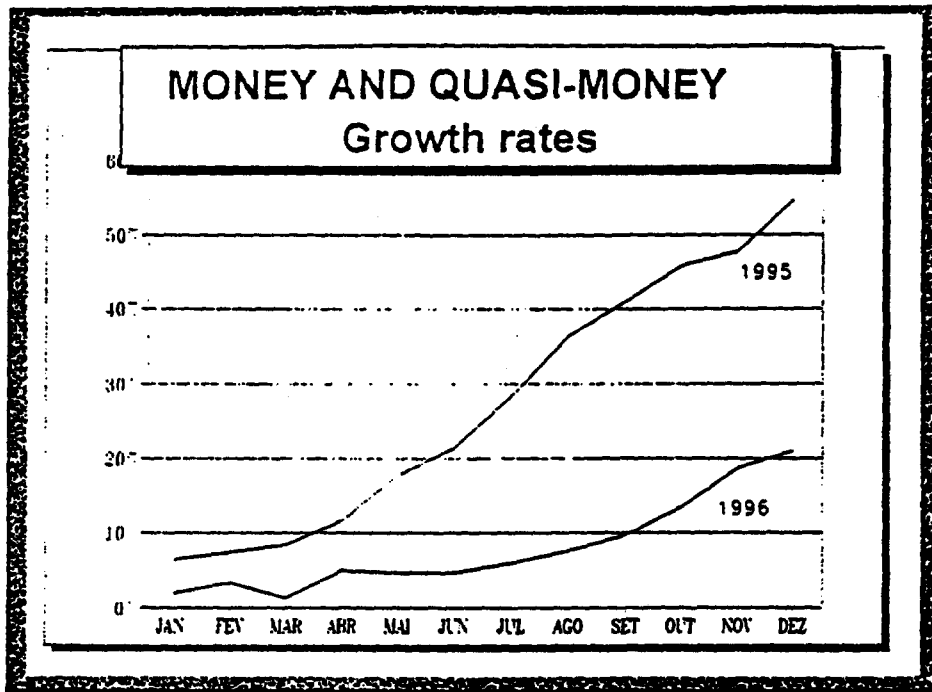
MONETARY POLICY IN 1996

ALL QUANTITATIVE TARGETS ACHIEVED:

In percent of opening stock:

	Progr.	Actual
Net Foreign Assets	47.0	85.4
Net Domestic Assets	-25.1	-44.6
Credit to Government	144.3	160.1


14



15

ECONOMIC GROWTH IN 1996:

Real growth rates



Agriculture	9.4
Industry and Fishing.....	11.6
Construction	8.0
Transport and Comm.	7.6
Services	7.4
Total Production	8.7

16

POLICY MEASURES TO IMPROVE BUSINESS CLIMATE



PRIVATIZATION OF 22 LARGE AND
162 SMALL COMPANIES

FIRST STEPS TO REMOVE
ADMINISTRATIVE BARRIERS TO
INVESTMENT;

ADMINISTERED PRICES REVISED
IN LINE WITH INFLATION.

17

NEW INVESTMENT AUTHORIZED IN 1996 Millions of US\$



Agriculture, Fishing and Agro- industry	128
Industry	165
Construction	73
Transport and Commun.	33
Hotels and tourism	35
Financial sector	3
Others	20
TOTAL	557

18

EXTERNAL SECTOR DEVELOPMENTS IN 1996



	Value US\$ m.	G. Rate %
Exports	226	30
Imports	802	10
Grants	283	-17
Credits (Public S.)	271	15
Direct Investment	73	61
Overall balance	90	-65

19

HEALTH IN 1996



	1995	1996
VACCINATION PROGRAM (% coverage)		
Tuberculosis	77	82
Measles	66	66
Diphtheria, whooping cough and tetanus	57	58
Polio	57	58
MATERNAL AND CHILD HEALTH PROGRAM (% coverage)		
Pre-natal consultancies	64	73
Attended births	26	29
EXPANSION OF THE HEALTH NETWORK (n° of units)		
Health posts and centres	126	110

20

EDUCATION IN 1996



	1995	1996
Gross Admissions Rate (of six years old,%)	67	75
Gross Enrollment rate (six to eleven year old,%)	57	62
Pupil teacher ratio	57	59
School construction:		
Years 1 to 5	4465	5434
Primary and secondary	4174	5085

21

MOZAMBIQUE: CURRENT SITUATION

ONE OF THE LOWEST
PER CAPITA INCOMES
IN THE WORLD

MORE THAN 50% OF
THE POPULATION IS
IN ABSOLUTE
POVERTY

UNSUSTAINABLE
DEBT SERVICE
REQUIREMENTS
OVER THE COMING
YEARS

LARGE NEEDS
FOR SOCIAL AND
ECONOMIC INFRA-
STRUCTURE AND
CAPACITY BUILDING

22

KEY AREAS OF GOVERNMENT ACTION IN 1997

MACRO ECONOMIC POLICIES TO REDUCE INFLATION AND CORRECT STRUCTURAL IMBALANCES

POLICIES TO PROMOTE GROWTH IN PRIVATE SECTOR INVESTMENT



REDISTRIBUTIVE POLICIES TO PROMOTE SOCIAL EQUITY

POLICIES TO STRENGTHEN PUBLIC ADMINISTRATION

23

MACRO-ECONOMIC POLICIES FOR 1997



MAIN OBJECTIVE:
REDUCE INFLATION
TO 14%
IN DECEMBER 1997

RESTRICTIVE FISCAL AND MONETARY POLICIES WILL BE PURSUED TO ATTAIN THIS OBJECTIVE

24

FISCAL POLICY IN 1997



**OBJECTIVE: INCREASE FISCAL
REVENUE BY 1.4 PERCENTAGE
POINTS OF GDP**

CONTRIBUTING TO THIS RESULT IN % POINTS OF GDP:

**TAXES ON
DOMESTIC
ACTIVITY:
+0.4**



**TAXES ON
INTERNATIONAL
TRADE:
+1.0**

25

REVENUE MEASURES FOR 1997:



**IMPLEMENT CUSTOMS REFORM
PROGRAM;**



**CONTINUE PREPARATION FOR THE
INTRODUCTION OF VAT;**



**MODIFY TURNOVER TAX TO INCREASE
EFFICIENCY IN COLLECTION;**




**INCREASE ALL TAXES IN VALUE IN
LINE WITH INFLATION;**



REVISE INCOME TAX SCALE.

26



**CURRENT EXPENDITURE
IN 1997:
PERCENTAGE OF GDP:**

CURRENT EXPENDITURE	18.4
Wages	4.2
Goods and Services	4.5
Defense and Security	3.7
Interest payments	2.6
Other	3.4
of which:	
Pre-shipment inspection	0.7
Customs management	0.7
Expenditure financed by Debt Fund	0.5

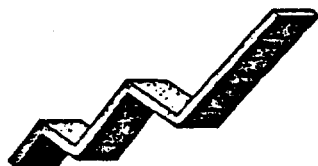
27

**EXPENDITURE AND FINANCING: CHANGES
IN 1997, PERCENTAGE POINTS OF GDP:**

TOTAL EXPENDITURE:	+5.8%
REVENUES	+1.3%
GRANTS	+3.5%
CREDITS	+0.1%
NET CREDIT TO GOVERNMENT ..	+0.9%

28

EXPENDITURE IN SOCIAL SECTORS IN 1997:



**REAL GROWTH RATES,
EXCLUDING EXPENDITURE
FUNDED BY DEBT FUND:**

● EDUCATION AND HEALTH +4.0%

IN PERCENTAGE OF GDP, INCLUDING DEBT FUND:

● EDUCATION AND HEALTH 4.3%

29

EXPENDITURE MANAGEMENT REFORM STRATEGY

OBJECTIVES:

- Improve efficiency in the use of public resources;
- Increase the scope and transparency of the budget system;
- Ensure greater consistency between the budget and the economic and social policy.

30

**EXPENDITURE MANAGEMENT REFORM
STRATEGY**

AREAS OF INTERVENTION:

- Budget preparation and execution;
- Management of the public debt;
- Accounting;
- Auditing;

31

**EXPENDITURE MANAGEMENT REFORM
STRATEGY**

PRIORITIES LAID OUT BY THE REFORM:

- Improvement of mechanisms for programming, execution and control of the budget;
- Development of a medium term expenditure framework by integrating sector expenditure programs with macro-economic program;
- Strengthen institutional capacity within MPF to ensure progress and sustainability of the reforms.

32

MONETARY POLICY IN 1997: MAINTAIN RESTRICTIVE STANCE:

⊙ NET FOREIGN ASSETS: US\$ 108 Millions

In percent of opening stocks:

⊙ NET DOMESTIC ASSETS: -14%

⊙ CREDIT TO GOVERNMENT: -62%

⊙ MONEY AND QUASI-MONEY: -16%

33

PRIVATE SECTOR INVESTMENT PROMOTION



REMOVING ADMINISTRATIVE BARRIERS:

Action plan drawn for 1997-2000. In 1997:

- simplification of company registration;
- revision of private commerce law;
- simplification of traders and importers licencing.



REVISION OF THE COMMERCIAL CODE:

- timetable for revision will be aproved;
- revision will begin.

34

PRIVATE SECTOR INVESTMENT PROMOTION



- MODERNIZING THE BANKING SYSTEM:**
- ✍ Ammendments to the Financial Law and the Law of Checks will be submitted to N. Assembly;
 - ✍ Interbank money market will begin operations;
 - ✍ Privatization of the last state-owned bank.

35

PRIVATE SECTOR INVESTMENT PROMOTION



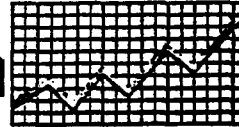
- REHABILITATING INFRA-STRUCTURE:**
Allocation of resources of the public investment program for 1997:

[% of total]

◇ Education 9%	◇ Water 8%
◇ Health 18%	◇ Agriculture and Fishing 9%
◇ Roads 30%	◇ Capacity Building 12%

36

PRIVATE SECTOR INVESTMENT PROMOTION



DEVELOPING NEW BUSINESS:

- ⊗ Privatization of 16 large enterprises
- ⊗ Maputo Corridor launched:
 - ⊗ Contract signed for Maputo-Witbank highway. Private sector will participate with 65% of total financing.
 - ⊗ Management of the port of Maputo and the railways of CFM-south will be ceded to private joint venture.

37

PROMOTE SOCIAL EQUITY SUPPORT TO FAMILY SECTOR IN AGRICULTURE



- ⊗ More current and capital expenditures in education, health and rural water ;
- ⊗ Promotion of agricultural trade:
 - ⊗ Road rehabilitation;
 - ⊗ Credit for rural stores and commercialization;
 - ⊗ Liberalization of producer prices.

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**PROMOTE SOCIAL EQUITY
SUPPORT TO FAMILY SECTOR
IN AGRICULTURE**



FURTHER STEPS IN 1997:



Enlarge the rural store rehabilitation program. More resources are needed for credit in this area. Mozambique requires US\$ 10 millions of funding from the donor community for this objective.



Create a rural financial network for capturing small savings.

39

**PROMOTE SOCIAL EQUITY
SUPPORT DEVELOPMENT OF
NATIONAL SMALL-SCALE BUSINESS**



ACTIONS BEING DEVELOPED:



Government institutions providing training in different skills;



Credit programs to support small and medium size business;



The Economic Rehabilitation Support Fund, financed from privatizations, supporting agriculture, fishing, small industry and rural commerce.

40

**PROMOTE SOCIAL EQUITY
SUPPORT DEVELOPMENT OF
NATIONAL SMALL-SCALE BUSINESS**



The impact of these efforts is insufficient:

Donor Community support is required to design and implement additional programs with this objective. Among the possible mechanisms are:

41

A. ENLARGE THE ACTION OF THE FUND FOR THE SUPPORT OF ECONOMIC REHABILITATION (FARE) TO COVER THE WHOLE COUNTRY;

B. CREATE A FUND TO CLEAN-UP NATIONAL ENTERPRISES DEBT CAUSED BY THE WAR.

42

**SUPPORT DEVELOPMENT OF
NATIONAL SMALL-SCALE BUSINESS**

**DONOR COMMUNITY SUPPORT
REQUIRED FOR THESE OBJECTIVES
IS:**

A. US\$ 5 MILLION

B. US\$ 10 MILLION

43

MAIN ACTIONS FOR 1997:

- **REDUCE INFLATION AND STRUCTURAL
IMBALANCES;**
- **PROMOTE PRIVATE SECTOR
INVESTMENT;**
- **REDUCE POVERTY AND PROMOTE
ECONOMIC AND SOCIAL DEVELOPMENT;**
- **STRENGTHEN CAPACITY WITHIN THE
CIVIL SERVICE.**

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The Challenges Ahead

Errata

90

Table 3: External Financing Requirements (US\$ million) - Page 24

	1996	1997
Trade Balance Deficit	-575,6	-656,3
Exports (f.o.b.)	225,9	237,3
Imports (c.i.f.)	-801,5	-893,6
Current Account Deficit plus Amortization	-860,5	-959,2
Financing Required 1/		
Foreign Borrowing	347,4	306,6
Public Sector:	271,1	225,0
Balance of Payments Support	128,4	50,0
Investment	73,0	89,6
Services	69,7	85,4
Private Sector	76,3	81,6
Foreign Grants:	282,9	334,9
Food Aid	39,4	36,3
Balance of Payment Support	60,6	91,2
Non-food Emergency	1,3	1,5
Investment	150,0	185,0
Special Programs (demingn and elections)	10,0	10,7
External Debt Support Fund	21,6	
Support to Customs Management Contract		10,2
Debt Relief 2/	309,7	193,5

1/ Excludes direct foreign investment, changes in net foreign assets, net changes in arrears and errors and omissions.

2/ Includes only concluded agreements

TENTH MEETING
CONSULTATIVE GROUP FOR MOZAMBIQUE

FINANCING REQUIREMENTS

SPEECH BY H.E. THE GOVERNOR
OF THE BANK OF MOZAMBIQUE

PARIS, 15TH MAY, 1997

MR. CHAIRMAN
DISTINGUISHED MEMBERS OF THE DONOR COMMUNITY
DISTINGUISHED GUESTS
LADIES AND GENTLEMEN

In participating in this Tenth Meeting of the Consultative Group for Mozambique I would like to express my gratitude to the World bank, to the other multilateral institutions and to the Governments of the countries here represented, for the continuous support that they have been providing to Mozambique throughout this decade which has permitted the implementation of the economic and social programme designed by our Government.

During the Consultative Group Meeting held last year, our Government informed the International Community about the main goals of its economic policy for the year 1996, which refer to the macro-economic stabilisation and structural reforms geared towards the strengthening of the favourable environment for business development. It is with satisfaction and honour that we wish to give your excellencies the news that the results achieved in our economic and social programme for the last year were globally positive.

In effect, the total output grew by nearly 9%, which represents almost more than a half of the envisaged target. The Gross Domestic Product grew by 6.4%, which is higher than the minimum target established of 4%.

For the success achieved, it is worth highlighting the strong dynamism shown in the export sector which achieved a growth rate of about 30%. Actually, this significant performance in exports, allied to 61% growth recorded in direct foreign investment, has contributed towards the recovering of Net Foreign Assets by nearly USD 160 million which, though is still modest for the country's requirements, represent almost a double of the envisaged target.

The observed inflation rate of 16.6% was 5 percentage points below the envisaged target.

The positive results attained last year and which I have previously referred to, were possible because of various factors, namely:

- the close co-ordination of policies among the different Mozambican institutions, particularly at the fiscal and monetary domains, while the Government Budget and monetary policy were managed within the framework of the established Programme.
- the good agricultural output achieved in 1996;
- a significant growth of confidence shown by foreign investors on the reforms embarked upon and the coherence of the policies adopted;
- the consolidation of peace and stability in Mozambique and in the Southern Africa region;
- the increase in the volume of credit allocated to the economy, thanks to the upsurge in the State savings deposited in the Banking System, and due to a better liquidity management by the commercial banks.

The confidence of the economic agents is also visible with respect to their expectations regarding exchange rates. We can notice that there is a sustained exchange rate stability and an increase in the domestic savings in local currency.

In 1996 we proceeded with the financial system reform, especially through the privatisation of the Banco Comercial de Moçambique within the principles established in co-ordination with the World Bank. In addition, we embarked upon a process leading to the privatisation of BPD (Banco Popular de Desenvolvimento) expected to be finalised by June this year. The Government strategy concerning the privatisation of banking institutions is to allow the private initiative get involved in those activities and institutions which do not require direct involvement of the State, and to guarantee its presence in financial activities related to the collection of savings and allocation of development funds in regions where the private initiative is not represented due to the social costs involved.

In relation to the monetary policy instruments, in mid 1996, the Interbank Foreign Exchange Market was established as a mechanism to guarantee more fluidity in channeling to the economy external resources injected into the Mozambican Banking Sector, and allow the Central Bank to closely monitor the evolution of the exchange rates set by the market forces, taking into account the need to accumulate net external reserves.

From the second term, the Bank of Mozambique started to establish its rediscount rate in a more flexible way, keeping it positive in real terms and adjusting it systematically in accordance with the indicators of reduction of the inflation rate.

As a result of these efforts, there is an increasing competitiveness among the institutions within the financial system, and a more significant observance of the prudential management rules. In effect, competition has been obvious through the introduction of new financial products and through fixing more competitive interest rates, which have contributed in efficiency of services rendered, starting from the organisation of joint operations between banks for the financing of activities of high importance such as agricultural trade and fuel import.

Ladies and Gentlemen

In 1996 I had the opportunity to call upon the International community through the Consultative Group, for the donors and creditors to adhere to the new and more efficient system of allocating external resources, which encompasses more rapid disbursement procedures, recording and sale to the commercial banks of external resources injected into our country as well as the generation of counterpart funds and their allocation to the Government Budget, besides the rules of procurement, auditing and monitoring. It is with unique satisfaction that we have witness the adherence of more donors to this system as well as the changes introduced in the procedures applied to the World Bank funds thus facilitating the management of foreign currency by the Bank of Mozambique , enabling the fostering of the Interbank Foreign Exchange Market in an environment of more transparency in the use of foreign assistance.

In that same period, we embarked upon an initiative to establishing the Fund for the relief of External Debt to be supported by the donors, with the objective of making the concessional assistance in the form of donations more effective in the development of social programmes directed to eradicating poverty and the promotion of the most disadvantaged layers of the society through the use of additional counterpart funds generated for the government Budget in health, education, water and sanitation projects.

I shall, at this point, highlight that this request was immediately accepted by the Governments of Denmark and Netherlands, whose additional donations were used to partially repay the debt with the International Monetary Fund. The counterpart funds which resulted from this operation have already been deposited in an account opened in the Bank of Mozambique on behalf of the Ministry of Planning and Finance.

In January this year, the Government and the IMF established a Technical Memorandum of Understanding on the budgetary operation and treatment of the Fund for the relief of external debt, which states the basic agreements on the procedures regarding the debt assumed by the Bank of Mozambique and the one assumed by the Government, as well as the principle of periodical information report to the donors involved and to the IMF Resident Mission, regarding the details of the expenditures made resorting to these financial resources envisaged to be used in a three-year period.

The first instalment of the counterpart funds previously referred to, which correspond to about 30% of the amount foreseen for 1997, was disbursed in late April. The amount in Meticaís is equivalent to USD 3 million, 42% of which went to education, 31% to water and the remaining 27% to health projects.

With the growing confidence of our international bilateral and multilateral partners in relation to the challenges that we have embarked upon with considerable success, I believe that in 1997 there will be an increasing adherence of the creditors and donors to the mechanism of channelling external assistance through the Interbak Foreign Exchange Market and to the Fund for the relief of the external debt.

Mr Chairman
Ladies and Gentlemen

In November last year, we completed the fifth rescheduling of the external debt with the Paris Club on the basis of Naples Terms with respect to flows. Notwithstanding the fact that these conditions are the most concessional provided by the Paris Club, they are still not sufficient and they seem to be inadequate in relation to the Mozambican reality despite that, the external debt still represents a major burden in the fiscal and external accounts, with impact in the maintenance of some major structural imbalances, such as, inter alia, the unsustainable levels of poverty, a situation which represents a risk for the sustainability of macro-economic stabilisation that we are implementing.

Our strategy in this field suggests that Mozambique should urgently be selected to benefit from the HIPC initiative, but still includes the domestic reforms towards the economic and social development of the country. We are confident, and that is the message we bring to this Tenth Meeting, that in the process of development of Mozambique, the private sector, both domestic and foreign, play a fundamental role.

In this context, all the reforms that we have been introducing throughout this decade and to be continued, aim at creating and consolidating the necessary conditions for the establishment and expansion of the private sector as the driving force for the development of Mozambique.

In actual fact, we have been introducing in a co-ordinated manner, financial, fiscal and exchange policies with the aim of revitalising the private sector. We have been implementing actions in an attempt to find the appropriate financing mechanisms to the profile of the Mozambican business sector.

In order to attain this objective, the Caisse Francaise de Development has provided funds to support the rehabilitation of rural shops in some regions of our country.

In the same spirit, last year, we established the Fund for the Rehabilitation of the Economy which is supported by domestic State resources resulting from the ongoing privatisation process.

This Fund will be used for the financing of small scale projects in the fields of agriculture, fisheries, development of skills and trade, and at this moment, it covers four provinces, namely, Manica, Sofala, Tete and Niassa.

The rehabilitation of the rural commercial network, particularly shops, is of great importance for the transportation of agricultural surpluses and in the revitalisation of financial intermediation and monetary-mercantile exchanges outside the major cities. Thus, we wish to encourage the participation of the International Community in these initiatives taken by our Government through the joining of efforts in the establishment of adequate financial mechanisms.

The Government and the business community which operates in Mozambique feel that one of the priority initiatives in this process is the establishment of a Fund for the Financial clean-up of the Private National Business Sector in order to assist in solving the serious structural problems of decapitalization faced by the enterprises, as a result of the destruction that they directly endured during the war that devastated Mozambique.

The Government supports this initiative and the Bank of Mozambique expresses its availability to be involved in the management of the Fund together with other partners. I am sure that this financial mechanism will be effective in solving the problems faced by the national business community. We, therefore, rely on additional contributions from the Donor Community.

Mr. Chairman
Ladies and Gentlemen

For the 1996 economic year we submitted our financial requirements estimated at USD 870 million, of which 315 million were for debt relief and the remaining USD 555 million were for current funding of the economy and for investment. It is with grate satisfaction that I note that our request was positively responded: the country benefited from a total amount of USD 940 million, of which 310 million injected in the form of debt relief, 10 million were earmarked for special programmes in the area of demining and elections and 22 million for the Fund of external debt relief. The remaining USD 598 million were basically to finance the current functioning and investment.

Our Economic Programme for 1997 envisages an economic growth comparable to that achieved in 1996, continuous reduction of inflation rate and the improvement of the external accounts.

With regard to the management of monetary policy instruments, the interbank foreign exchange market shall be consolidated and an interbank monetary market shall be established with the view to move towards the system of indirect control mechanism.

As for the external debt, we shall continue with the negotiations and completion of bilateral agreements for the rescheduling of the debt with the Paris Club creditors and other official creditors. We shall continue to take actions with the bilateral and multilateral creditors in order to obtain conditions for the relief of the external debt which shall lead to the reduction of the large burden the debt has on the external accounts and the budget in a short and long term.

Despite the internal efforts that we envisage to make and which its implementation has been taking place during these first months of 1997, we still require financial support from the International Community.

Thus, for the 1997 economic programme, the total financing requirements to be supported by official external aid flows, amount USD 596 million, USD 36 million of which are IMF credits. We hope that the remaining amount of USD 560 million, will be supported by grants and concessional credits to finance the current functioning, special programmes, namely, demining and elections, and public investments. We hope the private sector will contract foreign credits and finance its own investments in an total amount of USD 165. For debt relief, our projections assume an amount of USD 194 million.

In addition, the Government would like to obtain from the International Community financial resources for the Fund for the relief of external debt, rehabilitation of the rural commercial network, the cleaning-up of the private national business sector and support to economic rehabilitation, in an amount of USD 50 million, to be managed through adequate financial mechanisms, involving the private sector and our partners.

This Tenth Meeting is a historic milestone due to its coincidence with the tenth year of the implementation of economic reforms in Mozambique.

Consequently, I am confident that in this meeting new initiatives may be taken on the basis of the experience of fruitful relationship that now lasts for a decade as well as on the mutual confidence that we have been able to consolidate.

In conclusion, I would like to express my gratitude to the Bretton Woods institutions for their valuable contribution towards the holding of this important meeting and for the efforts that we have been jointly making throughout this decade, successfully involving the Donor Community in the Mozambique economic and social recovery.

Thank You Very Much.

MOZAMBIQUE

Consultative Group Meeting
Paris, 15-16 May, 1997
Statement on Financing Requirements
by

The World Bank

Ladies and Gentlemen,

As stated in earlier interventions, Mozambique has come a long way in the past decade, and especially in recent years. The economy as a whole is growing, inflation is down, and some key social indicators are beginning to improve. Also, in the context of continued economic recovery, external imbalances are gradually narrowing. In 1996, Mozambique's balance of payments position strengthened considerably. Strong export growth allowed a reduction in the current account deficit before grants, and higher than expected official and private capital flows contributed to a substantial increase in foreign reserves. These positive developments helped to maintain a stable nominal exchange rate throughout the year, and the premium between the market and the parallel rate remained around 5 percent.

In 1997, the Mozambican economy should continue to grow rapidly, with another good cereal crop forecast despite floods in the central region. Also, it is envisaged that electricity exports will be initiated this year. However, export growth is expected to slow down as irregular rainfall in the north of the country will affect the production of export crops. With total imports growing faster than exports and given the need to continue building international reserves, the balance of payments external financing requirements, excluding debt relief, will increase by nearly US\$40 million this year to US\$761 million.

As can be expected, the composition of external financing is changing as a result of the country's new economic realities and development needs. A particularly encouraging note is that private capital flows continue to increase and will contribute to cover around US\$165 million of financing needs. Official aid flows are projected at US\$596 million, more or less maintaining the levels of 1996. Of this

total, it is anticipated that official grants will amount to US\$335 million and multilateral credits to US\$260 million, including the IMF. It is notable that aid for investment financing will increase by about US\$70 million to US\$360 million, accounting for half of total aid flows, while balance of payments support is programmed to decline by US\$30 million to US\$141 million. Food aid will remain basically unchanged at US\$40 million.

As you are aware, the Government has made important strides in improving the management of external aid funds. This is particularly true regarding the accounting, monitoring, and reporting systems of balance of payments funds. In part, this has been facilitated by the fact that most of these funds are now being channeled through the central bank. At the same time, many donors are providing "untied" funds and are simplifying disbursements procedures. These improvements, have no doubt helped to develop the foreign exchange market, and thus have contributed to improve the allocation of foreign exchange and to the stabilization of the exchange rate. More flexible conditions for the disbursement of balance of payments funds have also helped to improve the availability of counterparts funds for the budget. We strongly encourage donors who have not yet done so, to adopt these more liberalized procedures.

The Government has also made good progress in strengthening the management systems for project assistance. The coverage of the public investment program (PTIP) has expanded considerably in the past years, and integrated sector investment are being adopted in several key sectors. Nevertheless, to ensure the efficiency and sustainability of public resources the budgetary and planning systems need to be further developed. For this reason, with support from the Fiscal Management Review, the Government has begun to implement its Expenditure Management Reform Strategy. A fundamental component of this strategy is to better integrate aid financed investment in the budgetary and planning process. In particular, all grant-financed projects should be included in the budget and their execution should be regularly monitored. Another priority of the Reform, as mentioned in the Government's presentation, is the need to develop a expenditure framework to match available public resources, both domestic and external, with expenditure needs over the medium term. Donors have an important role in supporting the Expenditure Management Reform specifically by providing the Government with

timely and regular information on project disbursements and by adopting medium term financing plans through mechanisms such as integrated sector programs.

MOZAMBIQUE CONSULTATIVE GROUP MEETING
Paris, May 15-16, 1997

Chair's Closing Statement

Ms. Phyllis Pomerantz

Country Director, Mozambique

1. It is time to bring the 10th Consultative Group meeting for Mozambique to a close. I would like to thank all of you for participating. On behalf of all participants, I especially want to thank Prime Minister Mocumbi and his team for their contributions. The success of this meeting is due in large part to their lucid presentations and thoughtful responses to issues raised. And I must say, I think it is a measure of the maturity of our partnership that we have had one of the most frank and technically substantive CG meetings I have attended.

2. Last year we concluded that the 1995 CG had been a meeting of good intentions and that the 1996 meeting was one of accountability. In the same spirit, I believe we can call this year's meeting the CG of accomplishments. All participants paid tribute to Mozambique's truly impressive list of achievements over the past year: GDP growth of over 6% in 1996, export growth of 30%, inflation down more recently to single digits, and further significant progress on one of the most far-reaching privatization programs in Africa. As Mr. Copland put it, last year's debate over whether decreased inflation or increased growth is more important now looks futile. Mozambique has shown that it is possible to have both lower inflation and higher growth.

3. Mozambique's success has wider implications for the rest of Africa. In the ongoing debate over Africa's growth prospects, Mozambique provides a good example that persistent effort on structural adjustment does bear fruit. And in the debate over the role of external aid, Mozambique's strong growth over several years and its ongoing transition to peace, democracy, and political stability shows the importance of external support for committed economic reformers. Moreover, because of its strategic location as the natural outlet to the sea for landlocked neighbors, as well as its natural resources, Mozambique stands to make an important contribution to the growth of the entire Southern Africa region. Success in improving the efficiency of all three of its major transport corridors and in developing its natural resources will raise the growth rate of Mozambique and its neighbors alike.

4. Despite recent accomplishments, Mozambique remains one of the poorest countries in the world. Most of our discussion over the past two days, therefore, looked down the road ahead rather than dwelling upon past success. A striking feature of this year's CG meeting in comparison to those of the recent past, was the shift in emphasis from emergency and short-term stabilization to medium-term development issues. We shared our visions of where Mozambique could be going in the next ten years. And while there was active debate over how to get there, our visions of where Mozambique needs to go were remarkably similar. Let me take up the main themes of our discussions under four headings: agriculture and rural development; private sector development; capacity building; and the future of the relationship between Mozambique and its external partners.

AGRICULTURE AND RURAL DEVELOPMENT

5. All of the participants agreed that the agricultural sector will provide the main source of growth and poverty alleviation for Mozambique. Of particular importance is the development of the family or smallholder sector which still accounts for over three-quarters of the population. While there was agreement on the relevance of agriculture for broad-based growth and poverty alleviation, there was less agreement, and much discussion, about how to promote this agricultural growth and associated rural development.

6. The external partners expressed the importance of completing the preparation and launching of the PROAGRI program. Mr. Lowcock noted that PROAGRI needs to pay more attention to the problems of women. This concern was echoed by many participants. Participants also stressed the importance of clarifying land issues, particularly with respect to ensuring land tenure security for traditional smallholder family farmers and promoting competitive land markets.

7. The meeting agreed that market development in general and the associated development of rural financial services, is critical. The Government's proposed program of support for further *cantina* development was questioned by several of the participants. Other participants stressed a view, which I personally find appealing, that there is a need to adopt a multifaceted approach by increasing work on feeder roads and the development of micro and small scale financial services -- and I am sure that at least some of the participants will take up the Government's suggestion of offering alternative proposals for ensuring greater access to credit and markets for small farmers. The Government should rest assured that we all are fully in accord that there is an urgent need to support the budding growth in agriculture with a functioning rural infrastructure.

PRIVATE SECTOR DEVELOPMENT

8. This Consultative Group has been unanimous in its recognition of the importance of private sector development for achieving sustained economic growth in Mozambique. The beginnings of a stable macro-economic environment have been established, but it is critical that it be nurtured, consolidated and sustained. Mozambique needs to maintain high growth over a long period of time to have a tangible impact on its people and on reducing poverty. The message is clear, as the representative from the Netherlands said, on behalf of the European Union, "There can be no slippages".

9. In addition to a stable macro economic environment, the private sector requires a supportive physical and institutional infrastructure. This means having roads that function; an efficient and broad based telecommunications system which allows easy access both internally and internationally at competitive prices; an uninterrupted and reasonably priced power supply; access to clean and reliable water supplies; and support from dependable transport services. And the legal environment needs to be up-to-date and reflect modern business practices. In this regard we look forward to the early reform of the commercial code. Lastly, Government bureaucracy should not stand in the way. Many participants

have rightly praised the red tape report for identifying and documenting the labyrinth that private businesses negotiate when they establish an enterprise in Mozambique. We look forward to a report back from the Government, at the September Private Sector Conference, on progress to simplify this bureaucracy.

10. Many speakers have also rightly praised the Government's privatization program. The fact that the privatization agencies are now talking about closing their doors in mid-1998 is a testament to how far the Government has come from the days, not so very long ago, when Mozambique's economy was almost completely dominated by the public sector. But the Government has not privatized for privatization sake. The impact in terms of significantly improved industrial performance over the past two years, after five years of steady decline, shows that the economy is now reaping the benefits of its far-sighted and far-reaching program. And important steps still remain -- among them quickly finalizing the privatization of BPD; finalizing the privatization of LAM; and moving quickly on the private concessioning of CFM South during 1997, and the remainder of the rail system shortly thereafter. In addition, the increasing relevance of telecommunications for overall business development argues for greater private sector involvement and competition in this sector.

11. An emerging theme is to ensure that Mozambicans participate to the fullest extent in the development of the economy. A long history of state dominance, and a lack of financial resources and entrepreneurial skills have hindered local entrepreneurs, whether they be involved in micro, small, or medium scale enterprises. The need for credit facilities to support viable economic activities; the need to provide local business people with technical know-how; and the need for a supportive legal and regulatory environment -- are all issues which require our urgent attention. For me, this includes not just the larger Mozambican businessman, but the artisan carpenter, the back room tailor sewing shirts, and the village woman engaged in trading activities. Anyone who has walked the streets of Maputo will quickly recognize that Mozambicans have their fair share of entrepreneurial talent, and we must be sure that they can exploit their talents. Such projects will have a direct impact upon poverty alleviation throughout the country.

12. Finally, as we privatize and simplify the regulatory structure, several participants pointed to the need to ensure that Mozambique's environment is protected and its natural resources carefully managed. I want to add my voice in strong support to theirs. This is especially important as the potential for large mineral, gas, hydro-electric, forestry and industrial developments become a reality. Adequate environmental institutions as well as effective environmental impact study procedures, safeguards, and mitigation measures are essential so the country's resources are protected not just for this generation of Mozambicans, but for their children and their children's children.

CAPACITY BUILDING

13. Building capacity was another recurring theme, and our discussion ranged well beyond the customary bounds of primary and secondary education, fundamental though these are. Central to our discussion was capacity within the public sector. Minister Gamito's presentation on the Government's public sector reform program was a useful

beginning to what will undoubtedly be a rich discussion over the coming months. If successful, the sort of reform the Minister envisages, which includes simplification of the career and remuneration structure as well as a considerable decompression of civil service wages, will improve the Government's ability to attract and keep qualified civil servants. It is also a way, along with a simplification of bureaucratic processes, to reduce the temptations of corruption. I noticed a number of participants shudder, including myself, when the minister spoke of the infamous "*carimbo*" or rubber stamp. And an effective public sector is not only essential to provide essential services especially to the poor and vulnerable, but is also part and parcel of developing the private sector. The questions that followed the Minister's presentation not only demonstrated the timeliness of this initiative, but also the complexity of the enterprise. Details still need to be worked out. Mozambique's aid partners have clearly indicated their willingness to support a radical reform, and were particularly encouraged by the structured approach of the program and the planned phasing out of donor support. As the Vice-Minister noted, if the strategy is to be sustainable, donor aid must play only an interim role. But we as Mozambique's partners must also do our part, by phasing out our topping-up of civil servants' salaries, and our luring away - through better pay - of some of the public sector's own "best and brightest".

14. Clearly it will take time and concerted effort by all of us to build the capacity of people and institutions. In the interim, we should all consider what may be done to ease the burdens on Mozambique's limited public sector capacity. Mr. Frieden of Switzerland warned that providing local services at the present level is not sustainable either financially or in terms of central administrative capability. Sharing the responsibility for the financing and operation of such services empowers local communities, and adds to Mozambique's precious supply of capacity. And of course, also on the subject of capacity, many of Mozambique's partners emphasized the need to do more to take full advantage of the capacity of Mozambican women, by empowering them, securing their rights and incorporating them more fully into the economy.

15. As part of the public sector reform, Mozambique's partners all applauded the Government on its progress in enacting the legislation for holding local elections and decentralizing responsibilities to the provincial level. This will not only have a powerful effect of deepening democracy, a good in its own right, but, by helping to create the political support for change, it is also an important component of building capacity. Local elections are planned in 33 municipalities for December 1997 or shortly thereafter. The delegates welcomed the commitment by the Prime Minister to extend local elections country wide in the foreseeable future.

16. Finally, to return to the subject of corruption, as many participants did, we all recognized that corruption strikes at the heart of effectiveness. Mozambique's aid partners commended the Government for the anti-corruption legislation submitted to the National Assembly. This is a first step, but it will be important for the Government to show its commitment to making anti-corruption a reality, by creating the necessary institutions, and by taking rapid action in pending cases.

FUTURE OF THE RELATIONSHIP: MOVING TOWARD REDUCED AID DEPENDENCY

17. As we began to focus together on the longer-term future for Mozambique at this CG, there was a common recognition, both among Government and many of its partners, that Mozambique will need to reduce aid dependency. As Ms. Garcia Jauregui of Spain put it, "we must make the transition from emergency to sustainable development." This implies a need for both the building of local capacity and the mobilization of domestic resources to substitute for gradually declining aid. To move toward fiscal sustainability will call, first and foremost, for a rapid and substantial increase in fiscal revenues. In this respect, an increase in international trade taxes arising from the private management of customs will be particularly important. The Government will also have to move forward rapidly in preparing and implementing its Value Added Tax system by mid-1998. Exemptions on duties, tariffs, and taxes will have to be minimized. And the Government will need to tap the planned mega projects for fiscal benefits while maintaining Mozambique's competitiveness as a destination for foreign investment.

18. Sound and strategic expenditure management will also be pivotal to ensuring that Mozambique attain its development objectives in the face of scarce resources. To this end, I have noted considerable support from participants for the Government in its implementation of its Expenditure Management Reform Strategy. Here is an area where we hope to see increased Government leadership in our renewed partnership. Noteworthy are the efforts underway to improve the transparency and coverage of the budget, and, as suggested by more than one participant, we donors should work with Government to ensure that our projects are included and tracked through the budgetary process. As indicated by the Minister of Finance, moreover, a key component of the strategy will be the development of a medium term expenditure framework. This should link the macroeconomic framework with sector programs so as to make appropriate inter-sectoral allocations, given available resources. A better planning mechanism will give the Government greater budgetary control and will help ensure the implementation of Government driven priorities. We, as external partners, also have a role to play in improving the effectiveness of public investment financed by our resources. Efforts such as those mentioned by several of you, including Ms. Storm, the Norwegian delegate, to increasingly move toward sector program financing, will reduce the number of disparate projects and ease the demands on investment management capacity of Government. This may take time, however. As Mr. Toivonen of Finland warned, SIPs are not for those in a hurry.

19. Many participants supported Mr. Hansen's declaration that this CG meeting should send a clear signal to the outside world that Mozambique should be allowed to participate in the HIPC. I can assure you that your message has been heard and, as Mr. Leite and I explained yesterday, we are working toward having Mozambique declared eligible as soon as possible, even if all the details cannot be worked out immediately.

20. Turning briefly to financing, I am pleased to report that this year's projected financing needs of \$560 million have been met. Let me add my thanks to that of the Government for your continued support. Recent studies have shown that aid effectiveness is greatest in countries who are implementing sound economic policies. I am sure that if

the Government of Mozambique continues on its current path, the international community will continue to play its part.

21. Let me also express our appreciation of the support team, including the interpreters here, for the smooth administration of our meeting. I would like to thank all participants for their rich contributions to these discussions. I also want to take special note of the contribution of the Mozambique Country Team and other Bank staff, including from our Paris office, who worked tirelessly behind the scenes on this CG.

22. In concluding, permit me to make an-all-too brief mention of some changes in Maputo for the World Bank. As many of you may know, this will be Roberto Chavez' last CG as our Resident Representative in Mozambique. After four years in Maputo, we need him back in Washington. Under Roberto, the Resident Mission has been transformed. The richness and frankness of our partnership is in no small part due to Roberto's exceptional abilities: at earning trust, at listening well, at representing the Bank views persuasively and clearly. For those of us traveling there, it is without doubt the best run Resident Mission in Africa. And certainly the most culturally active -- as you know, the Resident Mission periodically doubles as a gallery for local artists! His warmth, immense knowledge and sensitivity for Mozambique, and his thoughtfulness will be sorely missed. In many ways this tenth CG, marked by the kind of spirited debate of Mozambique's medium-term agenda that would have been unthinkable four years ago, bears the stamp of his legacy. For all of us, thank you Roberto.

23. And as I close this tenth Consultative Group meeting for Mozambique and bid you farewell, Mr. Cedergren's apt words came to mind. To all of you, I say, "very good, very impressive, good luck!" *Até a proxima.*

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SUCCESSFUL ECONOMIC REFORMS BEAR FRUIT IN MOZAMBIQUE

PARIS, May 16, 1997. The Consultative Group for Mozambique held its tenth meeting on May 15 and 16, 1997, under the chairmanship of Ms. Phyllis Pomerantz, Country Director for Mozambique of the World Bank. The Mozambican Delegation was led by H.E. Dr. Pascoal Mocumbi, the Prime Minister, and included H.E. Tomaz Salomão, Minister of Plan and Finance, H.E. Oldemiro Baloi, Minister of Industry, Trade and Tourism, H.E. Alfredo Gamito, Minister of State Administration, H.E. Luisa Diogo, Deputy Minister of Plan and Finance, H.E. Adriano Maleiane, Governor of the Bank of Mozambique, and other senior officials. The CG Meeting brought together over 30 bilateral and multilateral agencies to discuss Mozambique's development program and future plans, and external support for these.

Participants Laud Mozambique's Commitment to Reform

Participants congratulated the Government for Mozambique's strong economic performance in 1996. The economy grew by 6.4% last year. Inflation has come down from over 70% in 1994 to less than 17% last year. The 1996 grain harvest was the largest in two decades which, together with the ongoing industrial sector recovery, resulted in a 30% increase in exports. Exports totaled \$225 million in 1996. Participants recognized that Mozambique's success in 1996 was underpinned by the Government's solid macroeconomic management, coupled with one of Africa's largest privatization programs, including the privatization of the largest state owned bank. Early results for 1997 indicate that another good year lies ahead. High, sustained growth over a decade or more is needed for substantial poverty reduction in Mozambique. A number of participants emphasized that "there can be no slippage" if Mozambique's poor are to benefit from reform efforts.

The improvement in economic performance, together with a successful transition from war to peace and democracy, has led to increased private investor interest. The signing of the accords by South Africa and Mozambique for the private construction and operation of a toll road along the Maputo Development Corridor and the Government's plans for private concessioning of the nation's ports and railways will offer benefits beyond Mozambique to the entire Southern African region. To further spur private sector led growth, participants noted the importance of strengthening the Government's regulatory capacity, including removing bureaucratic obstacles and modernizing the commercial code. Participants also noted the importance of strengthening environmental assessments and safeguards to ensure the optimal use of Mozambique's natural resources in the nation's development.

Challenges Remain for the Coming Years

Progress on the macroeconomic front allowed the meeting to focus on the challenges of sustainable growth and poverty reduction over the medium term. Participants agreed that rural development is a central priority. Debate focused on concrete actions to help small farmers and traders boost food production and rural incomes. Rebuilding rural infrastructure, safeguarding the land rights of smallholders and the important role of women in the rural economy were highlighted in the discussion. Participants looked forward to the launch of PROAGRI, the Government's new agricultural sector program to promote smallholder agriculture and stressed the need to better define the role of the Government and the private sector, particularly in the areas of marketing and rural finance. PROAGRI is slated to receive support from Consultative Group members.

In the area of governance, participants supported the Government's goals to reform the civil service, including the career and remuneration system; concrete plans will be worked out over the coming months. They also applauded the Government's decision to hold local elections in 1997 and to increase local participation in civic affairs and development programs. In order to further promote decentralization, the need to extend local elections to the whole of Mozambique was recognized, and the Government indicated its intentions to prepare concrete proposals to implement this. Participants also commended the Government for the anti-corruption legislation submitted to the National Assembly and urged the Government to go further in combating corruption.

Even with recent successes, Mozambique remains the world's most aid dependent nation, a concern echoed by various participants. Progress on this front was noted: the proportion of the budget financed by aid declined from 65% to 50% in the past two years. Efforts underway to reduce the level of aid dependency include enhancing revenue generation through customs and fiscal reform, coupled with public sector reform and capacity building to increase efficiency. A central concern of participants was Mozambique's debt burden. The Government of Mozambique's initiative to address the debt problem through a multilateral debt fund was recognized. Participants expressed strong support for Mozambique's participation in the HIPC debt reduction initiative and urged the Bretton Woods institutions to take the necessary measures to ensure that Mozambique is declared eligible for the HIPC initiative at the earliest possible moment.

Mozambique's Financing Needs Met

Mozambique came to Paris seeking external financing (excluding debt relief) in credits and grants of about US \$560 million. Indications from the participants at the meeting were that Mozambique's 1997 financing needs would be met through a combination of investments (55%), balance of payments support (28%), food aid (6%), and other programs (11%). The Government expressed its gratitude for the continued support of the international community.

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