

**ECONOMIC GOVERNANCE AND DEVELOPMENT IN
VIETNAM AND MOZAMBIQUE**

DFC 85-08 (KU project 27540)

GENERAL COUNTRY PAPER

By

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Acronyms

AfDB	African Development Bank	PARPA	Action Plan for Absolute Poverty Reduction
AD	After Christ	PEA	Population economically active
AIDS	Acquired Immune Deficiency Syndrome	PES	Economic and Social Plan
ANC	African National Congress	PFM	Public Finance Management
CAP	Agriculture and livestock census	PRE	Economic Rehabilitation Program
CUT	Treasury Unique Account	PRES	Economic and Social Rehabilitation Program
DPDS-UEM-IFPRI		RENAMO	Mozambique National Resistance
FDI	Foreign direct investment	RGPH	General population and housing census
FRELIMO	Front of liberation of Mozambique	SAP	Structural Adjustment Program
GDP	Gross domestic product	SESTAFE	Integrated Electronic Syst. of Government Finance
GFKF	Gross fixed capital formation	TCF	Trillion cubic feet
GPA	General peace agreement	TIA	Agriculture survey
HIV	Human Immune Deficiency Virus	TARV	Anti-retroviral treatment
HDI	Human development index	UDENAMO	Mozambique National Democratic Union
HDS	Health and demographic survey	UN	United Nations
HPI-1	Human poverty index	UNAMI	National Union of Mozambique Independent
IMF	International Monetary Fund	UNDP	United Nations Development Program
IAF	Household budget survey	U5MR	Under-five mortality rate
IDA	International Development Aid	VAT	Value added tax
IFTRAB	Labor force survey	WB	World Bank
ILO	International Labor Organization		
IMR	Infant mortality rate		
INE	National Institute of Statistics		
INFOR	Informal sector survey		
MANU	Mozambique African National Union		
MDG	Millennium Development Goals		
MICS	Multiple Indicators...		
MMR	Maternal mortality rate		
MT	Metical		
MTES	Medium Term Expenditure Scenario		
ODA			
PAF			

Background

Vietnam is a populous Southeast Asian Economy with a particular economic and political history on the brink of a dynamic Asian development experience. Despite its potential, this economy is at the moment poor, and inequalities are looming that are unlikely to be mitigated by market forces alone.

Mozambique, on the other hand, is a thinly populated country in Southern Africa, which has suffered from years of destruction caused by war, natural calamities and ill-conceived economic policies. Great strides have been made over the past decade to cover. Economic progress has been significant, and Mozambique now boasts a multi-party democracy. Yet, Mozambique continues to be one of the poorest countries in the world and will remain highly dependent on development assistance and other capital inflows for years to come.

Comparative studies of these two countries which are similar in some but very different in other dimensions are as laid out in the FFU project document potentially rewarding. This is so in both a more narrow sense and with a view to the bigger challenge of deepening our understanding of comparative development in Africa and Asia. This includes what the former region may potentially learn from the latter in formulating effective economic development policy.

It is under this background that it is important in the first year of the FFU project, to develop a common level of understanding among project researchers of the socio-economic characteristics, trends and issues in both countries. This paper gives a general description about Mozambique, its basic characteristics, economic structure and transformation, and future development challenges.

Basic Country Characteristics

History¹

Mozambique is located in an area of strategic importance in Southern Africa. Its geographical position determined its historical development, both as a country and as a Portuguese colony. The relevant starting point for an overview of the history of Mozambique 200/300 AD, from which we can distinguish several periods:

1. The Pre-colonial period - 200/300 AD-1498
2. The Colonial period – 1495-1975
3. The period of National Liberation War – 1962-1975
4. The period of Independence and Civil War – 1976-1992
5. The Economic Legacy

The Pre-colonial period - 200/300 AD-1498

In this period, which dates back to year 200 AD, the Mozambique's earliest inhabitants were hunters-gatherers. Between 200-300 AD, the migration of Bantu people² with warrior habits forced these primitive people to escape to the poor regions in terms of resources. In the 7th century, merchant network by Afro-Islamic kingdoms were established in the coast of eastern Africa to trade product from the interior especially gold and ivory.

The Colonial period – 1495-1975

The first Europeans in Mozambique were the Portuguese who began to settle and trade on the coast early in the 16th century. Known as the Portuguese mercantile penetration

¹ Reflection based on www.portaldogoverno.gov.mz/Mozambique

² According to Marrupe (2007) the term “bantu” was first defined by Dr. Wilhelm Bleek who developed the first hypothesis of “many languages with common characteristics which originated a unique language”. In line of this hypothesis, actually this term means gent or people. The same as *athu* in Emacua, *vandu* in Ajaua, *antu* in Sena, *wantu* in Nhanja and Ndau, *vantu* in Maconde, *vanhu* in Shangana, *Ronga* and *Xitswa*, *bantu* in Zulu and Xosa, etc.

mainly because of higher demand of gold used for acquisition of Asian spices, the initial objective of the Portuguese were to control the drain off of the gold. Meanwhile they built two important fortresses: of Sofala in 1505 and of Ilha de Moçambique in 1507, which were used to expand and consolidate their penetration to the interior with the aim of controlling the main regions of gold production. This phase of mercantile penetration, known as the phase of gold mercantile penetration, was followed by other two phases known as the ivory and slave mercantile, because the most demanded product in each phase were the ivory and slaves respectively. For many years the slave trade was the most lucrative activity in Mozambique and it continued until middle of the 19th century. For more than three centuries, thousand of Mozambicans were sold abroad as slaves. Estimates for the period 1780 and 1800 indicate between 10,000 and 15,000 persons were sold annually and the number increased to about 25,000 a year between 1800 and 1850 (Gaspar, 2002).

With the advent of Berlin Conference in 1884/85, Portugal was forced to make an effective occupation of the Mozambican territory and in May 1891 Mozambique acquired the actual configuration, after the Anglo-Portuguese treaty for sharing the influence zone of Africa was signed to legitimise the occupation between colonial European Nations (INE, 2005).

The period of National Liberation War – 1962-1975

The colonial occupation has never been undisputed. The Mozambican people always resisted to the colonial occupation, the most important being those leaded by Mawewe, Muzila, Ngungunhane, Komala, Kuphula, Marave, Molid-Volay and Mataca. As in other Portuguese territories, African resistance to Portuguese rule grew stronger as the British and French colonies in Africa began to win their independence. Gradually, various national movements for independence were formed in Mozambique. This aspiration to independence, always repressed by the colonial regime gave rise a long lasting armed struggle moved by FRELIMO since 1964 following the unification in 1962 of three

national movements (UDENAMO, MANU and UNAMI)³. Under the leadership of Eduardo Mondlane, FRELIMO started the liberation war for independence in Cabo Delgado province on 25 of September 1964. Four years later, the fighting was expanded to Niassa and Tete provinces. By the time in 1968, FRELIMO was claiming to control over one-fifth of the country. In response, the Portuguese committed more and more troops, military supplies and military aid funds to the country. In 1969 the FRELIMO first president, Eduardo Mondlane, was assassinated and succeeded by Samora Machel who led the war until independence in June 1975.

The turning point in the struggle for independence came with the Portuguese revolution of 25 April 1974. The political independence negotiated between FRELIMO and Portuguese Government ended in Agreement on 7 of September 1974, known in Mozambican history as the “Lusaka Agreement”. In this agreement was set out a transitory government led by the second president of Mozambique independent, Mr. Joaquim Alberto Chissano, by the time prime-minister, who governed the country until 25 of June 1975, the day in which officially was proclaimed the Independence of Mozambique and Samora M. Machel became the first president of Mozambique Independent.

The period of Independence and Civil War – 1976-1992

Following the independence in 1975, the first Mozambican government established a highly centralized System of economic planning characterized by state involvement in all sectors. In line with this mandate of the first Mozambican government announced, in July 1975, the nationalization of most basic services (health, education, justice, funeral agencies, etc) followed by the nationalization of rental houses in 1976. As consequence of these nationalizations together with the socialist regime adopted by the first Mozambican government, the country witnessed massive exodus of Portuguese settlers

³ UDENAMO = União Nacional Democrática de Moçambique; MANU = Mozambique African National Union; UNAMI = União Nacional de Moçambique Independente;

including skilled manpower. Chining et al (2006) estimate about 200,000 Portuguese settlers abandoned Mozambique in the first years of independence.

In 1976 the Mozambique National Resistance (RENAMO) is created allegedly by Portuguese settlers and business interests with the Rhodesian⁴ white minority conducted a long lasting guerrilla operations in Mozambique, which led to a severe disruption in the production and an almost complete breakdown in the rural marketing system, widespread destruction of basic infrastructure and massive population displacement. As consequence, the effort of national reconstruction and improvement of the standard of living of the population in the first years of independence did not consolidate and in most cases collapsed. The combination of increased insecurity and inappropriate domestic policies was disastrous for the Mozambican economy. It is argued that between 1980 and 1986, real GDP fell by 21 per cent; commodity exports declined by 72 per cent and represented only 15 percent of imports in spite of the drop by nearly one-third of the commodity imports. As consequence, the resulting trade deficit led to the rapid accumulation of external debt arrears (WB, 1992).

In March 1984, Mozambique and South Africa signed a nonaggression pact at Incomati river which come to be known as “Incomati Agreement”, whereby Mozambique agreed to keep the ANC from using Mozambican territory for guerrillas attack on South Africa, while South Africa agree to stop supporting RENAMO. Nevertheless, South Africa continued to support RENAMO and as a result, in 1985 Mozambique pulled out of the commission that was created to monitor the implementation of the nonaggression pact.

In 19 October 1986, the first president of Mozambique independent, Samora Machel and 33 other were killed when their Soviet-built jetliner crashed inside South Africa while returning to Maputo. While Mozambican officials accused the Apartheid Government of South Africa, this accident remains unsolved to date. In November 1996, FRELIMO's Central Committee elected, by the time Foreign Minister Joaquim Chissano, president.

⁴ Actual Zimbabwe since independence in 1980

In October 1992, Mozambique caught the attention of the world when the two belligerent of the 16 years of civil strife (FRELIMO Government and RENAMO – Mozambique National Resistance), signed in Roma a lasting General Peace Agreement (GPA). The GPA provided the framework for the transition to peace and democracy through: the assembly and demobilization of troops; formation of a new defence force (FADM, Mozambique's Defence Armed Force); reintegration of a demobilized military personnel into civilian life; establishment of democratic institutions; the resettlement of nearly 5 million displaced persons, including an estimated 1.7 million refugees. According to Gaspar (2002) the majority of refugees from abroad come from Malawi (75%), from Zimbabwe (14.5%), and the remaining 10% from South Africa, Tanzania, Zambia and Swaziland.

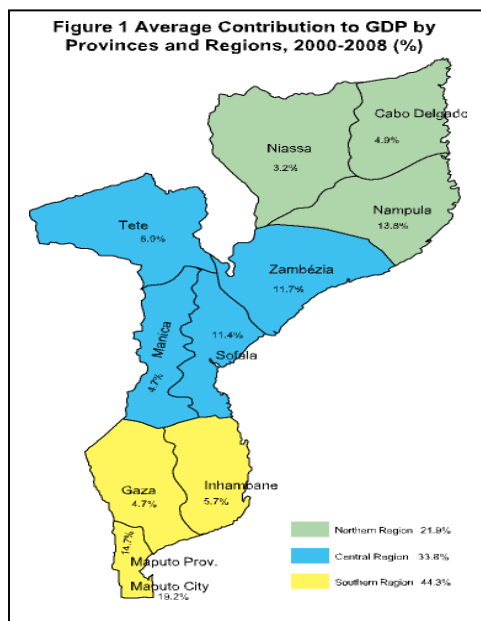
The Economic legacy

By the time of independence in 1975, Mozambique inherited an economy structured mainly as a service economy to neighbouring landlocked countries and characterized by asymmetry between the North and the South, and between the urban and rural area of the country. The southern region being the most developed than the northern region of the country and the cities being more developed than the rural area. The absence of an economic integration between the different region of the country and extreme labour oppression constituted the most dominant characteristics of the above asymmetry. Colonial policies were implemented especially to promote the network of overland transport, the main pole of economic and administrative dynamic being the south cities of Maputo, the capital of the country. Although the south has little or almost nothing in terms of natural resources, when compared to the centre and north regions, the two cities of Maputo and Matola in the south absorbed and continue do absorb more than 50 per cent of the country's industrial park, have the port which handle more cargo a year than any other port in the country and is the point of departure of three railways linking the city to Zimbabwe, South Africa and Swaziland. This unequal distribution of development inherited at time of independence in 1975 did not change until now. Recent foreign direct

investment directed, to great extent to mega-projects show a clear bias towards the southern provinces of Maputo and Inhambane.

Recent estimates of the contribution to GDP by provinces and regions (Figure 1) show the above unequal distribution of development with heavy concentration of economic activity in the southern region of the country with an average contribution to total GDP of about 44%. In this, Maputo City and Maputo Provinces stand out together with a contribution to about 77% of the GDP of the region (34% of total GDP). The central region follows with a contribution of about 34%, and finally the northern region with an average contribution to GDP of about 22%. Sofala and Zambezia provinces in the Centre, and Nampula province in the North lead in their respective regions, with an average contribution of 11%, 12% and 14% respectively.

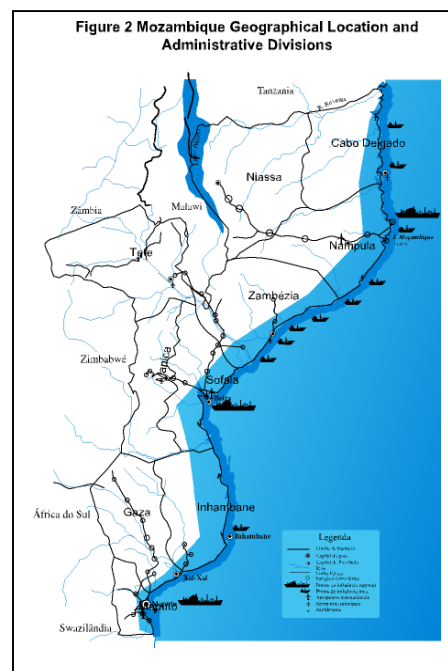
From the perspective of specialization, there is a dominance of primary sector in the



northern region with a contribution to GDP of about 38% slightly higher than the contribution of the central region (36%) but three times higher than the contribution of this sector to GDP in the southern region (12%) dominated mostly by the tertiary and secondary sectors with an average contribution to GDP of about 53%% and 27%% respectively. The strong contribution of the tertiary sector in the southern region is explained by the higher concentration of services, including hotels and restaurants, financial services, transport and communications, and government services.

Geography and Natural Resources

Mozambique is located in the east cost of Southern Africa running from the border with South Africa and Swaziland to the southwest to Tanzania in the north. Inland, it borders with Malawi, Zambia, Zimbabwe and South Africa to the west. To the east, the country borders the Indian Ocean along a coastline that extends for 2,470 Km. Its land area of about 799,380 square kilometre (of which 2.5% are inland waters) is less elevated than most other countries in the region. The most fertile areas of the country are in the west, where the Zambezi River is dammed at Cabora Bassa, and on the coast. Mozambique's administrative division counts eleven provinces: Niassa, Cabo Delgado and Nampula in the north; Zambézia, Tete, Manica and Sofala in the centre; Inhambane, Gaza and Maputo in the south. The capital is called Maputo and it has the status of province. Figure 2 shows the geographical location of Mozambique and its administrative division.



Mozambique, like many other countries in the Southern Africa region, does not present great variety of landscape. INE (2003) distinguishes three types of natural landscapes:

- **The southern coastal plain**, which is up to 200m above sea level and cover about 40% of the territory and is where the majority of the population is concentrated;
- **The Plateaux** with altitudes that vary from 200m to 1000m above sea level and cover about 43% of the territory, mainly in the centre and north;

- **The great plateaux and mountains ranges**, which occupy a small part of the national territory (13%), mainly in the interior, with altitudes over 1000m above seal level;

Mozambique's water resources include more than 60 rivers, lakes and lagoons offering the possibility of irrigation. The climate is predominantly inter-tropical, with three main sub-climates: humid tropical climate in the coastal area; a dry tropical climate in the south and the Zambezi valley; and finally a higher altitude tropical climate in the interior mountain regions. The country's flora is mainly of the dense, open forest and savannah type.

Endowed with a strong natural resource base, Mozambique offers significant opportunity for development. However, the increased political instability for about 16 years in the country did not allowed Mozambique to explore its considerable potentialities:

- Almost 70 per cent of the land area, estimated at 787,000 square kilometre, is covered by savannah and secondary forests, and 45 per cent of the total land mass is arable.
- An ideal geographic position. Its coastline, approximately 2,700 km long, not only offers a wealth of marine resources for economic exploitation, but also constitutes a natural gateway to the sea for Malawi, Zambia, Zimbabwe and the South African regions of Mpumalanga and Gauteng (including Johannesburg and Pretoria) in South Africa. In this regard, Mozambique constitutes the entrance port of nearly half of Southern Africa (and the most populous part of it). Historically, Mozambique's development was concentrated in Maputo and in the coastal cities due to trade. Three correctors with railways cross the country from east to west – the Nampula corrector serving mainly Malawi; the Beira corrector serving Zimbabwe; and the Maputo corrector serving South Africa. The regional economies are also linked to these correctors. For instance, the South is linked to

South African economy; the centre to Zimbabwe economy and North to Malawi and Tanzania;

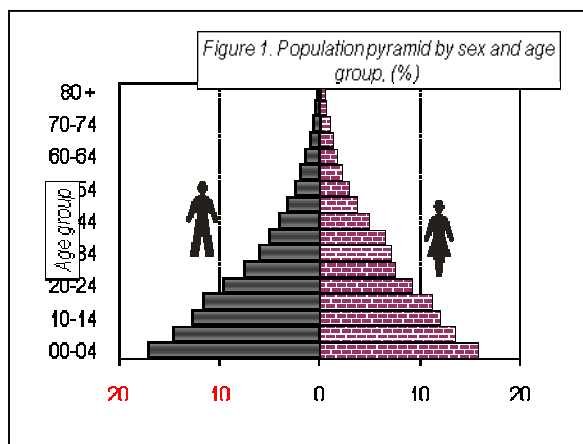
- Mineral resources include coal, titanium, natural gas, hydropower, tantalum and graphite. It is estimated that there are about 3.25 TCF of natural gas reserves, 10 billion tons of natural coal, and about 101 million tons of confirmed heavy sands.

However, though they represent great investment opportunities, the increasing “capture” of many of these natural resources by foreign owned private companies raises serious concerns about actual and future net benefits for the Mozambican people.

The control and access to land constitute a source of conflict in many communities. Aspects related to the land-use have been crucial in the battle for independence in Mozambique and in the post-independence policies. There has been a growing recognition that the access to land is crucial for the vulnerable household to enjoy a sustainable rural standard of life. The actual regime of land rights regulated by the Law 19/97, constitute the legal base for the actual land policy. According to this Law, which is in harmony with the country’s constitution, all the land is owned by the state, and cannot be sold, or any other form of property transfer, mortgage or seizure. The state has an exclusive ownership right and sole capacity to plan and determine the conditions under which land is used. Under this Law, land-use rights can only be acquired through concessionary arrangements for a number of years, while rights of occupancy is given mostly to communities under traditional customary arrangements (Mole, 2003). It is argued that this form of land-possession constitute an impediment to economic progress mainly because, people cannot use the land as collateral to serve as guarantee for access to credit, which constitute a constraints to economic activities, especially for agriculture.

Demography

Mozambique is a thinly populated country with a population which has been growing at an average annual rate of about 2% raising from 12.1 million in 1980 to 20.5 million in



2007⁵. Historical evolution of the birth and death rates modelled a very young population structure characterised by a very broad base, and a very narrow top (Graph 1). In 2007, of a total population of 20.5 million, 49.8% (10.2 million) are estimated to be younger than 18 years and that the median age was 17.5 years.

It is argued that the above population structure, typical of a developing country, has socio-economic implications, because its population has much more tendency to consume than to the produce due to higher dependency rate estimated at 107.2 per cent and 83.7 per cent for urban and rural areas respectively, with an overall national ratio of 99 per cent⁶.

The population natural growth rate is estimated by to be 2.4 per cent per annum. The population growth rate is likely to increase as a result of a foreseeable improvement in the mortality, life expectancy and birth rates. Available partial results from the last population census (Table 1) show that some of these indicators have improved in almost all provinces as compared with the results from the 1997.

⁵ Based on the preliminary results from the 2007 General Population and Housing Census.

⁶ The dependency ratio is calculated by dividing the number of children of 0-14 years old plus the number of those who are 65 years and above by the “active” population of 15-64 years.

Table 1. Selected Demographic Indicators by Provinces, 1997 and 2007

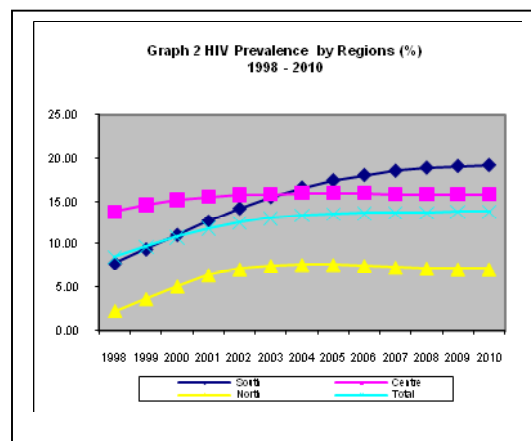
Provinces	1998				2007			
	Growth Rate	Birth Rate	Death Rate	Life Expect.	Growth Rate	Birth Rate	Death Rate	Life Expect.
Niassa	2.5	47.5	21.1	42.5	4.4	46.5	24.1	43.5
C. Delgado	1.9	42.2	22.5	39.7	2.2	41.7	27.3	36.7
Nampula	2.2	44.9	22.4	40.4				
Zambezia	2.2	48.3	24.6	38.6				
Tete	2.6	47.7	20.3	43.8	4.4			
Manica	2.9	47	19.6	44.3	3.7			
Sofala	2.2	43.5	20.6	42.5	2.4			
Inhambane	2.2	41.8	18.9	47.2	1.1	39.6	19.2	
Gaza	1.7	38.8	18.8	46.6				
Maputo Prov.	3	36.2	14.1	51.7				
Maputo City	3	34.5	8.6	58.4	1.2	27.6	72.3	55
Mozambique	2.3	43.9	20.5	43	2.4	39.8	15.9	47.6

The growth rate among regions is also influenced by migration rate both internal and international. Most migration within Mozambique is urban-rural but urban-urban also occurs. Amongst migrants, there are sharp differences according to sex and province of residence. International migrations has been motivated historically existence of competitive employment opportunities in neighbouring countries, especially in South Africa. With an emigration rate of 4.2%, study by UNDP (2009) suggests that the major continent of destination for migrants from Mozambique is Africa with 83.8% of emigrants living there. The same study estimates around 406.1 thousand migrants in Mozambique, which represents about 1.9% of the total population.

Population density in the country is one of the lowest in Africa. In 2007, it barely exceeded 25 inhabitants per square kilometre but with considerable variations among individual regions. It ranges from Niassa in the extreme north with the lowest population density of approximately 9 inhabitants per square kilometre to Maputo City in the extreme south with a population density of 1,818 inhabitants per square kilometre. The northern region with an extension of 293,287 square kilometres, presents the lowest population density (23 inhabitants/km²). The central region is the most extended in geographical terms (335,411 km²), but its population density is only 26 inhabitants/km².

Finally, the southern region which occupy only 170,682 km², presents the highest population density (28 inhabitants/ km²).

According to the projections by INE from the 1997 general population and housing census (GPHC) and update based on the health and demographic survey 2003 (HDS), life expectancy at birth in 2007 was only 47.6 years. This number is about to decrease in the future because of HIV especially among young adults and woman. About 15% of the population between 15 and 49 years is registered as being infected by HIV (PES, 2009). Actual projections on HIV based on the most recent available epidemiological surveillance data by INE et al (2008) suggests that about 440 peoples are diary infected by HIV and it is expected that in 2010 the new infections will attains the number of 445.000 for a total of about 1.7 millions infections amongst which 53.7% are women. This number represents 1.4 times more than their contra part of men. Wide disparity of HIV infection-rates and prevalence exists among individual regions within Mozambique (Graph 2). About 51% of new infections occur in the central region of Mozambique with a prevalence rate among adults of age 15 to 49 years estimated at 19.1% in 2009, followed by South region with 33% (prevalence rate) and finally in the north with 15%new diary infections.



The sex ratio (referred to as the masculinity index in Mozambique) varies considerably from province to province and by age group: for all age groups for the whole country there are 91.1 men per 100 women. But the ratio falls to below 85 men to 100 women in the age group of 30 years and above and to 80.7 mean per 100 women in Gaza province. According to the most recent household survey by INE, about 16% of Mozambican households are headed by women also with considerable variations among individual provinces with Gaza (24.9%), Inhambane (23.2%) and Maputo (19.6%) both in the south region of the country, being the highest. This is not surprising because historically, men from these provinces, uses to workers in the mines of neighbour South Africa.

The population is predominantly rural. The most recent population and housing census data shows that about 68.2% of the population live in rural area, while the remaining 32.8% is estimated to live in the cities and villages classified as urban⁷, and almost half of the entire urban population of the country living in the capital Maputo. This demonstrates a very heterogeneous distribution pattern with a notable concentration of the population in the coastal provinces and low population density in the interior. For example, the neighbouring coastal provinces of Zambezia and Nampula, together account for about 39% of total population in 2007. The size of an average household is estimated to be 5.2 members in urban and 4.7 members in rural areas giving a national average of 4.8 members per household (INE, 2004).

The majority of the country's people are Bantu origin. Ethnic groups include Makhuwa, Tsonga, Lomwe, Sena, Chuwabo, Xangana, Maconde, and others. The linguistic diversity constitutes one of the Mozambican cultural wealth. Although Portuguese is the official language, it is spoken by only 39.6% of the population with fewer people using it at home (8.8%), a smaller percentage considering it as their mother tongue (less than 7%), and with even lower utilisation in rural areas. Some seventeen national languages dominate everyday communication. The most important include Emakhwa (26.1%); Xichangana (11.3%); Elomwe (7.6%); Cisena (6.8%); Echuwabo (5.8%); other Mozambican languages including foreign languages (32%).

Major religious groupings include Christianity (Catholicism is practised by 23.8% of the population and mainly urban settings). Islam (practised by 17.8% of the population and mainly in the northern provinces), and other religions or independent churches such as the "Zionist", practised by 17.5% of the population, mainly in the southern provinces.

⁷ Following a rural-urban migration and the 1986 territorial reclassification, which upgraded to the category of urban 23 cities and 68 villages.

Political System, Key Institutions and Governance

Following the independence in 1975, under the first constitution, Mozambique becomes a one-party state leaded by FRELIMO without a clear distinction between the Executive and Judicial powers and FRELIMO's president being both President of the Republic and Commander-in-Chief of the armed force. A People's Assembly was established as the principal legislative body and the Council of Ministers as the executive organ. While in each of the ten provinces, Provincial Governments are headed by a Governor appointed by the President, in the rural areas, the 131 districts are the basic institutions of local government, each headed by an appointed District Administrator. In practice, however, governance has been centralized, with district and provincial sectoral directorates and authorities subordinated to their respective Ministries in Maputo.

In 1989, the new constitution was approved which provided the basis for a multiparty system and consequently the multiparty elections since independence in 1975. The People's Assembly was renamed Assembly of the Republic. The president is elected by popular vote for a five-year term (eligible for a second term). The Prime Minister is appointed by the president and the legislative branch is unicameral Assembly of the Republic (250 seats). The members of the Assembly are directly elected by popular vote on a secret ballot to serve five-year terms. Judicial branch are: Supreme Court (the court of final appeal), *Procuradoria da Republica*, Constitutional Council, Administrative Court, etc. While the president appoints some of its professional judges, others professionals are elected by the Assembly.

Since the first multiparty elections in 1994, Mozambique has held without fail Presidential and Parliamentary Elections (general elections) after every 5 years period. In this regard, Mozambique remains a good example of deepening democratic political entity providing peace and political stability. Following results from the Presidential and Parliamentary Elections held in 2004 – the third to take place since the end of the civil war in 1992 – brought Mr. Armando E. Guebuza to the presidency and maintained

Frelimo in power (Table 2). The party has had an uninterrupted hold of power for 30 years, during 18 of which Mr. Guebuza's predecessor, Mr. Joaquim Chissano, held power.

Table 2. Results from the Last Three General Parliamentary Elections

Political Parties	1994		1999		2005	
	Parliamentary Seats (n°)	Parliamentary Seats (%)	Parliamentary Seats (n°)	Parliamentary Seats (%)	Parliamentary Seats (n°)	Parliamentary Seats (%)
Frelimo	129	51.6	133	53.2	160	64
Renamo - UE	112	44.8	116	46.4	90	36
Others	9	3.6	1	0.4	0	0
Total	250	100	250	100	250	100

The revision of the 1990 Constitution in 1996 paved the way for the creation of Municipalities. In this spirit, local elections were held in 1998 in 23 cities and 10 towns paving the way towards a process of administrative and political decentralization. Since then, like the general elections, Mozambique has held without fail local elections every five years period, the last one being in 2008 covering 42 cities, towns and villages. It is worth to mention that in the last local elections, the ruling party Frelimo won, not only the majority in all Municipal Assemblies, but also its candidates, except in Beira where an independent candidate received the majority of valid votes from the electors.

Mozambique has so many political parties, the main ones are Frelimo, in the governance, Renamo the main opposition party and the MDM (Mozambique Democratic Movement) the one independent candidate who was elected in Beira on Municipal elections. These are competing for 2009 presidential elections. There are so many other political parties which are *competing* for provincial and Assembly. Frelimo's party seems to be a majority, taking off the opportunity of winning for other parties.

State Institutions

The Mozambique Government is constituted by 27 line ministries, Ministry of Foreign Affairs, Defence, Interior, Public Function, Finance, Planning and Development, Communication and Transport, Education and Culture, Agriculture, Labor, Youth and Sports, Health, Women and Social Action, Tourism, Coordination for Environment, State

Administration, Fishing, Industry and Energy, Mineral Resources, Housing and Public Infrastructures, Commerce, Ministry For Parliamentary Issues in the Presidencies Cabinet, Ministry For Diplomatic Issues in The Presidencies Cabinet, Ministry for Civil House Issues in the Presidencies Cabinet, Ministry of Justice, Science and Technology and Ministry for Antique Combatants Issues. The Council of Ministers is chaired by the President of the Republic.

Each ministry has representation at provincial level but at the district level there is an integrated distrital services such as planning and infrastructures, health and social action, etc. At the central level the Ministry of Planning and Development coordinate all planning, monitoring and evaluation of government program, and at provincial level that role its played by the Planning and Finance Provincial Directorate, representing both the Ministry of Finance and the Ministry of Planning and Development.

The Government take decisions at all levels, in some way in consultation with civil society organization and international partners. For example, the PRSP (PARPA II) was elaborated trough the broad consultation with civil society and international partners. There is also a platform for civil society coordination called G20, with representation at provincial level, and created mainly to coordinate the relation with government on the policy formulation process.

Planning Instruments and AID Coordination

At national level, the principal Government programmes and economic management instruments setting out medium-term strategies, objectives and policies are:

Vision 2025 - indicates the country's vision and it is elaborated with involvement of the civil society movement, the academics, etc.

Action Plan for Poverty Reduction (*Plano d e Acção para a Rdução da Pobreza Absoluta – PARPA*)

The Five-year Plan provides and overreaching set of guidelines for the country's development goals;

The Economic and Social Plan (*Pano Economico e Social – PES*) which in essence, emanates from the Five-year Plan, is an annual assessment of the

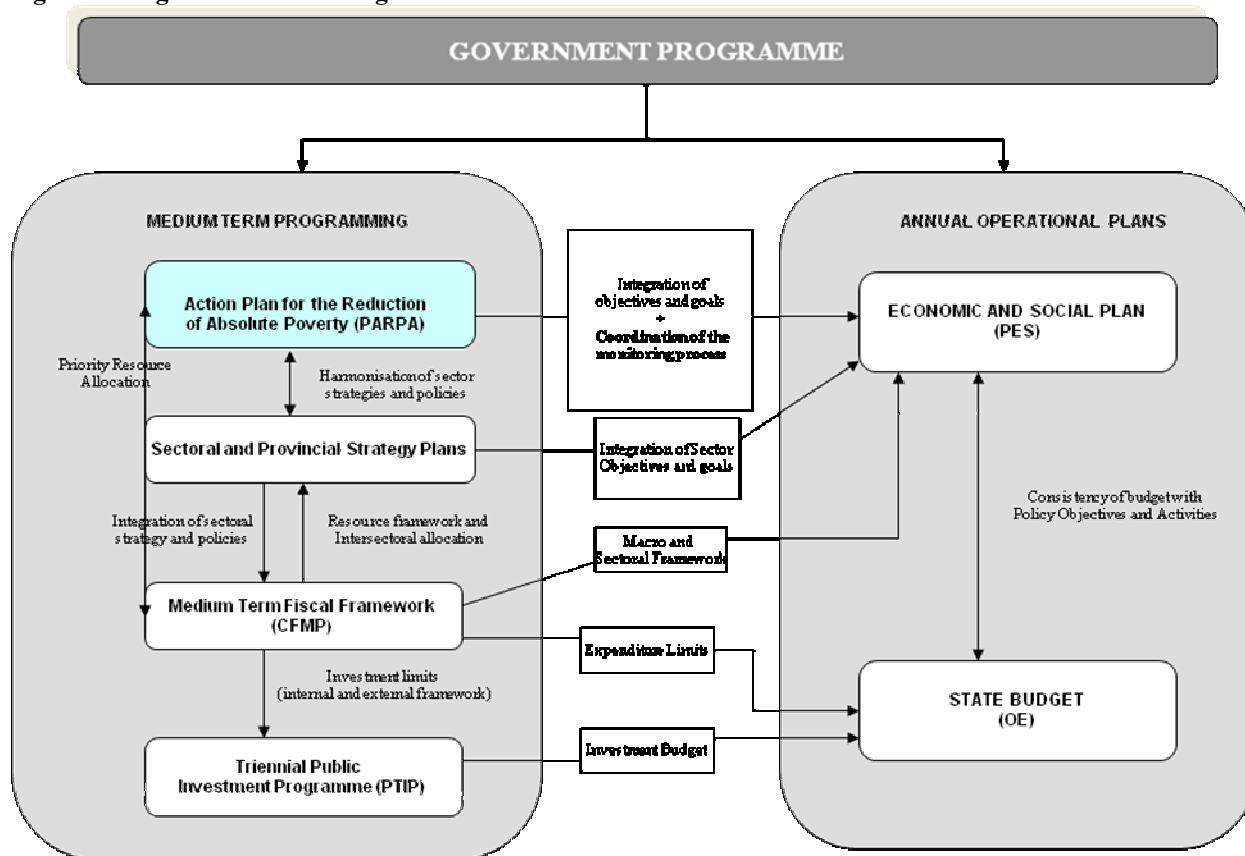
previous year's performance and sets out of goals for the coming year across all sectors of the economy;

The State Budget (*Orçamento Geral do Estado – OGE*) in turn, bases itself to a large extent on the *PES* and provides a more detailed view of how the Government seeks to pursue the objectives set out in the above document.

The Policy Framework Paper, which follows a three-year cycle, provides an in-depth look at the country both at the macro and sectoral levels. It sets out concrete macroeconomic performance targets as well as a few sectoral benchmark.

There are also sectorial and provincial strategic plans as well as district development plans and the Medium Term Expenditure Framework (MTEF – 3years), all implemented annually through the Economic and Social Plan and the State Budget and monitored on biannual and annual basis on Economic and Social Plan at different levels. The Economic and Social Plan and state budget are approved by the parliament.

Fig. Planning Instruments Integration



The Role of Donors

Mozambique is a heavily aid dependent country, approximately 50% of the state budget comes from aid. Development and aid priorities are aligned with the PARPAII, which is operationalised annually by the Economic and Social Plan. International partners are expected to align their country strategies with PARPA II. Mozambique has been at the forefront of new approaches to aid, with a well-developed budget support programme and numerous sector programmes. There has been significant progress in improving harmonization and alignment, and in bringing aid on-budget.

The main aid modalities include: General Budget Support (approx. 31% all aid on budget); Sector Programme Aid (approx 17% all aid on budget); Project Support (52%); Global Funds; (OECD-DAC, 2007).

Coordination of Budget Support was agreed in 1999 and formalised in 2000 as a common framework agreement in a join Donor Programme for Macro' Financial Support between the government and bilateral donors. An original group of six donors rapidly expanded to 10 in 2002, 17 in 2005, including the World Bank, 18 in 2006 including the African Development Bank and 19 in 2009 with the entrance of Austria. Budget support has been provided in Mozambique since 2001.

In 2004, a Memorandum of Understanding (MoU) was signed between the Government of Mozambique and 13 Donors, establishing procedures and principles of budget support in Mozambique. The signatories to the MoU have now increased to 19 donors, bilateral and multilateral. Budget Support commitments for 2007 was USD375,0Million, representing approx. 33% of the budget. For 2008 and 2009, commitments were approximately USD 435M and 445M respectively.

There are a number of sectors with programme aid mechanisms, including:

- Health – SWAP with three common funds (currently moving towards sector budget support)

- Education, Agriculture, HIV/AIDS, Roads and Public Sector Reform – Common Funds
- Water – SWAP and Common Fund
- Provincial budget support to 1 province.

Donor coordination in Mozambique is well advanced, both through budget support and within sectors. There's Development Partners Group – wide group of donors, including UN agencies, multilateral and bilateral donors. Programme Aid Partners (PAPs) – group of 19 donors who provide budget support and sector programme aid.

The Mozambican experience demonstrates that it is possible to reduce the impact on transaction costs and administrative burden of global programmes, while maintaining the benefits. For this to happen, flexibility and commitment is required from all sides. There is still a lot of progress to be made and key lessons to be learned from this experience. The budget support and the sector program aid area channelled by the donor to government using the Single Treasury Account at the Ministry of Finance. The government take responsibility to allocate the resource to the sectors, at all levels, according to development priorities aligned with the MTEF. From the total budgets in medium terms the proportion for Central level it's about 44%, provincial 29%, 8% for the districts and approximate 1.5 % for Municipality.

The Finance Ministry are responsible for transference the funds to each level and that take responsibility for management and report back to Finance. The districts and provinces collect taxes which are sent to CUT (Single treasury account) and part of that is used by each level. The financial resource for local development was strengthened now with Budget allocation for Local Initiatives Investment (*OIIL - Orçamento de Investimento de Iniciativa Local*) designed specially for food production, income and labour generation, with district full management responsibilities.

Economic Policy and Reform

As discussed in previous sections, Mozambique is well endowed with vast natural resources and agricultural wealth. Its coastline, that extends for about 2,500 Km along Indian Ocean, constitutes an important economic gateway for neighbouring landlocked countries⁸. However, the civil war and natural disaster had left Mozambique an extremely weak economic legacy. During 1980s the economic and social infrastructures were extensively destroyed or damaged. A 1989 study by UN Economic Commission for Africa placed the total economic losses to Mozambique caused by the war during 1980-1988 at US\$15 billion (UN, 1989). At the same time, the Government's war effort absorbed a huge part of available but scarce resources: from 1986 to 1992, an average 37.3 per cent of Government recurrent expenditure was allocated to defence and security (UNDP, 1996). The consequences were a sharp fall in Mozambique's GDP and extreme aid dependency. According to the WB (1992:375), "by 1986 real GDP had fallen to two thirds its 1980 level, exports were reduced to less than third of their value and represented only about 15 percent of imports, and the resulting trade deficit led to the rapid accumulation of external debt arrears".

In response to the persistent economic decline since 1980, the government of Mozambique, with support by resources from the World Bank (WB), the International Monetary Fund (IMF) and other multilateral and bilateral donors, introduced an Economic Action Programme in 1984, followed by a comprehensive economic rehabilitation program (PRE) in January 1987 to reverse the deterioration in the economy. Initially, the PRE focused on macroeconomic policies and addressed serious economic distortions and imbalances.

Two rounds of Heavily Indebted Poor Country (HIPC) debt relief from 1996-97 and the Poverty Reduction Strategy Paper (PARPA) in 2001 enabled the conditions for donor alignment on an agreed poverty reduction strategy. The International Monetary Fund

⁸ Since colonial period, the country has exploited this strategic position developing three main corridors linking Malawi and Zimbabwe to the ports of Nacala and Beira respectively, and South and Swaziland to the Maputo port.

(IMF) switched its loans from Enhanced Structural Adjustment facility (ESAF) to a Poverty Reduction and Growth Facility (PRGF) agreement aligned with the PARPA from 1999, and from 2004 the world Bank began to give Poverty Reduction Support Credit (PSRC) credits aligned with the PARPA and the Bilateral donors budget support program.

The basic issue behind the policy reform has been that the decline in the growth rate of real GDP in the last decade resulted from policy-induced distortions. It is argued that although the war was the major contributing factor to the economic decline experienced by Mozambique, this decline, however, was accelerated by economic policies that characterized control of production in the hand of the state at the expense of the private sector and allocated resources by command, at controlled prices rather than through market signals (UNDP, 1996).. In addition to the large and persistent depreciation of the MT, which appeared to be the centrepiece of the adjustment program, the relative prices of large number of items were realigned.

In the initial period of the Government's rehabilitation program, priority was given to reversing the decline in output by restoring producer financial incentives, reducing price and exchange distortions, administrative controls and reducing domestic and external imbalances. Improved financial incentives were achieved mainly through exchange rate adjustments and major changes in pricing distributing policy. It is argued that these policies characterize the traditional model of stabilization and structural adjustment program (SAP), with specific elements of an economy in transition from central economy planning to the market economy (Wuyts, 1989).

In 1989 the PRE was renamed the economic and social rehabilitation program (PRES) to stress its increasing focus on poverty alleviation. According to the UNDP (1998), apart from addressing domestic and external financial imbalances in order to pave the foundation for a market based system of resource allocation and consequently establishing the basis for sustained growth, the programme addressed poverty-alleviation concerns stemming from the adverse social impact of stabilization measures on vulnerable groups. These included improving the delivery of basic health and education

services, creating employment opportunities for the poorest, and providing a safety net of direct and indirect income transfer for poor to stimulate growth.

Some analysis indicates that the Structural Adjustment Programme (SAP) has had some success in arresting economic decline, though not as fast as anticipated. However, social differentiation has increased, with traders, large farmers, corrupt state and military officials and private entrepreneurs gaining from the changes, while women, children and the poor in particular are finding their standards of living dropping sharply with devastating consequences for their health and nutritional status. SAP turned Mozambique into one of the largest recipients of development aid in Africa. According to Joseph Hanlon (1996) more than two third of the country's essential imports are financed by external donors. One of the main objectives of SAP was precisely to correct the balance of payments. The massive support given to Mozambican imports reveals that this goal has not been achieved yet.

Substantial progress was achieved to put the economy on a sustained growth path. A modest annual average growth of 3.5% was achieved for the period 1987 to 1990. According to the WB (1992), this positive growth rate reflected a substantial rise in agricultural production in the family and private commercial sectors resulting from improved price incentives and increased flow of consumer goods, and a recovery in light manufacturing.

Since 1994 the several other reforms were implemented including public enterprise restructuring and economic liberalization. The government opened the way for the entry of private sector in the provision of goods and services, including transport, electricity, telecommunications and agricultural marketing. Privatization, liberalization and deregulation have rapidly transformed Mozambique from a state to a private sector dominated economy. It is argued that the "privatization of state companies has progressed, resulting in the sale of over 900 companies in one of the most rapid and successful programs in Africa" (UND, 1998). The improvement of the business climate – strengthening and deepening the financial system and replacing an antiquated commercial

code and business registration procedure, combined with macro-economic stability has attracted large foreign investments, which in turn contributed to produce growth rate averaging 7 per cent a year.

Economic reforms were also implemented in the tax structure through reduction of overall rates, while broadening coverage through improved efficiency in collection. The import tariff structure were revised and simplified in consultation of private sector, and tariffs reduced for raw materials, capital and intermediate goods. In 1998, a VAT law was passed by Parliament whose implementation started in 1999.

Further improvements were made in revenue collection, budget formulation and execution, and external auditing capacity. There's awareness of the importance of using national treasury systems to improve the predictability and transparency of aid to Government is improving. Programme Aid Partners have committed to channel 60% of their ODA through the Single Treasury Account (CUT) by 2009.

The government has made further progress in reforming the Public Finance Management system (PFM) supported by a group of external partners providing budget support. The completed roll-out of an electronic Integrated Financial Management System (e-SISTAFE – *Sistema electrónico Integrado das Finanças do Estado*) to all ministries has improved the reliability of budget transactions. However, not all transactions are processed through the system, including substantial volumes of project aid. Government and its external partners are considering how to bring projects, especially new ones, through the Single Treasury Account. This will greatly raise the level of aid processed through SISTAFE. Plans are also in place to continue the roll out e-SISTAFE to the districts.

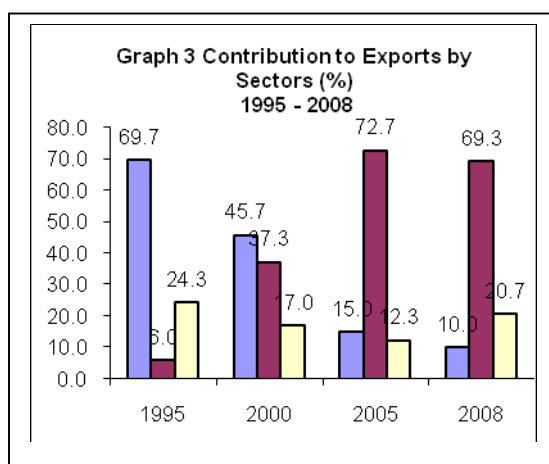
More than two-thirds of ODA to Mozambique was to the government sector, and donors have aligned their priorities with PARPA II. However, despite progress in reforming the PFM systems, large volumes of aid are still not captured by the budget preparation, execution and reporting mechanisms. Only commitments to budget support and sectoral

common funds registered on budget are captured at the stage of budget preparation. Other sector reform are related with decision making decentralization process in terms administrative, planning and financial resources with the 7 Million Meticaís, assuming the district as the pool of development; the Public Sector Reform, Justice Sector Reform, etc.

Economic Structure and Transformation

Economic Growth, Structure Transformation, Poverty Reduction

The country performance since the end of the civil war in 1992 has been strongly positive. The economy has grown at a particularly strong pace, averaging about 8 percent a year between 1993 and 2008, with real GDP surpassing its pre-independence level in 1996. The end of the civil war, the introduction of a vibrant multiparty democracy along with the launching of a programme of economic reform account for the progress. Agriculture



sector significantly influences the performance of Mozambican economies: it is a major source of livelihood for the majority of the population (80% of households involved in the sector), it contributes up to 28% of the GDP and until recently, it was a major source of revenue and foreign exchange earnings for the country (Graph 3).

In fact, the sectoral breakdown in Table 3 below shows that growth has been supported by robust recovery of the Agriculture sector, with Manufacturing, Construction, Transport and communication also playing major roles.

Table 3 The Most Dynamic Sector of the Economy, 1993 - 2008									
Contribution to Growth, 1993 - 2008									
Main Sectors	1993	1995	1997	1999	2001	2003	2005	2007	2008
Agriculture	25.5%	17.0%	9.5%	6.5%	10.6%	5.2%	6.9%	8.2%	11.6%
Mining	24.8%	20.1%	21.1%	-6.5%	10.8%	16.1%	0.7%	19.3%	12.6%
Manufacturing	-5.7%	7.8%	31.8%	14.7%	34.7%	17.0%	2.1%	3.1%	1.0%
Construction	2.8%	19.0%	18.1%	3.4%	6.7%	9.7%	13.2%	11.8%	8.5%
Transport & Comm	8.3%	11.1%	17.3%	9.0%	6.9%	2.9%	7.9%	9.7%	14.4%
Total GDP	8.8%	2.2%	11.1%	8.4%	12.3%	6.5%	8.4%	7.3%	6.7%
As Percentage to GDP, 1993 - 2008									
Agriculture	36.9	33.8	30.9	25.1	20.0	25.4	24.5	25.4	28.0
Mining	0.2	0.3	0.3	0.1	0.3	0.6	1.0	1.4	1.4
Manufacturing	8.2	7.4	8.7	10.3	12.4	15.0	14.0	14.1	12.9
Construction	3.6	6.2	6.0	6.9	7.4	3.4	3.0	2.9	2.8
Transport & Comm	10.1	8.9	8.1	8.5	9.8	9.4	9.6	9.2	9.3
Total GDP									

Moreover, many parts of the country have excellent conditions for agriculture, enabling the cultivation of a great variety of crops such as maize, millet, rice, cassava, beans, cotton, cashew nuts, sugar cane, tea, coconut, sisal, citrus and many types of tropical fruits. The main food crops are cassava, maize and rice. A large proportion of households grow both crops. However, the relative importance of the three crops varies across country. In some parts of the north of the country, cassava is the main crop; in the centre and south, rice and maize are the main crops. The main export crop is cashew nuts, followed by copra, cotton and tobacco.

Despite massive efforts and investments in agriculture by Mozambican government and theirs development partners, the sector remains heavily dependent on the weather and largely traditional. The structure of agriculture has changed little since independence. Before independence farms, both large and small, owned by Portuguese represented a major part of the commercial sector. With their almost complete exodus, the government was forced to take over the abandoned farms, transforming them into state-owned or state-operated enterprises.

Results from the 1999/2000 Census of Agriculture and Livestock (CAP) and various rounds of National Agriculture Survey (TIA) show that smallholders constitute the backbone of the agricultural sector. It is estimated that there are over 3 million such smallholders in the country. Smallholders carry out rain-fed agriculture, operate at low

levels of productivity and are vulnerable to adverse climatic conditions and natural disasters such as cyclones and flooding.

Industrial sector – comprising manufacturing, mining, construction, and electricity, gas and water – is another dynamic sector after the end of civil strife accounting for about 22% of GDP in Mozambique. However, it continues to face challenges from foreign competition, lack of skilled workers, and limited financial resources. Manufacturing sub-sector, which accounts for only 14.8% of GDP, however, has exhibited the fastest growth since 1996. The weight of the manufacturing sector, however, has in recent years been dominated by the contribution of mega-projects: Mozal, Sasol, Heavy sands and Cahora Bassa hydro-electric dam, which in turn supported the growth of this sector averaging 15.2% a year during the period of 2002 - 2009. It is estimated that together, these mega-projects contribute 12% to GDP and about 70% of export in the last four years but only 0.4% to total formal employment estimated in absolute terms at about 2042 employees in 2007 (Table 4). However, it should be emphasized that these mega-projects are largely foreign owned private companies rises serious concerns about actual and future net benefits for the Mozambican people⁹.

Table 4 Contribution of Mega-Projects to the Economy a)							
DESIGNATION	2002	2003	2004	2005	2006	2007	2008
Total Exports of Goods and Services (10³ US	809,812.2	1,043,912.5	1,503,860.8	1,745,256.2	2,381,131.6	2,412,120.0	2,653,259.6
Of which,							
Mega-projects (10 ³ USD)	468,477.6	680,868.3	1,048,536.0	1,262,505.5	1,688,740.6	1,840,554.0	1,825,042.6
Mega-projects (%)	58%	65%	70%	72%	71%	76%	69%
Total Formal Employment (N°)					460,383	465,685	
Of which,							
Mega-projects (N°)					2011	2,042	
Mega-projects (%)					0.4%	0.4%	
Total Production in the Economy (10⁶ MT)	157,757.7	181,583.5	210,387.4	238,015.7	279,048.6	312,250.1	354,898.7
Of which,							
Mega-projects (10 ⁶ MT)	13,303.4	18,668.0	7,597.6	33,073.3	40,699.1	44,670.9	49,069.9
Mega-projects (%)		10.3	3.6	13.9	14.6	14.3	13.8
a) - Include Mozal (Aluminum Factory), Sasol (Extraction of natural gas) and HCB (Production of electricity)							

⁹There is a domestic debate about the actual contribution of the mega-projects to the Mozambican economy. Their low fiscal contribution and limited job creation capacity, due to the capital-intensive nature of the projects, has raised concerns among local academics on the focus on the mega-projects whose contribution do not reflect their large contribution to turnover.

Despite this impressive progress, its vast and rich endowment of natural resources, considerable development potential and its strategic position in Southern Africa region Mozambique remains one of the poorest countries in the world, ranked by the UNDP Human Development Index (HDI) as the 172th out of 182 countries, thus placing Mozambique in the category of countries with low human development¹⁰. Although the levels remain high, following the end of the civil war in 1992, Mozambique has made significant progress in reducing poverty¹¹. The most recent household survey data indicate that the population living below the food poverty line (defined as a daily ration of less than 80 per cent of 2,200 Kcal) fell from 69 per cent in 1997 to 54 per cent in 2003 (DPDS-UEM-IFPRI, 2004). The majority, considered to be absolutely poor, were estimated to live in rural areas (55.3%) compared to 51.5 per cent in the urban areas. Wide disparity exists at the provincial level. As depicted in Figure 3, it ranges from 80.7 per cent in Inhambane to 36.1 per cent in Sofala.



In the context of strategy for poverty reduction introduced by the IMF and the WB, which require that developing countries should design clear strategies to invest the savings from debt relief into poverty reduction strategies, Mozambique adopted in 1999 the Action Plan for the Reduction of Absolute Poverty 2000-2004 (PARPA). The document

¹⁰ UNDP, Human Development Report, 2009. The HDI is a composite index which assesses levels of human development focusing on the extent to which people lead long and healthy lives; obtain a decent level of education and knowledge; and, enjoy a decent standard of living and quality of life.

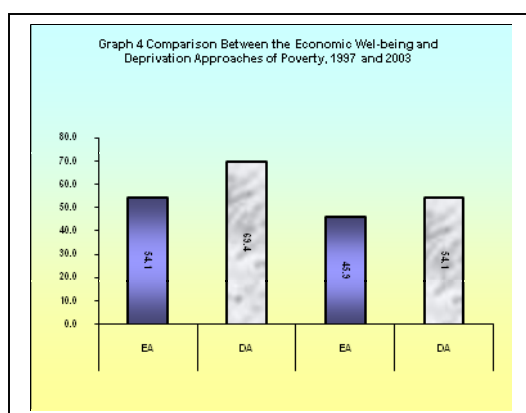
¹¹ The World Bank (2001) defines poverty as pronounced deprivation in wellbeing, which includes hunger, lack of shelter, poor health, lack of education, social exclusion, powerlessness, lack of voice, and vulnerability to disease and natural disasters. So, poverty may have several dimensions, the most common being income poverty and capability/human poverty. Individuals and/or households are considered income poor if their income or consumption falls below some thresholds below which it is impossible to meet basic needs. People are also considered poor if they lack the essential capabilities such as literacy, health and basic functional skills for elevating themselves out of poverty.

specifies and prioritises the sectoral actions at different levels aiming at reducing the incidence of absolute poverty from 70% in 1996/07 to 60% and 50% by 2005 and 2010.

The current challenge laid down in the PARPA II is to reduce poverty from the actual 54% in 2002/03 to 45% in 2009. While the next household survey data, not due until December 2009 will show whether the target set in PARPA II has been achieved, at the time of this writing, key information available on poverty are the estimates based on Human Poverty Index (HPI-1)¹² in Table 5 below, an alternative way of measuring absolute poverty.

Table 5. Human Poverty Index (HP-1), Mozambique 2007						
Human Poverty Index	Survival deprivation	Knowledge deprivation	Composite living standard deprivation %	Deprivation of adequate living conditions		
				People without		Children under five years old who are moderately or severely underweight (%)
				Access to piped water (%)	Health services %	
IPH-1	P1	P2	P3	P3.1	P3.2	P3.3
2	3	4	5	6	7	8
43.2	16.9	51.9	45.9	54.7	60.8	22.3

The HPI incorporate dimensions of absolute poverty that DPDS-UEM-IFPRI approach does not capture (privation relative to longevity, knowledge and living standard). According to 2007 estimates, about 43% of the population is still deprived from the most



elementary opportunities and choices needed so that they can live a longer and healthier life, acquire more knowledge, and have access to the resources necessary for a decent standard of living. Graph 4 puts side by side the indices of the two approaches, the economic well-being approach (EA), used in the DPDS-

¹² The HPI-1 measures the privation of most elementary opportunities and choices needed so that people can live a longer and healthier life, acquire more knowledge, and have access to the resources necessary for a decent standard of living.

UEM-IFPRI study and the deprivation approach (DA) mostly used by UNDP in Global Report of Human Development Index. Although both approaches cannot directly be compared, it is believed that, if the tendencies prevailing between 1996/97 and 2002/03 continue, the goal set out in the PARPA II to reduce poverty rate from 54% in 2003 to 45% in 2009 will be achieved.

Other socio-economic indicators

Since the conclusion of the peace process, significant progress is being made by the Government in the extension of essential social services alongside the establishment of an operating environment for poverty reduction and human development. Maternal mortality has reduced from 1000 deaths per 100.000 live births in 1997, to 185 deaths per 100.000 live births in 2003; under-five mortality rate reflecting the probability of dying before the age of five has dropped from 219 deaths per 1.000 live births in 1997 to 140 deaths per 1.000 live births in 2008; According to the last released results of the MICS2008 survey by INE, the infant mortality rate (IMR) has dropped from 146/per 1000 live births in 1997 to 106/1000 live births in 2008. Regional disparities are evident, most notably Zambezia and Maputo where IMR are 131/1000 and 667/1000 respectively. Major differences are also between area of residence (110/1000 for rural and 93/1000 for urban); the same survey shows that child under five years with insufficient weight have slightly reduced from 26% to 17.5%; in the same period, access to “improved water source”¹³ is enjoyed by only 43% of the population while the access to “improved sanitation” is estimated at 19.3% in the same year, coming from 15.3% and x% respectively in 1997. Primary education completion rate has increase from 22% in 1997 to 72.6 in 2008; and the ratio of girls to boys in primary education has also increased from 0.71 to 0.9 in 2008,

In the context of the Millennium Development Goals (MDG)¹⁴, while Mozambique has made significant progress relative to some indicators such as those listed above, more

¹³ Defined as being piped into the dwelling, piped outside, from a communal standpipe, or from a hand pump, borehole or protected wells, (INE, 2004).

¹⁴ The Millennium Development Objectives are international commitments assumed in the millennium declaration in September 2000 by 189 countries including 147 Head of State and Government. The declaration provides a common global vision of a world where the rights of all peoples to development is respected. In general, the framework contemplates 8 millennium development objectives

progress, however, is required to meet the MDG target relatives to HIV/AIDS, universal education for EP2 and above, employment and adult literate rate. Table 6 compares the actual and the required progress to attain the goals in 2015¹⁵

	Goal	Target	Source	Year 1990 or the nearest year to 1990, for which data exists	The most recent year for which data exist (t ₂)	Required reduction (a)	Values of the Indicator for	Values of the indicator for	The year in which the goal should be	Actual Annual Progress Rate	Required Annual Progress Rate	Classification of the Progress
1	Eradicate Extreme Poverty and Hunger	Halve the proportion of people whose income is less than \$1 a day	MDGr	1997	2003	-1/2	69.4	54.1	2015	-4.71	-2.78	In a way
		Proportion of children below normal weight (under five-years old)	MDGr & MICS	1997	2008	-1/2	26.0	17.5	20015	-4.42	0.00	In a way
2	Achieve Universal Primary Education	Primary schooling conclusion rate (%)		1997	2007	1	47.0	94.1	2015	8.89	5.56	In a way
		Net enrolment ratio EP1 (%)	MINEC	1997	2007	1	44.0	95.1	2015	9.13	5.56	In a way
		Net enrolment ratio EP2 (%)	MINEC	1997	2007	1	2.3	13.0	2015	1.10	5.56	Slow or Reversing
		Literacy rate for age group of 15 to 24 years	MINEC	1997	2007	1	39.5	48.1	2015	1.42	5.56	Slow or Reversing
3	Promote Gender Equality and	Eliminate gender disparity in primary and secondary education	MDGr	1997	2007	1	0.7	0.9	20015	0.02	0.01	In a way
4	Reduce Child Mortality	Reduce by two thirds the under-five mortality rate	IDS & MICS	1997	2008	-2/3	219.0	140.0	2015	-5.13	-3.70	In a way
5	Improve Maternal Health	Reduce by three quarters the maternal mortality ratio	MDGr & MICS	1991	2003	-3/4	1000.0	185.0	2015	-36.71	-3.13	In a way
6	Combat HIV/AIDS, Malaria and Other	Have halted and begun to reverse the spread of HIV/AIDS	MDGr	1998	2007	1	8.2	16.0	2015	1.03	-5.88	Slow or Reversing
7	Ensure Environmental Sustainability	Halve the proportion of people without access to safe drinking water	MDGr & MICS	1997	2008	-1/2	84.7	51.5	2015	-19.73	-2.78	In a way
		Halve the proportion of people without access to improved sanitation	MDGr & MICS	1997	2003	-1/2	76.2	55.2	2015	-14.71	-2.78	In a way

The above results shows that Mozambique is making good progress toward the MGDs. If the current trends prevail until 2015, the actual annual progress rates in most of the indicators are greater than the annual progress rate required to achieve the respective goal in 2015. However, it constitute a big challenge the achievement in 2015 of the following goals: universal primary education, in terms of net primary enrolment ratio target in EP2 and the literacy rate target for age group of 15 to 24; Combat HIV and AIDS, malaria and others diseases.

In fact, according to data from the Ministry of Education and Culture, while the country shows that has almost attained the target for net enrolment rate for EP1, the net enrolment

(MDG) related to about 21 goals and about 60 indicators, which highlight global concerns on how to achieve development and reduce poverty, related to peace, security and development, as well as concerns related to transversal issues (gender, HIV/AIDS, environment) human right, democracy and good governance.

¹⁵ According to UNDP (2004) the progress towards each goal is assessed by comparing the actual annual progress, if the actual tendencies prevail, with the annual progress required to reach the target, assuming linear progress. The progresses are classified in three categories: (i) Attained – if the country has attained the target; (ii) In a way – if the rate of the target is equal or higher than the growth rate needed to attain the target, and (iii) low or reversible – if the growth rate of the indicator is less than the growth rate required to attain the target in 2015.

rate for EP2 estimated at 13% in 2007 is far of being achieved in 2015. The overall literacy rate is 46 per cent, with 34 per cent in rural area and 70 per cent in urban areas. The proportion of population without access to an “improved water source and improved sanitation” has decreased by 33.2 and 21 percentage points respectively in 10 years.

In terms of employment, data from the most recent labour force survey (IFTRAB 2004/05), 91.8% of the Mozambican population aged 15 years and above are classified as economically active (EAP) the equivalent of about 8.8 million people in absolute terms. Of these, 81.3% are actually occupied, resulting in unemployment according to the national definition of about 18.7% (11.2 percentage points higher than the ILO definition)¹⁶. The percentage of the PEA is markedly higher in rural (95.8%) than in urban area (84.3%).

As noted in many reports, in developing countries, most of labour force is employed in rural agriculture. In the case of Mozambique, both IAF and IFTRAB support this empirical evidence, that is, about 80% of EAP are found in the agriculture sector. This implies that the majority of EAP has agriculture as the base for their sustainability.

Moreover, according to other study by INE on informal sector (INFOR 2004), about 7.7 million people of 7 years of age and above are working in the informal sector. These estimates represent 75.1% of total work force aged 7 years and above. The informal employment is markedly higher in rural area (86.9%) than in urban area (50.4%). Rural agriculture is the sector, which absorb the majority of informal labour force with 97%. Another important finding of this census is that less than 8% of the population aged 7 year and above has a formal job. This finding reflects the great importance that the informal sector has in the economy.

¹⁶ The national definition of unemployment is equal to the ILO definition plus unsustainable employment.

Key sectors

Over the last few years, Mozambique has experienced average economic growth rates in excess of 7%, with the growth of the agricultural, manufacturing industry, trade and transport sectors all playing an important role. PARPA II (2006-2009) forecast a growth rate of about 6.5% to be achieved in period 2010-2014

Mozambican development is a long-term effort. Key policy reforms and enlightened government action can have rapid impact, but the fundamentals of sustainable growth and poverty reduction require long-term investment in the human capacity of Mozambique, in improving the education of the people of Mozambique.

Thus, in the economic sphere and for the years 2010-2012, the programming medium-term framework appoint some programs as being strategic nature: i) agricultural production, ii) Construction and maintenance of roads and bridges, iii) Rural Electrification; iv) Rural Development, v) Mozambique as a tourist destination world-class, vi) Transport Development, vii) Districts Economic Development (income generation and food production).

In the sphere of social development programs are strategic sectors Education and Culture, Health, Justice, and Social Action. With following specific programs i) Primary Education and Technical Training, ii) Health Promotion and Disease Prevention, iii) Medical Assistance, iv) Development of Human Resources for Health, v) Health Development Network, vi) Water and Sanitation, vii) Efficiency of Justice and viii) Promotion of gender equity ix) social assistance to vulnerable social groups. These programs are important for the potential impact for reducing absolute poverty and meeting the Millennium Development Goals.

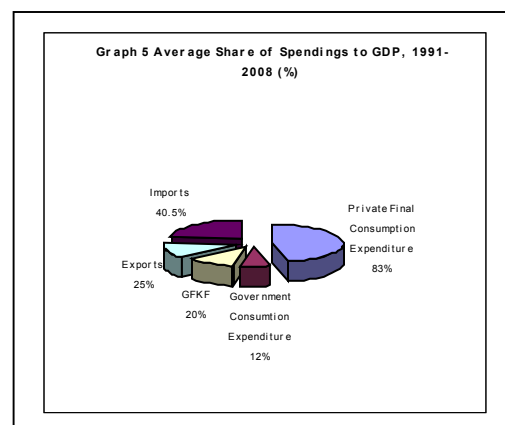
The strategy is focused on creating the necessary conditions for critical dynamics to take root and promote Mozambican political, economic, and social development. A fundamental principle of this strategy is that expanded competition in the areas of ideas, politics, and economics will fuel an increasingly participatory democracy and bring

greater accountability to government, accelerate private sector investment and expand trade to increase jobs and reduce poverty, and bring greater dynamism to education and health systems. It focuses on policy reform and the dynamism of competition and global markets, while also investing in the fundamentals of training and organizing people, putting key systems and infrastructure in place, and ensuring accountability and transparency.

There are recent sectoral strategies in place like Agricultural Production Strategy, Food Action Plan, Private Sector Development, HIV/AIDS Prevention Strategy, Ministry of Health Human Capacity Development Strategy, and others, which enable the environment and institutional mechanism for strategy action from government side.

Savings and investment

Mozambican economy like most African economies remain trapped in a vicious circle of low saving and investment. Historically, spending on consumption absorbed on average 97% of Mozambique's GDP a year, leaving little for saving and investment (Graph 5). Private consumption has been fuelled by external aid inflows, which were necessary to ensure maintenance of minimum consumption levels. The gross fixed capital formation (GFKF) – spending on fixed assets such buildings, vehicles, plants, machinery, and a like – boomed from 1999 onwards owing to the construction of the Mozal aluminium smelter plant, and public infrastructures such as roads, buildings, etc. averaging 25.5% of GDP a year, well above to the African average. Combined private and public savings have enabled such level of investments. According to IMF estimates (Table 7), Gross domestic investment has been always consequent since 1997 averaging 21% to GDP a year, of which 11% to GDP has been from public investment notably in donor-supported road and bridges building and social infrastructures. Private investment as percentage to GDP almost



doubled in five year rising from 9.6% in 1997 to 17.7% in 2002, reflecting mostly the influx of foreign investment in the Mozal project, which was concluded in 2003. Although this ratio dropped in 2004-05, it increased substantially in the following years due to new wave of foreign investment in mining sector.

Table 7 Selected Economic and Financial Indicators, Mozambique 1997-2007

Designation	1997	2002	2003	2004	2005	2006	2007
Demand Composition (% of GDP)							
Final Consumption	98.9	100.5	101.5	99.2	96.2	91.9	92.1
Public	9.2	12.3	12.8	13.8	13.0	12.3	11.9
Private	89.7	88.2	88.7	85.4	83.3	79.5	80.1
Gross Capital Formation	19.2	29.8	25.9	20.0	21.2	22.7	23.3
Public	12.1	12.5	11.7	9.1	10.3	10.8	10.9
Private	7.1	17.3	14.2	10.9	10.9	11.9	12.4
External Sector							
Exports	11.3	24.9	26.3	29.8	30.5	30.4	30.9
Imports	30.8	55.1	50.2	47.3	44.4	39.3	38.2
(Annual % changes, beginning-of-period stock of money-M3, unless otherwise indicated)							
Money and credit ⁴	12.0	19.2	8.5	37.5	23.1	31.3	11.8
Net foreign assets	9.9	2.3	10.2	-31.5	4.0	-7.9	13.4
Net domestic assets	-21.5	2.9	0.4	-9.7	-2.2	-9.6	3.0
<i>Of which: net credit to the government</i> ³	29.5	2.6	-0.8	-2.5	22.5	14.3	6.5
Credit to the economy	21.9	21.5	18.7	5.9	27.1	23.4	25.2
Investment and saving (% of GDP)							
Gross domestic investment	20.6	30.0	22.3	18.6	18.7	17.7	17.9
Government	10.9	12.2	12.0	9.7	8.6	11.8	11.7
Other sectors	9.6	17.7	10.2	8.9	10.1	5.8	6.2
Gross domestic savings (excluding grants)	4.6	-0.9	-6.2	-2.0	0.1	-28.7	-1.5
Government	1.1	-1.0	-0.6	-1.1	0.2	0.8	0.6
Other sectors	3.4	0.2	-5.7	-0.9	-0.1	-29.5	-2.1
Current account, before grants	-16.0	-30.8	-28.5	-20.6	-18.6	-46.3	-19.4
Government budget							
Total revenue	10.4	12.1	13.2	13.1	14.1	15.0	15.9
Total expenditure and net lending	21.2	28.8	26.3	24.8	22.9	27.0	28.1
Overall balance, before grants	-10.8	-16.2	-13.9	-13.9	-6.0	-9.6	-13.1
Total grants	8.4	9.5	9.3	7.3	6.0	7.9	9.3
Overall balance, after grants	-2.4	-6.7	-4.6	-6.6	0.0	-1.6	-3.8

Source: National Institute of Statistics data; IMF data extracted from AfDB/OECD 2008, African Economic Outlook

Gross domestic savings (excluding grants) as percentage of GDP has been fluctuating within the negative range averaging -5% a year for the period 1997-2007, actually fallen down to about -28.7% in 2007 influenced mainly by the fall of private savings in about 29.5% in this year. Since savings in formal institutions is low in Mozambique, which limits the amount of investment (through financial intermediation) that can take place,

this implies that Mozambique is living beyond its means and the major part of investments is financed from abroad through foreign direct investment (FDI). Between 1995 and 1999 CPI has approved over 940 projects for a total of FDI of about US\$1.71 billion while national direct investment (NDI) reached US\$294 million (UN, 2000).

Exports as percentage of GDP has almost tripled in 10 years rising from about 11% of GDP in 1997 to about 31% in 2007. In spite of these impressive gains in export, in general these were strongly offset by a steady increase in import, which averaged about 44% in the same period, worsening the trade balance.

Foreign trade and resource inflows (e.g. FDI, ODA, remittances, etc.)

Mozambique's rapid development can mostly be attributed to broad-based government reforms, substantial donor support and increasing inflows of foreign direct investment. Especially the mega-projects, initiated by the government in cooperation with foreign investors, are estimated to have contributed about 2 percentage points to GDP growth annually and x% of total exports. The largest projects are the Mozal aluminum smelter, the Cahora Bass hydro-electrical plant, the Sasol gas pipeline to South Africa, and the Moma heavy sand project. In a later stage, new mega-projects will turn Mozambique into a major electricity producer and coal exporter. Nevertheless, Mozambique remains highly dependent on the agricultural sector, as it employs more than 80% of the country's labor force (contributing only 24% to GDP). Therefore, the country is vulnerable to external shocks, which was demonstrated in 2007 and 2008 when agricultural output was adversely affected by flood and cyclones.

Mozambique's main export product is aluminum, which has a share of 59% in total exports. Its rich bauxite deposits and the production of aluminum has a comparative advantage relative to other bauxite-rich countries due to the large hydro-electric capacity in the country (Maasdam 2009).

Remittances from abroad, mainly from South Africa, have been other source of foreign exchange earnings in the country. Their contribution to the economy was estimated by UDNP (2009) at about US\$99 million in 2007 (0.027% of the world total remittances). Although this amount represents only an average remittances per person of US\$5, compared with the average for Sub-Saharan Africa of US\$26, in terms of its impact to the Balance of Payments is significant.

The real effective exchange rate of Mozambique is more sensitive to variation in its terms of trade for goods than its terms of trade for services, reflecting its status as a commodity exporter. The principal commodity exports of Mozambique are aluminum, bulk electricity, natural gas, tobacco, sugar, cotton, prawns, and cashews. Its principal commodity imports are machinery and equipment, vehicles, fuel, chemicals, metal products, foodstuffs, and textiles (Francis Vitek, 2009).

Direct foreign investment in Mozambique almost tripled in 2007 to USD 427 million and increased further to USD 610 million (6.7% of GDP) in 2008. As investment is postponed due to the financial crisis, the FDI inflow is expected to drop significantly in 2009. Despite the lower current account deficit, the FDI inflow is still by no means enough to cover the current account deficit, interest payments and loan repayments. Mozambique is, therefore, already accumulating new debt as it is unable to finance its needs with non-debt creating sources alone (Alfieri & Cirera, 2007).

Future Development Challenges

As outlined in the 2008 Report on the MDG, the increasing HIV pandemic is a significant challenge to the achievement of the millennium development goals. Estimates point an average of 90 children infected by HIV every day through mother-to-child vertical transmission, despite continuous expansion in number of health centres providing services of mother-to-child HIV prevention plus other services like Anti-Retro-Viral Treatment (TARV). It is estimated that life expectancy could decline from 42.8 years in 2005 to 36 years in 2010 if the disease is not dealt with. Social services could be severely

affected with 17 per cent of teachers and 15 per cent of health workers at risk of dying by 2010 (AfDB, 2008).

The successive international crises also create big challenges for Mozambique. The high prices increased inflation pressure and revealed social vulnerabilities. In order to minimize the impact the Government took a series of efficient measures, which were praised by the international partners, especially the deferment of customs duties and VAT payments for diesel and paraffin, subsidies for minibus transporters, and the increasing of food aid and income supplement programmes for the poorest families. These measures were financed through cuts in the expenditure in other areas and through additional external support.

However, the Joint Review noted that Mozambique continues to be vulnerable to global financial and economic crisis and mitigation measures are necessary to meet the big challenges, to ensure that the macroeconomic growth and stability benefit the poor and underprivileged groups, through the creation and expansion of opportunities for employment, income generation and access to food and health care. The most vulnerable segments of the population, particularly in urban areas, continue to be affected negatively by the food price crisis, so that the continuation or expansion of the food aid and income supplement programs for the poorest families continues to be a point of special attention (AM 2009).

Mozambique will have to continue to focus policy attention on the range of factors that have allowed the non-agricultural sector to grow rapidly over the past decade (Mafambissa & Fox, 2006).

Key Priorities (target and objectives)

The priorities of the government of Mozambique are set in the PARPA II, where the main objective is to constructing a prosperous Mozambican Nation. The objectives are focusing on the importance to maintain high average annual rates of economic growth similar to those of previous years by adopting a comprehensive and inclusive model in

order to improve living conditions, the well-being of citizens, and to reduce poverty. The government set the target to reduce poverty from actual level of 54% to 45% in 2009.

Consolidation of peace and democracy, social stability, public safety, and the guarantee of individual freedoms are as outlined in the 5-years Government Program, the basic conditions for economic growth and poverty reduction.

The State is compromised in continuing to invest in providing public goods and services in order to reduce poverty via transfers of resources (redistribution). The State will gradually increase its tax revenues as a proportion of GDP until 2009, reaching 15 percent in that year. This objective should be achieved without increasing the tax burden on the formal sector, by expanding the tax base, curbing tax evasion, and reducing tax incentives.

The strategy of promoting economic growth and reducing poverty is organized around three pillars: Governance, Human Capital, and Economic Development, and integrating the cross-cutting topics.

In Governance the main objectives is consolidation of national unity, peace, justice, and democracy; confrontation of corruption, excessive bureaucracy, and crime; strengthening sovereignty and international cooperation; and the harmonious development of this country.

In Human Capital the government aims to; expand and improve the levels of education; improve and expand access to health care; improve and expand access to potable water and adequate sanitation; promote and consolidate self-esteem in the minds of the citizens; increase awareness of the importance of a culture that values work, enthusiasm, honesty, and accountability; and help young Mozambicans to realize their potential, creativity and entrepreneurial abilities, and express their voluntaristic spirit.

For Economic Development the main objectives is promote the rural development; foster the development of the national business community; and create an environment favorable to investment.

Mozambique's poverty reduction strategy calls for building employment by increasing exports. To do that end, the country needs to strengthen its investment climate and become more competitive. The legal framework for labor relations is an element of the investment climate. Amending the labor law to decrease the costs of termination is a core policy measure of the Government in the PARPA II and the 2006 PAF (Mafambissa & Fox, 2006).

Constraints and bottlenecks to growth and socio-economic development

Mozambique has shown strong growth figures in recent years, which can mostly be attributed to broad-based government reforms, substantial donor support and increasing inflows of foreign direct investment. The debt relief in 2006 has substantially improved Mozambique's external position, but as its financing needs still outpace income from foreign investment and grants, foreign debt is showing a rapid increase again. Because of the stable political scene, sound economic policies and rich natural endowments, the country has much potential. However, at the moment Mozambique still has a long way to go before reaching the same level of development as its African neighbors.

The high dependence on donor inflows is one of its main weaknesses, especially as the Western world is on the verge of a recession. A large drop in donor funding would bring Mozambique's economic development at severe risk.

One of Mozambique main weaknesses is its high dependence on donor inflows, especially as the Western world is on the verge of a recession. Its vulnerable revenue base combined with a large drop in donor funding would bring Mozambique's economic development at severe risk. In fact, as the country has a small tax base, no less than 40% of revenues are in the form of grants, making Mozambique one of the most donor-dependent countries in the world. Although Mozambique has gained donor confidence by showing commitment to meeting fiscal targets, strengthening public financial management systems and spending on the priority social sectors (Maasdam, 2009).

The Lack of skilled labor turns the country more dependent for external technical assistance. The lack of infrastructures for agriculture production, to promote rural market, for facilitation of goods transportation, for energy and water they represent significant bottlenecks to economic growth in Mozambique with the reduction of internal and external investment.

Development strategy and policy

The government of Mozambique has been working on poverty reduction for over a decade. During the early 1990's, following thirty years of civil war, poverty reduction was part of the national reconciliation process. In 1995, an initial poverty reduction strategy was formulated and the government steered the First National Poverty Assessment in 1996/7. In 1999, a policy framework for poverty eradication was developed in the form of 'Guidelines' and an 'Action Plan for the Eradication of Absolute Poverty'. The latter document was incorporated into the interim-PRSP, and submitted to the Boards of IDA (International Development Agencies) and the Fund in March 2000.

The full PRSP (PARPA 2000-05) is a significant improvement over the interim-PRSP (PARPA 2000-04). It has a fuller diagnosis of poverty, improved prioritization of sectoral programs, an expanded justification of macroeconomic policy, a new priority on good governance, and a financing plan linked to the Medium Term Expenditure Framework. Above all, both PARPA's have been disseminated to donors, civil society groups and the private sector, and PARPA 2000-05 was modified in important aspects as a result. From the second household survey 2002/03, was done the Second National Poverty Assessment 2002/3, which was the base for the Second Action Plan for the Reduction of Absolute Poverty 2006-2009 (PARPA II), which is Mozambique's second generation Poverty Reduction Strategy Paper.

The country's development goals for 2006-2009 are set in this document. This medium-term plan is set within the long-term objectives laid out in Agenda 2025, developed in 2003 through a long consultative process to serve as an umbrella policy document for development. Several updated sector strategies for 2005-2009 are linked to PARPA II,

including strategies for HIV/AIDS, transport and roads, and the education sector. Several more are in preparation. This document is underlined with the five years Government Program (2005-2009), the political document defined by the Frelimo's Party.

The overall objective of the government is to reduce poverty from 70 percent in 1997 to below 60 percent in 2005. The second poverty assessment has shown the reduction of poverty to 54%. The PARPA II set the target in reduction poverty to 45% in 2009. Mozambique's economic policies are focused on maintaining macroeconomic stability and structural reforms, as presented by the government in PARPA II. The strategy is presented in main pillars as Economic Development, Human Capital, Governance and Crosscutting issues. This program includes investments in physical infrastructure and reforms to strengthen fiscal revenues and ease the process of doing business.

The government continued to decentralize strategic planning at local level. All 128 districts have now developed their own investment and development plans. The government is planning a program to integrate these district plans into national priorities. Fiscal decentralization also continued, with the government increasing budget and administrative responsibilities of local governments, and allocating investment funds to the districts.

Integration of PARPA II into the budget cycle has improved through the annual Economic and Social Plan (PES). The PES guides short-term implementation of PARPA II, and its progress report serves as an annual report on the performance and outcomes of PARPA II. The integration of a results matrix called the Performance Assessment Framework has strengthened the effectiveness of the PES progress report.

The government is making some progress towards taking leadership over development cooperation. To this effect, it is developing an External Aid Cooperation policy. The Ministry of Foreign Affairs and International Coordination is formally responsible for development cooperation, but day-to-day coordination falls under the Ministry of Planning and Development because of its mandate to formulate and implement the PES

and PARPA II. The PARPA it's the main framework for aid coordination with international partners.

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