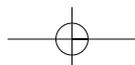
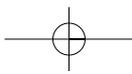
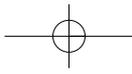
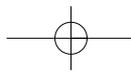


Mozambique







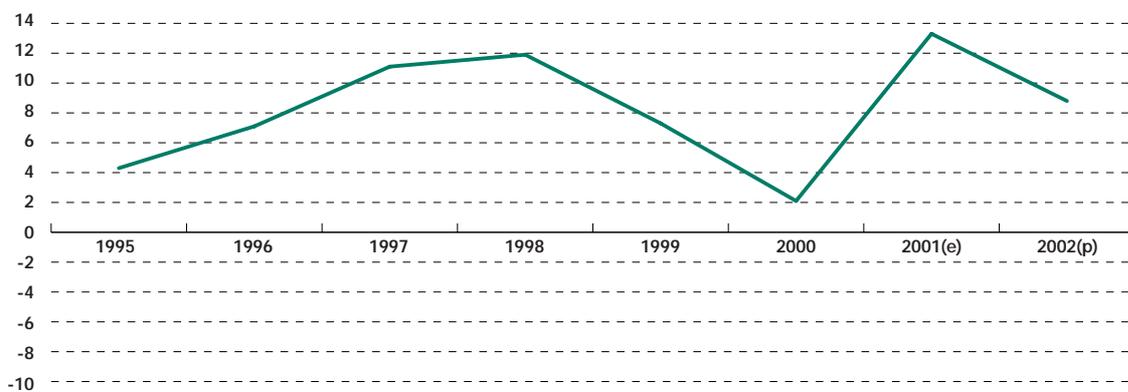
Mozambique

MOZAMBIQUE HAS BEEN REPORTED as a post-war rehabilitation success. Since the end of the civil war in 1992, the country has embarked on a series of impressive changes, in terms of civil sector reforms, structural policies and capacity building in the area of macroeconomic policy. With control over inflation since 1996, Mozambique has been able to record a remarkable rate of economic growth over the last five years. Nonetheless, owing to its geographical location, Mozambique's process of development is vulnerable to natural disasters, as patently demonstrated by the floods that hit southern and central Mozambique in 2000 and central and northern Mozambique in 2001. As a consequence, real GDP growth slowed down to 2.1 per cent in 2000. However, the partial recovery of

agricultural production associated with the first full year of the aluminium smelters' production should allow the growth rate to rebound strongly in 2001 at a rate of 13.3 per cent. Indeed the starting of "mega-projects" related to development corridors is expected to have a strong impact on growth performance over the years to come (in 2002, growth rate should reach 8.8 per cent). Nonetheless, the vast majority of the population is still living in conditions of absolute poverty, usually without any links to markets and dependent on subsistence agriculture, and inequalities between southern and northern regions are still large.

The starting of "mega projects" related to the developments of corridors is expected to have a strong impact on growth in Mozambique

Figure 1 - Real GDP Growth^a



a. The percentage scale is different from the other countries since GDP growth exceeded the level of 10 per cent.

Source: Authors' estimates and predictions based on IMF and domestic authorities' data.

Recent Economic Developments

Since the achievement of macroeconomic stability in 1996, the country has registered a remarkable rate of growth in a non-inflationary environment. Between 1996 and 1999, average real GDP growth was 9.3 per cent. In real per capita terms, over the same period, GDP grew by 6.9 per cent. The main source of economic growth has been the recovery of smallholder agriculture,

as well as the expansion of the service sector, buoyed by transport and the financial sector growth. Manufacturing has performed well recently thanks to increased demand, fuelled by donor inflows. In spite of these gains, Mozambique remains one of the poorest countries in the world.

With a rate of economic growth at 2.1 per cent in 2000, recent performance of Mozambique has fallen short of earlier forecasts fixed at 7 per cent. The



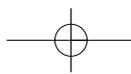
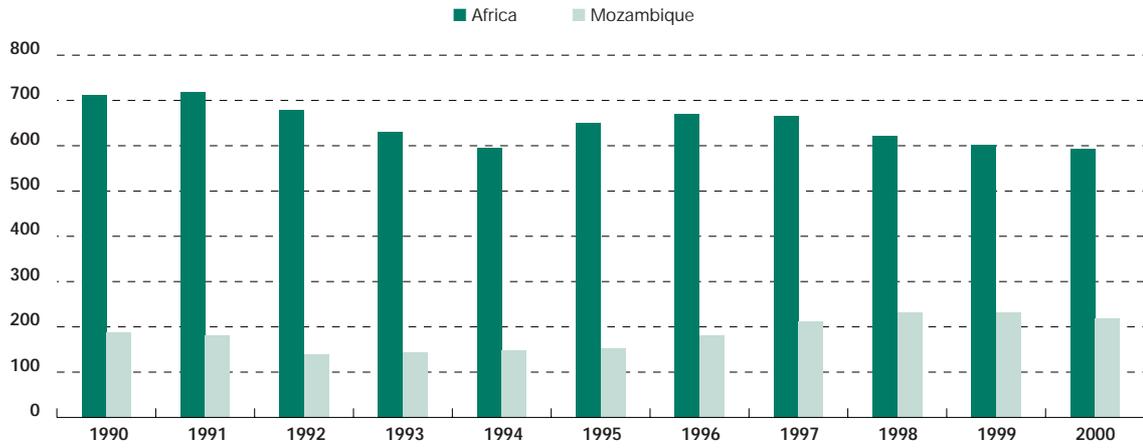


Figure 2 - GDP Per Capita in Mozambique and in Africa (\$ current)



Source: Authors' estimates based on IMF and domestic authorities' data.

February-March 2000 floods had a catastrophic impact on the country's development. Moreover, the confidence in the business environment, which had increased sharply since 1998, declined as a result of the disruptions caused by the floods and the political instability that followed the general elections of December 1999.

Agriculture still represents the bulk of the economy involving some 80 per cent of the population and representing the most important economic sector in terms of GDP. The sector comprises a large smallholder sector that produces around 95 per cent of value-added in agriculture, mainly as food crops and some cash crops such as cotton, cashew nuts and, more recently, sugar. After the collapse of agricultural production in less than a decade, between the late 1970s and early 1980s, the sector has recovered. The return of 3 million displaced people to rural areas as well as the restoration of the basic transport links together with good weather led to the recovery of the rural economy in the post-war era. The commercial sector has not yet recovered and significant growth potentials remain to be exploited. The sugar sector as well as cashew nuts and cotton — which were at 1930s levels in 1985 — have marginally regained some production. Moreover, the floods during the first months of 2000 have further threatened the sector's recovery. More than 140 000 ha of cultivated land were flooded and a significant number of cattle and livestock were drowned. Therefore, estimates for the whole sector growth for 2000 are

2.4 per cent after a sustained period of growth.

The manufacturing sector expanded dramatically over the last five years, with an average growth of 16.1 per cent in the period 1995-99. The most dynamic sub-sectors have been food (food, drinks and tobacco) and mineral sub-sector processing. Therefore, the food sub-sector — already the largest component of industrial output — has increased its role in manufacturing. As a whole, the sector growth can be attributed to a rise in capacity utilisation. According to a 1997 World Bank study, capacity utilisation in manufacturing averaged about 48 per cent, up from 10-30 per cent in 1989. The construction sector benefited from increased demand for residential properties, as well as from the road building and infrastructure programmes, and it has grown an average of 18.5 per cent over the 1995-99 period. In 2000, the manufacturing sector — small manufacturing in particular — was seriously damaged by the floods and is still slowly recovering.

Apart from development of the existing manufacturing activities, new mega-projects are reshaping the structure of the sector. These new initiatives have been concentrated in the Maputo Corridor, which is the direct link between the port of Maputo and the industrial heart of South Africa. A regional privately-led initiative, the Maputo Development Corridor — conceived by the South African and Mozambican governments — has started to generate spin-offs through the activation of the

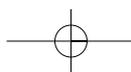
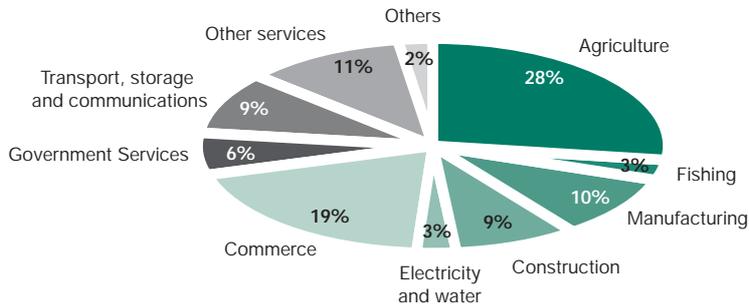


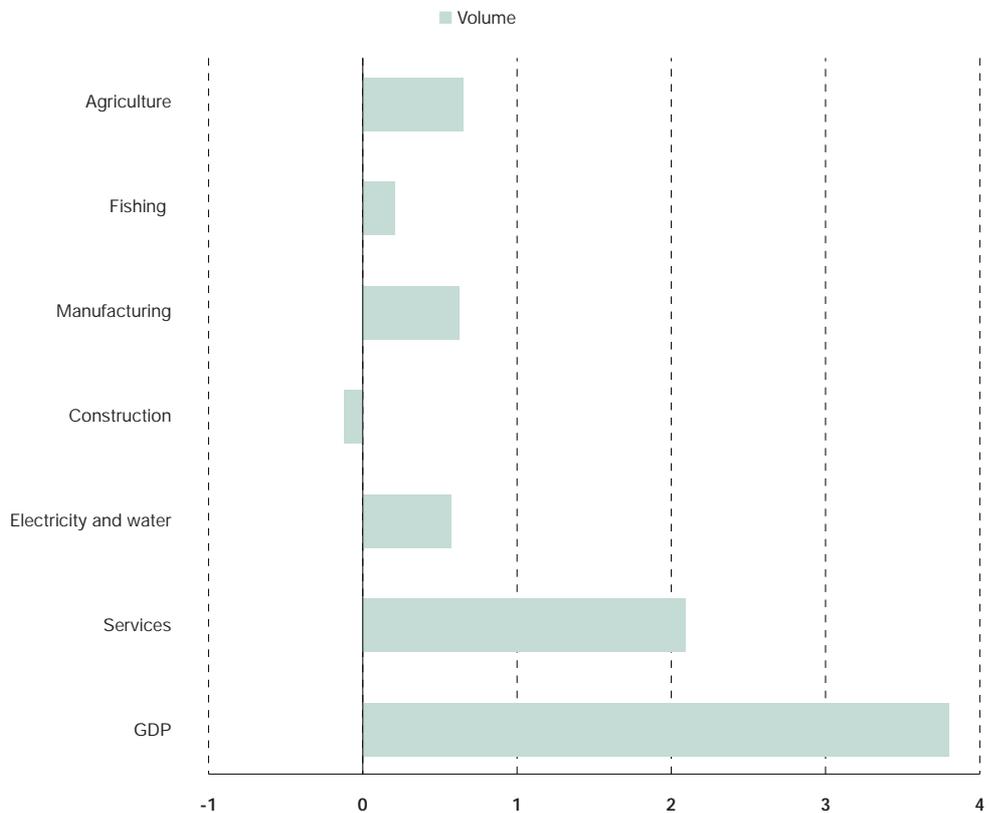


Figure 3 - GDP by Sector in 1999^a



a. Data for 2000 are not available.
Source: Authors' estimates based on IMF and domestic authorities' data.

Figure 4 - Sectoral Contribution to GDP Growth in 2000^a



a. The sectoral contribution is calculated on a growth rate base of 3.8 per cent, although it should be noted that the last estimated growth rate is 2.1 per cent. No consistent data were available for sectoral price evolution in 2000.
Source: Authors' estimates based on IMF and domestic authorities' data.

aluminium smelter outside Maputo during the end of 2000. The investment project — the biggest investment project in the country — is likely to start a series of large investment projects which could change the

country's development process in the near future.

The service sector has performed strongly since the end of the civil war. The transport sector in particular has grown at an annual rate of 10 per cent since 1987.

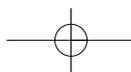


Table 1 - Demand Composition (percentage of GDP)

	1995	1998	1999	2000	2001 (e)	2002 (p)
Gross capital formation	28.0	23.5	32.6	30.0	32.8	56.0
Public	16.1	14.4	17.2	18.1	21.9	21.6
Private	11.9	9.1	15.4	11.9	11.0	34.4
Consumption	98.9	92.8	93.3	94.1	85.6	76.3
Public	7.8	9.6	11.0	11.8	12.6	10.7
Private	91.1	83.2	82.3	82.4	73.1	65.6
External sector	-26.9	-16.3	-25.9	-24.1	-18.5	-32.2
Exports	12.1	10.5	11.7	13.1	22.6	24.3
Imports	-39.0	-26.8	-37.6	-37.2	-41.0	-56.5

Source: Authors' estimates and predictions based on IMF and domestic authorities' data.

The road rehabilitation required for the country's recovery has been a priority, and Mozambique benefited from the multi-donor Roads and Coastal Shipping (ROCS) Project which rehabilitated 3 800 kilometres of priority trunks roads and improved road maintenance.

The high economic growth that occurred in Mozambique in the period 1996-1999 has been sustained mainly by the rise of domestic demand. Private consumption has been fuelled by external aid inflows, which were necessary to ensure maintenance of minimum consumption levels. Investment boomed from 1999 onwards owing to the big impact of the large inflow of FDI related to the construction of the Mozal aluminium smelter plant. In 2002 private investment is expected to take over public investment as a result of further FDI flows. Beside the remarkable pickup of investment and consumption, Mozambique's external position remains vulnerable.

Macroeconomic Policy

Fiscal and Monetary Policies

The reform of the budgetary process that started in 1997 and the introduction of medium-term policy instruments have dramatically improved the implementation and the medium-term consistency of fiscal policy. The key step has been the introduction of the Budget Framework Law which put in place the basic principles for preparing, managing, executing, controlling and accounting for the budget. A new

rolling five-year medium-term expenditure framework has been introduced and the government is now required to make budget proposals to the National Assembly in a medium-term framework. However the process needs further improvements since the existence of extra-budgetary activities are hampering the proper conduct and analysis of fiscal and other macroeconomic policies.

Alongside those budgetary instruments the government has introduced the Action Plan for the Reduction of Absolute Poverty (*Plano de Acção para a Redução da Pobreza Absoluta* — PARPA) — to set out the public strategy for poverty reduction. The programme consists of a series of policies and actions aimed at achieving measurable objectives (performance indicators) in the areas of education, health, infrastructure, agriculture and rural development, employment, social security and assistance, food security and institutional capacity building on poverty issues. In April 2001, a new PARPA (2001-2005) was approved and it has since been endorsed as the first full PRSP.

Given this medium-term strategy, the government has increased in recent years the share of expenditure in some priority areas. Between 1994 and 1998, it nearly doubled its share of current expenditure on health (from 10 to 18 per cent) and education (from 5 to 10 per cent). As a result improvements have been achieved in health and education.

Macroeconomic stability is still highly dependent on aid inflows. In 1999, foreign aid represented 47 per cent of total expenditure and two-thirds of capital



Table 2 - Public Finances (percentage of GDP)

	1995	1998	1999	2000	2001 (e)	2002 (p)
Total revenue and grants^a	20.9	19.7	24.2	24.3	26.6	27.7
Taxes	10.2	10.6	11.3	11.6	11.2	12.3
Grants	9.7	8.2	11.9	11.6	14.2	14.2
Total expenditure and net lending^a	23.9	22.1	25.6	28.8		
Current expenditure	10.1	11.3	12.5	13.3		
<i>Excluding interest</i>	<i>8.5</i>	<i>10.3</i>	<i>11.8</i>	<i>13.1</i>	<i>14.5</i>	<i>13.5</i>
Wages and salaries	2.3	4.5	5.9	6.5	7.2	6.4
Interest on public debt	1.6	1.0	0.6	0.2		
Capital expenditure	13.3	9.9	11.8	13.3	16.1	15.9
Primary balance	-1.4	-1.4	-0.8	-4.3	-4.0	-1.7
Overall balance	-3.0	-2.4	-1.5	-4.5		

a. Only major items are reported.

Source: Authors' estimates and predictions based on IMF and domestic authorities' data.

expenditure. Efforts have been made to increase revenues in order to balance the large budget deficits (the overall deficit before grants stood at 16.1 per cent in 2000). A value-added tax was introduced in 1999 replacing the existing sales and consumption taxes. In 2000 the government reviewed the system of tax and customs exemptions, and revenue gains are expected for 2002.

In 2000 and 2001, in response to the economic and social impacts of the floods, the revised budgetary programme contained a significant rise in expenditure partly financed through additional aid inflows. The non-interest current outlays are expected to have risen from 11.8 per cent of GDP in 1999 to 14.5 per cent in 2001. Besides a rise in expenditure in sectors prioritised in the PARPA, the increase reflects a larger wage bill, 7.2 per cent of GDP in 2001, and the liquidity and solvency problems faced by two of the largest partly state-owned commercial banks, which forced the government to finance a bank recapitalisation through a one-off outlay. It has been estimated that the cost of the recapitalisation was equal to 2.9 per cent of GDP spread over 2000 and 2001. However, slightly decreasing current expenditure is expected to allow an improvement of the primary balance in 2002.

The capacity to control broad money growth and curb inflation has increased dramatically in recent years. Indeed, following the partial privatisation of the state-owned banks in 1996 and 1997, money growth has been

kept under control since the monetary losses of the banking system have no longer underpinned broad money expansion. Broad money expansion was reduced from 55 per cent in 1995 to 35 per cent in 1999. Inflation rates reacted accordingly and started declining in 1995 from a yearly level of 52 per cent in 1995 to a level that rarely exceeded 4 per cent during the 1998-99 period.

Following the disruption of distribution networks in the aftermath of the floods, the annual inflation rate in 2000 returned to a two-digit level, i.e. 12.3 per cent. Banco de Moçambique (the central bank), however, is willing to reduce the money growth, mopping up liquidity through large bond emissions during 2001. This tightening of monetary policy coupled with the stabilisation of supply markets is likely to cause inflation to return to single digit figures. Nonetheless, partly as a result of an earlier depreciation; the 12-month rate of inflation was over 7 per cent in July 2001.

Under a flexible exchange-rate regime, during 2000 the metical — the national currency — depreciated by 18.6 per cent in nominal terms. In 2001 the trend has not been reversed, and between December 2000 and June 2001 the official rate fell by 28 per cent. The recent depreciation of the metical could be considered the outcome of a combination of different forces. The floods in 2000 produced a surge of imports, with

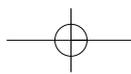
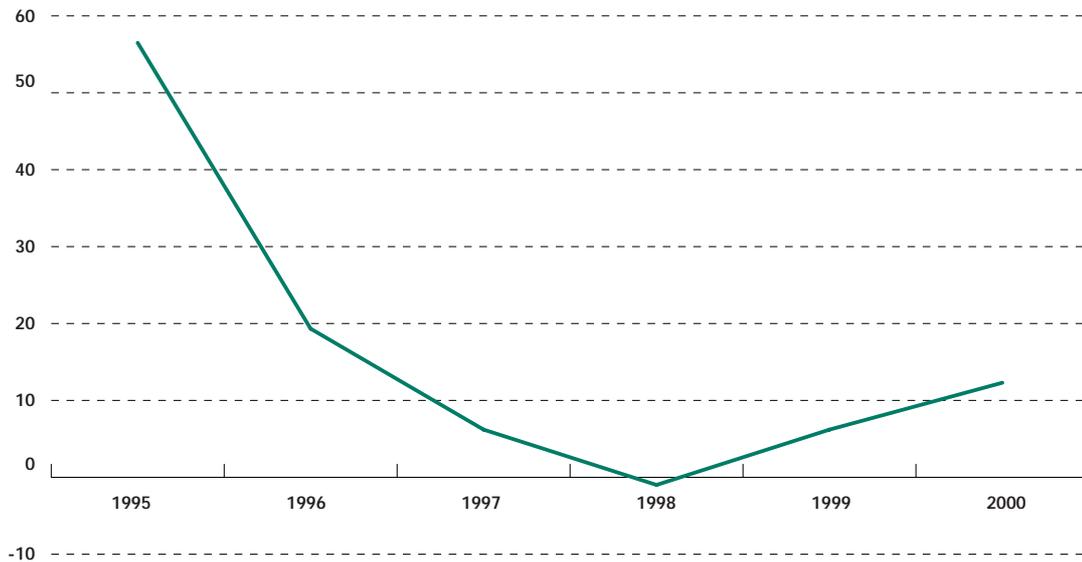


Figure 5 - Inflation Rate



Source: IMF and domestic authorities' data.

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subsequent heavy pressure on the financial system. On the other hand, political turbulence in 2000 has produced an increasing dollarisation of the economy since a larger share of bank deposits was being converted into dollars.

External Position

The external position of Mozambique, despite post-war recovery, remains vulnerable, and with total trade accounting for 42 per cent of GDP, Mozambique is still moderately trade-oriented. Nevertheless, after reforms implemented during the 1990s, Mozambique has now one of the most open trade policy regimes in Southern Africa. Import licensing was abolished in the early 1990s, and administrative requirements in 1998. Tariff structure, although still highly dispersed, has been simplified and ad valorem tariffs have been regrouped for different kinds of goods.

Although recovering since the mid-1990s, exports have under-performed, particularly relative to the country's high level of growth and to the open trade policy orientation. The high dependence of total exports on a few agriculture and fishery products — owing to bottlenecks in rural development such as poor

infrastructure and trading network — can be considered the main reason for the poor performance of the external sector. Yet, the slow recovery of potential export products such as sugar and cashews to pre-war volumes is further preventing export increases. Nevertheless, the composition of exports is starting to diversify: since 1998 the mega-projects in the Maputo Corridor have boosted electricity exports. The Mozal aluminium smelter along with other investment projects are further improving total exports in 2000-2002. Imports are increasing considerably as well from 1999 owing to the investment projects in the Maputo corridor, producing an increasing trade deficit. In fact, despite increasing official transfers, the current account deficit over GDP remains large (11.6 per cent in 2000).

FDI is booming and has come to play a central role in Mozambique since the mid-1990s. The privatisation of firms in the tourism, industry and banking sectors largely characterised the FDI until 1996. Since then, FDI has been mainly directed towards the exploitation of natural resources, and large scale/capital-intensive projects have started. The largest industrial project has been the construction of the \$1.3 billion Mozal aluminium smelter in June 1998 in the area of the Maputo Development Corridor. A joint project with



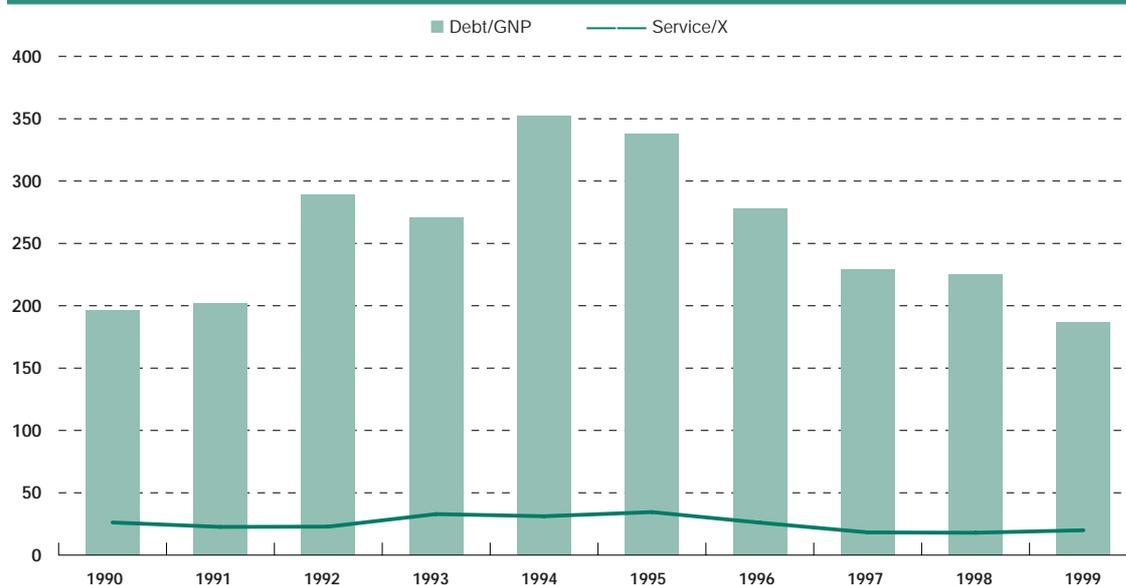
Table 3 - Current Account (percentage of GDP)

	1995	1998	1999	2000	2001 (e)	2002 (p)
Trade balance	-23.6	-14.9	-23.5	-20.8	-19.5	-31.2
Exports of goods (f.o.b.)	7.4	6.4	7.3	9.5	14.0	15.1
Imports of goods (f.o.b.)	-31.0	-21.3	-30.8	-30.4	-33.6	-46.3
Services ^a	-5.3	-4.6	-6.0	-5.6		
Factor income ^a	n.a.	n.a.	n.a.	n.a.		
Current transfers	14.5	8.2	11.1	14.8		
Current account balance	-14.4	-11.4	-18.4	-11.6		

a. Factor income is included in services.

Source: Authors' estimates and predictions based on IMF and domestic authorities' data.

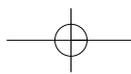
Figure 6 - Stock of Total External Debt (percentage of GNP) and Debt Service (percentage of exports of goods and services)



Source: World Bank (2001), *Global Development Finance*.

Billiton (the London-listed arm of the South African mining company Gencor) as the primary private investor, the firm started production in June 2000. In 1999, thanks to the aluminium smelter project, foreign direct inflows reached 13 per cent of GDP from a level of 1.8 per cent in 1997. In May 2001 the implementation agreement — which sets projects' operating conditions — for the \$1.6 billion Maputo Iron and Steel Project (MISP) was signed between the US Enron Corporation and the Mozambican authorities and several other mega-projects are under consideration. Therefore, positive growth projections are envisaged.

External assistance has been crucial so far in balancing the current account deficit and more broadly in overcoming the humanitarian crisis of the late 1980s and early 1990s. It has helped the economy to break out of the vicious circle of low savings and low growth, and in terms of balance of payments, support represents more than four times the value of industrial exports. As a corollary of hefty external assistance since the late 1980s, Mozambique has accumulated a large external debt which reached the impressive level of 352.2 per cent of GNP in 1994 (in nominal values). Since 1987, there has been a series of debt negotiations and rescheduling with international donors, notably IMF



and World Bank and the Paris Club official bilateral creditors. In light of the remarkable economic reforms undertaken by the country in the 1990s and of the unsustainable burden of the external debt, creditors agreed, in April 1998, to include Mozambique in the original HIPC Initiative. The country reached the completion point — the point at which debt relief is actually granted — in June 1999 and received \$1.7 billion of cash flow relief in NPV terms (about \$3.7 billion in debt relief over time). Moreover, the country is receiving additional debt relief under the Enhanced HIPC Initiative for which it reached the decision point on April 2000. The completion point — previously scheduled for March 2001 — has been postponed together with the IMF's poverty reduction and growth facility (PRGF) following the crisis in the banking sector. Nonetheless, in September 2001 Mozambique reached the completion point (the third country after Bolivia and Uganda) and will receive \$306 million in NPV terms (about \$600 million in nominal terms). According to the IMF, as a result of HIPC assistance and bilateral debt relief already committed, Mozambique's total external debt is reduced by some 73 per cent.

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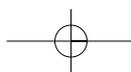
Structural Issues

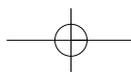
In the recent past Mozambique has embraced a vast programme of structural reforms addressing privatisation, financial sector development and public sector reform.

The privatisation programme accelerated in 1995 and now state-owned enterprises account for less than one fifth of total economic activity, down from more than two-thirds in 1990. Twenty large SOEs were privatised by 1999 and within the targeted group of firms to be privatised only the national airline is still state-owned owing to the lack of acceptable bids. Another 220 small and medium enterprises were targeted for privatisation in 1999 and at this stage only 33 firms hold government majority. Moreover, beside the privatisation programme, the government deregulated utilities such as railways, ports and port services as well as the concession of water delivery in five major cities.

The financial sector reform programme started in 1992 with the separation of the central bank from Banco Commercial de Moçambique (BCM), and the deregulation of entry into banking and insurance activities. In addition, regulations have been introduced for bank licensing, capital adequacy, provision policies and exposure limits. In response to the persistent macroeconomic instability associated with the banks' poor performance, the government decided in 1996 to sell its majority shares of the two state-owned banks: BCM and Banco Austral (BA) — formerly called Banco Popular de Desenvolvimento — which represented more than half of the entire banking sector. Although the sale of the banks was relevant in order to gain control over monetary policy, the privatisation process has not produced the expected outcomes. Indeed, during 2000, the solvency problems of the two banks forced the government, in agreement with private shareholders, to intervene in the market. The BCM — for which solvency problems were mainly due to bad loans inherited before privatisation — has been re-capitalised and the restructuring plan was completed in March 2001. The BA, the country's third largest bank, has been bought back entirely by the state after private investors refused to recapitalise the bank and handed back their shares in April 2001 to the government. It has not yet been restructured. Inherited bad loans as well as risky and unclear activities may have played a role in the collapse. The government's planned sale of the bank to a reputable one will entail a substantial fiscal cost. The issue is being closely monitored by the Bretton Woods institutions. The third review under the PRGF arrangement and the attainment of the HIPC Initiative completion point were delayed to develop a strategy to resolve Banco Austral's difficulties.

Mozambique's development is still hampered by its low skill base across the board in the public sector. The shift away from a centrally-planned economy and the recent upsurge of economic activity has made it particularly difficult for the government to retain and attract scarce skilled personnel. At present, only some 5 per cent of its 100 000 civil servants have more than 12 years of schooling. A far-reaching civil service reform process is underway to improve service delivery, efficiency and accountability with enhanced career incentives.





The development of infrastructure has been one of the priorities of post-war rehabilitation and is still a major challenge for the progress of the country. The first phase of infrastructure development has been road rehabilitation, in an attempt to re-integrate the crucial food surplus-producing areas of the north which were isolated and poorly linked to the rest of the country. The project (Road and Coastal Shipping Project — ROCS) has been led by external donors and included the rehabilitation of port infrastructure. The coastal shipping sector has recently been opened to the private sector and now four companies provide container services between the different ports. The second phase of infrastructure development has been conceived through the making of development corridors between Mozambique and three of its neighbouring countries: South Africa, Zimbabwe and Malawi. The most developed one has been so far the Maputo Development Corridor co-ordinated by the South African and Mozambican governments and has entailed improving transport and infrastructure in the corridor between the South African provinces of Gauteng and Mpumalanga and the port of Maputo. Work on a 440-kilometre toll road was commenced in May 1998 by the French led consortium Trans African Concessions and completed in 2001. Several other projects are in the pipeline — approved or proposed — in order to develop the ports of Nacala, Beira and Maputo as the three main accesses for Malawi, Zimbabwe and South Africa. Projects are also under way or at proposal level to strengthen railway systems and toll roads between landlocked Malawi and Zimbabwe and the sea ports in Mozambique. The spin-offs that those corridors can generate are larger than merely linking industrialised landlocked areas with sea access. It is believed that those initiatives will boost the investor interest in the region, creating a stimulus for renewed economic growth.

Political and Social Context

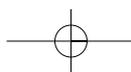
Since the signing of the 1992 Rome Peace Agreement that brought Mozambique's 16-year civil war to an end, political developments have been characterised by deep-rooted antagonism between the

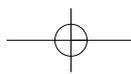
Frente de Libertação de Moçambique (FRELIMO) and the Resistência Nacional de Moçambique (RENAMO). The country's first multi-party elections, held in 1994, confirmed FRELIMO's popularity, and it won a majority of both parliamentary and presidential votes. During the first multi-party legislature, the country witnessed the emergence of a blossoming yet fragile democracy, within civil society and legal institutions. The country's first-ever municipal elections, held in 1998 as part of the ongoing process of political and administrative decentralisation, were boycotted by RENAMO and brought a disappointing 15 per cent of voters to the polls.

The second multi-party elections, held in December 1999, were hotly contested with FRELIMO trying to capitalise on the merits of its economic recovery plan while the opposition sought to harness the support of those who had yet to benefit from recent prosperity. The RENAMO-led coalition won the vote in six of the country's ten provinces, confirming its popularity in the central and northern regions of the country. FRELIMO's victory was dictated by its stronghold over the southern provinces where it won as much as 87 per cent of the vote.

The campaign and count were considered fair by international observers and its results were confirmed by Mozambique's Supreme Court after a dismissal of RENAMO's appeal for a recount. RENAMO has since failed to recognise the outcome of both the presidential and legislative vote and has unsuccessfully sought to gain a share of power in the post-election period. Talks between President Chissano and the opposition leader Afonso Dhlakama have been interrupted and RENAMO's demands to be consulted in the appointment of Governors (a presidential prerogative) in the six provinces where it won were not met. Following President Chissano's announcement that he would not run for re-election in 2004, differences between the ruling party's "old guard" and its modernising faction have resurfaced over their leader's succession.

Mozambique's international reputation as a hallmark of an emerging democracy has however been tainted





by recent events. In the aftermath of RENAMO-backed anti-government demonstrations, 82 inmates seized during the protests mysteriously died while in police custody in the northern province of Cabo Delgado in November 2000. A few days later, Carlos Cardoso, the country's most prominent and vocal investigative journalist was murdered in Maputo. Mr. Cardoso had been investigating cases of corruption and financial fraud.

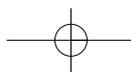
Despite the successful economic growth trajectory, poverty is still overwhelming in Mozambique. Its Human Development Index is still well below the sub-Saharan African average, ranking it 157 out of 162 countries and 69.4 per cent of the country's population live below the national poverty line (\$0.40 per day). While poverty is widespread throughout the country, the most affected population is concentrated in rural areas where farmers and households have not been able to take full advantage of the favourable macro-environment. Agricultural production is still limited by the use of traditional farming methods, low-yielding varieties, poor availability of agriculture inputs, low levels of irrigation and drainage and by limited access to credit and agricultural markets. Moreover, the introduction of new technologies to increase agricultural productivity is hampered by the attainment of full capacity — given the existing infrastructure — in crop production in the rural areas. As a result, the incidence of poverty is higher in rural areas (poverty head count index of 71.3 per cent), where 79.7 per cent of the population live. Poverty in Mozambique tends to be linked to high household dependency rates, low levels of education (particularly in rural areas and among women), limited access to basic health services and to infrastructural constraints, principally in rural areas. The government has put the eradication of poverty at the top of its agenda since at least 1995 and investing in human capital has been considered a key strategy to reduce structurally the high level of poverty. Indeed, Mozambique is still lagging behind in terms of health care and education level and attainment compared to other developing countries.

Regarding health, despite improvements, the indicators in Mozambique are among the worst in the

world. In 1997-98 life expectancy at birth was just 46 and the child mortality rate was 134 per thousand live births. Malnutrition is widespread and inequalities between rural and urban areas are large: on average rural households suffer 3.7 months per year of food insecurity. The government's Health Sector Recovery Programme (HSRP) has markedly improved the quality of services and access, and delivery and quality of health services have been enhanced since 1995 as the rehabilitation or construction of 300 first-level facilities clearly shows. However, two major health problems still affect the lives of millions of Mozambicans: HIV/AIDS and malaria. While the true extent of malaria is unknown, it has been estimated that it is the leading cause of sickness and death in Mozambique. The spread of HIV/AIDS is large, as in other southern African countries: UNAIDS estimates that 13.2 per cent of the population was living with HIV/AIDS in 1999. Moreover, since many people infected have yet to develop AIDS, and considering the typical pattern of the spread of the virus, the prevalence rates are likely to reach 35 per cent in the next ten years. Aside from the human aspects, there is growing concern that the epidemic will have a dramatic impact on the Mozambican economy. Although not entirely predictable, the impact of HIV/AIDS on the labour market may be particularly severe in Mozambique since it relies on a small pool of people with technical, managerial and administrative skills.

The upgrading of the education system ranks high in the government's poverty reduction strategy and for the country's overall development. The education profile in Mozambique is characterised by a relatively low rate of school attendance, outdated curricula, low quality of teaching, and by great disparities in schooling access amongst the different provinces. Net enrolment is highly variable according to the different level of education. Indeed, starting from a rate of net enrolment of 40 per cent in primary schools, enrolment beyond primary school drops dramatically to under 3 per cent. Low quality of teaching and the nature of the secondary school curricula, very academic and encyclopaedic, have often been advocated as two of the main reasons of such large drops in the attainment level. The other striking feature of the education system in Mozambique





is the great disparity between South and Central and Northern regions in terms of education attainment that ultimately could be considered as the outcome of poor supply of classrooms in the Northern and Central provinces. Despite great emphasis given by the

government to the development of the education system, the role played by the state has not changed notably during the 1990s. Around a half of total expenditure on education is foreign financed.

