

MOZAMBIQUE

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Andre ALMEIDA SANTOS / a.almeidasantos@afdb.org

Luca Monge ROFFARELLO / luca.monge.roffarello@undp.org

Manuel FILIPE / manuel.filipe@undp.org





MOZAMBIQUE

- Mozambique's GDP growth declined in 2015 to 6.3% because of lower export earnings and public expenditure but is expected to expand to 6.5% in 2016.
- Amid government-opposition political tensions, improved financial management and public expenditure are needed to counter growing inequalities.
- The number of Mozambicans in cities will rise from 31% now to 40% by 2040 and they will need better transport and facilities.

Overview

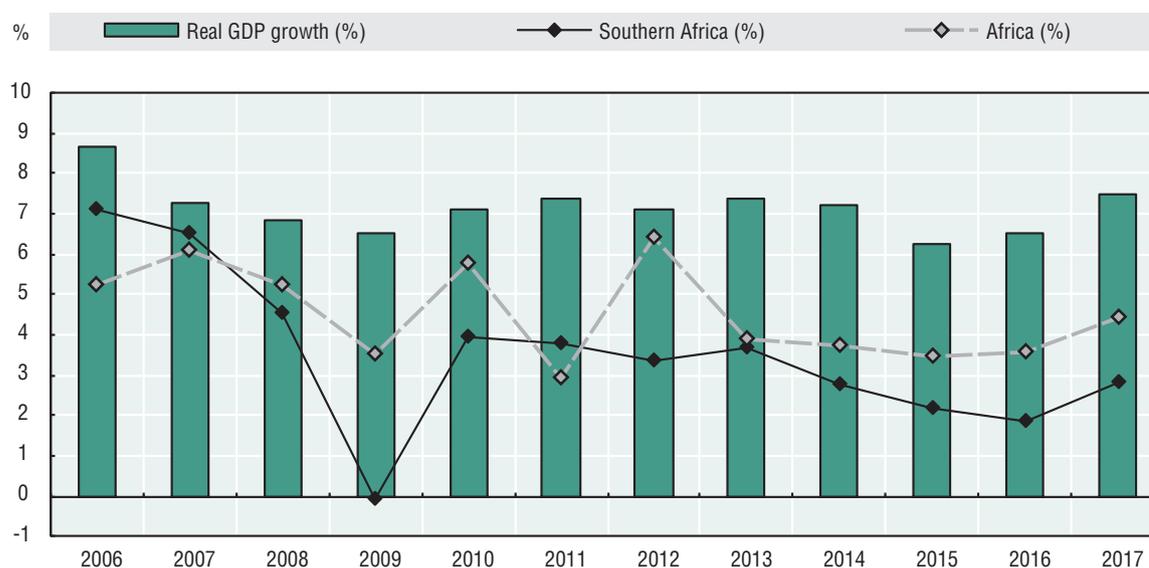
After a decade of average annual economic growth above 7%, Mozambique saw a slowdown to 6.3% in 2015 as the country faces defining economic and political challenges. The slower gross domestic product (GDP) growth was due to lower than expected exports and a decrease in public expenditure and foreign direct investment. A reduced influx of hard currency assisted the devaluation of the metical (MZN) against the US dollar and pressured the balance of payments. This was halted only by a USD 282.9 million standby credit facility agreement with the International Monetary Fund in December 2015. The budget deficit was reduced from 6.6% in 2014 to 5.4% in 2015. The main short-term challenge is to regain growth momentum while ensuring fiscal and debt sustainability. Predicted GDP growth of 6.5% in 2016 and 7.5% in 2017 hinges on the advancement of gas and coal production projects and attracting foreign investment.

President Filipe Nyusi's government faces many challenges. Negotiations between the authorities and liquefied natural gas (LNG) operators on new projects have taken longer than expected. This has held up final investment decisions now expected in late 2016. Lower oil and gas prices are a further concern for the development of the projects. The political situation remains uncertain with renewed low intensity conflict between the government and RENAMO opposition party, which refuses to recognise the result of the 2014 presidential election. The government is struggling to repay a bond issued for the Empresa Mocambicana de Atum (EMATUM) state tuna company. This will require some kind of restructuring. Finally, the currency's devaluation is expected to spike up inflation affecting living conditions for the wider population.

Data has revealed rising household expenditure since 2009, but Mozambique's ranking dropped in the United Nations Development Programme's 2015 Human Development Index. It showed rising disparities between regions and stressed the underdevelopment of rural areas.

The urban population is growing strongly but still represents less than a third of the total population. Rural population growth is bigger in absolute terms. Urban unemployment is higher than in rural areas and a large part of the city population is not reaching its full economic potential. Public policy in general considers urbanisation as a challenge, rather than an opportunity, focusing on rural development. Nonetheless, progressively more recognition is being given to structured urbanisation. The first post-independence new city developments are being designed and implemented.

Figure 1. Real GDP growth



Source: AfDB, Statistics Department AEO. Estimates (e); projections (p).

Table 1. Macroeconomic development

	2014	2015(e)	2016(p)	2017(p)
Real GDP growth	7.2	6.3	6.5	7.5
Real GDP per capita growth	4.4	3.5	3.7	4.7
CPI inflation	2.3	2.0	5.7	5.2
Budget balance % GDP	-6.6	-5.4	-3.7	-2.4
Current account % GDP	-41.6	-44.0	-46.1	-47.9

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Recent developments and prospects

Mozambique faces economic and political uncertainty after many years of strong growth and stability. The discovery of natural resources attracted large investments into the extractive sector and the revenues helped expansionary budgets. In 2015 GDP growth was a robust 6.3% on the back of a good performance by agriculture (+5.9%), electricity generation (+13.9%) and the expansion of transport and communications (+4.3%). Aside from electricity, the fastest expanding sectors were extractive industries (8.8%), fisheries (10.4%), and construction (7.4%). Despite the high growth rate, the economy has been slowing since mid-2014. The government inherited fast rising debt and a large fiscal deficit which called for spending cuts, especially on capital investment and the public wage bill. This led to a 1.6% reduction in public expenditure as a share of GDP in 2015, meaning less stimulus to the economy. Fiscal consolidation is expected to continue into 2016 and 2017 to ensure debt sustainability.

Mozambique has not secured the energy industry investment that it expected. The conclusion of natural gas exploration was not followed by project development. Final investment decisions have been delayed and this has led to the slimming down or exit of many companies that set up business in Mozambique hoping to benefit from liquified natural gas deals. With the coal sector also struggling with low prices and export logistics difficulties, foreign direct investment sank to pre-2012 levels. The value of investment projects authorised by Mozambique's Centre for Investment Promotion fell by 74.5% in 2015 over the previous year to USD 1.7 billion.



Tertiary activities contributed 54% of GDP, the secondary sector 16%, and the primary sector represented 29% in 2015. Agriculture accounts for a quarter of GDP and is a driver of Mozambique's robust growth. However, the sector is dominated by low-productivity subsistence farming which needs new technology and investment. The country still imports a significant share of its food.

Despite growing activity, extractive industries represented just 3.9% of GDP with most investment still geared towards exploration. Manufacturing is dominated by the Mozal aluminium smelting plant, while the rest of the sector has significantly under-performed over the last decade. In addition to expanding financial services, the tertiary sector has a growing number of micro scale retail businesses with tiny profit margins and few opportunities for saving and investing.

Depressed international commodity prices caused a decrease in the value of exports in 2015, with natural gas (-19.6%) and coal (-23.5%) registering the biggest drops. Official development assistance also fell as some partners reduced support. Aid is important for education, health, and infrastructure development. It fell by USD 200 million to about USD 1.2 billion, 9% of GDP, in 2015. The balance of payments suffered from a squeeze in hard-currency liquidity caused by the foreign investment slump, lower exports and reduced development assistance. Imports continued a resilient increase on the back of growing consumption.

The metrical suffered the third biggest fall of any sub-Saharan currency against the dollar during 2015. The government resorted to an IMF credit facility to boost hard currency liquidity and break the devaluation cycle. The devaluation pushed debt levels and servicing costs higher, and took annual inflation from 1.9% in 2014 to 10.5% in 2015. This is expected to hit the wider population, while the lack of hard currency curtailed economic activity.

Mozambique suffers many of the woes of resource-rich countries, with a fragile development model excessively focused on extractives and major projects. It has tremendous potential but faces considerable challenges: a lack of qualified workers; a limited internal market; infrastructure insufficiencies; a costly business environment; restricted economic diversification; a high dependency on imports; increasing debt levels, a narrow tax base and limited capacity for domestic resource mobilisation. Without the allure of large extractive developments that could boost GDP, the economy is less competitive than most of its regional peers. In addition, the country faces political uncertainty with fighting between government and opposition Renamo forces disrupting internal transportation and causing international concern. Mozambique needs to foster an environment to attract critical investment that would bring in expertise and financing to overcome these challenges.

Mozambique ranked 180th out of 188 countries in the 2015 United Nations Development Programme's (UNDP) Human Development Index. Inequality has worsened in the past six years and the top 20% of income earners spend 14 times as much as the poorest 20%. There are rising disparities between regions. It is estimated that more than 50% of the population still live on less than USD 1 a day. However, by focusing on employment, production and competitiveness the government's five year plan could improve living conditions for the population. The plan is taking the United Nations' Sustainable Development Goals into account, placing for the first time environment, resilience and peace high on the national development agenda.

Mozambique's outlook remains positive if government negotiations with gas and coal operators make breakthroughs that allow for final investment decisions on liquefied natural gas projects during 2016, and a boost in coal exports. This will unlock investment in major projects and infrastructure that will drive growth in 2016 and 2017. The main short-term challenge is to maintain growth while weathering the balance of payment shock and to ensure fiscal and debt sustainability. In the medium term, the government has to achieve an inclusive growth model, the diversification of the economy away from mega-projects and natural resources, and gear public spending to foster human development.



Table 2. GDP by sector (percentage of GDP at current prices)

	2010	2014
Agriculture, forestry, fishing and hunting	29.5	25.5
of which fishing	1.9	1.6
Mining and quarrying	1.7	3.9
of which oil
Manufacturing	11.3	10.0
Electricity, gas and water	3.8	3.9
Construction	2.1	2.3
Wholesale and retail trade; Repair of vehicles household goods; Restaurants and hotels	13.6	14.6
of which hotels and restaurants	2.8	2.3
Transport, storage and communication	14.0	13.3
Finance, real estate and business services	9.1	9.2
Public administration and defence	5.2	6.1
Other services	9.5	11.3
Gross domestic product at basic prices / factor cost	100.0	100.0

Source: Data from domestic authorities.

Macroeconomic policy

Fiscal policy

Mozambique's fiscal position deteriorated from 2012 through 2014 with an escalation in expenditure. Generous inflows of windfall capital gains tax from gas consortiums and the steady support of official development assistance grants helped to contain the deficits. However budget expenditure ballooned from 37% of GDP in 2013 to 40% in 2014, resulting in a deficit after grants of 6.6% of GDP. With debt quickly mounting, the government in 2015 changed the stance to fiscal tightening, reducing the fiscal deficit after grants, to an estimated 5.4% of GDP. Fiscal consolidation was helped by the one-off nature of the previous year's election expenditure and the partial incorporation of the EMATUM company's debt in the budget as maritime security defence expenditure. A containment on the wage bill expansion, by improving public administration management and reducing hiring and investment expenditure also helped the fiscal consolidation. Overall expenditure in 2015 contracted to 38.4% of GDP. Non-windfall fiscal revenues increased by 0.9 percentage point to 24.6% of GDP, benefiting from reforms and improvements in tax administration, including tax code changes and increased tax collection efforts. However, this level of tax revenue rivals that of more developed economies. The scope to further progress tax collection is limited due to the narrow tax base.

The grants component of donor support to the budget remained at a low of 4.4% of GDP (11.3% of the budget) not seen for several decades. Official development assistance seems set to fall further, while larger revenues from the extractive sector are yet to materialise. So further fiscal consolidation is expected in the medium term, aiming to achieve small domestic surpluses until natural gas is produced on a large scale. In 2016, the fiscal deficit is expected to contract to 3.7% of GDP. Total revenues should slightly increase, reflecting higher international trade taxes and gas royalties. But investment expenditure is forecast to fall to 14.3% of GDP, without curtailing spending on critical social programmes. The wage bill will be contained at 11.3% of GDP, by slowing new hiring and tighter monitoring of salaries. Crucial to achieving this deficit target is the restructuring of the EMATUM bond. The bond's servicing alone in 2016 will amount to 1.1% of GDP. Additionally, in the current domestic liquidity shortage and limited stimulus to the economy, the government has to be mindful of limiting domestic financing and arrears to private companies.



Table 3. Public Finances (percentage of GDP at current prices)

	2007	2012	2013	2014	2015(e)	2016(p)	2017(p)
Total revenue and grants	21.6	27.8	31.4	33.3	32.9	33.5	33.7
Tax revenue	12.0	19.5	22.3	25.1	24.6	25.9	26.5
Grants	8.0	5.1	5.2	4.3	4.4	3.7	3.2
Total expenditure and net lending (a)	24.1	32.9	37.0	40.0	38.4	37.3	36.1
Current expenditure	13.2	19.3	19.8	22.5	22.6	21.7	20.6
Excluding interest	12.6	18.4	19.0	21.5	21.4	20.3	19.3
Wages and salaries	6.6	9.6	10.3	11.3	11.6	11.3	11.1
Interest	0.5	1.0	0.8	1.0	1.1	1.5	1.3
Capital expenditure	10.0	12.3	15.1	14.6	14.8	14.3	13.8
Primary balance	-2.0	-4.1	-4.8	-5.7	-4.3	-2.2	-1.1
Overall balance	-2.5	-5.1	-5.7	-6.6	-5.4	-3.7	-2.4

Note : a. Only major items are reported.

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Monetary policy

Balance of payments pressures led to a major devaluation of the metical. Over the year, the currency's street value dropped 64.5% against the US dollar and 28% against the South African rand. With the devaluation, annual inflation jumped from 1.9% to 10.5%. The Bank of Mozambique used international reserves on the open market to hold the currency's value. The fall in foreign direct investment and official development assistance compounded the hard currency shortage. By the end of 2015 reserves were down by 33%, less than three months of imports. The devaluation cycle was only halted with an 18 month USD 282.9 million IMF standby credit facility agreement reached in December 2015. The accord, which is cumulative with the IMF's policy support instrument programme, included a further fiscal and monetary tightening policy package.

The monetary loosening started in 2013 to stimulate credit growth to small-medium companies, and maintained into 2015, fuelled domestic demand.

Credit to the economy – corporate and for private consumption – expanded. However, lending rates to the private sector remained buoyant. The one year average lending rate has remained mostly above 19% for the last five years, signaling a shallow financial market. During the last quarter of 2015 the central bank reversed its monetary policy with rate hikes across the board. The bank's lending and deposit rates were increased from 7.5% to 9.75%, and 1.5% to 3.75%, respectively. The mandatory bank deposit reserve ratio was revised from 8% to 10.5%. As a result, credit to the economy decreased from 28% in 2014 to 23% in 2015. The reduction in liquidity is intended to cool demand and imports. The depreciation of the metical caused a general increase in prices, with administered prices also revised upwards. Bread prices were increased between 25% and 50% in October. The following month, electricity prices rose by an estimated average of 20%. Average inflation is expected to overshoot the central bank target of 5% to 6% in 2016 as devaluation progressively trickles through the value chains. Further monetary tightening is expected in 2016 as inflation rises and the country struggles to find hard currency. Mozambican enterprises are likely to see a deterioration in economic activity and further metical devaluation.

Economic co-operation, regional integration and trade

The reduction in foreign direct investment and weak global demand for commodities marked Mozambique's external position in 2015. Exports and investment inflows fell to pre-2012 levels. The current account and balance of payments both suffered. Investment has been falling from a 2013 peak and saw a 24.5% drop from 2014 to 2015 to USD 3.7 billion. Official development assistance dropped to USD 1.2 billion (9% of GDP).



Depressed demand for commodity exports, as well as delays in ramping up coal export infrastructure, resulted in a 14% reduction in exports from 2014 levels, with decreases registered across the board. Aluminium fell 13.7%, coal 23.5%, electricity 4.7% and gas 19.6%. Between them these represent 56% of total exports. Cashew (+4.1) and Tobacco (+0.5%) were exceptions. New projects also boosted sugar exports by 68.8%. In 2015, China, a key trading partner, took 73.7% fewer exports from Mozambique, which imported 3.7% more from the same source. The expanding dependency on imports is a major challenge.

The trade deficit, fuelled by increased consumption, has been expanding since 2013 and surpassed USD 4.1 billion in 2015. Going forward, lower public spending and the depressed value of the metical could help curb imports. An expected increase in imports for major liquefied natural gas projects, financed by foreign investment, will take the current account deficit to 46.1% of GDP in 2016 and 47.9% in 2017. However, increased and diversified trade remains the country's priority.

Mozambique showed big progress from 2014 to 2015 on the World Economic Forum's Global Competitiveness GCI prevalence of trade barriers ranking, jumping from 91st to 56th place out of 144 countries, despite losing one position on the trade tariffs indicator to rank 89th out of 144. Mozambique is a member of the Southern African Development Community (SADC) and has ratified all of its agreements, including on a free trade zone, free movement of persons and waiving visas for SADC citizens.

Table 4. Current account (percentage of GDP at current prices)

	2007	2012	2013	2014	2015(e)	2016(p)	2017(p)
Trade balance	-5.6	-26.5	-25.6	-29.8	-31.0	-30.4	-28.4
Exports of goods (f.o.b.)	26.7	25.3	24.3	24.1	24.1	26.6	31.5
Imports of goods (f.o.b.)	32.2	51.8	49.9	53.9	55.1	57.0	59.9
Services	-3.5	-21.4	-16.5	-18.7	-17.2	-19.7	-22.2
Factor income	-7.3	-0.1	-0.4	-1.2	-1.5	-2.7	-4.9
Current transfers	6.4	5.4	8.9	8.1	5.7	6.8	7.6
Current account balance	-10.0	-42.6	-33.6	-41.6	-44.0	-46.1	-47.9

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Debt policy

Mozambique has a moderate debt distress level rating, close to the upper high distress level, according to an IMF/World Bank debt sustainability analysis released in December 2015. Sustainability needs the continuation of fiscal consolidation efforts with limited new debt, the stabilisation of the metical, and the start of liquefied natural gas projects to boost GDP and fiscal revenues. Total public debt has shot up from 39.6% of GDP in 2011 to 73.4% in 2015.

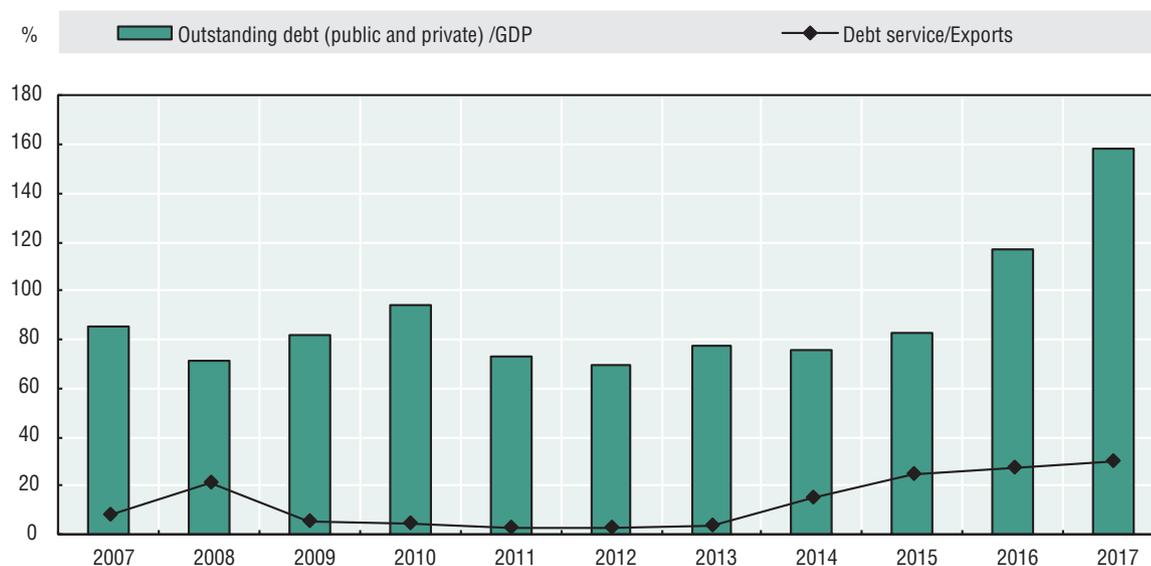
Public debt servicing over exports jumped from 2.7% in 2013 to 8.2% in 2015, and as a percentage of revenues from 3.1% to 9.1%. In 2015, the country was downgraded by the Fitch credit ratings agency (from B+ to B), by Moody's, another credit agency, from B2 to B1, and Standard and Poors from B to B-, the latter two with a negative outlook.

Further risks are posed by a government guarantee for the USD 850 million EMATUM company bond issue. Despite the transfer of USD 500 million to the state budget as defence expenditure, with the company making annual losses the bond repayment falls fully on the government and weighs heavily on the fiscal balance. Because of the government's limited reserves, the bond's 2015 installment of USD 105 million was paid out of central bank foreign currency reserves. The next repayments represent a relatively high percent of Mozambique's GDP (over 1.1% in 2016 and 1% in 2017). Some type of restructuring is expected that would spread repayments over a longer term in the hope that forecasted revenues from liquefied natural gas projects help.



The government is curbing new lending and the start of new energy projects should boost GDP and bring public debt below 30% of GDP in the next decade. Private debt is, however, expected to outgrow public debt. External private financing will be boosted by major investments in liquefied natural gas projects. Domestic private financing is also progressively escalating, in part directed to consumption and real-estate. A major share is being contracted in US dollars, raising sustainability concerns because of the weakness of the metical.

Figure 2. Stock of total external debt (percentage of GDP) and debt service (percentage of exports of goods and services)



Source : IMF (WEO & Article IV).

Economic and political governance

Private sector

Mozambique's private sector is still developing. While representing about 65% of GDP, informal economic activity dominates. Formal employment opportunities are restricted, representing some 32% of all employment, mostly in public administration and micro, small and medium-sized enterprises. Surveys show that individual entrepreneurs represent 93% of all enterprises, while micro-enterprises (1-4 employees) account for 6.6% and small enterprises (5-49 employees) are 0.7%. Only 0.02% of enterprises are medium size, employing between 50 and 100 workers. The country dropped five places on the World Bank report Doing Business 2016 indicators, ranking 133rd out of 189 countries, below the Southern Africa average. On the World Economic Forum's Global Competitiveness Index 2015-16, Mozambique maintained its ranking of 133rd with widespread efforts required, in particular to reduce the significant red tape faced by companies and to improve access to finance. There was a relative improvement in corruption as a perceived problem along with crime and theft and infrastructure in the Doing Business report.

The reduction in corruption trend was also seen in Mozambique's ranking on the Heritage Organisation's Economic Freedom Index, despite the overall decrease by 14 positions to 139th out of 178. At a time when attracting foreign investment is crucial, the trends have been highlighted by the decrease in business freedom (-4.3 points) and investment freedom (-5 points). Despite a reform impetus, surveys show that companies making investments still face extra-legal barriers



that affect competitiveness and deter investment. The legal regime for foreign labour hiring is one of the most highlighted. There is a pressing need for change to better respond to the country's skills needs. Access to land, electricity and finance, all stand out as major barriers for business. The approval in 2015 of a regulatory framework for private credit bureau registries is expected to facilitate access to credit. The government has also approved legislation to reform public enterprises, aiming to rationalise public operations, promote governance, improve transparency and reduce fiscal risks. There should be more privatisations and the closure of public companies because of increased competition.

Financial sector

Mozambique gained six places in the Economist Intelligence Unit's 2015 Microscope index on financial inclusion, with a score of 50 out of 100 and ranking 23rd out of 55 developing countries. According to recent studies, approximately 60% of Mozambicans are financially excluded, 16% use informal financial service providers and 20% use the formal banking system. This limits the sector's ability to mobilise resources. The financial sector is underdeveloped and still bank-dominated. Capital and financial markets are weak and mostly concentrated in Maputo. The banking sector remains highly focused on upper levels of the market, although there is an increasing geographic coverage. There are 19 registered banks, dominated by foreign-owned institutions, representing 95% of total financial system assets. The three largest banks hold more than 85% of total assets. The sector has attracted foreign investors with NedBank, EcoBank, Credit Suisse, and Banco BIG entering the market in 2015.

In 2014, net bank assets reached 54.5% of GDP. The combined net assets of the six largest banks operating in Mozambique increased 22% year-on-year.

Average return on equity is 20% although this was higher for the three main banks. Non-performing loans rose by 75% from 2013, increasing from 2.19% to 3.03%. Local currency denominated loans increased, accounting for 75% of the total loan portfolio in the period, against 73% in 2013.

Mozambique scored low marks on the WEF Global Competitiveness Index 2015-2016 for financial market development because of the low availability of financial services, affordability of financial services, local equity financing and availability of venture capital. Just four companies are listed on the stock market. Overall listed securities represented just 7.2% of GDP in 2014. The debt market is dominated by sovereign issues. Corporate bond issues are small scale and mostly limited to financial institutions and telecommunication firms. The investor base for both government and non-government securities is largely dominated by commercial banks, though a few insurance companies and investment management institutions are also active. The financial non-banking sector comprises two leasing companies, and one for debt factoring.

Public sector management, institutions and reform

The curtailed budget for 2016 coupled with the introduction of stringent procedures to appraise public investment exceeding USD 50 million are expected to have a significant impact on the level of public investment initially planned for 2016 and to some extent on the functioning of the public administration. The government agreed to further reduce the wage bill by 0.2% of GDP in 2016 (the wage bill reached 11% of GDP in 2014, according to the World Bank) by slowing hiring in non-priority sectors and introducing tighter controls on salaries. To the government's credit, Mozambique continues to increase spending in priority sectors such as health and education. The proportion of the overall budget for health increased from 7.8% in 2014 to 9% in 2015 and for education from 15.4% to 18.6%. In the first half of 2015, the government hired 1 963 health professionals to help improve assisted birth deliveries to reach 65% of total births. Budget execution in these sectors was equally high (above 90% in 2015) but service delivery has fallen short of expectations. Since the adoption in 2002 of a comprehensive public



financial management legal framework, Mozambique has made great progress to align fiscal management to international good practices as defined by the IMF's Fiscal Transparency Code. However Mozambique's score on the International Budget Partnership's 2015 open budget survey remains minimal and the Transparency International Corruption Perception index for 2014 ranks Mozambique 119 out of 175 countries. There are also some 156 public enterprises and publicly-owned corporations whose net asset value remains largely unknown, with very limited oversight exerted by the state, especially in relation to financial risks, the IMF said in 2015. The government plans to continue public administration reforms, including increased decentralisation of public funds in line with the 2014 National Decentralisation Plan. Today most of the very limited state budget allocated at local level (less than 30%) is just to pay for salaries. "The energy sector that is underdeveloped with major inefficiencies in both generation and transmission also needs major reforms", the World Bank said again in 2015. The elimination of fuel subsidies can free important resources to this end.

Natural resource management and environment

The welfare of Mozambique's population, economic growth and the achievement of development and poverty reduction goals depend on the sustainable use of natural resources and environmental protection. More than 82% of jobs nationwide depend on natural resources and it is estimated that natural capital contributes up to 50% of GDP. The country is also richly endowed with a large variety of mineral resources. Inclusive, sustainable and transparent management of natural resources is one of the most critical challenges facing Mozambique. In addition Mozambique is also prone to natural disasters and it ranks third amongst African countries most affected by weather-related hazards. In early 2015, more than over 140 000 people were affected by floods, about 44 000 people were displaced and over 130 people reported dead just in one province. Poor access to safe water and sanitation leaves the population at risk to diarrhoea, and cholera. Floods also destroyed key infrastructure. It is estimated that around 17% of GDP suffers an early economic loss due to environmental degradation and the inefficient use of natural resources, whereas just 9% of GDP is needed to be invested to remedy this damage. Yet on average only the equivalent of 1.4% of GDP was spent on the environment for the period 2007-14. Environmental taxes and charges amounted to USD 31.6 million in 2014. Some 43% came from a fuel tax which was the largest contributor. Income tax on petroleum generated another 20% and other charges and fees made up the rest. However there are significant challenges with revenue collection, monitoring and enforcement and these undermine the volume of receipts. The National Progress Report on the Hyogo Framework for Action Implementation acknowledges that Mozambique has made significant progress in reducing flood and drought casualties and damage. However it also recognises that more needs to be done around large and small mining projects, especially in relation to resettlements, environmental contamination and man-made disasters.

The government recognises the need to "ensure sustainable and transparent management of environment and natural resources" as the fifth priority area in the five year plan for 2015-2019 and several sectoral instruments are progressively being aligned. The authorities have subscribed to the Extractive Industries Transparency Initiative (EITI) and are strengthening the legal framework for the natural resources sector.

Political context

Following the general election in late 2014, political stability remains fragile in Mozambique. Top level political dialogue started between the government and Renamo opposition party at the beginning of the year seemed promising but political tensions escalated again into small violent incidents across the country. One incident involved a military attack on a convoy transporting the Renamo leader. That sparked suspicions of an assassination attempt on the Renamo president. The speculation was aggravated when a heavily armed military force surrounded the Renamo



leader's house and disarmed his guards. The Renamo leader has been in hiding ever since, only communicating by telephone to counter the presidential state of the union address. This has left uncertainties on the country's political climate. The long lasting dialogue between the two major political parties has failed to reach consensus on major issues, such as the disarmament of Renamo's residual armed forces left since the civil war; state powers; the settlement of fraud claims from the October 2014 elections where Frelimo and its presidential candidate were declared winners. The opposition says there was fraud and that the country's government, especially at provincial level, should be shared. The Frelimo government does not intend to share power and instead wants to see Renamo disarmed. Renamo does not agree to disarm unless all the differences with government are settled.

Social context and human development

Building human resources

Mozambique continues to face important human resources challenges, especially in relation to the high levels of poverty (54% of the population) and unemployment (22%). The discovery of natural resources and massive inflows of foreign direct investment brought expectations that these and other development challenges could be rapidly addressed. However, there are important preconditions that need to be solved first, such as improving child and maternal health (chronic malnourishment still affects 43% of children); the quality of education; the availability of vocational and technical training; and making sure the young have skills to make them employable. On the Millennium Development Goals (MDG) agenda, Mozambique has made significant progress on education and child health. "The country achieved the MDG target for primary school net enrolment rate, that was already over 96%, in 2014", the Education Ministry said. Mortality rates have been brought down to 64 per 1 000 live births in 2015 against an MDG target of 67 per 1 000. Under five child mortality was at 97 per 1 000 births, below the target of 108. The maternal death rate of 408 per 100 000 live births remains a major source of concern. The national HIV rate remains high but stable at 11.5% of the population. Chronic malnutrition is a fundamental issue affecting health and education. The inability of Mozambique youth to take advantage of jobs created by the foreign investment is linked to the mismatch between supply and labour market demand, i.e. a low-skilled population primarily active in agriculture versus a changing labour market requiring specific skills for extractive industries and agro-processing sectors. This requires improved vocational training and the promotion of employable skills for youth. Natural resources discoveries are attracting major investment and demanding a qualified work force. However, most graduates from the Mozambican education system do not necessarily possess the required skills. As the investment is capital intensive, relatively few jobs are being created. Mozambique has been implementing youth employment initiatives. This has been done through improved education and making it market oriented. New technical schools and distance education are being promoted.

Poverty reduction, social protection and labour

Strong economic growth based on capital-intensive foreign investment and poorly linked to the rest of the economy (especially the agricultural sector) has not been inclusive so far. Poverty, inequality and vulnerability remain stubbornly high. Some 55% of Mozambicans still live below the consumption poverty line of USD 0.6 a day. Yet 60% live on less than USD 1 a day and 82% on less than USD 2 a day. Inequality has doubled in six years and the top fifth income earners (largely in urban Maputo and its province) spend 14 times as much as the poorest fifth, according to national figures. The UNDP 2015 Human Development Index ranked Mozambique 180th out of 188 countries with rising disparities between regions. About 30% of Mozambicans are considered non-deprived in basic health, education and living standards and assets access, and a further 15% are close to falling into deprivation status. Vulnerability has increased as the



national currency fell heavily against the US dollar in 2015. As a net importing country, including food and fuel, Mozambicans are increasingly worried by inflation. There was social unrest and riots in the main urban areas in 2008 and 2010 triggered by a sharp increase in the price of bread and transportation. The government's five-year plan for 2015-19 with its focus on employment, production and competitiveness is raising expectations that living conditions will improve with better peace and security.

Social protection has also become a more central element in the policy debate. As the labour market in Mozambique offers limited opportunities and most households depend on subsistence farming and the informal economy, social protection can reduce inequality, contribute to poverty alleviation, economic growth and crisis recovery. The National Strategy for Basic Social Protection (ENSSB) 2015-2019 is set to guide interventions on basic social protection and the level of coverage and how it could be paid for. While remaining low by international standards, in 2015 the amount allocated to the social protection programme increased from 1.11% of the state budget and 0.5% of GDP in 2014 to respectively 1.54% and 0.58%. Social protection is expected to take about 1% of GDP by the end of 2019. Social protection programmes reached 535 000 households in 2015 (from 427 000 in 2014). The value of payments has also increased. Yet despite positive progress, the target figure for beneficiaries expected to be reached in 2015 represented only 17% of the households in poverty.

Gender equality

Mozambique's gender legal framework is rooted in the country's constitution, which grants equal rights to men and women. This has allowed the setting of a relatively sound legal environment, and policies which have in recent years resulted in advances in gender balance and women's empowerment. The new five year plan incorporates priority actions to combat discrimination, exclusion based on gender and promote gender equality in economic, social, political and cultural development. For example, the ratio of girls to boys in primary schools has risen to 0.91 in 2014, women make up 100 out of 250 parliament members, up from 96 in 2009. Four out of the 11 provincial governors were women in 2014, up from two in 2009. Notwithstanding these advances, challenges remain. Some 58% of women live in poverty compared to 54% of men and 64% of women are illiterate compared to 34% of men. Women's illiteracy is higher in rural areas where it reaches 40%. In the HIV-AIDS infection rate, it stands at 13.1% among women compared to 9.2% for men. One third of Mozambican girls and young women had been victims of physical violence after the age of 15.

Thematic analysis: Sustainable cities and structural transformation

Mozambique is a rural country, with just 31.9% of the population urbanised. Out of the almost 26 million population, 8.2 million live in urban areas. The urban population is growing by 3.3% per year, while the country's overall average is 2.5%.

It is projected that by 2040 around 40% of the population will live in cities. The first urbanisation surge came with the 1977-92 civil war. Around 4 million people were displaced for security reasons, inflating the urban population from 10% at independence in 1975 to 26% at the end of the conflict. The government's economic structural adjustment further assisted urbanisation, but also pushed many people back to rural areas. Urban services and industry jobs were lost but commodity investment grew, leading to rapid GDP growth. The current contribution by urban areas to the overall economy is uncertain, although with a large part of GDP coming from agriculture and natural resources projects, a rough estimate places urban areas direct contribution to GDP at around 40%, mostly on the back of the financial, public administration, retail and construction sectors. Rural areas do not produce sufficient food to feed the country. Rice, wheat, fruits and vegetables need to be imported on a large scale to supply main cities.



The search for jobs is a key driver of urbanisation, with more young people looking for employment beyond agriculture, along with access to public services which are mostly available in urban areas. In certain cases, security is still a factor. However two other factors are becoming more important and are poised to speed up the urban growth. Climate related events have led to increased drought and lower agricultural productivity. Unstructured rural settlements and poor quality housing increases vulnerability to flooding and hurricanes. Secondly, there is increasing land scarcity. Although the overall population density is low, available free land for agriculture is limited. Since people receive land mainly through birth rights and the number of people in the rural areas is still growing, the amount of available land is falling. The growth in large scale agriculture projects will compound the problem.

The government in general considers urbanisation a challenge. Development strategies still focus on rural development, where poverty is more prevalent. There is a slow recognition being given to the need to address urbanisation. The 2009-15 household survey indicated that urban households' expenditure rose significantly more than rural households. The increase in national per capita expenditure in real terms was 39.8%, split between 49.3% for urban households and 26.7% for rural households. Urban poverty and unemployment are more complex. There is more unemployment in urban areas where up to 50% of the population (men and women) are considered unemployed. However, there is far more diversity of employment in urban areas.

Informal settlements and urban transport are growing topics for debate. With the rapid densification of urban settlements, transport to and from work takes up to 40% of the income of the poorest people. Between 70% and 80% of people in urban areas are estimated to be in informal settlements. There are questions of access to basic facilities and land tenure security. In Mozambique land tenure is attained through long-term temporary surface rights, known as DUATS, but the access to these rights for individuals and real-estate promoters has proved complex, resulting in limited land tenure security. Not many households have proper land registration and development rights and municipalities authorities face difficulties issuing this. A clear and secure land tenure also allows local governments to collect fees and taxes that can be used to improve the city and provide public services such as waste collection. In addition, the DUAT system is of limited use for mortgage-type housing development. This puts off private developers from complementing public efforts to build infrastructure for sustainable housing developments.

Mozambique's main urban centres originated from pre-independence times, situated either along rivers or near the coast. The country has several ports that feed economic corridors which connect the hinterland and landlocked countries. Urban development is structured along these corridors. The Mozambique capital, Maputo (with about 1 million inhabitants), its suburb city of Matola (another 1 million inhabitants) and its surroundings, jointly form the Maputo metropolitan region (Greater Maputo) that has an estimated 3 million inhabitants. Aside the other two medium-size cities of Beira (centre) and Nampula (north) that between them account for roughly 1 million people, most other cities have between 30 000 and 200 000 inhabitants. Smaller cities in the economic corridors are growing rapidly since these are market towns profiting from rural-urban connections. When urbanisation increases, agriculture should improve and harvests have to increase to feed the urban population. The future of many Mozambican urban settlements, the level of vulnerability and possibilities for economic growth, should be determined from the beginning of their development. The centre of Maputo has a street network that allowed the city to economically grow. Even though the current high-rise developments were not foreseen in the original city designs, they would not have been possible without the high number of streets built.

The first two new significant urban developments will be Katembe and the Greater Nacala urban development. Katembe is now a sparsely populated territory across a river from Maputo and only accessible through a limited ferry link from the capital. The construction of a new bridge linking Maputo and Katembe is expected to trigger the rapid development of the whole southern



area that will profit from the first urban development plan since the country's independence in 1975. The Greater Nacala urban development will transform the existing Nacala city, including an airport-city and links related to the expansion of its seaport, the largest natural deep-water port in East Africa.

The Mozambique government's Five-Year Government Plan 2015-2019 has several priorities, strategic objectives and goals directly related to urbanisation and spatial planning. Priority II is to develop Human and Social Capital, with the strategic objectives of increasing access to water supply, sanitation, transport, communications and housing. Priority V is to ensure sustainable and transparent management of natural resources and the environment, with the objective of improving planning. Mozambique does not have a specific urbanisation strategy, although a housing policy and strategy from 2011 exists, focusing on the promotion of housing in rural areas and especially in urban areas facing rapid population growth. It also promotes the design of land use planning and urbanisation.

Besides the challenges posed, there are many opportunities to be exploited so Mozambique can yield dividends from its urbanisation, in particular for sustainable economic and social development. Countries that have similar levels of urbanisation in general have a higher GDP per capita, signalling a large scope to improve the urban contribution to development.