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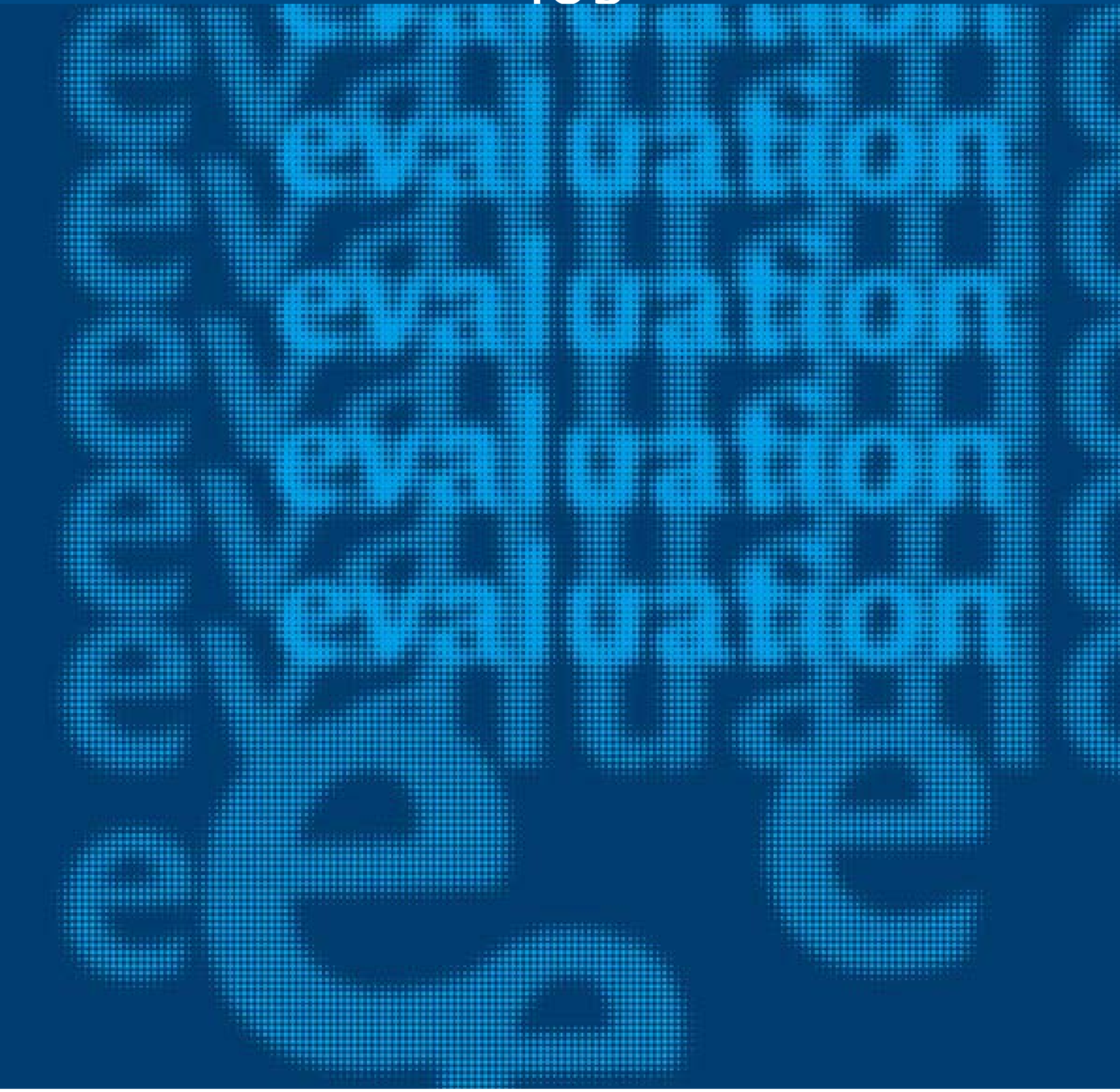

RESULTS OF INTERNATIONAL DEBT RELIEF IN MOZAMBIQUE

Geske Dijkstra (Erasmus University Rotterdam) with inputs from Kees Koonings (Utrecht University)

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POLICY AND OPERATIONS EVALUATION DEPARTMENT

RESULTS OF INTERNATIONAL DEBT RELIEF IN MOZAMBIQUE

CASE STUDY FOR THE IOB EVALUATION OF DUTCH DEBT RELIEF

GESKE DIJKSTRA (ERASMUS UNIVERSITY ROTTERDAM)
WITH INPUTS FROM KEES KOONINGS (UTRECHT UNIVERSITY)

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PREFACE

This report contains the findings of one of the eight country case studies and one of the three field studies that were undertaken for the evaluation of Dutch debt relief during the period 1990-1999, conducted by the Policy and Operations Evaluation Department (IOB) of the Netherlands' Ministry of Foreign Affairs. As the results of Dutch contributions to debt relief cannot be distinguished from the effects produced by contributions from other donors and creditors, the eight country studies analyse the results of the combined efforts of all actors.

The fieldwork was carried out between 18 and 30 November 2001 Dr. A.G. Dijkstra, who is responsible for the contents of this report, and by Dr. K Koonings. The study is published in the context of the IOB ‘Working Documents’ series, comprising consultant studies of interest to a wider public.

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ABBREVIATIONS

AfDB	African Development Bank
BCM	Commercial Bank of Mozambique, *Banco Comercial do Moçambique*
BCP	Portugal Commercial Bank, *Banco Comercial do Portugal*
BEMO	Appraisal Memorandum, *Beoordelings Memorandum*
BOP	Balance of Payments
DRF	Debt Relief Facility (of the Word Bank, for commercial debts)
ERP	Economic Rehabilitation Programme
ESAF	Enhanced Structural Adjustment Facility
FRELIMO	Front for the Liberation of Mozambique (*Frente pela Libertação de Moçambique)*
FDI	Foreign Direct Investment
G9	Group of Nine (donors)
GDP	Gross Domestic Product
GNP	Gross National Product
GDF	Global Development Finance (statistical database of the World Bank)
HAAC	High Authority Against Corruption
HIPC	Heavily Indebted Poor Countries
IDA	International Development Association (World Bank)
IFIs	International Financial Institutions
IMF	International Monetary Fund
I-PRSP	Interim Poverty Reduction Strategy Paper
LLDC	Least Developed Countries
MDF	Multilateral Debt Fund
MPF	Ministry of Planning and Finance, *Ministério do Plano e Finanças*
MTEF	Medium Term Expenditure Framework
NIO	Netherlands Investment Company for Developing Countries, *Nederlandse Investeringsmaatschappij voor Ontwikkelingslanden*
NLG	Netherlands Guilders
NPV	Net Present Value
OECD	Organisation for Economic Cooperation and Development
OPEC	Organisation of Petroleum Exporting Countries
PARPA	Action Programme for the Reduction of Absolute Poverty (=PRSP)
PPG	Public and Publicly Guaranteed (debt)
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Paper
RENAMO	National Reconstruction of Mozambique, *Reconstruccão Nacional do Moçambique*

SAF	Structural Adjustment Facility
SDR	Special Drawing Rights
SILIC	Severely Indebted Low Income Countries
SOE	State-Owned Enterprises
UNCTAD	United Nations Conference on Trade And Development
USD	United States Dollars
XGS	Exports of Goods and Services
WB	World Bank
WDI	World Development Indicators (Statistical database of the World Bank)

1 THE POLITICAL ECONOMY OF RUNNING INTO DEBT, 1975-1990

1.1 Introduction

Few developing countries experienced dramatic economic and political changes the way Mozambique did in a mere 15 years, between its political independence in 1975 and 1990. After years of armed struggle against the colonial power Portugal, the liberation movement Frelimo (*Frente pela Libertação de Moçambique)* gained control over a country that was ill prepared for development. Under Portuguese rule, the country had mainly served as an infrastructural facility, entrepot and labour reserve for its neighbours, the (former) British colonies Malawi, Rhodesia, and South Africa. After independence and the emigration of some 200,000 people, Mozambique embarked upon an experiment in collectivisation and central planning. At the same time, the country took on its international obligations as one of the so-called 'front line states', in confronting the apartheid regimes of Rhodesia and South Africa. This proved to be the start of a protracted armed conflict between Frelimo and the Rhodesia and South Africa-backed rebels of Renamo. The disastrous economic consequences of the conflict were added to the drawbacks of the strategy of central planning: during the first half of the 1980s production declined, and Mozambique ran into severe balance of payments problems.

In the early 1980s, the Frelimo government began to introduce market reforms. From 1984 onwards the country concluded structural adjustment agreements with the International Financial Institutions (IFIs). However, despite the non-aggression treaty signed with South Africa in 1984, South African support for the Renamo insurgents continued and the conflict inflicted sizeable human and material losses throughout the 1980s. Balance of payments deficits continued to be substantial; more importantly, the country started to accumulate large arrears on its debt service obligations. Aid flows, increasing after 1984, were not enough to compensate for these deficits.

By 1990, it was clear that the external debt of Mozambique was unsustainable. The debt service due/exports ratio stood at a staggering 5.2 while the debt stock was almost twice the country's GDP in that year.[1] In this chapter we take a closer look at the build-up of this debt between 1975 and 1990. First we present statistics on the development of the debt in relation to key economic indicators such as Gross Domestic Product (GDP), exports of goods and services (XGS), the current account of the balance of payments, and trends in debt servicing. We also look briefly at the changing composition of the debt stock in terms of creditors since this is relevant for issues such as servicing and renegotiating/rescheduling. In the subsequent section we examine the principal underlying factors that contributed to this debt build-up. These factors are economic but particularly political in nature. We look at (a) the adoption and changes of development strategy, (b) the civil war, (c) climatic factors and disasters, and (d) terms of trade and XGS-related factors.

1.2 Economic strategy: from central planning to structural adjustment

Mozambique inherited a disrupted economy and infrastructure from Portuguese colonial rule. The mainstays of the colonial economy were cash crop exports, transit-trade to Rhodesia and South Africa, and cash remittances by Mozambican labourers in these two countries. Frelimo came to power in 1975 with the ambition to organise a 'socialist' economy. The third party congress of Frelimo in 1977 established the guidelines for socialist planning: state control of investments and economic activities, collectivisation, and strict regulation of remaining private economic activities. To support this strategy, the 'Frelimo state' (Saul 1993) took out substantial loans (as indicated above), particularly

1 See table A.1 for all figures and sources

from socialist countries and (non-aligned) oil exporters such as Algeria. The Frelimo government preferred loans to grants as it wished to be responsible for its own strategy and to be independent from charity (Bossema, 1995).

Most analysts agree on the economic impact of this strategy (Abrahamsson & Nilsson 1995; Hall & Young 1997; Tarp & Lau 1998). Investment resources were centrally allocated to large-scale projects at the expense the development of peasant agriculture. Rural producers started to resent the heavy-handed planning of the Frelimo government. Lack of available consumer goods discouraged the increase of marketable surpluses from the agricultural sector. Centralism and statism uprooted the existing trade networks in the countryside without providing effective substitutes. The results were, during the early 1980s, stagnating production, falling exports and rising inflation. The escalating conflict (see below) substantially aggravated the negative impact of the socialist development strategy (Tarp & Lau 1998: 290-292).

From 1983 onwards Frelimo began to liberalise the economy, and in particular the peasant sector. It was recognised that attempts at collectivisation and strict price controls had not worked. Private investment was again encouraged (White, 1999). In 1984 Mozambique joined the IMF, but a full-fledged structural adjustment programme only came into effect in 1987. Until then new lending, an increasing volume of grants and food aid was used the cover the rapidly rising internal and external deficits. In 1987, the Frelimo government adopted an 'Economic Rehabilitation Programme' under the guidance of the World Bank and the IMF. The programme entailed a fairly conventional adjustment strategy including price deregulation, fiscal adjustments, devaluation and privatisation. Macro-economic performance (growth and exports) improved and the IFIs' programme-based lending continued to become available (Hope & Kayira 1997; Tarp & Lau 1998). The latter, however, also contributed to the further increase of foreign debt.

1.3 Political conflict and civil war

By far the single most significant factor contributing to economic adversity has been the civil war that ravaged Mozambique between the late 1970s and 1992. In March 1976 Mozambique adhered to the UN embargo of Rhodesia and South Africa. In 1978 South Africa cancelled the agreement to deposit 60 per cent of migrant workers' wages directly into the Bank of Mozambique. During those years, Rhodesia stepped up its support for raids by Renamo. After the independence of Zimbabwe in 1980, support for Renamo was taken over by South Africa. This support continued despite the non-aggression agreement signed by Mozambique and South Africa in 1984. In Mozambique, Renamo drew popular support in some areas, but it mostly relied on tactics of inflicting terror and destroying productive infrastructure and public facilities.

The protracted internal conflict led to huge losses in human life and inflicted large direct and indirect economic costs. Bruck's (1997) model study estimates a loss of 40 per cent of physical capital during 10 years of conflict prior to the peace settlement of 1992. Export agriculture in particular suffered considerable losses. Public infrastructure such as dams, water wells, schools and government buildings, was systematically destroyed. Tens of thousands of people were killed, millions were displaced or fled to neighbouring countries. Extensive areas were mined. Especially in the first half of the 1980s, economic production declined severely. In the second half of the decade, and thanks to growing inflows of grants and loans, some recovery took place. However, it is clear that recovery started in the services sector. Industrial production continued to decline, and agriculture behaved erratically (Table 1–1).

Table 1–1 Annual growth rates of GDP and per sector 1980-1990 (per cent)

	1981	*1982*	*1983*	*1984*	*1985*	*1986*	*1987*	*1988*	*1989*	*1990*
GDP	5	-7	-16	-7	1	-2	15	8	6	1
GDP per capita	2	-9	-18	-8	-1	-3	14	7	6	0
Industry					-17	5	-13	0	2	-9
Agriculture					-3	-3	28	5	4	1
Services					50	-4	5	13	5	6

Source: Source: World Bank, World Development Indicators, 2003.

The conflict led to increasing fiscal deficits, particularly through the growth of military spending. At the height of the conflict, military spending rose to 26-28 per cent of government expenditure and 17-19 per cent of GDP in 1985-1987 (Bruck 1997: 46). In addition, the conflict quite likely caused foreign investors to systematically avoid the country.

The conflict also affected the balance of payments. First, the adoption in 1976, of a position of confrontation against the apartheid regimes of Salisbury and Pretoria meant losing revenues traditionally drawn from transit trade and migratory labour. Second, the activities of the Renamo rebels led to an absolute drop in the volume of exports while import requirements remained at a relatively high level, particularly for food, oil and military equipment (Table 1–2).

Table 1–2 Current account of Mozambique 1980-1990 (USD million)

	1980	*1981*	*1982*	*1983*	*1984*	*1985*	*1986*	*1987*	*1988*	*1989*	*1990*
Exports of goods and services	399	395	337	222	157	143	142	176	188	200	229
Imports of goods and services	844	859	893	694	583	482	643	754	853	922	996
Trade balance	-445	-464	-556	-472	-427	-339	-501	-578	-665	-722	-766
Current account balance	-367	-407	-497	-415	-308	-301	-409	-389	-359	-460	-415

Source: World Bank, World Development Indicators, 2003.

In addition to the war and the changes in economic strategy. natural and climatic events affected external trade and financing needs. Floods struck the country in 1977, 1978, 1984 and 1985. Droughts affected large areas in 1980-1983 and 1986-1987. One of the results was a chronic deficit in the internal food supply "…forcing the country to rely on food import to feed its people" (IMF 2001: 18). On the other hand, Mozambique's terms of trade did not decline during the 1980s.[2] Therefore, the balance-of-payment deficits have been caused mainly by sharply dropping export volumes combined with continuously high import requirements, particularly between 1981 and 1987.

Part of the trade deficit during the 1980s was financed by increasing grants. The net inflow of foreign direct investment (FDI) was negligible (see Table 1–3). This implies that a large share of the current account deficits had to be financed by foreign loans, which led to large increases in the debt stock.

[2] The IMF (2000: 17) estimates a 40 per cent improvement between 1982 and 1986.

Table 1–3 Grants (excl. technical cooperation) and FDI (USD million)

	1981	*1982*	*1983*	*1984*	*1985*	*1986*	*1987*	*1988*	*1989*	*1990*
FDI, net inflows	0	2	3	-3	0	2	6	5	3	9
Grants	87	100	121	168	174	244	414	564	573	750

Source: GDF, 2002.

1.4 The debt build-up

Table 1–4 shows the dramatic increase of external debt incurred by Mozambique during the 1980s. In the World Bank Global Development Finance (GDF) database, based on a creditor-reporting system, the first figure for the debt refers to 1981 and values the total stock at USD 67.4 million. This figure is likely to severely underestimate the debt stock for not taking fully into account loans given by Eastern European and non-aligned states (Tarp & Lau 1998: 291; IMF, 2001).[3] Nine years later, in 1990, this figure had increased more than 60 times to USD 4,230.6 million. Debt as registered in GDF started to rise especially from 1984 onward – not surprisingly, given the increase in loans from IFIs and OECD countries from then on. Between 1984 and 1990, the debt/GNP ratio increased about fourfold, from 41 to 179 per cent. The debt/exports ratio reached the incredibly high level of 1411 per cent in 1990.

Table 1–4 Debt and debt indicators, 1981-1990 (USD million and per cent)

	1981	*1982*	*1983*	*1984*	*1985*	*1986*	*1987*	*1988*	*1989*	*1990*
Long-term debt outstanding	67	125	422	1354	2712	3205	3794	3789	3872	4231
Debt/GNP, in %	2	3	13	41	62	63	174	192	182	179
Debt/Exports, in %	15	31	142	634	1476	1669	1621	1460	1426	1411

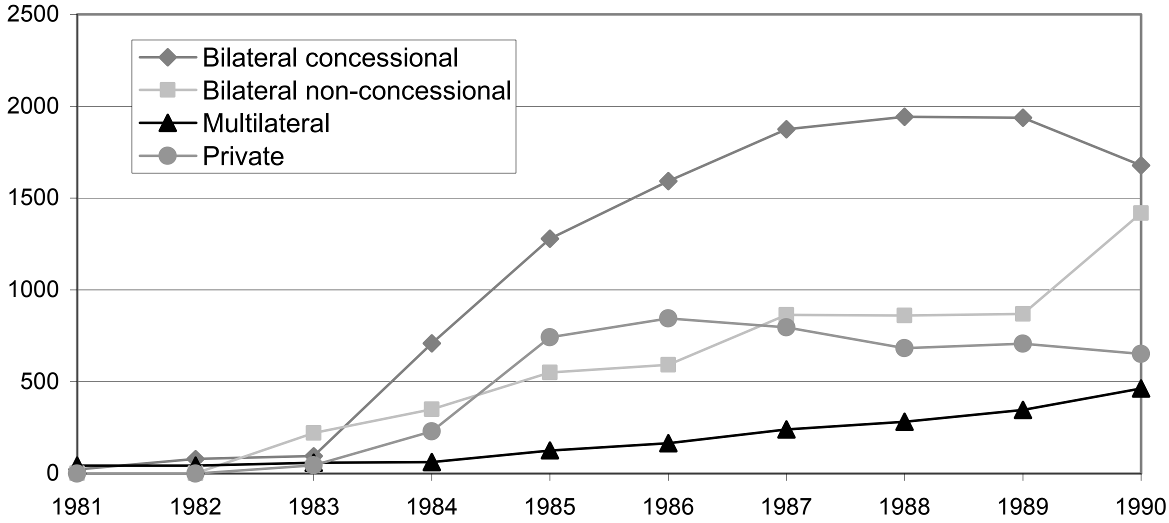
Source: GDF, 2002.

The rise in the debt stock after 1984 is also reflected in Figure 1–1, which shows that bilateral concessional debt increased most after 1984, along with bilateral non-concessional debt. Multilateral debts increased too, but remained at a much lower level. Surprisingly, Mozambique also continued to attract private loans in these years. It must be born in mind, however, that bilateral non-concessional debts were severely underestimated, as noted also above.

After independence, Mozambique was able to obtain credit particularly from Eastern European and non-aligned countries (such as Algeria). According to IMF figures based on balance of payments statistics 44 per cent of the debt stock in 1984 was owed to multilateral institutions and OECD countries, while 56 per cent was owed to ‘other’ creditors (IMF 2001: 31). Only a few per cent of borrowing came from commercial lenders (Abrahamsson & Nilsson 1995: 106).

[3] IMF (2001: 15) reports a first official estimate of gross public external debt in 1984 of aproximately USD 2,400 mln. According to that same study, Mozambique borrowed over USD 2 bln from mainly socialist and oil exporting countries between 1978 and 1982 (IMF 2001: 22).

Figure 1–1 Public debt by creditor, 1981-1990 (USD million)



Source:

1.4.1 Debt service and arrears

Next to new lending to cover balance of payment deficits and to pay part of debt service obligations, accumulation of arrears on principal and interest became increasingly significant in adding to the total debt stock, especially during the second half of the 1980s. Total arrears rose from USD 51.4 million in 1984 to USD 1058.7 million in 1989 and USD 932.1 million in 1990 (Table 1–5). In other words, it had become clear that servicing the fast-growing debt became increasingly difficult for Mozambique. While in 1982 three-quarters of the debt service due was still being paid, in 1990 this figure had fallen to a mere 4 per cent. In fact, paid debt service hovered between USD 30 million and USD 98 million during the 1980s (except for a low of USD 16.7 million in 1984). As a result, while the debt service due/exports ratio rose to an unsustainable 521 per cent during the decade, the actual inability to pay limited the debt service paid/exports ratio to around 20 per cent during the second half of the decade. In sum, at the start of the 1990s, the excessive size and the unsustainability of Mozambique's external debt had become quite obvious.

Table 1–5 Debt stock, arrears, debt service due and debt service paid, 1981-1990 (USD million)

	1981	*1982*	*1983*	*1984*	*1985*	*1986*	*1987*	*1988*	*1989*	*1990*
Debt outstanding	67	125	422	1354	2712	3205	3794	3789	3872	4231
Arrears	0	0	6	51	305	609	654	844	1059	932
Debt service due	1	1	13	68	362	707	701	905	1126	1563
Debt service paid	0	1	8	17	57	99	47	61	67	64
Paid/due, in %	60	75	59	25	16	14	7	7	6	4
Debt service due/exports	0	0	5	32	197	368	300	349	415	521
Debt service paid/exports	0	0	3	8	31	52	20	24	25	21

Source: Elaborations of GDF, 2002.

1.4.2 Debt rescheduling

During the 1980s, Mozambique moved from a socialist planning economy to the model and conditionalities espoused by the Bretton Wood institutions. Even before the country joined the IMF in September 1984, a first package of debt rescheduling under market terms was agreed with the member countries of the Paris Club (IMF 2001: 35-37). A second rescheduling agreement, also under market conditions, was reached in 1987, in conjunction with the country's Structural Adjustment Facility (SAF) with the IMF. These debt rescheduling operations had no effect on the total stock but only involved rescheduling of part of debt service due during certain years. Only in 1990 the first of a series of relief operations was agreed upon, which implied some forgiveness. We will deal with this in Chapter 2. However, a negative consequence of this early begin of Paris Club debt reschedulings is that the cutoff date was fixed at 1 February 1984, and has remained unchanged ever since. This means that Paris Club debt relief was only applicable to loans contracted before that date. Given that bilateral non-concessional and concessional debts continued to increase in the 1980s (and not only by arrears accumulation), this means that Mozambique owes a substantial amount of bilateral debt on which no relief is given.

1.5 Principal socio-economic consequences

The overall consequences of 15 years of conflict, shocks and economic turmoil have been considerable, as can be seen in Table 1–6 Basic social indicators (to the extent available) offer a dismal panorama. Illiteracy remained at very high levels; primary school enrolment declined. Child and infant mortality remained at very high levels, and life expectancy at birth remained very low.

Table 1–6 Social indicators between 1972 and 1990

	1972	*1975*	*1980*	*1985*	*1990*
Illiteracy rate, adult total, %	82	80	76	71	67
Life expectancy at birth	42	43	44	44	43
Infant mortality rate, per thousand	158	152	140	142	143
Child mortality rate, per thousand		254	230	233	235
Gross primary school enrolment, %			99	87	67
Net primary school enrolment, %			36	51	47

Source: World Development Indicators, 2003.

In sum, the period 1975-1990, and particularly the decade of the 1980s turned out to have been disastrous for Mozambique, not just with respect to the build-up of an unsustainable external debt and the directly underlying balance of payment factors, but in terms of human suffering and economic losses inflicted by the protracted political conflict. The war only ended when, after the fall of the Berlin wall and the start of the De Klerk government in South Africa, both parties lost their sources of income (Bossema, 1995). In 1992 a peace treaty was signed and its implementation was ensured by a UN peacekeeping force until the first democratic elections were held in 1994. Renamo then entered the political arena as a democratic opposition party (Alden & Simpson 1993). The Frelimo government continued its adherence to the adjustment strategy espoused by the Bank and the Fund. In this context, other (bilateral) donors increased their presence in Mozambique and debt relief became one of the instruments employed by the donor community. This culminated in the incorporation of Mozambique in the HIPC and enhanced HIPC initiatives toward the end of the 1990s. The following chapters will assess the nature and impact of debt relief in detail.

2 INPUTS: DEBT RELIEF 1990-99

2.1 Introduction

The aim of this chapter is to document the amounts of debt relief received by Mozambique, and to describe its objectives as well as the conditions that were attached to it, with special attention to Dutch debt relief, objectives and conditions. In addition, the chapter will analyse the extent to which debt relief received over the 1990s has been additional to other aid flows.

Table 2–1 Balance of payments of Mozambique, 1990-2000 (USD million)

	1990	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*
Trade balance	-751	-737	-716	-823	-869	-553	-557	-530	-573	-916	-793
Exports	126	162	139	132	150	174	226	230	245	284	364
Imports	-878	-899	-855	-955	-1019	-727	-783	-760	-817	-1200	-1157
Services (net)	-113	-110	-133	-127	-163	-124	-90	-81	-176	-236	-214
Receipts	173	203	223	240	246	292	314	342	333	356	405
Expenditures	-286	-312	-355	-367	-409	-416	-404	-423	-509	-592	-619
Interest	-142	-136	-171	-170	-168	-144	-148	-147	-163	-198	-205
public debt						-144	-144	-140	-150	-162	-161
private debt						0	-4	-7	-13	-36	-44
Net services excl. interest	30	26	38	44	5	20	58	67	-13	-38	-9
Private transfers	98	108	110	125	138						
Current account excl. grants	-766	-738	-738	-825	-894	-677	-647	-611	-749	-1152	-1007
Unrequited official transfers	448	502	499	503	565	339	225	313	313	434	564
Current account incl. grants	-318	-237	-239	-321	-330	-338	-422	-298	-436	-718	-443
Capital account	-84	-188	-155	-107	-22	64	248	181	263	613	279
Foreign borrowing	251	144	170	186	260	282	347	316	300	472	484
Public						235	271	226	218	112	162
Private						48	76	90	81	360	322
Amortisation	-344	-354	-350	-325	-317	-264	-172	-201	-249	-240	-344
Public						-264	-172	-180	-211	-201	-307
Private						0	0	-21	-38	-40	-38
Direct investment (net)	9	23	25	32	35	45	73	64	213	382	139
Short term capital and errors and omissions	3	-34	-12	-8	10	10	133	19	-31	-86	-187
Commercial banks						-29	13	34	15	-20	-209
Overall balance	-398	-458	-407	-436	-341	-264	-41	-98	-204	-243	-351
Financing:											
Net change in reserves	-6	-13	-40	46	-52	-31	-173	-148	-77	-51	-98
Use of IMF credit (net)	12	42	63	15	11	-14	-14	20	10	-3	31
Net change in Arrears	51	86	-222	178	161	174	-49	-3932	20	-762	0
Debt relief	353	385	669	212	232	121	262	4178	261	1055	449

Sources: IMF(1993, 1996 and 2001a and 2001b).

During the 1990s, Mozambique continued reforming its formerly socialist economy. However, it did so in a difficult environment. First, until the middle of the decade the military situation was still highly unstable. It was only in December, 1992 that a peace agreement between Frelimo and Renamo was finally reached. After that, a tense period followed during which the two armies had to be demobilised and more than one million refugees returned. Between 1993 and the elections in December 1994, the UN practically formed a shadow government, being responsible for the demobilisation process and also, via UNHCR, playing a role in the return of the refugees. The leader of the UN mission, Mr Ajello, became a kind of shadow president (Bossema, 1995). In December, Frelimo won the elections and its leader Joaquim Chissano became President. Renamo leaders took seats in Parliament. From then on, recovery could really start as the country at last experienced peace.

Second, due to the war situation and its severe poverty, Mozambique's external dependence was extreme. In the early 1990s, goods exports covered only about one-sixth of goods imports, while interest and amortisation *due* together constituted about four times the amount of goods exports (Table 2–1). This extreme external dependence implied that foreign aid was very important to the country, be it in the form of grants, loans or debt relief. It is against this background that we describe the amounts of debt relief received, its conditions and the extent of additionality.

2.2 The amounts of debt relief

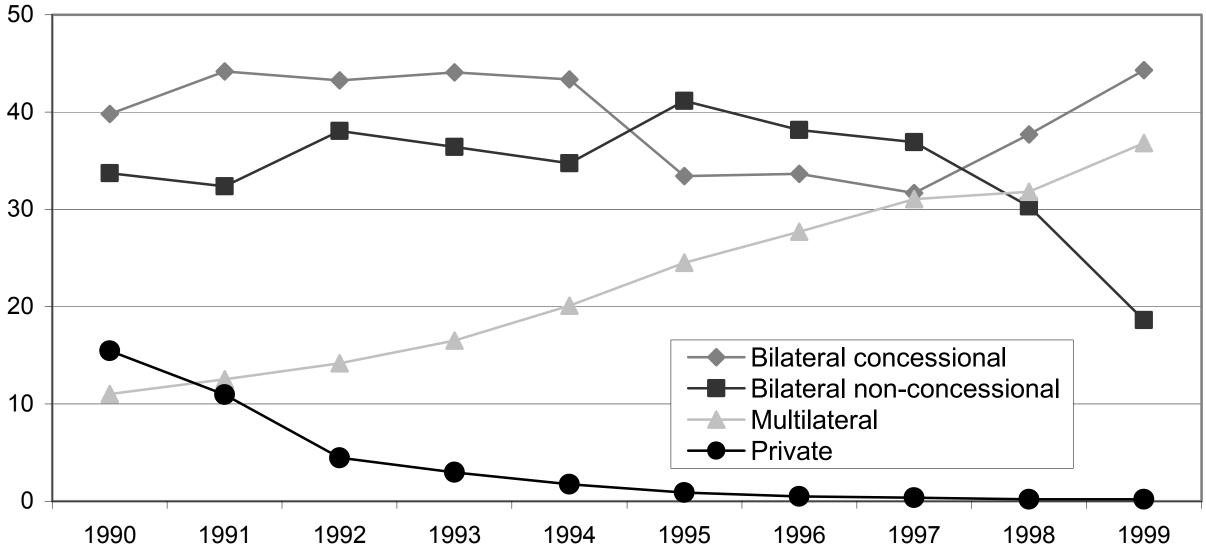
2.2.1 Overview

In 1990, most of Mozambique's debt was bilateral, and almost half of this bilateral debt was non-concessional (Figure 2–1). The Paris Club formed the largest group of bilateral creditors with about 80% of total bilateral debt, but the formerly socialist countries (notably the former Soviet Union)[4] were a good second. Mozambique also owed about half a billion dollars to OPEC countries, and about USD 250 million to other countries, notably Brazil. The biggest Paris Club creditors were Italy, Japan and Portugal (IMF, 1992). The shares of multilateral debt and private debt were at about 10 per cent at the beginning of the evaluation period. However, the share of multilateral debt began to grow quickly (within a slowly increasing overall public debt stock), while the share of commercial debt (debt to private creditors) showed an opposite trend (Figure 2–1). In 1999 the multilateral share rose even further, mainly due to a substantial reduction in the stock of bilateral non-concessional debt, which also reduced the overall debt stock (see below).

Debt relief can take several forms. A first distinction is that between relief on the creditors' own claims and that on debt owed to other creditors. In Mozambique, most debt relief of the 1990s has originated from bilateral creditors, and they have not only provided relief on their own claims but also on debts owed to multilateral and commercial creditors. Second, relief can be given on debt service *flows* that were due in the past (arrears) or will fall due, or on debt *stocks*. Third, flow relief may take the form of rescheduling or of outright forgiveness. Rescheduling does not decrease the net present value (NPV) of the debt stock. However, it often increases the face value of the debt since interest over the period of the postponement is added to the stock (capitalised).

[4] Debt to formerly socialist countries also included an amount of USD 358 million (end 1992) to former East Germany, which was in 1992 reclassified as debt to Germany, so was from then under the remit of the Paris Club (IMF, 1993: 71).

Figure 2–1 Share in public (PPG) debt by type of creditor and type of debt,1990-1999 (per cent)[1]



[1] According to GDF figures, multilateral debt outstanding fell from USD 1900 million in 1998 to USD 1079 million in 1999, while net flows were USD 108 million. The 1999 figure for the multilateral debt outstanding was also widely out of line with IMF figures. For this reason, the figure for multilateral debt and for total public debt has been adjusted upwards by USD 1000 million. Shares have been cmputed accordingly.
Source: GDF, 2002.

Data on actual amounts of relief are available from different sources, but unfortunately, these are not always compatible and each source has its strengths and limitations. The Global Development Finance (GDF) database of the World Bank registers debt relief on the basis of the creditor reporting system. Debt relief figures therefore do not include relief provided on another creditor's debts. These are included in grants in the GDF, but cannot be separated from other aid flows. Secondly, flow relief on flows due in the past, so on arrears, is presented as a reduction of the debt stock. Thirdly, Paris Club relief is registered in the year in which it is agreed, not in the year that the rescheduled debt service was due. Table 4–1 gives an overview. It shows that there has been extensive although fluctuating annual debt rescheduling. Debt forgiveness has been even more volatile over the period, with large amounts in 1990 and in 1999.

However, the 1990 figure appears to be very high, and especially the "debt stock reduction" figure – the figures for principal and interest forgiven can be the result of a Paris Club agreement in that year. The large "debt stock reduction" is not reflected in a corresponding reduction in the outstanding debt, nor is there any indication that the stock reduction has been compensated by new inflows. The high figure can only be explained by assuming that debts to non-Paris Club creditors (former Soviet Union, for example) have been recalculated and adjusted upward before they were partly forgiven.

In the following, debt relief provided to Mozambique over the 1990s will be analysed in more detail, using other sources as well. This begins with relief provided on commercial (private) debt, then on bilateral debt, and finally on the multilateral debt.

Table 2–2 Amounts of debt relief received according to GDF, 1990-1999 (USD million)

	1990	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*	*Total*
Interest rescheduled	118	48	84	58	62	57	105	64	84	83	765
Principal rescheduled	225	94	283	76	73	162	81	50	142	387	1573
Debt stock rescheduled	0	0	8	0	0	0	0	0	1	0	10
Total rescheduling	**343**	**141**	**376**	**134**	**136**	**219**	**186**	**114**	**227**	**471**	**2348**
Interest forgiven	14	72	4	6	7	12	67	8	0	1	190
Principal forgiven	210	58	19	27	57	311	64	215	20	15	996
Debt stock reduction	950	118	0	3	0	0	0	0	0	681	1752
of which: debt buyback	0	12	0	0	0	0	0	0	0	325	337
Total forgiveness	**1174**	**237**	**24**	**36**	**63**	**323**	**131**	**223**	**20**	**371**	**2601**
Total debt relief	**1517**	**378**	**399**	**170**	**199**	**542**	**317**	**337**	**248**	**843**	**4949**

Source: Elaboration of data from GDF, 2001.

2.2.2 Private debt

In December 1991 Mozambique reached an agreement on a debt buyback with commercial creditors. Twenty-four banks and financial institutions were involved, mostly in France and in the UK. The operation eliminated USD 203 million of the debt stock, of which USD 119 million were outstanding interest arrears. This amount of USD 203 million constituted 64% of Mozambique's commercial debt. The buyback was fully financed by grants: from the World Bank (the Debt Reduction Facility) and from bilateral donors: France, Sweden, the Netherlands and Switzerland (Diogo, 1999). Given that it was financed by grants, it is not registered as "buyback" in Table 2–2.

Most of the remaining private debt was with Brazilian banks. In mid-1992, there was a rescheduling arrangement with Brazil, including both official and commercial debt. This agreement cancelled over USD 470 million of arrears. As a result, most commercial arrears were eliminated (see Figure 2–1), and most of the small amount of remaining commercial debt became guaranteed by creditor governments, so that it was subsequently treated in the Paris Club (IMF, 1993).

2.2.3 Bilateral debt

Given the large share of bilateral debt, in particular to OECD countries, in Mozambique's total debt, the Paris Club has been very important for decisions on debt relief. Since 1984 there have been many Paris Club agreements (Table 2–3). The first two agreements only *rescheduled* debt service due on pre-cutoff date bilateral debts while capitalising interest. As mentioned in Chapter 1, Mozambique's cutoff date was set at 1 February 1984 and it has remained at that date for all later Paris Club agreements.

During the 1990s, Mozambique has been granted rescheduling or cancellation of 100% of the debt service for specific years (each agreement covered two or three years) on the pre-cutoff date debt. Over the evaluation period, the share of cancellation in the treated flows has increased from 33% to 90%, and the grace period for rescheduled debt service has been extended. Paris Club agreements hold for both Official Development Assistance (ODA) loans, and for so-called non-ODA loans (export credits or commercial loans). These "commercial loans" are, however, guaranteed by the government in the creditor countries and therefore form part of the debt dealt with in the Paris Club. As Figure 2–1 shows, the stock of non-ODA loans (non-concessional debt) was about equal to the stock of ODA loans.

The 1990 Paris Club agreement dealt with USD 707 million, including all arrears built up in 1989 in the expectation of a new Paris Club agreement and all debt service due over the years 1990-1992 (on pre-cutoff date debt). Relief on debt service due in 1992 would only be given if Mozambique would have a second annual ESAF arrangement with the IMF. Toronto terms were applied, which means that about one-third of the flows was cancelled. This forgiveness could about by an upfront cancellation of one-third of the debt service flow (option-c), by lowering the interest rate so much that the NPV of the eligible debt service was reduced by one-third (option-a), or by rescheduling the debt service over a very long period. This latter option-b did not involve any forgiveness, but since the rescheduling was over a very long period, it was considered broadly comparable to cancellation.

Table 2–3 Paris Club agreements

Paris Club agreements	Paris Club Terms	Amounts rescheduled /cancelled (USD million)	Payment schedule agreed
I, 1984	Classic (flow)	142	
II, 1987	Ad hoc (flow)	612	
III, 1990-92	Toronto: 33% forgiveness (flow)	707	payment non-ODA and ODA from 1997 onwards
IV, 1993	London: 50% forgiveness (flow)	440	payment non-ODA from 1999, ODA from 2005
V, 1996	Naples : 67% forgiveness (flow)	663	payment non-ODA from 2002, ODA from 2012
V, amendment 1997	Lyon: 80% forgiveness (flow)		
VI, 1999	Lyon (stock)	1,860	payment non-ODA from 2005, ODA from 2015
VII, 2000	Lyon	71	
VIII, 2001	Cologne (stock)	2,235 (face value) or 1,650 (NPV)	

Sources: Website Paris Club (www.clubdeparis.org) and IMF (2001a).

In all agreements, the Paris Club urges the country to negotiate similar conditions with other bilateral creditors and with commercial creditors. In 1990, Mozambique was successful in this effort. The country sometimes agreed better terms with non-Paris Club creditors (IMF, 1991). Total debt relief including consolidation of arrears was estimated at USD 1038 million for 1990 (IMF, 1990).[5]

Paris Club agreements usually leave open the possibility for debt swaps. In 1991, Portugal and the UK carried out debt-equity conversions with Mozambique, for amounts of USD 6.8 and 5 million respectively. The total amount (rounded to USD 12 million) of the debt-equity conversions in 1991 can be found in Table 2–2 under debt buyback. The former vice-minister and current minister of Planning and Finance writes that Mozambique would have liked more of these debt equity swaps, but that the possibilities were limited due to fiscal and monetary restrictions (Diogo, 1999).

[5] This figure is almost as high as the GDFfigure for total forgiveness in 1990. This confirms the possible explanation that debts to non-Paris Club creditors were first adjusted upward before they were partly forgiven.

The 1993 Paris Club agreement applied London terms, implying 50% forgiveness on debt service due in 1993. If a new IMF annual arrangement would come forward, then the 1994 maturities would also be included. However, the cancellation did not apply to the obligations on ODA loans, nor to those following from the 1990 agreement. In addition, there were still some creditors who chose the non-concessional option-b of only rescheduling (IMF, 1993: 32). Later, the consolidation period under this agreement was extended to June 1995, so that a total of USD 492 million was rescheduled (IMF, 1996: 27). From the 1993 agreement onwards, Mozambique no longer succeeded in negotiating similar terms with non-Paris Club creditors.

The 1996 Paris Club agreement applied Naples terms. It rescheduled and cancelled debt service due until June 1999. In this agreement, the non-concessional option was dropped (IMF, 2001a: 38). By this time, however, many donors recognised that providing relief on bilateral debts was not enough. Increasingly, the multilateral debt and debt service was considered an important part of the problem. The donor community launched the initiative for the Heavily Indebted Poor Countries (HIPC initiative), which aimed at reducing the multilateral debt burden. Mozambique was expected to reach the HIPC decision point in 1997. At that moment, the country would be eligible for Lyon terms (80% flow forgiveness). After a long discussion, the Paris Club agreed that the 1996 arrangement could be re-opened to allow for application of Lyon terms later on. This indeed happened in 1997 (Table 2–3), although Mozambique had by then not reached the decision point officially.

There were two difficult issues that had to be resolved before Mozambique could be admitted to the HIPC initiative. One of these was the debt owed to the Russian Federation. Russia was the largest bilateral creditor, and it was necessary for Mozambique to reach an agreement on the exact value of the debt to Russia and on how it would be rescheduled. Terms would have to be similar those the terms agreed with the Paris Club. In November 1996, the two countries were still far apart on the quantity of the outstanding debt. In June 1997, Russia became a member of the Paris Club and shortly thereafter the two countries reached an agreement. The total debt to Russia was then valued at USD 509 million, after an up-front discount of 80% (IMF, 1998).

The other issue that had to be resolved was one of burden-sharing between multilateral and bilateral creditors. The HIPC initiative was meant to reduce the NPV of debt-to-export ratio to 200-220 per cent. At the completion point, bilateral creditors would apply a debt stock reduction of 80%. Multilateral creditors would provide a similar relief in NPV terms. However, the Mozambican debt stock was so large relative to the (tiny) exports, that a 80 per cent debt stock reduction would not be sufficient to bring the debt-to-export ratio down to 200% by mid-1999, the likely date of the completion point. There was a gap of USD 270 million in NPV terms. Since creditors could not agree on who would pay for this additional debt relief, Mozambique's decision point, originally foreseen for 1997, was delayed. In a January 1998 meeting, Paris Club members finally agreed to grant an additional USD 170 million in exceptional relief, provided that IMF and World Bank would deliver the other USD 100 million, since this would correspond to the respective shares in Mozambique's debt. Several months later, a solution was found and the multilaterals indeed contributed the USD 100 million, partly by transferring the repayments to an earlier Trustfund founded by bilateral donors, to a new HIPC Trustfund. In April 1998, Mozambique reached the decision point.

2.2.4 Multilateral debt

When the HIPC initiative was launched in 1996, Mozambique was one of the countries that hoped to qualify for the Decision Point in 1997. Under the HIPC initiative, multilateral creditors would begin to contribute to debt forgiveness to these countries. Formally, the country would have to wait another three years in order to qualify for the Completion Point, at which time full debt relief would become available.[6] However, in 1996, several bilateral donors wished to take immediate action to relieve the multilateral debt burden. They began to contribute to a Multilateral Debt Fund (MDF). This was an account in the Bank of Mozambique from which debt service payments to multilateral institutions were made. The Netherlands was one of the first contributors to this fund and also the most consistent one, but other bilaterals also contributed (Table 2–4).

Table 2–4 Bilateral contributions to the MDF (USD million)

	1996	*1997*	*1998*	*Total 1996-98*
Denmark	9.8			9.8
Netherlands	10.8	5.4	10.8	27.0
Norway		20.3		20.3
Sweden		18.5		18.5
Ireland		5.0		5.0
UK			33.7	33.7
Total	20.6	49.2	44.5	114.3

Source: Figures provided by Ministry of Planning and Finance.

Mozambique reached the HIPC Decision Point in April 1998. The Completion Point was then fixed for June 1999. In 1999, Mozambique began to receive debt relief (USD 51 million) from the International Financial Institutions (IFIs). In the meantime, the donor community had approved the *enhanced* HIPC initiative (HIPC 2), which would bring the NPV of debt-to-export ratio down to 150%. Another debt sustainability analysis was carried out. Mozambique became eligible for HIPC-2 in March 2000, and reached the completion point in September 2001. Total debt service relief provided under HIPC-1 and HIPC-2 by both multilateral and bilateral creditors will amount to USD 4.3 billion. This is expected to reduce the external debt stock by nearly three-quarters (IMF, 2001c).

2.2.5 Total debt relief

Many of these debt relief developments are visible in the balance of payments figures (Table 2–1). The amounts for debt relief are again presented in Table 2–5, according to the categories as presented in the balance of payments. Under “traditional mechanisms”, the amounts rescheduled and forgiven under Paris Club agreements are recorded, as well as agreements with other bilateral creditors. For the years 1999 and 2000, the IMF balance of payments figures include HIPC relief (given by the IFIs), as well as the deferral of debt service granted by Paris Club creditors in view of the floods in 1999 and 2000.[7]

Better than the GDF figures, these figures show annual debt relief for the year in which it becomes effective. On the other hand, since balance of payments data show flows, these data cannot present forgiveness on debt stocks – except in the case of clearance of past arrears. This means that the 1991 debt buyback of USD 203 million is not included in these figures. Like the GDF data, BOP figures cannot show debt relief on other creditors’

[6] The period between Decision Point and Completion Point was shortened later on.

[7] This deferral amounted to USD 21 and 37 million in 1999 and 2000, and implied a postponement of maturities due without capitalization of interest. In October 1991, after Mozambique had reached the Completion Point for HIPC-2, it was agreed that Mozambique pays these amount after 6 years without additional interest charges (interview at Central Bank). HIPC-1 relief was USD 104 million in 2000, while HIPC-2 relief amounted to USD 10 million in that year (IMF, 2001).

debt. For this reason, Table 2–5 adds the amounts given to the MDF as presented in Table 2–4.

Table 2–5 Debt relief according to IMF balance of payments figures

	1990	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*	*Total*
Traditional mechanisms	353	385	669	212	232	121	262	4,178	261	972	7,293
HIPC 1										51	51
Flood deferral from Paris Club										21	21
MDF							21	49	45		114
Total	353	385	669	212	232	121	283	4,227	306	1,044	7,479

Sources: lines 1-4: see Table 2–1 and (IMF, 2001b) for the break down.
For MDF: Ministry of Planning and Finance

The large amount for debt relief under traditional mechanisms in 1997 was due to a number of specific factors. First, as noted above, Mozambique finally succeeded in reconciling the debt to the Russian Federation. It was reduced by 80% to USD 509 million, implying USD 2,036 relief. Another large amount (about 1.7 billion) was involved in a rescheduling of private (non-PPG) debt resulting from the Cahora Bassa hydropower project built in the early 1970s (IMF, 1997). A third large component in the 1997 debt relief resulted from rescheduling of debt to the Bank of Brazil (IMF, 2001a). The high figure for "traditional mechanisms" in 1999 is due to a 80% stock reduction by the Paris Club after Mozambique had reached the Completion Point for the first HIPC initiative, accompanied by a partial restructuring of remaining debt service flow.

In figures for debt stocks and arrears, both GDF and IMF, the values for the Russian debt stock had always been presented at much lower levels. This partly explains why the total debt relief in Table 2–5 (USD 7.5 billion) is much higher than total debt relief of Table 2–2 (USD 4.9 billion). If we subtract the USD 2 billion of the upfront reduction in the Russian debt from the total of Table 2–5, the figures come close.[8] Balance of payments figures on debt relief do not distinguish between rescheduling and forgiveness, however. According to the GDF figures, debt forgiveness amounted to just over half of the total relief (53%).

2.3 Objectives and conditions for debt relief

Given the large debt of Mozambique and the huge debt service due, providing debt relief was almost a necessity from the viewpoint of the creditors: in the absence of relief, Mozambique would not be able to pay its debt service. This held for bilateral creditors, in particular. The share of private debt was small and these debts were not being repaid, while multilateral debt service was always paid because of the preferred creditor status of the IFIs. As a result, bilateral creditors, with almost 80% of total public debt in 1990, had the most interest in an orderly solution of the debt problem. In the files on the Paris Club agreements, no specific objectives for this relief could be found.

The Paris Club did impose conditions, however. The most important of these was that there be an agreement with the IMF (IMF, 2001a: 37-40). Table 2–6 shows the close relationship between IMF and Paris Club agreements. In addition, Mozambique had to pay debt service on the non-consolidated debt. This included post-cutoff date debt, i.e. loans from after 1 February 1984, and debt service that fell due between two Paris Club

[8] As explained earlier in this chapter, the GDF debt relief figures also exclude the debt relief given by bilaterals on multilateral debt service (the MDF), but this is a relatively small amount (USD 0.1 billion) and cannot explain the difference between Tables 2–2 and 2–5.

agreements. For example, Mozambique had to pay maturities due between January 1995 and November 1996 in order to qualify for the 1996 agreement. The 1996 agreement stipulated that all arrears had to be paid before March 31, 1997 (IMF, 2001a: 38/39). A third condition was that Mozambique would seek comparable treatment from all other external creditors, notably other bilateral creditors. In 2001, and in the context of the HIPC initiative, the Paris Club agreements also included a condition on the spending of the resources freed by debt relief: these would have to be devoted to “priority areas identified in the country’s poverty reduction strategy” (Paris Club, 2001).

Table 2–6 IMF and Paris Club agreements

IMF agreements	Paris Club agreements	Consolidation period	Paris Club conditions
(September 1984: membership)	I, 1984	July 1984-July 1985, later extended to July1986	Comparable treatment of other creditors, implementation economic program, 1st tranche IMF
June 1987-89 SAF	II, 1987	June 1987-January 1989	Paying arrears on non-eligible debt, on track with SAF
June 1990-93 ESAF	III, 1990-92,	July 1990-January 1993	On track with ESAF, paying non-eligible debt
December 1992 third annual arrangement Annual arrangements in 1994, 1995	IV, 1993	January 1993-January 1995	IMF agreement in place
June 1996-99 ESAF	V, 1996	November 1996-July 1999	ESAF; Payment of non-eligible arrears
	amendment 1997	July 1997-July 1999	
1999-2003 PRGF	VI, 1999	Stock	
	VII, 2000		
	VIII, 2001	Stock	

Sources: IMF documents, Website Paris Club (www.clubdeparis.org) and (IMF, 2001a).

The Multilateral Debt Fund did not imply any conditions for public spending or public financial management. In 1996 and 1997, the government proposed to spend the released resources on health and education, but these proposals were never carried out. Unlike MDF’s in other countries (Tanzania, Bolivia), the Mozambican Fund remained just an account to which bilateral donor contributions for financing multilateral debt obligations were transferred.

The condition for reaching the Decision Point under the original HIPC initiative was that the country had to comply with IMF and World Bank programmes for three years. Another three years of compliance was needed for reaching the Completion Point. For the Enhanced HIPC initiative, the conditions also included compliance with IMF and World Bank programmes, but in addition to that the country had to write a Poverty Reduction Strategy Paper (PRSP) with participation of the population. Reaching of the Completion Point was no longer dependent on another three years of compliance, but on the compliance with some specific structural reforms, on the satisfactory execution of the PRSP and on being “on-track” with an IMF arrangement. In this sense, the Completion Point was “floating”.

In 1999, a group of donors that had also contributed to the MDF began to talk about a mechanism for the joint granting of budget support. Originally, four donors began to work together, but soon the initiative was joined by four other bilateral donors and the European Commission. In 2000, these nine donors, known as the G9,[9] agreed on the *Joint Donor Programme for Macro Financial Support to the Government of Mozambique*. The aim of this programme is to support the government's efforts for poverty reduction through resources directly channelled to the state budget. In the jointly agreed *Memorandum of Understanding* the donors commit themselves to annual budget contributions in March/April so that the government can count on it. The budget support should contribute to continued high economic growth and to increased resource allocations to priority sectors for poverty reduction. Progress on these objectives will be reviewed jointly with the government every year. This includes the review of progress on the execution of the PRSP, the PRGF, the Medium Term Expenditure Framework (MTEF) and other state plans, but may also include jointly commissioned studies on sectoral or cross-cutting issues. The donors require quarterly reports on use of the funds and on the execution of the budget in general. These reports should show total revenue and total expenditure as compared to budgeted revenue and expenditure, net external lending, and a decomposition of revenue and expenditure according to current Codes on budget classification.

Individual donors may add particular conditions to the joint Memorandum of Understanding, and most donors do so. They wish to reserve the right to withdraw the money even if other donors continue disbursing. The Netherlands, for example, has added that the Dutch minister may stop disbursing if the country is not implementing PRGF-related conditions for sound economic policies or falls behind the agreed planning in undertaking economic reforms, leaving the assessment of compliance with these conditions to the IMF.

2.4 The additionality of debt relief

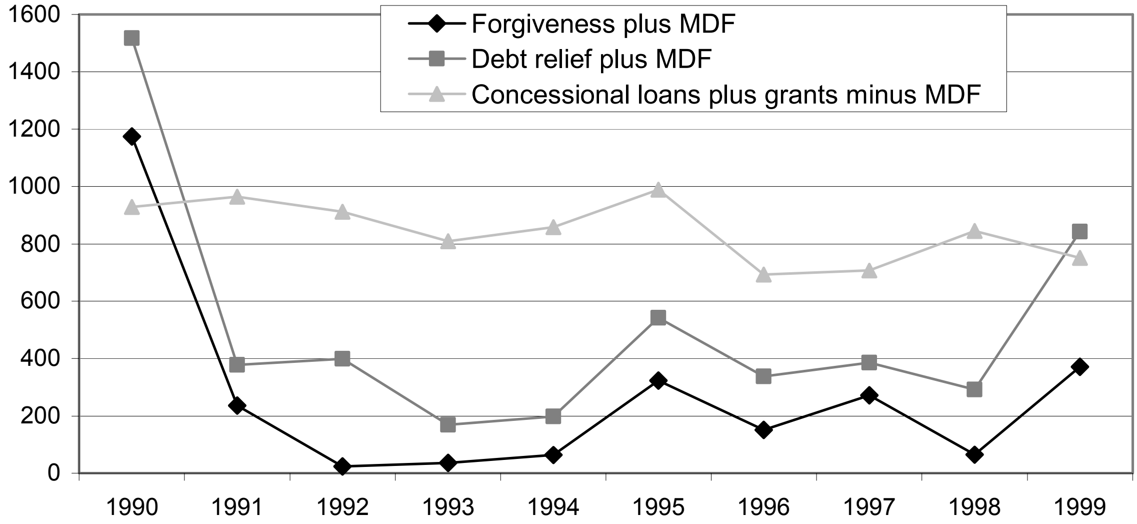
Whether debt relief has a flow effect depends on whether it is additional other aid flows, and whether the debt would have been serviced in the absence of relief. We now examine the first of these issues, leaving the second to Chapter 3. The additionality is here examined from the perspective of Mozambique. At the most general level, the question is whether debt relief has substituted for aid flows or has been additional to them. We first investigate this issue by comparing the amounts of debt relief with the amounts of total aid received by Mozambique. If the two flows have a positive correlation, we can assume that debt relief has been additional; if the correlation is negative, we assume that the two flows substituted for each other.

In order to examine the additionality issue at this most general level, we use two sources: the GDF database and the IMF, BOP data. Table 2–2 above shows the totals for debt forgiveness and for total debt relief, including rescheduling. We now add to these totals the amounts provided to the Multilateral Debt Fund, since the GDF registers those under grants and not under debt relief. For aid, we use the sum of the following GDF series: grants excluding technical cooperation, bilateral concessional loan disbursements, and multilateral concessional loan disbursements. Since we added the MDF amounts to the debt relief figures, we must now subtract them from the aid grants figures. Figure 2–2 shows that the aid flow is relatively stable over the 1990s but becomes lower after 1995. But in 1996 debt relief was also low. In most years, the aid flow moves more or less together with the two debt relief trends. The exception is 1998, when somewhat lower debt relief and forgiveness coincided with relative aid peaks. In 1999, debt relief increased

[9] Belgium, Denmark, the European Commission, Ireland, the Netherlands, Norway, Sweden, Switzerland and the United Kingdom.

while aid was slightly lower than the year before. If this trend continues, it augurs badly for the (flow) effect of the HIPC initiative.[10]

Figure 2–2 Additionality of debt relief, 1990-1999 (USD million)



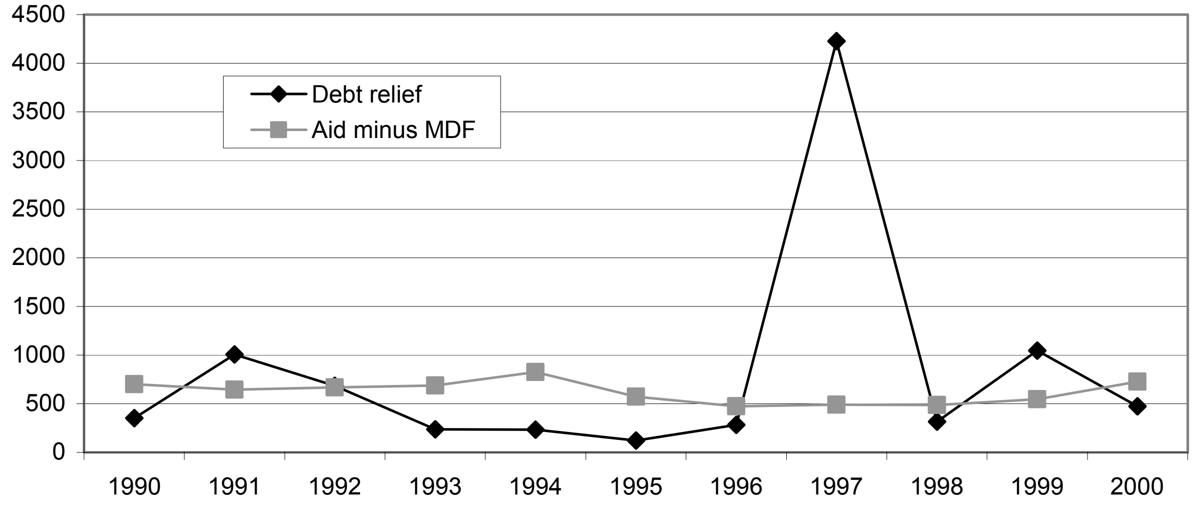
Source: Elaboration of data from GDF, 2001.

As noted above, the BOP figures do not distinguish between rescheduling and forgiveness, and do not include debt relief provided by bilaterals on multilateral debt. As before, we therefore add the MDF figures to the debt relief figures. For the total aid flow, we sum unrequited transfers (grants) and public foreign borrowing. The latter is an overestimation of aid, since a small part of public foreign borrowing consists of non-concessional loans. Moreover, for the years 1990-94, the data do not break down foreign borrowing into public and private borrowing. So this also brings about a (small) overestimation of aid. From this aid figure we again subtracted the amounts deposited into the MDF.

The first thing to be noted from Figure 2–3 is the exceptionally high 1997 number for debt relief. This is explained in section 2.2.3. as originating from a recalculation of the existing debt stock, especially the debt to Russia. The aid flow again appears to be roughly constant, but is also in this figure slightly higher in the first five years of the decade. Since debt relief is somewhat lower in the first part of the decade, except for 1991, some negative relationship may exist. In other words, and especially in the second half of the decade, debt relief may have replaced other aid to some extent.[11]

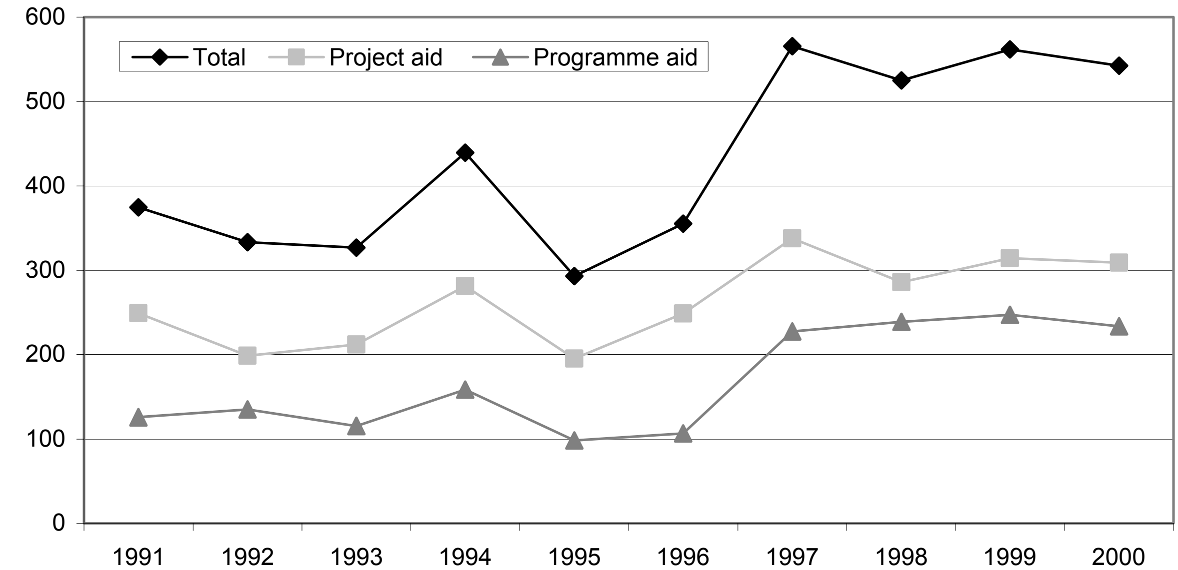
[10] Over the 1990s the correlation coefficients between aid and the two debt relief series are positive, although not very high: 0.24 for the relation between total aid and forgiveness, and 0.23 for the relation between total aid and total debt relief, including rescheduling.
[11] The correlation coefficient between the two series is - 0.39. However, since the outlier 1997 may have an extreme influence on this number, we also computed the correlation coefficient excluding 1997. It then becomes – 0.09. Although it is still negative, the number is now very small, indicating no relationship.

Figure 2–3 Additionality of debt relief on the basis of BOP figures, 1990-99 (USD million)



Source: See Table 2–1.

Figure 2–4 Project and programme aid as registered in government finances (USD million)

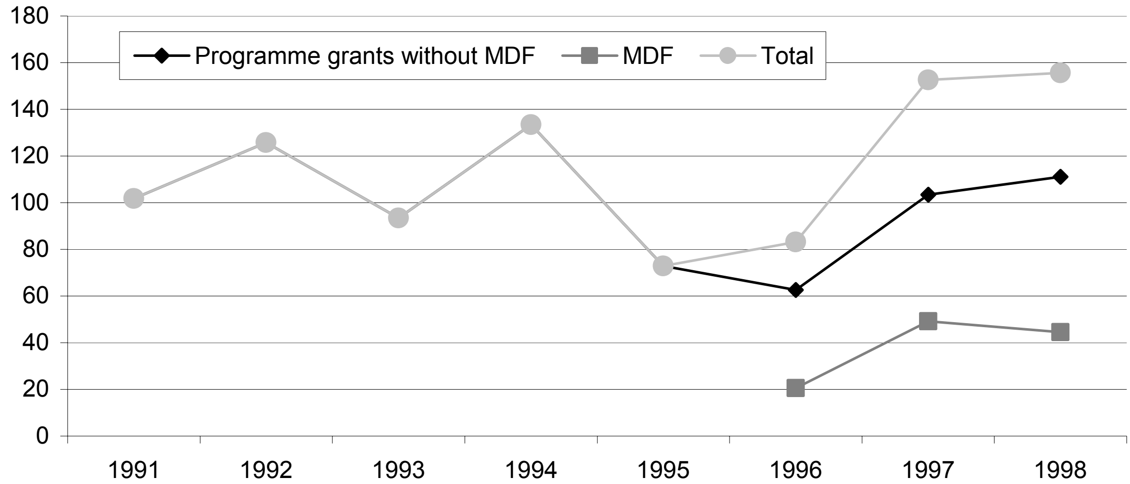


Note: Programme aid includes non-project loans and grants, and HIPC assistance from IMF. Nominal figures in meticais have been converted by the authors into USD at the official exchange rate.
Source: IMF (1993, 1998, 2001b and 2001c).

Bilateral debt relief that finances multilateral debt service is a form of programme aid, i.e., aid that is not linked to projects. It is possible that MDF contributions substituted for project aid or for other modalities of programme aid, such as import support and budget support. For the composition of aid, only IMF data on government finances are available. They are in the Mozambican currency, the metical, and have been converted in dollars against the official "average of period" exchange rates from the same source. These figures only include aid that is recorded in the government budget, which represents probably only about half of the total aid flow. The increasing trend for total aid as shown in Figure 2–4 can probably be explained by a rising proportion of aid that is recorded in the budget, rather than by a rising aid flow itself (see Figures 2–2 and 2–3). It is also not so clear how programme aid has been defined. In the early 1990s, programme aid was tied import support, and in many cases donors also set conditions for the use of the counter-value funds. After 1992, donors began to give an increasing amount of balance of payments support as freely spendable resources. In any case, both project aid and programme aid have increased since 1996, and especially since 1997. This means that the increase in programme aid (including the MDF contributions) did not substitute for project aid.

Secondly, there may have been substitution within the programme aid category. Bilateral donors may have substituted debt relief for other balance of payments support. Figure 2–5 shows that only in 1996, programme aid grants excluding debt relief decreased somewhat, although the total programme aid flow increased. In 1997 and 1998, the funds for the MDF have come on top of a rising programme aid flow, but there may have been some substitution in 1996.

Figure 2–5 Programme aid grants and debt relief (MDF) (USD million)



Source: See Figure 2–4 and for MDF: MPF.

2.5 Dutch debt relief to Mozambique

During the decade under study, The Netherlands provided a total of NLG 187.3 million in debt relief to Mozambique. Two clear cycles of relief operations appear (See Table 2–7 for an overview). The first ran from 1990 to 1993 and entailed mainly forgiveness on bilateral aid loans, totalling NLG 91.5 million.[12] The second one started in 1996 and consisted entirely of relief of multilateral debts, mainly those contracted by Mozambique as part of SAF and ESAF operations from the IMF (totalling NLG 91.8 million). The latter type of Dutch debt relief was a precursor to the eventual incorporation of Mozambique into the HIPC initiatives.

The Netherlands did not participate in Paris Club reschedulings of bilateral non-concessional debt during the evaluation period, as Mozambique did not have any commercial debt outstanding to the government of the Netherlands. However, according to Paris Club information, the Netherlands has been observer to the first Paris Club

[12] One single relief operation in 1991 consisted of a discount buyback of commercial NLG 4,000,000. See Table 2–7 for a complete overview of Dutch debt relief operations during the period 1990-1999.

rescheduling in 1984, and was a participating creditor in 1987.[13] In the 1990s, the Netherlands was not present at the 1990 and 1993 Paris Club deals, but acted as observer to the 1996 and 1999 meetings.

In general, reasons for Dutch debt relief for Mozambique were based on the poverty status of the country, the unsustainable size of its debt burden, the positive evaluation of its macro-economic policy, and – more implicitly – the desire to support a fragile peace process and fledgling democracy. These motivations allowed for the use of so-called macro-support (programme aid) as an increasingly favoured instrument of Dutch bilateral assistance.

In this section the sequence of debt relief operations financed by the Netherlands will be looked at in more detail, examining the different modalities and the main policy reasons as made explicit in available policy notes, appraisal memoranda, and correspondence. In general, Dutch bilateral debt relief not only proved to be relatively voluminous but also more far-reaching and generous than mainstream Paris Club debt relief operations. By contributing to the relief of multilateral debts from 1996 onward, the Netherlands was one of the forerunners of the HIPC initiative.

2.5.1 Bilateral aid loans

Between 1990 and 1993, The Netherlands continued and eventually completed relief operations of bilateral loans to Mozambique through the cancellation of outstanding stocks and debt service obligations. The acting creditor was the Netherlands Investment Corporation for Developing Countries (Nederlandse Investeringsmaatschappij voor Ontwikkelingslanden, NIO) a public entity set up for providing ODA loans and mixed credits to developing countries that were beneficiaries of the Dutch bilateral assistance effort. The loans to Mozambique dated from the early 1980s. These relief operations emanated from the 1988 decision of the UN General Assembly to grant Mozambique the LLDC (least developed country) status. The Netherlands complied with UNCTAD resolution 165-IX of 1978 which had called for complete forgiveness of bilateral aid loans to these countries, including loans extended after the (Paris Club) cutoff date.

These operations followed, in a matter-of-fact way, a simple routine of notification by the Dutch Ministry of Foreign Affairs (DMO/SP) to the NIO board inviting the latter to request re-imbursement of the amounts involved from the Ministry. In addition a formal succinct notification was sent to the Dutch Embassy in Maputo. Available documents seldom provide additional clues as to the underlying policy considerations. These are invariably the LLDC-status of Mozambique and the positive appreciation, by the donor community, of the country's efforts to implement structural adjustment programmes. In 1993, the Minister for Development Co-operation decided upon the complete cancellation of the remaining bilateral aid loans, again because of the LLDC-status of Mozambique, the consistency of macro-economic policy, the debt burden (Mozambique had been classified by the World Bank as SILIC – severely indebted low income country), and the progress of the peace process.[14]

2.5.2 Commercial debt buyback

In 1991, the Netherlands made a single contribution to a buyback of commercial debts under the aegis of the World Bank. The debt in question amounted to USD 320.4 million (of which USD 102.9 million caused by 'past due interest'). The World Bank proposed to cancel the latter amount and to buy back the remaining USD 217.5 million at a discount of

[13] This may indicate the presence of some outstanding debt to the Netherlands. As this falls outside the evaluation period, no further information is available.
[14] According to Memo DDI/DMP/MZ/500-93 from the Ministry of Foreign Affairs to the Embassy in Maputo.

90%. This meant a total cost of the buyback of USD 22.8 million, including the USD 1.1 million transaction fee charged by the financial advisor Merill Lynch.[15] The World Bank pressed for a quick decision by three countries that had declared a willingness to finance part of the buyback: The Netherlands, Switzerland and Sweden. The World Bank itself would participate with USD 10 million from an IDA-facility but the board could only take this decision if the total buyback sum had been guaranteed. Dutch officials displayed reluctance, although the strategic importance of private sector debt buy-backs was acknowledged: despite the absence of direct flow effects (these debts were not being serviced), the progress of economic reform would benefit from the expected improvement of Mozambique's credit rating and overall trustworthiness with private financial institutions.[16] The reluctance had two reasons. First, immediate consent by the Netherlands to participate with the proposed amount of USD 4.25 million would create a disincentive for participation by other countries. Second, this amount would probably exceed the budgetary space available for 1991. Eventually, The Netherlands participated with considerably less than the amount proposed by the World Bank, namely NLG 4 million (USD 2.1 million). The total amount of the buyback was also slightly lower, namely USD 203 million (see above, 2.2.1).

2.5.3 Relief on multilateral debt

Between 1996 and 1999, The Netherlands took on an active role in relief operations with respect to multilateral debts contracted by Mozambique mainly with the IMF in the context of structural adjustment loans. These operations took three forms: a first take-over, together with Denmark, of the principal of three SAF loans totalling SDR 14.7 million; subsequently a series of take-overs of multilateral debt service; finally, a 'creditor-specific contribution' of NLG 41.8 million to the HIPC Trust Fund of the World Bank for the African Development Bank (AfDB), to cover the latter's contribution to the HIPC operation for Mozambique (see Table 2–7).

In 1996, when Denmark and the Netherlands proposed to take over the stock of an early IMF structural adjustment loan that would fall due in the following three years, the Mozambican government began to propose a multilateral debt fund. Bilateral donors would provide foreign exchange with which Mozambique could pay its debts to the IFIs, and Mozambique would spend the countervalue funds on education and health care. Discussions took place with the IMF about whether the countervalue funds of debt relief could be spent. In case of take-overs of a debt stock, the IMF preferred that the countervalue funds be transferred to a special account from which they could be spent in later years, at the moment when the original debt service obligations would fall due.[17]

[15] Letter from World Bank to Ministry of Foreign Affairs, 1 April 1991, especially appendix 2.
[16] Memo MZ/144-91.
[17] Memo from Embassy in Maputo to Ministry of Foreign Affairs, 16 September 1996.

Table 2–7 Dutch debt relief to Mozambique 1990-1999 (NLG thousand)

Year	Amount	Type of debt	Original creditor	Type of relief	Objectives	Rationales	ODA[1]
1990	18,685	bilateral aid loan	NIO	forgiveness of outstanding stock	relief of debt burden	LLDC status, UNCTAD resolution 165	no
1990	911	bilateral aid loan	NIO	forgiveness of debt service	support for economic reform	implementation of economic reform; LLDC status; UNCTAD resolution 165	yes
1990	10	bilateral mixed credit	NIO	forgiveness of debt service	support for economic reform	implementation of economic reform; LLDC status; no longer eligible for mixed credit programme; UNCTAD resolution 165	yes
1991	10	bilateral mixed credit	NIO	forgiveness of debt service	support for economic reform	implementation of economic reform; LLDC status; no longer eligible for mixed credit programme; UNCTAD resolution 165	yes
1991	23,600	bilateral aid loan	NIO	forgiveness of outstanding stock	relief of debt burden	LLDC status	no
1991	900	bilateral aid loan	NIO	forgiveness debt service	support for economic reform	implementation of economic reform; LLDC status	yes
1991	4,000	commercial	private banks	Contribution to IDA-DRF buyback of principal	relief of debt burden	debt severity	yes
1992	1,489	bilateral aid loan	NIO	forgiveness of debt service	support macro-economic improvement; relief of debt burden	debt severity	yes
1992	15,381	bilateral aid loan	NIO	forgiveness of outstanding stock	support macro-economic improvement; relief of debt burden	debt severity	no
1992	10	bilateral mixed credit	NIO	forgiveness of debt service	support for economic reform	implementation of economic reform; LLDC status; equal. for GK/LCL program; UNCTAD resolution 165	yes
1993	29,488	bilateral aid loan	NIO	forgiveness of outstanding stock	relief of debt burden	LLDC and SILIC status; UNCTAD resolution 165; implementation of economic reform; debt severity; peace accord bonus	no
1993	983	bilateral aid loan	NIO	forgiveness of debt service	support for macro-economic improvement	quality and implementation of economic reform	yes

Year	Amount	Type of debt	Original creditor	Type of relief	Objectives	Rationales	ODA[1]
1996	20,000	multilateral	IMF	take-over of principal	relief of debt burden; support for public (social) investment	implementation of economic reform; debt severity;	yes
1997	10,000	multilateral	IMF	take-over of debt service	support macro-economic improvement; relief of debt burden	debt severity; poverty situation; quality of economic policy	yes
1998	12,000	multilateral	WB	take-over of debt service (in part reimbursement of paid debt service), 5th dimension	support macro-economic reform; relief of debt burden	debt severity; implementation of agreement with IMF	yes
1998	8,000	multilateral	IMF	take-over of debt service	support macro-economic reform; relief of debt burden; support upcoming HIPC CP 1999	implementation of economic reform; debt severity; HIPC qualification	yes
1999	41,800	multilateral	AfDB	creditor- and country-specific contribution to HIPC Trust Fund of the World Bank	relief of debt burden	HIPC	yes

[1]According to the OECD/DAC definition of Official Development Assistance (ODA), forgiveness on principal and interest due increases net ODA. (The DAC records forgiveness on interest as net ODA; forgiveness on principals is ODA neutral since an offsetting entry of the same amount is required. However, since repayments of principals are subtracted from ODA, this means that registered net ODA is higher with forgiveness than with repayment.

Source: various documents (memoranda, notes, correspondence) provided by the Ministry of Foreign Affairs of The Netherlands.

In 1997 the establishment of a multilateral debt fund was still in discussion. In view of the IMF objections to immediate spending of freed resources, Mozambique proposed to have two funds, one for countervalue funds of the take-over of debt service, and another one for the take-over of debt stocks. It was expected, however, that establishment of the fund would take some time.[18] In view of Mozambique's "immediate need of liquid resources", the Netherlands then opted for take-overs of debt service to the IMF, the countervalue of which was allowed (by the IMF) to be spent immediately. In 1998, the Dutch took over debt service to both the IMF and the World Bank (IDA). However, the necessary funds were not formally transferred to the Multilateral Debt Fund, although this by then existed. In the accompanying Memos, it is said that at the time of the decision by the minister, no proposal had been presented about a transfer to the MDF. A proposal to change the modality of payment would cause considerable delay in the actual transfer in the case of the IMF (the proposal is from April), and in the case of IDA (October), would make a transfer within the current fiscal year impossible.

As is clear from section 2.2.4 above, the Mozambican government has counted all Dutch take-overs (of stock and service) of multilateral debts during 1996-98 as contributions to the MDF. In fact, from the perspective of the recipient government, direct take-overs of multilateral debt service are the most freely spendable form of programme aid. In case of a formal contribution to a MDF, the two parties usually set up a contract on the spending of countervalue funds, and establish a monitoring system. In the case of the Dutch contributions to multilateral debt relief in 1996 and 1997, the Dutch handed over the monitoring of the spending of countervalue funds to the IMF. In 1998 no such provision was mentioned, making the Dutch debt relief equal to freely spendable budget support.

In 1999 the Netherlands made a creditor- (African Development Bank) and country-specific contribution to the HIPC Trust Fund. This transfer was meant to finance debt relief that the AfDB would be obliged to grant to Mozambique on debt service due during 1998-2003, but for which it would probably not have the resources. In general, a large share of the debt relief to be granted by the AfDB would have to be financed by bilateral donors. A special reason for this activity was that the Dutch government had earlier refused to contribute to the AfDB's Special Fund, the African Development Fund, at the 1996 meeting ("ADF-7"), because the Dutch found the agreed donor distribution unacceptable[19], but that the Dutch government did not want the AfDB to suffer from this decision. It was thought that a creditor-specific contribution to the HIPC Trustfund would benefit the AfDB without compromising its earlier position on the donor/creditor-distribution. This is questionable, however, and it can also be doubted whether this debt relief meant additional relief for Mozambique as the AfDB had formally agreed on providing this relief in the context of the HIPC initiative. In the absence of a Dutch contribution it would have had to be financed from other donors' contributions.

A number of reasons can be identified for the Dutch contributions to multilateral debt relief. One has been the argument of continuity of Dutch debt relief policy towards Mozambique as part of the overall macro-support favoured by Dutch policy makers. This approach continued to be based on the satisfactory macroeconomic policy performance of Mozambique in combination with the country's SILIC status. A second reason has been the consideration that servicing multilateral debts was particularly onerous for Mozambique. Despite the relatively small proportion of multilateral debt (less than 30 per cent in 1995), the fact that these debts tended to rise and had to be serviced scrupulously made them an important component of the annual debt service burden profile of

[18] "Macro-steun exercitie" 1997: 160, 5 March 1997.
[19] The US government had declined its support to ADF-7 as opposed to ADF-6. Appraisaal Memorandum July 1999 for debt relief activity WW-115407.

Mozambique.[20] In addition, within the so-called 'like-minded' donor group for Mozambique, the Netherlands apparently aimed at speeding up initiatives for multilateral debt relief on the basis of 'burden-sharing', that is to say, including relief contributions by the IFIs themselves. Eventually this evolved into the HIPC and enhanced HIPC initiatives. Keeping Mozambique on-track for these initiatives became part of the Dutch motives for contributing to multilateral debt relief. A final argument was found in the 'ownership dimension': the fact that the Mozambican government itself developed proposals for multilateral debt relief, particularly through the establishment of a multilateral debt fund filled by donor contributions. Although – formally – Dutch contributions to such a fund were never made, the stated intention of the Mozambican government to earmark countervalue funds from multilateral debt relief for spending on social programmes (health and education) further strengthened Dutch willingness to support multilateral debt relief.

Overall Dutch assessment of post-1992 political developments in Mozambique was moderately positive, especially with respect to the electoral process (also on the local level) and the balance of power between government and opposition. Corruption and lingering political violence were marked as causes for concern, however. The same was observed with respect to the weak fiscal capacity of the Mozambican government and the inflationary pressure emanating from budget deficits. Against this background, The Netherlands continued to favour macro-support for Mozambique in the form of debt relief contributions in view of the expected beneficial impact of this instrument on the macroeconomic situation, and also considering the fact that a number of other donor countries opted for general macro-support or budget support.[21] In 2000, the Netherlands joined the group of nine donors that is providing general budget support to Mozambique (see above).

2.5.4 Additionality of Dutch debt relief

All Dutch debt relief to Mozambique has been financed from the aid budget, so there cannot be additionality of debt relief at the aggregate (worldwide) level. Whether debt relief to Mozambique has substituted for other aid to Mozambique or substituted for aid *to other countries*, is more difficult to establish. The documentation on debt relief activities in 1990, 1991 and 1992 does not specify from which specific budget the activity is financed, except for one, the 1992 forgiveness of debt service of NLG 1.489 million. This debt relief activity, as well as debt relief granted in 1993 has been financed from budget 728.2. Debt relief granted on multilateral debts from 1997 onwards has been financed from budget 777. Both of these are worldwide budgets meant for macroeconomic support.

However, it can be assumed that Mozambique would have received some macroeconomic support anyway, and that there has been substitution between other modes of macroeconomic support and debt relief. A substantial part of debt relief to Mozambique is therefore probably not additional. This is most evident from the documentation on the 1996 debt relief activity. In the early 1990s, Mozambique received macroeconomic aid in the form of balance of payments support. In 1994 and 1995 this balance of payments support was given in the form of imports of medicines. In early 1996, another NLG 10 million amount was allocated for this purpose. Later that year the amount rose to NLG 20 million and was destined for the take-over of a debt stock to the IMF, together with Denmark. This full amount was financed from the programme for Southern Africa (category IIa.2, budget 762.1).[22]

[20] Appraisal memorandum for debt relief sctivity MZ-04206, 1996.
[21] Macro-steun excercitie 1997, version 1, 5 May 1997.
[22] Appraisal Memorandum for debt relief activity MZ-04206, 1996, p. 4.

2.6 Conclusions

Mozambique received fairly large amounts of debt relief during the 1990s. Total debt relief amounted to about USD 5 billion, but almost half of that amount was (merely) rescheduling and therefore did not reduce the NPV of the debt. In addition, most debt relief was granted on bilateral debts, while the multilateral debt stock rose steadily over the 1990s. From 1996 onwards bilaterals began to take over part of the multilateral debt service, and only in 1999 the multilaterals themselves began to grant some relief on their debt service. Debt to private creditors only constituted 10% of total public debt and this was almost eliminated by the mid 1990s, first through an aid-financed buyback and later through other stock reductions.

Given the enormously high debt-to-export and debt-service-due-to-export ratios at the start of the decade, granting debt relief was almost a necessity from the viewpoint of bilateral creditors. There were few explicit objectives for debt relief other than making the debt and the debt service sustainable. Conditions for Paris Club relief included a programme with the IMF, servicing the remaining debt due to Paris Club creditors, and seeking comparable treatment from other bilateral creditors.

From the perspective of Mozambique, debt relief was mostly additional to other aid flows: in all years except the last two of the decade (1998 and 1999), debt relief moved together with aid flows.

Dutch debt relief totalled NLG 187 million. About half of this amount was spent on forgiveness on bilateral aid loans and granted between 1990 and 1993 until all bilateral debt had been extinguished. The other half was given between 1996 and 1999 and took the form of bilateral take-overs of multilateral debt service. All Dutch debt relief to Mozambique was financed from the aid budget and therefore was not additional from the donor perspective.

3 THE EFFICIENCY OF DEBT RELIEF

3.1 Introduction

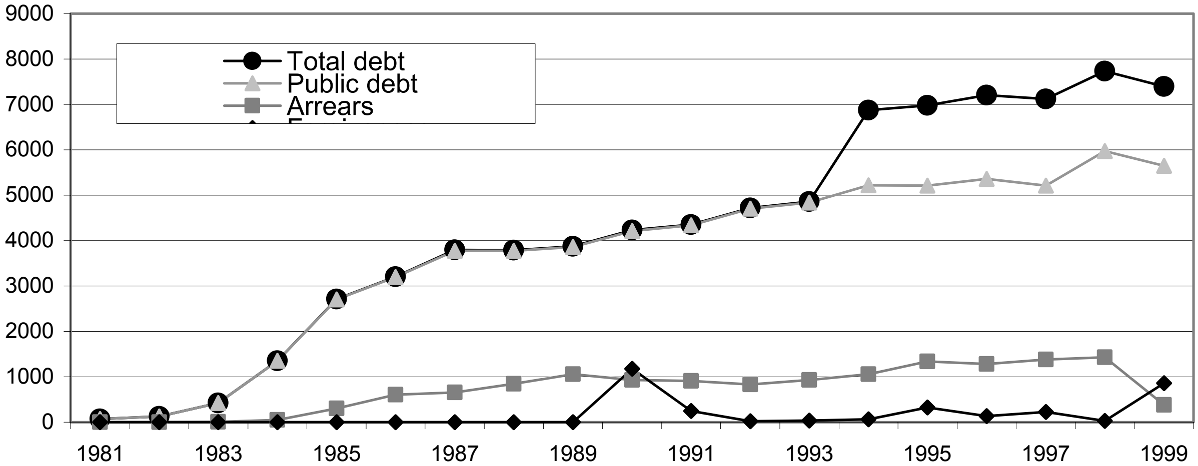
This chapter assesses the efficiency of the debt relief efforts, by comparing the inputs with the outputs. Debt relief and the accompanying conditions may have three kinds of outputs: a reduction of the debt stock, a reduction of the debt service flow, and a change in government policies in keeping with the conditions set. The sections 2, 3 and 4 of this chapter examine whether and to what extent debt relief has led to these different outputs. Section 2.5 briefly assesses the efficiency of Dutch debt relief efforts, in particular. The last section concludes.

In all analyses of Mozambican debt and debt relief, it must be born in mind that the figures are not very reliable. Figures on the size of the outstanding debt sometimes fluctuate from year to year, since the size of the debt to, in particular, the former Soviet Union and other former socialist countries was not exactly known. At several points in time agreements seem to have been reached, but they have subsequently been adjusted again. According to representatives of several bilateral donors, the figures on the size of those debts are still under discussion.

3.2 The effect on the debt stock

During the 1990s, the stock of Mozambique's long-term debt has increased (Figure 3–1). New inflows, in particular multilateral disbursements to the public sector plus increases in arrears have been larger than amortisation payments and forgiveness. About one quarter of Mozambique's debt stock (about USD 1,000 million) consisted of arrears in 1990. The arrears remained more or less at USD 1,000 million and even increased somewhat in 1995, until they fell in 1999 due to the 80% stock reduction of the Paris Club on non-concessional debts. Figure 3–1 also shows that there has been an increase in private sector debt in 1994, so that public and total debt began to diverge from that year onwards. However, this increase is not visible in new disbursements of private debt, so it must reflect the inclusion in that year of already existing debts.

Figure 3–1 Total long-term debt[1], public debt[1], arrears and forgiveness 1981-1999 (USD million)



[1]The 1999 figure for public debt and total debt has been adjusted upwards by the author with USD 1000 million, see note to Figure 2–1.
Source: GDF 2002.

Debt forgiveness has been limited when compared to the total debt stock (Figure 3–1). The relevant debt to compare with is the public debt stock, as no forgiveness has been applied on private sector debt. The limited effect of forgiveness on the debt stock is also revealed by Table 3–1, in which we look at the effect on public debt only. Forgiveness was high in 1990, but much lower in the other years. In 1995 and in 1999 forgiveness was also relatively high. Over the whole decade, forgiveness amounted to 46% of the total 1999 public debt stock. But this high number is largely due to the 1990 figure. From 1991 onwards, forgiveness was very limited. It must be remarked, however, that the 1997 debt reduction on the debt to Russia is not included in these GDF figures.

Table 3–1 Debt stock and debt forgiveness, 1990-1999 (USD million and per cent)

	1989	*1990*	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*	*Total*
Public debt (1)	3861	4211	4337	4701	4841	5219	5209	5358	5211	5973	5645	
Forgiveness (2)		1174	237	24	36	63	323	131	223	20	371	2601
(2) as % of (1)		28	5	0	1	1	6	2	4	0	7	
(2) as % of (1) at t-1		30	6	1	1	1	6	3	4	0	6	46

Source: World Bank, Global Development Finance 2002.

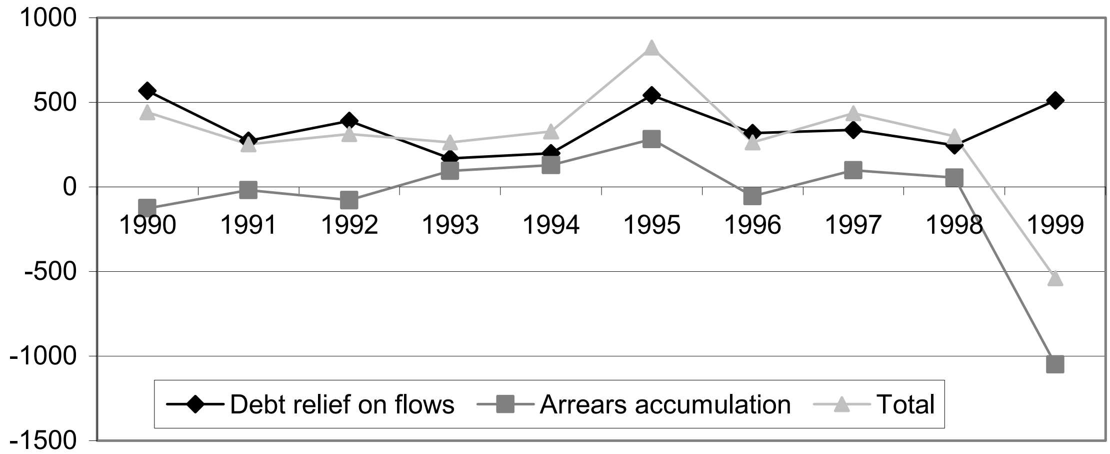
3.3 The effect on the debt service flow

Debt relief may reduce the debt service flow if debt service would have been paid in the absence of the relief, and if the relief does not lead to new loan inflows so that actual debt service increases. Other instances in which debt relief agreements increase actual debt service paid include when earlier restructuring agreements lead to increases in debt service in later years, and when agreements on debt stock reduction provoke payments of debt service while there had been no such payments before the agreements. In addition, debt relief by one creditor may lead to the payment of debt service to another creditor (bailing out) so that there is no net positive effect on the flow of debt service. These possibilities will be examined in this section. The last paragraph assesses the possible flow effect of the HIPC initiative (although this analysis stretches beyond the official evaluation period).

3.3.1 Would debt service have been paid?

A first question to be answered is whether the debt service on debt relief is given (via restructuring or forgiveness) would have been paid in the absence of the relief. Until 1995, relief on debt service flows seems to have substituted for arrears accumulation, so that the sum of the two was more or less constant (Figure 3–2). This would imply that until 1995, debt service would *not* have been paid in the absence of flow relief. Since then the sum begins to fluctuate, especially in 1995 and 1999 but also somewhat in 1997. In 1995 (and to a lesser extent in 1997) both debt relief and arrears increased, while in 1999 arrears decreased by much more than the relief on the debt service flow. The large 1999 arrears decumulation reflects the large forgiveness on the debt *stock* that the Paris Club granted in that year (at Lyon terms). It is not clear why the (GDF) flow relief figures for 1995 are so high; balance of payments figures show a relatively low number for 1995 debt relief (Table 2–5).

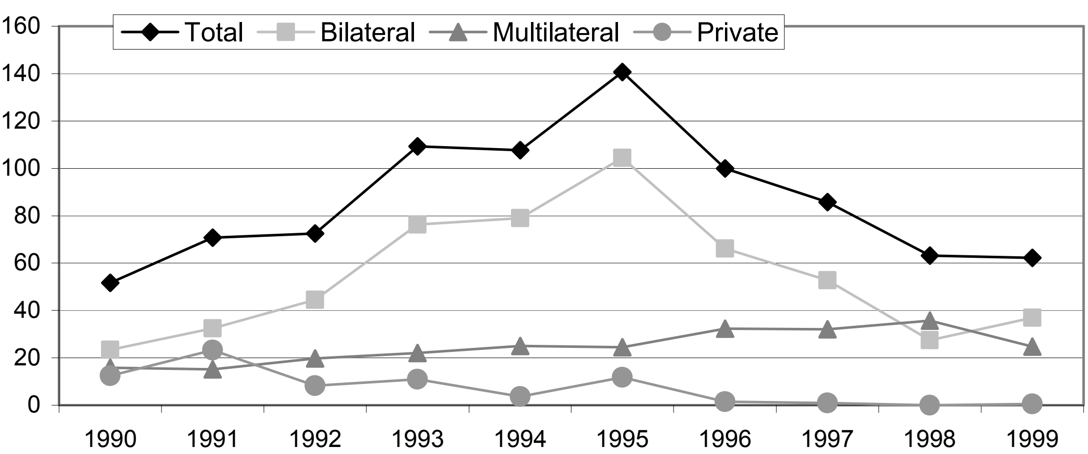
Figure 3–2 Debt relief on flows[1] and arrears accumulation (USD million)



[1]Forgiveness and rescheduling, but only on principal and interest.
Source: GDF, 2002.

However, whether debt service would have been paid in the absence of relief will, at least partially, depend on the modalities of debt relief, types of debt, and types of creditor. Therefore, the arrears by type of creditor, and government policies vis-à-vis different types of creditors need to be examined. IMF and World Bank documents often display nominal debt stocks and arrears by creditor or by group of creditors. These figures show that there have been no arrears on multilateral debts during the 1990s, so that it is clear that debt service to the multilateral institutions has always been paid. This has also been official policy.[23] Debt service to multilaterals gradually increased during the 1990s, until 1999 when Mozambique began to benefit from the HIPC initiative (Figure 3–3). However, during 1996-1998 bilateral donors contributed relatively large amounts to the Multilateral Debt Fund. During these three years, USD 114 million was granted, while debt service paid to all multilateral creditors in those years amounted to about USD 100 million. As a result, actual debt service to the multilaterals in those years was negative, i.e. the country benefited from a net resource inflow in relation to multilateral debt service.

Figure 3–3 Public debt service paid by type of creditor (USD million)



Source: Elaboration of data from GDF, 2002.

[23] Interview with Central Bank official.

Debt service to Paris Club creditors demonstrated large arrears by end 1990, just before a new Paris Club agreement (World Bank, 1990: 5). Since then, it has been the government's policy to pay the debt service due to the Paris Club creditors. However, if bilateral agreements with individual creditors were not reached immediately, the country sometimes waited with paying. (This was a "matter of politics"). And sometimes there were "technical arrears" due to a time lag in transferring the money. The figures confirm these policies. In general, there were no arrears with Paris Club creditors, but there were a few exceptions. By the end of 1991 there were small arrears to Italy and France (USD 19 million in total), which were cleared by the end of March 1993 (IMF, 1993). In 1995, arrears to Paris Club creditors climbed to USD 85 million, due to the fact that there was no Paris Club agreement for the second half of 1995 (IMF, 1996). Figures show that payments to bilaterals were high in 1995, however (Figure 3–3). Possibly this occurred just after the agreement was achieved.

Mozambique seems to have been more serious in paying the Paris Club creditors in the early 1990s than other countries, for example, Tanzania and Zambia. According to a Central Bank official interviewed, the payment of Paris Club creditors was important for the credibility of its government, and in particular for the credibility of market liberalisation policies. Unlike other countries, there had not been a change in government in Mozambique, and the former socialist-oriented party Frelimo was still in power. The membership of the IMF in 1984, the IMF agreements and the agreement with and payment due to the Paris Club were important to show that the government was serious about its market orientation. It was expected that this would not only benefit aid flows, but would also attract foreign direct investment to the country.

At the same time, payment to Paris Club creditors and continuous negotiations on relief on debt service due meant a heavy burden for Mozambique. Already in 1990 the government writes in a report for the Consultative Group meeting that more debt forgiveness is necessary: "The costs of persistently renegotiating with creditors are exceptionally high, while the government views the prospect of defaulting on payments as highly unsatisfactory and counter to the professional manner in which it wishes to conduct its international relationships." (Government of Mozambique, 1990: 19). However, until the late 1990s most of the debt service due to the Paris Club was rescheduled and not forgiven, so the stock of debt continued to increase. Actual payments also increased until 1995, but began to fall after that, when forgiveness began to amount to 67% of debt service due in 1996 (Naples terms).

Arrears with other, non-Paris Club bilateral creditors were high at the beginning of the decade and they remained high. By the end of 1989, they amounted to USD 256 million to OPEC countries (more than half of the total debt stock to those countries), USD 497 million to Eastern Europe (more than one-third of the stock to that region) and USD 226 million to "other countries" (mostly Brazil, more than half of the "other countries"' debt stock) (World Bank, 1990: 5). From 1990 onwards (the start of partial Paris Club forgiveness) Mozambique no longer succeeded in agreeing similar terms (as in Paris Club agreements) with non-Paris Club creditors. The country then stopped paying on these debts, so arrears increased.

The arrears with Brazil were cleared in 1995, leaving still large arrears with OPEC (USD 326 million), and with formerly centrally planned economies (USD 679 million). An agreement with Russia was reached in 1997. In that year, both Russia and Brazil entered the Paris Club, leading to an increase in the debt stock to the Paris Club by USD 870 million in 1998 (IMF, 1999). In 1998, an agreement was reached with Algeria.[24] Lyon terms were applied. However, Mozambique did not implement this agreement yet, because the country wanted to renegotiate it so that the conditions of the enhanced HIPC initiative – Cologne terms – would apply (IMF and IDA, 2001: 19). As a result, the nominal debt to Algeria amounted to USD 382 million by end 2000 (IMF and IDA, 2000: 40). Other non-Paris Club creditors with whom agreements are still due include (in order of size of the outstanding debt) Lybia, Romania, Iraq, Angola, China and Bulgaria.

After the 1991 debt buyback, the IMF reported that there were no arrears to commercial banks (IMF, 1996). Nevertheless, later documents showed that there were still debts and arrears to commercial creditors. Some commercial creditors refused to participate in the 1991 buyback, and Mozambique has not serviced these debts[25], as is also evident from Figure 3–3. Most of this debt is with Brazilian banks, but some is to Czech, Portuguese and South African banks (IMF and IDA, 2000: 40). In 1998, an agreement was reached on the Brazilian debt according to Lyon terms[26], but the commercial debt to Brazil still amounts to USD 123 million.

During the 1990s, flow relief was mainly granted by Paris Club creditors. Although debts to the Paris Club were usually paid, it can be doubted whether all debt service due would have been paid in the absence of this flow relief, especially in the first years of the decade. Paying all debt service due to the Paris Club would have meant a very heavy burden. Actual debt service to bilateral creditors increased until 1995, while it decreased thereafter (Figure 3–3). The former trend reflects increased compliance with payment obligations, and an increasing number of creditors that was brought into the Paris Club, so to whom payments had to be made. The second and declining trend reflects an increasing share of forgiveness. In sum, debt relief as granted by the Paris Club, generally freed resources and this was especially the case as of 1995. The relief on multilateral debt provided by some bilateral creditors via the MDF definitely freed resources, since multilateral debt service has always been paid.

3.3.2 Other cases of no reduction of the flow

Another case in which debt relief does not free resources, is when debt service increases as a result of debt relief agreements. This has probably been the case with the agreements on the debts to Russia and to Brasil. After the agreements, debt service had to be paid on the remaining debt. This also held for the debt to former East Germany. While the debts to former Eastern Europe were reduced by about USD 500 million, the debt to (unified) Germany increased by USD 300 million (IMF, 1992 and IMF, 1993). This must have implied a stock reduction of USD 200 million, but since the German debt is part of the Paris Club, debt service had to be paid from then on, while it had not been paid before the agreement on the stock reduction.

A slightly different case in which debt relief agreements lead to increased actual debt payments arises as a result of rescheduling agreements. The 1984,1987 and 1990 Paris Club agreements must have increased actual debt service paid in the 1990s. The 1990 agreement stipulated payments from 1997 onwards (Chapter 2). Of the other two agreements it is known that they were fully repaid by 2002 (www.clubdeparis.org), so they must have led to debt service flows in the 1990s.

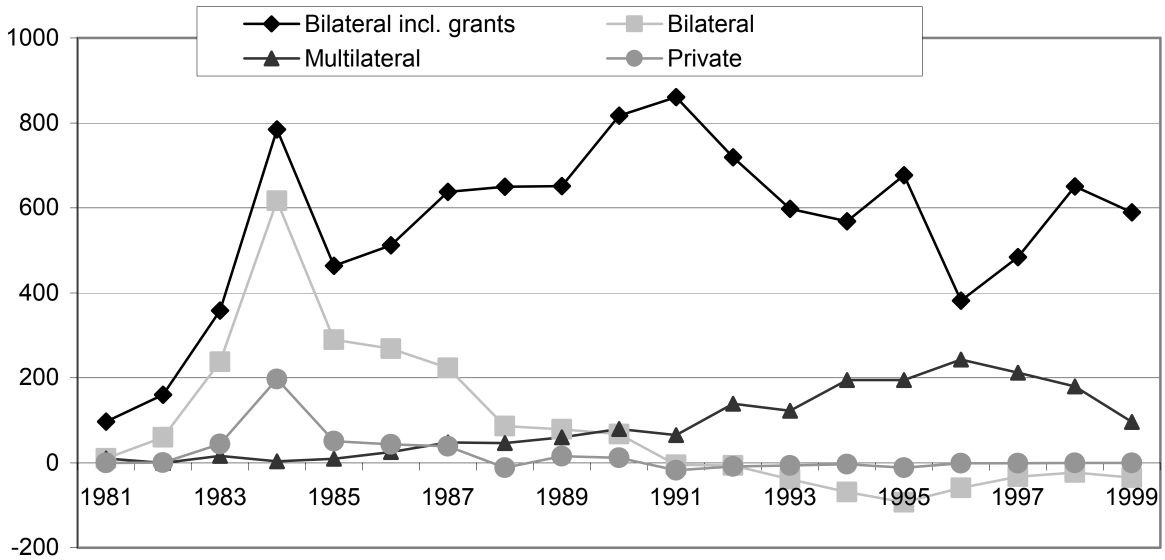
[24] Interview with Central Bank official.
[25] Interview with Central Bank official.
[26] Interview with Central Bank official.

3.3.3 Bailing out

Debt relief may not reduce actual debt service paid if the relief given by one creditor leads to increased payment to another creditor. This "bailing out" may also be the result of aid inflows. Although technically the contributions of bilateral donors to a Multilateral Debt Fund bailed out the multilaterals, in practice that debt service would have been paid anyway. So the contribution directly freed resources to the government. But in a more general way, bilateral donors made resources available for the payment of debt service to all types of creditors. This can be deduced from Figure 3–4.

Since 1984, bilateral donors and creditors transferred net flows of more than USD 600 million annually, with peaks in 1990 and 1991 when it was more than USD 800 million, and lower amounts in 1996 and 1997. During the 1980s, a large proportion of this flow was in the form of loans, but in the 1990s most of it consisted of grants. These grants have allowed debt service payments to the multilateral creditors, to the bilaterals themselves and to private creditors. The net transfers on debt from the multilateral institutions have also been positive and even increased during the 1990s – at least, until 1996. This means they have also bailed out themselves. But since they were always paid fully, there was no risk involved in new lending, and therefore it can still be argued that they were bailed out by the bilaterals.

Figure 3–4 Net transfers on debt by type of creditor, 1981-1999 and total net transfers (including grants) for bilaterals[1] (USD million)



[1]All "grants" (excluding technical cooperation) have been added to bilateral net transfers, since grants from other groups of creditors are usually non-existent or negligible.
Source: GDF, 2002.

Figure 3–4 also shows that net transfers on debt from bilateral creditors were still positive until 1991. Several Paris Club creditors extended new loans to Mozambique after 1984. These are post-cutoff date debts that must always be paid. This means that Paris Club creditors holding pre-cutoff date debt to some extent bailed out those holding post-cutoff date debt. According to a Central Bank official, Mozambique has no longer contracted non-concessional debt after 1989, implying that it still contracted such debt between 1984 and 1989. Part of the post-cutoff date debt to Paris Club creditors has therefore been non-concessional. By the end of 2000, the stock of post-cutoff date debt to the Paris Club amounted to USD 276 million, 90% of which was concessional (IMF and IDA, 2001).

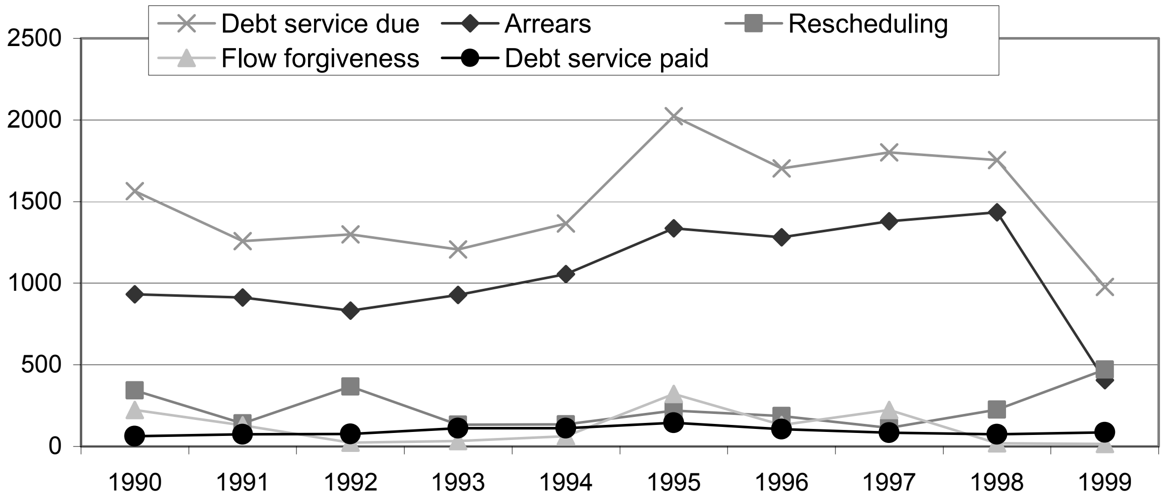
3.3.4 New loan inflows

Finally, actual debt service paid may increase despite debt relief if the country takes out new loans. As Figure 3–4 shows, Mozambique has contracted new loans from the multilateral institutions during the 1990s. But since loans from multilateral development banks carry a ten-year grace period, they cannot have augmented debt service during the 1990s – but will do so during the years 2000-2010.

3.3.5 Summary effect on debt service

In practice, actual debt service was fairly constant during the 1990s (Figure 3–5), especially if compared to the volatile amounts of annual flow rescheduling and flow forgiveness. During the entire decade arrears were large and the debt service paid was much lower than debt service due. It was only in 1999 that the stock of arrears began to decline substantially as a result of the stock agreement with the Paris Club at Lyon terms.

Figure 3–5 Debt service due[1] and paid, 1990-1999 (USD million)



[1] Debt service due = debt service paid plus flow rescheduling plus flow forgiveness plus arrears, see O'Connell and Soludo (2001).
Source: GDF, 2002.

As observed above (Figure 3–3), debt service paid first increased until 1995, and then decreased. The former was the result of the increased compliance with debt payments due to Paris Club creditors (and the expanding number of them), the latter reflected the increasing percentage of forgiveness of the Paris Club, and in 1999 also the impact of the HIPC initiative and flood relief. All in all, debt relief (i.e. Paris Club debt relief) probably hardly reduced the actual debt service flow until 1995, but did result in a small reduction of that flow from 1995 onwards – in spite of the fact that other debt relief agreements led to increases in debt service. On top of that, bilateral grants to the MDF in 1996-1998 resulted in substantial relief to the debt service to the multilaterals, leading to a small positive net transfer on multilateral debt service. From 1999 onwards, the HIPC initiative also reduced the debt service burden.

3.3.6 The impact of the HIPC initiative

In April 1998, Mozambique reached the Decision Point of the first HIPC initiative and in June 1999 the Completion Point. In March 2000, the Decision Point of the enhanced HIPC initiative was reached and in November 2001 the Completion Point. Does this enhanced HIPC initiative imply a reduction of the actual debt service, as compared to the debt service paid during the 1990s? We will explore this for the different groups of creditors.

In 2000 and 2001 the Paris Club granted exceptional flow relief because of the floods, on top of the 90% forgiveness of debt service due on pre-cutoff date debt that has already been granted following the Decision Point of the Enhanced HIPC initiative. It meant that no debt service at all had to be paid on pre-cutoff date debts to the Paris Club in those years. After Mozambique reached the Completion Point, the Paris Club forgave almost the full nominal value of the still outstanding commercial pre-cutoff date debt, or USD 2,234 million out of USD 2,350 pre-cutoff date debt, and out of USD 2,710 million total debt to the Paris Club (www.clubdeparis.org). The deferred debt payments due in 2000 and 2001 were then postponed by six years and no interest would be capitalised.[27]

It can be expected that the stock reduction not only diminishes debt service due substantially, but that it will also reduce actual debt service to the Paris Club as compared to the amounts paid during the 1990s. From 2002 onwards, Mozambique will only pay debt service on post-cutoff date debts, and 90% of that is concessional debt. However, since this was already the case in 2000 and 2001, compared to those years there is no reduction in actual debt service paid. From 2006 onwards, the deferred debt service falls due, so that debt service will then increase somewhat. In addition, Mozambique is now expected to pay all of its debt service due; no further rescheduling and forgiveness can be expected.

As regards other bilateral creditors and some commercial creditors, the situation is uncertain. Agreements with many bilateral creditors are still lacking. There is also a small private debt that was not included in the 1991 buyback and on which arrears have accumulated. Mozambique would like to use the IDA-DRF for another buyback. All in all, there is still uncertainty about 11% of Mozambique outstanding debt (IMF and IDA, 2002). As long as no agreements are achieved, the country is not paying on those debts. However, the Central Bank is concerned about the uncertainty that remains if these creditors continue to stay outside the HIPC initiative: they may proceed to require full repayment.[28] In that case, the debt would not become sustainable and the debt-to-export ratio would remain above 150%. According to the IMF representative in Mozambique, it is unlikely that bilateral creditors will obtain full repayment later on, because the international community will not allow that to happen. But the concerns of the government are more justified in the case of the remaining commercial creditors.[29]

As to the multilateral debt, the World Bank (IDA) had already provided USD 54 million in NPV terms as debt relief in 1998-1999, by converting an IDA credit into a grant (IMF and IDA, 2001: 17). This was interim relief under the original HIPC initiative. The IMF and the World Bank began to grant interim relief under the enhanced HIPC initiative in 2000. Because of the floods, this interim relief was raised to 100% of the debt service due in that year. Compared to that generous debt relief, the share of debt service due that will be forgiven is lower from 2001 onwards. In the case of the World Bank, that share will be just over 80% until 2008 and will then decrease to 50% (IMF and IDA, 2001). Moreover, debt

[27] Interview with MPF staff member.
[28] Interview with MPF staff member.
[29] Interview with IMF representative.

service *due* will increase between 2001 and 2010 due to the large disbursements made during the 1990s (and the ten year grace period of those new credits). As a result, actual debt service paid to the Bank is expected to reach USD 16.4 million in 2009, above the 1999 (pre-HIPC) level of about USD 15 million, and will then increase to USD 22 million in 2010 (IMF and IDA, 2001: 34). This means that actual debt service to the Bank will be lower than in the 1990s during 2000-2008, but will then become higher.

Furthermore, as outlined in 0, due to the MDF Mozambique benefited from a net resource inflow with respect to multilateral debt service in the years 1996-1998. The MDF was discontinued in 1999, and since then Mozambique pays more in debt service to the multilateral institutions from its own resources than it did in the period 1996-1998. The flow effect from HIPC will therefore be smaller than that from the MDF, *unless* bilateral donors now give the same amounts of grants in another freely spendable form, for example budget support. Given that aid flows in general are declining, this can be doubted.

All in all, HIPC will lead to a substantial reduction in the net present value of the debt *stock*, but not to any reduction in the debt service *flow* compared with the flood relief years 2000 and 2001[30], and debt payments post-HIPC will be higher in comparison with the MDF years 1996-1998.

In official IFI documents, it is stated that actual debt payments will decrease from an annual average of USD 100 million in 1998 to an average of USD 56 million from 2002 to 2010.[31] The share in government expenditure is expected to fall from 23% in 1998 to under 10 percent over 2000-2010. However, Figure 3–3 above shows that annual debt service payments were at or above USD 100 million during 1993-1996, but already much lower during 1997-1999 (between USD 60 and USD 80 million). On top of that, Mozambique received debt relief though the MDF of an average USD 38 million during 1996-1998, which is not included in Figure 3–3. Assuming that the USD 56 million is correct, this confirms that there is *no reduction in the actual debt service burden* as compared to the late 1990s. However, there *may* be increases in available resources for the government as compared to the late 1990s, *if* bilateral donors will provide budget support in the same amounts as they provided multilateral debt relief in the late 1990s.

3.4 The compliance with conditionality

Until the HIPC initiative, conditions for debt relief only stipulated that there was an agreement with the IMF. The HIPC initiative, and especially the enhanced version of it, expanded conditionality to include the establishment and implementation of a PRSP in a participatory manner, along with the regular macroeconomic and structural conditions. The first paragraph of this section analyses the compliance with IMF agreements before 1999. The second deals with recent developments in the area of the regular conditions, in particular with the conditions set for the HIPC Completion Point. The third paragraphs deals with the PRSP process.

3.4.1 Compliance with IMF agreements until 1999

Since 1987, Mozambique officially has had three programmes with the IMF: a SAF in 1987, and two ESAF's in 1990 and in 1996, respectively. ESAF 1 was extended with two annual programmes until 1995, so that there has been an IMF programme running almost

[30] According to figures of the Mozambican Central Bank, actual debt service paid decreased from USD 85 million in 1999 (for some reason this figure is lower than the GDF figure presented in Figure 3–3) to USD 18 million in 2000 as a result of special flood relief from multilateral and bilateral creditors (Banco de Mozambique, 2000: 59). Compared to this low 2000 figure, actual debt service paid will be higher from 2002 onwards.

[31] See, for example World Bank, Press Release No. 2002/092/AFR, p. 1

continuously during the 1990s. In 1999 a third ESAF was agreed upon, which from then on was called a PRGF.

The first changes in Frelimo's socialist policies were already visible before 1987 (White, 1999. Controlled prices were replaced with minimum prices, and managers of State-Owned Enterprises (SOEs) were given more autonomy. In 1987, the Economic Rehabilitation Programme (ERP) was adopted which was supported by a SAF (IMF) and an Economic Recovery Credit (World Bank). This programme implied further reform measures to change the state-controlled economy into a market economy. While in the late 1980s conditions focused on agricultural policies aimed at increasing supply, in the 1990s the emphasis was on stabilisation, so on reducing demand. Conditions included the privatisation of SOEs, the gradual liberalisation of the foreign exchange market, tax reforms, the liberalisation of the financial sector culminating in the privatisation of the state commercial banks, and public sector reforms.

According to the Decision Point Document for the first HIPC initiative, Mozambique has had a very good track record with IMF and World Bank (IDA) programmes since 1987, carrying out stabilisation and reform measures that have led to a market-oriented economy (IDA and IMF, 1998). Until 1998, there were only two instances in which IMF programmes could not proceed as planned. In the first case, the negotiations on the additional year of the ESAF arrangement in 1993-94 were delayed because of a sudden rise in inflation. This was due to an increase in state subsidies to the state-owned banks, in particular the largest of them, the Banco Comercial do Mozambique (BCM). This issue only delayed disbursement. The second occurred in 1995 and was related to a larger budget deficit than targeted. In this case, disbursement did not come about, and the second ESAF was not fully drawn upon. In addition, Mozambique has requested seven waivers under ESAF programmes, which were all conceded. IDA adjustment credits never needed any waivers (IDA and IMF, 1998: 31).

In the history as recorded by the IMF and the World Bank, the government always agreed to the conditions set by the IFIs, and then implemented them almost fully. However, in practice the relationship between donors and government was more complex. First, domestic political economy factors were more important for the policies that were actually carried out than donor conditionality. Second, the conditionality process did not always proceed smoothly and there have also been heavy policy debates. Third, although donors undoubtedly had an influence on government policies, they have had very little influence in the area of corruption – despite its high cost and despite its close relationship with budgets and with banking. These three aspects of the complex donor-recipient relationship in Mozambique will now be elaborated.

As noted above, the first impetus for reform dated already from *before* the involvement of the IFIs, and came about partly for domestic reasons (White, 1999). In the early 1980s, the failure of socialist policies in agriculture became apparent. All state farms proved to be loss-making. They absorbed the full state budget for agriculture, but produced little. The state controls on peasant production and the low official prices caused peasants to withdraw into subsistence production. As a result, no food and no export crops were available for, respectively, feeding the cities and financing imports. These agricultural policies had also created resistance among peasants, which proved dangerous in the context of the civil war, as many of them filled the ranks of the Renamo rebels.[32]

[32] Although Renamo was financed from outside, first mainly by Rhodesia (currently Zimbabwe) and then by South Africa, there was also internal support.

On the external front, support from Eastern European countries began to decline. In 1981, Mozambique attempted to become a member of Comecon, but this was denied. Although aid and especially military aid from those countries continued, the government tried to get more support from western countries. The first policy conditions from western countries were political. The US required Mozambique to agree with the Nkomati accords in 1984, by which South Africa and Mozambique promised not to support terrorist activities in each others' territories.[33] The US reduced its support to Renamo after this agreement, while increasing its aid to Mozambique. Other western donors were also willing to support Mozambique, but required the country to have agreements with the IMF and the World Bank. In 1984, Mozambique became a member of the IMF and the World Bank, and in 1987 the first programmes with these institutions were agreed upon.

Mozambique thus came under strong pressure to reach an agreement, but the conditions were mostly in line with the governments' own objectives. Agricultural policies changed in accordance with the government's wishes to liberalise. The metical had to depreciate sharply, but this was not politically harmful since higher aid flows allowed more imports while at the same time financing the budget deficit. The large aid flow led to an increase in the budget deficit before grants, but a reduction in the deficit after grants. Since 1989, that deficit after grants was fully financed by foreign loans and therefore did not lead to inflation (Wuyts, 1996).

In the early 1990s, privatisation of the State-Owned Enterprises (SOEs) came about only slowly. It is said that there was no "internal commitment to reform" (Pereira da Silva and Solimano, 1999). However, high party officials began to benefit from policy changes. They were the first to become private entrepreneurs, having access to all kinds of hidden resources. The aid flow itself also created some constituency for reform. It mainly benefited the urban economy, creating an urban class with high stakes in the continuation of the reform process (Pereira da Silva and Solimano, 1999). When the fighting came to an end and the first elections were announced for 1994, Frelimo had another reason to continue market reform policies: Renamo would be unable to organise an opposition front on economic policies, so it would be easier for Frelimo to win the elections (White, 1999: 26).

In the year before the 1994 elections the power in Mozambique was in fact with the UN and not with the government. In January 1995, Frelimo resumed power. In 1995 and 1996 there were some serious conflicts between the government and the donors, and also among donors. The IMF had taken over the role of the World Bank as the principal negotiator. This implied more emphasis on stabilisation rather than on agricultural policies. The IMF pushed for increasing tax revenues in particular by improving tax administration in customs, and for the privatisation of loss-making state enterprises. In addition, the state banks had to be privatised, because as long as (state and private) firms had easy access to credits through state banks, the deficit of the larger public sector would not decline. The government was now fast in carrying out the privatisation process. However, inflation that had already increased in 1994, continued to increase in 1995.

An IMF mission in September 1995 was critical of government policies, in particular of the slow customs reform which had led to lower revenues than planned, and a larger budget deficit. The IMF threatened to call the programme off-track in December 1995. Most bilateral donors (including the US), however, praised the government for its commitment to reform, and argued that the IMF was emphasising inflation reduction too much. If Mozambique would be declared off-track, this would reduce loans from the World Bank

[33] Mozambique upheld this agreement, but South Africa did not and even increased its support to Renamo, after Rhodesia (then Zimbabwe) stopped doing so.

and perhaps also jeopardise Paris Club debt relief, thus threatening economic and political stability.[34] They decided to continue balance of payment support irrespective of the IMF's decision, and to write a joint donor letter to the IMF and to the Mozambican government expressing support for the government's policies and saying that it would be a mistake to discontinue financial support to the government (White, 1999). In December, a new IMF mission came to Mozambique which did not declare the programme off-track but instead began discussing a new ESAF for the next year. This was seen as positive, and probably connected to the intervention of the bilateral donors. However, the IMF did not disburse the final tranche of the previous ESAF, and the conditions for the new 1996 ESAF were, if anything, tightened rather than relaxed (White, 1999). Conditions included, again, the reduction of the budget deficit before grants and the reorganisation and privatisation of the customs department. The new ESAF allowed a new Paris Club agreement in 1996, at Naples terms (Chapter 2) and new loans from the World Bank. It appears that bilateral donors were happy with this outcome.

The debate on the liberalisation of trade in cashew nuts has been another area of controversy. Mozambique grows cashew nuts and had a processing industry. These processing firms were privatised in the early 1990s. Soon after that, the World Bank forced the Mozambican government to remove restrictions to exports and to reduce the export tax on cashew nuts, arguing that the processing industry was inefficient and that liberalisation would benefit poor rural producers. These policies were forced on an unwilling government, and the government was even told that it had to come out saying that it was its own policy. The result was that most of the processing firms, already weakened by years of disinvestment, had to close (White, 1999). These policies met with fierce domestic opposition. Subsequently, the World Bank carried out a study and came to the conclusion that some protection of processing firms was justified given that all countries with processing industries, most notably India, also applied protection. As a result of these debates, the pace of the reduction of export tariffs has slowed down. In 2001, the export tax stood at 18% and was to be further reduced to 14%, whilst it would have been zero under the original plans. But the new owners of the processing companies have not been compensated for the losses suffered, and no money has as yet become available for restructuring and rebuilding the companies.

A third area of contention between government and donors is corruption. According to Harrison (1999), corruption has increased from the mid-1980s onwards. A first factor was the civil war which had "undermined and destabilised the boundaries of the state". Another factor is the long coastal line which has led to drug trafficking. Several individuals arrested for this have been released before trial under unclear circumstances, indicating that part of corruption is related to this trade. Thirdly, structural adjustment programmes with their accompanying aid flows contributed to the rise in corruption. The high aid flow brought about an increase in the demand for skilled labour, leading to huge income differences between the "donor economy" and the "domestic economy" (Pereira da Silva and Solimano, 1999).[35] These income differentials increased corruption and greed, undermining the morale and ethical standards of the civil service. In addition, donors organised and financed most of their aid projects outside the public sector, but required the government to finance the recurrent expenditure for their projects in a context of decreasing overall expenditure (Wuyts, 1996). This further weakened the public sector and increased the risk of corruption.

[34] Memorandum Dutch Embassy in Maputo, 2 October 1995.
[35] An unskilled driver hired by a donor earned more than senior professional staff in the civil service (Pereira da Silva and Solimano, 1999: 44).

Already in 1991, the donors complained in a meeting of the Consultative Group (CG) about “increasing corruption” in Mozambique, and about the lack of transparency of government budgets.[36] In particular, it was unclear how counterpart funds from food aid and other import support had been used. The continued support for Mozambique in these early 1990s had much to do with the need to support the survival of the Frelimo government against the Apartheid regime in South Africa (Pereira da Silva and Solimano, 1999).

After the end of the Apartheid regime in South Africa and the elections in Mozambique, governance in general, and corruption in particular, came high on the agenda (Harrison, 1999). Harrison describes how donors were very critical on corruption at the 1995 CG meeting. The government committed itself at that meeting to formulating a Code of Conduct for civil servants, and to the establishment of a High Authority Against Corruption (HAAC). In 1996, none of these measures had been implemented, and donors were again critical on the “worsening corruption”. Denouncements were made of the theft of US maize from Maputo port, of customs evasion, and of politically-motivated bank loans, among other things. Yet donors continued to pledge their financial contributions.

In 1997 there was no sign of decreasing corruption, and the Code of Conduct and the HAAC were still not implemented. However, corruption was no a longer central issue at the CG meeting in that year. Donors began by praising the government for its implementation of reforms, in particular the privatisation of state firms, and for its success in combating inflation and achieving a high growth rate.

The reason for this change in emphasis was that growth proved to have been high since 1993, and donors needed a “show case” in Sub-Saharan Africa where structural adjustment policies could be depicted as successful.[37] This would also help appeasing domestic criticism of adjustment policies, which had come about after the debates on inflation reduction policies and on cashew nut liberalisation of the year before (Harrison, 1999). There is also a more fundamental reason why donors are not too keen to enforce anti-corruption measures. Donors need to maintain a stable coalition with the political elite in order to continue their programmes and to ensure a minimum amount of compliance. In practice, the stability of this political elite is based in part on graft and corruption. This limits the seriousness of donors in denouncing corruption (Harrison, 1999).

In a way, Mozambique can be called a “post-conditionality regime”, which Harrison (2001) describes for Uganda and Tanzania, and in which government and donors are mutually dependent on each other. Governments comply with conditions because they are dependent on aid and debt relief. But they have also internalised the general direction of the conditions and they are convinced that compliance is good for them. A high Mozambican official said, for example, “we need money to grow, and therefore we must carry out the programmes of the IFIs... Without an IMF agreement we do not get aid or debt relief from the Paris Club. Sometimes it is difficult to implement the conditions, for instance with the liberalisation of cashew nuts.... But we do not want hyperinflation or permanent devaluations, as occurs to countries that are autonomous but that do not get aid...”

Donors, on the other hand, are also dependent on governments and on presenting government measures as good compliance with conditions, because they need to be able to show a relationship between compliance and performance. In such a regime

[36] Memorandum of 23 January 1992 from the Africa Department in the Dutch Ministry of Foreign Affairs, containing report on the December 1991 Consultative Group Meeting in Paris.
[37] In Uganda something similar was happening, see Dijkstra and Van Donge (2001).

conditionality is less coercive, and donors are less likely to complain about human rights issues or corruption. However, the power balance between donor and recipient is still unequal, and donors have an extensive influence over domestic policies through their macro and sector programmes (Harrison, 2001).

3.4.2 Compliance with conditions after 1999

For the enhanced HIPC Initiative, a Poverty Reduction Strategy had to be elaborated and endorsed by the Boards of IMF and World Bank, while the country also had to continue on-track with the reform programme. By the end of 1999, the programme of structural reforms experienced some delays that were ascribed to the elections in December of that year (IMF and IDA, 2000). Nevertheless, fairly soon after Mozambique qualified for the Completion Point of the first HIPC Initiative (1999), it also qualified for the Decision Point of the enhanced HIPC Initiative (April 2000). Mozambique presented an Interim-PRSP, in which a detailed cost analysis was still missing and for which very little participation of civil society had been organised.

Debt relief granted would become irreversible after the Completion Point of the Initiative had been achieved. The conditions for reaching this Completion Point included (IMF & IDA, 2000: 36):

1. Completion of a full PRSP, including costing analysis and participation
2. Remain on-track with the IMF programme
3. Make “satisfactory progress” with key reform measures

It was clear that the IFIs would now be more strict in monitoring the reforms, as measures that had not been taken in 1999 were now explicitly formulated as conditions for reaching the Completion Point. In addition, particular attention would be paid to the tracking of government expenditure for poverty reduction and improvement in key social indicators. It was expected that the Completion Point would be achieved in about a year. In the same period, the G9 also began its joint programme for macroeconomic support, which also implied monitoring of general budget revenue and expenditure. The World Bank and the IMF focused more specifically on the use of HIPC savings.

In 2000 and 2001, Mozambique had no problem remaining on-track with the IMF. However, there were some problems with the reform programme, which indeed postponed the Completion Point. In the remainder of this section, the most recent developments with respect to compliance with reforms and the reasons for the postponement of the Completion Point will be dealt with, and this is followed by a discussion of the tracking of budget revenue and expenditure and of “HIPC savings”.

The achievement of the Completion Point had to be postponed because two conditions were not met. The IMF called them “important slippages in the implementation of structural reforms”, resulting in the country not meeting two performance criteria (IMF, 2001c: 8). One was that a new public accounting law had not been submitted to parliament, but this was due to the fact that the government was preparing a broader financial management law to be submitted later in 2001. The other slippage was more serious, and concerned the recapitalisation of one of the two former state banks, the Banco Austral.

Both the Banco Comercial de Mozambique (BCM) and the Banco Austral had been privatised on the instigation of the IMF and the World Bank in 1997. In both cases, the government kept a large minority share of 40%. These privatisations were premature, in the sense that no adequate banking regulation and supervision systems were in place.

The two banks engaged in risky lending, and had a large share of non-performing loans.[38] This was the result of a mixture of connected lending (loans to owners and managers of the bank), incompetence, favouritism, corruption, politics and fraud.[39] The lack of regulation and supervision also meant that loans were not adequately classified, and that even to the extent that they were, the owners had delayed increasing to the banks' share capital.

The problems with the BCM became apparent when the Portuguese Banco Comercial de Portugal (BCP), the owner of BCM, reclassified its loan portfolio, and additional capital proved necessary. The government sold bonds to the BCP to make up for its share in the recapitalisation effort. In the case of the Banco Austral, the government intended to carry out a similar operation, but in March 2001 the Malaysian owners of Banco Austral suddenly did not want to recapitalize anymore, and returned their shares to the government. Since this bank (the former People's Development Bank) has about 300,000 small rural account holders, the government did not want the bank to fail. The recapitalisation could not take place as envisaged.

The IMF could not request the Board to continue with the PRGF, and the Completion Point was also postponed. In addition, it had consequences for budget support from the Group of Nine (G9) donors. Despite a March 2001 Joint Donor Review which was positive on the achievements of the government in several areas, the G9 decided in May 2001 to discontinue the delivery of budget support because of the problems with the banks. This came as a shock for the government.[40] The reasons went beyond the formal "slippage" in the recapitalisation process, and were much more related to the political and governance aspects of the banking crises. The nine donors wanted to put pressure on the government in order to detect the causes of the non-performing loans, to recover them whenever possible, and to punish those who had engaged in fraudulent lending and borrowing. This had much to do with the more and more open accusations that high-level government officials were involved in these financial operations. The fraudulent banking operations were also seen as related to the drug-trafficking and the white-washing of drug money. In this respect, the "sudden" harsh position of bilateral donors was the result of gradually increasing concerns about governance, including the lack of an effective judicial system, especially after the murder on the journalist Carlos Cardoso in November 2000. This murder occurred after he had written an article on the involvement of President Chissano's son in drug trafficking. Cardoso's wife was a Norwegian advisor to a Danish legal aid programme, so the Nordic donors felt some special obligation to press for the proper investigation and punishment of this murder.

Bilateral donors also worried about the costs to the government budget of rescuing the banks. These costs equalled the total budget support for 2001, meaning that the other donors were in fact paying for the earlier mistakes of the IFIs, as a representative of a bilateral donor put it.[41] Another representative of a bilateral donor worded it as follows: "The IMF and the World Bank are very much concerned about the appearance of policies and much less about substance. They thus required private ownership of the banks, but were much less concerned about regulation and supervision or about the government heavily indebting itself in order to rescue these banks."

In June 2001 another IMF mission took pace, and this one concluded that the government had taken the right steps to recapitalise the Banco Austral: it had decided to re-privatise

[38] This share was 34 per cent in the case of the Banco Austral by December 2000 (Mozambiquefile, July 2001: 15).
[39] Interviews with several bilateral donor representatives.
[40] Interview with staff of Dutch Embassy in Maputo.
[41] Interview.

the bank. The PRGF could continue, even though the solution had not yet been implemented. The G9 then also lifted the moratorium on budget support, so that it had only in effect for a few months.

With respect to the effect of the temporary halting of budget support, mixed signals can be heard. According to an official of the Ministry of Finance, the budget support moratorium caused a shortfall of USD 60 million in the budget, for which the government had to issue T-bills at high interest rates. The IMF representative, on the other hand, stated that there was hardly any effect on the budget since limited disbursements were planned anyway, and since the government still disposed of reserves. Some G9 donors are convinced that the government suffered, others are less pertinent. In the view of one bilateral donor, the IMF is not telling the truth because it does not want to endanger the investment climate in the country. In any case, the G9 decision to stop disbursements of budget support was not made public and therefore it had no effect on public opinion, nor did it support civil society organisations in their fights against corruption or for better judicial systems.

Donors continued to urge the government to make every attempt to recover the bad loans of the two institutions, and to punish any misbehaviour or fraud. A Central Bank director who was investigating the accounts of the Banco Austral, paid with his life for this: he was thrown out of a tenth floor window in September 2001 – a day before he would present his report. In the Fall 2001 CG meeting, donors urged the government to investigate and prosecute the murder on the Bank director, and they were again very critical to the government on corruption and governance issues. But all these criticisms were again only expressed behind closed doors. In public, donors supported the government and Mozambique reached the Completion Point in November 2001.

These recent developments illustrate the post-conditionality regime of mutual dependence of donors and government. Donors may be critical of the government, but only to a limited extent in order not to endanger the show case of IFI policies or the political coalition that maintains this show case – however corrupt it may be.

The IMF and the World Bank want to see that money released through debt relief, and in particular, through debt relief on multilateral debt, is spent on the priority sectors as identified in the Action Programme for the Reduction of Absolute Poverty (PARPA): education, health, agriculture and rural development, basic infrastructure, good governance and macroeconomic and financial management. Although as shown above, there are no HIPC savings in 2002 if we compare the situation with the years of bilateral grants for multilateral debt relief (1996-1998) or with the generous debt relief and extra grants after the floods (1999-2001), the government does present a list of this donor-desired "uses of HIPC savings". However, this means that fewer resources are available for other expenditure, the more so as an increasing share of the budget is spent on domestic interest payments.[42]

The G9 monitors progress on the execution of the budget in general in order to see whether spending is indeed in line with PARPA's priority sectors. But the Joint Programme for Budget Support is also used as a channel for a broader policy dialogue with the government, including improvements in financial management and issues of good governance. The G9 meets a few times a week, inviting high government officials (depending on the sector or area under discussion) and representatives of IMF and World Bank.

[42] Interview with staff member of MPF.

The government must present quarterly reports on the use of the money (the flow of funds from a foreign exchange account to an account in meticais in MPF) and on budget execution. In the latter, execution is compared with budgeted spending and is broken down by classification Code. These reports are new and are also sent to parliament. However, they give very little information. First, expenditure is only broken down in 13 categories like energy, water, basic education, higher education, etc. This hardly allows monitoring of the priorities as defined in PARPA. Secondly, there is no comparison of budgeted and actual expenditure. Third, comparisons of different years is complicated because of different methods of indexing for inflation.[43] From what can be seen in the report presented, it appears that actual expenditure for the priority sectors is much lower than what it should be according to PARPA.

However, a staff member of the Ministry of Planning and Finance (MPF), which makes the reports, explains this from the fact that a large part of spending on priority sectors is financed by donors and this spending is often off-budget: it goes directly to the ministries, provinces or districts concerned, but is not included in the national budget. Even if it is included in the budget, donors often prefer to keep their accounts outside the government because they think that the Central Bank is not efficient. This holds for World Bank projects as well as for projects of bilateral donors. The Ministry of Planning and Finance cannot keep track of actual expenditure in those cases.[44] Another problem is that Ministries and local government levels often do not report own revenues, since they are afraid of having to transfer them to MPF.[45]

The most recent Public Expenditure Management Review, held in 2001, concludes that budget transparency is still a far cry. Among other things, it criticises "... the incomplete coverage even of own resources and expenditures, the inappropriate functional classification, outdated accounting procedures, weak cash management and deficient controls and audits..." (World Bank, 2001: iv). In 2001, a new financial management law was adopted in parliament which is expected to lead to some improvements. From the 2002 budget onwards, expenditure is broken down by 127 instead of 13 categories. The law also stipulates improvements in cash management and in public accounting systems. However, several donor representatives point out that it is by no means certain that the new law will be implemented, since it will affect vested interests. Moreover, transparency also requires that more donors channel their funds through the budget and through accounts that are under authority of the government.

Several donor representatives admit that donors are part of the problem in Mozambique. They continue financing projects that are promoting welfare for project officers and have little added value for the poor, or they fail to co-ordinate their policies and conditions which may benefit one group within the government and perhaps to some extent also the ultimate beneficiaries, but do not lead to structural improvements. For example, one donor terminates a project because of proven irregularities in (government) financial management. Another donor then takes over, but it keeps strict control over financial resources and auditing. Nothing will then improve in Mozambique's financial project management. Wuyts (1996) already criticised the undermining of state public management by donors setting up their own semi-autonomous cost centres. Very little seems to have changed since then.

[43] This is clear from reviewing an example, MPF (2001), Relatório de Excecução do Orçamento do Estado, Janeiro a Setembro 2001, but also from interviews with donors and an MPF official.
[44] Interview with high MPF officer.
[45] Interview with IMF representative.

3.4.3 The PRSP process

Mozambique already developed its action programme PARPA, in 1998, on the basis of the Household Consumption Survey of 1996-97. When a PRSP was needed in order to qualify for the enhanced HIPC initiative, Mozambique submitted a slightly adjusted PARPA as Interim-PRSP that was required for the HIPC Decision Point. This I-PRSP, or PARPA 2000-2004, was endorsed by the Boards of IMF and World Bank in April 2000. However, as was the case with many other I-PRSPs, it was hardly based on participation.

After approval of the I-PRSP the government began working on a new PARPA which would have to be based on a participatory approach (Falck and Landfald, 2001). The Ministry of Planning and Finance (MPF) presented a first draft in November 2000. This draft did not include cost estimates yet, but was meant to provide the basis for the consultation process. In December 2000 and January 2001 many meetings were held with civil society organisations, private sector representatives and government officials in which this draft, or proposed sectoral policies, were discussed (Republic of Mozambique, 2001).

The consultation process suffered from several limitations, however. First, it was only held in Maputo and in two of the country's ten provinces (Sofala and Nampula). Second, there was severe time pressure which meant that civil society organisations did not have much opportunity to prepare themselves. They usually received documentation just one day before the consultation meetings. A third problem was that it was not clear beforehand what the role of these consultations was, and how the opinions expressed would be incorporated in the strategy. This is related to a fourth point, namely the absence of parliament and political parties in discussing the strategy – let alone in approving it.

The latter two issues reflect a more general design failure of the PRSP processes: the lack of attention to the relation between representative democracy and consultation or participation processes (Molenaers and Renard, 2002. In Mozambique, Parliament always approves a five-year government plan in which intentions and plans of every new government (President and Council of Ministers) are laid down. This had just been done. The PARPA is also a strategy for five years, and the relation with the earlier approved plan was not clear. According to a high government official, the two plans will have to be integrated after the next national elections in order to solve this ambiguity.

In practice, the same draft that formed the basis for the consultation process was also submitted to the IFIs and to bilateral donors for comments. MPF then wrote a second draft of the strategy in which it attempted to take the results of the consultation process into account (Falck and Landfald, 2001). This draft was not made public but was discussed by the line ministries. The third version, presented at the end of February, was again submitted to the IFIs and bilateral donors. This led to a fourth draft which was discussed and approved (with minor corrections) by the Council of Ministers in April 2001. It was not sent to the Board of the IFIs at that time, because of the problems with the other conditions for the Completion Point (see above). In August 2001, this same version was submitted to the IFIs and it was endorsed as a full PRSP in September 2001.

NGO representatives whom we interviewed indeed complained about the lack of time for adequate preparation of the discussions on PARPA. In addition, they do not think they had much actual influence on the contents of PARPA, whilst donors, and in particular the IFIs, had much more influence. Some of them pointed out that they did not want to criticise government plans extensively, as NGOs also had a firm interest in getting debt relief as soon as possible and they did not want to delay the process. On the other hand, they considered these consultations as a first round. As PARPA is meant to be an annual rolling programme, quality of the consultation process may improve every year. Civil society organisations also need to develop capacity for and gain experience in meaningful participation.

According to the International Financial Institutions, the fact that Mozambique had already prepared a PARPA in 1998 shows that poverty reduction has been top priority for the government already for a long time and that there is strong ownership of the PRSP. Other respondents point out, however, that by the middle of the 1990s it was already clear that poverty reduction would be the most important requirement of the donors for future aid. The government was smart in foreseeing this. Within line agencies, PARPA is generally seen as something dominated by the Ministry of Planning and Finance. Not even the ministries of the priority sectors education, health, agriculture and rural development, and basic infrastructure,[46] display the same level of commitment to the strategy. The perception in those ministries is that PARPA has been written by an elite and that PARPA policies are not always supported by high officials working in these sectors. One high official in a line agency that is among the priority sectors of PARPA, argued that needs are not confined to what is mentioned in PARPA.

This lack of support for and commitment to PARPA in line agencies will also have consequences for the implementation of poverty reduction policies. In another high-priority ministry, the expenditure proposal for the 2002 budget contradicted the priorities in PARPA by proposing that spending would increase more in Maputo than in the interior of the country, where most of the poor live. In general, many respondents pointed out that plans look impressive on paper, but that the government has shown very little capacity to implement effective poverty reduction strategies so far.

As to the contents of the strategy, most donor and NGO representatives considered it to be a good basis for policies, although much could be improved in terms of outlining concrete strategies and targets. Civil society representatives, in particular, would like to see targets also at provincial and district levels so that progress can be monitored by NGOs at those levels. The Joint Staff Assessment (JSA) of the staffs of IMF and World Bank recognises several improvements as compared to the Interim strategy. PARPA 2001-2005 has a better poverty diagnosis, a new section on good governance, and a financing plan linked to the Medium Term Expenditure Framework, among other things (IMF and IDA, 2001). It also identifies some risks. One of these is that PARPA is based on an optimistic growth rate of 8%, corresponding to the high-growth years of the later 1990s. The 2000 floods have shown that this growth cannot be taken for granted. In addition, projected growth is to a considerable extent based on a handful of new foreign mega-investment projects. These are not only vulnerable to market and political risks, but they are also unlikely to reduce poverty due to their capital- and import-intensive nature. These criticisms are voiced somewhat more strongly by some NGOs and some representatives of the private sector, who argue that current growth has been based on services, trade, and construction, often related to donor money. Although PARPA does include an expansion of basic infrastructure in the countryside, it is not clear whether this will lead to increases in production and private investment. In sum, a strategy for increasing production and employment is lacking.

3.5 The efficiency of Dutch debt relief efforts

The Dutch debt relief on bilateral loans in the early 1990s implied forgiveness on flows and stocks and therefore reduced the debt stock. It probably did not lead to an increase in resources as Mozambique would probably not have paid these debts. The relief on multilateral debts as of 1996 did free resources, as these debts were always serviced. In

[46] There are two more priorities in PARPA, namely good governance and macroeconomic and financial management, but they are less easily called “sectors”.

addition, no conditions were set to the “use” of these freed resources so that they effectively led to a larger resource envelope for the government.

3.6 Conclusions

Debt relief is efficient if it reduces the actual debt stock, the debt service flow, and if conditions attached to debt relief are implemented. This chapter shows that debt relief only led to limited reduction in the debt stock, especially if we look at the years from 1991 onwards. This is due to the fact that most debt relief was in the form of restructuring of debt service flows.

It is more difficult to make firm statements about the extent to which the actual debt service burden was reduced. Although the country generally paid the Paris Club creditors what it owed (after rescheduling and forgiveness), this does not mean that it would have paid the Paris Club in the absence of agreements on debt relief. Debt service due was simply too large and would never be paid. Actual debt service paid increased slightly during the first half of the 1990s, and then declined somewhat as a result of increasing percentages of Paris Club forgiveness and, in 1999, also due to HIPC and flood relief. In addition, during 1996-1998 bilateral donors took over all debt service to the multilateral creditors, which further reduced the debt service *burden* in those years. All in all, debt relief efforts probably did not lower the actual debt service flow until 1995, but they did free resources for the government in the second half of the 1990s.

In comparison with this actual freeing of resources for the government in the latter half of the 1990s, the influence of HIPC on government resources in the first decade of the millennium is expected to be smaller. HIPC debt relief also comes with more policy conditions. The lower freeing of resources may be compensated by generous budget support from bilateral donors, but also here conditionality is increasing – as compared to the bilateral take-overs of multilateral debt service in the late 1990s.

Mozambique is generally depicted as a country that complies with policy conditions. However, this chapter showed that there have been serious conflicts of opinion on the contents of policies, both between donors and government and to some extent also among donors. Yet, all parties have strong interests in maintaining the appearance of Mozambique as a good complier. The government is heavily aid dependent, and both multilateral and bilateral donors need “show cases” where “adjustment”, or donor-prescribed policies in general, appear to lead to high growth rates. As a result, the Mozambican government gives in to the donors where it thinks it does not harm its interests too much, in other cases just keeping up the appearance of implementing what the donors want. The donors, on the other hand, do not apply sanctions on non-compliance, and only whisper behind closed doors about the government’s failure to investigate cases of high-level corruption, fraud and politically-induced murders. This can hardly be called a situation of efficient compliance with conditions.

Furthermore, the very conditions set by IMF and World Bank seem to be directed to achieving appearances, such as privatisations or liberalisations and the writing of a PRSP. As one bilateral donor put it, the IFIs do not seem to care about substance or the actual development consequences of those measures or policies. To the extent that earlier conditions have been implemented and proved to be failures, such as the premature privatisation of state banks or the liberalisation of cashew nut exports, it is the Mozambican people and the bilateral donors that are paying for the consequent losses.

4 THE EFFECTIVENESS OF DEBT RELIEF

4.1 Introduction

This chapter assesses the effectiveness of debt relief, by comparing the outputs with the outcomes. The outcomes include, first, the debt sustainability indicators. Did debt relief improve Mozambique's solvency and liquidity? Next, section 4.3 it examines whether debt relief, to the extent that it freed resources for the government, had beneficial effects on fiscal policy in general and on the composition of government spending in particular. With respect to the latter, the question is whether increased government spending led to a rise in social expenditure (an intermediate outcome), and on social indicators (a final outcome). In order to assess the stock effect of debt relief, several indicators are examined (4.4). A first measure is the ratio of debt service paid to debt service due, which is an indicator for the debt overhang. After this, the figures on net inflows of private capital and of gross domestic investment are analysed. Section 4.5 examines the perspectives for long-run debt sustainability, and section 4.6 concludes.

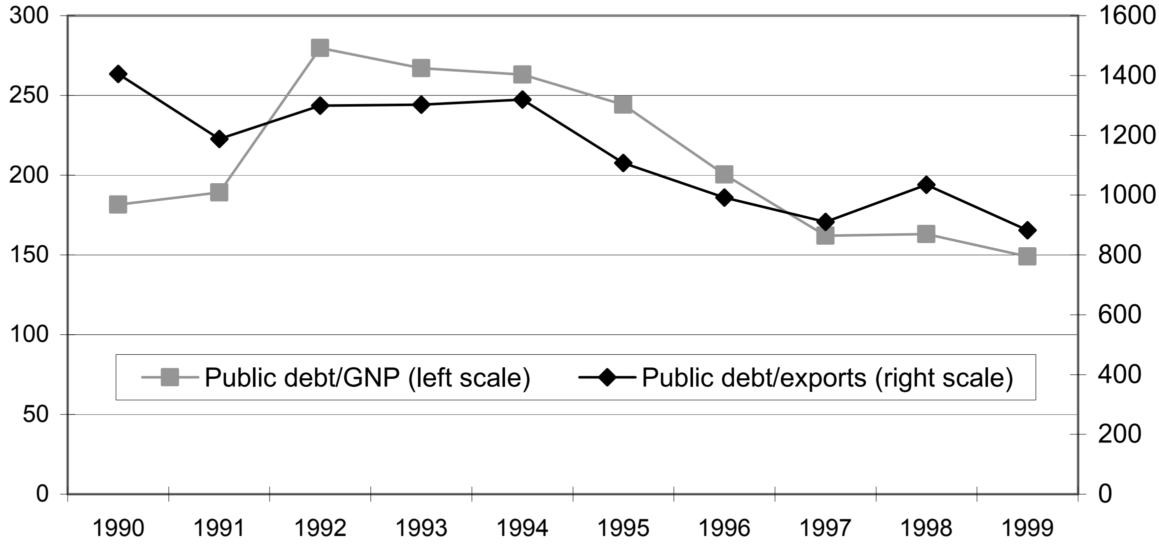
4.2 Debt sustainability

Although Mozambique's debt stock increased during the 1990s, the debt sustainability has improved slightly. The debt-to-GNP ratio first increased from about 180% in 1990 to 280% in 1992, but then fell to about 150% in 1999 (Figure 4–1). In terms of exports of goods and services, the debt stock decreased from 1400% in 1990 to 880% of these exports in 1999. Both of these 1999 ratios are still way beyond values that are considered sustainable. For the debt/GNP ratio, 60% is usually seen as the critical value, but Houben (2002) has argued that this value must be adjusted downwards for low- and middle-income countries because of their greater vulnerability. For the debt-to-exports ratio, the sustainability criterion in the context of the HIPC initiative has been defined as 150%. This critical value is based on the net present value of the debt stock, however. Since a large part of the Mozambican public debt is concessional, this could correspond to about 250% for the nominal debt stock. The actual 1999 debt-to-exports ratio is then still 3.5 times higher than the sustainable value.

While the debt-to-GNP and the debt-to-exports ratios are considered measures for the long-run sustainability of the debt, or the solvency, the debt *service*-to-exports-ratio is seen as an indicator for the country's (short-term) liquidity. Since Mozambique is not paying a large share of its debt service due, we examine both the debt service due and the actual debt service paid. The debt service due-to-exports ratio fell from more than 500% in 1990 to 160% in 1999. This substantial decrease came about especially in the first and last years of the evaluation period. But it is clear that Mozambique in 1999 is still not able to pay all debt service due. The actual debt service-to-exports ratio was just above the critical value of 25% in 1990, and was even above 30% during 1993-1995, but then decreased to a more manageable level of 19-20% in 1997-1999. The actual debt service burden therefore fell substantially in the second half of the decade.[47]

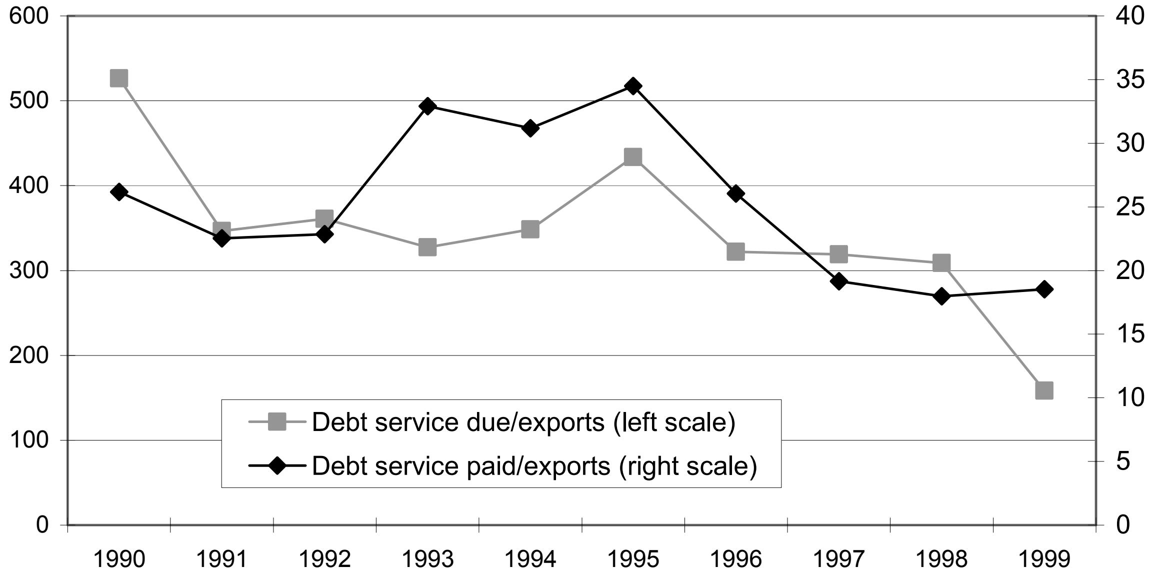
[47] And these figures do not even take the MDF into account.

Figure 4–1 Debt sustainability indicators for public debt (per cent)



Source: GDF.

Figure 4–2 Debt service ratios (per cent)

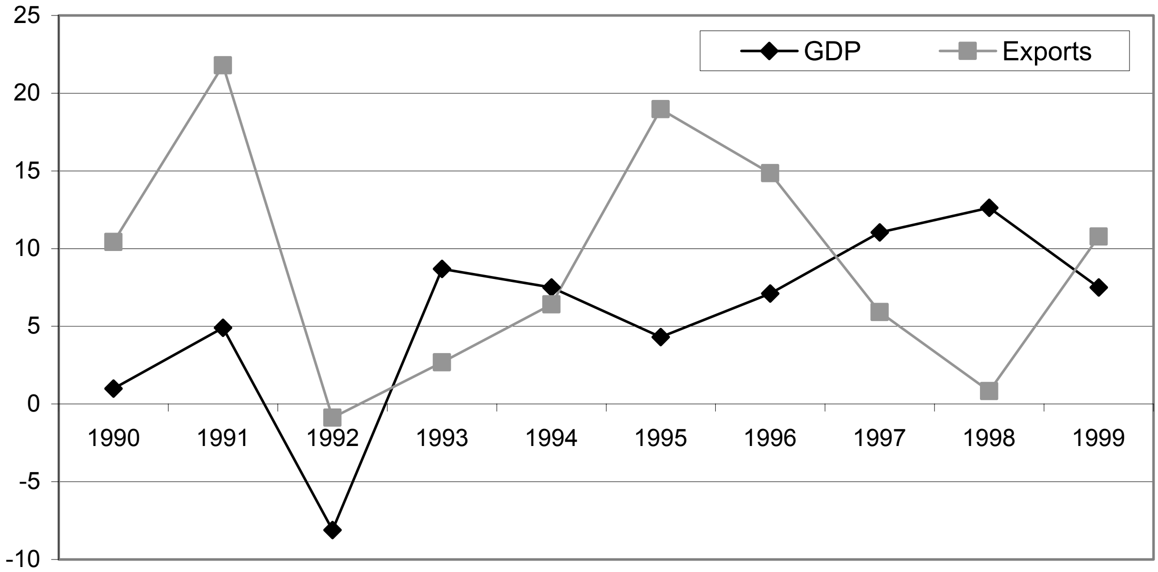


Source: GDF.

As already indicated, the debt stock increased over the 1990s, so the improvement in the solvency indicators of Figure 4–1 must be due to the growth in GNP and exports. Figure 4–3shows that after a dip in 1992, Mozambique has registered very high annual rates of economic growth. The factors behind this will be further examined in Chapter 5. Export growth was much more fluctuating between 1990 and 1999, but growth rates were positive and high as of 1993 (Figure 4–3). But exports started from a very low level, after a fall by 75% between 1981 and 1986 (World Bank 2001a: 1) and slow increases after that. Total exports of goods and services began to exceed the 1980-1981 level only in 1997 (World Bank, 2002). Services exports (including worker remittances, transport and travel services) were at a higher level than goods exports in the 1990s, and also experienced higher growth rates. But net services exports also were negative (Table 2–1).

The value of goods exports is vulnerable to climatic factors and to developments in world market prices, since about 50% comes from prawns, cashew nuts and cotton (World Bank 2001a: 5). Electricity is another important export good. In 2000, the new investment project Mozal began to export aluminium, and these exports were expected to lead to a tripling of the 1998 export figure in 2002 (World Bank 2001a: 35). With increasing exports, it can be expected that the debt service-to-export ratio will improve further. However, it can be questioned whether including these aluminium exports gives a realistic assessment of the payment capacity of the country, given that the import requirement for these large projects is also extensive. In 1999 and 2000, for example, imports for "large projects" stood at USD 514 and USD 222 million respectively, against 2000 exports of USD 60 million (Banco de Mozambique, 2000: 54). In addition, exports from these large projects is not a good indicator for the payment capacity of the *government*, since taxes are very low (see also section 0).

Figure 4–3 Annual growth rates of GDP and of Exports of goods and services (per cent)



Source: GDP growth computed from WDI, Exports from GDF.

4.3 The flow effect: Debt relief, public accounts and social indicators

The conclusion of Chapter 3 was that debt relief on flows has freed resources for the government. From 1995 onwards the actual debt service flow started to decline, and probably some years earlier debt relief also freed resources, since Mozambique had the intention of paying the Paris Club all debt service due. However, given the large gap between due and paid it cannot be taken for granted that Mozambique would have paid all debt service due to the Paris Club in those years, had no debt relief on flows come about. On the other hand, if and to the extent that debt relief freed resources, there is no difference between debt relief and aid.

The question now is what the government has done with these freed resources. Has it led to reductions in revenues, to increases in overall spending or to a decline of the deficit? Furthermore, have there been changes in the composition of expenditure? These are the topics of the first two paragraphs of this section. The third paragraph examines the possible effect of the changes in government expenditure on social indicators.

However, it is very difficult to rely on figures in this area. Some expenditure is not included in the budget figures, such as part of the defence expenditure (Pereira da Silva and Solimano, 1999) and also part of the aid and its accompanying projects, as was noted before in the text with Figure 2–4 above. Even some revenue is off-budget, where ministries have their own resources such as the Ministry of Public Works and Housing, which has income from a fuel tax that are supposed to be spent on road maintenance.[48] Consolidated public accounts do not exist, so accounts do not include state-owned enterprises and financially autonomous institutions. Furthermore, it was only in 2000 that accounts on actual expenditure were for the first time sent to Parliament and to the General Accounting Office.[49]

Another problem is that the IMF data on national production and expenditure experienced a large change as of 1997. Before 1997, the IMF used figures published by the National Directorate of Planning of the Ministry of Planning and Finance. Since then, the Fund derives its data from the National Statistics Institute. The reason is that these data apply the 1993 System of National Accounts of the United Nations and "seem to reflect Mozambique's economic structure better" (IMF, 1999: 6). But as a result, nominal GDP more than doubled, dwarfing all figures expressed as percentages of GDP such as government income and expenditure. For this reason, we present the government accounts in two tables, one including the years 1991-1997, according to the old system, and one including 1997-2001 based on the National Statistics Institute data.

4.3.1 Debt relief and fiscal policy

From Tables 3–1 and 3–2 it is clear that interest payments on external debt were high in terms of GDP in 1992 and 1993, and again somewhat high in 1995, but then started to decline. Aid in the form of grants reached a peak in 1994, then declined until 1998 and then rose again. Apart from the fact that in recent years, a higher percentage of total aid is now probably included in the budget figures, there was also an increase in non project grants due to HIPC.

Tax revenue did not increase as a percentage of GDP between 1991 and 1997, nor did total revenues (Table 3–1). The Policy Framework Paper for 1992-1994 talks optimistically about increases in fiscal revenue to 25% of GDP in 1994, but it is clear that this objective proved too ambitious. After 1997 there was a slight increase in public revenue. According to Arndt et al. (2000), it was difficult to raise tax income because economic growth was to a large extent concentrated in sectors that are difficult to tax, like smallholder agriculture and small trade.

Total expenditure was high but fell to lower levels between 1995 and 1998. In 1995 it decreased by 8 percentage points, after the 1994 elections and after most of the demobilisation and resettlement activities had come to an end. In the same year, grants also declined by 6 percentage points, indicating that a lot of aid had been destined to the organisation of elections and the resettlement operations. The overall balance before grants declined as well, to 22% of GDP in 1995. This was due to both a reduction in current expenditure and in capital expenditure. The overall balance after grants decreased from 8.3% of GDP in 1994 to 5.0% of GDP in 1995. From 1994 onwards, the deficit after grants was fully financed externally. From 1999 onwards, total expenditure has increased again, both current and capital expenditure (Table 4–2). This has also led to a larger negative balance before grants in 1999 and 2000, and, especially in 2000, also to a larger deficit after grants. Expenditure as a percentage of GDP increased further in 2001, partly due to the government intervention in two former state banks (World Bank 2001a: 27).

[48] World Bank 2001: 35 and interview with officer of Ministry of Planning and Finance.
[49] Interview with officers Ministry of Planning and Finance and of the Center for Investment Promotion.

Part of the 2001 increase was the result of the reconstruction activities after the heavy floods in 2000.

Table 4–1 Government accounts: revenues, expenditure and deficit 1991-1997 (per cent of GDP)

	1991	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*
Total revenues	21.8	21.1	20.0	17.6	18.3	18.0	20.4
Tax revenues	18.5	18.4	18.2	16.1	16.7	16.5	18.9
Non-tax revenues	3.3	2.8	1.8	1.5	1.6	1.5	1.6
Total expenditure and net lending	46.6	47.5	42.2	47.3	39.1	35.0	40.5
Current expenditure	22.3	24.2	21.4	22.9	16.6	15.9	18.9
Budget year	22.6	24.2	21.5	23.1	17.2	15.9	19.2
Wages and salaries	4.9	4.6	4.4	3.8	3.8	3.8	4.2
Goods and services	4.4	5.5	4.2	7.0	4.7	4.0	4.4
Defence and security	8.7	8.3	7.6	8.8	4.0	3.6	3.7
Interest on public debt	2.2	3.6	3.6	1.7	2.6	2.4	2.4
Domestic	0.4	0.2	0.2	0.1	0.1	0.2	0.2
External	1.8	3.4	3.4	1.7	2.5	2.2	2.2
Transfer payments	1.6	1.5	1.0	1.2	1.7	1.7	2.2
Other	0.9	0.7	0.7	0.7	0.5	0.4	2.4
Complementary period/net float	-0.4	0.0	-0.1	-0.3	-0.1	-0.1	-0.1
Current balance	-0.5	-3.1	-1.4	-5.2	1.7	2.1	1.5
Capital expenditure	22.6	22.0	20.1	24.5	21.7	18.9	21.5
Budget year	23.9	23.9	22.4	27.8	23.0	20.3	18.0
Externally financed	17.4	16.4	16.1	22.0	18.6	16.3	14.5
Locally financed	6.5	7.5	6.4	5.9	4.5	4.0	3.6
Complementary period/net float	-1.3	-1.9	-2.3	-3.3	-1.3	-1.3	3.5
Net lending	1.8	1.2	0.7	0.0	0.8	0.1	0.2
Overall balance before grants	-24.9	-26.3	-22.2	-29.7	-22.2	-17.0	-20.1
Grants	19.3	20.9	17.1	21.5	15.8	11.8	14.4
Project	12.2	11.1	10.7	12.4	9.9	7.0	8.8
Non-project	7.1	9.8	6.4	9.1	5.9	4.9	5.6
Overall balance after grants	-5.6	-5.4	-5.1	-8.3	-5.0	-5.2	-5.7
External borrowing (net)	6.2	3.2	3.7	9.1	6.2	7.1	8.3
Domestic financing (net)	-0.7	2.2	1.4	-0.9	-1.2	-1.9	-2.6

Source: IMF (1996, 1998)

The freeing of resources as a result of debt relief as of 1995 was accompanied by lower aid inflows – at least, until 1998. Nevertheless, deficits before grants were reduced since then. From 1999 onwards, debt relief and aid may have led to higher expenditure but it was also accompanied by a larger deficit.

Table 4–2 Government accounts: revenues, expenditure and deficit 1997-2001 (per cent of GDP)

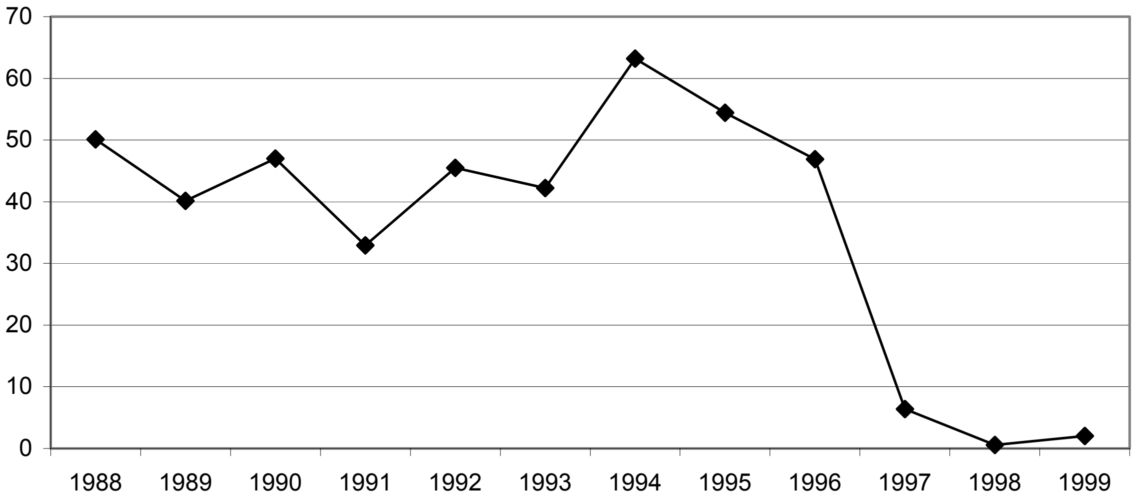
	1997	*1998*	*1999*	*2000*	*2001*[1]
Total revenues	11.6	11.4	11.9	12.4	12.4
Tax revenues	10.4	10.5	11.0	11.4	11.1
Non-tax revenues	1.0	0.8	0.9	1.0	1.2
Total expenditure and net lending	23.4	21.6	24.6	27.8	35.5
Current expenditure	10.5	11.2	12.2	13.0	15.2
Wages and salaries	3.6	4.5	5.8	6.4	7.1
Goods and services	3.3	3.9	3.7	3.3	4.5
Interest on public debt	1.3	1.0	0.6	0.2	0.8
Domestic	0.1	0.0	0.0	0.0	0.4
External	1.2	0.9	0.6	0.2	0.4
Transfer payments	1.8	1.9	2.1	2.8	2.9
Other/unallocated	1.0	-0.2	-0.4	-0.4	0.0
Current balance	0.9	0.1	-0.2	-0.6	-2.8
Capital expenditure	11.9	9.8	11.5	13.0	16.0
Budget year	9.3				
Externally financed	7.4	7.7	8.1	8.8	11.8
Locally financed	1.8	2.1	3.4	4.2	4.2
Complementary period/net float	2.6				
Net lending	1.0	0.6	0.9	1.8	4.1
Overall balance before grants	-11.7	-10.5	-13.1	-15.8	-23.0
Grants	9.3	8.1	11.7	11.4	14.1
Project	4.9	4.0	5.4	6.3	8.1
Non-project	4.4	4.1	6.3	5.1	6.0
Overall balance after grants	-2.5	-2.4	-1.4	-4.4	-8.9
External borrowing (net)	5.7	4.6	1.7	3.7	6.5
Domestic financing (net)	-3.2	-2.3	-0.3	-0.1	1.4
Memo item:					
Defence and security					

[1]Programmed.
Sources: IMF (1999, 2001c).

Despite the external financing of the budget deficit, inflation remained high until 1997, when it fell from almost 50% to 6% (Figure 4–1). The high inflation is said to be due to the continued lending to state-owned enterprises (SOEs) through the two large and then still state-owned banks, which is not reflected in the public accounts (Arndt et al., 2000; World Bank 2001: 17). In 1992, Mozambique had introduced a two-tier banking system, splitting off of the Commercial Bank of Mozambique (BCM) from the Central Bank, the Bank of Mozambique. But both the BCM and the main agricultural bank, the Banco Austral (formerly the BPD), were still in state hands. Although direct subsidies to enterprises had been abolished, SOEs still experienced “soft budget constraints” through the easy borrowing against net negative interest rates. During 1994-1996 most SOEs were privatised, and in 1996 the two banks were also privatised. This put an end to the easy access to credit of SOEs, and turned the real interest rate positive for the first time.

Inflation rose again in 2000 as a result of the devastating floods. After this “supply shock” it came down, but at the end of 2000 it rose again. This was probably the result of political factors, such as the murder on the journalist Carlos Cardoso. In 2001, the Central Bank increased the interest rate and reserve requirements for the banks in an attempt to stop inflation. By November 2001, it had helped to halt the depreciation of the metical, but inflation was still high.[50]

Figure 4–4 Annual inflation rates 1988-1999 (per cent)



Source: World Bank, WDI.

4.3.2 The composition of expenditure

Capital expenditure has always been high and in many years it has been higher than current expenditure. It must be born in mind, however, that capital expenditure includes recurrent outlays to the extent that the latter are related to the investment projects. Capital expenditure has been largely externally financed, and the figures reflect the amount of foreign project aid, rather than the amount of freed resources in the government budget through debt relief (Tables 4–1 and 4–2).

As to other components, the share of "wages and salaries" first fell as a percentage of GDP and then rose again as of 1997. When the government had to cut spending, it first cut real wages across-the-board rather than undertaking more structural measures to reform the public sector (Arndt et al., 2000). From the figures shown, it appears that there has been some "peace dividend" since the share for defence and security became much lower as of 1995.

From the early 1990s, the donors urged Mozambique to spend more on the social sectors. Social sectors in Mozambique include education and health, other social subsidies, and up to 1995 there were also food subsidies, which later became "rural development and price subsidies" (table 4–3). Both current and total social expenditure declined as percentages of GDP between 1991 and 1994 by almost one-third. This can be expected to have had serious consequences for the availability and/or quality of social services. After 1994, a significant increase can be observed, so that real spending on the social sectors appears to be higher in 1999 than it was in 1991 (Table 4–3).[51] [52] This relative

[50] Interview with IMF representative.
[51] Again, it is difficult to compare the percentages directly as in the new system of national accounts the nominal value of GDP is much higher, so that the percentages are much lower.

increase occurred while total spending decreased until 1998. Donor influence therefore probably played a larger role until 1998 than the freeing resources through debt relief. After 1999, the availability of resources increased and this led to higher overall spending and probably also to higher expenditure on social sectors. According to the World Bank, part of the 2000 expenditure increase (43 per cent, in nominal terms) was related to increased social spending as a result of HIPC debt relief (World Bank 2001: 27).

Table 4–3 Social expenditure 1991-1999 (per cent of GDP)[1]

	1991	*1992*	*1993*	*1994*	*1995*	*new 1995*	*1996*	*1997*	*1998*	*1999*
Current expenditure on social sectors	6.3	6.4	5.0	4.0	4.6	1.1	2.7	3.0	3.3	4.0
Education	3.2	3.3	2.7	2.2	2.7	0.7	1.6	1.8	2.0	2.5
Health	1.5	1.8	1.4	1.1	1.3	0.3	0.7	0.9	1.0	1.1
Food subsidies	0.4	0.3	0.1	0.1	0.0					
Rural development & price subsidies						0.1	0.2	0.2	0.2	0.2
Social subsidies	0.6	0.5	0.5	0.4	0.3	0.1	0.1	0.1	0.1	0.2
Total expenditure on social sectors	7.0	7.3	5.7	5.1	5.3	1.3	3.1	3.3	3.7	4.4
Education	3.7	4.0	3.1	2.9	3.1	0.7	1.9	2.0	2.2	2.8
Health	1.7	2.1	1.6	1.4	1.5	0.4	0.9	1.0	1.2	1.2
Food subsidies	0.9	0.5	0.2	0.1	0.1					
Rural development & price subsidies						0.1	0.2	0.2	0.2	0.2
Social subsidies	1.3	1.0	1.2	0.8	0.8	0.1	0.1	0.1	0.1	0.2

[1]The column “new 1995” and all columns from 1996 onwards are based on GDP figures of the revised national accounts, so on much higher nominal GDP figures.
Sources: IMF 1996 and IMF 2001b.

4.3.3 Social indicators

Table 4–4 Education indicators, 1981 and 1990-1999

	1981	*1990*	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*
Illiteracy rate, adult above 15	74	67	66	65	64	62	62	60	59	58	57
Female	88	82	82	80	79	78	77	75	74	73	72
Male	60	51	50	49	48	46	45	44	43	42	41
Primary school enrolment[1]	95	67	62	59	57	58	60				
Female	81	57	53	50	48	48	50				
Male	109	77	72	67	66	67	70				
Secondary school enrolment[1]	5	8	8	7	7	7	7				
Female	3	6	6	5	5	5	6				
Male	8	10	10	9	8	8	9				
Pupil-teacher ratio, primary	69	55	55	53	55	58	58				

Source: World Bank, WDI, 2002.
[1]Gross, in per cent

[52] Another complication is that the share in GDP does not always provide a reliable indication of real spending, as the deflator of social expenditure need not be the same as the deflator of GDP as a whole. This may lead to considerable differences, see Botchwey et al., 1998.

The decreasing expenditure on education in the first half of the 1990s does not seem to have affected the long-term decline in illiteracy rates. Table 4–4 shows that illiteracy rates were still high in 1999, and that there is a large gap between men and women. The effect of the civil war in the 1980s and of continued low spending on education in the early 1990s is apparent from the primary school enrolment rates. While gross primary enrolment was almost 100% in 1981, this figure fell to 67% in 1990 and continued to decline until 1994. The secondary school enrolment rate increased during the 1980s, probably reflecting that the war was much less destructive in urban areas. Between 1990 and 1995, this ratio hardly changed. The pupil-teacher ratio in primary education was higher in 1981 than in 1990, but dropped slightly between 1990 and 1995.

Education indicators presented in the Poverty Reduction Strategy Paper show that gross primary school enrolment continued to increase after 1995, from 57 per cent in 1995 to 91 per cent in 2000. That same source indicates that gross secondary enrolment increased from 14 per cent in 1995 to 23 per cent in 2000 (Republic of Mozambique, 2001: 25).

The available health indicators (Table 4–5) may be related to increasing government spending on health in the second half of the 1990s. Immunisation rates against DPT and measles have increased during the 1990s. Life expectancy first improved, but then fell back again during the 1990s, which is most likely due to the effect of HIV-AIDS. According to the PRSP, maternal mortality has decreased from 2.3 per cent in 1994 to 1.5 per cent in 1999 (Republic of Mozambique, 2001: 25).

Table 4–5 Health indicators, 1981 and 1990-1999

	1981	*1990*	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*
Immunisation, DPT[1]	56	46	46	50	49	55	57	60	61	77	81
Immunisation, measles[1]	32	59	55	56	62	65	71	67	70	87	90
Life expectancy		43		43			45		45		43
Female		45		45			46		47		44
Male		42		42			43		44		42

[1] In per cent of children under 12 months.
Source: World Bank, WDI, 2002.

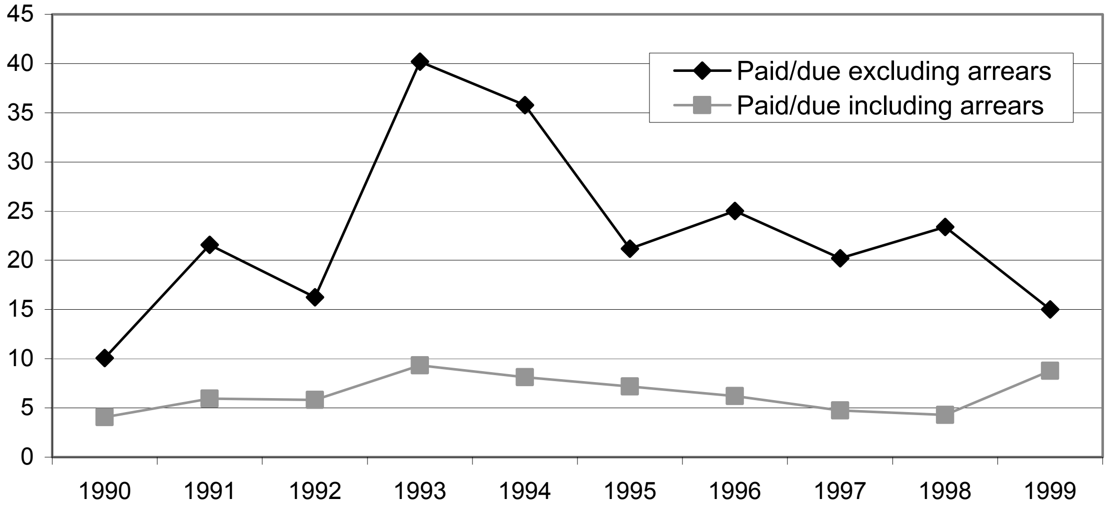
Whether these improvements in social indicators can be ascribed to increased government spending on social sectors in the second half of the 1990s cannot be investigated in depth in this study. Given the problems with transparency and accountability of budget execution, doubts are probably justified. Improvements in social indicators may as well be the result of specific aid projects, like vaccination campaigns, of higher income levels, of the restoration of law and order in the countryside, or of yet other factors.

4.4 The stock effect: creditworthiness and investment

Debt relief led to a small reduction in the debt stock (Chapter 3). In 0 it was concluded that Mozambique's debt sustainability indicators have improved during the 1990s, but that they were still at unsustainable levels in 1999. The ratios of debt service-to-exports and of debt service due-to-exports have also come down, but especially the latter is still very high (almost 160%). Given these still unsustainable ratios, it can hardly be expected that debt relief had a stock effect, bringing about a reduction in the debt overhang and leading to higher (private) investment, improved creditworthiness and new inflows of private capital. We begin by looking at the ratio of debt service paid to debt service due, which can be considered a first indicator of creditworthiness. We then examine what happened to inflows of private capital to Mozambique in the 1990s. In the last paragraph we analyse the investment figures.

4.4.1 Creditworthiness

Figure 4–5 The ratio between debt service paid and debt service due[1] 19901999 (per cent)



[1]Debt service due = debt service paid plus restructuring plus forgiveness plus the stock of arrears. This is the definition used in the lower line. The higher line is based on debt service due, defined as excluding the stock of arrears.
Source: Computed on the basis of GDF data.

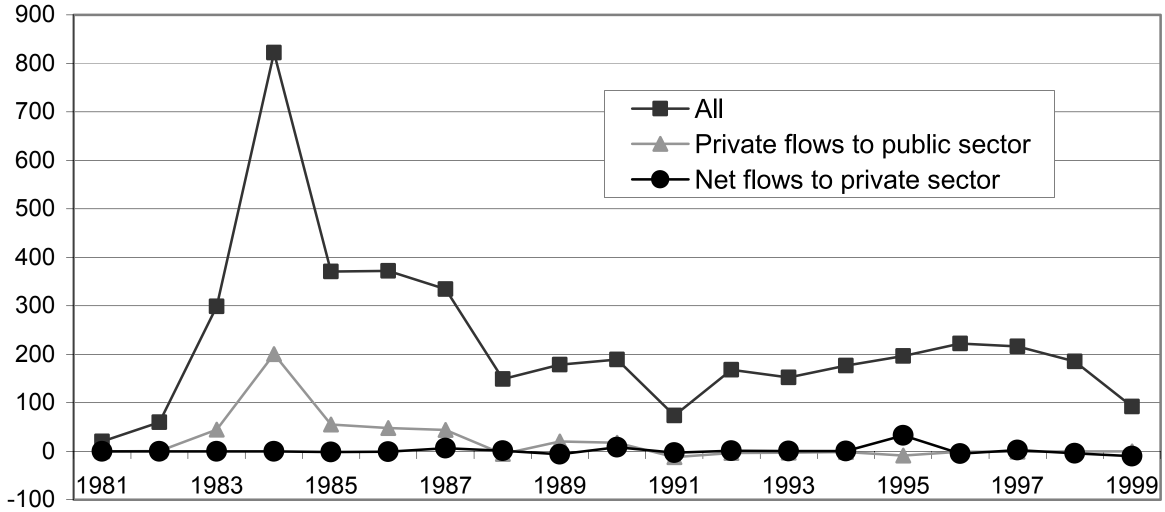
Figure 3–5 already showed that during the whole of the 1990s Mozambique only paid small amounts of actual debt service as compared to debt service *due.* This is also clear from Figure 4–5. Debt service paid has always been below 10% of debt service due (if the stock of arrears is included in the latter). This ratio does not exhibit a systematic improvement over the 1990s. If arrears are excluded, the ratio was still below 25% in all years, except in 1993 and 1994. This means that in most years, more than 75% of debt service due was rescheduled or forgiven. In 1993 and 1994 rescheduling and forgiveness together constituted 60 and 55% of debt service due, but, given that the lowest paid/due ratio (Figure 4–5) was still below 10% in those years, this lower debt relief must – given the definitions of the two concepts – have been compensated for by higher arrears.[53] This consistently low ratio of debt service paid-to-debt service due means that it is unlikely that Mozambique became more creditworthy for private investors.

4.4.2 Inflows of private capital

Total net flows on long-term debt (new disbursements minus amortisation payments) to Mozambique have increased slightly until 1997, and then decreased again (Figure 4–6). However, the overwhelming majority of these flows were official flows to the public sector. As could be expected, both net private flows to the public sector and net flows to the private sector were negligible or slightly negative. This confirms the lack of creditworthiness of the country.

[53] This is another indication that flow relief in the first half of the 1990s hardly led to a reduction in the actual debt service flow

Figure 4–6 Net flows on long-term debt (USD million)



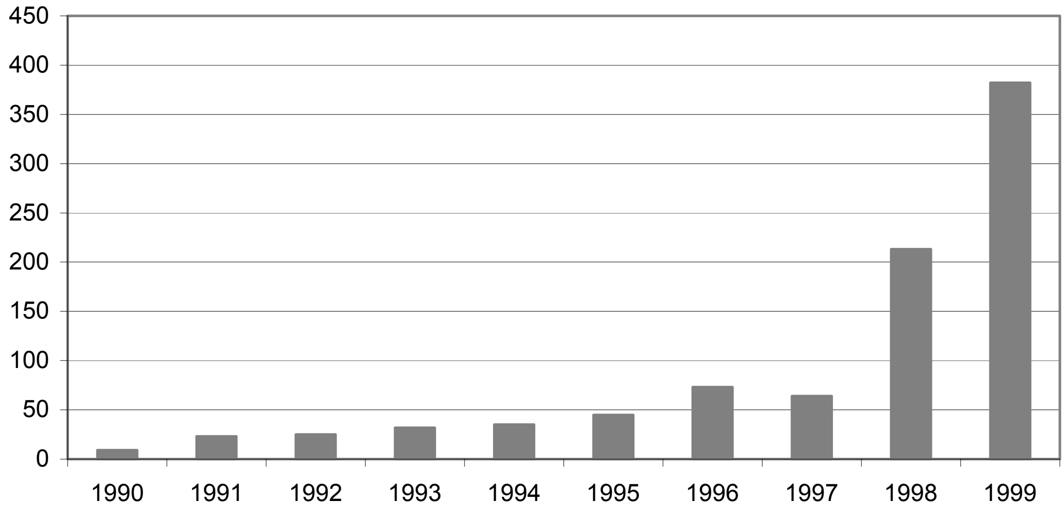
Source: GDF.

In the absence of a stock market there are no portfolio equity flows to Mozambique. The only other flow of foreign capital is that of foreign direct investment (FDI). However, the relation with debt relief is probably only remote, since this flow is not debt creating and profits do not depend on the payment capacity of the country. FDI inflows increased over the 1990s, but they started from a very low level and they really took off only in 1998 (Figure 4–7).

In Mozambique, FDI is only to a limited extent related to the privatisation process. This process had started in 1989 but really got going in 1994 with 125 privatisations in 1994 and 261 in 1995. By mid-1999, over 1,200 companies had been privatised, out of which 87 were large enterprises (Arndt et al., 2000: 305). However, official policy favoured Mozambican buyers over foreigners by allowing the nationals to pay in instalments, while foreign investors had to pay cash. In practice, most companies were handed over to Mozambicans. FDI increased in 1998 and 1999, but this was due to some big new investment projects, in particular the Mozal aluminium smelter (a USD 1,340 million project, of which USD 520 in equity), the construction of a toll road between Maputo and South Africa (USD 305 million, of which USD 55 million in equity, and ESKOM power transmission lines to provide Mozal with electricity (USD 126 million, of which USD 32 million equity) (World Bank 2001a: 4).

What is striking about these projects is the large share of debt financing. These loan inflows are not visible (yet?) in new disbursements to the private sector (World Bank, 2002, see also Figure 4–6). The lenders to Mozal include the International Finance Corporation (IFC, of the World Bank Group) and export credit agencies or banks protected by export credit agencies (World Bank 2001a: 4).

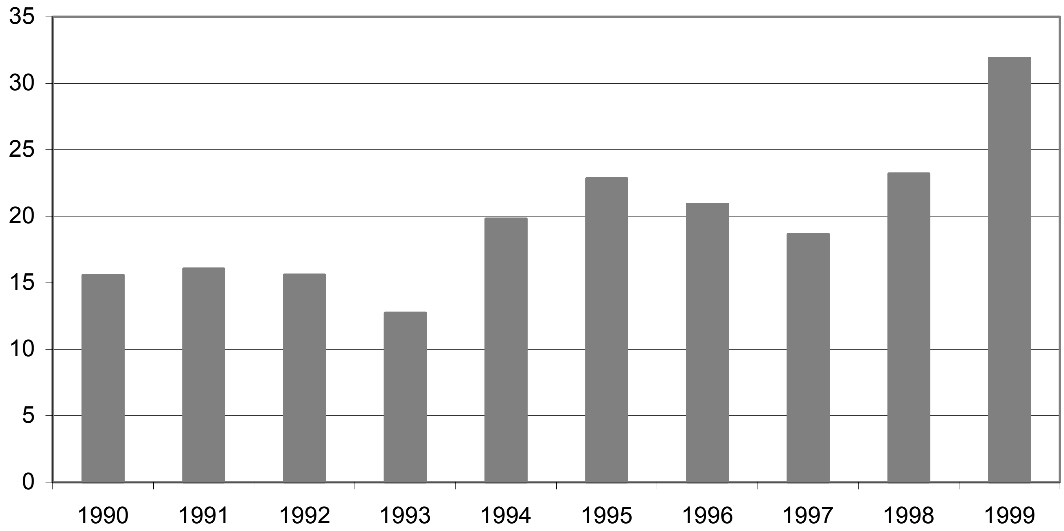
Figure 4–7 Foreign direct investment 1990-1999 (USD million)



Source: GDF.

4.4.3 Private investment

Figure 4–8 Investment 1990-1999 (per cent of GDP)



Source: World Bank, World Development Indicators 2002.

Figures on gross domestic investment as share of GDP also point to an increase towards the end of the decade (Figure 4–8). This is probably due to an increase in government investment (see Table 4–2) and to the new big foreign projects, as the latter are all so-called "greenfield investment". We saw above that there is little relationship between the freeing of resources through debt relief and an eventual increase in government investment, as the latter is mostly related to received project aid.

The question now is to what extent the increase in private investment and in FDI is related to debt relief (or the improvement in the debt sustainability indicators), and what this increase in investment may imply for growth prospects of the Mozambican economy.

For the new big foreign investment projects, the debt situation in Mozambique does not seem to play a role. The aluminium smelter Mozal, for example, principally came because of the cheap energy prices and the fiscal incentives.[54] Energy constitutes 25% of production costs, and is imported from South Africa under a favourable contract. Mozal obtained an income tax exemption for 50 years with an option for another 30 years, and only pays a sales tax of 1%.[55] In addition, the political stability and the safety situation in Mozambique played a role, while other cost conditions were also favourable. The aluminium is mainly exported to the European Union (EU) where it can enter without tariffs due to the "Everything But Arms" (EBA) proposal adopted by the EU (no import tariffs for these goods from the least developed countries). Wages and local subcontractors are paid in local currency, which is relatively cheap for the company.[56] The investment project could benefit from the experience with a similar investment in South Africa, and it was possible to get loans from "donor-related" banks (the IFC and credit agencies). Although the Mozambican debt situation was not important for the investment decision, hearing the opinion of the IMF on Mozambique's macroeconomic stability and growth prospects *was* important – especially because the IMF was "one of our financiers."[57]

The contribution of the project to the Mozambican economy is limited, however. All bauxite is imported from Australia, and free of charge because of the administrative free zone for industrial activities. Mozambique does have bauxite but it is not enough and its quality is not sufficient. During the peak of the construction period, Mozal employed 6500 persons. But regular employment only amounts to 750 jobs. Mozal began to operate fully in December 2000. In 2001, Mozal began to build a second smelter, which would provide 250 additional permanent jobs as from 2003. All in all, direct employment benefits for the country are limited. But Mozal contracts out many services to other firms. According to an agreement with the government, Mozal must look for local firms (70% of total employment must be local), but often these firms are only Mozambican in name. Many of them set up an establishment in Mozambique but they are originally from South Africa or even Australia (the case of a big maintenance contract).

The World Bank recognises that these capital-intensive projects like Mozal are "enclaves", but adds that they "can play an important role in the economy by contributing to growth, and generating foreign exchange and potentially tax revenues" (World Bank 2001a: vii). However, the net contribution to the trade balance remains to be seen given the high import content of production. Tax revenues may be "potentially present" but in practice they are non-existent given the 50 years-waiver. In addition, the smelter is an huge absorber of energy and pollutes the environment.[58] Given its role as financier of Mozal (and probably of other big projects as well), it can be doubted whether the World Bank can assess the role of these projects in an objective way.

Other than these big projects, private investment appears to be very difficult in Mozambique. As one of our respondents said, "the rich invest abroad or in housing".[59] The World Bank held a survey in 24 African countries on the business environment. Although entrepreneurs seem to be confident on Mozambique's perspectives, they are less positive on actual production conditions: the country ranks third on an "improvement index" and on

[54] Interview with director of Mozal.
[55] According to the IMF representative, even Mozal personnel payed less income tax and can import without duties.
[56] Workers of Mozal had just fought an – unsuccessful – strike of three weeks because they wanted to earn salaries in USD. They have borrowed in USD, and the rapid depreciation of the metical in 2001 made it difficult for them to pay debt service on those loans.
[57] Interview with director of Mozal. In fact, IFC is part of the World Bank Group and not of the IMF but apparently, this difference is not very important for private investors.
[58] Interview with independent consultant.
[59] Interview with independent consultant.

an “optimism” index, but only 18th on a “competitiveness index”. Another World Bank survey carried out in 22 countries revealed that the areas in which Mozambique did worse than other countries were crime, bureaucratic hassle, policy instability, excess bureaucracy, inefficiency of government services, lack of predictability of the judiciary and weak infrastructure (World Bank, 2001a: 44).

According to a 1997 survey of Mozambique’s manufacturing sector by the World Bank Regional Program on Enterprise Development, the most important problem for businesses was the weak financial sector (World Bank 2001a: 45). This is also confirmed by our interviews with private sector representatives. The interest rate is about 35%, and local firms have difficulties in obtaining credit. The high interest rate is due to the high percentage of non-performing loans in the (private) banks, among other factors. Banks are not eager to invest in risky production, and prefer to buy Treasury bills. In addition, many recently privatised firms do not have collateral: since they are paying the government in instalments, the latter often still has majority ownership.

The next problems on the list as experienced by the manufacturing firms of the survey include, in order of importance, government policy, bureaucratic burden, lack of demand, inadequate infrastructure and a lack of skilled labour, enforcement of government rules, local inputs and business support. The representatives of the private sector whom we interviewed complained, for example, that the informal sector is not forced to pay import tax or value added tax, and therefore the formal sector cannot compete. In addition, paid value added tax is supposed to be returned to firms, but the procedure takes so long that costs increase. The lack of adequate infrastructure was also mentioned as a constraint. Foreign investors only have an interest in the Maputo area since infrastructure, especially roads, is very weak in the rest of the country. As a result, inhabitants of Maputo buy South African tomatoes instead of Mozambican. Although the latter are grown at the same distance, at 200 kilometres, they suffer from inadequate packing and bad roads and so tend to arrive as pulp. Corruption is another big problem, raising costs of doing business in Mozambique in all phases of the process.

It seems that foreign companies are more harassed by state officials because the latter expect that there is more to earn (World Bank 2001a: 50). On the other hand, the government has set up a Centre for Investment Promotion that facilitates investments of more than USD 50,000 and is meant to be a one-stop-window. There is no doubt that big projects like Mozal are supported by the government. Yet, they also face problems. Although it was thought that the safety situation was better than in South Africa, it was not as good as expected. The company invested extensively in internal security, and also pays the government to maintain a police post in the neighbourhood. Other unexpected problems were that so many workers get malaria, the lack of public transport so that company transport proved inevitable, and the competition in the labour market: NGOs and other aid-related organisations in Maputo pay high salaries in US dollars, so that turnover in some job categories (e.g. accounting) is high. The increasing dollarization of the economy is considered a serious problem for this company, as it reduces competitiveness. “The government should do something about it.”

But problems are greater and growth prospects more fragile in traditional production sectors. Before independence, Mozambique exported many cash crops and had an extensive agroprocessing industry: sugar, cashew nuts, cotton. Both the production of cash crops and the processing industry collapsed in the 1980s due to the civil war and centralised state policies, among other factors. Despite the return of peace and the liberalisation measures, production of these cash crops is still at much lower levels than before independence. In cashew nut production, for example, domestic trade liberalisation did not lead to higher farmgate prices, because of the lack of infrastructure, of competition among traders, of wage goods supplies and of credits for the farmers (Cramer, 1999). The processing firms have been privatised in the 1990s but many of them are now closed. They suffer from obsolete machinery, lack of supplies and low world market prices.

In cotton, two big conglomerates are active in purchasing and processing cotton, and they establish close links with the farmers to organise the supply. However, they fare badly. One had just resold the company to the government, and the other stood at the point of doing so at the time of our interview with its financial manager. The firm provides the small families that grow cotton with seed, technical assistance and with credit to buy fertiliser and pesticides. It had continued to pay the farmers a reasonable price (90% of the world market price, while 55% is usual), but at the cost of heavy losses: already for more than five years, the world cotton price is at very low levels, mostly due to the subsidies that producers in rich countries (US, Japan, EU) obtain from their governments. If this firm stops, it means that another 120,000 poor rural families will loose their source of income.

4.5 The long-run debt sustainability

In the long run, the sustainability of the debt can be computed from (Gillis et al., 1996: 414)

$D/X = a/(g_E - i)$

Where D = debt, X = exports, a = the trade gap $(M - X)/X$, M = imports, g_E = the growth rate of exports, and i = the average interest rate on debt.[60]
The resulting debt to exports ratio should be at a sustainable level, which, in the context of the HIPC initiative, is considered to be 150%. It is therefore important that the growth rate of exports is higher than the interest rate, and that the trade gap a (which equals the increase in debt) is not too large. However, since part of the trade gap will be financed by grants, we compute an adjusted trade gap. In practice, “grants excluding technical assistance” are taken from GDF. The adjusted trade gap is therefore $a^* = (M - X - A)/X$. If the growth rate of exports is lower than the interest rate, D/E is only sustainable if there is a surplus, so M-X-A < 0.

Table 4–6 shows that the growth rate of exports fluctuates widely, even when taking a three-year annual moving average. It is therefore probably better to look at the last column, in which the annual average growth of the ten-year period is presented. It is clear that in Mozambique the average export growth rate is higher than the interest rate of new loans. However, the average trade gap, even if adjusted for grants, is so large that the debt cannot be sustainable in the long run. If all figures remained the same, the long-run debt to exports ratio would be 378%, which is obviously not sustainable. This implies that even if the debt-to-exports ratio is reduced to 150% via the implementation of the HIPC initiative, the debt cannot be sustainable in the long run if the current trends in exports, imports and grants continue. The part of the trade deficit that is financed by loans is simply too large. One indication that the trade deficit will continue to be large is a new USD100 million loan from The World Bank. This is an IDA credit, so concessional, but it will again add to the debt and affect debt sustainability.

[60] In practice, the average interest rate on new commitments is used since this is the only figure available from GDF.

Table 4–6 The trade gap and long-run debt sustainability

	1990	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*	*Average*
Growth rate of exports[1] (1)	10.4	21.8	-0.9	2.7	6.4	19.0	14.9	5.9	0.8	10.8	8.9
Average i[2] (2)	1.4	1.8	0.8	0.9	0.8	0.9	2.1	1.5	0.8	0.7	1.2
Growth minus i (3=1-2)	9.0	20.0	-1.7[5]	1.8	5.6	18.1	12.8	4.4	0.0	10.1	7.8
Trade gap[3] (4)	288	232	235	256	261	167	119	106	129	179	197
Adjusted trade gap[4] (5)	38	-5	35	84	100	3	38	16	12	-26[5]	29
Debt/exports, in % (4)/(3)	3193	1160		14354	4656	922	936	2404	32277	1775	2537
Debt/exports (adjusted), in % (5)/(3)	421	-27		4733	1779	17	296	360	30672		378

Source: Computed on the basis of figures in GDF 2002.
[1]Three year moving annual average of growth of exports of goods and services.
[2]Average interest rate on new loans
[3](Imports minus exports) divided by exports, in per cent
[4](Imports minus exports minus grants), divided by exports, in per cent.
[5] If the growth rate of exports is lower than the interest rate or if the trade gap is negative (i.e., there is a surplus), the long-run debt-to-exports ratio cannot be meaningfully calculated.

Similar computations can be made for the long-run debt-to-GDP ratio in relation to the country's savings gap. A sustainable debt-to-GNP ratio is usually defined as 60%, but for low and middle income countries this even seems too high (Houben, 2002). The long-run debt/GDP ratio can be computed from (Gillis et al., 1996: 415):

$$D/Y = (v - s)/(g_Y - i)$$

Where $Y = GDP$, g_Y = the growth rate of Y, $v = I/Y$, the investment ratio, and $s = S/Y$, the savings ratio.
As long as g_Y is above the interest rate, a sustainable debt/income ratio can be accompanied by a continuing savings gap ($v - s > 0$). Since also in this case part of the savings gap is financed by grants, the savings gap must be adjusted. If g_Y is below the interest rate, there must be a savings surplus, in order for the debt to become sustainable.

Table 4–7 Long-run debt sustainability in relation to the savings gap

	1990	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*	*Average*
Growth rate of GDP[1] (1)	5.2	4.1	-0.9	1.6	2.4	6.8	6.3	7.4	10.2	10.4	5.5
Average i[2] (2)	1.4	1.8	0.8	0.9	0.8	0.9	2.1	1.5	0.8	0.7	1.2
Growth minus i (3=1-2)	3.8	2.3	-1.7[5]	0.7	1.6	5.9	4.2	5.9	9.4	9.7	4.3
Savings gap (4)	28	27	34	36	34	25	23	18	16	25	27
Adjusted savings gap (5)	-2[5]	-8[5]	-5[5]	4	5	-9[5]	7	2	-1[5]	-8[5]	-1[5]
Debt/GDP, in % (4)/(3)	743	1191		5432	2135	419	544	298	169	261	615
Debt/GDP (adjusted), in % (5)/(3)				651	310		173	42			

[1] Three year moving annual average of growth of exports of GDP
[2] Average interest rate on new loans
[3] Investment ratio minus savings ratio
[4] Investment ratio minus savings ratio minus aid-to-GDP ratio
[5] If the growth rate of GDP is lower than the interest rate or if the savings gap is negative (i.e., there is a surplus), the long-run debt-to-GDP ratio cannot be meaningfully calculated.

In Mozambique, the growth rate of GDP has been above the interest rate on new loans during most of the 1990s, also if the average over ten years is taken into account (Table 4–7). It is clear that grants finance a very large part of the savings gap, so of investment. If the savings gap is not adjusted for grants, the debt-to-GDP ratio becomes 615% and is thus not sustainable in the long run. But if grants are included, there is even a savings surplus in six out of ten years, and also, on average, over ten years. If these amounts of grants were maintained, it would allow for a higher savings gap, so a higher investment rate than the current one. This could also point to the desirability of more aid being invested instead of consumed – provided good projects are available, of course.

For the government, we can assess sustainability in relation to the tax capacity in a similar way. However, given that the figures on government revenues and expenditures are not very reliable and that no consistent time series is available for the evaluation period, it does not make much sense to carry out these computations.

In addition, debt sustainability in relation to government revenues should also take the domestic debt into account. In 2001 the domestic debt increased as a result of the problems of the two big former state banks. The government still has a large minority interest in these banks. Both BCM and the Banco Austral had engaged in risky lending, and had a large share of non-performing loans. This had all been made possible by the premature privatisation, that is, privatisation before an adequate regulation and supervision framework was in place. As one respondent said, the IMF and the World Bank were very much concerned about the appearances of policies and much less about substance. They thus required private ownership of the banks, but were much less concerned about regulation and supervision or about the government heavily indebting itself in order to rescue these banks.

The government had to find a new owner for the Banco Austral, which took some time. In the end, the same procedure was applied as with BCM. The government again sold bonds to the new owner, in this case a South African bank. The interest rate on bonds is high: between 25 and 28%. In total, the recapitalization of the two banks accounts for additional expenditure of about 7 or 8 per cent of GDP in the 2001 budget, including some repayment to the Central Bank for its (earlier) liquidity support to the banks. Interest payments on this domestic debt are expected to amount to about 1.5% of GDP annually. From the perspective of long run debt sustainability, it would probably have been better to finance the recapitalization of the two banks with a foreign loan, which would have carried a much lower interest rate.

Conclusions

Mozambique's debt sustainability indicators have improved during the 1990s, but the debt-to-GDP and the debt-to-exports ratios were still at unsustainable levels in 1999. The ratios of debt *service*-to-exports and of debt *service*-due-to exports have also come down, but especially the latter is still very high. The improvements were mainly the result of growth in GDP and exports, as debt relief only led to a limited reduction of the debt stock.

Chapter 3 concluded that debt relief began to free resources from about 1995 onwards. However, the government accounts show that aid (in relation to GDP) was at lower levels as of 1995, so that the net effect of more debt relief and lower aid for the government accounts was negative. This was accompanied by lower levels of government spending between 1995 and 1998, and also by a lower deficit before grants. From 1999 onwards, expenditure increased. Government expenditure for the social sectors as percentage of

GDP first decreased during the 1990s, but began to increase from 1995 onwards. The effect of the decrease in social sector spending in the early 1990s is most visible in the primary school enrolment rate, which continued to decline between 1990 and 1994, after large falls in the 1980s. However, social indicators such as the primary school enrolment rate, vaccination rates and maternal mortality rates show improvements in the second half of the 1990s, which may reflect increases in social expenditure in those years.

Debt relief hardly reduced the debt stock as shown in Chapter 3, and this chapter shows that it did not have a stock effect. Creditworthiness of Mozambique remained very low during the 1990s as evident from both the ratio of debt service paid-to-debt service due, and the lack of inflows of private commercial loans. Foreign direct investment did increase during the 1990s, and especially from 1998 onwards, but this was not related to debt relief or a reduction of the debt overhang. Private investment by domestic producers in the country is low. It is constrained by many factors such as the high interest rate, a lack of infrastructure especially outside the Maputo area, the bureaucratic burden, and a lack of enforcement of government rules. The debt situation is only partially – and then only indirectly related to these factors.

Even if the debt would be reduced to a sustainable level through the HIPC initiative, the long-run debt sustainability perspective is not bright. If current trends in exports, imports, interest rate and aid continue, the debt-to-exports ratio will quickly become unsustainable again. This is mainly because of the large trade gap, which is made possible by large inflows of official loans. The debt-to-GDP ratio can be sustainable in the long run, if current trends in growth rates, interest rate, savings and investment continue. For the government, there is an additional problem with respect to long-run sustainability, and that is that the domestic debt has increased substantially since 2001. As domestic interest rates are much higher than foreign interest rate, interest payments on domestic debt are expected to amount to a larger share in GDP in 2002 than those on the external debt have ever been since 1997.

5 THE RELEVANCE OF DEBT RELIEF

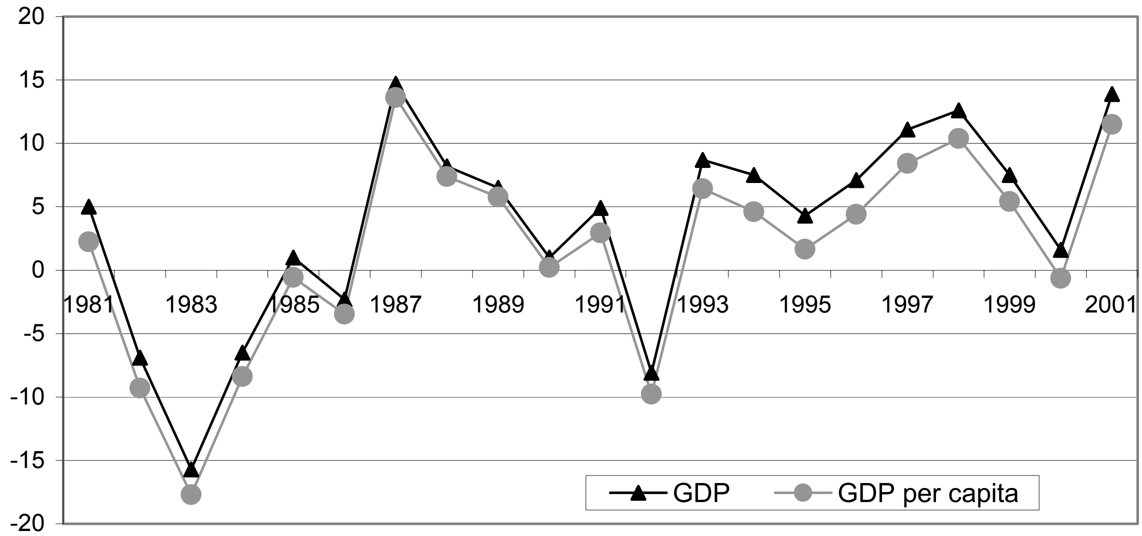
5.1 Introduction

This final chapter assesses the relevance of debt relief, by answering the question whether debt relief has enhanced economic growth and poverty reduction. It presents data and trends on economic growth and poverty and examines the factors that have been most influential on those trends. In order to assess the impact of debt relief, it draws heavily on the earlier chapters. Since earlier chapters concluded that there was no stock effect of debt relief and only a limited flow effect – which was, however, nullified by declining aid flows in the later half of the 1990s, debt relief can hardly have contributed to economic growth and poverty reduction.

5.2 Economic growth

Figure 5–1 shows the economy's decline in the early 1980s and some recovery in the late 1980s. The decline in 1992 was due to a severe drought. It was also the last year of hostilities, as in that same year the peace agreement was achieved. Since 1993, growth rates have been high, particularly in 1993 in agriculture and in services (IMF, 1998: 71). The end of the war made it possible to resume agricultural production by allowing more than a million refugees to return to their country. Generous aid inflows and the presence of a large crowd of UN officials and soldiers fostered growth in the services sector, in particular in restaurants and hotels (72 per cent growth in 1993) and in commerce (35 per cent growth in 1993). After 1993, growth was more evenly spread across the different sectors. Manufacturing industry, which had declined severely in the 1980s and early 1990s, showed some recovery as of 1995 (World Bank 2001a: 12). But many newly privatised enterprises were still closed. Many firms have obsolete machinery and faced severe competition from imported goods from South Africa after import tariffs were reduced.

Figure 5–1 Growth rates of GDP and GDP per capita 1981-2001 (per cent)



Source: GDF 2003.

In general, growth rates were high because of increased political and economic stability, favourable weather conditions (until 2000), the effect of some of the economic reforms, and large aid inflows. But it was largely a recovery effect: per capita income in 1999 was still at about the same level as in the early 1980s (World Bank, 2001a: 2). In addition, some observers note that despite this apparent growth according to the national accounts, the economy is not doing well at all.[61] Aid led to a boom in commercial services, hotels and restaurants, but often did not reach the people for which it is intended, and the thirteen private banks now in existence benefit of drug money laundering.

The previous chapter has shown that conditions for private production and investment are not very favourable. High domestic interest rates, erratic government policies, burdensome bureaucratic procedures, lack of infrastructure and of skilled labour all contribute to a poor investment climate. The government is attracting big foreign investment projects by granting them huge tax exemptions, but this does not particularly advance the business environment for local firms. Traditional production sectors are in decline. Debt relief proved not to have been of influence on this poor investment climate. The outstanding debt stock hardly diminished in the 1990s, and the private sector considers the debt problem as something the government and the donors will solve. However, this is different for the increasing internal debt, which has a direct influence on domestic interest rates – pointed out as most important bottleneck by private investors.

5.3 Poverty reduction

Debt relief may have an impact on poverty reduction through economic growth and through improvements in social indicators due to higher government spending on health, education, drinking water and sanitary conditions. This increased spending may be the result of the freeing of resources by debt relief, or by donor conditionality. Chapter 3 concludes that debt relief freed some resources from 1995 onwards. However, between 1995 and 1998 this was accompanied by lower aid inflows (at least, as percentage of GDP) and by smaller overall spending (again, as per cent of GDP). Nevertheless, relative expenditure for the social sectors, also in relation to GDP, increased from 1995 onwards, and continued to increase after 1998. This is probably at least partly the result of donor influence, but perhaps also to some extent of debt relief.

Social indicators deteriorated badly during the 1980s and continued to deteriorate during the first half of the 1990s. Since 1995, however, some improvements are visible. The primary school enrolment rate has increased, though not yet back at its 1981 level, the maternal mortality rate declined and vaccination rates increased.

Mozambique had its first National Household Living Standards Survey in 1996-1997, and as yet, no new survey has been carried out. This means that there are no data for analysing a trend in poverty during the 1990s. It is only possible to give a picture of the incidence of poverty in 1997. The poverty measure used was based on a food poverty line of 2,150 calories per person per day, plus a modest amount of non-food expenditure (Republic of Mozambique, 2001: 13). The national poverty headcount index is 69 per cent (Table 5–1). In urban areas it is slightly lower than in rural areas. Illiteracy rates and infant mortality rates are much higher in rural areas than in urban areas. Nevertheless, it is clear that most people in Mozambique are poor, and that very high growth rates are necessary to lift substantial amounts of people out of poverty.

[61] Interviews with several independent consultants.

Table 5–1 Poverty indicators 1997, rural and urban (per cent)

	Rural	*Urban*	*Total*
Share of population	80	20	100
Poverty Headcount Index[1]	71	62	69
Poverty gap index[2]	30	27	29
Illiteracy rate, total	72	33	61
Female illiteracy rate	85	46	74
Population without access to potable water	99	69	92
Infant mortality rate	160	101	146

[1]Number of people below poverty line, in per cent.
[2]Average gap, in percent, between consumption levels of the poor and the poverty line.
Source: Republic of Mozambique (2001), Poverty Reduction Strategy Paper pp. 22-23.

PARPA does present some estimates of the relationship between economic growth and poverty reduction, assuming neutral growth, anti-poor growth and pro-poor growth. With neutral growth of 2 per cent in real per capita consumption, the poverty headcount will decrease to 59 per cent in 2005 and to 53 per cent in 2010. With anti-poor growth of 2 per cent (growth of the non-poor is twice as high as growth of the poor), the index will only reduce to 61 and 57 per cent, respectively in 2005 and 2010. As a lot of growth in the next couple of years depends on capital intensive mega-investment projects, this is perhaps the more likely scenario.

With respect to the improvement in social indicators, some more optimism is perhaps justified. This optimism is not so much based on an additional freeing of resources as a result of the HIPC initiative. Chapter 3 showed that the HIPC initiative does not free more resources for the government in comparison to the years 1996-2001, while the government must spend a much larger share of its revenue on domestic debt service. This means that the flow effect of debt relief will remain limited. On the other hand, a clear trend seems to have set in for higher government spending on the social sectors, and also for improvements in social development indicators after their desperately low levels of the early 1990s. If some economic growth, political stability and levels of foreign aid can be maintained, these trends are likely to continue. Improvements in social indicators are the more likely if the governments implements what it intends to do according to the PRSP.

Annexes

Annex A References

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ANNEX B LIST OF PERSONS MET

Government

Bank of Mozambique
Forex and information technology
Mr António de Abreu
Two more debt specialists of Bank of Mozambique

Ministry of Planning and Finance (MPF)
Mr Gabriel Fabião Mambo, Deputy National Director of Treasury
Mr Agostinho, Debt Department

Mr José Alves Amad Sulemane, Director for Planning and Budgeting

Ministry of Health/Directorate of Planning and Co-operation (MISAU-DPC)
Dr Jorge Fernando Tomo, Deputy National Director
Dr Marco Gerritsen, advisor for finance and policies Technical Planning Cabinet (GTP) and Planning and Cooperation Division (DPC)

Ministry of Public Works and Housing
Dr Lourenço Veniça, National Economic Director

IPEX, Mozambique Institute for Export Promotion
Mr Felisberto Ferrão, President
Mr Eduardo Salamão, Head of Commercial and Market Information Centre
Mr José Benedito M. Wetela, Marketing Export Development Division

Investment Promotion Centre (CPI)
Mr. Mussá Usman, Deputy Director

National Statistical Institute
Dra Destina Uinge, Director

Donor community

Royal Netherlands Embassy
Mr Weert Mostert, Director of Development Cooperation
Mr Roland Martin, Economist

Embassy of Algeria
Mr Sid-Ali Branci, Counsellor

CIDA (Canadian International Development Agency)
Mr Gabriel Labão Dava, Economist

IMF
Mr Arnim Schwidrowski, Resident Representative

Royal Danish Embassy
Mr Thomas Thomsen, Counsellor

Royal Norwegian Embassy
Mr Lars Ekman, First Secretary

Royal Swedish Embassy
Mr Anton Johnston, Institutional economist

French Development Agency, Agence Francaise de Développement (AFD)
Ms Odile des Deserts, Director
Mr Guillaume Chiron

DfID (Department for International Development – UK)
Mr Nick Highton

Private sector

MOZAL Aluminium Smelter
Mr Eddy Kenter, Manager Finance and Administration

Grupo João Ferreira dos Santos
Mr João Ribas, Manager

Mozambique Chamber of Commerce
Mr Manuel Notiço, Secretary General

National Commercial Enterprise, ENACOMO
Mr Kekobad M. Patel, Vice-President Marketing

NGOs and independent consultants

Grupo Mozambicano da Dívida (GMD, Mozambican Debt Group)
Ms Eufrigina Dos Reis Mandela, economist, President of Mozambican Debt Group and of Confederation of Business Associations of Mozambique (CTA)
Ms Natividade Bule, Confederation of Business Associations of Mozambique (CTA)

LINK
Mr Álvaro Casimiro, Coordinator

Austral Consultoría y Proyectos, Ida.
Ms Dirce Costa

Cruzeiro do Sul – research institute & Campanha Terra
Mr José Negrão.

ANNEX C EVALUATION OF DEBT RELIEF 1990-1999, IOB

TERMS OF REFERENCE FOR COUNTRY CASE STUDIES

The evaluation of Dutch debt relief policy and expenditures aims to answer the following research questions:

- to what extent were the political and financial interventions (the inputs) efficient in terms of outputs such as debt and debt service reduction (DDSR) and increases in imports an government expenditure?
- to what extent were these inputs and outputs effective in producing desired outcomes such as improvement of debt sustainability, improvement of creditworthiness and investment?
- to what extent were these inputs, outputs and outcomes relevant by contributing to the longer-term impacts of economic growth and, ultimately, poverty reduction?

Country case studies
In the 8 country case studies, the evaluation questions of efficiency, effectiveness and relevance will all be addressed (see attached Table 1: evaluation matrix). In addition, an in-depth analysis is to be made of the nature of the country's debt problem and therefore of the relevance of debt relief as compared to, for example, new loans or grants.

Debt relief is defined as any action that leads to a reduction in the net present value of the debt. The basic assumption for this evaluation is that IF debt relief contributes to economic growth it does so via a reduction of the debt burden. Two effects are possible:

- The reduction of the net present value of the debt stock will increase creditworthiness of the country (according to the debt overhang hypothesis), and thereby lead to more private investment and inflows of private capital. This will enhance economic growth.
- The reduction of the debt flows (actual debt service) will lead to additional imports and government expenditure. Increased imports may include investment goods or intermediate goods leading to increased use of existing capital stock, and government spending may imply higher public investment and/or more social expenditure.

Since the effects of Dutch debt relief cannot be separated from those of debt relief by other actors, the object for the case studies consists of all debt relief received by the country, both from official and commercial sources. Where possible and relevant, special attention will be given to Dutch debt relief. The evaluation period covers 1990-1999, but the analysis of the debt problem has to start earlier, in the 1970s.

The country studies seek answers to five broad questions, each of which is to be dealt with in a separate chapter of the report, with chapters 2 to 5 corresponding to the different levels of the evaluation matrix (inputs, outputs, outcomes and impact), while chapter 1 will provide an introduction and background. In addition to the sources mentioned in the Evaluation matrix, the researcher carrying out the case study is expected to take into account the relevant academic literature on the country as well as pertinent previous evaluations. A minimum selection will be provided by the co-ordinator and her assistant, but the consultation of additional material at the researcher's own initiative will, of course, be welcomed.

1. Debt problem analysis: nature, causes and consequences.

Why had the debt burden become unsustainable by the beginning of the evaluation period, 1990, and what have been the consequences of this unsustainability? Answering these questions involves analytical descriptions of:

1. The build-up of the country's debt, going back to the 1970s, including major creditors, interest rates, degree of concessionality in real terms, that is including any adverse exchange rate effects (see Mistry, 1996: 25-6), etc.
2. Conditionality attached to loans granted before 1990, and degree of compliance (short overview).
3. Trends in GDP, exports, fiscal revenues; causes of slow growth rates: review of important factors such as developments in terms of trade, inflows of foreign aid, loans and FDI, political instability, natural and man-made disasters, adverse policies, etc.
4. Trends in poverty and social indicators before 1990.
5. Debt sustainability indicators: trends in debt/GDP, debt service due/exports versus debt service paid/exports.
6. Public and private shares of external debt, and changes over time; government take-over of private debt.
7. Extent to which the external debt situation was exacerbated by a domestic debt problem.
8. Net transfers on debt before 1990, and how these compared to aid flows (grants, new loans).
9. Debt relief, if any, provided before 1990 and its influence on debt sustainability indicators. Any bail out of private creditors by official creditors/donors (see Demirgüç-Kunt & Huizinga, 1993).
10. The nature of the debt problem in 1990, in particular, whether the country's inability to pay was caused by insufficient liquidity (short-term problem) or a lack of solvability (long-term problem). Any difference between this ex-post assessment result and the common perception of the debt problem at the time.
11. The consequences of the debt problem in 1990, in particular whether it affected growth rates:

- through too high transfers on debt leading to lower imports and lower government expenditure;
- and/or leading to lower growth rates through a heavy debt overhang (high debt stock, so high expected tax on private profits lowering private investment and inflows of private capital).

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2. Inputs: amounts and modalities of debt relief in the period 1990-1999

What were the inputs into the debt relief process in terms funding, modalities and conditions? Answering this question requires the following data:

1. Overview of amounts and modalities of debt relief: by creditor, by type of debt, by framework for debt relief activities (Paris Club, Multilateral Debt Funds, 5th and 6th dimension, HIPC, etc.), extent of forgiveness, interest subsidy, buy-back, etc.
2. Stated objectives of debt relief.
3. Any conditions attached to the different modalities of debt relief, including assessment of track records (see attached Table 2 for possible contents of conditions and track records)

4. Special attention to Dutch modalities, motives, conditions, and objectives for debt relief.
5. The extent to which debt relief was additional to other inflows (loans or grants); in general, and for Dutch debt relief in particular; according to the HIPC initiative, debt relief should be additional (Andrews et al., 2000: 16) but practice may be different.
6. Amounts and modalities of new loans and grants 1990-99. Dutch loans and grants.

Assessment:
Was the combination of new funding and debt relief modalities consistent with the perceived and the actual nature of the debt problem (as described in 1.10)? Were these inputs suitable for the improvement of debt sustainability (see Cline, 1995: 29 and Hanlon, 2000)?

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3. Outputs of debt relief: efficiency analysis

To determine how efficient the inputs were in producing the intended outputs the following data are to be collected and analysed:

1. Debt service due during 1990-1999 as compared to debt service actually paid and accumulation versus payment of arrears.
2. The share of (total as well as Dutch) debt relief that effectively relieved the debt burden in that it led to a reduction of actually paid debt service (see Annex 1).
3. The effect of the different modalities of debt relief on actual payment of debt service on the reduced as well as on other debt. Since debt relief usually increases ability and/or willingness to pay other debts, other creditors may benefit. This may to Dutch debt relief. This follows from 2.6, 3.2 and 3.3. Compare to the amounts of new loans and grants received during the period 1990-1999 (see 2.7).
4. Extent to which debt relief benefited the creditor itself or other creditors (bailing be an unintended side-effect and has been established for debt buy-backs (Bulow & Rogoff, 1988), or it may be an intended result: in the context of HIPC agreements, countries may be obliged to start or resume servicing debts that they ignored before.
5. Extent to which debt relief freed resources for the government, with special attention out), with special attention to Dutch debt relief. This follows from 3.2-3.4. Specify whether official or private creditors benefited.
6. Effect of debt relief on the reduction of the nominal debt stock and the net present value (NPV) of debt.
7. Compliance with debt relief conditionality, changes in policies, changes in governance (see Table 2 and Annex 2).
8. To the extent that debt relief was additional and freed resources (3.4): trace its effects in the government accounts (on public investment and social expenditure, in particular) and in the balance of payments (increased imports, if possible broken down by destination: capital goods, intermediate inputs, consumer goods), according to the accounting framework outlined in Annex 3.

Assessment:
How efficient were the chosen modalities of debt relief in reducing the debt burden, in terms of both NPV of debt and actual debt service?

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4. Outcomes of debt relief: Effectiveness

The effectiveness of debt relief is to be assessed by collecting / analysing the following data:

1. Trends during the evaluation period 1990-1999 in the debt sustainability indicators: debt/GDP, debt service due/exports, NPV of debt/exports. We focus on trends as most relevant issue for this evaluation. However, the absolute values of these indicators will be compared to subjective sustainability criteria (limits) according to the IFIs (from HIPC documents) but also according to other sources, e.g. Hanlon (2000).
2. Extent to which change in sustainability can be attributed to debt relief. Both the numerators and the denominators of these indicators are not only the result of debt relief, but also of new loans and grants during the period and of the concessionality of those loans (see Annex 4). In addition, the trends in GDP and exports (the denominators) depend on many other factors: policies, political stability, weather conditions, international prices, etc. The possible causes for the developments in the debt sustainability indicators will be analysed.
3. Improvement, if any, of social indicators (see Annex 5) as a result of debt relief leading to policy changes and changes in governance (as analysed in 3.6) .
4. Improvement, if any, of social indicators as a result of debt relief freeing government resources for more public investment and social expenditure (3.7).
5. Increase, if any, in private investment as a result of debt relief freeing resources for more public investment: crowding in.
6. Increase, if any, in private investment as a result of debt relief lowering the debt stock, thereby reducing the debt overhang.
7. Improvement, if any, in the creditworthiness of the country leading to new private capital inflows, as a result of a reduction of the debt stock. This implies an analysis of creditworthiness according to ratings, and of figures on private capital inflows (distinguishing between loans, portfolio investment, FDI). It must be born in mind that other factors such as (expected) economic growth, credibility of government policies, and even conditionality attached to debt relief efforts may also have led to improvements in ratings and increases in flows. Debt relief may, on the other hand, have reduced creditworthiness by lowering expectations on future debt service by the country. According to a recent literature review and additional empirical evidence, policy-based lending and the attached conditionality have only limited effect on private flows (Bird & Rowlands, 2000).

   Field studies:
   In the field studies, the trends in social indicators (4.3-4.4) and in private investment and private capital inflows (4.5-4.7) can be analysed and explained more thoroughly by having interviews with government officials, NGOs, donors and representatives of the private sector.

Assessment:
How effective has debt relief been in increasing debt sustainability, stimulating private investment and improving social indicators, both via the attached conditionality and via the stock and flow effects of debt relief?

5. Impact of debt relief: Relevance

Assessment:
Based on the analysis under 1-4, the final impact of the different modalities of debt relief on economic growth and on poverty reduction is to be assessed.

1. Economic growth was already briefly analysed in 4.1 and 4.2 as denominator for one of the debt sustainability indicators, but the analysis can now be broadened, taking into account the other outcomes under 4 (4.3-4.7).

2. *For poverty, trends in the usual poverty indicators (P0, per cent of population below poverty line), and P1, the poverty gap (total shortfall of income of the persons below poverty line) will be collected (if available). For the analysis, it is important that poverty reduction may be achieved through economic growth, through an improvement of the income distribution or (in the longer run) through an improvement in social indicators.*

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Table 1. Evaluation matrix Debt relief

OBJECTIVES-*MEANS*	INDICATORS	SOURCES	*EVALUATION CRITERIA*
INPUT Debt relief expenditures and modalities; Policy dialogue	Amounts spent, assigned and contributed; Conditions	Documents for Dutch parliament; “Macro-exercises”, assessment for debt relief; Global Development Finance; National statistics; WB/IMF country reports.	
COMPARISON OUTPUTS AND INPUTS →			***EFFICIENCY***
OUTPUT Reduction debt and debt service; Increase imports and government expenditure; Policy change and change in governance.	Total debt (nominal and net present value); amortisation; Balance of payments; Government accounts.	Global Development Finance; World Development Indicators; IMF; National statistics; WB/IMF country reports.	
EXTENT TO WHICH INPUTS VIA OUTPUTS CONTRIBUTE TO OUTCOMES →			***EFFECTIVENESS***
OUTCOME Reduction debt burden; Improvement creditworthiness; Investment.	Debt/GDP; Debt service/Exports; International credit ratings; I/GDP; Ip/GDP.	Global Development Finance; World Development Indicators; IMF; National statistics; Moody’s; Standard & Poor; WB/IMF country reports.	
EXTENT TO WHICH INPUTS VIA OUTPUTS AND OUTCOMES CONTRIBUTE TO IMPACT →			***RELEVANCE***
IMPACT Economic growth	Change in GDP	World development Indicators; National statistics.	
Sustainable poverty reduction			

Table 2. Possible aspects of the track record possible policy conditions for debt relief

Area	Policy/target
Macro-economic	Stock of international reserves Government deficit (% GDP) Government expenditure (% GDP) Exchange rate policies (devaluation)
Economic reforms	Tax reforms Public sector reform/civil service reform Composition of expenditure (defence) Privatisation of SOEs, public utility enterprises Liberalisation of goods markets: prices, domestic trade Liberalisation of foreign trade Liberalisation of labour market Financial liberalisation Other sectoral reforms
Political reforms	Elections Multiparty system Human rights observance Independent judiciary Free press
Governance	Transparency of budgeting Transparency of budget execution Accountability, to parliament, local councils, civil society Anti-corruption measures/sanctions Establishment of and respect for Audit Office Decentralisation
Poverty reduction	Social expenditure Social sector reforms Quality of social service delivery PRSP

Annex 1

Effective debt relief

Effective debt relief (DR_e) is debt relief that reduces actual debt service (DS_a)

To be computed from:

$DS_a = DS_d - AA$ (1)

$DR_e = DR - PA$ (2)

Where:

DS = Debt Service
DR = Debt Relief
Subscript a = “actual”
Subscript e = “effective”
AA = Accumulation of Arrears
PA = Payment of Arrears
Subscript d = due

DRe is still an approximation, since debt relief covering debt service due that would never be paid in the same year, is still included. This often the case with Dutch debt relief on Dutch aid loans. If known, it must be subtracted from the figure for DRe.

Annex 2

The effectiveness of conditionality

To the extent that debt relief was accompanied by conditionality on future policies, or by conditions regarding past policies or policy outcomes ("track record") the extent of compliance with these conditions must be assessed (with respect to changes in policies and changes in governance, see Table 2). The track record has become important for Dutch debt relief decisions since 1996. The evaluation must therefore investigate whether and to what extent the conditions mentioned in the "macro exercitie" were fulfilled in the case of the involved country. A second issue is whether changes in country's policies or governance can be observed since 1996 that go in the direction of improving the "conditions" stipulated in the macro exercitie. Evidence for this can be looked for in HIPC documentation on the country, Policy Framework Papers, Implementation Completion Reports of SALs and SECALs of WB.

In field studies, information can also come from interviews. Interviews should also shed light on the issue of whether the fact that the Dutch have used this track record as basis for decision making on debt relief, has to any extent influenced governance and policies (see below).

In the context of the HIPC initiative, the track record has become important since 1998 and involves an assessment of whether conditions stipulated in earlier IFI programs have been complied with satisfactorily. This can be found in HIPC documents on the country, but an independent assessment by the evaluator is also necessary. For example, earlier evaluation research showed that countries were not always treated equally. As of 1999, the HIPC conditions include the setting up of a Poverty Reduction Strategy Paper (PRSP). For the desk studies it is too early to investigate whether the HIPC track record or the requirement of a PRSP have induced a change in the country's policies or governance. In the field studies, donor influence on policies and governance can be examined.

Donor influence (field studies only)

One thing is to establish that countries have complied (or not) with conditions set by the donor; another is to conclude on effective influence of donors. An earlier evaluation concluded that domestic political factors are most important in policy changes but there is also some room for donor influence, especially if we take other dimensions of the "policy dialogue" into account, i.e. other than the formal, directive conditions laid out by the IFIs and directly imposed on the recipient country's government (White, 1999).

This means, first, that we have to take on a broad political economy perspective in explaining why reforms have come about. Donors usually tend to overstate their roles. Second, it means that we have to consider the policy dialogue as a process with four dimensions as discovered in the previous evaluation: the degree of formality, the channel of influence (directly to government, indirectly through IFIs or indirectly through contact with other donors), whether conditionality is directive (policy monologue) or non-directive, and which instrument is used (White, 99: 53-54; see also a useful table of possible channels and degree of formality on p. 37).

Instruments can be debt relief, budget support, project aid or technical assistance. The earlier evaluation has shown that there may be some influence from donors, but that this is usually carried out through less formal means, non-directive approaches and often using other channels.

The study of donor influence consists of two parts: i) examining Dutch influence, and ii) examining the impact of the HIPC conditions, in particular, the requirement that countries elaborate a Poverty Reduction Strategy Paper (PRSP) and do so in a participatory manner. On the first, field studies can first investigate whether the Dutch Embassy has an influence strategy that takes the different dimensions into account, and on which particular issues it focused. Second, by having interviews with government officials and with other donor representatives, the effectiveness of that influence strategy can be assessed. Since this may lead to subjective and not very exact statements, the approach will be to single out one or two issues (from the Dutch "track record") on which the Dutch had or have a strong opinion – different from the government's opinion – and examine what happened with this "conflict"
For the second aim, the same interviews with donor representatives and government officials can be used to assess the progress in coming to a PRSP. On this topic, interviews with representatives of NGOs and private sector (civil society) will also be necessary. If possible, also for this part a particular issue on which opinions differ will be singled out and followed, in order to improve the judgement on the extent of influence.

Annex 3

The marginal effect of debt relief: the accounting framework

The approach proposed here is similar to the one described for the Sida Evaluation of Programme Aid (see White, 1999: 94-6). It focuses on the marginal impact of debt relief. This is different from the often used “gap approach” which is considered not very helpful (White, 1999: 89-93). It means that we analyse the influence of effective debt relief (free resources) on balance of payments, internal accounts and on government accounts (a subset of the internal accounts), on the basis of accounting identities.

For the external account, the identity is the following:

$M = AID + PCT + DRe - DS + X + OKI + \Delta R + EO$ [62] (3)

If DRe (see Annex 1) increases, one or more of the other items must change. The fact that DRe is positive, implies that the absolute value of DS (debt service) has reduced (as established in 3.1). The impact of DR on other DS has been established in 3.2 and can be used here. Similarly, it has already been established whether DR was additional, i.e. did not lead to a reduction in aid (2.6). From all these, we can compute the net effective debt relief. It will now be examined whether this net DRe leads to higher imports and/or reserves, which are the preferred responses for donors. This depends on the effects on OKI, ∆R, EO (often capital flight), X, and PCT. A reduction in X could be a negative effect of AID and net DRe, for example due to Dutch disease effects. Decreases in PCT, OKI and EO (if capital flight) would also be negative responses to DRe. Increases in PCT and OKI could be positive second round effects of DRe.
A next step is to look at the composition of imports. Does the composition of imports change as a result of net DRe? The preferred outcome would be that imports of capital goods and intermediate goods would increase more than imports of consumer goods. This would point to a higher propensity to invest as opposed to consume.
For the internal account, the identity is the following:

$I = AID + DRe - DS + OKI + \Delta R + EO + S$ [63] (4)

The analysis for AID, DS, OKI, ∆R and EO is the same as above. The marginal effect of net DRe on I depends on what happens to S, domestic savings.
If savings diminish as a result of the additional free resources (as claimed by Easterly, 1999, for example[64]), this would be a negative effect of debt relief. Ideally, DRe would be accompanied not only by higher I but also by higher S.

[62] M = Imports
PCT = Private Capital Transfers
DRe = Effective debt relief
DS = Debt service
X = Exports
OKI = Other capital inflows
∆R = Change in reserves
EO = Errors and Omissions
[63] I = Investment
S = Savings

The internal account can be broken down further, allowing for separate government income and expenditure. A change in domestic savings is the sum of changes in private saving and changes in government revenues. Investment can be broken down into government expenditure and private investment (see schemes in White 1999: 95).

According to the "fiscal response" literature (White, 1998), the marginal effect of aid (in this case, net effective debt relief) can be to reduce revenues. The analysis of government accounts must therefore begin by looking at what happens to government revenues. A second possible effect that must be examined is the effect on the deficit. If revenues and deficit remain unchanged, the whole effect of net DRe is on increased expenditure, which is the intended effect of donors (resources should be freed for other – social – expenses). The third step is to look at the composition of expenditure. Does the freeing of government resources lead to increased priority for social expenditure or for public investment? The trends in the share of these sectors within total expenditure will be examined.

[64] Easterly (1999) does not distinguish between debt relief and effective debt relief, however; and his model that stresses "perverse incentive effects" also overlooks that the continued lending by HIPC countries is probably as much the result of (lending) supply factors than of demand factors such as a high discount rate.

Annex 4

Debt sustainability

In the long run, debt service can be sustainable if the following holds (Gillis et al., 1996: 414):

D/X = a/(gE – i) (5)

Where D = debt, X = exports, a = the trade gap (M – X)/ X, M = imports, gE = the growth rate of exports, and i = the average interest rate on debt.

This means that as long as the growth rate of exports is higher than the interest rate, a sustainable debt/exports ratio can be accompanied by a trade gap a (i.e. by increasing debt). A first issue to be examined is therefore whether the growth rate of exports is higher or lower than the average interest rate of the debt stocks over 1990-99 (as computed in 2.7). If it is lower, it can be argued that the country had a solvability problem and not a liquidity problem, and that new loans would not lead to a sustainable debt service.

The next component to analyse is the trend in the trade gap. This trade gap a is constant if the growth rate of imports is equal to the growth rate of exports, but this is not necessary for the analysis. In our study, the trade gap that leads to this increase in debt a = (M – X)/X must be adjusted for the non-loans part of aid (i.e. grants, A) and for net effective debt relief (DRe, see Annex 1), so we will look at what happens to

$$\frac{M-(X+A+DR_e)}{X}$$

If the growth rates of exports is lower than the interest rate, D/E is only sustainable if there is a surplus, so M-(X+A+DRe) < 0.

Similarly, the debt/GDP ratio can be sustainable in the long run if (Gillis et al., 1996: 415):

D/Y = (v – s)/(gY – i) (6)

Where Y = GNP, gY = the growth rate of Y, v = I/Y, the investment ratio, and s = S/Y, the savings ratio.
As long as gY is above the interest rate, a sustainable debt/income ratio can be accompanied by a continuing and constant savings gap (v – s> 0). This savings gap leading to increased debt must also be adjusted for grants (A) and for net effective debt relief (net DRe) , so we look at:

v – s – A/Y – DRe/Y

If gY is below the interest rate, there must be a savings surplus. The evaluation will examine the trends 1990-99 in gY as compared to i, and of v, s, A/Y and DRe/Y

For the government, we can assess sustainability in relation to the tax capacity (Fishlow, 1988: 220-21). In the long run, the debt burden is sustainable if:

$D/T = \{(G - T)/T\} / (rt - I)$ (7)

Where T = tax income, G = government expenditure, rt = growth rate of taxes.

In this part of the analysis, the sustainability of the debt burden for the government is not only determined by the external public debt, but also by the internal debt. This is a problem for Jamaica, for example. An average interest rate on total public debt will have to be computed. This average interest rate must then be compared with the growth rate of taxes. The latter will probably be related to the growth rate of GDP, but there can also be an independent effect due to, for example, tax reforms. If the interest rate is higher than the growth rate of taxes, the government must have a surplus $(G-T) < 0$ for debt service to be sustainable.

Annex 5

Social indicators

Social indicators to be analysed could be taken from the OECD/DAC indicators for social development (Nos. 4-15 of the 21 Indicators for sustainable poverty reduction). These are:

Indicator	**Measure**	**Source**
Children under 5 with underweight	%	WDR (WDI)
Enrolment in primary education (%)	%	WDR (WDI)
Share of people with fourth grade	% of adults	HDR (WDI?)
Alphabetisation	% of adults	HDR (WDI?)
Gender equality in primary enrolment,	F/m, in %	UNFPA or WISTAT
Gender equality in secondary enrolment	F/m, in %	UNFPA or WISTAT
Gender equality in alphabetisation	F/m, in %	HDR
Infant mortality rate	%	HDR
Child mortality rate	%	WDR (WDI)
Maternal mortality rate	%	WDR (WDI)
Deliveries under expert supervision	% of total	UNFPA
Use of contraceptives	% of married women	HDR
HIV ratio	% of adults	UNAIDS

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