

Republic of Mozambique - European Community

**Country Strategy Paper
and
National Indicative Programme**

for the period 2008-2013

The Government of the Republic of Mozambique and the European Commission hereby agree as follows:

- (1) The Government of the Republic of Mozambique, represented by H.E. Enrique Banze, Vice-Minister of Foreign Affairs and Cooperation, and the European Commission, represented by Mr Glauco Calzuola, Head of Delegation in Mozambique, hereinafter referred to as the "parties", held discussions in Maputo from February 2006 to November 2007 with a view to determining the general approach to cooperation for the period 2008–2013.

During these discussions, the Country Strategy Paper and an Indicative Programme of Community Aid in favour of the Republic of Mozambique were drawn up in accordance with the provisions of Articles 2 and 4 of Annex IV to the ACP-EC Partnership Agreement, signed in Cotonou on 23 June 2000, as revised in Luxembourg on 25 June 2005. These discussions complete the programming process in the Republic of Mozambique.

The Country Strategy Paper and the Indicative Programme are annexed to the present document.
- (2) As regards the indicative programmable financial resources which the Community plans to make available to the Republic of Mozambique for the period 2008-2013, an amount of **€622 million** is set aside for the allocation referred to in Article 3.2(a) of Annex IV to the ACP-EC Partnership Agreement (A-allocation) and of **€12.1 million** for the allocation referred to in Article 3.2(b) (B-allocation). These allocations are not entitlements and may be revised by the Community, following the completion of mid-term and end-of-term reviews, in accordance with Article 5.7 of Annex IV to the ACP-EC Partnership Agreement. The A-allocation includes €603 million for activities in favour of the strategy agreed between the EC and the Republic of Mozambique, plus €19 million in the context of the multi-country programmes to be implemented in favour of the Portuguese-speaking countries in Africa (PALOP) plus Timor-Leste, following a specific approach agreed between the EC and those six countries.
- (3) The A-allocation is intended to cover macroeconomic support, sectoral policies, programmes and projects in support of the focal or non-focal areas of Community Assistance. The Indicative Programme in Part 2 concerns the resources of the A-allocation. It also takes into consideration financing from which the Republic of Mozambique benefits or could benefit under other Community resources. It does not pre-empt financing decisions by the Commission.
- (4) The B-allocation is intended to cover unforeseen needs such as emergency assistance where such support cannot be financed from the EU budget, contributions to internationally agreed debt relief initiatives and support to mitigate adverse effects of instability in export earnings. The B-allocation will be triggered in response to specific mechanisms and procedures and does therefore not yet constitute a part of the Indicative Programme.
- (5) Resources can be committed within the framework of this Country Strategy Paper and Indicative Programme upon the entry into force of the 10th EDF multi-annual financial framework for the period 2008-2013 of the revised ACP-EC Partnership but not before 1 January 2008. Financing decisions for projects and programmes can be taken by the Commission at the request of the Government of the Republic of Mozambique within the limits of the A- and B-allocations referred to in this document. Financing decisions

can also be taken on the basis of Article 15(4) in conjunction with Article 4(1)(d) of Annex IV to the ACP-EC Partnership Agreement for support to non-State Actors or on the basis of Article 72(6) to the ACP-EU Partnership Agreement for humanitarian and emergency assistance funded from the B-allocations. Financial decisions shall be taken and implemented according to the rules and procedures laid down in the EC Council regulations on the implementation of the 10th EDF and on financial regulation applicable to the 10th EDF and in Annex IV of the ACP-EU Partnership Agreement.

- (6) The European Investment Bank may contribute to implementation of this present Country Strategy Paper by operations financed from the Investment Facility and/or from its own resources, in accordance with Paragraphs 2.c and 3 of Annex Ib to the ACP Partnership Agreement regarding the 10th EDF multi-annual financial framework for the period 2008-2013.
- (7) In accordance with Article 5 of Annex IV to the ACP-EC Partnership Agreement, the National Authorising Officer and the Head of Delegation will undertake an annual operational review of the Indicative Programme and a mid-term and end-of-term review of the Country Strategy Paper and the Indicative Programme in the light of needs and performance at the time.
The mid-term review will be undertaken in 2010 and the end-of-term review in 2012. Following the completion of the mid- and end-of-term reviews, the Community may revise the resource allocation in the light of prevailing needs and performance.
Without prejudice to Article 5.7 of Annex IV concerning reviews, the allocations may be increased according to Article 3(5) of Annex IV in order to take account of special needs or exceptional performance.
- (8) The agreement of the two parties on this Country Strategy Paper and the National Indicative Programme, subject to the ratification and entry into force of the revised ACP-EC Partnership Agreement and the 10th EDF multi-annual financial framework for the period 2008-2013, will be regarded as definitive within eight weeks of the date of signature, unless either party communicates the contrary before the end of this period.

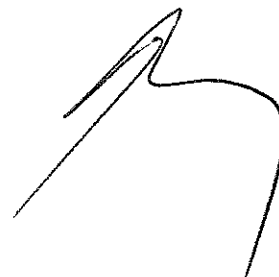
Done at Lisbon on 9 December 2007.

For the Government of
the Republic of Mozambique



Alcinda António de Abreu
Minister for Foreign Affairs and Cooperation

For the European Commission



Louis MICHEL
Member of the Commission in charge of
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SUMMARY

The Union policy in the sphere of development cooperation complements the policies followed by the Member States and fosters the sustainable economic and social development of the developing countries, their smooth and gradual integration into the world economy and the campaign against poverty. Furthermore, Community policy in this area contributes to the general objectives of development, consolidating democracy and the rule of law and respecting human rights and fundamental freedoms.

The strategy chosen for EDF cooperation in Mozambique is to help to achieve the twofold objectives of PARPA II, i.e. to decrease the incidence of poverty from 54% in 2003 to 45% in 2009 and to promote fast, sustainable and broad-based growth.

Substantial progress has been achieved in Mozambique, with real GDP growth averaging 8% per year over the period 1995-2005 and the proportion of the population living in absolute poverty falling from 69% in 1996/97 to 54% in 2002/03. However, in order to maintain the high growth rates needed to achieve the Millennium Development Goals and to expand and improve the quality of public services, continued reforms are needed to promote democratic governance, revitalise the public sector and improve the business environment.

Against this background, the response strategy has been designed in the light of the experience of the ongoing EC cooperation, the need for large-scale action in certain areas, the policy framework in place and the complementarity with other donors and other EC instruments. The proposed strategy recommends that 46% to 50% of the A envelope (€622 million of programmable resources) should be allocated to support the reform programme in order to maintain macroeconomic stability, while allowing the pattern of public expenditure needed to ensure progress towards the Millennium Development Goals. Apart from budget support measures, two focal sectors have been selected. About 21% of the A envelope is to be allocated to transport infrastructure and regional economic integration, including rehabilitation to facilitate social and economic activity, encompassing support for road maintenance and rehabilitation, rural roads, institutional support and capacity-building, along with capital investment supporting regional integration. About 12% to 15% is to be allocated to agriculture, rural development and regional economic integration to promote sustainable economic growth in rural areas, enhance food security and promote trade flows.

Action in non-focal sectors will continue to support the health sector budget. Apart from mainstreaming governance in the selected focal sectors and budget support, governance measures in favour of human rights, justice, anti-corruption, Parliament and civil society will be envisaged plus the governance-based initiative in favour of the PALOP/Timor-Leste countries, as defined in the 10th EDF multi-country strategy. Finally, support for trade will be envisaged in this framework.

Complementarity will be sought between this strategy and other EC action, whether financed by the EDF (SADC Regional Indicative Programme, water, energy and infrastructure facilities if they are continued under the 10th EDF) or with other financial instruments (such as the EIB and budget lines).

As regards the form of implementation, the Community will give preference to budget support, whether general or sectoral, whenever the conditions are met. The Community will also continue to support the harmonisation efforts that are being made in Mozambique, in particular via the group of programme aid partners.

PART 1: STRATEGY PAPER

CHAPTER I - THE FRAMEWORK OF RELATIONS BETWEEN THE EU AND MOZAMBIQUE

I.1.1. General objectives of the EU's external policy

Europe should project a coherent role as a global partner, inspired by its core values in assuming regional responsibilities, promoting sustainable development and contributing to civilian and strategic security.

The Union has developed a broad spectrum of external relations tools in the shape of the common trade policy, cooperation under bilateral and multilateral agreements, development cooperation, humanitarian aid and financial assistance and the external aspects of internal policies (energy, environment, transport, justice and home affairs, etc.).

EU external action, including the Common Foreign and Security Policy, common trade policy and cooperation with third countries, provides a framework both for integrating all EU instruments and for developing gradually a set of common actions based on common positions in the broader sphere of political relations.

Enlargement has entrusted the EU with even greater responsibilities, as regional leader and as global partner. It should therefore strengthen its capacity to promote human rights, democracy and the rule of law as well as its capacity to focus on the fight against poverty, both in its neighbourhood and through its multilateral and bilateral policies which are mainly aimed at sustainable development and political stability. Thus, the EU will achieve genuine coherence between its domestic and its external agendas, contributing thereby to global security and prosperity.

I.1.2. Strategic objectives of cooperation with partner countries

The Union policy in the sphere of development cooperation complements the policies followed by the Member States and fosters the sustainable economic and social development of the developing countries, their smooth and gradual integration into the world economy and the campaign against poverty. Furthermore, Community policy in this area contributes to the general objectives of development, consolidating democracy and the rule of law and respecting human rights and fundamental freedoms.

The Treaty objectives are confirmed in Article 1 of the ACP-EU Partnership Agreement, signed in Cotonou on 23 June 2000 and revised in Luxembourg on 25 June 2005. The overarching objective of the Cotonou Agreement is to promote the development of a common strategic approach to poverty reduction, consistent with the objectives of sustainable development and the gradual integration of ACP countries into the world economy. Cooperation between the European Commission and Mozambique is geared to pursuing these objectives, taking into account the fundamental principles set out in Article 2, in particular the encouragement of "ownership" of the strategy by the country and populations concerned, and the essential and fundamental elements, as defined in Articles 9 and 11b of the Agreement.

While the Treaty and the Cotonou Agreement provide the legal basis for EC cooperation with ACP countries, the recently adopted European Consensus on Development sets the general policy framework at EU level. The primary and overarching objective of EU development policy is the eradication of poverty in the context of sustainable development, in line with the international agenda and paying particular attention to the Millennium Development Goals. Creation of an environment conducive to effective implementation of human rights and promotion of democratic governance principles are recognised as other important objectives.

Better aid effectiveness is essential to achieving poverty eradication. Therefore the EU will advance coordination, harmonisation and alignment. It will promote better donor complementarity by working towards joint multi-annual programming based on partner countries' strategies and processes, common implementation mechanisms, joint donor-wide missions and use of co-financing arrangements. The EU will take a lead role in implementing the Paris Declaration commitments on improving aid delivery and it will capitalise on new Member States' experience to strengthen their role as donors.

Policy coherence for development will advance in a number of areas. The purpose is that all EU non-aid policies make a positive contribution to developing countries' domestic objectives, paying particular attention to efforts to attain the Millennium Development Goals.

The principle of concentration will guide the EU country and regional programming. This means that the EU and its partner countries will select a limited number of priority areas of action, thus avoiding spreading efforts too thinly across too many sectors. In this context, the Community will be primarily active in the following nine areas, bearing in mind its comparative advantages in a number of these: trade and regional integration; the environment and the sustainable management of natural resources; infrastructure, communications and transport; water and energy; rural development, territorial planning, agriculture and food security; governance, democracy, human rights and support for economic and institutional reforms; conflict prevention and fragile States; human development; social cohesion and employment.

The mainstreaming approach will be strengthened for four cross-cutting issues: democracy, good governance, human rights, the rights of children and indigenous peoples; gender equality; environmental sustainability; and the fight against HIV/AIDS.

I.1.3 Main bilateral agreements

Since Mozambique joined the 3rd Lomé Convention, Mozambique-EC cooperation has gained new impetus, becoming more structured and making use of various financial instruments available. Subsequently, Mozambique signed the Cotonou Agreement on 23 June 2000.

The EC-Mozambique Fisheries Partnership Agreement, initialled on 21 December 2006, provides Community fishermen with fishing opportunities in the Mozambique fishing zone. This Fisheries Partnership Agreement - currently under adoption procedure - accompanied by a Protocol and a technical Annex - provisionally applied since the beginning of 2007 - has been agreed for a period of five years. On the date of its entry into force, this Agreement repeals and replaces the Agreement between the European Community and the Republic of Mozambique on fishing off the coast of Mozambique and related protocol which entered into force on 1 January 2004.

Concerning trade policy, Mozambique -- as a least developed country -- has benefited from the EU initiative Everything But Arms (EBA) since 2001, granting all Mozambican products tariff- and quota-free access to EU markets (with a transition period for three products, of which sugar is the most relevant to the country). Along with seven members of the Southern African Development Community (SADC), in July 2004 Mozambique embarked upon negotiations for an Economic Partnership Agreement (EPA), with a view to replacing the old Lomé unilateral trade preferences and to creating a WTO-compatible trade regime for reciprocal preferences and mutual cooperation, which should enter into force on 1 January 2008.

CHAPTER II - COUNTRY DIAGNOSIS

II.1. Analysis of the political, economic, social and environmental situation in Mozambique

II.1.1 Political and institutional situation

Consolidation of democratic politics is progressing, with three multiparty general elections held since the peace agreement and political transition initiated in the last decade. The 1990 Constitution (amended in 2004) guarantees fundamental rights, formal separation of powers and political institutions along with a system of checks and balances, therefore providing space to exercise political rights and freedoms and laying the foundations on which to build up the rule of law.

Peace and political liberalisation have brought about change in the form of opening up the press and the flowering of freedom of expression. There is an unquestionable understanding that periodic electoral competition is necessary. However, establishing and nurturing a democratic political culture is a long-term process which demands participation from all sectors of Mozambican society.

Overall, the latest (2004) general elections largely met most international and regional standards, such as the International Covenant on Civil and Political Rights and the SADC Principles and Guidelines Governing Democratic Elections. There were, however, shortcomings that need to be addressed to improve the next elections.

Throughout the last decade, the democratic process in Mozambique guaranteed the political and social stability of the country. The political system opened up space for democratic accountability. The multiparty elections have contributed to creating a political atmosphere in which key issues of democratic governance and development can at least be addressed.

On the road to institutional development, there is a declared determination and political will to move towards a strong and effective State that can drive sustainable economic growth.

After fourteen years of peace, the majority of the people are still awaiting development and economic well-being. Delivering greater satisfaction to the bulk of the population and enhancing accountability mechanisms are important challenges ahead for the Government.

The capacity to control public finance and to plan and manage public affairs is increasing notably. But much remains to be done to ensure that State resources are used appropriately and for established goals.

The Government of President Guebuza took office in February 2005 amid great expectations of a substantial change in governance. Its programme includes explicit commitments to improve the justice system, fight corruption and reform the State sector. Initial measures showed a determination to discipline and moralise State institutions.

Furthermore, the Government designed a second PARPA (PSRP: Poverty Reduction Strategy Paper), based on its 2005-2009 five-year plan, aiming at reducing poverty by developing economic and human capital and improving governance. It includes a decentralised approach to development (giving districts greater responsibility for planning) and a more participatory and coordinated monitoring and evaluation system. Importantly, the Government's approach to decentralisation is also focused on devolution of power to the local level and therefore on building up grass-roots democracy.

The Parliament faces constraints in fulfilling both its role as the legislative power and its catalytic role in the checks and balances mechanisms as the central democratic institution. Some of those constraints result from scarce resources and weak institutional capacity.

Consolidation of the rule of law implies enhancing legality, including effective control mechanisms, plus legal certainty and access to justice in a way that augments public confidence and perception that all powers and citizens are bound by the law. Sporadic institutional responses to the challenges of the judicial system have failed to meet the expectations of the citizens. There is a general consensus on the need for strategic reform, including structural improvements to the judicial system.

Security situation: The Mozambican defence and security forces, namely the armed forces, intelligence services and the police, are subordinate to the democratically elected political powers, substantiating the principle of civilian control. Public order and domestic security are safeguarded by the police force. Mechanisms for democratic control have to be further developed and consolidated. A stable overall security situation prevails. It is important that the country implements fully all its international commitments in this field, including the SADC Protocol on the Control of Firearms, Ammunition and other Related Material. In particular, there is an immediate need to improve standards and procedures for the management and security of stockpiles. Cooperation mechanisms established in the SADC region and the current relationship between Member States are a strong guarantee of resolution by peaceful means of any potential disputes in the region (for instance, over natural resources). International organised crime has been identified by the authorities as a major challenge to law and order. Human trafficking and economic crime are a great concern to the Government.

Human rights: Major human rights concerns are excesses in police actions, the precarious living conditions of prisoners and the overcrowding of prisons. Although acknowledging the measures already in place there is concern about the high prevalence of domestic violence affecting the most vulnerable groups of the population, children and women. The role of the newly emerging civil society in raising awareness of rights and in human rights advocacy is evolving slowly, but with a clear upward trend. The death penalty was abolished in 1990. Mozambique has ratified without reservation the most important international and African human rights instruments, although some important instruments, such as the International Covenant on Economic, Social and Cultural Rights, have not been signed and the Rome Statute on the International Criminal Court has been signed but not yet ratified. The country is facing delays in submitting the mandatory reports required by international human rights treaties to which it is party.

Civil society: Freedom of association has been a reality since the 1990s and numerous organisations have been created since then. Yet development of a strong, autonomous and politically articulate civil society is still in its early stages. The majority of the civil society organisations see themselves more in the role of service providers aiming to bridge the gap left by the Government's lack of capacity to deliver basic services. The last five years have seen increasing collaboration between the executive and civil society organisations on identifying the population's needs and expectations and on defining development objectives and policies. The authorities have progressively opened up space for monitoring and evaluation by civil society, in particular in the framework of the poverty reduction plan.

Gender: The previous Governments' five-year plans envisaged gender as a cross-cutting subject, touching all areas of political, economic, social and cultural activity. The Government declared its wish to guarantee gender equality, in terms not only of socio-economic benefit but also, especially, of a participatory role for women in the decision-making process. The Action Plan for the Reduction of Absolute Poverty for 2006-2009 (PARPA II, see below) recognises the link between gender and poverty as one of the leading concerns in the context of reducing absolute poverty. The new Family Law was ratified in August 2004, making major changes to the previous (1966) law. The new law guarantees equal rights to women and men. A draft law on domestic violence is being prepared. Mozambique ratified the UN International Convention on the Elimination of All Forms of Discrimination against Women in 1993 (but not the Optional Protocol), followed, in 2003, by the Protocol to the African Charter on Human and Peoples' Rights on the Rights of Women in Africa.

II.1.2 Economic and commercial situation

II.1.2.1 Economic situation, structure and performance

Over the period 1995–2005, Mozambique achieved remarkable economic performance, supported by substantial donor assistance (see Annex 1a). Real GDP growth averaged 8% per year over the period (6% in per capita terms), which permitted a reduction in the proportion of the population living in absolute poverty from 69% in 1996/97 to 54% in 2002/03 (a significant reduction of 15.3% over a 6-year period). As in most emerging economies, inequality grew in Mozambique during this period due to an above-average increase in consumption by richer households; however, this inequality has not been significant and its impact on the existing poverty reduction efforts has been small. In fact, income inequality in real consumption between provinces and regions actually declined over this period, reducing the geographical inequality in the country.

Completion of the fifth review under the IMF PRGF arrangement confirms that the Mozambican economy is continuing to perform well, especially taking into account the adverse exogenous shocks (increase in oil price, drought and floods) in 2005. Real GDP growth was robust in the last two years (around 7.5%). This performance has been driven by healthy agricultural growth, significant donor support, mega-projects and investment from abroad. Interestingly, preliminary evidence shows that the highest returns in the ongoing poverty reduction process in Mozambique are from investments in education, better opportunities in agriculture and industrial projects linked to large investments in infrastructure and technological development.

The external current account deficit widened as expected in 2005 due to oil and cereals imports, but international reserves remained comfortable. In 2006 the inflation rate decelerated and the single digit target is within reach. Mozambique's debt is sustainable, as confirmed by a new debt-sustainability analysis by the World Bank and the IMF in 2006, after the impact of the multilateral debt relief initiative from which Mozambique benefited. The net present value of public external debt was estimated to be about 12% of GDP in 2006 (see Annex 8).

Consolidation of macroeconomic stability and sustainable growth is one pillar of PARPA II. Central to this Government's strategy is a gradual strengthening of the fiscal position underpinned by an average increase in revenue of 0.5% of GDP per annum (from 14.5% in 2005) and public expenditure management reforms targeted at priority sectors to allow better value for money. Another key to budget policy is continuation of the substantial donor support to Mozambique, as more than 50% of the budget is externally financed (54% of the 2007 budget), with around 15% in the form of budget support, the majority in grants, to cover the primary deficit, and the balance taking the form of increasing sector programmes and of projects covered by the investment budget. Monetary control should continue to secure the inflation level. The flexible exchange rate regime and the adequate level of international reserves should allow the country to adjust smoothly to possible exogenous shocks. Prospects for the next three years remain favourable, taking into account the fiscal measures planned and a prudent monetary programme.

In future greater attention should be paid to improving the conditions for increasing the contribution by the traditional sectors of the economy (i.e. agriculture and fisheries) and to promoting labour-intensive and export-oriented growth to complement the mega-projects which have proved to have little impact on employment and on the tax base. For that reason, it is still necessary to improve the business environment and increase investment in rural infrastructure. Access to credit is an important condition for developing the production sector. Progress has been made, although the level remains low, and improvements in the financial sector should be given priority. Challenges posed by the negative socio-economic impact of HIV/AIDS should be taken into account in macroeconomic policies and be reflected in the strategies to enhance sustainable economic growth. In this context, the Government is committed, within the PARPA II framework, to enhancing the investment climate, in particular by reducing the cost

of doing business, to strengthening the banking system and to reinvigorating the public sector reform programme.

As in industrialised economies, the structure of manufacturing in Mozambique has evolved in recent years to accompany the GDP growth rate, although agriculture still remains a significant part of the distribution sector. The share of industry (mainly mines, electricity, water, manufacturing and construction) in GDP rose from 16% in 1996 to 27% in 2004. Agriculture (in particular cereals, sugar, tobacco, cashews and cotton) still sustains over 80% of the economically active population, but has lost some of its share of the economy, falling from 30% to 23% of GDP over the same period. Services (especially transport and communications, tourism, trade, financial and governmental services) decreased from 50% to 48% over the same period, but remained the largest sector in the economy.

In terms of specific contributions at sector level to the annual growth of Mozambique, agriculture contributed around one third of the growth registered in 2004, with annual growth rates of 5.6% over the period 1992-2003. Significant contributions have also been made to growth by tourism (10.8% growth in 1996-2004), construction (17.2% growth over the same period) and certain areas of manufacturing (17.2% growth over the same period). The contribution made by “mega-projects” increased from 0 to 7% in 2003 (although in recent years this is believed to have fallen, with GDP increasing its base while mega-projects are consolidated).

Export earnings also made a key contribution to growth, with a significant increase of 22% over the period 1992-2003, although traditional exports grew by only 2.3% over the same period. Mega-projects continue to dominate overall exports (currently around 70%). Preliminary estimates suggest that the overall productivity of production factors contributed 50% to real growth in GDP over the period 1996-2004.

The direct contribution of mega-projects to poverty reduction has been minimal, as short-term job creation has been limited. Fiscal contributions have also been low, due to the highly favourable tax arrangements. Over time, growth in agriculture has been the main contributor to poverty reduction, as more than 70% of the population still live in rural areas. Rural–urban migration has also been high and, while this may have eased the pressure on resources in rural areas and may also have been a source of increased cash income via urban-rural remittances, there are indications that the informal sector’s earnings stagnated as a result. As a whole, urban poverty has fallen more slowly than rural poverty although, overall, rural poverty remains higher than urban poverty.

However, many challenges remain, in particular in terms of income inequality. Moreover, there are reasons to believe that the “easy gains” from the re-establishment of peace, stability and growth have largely been reaped and that continued fast growth will require substantial improvements in infrastructure plus further structural reforms. These reforms will need to take place against a difficult social backdrop, with HIV rates continuing to increase within key population groups with a very large potential impact on future growth opportunities.

Due to the vulnerability of traditional sectors, such as agriculture and fishery, combined with natural factors, such as floods, droughts and cyclones, greater attention must be paid to improving the conditions for greater involvement on the part of these sectors and minimising the impact of such shocks. It is equally necessary to speed up development of a more appropriate business environment and to increase investment in infrastructure and in human capital.

State of infrastructure: Mozambique has amongst the least developed infrastructure in the southern African region. The road classification was reviewed in 2005 and found a total network of around 31000 km of paved, earth and gravel roads. Paved roads add up to around 6000 km. Approximately 6500 km are primary roads, 4900 km secondary roads, 12700 km tertiary roads and the rest local roads. 71% of

roads are considered to be in good or fair condition, considering that “good” means that a car can safely and comfortably be driven at an average speed of 60 kph and “fair” at 40 kph.

The railways network totals 3123 km, consisting of 2983 km of 1.067 m narrow gauge and 140 km of 0.762 m. Mozambique has 22 airports, four of which have a runway longer than 2.438 km. Domestic air transport, albeit scheduled, is expensive and has to cope with a growing demand both in passengers and freight. Waterways total 460 km with the Zambezi navigable to Tete and along Cahora Bassa.

Annual freight volumes have increased by 35% since 2003 to 2440 million tonne-kilometres in 2005, out of which 1049 was by road and 767 by rail. Another 125 million tonne-kilometres were covered by pipelines supplying fuels from the port terminals to the neighbouring countries.

The principal transport infrastructure consists of the Estrada Nacional 1 road, connecting the south to the north of the country, including the crossing of the Zambezi river, which form the basic infrastructure for economic development and consolidation of national unity, together with the three road-rail transit corridors connecting to the ports of Maputo, Beira and Nacala. The south-north road backbone and the three road transit corridors have not yet been completed and therefore operate under traffic constraints. Similarly, the three main regional rail systems (south, centre and north), serving the ports of Maputo, Beira and Nacala respectively to/from the hinterland, operate with significant restrictions, partly due to the poor state of the infrastructure (particularly the Limpopo, Ressano Garcia, Machipanda and Sena lines and the limited dredging capacity in Beira), but also as the after-effects of armed conflict. In order to improve the operational efficiency of ports and railways, the Government has granted concessions to the private sector.

Road density remains less than 0.02 km/m² and 0.86 km per capita, against an average of 0.2 km/m² and 36 km per capita in developing countries: less than 15% of the rural population lives within 2 kilometres of an all-season road. For this reason, development of road infrastructure is considered a contributory facet of PARPA II to reduce poverty and regional asymmetries, thus promoting general growth and reaping economic benefits from regional integration. This is to be achieved by developing the regional (Maputo, Beira and Nacala) corridors connecting Mozambique to the neighbouring SADC countries, and the relevant support services and infrastructure.

In June 2005 the official vehicle registry of Mozambique totalled 221523 vehicles (60% being light vehicles and 22% trucks). Around 35% of the vehicles were registered in the province of Maputo. In 2005 a total of 1183 people died in road accidents (compared with 1323 in 2004).

Despite the substantial progress accomplished on rehabilitating the road network devastated by the civil war, the road system in Mozambique still suffers from several weaknesses in management, technical and financial capacity regarding both (i) the capital investment required to complete and regionally integrate the existing network and (ii) the maintenance capacity required for efficient asset preservation ensuring sustainability in the sector. For the next five years, the road sector requires capital investment and an efficient asset preservation policy in order to respond to the increasing domestic and regional demand shown by the annual traffic growth of 5% and considering that transport and communications already account for 18% of the gross revenue of export services in Mozambique.

The water and sanitation infrastructure continues to be weak in rural areas and insufficient in most urban areas. The state of the sewage systems is critical for Maputo, Beira and Nampula towns, and is lacking investment funds. In spite of the fact that over the past ten years, access to clean drinking water has increased from 40% to 67% in urban areas and from 17% to 26% in rural areas, MDG 7 of halving the population with no access to water can not be achieved. Similarly, the access to sanitation has improved marginally from 48% to 51% in urban areas and from 14% to 15% in rural areas. An important aspect for poverty reduction relates to the expansion of safe and sustainable water: only 27% of the rural households are serviced with cleaned water.

Negotiations with neighbouring countries over rights to cross-border water flows also need much greater focus than it has been given up to now as this will become a major issue in the future, especially when it begins to constrain or even reverse economic growth and development in Mozambique. In that respect, adequate infrastructure is needed in order to improve response to water shocks and guarantee reserves for future expansion.

Energy: Mozambique has substantial coal, gas and forest resources and hydropower capabilities. Coal deposits have been estimated at about 87 million tonnes. A gas field discovered at Pande (800 km from Maputo) has proven reserves of 60 billion cubic metres and contributes to gas exports worth around US\$ 100 million per year. Mozambique is connected to the Southern African Power Pool (SAPP) via the Republic of South Africa and Zimbabwe as a net seller of electricity. The 12 dams in the country have a total storage capacity of 44700 million cubic metres, with Cahora Bassa, the second biggest dam in Africa, having installed capacity of 2075 MW. However, in spite of this generation capacity, distribution is insufficient and requires investment in transmission lines, particularly in rural areas. Estimates suggest that annual Government investment in transmission and distribution will total US\$ 55 million over the next 10 years. Currently only around 300000 households have access to electricity, giving an electricity access rate of only 6%, significantly below the SADC average of 27%, with the number of new households growing faster than the capacity of the State-owned company to add new connections. The quality and reliability of the electricity supply have improved significantly over the last few years although the improvements have been concentrated in a few major cities. Energy consumption relies heavily on petroleum products, while in rural areas most of the energy is obtained from fuel-wood and charcoal which are costly, inefficient and environmentally damaging.

Mozambique imports all the fuel it needs (no refineries are working in the country) and the annual payments for these imports are estimated at US\$ 300 million (around 14% of all imports), making this one source of external shocks in a climate of fluctuating oil prices. In view of this situation the feasibility of biofuels production is under consideration.

The SADC Power Pool will face severe constraints in the near future, as estimates of production and consumption in the region suggest that by 2008 demand will surpass production, creating an energy shortage that the region will not be able to address in the short term. The SADC's current production stands at close to 45000 MW and needs urgent expansion, putting Mozambique's new hydro, combined and thermal generation projects in the frontline of the region's plans.

Information and communication technologies, including Internet provision, have steadily improved, even in the rural network, particularly with the development of transmission centres using radio techniques and the extension of mobile telephone networks and the television network.

Agriculture and fisheries: Agriculture is the main source of income for more than 85% of the population. Most of the indicators identified in PARPA relating to agriculture and rural development are evolving positively. Agricultural growth can be estimated at about 9% in 2004/2005 and 3.5% in 2005/2006.

Agriculture was one of the largest contributors to GDP (23% on average) during the period 2000/2004. This demonstrates the huge effect which even a limited increase in agricultural production has on GDP and poverty reduction.

The significance of smallholder agriculture, predominantly subsistence-oriented, as a source of economic growth and poverty reduction is unquestionable. The sector grew at an annual average of 5.2% between 1996/7 and 2002/3, was the largest contributor to GDP and contributed 11 percentage points out of a total of 15 to poverty reduction. The implied conclusion is that the targeted GDP growth rate, and the poverty reduction rate in particular, can be achieved only if smallholder agriculture continues to grow at a significant rate. The second observation is that the growth in smallholder

production in the past decade was largely the result of the return of low-productivity subsistence production to a pre-war level and of the significant increase in the area cultivated.

Mozambique's potential is very high in terms of agricultural production. 45% of the total surface area (789 800 km²) could be given over to agriculture, but only 12% is cultivated. This is due to the fact that Mozambican agriculture is made up of smallholdings (average area cultivated per family: 1.2 hectares) that are farmed using manual labour and hand tools with only minimal use of improved varieties, chemical inputs or farm machinery. Most inputs that are used are acquired via the informal economy. This type of farming imposes physical limits on the area that can be cultivated and the yields that can be generated; a natural limit is therefore also imposed on the total quantity of food that can be produced for self-consumption and for sale.

Gains in productivity levels and market-oriented crop diversification are the key challenges in the smallholder sector, which will strongly influence the contribution made by agriculture to GDP, but also the sustainable economic growth of the country as a whole, since agriculture is one of the few sectors where Mozambique has a comparative advantage and potential for growth. Agro-ecological and climate conditions are good. The diversity of the soils is suitable for a wide variety of crops.

97% of agricultural production is from subsistence farming. Maize is the main crop all over the country, but the increase in maize production since 1990 is considered to be mainly due to expansion of the area under cultivation rather than to an increase in productivity levels. Other crops include rice, cassava, sorghum, sweet potatoes and horticultural products. Cash crops, mainly tobacco, cotton, cashew nuts and sugar cane, account for 6% of the cultivated land. Livestock, goat and poultry production are increasing.

The sugar sector confirms the positive trends seen in recent years, showing a full recovery from the damage caused by the 2000 floods in the southern part of the country. Raw sugar production in 2005 was over 263 000 tonnes, a 30% increase in output compared with the 2004 season. This performance is the result of a combination of factors, such as expansion of the cane production area, better milling and manpower productivity and continuation of the protective trade regime that gives preference to national production. Because of the big increase in production, the industry rapidly managed to satisfy domestic demand, turning Mozambique into a net sugar exporter. In the 2004/05 season, exports totalled approximately 64 000 tonnes, or 25% of total raw sugar production, targeting in particular the preferential markets in Europe (Everything But Arms and Sugar Protocol) and the USA. From 2001, under Everything But Arms (EBA) Mozambique was allocated a 9 900 tonne duty-free quota for sugar exports to the EU market, which was fully used during the last two seasons. In 2005 Mozambique made full use of the 6 000 tonne export quota available under the Sugar Protocol, plus an exceptional quota of 17 000 tonnes upon Slovenia's accession to the EU. Today the sector accounts for about 9% of the total value of agricultural production and about 11% of total export earnings from agriculture. More importantly to the rural economy, the sector is one of the major employers in agriculture, with more than 21 000 workers in the milling factories and cane production. More recently, the sugar industry has increasingly been relying on small and medium-sized farmers for cane production, becoming a catalyst for local economic development.

Several initiatives are currently taking place in Mozambique with regard to biofuel, due to the comparative advantage of Mozambique in terms of year-round growing seasons for biomass, large areas of available arable land and low labour costs. A number of mainly foreign agroindustries are planning to invest in the sector, in particular for the production of bio-ethanol from sugar cane and of bio-diesel from copra and oilseeds (jeotropha, cotton, etc).

Studies to assess the impact of such ambitious plans will be undertaken by the relevant government institutions with assistance from donors, such as the environmental impact and land/water availability for large-scale biofuel farming estates, including the need to promote the integrity of natural habitats and

biodiversity. The impact on food prices, the possible competition for land and water with the local communities and the opportunity to promote the smallholders's access to the value chain will also be assessed.

Mozambique has a coastline of 2,780 km and access to a vast area of marine fishing and inland water area with considerable piscatorial resources. The fisheries sector is of great importance to Mozambique as a source of national income (1.5% of the GDP and 10-15% of foreign exchange earnings in 2005, according to World Bank data), as a source of employment (employing an estimated 120,000 fishermen and twice as many in support functions), for food security (being the most important source of animal protein also for the poorest sections of the population) and consequently for poverty reduction.

Together with aluminium, gas and electricity, fishing and agricultural products are the main export products for Mozambique (titanium products will be as from 2007 onwards). It is therefore crucial that the country benefits from the commercial opportunities available in the regional context, by harnessing its comparative advantages for export products which other countries in the region lack (i.e. corn in Malawi), and developing agro-processing companies to ensure that the value added remains within the country.

II.1.2.2 Structure and management of public finances

Over the last ten years there have been major improvements in public finance management systems as part of the first generation of reforms, which have served to establish the essential legal and institutional structure.

However, although fiscal discipline is ensured, fundamental weaknesses still undermine the ability of the Government to guarantee resources for predefined priorities and value for money in public spending.

The State budget in Mozambique is a credible document, with final outturns close to the initial budget approved by the Parliament. Budgetary institutions are beginning to demonstrate improved links between Government policy, Government resource allocation decisions and the results of final service delivery. The process of formulation of the State budget is linked to preparation of the annual Economic and Social Plan which is based on a wider fiscal strategy (the Medium-Term Fiscal Framework first approved in April 2006) and an overall set of objectives (the PRSP or PARPA in Portuguese). Links between these four elements and their respective roles are defined in law and their internal consistency is steadily being improved.

In the ongoing reform of public finance management, SISTAFE, the new public finance management system, is fundamental to ensure better Treasury management and to improve accountability and transparency. In terms of procurement, Mozambique took an important step forward at the end of 2005 when the Council of Ministers approved a decree, based on internationally recognised standards, on the regulation of contracts for public works, commodities, services and concessions supplied to the State. Implementation of this decree should have a positive impact on the efficiency of public spending.

Progress has been made on modernising the tax administration and broadening the coverage of revenue collection with the establishment of the Central Revenue Authority, taxpayer registration, an increase in own revenue and progressive collection of tax arrears. However, the current tax system still has to be simplified and further efforts to reduce the level of aid dependence are needed, as more than 50% of total public expenditure is still financed by foreign funds.

Internal and external audit institutions are slowly being reinforced. Particular attention should be paid to increasing coverage, quality and follow-up of the conclusions and to disseminating the conclusions of external audits.

The first analysis of the State public finances was concluded at the beginning of 2006 using the PEFA (Public Expenditure Financial Assessment) method. The results will allow identification of areas where more indepth reform is necessary. In this context, key areas include developing a coherent Medium-Term Fiscal Framework, implementing SISTAFE, increasing budget coverage, reforming the payroll and improving human resource management.

Regarding the road sector in particular, the conclusions of the Performance Audit of the Road Sector in Mozambique, carried out in 2005 by the Inspectorate-General of the Ministry of Finance (IGF) and financed by the EC, found that the Road Fund, created as an autonomous body in 2003 to administer an annual budget equivalent to about €50 million primarily covering maintenance, has performed effectively in recent years and that this will be sustained in the future. Nevertheless, delayed payments from the Ministry of Finance were also pointed out and the consequent irregular cash flow suffered by the Fund, along with the need for clear separation of responsibilities with ANE - the implementation agency - by establishing clear contractual relations.

II.1.2.3 Assessment of the reform process

Government policy in relation to good governance covering the PARPA I period (2001-2005) focused on public sector reform, reinforcement of the legal and judicial system and public safety, with the main objectives of contributing to improving service delivery by public institutions and to creating a stable investment environment for sustainable economic growth. With PARPA II, the Government demonstrated strong commitment to address governance as a central issue, considering it one of the three pillars on which it will be basing its policy in the next five years.

An ongoing programme of public sector reform is aiming at modernising the civil service and continuing the steady move away from the centralised public sector model which prevailed from 1975 to 1995. Decentralisation of district planning is a key component of this reform. In 2003 the legislation on local State bodies recognised the districts as the focus for development. District administrations are responsible for drafting the district development plans and for the stages of the annual planning and implementation cycles. However, approval of a salary policy and restructuring of selected ministries are two aspects of the public sector reform that are lagging behind.

In the area of legal reform, there are signs of progress. However, the sector recognises that substantially increasing the quality of service delivery and access of citizens to justice are big challenges. Definition of an integrated strategy and establishment of a monitoring and evaluation system are currently being discussed.

During the PRSP period (PARPA II 2006-2009) greater attention will be paid to enhancing market capacity and competition to create wealth. Numerous concerns remain on private-sector development in Mozambique, particularly about the slow improvement of the business environment (as recorded in the Doing Business reports issued by the World Bank), such as the process of setting up and closing companies, the existing labour market constraints, the use of inspections and corresponding fines, the limitations and high cost of access to credit (particularly for small and medium-sized enterprises), the barriers to trade across borders and the persisting low level of contract enforcement.

II.1.2.4 Trade policy and external environment

Since the early 1990s, notable progress has been made on opening Mozambique's formerly virtually closed economy, and reforms are still underway in this area (e.g. customs reform and reduction of tariff barriers). The levels of openness of the Mozambican economy in 2005 were 26% for the export/GDP ratio and 36% for the import/GDP ratio. The maximum tariff was reduced from 30% to 25% in 2003 and recently reduced further to 20% in 2006. Slow customs clearance (39 days for clearing exports and 38 days for imports according to World Bank figures) is still a disadvantage when competing with other countries in the region. The trade duties component is continuing to decrease as a percentage of budget revenue, thus reducing Mozambique's fiscal dependence on external trade.

According to the latest local official figures, Mozambique's exports to the rest of the world totalled €1 454m in 2005 (64% to the EU) and its total imports in the same year were €2 007m (44% from South Africa and 22% from the EU). Total exports per capita were €73 and imports per capita €101 in 2005. Even though the EU remains the main destination for Mozambique's exports, following the pattern described above, South Africa is becoming an ever more important destination for Mozambican exports (16% in 2005) and continues to be the leading source of imports (44% in 2005).

Trade with the EU has traditionally showed a negative trade balance for Mozambique since the 1990s. However, the beginning of aluminium exports in 2001 (when the MOZAL mega-smelting plant came into operation) changed this pattern. Exports to the EU increased substantially (from €174m in 2000 to €1 005m in 2005), resulting in a positive trade balance for Mozambique of €782m in 2005. The main products exported to the EU in 2005 were: raw aluminium (87% of the total), crustaceans (6%), tobacco (3%) and sugar (1.5%). The main imports from the EU in 2005 were: printed books (5%), machinery parts (4%) and electrical apparatus (4%).

To replace the current Cotonou trade arrangement between the EU and ACP countries, negotiations on new Economic Partnership Agreements with ACP regions are underway. The negotiating process with seven SADC member countries (including Mozambique) started in July 2004 and should be finalised by the end of 2007. Debates about the optimum configuration of the regional set-up for these negotiations and the content of any future agreement were still in progress between the two parties at the time of drafting this strategy paper.

All in all, Mozambique is, in a way, a marginal world trading partner and its participation in multilateral trade issues has been very limited. In WTO negotiations, Mozambique traditionally supports the position of regional groups like the ACP, African Union or SADC. The main issues on the multilateral agenda (access to the agricultural and non-agricultural markets) are not priorities for Mozambique, since the country's main difficulties lie in constraints on the supply side rather than in pure market access. Mozambique's main interest in the multilateral arena is in the potential benefits that the least developed countries (LDCs) could reap and all the issues relating to special and differential treatment that were agreed in the WTO Ministerial meeting in Hong Kong in December 2005. The Aid for Trade initiative and the proposals of developed countries to contribute further to trade facilitation and related matters are also important for Mozambique as a potential beneficiary.

Mozambique needs to attract foreign direct investment (FDI), to establish competitive value-added manufacturing industries and to increase export supply capacity. Many international firms may be attracted to Mozambique because of its low cost base, together with duty-free access to the European market. According to the Mozambique Central Bank's figures, foreign direct investment jumped from US\$ 35 million in 1994 to US\$ 245 million in 2004 (peaking at US\$ 347 million in 2002) and is concentrated in the extractive industries and, to a lesser extent, in transport and communication. The Central Bank's figures for the third quarter of 2005 showed FDI flows in that year to be a mere US\$ 44 million, with Portugal, India and South Africa leading the ranking. In recent years, China has been becoming a major long-term investor in the country, although this is not yet reflected in the official statistics.

Mozambique became a member of the World Trade Organisation (WTO) on 26 August 1996, having signed the Final Act of the Uruguay Round and the Marrakesh Agreement on 15 April 1994. Mozambique grants at least most favoured nation treatment to all its trading partners. Mozambique is neither a signatory nor an observer to the WTO Plurilateral Agreement on Government Procurement.

The latest WTO Trade Policy Review of Mozambique took place in January 2001. At the time WTO members encouraged Mozambique to strengthen its domestic process of trade policy coordination and to continue its reform process to improve its international competitiveness. Such reforms will also contribute to development of other branches, including tourism. Continuation of the privatisation

programme, mainly in the services sector, together with improvement of Mozambique's commitments under the General Agreement on Trade in Services, will help to bolster confidence and contribute to attracting the foreign investment needed.

Mozambique has been formally admitted to the Integrated Framework multilateral trade initiative. A study adopted by the Government in 2005 within this framework identified key problems and made the following recommendations: (i) mainstream trade policy: incorporate trade into PARPA II; (ii) increase exports: tap the country's export potential; (iii) remove obstacles: dismantle existing barriers to trade and investment; (iv) trade facilitation: facilitate trade, focusing on customs and transport; (v) market access: improve access to foreign markets; (vi) institutional reform: strengthen trade institutions and processes; (vii) liberalisation: adopt more liberal trade and investment policies; and (viii) focus on job creation: increase labour-intensive exports. The IF Steering Committee – and more specifically, the Trade- Subcommittee of Donors – is the forum where some donor coordination on trade issues is taking place in Mozambique. Environmental impact assessment of trade policy will be carried out and its recommendations properly integrated into action plans.

II.1.3 Social situation

Based on projections from the 1997 Population and Household Census, the National Institute of Statistics (INE) estimate of the total population of Mozambique in 2006 is 19.980.935. Taking a fertility rate of 5.3 children per woman, the annual population growth rate is 2.4%, giving a population estimate of 22 000 000 for 2010.

However, the INE's population projections ignore the effects of HIV/AIDS mortality. According to the US Census Bureau (USCB), AIDS will reduce the 2010 population estimate by 6% to 21.876.855. It has also decreased life expectancy at birth from 42.3 years in 1997 to 40.3 years in 2006, although this is expected to rise marginally to 40.9 by 2025 (USCB). 43% of the population is under 15 years of age and only 2.6% of the population over 65. Women constitute 53.8% of the adult age group.

In 2000 only 28.6% of the population lived in urban areas (low by southern African standards), but this rose to 35.6% in 2003 and is projected to rise to 48.5% by 2015 (source: UNDP). The main flows are heading for the principal urban centres.

The findings from the 2003 nationwide household income survey indicate that poverty in Mozambique has declined significantly, from 69.4% in 1997 to 54.1% in 2003. These figures still fall short of the Government's expectations, given that more than half the population is still living in absolute poverty. However, this achievement masks significant regional variations. Inequality between provinces and regions has diminished, although personal income inequality has grown, but not significantly. Worryingly, despite reductions in poverty, the level of malnutrition – in terms of the prevalence of underweight children under five years of age – remains high (23.7% in 2003).

Notable improvements have been made in education, with the net enrolment rate in lower primary education increasing by more than 25 percentage points between 1997 and 2003. However, disparities in terms of geography and place of abode remain high, affecting children in rural areas in particular. Significant increases in school enrolment have been observed for both girls and boys. As a result of this and other factors (such as HIV/AIDS), Mozambique faces a severe shortage of teachers and its pupil/teacher ratio rose to 74/1 in 2005. The data suggest that Mozambique will not achieve the Millennium Development Goal of full primary education by 2015 (MDG 2) unless extra efforts are made. The completion rate for primary education was 33.7% in 2005, although this is actually a substantial improvement (the PAF target was 34%). As a result, the number of children who completed lower primary education exceeded existing school places by 70 000.

Gender disparities in primary education (MDG 3) are gradually narrowing at lower primary level. However, the discrepancies are more evident in the northern and central provinces than in the southern provinces, where the numbers of girls and boys enrolled in lower primary education are roughly equal.

CSP EC Mozambique

While some progress in literacy rates has been made since 1997, illiteracy remains much higher among women than men (68.8% versus 36.7% in 2003). These disparities are significantly more pronounced in rural areas than urban areas. It is hoped that better education rates for women will translate into tangible reductions in both morbidity and mortality amongst women, girls and children.

Between 1997 and 2003, under-five mortality rates decreased by about 18%, from 219 to 178 per 1 000 live births, while infant mortality rates decreased by about 15%, from 147 to 125 per 1 000 live births. However, geographical and residential disparities remain high. Maternal mortality trends show a substantial reduction from an estimated 1 000 per 100 000 live births in the early 1990s to 408 per 100 000 live births in 2003. In addition, the proportion of births attended by skilled health personnel has been increasing slowly over the years from 44.2% in 1997 to 47.7% in 2003, according to official figures from the Ministry of Health, with a substantial difference between rural and urban areas (34.2% and 80.7% respectively in 2003).

HIV/AIDS prevalence among 15 to 24 year-old women has steadily increased over the years, from 12.5% in 2000 to 16.2% in 2004 (using sentinel site data). The overall adult prevalence rate was 16.2% in 2004, of whom 58% were women, with the central and southern regions having the highest rates. The gender difference is particularly acute in the younger age groups. In 2005, 22% of women aged 20-24 were living with HIV/AIDS (7% for men). Development of appropriate, targeted programmes is essential. The communications strategy needs to focus on: “the window of hope”; counselling and testing; prevention of mother-to-child transmission; gender inequalities; and involvement of people living with HIV/AIDS.

Moreover, malaria and tuberculosis are increasing steadily as public health problems in Mozambique. For example, an estimated 40% of all outpatient cases and 60% of paediatric cases in hospitals are due to malaria. There was a 4.2% increase in overall cases between 2005 (5 827 000) and 2004 (5 589 000) whereas the number of deaths remained the same at around 4 150, giving a case fatality rate for malaria of 7.1/10 000. One significant reason for this rise, especially in tuberculosis, is the concomitant HIV/AIDS epidemic. Malaria may be the least difficult of the three main diseases to address, and the new strategy launched in 2006 is expected to take an appropriate three-pronged approach combining impregnated bed nets, residual indoor spraying and combination therapy based on artemisine.

In general, in spite of the trend of significant improvements in the health sector, it is clear that substantial further progress is needed in both the coverage and quality of these services in order to attain the Millennium Development Goals. One reason for this is that the domestic public financing of equitable health services is very low to face these challenges. It is therefore clear that additional external support for the health sector, in a predictable and aligned manner, is critical in order to move towards MDGs 4, 5 and 6.

The proportion of people with access to improved sanitation increased from 41.1% to 44.8% between 1997 and 2003, although in urban areas coverage actually worsened from 74.7% to 72%. A similar trend was seen for access to potable water where, due to significant worsening of urban rates, the figure slipped back over the same period from 37.1% to 35.7%.

In general the quality of the information gathered by surveys is quite good. However, the routine information used needs to be significantly improved, especially population-based data.

Concurrent with the overall progress made, notable improvements have been observed against key indicators of child development in recent years, including significant reductions in the child and maternal mortality rates and a rapid increase in primary school enrolment.

Despite this progress, most children are still living in poverty. Levels of consumption- and deprivation-based childhood poverty remain high and progress towards reducing childhood poverty is being

seriously undermined across all sectors by the AIDS pandemic and the resulting weakened capacity of key players to care for and protect children. In other areas, limited data availability precludes comprehensive analysis of the situation of children. An additional danger is that some groups are not benefiting from growth and poverty reduction, such as orphaned and vulnerable children, in particular in rural areas. Ensuring adequate and equitable resource allocation is critical in order to maximise the positive impact on children. Efforts need to be focused on ensuring the availability and use of reliable up-to-date data on vulnerable groups and the causes of their vulnerability and on supporting them with access to basic services and social protection programmes.

Employment and labour situation: The official unemployment figure of only 17% - probably due to the lack of any incentive to sign on to these registers - does not reflect reality. Social surveys indicate that the real unemployment rate is closer to 30% to 50%. With 300 000 school leavers joining the job market each year, youth unemployment is a major concern. The level of formal education is strongly correlated with access to formal employment.

Remuneration for manual workers is still very low, with the minimum salary set at just below 2 dollars a day. In spite of this, industrial action is rare, with only 2 455 workers involved in strikes in 2004. However, staff working for development agencies and associated service industries are relatively well paid, reflecting the skills shortage. The minimum old-age pension is about a dollar a day. Only 5% of the working population is enrolled in the National Insurance scheme (INE and INSS, 2004).

In relation to decent work opportunities, only 11% (about 650 000 people) of the economically active population (5.9m workforce) was employed in the formal sector in 2005, 37% of whom (over 240 000 civil servants and other contract staff) work for the public sector (data from the Ministry of Labour). The sector lost 120 000 jobs following privatisation reforms ending in 2002, but consistent economic growth is not being converted into new formal job opportunities. By contrast, the informal sector is continuing to grow: in 2003 it was the source of income for 76% of the economically active urban population, compared with 60% in 1999, an increase of 7% to 8% per annum. An estimated 32% of children between the ages of 10 and 14 are also described as “economically active”. In response to this situation, in March 2006 the Government approved an ambitious employment and vocational training strategy for 2006-2015, aiming at improving the qualifications and regularising the situation of Mozambican workers.

The largest share of employment in the country is concentrated in agriculture, forestry and fisheries (80.9% of the total workforce). In terms of size, the majority of employment is in small enterprises (57% of total employment). The costs of hiring and firing provided for in the current law (under revision) are high, a fact that creates an incentive for informal labour arrangements. The labour market is highly informal and enforcement of the law is limited.

Following the constitutional review in 1990, autonomous trade unions have focused their activities on improvement of working conditions, the fight against unemployment, the minimum salary, employment protection and fair treatment of national and foreign workers. Serious violations of the labour law are frequently denounced by the main trade unions. Many commercial establishments and companies still do not offer basic working conditions to their staff and continue to harass workers emotionally and sometimes even abuse them physically. The “Consultative Labour Commission”, which is made up of representatives of the Government, the trade unions and employers, has expressed its intent to improve protection of labour rights by encouraging revision of the labour law and by creating Regional Centres of Arbitration and Labour Disputes.

Food security: Over the past five years, poverty has declined and food production has increased. Food availability has improved considerably, with a continuous increase in production of basic food crops (around 6% per year). Acute malnutrition has declined (under 5% of children under 5), indicating that emergency responses seem to have been effective and that there are no widespread large swings in staple

food availability. However, chronic malnutrition remains at the same level (35.9%). This may be attributed to distributional factors (national averages often hide regional, inter- and intra-household variability) and to other factors related to food consumption and absorption (food habits, quality of water, illnesses such as diarrhoea, malaria, respiratory infections, measles and HIV/AIDS). This problem could be exacerbated by the impact of climate change.

The national Food Security and Nutrition Strategy was defined in 1998 with an inter-ministerial dimension. Its main aim is to link food security to increasing production and diversification of food crops, better and more diversified sources of non-farm income and improved knowledge of appropriate technologies for food production and conservation. A 2005 evaluation of the strategy showed positive results. Following this evaluation, in the second half of 2006 the Government started revising the strategy. The new strategy has been formulated in 2007. The previous strategy was emergency oriented while the new one will focus on long term response. It should address chronic malnutrition that has not decreased during the last years.

II.1.4 Environmental Situation

Mozambique is well endowed with land, forest, water and mineral resources, and both the population and investors enjoy access to them. However, the protection and management of these resources needs to be improved in accordance with the national legislative and policy framework...

Forest resource management is a major issue of concern from a conservation and economic perspective. While the 2007 national forest inventory indicates that the current off-take is only 26% of the allowable cut overall, in some localised areas the selective harvesting of the most valuable species may well be exceeding sustainable commercial limits. In that respect, the government is committed to improve the sustainable management of the forestry resources. For logging activities in Mozambique to be sustainable, steps need to be taken to ensure that quotas for timber licences and concessions are based on accurate data, and forest control and monitoring are reinforced through additional government resources and capacity development. But the main drivers of deforestation are wood consumption for fuel, slash and burn agriculture, and fire. The authorities are committed to gain better control over the use of wood resources for energy production, and continue to encourage alternative energy sources, particularly in the large urban centres. Similarly, while the government is developing strategies to limit the impact of slash and burn agriculture and the uncontrolled use of fire, resource constraints suggest it will face challenges implementing them.

With all land owned by the state, the community's property rights protected by the law, and only 12% of potential arable land being farmed, land conflicts are rare. A new law on land surveying aims to safeguard land by ensuring that the occupants have the productive capacity to manage it. On the other hand, government efforts in developing cadastral services to facilitate access and the secure land tenure for the investors and local communities need to be supported by adequate programs.

Rainfall is declining in Mozambique, while high variability in rainfall associated with tropical cyclones results in extreme floods and droughts from time to time. Further reductions can be anticipated, with rainfall projected to decline by 5-10% and evaporation to increase by 9-13% by 2075. Land degradation could also increase dramatically in the event of climate change.

Despite the apparent abundance of water resources, the country faces a number of difficult challenges in supplying adequate freshwater for irrigation, domestic and industrial uses. These include high variability of precipitation and poor water resources infrastructure. With 50% of the available freshwater coming from cross border flows, abstraction by neighbouring countries is likely to become highly significant in the future, and the government will have to work within the SADC framework to make sure that agreements are honoured. Infrastructures such as dams are required to mitigate the impact of floods and provide opportunities for irrigation.

Faunal and floral diversity across all major *taxa* is high and in line with regional averages, and the numbers of threatened species in each group mostly low.

Mozambique has the third longest coastline in Africa, characterized by a diversity of habitats. It is largely un-spoilt and has tremendous tourism potential. While the GOM has embraced tourism, greater attention is required to ensure adequate protection for key natural assets (wildlife, beaches, coral reefs, etc.) on which the tourism industry depends.

The government continues to try to guarantee sustainable commercial fishing, for instance by closing the Sofala Bank to new licences. Furthermore, the government is committed to develop additional measures aiming at guaranteeing the sustainability of fish stocks, particularly in the semi-industrial and artisanal fisheries sector where due attention is necessary.

Mozambique's resources and landscapes are protected to varying degrees by the legislative and policy framework, and the government is actively committed to improve implementation. However, the capacity in the ministries and government agencies tasked with the responsibility of enforcing the legislation is still insufficient to ensure that these resources are used sustainably and efficiently. To guarantee that its natural resources are used as a platform for sustainable poverty reduction and economic growth, a great deal more attention must be focussed on addressing possible loopholes in the existing legislative and policy framework, and to providing the capacity required to ensure adequate compliance with the law.

Considering that much of the financial support provided to Mozambique will come in the form of budget support, donors have a particular role to play in ensuring that environmental issues are addressed across the board. The Government has also committed itself to ensuring that the full environmental costs of any development project, including dams, are explicitly recognised and accounted for during the planning phase.

More details regarding the environmental situation are provided in the environmental profile in Annex 3.

Vulnerability and Natural Disasters: Mozambique has been regularly hit by natural disasters, mostly floods, droughts and cyclones. Most of the rural population survives on subsistence agriculture which makes them vulnerable to natural disasters (floods and droughts). The last major flood occurred in 2000 but 2005 was marked by a drought that affected mainly the south of the country. Drought is a recurrent situation for Mozambique, and so the real challenge for the country is to properly implement a long-term perspective mitigation plan. HIV/AIDS is another shock that contributes directly to the vulnerability of the households. Climate change is expected to increase the severity and regularity of floods and droughts, intensifying vulnerability.

The Government of Mozambique proceeded in 2005/2006 with the readjustment of the Contingency Plan, which was budgeted at US\$21m, in order to guarantee preparedness in the event of disasters caused by drought, floods and cyclones. The Plan was readjusted to cover approximately 1.600.000 people, of whom 550.000 affected by drought, 350.000 by flood and 800.000 by cyclones.

II.1.5 The Country in the International Context

Progress towards regional integration: Mozambique is a committed, active and respected founder member of the Southern African Development Community (SADC) and a founder member of its predecessor (the SADCC) and of the New Economic Partnership for African Development (NEPAD) and the African Union (AU). Some years ago Mozambique left the Common Market for Eastern and Southern Africa (COMESA) to concentrate fully and exclusively on the SADC, where it is the only State with single membership.

The SADC adopted a Regional Indicative Strategic Development Plan (RISDP)¹ with the purpose of deepening regional integration by providing SADC Member States with a consistent and comprehensive programme for long-term economic and social policies, linked to implementation of the Protocols. In the broader continental context, the RISDP is considered by the Member States and the AU as the SADC vehicle for achieving the ideals contained in NEPAD.

The stabilisation and the adjustment programmes introduced in most SADC Member States have brought significant convergence in the broad macroeconomic policies that have been pursued. To increase macroeconomic convergence in the SADC region, a number of Memoranda of Understanding have been prepared, such as those on Macroeconomic Convergence and Cooperation, in Taxation and Related Matters, already signed, or those still being prepared on Investment Promotion, Exchange Control Policies, Payment and Customs Clearing Systems, Dispute Resolution, and Harmonization of Legal Operational Frameworks of Central Banks of SADC and Development Finance Institutions. Other forms of cooperation exist between stock exchanges, commercial banks and non-banking financial institutions.

In response to common challenges that can be addressed through region-wide solutions, the SADC Member States have developed a number of Protocols that provide a legal framework for cooperation in various areas such as transport and communications, industry and trade, finance and investment, natural resource management, shared water resources, mining, energy, education, health, human resource development and defence, security and politics. Once signed and ratified the Protocols are seen as mechanisms for linking countries into the same policies and approaches to sustainable economic growth and development. The development, negotiation and adoption of Protocols *per se* can be considered as progress towards regional integration, though currently there no mechanism is in place for monitoring and evaluating the pace of adherence and implementation.

Substantial work is in progress at the SADC on of customs cooperation and trade facilitation under the Sub-Committee on Customs Cooperation and Trade Facilitation. Customs Action Plans have been developed covering rules of origin, customs cooperation, trade facilitation, transit and training. The Subcommittee has developed a Strategic Business Plan to direct the implementation and monitoring of decisions emanating from the SADC Council of Ministers and adopted the Customs Union Roadmap and to prepare customs administrations for the advent of the envisaged SADC Customs Union by 2010. By 2010 the SADC is expected to be a fully liberalised Free Trade Area.

The level of ambition reflected on the SADC agenda is well beyond the SADC's current institutional capacities and extra efforts will be required if the target years of 2010 for a common tariff and 2012 for a customs union are to be turned into reality. However, Mozambique is considered a forerunner in the implementation of the SADC Trade Protocol and many measures have already been taken in this regard. Visas have already been abolished with South Africa, Botswana, Swaziland, Tanzania, Zambia and Malawi has this has improved movement of people and goods. Bilateral trade agreements have been signed with Zimbabwe and Malawi.

There is a broad consensus that so far the implementation of the SADC Trade Protocol has so far not brought the expected benefits to the parties for various reasons. Among them, the main obstacle seems to be the complexity of the SADC's system of rules of origin and its practical implementation. . The level of ambition on this protocol has been considered very optimistic (2008: Free Trade Area; 2010: provisional Customs Union; 2012: full Customs Union with South Africa; 2015: Common Market; 2016: Monetary Union; further in the future: free movement of persons).

On the SADC Protocol on Transport, Communications and Meteorology, the current projections suggest that, without urgent investment, the SADC region could run into energy problems as early as 2007. The

¹ The RISDP was adopted by the SADC Heads of State and Government in August 2003.
CSP EC Mozambique

regional strategy therefore places an emphasis on regionally oriented investment, the transformation of the Southern African Power Pool (SAPP) from a co-operative to a competitive power pool and the joint exploration and development of Petroleum and Gas resources and co-operation in joint procurement of petroleum products. Without sustainable water resource management, it will be difficult, if not impossible, to attain optimum regional economic and social development. The regional strategy for the sector builds on the Regional Strategic Plan for Water Resources Development and Management and the Protocol on Shared Watercourse Systems.

The 1996 Summit of Heads of State established the SADC Organ on Politics, Defence and Security Cooperation with subsequent restructuring of all SADC institutions. The same summit adopted the Protocol on Politics, Defence and Security Cooperation, which provided the relevant institutional framework and mandated the Organ to prepare a Strategic Indicative Plan (SIPO), which would provide guidelines for the implementation of the Protocol and its relevant legal instruments.

II.2 Poverty reduction analysis

According to PARPA II, “poverty is defined as the impossibility, owing to inability and/or lack of opportunity for individuals, families and communities to have access to the minimum basic conditions, according to the society’s basic standards”.

Mozambicans’ livelihood strategy is to have a portfolio of household activities. Most households have at least two earners, with agriculture as a primary or secondary activity, usually carried out by women (90% work in agriculture) but often by men as well.

The headcount index of poverty (measuring the portion of a population whose consumption is below the poverty line) fell from 69.4% in 1996-97 to 54.1% in 2002-03, a decline of approximately 15.3%, exceeding the PARPA I goal by 5%. The poverty gap index (measuring changes in the standard of living among the poor) also declined sharply, from 29.3% in 1996-97 to 20.5% in 2002-03. These results show both that the percentage of the population below the poverty line has fallen and that average consumption by those who remain below the poverty line has improved. Inequality in Mozambique has not changed significantly, as the Gini coefficient was 0.40 in 1997 and 0.42 in 2003. Rising inequality in Cabo Delgado and Maputo (the latter with a significant increase from 0.44 to 0.52) accounted for most of the national increase between 1997 and 2003. Interestingly, income inequality between provinces and regions diminished over the period but still remains a problem. While Mozambique’s level of inequality is a cause for concern, it is modest compared with other low-income countries. It is also important to underline that the rural-urban inequality gap is fairly low (2.3% of total inequality in 2003).

Although considerable progress has been made by Mozambique towards achieving the Millennium Development Goal for poverty reduction, around 10 million people still live in absolute poverty. Furthermore, there are significant regional variations in poverty, with a larger number of poor people in the provinces of Nampula and Zambezia. Poverty has decreased slightly more in rural areas than in urban areas (16.4% and 12.3% respectively). However, absolute poverty in 2002/2003 was still more prevalent in rural areas (55.2%) where the majority of the population live and work, than in urban areas (51.6%). The poverty headcount also differs significantly across regions, ranging from 45% in the centre of the country, where the greatest reduction was achieved over the period, to 66% in the south, and across provinces, ranging from 36% in Sofala (in the centre) to 81% in Inhambane (in the south). Public services, in the form of education, health and water supply, are more accessible in urban than in rural areas (World Bank 2007). The population census started in 2007 combined with an update of the 2003 household survey will provide additional data to inform further analyses on poverty trends.

Over time the perception of causes of poverty has evolved. The war is no longer understood as so important. The most recent qualitative study (2005) mentions, *inter alia*, environmental issues, such as droughts and floods, lack of jobs, problems with road access, exclusion based on partisan leanings and

protection of animals that destroy crops. The poorest consider the most acute problems to be transport, roads, prices, marketing, access to land and water and lack of motor-driven mills.

The analyses of poverty show that sections of the population with a high probability of being poor include uneducated people, family units with high rates of dependence and family units headed by women. The latter have a higher incidence of poverty – 62.5% compared with 51.9% for families headed by men. High rates of poverty among families headed by women are related to low educational levels, widowhood, high rates of dependence and incomes too low to meet family needs.

II.3. Mozambique's development strategy

National Development Plan: The new Government elected in December 2004 approved the Government Five-Year Plan for the period 2005-2009 (*Plano Quinquenal do Governo*), as the key political medium-term programming instrument. Poverty reduction continues to be the focal objective and the priority of Government action.

During 2005, the process for revision of PARPA (PARPA II, 2006-2009) and alignment with the Government Five-year Plan for 2005-2009 was highly participatory, involving Government, development partners and joint meetings of the Poverty Observatory at central and provincial level. The revised PARPA II was approved by the Council of Ministers on 2 May 2006. The two main objectives of PARPA II are, on the one hand, to decrease the incidence of poverty from 54% in 2003 to 45% in 2009 (on the basis of a consumption-based indicator) and, on the other, to promote fast, sustainable and broad-based growth. This is to be achieved by action on three pillars: governance, human capital and economic development. A more detailed overview of PARPA II and its main sectoral plans, along with an assessment of its main challenges, is presented in Annex 10.

Government commitments under the regional integration process: Mozambique is a committed member of both continental and regional organisations and has been participating very actively in their institutions, initiatives and activities. Mozambique has already chaired the Africa Union and has directly participated in its conflict prevention and peace efforts, including sending troops to peace-keeping operations, such as in Burundi.

Despite the slow pace of implementation of the SADC Protocols, the Mozambican economy has continued its path towards integration within the regional context and the country is a forerunner in the adoption of tariff and other commitments provided for in the SADC Trade Protocol. Potential benefits for enhanced regional integration are considered important and regional cooperation is emerging in other sectors, such as power (electricity and gas facilities), transport (Maputo, Beira and Nacala corridors) and water resources management. In a context of political and economic stability, Mozambique has also become a more attractive destination for intra-regional direct foreign investment.

II.4. Analysis of the viability of current policies and the medium-term challenges

PARPA II was built on the experience from PARPA I, where substantial progress was made in the social sectors with the concomitant impact on poverty reduction. While maintaining the commitment to improve the quality of and access to social services, PARPA II recognises that the “rapid, sustainable and broad-based growth” to which it aspires calls for more emphasis on the growth of the productive and private sectors. Development of small and medium-sized enterprises with the associated job creation and a shift from the informal to the formal sector are essential to ensure medium- to long-term economic growth and sustained poverty reduction. The assessment welcomed the emphasis on the district as the focus for development, but there seems to be a need to define the roles, responsibilities and mechanisms for involvement of the provinces and districts in implementing, monitoring and evaluating PARPA II.

PARPA II appropriately has a strong focus on improving governance as a means of reducing poverty and takes a broader view of the concept than previously. It sets out a broad agenda of institutional

reform in public administration, including public-sector reform, public financial management and the judicial sector, together with anti-corruption measures. Reform of justice should remain a priority.

PARPA II is continuing to place emphasis on a market economy and the need to strengthen the private sector to make it more competitive, particularly by improving skills through vocational training and building the technological skills of companies. Given the importance of smallholder agriculture for growth and poverty reduction, further clarity on how productivity will continue to increase in this sector would be welcome.

Overall the approach set out for education, health and water in PARPA II is considered consistent with the sectoral priorities and with achieving the MDG targets.

As with the challenges, the issue of developing institutional and technical capacity to implement PARPA needs attention. It is critical to design and implement enhanced, better coordinated and better aligned capacity development support programmes in key areas at all levels. The decentralisation process, for example, poses considerable challenges for capacity at local level, but also creates a great opportunity. A strategic coordinated approach to capacity development will be needed to ensure that the exciting challenges enshrined in PARPA II are effectively met.

Performance assessment: The G-19 has developed a regular, comprehensive and structured policy dialogue with the Government on the basis of a set of agreed indicators (Performance Assessment Framework or PAF). In April 2007 the Joint Review, or regular annual stocktaking exercise, on the previous year's performance produced mixed results, concluding that the Mozambican economy continues to show solid growth, having achieved a real GDP growth rate of about 7% (preliminary), driven by the good performance in the transport, communication and construction sectors.

Performance relating to implementation of critical cross-cutting issues and reforms continues to lag and is a central concern. Governance is a particular challenge, as it was not satisfactory in 2004-2006 and will continue to require special attention in 2007 and beyond. Tangible results in the fight against corruption are expected following the approval of the anti-corruption strategy along with progress in public sector reform and justice. In the human capital area, in spite of expansion of service delivery, the quality of services has not improved.

Implementation of reforms in public finance management must be a key priority in 2007 in order to consolidate the positive developments achieved up to 2006. A comprehensive policy plus management of domestic revenue mobilisation are needed, including the revenue from harnessing natural resources (mines, forests, etc.) and more transparent accounting. Continued efforts are needed to improve the conditions for private-sector development, to promote labour-intensive sectors and to allow traditional sectors to make a bigger contribution to economic growth.

Service delivery is continuing to expand faster than the underlying policy and institutional reforms.

Recent drought and flooding have demonstrated that Mozambique remains vulnerable to natural disasters. More priority needs to be given to addressing the needs of those communities chronically vulnerable.

Decentralisation: Decentralisation is still in its infancy in Mozambique, but following the recent Government decision to make the district the unit responsible for combating poverty, small but significant steps have been taken towards empowering communities and districts. 33 municipalities currently have locally elected bodies. Districts have also been established as "budget entities" with power to plan, budget and implement local initiatives, and since the 2006 State Budget districts have been granted a budget of approximately US\$ 300 000 each for infrastructure projects. The ongoing

public sector reform envisages greater State intervention in rural areas, allowing wider interaction with citizens through decentralisation.

Donor-funded programmes aimed at introducing participatory decentralised planning and financial management at district level, as building blocks for future decentralisation, started in 1990, but until today the Commission has not intervened directly, apart from a few attempts in the agriculture and rural development focal sectors. Support for the Government's decentralisation efforts should be further strengthened by the Ministry of Planning and Development, especially in areas such as aligning the current central planning and budget system with systems implemented at district level, reinforcing administrative capacity in districts and strengthening dialogue with civil society.

CHAPTER III - OVERVIEW OF PAST AND PRESENT ONGOING EC COOPERATION, COMPLEMENTARITY AND CONSISTENCY

III. 1.1 Focal sectors

III.1.1.1 Focal sectors (and macroeconomic support)

Three Poverty Reduction Budget Support programmes have been implemented in Mozambique under the previous Country Strategy Paper (PRBS I, 2001-2003, €65.7m; PRBS II, 2002-2005, €184.4m; PRBS III, 2006-2007, €95m, ongoing). Meanwhile, a new €50m programme designed to bridge the transition period between the 9th and 10th EDFs (2008) has been prepared. Those programmes have contributed to macroeconomic stability and to poverty reduction by supporting implementation of PARPA. They have demonstrated that coordinated budget support can have a positive influence on the continuity of nationally owned reform efforts and on timely and consistent implementation of the country's poverty reduction programme.

Apart from the support for macroeconomic stability linked to performance under arrangements supported by the IMF, the EDF budget support programmes show a continuous focus on the situation of and reform agenda in public finance management. Improvements in the situation are an essential condition for continued budget support. Dialogue, monitoring (in particular an assessment using the PEFA method, but also a mission by the European Court of Auditors) and indicators have emphasised this area with some success. Budget support learning processes have strongly contributed to establishment of a well-structured dialogue on results and policies and on increased donor harmonisation and have improved alignment of the budget support partners and the Government. These positive developments on harmonisation, alignment and predictability and the positive impact of budget support on macroeconomic stability were confirmed by the budget support evaluation on the period 1994-2004, issued in May 2006, conducted in seven countries, one of which was Mozambique.

The variable tranche mechanism used in EDF budget support programmes is a way to focus the dialogue on results in predetermined areas based on Government-defined indicators and targets, while preserving predictability. Focusing on outcome indicators and targets in health and education has provided a means of addressing the performance of social sectors in the macro-level policy dialogue. Gender-related issues are also part of performance assessment and are reflected in the indicators for assessing the amount of the variable tranche, specifically as regards women's health and disaggregated indicators for women's education.

Institutional development and capacity-building are another important element of the EDF budget support programme. Capacity-building is supported by various measures, particularly in the area of public finance management.

Significant progress has been made over the last strategy period in terms of increasing the short-term predictability of budget support, although further progress is still needed on medium-term predictability.

III.1.1.2 Focal sector: transport infrastructure

Over the last decade, the Government of Mozambique, with assistance from the donor community, has been developing the national road network through a series of programmes. The Roads and Coastal Shipping Programmes (ROCS 1 and ROCS 2) began the process of post-war reconstruction. These led to the current programme for the road transport sector: ROADS III. Phase 1 (2001 to 2006) of this programme focused on urgent rehabilitation, periodic maintenance, institutional and policy reforms and final preparations for the long-term investment programme.

The EDF contributed actively, and with some success, to Phase 1 by financing road rehabilitation in the Beira (Beira-Inchope road rehabilitation: €20m from the regional programme; Beira-Machipanda study: €1.6m) and Nacala (Nampula-Nacala road rehabilitation: €36.58m) corridors linking the ports of Beira and Nacala to Zimbabwe and Malawi respectively. The ongoing 9th EDF road projects – Namacurra-Rio Ligonha (370 km at a cost of €70 million), the Zambezi Bridge (built in cooperation with Sweden and Italy) and the Milange-Mocuba link – are major targets for mitigating transport infrastructure problems and are expected to yield effective results by 2009. The Milange-Mocuba road, which is to link Malawi to the ports of Quelimane and Nacala, is at the design stage under the 9th EDF and will be implemented under the 10th EDF.

The support under the 9th EDF to the Road Fund (financing agency) for periodic maintenance (€14m), although an essential contribution, has until now been of little help in overcoming the main capacity weakness, which needs to be addressed by an innovative and more structured approach, as pointed out in the new road policy. The institutional capacity of the road authorities requires further strengthening and clarification of responsibilities, while the provision of qualified technical assistance remains essential for capacity-building. The Road Fund and ANE need to be reinforced with adequate assistance in order to achieve acceptable performance of current and future projects. The EDF-funded technical assistance to the Ministry of Public Works and Housing and to ANE is aiming at reducing the lack of qualified staff.

Over the last few years, since the introduction of VAT in fiscal policy, the issue of VAT reimbursements (and Government counterpart funds) for externally financed large infrastructure projects (in particular in the road and water sectors), together with the accumulation of the public sector debts associated with these counterpart funds, have been identified as matters of concern requiring special attention. There is a perception among donors that the delays in VAT reimbursement due from the Government are inflating unit prices, implying considerable efficiency losses in road sector investment. The Government and its partners are discussing this issue, in particular based on an assessment, and are committed to contributing to solving this problem.

As a result of discussions by joint road donors/Government working groups, the process to harmonise the numerous road performance indicators in the various national and donor programmes with the PARPA indicators was initiated and scheduled to be completed in 2006. Recent years have seen progress on coordination of donors with the Government, on the reform of the road sub-sector and on definition and quantification of the sector plan and its monitoring mechanism, to the point that replacement of the traditional project support for the road sub-sector by sector budget support or other forms of programmed aid is now envisaged. The Road Fund, as the financing entity, should further improve the dialogue and exchanges of information with the external partners and take the lead on monitoring the sector as a whole.

III.1.1.3 Focal sector: food security

In addition to massive food aid campaigns during the civil war, the European Commission has contributed substantially to food security and agriculture for the last ten years, not only financially (on average, €16m per year for commitments and €15m per year for disbursements), but also, among the

group of donors contributing to the budget of the Ministry of Agriculture, as one of the most active members in promoting a high-level dialogue and initiating the necessary changes and reforms.

Food security and agriculture is one of the three focal sectors of the 9th EDF NIP. However, until 2006 support was provided from the EC budget line for food security (multiannual programme of €48m for 2003-2005 and previous operations). The multiannual programme for 2003-2005 kept part of the previous strategic approach, some components of which were still in progress (Government outsourcing for cotton, cashew and for the National Secretariat for Food Security and Nutrition) and introduced new kinds of assistance for agricultural development in the form of sector budget support for the Ministry of Agriculture (PROAGRI) and financing for the institutional reform plans in the Ministry of Industry and Commerce and the National Institute of Meteorology. Additional resources were made available for an early retirement scheme and for institutional support to the Cotton and Cashew Institutes. New components were also identified, such as support for producers' associations and for financial institutions in order to improve marketing of agricultural products.

A parallel field programme of EC grants to NGO projects totalling €11.5m in commitments included six projects in drought-prone areas in Gaza and Southern Inhambane (NGO call for proposals launched in 2002). In the food security sector, this type of project approach is no longer supported by the Commission as it is not consistent with the current trend to give preference to sector budget support.

The 2001-2005 multi-donor programme of support for the Ministry of Agriculture (PROAGRI) was based on a strategy aiming at institutional development, reform and decentralisation of the Ministry, plus improved delivery of agriculture services and better access to and management of natural resources. PROAGRI has been very successful in developing institutional capacity, setting up financial management systems and decentralising. On average, each year the EC contribution accounts for between 25% and 35% of the budget of the Ministry, making the EU the largest donor. The first four years of PROAGRI have set a unique example of joint donor programme support within a sector as complex as agriculture, establishing a constructive solid basis for future development of the Ministry.

From 2007 on the EC budget line for food security will be replaced by the EDF. In October 2006 a €35m programme was approved, with resources allocated following the 2004 9th EDF mid-term review. The future programme will provide funding for this sector for 2007, 2008 and 2009 in the form of sector budget support for the Ministry of Agriculture. The total level of funding per year to the Ministry of Agriculture should, however, decrease after the 9th EDF programme and gradually be replaced by the government budget, whereas the EC contribution to agriculture and rural development should allow funding for additional investment (not only to the Ministry of Agriculture, which has no mandate for rural development).

III.1.2 NIP projects and programmes outside focal sectors

III.1.2.1 Other infrastructure

Water and sanitation: Implementation of the 8th EDF capacity-building project for integrated development of water resources management and rural water supplies in the Zambezi river basin (€11.6m) continued. The 9th EDF Beira sanitation project (works and supervision) was approved at the end of 2005, with an initial allocation of €32.95m (recently increased of additional € 20 m), and implementation started in 2006. The overall purpose of the project is to improve national health by rehabilitating the existing sanitation network and constructing new systems in the city of Beira, including the sewage network, the wastewater treatment plant and the drainage system. These activities in the water sub-sector will be supplemented by the projects in Mozambique financed under the successive calls for proposals for the 9th EDF Water Facility.

Telecommunications: The objective is to enhance rural network communications from the existing transmission centres by using radio technology to support transmission up to the boundary rural zones in

the provinces of Gaza and Inhambane. The project was extended and redefined in response to the Government's request, after the floods in 2000, to include localities in the flooded areas where radio links would be an essential communication tool in the event of future floods.

Health infrastructure: The EDF support allocated for the rehabilitation, reconstruction and upgrading of several health facilities in the province of Zambezia, initiated under the 7th EDF rural health system rehabilitation project (€26m) and continued under the 8th EDF health sector support programme (€30m), has successfully increased the capacity of hospitals and health care units by upgrading the relevant facilities and adding new wards and operating theatres. The ongoing upgrade of Manhiça Hospital, near Maputo, funded under the 9th EDF (€3m), is continuing this line of action and complementing an internationally prestigious multi-donor malaria research centre.

Energy: Mozambique is a beneficiary of the Energy Facility. The results of the call for proposals are under finalisation, but the forthcoming EDF activities are expected to focus on rural electrification and renewable energy for rural areas. In line with the EC Biofuels Communication and in the context of the accompanying measures for Sugar Protocol countries, initiatives will be launched on market research and technical and environmental research for bioethanol production. This will form the basis for future EU support for development of sustainable biofuel production in Mozambique, in particular from sugarcane.

III.1.2.2 Health

The programmes presently being implemented in the health sector are the Health Sector Support Programme (€30m), the Rural Development Programme, which is contributing to the 8th EDF budget support to the Health Provincial Common Pool (€2.5m), and the 9th EDF Health Sector Support Programme II (€25m). The bulk of this support (€36.77m) is provided via common pools, notably the sector-wide general common fund (PROSAUDE), and the Provincial and Pharmaceutical Pools of Medication and Medical Supplements, in all equivalent to about 10% of the annual pooled support. This makes the EC one of the biggest donors to this sector. Moreover, it has ensured optimum coordination of EDF and EC activities with other donors and stakeholders. Continuous donor programme support has allowed a slow but steady increase in skilled health personnel over the years and this is in itself the main factor behind the significant reduction in infant, under-five and maternal mortality rates.

Inclusion of capital investments (€7.9m for construction and €2.5m for equipment) and technical assistance for capacity building (€5.5m) in the 8th EDF Health Sector Support Programme was also appropriate because of the inability of the present State budget financial mechanism efficiently to finance multi-annual health projects and the desperate need to strengthen human resource capacity. The 9th EDF Health Sector Support Programme II consists of pooled support only and is a logical stepping stone towards sector budget support. The State financial management system (and therefore also PROSAUDE) is expected to be able to support multi-annual health investment projects efficiently by 2008.

III.1.2.3 Education

The EDF has made a substantial contribution (€14.5m in three years from the 8th EDF Rural Development Programme) to the common fund for education (FASE), in the context of an integrated sector-wide approach. In addition, €2.85m from the same programme was made available to finance the Fast Track Initiative, which contributed to the marked improvements seen in this sector.

III.1.2.4 Justice

The programming of the 9th EDF concluded that a contribution to the justice sector would benefit the reform process, given the limited external support for this sector. A €10m institution-building project was approved, focusing on penal justice, enhancement of decentralisation and expansion of the justice system. Actual implementation did not start until 2005 under a co-financing agreement with the UNDP. A provisional annual plan was approved in February 2006 to accelerate implementation, and a rider is being prepared in order to adjust the fund allocation in response to new priorities that emerged in this

sector in 2005. From June 2005 to May 2007, EC chaired the justice and legality donor coordination group.

III.1.2.5 Population

The €11m contribution from the 9th EDF to the 2007 Mozambique population and housing census is justified by its fundamental importance to the PARPA process and, hence, its direct relevance to the objectives of the macroeconomic support focal sector.

III.1.2.6 Non-State actors

Collaboration between the Government and civil society organisations on identification and definition of the country development strategy has also increased dramatically during this period. The countrywide civil society focal groups undertook independent monitoring of PARPA and contributed to its revision during 2005. Following long discussions with Government counterparts on the most appropriate manner to support Mozambique's fragile non-State actors, the €4m 9th EDF programme for non-State actors was eventually designed in 2005. The Financing Agreement was signed in May 2006. The EDF support aims at creating capacity and articulating the interests of civil society by selecting and supporting platforms at provincial level. The EDF programme will also finance activities for local civil society organisations complementing ongoing measures financed by the EC budget lines, aiming to bridge the lack of Government capacity to deliver basic services.

III.1.2.7 Private sector

During the last five-year period, the EDF support to the private sector consisted of an 8th EDF programme for private-sector development, with activities being implemented from 2003 onwards. This programme was designed mainly as a contribution to the Small and Medium-sized Enterprise Development Programme (PoDE; US\$ 48m) co-funded by the Government of Mozambique, private-sector beneficiaries, the World Bank, EDF, DFID, and NORAD. The EDF contribution (€4.4m) was channelled through a Trust Fund Agreement with the World Bank. Unfortunately, significant delays on the part of the lead implementing agency (World Bank) prevented full disbursement on an otherwise successful project with significant outcomes, mainly from its technical learning component (training and productivity improvements in private firms).

The EC budget line for food security (multi-annual programme for 2003-2005 and previous operations) has financed the institutional reform plans in the Ministry of Industry and Commerce, with a view to supporting private-sector development activities, including domestic and international trade operations.

III.1.3 Utilisation of Envelope B

Mozambique received an indicative amount of €55m from the non-programmable resources from the 9th EDF B envelope. An amount of €4.9m (1.5% of the 9th EDF A+B envelopes) was deducted from the B Envelope as the contribution from the Mozambique National Indicative Programme to the African Peace Facility, together with €5m for repairs to the damage caused by Cyclone Japhet in March 2003. A further €3.85m (7% of the initial 9th EDF B envelope of €55m) is reserved for ECHO emergency action. During the 9th EDF mid-term review in 2004, a decision was taken to transfer the remainder of €41.25m from the B envelope to the A envelope.

III.1.4 Other instruments

Other instruments are presented in detail in Annex 2.b.

They include:

- the Regional Indicative Programme for the SADC region, from which Mozambique benefited mainly in the form of infrastructure investments;
- the ongoing PALOP regional programme benefiting the African Portuguese-speaking countries, plus Timor-Leste mainly in the areas of institutional development for central and local public administration, employment and training, and culture. The three non-focal areas are statistics, the education system, and tourism and the environment. Ongoing projects on statistics, justice, public

administration and the technical cooperation facility have proven to be relevant and added value to the national programming;

- the thematic budget lines with a total envelope of €30m for the budget lines on co-financing, anti-personnel mines, the environment and health and favourable results in terms of relevance, efficiency and effectiveness and the European Initiative for Democracy and Human Rights, with 17 contracts financed for a total amount of €6 227 431, aim to protect human rights and promote civil society; the first results prove that the micro-projects programme is very relevant in the context of an emerging civil society;
- the Global Fund for HIV/AIDS, TB and malaria, to which the EC is a major contributor, disbursed its phase I funds for the health sector in 2005, totalling approximately US\$ 15.5m;
- the water facility, from which four projects were selected for Mozambique from the first call for proposals, worth a total of €29m, and four projects were approved from the second call for proposals in early 2007 with an EC contribution of €7.5m;
- the Energy Facility from which seven projects are in the process of being approved for Mozambique by mid-2007 for around €25m;
- the Stabex funds in addition to the substantial budget line for food security;
- the accompanying measures: as one of the Sugar Protocol countries, Mozambique is eligible for assistance from the Commission in the context of the measures accompanying the reform of the Union's sugar regime;
- the new Fisheries Agreement, which was signed at the end of 2006 and provides for annual compensation of €1.2m to Mozambique for providing tuna-fishing opportunities in its waters for the period 2007-2011;
- for the private sector and trade, all ACP funds supported technical assistance in trade and the Centre for the Development of Enterprises (CDE) provided financial support to a total of 12 enterprises in Mozambique.
- during the FP6 Research programme (2002-2006), 12 teams from the country participated in 11 ongoing research projects. The budget for the Mozambique teams is 1.8 M€ (while the total cost of the budget for these projects is 17.9 M€).

Finally, the European Investment Bank (EIB) has a significant historic project portfolio in Mozambique, in ACP terms, mainly in energy, mineral resources, industry, agro-industry and tourism. The total portfolio amounts to €400 M in signed loans and consists of four main types of operations: (i) loans and own resources (€125 M in signed loans), (ii) risk capital operations (€160 M of signed operations), (iii) Investment Facility (€100 M of signed operations) and (iv) special loans on EC mandate (€15 M). This substantive portfolio is considered to have reached a significant commitment to the country, and a noticeable increase of portfolio should not be expected in the short term.

In 2006, the EIB signed two operations under the Investment Facility – Ecocimento Fibre Cement Project (€1.3m) and Maputo Water Supply Project (€31m). The latter was the first ever Mozambican project in the water sector and benefited from a close cooperation between the EC and the EIB, reflected in the award of a ACP-EU Water Facility grant for the operation. Disbursements in 2006 amounted to €27.5 million.

Further viable projects, in the private sector and public sector infrastructure, can be supported by the Bank through the wide range of financial instruments provided for under the Cotonou Agreement / Investment Facility (see Chapter IV.5- Response Strategy).

III.2 Information on the programmes of the Member States and other donors (complementarity)

Mozambique is one of the most aid-dependent countries in the world and, as a consequence, the potential returns from improving aid effectiveness are high. The amount of external aid is, on average, 15% of GDP (five-year average according to the Conta Geral do Estado, excluding *off-budget* funds). Although the long-term objective of the Government is to reduce its dependence on aid, an increase in the volume of external aid for the PARPA II period (2006-2009) is a likely scenario, particularly for

achieving the Millennium Development Goals and fighting poverty. PARPA II defines the general and intermediate objectives of the Government, its strategy and the set of result indicators, allowing improved coordination between donors to ensure better complementarity, based on a joint assessment of the comparative advantages of the donors involved.

The European Commission's support in the focal sectors is complementary in areas traditionally covered by EU Member States and other development partners in Mozambique, even where the mere scale of the EDF implies assuming leadership among donors. The methods of aid delivery determine the approach to coordination and complementarity of external aid. In the context of non-targeted budget support, the Government decides the allocation of external funds, and the concept of complementarity may therefore be understood as support for continuous policy dialogue at high political level. Regarding sector budget support, the concept should be defined as coordination of the sector group and support for policy dialogue at sectoral level. Where aid is delivered in the form of projects, greater complementarity can be ensured either sectorally or geographically. In 1997 the decision was adopted that each EU Member State was to focus on a particular province, in close consultation with the provincial government, and this has led to a stronger presence of EU Member States in specific provinces.

The general trend has been for donors to specialise on limited priority sectors. According to the 2005 data (donor matrix prepared by the Delegation and annual grant disbursement in 2005) and taking into account the four focal sectors and first non-focal sector, the EC/EDF is among the top three donors to macroeconomic, financial and trade policies (18 major donors), where it provides 22% of the total aid, to agriculture and rural development (16 major donors), where it contributes around 29% of the total to the sector, and to transport infrastructure (5 major donors), where it accounts for approximately 39% of the total. In health (18 major donors), the EC/EDF is the second top donor and accounts for 11% of the total (see Annex 2a).

III.3 Other EC policies

III.3.1 EU trade policy

The European Union's initiative to extend the Generalised System of Preferences (GSP) further for the least developed countries (Everything But Arms) has hardly benefited Mozambique in terms of access to the EU, due to the fact that most of the tariff lines (including aluminium, nearly 80% of Mozambican exports to the EU) were already duty-free under the Cotonou Agreement. The main potential gains for Mozambique from Everything But Arms (certain agriculture products that are not included in Cotonou) have only a marginal impact on the overall exports from the country.

Mozambique is looking forward to a simplified European rules-of-origin regime allowing more flexibility in sourcing decisions. The same applies to the SADC: since the start of the EPA negotiations in July 2004, the SADC has been focusing on the need to simplify rules of origin and ensuring that the EU sanitary and phyto-sanitary measures have no negative impact on SADC exports.

The Common Agricultural Policy underpins the price that agriculture exports from Mozambique can command once they gain access to the EU internal market. The reform of the EU sugar regime implies a reduction in the price for Mozambican sugar exports, currently under the Everything But Arms and Sugar Protocol quotas and soon, from 2009, under unlimited duty-free access.

III.3.2 EU consumer protection policy

Mozambique is on the list of countries authorised to export fish and aquaculture products to the European Union. A mission was conducted by the Food and Veterinary Office in April 2006, with the purpose of reassessing the conditions under which such products are exported to the EU. The conclusions of the mission were threefold: (i) official controls undertaken by the local authorities (including for residues and contaminants) cannot be considered satisfactory; (ii) production conditions

for fish products do not comply with the Community rules; and (iii) sanitary certification by the local authorities cannot be considered compliant with EU regulations. As a result, health risks to European consumers cannot be excluded. The Government must implement an urgent action plan to address these shortcomings. The official EC position concerning the findings of the mission and the follow-up to them by the Government will certainly shape the future of exports from this sector to the EU, its main market.

III.4 Description of the political dialogue with the partner country

Political dialogue: In 2001 the EU started a regular political dialogue with the Government of Mozambique under Article 8 of the Cotonou Agreement. Since 2004 the EU has invited the Foreign Minister once a year for a two-day retreat outside Maputo. These provide a good opportunity for frank and informal discussions on a broad range of issues. Past meetings have been structured around three broad clusters of issues: internal affairs, cooperation between Mozambique and the EU and regional/international affairs. The Prime Minister also meets the EU Heads of Mission twice a year to discuss development, economic and regional/multilateral issues. Overall, the Mozambican side has welcomed and actively participated in political dialogue meetings. The talks have helped the EU to understand the policies of the Mozambican Government better. At the same time, the Union has seized the opportunity to convey its aims, concerns and values.

Cooperation dialogue: The EU political dialogue in the strict sense is enhanced by the scale of the EU's financial and technical development cooperation in Mozambique. Specific coordination on EU matters is conducted on an *ad hoc* basis, such as sharing information, via the EDF Committee, annual reviews and programming.

Interaction with other donors, including EU Member States, is intensive and comprehensive in Mozambique. The DPG (Development Partners Group) meets once a month at Heads of Mission level, chaired by the UNDP and World Bank, dealing with general cooperation matters of common interest to the donor community. Participation in the working groups on different sectors and in the efforts to improve coordination and harmonisation between the Government and donor procedures has become a major activity of the European Commission's operational staff. The EC is particularly active in the working groups on agriculture, justice and legal reform, the private sector, roads, health and, of course, direct budget support.

Dialogue with the NAO: Following the change of Government, a new NAO was appointed in May 2005. Relations with the NAO are very good and have helped ensure good management and development of cooperation programmes. The NAO office received no direct EDF support from July 2003 to May 2006, when the new institutional support project began.

III.5 State of the partnership with Mozambique and progress towards harmonisation

Coordination and harmonisation: Mozambique was one of the countries selected for the pilot initiative on coordination of policies and harmonisation of procedures. *Ad-hoc* technical assistance was mobilised from January 2005 to March 2007, and a coordination and harmonisation roadmap was agreed in February 2005 based on the following pillars: (i) providing transparency on aid flows via the EU projects database; (ii) reducing the administrative burden by mapping participation in the working groups by each Member State and actively promoting delegations within the Member States; (iii) mapping the EU's capacity-building support for the Government of Mozambique as a basis for a common donor capacity strategy for the country.

The projects database (pillar (i)) was turned into reality by the end of 2005. In early 2006 inclusion of non-EU partners (the World Bank, USAID, Japan, Canada, Norway, Switzerland and the AfDB) was completed, followed by the merger with the UN agencies database. The common data platform, called the Overseas Development Assistance to Mozambique Database (ODAMoz), will provide the first accurate global overview and forecast on cooperation activities in Mozambique and thereby allow monitoring of several of the indicators agreed at the Paris High-Level Forum II. In July 2006 the

database and technical assistance service were transferred to the Government for future maintenance and operation (see Annex 6).

A donor working group on sector alignment and on implementation of the 2005 Paris Declaration was constituted in 2005 to define the optimum planning and budgetary cycles, to identify where sector cooperation is out of alignment, to analyse the possible obstacles to further alignment and the level of predictability of aid flows in the different sectors and to make recommendations on future steps towards sector alignment. Finally, evaluation of where each development partner stands with respect to the targets set in the 2005 Paris Declaration and identification of the major obstacles in order to achieve them by 2010 are also being addressed by a questionnaire (CAD/OECD) with a view to consolidating an overall answer for the country.

Programme Aid Partners: The group of 19 donors providing budget support to the Government of Mozambique (Programme Aid Partners) has increasingly become the main forum for policy dialogue between the Government and donors. Since this group (PAPs or G-19) also includes the World Bank, this facilitates coordination with that institution. Out of the 19 donors providing budget support, 14 are from EU-15, all represented in Maputo. The Union's collective influence on development issues has been enhanced by its collaboration with other non-EU partners in this forum.

The Government of Mozambique and the above-mentioned donor agencies plus the World Bank signed a Memorandum of Understanding in April 2004 which sets out the principles, terms and operating procedures for the Programme Aid Partnership: the Government is accountable on the terms of its performance assessment framework, and the PAPs have made specific commitments concerning the manner in which they provide aid, in accordance with the Rome Declaration on Harmonisation and the Monterrey Consensus. The partners agreed to an annual external assessment of their own performance in relation to their commitments. Two joint annual reviews are carried out to assess the performance of both parties, the Government and the PAPs. This harmonisation framework is quite advanced and may be considered one of the best practices.

Joint programming: The EU Member States represented in Maputo were consulted about the feasibility of a joint Country Strategy Paper. The majority position was that, in a context of low Government capacity and no alignment of programming cycles at donor level, full joint programming was not cost-effective in the case of Mozambique. It was, however, decided that the present situation, where each European cooperation agency prepares its own strategy paper and participates in the CS-14 general coordination forum, is the optimum under the present circumstances (see Annex 2a).

CHAPTER IV - RESPONSE STRATEGY

The strategy chosen for EDF cooperation in Mozambique is to support achievement of the twofold objectives of PARPA II, i.e. to decrease the incidence of poverty from 54% in 2003 to 45% in 2009 and to promote fast, sustainable and broad-based growth. Reviews to date have confirmed that the European Commission-Mozambique cooperation strategy has proved appropriate, considering the overall positive assessment on achieving the targets for reducing poverty and on the Millennium Development Goals indicators and the country's performance in the focal sectors.

In the particular context of Mozambique, the European Commission has comparative advantages in promoting best practices in development, actively contributing to the debate on development and to the broad-based policy dialogue at general (direct budget support) or sectoral level (agriculture, roads, health and education). The EC has also played a key role in development of a locally based coordination and harmonisation roadmap.

The volume of the aid funds managed by the European Commission gives it a certain advantage as a delivery agent when size and critical mass are of special importance in the focal sectors, notably in the support for economic reform and the infrastructure sector.

At the same time, the ongoing EDF programme of cooperation in Mozambique has displayed good capacity to absorb funds over the years. Furthermore, in recent years the administrative capacity and expertise available at the EC Delegation have been built around specific areas of expertise, while the continuing presence of the EC in the same traditional focal sectors has influenced the current division of labour between development partners, especially EU Member States, ensuring complementarity.

Against this background, the strategy chosen and focal priorities will remain roughly the same during the period 2008-2013.

With a view to increasing the effectiveness of the EDF, cooperation activities are to be concentrated around a limited number of areas and the number of sectors of operations is to be reduced. The possibility of progressively phasing out some traditional EDF support to sectors in Mozambique and replacing them by untargeted general budget support and stronger policy dialogue has therefore been duly considered. In addition, the composition of the portfolio and choice of method of implementation also imply improvements in the EDF's effectiveness: as Mozambique is eligible for budget support, the general principle is to give preference to direct budget support and programme-based approaches, ideally sector budget support, whenever the specific situation of a sector requires more specific monitoring and policy dialogue. Co-financing with multilaterals and with Member States is another possible form of implementation, although second in priority to programme approaches, while project financing is practically limited to specific situations which are particularly difficult or of a pilot nature. Finally, long-term programmes are given preference over shorter ones, which will make EDF aid more predictable.

IV.1 Support for macroeconomic reforms

Objectives: The objective of the support is to contribute to maintaining macroeconomic stability while allowing the pattern of public expenditure needed to achieve the PARPA II objectives and to make progress towards the Millennium Development Goals, in a context of growing needs in terms of expanding and improving the quality of public service delivery and reforming the role of the State public service to perform its core tasks.

Specific justification: Based on the European Consensus and on the Union's international commitments on aid effectiveness, on the Government's declared intentions in PARPA II and on the latest trends in cooperation and commitments at local level, continuation of direct budget support at about the same proportion of EDF programmable resources for the period 2008-2013 is advisable in order to continue on the path of reforms and make progress towards improving access to and the quality of service delivery, while preserving the macroeconomic stability and currently controlled debt situation.

Mozambique's macroeconomic situation is structurally weak and the country still cannot generate the internal resources required to achieve the desired reduction in the level of poverty. It is necessary to continue to focus on public finance management for effective implementation of the second generation of reforms, on both the revenue and expenditure sides. Macroeconomic support will help the country to implement PARPA II, in a stable macroeconomic environment, paying specific attention to social sectors, such as health and education, and to public finance management, areas usually designated for the variable tranches. This will ensure dialogue to complement the sectoral programmes that have been the preferred method of delivery in the social sectors and make it possible to maintain a policy dialogue based on assessment of the indicators chosen for monitoring progress in education, which is not included in the response strategy as either a specific focal or non-focal sector. Issues such as equity, quality of service delivery, budget allocation and implementation in priority sectors and other cross-cutting aspects are addressed in the performance assessment matrix and are, therefore, part of the regular exchanges of

information and opinions between the Government and the group of budget support donors that culminate in the annual Joint Reviews.

EDF direct budget support, which has proven to be one of the most efficient forms of development aid, in terms of aid delivery, global impact, sustainability and quality dialogue with the Government, will be the preferred instrument for the 10th EDF in Mozambique. It matches the Government's strategy to increase this form of aid to ensure greater ownership and avoid systems parallel to the Government administration. EDF direct budget support not only contributes to reducing transaction costs, but also ensures active participation in the dialogue at the level of the aid programme partners group (G-18) and supports achievement of the Paris Declaration commitments to which the EC signed up.

All in all, it builds on the positive experience from the three previous EDF direct budget support operations in terms of results, dialogue with the Government and harmonisation.

The specific nature of the budget support instrument advises long-term predictability and avoidance of stop-go practices.

Conditions and risks: Budget support is a powerful instrument, but also a risky one, since it is based on a number of economic governance aspects, mainly regarding progress on the transparency and reliability of the public finance management system, coherence of the reform programme and performance on implementing it and the existence of a sound macroeconomic programme which, if not met, might jeopardise the continuity of the operation. The risk exists, but it is considered acceptable by the Commission, in the light of Mozambique's recent track record on these principles. Nonetheless, it is necessary to monitor these areas closely. Besides promoting the EC's result- and performance-oriented approach, the variable tranche could be used as an incentive to mitigate this risk and to encourage continuous dialogue on policies with the Government.

Mainstreaming of cross-cutting issues: Direct budget support finances implementation of the Government's poverty reduction strategy which civil society and the development partners see as adequately integrating cross-cutting issues. Contributions to the State budget are the most direct and sustainable way to support Government policies on the environment, gender, HIV/AIDS, children's rights, social protection, etc. To monitor the results of implementation of PARPA better by means of progress indicators and to inform political decisions well, the EC considers development of the statistical system one important area of interest to improved governance. In Mozambique, in view of the continuous dialogue around general budget support and the move towards more sectoral support, improvement of the reliability of statistics is a continuous challenge. In this respect, complementarity will be sought for regional action (support for development of statistics is being provided under the 9th EDF PALOP countries plus Timor-Leste programme and is expected to continue under the new 10th EDF strategy), via forthcoming support for the 2007 population census under the 9th EDF National Indicative Programme and ongoing support from EU Member States, as traditional partners of the National Institute of Statistics of Mozambique.

IV.2 Transport infrastructure and regional economic integration

Objectives:

Mozambique has almost completed the lengthy phase of post-war reconstruction and now faces the challenge of laying a firm foundation for sustained high socio-economic development. Modernising the infrastructure, in particular the roads, is essential for poverty reduction, supporting the private sector and regional economic integration. It will require capacity-building and financial resources.

The main objective of the EDF support is therefore to provide the still limited road infrastructure of Mozambique with the capacity and capital investment required to give rural areas access to markets and to basic social services, while improving the inter-modal connectivity (i.e. with railways, waterways,

maritime and aviation transport) of the production sectors both inside the country and outside with their regional neighbours, by developing corridors and other vital infrastructure.

The response strategy will support setting up and financing a comprehensive sectoral approach entirely consistent, inter alia, with environmental and climate change concerns. The progress made by the sector will be monitored on the basis of the performance indicators selected in a sector Performance Assessment Framework currently being finalised by the relevant national agencies and the donors.

Specific justification:

In spite of the notable progress accomplished on rehabilitating the network, the roads in Mozambique, vital for sustained and broad-based economic growth, still have huge needs that require adequate donor support. The PARPA II objective of reducing poverty and regional asymmetries by promoting broad-based growth, in particular by acknowledging the importance of provision of basic road infrastructure, confirms this view. The support for this sector will contribute to national economic growth and development by improving the national road network, by reducing the economic and social cost associated with lack of maintenance and inadequate road safety and enhancing job opportunities both inside and outside the road sector. In order to achieve these objectives, adequate external financial support, coupled with increased institutional capacity, good governance and efficient financial management will be required. In addition, the contribution by road infrastructure to regional integration and trade development cannot be over-emphasised in the case of Mozambique, a country in an ideal geographical and historical situation to link the African hinterland with the outside world. The 1996 SADC Protocol on Transport, Communications and Meteorology already provides a basis for an integrated transport system in the region. Effective functioning of the transport system - roads, railways, airports and seaports – in the country and, in particular, along the Maputo, Beira and Nacala corridors (which are part of the SADC spatial development initiative) is critical for maintaining the momentum towards regional integration and for managing the closer interdependence between Mozambique and its neighbours. Achievements in this area are a necessary condition for successful implementation of the Economic Partnership Agreements that Mozambique, together with its regional neighbours, has been negotiating with the European Union.

Another point to note is that the EDF's comparative advantage in heavy investment in infrastructure/road rehabilitation in Mozambique is acknowledged. This comparative advantage is the result of long expertise, past involvement in the sector and the critical mass required to make a difference.

Conditions and risks: One necessary condition for further strong involvement in the sector is that a sustainable policy striking the right balance between maintenance and capital investment is put in place. Implementation of the institutional reforms announced in the new Road Policy to strengthen the autonomy and financial capacity of the agencies responsible (ANE and Road Fund) should therefore be considered a permanent condition for achieving the objectives of the support from the 10th EDF in this sector. Another precondition for untargeted financing of the budget is that the sector must be ready to move from a fragmented project approach to a comprehensive sector-wide approach. While recognising the benefits of such a new approach in this sector, the related risks will be thoroughly assessed before selecting the method of implementation. The sector is maturing in terms of donor alignment, investment planning and the Government's coordinating role. A positive preliminary assessment of compliance with the conditions necessary for a move to sector budget support in the road sub-sector (from the current project aid) was given at a Road Fund donors workshop in June 2006 and will be deepened in a specific study. The recently approved Public Procurement Code and the measures taken to implement it in 2006 offer a unique opportunity to strengthen the Government's performance on this key aspect. Specific capital investment in the road sector, mainly to promote regional integration, will nevertheless require project approaches in order to ensure appropriate, effective implementation.

Mainstreaming of cross-cutting issues: Cross-cutting issues were taken into consideration when preparing ROADS III, which also envisages implementation of a long-term strategy to improve road safety.

IV.3 Agriculture, rural development and regional economic integration

Objectives: The main objective of the EDF support is to enhance food security and promote income generation in rural areas by improving the performance of agriculture. The specific objectives include improving the delivery of public services in the agricultural sector, securing better access to and management of natural resources by the rural population and supporting decentralisation at provincial and district levels.

Specific justification: Mozambique is basically a rural country where agriculture provides a means of subsistence and source of income for most of the population. The impact of agricultural development on direct poverty reduction is among the highest. Despite the fact that the average growth rate in agriculture was lower than in other sectors, agriculture was one of the largest contributors to GDP (23% on average) during the period 2000/2004. This means that a limited increase in agricultural production has a huge effect on increasing GDP and, thus, on reducing poverty (without even considering the potential impact on the agro-processing sector). On the other hand, agriculture is totally dominated by smallholders, predominantly subsistence-oriented. In order to grow at a significant rate, smallholder agriculture requires higher productivity and diversification into market-oriented crop production.

Agricultural development and its potential knock-on effect on agro-processing would also put Mozambique in a stronger position on the international markets for agricultural commodities and agro-processed products, with a view to increasing the country's potential gains from trade and regional integration.

Definition of a trade policy for specific agricultural products, improvement of regulation, definition of appropriate sanitary and phyto-sanitary rules, together with improvement of the general environment for trade, are crucial in order to increase the contribution which the agricultural sector makes to the process of regional integration. These areas deserve special focus in the sectoral dialogue on agricultural policies, to be supplemented by action in the area of trade.

As one of the main supporters of the agriculture sector, the EC has developed an intensive and constructive policy dialogue with the Government, playing a leading role in harmonising partners' participation in PROAGRI and stimulating the process of procedural and institutional reforms that are necessary for sector budget support.

Conditions and risks: Sustainable economic growth as a result of agriculture and livestock activities will be the main pillar of the EDF programme to support this sector. Taking into account the specific mandate and the limited absorption capacity of the Ministry of Agriculture, this could only be achieved with the active and coordinated involvement of other line ministries and, in particular, of the local authorities, especially the provinces which, in the context of decentralisation, have more and more power in terms of decision-making and management of public funds.

In response to the increased demand for agricultural services in rural areas, MINAG and other line ministries will have to pursue their decentralisation policy, allocating the human and financial resources necessary to boost the capacity for service delivery at local level.

As one of the main promoters of reform in the Ministry of Agriculture, in the form of its contribution to PROAGRI, the Delegation has also gained the ability to engage in effective political dialogue with the Government and other partners. Its support also effectively complements that from other donors, most of whom have, until now, been engaged mainly in the social and not in productive sectors.

Mozambique has been regularly hit by natural disasters, that could be worsened by the effect of climate change, mostly floods and droughts, creating a risky environment for agriculture and livestock farming with negative consequence on food security levels. In line with the activities already supported under the

9th EDF, the 10th EDF will continue supporting the Government efforts to cushion the increase of these natural risks by promoting river basin management, water catchment and irrigation schemes, research and introduction of drought-tolerant crops and varieties.

Mainstreaming of Cross-cutting Issues: Interventions in this sector are highly significant for women as 90% of them work in agriculture. The Ministry of Agriculture has produced both a gender strategy that places women as target group, an environmental strategy and an action plan for fighting HIV/AIDS.

IV.4 Non-focal sectors

IV.4.1 Health

Objectives: The overall objectives of the EDF support are to promote and preserve the state of health of the Mozambican population, by means of equitable expansion of quality health services, and to reduce the burden of HIV/AIDS on the Mozambican population.

The purpose of the programme is efficiently to support the Ministry of Health, both financially and technically, to implement its Health Sector Strategic Plan (PESS) and thus contribute to achieving the overall objective, and to assist the National AIDS Council (CNCS) with achieving its goals and coordination in keeping with its national strategic plan.

Specific justification: Health for all is a human right, as are prevention, diagnosis, treatment and mitigation of the impact of HIV/AIDS, and can best be secured by a sector programme.

In Mozambique health sector resources, both human and financial, are clearly insufficient. In spite of significant improvements in the health sector, substantial further improvement is clearly needed in both the coverage (access and use) and quality of these services in order to attain the Millennium Development Goals. Under these circumstances, continuation of the EDF support is considered necessary, particularly in the form of sector budget support, more focused on performance and results.

The EC has a strong presence in the health sector in Mozambique. More specifically, the EDF should capitalise on the significant experience gained in the province of Zambezia, which is particularly useful in the central health sector and HIV/AIDS fora. At the same time, the EC is extensively involved with NGOs active in the health sector and on HIV/AIDS, which facilitates complementarity between implementing partners. Similarly, the large EDF contribution to multi-donor general budget support in Mozambique, particularly due to the fact that performance in the health sector is one of the determinants of the amounts of the variable tranches, allows closer sector policy dialogue with the Government that complements the direct support in this sector.

Conditions and risks: The EDF support to the health sector depends on the willingness of the Government to give priority to human development, particularly at provincial level. The proposed method – sector budget support – depends on continued support from the Government and other partners for the common mechanisms being put in place. In this regard, the existing Provincial and Pharmaceutical Pools should progressively be integrated into the support for the general health budget (PROSAUDE). On the other hand, provincial Directorates of Finance need to have sufficient capacity to administer increased funds channelled via the State system to the provincial Health Directorates and HIV/AIDS centres. Finally, EDF support for the National AIDS Council also relies on successful contracting of an efficient Grant Management Agency for the common fund.

Mainstreaming of cross-cutting issues: Cross-cutting issues are core elements of the health programmes.

IV.4.2 Governance

Objectives: The main objective of the EDF support in this area is to promote reform in the area of governance by encouraging transparency and administrative and political accountability and

strengthening the justice system and effective law enforcement. The second complementary objective is to support the institutional development of non-State actors as advocates and their participation in the democratic process and monitoring of economic development plans, to encourage public participation and to bring social interests to the fore in the public domain. One measure financed by specific resources in this non-focal sector will be directed to the PALOP countries plus Timor-Leste, including Mozambique, for governance-based initiatives, for which a strategy will be adopted for the 10th EDF under a specific Memorandum of Understanding supplementing this Country Strategy.

Specific justification: In the light mainly of the national agenda for governance, reflected in the relevant strategic matrix for PARPA II (governance pillar) and the Government's commitments within the programming of the 10th EDF, the criteria for support in this area will be based on (a) the experience and lessons learned from the past and current programmes and initiatives (especially those financed by the 9th EDF) and (b) potential new areas of support, along the lines defined in the objectives and potential new priorities, which may emerge during implementation of the CSP. For example, follow-up activities on the African Peer Review Mechanism, implementation of the anti-corruption strategy, strengthening of Parliament's legislative supervision role, implementation of human rights legislation, public representation and electoral reform. Other areas of governance, for example the environment sector, will be supported by the new thematic budget lines financed by the EC budget, in a way complementing the EDF support.

Conditions and risks: One general condition for successful EDF involvement in this area is a strong Government commitment to pursue future and current reforms in the context of democratic governance. Given the width of the public and private sphere which good governance measures aim to regulate and improve, together with the procedural nature of the majority of these measures, there is a risk of not obtaining commensurate results in the short to medium term. This risk can be minimised by optimising the available means, with the aid of incentive mechanisms in the area of good governance, improving sectoral politics and monitoring systems and conducting a more solid political dialogue.

Mainstreaming of cross-cutting issues: There are various entry points into the area of democratic governance proposed for support from the 10th EDF, which will allow a substantial contribution to national policies on HIV/AIDS to the benefit of gender equality and the environment. The role of non-State actors must be regarded as instrumental in mainstreaming cross-cutting issues across the board and throughout the country. Support aimed at institutional development should seek to incorporate, where appropriate, the three cross-cutting issues identified.

IV.4.3. Support for trade and EPA

Supporting trade is essential to leverage sustainable economic growth in the country and for its progressive integration into the regional and world markets, together with the growth in trade between Mozambique and the EU, the main recipient of Mozambican exports.

EC instruments aimed at supporting and developing this sector already exist within the Regional Indicative Programme between the EU and SADC. Complementary action may be identified in the future using the NIP for Mozambique to finance, in particular, accompanying measures in the context of trade regime reforms between the EU and Mozambique within the framework of the Cotonou Agreement. In this regard, the Integrated Framework trade initiative may be one of the best options for providing support in a coordinated way based on a joint diagnosis of needs shared at Government and partners' level. To complement other support in the focal sectors, areas of strategic interest, such as trade facilitation, international standards and certification, trade promotion and business environment constraints, as well as impact of trade policies on environment, and support to trade of eco-friendly goods and services may be identified as focal sectors for support. In this context, specific support for the fisheries sector may be considered, in particular for sanitary and phytosanitary measures.

IV.4.4. Institutional support and technical cooperation facility - TCF

Given the need for building institutional and analytical capacity, the plan is for the Technical Cooperation Facility to be continued. This Facility will provide a means of financing technical assistance, training and organisation of and participation in conferences and seminars.

Institutional support activities which do not fall within the focal sectors but are closely connected with implementation of EC-Mozambique cooperation will be considered for funding from the EDF.

With the aim of consolidating the process of aid harmonisation in the country, the EC and the Government will take a more integrated approach in this area, together with the other partners in the spirit of the Paris Declaration on effectiveness of development aid.

IV.5 Support through the European Investment Bank

Within the general development strategy for Mozambique, interventions by the Bank, being in the form of various risk capital instruments from the Investment Facility or senior loans from its own resources, will remain essentially demand-driven. The focus will continue to be on the provision of long term financial resources for sound and productive investments, mainly in revenue generating sectors, promoted either by public or private sector entities.

Synergies and complementarities between the EIB and the EC will be further explored, and will be mainly driven by the EU instruments available, namely the Water facility and the Energy Facility, eventually continued within the 10th EDF, and the EU-Africa Infrastructure Partnership Trust Fund. The establishment of such a Trust Fund is intended to increase European lending volumes for cross-border infrastructure projects in Africa. However, the establishment of such a Fund will not modify the types of projects financed by the EIB in the ACP region (governed by the Cotonou Agreement), nor will it affect the Bank's internal project appraisal/lending criteria.

Considering the specificities of Mozambique's economic situation as well as the Bank's past experience in the country, the main areas of possible intervention for the Bank will be the power, transport and communications, water, agro-business and financial sectors. Support to small and medium scale enterprises will also be considered provided that appropriate instruments are set up.

The overall extent to which the Bank will be able to commit resources in Mozambique will largely depend on the macroeconomic framework and on the business environment, which is itself largely determined by the economic policy of the Government of Mozambique.

PART 2: INDICATIVE PROGRAMME

II. Indicative Programme

II.1 Introduction

On the basis of the cooperation strategy presented in Part One and in accordance with Article 4 of Annex IV to the Cotonou Agreement, the Indicative Programme has been drawn up as a set of tables showing the intervention framework for each sector, the financing timetable and a detailed schedule of activities for all listed programmes over a rolling three-year period.

The amounts mentioned in this chapter indicate the overall breakdown of funds between the **two** focal sectors, macroeconomic support and other programmes. The breakdown may be adjusted in the light of the operational, mid-term, final or *ad hoc* reviews. However, any adjustment resulting in a substantial change to the structure of the response strategy will require a formal decision in the form of an addendum to the strategy document.

II.2 Financial instruments

The implementation of the EC's cooperation strategy with Mozambique will be financed from several financial instruments. The following sections give an indication of the mobilisation currently envisaged.

II.2.1 10th EDF A envelope €622 million: this envelope will cover long-term programmable development operations under the strategy, and in particular:

- a) **General budget support:** 46%-50% of the total amount;
- b) **Transport infrastructure and regional economic integration :** around 21% of the total, in the form of sector budget support and projects;
- c) **Agriculture, rural development and regional economic integration:** 12%-15% of the total, in the form of sector budget support and programmes;
- d) **Other programmes:** 14% of the total, in the form of sector budget support, SWAP programmes and projects, plus 3% for the PALOP countries plus Timor-Leste (only projects), of which:
 - d1) **Health sector support and HIV:** around 8% of the total, implemented in the form of sector budget support, "PROSAUDE" and the Common Fund for the National AIDS Council;
 - d2) **Governance** support activities;
 - d3) PALOP countries plus Timor-Leste **governance-based initiatives;**
 - d4) **Trade and EPA support,** if not sufficiently covered under the 9th EDF and 10th EDF RIP;
 - d5) **Institutional Support and Technical Cooperation Facility.**

II.2.2 10th EDF B envelope, €12.1 million: this envelope will cover unforeseen needs such as emergency assistance where such assistance cannot be financed from the EU budget, contributions to internationally agreed debt relief initiatives and support to mitigate adverse effects of instability in export earnings.

In accordance with Article 3(5) of Annex IV to the Cotonou Agreement, this amount may, if necessary, be increased in the light of the operational or *ad hoc* reviews.

II.2.3 Investment Facility: in addition to the financial instruments above-mentioned, of which the A envelope is the main programmable basis for the NIP, the 10th EDF also includes an Investment Facility, which is an instrument managed by the European Investment Bank. The Investment Facility is not part of the NIP.

Some specific activities may be supported by the **Centre for the Development of Enterprise** (CDE) and the Centre for the Development of Agriculture (CTA).

II.2.4 10th EDF Regional Indicative Programme: this allocation will cover long-term programmable development operations under the regional strategy for the SADC. The allocation is

not part of the Indicative Programme but may have repercussions at national level, depending on the participation by Mozambique in the programmes proposed under the regional framework.

II.2.5 Other financial instruments

Specific activities may be supported by external actions funded by the general budget of the European Community carried out under the financial framework for 2007-2013 subject to special procedure and availability of funds, and out of the own resources of the EIB. Actions funded by the general budget include, among others, programmes funded under the Development Cooperation Instrument such as the thematic programmes "investing in people", "non state actors in development", "migration and asylum", "environment and sustainable management of natural resources" and "food security", as well as actions funded from other instruments such as the stability instrument, the instrument for the promotion of human rights and democracy or the instrument for humanitarian and emergency assistance.

For the Sugar Protocol countries, countries benefiting from accompanying measures, the actions envisaged in that context shall be complementary to the above financial instruments.

II.2.6 Monitoring and evaluation

Monitoring of results and evaluations of impact of individual activities (programmes, projects, sectors) under this CSP will be undertaken in line with the Technical and Administrative Provisions that are attached to each individual Financial Agreement prepared to implement this CSP.

The results and impact of the Community's cooperation with the Republic of Mozambique implemented through the NIP and through other external actions funded by the general budget of the European Community, will be assessed by means of an independent external evaluation. This country-level evaluation may be undertaken jointly with EU Member States and possibly also with other donor agencies.

II.3 Focal sectors

II.3.1. Focal sector 1: Transport infrastructure and regional economic integration

The main objective of the EDF support is to contribute to poverty alleviation by increasing access of the poor rural population to public services, markets and job opportunities, while promoting socio-economic growth through increased trade and regional integration.

The specific objectives in this sector are:

- i) to support asset preservation (primarily focused on maintenance) of the existing road network by means of sector budget support for the Road Fund, together with other donors. Institutional support to strengthen the planning and implementation capacity of the agencies responsible (ANE and Road Fund) at both central and provincial levels will be included in this sector budget support and will, in particular, lead to further streamlining of the responsibilities of the Road Fund as a policy-making and financial body, while strengthening the capacity of the ANE as implementing agency;
- ii) to support specific priority capital investment, initially on a project basis, for strategic transit corridors promoting regional integration of the country and for other vital infrastructure, creating a more favourable environment for maritime transport, trade and competitiveness in southern Africa.

In this connection, to complement those capital investments, the current strategy will be opened to support activities to achieve full coherence between the regional and national transport regulations. In this context, the response strategy also looks at complementarity and the opportunities for integration

with the activities to be financed within the EU-Africa Partnership on infrastructure, in particular activities focused on interconnectivity with the railways, waterways, maritime and the aviation sectors, the missing links and the regional networks necessary to accelerate economic growth and facilitate competitive trade. For example, the rehabilitation of the Beira-Machipanda road is actually part of the 3 500 km Beira-Lobito corridor connecting the port of Beira with Harare, Lusaka and, finally, Angola.

The specific objectives of the programme are integrated together, as implementation of a comprehensive and sustainable asset preservation policy would benefit the entire network. In addition, the economic growth from the increased connectivity of the network to the markets will have a positive economic impact on rural areas.

An indicative percentage of 21% of the programmable resources under the 10th EDF, compatible with doubling the current EDF support to the road budget and providing additional resources to enhance the regional integration of Mozambique with neighbouring countries, is to be allocated to the focal sector “Transport infrastructure and regional integration”. Whenever relevant and appropriate, the resources from the 10th EDF for the NIP may be combined with the RIP resources and those from the EU-Africa Partnership on Infrastructure.

Any potential and unexpected cost over-runs in the ongoing infrastructure projects under the 9th EDF (under focal sector 1 in the 9th EDF Country Strategy Paper) will be covered by the 10th EDF envelope for this focal sector, if not feasible from any other source.

The main actions proposed are:

- establishing a comprehensive sector-wide approach in the road sector, to be developed together with other donors, aiming to give priority to directing the road infrastructure to the most needy population, while increasing the capacity for sustainable asset preservation, by setting up an efficient and sustainable routine and periodic maintenance programme and providing the necessary technical assistance to the institutions responsible (ANE and Road Fund). In this connection, the roles and responsibilities of the Road Fund, as an efficient policy- and decision-making body provided with the necessary technical and financial capacity, and of the ANE as implementing agency will be further streamlined. Specific attention will be paid to road safety and axle road control during implementation in order to reduce transport and maintenance costs;
- rehabilitating and developing the regional corridors and other vital infrastructure which, *inter alia*, could facilitate the connectivity of the producing sectors (agriculture, industry, energy, services and tourism) to the markets both inside and outside the country. In this connection, specific attention will be paid to improving the opportunities for intermodal transport integration (railways, waterways, maritime and aviation) in order to improve efficiency and safety and reduce transport costs. A specific TA assistance may be provided for this purpose.

The preferred instrument to finance the comprehensive sector-wide approach developed by this programme will be **sector budget support**, once all the eligibility criteria have been assessed. However, the specific capital investment related to regional strategic connections or specific related infrastructure (such as the rehabilitation of the Beira-Machipanda road and the upgrading of the Milange-Mocuba road) will initially be implemented in the form of **projects**, although in a way consistent and coordinated with the sectoral priorities and approach.

Sector policy measures and commitments

The objectives of the programme are fully consistent with the Government’s programme for poverty reduction (PARPA II), which sets five major goals for the road sector: supporting markets and district access, promoting connectivity, enhancing decentralisation, ensuring adequate quality of works and ensuring maintenance.

The main sectoral policy measures to be taken by the Government as a contribution to implementation of the response strategy are the recently drafted Road Policy, the Programa Integrado do Sector de

Estradas (PRISE) for the period 2007-2011 and the associated Programme Implementation Plan (PIP) for 2007 to 2009. The measures include a series of institutional reforms pointed out by the 2005 performance audit of the road sector, leading to effective separation of the responsibilities, autonomy and financial capacity of the road agencies (ANE and Road Fund).

In particular, PRISE supports PARPA II's objective of reducing poverty and regional asymmetries by promoting broad-based growth and by acknowledging the importance of provision of basic road infrastructure linking rural areas to markets and basic social services. It will require massive investment to provide the backbone covering the entire territory (national and to the rest of the region) and to facilitate social and economic activity (internal and external trade and population movements).

Together with the target of strengthening the institutional capacity of the bodies in charge of the sector at national and provincial levels and of establishing an effective, sustainable and accountable funding mechanism channelling the revenue from the Ministry of Finance to the sector, the donors have given a commitment, as indeed is the aim of the programme, to create the conditions making it possible for 100% of donors' funding to take the form of sector budget support after 2010. In this connection, definition of the relevant indicators is already at an advanced stage, with formulation of indicators for the PAF matrix.

The EDF's comparative advantage in heavy investment in infrastructure/road rehabilitation in Mozambique is acknowledged. This comparative advantage is the result of long expertise, past involvement in the sector and the critical mass required to make a difference.

Mainstreaming of cross-cutting issues

The Social Issues Unit in the ANE is responsible for mainstreaming cross-cutting issues and assisting with preparation of tender documents and contracts and ensures compliance with specific requirements relating to recruitment of local labour, awareness-raising on HIV/AIDS, corrective action and environmental protection. The Unit has recently been strengthened with an environmentalist, but further resources are required. In addition, studies on attitudes and changes in gender roles will be carried out at fixed locations each year. Relevant indicators are currently being defined. Beyond a SEA (Strategic Environmental Assessment) of the whole programme to be carried out as soon as possible, all road projects will include an environmental assessment during the feasibility study, to be followed by a full or partial environmental impact assessment at the detailed design stage as necessary. However, no new roads are proposed and the roads to be rehabilitated will mainly follow the same route as the existing roads. During implementation of the programme specific care will be given to prevention of HIV, preservation of the environment and gender issues.

II.3.2 Focal sector 2: Agriculture, rural development and regional economic integration

The main objective of the EDF support is to contribute to poverty alleviation by enhancing food security and promoting income generation in rural areas by improving the performance of agriculture. The proposed programme will adopt a comprehensive approach that will follow the recommendations made in Commission communication COM(2002) 429 "Fighting rural poverty - European Community policy and approach to rural development and sustainable natural resources management in developing countries". It will help the Government of Mozambique to implement PARPA II, which puts the emphasis on fighting rural poverty by means of economic development in rural areas.

The specific objectives include:

- improving delivery of public services in agriculture;
- supporting the Government strategy to decrease levels of food insecurity (in particular chronic malnutrition);
- securing better access and sustainable management of natural resources by the rural population; in particular adapting to the impact of climate change;

- supporting, by decentralisation at provincial and district levels, public investment for infrastructure development relating to agriculture (e.g. water-related infrastructure, access to markets, rural electrification, etc.);
- promoting business initiatives for commercial farming by means of support to producers' associations, smallholders and service providers, in order to help them raise their incomes and create employment;
- supporting integration of Mozambique into the SADC region by increasing trade flows and providing trade-related assistance (agricultural and agro-processed products).

At the level of the Ministry of Agriculture, this will be achieved by means of institutional development, implementation of reforms and provision of core services under its mandate. At district level, the specific objective will also include supporting local authorities in the area of public investment relating to agriculture. At farmers' level, the specific objectives will be to increase production and productivity, to promote crop diversification and to improve access to appropriate technologies, inputs and markets. Support for the sugar sector under the accompanying measures will supplement the support proposed in the specific sector of cane production.

An indicative percentage of 12% to 15% of the programmable resources under the 10th EDF, compatible with continuing the current EC support to the Government budget for agriculture *stricto sensu* but also providing additional resources to widen the scope of the programme to rural development, is to be allocated to agriculture and rural development.

As to the main actions proposed, in addition to the institutional support for the Ministry of Agriculture, which is likely to decrease over time, the programme will provide support to line ministries and provinces², thus enabling the Government of Mozambique to finance a programme of agriculture-related investments in rural areas and to support business initiatives in agriculture and agro-processing in order to promote sustainable economic growth.

The Ministry of Agriculture and its partners share a concern for obtaining better results at local level. This objective can be achieved by more decentralised use of funds and increasing the financial contributions to district level. To this end, some of the field activities of the Ministry of Agriculture will be planned and implemented by beneficiary farmer communities, under the coordination of the local authorities. PROAGRI will facilitate participation by different stakeholder groups under national leadership in designing, implementing and reviewing policies relating to service delivery and decentralisation.

Mozambique has been regularly hit by natural disasters, mostly floods and droughts, creating a risky environment for agriculture and livestock farming. In line with the activities already supported under the 9th EDF, the 10th EDF will continue supporting the Government efforts to cushion these natural risks by promoting river basin management, water catchment and irrigation schemes, research and introduction of drought-tolerant crops and varieties.

The preferred **implementing instrument is sector budget support** (85% to 90% of the allocation). The feasibility of this intervention will be reassessed at the identification stage with reference to the overall budget support eligibility criteria and progress in the sectoral policy commitments made by the Government. In addition, a separate envelope of 10% to 15% of the allocation will be mobilised in the area of private-sector development in a form which will be assessed during the identification phase. In particular, a specific assessment will be performed to determine Government institutions' capacity to implement programmes in this area. This envelope will also be used to support non-State actors involved

² At this stage, it is too early to indicate which entity will receive SBS as, in the course of decentralisation, provinces are gaining more and more autonomy; for example, it has not yet been decided whether water-related infrastructure, such as small-scale irrigation schemes, will remain in the mandate of the Ministry of Agriculture or come directly under the provinces.

in this sector and to support innovation and initiate change management in areas where public services still play a rather weak role (introduction of appropriate technologies, e.g. to decrease charcoal and fuel-wood consumption, etc.).

As one of the main external supporters of the agriculture sector, the EC has developed an intensive and constructive policy dialogue with the Government, playing a leading role in harmonising partners' participation in PROAGRI and stimulating the procedural and institutional reforms that are necessary for sector budget support, and will continue to do so.

Government policy measures and commitments in this sector include effective implementation of the Agricultural Strategy and the Agricultural Marketing Strategy, finalisation and adoption of its Rural Development Strategy and a commitment to implement, monitor and closely evaluate PROAGRI II, in line with the PARPA II strategy.

Economic growth generated by agriculture and livestock farming will be the main pillar of the EDF support programme for this sector. Taking into account the specific mandate of the Ministry of Agriculture and the broad scope of the support proposed, this could only be achieved with the active and coordinated involvement of other line ministries and of the local authorities, in particular the provinces.

In response to the increased demand for agricultural services in rural areas, MINAG and other line ministries will have to pursue their decentralisation policy, allocating the human and financial resources necessary to boost the capacity for service delivery at local level.

Mainstreaming of cross-cutting issues

Agriculture is a key sector for gender equality in Mozambique. Support for this sector is highly significant for women, as 90% of them are involved in agricultural activities. The Ministry of Agriculture has produced a gender strategy with women as the target group, including coordination of the activities of gender focal points at district and province levels to ensure integration, planning and monitoring of gender issues in projects, programmes and strategies. The Gender Action Plan for 2005-2008 was approved in March 2006. Further EDF support for the Ministry's budget will ensure that the Gender Unit continues to integrate gender issues into the agricultural sector.

The sustainable management of natural resources that are under the mandate of the Ministry of Agriculture (land, water and forests) will deserve specific attention in the framework of the dialogue between donors and MINAG in the context of PROAGRI. This should lead in particular to a more efficient enforcement of the land and forests laws with a specific focus to ensure communities' rights on land as well as to fight against illegal logging and more generally to protect the forestry resource.

When needed, the appropriate type of environmental assessment for projects will be carried out.

One positive effect of increased food security is that it can improve people's resilience to HIV/AIDS, thus strengthening households' strategies for coping with the devastating effects of the pandemic. The action plan for fighting HIV/AIDS in the period 2006-2010 has been drawn up by the Ministry of Agriculture, in collaboration with the National Council for the Fight against HIV/AIDS which will finance some areas of activity. Dissemination and initial implementation are planned in 2006.

II.4 General Budget Support

The Community will continue to support the Government's macroeconomic reform programme through general budget support. The programme will seek to support the Government's efforts to maintain macroeconomic stability and implement the PARPA and in doing so help reduce poverty and accelerate progress towards the MDGs. Special attention will be given to improvement of the public finance management system through the deepening of the implementation of the ongoing reforms (procurement, audit institutions, financial administration system), as an essential part of economic governance.

A percentage (about 46-50%) of the 10 EDF programmable resources compatible with increasing or, at least, maintaining the 9 EDF level of direct budget support (around €50m per year) including a capacity development component (in particular focused on public finance management), is to be allocated to support macro-economic stability and reforms in the country.

The success of any poverty reduction initiative in Mozambique largely depends upon the functioning of the Government systems. The budget support instrument is therefore important for supporting the effectiveness of any existing or future sectoral programme and project that the EC may finance, whose impact and sustainability is highly dependant on macroeconomic stability and Government financing for recurrent costs and other complementary activities.

Budget support is expected to be implemented through a multi-annual programme unless otherwise justified. Funds will be disbursed on an annual basis. The Community will continue to be actively involved in the policy dialogue set up around the memorandum of understanding signed between the Government and the Programme Aid Partners, including the EC (G19), for the provision of budget support, in particular through the cycle of reviews based on the jointly agreed government's performance assessment framework and on the external partners' assessment in terms of harmonisation and alignment. As mentioned in the response strategy chapter, EC budget support will continue to emphasise the importance of results in key poverty outcomes with a view to fostering the continuous dialogue on poverty reduction policies and to ensuring complementarity with the other EDF instruments.

Eligibility for budget support will be kept under continuous review based on the Government's commitment to the following:

- maintaining a stability-oriented macroeconomic policy framework;
- demonstrating progress in the implementation of a credible PFM reform strategy;
- ensuring continued progress in poverty reduction through the implementation of the PARPA.

If a disbursement is not made, the non-disbursed amount is de-committed, credited to the NIP, and may be reprogrammed either for budget support or for one of the other cooperation programmes of the NIP. Such a decision can be taken in the context of the annual reviews.

II.5 Other programmes

About 14% (plus the 3% for PALOP countries plus Timor-Leste) of the programmable resources under the 10th EDF, compatible with maintaining current EDF support for the health sector budget and financing to guarantee continuity of ongoing activities on governance and trade, including support for non-State actors and specific *ad hoc* measures in the justice sector and to support the National Assembly, is to be allocated to these non-focal sectors.

II.5.1 Non-focal sector 1: Health and HIV/AIDS

An indicative allocation of 8% of the total envelope is set aside for the following action:

The **first specific objective** in this area is to support the Ministry of Health (MoH) with implementing its Health Sector Strategic Plan (PESS) in line with the National Health Policy and thus contribute to promoting and preserving the health of the Mozambican population, providing health care of good quality which will gradually be made accessible to all Mozambicans equitably and efficiently.

In the context of an overall balanced approach, the EC will use its financial and technical input, at both SWAP and budget support levels, to provide support in the following priority areas and maintain an active dialogue on policies and results:

- strengthening implementation capacity across the sector at all levels (including the partnership with NGOs), with emphasis on building a strong qualified **health workforce** in tandem with the regional PALOP countries plus Timor-Leste HR programme;
- strengthening the **information systems** for health, with emphasis on creating a simple and effective monitoring system that can feed into improved decision-making;
- improving **financial management** and accounting leading to better implementation rates, especially in the area of health facility construction;
- improving the system for **maintenance** of health facilities and equipment across the sector;
- rolling out a comprehensive and balanced **HIV/AIDS programme**, firmly nested in the sector-wide approach to health systems development. Within this programme the EC will give particular priority to: (a) access to sexual and reproductive health services that reduce the vulnerability of

- women; (b) scaling up access to VCT and PMTCT services; and (c) scaling up investment in the links between carers within households and the first point of access for health care;
- rolling out effective and appropriate programmes for the other two major killer diseases in Mozambique, namely **TB and malaria**, paying special attention to closer integration with the HIV/AIDS programme in relation to TB and to ensuring an appropriate three-pronged approach combining spraying, bed nets and medication for malaria;
- expanding **sexual and reproductive health** services, integrated with paediatric services and PMTCT services for HIV/AIDS, in an effort to provide mutual benefit to all these programmes.

The **second specific objective** is to support the National AIDS Council (CNCS) with coordinating HIV/AIDS activities across all sectors and leading implementation of the National HIV/AIDS Strategic Plan (PEN II). Major activities of the CNCS involve, primarily, prevention and impact mitigation and ensuring synergy between these and the efforts of the health sector. The EC will support the CNCS across the spectrum of its mandate, but will focus especially on **prevention and impact mitigation**, targeting vulnerable children and their carers in particular.

The main **policy measures** to be taken by the Government as a contribution to the response strategy on health and HIV/AIDS are: (i) implementation of the jointly approved Health Sector Strategic Plan (PESS), aligned with the National Health Policy and PARPA, by means of jointly approved annual operational plans (PESs); and (ii) coordination of all HIV/AIDS activities in Mozambique in line with the jointly agreed National Strategic Plan on HIV/AIDS (PEN II), by means of jointly agreed annual operational plans.

As regards mainstreaming issues, HIV activities are targeted specifically on young women, since they are particularly vulnerable, for physiological, cultural and economic reasons. The Maternal Health Programme is a priority in order to achieve the Millennium Development Goal of reducing the maternal mortality rate by 75% by 2015. HIV and maternal health programmes generate synergies by being firmly integrated in the Programme for Prevention of Mother-to-Child Transmission of HIV. Moreover, because mothers are culturally accepted carers of the family, they are targeted as a vector for healthy and health-seeking behaviour, essential for a sustainable impact.

The impact on the environment is negligible. Largely because of the added threat of HIV/AIDS, the line Ministry is giving special priority to biosecurity and a safe and clean working environment, putting the emphasis on disposal of both material and human waste by adequate incineration and sewage/sanitation systems.

II.5.2 Non-focal sector 2: Governance

An indicative percentage of 6% will be set aside for this area. The framework for definition of specific governance activities will be mainly the one set under the governance pillar of PARPA II.

The **first specific objective** is to support the judicial and law enforcement system of the country and the ongoing reforms in this area.

The support for **justice** will be continued, based on the experience and lessons learned from the 9th EDF programme, which was a pilot programme for the EC. The project support method will be used or, with a view to a possible positive move in dialogue and coordination in this sector, a move to a sector-wide approach and, later, to a sector support programme would be encouraged.

The **second specific objective** is to support the key State authorities in improving institutional quality and governance, especially in implementing national and international norms on transparency and accountability:

- support for the follow-up to the APRM process at national level, if not covered by a regional programme;
- support for anti-corruption policies;

- development of the capacity of the national Parliament, in particular by (a) reinforcing mechanisms to increase accountability and (b) helping to build up budget analysis skills.

The **third specific objective** is to contribute to development of a human rights culture and to an effective democratic participatory culture and practice by strengthening the institutional and operational framework for non-State actors.

The ongoing programme to support non-State actors under the 9th EDF will be used to prepare the ground for further support for non-State actors in their twofold role as partners in the national policy dialogue and service providers. The existing capacity of NSAs to contribute to achieving the MDGs will be enhanced, in line with the Government's strategy on involvement of civil society in the development process. The support for non-State actors includes the non-State actors eligible for financing, as defined in Article 6 of the Cotonou Agreement and Article 4(1)(d) of Annex IV to the Revised Agreement. In line with the mandate given, the support for non-State actors will be able to cover activities including, *inter alia*, reinforcement of capacity, advocacy, investigation, awareness-raising, monitoring and service delivery to the population. To support non-State actors, the European Commission can make use of Article 15(4), of Annex IV which allows the EC to be the contracting authority. The information of the NAO will be ensured. For this purpose, an amount of 5 to 8 million euros will be made available. It will be implemented in the form of projects and grants.

The main policy measures to be taken by the Government as a contribution to the response strategy on governance are defined in PARPA, the PAF and, in particular, in the governance commitments framework. The need to improve the electoral framework, along the lines of the recommendations made, among others, by the Mozambican Constitutional Council and the EU EOM, has been acknowledged by all stakeholders.

The incentive tranche mechanism might allocate additional resources to the democratic governance activities that the Government decides to engage in. Complementary areas of activity and support may also be decided, after the Country Strategy Paper reviews, in the spirit of complementarity of donors' support. The regular up-dating of the governance profile and the joint monitoring of the governance commitments will lay the ground for a better structured dialogue on pro democratic governance and human rights policies, which, in its turn will be fed into the Article 8 Cotonou political dialogue.

The support in this non-focal area is cross-cutting and will seek complementarity with the rest of the focal and non-focal NIP support and with other instruments (budget lines in particular).

II.5.3 Non-focal sector 3: Governance initiatives for PALOP countries and Timor-Leste

The five PALOP countries and Timor-Leste have a strong shared identity based on history, culture, language and heritage (including similar systems of public administration, justice, public finance management, inter-linked labour markets and social services) and have an interest in closer collaboration and exchanges on their own contexts, specifics and experience in these fields. EC-PALOP cooperation has played an important role in this context and consideration will be given to continuation of EC-PALOP cooperation to support governance.

Against this background and based on the experience gained from past activities and the analysis of capacity and common needs, consideration will be given to support in the form of common projects on democratic governance, in particular democracy and rule of law, economic and social governance and on government effectiveness.

Special emphasis will be placed on joint capacity-building within the selected areas of governance. In these areas of cooperation the PALOP countries plus Timor-Leste will continue to benefit from sharing experience and knowledge and jointly developing responses to commonly identified needs.

The general approach and procedures for this cooperation are established in a separate Memorandum of Understanding signed between the PALOP countries plus Timor-Leste and the European Commission. The National Authorizing Officer contributing to a project co-financed by the other countries participating in this cooperation, delegates his functions for the implementation of this project to the National Authorizing Officer "Chef de File" within the limits necessary for that purpose.

II.5.4 Support for trade and EPA

To complement the 10th EDF Regional Indicative Programme, other EC financial instruments and the support for the three focal sectors mentioned above, activities to support trade may be considered.

The overall objective of such action will be to support Mozambique in conducting trade negotiations in a regional and multilateral context and in implementing the accompanying trade policy reforms, particularly in the context of the new trade arrangements to be agreed between the SADC region and the EU (SADC-EPA). In particular, consideration will be given to supporting specific areas of strategic interest defined by a previously validated trade diagnosis performed at national level in Mozambique under the Integrated Framework. The areas pre-selected from the diagnosis are: trade facilitation, international standards and certification, trade promotion and trade-related business environment constraints.

The support will be based on the experience gained from the 9th EDF project, which will start in 2007, and will gain from the EC's participation in the steering mechanism at national level for the Integrated Framework. The method of implementation to be used will draw as much as possible on the existing structures, with the aim of contributing to building the capacity for design, coordination and implementation of reforms in the area of trade. SPS issues – for example related to the fisheries sector – might be one type of targeted action envisaged.

II.5.5. Institutional support and Technical Cooperation Facility

The facility for short-term consultancies to assist in the programme cycle and in harmonisation-related activities and to improve exchanges, capacity and awareness of development activities has proved very useful in the context of the 9th EDF. The proposal is to reserve an amount for this facility, taking into consideration the Paris Declaration commitments made in 2005 as regards this form of delivery, and also for activities in favour of institutional support outside the focal sectors but closely related to implementation of this strategy (in particular for the NAO's office).

When needed, the appropriate type of environmental assessment (SEA or EIA) will be carried out.

II.5.6 Reserve for insurance against possible claims and to cover cost increases and contingencies.

II.5.7 Intervention framework

Model annexed.

II.5.8 Timetable of indicative commitments and disbursements

Model annexed.

II.5.8 Chronogram of activities

Model annexed.

II. INTERVENTION FRAMEWORK AND PERFORMANCE INDICATORS

A Performance Assessment Framework (PAF) was agreed in 2004 between the Government and the EC, as a member of the group of budget support donors. The PAF is a matrix of around 40 multi-sectoral

indicators with targets annually updated and defined for a three-year period, based on the main priorities of PARPA (PRSP). This PAF is the basis for the dialogue on budget support and is assessed annually during joint reviews by the Government and the 19 budget support donors. This rolling PAF will form part of the basis for the annual reviews of this Country Strategy Paper, and for the budget support commitments and disbursements, in the areas directly linked to this method. The PAF agreed for the period 2007-2009 is presented in the next section.

In addition, line Ministries are in the process of defining more detailed sets of indicators at sector level in coordination with external partners, in particular in sectors where SWAP are being designed and where sector budget support is being defined as a new method of delivery, i.e. in agriculture, roads and health. Those indicators are to be monitored annually, from 2007 on, as part of the annual sector reviews. The indicators presented in the CSP tables below for those sectors of the EC activities are based on the verifiable indicators already agreed during those processes. The plan is that they will be kept aligned, as far as possible, with any improved frameworks agreed at sector level.

II.6.1 INDICATORS IN THE PERFORMANCE ASSESSMENT FRAMEWORK (PAF) 2007 - 2009

Pillar / Area	Objective	Achievements (Actions)	Responsibility of:	Indicator [Verification Source]	Target 2007	Indicative target 2008	Indicative target 2009	Type of indicator (Outcome/ Output)	No of Ind
MACRO-ECONOMICS AND POVERTY									
Poverty Analysis and Monitoring Systems	<i>Make adequate, precise, disaggregated and timely information on the implementation of the PARPA available to all key agents</i> (par. 621 & 622)	Carry out at least one Provincial Poverty Observatory (OPP) in each province	MPD	Number of Provinces with executed OPPs [Syntheses of the OPP on the OP website and at the DNP]	11	11	11	Output	1
Public Financial Management	<i>Improve the efficiency and effectiveness of public management funds</i> (par. 289 & 494)	Note: Since we are dealing with an outcome indicator, there are various actions and responsible entities, whereby these may be conferred in the Strategic Matrix		Aggregate expenditure as a % of the approved Stage Budget (OE) [OE]	≥95% e ≤105%	≥95% e ≤105%	≥95% e ≤105%	Outcome	2
		Allocation of the public resources in accordance with the objectives of the PARPA II, whereby the allocation for priority sectors, as indicated in the PARPA, is used as a reference (Table 17)	MF-DNO / MPD-DNP	Allocation of the OE in line with the MTFF [MTFF and OE]	X	X	X	Output	3
		Increase in the budgeting orientated by the objectives of the Government	MPD / MF	Research on the Localization of Public Expenditure ("PETS") executed on a bi-annual basis [MF and MPD]	Initiated and effectively carried out at MEC (Education) level	Actions in response to the implemented 2007 PETS	Research carried out	Output	4
	<i>Make the State goods and services acquisition system transparent and efficient</i> (par. 494)	Direct execution of the budget through the e-SISTAFE	MF / Ministries	Number of Ministries, State organs and UGEs [MF]	25 Ministries, organs and at least 291 UGE	To be defined	To be defined	Output	5
		Note: Since we are dealing with an outcome indicator, there are various actions and responsible entities, whereby these may be conferred in the Strategic Matrix		Total incomes as a % of GDP [OE]	14,9%	15,4%	15,9%	Outcome	6
	<i>Increase the coverage and efficiency of the internal and external auditing organs</i> (pars. 290 & 494)	Implementation and operation of the Procurement System up to the district level	MF - DNPE	System of Procurement operational [DNPE-MF]	X	X	X	Output	7
		Increase the number of organs with an operational internal controls unit at central and provincial levels	IGF	% of organs at central and provincial levels with operational internal control units [Annual activities report on the internal control sub-system, SCI]	30	65	100	Output	8
	Increase the number of financial audits	TA	Number of financial audits approved by the TA [Annual activities report]	90	118	144	Output	9	
GOVERNANCE									
Public Sector Reform	<i>Strengthen the institutional capacity of the local governments</i> (par. 284)	Implementation of the national decentralized planning and finance strategies	MPD / MF / MAE	% of the budget transferred to the: - provinces, - districts - municipalities [OE]	24.9% 3.0% 0.8%	To be defined	To be defined	Output	10
			MAE	% of operational District Consultative Councils (at least 3 meetings per year) with accountability to the Government [MAE]	60%	80%	100%	Output	11
	<i>Improve human resources management systems</i> (par. 288)	Development and implementation of the unified Personnel Information System (ANFP, MF and TA)	ANFP	Published Statistics Yearbook on public servants [Statistics Yearbook]	Census and CUF	X	X	Output	12
	<i>Strengthen the public policies management processes</i> (par. 286)	Increase in the number of municipalities	MAE	Proposal for the increase in the number of municipalities deposited in the AR [MAE]	Legislation on the criteria approved by the CM and deposited in the AR			Output	13

Pillar / Area	Objective	Achievements (Actions)	Responsibility of:	Indicator [Verification Source]	Target 2007	Indicative target 2008	Indicative target 2009	Type of indicator (Outcome/ Output)	No of Ind
Water and Sanitation	<i>Increase the population's access to potable water in the rural areas</i> (par. 455)	Construction of new disperse water points	DNA / DPOPH's	Number of new disperse water points that were constructed [DPOPH annual reports]	1 055	1055	1034	Output	26
Social Action	<i>Protect and attend to the population groups in vulnerable situations (children, women, deficiency carriers and the elderly)</i> (pars. 463, 465, 467 and 469)	Implementation and expansion of the Social Protection programmes (Direct Social Aid, Food Subsidies, Social Benefit through Work, Income Generating Programme, Institutional Assistance Programme for Children, the Elderly and Deficiency Carriers)	DPMAS / INAS	Number of children, elderly people, deficiency carriers, women who are heads of the family aggregate benefiting from social protection programmes [PES periodic reports with disaggregated data per target programme and group]	120437	279800	294400	Output	27
ECONOMIC DEVELOPMENT									
Financial Sector	<i>Strengthen the regulation and supervision of the financial system so as to minimize the risks of financial crises and financial crimes</i> (par. 500)	On-site and off-site inspection and report production by BM	BM	% of banks fulfilling the IAS/IFRS norms [BM]	100%	100%	100%	Output	28
	<i>Improve the insurance and social protection sector</i> (par. 503)	Elaboration of: Regulation on Private Pensions Funds (Private), proposals for the insurance contracting law; Revision of the financial guarantees regime and the elaboration of a transition plan for the IFRS	IGS	Submission to the Council of Ministers / Parliament [Publications in the Government Gazette]	Revision of the financial guarantees regime. Regulation on the private pensions funds	IFRS transition plan and proposals for the insurance contracting law		Output	29
		Realization of the actuarial study and the design of the investments strategy and elaboration of regulating diplomas	INSS	Study concluded; investment strategy being implemented; regulations in force and recommendations implemented. [INSS]	Realization of the actuarial study and the elaboration of the investment study	Implementation of the recommendations made by the actuarial study and by the investment strategy	Implementation	Output	30
Private Sector	<i>Improve the business environment</i> (par. 495)	Simplification of the procedures for starting a business	MINU / MIC	Number of days to start a business [Annual World Bank Report "Doing Business Annual Report"]	60	40	30	Output	31
	<i>Create employment</i> (par. 556 e 497)	Approval and implementation of a flexible Labour Law	MITRAB	Cost of hiring and firing workers** [Doing Business Position]	80	To be defined	To be defined	Output	32
Agriculture	<i>Increase access to technology and extension information</i> (par. 531)	Divulgence and dissemination of agricultural technologies	MINAG / Agricultural Extension	Total number of peasants assisted by the public extension services, including sub-contracting [REL]	222300	222300	411000	Output	33
	<i>Promote the construction and rehabilitation of agricultural infra-structures</i> (par. 531)	Construction and rehabilitation of water collecting infra-structures for the agriculture sector	MINAG / Agricultural Services	Number of new irrigation hectares rehabilitated with public funds and put under the management of the beneficiaries. [REL]	4000	3400	3000	Output	34
	<i>Improve the communities' access to natural resources in an equitable manner for sustainable usage and management</i> (par. 533)	Stocktaking, mapping of land occupation, use and utilization	MINAG / Lands and Forests	% of processes channelled and registered in 90 days [MINAG]	90%	95%	99%	Output	35
Roads	<i>Improve transitivity</i> (par. 570)	Rehabilitation and maintenance of the network of national roads	MOPH	% of roads in good and reasonable conditions [ANE Report]	76%	77%	78%	Outcome	36

Pillar / Area	Objective	Achievements (Actions)	Responsibility of:	Indicator [Verification Source]	Target 2007	Indicative target 2008	Indicative target 2009	Type of indicator (Outcome/ Output)	No of Ind
CROSS-CUTTING ISSUES									
HIV	<i>Prevent the transmission of HIV</i> (pars. 193 and 449)	Distribution of condoms, implementation of CNCS's national communication strategy and the expansion of vertical transmission prevention services	CNCS / MISAU	% (and number) of HIV positive pregnant women who have been receiving complete prophylaxis treatment in the last 12 months so as to reduce the risk of vertical transmission from mother to baby [MISAU]	13% (22500)	17% (30400)	22% (42000)	Output	37
Gender	<i>Promote gender equality and strengthen woman's empowerment</i> (pars. 192 and 193)	Inclusion of gender issues identified in the PARPA in the PES/OE and BdPES	Identified Ministries (in coordination with MMAS and MPD)	PES/OE and BdPES whereby the actions, budgets and progress in gender are reflected [Sector BdPES/OE and a conjunct MMAS evaluation]	MMAS, MISAU, MEC, MINAG, MINT, MOPH, MPD.	MMAS, MISAU, MEC, MINAG, MINT, MOPH, MPD.	MMAS, MISAU, MEC, MINAG, MINT, MOPH, MPD., MJ and MAE	Output	38
Rural Development	<i>Increase the competitiveness and the accumulation of the rural economy</i> (par. 237)	Coordination of the implementation process of the Local Economic Development Agencies	MPD - DNPDR	Cumulative number of operational Local Financial and Economic Development Agencies [DNPDR monitoring reports]	8	10	10	Output	39
Environment	<i>Improve spatial planning</i> (par. 205)	Elaboration and approval of district plans on the use of land	MICOA / MPD	Cumulative number of District Development Strategy Plans (PEDD) with an elaborated and approved integrated spatial component (use of land) [Sector BdPES]	26	33	40	Output	40

Note: *Does not include financial operations when calculating the aims. The calculation of these percentage aims was obtained by adding the investment expenditure to the operation of each territorial unit, confronted with the total expenditure.

** Depends on the approval of the law

II.6.1 Focal Sector 1 –Transport infrastructure and regional integration (SP)

	Reasons for Action	Objectively Verifiable Indicators	Means of Verification	Assumptions
Overall Objectives Impact	To contribute to poverty reduction by increasing access of the poor rural population to jobs, health and education while promoting socio-economic growth by providing support for the private sector, increased trade and regional integration	<ul style="list-style-type: none"> • GDP per capita • MDGs 	<ul style="list-style-type: none"> • Public statistics (INE) • Socio-economic surveys (PARPA II) 	
Purpose of Programme Outcomes	<p>To enhance the road infrastructure capacity of Mozambique by implementing a comprehensive sector-wide approach (SWAP) developed together with other donors, aiming to increase access to the road network by the poor rural population and to secure sustainable maintenance capacity on the part of the institutions responsible (rural access and maintenance component)</p> <p>To enhance the capacity for regional integration of Mozambique with neighbouring countries, by supporting rehabilitation of strategic regional connections and other vital infrastructure, such as the corridor between Beira and Machipanda and the Milange–Mocuba road (regional integration component)</p>	<ul style="list-style-type: none"> • Economic growth rate • New businesses established • Increase in number of jobs in both the formal and informal sectors • Road density in the rural areas • Reduction in maintenance and rehabilitation costs per km • Institutional reforms (ANE and Road Fund) implemented • Annual increase with the SADC region in: <ul style="list-style-type: none"> - trade in goods and services - foreign direct investment - new businesses established • Reduction in transport costs within/through Mozambique 	<ul style="list-style-type: none"> • Public statistics (INE) • Reports by independent sources and other donors/lenders involved in SWAP • ANE statistics • ANE statistics • Road Policy Act and related administrative orders • Public statistics (INE SADC) • Reports by independent sources and other donors • SADC statistics 	<ul style="list-style-type: none"> • The country context is appropriate for general and sector budget support • The ANE and Road Fund have the necessary technical and implementation capacity • Political commitment to regional integration
Results	<u>Rural access and maintenance</u>			

<p>Output</p>	<ul style="list-style-type: none"> • Higher percentage of rural population within 2.0 kilometres of an all-season road • Higher percentage of roads classified as in good and fair condition • Higher volume of routine and periodic maintenance programmes implemented • Road safety • Axle load control • Institutional reform and decentralisation of management of the Road Fund and of the ANE efficiently implemented <p><u>Regional integration component</u></p>	<ul style="list-style-type: none"> • % of population satisfying the requirement • % of classified as satisfying the standards • Km of road maintenance carried out • Reduction in maintenance costs/km • Reduction/stabilisation of number of road fatalities • Regulatory framework in place and applied • Approval of SWAP in the road sector • Ministry of Finance budget allocation to the sector (increased) • Km of regional corridors rehabilitated <p>Increase in volume of freight traffic</p>	<ul style="list-style-type: none"> • ANE statistics • Road Fund • ANE Statistics • Road Fund • ANE Statistics • Road Fund • Law enforcement agencies • Legal Acts and administrative orders • PRISE approved by MOPH • Ministry of Finance 	<ul style="list-style-type: none"> • Data and statistics are regularly collected and updated • Law enforcement capacity • Road Fund income and supplementary budget funds available to implement the programme • ANE and Road Fund have technical and financial implementation capacity
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	<ul style="list-style-type: none"> • Increase in kilometres of transit transport corridors and other vital infrastructure rehabilitated in relation to the plan • Increased access to Mozambican ports for neighbouring countries • Competitive transport costs for transit via Mozambique • Increased revenue for Mozambique 	<p>to/from neighbouring countries</p> <ul style="list-style-type: none"> • Freight costs • Increase in transport/GDP • Transport/communication export revenue as share of GDP 	<ul style="list-style-type: none"> • Ministry of Public Works, ANE, Road Fund • Customs – Port Authorities/Ministry of Transport • Public/private transport operators • Ministry of Commerce 	<ul style="list-style-type: none"> • Political commitment to regional integration
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II.6.2 Focal sector 2 – Regional integration, agriculture and rural development

	Reasons for Action	Objectively Verifiable Indicators	Means of Verification	Assumptions
Overall Objective Impact	To create economic growth based on agricultural development and to decrease the levels of poverty in rural areas	PARPA II indicators on poverty (in particular rural poverty) Increase in agriculture's contribution to GDP Decrease in malnutrition rates	PARPA II monitoring and evaluation reports Official data published by GoM (MINAG, INE, MPF, MIC, BM) Ministry of Health	Permanent dialogue with Government on key policy issues Macroeconomic performance Climate conditions remain favourable to agricultural production Continued commitment by the GoM to the reform process
Purpose of Programme Outcomes	To improve the performance of the agriculture and livestock sector, income generation and job creation in the agriculture/agro-processing sectors	Increase in productivity for major food crops (maize, rice, cassava, sorghum, beans and sweet potato) and key cash crops (cashew nuts, cotton, tobacco, sugar and tea) Increase in value of crop market exports Growth rate in rural income	Official data published by MINAG and by MIC (statistics on agriculture and trade)	Government commitment to effective implementation of the Agricultural Strategy, the Agricultural Marketing Strategy and the Rural Development Strategy

Results	MINAG's performance on research and development and extension to farmers is improved	% of assisted farmers who adopt at least one new/improved technology	Relevant MINAG reports (e.g. TIA, <i>Trabalho Inquerito Agrícola</i>)	PROAGRI II is fully implemented
	Outputs	MINAG (or agriculture-related) institutions at provincial and district levels are fully operational as a result of the decentralisation process	Relevant indicators and means of verification to be identified in collaboration with MINAG	Human resources reform implemented in MINAG
	MINAG's planning and information system is improved	Budget execution shows public expenditure at central and provincial levels consistent with the plans and decentralisation process	MINAG and BER	Continued GoM commitment to civil service and public finance management reforms, with emphasis on structuring and strengthening human resources
	Public/private investment for infrastructure development related to agriculture increase	Area of new land put under irrigation with public funds and managed by beneficiary farmers	MINAG's and other line ministries' annual report	Decentralisation process becomes effective
		Number of district plans produced and implemented which involve infrastructure and projects related to agricultural development		
	Availability of inputs and production assets to farmers is increased as a result of improved access to and integration of markets	Number of small/medium-sized farmers using inputs for agriculture and livestock farming	Relevant MINAG reports	Enabling environment for the private sector as service/input provider
	Availability of financial services to small/medium-sized farmers and producers' associations is increased	Relevant indicators and means of verification to be identified in collaboration with MINAG		Pro-active role of government in rural finance
	Promotion of sustainable use of natural resources	Percentage of farmers with formal land use title Increase in financial and human resources for natural resources management and monitoring	Relevant reports by MINAG and other GoM institutions	Pro-active role of MINAG, MINFISH and other Ministries in enforcing natural resources laws
	Enhanced capacity of private sector/producers' associations to integrate trade-related matters	Number of farmers who are active members of producers' associations	Relevant MINAG reports	Continued commitment by the GoM to facilitate private-sector growth and create a more transparent market

	Integration of Mozambique into the SADC region by increasing trade flows (in agricultural and agro-processed products)	Increase in agricultural trade flows between Mozambique and SADC countries	INE/MIC	environment for trading in basic goods and agricultural commodities
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II.6.3 Non-focal sector 3 – Health

	Reasons for Action	Objectively Verifiable Indicators	Means of Verification	Assumptions
Overall Objective Impact	To improve the state of health of the population by means of equitable expansion of quality health services	<ul style="list-style-type: none"> ▪ Infant mortality rate ▪ Maternal mortality rate 	PAF joint reviews PARPA monitoring system	GoM remains committed to investing in the health of the population
Purpose of Programme Outcome	To support the Ministry of Health efficiently, both financially and technically, to implement its Health Sector Strategic Plan (PESS) in line with the National Health Policy and thus contribute to achieving the overall objective	<ul style="list-style-type: none"> ▪ Outpatient consultations per capita ▪ Number of women who receive complete PMTCT service ▪ Institutional delivery rate 	PARPA II health matrix	The country context remains appropriate for general and sector budget support

<p>Results Output</p>	<ul style="list-style-type: none"> ▪ Strengthened implementation capacity across the sector at all levels, with emphasis on building a strong qualified health sector workforce in tandem with the regional PALOP HR programme ▪ Stronger information systems for health, with emphasis on creating a simple and effective monitoring system that can feed into improved decision-making ▪ Improved financial management and accounting leading to better implementation rates <ul style="list-style-type: none"> ▪ Improved maintenance of health facilities and equipment across the sector ▪ Expansion of a comprehensive and balanced HIV/AIDS programme, firmly nested in the sector-wide approach to health system development ▪ Expansion of effective and appropriate programmes for TB and malaria ▪ Expansion of sexual and reproductive health services 	<ul style="list-style-type: none"> ▪ Percentage of health facilities up to the level of rural hospital that have staff qualified in accordance with nationally agreed regulations and standards ▪ Number of M&E technicians (a) trained and (b) posted ▪ Health Sector Strategic Plan: financial execution rate ▪ Number of Provinces that have: (a) maintenance units and (b) funded maintenance plans ▪ Number of people with TB by sex who received VCT services/total number of people with TB ▪ Percentage of the population exposed to residual indoor spraying ▪ Percentage of population with easy access to a health facility (within 30 minutes of their home) 	<p>PARPA II health matrix</p> <p>PARPA II health matrix</p> <p>BER; joint review</p> <p>Annual sector evaluation</p> <p>PAF joint review</p> <p>PESS</p> <p>PARPA II health matrix</p> <p>PAF joint review</p>	<p>Willingness to build further implementing capacity and to decentralise management</p>
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HIV/AIDS:	Reasons for Action	Objectively Verifiable Indicators	Means of Verification	Assumptions
Overall Objective	To reduce the burden of HIV/AIDS on the Mozambican population	Impact HIV prevalence	Report on epidemiological surveillance of HIV/AIDS (NIS)	Continued political will to invest in prevention of HIV/AIDS and impact mitigation EC will be able to support common funds under the 10th EDF
Purpose of Programme	To support the National AIDS Council (CNCS) effectively with coordination of HIV/AIDS activities across all sectors and with leading implementation of the National HIV/AIDS Strategic Plan (PEN II)	Outcome Execution rate Composite index of the national response Percentage of population between 15 and 49 years of age who express acceptance of PLWHA	Budget execution report (Balço do PES) Annual CNCS joint review (PEN indicators)	Effective financial management system in place by 2008, including recruitment of an operational Grant Management Agency
Results	<p>PREVENTION: Programmes that reach youth both in and out of school</p> <p>Increased support for people living with HIV and AIDS in treatment response in order to ensure that treatment is linked to prevention and support</p> <p>Improved integration of HIV/AIDS programmes into society and the workplace</p> <p>IMPACT MITIGATION: A greater sense of urgency and investment in initiatives that reach vulnerable children and their carers</p> <p>Reduction in discrimination and stigma against PLWHA</p>	<p>Output</p> <ul style="list-style-type: none"> ▪ Number of youth- and adolescent-friendly service centres (SAAJ) that have voluntary counselling and testing (VCT) facilities ▪ Number of PLWHAs who receive HBC ▪ Percentage of civil society organisations and public and private-sector institutions trained in management of programmes directed at HIV/AIDS ▪ Percentage of orphans and vulnerable children with access to at least three basic services during the last two months 	<p>PARPA II health sector matrix</p> <p>PARPA II health sector matrix</p>	<p>National and international recognition that prevention is still the most important component of HIV/AIDS programmes</p> <p>GoM and partners feel a strong social obligation to improve the lives of those affected and infected by HIV/AIDS</p>

II.7 Indicative timetable of commitments and disbursements

II.7.1 Indicative timetable of global commitments

	Indicative allocation 622 M€	2008		2009		2010→	
		1	2	1	2	1	2
FOCAL SECTOR 1 – Transport infrastructure and regional integration	21%						
- Sector-wide approach in the transport sector	40-60%				X		
- Investment projects	40-60%		X		X		X
FOCAL SECTOR 2 – Agriculture, rural development and regional integration	12-15%						
- Budget support for agriculture and rural development	85-90%				X		
- Support for producers' associations and commercial farmers	10-15%				X		
NON-FOCAL SECTORS	17%						
- Health and HIV	8%		X				
- Support for governance	Tbd				X		
- Technical cooperation facility and institutional support	Tbd				X		
- Support for EPA/regional integration	Tbd		X				
- PALOP countries plus Timor-Leste multi-country activities	3%				X		
BUDGET SUPPORT	46-50%		X				
Total Commitments:	622 M€						
Total Cumulative Commitments:	622 M€						

II.7.2 Indicative timetable of disbursements

	Indicative allocation	2008		2009		2010→	
		1	2	1	2	1	2
FOCAL SECTOR 1 – Transport infrastructure and regional integration	21%						
- Comprehensive sector-wide approach in the transport sector	40-60%					X	
- Investment projects	40-60%			X		X	X
FOCAL SECTOR 2 – Agriculture, rural development and regional integration	12-15%						
- Budget support for agriculture and rural development	85-90%					X	
- Support for producers' associations and commercial farmers	10-15%						X
NON-FOCAL SECTORS	17%						
- Health and HIV	8%			X		X	
- Support for governance	Tbd					X	
- Technical cooperation facility and institutional support	Tbd					X	X
- Support for EPA/regional integration	Tbd			X			
- PALOP countries plus Timor-Leste multi-country activities	3%				X		
BUDGET SUPPORT	46-50%			X		X	
Total Disbursements:	M€						
Total Cumulative Disbursements:	622 M€						

II.8 Schedule of activities

FOCAL SECTOR 1: Transport infrastructure and regional integration	Indicative allocation	2008				2009				-> 2010		
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
- Sector-wide programme in the transport sector	40- 60%					IF	AF		FD	X	X	X
- Investment projects	40-60%	IF	AF		FD	IF	AF		FD	X	X	□
FOCAL SECTOR 2: Regional integration, agriculture and rural development		2008				2009				-> 2010		
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
- Budget support for agriculture and rural development	85-90%		FS			IF	AF		FD	X	X	X
- Support for producers' associations and commercial farmers	10-15%									IF	AF	
NON-FOCAL SECTORS:		2008				2009				-> 2010		
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
- Health and HIV		IF	AF		FD	X	X	X	X	X	X	X
- Support for governance						IF	AF		FD	X	X	X
- Technical cooperation facility and institutional support						IF	AF		FD	X	X	X
- Support for EPA										IF	AF	
- PALOP countries plus Timor-Leste activities							IF	AF	FD	X	X	X
BUDGET SUPPORT		IF	AF		FD	X	X	X	X	X	X	X
<i>AAP Financing Decision</i>					X				X			

FS: Feasibility study

IF: Identification fiche

AF: Action fiche

FD: Financing decision (AAP Financing decision, except for PALOP: ad hoc Financing decision)

MOZAMBIQUE
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ANNEX 1a - KEY MACROECONOMIC INDICATORS

Indicator	2002	2003	2004	2005	2006	2007 ²
BASIC DATA						
1. Population (million inhabitants)	n.a.	18.569.000	18.972.396	19.420.036	19.888.701	n.a.
1.a Annual change in %	n.a.	2.2	2.2	2.3	2.4	n.a.
2.a. Nominal GDP in million €	3.570	3.670	4.500	4.540	5.576	6.444
2.b GDP per capita (in €)	198	222	235	292	285	306
2.c Annual change of nominal GDP (in %)	n.a.	20.6	17.2	14	17.6	15.7
3. Real GDP annual change (in %)	8.2	7.9	7.5	7.7	7.9	7.0
4. Gross fixed capital formation as % of GDP (1)	25.0	25.9	22.6	20.4	24.9	25.1
INTERNATIONAL TRANSACTIONS						
5. Exports of good and services as % of GDP	13.0	15.8	28.0	25.9	25.6	25.6
of which the most important in % of GDP	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
6. Trade balance as % of GDP	1.8	8.0	13.7	12.7	12.5	10.3
7. Current account deficit in % of GDP (after grants)	n.a.	n.a.	5.2	8.8	7.9	8.8
8. Net inflows of foreign direct investment in % of GDP	n.a.	-7.1	-4.1	-2.3	-3 ²	-4.4
9. External debt as % of GDP	n.a.	112.2	95.9	91.3	41.3	43.6
10. External debt service as % of exports of goods and non-factors services	6.9	3.8	4.4	1.6	1.5	1.8
11. Foreign exchange reserves in months of imports of goods and non-factors services	5.1	5.5	5.8	4.6	4.4	4.2
GOVERNMENT						
12. Government revenues as % of GDP	13.3	12.8	12.6	13.8	14.5	15.3
of which:						
12.1 Grants in % of GDP	11.7	9.5	7.5	6.5	11.1	8.8
13. Government expenditures as % GDP	n.a.	25.39	24.4	22.6	27.8	28.3
of which:						
13.1 Capital expenditures in % GDP			9.4	8.4	11.9	12.2
14.1 Deficit as % of GDP Excluding grants	-20.1	-12.59	-12	-8.9	-13.4	-13.4
14.2 Including grants	-9.3	-3.6	-4.5	-2.3	-2.4	-4.6
15. Debt as % of GDP	24.8	25.2	25.2	19.7	21.0	20.9
OTHER						
16. Consumer Price Inflation (Annual average change in %)	9.1	13.8	12.6	6.4	9.5	8
17. Interest rate (for money, annual rate in %)	34.6	30.2	26.2			n.a.
18. Exchange rate (annual average of national currency per 1 €)	23.005	27.690	26.920	31.537	32.585	n.a.
19. Unemployment (in % of labour force, ILO definition)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
20. Employment in agriculture (% of total employment)	n.a.	n.a.	85.6	n.a.	n.a.	n.a.

(1) The figure corresponds to Gross Domestic Investments as defined in IMF PRGF Reviews (2006).

(2) Estimation

Sources: IMF PRGF 1st, 2nd 3rd and 4th Review reports, INE (Anuário Estatístico 2004), Banco de Moçambique (www.bancomoc.mz) and Infoeuro (<http://ec.europa.eu/budget/infoeuro/index.cfm>).

ANNEX 1b – TABLE ON MILLENNIUM DEVELOPMENT GOALS

Type	Indicator	1990	1997	2000	2003	2004	2005	2006 target	2007 target	2008/9 target	2015 target	
Impact	1. Proportion of population below \$1 per day (%)	38 ^u	69.4*		54.1*					45	44	
	2. Prevalence of underweight children (under-five years of age) (%)		26*	12,2 ^m	23.7*					18	17	
	3. Under-five mortality rate (per 1,000)	235*	219*	200 ^m	178*	152 ^m					140	108
Outcome	4. Net enrolment rate in primary education (%)		44*	54.7 ^m	69.4*	75.6 ^m	83.4 ^m	85	88	93	100	
	5. Primary Completion Rate (%)		22*	39.0 ^m	38.7*	28.9 ^m	33.7 ^m	40	47	59	100	
	6. Ratio of girls to boys in: - primary education (PE1) - secondary education		0.71*	0.76 ^m 0.65 ^m	0.83 ^m 0.67 ^m	0.85 ^m 0.69 ^m	0.86 0.70	0.93	0.95	0.96	1.00	
	7. Proportion of births attended by skilled health personnel (%)		44.2*	40.3 ^m	47.7*	46.9 ^m	49 ^m	51	52	53/56		
	8. Proportion of 1 year old children immunized against measles (%)		57.5*	97.1 ^m	76.7*	77 ^u	98 ^m	98	98	95	95	
	9. HIV prevalence among 15-24 y/o pregnant women (%)			12.5 ^m	13.3 ^m (2002)	16.2 ^m	22.0 (20-24)				10.4 (20-24)	
	10. Proportion (%) of population with sustainable access to an improved water source			37.1*		35.7*	39.8 ^m	39.0 ^m	41.5	43	53	70
Impact	Maternal Mortality Ratio (per 100,000)	1000*			408*					340	250	

* National Surveys

^u = UN data^m = Official line ministry data

ANNEX 2a – DONORS INTERVENTIONS

1. EU Matrix PARPA I 2005/6 (in annex)

In the context of the key areas of the PARPA, the general tendency has been for donors to specialize gradually in a small number of priority concentration sectors.

As per 2005 data¹, and regarding the focal areas of the CSP, the EC/EDF was among the top 3 donors in Macroeconomics support (18 major donors in the matrix)², where it provides 22% of the total aid. In the Agriculture and rural development sector (16 major donors), the EC contribution represented around 29% of the total. As to Transport infrastructure (5 major donors), it accounted for approximately 39% of the total.

In what concerns the non focal areas in the CSP, in Health (18 major donors), the EC/EDF was the second top donor and accounts for 11% of the total; in good governance, legality and justice, there were 11 major donors and the EC/EDF also has a share of circa 11% of the total. In Education, the EC accounted for 11% of the total, in an universe of 13 major donors. For Water and sanitation, it accounted for approximately 15% of the total of the sector among 6 major donors.

In what regards the forecast for 2006, involvement in the macroeconomic policies stayed high EC/EDF (20%), and an increase was noted in the other focal sectors to c.33% and 56% respectively in agriculture and transport infrastructures. The EC/EDF accounted for 7% of the total in Good governance legality and justice and 13% in Health. As to Education, it reduced its disbursements to close to 0, presuming a draw back from specific direct interventions in this sector. It is noteworthy that in Water and sanitation the EC accounted in 2006 according to these figures to 65% of the total among 3 major donors.

It is also important to make a qualitative assessment of the involvement of EC (and EU MS) in cooperation activities. The strong involvement and leadership by the EC in 2005 -2006 in the working groups (agriculture, roads, justice, public finance management, etc) has also contributed to an improved policy dialogue at general level and increased leverage of the EC in the sectoral dialogue.

2. CS 14 process

The group of the 14 cooperation agencies in programming mode during 2006 (CS-14)³ was set up in late 2005 under a rather informal format with the objective to increase coordination among donors and the Government and to explore the way forward for a possible joint programming exercise. It has counted with the leading participation, among others, of the local offices of the World Bank, DFID, the Swedish cooperation and the European Commission.

¹ Donor matrix prepared by the Delegation as an annex to the JAR 2005, annual average grant disbursement in 2005.

² Donors classified as “major” account for more than €1 M in the sector. The self assessment of focus sectors made by donors differs with degree of concentration and donor size.

³ EC, Austria, AfDB, Belgium, UN, Denmark, Finland, Germany, Ireland, Portugal, Spain, Sweden, Switzerland, UK, UN, WB.

The Netherlands and Norway also replied to the first questionnaire in the context of the CS14 process.

The CS-14 group proposed to proceed in two steps. In the first step, information was shared among partners and a common needs-analysis of the country was to be made. The Delegation participated in this 1st step and provided the following analytical components: (i) PARPA I assessment (February 2006); (ii) Assessment of the public finance management situation (March 2006); (iii) Country environmental profile (May 2006); (iv) Country migration profile (June 2006); and, most importantly, (v) donor data base, (ODAmoz) matrix and statistical mapping (regular updates during 2005 and 2006). In a second step, it was foreseen to identify jointly common elements of the response strategy.

In view of the conclusions of the EU Council of 11 April 2006 on aid effectiveness and common framework for strategy papers, the Delegation proposed to EU MS to draft the joint analysis of the country situation and an initial analysis of the current complementarity and general lessons learnt from past cooperation and submit it to the consideration and approval of the EU Member States locally represented. A short statistical analysis of resources allocated, financing methods, calendars for implementation, etc., could finally be added to allow for an at-a-glance view of the collective situation. However, the majority position of EU Member States locally represented in Maputo was that in a context of low Government capacity for the management of such a complex process and no alignment process at donor level in terms of programming cycles, it was not cost-effective to launch full joint programming in the case of Mozambique.

Against this background was the Pequenos Libombos Retreat organized by the Government in June 2006, under the coordination of the Minister of Foreign Affairs and Cooperation and financed with EDF funds (9th EDF institutional support to the NAO project) and DFID in order to structure the process and in particular to provide the following outcomes:

- A common understanding of the key issues needed to develop a framework for increased aid effectiveness with respect to the aid process (portfolio composition and modalities, predictability, mechanism and areas of coordination, harmonization and alignment) and the achievement of social and economic development priorities and goals of the GoM;
- An initial mapping of the new donor country strategies, their complementarity, proposed modalities, and relation with GoM priorities;
- A road map to developing a framework and strategies for increased aid effectiveness.

The following conclusions were drawn:

- i) Time is not yet ripe for a Joint Assistance Strategy in Mozambique, but an incremental approach to the improvement of Aid Effectiveness was welcome at the retreat;
- ii) It was stressed that more analysis should be done at general and sectoral level for the consolidation of the recently approved Medium Term Fiscal Framework. Only then will it be possible to confirm the sectors that seem to be underfinanced (water, justice, private sector development, rural economic growth, and environment) and the extent of these gaps. This will imply better intersectoral coordination within the Government and will reinforce GoM's ownership and leadership of the process;
- iii) The role of the UN, currently chairing the Paris Declaration working group, and how to continuously include other non PAP (Programme Aid Partners) donors in local initiatives remains a challenge in Mozambique.
- iv) In a longer term, aid strategies may be included in the PAP Performance Assessment matrix (as to what extent they respect the spirit of Paris);

- v) The new country strategies should be revised on the basis of a specific questionnaire by a small group composed of representatives from Government and donors (peer review mechanism). The review should clarify the strategies, how they relate to main commitments adopted by donors (such as the Paris Declaration and the Programme Aid Partners Memorandum of Understanding), address information gaps, identify and explore synergies and complementarities (division of labour) between agencies and influence the content and direction of the strategies in order to improve harmonization and alignment.

3. EC Hearing and recommendations of the Review Committee

A presentation of the draft CSP was made by the Delegation to the Review Committee on the 18th October 2006. The main issues and recommendations were the following:

- i) Duration of CSP: flexibility should be ensured taking into account the CSP will last 6 years to ensure the linkage with the next PARPA and 5 year programme after 2009. It was also explained by the representative of the EC that operational reviews, Mid Term and End-of-Term Reviews are also an instrument to ensure flexibility and alignment. It was explained that the Governance commitments are also subject to annual revisions;

ii) Sectors:

- The EC was advised to stay in the justice sector in the next programming period where there are not many donors and progress is mitigated;
- It was well understood by the Committee that given the number of donors in Education and results achieved so far this is an exit sector for the next CSP. The representative of the EC explained that education indicators will continue to be a part of policy dialogue in the general budget support programme;
- It was recommended that the EC should continue its commitment with the trade/private sector given the weak capacity of the Government and limited number of donors - namely through support to the Integrated Framework. The representative of the EC explained support to trade is foreseen in the context of the regional funds to support the EPAs and is provided for in the PIN in a complementary way.
- It was confirmed by the EC that Health will be a non focal sector absorbing 10% of the total of these funds, in principle through sectoral budget support, which was welcomed by the Committee.

iii) Aid Modalities:

- The Committee believes that the EC has been very active in the discussion of criteria for the granting of sectoral aid; this policy analysis, namely in what regards public financial management and donor harmonization should be taken further.
- It will be of the utmost importance to ensure complementarity with global and regional funds as financing sources for EC activities in Mozambique are quite diversified;
- The issue of “risk” as a component of direct budget support was discussed, as disbursements are dependent upon positive performance assessment.

iv) Amounts:

- It was explained that the agreed percentages for the different sectors will be kept, after the amount of the incentive tranche is disclosed, in line with the governance commitments to be presented by the Government.
- It was confirmed that the EC intends to scale up aid to Mozambique.

- iv) The EC was requested to convey preliminary data as to Paris targets in Mozambique.

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Country Donor Matrix for Mozambique 2005

17.04.2006

Annual Average Grant Disbursements by Donor and Sector (2005; in milion Euro averaged to one decimal)

Declared Level of Focus	National Development Strategy - Key Areas of the PARPA I															
	1. Macroeconomic, Financial and Trade Policies		2. Good Governance, Legality & Justice		3. Human Development				4. Productive Sector							
	Macroecon. (incl. Budget Support)				Education		Health		Agriculture & Rural Dev.		Transport Infrastructure		Energy		Water and Sanitation	
High Focus	UK	48.3	Sweden	6.0	Canada	13.7	USA	36.4	EC	23.1	EC	21.8	Denmark	9.2	Netherlands	4.6
	EC	46.7	Norway	5.3	Netherlands	12.8	Norway	15.0	USA	15.3	Sweden	20.4	Norway	6.6	Switzerland	1.6
	Sweden	21.6	Denmark	4.6	Denmark	9.7	UK	13.2	Japan	4.8	USA	1.5			UK	1.4
	Norway	16.2	Austria	1.3	Germany	5.5	World Bank	11.0	Denmark	4.1	UK	0.8			Canada	1.3
	Netherlands	16.0	Switzerland	1.3	Ireland	5.1	Italy	7.7	Finland	3.6					Italy	1.2
	Denmark	10.9	USA	1.3	Finland	4.5	Ireland	6.7	Germany	3.6					Austria	0.5
	USA	7.4	Netherlands	1.1	UK	3.2	Canada	5.4	Italy	3.5					France	0.3
	World Bank	7.3	Germany	1.1	Sweden	2.9	Finland	5.3	Netherlands	2.3						
	Switzerland	6.5	Spain	0.8	Japan	2.7	Spain	5.1	Norway	2.2						
	Ireland	6.3	UK	0.5	Spain	2.2	France	4.7	Spain	2.1						
	Germany	4.7	Portugal	0.5	Italy	1.3	Netherlands	4.0	Switzerland	1.9						
	Finland	4.4	France	0.3	France	1.2	Switzerland	3.0	Belgium	1.6						
	Italy	3.3			Portugal	0.6	Japan	2.8	Austria	0.9						
	France	3.3			Austria	0.1	Belgium	2.4	UK	0.2						
	Spain	3.0			Belgium	0.1	Portugal	0.2	Portugal	0.0						
Belgium	3.0															
Portugal	1.2															
Medium Focus			EC	3.9			EC	15.9	Ireland	2.1	Germany	8.1	Sweden	5.0	EC	2.0
			Italy	3.3			Sweden	2.3	Sweden	1.6	Ireland	1.5	Germany	1.4	Portugal	0.0
			Ireland	3.1			Denmark	2.3			Norway	0.7	Netherlands	0.4		
			Finland	0.8			Germany	1.2								
Less Focus							Austria	0.1								
	Canada	2.2	Canada	0.4	EC	8.4			Canada	5.9	France	0.4			Ireland	0.5
									France	1.9	Portugal	0.0			Spain	0.1
								UK	0.2	Japan	0.2					
TOTAL		212.3		35.6		74.0		144.7		80.9		55.5		22.7		13.6

Source: EU+ DbIS Extract of Published Projects on 27.02.06. PARPA I Priority Sectors based on own Interpretation of DAC Sectors and Project Titles.

Total Disbursements of all Projects 2005 in DbIS (incl. Projects not allocated to PARPA I Sectors)

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EC	122,490,699	Euro		WB	18,360,000	Euro	Just Grant part, (US \$ to € Exchange Rate 1,26)
UK	67,543,238	Euro		Switzerland	15,593,165	Euro	Exchange Rate (CHfr to € =1,55 average in 2005)
USA	62,841,214	Euro	USA Embassy Data still missing, (US \$ to € Exchange Rate 1,26)	Spain	13,473,287	Euro	
Sweden	60,319,986	Euro		France	12,750,725	Euro	
Norway	47,422,565	Euro	Exchange Rate (Nkr to € = 8,04 average in 2005)	Japan	10,508,914	Euro	Exchange Rate (JYE to € = 136,87 average in 2005)
Netherlands	41,707,950	Euro		Belgium	7,155,940	Euro	
Denmark	40,866,388	Euro		Austria	3,445,539	Euro	
Canada	28,838,029	Euro	Exchange Rate (Can \$ to € = 1,54 average in 2005)	Portugal	3,321,067	Euro	
Ireland	27,985,709	Euro					
Germany	25,633,879	Euro					
Italy	19,032,745	Euro					
Finland	18,711,419	Euro					
				Totals	648,002,458	Euro	

Published Data from AfDB still pending

ANNEX 2b – PAST EC COOPERATION: OTHER INSTRUMENTS

Regional Cooperation:

Transport Infrastructure:

The 7 EDF-funded rehabilitation works of the Beira to Inchope road (€20m) were completed with final acceptance in 2001. The road suffered in 2001/2002 flooding of the low lying stretches due to the exceptional rainy season. The cost of repairing the damaged areas is estimated at €5m and an additional EDF intervention was deemed necessary. The uncommitted funds under the regional project adding up to €5.3m are being mobilised in 2006 to that effect. The Regional Indicative Programme for SADC in the 9 EDF provides an indicative amount of €15m earmarked for the rehabilitation of the Milange-Mocuba road in Mozambique, while the National Programme has allocated fund for design/supervision (€1.5m) and works (€13.5m). A pre-feasibility study, financed under the Technical Cooperation Facility, was carried out in March 2005, which gave the necessary inputs and a more precise cost estimate for the preparation of the draft Financing Proposal for the design phase in 2006. The works Financing Proposal is scheduled for later in 2007.

SADC Regional Fisheries Project - Monitoring, Control & Surveillance:

This 5-year SADC regional project, with an overall budget of €14.5m involving five SADC countries (Angola, Mozambique, Namibia, South Africa and Tanzania) has come to an end by end of March 2006. The 8 EDF national contribution for the Mozambique programme coordination was €2.28m. The project provided strengthening of the national institutional capacity for efficient fisheries monitoring, control and surveillance. The main outcomes achieved were training of inspectors, joint bi-national patrolling missions (with South African vessels), and the design of legal & administrative rules for inspection.

PALOP:

The €30m regional programme PALOP II was signed in 1997 to help the five countries concerned to make best use of their respective assets and their common economic, social and cultural resources with a view to contributing to their modernization and development. The three main focal areas of cooperation are institutional development together with central and local public administration, employment and training, and culture. The three non focal areas are statistics, educational system, tourism and environment. The programme has registered significant delays in implementation. An EC-PALOP meeting was held in Brussels in January 2006, where it was decided to make the Mozambique NAO the PALOP Permanent Regional Authorising Officer, assisted by a unit within his services financed by the means of a Programme Estimate. A Steering Committee conformed by the five NAO will meet annually and review progress. A chef de file was agreed for each of the seven projects. The three ongoing projects (Statistics, Justice, Public Administration) proved to be relevant and running at good speed, and Statistics and Justice will have a second phase. Future regional projects on Health, Employment, Cultural Initiatives, Macroeconomic Institute and a second Technical Cooperation Facility (coordination structure) will be prepared in the course of 2006 and early 2007. The success of this exercise will determine the assessment of the PALOP programme at the end of 2006 and the programming for the 10 EDF.

Thematic Budget Lines:

During the five year period 2002-2006, the total envelope for the budget lines Co-financing, Anti-personnel Mines, Environment and Health totalled €30m. The results have been generally favourable in terms of relevance, efficiency and effectiveness. The complementarity with the country programme is particularly evident in the health sector and rural development, both in terms of service providers in line with government policy and for activities that remain the domain of civil society. Local capacity building is the dominant theme, to strengthen local actors to play a more prominent role in development. However, the long term sustainable impact is not always evident.

European Initiative for Democracy and Human Rights:

Mozambique is eligible to the financing of the EC budget line for the European Initiative for Democracy and Human Rights. This is one particular area where devolution has considerably improved the quality of the management of the projects, and the rapidity and adequacy of the Commission's responses to the beneficiaries' requests. Since devolution, the Delegation has managed directly some 17 contracts financed by the EC budget, for a total amount of €6.227.431 aim to protect the blind people's rights, to promote employees' rights, to divulge fundamental freedoms and enable civic education in the rural communities, to improve capacity in dealing with fundamental freedoms of activists of the civil society and professional classes working in this sector, such as lawyers, students of the Faculty of Law, judges, policemen and finally to strengthen independent media. The first results obtained from the projects selected in 2004 prove that the micro-projects programme is very relevant in the context of an emerging civil society.

The EU's Election Observation Mission for the latest general elections in December 2004 drew attention to a number of important shortcomings, which may have affected the allocation of seats in Parliament, although not the overall outcome. The mission made detailed recommendations in its final report on how to address shortcomings before the next elections, scheduled for 2007. In the same line, the Constitutional Council validated and proclaimed the final results while making several recommendations regarding the legal framework, the electoral institutions and the administration of elections. The above criticism made electoral reform unavoidable. However, the delicate process of revising the electoral legislation is proceeding slowly due to a lack of consensus between the two political parties, although the aim is to conclude this before the end of 2006.

HIV/AIDS:

The Global Fund for HIV/AIDS, Tuberculosis and Malaria, to which the EC is a major contributor, disbursed its phase I funds for the health sector in 2005, amounting to approximately US\$15.5m. A second disbursement of €16m took place in June 2006. Disbursement to the second principal recipient, the National AIDS Council, has been delayed due to problems with absorption capacity, but should take place in 2006. The Common Fund for the National AIDS Council is the preferred channel for funding HIV/AIDS related activities for many donors in Mozambique. It is intended to support mainly NGOs and CBOs in efforts to prevent HIV and mitigate the harmful social impact of AIDS. In keeping with the commitment to the "Three Ones" (one coordinating body, one plan, one monitoring and evaluation framework), this fund assists the National AIDS Council in being the national coordinating body for HIV/AIDS. However, the ability of the Common Fund to absorb funds has been extremely limited until recently, to an extent such that the Board of the National AIDS Council decided not to ask for the first instalment from the Global Fund in 2005. Over that year expenditure improved significantly and because of further improvements expected with contracting of a Grant

Management Agency in 2006, the absorption capacity will likely improve in the medium term, probably making this a viable option for 2008 support.

Water Facility:

The aim of the EU-ACP Water Facility is to contribute to the achievement of the Millennium Development Goals for drinking water and sanitation, within the context of an integrated approach to water resources management. The EC launched the first call for proposals for the Water Facility in November 2004 for a total of €230m. A total of 23 proposals were submitted from Mozambique. A total of 7 projects were eventually approved, including 3 with a regional component, with an EDF contribution of €33.5m for a total investment of €89.7m. The Maputo Water Supply Project, with a total investment of €76.2m (EDF grant of €29.8m), co-financed by the EIB is the flagship project of the Facility in Mozambique.

Energy Facility:

On the ACP-EU Council of Ministers held in June 2005, it was decided to allocate €217m from the 9 EDF to the EU-ACP Energy Facility. The funds will be allocated in a similar way as was the case for the Water Facility, that is, through an international call for proposals. This initiative aims to improve the population's access to energy services (infrastructure), the extension of these to those in need and the improvement of transborder issues connected to energy.

STABEX:

In addition to the Food Security budget line, a specific contribution from Stabex resources⁴ (€4m) will complement EC and EDF support in the field of agricultural research in four crops (cotton, cashew, manioc and Irish potato) until 2009 through sector budget support to the Ministry of Agriculture.

Sugar Reform Accompanying Measures:

The reform in the EU sugar regime implies a reduction of the price for Mozambican sugar exports to the EU under the Everything-But-Arms and Sugar Protocol quotas. As part of the Sugar Protocol countries, Mozambique has become eligible for Commission's assistance in the context of the measures accompanying the reform in the Union's sugar regime. To this end, the Mozambican Sugar Producers Association, in collaboration with the National Institute for Sugar in the Ministry of Agriculture, has submitted in April 2006 a 10-year adaptation strategy for the Mozambican sugar industry. The EC is assessing this strategy with a view to granting limited funds for its implementation. The strategy indicates the potential for increasing the competitiveness of the sector in the regional and world market. In doing so, Mozambique will be able to take full advantage of the unlimited duty-free access to the EU market, granted under Everything-But-Arms as from 2009.

All-ACP Trade-related Technical Assistance:

Financed with the all-ACP EPA Support Project, a trade specialist has reinforced the Mozambican capacity on the EPA negotiations. After a successful 6-month contract under direct technical supervision of the people tasked with conducting the EPA negotiations, continuation for an additional period of twelve months was approved. In regards to the Aid For Trade Initiative, one of the main concerns is the materialisation of the promises made by developed countries. The Integrated Framework trade initiative is expected to assist securing the financial support for this area.

EU- Mozambique Fisheries Agreement:

The Community and the Republic of Mozambique have negotiated and initialled on 21 December 2006 a Fisheries Partnership Agreement which provides Community fishermen with fishing opportunities in the Mozambique fishing zone. This Fisheries Partnership Agreement - currently under adoption procedure - accompanied by a Protocol and a technical Annex - provisionally applied since the beginning of 2007 - has been agreed for a period of five years. The main objective of the new Partnership Agreement is to strengthen cooperation thereby creating a framework of partnership to develop a sustainable fisheries policy and responsible exploitation of fisheries resources. The financial contribution, fixed at € 900 000 per year (plus ship-owners fees), shall entirely be allocated to the support and implementation of initiatives taken in the context of the fisheries policy drawn up by the Government of Mozambique. As regards fishing possibilities for EC vessels, 44 purse seine vessels and 45 surface long-liners shall be allowed to fish. The Protocol fixes a reference tonnage of 10 000 tonnes of tuna and related species per year. It is established that the EC fishing effort in Mozambique EEZ will have to be in line with appropriate tuna stock assessments based on scientific criteria.

European Investment Bank:

The European Investment Bank (EIB) has a significant historic project portfolio in Mozambique, in ACP terms, mainly in energy, mineral resources, industry, agro-industry and tourism. The total portfolio amounts to €400 M in signed loans and consists of four main types of operations: (i) loans and own resources (€125 M in signed loans), (ii) risk capital operations (€160 M of signed operations), (iii) Investment Facility (€100 M of signed operations) and (iv) special loans on EC mandate (€15 M). This substantive portfolio is considered to have reached a significant commitment to the country, and a noticeable increase of portfolio should not be expected in the short term..

The Bank is currently participating in operations co-financed under the EDF Water Facility, with a view to leverage the Bank's resources for investments in the water sector, mainly urban water supply. A similar result could be expected under the EDF Energy Facility. The new infrastructure trust fund constituted in 2005 between the EC and the EIB could finance operations in Mozambique, given its potential for facilitating continental interconnectivity and as an outlet for hinterland productions

Synergies and complementarities between the EIB and the EC will be further explored, and will be mainly driven by the EU instruments available, namely the Water facility and the Energy Facility, eventually continued within the 10th EDF, and the EU-Africa Infrastructure Partnership Trust Fund. The establishment of such a Trust Fund is intended to increase European lending volumes for cross-border infrastructure projects in Africa. However, the establishment of such a Fund will not modify the types of projects financed by the EIB in the ACP region (governed by the Cotonou Agreement), nor will it affect the Bank's internal project appraisal/lending criteria.

Centre for the Development of Enterprises:

The Centre for the Development of Enterprises provided with financial support to a total of 12 enterprises in Mozambique until the end of 2005, making a total accumulated financial contribution of €171,431. Mozambique had received by that year 19% of the projects approved by the Centre in the southern African region.

Research Framework programmes

During the FP6 Research programme (2002-2006), 12 teams from the country participated in 11 ongoing research projects. The budget for the Mozambique teams is 1.8 M€ (while the total cost of the budget for these projects is 17.9 M€).

ANNEX 3 –COUNTRY ENVIRONMENTAL PROFILE EXECUTIVE SUMMARY

STATE OF THE ENVIRONMENT

Trends in the physical and biological environments

Climate and regional setting

Mozambique is located on the south-eastern coast of Africa. It is mostly low lying (only 13% has an elevation above 1000 meters) and has an extensive coastline (2 700 km). The climate ranges from subtropical in the south to tropical in the centre and north. July (winter) temperatures average 21°C at Pemba in the north and 18°C at Maputo in the south. January (summer) temperatures average about 27°C along the coast but are lower in upland areas (21°C). Rainfall is highly seasonal (most rain falls between October and April each year) and varies regionally, being higher in the north (1 000-1 800 mm per annum) than the south (400-1 000 mm per annum). A decreasing trend in rainfall has been observed in East Africa region as a whole over the last four decades, while the occurrence of droughts has been steadily increasing. High variability in rainfall associated with tropical cyclones and the El Nino/La Nina phenomenon compound this problem, resulting in extreme floods and droughts from time to time. Further reductions in streamflow can be anticipated in Mozambique in the future associated with global climate change, with rainfall projected to decline by 5-10% and evaporation to increase by 9-13% by 2075.

Freshwater resources

Thirty-nine major rivers drain into to the Indian Ocean along the Mozambique coastline. The most important of these from south to north are the Maputo, Umbeluzi, Nkomati (in Maputo Province), the Limpopo (in Gaza Province), Save (in Inhambane Province), the Buzi, Pungoe (in Sofala Province), Zambezi, Licungo, Ligonha, Lurio (in Nampula Province), and the Messalo and Rovuma (in Cabo Delgado Province). The majority of these rivers have a torrential regime with high flows during the rainy season (January to April) and low flows for the remainder of the year. Thus, while Mozambique has abundant surface water resources (216 km³/year), much of this is available for short periods of the year only, and is concentrated in a limited number of river basin areas (e.g. the Zambezi river accounts for almost 50% of the total flow). Also of importance is the fact that 50% of the available freshwater comes as cross border flow. Abstraction by neighbouring countries, while not a major issue yet, is likely to become highly significant in the future.

Natural Vegetation and Wildlife

Savanna woodland is the main vegetation in Mozambique, comprising two major types - miombo and mopane woodlands. Miombo is the most extensive and covers much of Niassa, Cabo Delgado, Nampula, Zambezia, Sofala, Manica and Inhambane Provinces, while Mopane woodland occurs in the Limpopo-Save area and in the mid-Zambezi Valley. Other important vegetation types include Acacia woodland, dune forest, sub-littoral woodland, lowland palm savanna, vegetation on alluviums in the Zambezia Delta and the lower Limpopo and Incomati valleys, and mangroves. Natural vegetated areas in Mozambique are exploited for grazing, wildlife management, fuel and building materials. Southern Africa's savannas are generally considered extremely fragile ecosystems and are highly prone to overexploitation, as they arise from a combination of low and often unreliable rainfall patterns, generally high temperatures and fire regime, and a distinct often prolonged dry season. Cycles of drought and relatively good rainfall years encourage periods of 'boom' in which the increased carrying capacity of the savannas becomes gradually more fully

exploited, and then 'bust' during the drought years when the carrying capacity is drastically reduced.

Mozambique has rich diversity of wildlife. Diversity of large mammals is very high but few species are endemic to the country. Populations of large mammal species are severely depressed though due to uncontrolled exploitation of wildlife during the civil war (1981-1992).

Areas of Outstanding Ecosystem, Biological and/or Scenic value

A number of areas of outstanding ecosystem, biological and/or scenic value have been identified in Mozambique and are considered to warrant special attention. These include the Gorongosa Mountain - Rift Valley Complex, The Cheringoma Plateau, Zambezi Delta Grasslands and Swamps, The Great Inselberg Archipelago, The Chimanimani Massif, The Maputaland Centre of Endemism (MCE), Coastal Barrier Lakes, and the Pebane Evergreen Coastal Forests. It has been recommended that these areas be treated with particular care when considering impacts of development.

Agriculture

Agriculture is the main activity of the Mozambican population. Approximately 84% of the economically active population in Mozambique works in agriculture, which contributes about 40% of the Gross Domestic Product. Exploitation of agricultural resources is way below their potential though, with only 4.9 million ha (12%) of the estimated 36 million ha of cultivatable land area in Mozambique actually under cultivation. Most of this (90%) is devoted to food crops, of which short fallow shifting cultivation is the most common activity. The most common crop cultivated by subsistence farmers include roots and tubers (mostly cassava); cereals (mostly maize); and pulses (mostly beans), while commercial farmers focus on sugarcane, cotton, cashew nuts and tobacco. Livestock production is also very modest with a total national herd of cattle of about 1.5 million units, with goats and pigs accounting for a further 750 000 units. Growth in agriculture has been slow over the last decade, having increased by only 0.9% per year since 1997, while livestock farming is growing at a slightly faster rate (8%). There is some evidence of land degradation as a result of over-utilisation at present, but this is expected to increase dramatically in grassland areas in certain provinces in the future (e.g. Manica and Tete), especially in the event of a prolonged drought.

Forestry and forest resources

Productive forests in Mozambique occupy an area of about 20 million hectares or 20% of the national territory. Wood resources are used by commercial and artisanal logging operations and as energy source by the rural and urban populations. It is estimated that Mozambique forests have the capacity to support about 500,000 m³/year of sustainable logging, but logging operations only account for only around 127,000 m³/year at present (down 15% from a decade ago). This is partly a function of strict export policies but also a function of the low potential sustainable harvest per hectare (only 0.025 m³ per annum). Wood consumption for fuel is considerably greater than that accounted for by logging, estimated to amount to approximately 31,278,000 m³ per annum. Fuel wood consumption in Mozambique is in fact reported to be the highest in the SADC region, and is the most important source of domestic energy in the country (accounting for 85% of total household energy requirements). This is thought to be a function of poor access to other forms of energy and high levels of poverty. It is a major issue of concern from a conservation perspective

Marine and coastal environments

Mozambique has the third longest coastline in Africa, characterized by a diversity of habitats including sandy beaches, coral reefs, estuarine systems, bays, mangroves, seagrass beds, and numerous offshore islands. The coastline can broadly be split into three regions: a coral coast in the north (north of Pebane), a swamp coast in the central region (Pebane to Bazaruto Island) and a parabolic dune coast in the south (south Bazaruto Island). The continental shelf encompasses a total area of 68 300 km² and varies from very narrow to very broad, the broadest point (140 km) lying opposite the town of Beira. Tidal range is amongst the highest in Africa (up to 6.3 m). The coastline is large unspoilt and has tremendous tourism potential.

Marine fisheries

The marine fisheries sector in Mozambique is very important, providing employment for between 75 000-80 000 people while an estimated 480 000 people are economically dependent on this sector. Collectively, fisheries produce catches of 100 000 and 120 000 tonnes per year, and contribute about 30-40% of the total export earnings for the country. Three principal categories of marine fisheries are recognised in Mozambique: artisanal, semi-industrial and industrial. Industrial fisheries are focussed mostly on shallow water shrimp (the most important fishery in the country), deep-water shrimp (gamba), tuna, lobster and demersal fish, while semi-industrial fisheries focus on shrimp, fish, and a variety of invertebrates such as squid and crab. Artisanal fishers target a range of resources including fish, shrimp, crabs, and molluscs. A small recreational fishery also exists, focusing mostly of linefish in the southern part of the country.

Inland fisheries

Inland fisheries are focused on the large lakes (Niassa, Cahora Bassa, Amaramba, Chiúte, and Chilwe) and major river systems in the country (Zambeze, Limpopo and Pungue/Buzi River Basins). Lake fisheries include both a semi-industrial and artisanal fishing sectors, while the riverine fisheries include only an artisanal component. The lake fisheries have been well studied and most seem to be operating at or near their maximum sustainable limits, and yield about 25-30 000 tonnes of fish per annum. Catches have been relatively stable for the last decade at least. Much less is known about the riverine fisheries but yields for the Zambezi are estimated to be comparable to that from Lake Cahora Bassa (15 000 tonnes per annum), but are much lower for the other river systems (e.g. Limpopo: 200-650 tonnes per annum). Development of dams on the major river systems in the country pose a significant threat to productivity of the riverine fisheries.

Threats and issues in sustainable use of natural resources

Intensity of use of agricultural resources

In spite of abundance of arable land in Mozambique and the fact that over 90% of the cultivated area is under food crops, high level of food insecurity are prevalent in certain parts of the country. The primary reason for this is the inefficient use of available resources – only 12% of the available arable land is utilised at present and primary type of agriculture is shifting (slash and burn) subsistence agriculture. Proposed strategies for promoting the intensification of agriculture and hence increasing food security for the country are controversial. Expansion of large scale commercial agriculture is the most logical way to increase production but is contentious owing ill feelings to wards such enterprises which stem from the country's colonial history. Expanding the area under irrigation for both small and commercial farming could make an important contribution to agricultural growth. Irrigation potential is reported to be high especially in the central and northern parts of the country and expansion thereof is considered to be economically viable. Some effort is being applied in this respect but needs to be greatly expanded.

Impacts of mining on the environment

Mozambique has favourable geology for exploration and mining activities, but has yet to capitalize on this potential. This sector is still currently dominated by small scale and manual operations, whose contribution to the economy remains small (0.4% of GDP). This sector has been prioritised for development by the GOM and is expanding rapidly, however. Environmental impacts of mining are not a major concern at present owing to the low level of development but are likely to become more of an issue in the future as mining activity intensifies. Issues of concern relating to mining activity in Mozambique include inefficient use of mineral resources, conflict with other land uses (e.g. agriculture, tourism), land disturbance, erosion, encroachment on wilderness areas, visual impacts, pollution of water and soil resources, disturbance of wildlife, and occupational health and safety issues. Rapid development within this sector needs to be balanced against opportunity costs that may arise at a later stage within others sectors (particularly tourism).

Access to freshwater

Mozambique is not a water-poor country (surface water availability ranges between 5,560 m³ per inhabitant per year considering only the runoff generated in the country or 12,000 m³/inhabitant/year including the flows from upstream countries). However, the country faces a number of difficult challenges in supplying adequate freshwater for irrigation, and domestic and industrial uses. These include high variability of precipitation, substantial lack of water resources infrastructure, its geographic location as a downstream riparian of most of its major rivers, extremely low efficiency and rapid deterioration of existing systems, and serious equity issues as a large share of the poor has little or no access to water for their basic needs. Supplies of water for irrigation are woefully inadequate at present, while supplies to both urban and rural areas in Mozambique reportedly compares poorly with other countries at a similar level of development. Significant progress has however been made in improving access to clean water supplies in the urban and rural areas in particular. The fact that such a large proportion of Mozambique's freshwater supplies (>50%) originate from rain that falls in neighbouring countries remains an issue of concern for the future. Even with its water supply infrastructure fully developed, reduction of flow due to intensive use in the neighbouring countries is likely to limit delivery of water for domestic and agricultural use in Mozambique in the future. The central and southern part of the country is where the reduction in flow from hinterland is most critical at present - it is estimated that South Africa, Swaziland and Zimbabwe already abstract about 40% to 60% of their cross border flows.

Modification of freshwater flows

While Mozambique desperately needs to expand its water resources infrastructure, particularly that required for harvesting surface water (e.g. dams), care must be taken to ensure that this is done in a manner that does not unduly impact on other beneficiaries of the water, notably the environment and fisheries. Impacts of dam construction have been felt in Mozambique as much as anywhere else in the world, particularly those associated with the construction of the Cahora Bassa and Kariba Dams on the Zambezi River. Notable impacts of these dams in Mozambique include loss of biodiversity, coastal erosion, declines in the marine shrimp fishery, loss of freshwater fisheries, resettlement of people, and loss agricultural productivity. Internationally accepted and applied techniques are available for minimising impacts of dams on river systems and should be applied to all new water resource developments in the country.

Unsustainable use of forest resources

Deforestation is considered to be a significant problem in Mozambique, as it damages the environment, the economy, and the welfare of Mozambicans. The primary driving forces of deforestation include potential for profit through logging and timber exportation, necessity of more crop cultivation plots for an increasing population, the use of fire to clear land for agriculture and for hunting, and the use of firewood as a primary source of energy. While commercial timber production is less than 25% of the legally permitted 500,000 m³/year, many believe that this is not sustainable. Of much greater significance though, are the impacts of fuel wood collection and unsustainable agricultural practices (slash and burn agriculture). Wood consumption for fuel in Mozambique is estimated to account for nearly 250 times that consumed by logging operations. Fuel wood is the most important source of domestic energy in the country (accounting for 85% of total household energy requirements), and is reported to be the highest in the SADC region. Even in the larger urban areas such as Beira, where electricity and gas are available, a significant number of inhabitants (50 percent) still use charcoal for cooking. Impacts of slash and burn agriculture are also considered to account for a significant albeit less well quantified loss of woodland resources. Almost entire forests in Mozambique are reportedly burnt at least once a year as a result of these practices. Environmental impacts of deforestation are far reaching and include among other, loss of agricultural soil through soil erosion, desertification (i.e. loss of soil fertility), increased surface water runoff and reduced infiltration which in turn exacerbates the effects of flooding, coastal erosion (mostly from loss of mangroves), and sedimentation.

Exploitation of living marine resources

Exploitation of living marine resources by the industrial fishery sector in Mozambique appear to be sustainable at present, with little variation in total landed catches reported over the last decade. However, catches by the semi-industrial and artisanal fisheries are thought to exceed sustainable limits in many areas with the result that certain fish stocks exploited by the sectors are severely depleted. Key threats to sustainability of fisheries in Mozambique are reported to include fishing by unlicensed operators, encroachment by industrial fishing vessels into inshore fishing grounds reserved for semi-industrial and artisanal fishers, deficiencies in recording and reporting of catches, difficulties in controlling the artisanal fisheries that are distributed along the entire coastal line and in the fresh waters lakes and rivers, and a shortage of human resources and infrastructure for implementation of fisheries laws and regulations.

Pollution and waste disposal

Waste disposal is not a major issue in Mozambique at this stage due to the low level of development in the country. However, is likely to become increasingly important in the future due to the rapid economic growth that is taking place in the country. Three primary sources of pollution include agriculture (sedimentation, and pesticide and fertiliser runoffs), industrial activities (discharge of untreated waste containing heavy metals, hydrocarbons, etc.) and sewage and domestic waste (most of which is discharged without treatment directly to the rivers and sea). Solid waste is also a major problem in the larger cities in Mozambique, as infrastructure and resources are inadequate to cope with the volumes produced and current rates of growth, and many dumping sites are located in close proximity to residential areas.

Transportation

Transportation infrastructure is poorly developed in Mozambique, and is rated as one of the least developed in southern Africa. It is considered to be a major impediment to overall economic development and to the reduction of poverty. However, considerable progress has

been made over the last decade in rehabilitating existing roads, to the extent that environmental impacts associated with road construction are becoming an important issue. Roads have a number of important biophysical and socio-economic impacts that have not always been adequately addressed to date. Indirect impacts (e.g. illegal exploitation of forests and wildlife resulting from improved access to an area, the increased use of local forests and wildlife caused by in-migration of people; and the increased use of local forests and wildlife caused by the existing population increasing production because of better access to markets) are generally considered to be much more significant than direct impacts (e.g. loss of flora and fauna habitat caused by clearing for the road construction and construction of borrow pits). The major challenge is not to allow negative biophysical and socio-economic impacts to bar the development of the transport infrastructure in Mozambique but rather to ensure that negative impacts are effectively mitigated and positive impacts enhanced as far as possible.

Tourism

Tourism started from a comparatively low base in Mozambique, but is currently experiencing rapid growth, having increased by 10-15 % per annum in the period 1995 and 2001. It is now listed as the third largest sector for investment in the country. While the GOM has embraced the potential of tourism and is working actively to promote further growth, an area that possibly requires greater focus is ensuring adequate protection for key natural assets (wildlife, beaches, coral reefs, etc.) on which the tourism industry depends. It is important to ensure that these assets are not degraded through irresponsible or uncontrolled growth in the tourism and other sectors (mining, fishing, agriculture, etc.).

ENVIRONMENTAL POLICY, AND LEGISLATIVE AND INSTITUTIONAL FRAMEWORKS

In terms of the Mozambican law control over natural resource use is exercised through key sectoral legislation (fisheries, agriculture, forestry and water laws), while environmental impacts of from other sources (e.g. from the transportation and energy sectors) is controlled through legislation developed by the Ministry of Environmental Coordination (MICOA). Mining is an exception here, in that it has its own suite of regulations governing environmental management. Government's policy on the environment is one geared through the promotion of sustainable development in such a way that the use of natural resources fulfils the basic needs of the people and development of the nation in equilibrium with economic growth, technology development, environmental protection and social equity.

Land and agriculture

Land policy and land-tenure in Mozambique is possibly the most controversial issue in the context of its legislative and policy framework. Land policy has a strong socialist-leaning (a backlash against colonial past), is widely believed to be constraining development, and does not encourage sustainable land-use practices. All land is state owned and the right to use land has three levels: customary right; occupancy in good faith where land has been in use for a certain purpose for more than 10 years and, formal authorisation, through the defined application regulations. While this system is very effective in entrenching and protecting traditional land use rights of subsistence farmers, and was very important in political terms for dealing with issues arising from the country's colonial history, disruptions caused by the civil war, and the unsuccessful post-independence attempts to redistribute land, it has a number of pitfalls which have a bearing on economic development and environmental management. Principal among these is the fact that leased land has no inherent value and land holders have no incentive to protect or conserve the land, the land tenure system is a

expensive in terms of human resources to administer and is open to abuse by corrupt officials, and acquisition of land for development is difficult due to lack of transparency in the allocation procedures and owing to the fact that there is technically no incentive for occupiers of land to relinquish their rights to the land (the costs of leasing land is nominal, is rarely collected and does not apply to traditional land use). The net result of this is that land is being degraded at a much faster rate than would otherwise happen in a freehold system where it would lose value as it becomes degraded; economic development is being hampered, particularly the expansion of commercial agriculture; speculation in land is rife (individuals acquire land not for the purpose of developing it but rather for profiting from the sale of the “infrastructure” on the land at a later stage); and opportunities for corrupt officials to enrich themselves through allocation of land are abundant.

Fisheries

Marine and inland fisheries in Mozambique are governed in terms of the Fisheries Law (1990) and the Marine Fisheries General Regulations (2003), and fall under the jurisdiction of the Ministry of Fisheries and its various directorates and affiliated institutions. Three main areas of activity are recognised in terms of the regulations promulgated under these laws: subsistence, artisanal, and semi-industrial. Participation in any of these sectors requires a licence issued by the national or provincial authorities. While the legislative system is considered comprehensive in most respects, enforcement is woefully inadequate particularly for the semi-industrial and artisanal sectors where control over effort and use of illegal fishing methods is poor. Participation on the artisanal sector is largely open access and operates largely without any form of control.

Forestry

Commercial exploitation of timber and other forest resources in Mozambique are governed by the Forest and Wildlife Act of 1999, administered by the Ministry of Agriculture. There are a number of important deficiencies in the existing legislation and in the implementation thereof that need to be addressed to ensure future sustainable use of forestry resources. Of particular importance is the fact that management plans for timber harvest and timber inventories required for concession areas required in terms of the law are not prepared and no sanction is applied, and collection of tax revenue is poor.

Water

Water resources management in Mozambique is under the jurisdiction of the Water Law promulgated in 1991, and is administered by the Ministry of Public Works and Housing. In general, the institutional and legal framework is considered to be coherent and has been designed to implement an approach to managing the water sector that is consistent with experience and good practice in many middle and high income countries. A strong focus on decentralisation is being applied with the aim of devolving water management issues to various water management areas in the country (termed Aras). The approach is good but has been slow to take off with only one water management areas, Ara Sul currently functional.

Mining

Potential environmental impacts associated with mining are dealt with separately from those from other activities, by specific provisions in the Mining Law (Lei no. 14/2002). While the legislative provisions within the mining law are good and include a number of important instruments for managing environmental impacts these are not always consistent with those stipulated in the Environmental Law (Lei no 20/97) and hence are potentially problematic in respect of consistency of application. Potential conflicts of interest also exist as the agency

responsible for promotion of mining and protection of the environmental from negative effects of mining are the same (Ministry of Mineral and Energy).

Environmental Management

MICOA (The Ministry for Coordination of the Environment) is the agency responsible for coordinating environmental management issues in Mozambique. Comprehensive legislation has been promulgated for managing environmental impacts in Mozambique but there are some problems with the implementation thereof principally relating to lack of cooperation and coordination between ministries, limited human resources and institutional capacity for implementation, and lack of clarity and overlap of environmental management roles and responsibilities.

Protected areas

A variety of different types of protected areas exist in Mozambique each with different level of protection applied to the environment within their borders. In total, there are seven National Parks, five Game Reserves, twelve Controlled Hunting Areas, two Vigilance Areas, and sixteen Forest Reserves. Most of the parks and reserves were established by the Portuguese authorities in 1955. Since this time a number of new national parks have been declared but the primary focus especially in recent years has been on establishing Transfrontier Conservation Areas (TFCAs) through the establishment of links with conservation areas in neighbouring countries (South Africa and Zimbabwe). TFCAs, in terms of Mozambique legislation are considered large, defined areas which include both core Protected Areas (PAS) and multiple-use (“interstitial”) areas where the primary management objective is to promote environmentally sustainable development compatible with the TFCA’s conservation goals. Under the existing legislation MITUR (Ministry of Tourism) through DNAC (National Directorate for Conservation Areas) have the mandate to co-ordinate all conservation efforts of Parks, Game Reserves and Hunting Areas, and all Forest Reserves were under the jurisdiction of MADER (now MA) through DNFFB (now DNTF). This is a point of certain concern as a duplication of functions certainly exists between the two ministries, where one (MA) will dedicate efforts in the conservation of forests and the other will emphasise the (sustainable) use of natural resources to produce income revenue. A new national conservation policy is being discussed, and it is expected that this ambiguity over protection jurisdiction will be resolved. There is a strong focus on the inclusion of local communities and other stakeholders (as is the case with all protected areas in the country), and sustainable use of the natural resources by communities, particularly through sustainable tourism, as required by Mozambique’s Biodiversity Strategy and Action Plan (NBSAP). On the whole it is believed that natural use by communities living within the protected areas does not pose a significant threat to biodiversity, except possibly in the more arid areas of the country where small pockets of fertile wetlands or river banks have become foci for resource use and settlement. However, the presence of people living in the parks is preventing park authorities from allowing free movement of animals across the borders from the established parks in the neighbouring countries. Regarding the Red Data Lists (RDLs) an adequate legal framework is still needed, however Mozambique has a progressive legal framework that might be used to conserve species listed as threatened.

International Commitments

As a member of the international community, Mozambique ratified most of the major international conventions of importance including the Convention on Biological Diversity, the Convention Against Desertification, the Basil Convention, the Bamako Convention, United Nations Convention on the Law of the Sea, Convention on the International Trade in Endangered Species of Wild Flora and Fauna, United Nations Framework Convention on

Climate Change, as well as most of the regionally important conventions and protocols (e.g. is a member of SADC, has signed the Nairobi Convention, and Protocol on Shared watercourse Systems in the SADC).

EU AND OTHER DONOR COOPERATION WITH MOZAMBIQUE

Mozambique receives substantial contributions of donor aid each year, amounting to a total of \$6.3 billion in the period 2000 to 2004, amounting to some 25% of Gross National Income. Principal donor organisations active in Mozambique include the European Union, World Bank, Danida, DFID, UNDP, Sweden, The Netherlands and USAID. Details on the funding priorities for each of the major donors are provided in the main report. As the leading donor organisation in Mozambique, the European Union should seek to set a leading role in terms of ensuring assistance provided to the country does not only yield short term benefits that come at the expense of longer term sustainable development.

Conclusions and Recommendations

Mozambique is well endowed with natural resources. It also has large sections of unspoilt coastline and large expanses of natural vegetation. These resources and landscapes are protected to varying degrees by the legislative and policy framework but available capacity (human and infrastructural) in the ministries and government agencies tasked with the responsibility of enforcing the legislation are inadequate to ensure that these resources are used sustainably or efficiently, particularly in the face of rapid economic growth and an expanding population. Population density in Mozambique is presently very low (amongst the lowest in Africa) and has by no small measure contributed to the current well being of the environment. However, as the population expands and economic development proceeds, it is likely to take its toll on the environment unless a great deal more attention is focussed on addressing loopholes in the existing legislative and policy framework and for providing the capacity required to ensure adequate compliance with the law.

Perhaps of overriding significance is the approach that the GOM has taken to management and utilisation of land and other natural resources in Mozambique. The Government's policy on the environment is one geared through the promotion of sustainable development in such a way that the use of natural resources fulfils the basic needs of the people and development of the nation in equilibrium with economic growth, technology development, environmental protection and social equity. As such, sustainable use of resources often takes second place to social and human development, particularly where people livelihoods are at stake. Land and other natural resources are generally seen and used as a social security system in lieu of the fact that much of the population has no access to alternative forms of social security. The system is viable at present only because population density is still very low. As the population of the country expands, so will pressure on land and resources until they will compromise the ability of the natural resources and environment to renew itself and will ultimately lead to complete breakdown in this social security system. At some point there needs to be a gradual transfer to an alternative social security system to avoid such a disaster from happening.

Corruption, which involves the use of public office for private gain, is also an important cross cutting issue in Mozambique. It is evident at all levels, ranging from situations where large businesses lobby senior officials to resolve problems and small businesses pay bribes to petty officials to avoid fines related to obscure outdated regulations. Opportunities for rent seeking by corrupt officials seems to be rife within a legal system that does not adequately take account of the available human or infrastructural capacity for implementation and/or enforcement. Many provisions in the legal system do not lend themselves to easy enforcement and/or are not adequately transparent so as to eliminate rent seeking behaviour.

Mozambique is heavily reliant on support from donor agencies (25% of the GNI at present). The European Union is one of the major role players in this respect, having put aside an indicative amount in excess of EURO 300 million for support to Mozambique over the next five years. This support will go a long way towards fostering economic and infrastructural development in Mozambique, but unless it is carefully managed could cause irreparable damage to the environment that would have significant longer term costs. The European Union (and other major donors) should seek to set a leading role in respect of ensuring assistance provided to the country does not only yield short term benefits that come at the expense of longer term sustainable development. Preparation of this environmental profile for the country is a clear indication of commitment in this respect, but needs to be followed by additional concrete action. Considering that much of the financial support provided will come in the form of sectoral or central budget support (as opposed to project specific support) such actions need to be broad and cross-cutting and must seek to ensure that the entire regulatory framework in Mozambique is sufficiently robust and dynamic to address current and future threats as they arise. It should be noted that this is far more difficult to achieve than it is to control for environmental impacts arising from specific projects.

On the surface, many of the interventions required to promote economic and infrastructural development in Mozambique appear to conflict directly with requirements for protection of the environment and conservation of resources, giving rise to an irresolvable standoff situation. For example, improvements in water resources infrastructure (including water storage infrastructure) is urgently required for the intensification of agriculture through expansion of irrigation, and for domestic water use in urban and rural areas. The impacts of dams are, however, generally considered to be amongst the most damaging interventions introduced by man on riverine ecosystems and associated agricultural and freshwater fish production. This apparent standoff can, however, be resolved by ensuring that the full costs of any development project or initiative are explicitly recognised and accounted for upfront, during the planning phase. Very often decisions to proceed with a particularly project or programme are made before a full assessment of the implications of such a project or programme is completed and, more importantly, before the full costs are accounted for. In situations where full cost accounting is completed ahead of a development project or programme, this often tempers the nature or at least the level of the development to the extent that there are trade-offs between the benefits achieved by the project versus the impacts it may have on other sectors in the long term.

Key conclusions and recommendations for consideration in respect of sectorally directed donor support in Mozambique are highlighted below. For simplicity these are separated into the key sectors identified in this report that have bearing on or influence the environment.

Land

Land access and use is pivotal in controlling economic development and natural resource use and protection. While the land law of the country have succeeded admirably in protecting traditional and customary land use rights, land policy and law needs to be reformed in order that better protection can be afforded to the land itself, to ensure that development is promoted, and that opportunities for rent seeking are reduced. Several clear pitfalls which have a bearing on sustainable economic and social development that need to be addressed include the lack of incentive for land holders to protect or conserve the land in their charge, the nature of the land laws which make them expensive in terms of human resources to administer and make them open to abuse by corrupt officials, and a lack of any significant incentive for land holders to relinquish their rights to land and hence to free up new land for development.

Agriculture

Agriculture activity supports 80% of the population and its growth is mostly due to maize, sugar and tobacco production. It is also seen as a greatest natural resource based sector contributor to poverty alleviation. Together with the forestry sector they constitute 20% of GDP. Most of the agriculture growth seen in recent years has been related to extensification (area expansion at 2,4% yearly at the cost of forestry loss), and demographics (more hand-labour) but very little to intensity (tractors, irrigation, conservation practices, or other yield enhancing factors, which are mostly used only under big commercial plantations e.g. sugar). There is a need to move to productivity enhancing methods in order to arrest the tendency to cut more forest areas. However, since raising agricultural productivity must be one of the key pillars for sustaining economic growth and poverty reduction, the development of commercial agricultural will put more pressure, although in a more efficient manner, on natural resources. The development bias in urban areas continue to represent a great attractive to increase the rate of rural-urban migration (up to 8% annually) and the increase of number of people in the already important urban informal sector. Improvements in water supply infrastructure is also urgently required for the expansion of irrigation as this is currently well below its potential and is a major constraint in the intensification of agriculture in many areas.

Water

Water will probably become the most limiting natural resource in the future in the face of economic growth and development. The economy is both vulnerable to and constrained by water related factors (regional climatic variability, high dependence on international water resources, and under-developed water infrastructure, impacts of floods and droughts). Agriculture is mostly based on rain-fed farming and so very dependent on the gradual increase of water shocks (highly variable rainfall pattern and frequent droughts). Expansion of the extractive and tourism industry depends on access to (hydro)-energy and water. The useful capacity of the country's dams represents only 5% of the mean annual runoff, excluding Zambezi, indicating a need to develop adequate infrastructure in order to improve response to water shocks and guarantee reserves for future expansion. Development of any new water resources infrastructure must be done in a manner that takes account of the full costs of the development and minimises any impacts on the environment and other users of the water (this can be achieved by completing an Environmental Flow Assessment).

An important aspect for poverty reduction relates to the expansion of safe and sustainable water access for both rural and urban populations. This has been given some priority in recent years but the achievement of 27% of the rural households serviced with cleaned water is still very far from an acceptable level. Negotiations with neighbouring countries over rights to cross-border water flows also need much greater focus than it has been given up to now as this will become a major issue in the future, especially when it begins to constrain or even reverse economic growth and development in Mozambique. Talk of future wars being fought over water may be idle speculation in some areas, but this is certainly not the case in southern and eastern Africa where shortages of freshwater are becoming more acute all the time.

Forestry

Forestry has recently undergone major regulatory and policy changes regarding the benefit use of forestry resources, logging fees and enforcing the rule of law. However, much more needs to be done to ensure that logging activities in Mozambique continue within sustainable limits. Steps needs to be taken to ensure for example that management plans for timber harvest and timber inventories required for concession areas in terms of the law, are prepared and appropriate sanctions are applied when this is not the case. Non-wood forestry products are very important income for rural livelihoods and work also as an important

buffer during periods of extreme climatic events. Reform is still lacking regarding the need to clearly induce harvesting in areas of difficult access instead of nearby urban areas (volume license fee). It is foreseen that forestry resource exploration will increase with the expansion of the road infrastructure, but we expect that would result in increased efficiency gains for the extracting industry. Measures like the export ban on high-quality uncut wood impact positively if there is first enough capacity in-country to process the amount and quality required by the export market, second, if the policy is effectively enforced.

It is also imperative that the authorities gain better control over the use of wood resources for energy production (mostly through charcoal production). Fuel wood is currently the most important source of domestic energy in the country (accounting for 85% of total household energy requirements), and is reported to be the highest in the SADC region. This is unacceptably high and cannot possibly be sustainable in the long term. Similarly, greater control needs to be exercised over slash and burn agriculture which also accounts for a significant albeit less well quantified loss of woodland resources. Environmental impacts of deforestation are far reaching and while they may not be that obvious now, they are sure to take a heavy toll in the future.

Mining

Mining is gradually increasing its presence in Mozambique due to a progressive legal framework. It must be remembered though that mineral extraction has been one of the most environmental damaging industries in the world. Aspects such as open pit extraction (coal in Moatize, heavy sands in Chibuto and Moma, artisanal gold in Niassa, etc) and development of offshore gas fields require careful and dedicated specialised monitoring, regarding water consumption, water releases, and potential contamination of surface and groundwater aquifers.

Fisheries

Both marine and inland fisheries provide an important source of employment and/or livelihood to a large number of Mozambicans, as well as bringing in considerable amounts of foreign exchange. Management of the industrial fisheries seems to be at a level where catches have been stable and presumable sustainable for a considerable period. The same cannot be said for the artisanal and to a lesser extent the semi-industrial fishing sectors. Pursuing a policy of a largely open access artisanal fisheries sector may provide relief from absolute poverty for a large number of people in the short term, but in the long term is doomed to failure. This is already clear from the pitiful returns achieved by artisanal fisheries in the vicinity of the major centres and the dire state of many of the resources on which they depend. There is also considerable room for improvement in the collection of detailed catch statistics for all sectors of the fishing as this information is critical for proper management of the resources. Improvements in compliance would also be highly desirable and requires significant additional investment in monitoring, control and surveillance.

ANNEX 4 – COUNTRY MIGRATION PROFILE

Accurate migration data is not available as the last full census was carried out in 1997. Furthermore, the immigration service does not routinely maintain records of passport control (the control of international migration was a security issue until the practice was abolished in 1990 by the revised Mozambican Constitution); and many movements are clandestine. This makes it difficult to give a dimension to migratory trends.

Bearing in mind the limitations of the data, the evidence available does seem to indicate that while for most of its recent history Mozambique has been a supplier of labour to the mines and plantations in the region, and during the civil over 1m Mozambicans sort refuge in neighbouring states, it has now become a country where a UN report estimates net cross-border migration is broadly neutral. Migration nonetheless remains important both in social and economic terms. A recent survey (Southern African Migration Project 2006) indicates that from a sample of 1,375 households, 21% had at least one member who had migrated, either internally or across a border. There is also a strong regional dimension: migration is far more marked in the south of country, where 33% households had at least one migrant, compared with only 14.7% in the north and 9.5% in the centre.

Internal Migration

In the fifteen years post-independence, the Mozambican government regarded rapid urbanisation as a potential threat to internal security and took measures to halt it. For instance, in 1983 the government organised “Operation Production” to relocate 100,000 urban residents to rural areas. From the mid 1980’s onwards however, rural–urban inflow was propelled by people seeking refuge from the war, a process given further impetus when controls on internal movements were abolished. With peace, the incentive to migrate to towns should be seen as economic in nature. While in 2000 only 28.6% of the population lived in urban areas (low by regional standards), this rose to 35.6% in 2003, and is projected to rise to 48.5% by 2015 (UNDP). The main flows are from the southern provinces (Inhambane, Gaza) to Maputo. These trends are confirmed by the following table, based on the 1997 Census questions comparing actual residence; place of birth; residence a year before the census, and residence after the civil war.

Internal migration by Province between 1992 and 1997

Province	Immigration Rate (x100)	Emigration Rate (x100)	Immigration Balance (x100)
Niassa	4.9	4.3	0.3
Cabo Delgado	2.5	3.3	-0.9
Nampula	2.9	2.4	0.4
Zambezia	2.0	5.2	-3.5
Tete	3.8	7.2	-4.0
Manica	15.7	4.9	10.5
Sofala	13.4	10.1	2.2
Inhambane	6.3	18.7	-16.6
Gaza	6.7	15.9	-17.6
Maputo Province	49.5	14.9	32.0
Maputo City	60.8	20.9	34.4

Cross Border Migration

Cross border economic migration, principally drawn to South African and Zimbabwe, has played a prominent role in the region since the discovery of gold in the Transvaal, and continues to do so. Despite large scale retrenchments in the industry generally, the RSA is still the main destination for Mozambican migrants, hosting 72,000 legal migrant workers, of whom 12,000 work in agriculture and 57,000 in mines. Despite the retrenchment of over 200,000 jobs, total mine employment remains stable for Mozambicans, and they now make up 20% of a declining workforce (up from 10% in 1990). This suggests that mine labour will continue to be an important source of employment for unskilled Mozambicans.

Migrant labourers working in South Africa

Year	Workers	Year	Workers
1970's	100 000	1997	52 000
1975	118 000	2000	43 860
1977	41 000	2001	45 254
1982	46 000	2002	50 589
1985	55 000	2003	52 205
1990	42 000	2004	48 099
1995	52 000	2005	46 256

The extension of migration can also be gauged from the SAMP survey, where 13% of the households sampled reported at least one member who had moved across a border, with 5.7% of household heads living and working in South Africa (compared with only five households with members in Europe, one in North America and two in Asia).

A further source of data that might give some indications as to the direction and dimension of migration is the number of Mozambican's registering to vote through Mozambican embassies overseas. A total of the 47,000 people registering on the electoral roll for the third general election in 2005, of which 45,865 lived in South Africa, Zimbabwe, Swaziland, Zambia, Malawi, Tanzania and Kenya. The remaining 1,101 were in Portugal and Germany (many Mozambicans provided labour to the GDR before unification). This almost certainly represents a fraction of the actual number of migrants: other sources suggest significantly higher numbers. The Mozambique News Agency estimates that the Mozambican Diaspora in Portugal totals 8,000 alone, and a MINEC source estimates that 2.1% of the Mozambican population is living outside the country (around 400,000 people). But the data tends to confirm that migration is almost exclusively south-south, with far lower flows to the north.

The Brain Drain

In respect of brain drain, a 2006 World Bank report estimates that 45.1% of the total number of skilled Mozambicans is working overseas, and that 26.5% of its migrants are highly skilled (out of an estimated 86,000 migrants). For a country with a shortage of human capital, this is a significant number.

Remittances

The central bank is unable to capture or quantify remittance flows, most of which enters the country through informal channels.

There is some data available for miners, from TEBA Ltd, a bank that manages miner remittances. The following table shows the magnitude of deferred payments (comprising 60% of salaries) and the growth trend since 2000: the average miner has accrued savings of ZAR 9,300, or around €1,000, a substantial sum in a country where the minimum salary is €30 per month. It confirms the findings of Migration and Poverty Survey, which found migration a way of survival for many households.

Year	Number engaged	Deferred pay	Ill/repatriated	Death
2000	43 860	256,465,000.0	38	429
2001	45 254	278,899,000.0	48	531
2002	50 589	314,716,672.0	112	539
2003	52 205	371,057,688	205	537
2004	48 099	389,185,228.0	151	533
2005	46 256	432,816,199.38	N/I	N/I

In contrast to the situation with miners, the 2006 SAMP survey reported that over 90% of the families who declared migrants responded 'no' when asked if their received remittances.

Migrant routes associated with illegal migration and the activities of human trafficking networks

The deportation of 783,000 illegal Mozambican immigrants (82% of the total) from the RSA between 1991 and 2000 reveals the likely extent of clandestine migration. But as immigration becomes more of an issue in the RSA, it is likely to become harder for Mozambicans to hop across the border to look for work. There is also a trend towards permanent emigration. Only 20% of the 350,000 Mozambicans who sought refuge in the RSA are thought to have returned to Mozambique following the 1992 peace accord, unlike those who fled to Malawi or Swaziland. And although a considerable proportion of the 300,000 migrant farm workers in Zimbabwe are of Mozambican origin and may be forced to return following the land reforms, the majority would prefer to become Zimbabwean nationals.

While the problem of human trafficking has become an international hot issue, it is apparently still not taken seriously enough, since no law has yet been passed to ban the practice of human trafficking in either Mozambique or South Africa, making it difficult for law enforcement agencies in either country to investigate and prosecute perpetrators. However, Mozambique has signed the Protocol to Prevent, Suppress and Punish Trafficking in Persons, especially women and children, supplementing the United Nations Convention Against Trans-national Organized Crime. As it has not deposited the instrument of ratification at the UN Secretariat, it cannot be considered party to the protocol.

As would be expected for an illegal activity, again, there is no reliable data available. According to the IOM Counter Trafficking Programme Assistant, statistics for trafficked people is erratic. However the number of cases detected is very low. Since last year, when the IOM Maputo office was re-established, only eight women between the ages of 16 and 24 years have been assisted, mostly along the southern borders. According to IOM, the girls are

used for prostitution while the boys go into plantations in Mpumalanga province, South Africa. Other sources estimate that up to 1,000 girls a year are illegally trafficked to the RSA. Mozambican women and girls often approach smugglers to arrange their undocumented entry into South Africa. Once they are in the hands of the traffickers in South African most of these people do not escape since some traffickers convince them that they are *sangomas* (traditional healers), and thus have power to control their life.

Immigration

The 1997 census recorded 90,847 foreigners. Mozambique hosts a significant number of expatriates as well as people with Portuguese passports who have permanent residence.

However, anecdotal evidence suggests that in recent years clandestine migrants from several countries are entering Mozambique across its porous borders with Tanzania, Malawi and Zimbabwe, some from neighbouring countries (including Kenya) but others from further afield (Nigeria). Perhaps the most significant inflow is due to the political events in Zimbabwe, but the impact has been relatively muted due to the close ethnic, historical and social links, though this might change as immigrants are perceived to be taking Mozambican jobs (many Zimbabweans are highly educated). While some migrants are looking for opportunities in Mozambique (commerce, dealing in gemstones, gold panning, farming), the ultimate destination for many is South Africa. Mozambique is reported to be a transit country for people from Bangladesh, Pakistan, Lebanon and China.

Refugees

Mozambique hosts 8,000 refugees from the Kivu region in the DRC, mainly in Nampula. This number may increase. Mozambique is a preferred destination owing to the relative freedom it affords.

ANNEX 5 – CSP DRAFTING PROCESS

1. The Gabarone Seminar

The launching of the EDF 10 Programming exercise for 2008-2013 took place in February 2006 at the Southern Africa Regional Seminar in Gabarone, Republic of Botswana, with the presence of the Commissioner for Development and Humanitarian Aid, Louis Michel.

At this event, guidelines were presented for the definition of a co-operation strategy between the European Commission and ACP countries, in the context of the European Union's new development policy (the "European Consensus", Strategy for Africa). The SADC and PALOP regional programmes were also discussed, with regards to complementarities and synergies.

The Commissioner and the National Authorising Officer for Mozambique also had the opportunity to meet and discuss the overall state of co-operation, and more specifically, to examine the progress of EDF 9 before its conclusion.

2. EC/NAO Dialogue and Consultation

Starting in January, draft guidelines for the 10 EDF programming and all related correspondence was regularly sent to the NAO's office. The process was presented in April, when first impressions of the programme were discussed.

The first draft for Country Strategy Paper (CSP) was submitted to the NAO in June 2006, at a meeting between the Delegation and the NAO.

3. European Union Member States and joint programming

Starting in January, draft guidelines for the 10 EDF programming and all related correspondence was regularly sent to the EU Member States. A meeting for EU Heads of Mission and Co-operation was organised on 15 June 2006 in order for the Delegation to present the draft CSP and Governance Profile. Feedback and comments were received from some member States.

In light of the conclusions of the EU Council (11 April 2006) regarding aid efficiency and a common framework for strategy papers (CSP), the EU Member States (MS) locally represented in Maputo were consulted regarding the possibility of a joint country analysis and response strategy. The response from most EU Member States' represented locally was that, considering the difficulty of the Government managing a complex process without there being donor harmonisation in place in terms of programming cycles; full joint programming would not be efficient in the present situation.

In this context, the conclusions from the EDF-funded Retreat in June 2006 (EDF 9 Institutional Support to the NAO Office project, together with DFiD funds), led by the Government and the agencies currently in the programming phase (CS-14), showed that the time is not yet right for a joint assistance strategy. However, the notion of an improved

framework so as to guarantee more efficient aid-delivery was well received by both the Government and donors present (See Annex 2).

4. Internal Consultation with the Government of Mozambique

Having made a preliminary analysis of the proposal put to them, the NAO Office began an internal consultation process together with central government institutions (Ministries) and other cooperation institutions. The aim was to receive feedback which would contribute to defining Government strategy regarding possible areas of intervention to be included in the next EC cooperation programme.

As recommended by the instruments regulating cooperation in the framework of the Cotonou Agreement, a consultation process was also undertaken with National Non-State Actors, represented in this process by the umbrella organisations ‘G-20’ and ‘LINK ONG Forum’.

The consultation process highlighted three separate areas:

- (i) ***Providing the draft CSP*** –after receiving the first draft version of the CSP from the EC Delegation, the NAO Office send this to the Government Sectors, Ministries and representatives of Non-State Actors, asking them to present their comments and possible proposed changes for the CSP. The NAO Office sent an English and Portuguese language version of the CSP, with the Programming Guidelines for the 10 EDF provided by the EC’s central administration.
- (ii) ***Contacts for clarification*** – Immediately after having received the draft CSP, almost all the institutions contacted the NAO Office, requesting clarification on the process of the elaboration, content and objectives of the CSP. The NAO Office informed them that the elaboration of the CSP was a process which took place within the framework of the Cotonou Agreement which fundamentally aims to define cooperation strategy and indicate what the priority areas of concentration for the EDF funds in the relevant period are, in this case 2008-2012. Bearing in mind the CSP draft proposed maintaining the cooperation strategy outlined in EDF 9, the consultation exercise did not pose great difficulties in that the strategy proposal obeys the general guidelines of the Government 5 Yearly Plan put into operation via PARPA II (‘*Plano de Acção do Governo para a Redução da Pobreza Absoluta*’ - Government Action Plan for the Reduction of Total Poverty).
- (iii) ***Presentation of comments/proposals*** – The majority of sectors presented comments/proposals within the stated deadline, although some did miss this, for a number of reasons. This situation led to a delay in the compiling of the information and sending the CSP project to the EC Delegation.

5. Non-State Actors and future involvement in the 10 EDF

National and international partners are expected to be involved in the national planning system. To this end, the Government established the ‘Poverty Observatory’ in 2003, an annual consultative forum, coordinated by the government and included in the monitoring and evaluation systems within PARPA. The G20 was created after the first Observatory,

with the objective of structuring participation in and improving coordination of civil society groups.

During 2005, the PARPA II elaboration process and its alignment with the Government's 5 Yearly Plan was participatory, inclusive and all-encompassing, with the strong presence of civil society groups and the private sector in the provinces and districts of the country. From the start, both civil society and international partners were involved in the thematic working groups for the PARPA, and were given the opportunity to relay their comments regarding the draft of the same. Whilst the PARPA was being elaborated, poverty observatories were also conducted at provincial level.

During the November 2005 Poverty Observatory, civil society groups (now the G 20, a group of more than 60 organisations) presented their annual report on poverty and development. International partners also had the opportunity to present their views on the subject.

During EDF 10 implementation period and in particular during the reviews, in the context of the Cotonou guidelines, increased participation of civil society groups – particularly that of more vulnerable groups – in the monitoring is to be further encouraged.

ANNEX 6 – THE HARMONIZATION ROAD MAP

Mozambique was one of the four countries selected for the pilot initiative on EU coordination of policies and harmonization of procedures. Ad-hoc technical assistance in this context has been mobilized from January 2005 to March 2007.

Further to the letter sent to EU MS on 16.12.04 on behalf of the Presidency and the EC, a EU Heads of Cooperation meeting was held on Coordination and Harmonization in February 2005. A coordination and harmonization Road Map was agreed following that meeting, taking into account the already ongoing and well advanced coordination and harmonization activities, namely in the framework of the budget support group or Programme Aid Partners (PAPs). All EU MS were represented in this group, apart from Spain, that subsequently joined and Austria, that is considering entering now. Therefore, it was decided that the activities selected should be complementary to the ongoing initiatives, bring value added and avoid duplication.

Against this background, the approved EU Roadmap was based on the following pillars:

- (i) providing transparency of aid flows through the design of an EU aid database;
- (ii) reducing the administrative burden by, as a first step, mapping the working groups participation of each Member State and promoting actively delegations of representation within Member States;
- (iii) mapping the EU capacity building to the Government of Mozambique as a basis for a common donor capacity strategy for the country.

The EU aid database was a reality by the end of 2005. Status of each project/programme, quarterly financial flows and disbursements forecasts, link to MDGs, geographical location, modality of implementation, source of funds and implementing agency are some of the key information provided, based on international standards (OECD/DAC). The objectives are to enable the first accurate global view and forecast on cooperation activities in Mozambique and to support the improvement of the comprehensiveness and accuracy of national instruments of planning (in particular the State budget) and of monitoring (in particular the budget execution reports). It also allows all type of analysis of aid flows by sector, by type, by region, etc. and the monitoring of several of the Paris Declaration indicators.

After all the EU locally represented Member States joined the EU database, its success attracted the interest of non EU donors. In early 2006, the inclusion of non-EU partners (World Bank, USAID, Japan, Canada, Norway, Switzerland and AfDB) was completed, followed by the merging with the UN agencies database. ODA Moz was then officially recognised, put on-line and transferred to the Government of Mozambique (Ministry of Planning and Development) as a government's tool to monitor ODA in the country and provide timely and accurate information to feed into the budget cycle and reporting systems, thus ensuring sustainability and ownership.

It was decided to rely on the ongoing harmonisation process, in particular those developed in the context of the direct budget support group regarding the mapping of working groups, as a basis for future discussions on delegated cooperation, and capacity building, once the PAP commissioned an analysis on Strengthening Capacity Development (released January 2006) as an effort towards a coordinated approach to capacity building in Mozambique.

Future EU coordination and harmonization initiatives will be taken whenever they bring value to the coordination and harmonization agenda in Mozambique, as ODAMoz did.

ANNEX 7 – TABLE INCLUDING PARTNER COUNTRY POSITIONS IN RELATION TO INTERNATIONAL CONVENTIONS

The following international Conventions were signed and ratified by the Government of Mozambique.

1. Global Instruments:

- 1.1 Charter of the United Nations
- 1.2 Statute of the International Court of Justice
- 1.3 Convention on the Prevention and Punishment of the Crime of Genocide
- 1.4 International Labour Conventions (e.g., Convention on Freedom of Association and Protection of the Right to Organise of 1948, Convention concerning Forced or Compulsory Labour, Equal Remuneration Convention);
- 1.5 The Convention relating to the Status of Refugees (the “Geneva Convention”) and its associated Protocol (1951);
- 1.6 International Convention on the Elimination of All Forms of Racial Discrimination (1965);
- 1.7 International Covenant on Civil and Political Rights (1966);
- 1.8 Universal declaration on Eradication of Hunger and Malnutrition (1975);
- 1.9 Convention on the Elimination of Discrimination Against Women (CEDAW, 1979);
- 1.10 Convention Against Torture and other Cruel, Inhuman or Degrading Treatment or Punishment (1984);
- 1.11 Convention on the Rights of the Child (1989);
- 1.12 Optional Protocol to the Convention on the Rights of the Child on the involvement of children in armed conflict
- 1.13 Optional Protocol to the Convention on the Rights of the Child on the sale of children, child prostitution and child pornography
- 1.14 Second Optional Protocol to the International Covenant on Civil and Political Rights, aiming at the abolition of the death penalty
- 1.15 United Nations Convention against Transnational Organized Crime
- 1.16 Protocol to Prevent, Suppress and Punish Trafficking in Persons, Especially Women and Children, supplementing the United Nations Convention against Transnational Organized Crime
- 1.17 Protocol against the Smuggling of Migrants by Land, Sea and Air, supplementing the United Nations Convention against Transnational Organized Crime
- 1.18 Protocol to Prevent, Suppress and Punish Trafficking in Persons, Especially Women and Children, supplementing the United Nations Convention against Transnational Organized Crime
- 1.19 Protocol against the Illicit Manufacturing of and Trafficking in Firearms, Their Parts and Components and Ammunition, supplementing the United Nations Convention against Transnational Organized Crime

- 1.20 United Nations Convention against Corruption.
- 1.21 Vienna Convention for the Protection of the Ozone Layer.
- 1.22 Montreal Protocol on Substances that Deplete the Ozone Layer.
- 1.23 Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal.
- 1.24 Cartagena Protocol on Biosafety to the Convention on Biological Diversity.
- 1.25 Kyoto Protocol to the United Nations Framework Convention on Climate Change.
- 1.26 Convention on biological diversity.
- 1.27 United Nations Framework Convention on Climate Change.
- 1.28 Stockholm Convention on Persistent Organic Pollutants.
- 1.29 Convention on the Prohibition of the Development, Production, Stockpiling and Use of Chemical Weapons and on their Destruction.
- 1.30 Convention on the Prohibition of the Use, Stockpiling, Production and Transfer of Anti-Personnel Mines and on their Destruction.
- 1.31 Convention on the Prevention and Punishment of Crimes against Internationally Protected Persons, including Diplomatic Agents, adopted by the General Assembly of the United Nations on 14 December 1973.
- 1.32 International Convention against the Taking of Hostages, adopted by the General Assembly of the United Nations on 17 December 1979.
- 1.33 International Convention for the Suppression of Terrorist Bombings, adopted by the General Assembly of the United Nations on 15 December 1997.
- 1.34 International Convention for the Suppression of the Financing of Terrorism, adopted by the General Assembly of the United Nations on 9 December 1999.
- 1.35 Convention on Offences and Certain Other Acts Committed on Board Aircraft, signed at Tokyo on 14 September 1963.
- 1.36 Convention for the Suppression of Unlawful Seizure of Aircraft, signed at the Hague on 16 December 1970.
- 1.37 Convention for the Suppression of Unlawful Acts against the Safety of Civil Aviation, signed at Montreal on 23 September 1971.
- 1.38 Convention on the Physical Protection of Nuclear Material, signed at Vienna on 3 March 1980.
- 1.39 Protocol on the Suppression of Unlawful Acts of Violence at Airports Serving International Civil Aviation, supplementary to the Convention for the Suppression of Unlawful Acts against the Safety of Civil Aviation, signed at Montreal on 24 February 1988.
- 1.40 Convention for the Suppression of Unlawful Acts against the Safety of Maritime Navigation, done at Rome on 10 March 1988
- 1.41 Protocol for the Suppression of Unlawful Acts against the Safety of Fixed Platforms Located on the Continental Shelf, done at Rome on 10 March 1988.
- 1.42 Convention on the Marking of Plastic Explosives for the Purpose of Detection, signed at Montreal on 1 March 1991.

2. Continental Instruments OAU/AU:

- 2.1 OAU Refugee Convention (1969);
- 2.2 African Charter on Human and Peoples Rights (1990)
- 2.3 African Charter on the Rights and Welfare of the Child (1990)
- 2.4 OAU Convention on the Prevention and Combating of Terrorism (July 1999)
- 2.5 Protocol on the Rights of Women in Africa (2003)

3. SADC

- 3.1 Protocol on Control of Firearms, Ammunition and other related materials;
- 3.2 Protocol Against Corruption
- 3.3 Protocol on Culture, Information and Sport
- 3.4 Protocol on Combating Illicit Drugs
- 3.5 Protocol on Education and Training
- 3.6 Protocol on Energy
- 3.7 Protocol on the Facilitation of Movement of Persons
- 3.8 Protocol on Fisheries
- 3.9 Protocol on Forestry
- 3.10 Protocol on Health
- 3.11 Protocol on Immunities and Privileges
- 3.12 Protocol on Mining
- 3.13 Protocol on Politics, Defence and Security Cooperation
- 3.14 Protocol on Shared Watercourse Systems
- 3.15 Revised Protocol on Shared Watercourses
- 3.16 Protocol on Tourism
- 3.17 Protocol on Trade
- 3.18 Protocol on Transport, Communications and Meteorology
- 3.19 Protocol on Tribunal and Rules of Procedure Thereof
- 3.20 Protocol on Wildlife Conservation and Law Enforcement

ANNEX 8 – DEBT SUSTAINABILITY ANALYSIS

Mozambique was one of the first countries to receive debt relief under both the original and the enhanced Heavily Indebted Poor Countries (HIPC) initiative. In 1998, it reached the decision point under the original HIPC initiative. The NPV of external public debt corresponded to about 3.3 billion USD, of which 25% was owed to multilateral organisations, 9% to Russia, 54% to other Paris Club members and 8% to other official bilateral creditors. In 1999 the completion point of the original HIPC initiative was reached. Debt appeared to be within the established targets.

Consequently, Mozambique reached the decision point under the enhanced HIPC initiative in 2000. It was estimated that it would require assistance in the amount of 306 million USD. Moving through two phases of HIPC assistance, Mozambique has experienced a huge decline in all debt indicators. The debt-to-exports ratio declined from 709 per cent in 1997 to 131 per cent by 2001. The total contribution of the EC to the HIPC initiative for Mozambique through EIB lending in Net Present Value terms has been €23,070,409.

The most recent reviews of debt situation provided by IMF concluded that the medium term public debt dynamics seem to be in good shape, even though the trajectory of the NPV of debt to exports is sensitive to realised export volumes under the so-called mega-projects.

In the 2004 Joint Review, it was noted that while the NPV of debt to GDP ratio was low, the ratio of the NPV of debt to revenue remains high. Hence, it was argued that the economy remains vulnerable to volatility of external funds. In addition, the external debt is also vulnerable to exchange rate shocks (i.e. a depreciation of the metical).

In 2005, Mozambique has been considered eligible for the Multilateral Debt Relief Initiative (MDRI), which foresees that three multilateral institutions—the IMF, the International Development Association (IDA) of the World Bank, and the African Development Fund (AfDF)—cancel 100 percent of their debt claims on countries that have reached, or will eventually reach, the completion point under the joint IMF-World Bank enhanced HIPC Initiative. Through this initiative Mozambique received an estimated debt relief amounting to US\$1,306 million. The international community has made these additional resources available to help Mozambique make progress toward its Millennium Development Goals (MDGs).

The latest “Debt sustainability Analysis” on Mozambique was carried out jointly by IMF and WB in June 2006. The analysis noted that total external debt in Mozambique has a significant private component, which is related to the “megaprojects”. The external public debt of Mozambique is considered sustainable by the IMF, although some vulnerability exists with respect to the future availability of external grants.

Domestic public debt stock is relatively low by regional standards and not expected to increase significantly in the near future. With –and without- debt relief under the MDRI, the debt indicators all remain below their respective thresholds. **The risk of external debt distress for Mozambique is low**, if prudent new borrowing policy is adopted.

ANNEX 9 –GOVERNMENT’S GOVERNANCE COMMITMENTS

**REPUBLIC OF MOZAMBIQUE**

GOVERNMENT COMMITMENTS
(english translation)

This document aims to expound upon the Government of the Republic of Mozambique’s political commitments in the area of good governance. The Government formed as a result of the 2004 elections has the primary responsibility of conducting the nation’s destiny until 2009, with the goal of improving living conditions for the Mozambican people. Thus, the Government’s commitments fall within the implementation framework of the Five-Yearly Government Plan for 2005-2009, and its operational instruments, in particular the Poverty Reduction Strategy (Plano de Acção para a Redução da Pobreza) – PARPA II, including the Performance Assessment Framework (PAF).

	Area of Governance	Prospective Commitments	Timescale
1.	Democratic Political Governance		
	- Human Rights	<ol style="list-style-type: none"> 1. The draft Bill for the creation of the National Human Rights Commission will be submitted to Parliament by the end of December 2007; 2. Implement reforms to the Prison Service in order to improve the management of correctional facilities and guarantee the prisoner treatment consistent with the laws and universal principles of human rights, within the capacity of the country (PRSP) 	<p>Dec 2007</p> <p>Ongoing</p>
	- Fundamental Freedoms	<ol style="list-style-type: none"> 3. Conclude the revision of the Press Law. 	Dec 2007
	- Electoral Process	<ol style="list-style-type: none"> 4. Ensure the holding of elections as foreseen for 2007, 2008 and 2009 5. Ensure the continuity of civil 	Dec 2007

		education programmes of the population.	
	- Principles of Constitutional Democracy	6. Strengthen and consolidate the independence of the Courts;	Ongoing
2.	Political Governance		
	- Strengthening of the Judiciary System and of the Public Security System	7. Improve the effectiveness and efficiency of courts in the provision of justice services so as to ensure an increase in the courts' productivity (PAF 14 and 15); 8. Develop institutional capacity-building programs aimed at increasing the operational capacity of the police force (PAF 18); 9. Improve the delivery of services of the Criminal Investigation Police Force. (PAF 17)	PAF timetable PAF timetable PAF timetable
3.	Fight Against Corruption	10. Ensure the implementation of the National Strategy for the Fight Against Corruption; 11. Guarantee the independent investigation and public disclosure of corruption cases (PAF 16)	Dec 2007 PAF timetable
4.	Efficiency in Government		
	- Institutional Capacity	12. Guarantee the implementation of phase II of the Public Sector Reform process. 13. Make operational the system for the administrative inspection of provincial governments (PRSP). 14. Continue with the harmonisation/integration of the Medium Term Fiscal Scenario, Economic and Social Plan (PES) and PRSP in the planning process (PRSP); 15. Conclude the legislation of criteria for the increase in the number of municipalities	Dec 2011 Dec 2007 July 2007

		(PAF 13)	
	- Public Finance Management	<p>16. Implement and consolidate the new public procurement system (PAF 7);</p> <p>17. Consolidate and expand the implementation of the State Financial Management System (SISTAFE) to cover all public institutions (PAF 5);</p> <p>18. Increase the coverage and efficiency of internal and external auditing organs (PAF 8)</p> <p>19. Continue the modernising of the fiscal administration, aiming to consolidate an efficient tax collection system (PAF 6).</p> <p>20. Strengthen the Administrative Tribunal's service provider capacity to ensure an increase in financial auditing (PAF 9)</p>	<p>PAF Timetable</p> <p>PAF Timetable</p> <p>PAF Timetable</p> <p>PAF Timetable</p> <p>PAF Timetable</p>
5.	Economic Government		
	- Private Sector and Business Environment	<p>21. Consolidate One-Stop Shops in all provinces and invest them with full licensing powers (PRSP)</p> <p>22. In the context of reform of the public sector, simplify licensing procedures for commercial, industrial and tourist activity, among others (PAF 31);</p> <p>23. Conclude the revision of the Laboral Legislation and submit it to Parliament for approval.</p>	Dec 2007
	- Natural Resource Management	<p>24. Develop and implement the land information management system (PRSP);</p> <p>25. Continue with the drawing up of an inventory of potential of mineral resources (PRSP);</p> <p>26. Submit for approval a draft bill regarding the Mineral Resources Tax Regime (Aide-Memoire Gov/WB)</p>	Ongoing

		27. Guarantee the sustainable use of natural resource and implement transparent mechanisms for the management and rational exploring of these resources (PRSP)	Ongoing
6.	Internal and External Security		
	- Internal Stability/Conflicts	28. Consolidate the role of the Inter-Ministerial Commission for the Prevention and Fight Against Illegal Traffic of Small Arms and Light Weapons 29. Modernise the registration, licensing of and control systems for small arms.	
	- External Threats and Global Security	30. Strengthen the national border control capacity in order to combat the illegal traffic of arms and drugs; 31. Join the International Community in their efforts in the fight against terrorism; 32. Proceed with the participation of Mozambique in peace support operations as well as in the various collective international security mechanisms, at SADC, AU and the UN level.	
7.	Social Governance		
		33. Guarantee good quality schooling for all, through the recruitment of qualified teachers, and the distribution of free school books in primary schools, and by reducing the number of teachers teaching a double shift in the second level of primary education (PAF 23 and 25); 34. Increase the conclusion rates for girls in the second level of primary education by 50%	PAF timetable PAF timetable

		<p>until 2009 (PAF 24)</p> <p>35. Implement the Second National Strategic Plan in the Fight Against HIV/AIDS (PEN II, 2005-2009), (PAF 22 and 37)</p> <p>36. Improve access to primary healthcare services by expanding the health network, especially to least favoured areas (PRSP);</p> <p>37. Decrease malaria-induced mortality, especially in the most vulnerable groups (PAF 21)</p> <p>38. Increase the coverage of urban sanitation to 55% and the rural sanitation to 40% (PRSP);</p> <p>39. Increase the coverage of water supply to 60% in urban areas and to 55% of the population in rural areas (PAF 26);</p>	<p>PAF timetable</p> <p>2009</p> <p>2009</p>
8.	Regional and International Context		
	- Regional Integration	<p>40. Participate in the regional process to create the free trade area, as well as the monetary union as foreseen in the SADC Protocol</p> <p>41. Continue the liberalisation process of the trade regime particularly with regards to maximum import tariffs (PRSP);</p> <p>42. Continue negotiations for the Economic Partnership Agreements (EPAs) in the context of the SADC/EPA configuration.</p> <p>43. Building on the shared identity of the PALOP countries in terms of history, culture, language, heritage support, participate in common initiatives relating to democratic governance among PALOP countries (+Timor Leste) within the framework</p>	<p>Dec 2007</p>

		of EC/PALOP (+Timor Leste) cooperation.	
	- Regional Peer Review Mechanisms (MARF)	<p>44. Ensure the implementation of the Memorandum of Understanding for the Technical Evaluation Missions for MARF, signed in August 2006;</p> <p>45. Ensure the implementation of the recommendations made in the Final Evaluation and Performance Report.</p>	
	- Migration		
9.	Partnership Quality		
	- Political Dialogue	<p>46. Carry out political dialogue at the appropriate levels, establishing its regularity and periodicity.</p> <p>47. Deepen the quality of political dialogue so that it can contribute to a better understanding of the political processes and socio-economic development of Mozambique</p>	<p>Ongoing</p> <p>Ongoing</p>
	- Programming Dialogue	48. Conclude the elaboration of the national cooperation policy strategy	Dec 2007
	- Non-State Actors	49. Continue the practice of the Poverty Observatories and expand their practice to the provincial level (PAF 1).	PAF timetable

Maputo, 10 April, 2007

- ANNEX 10 -

PARPA II AND MAIN SECTORAL PLANS

The PARPA II priorities are as follows:

- development of human capital namely in terms of education/culture, health, and access to drinkable water;
- economic development through, *inter alia*, the development of basic infrastructure, agriculture and rural development, and improvement of macroeconomic and financial management;
- governance, as a means of reducing poverty, through institutional reform in public administration, including Public Sector reform, Public Financial Management, and Judicial Sector, as well as anti-corruption measures.

As the majority of Mozambicans depend on the rural economy, the Government has recognised the importance of rural development in PARPA II and has transferred the responsibility over this area from the Ministry of Agriculture to the new Ministry of Planning and Development. It has also recognised private sector development as critical in order to maintain and sustain high rates of broad-based economic growth fundamental for further poverty reduction. Consequently, the new PRSP intends to allow for better integration of national economy and increase in productivity, the creation of a favourable environment to the growth of national productive sector, improvement of financial system, small and medium-size enterprises, mobilization of internal resources and allocation of budgetary resources to district level. Cross-cutting issues were further developed: HIV-AIDS, rural development, food security and nutrition, gender, reduction of impact of natural disasters, de-mining, environment, science and technology.

Planning and execution will use the existing annual Government instruments Economic and Social Plan (*Plano Económico e Social*) and General Budget (*Orçamento Geral do Estado*). The monitoring and evaluation system is integrated in the current planning documents: the Balance of the Economic and Social Plan and Budget Execution Report and will be done by introducing an adequate typology of indicators. An annually revised Medium Term Review Expenditure Framework will provide a three yearly fiscal scenario. It is foreseen that the poverty analysis is deepened and a new instrument – the Impact Evaluation Report (IRA) will be developed. It is expected that in the next period 2010-2014 the main specific components of PARPA will be incorporated in the next Government's Five-year Plan.

The goals for poverty reduction in PARPA II, in particular the annual growth of 5% of consumption in the poorest strata would reduce the percentage of the population living below the absolute poverty line from 54.1% of the population in 2003 to 36.4% in 2014. This result from a challenging macroeconomic and fiscal scenario described as optimistic in the document itself, that projects the real GDP growth rate at between 7% and 7.9% per year until 2009, and at 6.5% per year from 2010 to 2014. It is expected that agriculture, commerce and transports will play a major role in growth, contributing to the integration of the national economy.

The revised PARPA II was approved in May 2006 with a strategic matrix of indicators and annual targets for the period 2007-2009.

The G-18 undertook an internal assessment of the PARPA II based on the inputs from the donor working groups network, including the identification of a sub-matrix (with no more than 50 indicators) from the strategic one, to be used as Performance Assessment Framework for the G-18 biannual reviews. Main results of this assessment were as follows:

* The Government took a clear leadership role, with strengthened domestic engagement of civil society, the private sector and major stakeholders involved. The PARPA strategic matrix of key indicators will be fully integrated into and monitored through the annual instruments and their reporting mechanisms in place, process that will be key for implementation. The quality of poverty diagnosis in PARPA II has improved substantially since PARPA I, not least because it was possible to draw on the second household survey and compare trends over a 5 year period. Data used in PARPA II is considered to be relatively reliable and of good quality.

* PARPA II was built on the experience of PARPA I, where substantial progress was made in the social sectors with the concomitant impact on poverty reduction. While maintaining the commitment to improve quality and access to social services, PARPA II recognizes that the “rapid, sustainable and broad based growth” to which it aspires needs more emphasis on the growth of the productive and private sectors. The development of small and medium enterprises with associated employment creation, and a shift from the informal to the formal sector is essential to ensure medium to long term economic growth and sustained poverty reduction. The assessment welcomed the emphasis on the district as the focus of development, but there seem to be a need to clearly define the roles, responsibilities and mechanisms for the involvement of the provinces and districts in the implementation, monitoring and evaluation of PARPA II.

* PARPA II appropriately has a strong focus on improving governance as a means of reducing poverty, and develops a broader vision of the concept than previously. It sets out a broad agenda of institutional reform in public administration, including Public Sector reform, Public Financial Management, and Judicial Sector, as well as anti-corruption measures. Justice sector reform should remain a priority.

* In support of a broad based sustainable growth, it emphasizes the importance of sound fiscal and monetary policies to create a stable macroeconomic environment and the need to deepen and supervise the financial sector. PARPA II also continues with the emphasis on a market economy and the need to strengthen the private sector to make it more competitive, particularly by improving skills through vocational training and building the technological skills of companies. It proposes public-private partnerships where the private sector alone would not be able to succeed, particularly in agriculture and tourism, and job creation programs, such as labour-intensive programs for maintaining tertiary and neighbourhood roads and by including women in roads projects. Given the importance of smallholder agriculture for growth and poverty reduction, further clarity as to how productivity will continue to increase in this sector would be welcome.

* Overall the approach laid out for the Education, Health and Water sectors in the PARPA II is considered consistent with the sectoral priorities and with achieving the MDG targets.

As per the challenges, the issue of developing institutional and technical capacity to implement the PARPA needs attention. It is critical to design and implement enhanced, better coordinated and better aligned capacity development support programmes in key areas at all levels. The decentralization process, for example, poses considerable challenges for capacity issues at local level, but also a great opportunity. A strategic coordinated approach to capacity development will be needed to ensure that the exciting challenges enshrined in PARPA II are effectively implemented.

Also, the review (JSAN) made in 2006 by the World Bank (WB) and the International Monetary Fund (IMF) of PARPA II cited as strong points (i) the strong commitment to intensify and expand the work on governance and capacity building; (ii) the recognition of the challenges of HIV/Aids and the “credible strategy for accelerating the national response” (p.2) and (iii) the more active role of the private sector. The JSAN noted that the agriculture and rural development sections were vague, and suggested “greater clarity as to how agricultural growth can be ensured through increased farm level productivity and greater access to markets”. It also called for a credible and specific data collection plan, and for the use of SISTAFE to finally identify priority expenditures defined in the PARPA within the national budget system and to be able to monitor progress in real time.

Main Sectoral Plans: The Agriculture Sector Programme, PROAGRI, which commenced in January 1999 represents the totality of the agricultural sector public expenditure in Mozambique and is managed by the Ministry of Agriculture. PROAGRI Phase I covered the period 1999-2004 with an initial budget of US\$202m funded by 16 donors, while PROAGRI Phase II covers the period 2005-2009. Donors contributions are in the form of sector budget support and, thus, additional to the State’s own resources, and are integrated within the annual budget of the Ministry of Agriculture. Substantial progress has been achieved under PROAGRI in areas such as activity planning, budget planning and management, accounting, audit and financial control, procurement, contract administration and budgetary and activity reporting. The overriding objectives for Phase II should be sustainable and equitable growth in the agricultural sector production and reduction of rural poverty by supporting the efforts of smallholders, the private sector and non-governmental agencies to increase agricultural productivity, agro-industry and marketing within the principles of sustainable exploitation of natural resources, while at the same time safeguarding the environment, developing institutional and financial sustainability of the line Ministry.

The ongoing Road Sector Programme (ROADS III) begun in 2001 as a 10-year programme with the support of the World Bank and other 16 donor/lenders, including the European Commission. The programme which is due to end in 2011 was planned in three phases: while phase 1 has been focused on urgent rehabilitation, the phase 2 covering the period 2007 – 2009 will be guided by a recently drafted new Road Policy, based on the objectives of improving accessibility for rural areas, connectivity to markets, the sustainability of expenditures and complementarity with the other productive sectors. The policy clearly outlines the importance of providing for basic road infrastructures, connecting rural areas to markets and to basic social services, while facilitating the agriculture, trade, industry, energy and tourism development. In this connection, a new sector programme for the period 2007–2011, indicated as PRISE (the Portuguese acronym for Road Sector Integrated Programme) and a new Program Implementation Plan (PIP) covering the period 2007 – 2009 have been prepared with the direct involvement of the donors. Substantial external resources are foreseen to be needed in order to successfully carry out this programme.

Out of the forecasted expenditure of \$ 976 million over the next three years, 59 % are to be used for financing rehabilitation and upgrading of the existing network, 38 % for routine and periodic maintenance and about 3% for administration. The donors are expected to support about 60 % of the programme, while the government will cover about 30 % through the national budget and the Road Fund own revenues. PRISE is more than a funding mechanism, as it is emerging as the new Sector Wide Approach to be gradually introduced in Mozambique, once the seven key areas assessments (i.e. the macro-economic framework, the sector policy and strategic framework, the move towards a medium term expenditure

framework for the sector, accountability and public expenditure management systems, donor co-ordination systems, performance monitoring, institutional capacity) have been verified. The ambitious target would be to have all the funds channelled through sector budget support (SBS) by 2010.

Both PRISE and PIP rely on the implementation of the institutional reform pointed out in the new Road Policy, which strengthen the autonomy and separates the competences of the Road Fund as the funding agency with those of ANE the implementing agency. These reforms were actually pointed out during the 2005 EDF funded Performance Audit of the Road Sector and are expected to improve the overall management capacity for the sector. The majority of donors currently fund via earmarked projects, while EC is the only donor that already funds a limited proportion of its envelope through a specific arrangement with the Road Fund. Most of the donors are expected to join the new sectoral approach in the near future.

The Health Sector Strategic Plan 2001-2010 has served well for its first five years, as a strategic cornerstone of the corresponding SWAP, providing direction to achieve the goals of the health sector. Its general direction is still valid, although it has shown some weaknesses: it failed to specify relative priority within key areas and it is not costed, which makes it difficult to make informed financial decisions. The health context in 2006 has changed (decentralisation, the impact of the Millennium Development Goals, the Global Fund, Roll Back Malaria and GAVI) and a refocusing of issues which require attention for the coming Phase II 2006-2010. The Plan must also be flexible enough to accommodate any new emerging opportunities and challenges.

The Education Sector Strategy Plan II presents the second phase of the Government of Mozambique's strategy for education, emphasizing the provision of quality basic education to all and addressing cross-cutting issues (gender equity, HIV/AIDS). Key to a successful implementation of the Plan is improving the management of education through strengthening institutional and human capacity, decentralization, improved procedures for financial management and procurement, as well as human resource management.

ANNEX 11
EC SUPPORT STRATEGY FOR MOZAMBIQUE IN THE CONTEXT
OF THE ACCOMPANYING MEASURES FOR SUGAR PROTOCOL
COUNTRIES (JUNE 2006)

1. SUMMARY

In response to the new sugar regime in the EU, the Mozambican Sugar Sector has submitted to the EC in April 2006 an Adaptation Plan. The document was prepared in a concerted effort by the Mozambican Association of Sugar Producers (APAMO), the Ministry of Agriculture, represented by the National Sugar Institute (INA) and the Cabinet for the Promotion of Commercial Agriculture (GPSCA/CEPAGRI).

Based on the positive assessment of the Mozambican plan and taking into account the importance of the sector for the socio-economic development of the country, the EC Accompanying Measures will contribute to the budget of the Ministry of Agriculture, with the objective of increasing the productivity in the sugar industry and to promoting the pro-poor development in the sugar areas. Specific interventions will include a) cane expansion under out-grower schemes, b) training & skills development, c) provision of social service and facilities into the sugar production areas.

The phase 1 (2006) and phase 2 of the programme (2007/2013) will focus on the same strategic components above indicated. However, the level and the mechanisms of funding for each component during the second phase will have to be further defined.

2. COUNTRY OVERVIEW

During the reconstruction period that followed the end of the war, government interventions became more and more focused on poverty alleviation. These efforts were translated into the first poverty reduction plan, PARPA I (2001/2005), which for the first time clearly stated the government objectives for poverty reduction through interventions in the following priority areas: education, health, agriculture and rural development; basic infrastructure (roads and water); good governance; sound macroeconomic and financial management. PARPA II (2006-2010) continued with the same vision for poverty reduction, but giving more emphasis on some key cross-cutting issues, the fight against HIV/AIDS in particular, and on economic growth. Under the latter, PARPA II gives priority to a) the improvement of the business environment; b) inter sector coordination to ensure increase in productivity in agriculture and related sectors.

The importance of the agriculture sector for poverty reduction is confirmed by the fact that more than 70% of the population live in rural areas, getting 85% of their income from farming related activities. Agriculture, livestock, forestry and fishery together represent more than 25% of the GDP. Between 1996/7 and 2002/3, agriculture growth was estimated at an annual average of more than 5%, making the sector the largest contributor to the poverty alleviation progress attained by Mozambique in the past six years (incidence reduction from 69.4% to 54.1%). Because of its natural endowment and the untapped potential for agriculture development, the country has been able to attract a significant amount of foreign investment, both in the production and agro-processing segments. However, more than 90% of the area under agriculture is cultivated by smallholders, with an average farm size of 1.2 ha. More than 3 million households constitute 99% of the farming community, Therefore no significant increase

in output and no significant reduction in poverty can be achieved unless focus and priority is directed to the small-scale agriculture producers.

3. EC Cooperation in the relevant sectors

EC is a major contributor to budget support through its Poverty Reduction Budget Support programmes (PRBS). The EC is also the main contributor to the budget of the Ministry of Agriculture (36% of the total ministry's budget in 2006). EC and other donors' contribution to the budget of MINAG is channelled through PROAGRI, which is the government development programme for agriculture and that is now entering its second phase (PROAGRI II, 2006-2010).

PROAGRI II is coherent with PARPA II, as MINAG main objective is to contribute to poverty eradication by enhancing the production and productivity in the agriculture and livestock sectors, promoting the sustainable use of resources and boosting the agro-business within the value chain approach. All the lessons learnt from the EC cooperation in the agriculture and food security areas pointed out to the importance of the value chain approach, whereby adequate improvements at small and medium farmers' level can only be achieved in a sustainable manner by promoting the market links and boosting the agro-industry sector.

4. The Sugar Sub-Sector in Mozambique

The rehabilitation of the sugar sector in Mozambique began in the 1990's, following the end of the war. Foreign investors were largely attracted by the opportunity to produce sugar at a low cost because of the country's suitable agro-ecological situation, which favour the cane sucrose content and extend the processing season, and the potential to access plentiful water resources. Investors were also attracted by the country privatisation programme and by government's protecting policy for the sugar domestic market, which imposes a variable surcharge on imports of sugar, in order to compensate for the low level and volatile nature of the world sugar price.

So far, four sugar factories and estates have been fully rehabilitated at a cost of more than US\$ 300 million. Three foreign groups have the main stake in the industry:

- Tongaat-Hulett Ltd from South Africa, (Açucareira de Xinavane and Açucareira de Moçambique in Mafambisse - country centre)
- Illovo Sugar Ltd from South Africa (Maragra Açucar - country south)
- Sena Holdings Ltd from Mauritius (Companhia de Sena SARL in Marromeu)

A French agro-industrial group, Tereos, has recently acquired a 50% stake in the Mauritian-owned Sena Sugar Company. Tereos is planning to invest US\$30m in sugar production, confirming the attractiveness and profitability of the Mozambican sugar sector.

The Government of Mozambique is the majority shareholder in Açucareira de Xinavane (51%), and is a minority stakeholder in Companhia de Sena (12%) and Açucareira de Moçambique (25%). The Government recently sold the assets of Companhia do Buzi to a minor stake holder of Maragra Açucar. However, while the rehabilitation of the estate and mill is still under going, there are indications that Buzi may not return to mainstream sugar production, but rather focus on alcohol production.

The catastrophic floods of 2000 undermined the progress made in rehabilitating the sugar industry, wiping out all cane production in Maragra Estate and threatening production in Xinavane and Marromeu Estates. The European Investment Bank (EIB) contributed with a loan of € 7million (11.3% of the total cost) for the rehabilitation of

Maragra mill and plantation. Because of the damages caused by the floods, the loan was restructured, in order to mitigate the negative financial impact on the project.

Since 2001, Mozambique benefits from a duty free access annual quota of 9,900 tons under Everything But Arms (EBA) trade arrangement. Still under EBA, and starting from 2009, Mozambique's access to the EU market will have no quota restriction. In 2003/04, Mozambique was allocated a quota to supply 6,000 tonnes (white sugar equivalent) of raw sugar to the EU under the Sugar Protocol. These two mechanisms promised access to a secure market at a price that made further investment an attractive scenario for the private sector.

Since its rehabilitation in the 1990s, the sugar industry has expanded at a rate consistently higher than the national growth average. Over the last years, the production increased from around 50,000 tonnes of raw sugar in 2000/01, to around 260,000 tonnes during the 2005/06 campaign. Over the same period, revenues have increased at an average rate of over 60% per annum. This compares with a national growth rate of around 8% per annum.

Although the sugar sector accounts for a relatively small proportion of overall GDP (around 2%), it represents close to 10% of agricultural income, making an important contribution to the economic development in rural areas. As the sugar industry has expanded, it has become increasingly export oriented, contributing more than 10% of national export earnings. As shown in the table below, exports in 2005 amounted to more than 25% of the total raw sugar production (approx. 230.000 tons).

Market	Quantity (Tons)	Price FOB (US\$/Ton)	Revenue FOB (US\$)
USA	14.604	403	5.885.412
EBA/SPS	17.573	564	9.902.613
EU Sugar Protocol	18.616	588	10.941.019
International market.	13.470	292	3.929.270
Total	64.263	average 477	30.658.314

The sugar industry employs more than 21,500 people among seasonal and permanent workers, which is equivalent to a little more than 17,000 full time work posts. In this figure, workers of companies that are contracted by some sugar growers for cutting, collecting and transport of cane, as well as those who work for outgrowing independent farmers, are not taken in account. This makes the sugar industry the most important employer in the country's rural areas, after the public sector. The number of female workers in the sugar industry is just above 16% of the total workforce of the industry. Xinavane stands out from the other sugar industries as it employs nearly 56% of the total feminine workforce of the four industries.

The area under production steadily increased during the last 5 years, though not significantly after 2001. Most of the cane is produced on plantations owned by the mills. Expanding the supply of cane is now increasingly achieved through the contracting of independent cane growers. The current share of cane production by out-grower schemes is 15% of total (see 2005 data in the table below).

	Marromeu	Mafambiss	Xinavane	Maragra	Total
Harvested area ha	11.676	7.052	6.010	6.283	31.021
Mills production	12.034	6.551	4.254	3.096	25.935
Outgrowing farmers	0	50	1.311	2.970	4.331
Cane production T	709.638	431.617	508.686	597.044	2.246.985
Mills production	709.638	424.117	397.086	356.218	1.887.059
Outgrowing farmers	0	7.500	111.600	240.826	359.926

5. Impact of the reform of the EU sugar regime

Mozambican quota under the Sugar Protocol amounts to 6,000 tonnes of raw sugar equivalent, which is only a small fraction of all sugar domestic and export sales from the country. Because of the quota, the negative price impact of the EU reform on export earning will be rather low, at least in terms of loss revenues. However, as Mozambique will be entitled under the EBA agreement to no-quota exports to the EU market starting from 2009, such negative impact will drastically increase during the yearsprice impact on export earning may increase in parallel with the increase of the EU market as destination for Mozambican sugar.

Mozambique sector needs further investment to grow in scale, as the transformation costs (per tonne of sugar produced) in Mozambique are still significantly higher when compared with the world's major sugar exporting countries. In addition, because of the high costs of rehabilitation, the sector is currently burdened with a high level of debt. While debts are falling gradually as repayments are made, the industry is struggling to cover its fixed and, in some cases, operational costs. This is likely to limit severely the extent to which the industry is able to re-invest in the sector.

The new EU sugar regime could lower the returns that future investments could expect to earn in Mozambique, reducing the sector's ability to attract the capital required for its expansion..

6. Needs for the sector: the Mozambican Adaptation Plan

In response to the threats and weaknesses, and taking into account the existing strengths and opportunities, the country has elaborated an Adaptation Plan for the period 2006/13. The Plan goes beyond the interest of the sugar industry, representing the needs of all the parties involved, i.e. the sugar industry and its workers, the cane farmers, the local communities and the government at large. The Plan indicates a large variety of interventions along the various elements of the value chain that are not limited to the economic dimension of sugar production, but also consider the social and environmental impact of the sector, providing sufficient focus on poverty reduction interventions. The Plan focuses on two main elements:

- **to secure the long term viability of the sugar industry;**
- **to enhance the sector contribution to the country's socio-economic development.**

Over the next five years, the sector should reduce significantly the industry's costs to a level that is well below projected revenues. This should help to create an environment where the private sector is in a stronger position to pay off existing debts and re-invest in the sector, possibly prompting greater expansion plans from the existing mills, and

perhaps further rehabilitation of former sugar estates and processing plants. These goals will be achieved through a combined approach, mainly focused on:

- **increasing the productivity of the sugar industry**
- **promoting pro-poor development in the sugar areas**

Under the two approaches, the followings are considered as priority interventions:

6.1. Cane Expansion

In order to secure long term viability, the Mozambican sugar industry needs to grow in size, attaining greater economy of scale and becoming a cost competitive producer. To this end, the industry is planning to expand the area under cane by 19.000 ha, from the current 34,000 ha to over 53,000. Approximately 18% of the new cane land will be under estate land. 43% will be under contract with commercial farmers, many of them foreign nationals with a farm size ranging between a few hundred to a thousand hectares. The remaining 39% of new sugarcane land, i.e. approximately 7,500 ha, will be cultivated by small scale out-growers, i.e Mozambican farmers, each one with usually less than 5 ha under cultivation.

As a result of the new land under cultivation, cane production is expected to increase by around 1.9 million tonnes, to a total of 4.1 million tonnes per year by 2010. By the same year, approximately 20% of the total cane is expected to be produced by outgrowers.

Support to small scale farmers will take into account the positive experience already gained by the Xinavane Mill, which has one out-grower scheme already in operation under the umbrella of the Maguiguane Farmers Association. New outgrower schemes will be designed based on Xinavane pilot experience. Alongside with the growing capacity of the associations, new mechanisms will be established to provide farmers with adequate access to financial services, in particular for seasonal capital. Micro-credit agencies, already operating in some rural areas of the country, will be attracted to provide their services into the sugar production areas. Capacity building to associations and training to both existing farmers and new entrants will be provided, either by the extension services of the sugar companies or by NGOs engaged to that effect.

The total estimated cost of sugarcane area expansion is approximately 76 M€. The investment cost for new land under small out-grower schemes is estimated at 45 M€. This includes the construction of road and dam infrastructure in some of the production areas, with an estimated cost of 11 M€.

6.2. Mill Expansion

In order to accommodate the additional cane that will be produced, it will be necessary to expand and upgrade the industry's mills. The larger future size of the mills will enable them to capture greater economies of scale, putting them in a stronger competitive position. This intervention also provides an important opportunity to improve the environmental performance of the sugar mills by including suitable environmental control measures within the planned investments. Increasing cane production together with the crushing capacity should reduce milling costs from USD 50 to around USD 35 per ton. The total estimated cost for the expansion of all the four mills is 70 M€.

6.3. Social Services

As a result of the government's limited outreach in the rural areas, the sugar companies are currently providing the bulk of the basic healthcare and education services in the sugar production areas. The sugar industry will keep this role and increase the services

both in terms of quality and coverage. This will benefit to the local communities, eventually improving the productivity both at farmer level and in the mills' workforce. The total estimated cost of this component is 12 M€ for investments and 0.5 M€ for recurrent costs.

6.4. Training & Skills Development

The Sector intends to increase the average skill base across the lower groups of the sugar workforce, from artisans to front line management staff. This should reduce the industry's costs and enhance its contribution to national development by progressively replacing the existing expatriate staff with skilled local personnel. The estimated cost is 0.7 M€ per year. This cost is expected to decrease overtime, as the overall skill of the workforce is raised.

6.5. Supporting infrastructure

Because of insufficient infrastructures, road and warehouses in particular, Mozambique's average fobbing costs are significantly higher, as compared with the world's leading sugar exporters. The expansion of sugar production will place growing pressure on warehousing capacity and port infrastructure. This component mainly focuses on the construction of a bulk sugar terminal at the Beira harbour. Storage facilities should reduce the logistical costs associated with distributing sugar in the domestic market and for exports. The estimated cost is 40 M€ for the terminal and 6M€ for warehousing.

6.6. Product diversification

This component aims at increasing the revenue stream to the sugar industry by setting up ethanol production capacity from molasses and co-generation plants. However, considering the level of added value and low return as compared to expanding the sugar output, this intervention, and co-generation in particular, is considered as a lower priority.

7. EC RESPONSE AND OVERALL OBJECTIVE OF THE ACCOMPANYING MEASURES (2006-2013)

By recognising the importance of the sector and the validity of the adaptation plan, the EC Strategy will embrace the main objective of the Sugar Sector, focussing its assistance on non-bankable interventions, with the specific aims of:

- **Expanding cane production through small out-growers schemes;**
- **Increasing the skill base across the lower groups of the sugar workforce;**
- **Providing social services and facilities into sugar production areas.**

EC support under the accompanying measures is coherent with the EC overall development approach, as reflected in the CSP for 2008-13. The EC strategy is also clearly in line with the Agriculture and Rural Development focal area of the 10th EDF, which seeks to enhance the food security situation and promote income generation in the rural areas by improving the performance of the agriculture sector.

The investment and the training components of the EC Strategy will also have the objective of enhancing the capacity of the Mozambican society to better participate and to fully benefit from the sugar production chain, reducing the somehow "off-shore" nature of the sector.

As the needs of the Adaptation Plan largely exceed the financial resources under the Accompanying Measures, other financing sources will be sought by the sector, in

particular for the bankable components of the Plan, such as the commercial banks, the private sector, commercial and concessionary financing (including the EIB). EC grant under the Accompanying Measures will also be insufficient to address the needs under the social and production component of the Sugar Adaptation Plan. As a result, complementary interventions will be sought under the forthcoming 10th EDF, particularly in the area of infrastructures.

The possibility of complementary funding from the EDF Regional Programmes will also be analysed, particularly for those components of the Plan that have a clear regional dimension, such as the construction of sugar terminals in some of the Mozambican ports. In this context, coordination will be sought with interested neighbouring countries, such as Zambia, Malawi and Zimbabwe, as part of an EC regional intervention strategy.

Active collaboration will be pursued with the EIB in order to complement possible interventions from the bank with the activities to be financed under the second phase of the Accompanying Measures (2007/2013). Collaboration will also be sought with other development agencies, in particular from the EU Member states, in order to promote coordinated interventions in the sugar production areas.

7.1 Cane Expansion under small out-grower schemes

Most of the new sugarcane land should be under irrigation. However, if all the costs for developing fully irrigated agricultural lands are included in a financial analysis, the investment would show a low or negative rate of return. As a result, while commercial banks may not be prepared to lend money on a commercial basis, most farmers would be unwilling or unable to make the initial investment. This suggests that, while irrigated cane cultivation is a profitable activity for independent growers, the development of fully irrigated agricultural land needs some form of start-up subsidy.

Grant finance will therefore be provided by the EC to support the development of the land utilised by small growers, with a special focus on the promotion of producer associations. This takes into account the need of improving the technical and managerial capacity of local farmers, most of whom have only little exposure to commercial activities and modern agriculture. The organisational and institutional building of farmer association will therefore form an integrant part of the EC strategy.

Associations will be the institutional link between individual farmers, the mills and both the Water and Agriculture Authorities. Amongst other tasks, farmer associations will coordinate the provision of training and extension services to its members, the supply and delivery of inputs, the harvesting and delivery of cane to the mills, the maintenance and repair of irrigation, road and other production infrastructure. Based on the Xinavane model, associations will also play a crucial role in promoting a more business oriented mentality amongst their members, possibly attracting rural finance agencies for the provision of the necessary credit and saving services. Through their associations, members of small outgrower schemes will be encouraged to increase their cane field to a minimum size (usually between 6 and 10ha). This will help the delivering of inputs and create a critical mass for the efficient growing and delivery of cane.

In accordance with the principles of the EC development policy, the EC assistance will be designed taking into account all the key environmental issues, with particular attention paid to the use of land and water in the areas under cane land expansion.

7.2 Training & Skills Development

The provision of better training to the sugar workforce will have the immediate effect of increasing the average skills of artisans and front line management staff, raising the productivity of the sugar industry, as well as increasing the pool of Mozambican trained personnel in the economy as a whole.

All the four sugar industries have plans to replace most of the expatriate staff, especially at middle management level, with local personnel. This, in the long term, should generate considerable savings, making a significant contribution to the productivity of the sector and creating the necessary financial capacity within the industry to finance its own training needs.

The only industrial training centre for artisans operating in the country, which is based in Maputo and run by a South African company, is mainly used by the sugar mills situated in the south of the country. Other mills usually send their staff to dedicated training centres in Zimbabwe. Higher level training is currently provided by SASA (South African Sugar Association) in Durban. As a result, training activities are currently very expensive, particularly because of travelling and boarding costs.

Because of the rather limited size of the Mozambican sugar sector, the setting up of a training facility specifically dedicated to the sugar industry will not yet be sustainable. As a result, the approach will be to set up a training fund that will contribute to finance the training needs of the sugar industry. The fund will operate according to the model of PODE, an Enterprise Development Programme co-funded by the EC and World Bank, which was used to assist the Mozambican industry with a 50% contribution to the training costs. Because of the flexibility of the fund, various training models will be used, depending on the location of the workforce, the skill level and the particular needs of each of the sugar companies. Training will be carried out in-house (either from within the industry or outsourced) and in dedicated training centres, inside and outside the country.

7.3 Social services and facilities into the mills' areas of interest

Because of the government limited capacity, the sugar industry is currently the main provider of social services, not only to its employees but also to the surrounding communities. Because of the financial constraints, the sugar industry may reduce or suspend altogether any plan for further investments to this area and rather concentrate on its core business activities.

The EC objective in this component is therefore to support the provision of social services for health, education, water & sanitation, road & communication. This will include infrastructure development, supply of basic equipment and the provision of dedicated services for malaria control and HIV/AIDS prevention.

All the investment activities will be carried out by the four sugar companies in coordination and collaboration with the relevant government authorities. However, taking into account the government's limited capacity, the sugar companies will maintain the current responsibility for service delivery, covering most of the relevant maintenance and operational costs. Where applicable, management committees will be established at local level in order to promote the community's involvement in the management of the facility.

8. Accompanying Measures Phase I (2006)

Allocation to Mozambique for 2006 amounts to 562.000 €. Funds will be used in line with the priorities indicated in the National Adaptation Plan, focussing on the three priority areas mentioned above. The allocation of funds for each component and each specific activity will be confirmed by a detailed implementation plan that is to be elaborated in collaboration with the sector. Provisional figures indicate that 45% of the

funds will be allocated to the social sector and 45% to the production and training sector.

The remaining 10% of the 2006 budget will be allocated to the monitoring and coordination of the Programme and to finance specific technical studies, meetings and stakeholder consultation events. These studies, which will be carried out under the government coordination, will help to further focus the overall Adaptation Strategy and the EC focal areas for the next phase, providing the necessary technical and financial analysis and timing details.

9. Accompanying Measures Phase II (2007/2013)

The EC strategy for the second phase of the Accompanying Measures will be better defined once the funding allocation for the period 2007/13 is established. In any case, the level of EC support will be largely insufficient to cover all the needs of the sector. As a result, and in order to better focus the EC support, only one or two components out of the three priority areas already identified will be maintained.

The selection of the focal areas, the funding level and the implementation modalities for each of the EC strategic components will be the subject of further consultation with all stakeholders.

The choice will also largely depend on the availability of additional funds to cover the costs of other interventions foreseen in the Mozambican Plan. This is particularly relevant for the support to out-grower schemes, as the expected increase in cane production should be concurrent with the expansion of the mills' crushing capacity.

10. Modality for EC assistance

The funding mechanisms for the Accompanying Measures will be in the form of sector budget support to the Ministry of Agriculture. This mechanism, to be fully integrated into PROAGRI, will be implemented on the specific condition that the EC support is additional to the envisaged plan of actions and budget of the Ministry of Agriculture.

The specificities of the Sector Budget Support programme will be further defined in the financing agreement for EC support. The EC support strategy will be reviewed jointly with the CSP in 2010, and ad hoc earlier if necessary. The review will be based on the monitoring system established in the context of PROAGRI, which will incorporate specific performance indicators and targets for the sugar sector.

The national Adaptation Plan, of which the EC strategy is a part, will be implemented under the coordination of CEPAGRI (Centro de Promoção da Agricultura – Agriculture Promotion Centre), which is a recently established autonomous institution in the Ministry of Agriculture and that incorporates the functions and responsibilities of the former National Sugar Institute. One of CEPAGRI key tasks will be to ensure that all the resources pledged to the National Adaptation Plan, in particular from the industry and Government, are timely made available. In addition, CEPAGRI will play a major role in promoting the Plan and attracting additional resources from the donor community and development finance institutions.

The budget of CEPAGRI will reflect the addition funds provided by the EC. Because of the various actors involved in the Plan and taking into account the primary role that will be played by private sector, a memorandum of understanding will be subscribed by all stakeholders, setting out the performance indicators and the mechanisms to monitor the execution of the programme.