INTERNATIONAL MONETARY FUND AND
THE INTERNATIONAL DEVELOPMENT ASSOCIATION

Republic of Mozambique

Decision Point Document for the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative

Prepared by the Staffs of the IMF and IDA[1]

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Tables

Figures

Boxes

Abbreviations and Acronyms

AfDB/F	African Development Bank/Fund
BADEA	Arab Bank for Economic Development in Africa
CIRR	Commercial Interest Reference Rate
DSA	Debt Sustainability Analysis
EIB	European Investment Bank
ESSP	Education Sector Strategic Plan
EU	European Union
GDP	Gross Domestic Product
HIPC	Heavily Indebted Poor Country
HSRP	Health Sector Recovery Program
HSSP	Health Sector Strategic Plan
IDA	International Development Association
IFAD	International Fund for Agricultural Development
IMF	International Monetary Fund
NDF	Nordic Development Fund
NPV	Net Present Value
OPEC	Organization of Petroleum Exporting Countries
PARPA	Action Plan for the Reduction of Absolute Poverty
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Paper
SWAP	Sector-Wide Approach

I. INTRODUCTION

1. This paper proposes that the Executive Boards of IDA and the Fund approve a decision point for Mozambique under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative. Specifically, it proposes that assistance of US$254 million in net present value (NPV) terms be provided within the HIPC Initiative framework. A floating completion point is proposed, the conditions for which the authorities expect to meet in March 2001. Interim assistance would be provided by IDA and the Fund beginning at the decision point.

2. In June 1999, the Boards of IDA and the Fund agreed that Mozambique had reached the completion point under the original HIPC Initiative, as anticipated at the decision point for Mozambique in April 1998[2]. The Boards of IDA and the Fund also agreed that additional assistance be provided to Mozambique under the original Initiative, above the amounts agreed at the decision point, in order to ensure the achievement of the target level of 200 percent for the ratio of the NPV of external debt to exports, based on completion point data. Including this additional assistance, the total amount of debt relief to Mozambique was raised to US$1.7 billion in NPV terms (or about US$3.7 billion in debt service relief over time), implying a reduction of 63 percent of the debt outstanding at end-1998 in NPV terms.

3. In September 1999, the Executive Boards agreed on a set of significant enhancements to the HIPC Initiative, including a target NPV of debt-to-exports ratio of 150 percent based on decision point data. At that time, they also agreed that countries that had already passed their decision points should benefit from the enhancements to the framework based on their end-1998 situation and satisfactory policy performance, including the social content of their programs. A key feature of the strengthened link to poverty reduction of the enhanced Initiative was the development of Poverty Reduction Strategy Papers.

4. In their Interim Poverty Reduction Strategy Paper (I-PRSP), the Mozambican authorities summarize their poverty reduction strategy and lay out their plans for its further development.[3] These plans include elaborating a strategy for engaging civil society in the process of developing and implementing the country's poverty reduction strategy, establishing a system to monitor progress in reducing poverty, and including the costs and financing requirements associated with the strategy. The authorities' plans envisage the preparation of a full PRSP by March 2001 that will include the aforementioned elements. The completion of the Poverty Reduction Strategy Paper (PRSP), continued progress in implementing the agreed policy measures, and satisfactory performance under the program supported by the Poverty Reduction and Growth Facility (PRGF), would serve as a basis for reaching the completion point under the enhanced HIPC Initiative.

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[2] See "Republic of Mozambique, HIPC Initiative: President's Memorandum and Recommendation and the Completion Point Document", IDA/R99-139, June 18, 1999; and Republic of Mozambique, Initiative for the Heavily Indebted Poor Countries, Completion Point Document, EBS/99/103, June 17, 1999.

[3] See "Mozambique: Interim Poverty Reduction Strategy Paper and Joint World Bank-IMF Staff Assessment of the Interim PRSP".

5. In February and early March 2000, Mozambique was hit by heavy rains resulting in severe flooding in a number of areas exceeding the highest levels recorded in more than 100 years. In response to requests from the Mozambican authorities, the international community has committed extensive emergency assistance. As part of this effort, the Bank and the Fund have taken a number of steps to contribute to this effort and to minimize the impact of the emergency on Mozambique's near and medium-term growth, development, and poverty reduction programs. The figures presented in this document reflect a very preliminary assessment of the impact of the floods. A more thorough assessment is underway, and will be reflected in an update of the macroeconomic framework and policy agenda that will be prepared later in the year. As part of the response to the floods, this paper also outlines proposals for accelerating the profile of debt relief proposed to be provided by the IDA and the IMF under the enhanced HIPC Initiative[4].

6. The paper is organized as follows. Section II reviews Mozambique's poverty reduction policies and performance in recent years, including data from the First National Poverty Assessment that was not available in previous HIPC documents. Section III reviews the progress made by Mozambique since June 1999 in developing its poverty reduction strategy and in pursuing the macroeconomic, structural and social development reforms described in the Policy Framework Paper. The section also outlines the country's program for the coming year, including the use of the additional resources made available under the original HIPC Initiative as reflected in the 2000 budget. Section IV presents the updated debt sustainability analysis and discusses the assistance that would be provided in order for Mozambique to meet the target NPV of debt-to-exports ratio under the enhanced HIPC Initiative of 150 percent. Section V reviews the status of creditor participation in providing debt relief to Mozambique under the original HIPC Initiative. Section VI discusses the requirements for Mozambique to reach the completion point under the enhanced HIPC Initiative, and Section VII proposes the main issues for discussion.

II. POVERTY REDUCTION POLICIES AND PERFORMANCE

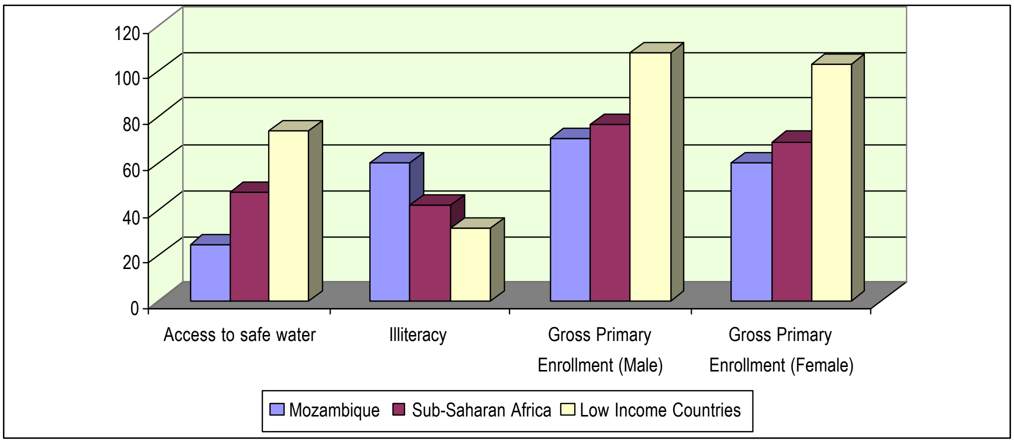
7. Poverty reduction has for some time been a key focus of government policy in Mozambique. In 1995, the government published its *Strategy for Poverty Reduction in Mozambique*, which set out for the first time explicit policies for poverty reduction. Since then, significant progress has also been made in addressing poverty by creating stable economic conditions, achieving high rates of economic growth, expanding the delivery of basic services, improving living conditions, and reducing food insecurity. However, Mozambique remains one of the poorest countries in the world, with an overall poverty rate of about 70 percent.

[4] The Paris Club creditors announced in March 2000 their decision to provide a deferral on debt service coming due on all their claims until Mozambique reaches its completion point under the enhanced HIPC Initiative.

A. Poverty in Mozambique

8. According to the World Bank Atlas method, Mozambique's GNP per capita was US$210 in 1998, compared with averages of US$480 for Sub-Saharan Africa and US$520 for the group of low-income countries. In terms of the Human Development Index (HDI), a composite index of income, education and life expectancy, Mozambique ranks 169th out of 174 countries (UNDP, 1999), and many of Mozambique's social indicators fall below the average levels for Sub-Saharan Africa (see Figure 1).

Figure 1: Key Social Indicators, 1998 (percent)



Source: The World Bank.

9. Poverty in Mozambique has been extensively documented through a nationally representative household survey undertaken in 1996/97 and published in 1998[5] The main results from the survey are summarized in Box 1 below. Income poverty levels were found to be quite high, with over two-thirds of the population (10.9 million people) living below the national poverty line. About one third of the population was destitute or ultra-poor, with consumption levels 60 percent below the poverty line. Very low health and education outcomes also characterize Mozambique. In 1996/97, the national adult literacy rate was only 40 percent, and it was even lower for women (24 percent). Life expectancy was 47 years, and mortality rates for less than one-year old infants was 135 per 1,000. Mozambique is a predominantly rural society, and four-fifths of the poor live in rural areas, though there are notable regional, rural-urban, and gender inequalities amongst the poor.

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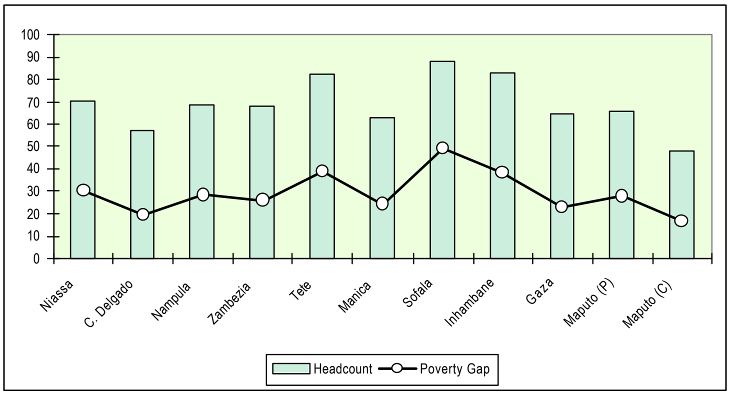
[5] See S. Devereux and A. Palmero (1999). "Creating a Framework for Reducing Poverty: Institutional and Process Issues in National Poverty Policy - Mozambique Country Report". Institute of Development Studies, University of Sussex.

Box 1: Poverty in Mozambique: A Snapshot

- **Income poverty**: 68 percent of the population reported consumption below the national poverty line of approximately US$0.41 per day in 1996/97. The poverty gap (the mean shortfall below the poverty line, expressed as a proportion of that line) at that time was estimated at 29 percent. Rates of income poverty vary significantly by province, with Sofala (88 percent), Tete (82 percent) and Inhambane (82 percent) displaying the highest incidences of poverty, as shown in the figure below.

Rates of Consumption Poverty by Province



- About 80 percent of the population live in **rural** areas, of which about 71 percent are poor. Over 90 percent of rural adults work in the agricultural sector. Nearly all rural households— poor and non-poor—-have some land. However, the amount of land per capita is about 50 percent higher for the non-poor. Rural households have very limited physical access to most services, and it matters little whether the household is poor or non-poor.

- Poor households tend to be larger, and have higher dependency ratios than the non-poor (average household size is 5.6 for the poor versus 3.6 for the non-poor. **Female headed households** were not found to have higher than average rates of income poverty (a likely reflection of remittances from spouses working in urban areas or in South Africa), but were worse off along other dimensions of poverty.

- **Education:** Adult literacy rates are low, even among the non-poor (37 percent for the poor and 46 percent for the non-poor). There are also large regional and gender differences in literacy rates. The literacy rate for men is 59 percent versus 24 percent for women. The rural-urban difference is about 36 percentage points.

- **Health:** The poor and ultra-poor miss more days of work activities due to illness and are less likely to seek treatment for illness. Poorer children are less likely to have a health card (a proxy for vaccination and well-baby checks), though as in the case of education, the poor/non-poor differences are dwarfed by regional differences in health access.

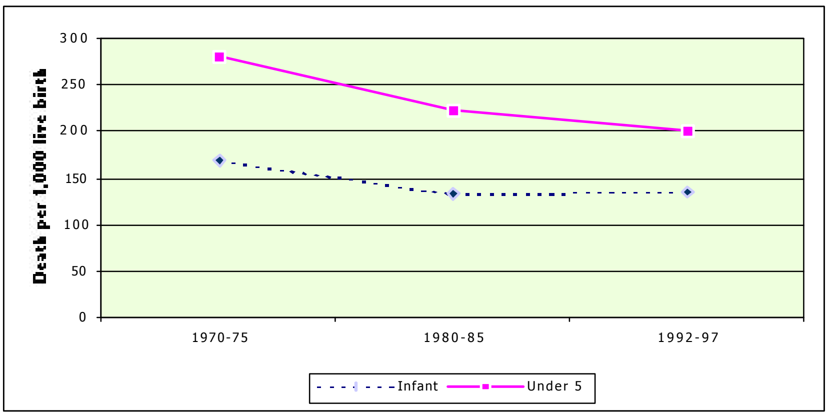
- **Food Security:** Until the floods in early 2000, there had not been a major drought or disaster of national scale since the drought of 1992. However, low agricultural productivity and low incomes have meant that food insecurity has been a pervasive risk. In 1996/97, 41 percent of children (83 percent of which were living in rural areas) were stunted, and 6 percent were wasted. An estimated 64 percent of Mozambicans lived in food insecure households at the time of the survey. Most at risk were families with young children and groups displaced by the war.

B. Trends in Poverty

10. **Consumption poverty.** As only one nationally representative household survey has been conducted, there are no trend data on poverty over time. However, during 1993–99, GDP growth averaged 6 percent per year, and value added in the agriculture and livestock sector is estimated to have grown by an even larger amount. This growth is likely to have benefitted the poor, as 91 percent of the poor are employed in agriculture, and about 95 percent of agricultural value added is generated by the smallholder sector.

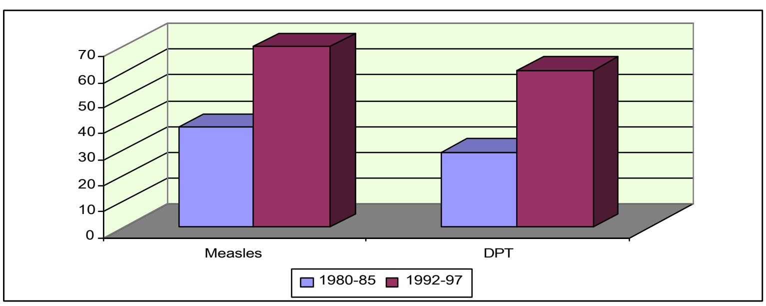
11. **Education and health.** Trends in education and health outcomes, which are strongly related to trends in household income, have been positive. The trends have been reinforced by strong public commitment to extending service provision. The gross primary school admission rate rose from 58 percent in 1994 to 79 percent in 1998. As shown in Figure 2, mortality rates for infants and children under five have fallen significantly since the early 1970s. Substantial progress was also made in terms of immunization rates (Figure 3).

Figure 2 – Mortality Rates for Infants and Children Under Five, 1970-1997



Source: World Bank staff and Mozambican authorities

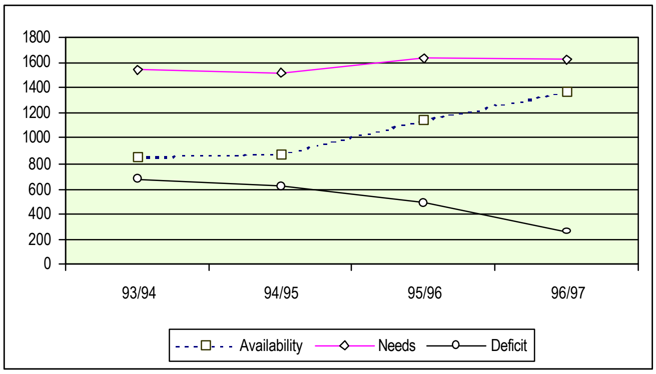
Figure 3 – Immunization Rates (percent), Measles and DPT, 1980-1997



Source: World Bank staff and Mozambican authorities

12. **Food Security.** There have been significant improvements in household food security, as documented by Medecins Sans Frontieres, which maintains an extensive and regular monitoring system to provide early warnings about food security risks. Figure 4 shows the evolution of the national food balance sheet.

Figure 4: Evolution of the National Food Balance Sheet
(Thousands of Tons)



Source: Mozambican authorities

13. The income poverty-reducing effects of economic growth will still take some time to be fully felt in Mozambique. However, progress made in education, health, and food security suggests that the poor are already benefiting from greater access to social services.

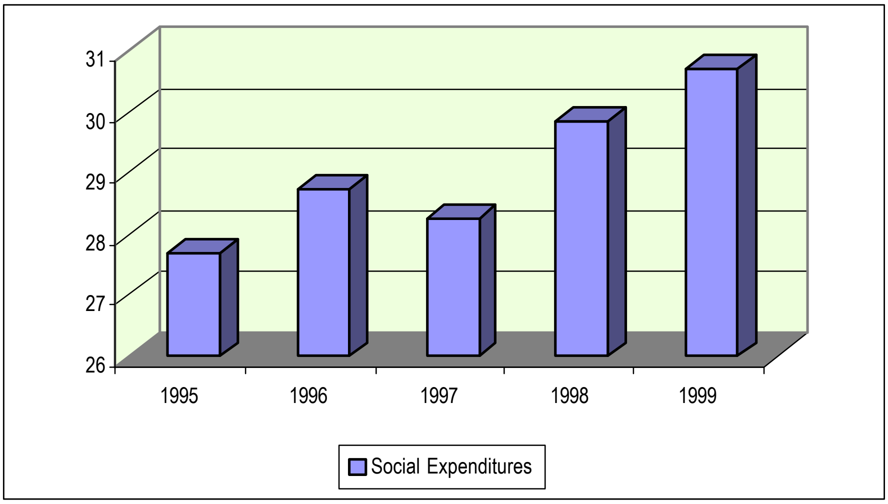
C. The Role of Government and Policy Responses

14. The government has emphasized the goal of poverty reduction since at least 1995, when the first national poverty reduction strategy was published. The strategy emphasized improving economic opportunities for the poor, expanding capabilities by improving delivery of social services to the poor, and increasing security through creation of a targeted safety net. The main vehicle to carry forward this commitment in Mozambique has been the creation of conditions to enable broad-based economic growth. Mozambique consistently implemented policies under IDA and Fund-supported programs, contributing to rapid economic growth and a reduction of inflation from 70 percent in 1994 to around 5 percent by 1999.

15. Structural reforms, which started in 1987 and gained momentum after 1994, led to the deregulation of most goods and service markets and a substantial liberalization of the trade regime. Among the key reforms were a comprehensive program of public administration reform and the implementation of a large privatization program that included the two largest commercial banks.

16. In terms of enhancing the capabilities of the poor, increasing social spending has underpinned the expansion of access to basic services. This is depicted in Figure 5, which shows the trend of current expenditures in the social sectors (education, health, rural development, price and social subsidies).

Figure 5 – Current Expenditure in Social Sectors as a Percentage of Total Current Expenditure, 1995 – 1999*



Source: Mozambican authorities
* 1999 budget.

17. During the last three to four years, the government has embarked on multi-donor supported sector-wide approaches in agriculture, transport, water, education, and health. These approaches aimed at improving the effectiveness of public expenditures through better coordination with donors, NGOs, and the private sector. Further details are provided in Section III below.

18. Throughout the 1990s, various safety net programs were introduced, with a view to protecting the most vulnerable among the poor. Following an evaluation conducted by the Ministry of Planning and Finance in 1996, a process of coordination of safety net programs was initiated, involving both implementing agencies in the government and donors. Despite problems akin to those observed in safety net programs in other countries (such as the targeting dilemma of avoiding leakage without generating exclusion of segments most in need), Mozambique's experience has been assessed as a successful one.[6]

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[6] See S. Devereux and A. Palmero (1999). "Creating a Framework for Reducing Poverty: Institutional and Process Issues in National Poverty Policy - Mozambique Country Report". Institute of Development Studies, University of Sussex.

III. Progress Since June 1999 HIPC Completion Point

19. This section reviews progress on the government's structural reform agenda since the HIPC Completion Point in June 1999. A summary of key reforms to be undertaken in 2000 is presented in Box 2 (see p. 13).

A. Strategic Framework for Poverty Reduction

20. The strategic focus of public policy on poverty reduction goals moved into a new phase during 1999 and into 2000, with a number of important milestones:

- In April 1999, the Government approved and published its framework poverty action plan, *Action Guidelines for the Eradication of Absolute Poverty*. The plan draws on the extensive data collection and analysis of the country's first Poverty Assessment, prepared in 1998.

- In June 1999, the medium-term expenditure framework was approved and used as a basis for the 2000 budget guidelines. It aims at linking expenditure priorities with poverty reduction over the medium term, and making each sector responsible for demonstrating that linkage in its proposed budgetary program.

- In November 1999, a draft poverty action plan, the Action Plan for the Reduction of Absolute Poverty (PARPA), was prepared through a collaborative process among government departments. The PARPA was subsequently the basis for initial consultations within and outside the government.

- In February 2000, a revised version of the PARPA, along with the government's plans for its evolution into a full PRSP, was prepared and submitted as the Interim PRSP. The document, together with the staffs' joint assessment, has been submitted for consideration by the Boards of the Fund and IDA in parallel with this paper.

B. Macroeconomic Developments

21. Marked by buoyant activity in the construction, tourism, and energy sectors, real GDP increased by 9 percent in 1999 (Table 1). The 12-month rate of inflation at end-1999 was 4.8 percent, up from -1.3 percent in December 1998.[7] During 1999, the rate of increase in broad money reached 31 percent. Concerned about the potential impact of excessive monetary growth on inflation, the authorities adopted in early 2000 measures to bring about a deceleration of monetary growth.

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[7] The National Institute of Statistics began publishing a new consumer price index (CPI) in February 2000. The new index, based on an updated set of weights, shows a 12-month rate of inflation of 6.2 percent at end-1999.

Table 1. Mozambique: Selected Economic and Financial Indicators, 1997-2000

	1997	1998	1999	2000 Proj.
	(Annual percentage change, unless otherwise specified)			
National income and prices				
Nominal GDP (in billions of meticais)	39,693	46,134	52,913	60,177
Nominal GDP (in millions of U.S. dollars)	3,438	3,893	4,169	4,284
Real GDP	11.3	12.0	9.0	5.0
GDP per capita (in U.S. dollars)	208	230	241	242
Consumer price index (annual average)	6.4	0.6	2.0	8.0
Consumer price index (end of period)	5.8	-1.3	4.8	8.0
External sector				
Merchandise exports	1.7	7.9	4.8	-9.5
Merchandise imports	-2.9	14.3	55.0	-18.7
Terms of trade	8.8	-0.3	2.5	0.9
Nominal effective exchange rate (end of period) 1/	6.5	-5.7	0.0	…
Real effective exchange rate (end of period) 1/	9.4	-9.7	1.7	…
	(Annual change in percent of beginning-period broad money, unless otherwise specified)			
Money and credit				
Net domestic assets	9.5	9.3	27.2	22.9
Of which: net credit to the government	-18.1	-16.0	-0.6	7.5
credit to the rest of the economy	24.8	17.8	26.2	14.6
Broad money (M2)	24.4	17.6	30.9	15.0
Velocity (GDP/ average M2)	5.9	5.7	5.3	4.9
Prime rate (in percent; end of period)	22.9	19.6	19.2	…
	(In percent of GDP)			
Investment and saving				
Gross domestic investment	19.1	20.4	35.5	26.6
Government	8.0	9.3	10.6	11.2
Other sectors	11.1	11.1	24.8	15.4
Gross national savings	5.5	4.2	10.7	6.7
Government	9.7	7.6	10.6	7.3
Other sectors	-4.3	-3.3	0.1	-0.6
Government budget				
Total revenue	11.6	11.5	11.7	12.3
Total expenditure and net lending	24.0	22.0	24.0	25.3
Overall balance before grants	-12.0	-10.7	-12.1	-12.9
Total grants	9.3	8.3	10.9	7.9
Overall balance after grants	-2.7	-2.4	-1.2	-5.0
Domestic primary balance	-0.3	-0.6	-3.0	-3.6
Domestic bank financing	-3.3	-2.3	0.1	1.4
External sector				
Current account balance before grants	-17.8	-20.5	-31.7	-26.2
Current account balance after grants	-8.7	-12.4	-21.5	-18.0
	(In percent of exports of goods and nonfactor services)			
Net present value of total external debt outstanding 2/	710.8	538.2	202.0	163
External debt service (nonfinancial public sector)				
Scheduled, before HIPC Initiative assistance (Naples terms)	19.2	20.0	26.1	31.3
Scheduled, after original HIPC Initiative assistance	…	…	15.3	12.2
Scheduled, after enhanced HIPC Initiative assistance	…	…	…	9.1
	(In percent of government revenue)			
External debt service (nonfinancial public sector)				
Scheduled, before HIPC Initiative assistance (Naples terms)	22.6	23.7	29.9	32.6
Scheduled, after original HIPCInitiative assistance		…	17.5	12.7
Scheduled, after enhanced HIPC Initiative assistance	…	…	…	9.4
	(In millions of U.S. dollars, unless otherwise specified)			
External current account after grants	-298	-483	-895	770
Overall balance of payments	-98	-204	-237	-508
Gross international reserves (end of period)	532	625	669	612
In months of imports of goods and nonfactor services	6.8	6.7	4.8	5.2
In percent of broad money	82.8	82.7	76.0	61.6
Exchange rate (meticais per U.S. dollar; end of period) 3/	11,543	12,366	13,300	13,900

Sources: Mozambican authorities; and staff estimates and projections.

1/ A minus sign indicates depreciation.
2/ Public and publicly guaranteed debt, in percent of the three-year average of exports. Data for 1998 reflect the impact of applying a hypothetical stock-of-debt operation on Naples terms. The data for 1999-2000 include the impact of total debt relief granted under the Initiative for Heavily Indebted Poor Countries (HIPC Initiative) and new borrowing.
3/ The figure for 2000 is the actual value at the end of February.

Box 2. Mozambique: Key Policy Measures for 2000

The Government is committed to implement the following key measures during 2000:

Poverty Reduction Strategy

- Completion of regional poverty profiles.
- Completion of a reformulated three-year policy matrix, and macroeconomic framework underpinning the poverty reduction strategy.

Social Development

- Development and approval of a new Health Sector Strategic Plan.
- Implementation of the National Multisectoral Strategic Plan on HIV/AIDS.
- Increase current health and education expenditures as a share of total current expenditure.

Public Sector Reform

- Publication of quarterly budget execution reports including a sectoral classification of expenditures.
- Review of system of tax and customs exemptions.
- Development of strategic plan for public sector reform, including a functional review of ministries.
- Development of policy regarding remaining public enterprises and companies with majority public ownership.

Legal and Regulatory Framework

- Adoption of a strategic plan for justice system.
- Draft new commercial code, covering company and contract law.
- Adoption of regulations for private sector involvement in the telecommunications and energy sectors.

22. As expected, the external current account deficit increased sharply in 1999, mainly on account of imports of capital goods for the construction of the Mozal aluminum smelter, which were financed by private equity and loan funds. At the same time, foreign program assistance was lower than expected, as some disbursements were delayed until 2000. There was a small depreciation both in nominal and real terms of the metical during the year, and gross international reserves ended the year at a comfortable level of five months of imports of goods and services.

23. In 1999, the fiscal deficit excluding grants was equivalent to12.1 percent of GDP and the primary fiscal deficit on a commitment basis was 3.2 percent. These levels were higher than programmed under the Fund-supported PRGF program, mainly due to an expenditure overrun.[8] Expenditure on a cash basis was lower than on a commitment basis because of a delay in the payment of committed wage increases linked to the re-certification of civil servants under last year's civil service reform. Total revenue was slightly higher than in 1998 and close to the program target.

24. Since early February 2000, vast areas of Mozambique have been buffeted by torrential rains and a cyclone, causing deadly floods and heavy damage to housing, crops, lifestock, and infrastructure. With the assistance of donors and the United Nations, the government has been focusing on the immediate emergency needs of providing food, shelter, and health care to the homeless and displaced persons, and on assessing the extent of the destruction and the costs of rebuilding the damaged infrastructure. At the end of February, the government announced a first preliminary estimate of the direct cost of the disaster as amounting to about US$65 million, covering both humanitarian relief and immediate reconstruction needs. The projections presented in this document include this figure, as well as preliminary estimates of the impact of the floods on output, prices, the budget, and the balance of payments in 2000-01. However, a more comprehensive assessment of the effects of the disaster on the economy is still being carried out, and may lead to further adjustments to the macroeconomic projections later in the year.

C. Structural Reforms

25. A number of measures in the structural reform agenda suffered a delay in the run-up to the presidential and parliamentary elections of December 1999, and there was a setback in trade liberalization in the cashew and sugar sectors. However, many structural measures were implemented as planned, and, in early 2000, the government began taking steps to implement the delayed measures and restore momentum to the reform process. The status of the main measures within the key areas of reform—fiscal management, governance and public administration, private sector development, and trade policy—are highlighted in the remainder of this subsection.

26. **Fiscal Management**. As part of its effort to strengthen customs administration, the government completed the computerization of twelve customs clearance points by September

[8] A comparison of budgeted and realized amounts was hampered by difficulties and delays in compiling a sectoral classification of expenditure. This problem is being addressed as part of the public sector reform for 2000.

1999. A set of new customs legislation, including a new customs act, a customs code, and a law on customs tribunals—originally scheduled for December 1999—was approved in early 2000. The budget accounts for 1998 were officially closed and submitted to the National Assembly and to the Administrative Tribunal for auditing, and efforts were made to remove institutional and legal impediments to bring off-budget revenues and expenditures (mainly donor related) into the budget. Another important step was the approval of the medium-term expenditure framework. A system for recording exemptions was put in place in September 1999, but the review to formulate a position for rationalizing the system of tax and customs exemptions was delayed. The government has recently adopted the terms of reference for such a review, and expects to carry out the measure in full by August 2000.

27. **Governance and Public Administration**. Three important documents and regulations to strengthen the institutional and legal framework for public administration were prepared, namely, a plan for an overhaul of the public accounting system, a system for training in the public service, and new civil service regulations that include performance standards and improved incentive mechanisms. The actuarial analyses of the pension scheme of the public sector and the National Social Security Institute, that were to be completed by December 1999, will now be prepared by June 2000. The revisions of performance contracts with two major public enterprises were completed in early 2000. There was also a delay in the compilation and publication of disaggregated quarterly budget execution reports, which will begin to be published in 2000.

28. **Private Sector Development**. The annual report of the Inter-Ministerial Commission for the Removal of Administrative Barriers was prepared in December 1999, and progress is being made towards completing a new Commercial Code in August 2000, covering company and contract law. A proposal for regulations for use of urban land was submitted to the corresponding Inter-Ministerial Commission, and is scheduled for adoption in May 2000. The process of private management contracting of the urban water systems moved forward with the signing of private management for the five major urban water systems, and a comprehensive restructuring plan for the national railway company is in progress.

29. **Trade Policy**. In November 1999, the National Assembly passed a bill stipulating an increase in the tax on exports of raw cashew nuts from 14 percent to 18-22 percent. In September 1999, the variable surcharge on imports of sugar was raised in an attempt to promote sugar production in Mozambique by providing an average nominal protection for the sector of about 60 percent. Aware of the complex nature of the problems affecting the cashew sector, the government is planning to conduct a study to evaluate these problems and propose alternative policies. A similar approach will be taken in relation to the sugar sector, which will be the subject of a study to assess its competitiveness in a distorted market. If support for these sectors proves warranted on economic grounds, in the staffs' view, it should be granted through direct and transparent budgetary assistance, rather than through the use of open-ended and distortive trade restrictions.

D. Human Development

30. The government has placed human development at the center of its efforts to boost and sustain the economic and social development of the country. The focus of public policy on education and health continued through 1999, as reflected in the rising trend in the Government's budgeted amounts for expenditures on education and health (Table 2) and continued progress in program development. The remainder of this subsection highlights developments in the major program and policy initiatives since the last HIPC document (June 1999).

Table 2. Current Expenditure in Health and Education

	1998	1999 budget	2000 (projection)*
	In Percent of Total Current Expenditure		
Education	18.0	20.7	21.9
Health	9.1	10.2	13.4
Total	27.1	30.9	35.3
	In Millions of U.S. Dollars		
Education	75.2	105.7	119.3
Health	38.1	52.1	73.0
Total	108.3	157.8	192.3

* Programmed for 2000 Budget.
Source: Mozambican authorities.

Education

31. The government of Mozambique launched a US$717 million Education Sector Strategic Program (ESSP) in 1998, supported by a US$71 million IDA credit. The program prioritizes increased and equitable access to higher quality basic education and focuses on the following objectives: (i) improving the quality of education by increasing enrollment in pre-service teacher training institutions, upgrading 15,000 under-qualified teachers, enhancing pedagogical support and the supply of learning materials, and delivering school materials in a more efficient way; (ii) expanding access to education by building and rehabilitating classrooms, boosting internal efficiency, and launching a number of initiatives to support girls' enrollment; and (iii) reinforcing the institutional capacity on financial management, planning, policy development, as well as monitoring and evaluation. In addition, the ESSP supports the development of strategies for technical and vocational training as well as tertiary education, in order to promote a broad-based development of human capital that will contribute to sustained economic growth in the long term.

32. In terms of its dual objectives of increasing access to, and improving the quality of, basic education in Mozambique, the ESSP has specifically targeted improvements of 1–2 percentage points a year in the gross enrollment rate and in the proportion of students passing key examinations, as well as a 1–2 percentage points reduction in the average repetition rate in primary and lower secondary schools per year. Recent data from the Ministry of Education show that these yearly targeted improvements are being met (Table 3). Longer term targets would be established in the context of the full PRSP.

33. By December 2000, the government plans to prepare, as part of the ESSP, strategies for technical, vocational, and tertiary education. On the technical and vocational education strategy, a comprehensive national study, focusing on professional and technical teaching at the basic and secondary education levels, was already conducted. Another preparatory study of Vocational Training Centers was undertaken in 1999[9]. These studies focused on three main themes: (i) the determination of the necessary investments in technical and vocational training; (ii) a curriculum reform; and (iii) the training of teachers. With regards to the tertiary education strategy, a technical working group composed of Ministry of Education staff and representatives from higher education institutions is already operating, and the terms of reference for the strategy have been adopted.

Table 3: Progress in the Implementation of the Education Sector Strategic Program (ESSP)[10]

Indicators (percent)	1995	1996	1997	1998	1999*	2000*
Gross Enrollment Rate (Primary Schools)	57	62	67	70	74	75
Completion Rate (Primary Schools)	55	61	62	63	64	65
Completion Rate (Lower Sec. Schools)	34	39	45	51	52	53
Repetition Rate (Primary Schools)	26	25	25	25	24	23
Repetition Rate (Lower Secondary Schools)	30	28	28	28	26	25

*Implied level based on target of a minimum 1 percent annual improvement in each indicator in 1999 and 2000.

[9] Escolas de Artes e Ofícios.
[10] Attainment of its goals to be measured by improvement of 1-2 percentage points annually in the indicators presented in Table 4.

Health

34. In the Government's program, health is under the responsibility of the Ministry of Health, though the issue is also addressed by other government sectors whenever it is appropriate. In this context, the health sector is receiving increased budget allocations both in absolute and relative terms. Looking into the future, the Ministry of Health has taken the lead in the preparation of a Health Sector Strategy Plan (HSSP) for the 2000–2004 period. The government is expected to begin implementing the plan by December 2000. The plan will establish sectoral policies and programs for the remainder of the decade and will provide the policy framework for the development of a Sector-Wide Approach (SWAP) in which the government and donors will work together on joint procedures for budgetary support to the sector.

35. The preparation of the HSSP is proceeding as planned and the corresponding terms of reference are being finalized. The plan is expected to be discussed in a national conference to be held in Maputo in June 2000 with the participation of different levels of government, private sector representatives, and NGOs. In June 1999, the Ministry of Health and its external partners agreed to establish a Code of Conduct that will use standard planning, budgeting and evaluation instruments for the determination and management of health priorities and resources, and will strengthen the Ministry of Health's procedures for procurement, disbursement and accounting. Pooling of funds has already been introduced for drugs and technical assistance. The adoption of the HSSP will help complete the transition of the current Health Sector Recovery Program (HSRP) from its initial phase of assisting in the recovery of the health sector from the devastation caused by the civil war to a new phase in which progress will be measured against targets for improving the access to, and delivery and quality of, health services. The following targets are expected to be met by 2001: (i) raise DPT coverage to 80 percent; (ii) reduce index of geographic inequality in the provision of health care services to below 2.8; (iii) increase the proportion of health posts/centers stocked with Essential Drugs Program kits to 90 percent; and (iv) increase the proportion of health posts/centers staffed with trained personnel to 90 percent. The latest data available indicate that Mozambique is well underway to achieve these targets (Table 4), and the results reflect the government's steady increase in expenditures in this area. Longer term targets will be established in the context of the HRSP and the full PRSP.

36. The government has stepped up its response to the HIV/AIDS epidemic, which is now recognized as a major threat to Mozambique's development prospects. About one out of seven adults carries the HIV virus. In September 1999, the government launched a three-year National Strategic Plan for Fighting STDs/HIV/AIDS. The Plan aims at providing essential services to prevent infection and reduce the impact of AIDS, targeting some 1.6 million people with high-risk sex partners and 15,000 people and their families living with HIV/AIDS. Given the cross-cutting developmental implications of the HIV/AIDS epidemic, the Government has recognized that effective HIV/AIDS prevention, care, and control strategies require a multisectoral response. To this end, an Interministerial Committee for AIDS, involving eight ministries, will have general responsibilities for implementing the

National Plan, and a National AIDS Commission is being established with more direct management responsibilities.

Table 4. Progress in the Implementation of the Health Sector Recovery Program

Indicators	1998 Presented at HIPC Completion Point	HIPC Completion Point and PFP Goals for 2001
Vaccination Coverage with DPT Third Dose	77 percent	80 percent
Index of Geographic Inequality	3.0	Reduce to below 2.8
Proportion of Health Posts/Centers Stocked with Essential Drugs Program Kits	88 percent (1997 est.)	90 percent
Proportion of Health Posts/Centers Staffed with Trained Personnel	86 percent (1997 est.)	90 percent

Source: Mozambican authorities

E. Revision of 2000 Budget to Reflect Impact of HIPC Assistance

37. At the time that the framework for the preparation of the 2000 budget was put together in 1999, the availability of resources during 2000 from the original HIPC completion point was only partially known and included in the budget framework. As the pattern of delivery of HIPC resources became clearer in late 1999, the authorities added about US$45 million in expenditures to their original 2000 budget framework.[11] The preparation of the PARPA in the second half of 1999 provided a context for deciding on the use of the additional resources in 2000. While these resources do not constitute a separate fund, but are rather integrated into the overall budget, the additional allocations provide an insight into the priorities of the government for the use of the resources freed up by debt relief.

38. The additions to the 2000 budget consist of a selection of poverty-reducing activities and programs as identified in the PARPA, that were either under-financed or unfinanced in the original formulation of the 2000 budget. These are:

- expanding the provision of basic medicines to government clinics and funding the National Strategy to Fight STDs/HIV/AIDS;

[11] The authorities estimated that about $67 million in cash resources would be released to the budget as a result of the original HIPC Initiative. Some of these resources were already anticipated in the original 2000 budget framework. In addition, arrangements are being made for the full transfer to the budget of HIPC-related debt service relief on IMF debt service, which presently accrues to the central bank.

- improving access of poor areas to basic infrastructure, including

  - reopening rural roads and rehabilitating additional parts of the primary and secondary road network to link districts to provincial markets,
  - constructing and rehabilitating more wells and bore-holes under the rural water program to increase access to water in rural areas,
  - expanding electrification of districts through a pilot program; and
  - improving peri-urban infrastructure through decentralized expenditures at the municipal level;

- promoting community development in rural areas through pilot projects to integrate government services with community participation, improving information and access appropriate technologies, and supporting the development of small-scale industry;

- increasing the number beneficiaries and the coverage of safety net programs, including food subsidies for women, the indigent elderly, the chronically ill, families with malnourished children, the handicapped, and children traumatized by the war;

- expanding resources to the education sector program, particularly for primary education; and

- strengthening the institutional capacity for poverty analysis, planning, and monitoring.

39. Additional resources will become available to the 2000 budget in the form of interim assistance from IDA and the Fund upon approval of the decision point. These resources have been included in the 2000 budget to cover revenue losses or expenditure needs associated with the recent floods.

IV. Update of the Debt Sustainability Analysis

40. The debt sustainability analysis (DSA) presented at the completion point under the original HIPC initiative in June 1999 has been revised jointly by the staffs of the Fund and IDA and the Mozambican authorities on the basis of loan-by-loan data for debt outstanding as of December 31, 1998. While both debt and export data for end-1998 remain unchanged in comparison with the data used at the completion point, the current DSA incorporates updated macroeconomic projections and revisions in new borrowing in 1999 and beyond. This section discusses the updated macroeconomic scenario and summarizes the main findings of the DSA. It also presents the additional assistance that Mozambique is eligible to receive under the enhanced HIPC Initiative in order to lower its NPV of debt-to-exports ratio from 200 percent to 150 percent based on end-1998 data, as well as the likely impact this relief would have in reducing Mozambique's debt burden.

A. Updated Macroeconomic Assumptions

41. The macroeconomic projections used in this analysis assume the implementation of sound macro-economic policies and structural reforms in conjunction with the government's poverty reduction strategy. The projections, as reflected in the baseline scenario, take into account a very preliminary assessment of the impact of the recent floods, including lower growth, higher inflation, and a worsening of the trade balance in 2000-01, with a recovery expected to begin in 2002. Over the longer term, the balance of payments outlook would be similar to the one presented in the previous DSA (Box 3 and Table 11). An alternative scenario assuming a larger impact of the floods is discussed in the sensitivity analysis below.

Box 3. Main Assumptions in the Updated Debt Sustainability Analysis

The following assumptions are used in the updated baseline scenario.

After slowing down from 9 percent in 1999 to 5 percent in 2000, **real GDP growth** is expected to average 6 percent through the remainder of the projection period (2001-2017). Average annual **inflation**, which increases to 8 percent in 2000, is assumed to fall toward 5 percent in 2001, and remain at that level thereafter.

Exports of goods and nonfactor services, excluding electricity and aluminum, are projected to grow at an average annual rate of about 9 percent in U.S. dollar terms during 2002-05, after a fall in 2000 and a rebound in 2001. Total exports (including electricity and aluminum) are expected to grow by 16 percent during 2002-05 and by about 7 percent during the remainder of the projection period. These results assume a steady increase in service receipts, in particular on account of transportation and tourism. The ratio of total exports to GDP would increase from 13 percent in 2000 to 21 percent in 2005.

Imports of goods and nonfactor services, even after excluding those related to large projects, are projected to increase rapidly in 2000-01, reflecting increased flood-related imports. Thereafter, total import growth is assumed to be slightly below GDP. As a share of GDP, total imports would fall from above 30 percent in 2000, to about 25 percent in 2005.

The **external current account deficit** (excluding grants) would be about 26 percent of GDP in 2000, then decline to 10 percent in 2005, and fall to below 5 percent by 2017. In financing the current account deficit, official grants are expected to play a larger role (relative to concessional borrowing) than was assumed at the time of the completion point in June 1999.

Gross international reserves are expected to fall from close to 5 months of imports of goods and services at end-1999 to 3 months by 2005, and remain at this level throughout the remainder of the projection period.

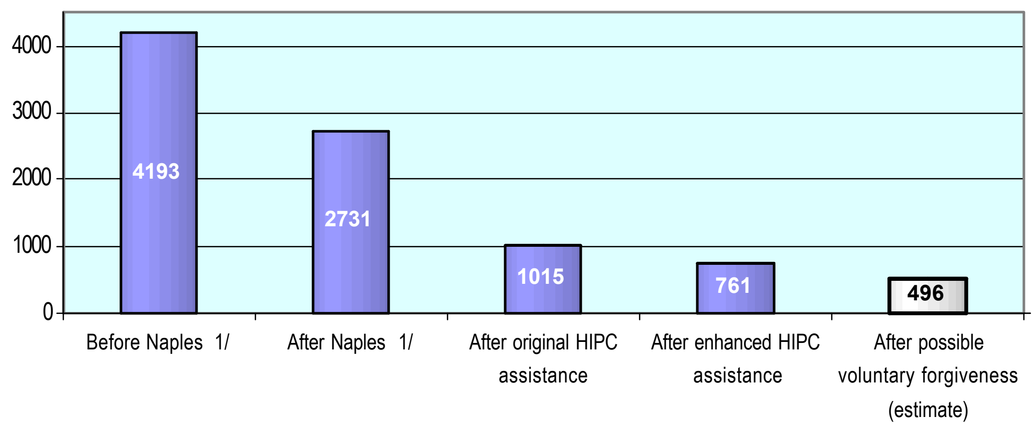
During the projection period, the **balance of payments** is expected to be supported by a combination of concessional loans and grants at levels similar in nominal terms to those experienced in recent years.

B. Assistance Under the Enhanced HIPC Initiative

42. After debt relief under the enhanced HIPC Initiative, Mozambique's external debt would be reduced to US$761 million in NPV terms (Figure 6). This would be equivalent to 150 percent of exports at end-1998 data, as provided for under the enhanced Initiative. The assistance provided under the enhanced Initiative (Figure 7) to reach that target would be US$254 million in NPV terms. It would be in addition to US$1,716 million of debt relief Mozambique received under the original HIPC Initiative, thus bringing the cumulative assistance under the HIPC Initiative to US$1,970 million (Table 6 and Figure 8). In NPV terms, the debt remaining after relief would be about one-fourth of the US$2.7 billion that would have been owed without HIPC Initiative assistance, and about one-fifth of the US$4.2 billion before the assumed stock of debt operation from the Paris Club under Naples terms. The possible cancellation of ODA debt in line with the recommendations of the Cologne Summit, along with announced voluntary cancellations by several creditors, could further reduce Mozambique's debt to about US$500 million in NPV terms.

Figure 6. Mozambique: Net Present Value of External Public Debt

(In millions of U.S. dollars, at end-1998)

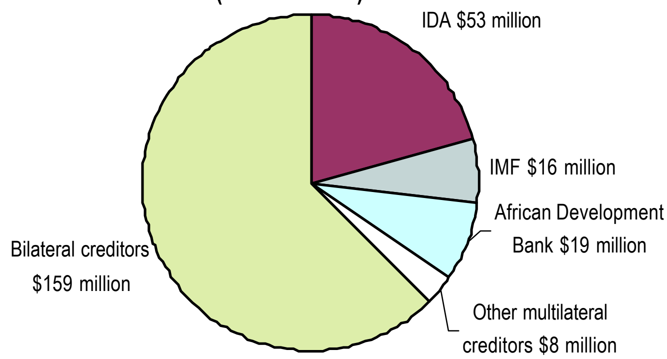


Source: Mozambican authorities; staff estimates.

1/ Before (After) Naples means before (after) a hypothetical stock of debt operation on Naples terms (67 percent NPV reduction).

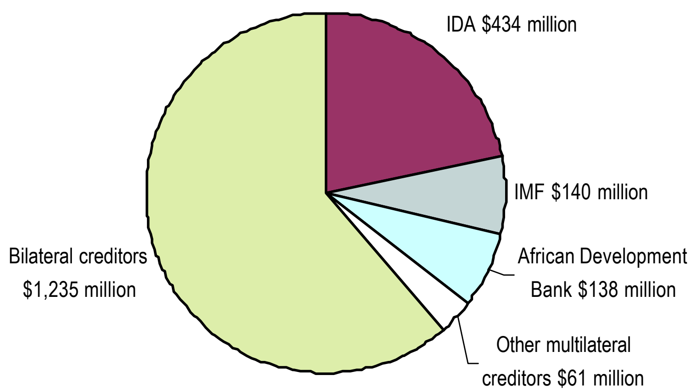
43. The cost of providing the additional assistance under the enhanced HIPC Initiative would be shared proportionately among Mozambique's creditors based on their exposure after Naples terms at end-1998 (Table 6 and Figure 7). Of the US$254 million, the multilateral share would amount to US$95 million, or 37 percent, while bilateral and commercial creditors would provide the remaining US$159 million. Among multilateral creditors, IDA's share of US$53 million is the largest, followed by the African Development Bank (US$18.8 million), and the Fund ($15.6 million). Other multilateral creditors would provide about US$8 million in additional assistance. The combined assistance under the original and enhanced HIPC Initiative would entail a common reduction factor for each creditor of 72 percent based on the NPV of total debt outstanding at end-1998.

Figure 7. Mozambique: Assistance Under the Enhanced HIPC Initiative (in NPV terms)



Total: US$254 million

Figure 8. Mozambique: Cumulative Assistance Under the Original and Enhanced HIPC Initiative (in NPV terms)



Total: US$1,970 million

Table 5. Mozambique: External Public and Publicly-Guaranteed Debt, end-December 1998
(In millions of U.S. dollars)

	Nominal Debt	NPV of debt after traditional debt relief mechanisms 1/	Percent of Total	Percent of Group
Total Debt	**5,972**	**2,731**	**100.0**	
Multilateral creditors	**2,099**	**1,019**	**37.3**	**100.0**
IDA	1,338	564	20.6	55.3
AfDB Group	427	202	7.4	19.8
IMF	205	168	6.1	16.5
EU/EIB	50	35	1.3	3.4
IFAD	38	21	0.8	2.0
BADEA	15	13	0.5	1.3
OPEC Fund	15	13	0.5	1.2
Nordic Development Fund	11	5	0.2	0.4
Bilateral creditors	**3,872**	**1,712**	**62.7**	**100.0**
Paris Club creditors	2,843	1,345	49.2	78.6
Non-Paris Club official creditors	825	302	11.1	17.6
Commercial creditors	204	65	2.4	3.8

Sources: Mozambican authorities; and staff estimates.

1/ The NPVs of debt for bilateral and commercial creditors reflect a hypothetical stock-of-debt operation on Naples terms at end-1998. Actual stock-of-debt operations on Naples, Lyon, and Cologne terms have not been implemented but are expected to be consolidated into one operation at the completion point, and could result in some revisions.

Table 5. Mozambique: External Public and Publicly-Guaranteed Debt, end-December 1998 (continued)
(In millions of U.S. dollars)

		NPV of Debt		
	Nominal Debt	After traditional debt relief mechanisms 1/	After original HIPC Initiative 2/	After enhanced HIPC Initiative 3/
Total Debt	**5,972**	**2,731**	**1,042**	**787**
Multilateral creditors	**2,099**	**1,019**	**395**	**300**
IDA 4/	1,338	564	237	184
AfDB Group	427	202	83	64
IMF	205	168	43	27
EU/EIB	50	35	14	11
IFAD	38	21	8	6
BADEA	15	13	3	2
OPEC Fund	15	13	5	4
Nordic Development Fund	11	5	2	2
Paris Club creditors	**2,843**	**1,345**	**511**	**385**
Austria	22	10	2	1
Brazil	290	117	30	18
France	541	263	119	97
Germany	199	112	34	22
Italy	428	249	85	58
Japan 5/	99	35	6	4
Portugal	502	226	79	54
Russia	500	205	110	96
Spain	40	28	21	20
Sweden	24	5	1	1
United Kingdom	148	72	16	10
United States	50	25	7	4
Non-Paris Club creditors	**825**	**302**	**112**	**84**
Algeria	382	127	47	35
Angola	15	15	6	4
Bulgaria	26	9	3	2
China	9	3	1	1
Cuba	6	2	1	1
Former Yugoslavia	4	1	0	0
Hungary	16	5	2	1
India	4	3	1	1
Iraq	74	25	9	7
Kuwait	30	25	9	7
Libya	105	35	13	10
Romania	104	34	13	10
North Korea	1	0	0	0
Poland	10	3	1	1
Slovak Republic	30	10	4	3
South Africa	9	5	2	1
Commercial creditors	**204**	**65**	**24**	**18**
Brazil	170	53	20	15
France	21	7	3	2
Portugal	14	5	2	1

Sources: Mozambican authorities; and staff estimates.

1/ The NPVs of debt for bilateral and commercial creditors reflect a hypothetical stock-of-debt operation on Naples terms at end-1998. Actual stock-of-debt operations on Naples, Lyon, and Cologne terms have not been implemented but are expected to be consolidated into one operation at the completion point, and could result in some revisions.
2/ Assuming a hypothetical stock-of-debt operation on Lyon terms at end-1998, and delivery of HIPC debt relief at the completion point under the original HIPC Initiative.
3/ Assuming a hypothetical stock-of-debt operation on Cologne terms at end-1998, and delivery of HIPC debt relief at the decision point under the enhanced HIPC Initiative.
4/ Excludes the impact of debt relief provided by through an IDA grant of US$150 million during the interim period under the origianl HIPC Initiativ
5/ Includes 3 loans previously classified as debt to commercial creditors.

Table 6. Mozambique: HIPC Initiative--Assistance Under a Proportional Burden-Sharing Approach 1/
(In millions of U.S. dollars, unless otherwise indicated)

HIPC Initiative Framework	NPV of debt-to-Exports Target (percent)	Assistance 2/ 3/							Common Reduction Factor (percent of end-1998 NPV of debt)
		Total	Bilateral 4/	Multilateral	*Of which*				
					IDA	IMF	AfDB	Other	
Original Framework	200	1,716	1,076	641	352	115	119	55	62.8 5/
Enhanced Framework	150	254	159	95	53	16	19	8	
Total	150	1,970	1,235	735	405	131	138	63	72.1
Memorandum items									
NPV of debt 2/		2,731	1,712	1,019	564	168	202	86	
Paris Club (incl. Brazil)		…	1,345	…					
Of which: pre-cutoff date debt		…	1,103	…					
Non-Paris Club & Commercial		…	367	…					
Of which: pre-cutoff date debt		…	342	…					
3-year average of exports		507	...	...					
NPV of debt-to-exports ratio 6/		538	...	...					

Sources: Mozambican authorities; and staff estimates.

1/ The proportional burden sharing approach is described in "HIPC Initiative--Estimated Costs and Burden Sharing Approaches" (EBS/97/127, 7/7/97 and IDA/SEC M 97-306, 7/7/97).

2/ Based on latest data available at end-1998 after full application of traditional debt relief mechanisms.

3/ Amounts shown for bilateral creditors include, and for IDA and IMF exclude, US$29 million and US$10 million in NPV terms committed by IDA and IMF respectively as part of the gap-filling exercise at the decision point under the original HIPC Initiative.

4/ Includes official bilateral and commercial creditors.

5/ The reduction factor for multilateral creditors under the original HIPC Initiative, based on end-1997 data, was 75.5 percent.

6/ In percent of three-year export average.

Modalities of Assistance

44. In view of the impact of the floods in 2000, **IDA's HIPC Initiative assistance** of US$53 million in NPV terms would be front loaded on an exceptional basis (Table 7). The country will receive interim assistance equivalent to 100 percent of its debt service to IDA over the next 12 months, through a combination of debt service forgiveness by IDA and supplemental payment of debt service by the HIPC Trust Fund. This assistance would begin at the decision point in April 2000. In subsequent years, the normal modality of debt relief delivery would resume and continue until the required NPV reduction of US$53 million is achieved. Thus, after the first year, the remainder of the required NPV reduction would be delivered through a 51 percent reduction on debt service falling due to IDA in the following eight years.

45. For the **IMF assistance**, estimated at about US$15.6 million in NPV terms, a fixed proportion would be delivered each year over the lifetime of the existing debt service obligations to the Fund according to a specified schedule, including interim assistance beginning at the decision point (Table 8). The proposed delivery profile aims at maximizing relief in 2000 and then smoothing out debt service due after total IMF assistance under the HIPC Initiative thereafter. As a means of providing maximum possible relief in 2000 and 2001, it is proposed to modify the delivery profile of IMF assistance under the original HIPC Initiative as shown in Table 8. As a result of the proposed delivery of total IMF assistance, debt service to the Fund would be zero in 2000, about US$1.5 million in 2001, and about US$4.5 million on average during the remainder of the period.

46. **Other multilateral creditors** are assumed to deliver their assistance under the enhanced HIPC Initiative at the completion point. Since these creditors are still in the process of establishing specific modalities of delivery, the projections assume that the African Development Bank and IFAD will provide a 50 percent reduction in debt service.

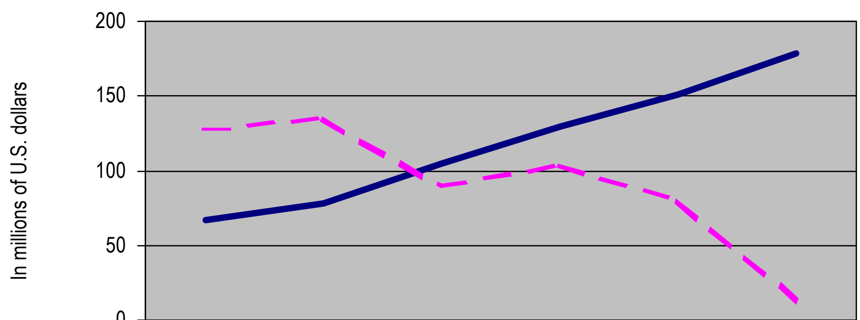
47. In response to the flood emergency, **Paris Club creditors** decided in March 2000 to defer debt service payments on all debt until Mozambique reaches the completion point under the enhanced HIPC Initiative, at which time they would accord a stock-of-debt operation on eligible debt on Cologne terms. While this deferral is not incorporated into the baseline scenario, its estimated impact is illustrated in Figure 9 below.

48. **Non-Paris Club official creditors** are assumed to deliver their share of relief on terms comparable to the Paris Club's Cologne terms. The Mozambican authorities intend to continue to seek the participation of non-Paris Club official creditors and will be sending a new request in writing after the decision point. The authorities will also propose an amendment to the agreements already signed on "comparable terms" under the original HIPC initiative.

Impact of Enhanced HIPC Assistance

49. Taking into account the assistance under the enhanced HIPC Initiative, the ratio of NPV of debt to exports is projected to fall gradually to 99 percent in 2003, to 75 percent in 2010 and to about 55 percent by 2017 (Table 9). The additional debt relief proposed under the enhanced HIPC Initiative is expected to provide about US$600 million in debt service savings over 40 years, and about US$18 million annually until 2010. This would be additional to the estimated US$3,700 million in debt service savings made available by the original HIPC Initiative. Debt service due after the enhanced HIPC is projected to fall below 5 percent of exports in 2002 and remain below this level thereafter. The fiscal burden of debt would also decline with the debt service-to-revenue ratio falling to 7 percent by 2002, and declining steadily thereafter. The fall in debt service associated with debt relief would help support the expected increases in social expenditures (Figure 9).

Figure 9. Mozambique: Current Expenditure on Social Programs and Debt Service Payments, 1995-2000



	1995	1996	1997	1998	1999	2000 estimate
Social Spending	67	78	105	130	152	178
Debt Service	128	135	90	104	81	14

Sources: Mozambican authorities; and staff estimates.
Note: The data on expenditure for 1999 correspond to the budgeted amounts. The data for 2000 are the authorities' preliminary projections and do not include the allocation of additional resources made available by HIPC debt relief. The data on debt service reflect actual cash payments for the period 1995-99 and projected payments after total HIPC assistance and the Paris Club deferral for year 2000.

Table 7. Mozambique: Delivery of IDA Assistance Under the Original and Enhanced HIPC Initiative, 1999-2035

(In millions of U.S. dollars, unless otherwise indicated)

	relief required	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Cumulative 2011-23	Cumulative 2024-35	Cumulative 1999-2035
Debt service before HIPC Assistance		15.6	18.7	19.3	21.6	24.3	27.0	30.2	30.9	32.9	36.1	37.7	40.6	636.5	405.7	1377.1
Debt Service after HIPC Assistance																
Original HIPC Framework		10.9	7.9	8.5	8.9	9.9	10.7	11.3	11.5	12.8	14.3	15.1	16.7	261.2	182.7	582.4
Original & Enhanced HIPC Framework		10.9	0.6	2.4	3.7	3.7	3.7	3.8	3.9	4.5	5.3	12.6	16.7	261.2	182.7	515.4
Savings on debt service to IDA																
Original HIPC Framework 1/	**381**	4.7	10.8	10.8	12.6	14.4	16.3	18.9	19.4	20.1	21.8	22.6	23.9	375.3	223.0	794.8
Enhanced HIPC Framework	**53**	0	7.3	6.1	5.3	6.2	7.0	7.6	7.7	8.3	9.1	2.5	0.0	0.0	0.0	66.9
Original & Enhanced HIPC Framework	**434**	4.7	18.1	16.9	17.9	20.6	23.3	26.4	27.1	28.4	30.9	25.1	23.9	375.3	223.0	861.7
Savings as percent of debt service due																
Original HIPC Framework		30	58	56	59	59	61	63	63	61	60	60	59	59	55	58
Original & Enhanced HIPC Framework		30	97	87	83	85	86	88	88	86	85	67	59	59	55	63

Source: IDA staff estimates.

1/ Required NPV reduction under the original HIPC Initiative was achieved through a purchase and cancellation of 8 credits (NPV reduction US$327 million) by the HIPC Trust Fund, and a US$150 million IDA grant provided to Mozambique in 1999 with an NPV value of $54.22 million.

Table 8. Mozambique: Proposed Delivery of IMF Assistance under the HIPC Initiative

(In millions of SDRs, unless otherwise indicated)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Delivery schedule of IMF assistance under original HIPC Initiative (in percent of total assistance) 1/	11.0	20.2	14.9	10.0	7.0	7.6	9.7	10.0	6.5	3.1	0.0
Delivery schedule of IMF assistance under enhanced HIPC Initiative (in percent of total assistance) 1/	...	20.0	15.0	15.0	7.0	7.0	8.0	8.0	8.0	7.0	5.0
Debt service due on current IMF obligations 2/	23.5	22.9	21.6	17.6	15.2	15.6	17.0	15.7	11.9	8.0	2.9
Of which: Principal	22.8	22.2	21.0	17.1	14.8	15.3	16.8	15.5	11.8	8.0	2.9
Interest	0.7	0.7	0.6	0.5	0.4	0.3	0.2	0.2	0.1	0.0	0.0
IMF assistance under original HIPC Initiative 3/	10.2	20.6	17.7	12.3	8.9	9.1	10.7	10.5	6.8	3.2	0.1
IMF assistance under enhanced HIPC Initiative 4/	...	2.3	2.3	2.1	1.1	1.1	1.1	1.1	1.1	0.9	0.6
Total IMF assistance under the HIPC initiative 5/	10.2	22.9	20.0	14.5	10.1	10.1	11.8	11.6	7.8	4.1	0.7
Debt service due on current IMF obligations after total IMF assistance 6/	13.3	0.0	1.6	3.2	5.1	5.5	5.2	4.1	4.1	3.9	2.2
Share of debt service due on current IMF obligations covered by total IMF assistance (in percent)	43.6	100.0	92.5	82.0	66.2	65.0	69.4	74.0	65.8	51.1	24.0
Memo items:											
IMF assistance under original HIPC Initiative (In US dollars) 3/	13.7	28.3	24.3	16.9	12.2	12.4	14.6	14.4	9.3	4.4	0.1
IMF assistance under enhanced HIPC Initiative (In US dollars) 4/	...	3.1	3.1	3.0	1.6	1.5	1.6	1.5	1.5	1.2	0.9
Delivery schedule of total IMF assistance under HIPC Initiative 8/	13.7	20.2	14.9	10.5	7.0	7.5	9.5	9.8	6.7	3.5	0.5
Total debt service due 7/	106.3	125.3	120.8	117.7	121.5	122.8	129.5	137.6	142.2	147.8	146.1
Share of total debt service due covered by total IMF assistance (in percent) 5/	9.6	18.2	16.5	12.3	8.3	8.3	9.1	8.4	5.5	2.8	0.5
Debt service due on current IMF obligations after total IMF assistance 5/ (in percent of exports)	3.2	0.0	0.3	0.4	0.6	0.5	0.5	0.4	0.3	0.3	0.2

Source: IMF staff estimates.

1/ Total IMF assistance under the HIPC Initiative is US$140.2 million calculated on the basis of data available at the end of 1998, of which US$15.6 million under the enhanced HIPC initiative.
The SDR equivalent at the SRD/U.S. dollar rate of [0.727802] is SDR104.5 million, of which SDR11.3 million under the enhanced HIPC Initiative. Total IMF assistance is before interest earned on the escrow account as described in footnote 3 and 4.

2/ As of 31 December 1999.

3/ Includes estimated interest earnings on amounts held in escrow. It is assumed that the amounts in escrow earn a rate of return of [5.25] percent in SDR terms; actual interest earning may be higher or lower. Interest accrued during a calender year will be used toward the first repayment obligation(s) falling due in the following calender year, except in the final year, when it will be used toward payment of the final obligation falling due in that year.

4/ Includes estimated interest earnings on: (1) amounts held in escrow; and (2) amounts committed but not yet disbursed up to the completion point. It is assumed that the amounts in escrow earn a rate of return of [5.25] percent in SDR terms; actual interest earning may be higher or lower. Interest accrued on (1) during a calendar year will be used toward the first repayment obligation(s) falling due in the following calendar year, except in the final year, when it will be used toward payment of the final obligation falling due in that year. Interest accrued on (2) during the interim period will be used toward the repayment obligation(s) falling due during the three years after the completion point.

5/ Including total interest earnings as in footnotes 3 and 4.

6/ Total obligations less total HIPC Initiative assistance.

7/ After traditional debt relief mechanisms.

8/ Weighted average of the delivery schedule under the original and the enhanced HIPC Initiative.

Table 9. Mozambique: Key External Debt-Sustainability Indicators 1/

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
										(In percent)										
NPV of debt to exports ratio 2/																				
Before HIPC Assistance 3/	538	508	508	439	337	267	233	222	209	198	187	177	167	159	150	142	133	124	113	103
After Original HIPC Assistance 4/	205	202	212	191	151	122	109	107	103	99	94	90	87	84	81	78	75	72	67	61
After Enhanced HIPC Assistance 5/	155	151	163	150	121	99	90	88	86	84	81	78	75	73	71	69	67	64	60	56
NPV of debt to revenue ratio 6/																				
Before HIPC Assistance 3/	608	555	526	468	421	373	331	294	260	232	205	183	163	151	138	127	116	105	94	83
After Original HIPC Assistance 4/	232	220	220	204	189	171	156	141	128	116	104	94	85	80	75	70	65	61	55	50
After Enhanced HIPC Assistance 5/	175	165	169	160	151	139	127	117	107	98	89	81	73	69	66	62	58	55	50	45
NPV of debt to GDP ratio																				
Before HIPC Assistance 3/	70	65	65	60	55	51	48	45	41	38	36	33	30	28	26	24	22	20	18	16
After Original HIPC Assistance 4/	27	26	27	26	25	24	23	22	20	19	18	17	16	15	14	13	12	12	10	9
After Enhanced HIPC Assistance 5/	20	19	21	21	20	19	19	18	17	16	15	14	14	13	12	12	11	10	9	9
Debt-service to exports ratio 7/																				
Before HIPC Assistance 3/	20.0	26.1	31.3	20.2	13.4	13.0	12.4	12.2	12.1	11.6	11.3	10.5	10.5	9.0	9.1	9.1	9.1	8.9	8.7	8.6
After Original HIPC Assistance 4/	…	15.3	12.2	8.2	5.7	5.6	5.3	5.4	5.5	5.7	5.7	5.4	5.5	4.0	4.1	4.1	4.2	4.1	4.1	4.1
After Enhanced HIPC Assistance 5/	…	...	9.1	5.8	4.2	4.2	4.0	4.1	4.3	4.5	4.5	4.5	4.8	3.4	3.4	3.5	3.5	3.5	3.4	3.4
Debt-service to revenue ratio 6/																				
Before HIPC Assistance 3/	23.7	29.9	32.6	27.5	23.5	21.2	18.7	17.2	16.1	14.6	13.3	11.5	10.9	9.0	8.9	8.7	8.4	8.1	7.7	7.4
After Original HIPC Assistance 4/	…	17.5	12.7	11.1	10.1	9.1	8.0	7.6	7.3	7.1	6.7	5.9	5.7	4.0	4.0	3.9	3.9	3.7	3.6	3.5
After Enhanced HIPC Assistance 5/	…	...	9.4	8.0	7.4	6.9	6.0	5.8	5.8	5.6	5.3	4.9	5.0	3.4	3.4	3.3	3.3	3.2	3.1	3.0
Memorandum items																				
Original HIPC Assistance 4/	...	60	105	99	93	95	96	100	103	101	100	98	102	107	115	123	129	134	141	146
Enhanced HIPC Assistance 5/	...	...	17	19	18	18	18	18	19	20	22	17	15	14	15	16	17	18	20	21
Exports, goods & nonfactor services (current year)	534	559	551	823	1,202	1,282	1,365	1,457	1,567	1,678	1,799	1,914	2,037	2,162	2,304	2,462	2,635	2,822	3,025	3,244
Exports, goods & nonfactor services (3-year average)	507	534	548	644	859	1,103	1,283	1,368	1,463	1,568	1,681	1,797	1,917	2,038	2,168	2,309	2,467	2,640	2,827	3,030
Government revenues excluding official grants	449	489	529	603	687	788	903	1,032	1,177	1,340	1,532	1,738	1,960	2,150	2,358	2,587	2,838	3,113	3,415	3,746
Gross Domestic Product	3,893	4,169	4,284	4,698	5,226	5,730	6,207	6,772	7,400	8,087	8,838	9,658	10,555	11,535	12,605	13,776	15,054	16,452	17,979	19,648

Source: Mozambican authorities and staff estimates.

1/ Refers to public and publicly guaranteed debt only.

2/ In percent of the three-year moving average of exports of goods and non-factor services.

3/ The NPVs of debt for bilateral and commercial creditors reflect a hypothetical stock-of-debt operation on Naples terms at end-1998. Actual stock-of-debt operations on Naples, Lyon, and Cologne terms haven't been implemented but are likely to be consolidated into one operation at the completion point, and could result in some revisions.

4/ Assumes full delivery of assistance under the original HIPC Initiative as of July 1999, including a portion of IDA relief delivered through a US$150 million IDA grant. The NPV/export ratio in 1998 is 5 percentage points higher than the 200 percent target under the original HIPC Initiative as a result of the relief provided through this IDA grant in 1999.

5/ Assumes hypothetical delivery of debt relief under the traditional mechanisms, original and enhanced HIPC Initiative, including a portion of IDA relief delivered through a US$150 million IDA grant. The NPV/export ratio in 1998 is 5 percentage points higher than the 150 percent target under the enhanced HIPC framework as a result of the relief provided through this IDA grant in 1999.

6/ In percent of government revenues excluding grants.

7/ In percent of current year exports of goods and non-factor services.

Table 10. Mozambique: Net Present Value of Debt and Debt Service by Type of Creditor, 1998-2017 /1
(in millions of U.S. dollars)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
NPV of debt																				
Before HIPC Assistance /2																				
Total	2,731	2,714	2,782	2,827	2,893	2,940	2,989	3,040	3,060	3,106	3,142	3,177	3,203	3,236	3,261	3,279	3,283	3,277	3,207	3,121
Multilateral	1,019	971	947	928	915	900	882	863	825	819	810	802	792	781	766	745	721	695	668	639
Paris Club	1,345	1,349	1,349	1,341	1,345	1,345	1,348	1,352	1,353	1,353	1,350	1,348	1,342	1,332	1,318	1,299	1,273	1,240	1,198	1,147
Other Bilateral and Commercial	367	367	367	368	368	368	368	368	368	367	365	361	356	350	341	330	316	301	282	260
New Borrowing	0	27	119	191	266	327	391	457	513	567	616	665	713	773	836	905	973	1,042	1,059	1,075
After Original HIPC Assistance /3																				
Total	1,042	1,077	1,162	1,229	1,298	1,350	1,404	1,461	1,508	1,551	1,587	1,626	1,663	1,713	1,763	1,813	1,858	1,900	1,885	1,862
Multilateral	395	400	405	409	410	408	405	401	399	394	388	384	382	380	377	373	367	359	351	340
Paris Club	522	550	539	531	524	517	511	505	499	493	485	480	473	466	456	446	432	416	397	374
Other Bilateral and Commercial	125	100	99	99	98	98	97	97	97	98	97	97	96	94	92	90	86	83	78	73
New Borrowing	0	27	119	191	266	327	391	457	513	567	616	665	713	773	836	905	973	1,042	1,059	1,075
After Enhanced HIPC Assistance /4																				
Total	787	809	896	966	1,037	1,093	1,150	1,211	1,263	1,312	1,356	1,399	1,440	1,492	1,545	1,599	1,650	1,699	1,694	1,682
Multilateral	300	298	306	315	322	325	326	328	332	335	338	338	338	338	337	334	329	325	319	312
Paris Club	396	421	409	399	390	382	375	368	361	353	345	340	333	326	318	309	298	285	270	252
Other Bilateral and Commercial	91	63	62	61	60	59	58	57	57	57	57	57	56	55	53	52	50	48	46	43
New Borrowing	0	27	119	191	266	327	391	457	513	567	616	665	713	773	836	905	973	1,042	1,059	1,075
Debt service due																				
Before HIPC Assistance /2	Paid																			
Total	104	146	172	166	162	167	169	178	189	195	203	201	214	194	209	224	239	251	265	278
Multilateral	61	71	75	71	66	65	68	71	70	66	64	56	54	54	58	62	65	65	65	66
Paris Club	39	64	77	73	73	77	75	74	76	79	81	81	85	88	92	97	103	109	115	122
Other Bilateral and Commercial	3	12	19	19	19	20	20	20	20	21	22	24	25	27	29	31	33	35	38	40
New Borrowing	0	0	1	2	3	5	6	13	23	29	35	39	50	25	29	34	38	42	47	50
After Original HIPC Assistance /3																				
Total	…	86	67	67	69	72	72	78	86	95	103	102	113	87	94	102	110	116	124	132
Multilateral	…	40	16	18	20	23	25	25	24	25	27	24	22	21	23	24	26	27	27	29
Paris Club	…	41	43	40	38	37	35	34	34	34	34	32	33	33	34	35	36	38	40	42
Other Bilateral and Commercial	…	5	7	7	7	7	7	7	6	6	7	7	7	8	8	9	9	9	10	11
New Borrowing	…	0	1	2	3	5	6	13	23	29	35	39	50	25	29	34	38	42	47	50
After Enhanced HIPC Assistance (excluding impact of Paris Club deferral) /4 /5																				
Total	…	…	50	48	51	54	55	60	68	75	82	86	97	73	79	86	93	98	104	111
Multilateral	…	…	7	7	10	14	15	15	14	14	15	17	17	18	19	21	22	22	22	24
Paris Club	…	…	36	32	31	30	28	27	27	27	27	24	25	25	26	26	28	29	30	32
Other Bilateral and Commercial	…	…	5	5	5	5	5	5	4	4	5	5	5	5	6	6	6	6	6	7
New Borrowing	…	…	1	2	3	5	6	13	23	29	35	39	50	25	29	34	38	42	47	50

Source: Mozambican authorities; and staff estimates.

Note:
1/ Refers to public and publicly guaranteed debt only.
2/ The NPVs of debt for bilateral and commercial creditors reflect a hypothetical stock-of-debt operation on Naples terms at end-1998. Actual stock-of-debt operations on Naples, Lyon, and Cologne terms have not been implemented but are expected to be consolidated into one operation at the completion point, and could result in some revisions.
3/ Assumes full delivery of assistance under the original HIPC Initiative as of July 1999.
4/ Assumes hypothetical delivery of debt relief under the traditional mechanisms, original and enhanced HIPC Initiative, as well as the accelerated relief from IDA and IMF during the interim period.
5/ Paris Club announced in March 2000 that Mozambique would receive a deferral of debt service until it reaches the completion point under the enhanced HIPC Initiative, followed by a stock-of-debt operation on the eligible debt on Cologne terms. Assuming that completion point would be reached in April 2001, the estimated debt service reduction during this period is estimated to amount to about US$36 million. Several bilateral creditors also announced that additional cancellation would be provided to Mozambique in response to the flood emergency.

Sensitivity Analysis

50. The staff has explored the robustness of the above conclusions by simulating the behavior of the debt sustainability indicators under two alternative scenarios. The first scenario models a larger impact of the recent floods than the one already included in the baseline. The scenario assumes that, over the period 2000-03, exports will be lower and imports higher than in the baseline, each by about 10 percent of GDP, leading to a balance of payments gap of about US$900 million, or about 20 percent of GDP. The gap is assumed to be fully financed through new borrowing on concessional terms. The second scenario considers the effects of permanently lower export growth by assuming that the value of exports grows at an annual average rate of 7 percent compared to 10 percent in the baseline. The scenario, which also assumes lower imports and GDP growth, leads to a balance of payments gap during the first 6 years of the projection period equivalent to about US$500 million.

51. The results from the "larger impact of floods" scenario suggest that debt levels would remain sustainable over the long-term despite the large magnitude of the shock considered (Figure 10). In the near term, the debt service and the NPV of debt-to-exports ratios would rise sharply as the balance of payments gap would be financed entirely by additional concessional borrowing.[12] By 2003, the NPV of debt-to-exports ratio would fall below 150 percent, and would then converge toward the values in the baseline by 2017. In the "lower export growth" scenario, debt ratios would also remain sustainable, although in this case they would deteriorate more in the long-term than in the short-term.

52. In sum, even though these alternative scenarios entail somewhat higher debt ratios than in the baseline, these ratios do not exceed critical levels in the long-term, implying that, even under much less favorable assumptions than under the baseline scenario, the amount of debt relief and fiscal consolidation assumed in the baseline are likely to be sufficient to allow Mozambique to maintain the sustainability of its debt over time.

53. The aforementioned conclusions of the debt sustainability analysis depend on Mozambique's continued recourse to financing only on concessional terms. The government intends to continue prudent policies on external financing, and has already taken steps to strengthen its debt recording and debt management capacitiy. It has centralized the power of contracting new external borrowing at the Ministry of Planning and Finance (subject to ratification by the Council of Ministers and the legal opinion by the attorney general). A law regulating external borrowing of the private sector was also approved recently.

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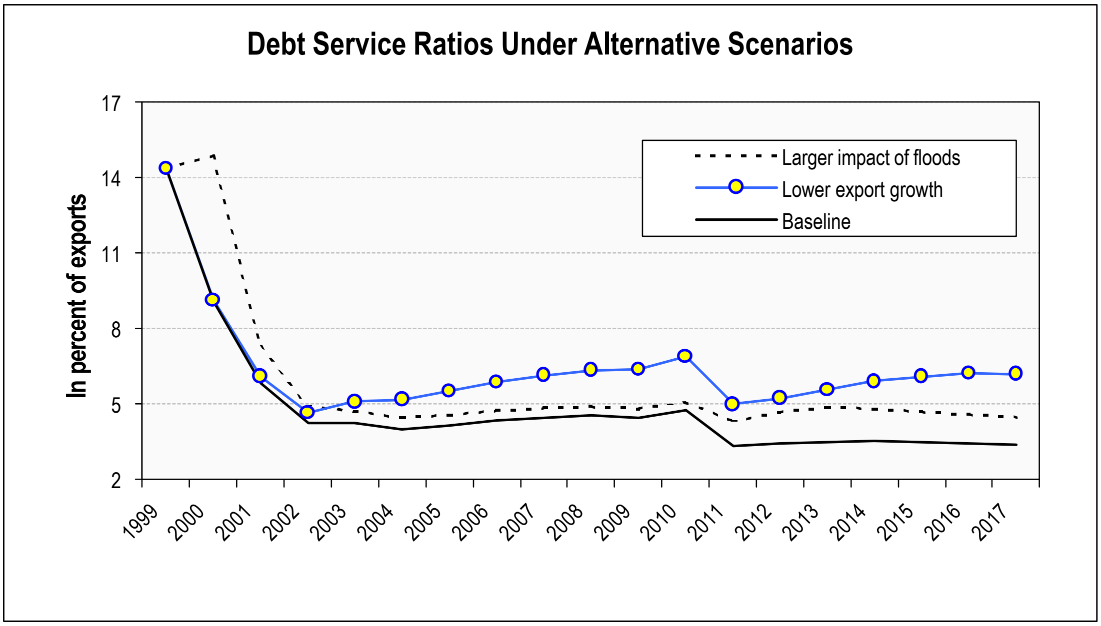
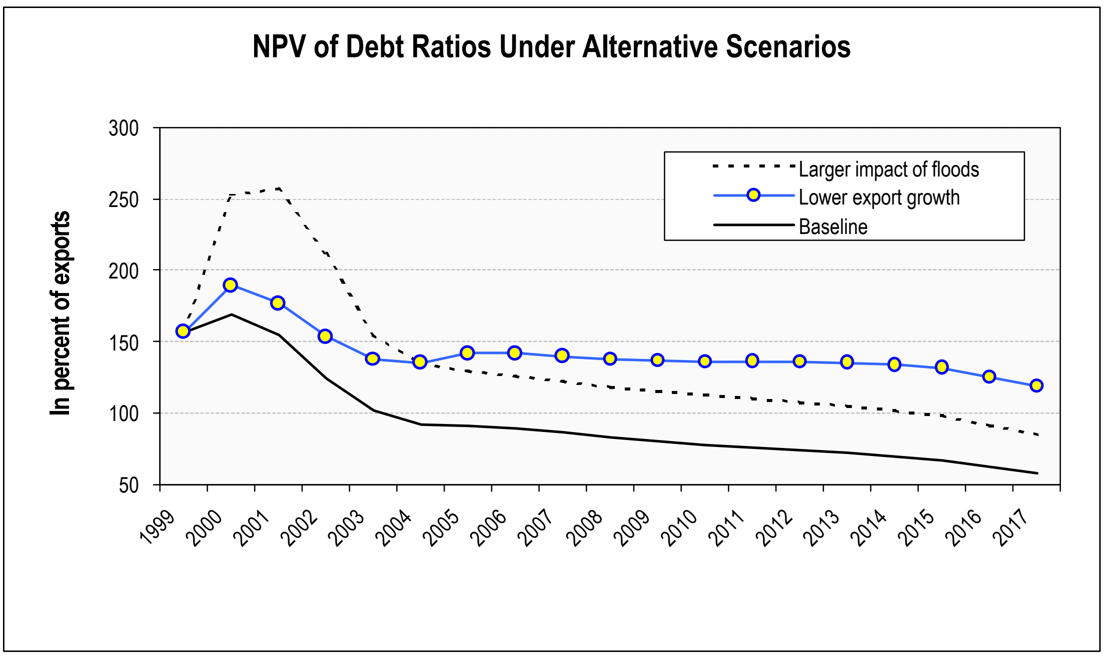
[12] Debt ratios would be correspondingly lower in the near term if part or all of the balance of payments gap were to be financed by additional grants.

Figure 10. Sensitivity of External Debt Indicators, 1999-2017





Source: Mozambican authorities; and staff estimates.

V. Status of Creditor Participation

54. Before the completion point under the original HIPC Initiative, all multilateral creditors confirmed that they would provide assistance to reduce the NPV of their claims in accordance with the decision taken by the Boards of IDA and the Fund. The updated DSA at the completion point indicated that the total HIPC Initiative assistance required to meet the 200 percent NPV/export target would need to be increased to US$1,716 million compared with US$1,442 million projected at the decision point.

Multilateral Creditors

55. As a result of higher debt relief, the multilateral share of assistance under the original HIPC Initiative was also adjusted upwards from US$526 million to US$641 million. Taking into account the additional contribution committed by IDA and the Fund in the gap-filling exercise, the contributions of the two institutions increased proportionately to about US$381 million and US$125 million in NPV terms, respectively.

56. **IDA assistance** was delivered first through a US$150 million IDA grant provided in 1999 during the interim period and equivalent to an NPV of debt reduction of about US$54 million. The remaining US$327 million was delivered using resources from the HIPC Trust Fund to purchase and cancel 8 IDA credits at their net present value price, equivalent to a face value of about US$700 million. The debt service paid on these credits between the completion point and the time of purchase and cancellation was refunded to Mozambique in January 2000. **Assistance from the Fund** took the form of a grant from the PRGF/HIPC Trust Fund equivalent to about US$125 million in NPV terms deposited into an escrow account at the completion point. This amount, plus accrued interest, is being used to cover part of Mozambique's debt service to the Fund under an agreed schedule.

57. At the end of 1999, US$119 million of relief in NPV terms was delivered on debts owed to **the African Development Bank Group** by purchasing and canceling 21 credits, including all outstanding nonconcessional loans. A reimbursement on debt service paid on these loans by Mozambique after the completion point is expected shortly. The delivery of assistance from **other multilateral creditors** (US$55 million in NPV terms) was slightly delayed due to the time required to formalize agreements on the specific modalities of delivery of relief. The Arab Bank for Economic Development in Africa (BADEA) has delivered about $8.2 million in assistance corresponding to its share of the US$1.4 billion of total assistance committed at the decision point, while the Nordic Development Fund (NDF) has also delivered its full share of the US$1.7 billion pledged at the completion point. An agreement with the International Fund for Agricultural Development (IFAD) is about to be ratified, a proposal by the OPEC Fund is under consideration, and the authorities are soliciting a proposal from the European Union and European Investment Bank (EIB).

Bilateral and Commercial Creditors

58. At the completion point under the original HIPC Initiative in June 1999, total assistance from bilateral creditors was estimated at US$1,076 million in NPV terms. **Paris Club** creditors reaffirmed their commitment to deliver the assistance pledged at the decision point and indicated their willingness to provide the required additional assistance consistent with achieving the 200 percent NPV of debt-to-exports target. At that time, the Paris Club agreed to provide its share of assistance for Mozambique through a stock-of-debt operation achieving a 90 percent reduction on eligible debt. In light of the forthcoming enhanced HIPC Initiative, however, the specific modalities of delivery of this assistance were not established. Instead, the Paris Club agreed to grant Mozambique a de-facto deferral of debt service on all eligible debt until the date of the stock-of-debt operation.

59. The authorities solicited the participation of **non-Paris Club official creditors** in writing. In 1999, Mozambique received a total cancellation of its public debt to South Africa, amounting to US$9 million, and signed a bilateral agreement with Algeria on Lyon terms. The Kuwait Fund also made a proposal that is under consideration. However, despite their best efforts, the authorities have not yet been able to conclude satisfactory agreements with the other non-Paris Club bilateral creditors on comparable terms.[13] According to the authorities, many of these creditors either do not recognize the "comparable terms" or propose less favorable conditions. These negotiations may have also been hampered by the expectation that any agreement would have to be changed soon in the context of the enhanced HIPC Initiative.

VI. Conditions For Floating Completion Point

60. The staffs and management of IDA and the Fund believe that Mozambique's performance since it reached the completion point under the original HIPC Initiative in June 1999, along with the interim PRSP that has been prepared, justify a decision point under the enhanced HIPC Initiative at this time. Following the recent approval of the first review of the PRGF arrangement by the Fund Board, the staffs recommend the approval of a decision point, provided that the Boards concurrently endorse the Interim PRSP as a context for the HIPC Initiative decision point.

61. To reach the completion point, Mozambique would need to have (i) completed a full PRSP, endorsed by the Boards of IDA and the Fund; (ii) continued to be in observance of the program supported by the Fund under the PRGF; and (iii) made satisfactory progress in its program of key policy measures, as indicated in Box 2. In monitoring the latter, particular attention will be paid to strengthening the tracking of budgetary resources for poverty reduction, to further developing strategies and budgetary allocations in the health and education sectors and the national AIDS program, and to achieving progress on improving the key social indicators shown in Tables 2-4. In assessing performance, due consideration

[13] Actual debt service payments to these creditors have been minimal pending agreements on debt relief.

will be given to the impact of the floods. Based on their plans for completing a full PRSP, the authorities expect that the completion point could be reached in about one year's time.

VII. Issues For Discussion

62. Executive Directors may wish to consider the following issues and questions:

63. **Eligibility and decision point.** The staffs and management believe that Mozambique is eligible for relief under the enhanced HIPC Initiative, and recommend approval of a decision point as a retroactive case based on Mozambique's having reached the completion point under the original HIPC Initiative, its satisfactory performance under the programs supported by IDA and the Fund, and its recently produced Interim PRSP. Do Executive Directors agree that Mozambique has met the conditions for a decision point under the enhanced HIPC Initiative?

64. **Amount and delivery of assistance.** Staffs and management recommend that creditors agree to provide relief of US$254 million in NPV terms, sufficient to meet the target ratio of 1998 NPV debt-to-exports of 150 percent. Do Executive Directors agree? The cost shares based on proportional burdensharing for IDA and the IMF are US$53 million and US$15.6 million respectively in NPV terms. Staffs and management recommend that the delivery of this relief be front-loaded in light of the flood emergency, as set out in paragraphs 44 and 45. Do Executive Directors endorse the recommended amounts and delivery profiles for DA and the IMF, respectively?

65. **Completion point.** The staff and management recommend a floating completion point, which would be reached when the conditions specified in paragraph 61 are met. Do Executive Directors agree?

66 **Creditor participation.** Some multilateral banks may require bilateral financial support to deliver their share of assistance to Mozambique under the enhanced HIPC Initiative. Do Directors agree that the staffs should continue to work with other multilateral creditors toward securing their participation? Some bilateral creditors that are not members of the Paris Club have yet to agree to provide debt relief to Mozambique proportional to that being provided by other bilateral and multilateral creditors under the HIPC Initiative. Do Directors agree that staffs should continue to facilitate discussions with these creditors?

Table 11. Mozambique: Medium- and Long-Term Balance of Payments, 1998-2017
(In millions of U.S. dollars, unless otherwise specified)

	Actual	Estimate	Projections						Outer Years		Averages	
	1998	1999	2000	2001	2002	2003	2004	2005	2010	2017	1998-07	2008-17
Trade balance	-620.1	-1,086.2	-859.6	-610.7	-410.8	-440.0	-455.1	-475.7	-625.3	-1,097.3	-596.9	-793.6
Exports (f.o.b.)	248.2	260.0	235.3	485.9	839.6	885.1	929.6	974.8	1,249.9	1,747.2	696.8	1,415.6
Of which: large projects	36.2	62.9	62.3	237.3	560.3	575.9	602.2	629.8	803.8	1,131.0	412.3	917.0
Of which: other exports	212.0	197.1	173.0	248.6	279.3	309.2	327.4	345.0	446.2	616.3	284.6	498.7
Imports (c.i.f.)	-868.3	-1,346.2	-1,094.9	-1,096.6	-1,250.4	-1,325.1	-1,384.7	-1,450.5	-1,875.2	-2,844.5	-1,293.7	-2,209.3
Of which: large projects	-87.3	-514.6	-174.4	-93.3	-207.0	-221.0	-222.1	-223.2	-228.9	-237.0	-219.3	-231.7
Of which: other imports	-781.0	-831.6	-920.5	-1,003.3	-1,043.4	-1,104.1	-1,162.6	-1,227.3	-1,646.4	-2,607.6	-1,074.5	-1,977.5
Services (net)	-176.3	-236.3	-279.9	-225.0	-324.8	-263.0	-238.0	-210.7	-20.0	416.6	-227.2	111.7
Receipts	332.5	337.1	355.0	381.3	408.8	445.6	485.9	529.9	846.2	1,565.9	451.5	1,083.8
Expenditures	-508.8	-573.4	-644.9	-606.3	-733.7	-708.7	-723.9	-740.5	-866.2	-1,149.3	-679.7	-972.1
Of which: interest	-163.3	-180.0	-230.5	-219.9	-209.1	-195.9	-182.7	-171.9	-163.1	-138.5	-188.6	-155.7
Of which: interest on public debt	-150.2	-161.6	-146.3	-132.5	-118.7	-105.3	-93.7	-86.9	-78.0	-161.2	-116.1	-82.8
Current account, excluding grants	-796.4	-1,322.5	-1,139.5	-835.8	-735.6	-703.0	-693.1	-686.4	-645.3	-680.7	-824.1	-682.0
Unrequited official transfers 1/	313.2	427.9	369.6	368.0	350.0	350.0	350.0	350.0	350.0	350.0	357.9	350.0
Current account, including grants	-483.2	-894.6	-769.9	-467.8	-385.6	-353.0	-343.1	-336.3	-295.3	-330.7	-466.2	-331.9
Capital account	270.0	634.1	262.4	-10.0	-73.6	-62.4	5.3	79.3	250.0	269.2	152.1	245.6
Foreign borrowing	306.7	494.9	505.8	268.4	227.8	255.4	270.5	288.6	288.6	288.6	319.5	288.6
Public sector	225.3	99.6	164.8	165.0	165.0	180.0	180.0	180.0	180.0	180.0	172.0	180.0
Of which: IDA	133.9	68.0	120.0	130.0	130.0	130.0	130.0	130.0	130.0	130.0	123.2	130.0
Private sector 2/	81.4	395.3	341.0	103.4	62.8	75.4	90.5	108.6	108.6	108.6	147.6	108.6
Amortization	-249.4	-252.5	-362.9	-362.8	-402.7	-439.3	-404.9	-370.0	-297.4	-383.6	-337.7	-335.0
Of which: amortization on public debt												
Direct investment (net)	212.7	391.7	119.5	84.4	101.3	121.5	139.7	160.7	258.8	364.1	170.3	292.0
Short term and errors and omissions (net)	8.8	23.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.2	0.0
Of which: commercial banks (net)	15.3	3.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.8	0.0
Overall balance	-204.4	-237.4	-507.5	-477.8	-459.2	-415.4	-337.8	-257.1	-45.3	-61.5	-311.0	-86.3
Financing	204.4	240.5	507.5	477.8	459.2	415.4	337.8	257.1	45.3	61.5	311.3	86.3
Bank of Mozambique	-77.2	-55.6	65.0	50.0	50.5	19.5	-6.0	-34.9	-69.8	-58.6	-10.2	-38.4
Of which: Gross int. reserves (inc.-) 3/	-92.9	-44.1	57.3	55.8	50.9	40.3	15.5	-5.9	-40.8	-58.6	-24.9	-24.9
Of which: Use of IMF credit (net)	9.6	-7.7	31.7	-5.8	-0.5	-20.8	-21.5	-29.0	-29.0	0.0	-3.8	-16.1
Net change in arrears (increase +)	20.4	-761.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-74.1	0.0
Financing gap prior to debt relief	261.2	1,054.5	442.5	427.8	408.8	395.9	343.8	292.0	115.1	120.1	395.3	124.8
Debt relief 4/	261.2	1,054.5	442.5	427.8	408.8	395.9	343.8	292.0	115.1	120.1	395.3	124.8
Of which: assistance under the original HIPC Initiative 5/	...	60.3	105.0	98.9	92.6	95.1	96.3	99.6	101.6	146.5	94.6	119.5
Of which: assistance under the enhanced HIPC Initiative 6/	...	...	17.3	19.0	18.2	17.7	17.9	18.0	15.4	21.0	18.3	17.5
Financing gap	0	0	0	0	0	0	0	0	0	0	0	0
Memorandum items :												
Current account deficit (in percent of GDP)												
Before grants	20.5	31.7	26.6	17.8	14.1	12.3	11.2	10.1	6.1	3.5	16.1	5.3
After grants	12.4	21.5	18.0	10.0	7.4	6.2	5.5	5.0	2.8	1.7	9.4	2.6
Gross international reserves	624.9	669.0	611.7	555.9	505.0	464.7	449.2	455.1	588.4	791.6	530.6	652.0
(in months of imports of goods and services)	6.7	4.8	5.2	4.8	3.8	3.4	3.1	3.0	3.2	3.0	4.1	3.1

Sources: Mozambican authorities and staff estimates and projections.

1/ In 1999 includes US$150 million of grants provided by IDA as interim assistance under the HIPC Initiative.
2/ Private borrowing, not guaranteed by the government or the Bank of Mozambique.
3/ Defined as monetary gold, untied foreign exchange deposits, foreign banknotes, and SDRs.
4/ Includes the 1996 Paris Club flow rescheduling on Naples terms; the rescheduling of the debt to Russia after an up-front discount of 80 percent; the 1997 commercial debt rescheduling with the Bank of Brazil; total assistance under the HIPC Initiative; and the application of traditional rescheduling mechanisms by non -Paris Club creditors.
5/ Assumes full delivery of assistance under the original HIPC Initiative as of July 1999, including a portion of IDA relief delivered through a US$150 million IDA grant.
6/ Assumes hypothetical delivery of debt relief under the traditional mechanisms, original and enhanced HIPC Initiative, including a portion of IDA relief delivered through a US$150 million IDA grant.

Table 12. Mozambique: Exchange Rates and Discount Rates, End-1998

	Exchange rate (per US$)	Discount rate (percent)
Paris Club		
Austrian Schilling	11.75	5.28
French Franc	5.62	5.36
German Mark	1.67	5.16
Japanese Yen	115.60	2.22
Portuguese Escudo 2/	171.83	5.25
Russian Ruble 3/	0.60	6.23
Spanish Peseta	142.61	5.31
Swedish Kronor	8.06	5.66
Swiss Franc	1.38	4.05
U.K. Pound	0.60	6.81
U.S. Dollar	1.00	6.23
Non-Paris Club		
Bulgarian Leva 2/	70.83	5.25
Chinese Yuan 2/	8.28	5.25
Indian Rupee 2/	42.48	5.25
Iraqi Dinar 4/	0.31	6.23
Kuwaiti Dinar 2/	0.30	5.25
South African Rand 2/	5.86	5.25
Multilateral		
ECU 5/	0.86	5.00
SDR 6/	0.71	5.25
U.S. dollar 7/	1.00	6.23
Unit of Account 8/	0.71	5.25

Sources: OECD; and *International Financial Statistics*, IMF.

1/ Six-month average of commercial interest reference rate (CIRR) for July-December 1998.
2/ Discount rate based on SDR CIRR.
3/ Reflects exchange rate agreed in September 17, 1997 Paris Club memorandum of understanding.
4/ Discount rate based on U.S. dollar CIRR, reflecting exchange rate peg.
5/ Applied to loans from the European Investment Bank and European Union.
6/ Applied to loans from IDA, IMF, International Fund for Agricultural Development, and Nordic Development Fund.
7/ Applied to loans from the OPEC Fund and Arab Bank for Economic Development in Africa (BADEA).
8/ African Development Bank unit of account, applied to all AfDB/AfDF loans.

Table 13. HIPC Initiative: Status of Country Cases Considered Under the Initiative
March 2000

Country	Decision Point	Completion Point	NPV of Debt-to-Export Target (in percent)	Assistance Levels 1/ (In millions of U.S. dollars, present value) Total	Bilateral	Multilateral	IMF	World Bank	Percentage Reduction in NPV of Debt 2/	Estimated Total Nominal Debt Service Relief (In millions of U.S. dollars)	Satisfactory Assurances from Other Creditors
Decision point reached under enhanced framework											
Bolivia 3/				1302	425	876	84	194	30	2,060	
original framework	Sep. 97	Sep. 98	225	*448*	*157*	*291*	*29*	*53*			Received
enhanced framework	Feb.00	Floating	150	*854*	*268*	*585*	*55*	*141*			Being sought
Mauritania	Feb.00	Floating	137 4/	622	261	361	47	100	50	1,188	Being sought
Uganda 3/				1,003	183	820	160	517	40	1,950	
original framework	Apr. 97	Apr. 98	202	*347*	*73*	*274*	*69*	*160*			Received
enhanced framework	Feb.00	Floating	150	*656*	*110*	*546*	*91*	*357*			Being sought
Completion point reached under original framework											
Guyana	Dec. 97	May 99	107 4/	256	91	165	35	27	24	410	Received
Mozambique	Apr. 98	Jun. 99	200	1,716	1,076	641	125	381	63	3,700	Received
Decision point reached and assistance committed by IMF and World Bank under original framework											
Burkina Faso	Sep. 97	Apr. 00	205	115	21	94	10	44	14	200	Being sought
Côte d'Ivoire	Mar. 98	Mar. 01	141 4/	345	163	182	23	91	6 5/	800	Being sought
Mali	Sep. 98	Spring 00	200	128	37	90	14	44	10	250	Being sought
Total assistance provided/committed				5,487	2,257	3,229	498 6/	1,398		10,558	
Preliminary HIPC document issued 7/											
Ethiopia	...	...	200	636	225	411	22	214	23	1,300	...
Guinea	...	...	150	638	256	383	37	173	34	1,148	...
Guinea-Bissau	...	...	200	300	148	153	8	73	73	600	...
Honduras	...	...	137 3/	569	208	361	18	85	18	1,024	...
Nicaragua	...	...	150	2,507	1,416	1,091	32	188	66	5,000	...
Tanzania	...	...	150	2,485	1,314	1,171	110	728	59	5,000	...
No assistance required under original framework--to be reassessed under enahnced framework											
Benin	Jul. 97	...	...	...	...	...	...	...	...	...	...
Senegal	Apr. 98	...	...	...	...	...	...	...	...	...	...

Sources: IMF and World Bank Board decisions, completion point documents, decision point documents, preliminary HIPC documents, and staff calculations.

1/ Assistance levels are at countries' respective decision or completion points, as applicable.
2/ In percent of the net present value of debt at the decision or completion point (as applicable), after the full use of traditional debt-relief mechanisms.
3/ Uganda and Bolivia reached their completion points under the original framework of the HIPC Initiative in April 1998 and September 1998, respectively. Assistance under the original framework, of $347 million for Uganda and $448 million for Bolivia, is included in the figures provided for total assistance.
4/ Eligible under fiscal criteria; figures provided show the ratios of debt-to-exports that correspond to the targeted debt-to-revenue ratio. For Guyana and Cote d'Ivoire, a 280 percent NPV of debt-to-revenue ratio was targeted at the completion point; for Honduras and Mauritania a 250 percent ratio was targeted at the decision point.
5/ Nonreschedulable debt to non-Paris Club official bilateral creditors and the London Club, which was already subject to a highly concessional restructuring, is excluded from the NPV of debt at the completion point in the calculation of this ratio.
6/ Equivalent to SDR 374 million at an SDR/USD exchange rate of 0.744.
7/ Dates and figures are based on preliminary assessments at the time of the issuance of the preliminary HIPC document; these are subject to change. Assistance levels for Ethiopia and Guinea-Bissau were based on the original framework and applied at the completion point; for Nicaragua, Tanzania, Guinea, and Honduras, targets are based on the enhanced framework and assistance levels are at the decision point.