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The role of central banks in meeting the development and employment challenges: The case of Mozambique

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Preface

The primary goal of the ILO is to contribute, with member States, to achieve full and productive employment and decent work for all, including women and young people, a goal embedded in the ILO Declaration 2008 on Social Justice for a Fair Globalization,[1] which has now been widely adopted by the international community.

The comprehensive and integrated perspectives to achieve this goal are enshrined in the Employment Policy Convention, 1964 (No. 122), in the Global Employment Agenda (2003) and, in response to the 2008 global economic crisis, in the Global Jobs Pact (2009) and in the Conclusions of the Recurrent Discussion on Employment (2010).

The Employment Policy Department (EMPLOYMENT) is fully engaged in global advocacy and in supporting countries, placing more and better jobs at the centre of economic and social policies and of inclusive growth and development strategies.

Policy research, knowledge generation and dissemination are an essential component of the Employment Policy Department's action. The publications include books, monographs, working papers, country policy reviews and policy briefs.[2]

The *Employment Policy Working Papers* series is designed to disseminate the main findings of research initiatives on a broad range of topics undertaken by the various branches, units and teams in the Department. The working papers are intended to encourage exchange of ideas and to stimulate debate. The views expressed are the responsibility of the author(s) and do not necessarily represent those of the ILO.

Azita Berar Awad
Director
Employment Policy Department

[1] See http://www.ilo.org/public/english/bureau/dgo/download/dg_announce_en.pdf
[2] See http://www.ilo.org/employment

Foreword

Prior to the global financial crisis, mainstream economic thinkers and policymakers relied heavily on macroeconomic stability as one of the fundamentals driving growth and employment creation. This line of thinking continues to be dominant in some international agencies and among many national policymakers. The role of monetary policy is confined to achieving price stability, most notably by targeting low, single digit inflation. Fiscal discipline is emphasized and continues to exert its influence on policymakers. Governments are asked to refrain from using industrial policy and allow markets to determine the process of structural transformation.

Today, an increasing body of literature casts doubt on the robustness of such a paradigm. A single-minded focus on inflation targeting is being questioned, as are the merits of fiscal austerity. Certainly, the crisis and crisis response measures have motivated policymakers to rethink and re-orient the role of macroeconomic policy in employment creation. In fact, there has been unanimous agreement among G20 leaders that job creation is a priority for all countries.

Given this broader context, this paper examines the role of the Bank of Mozambique in meeting its development and employment challenges. The Bank is committed to keeping inflation in check. The paper points out that macroeconomic stability is a necessary condition for growth; however it is often not sufficient for the creation of productive employment and inclusive growth. Given the weak transmission mechanism of monetary policy, a wide investment-savings gap and lack of financial inclusion, the paper argues that the Central Bank needs to play a proactive role in promoting domestic investment, supporting expansion of priority sectors and creating productive employment.

The paper urges that Mozambique would need to develop a more competitive and inclusive financial system, address the failure of the market to make credit available for SMEs and farmers, and establish credit guarantee schemes to channel credit to priority sectors and disadvantaged groups. It suggests that the Bank of Mozambique should consider incorporating employment as a central macroeconomic objective while safeguarding price stability (the 'dual mandate') in order to steer its policies to meet the country's development and employment challenges.

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Abbreviations

AFD	*Agence Française de Développement*
AfDB	African Development Bank
CBN	Central Bank of Nigeria
CPI	Consumer Price Index
FDA	*Fundo de Desenvolvimento Agrário (*Agrarian Development Fund)
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GNI	Gross National Income
IFEM	Interbank Foreign Exchange Market
ILO	International Labour Office
IMF	International Monetary Fund
INE	*Instituto Nacional de Estatistica* (National Statistical Institute)
MSMEs	Micro, Small and Medium Enterprises
ODA	Overseas Development Assistance
PARP	Poverty Reduction Action Plan
SMEs	Small and Medium-sized Enterprises
UNDP	United Nations Development Programme
WDI	World Development Indicators

Executive Summary

During the past two decades, Mozambique has been among the fastest growing countries in Africa, having registered an annual average growth rate of more than 7 per cent. Despite this impressive growth, the country is still among the poorest in the region. More than half the population lives under the poverty threshold, and about 80 per cent of the workforce is engaged in the agriculture sector.

Since growth has not proved to be a sufficient condition of employment, the Government adopted the Poverty Reduction Action Plan (PARP) with a strong commitment to employment generation and inclusive growth. However, apart from contributions from mining and agriculture, growth has been driven considerably by foreign direct investment (among the highest per capita in Africa), chiefly in "mega projects" and extractive industries with scant impact on employment.

While the relationship between sustaining macroeconomic stability and engines of growth needs further analysis, the present study explores the role of the Bank of Mozambique not only with respect to its primary objective of maintaining price stability but also within the broader framework of the country's development agenda, in particular, the need to incorporate inclusive growth, job creation and structural change. It should be noted that unemployment is not only very high, but the labour force is growing fast and is likely to put increased supply pressures on the labour market. The sectoral shares of employment have remained largely unchanged, and growth in formal sector jobs has been slow.

The Bank of Mozambique's current focus is on attaining a pre-determined inflation target of 5-6% by targeting quantity (money base) and prices (policy rate), with occasional interventions in the foreign exchange market to mop up excess liquidity. With recent inflation lower than targeted, the Bank has lowered policy rates and released liquidity for greater domestic private sector participation. However, the transmission mechanisms of policy rate changes are weak due to an underdeveloped financial market, and that credit expansion benefits the large businesses. Given the oligopolistic banking system, commercial banks maintain a wide margin between their deposit and lending rates. The SMEs and small operators have little access to finance. The Bank needs to introduce measures to deepen and widen the financial system. Moreover, given low domestic savings and investment, the real economy effects of policy rates are not tangible. While inflation control remains the Bank's key goal, the inflation-growth trade-off has to be continuously reassessed to ease resource/liquidity availability for private sector growth and allow greater fiscal space for public initiatives in social and physical infrastructure that are key to structural changes.

In an inclusive growth strategy, a major consideration must lie with the problem of lack of access to finance, especially of SMEs and the agriculture sector which have a crucial role to play in the realization of the PARP. There are several indicators to suggest that lack of finance is a binding constraint on doing business in Mozambique, and SMEs and small operators in rural areas and the informal sector have very little access to formal loans. For various reasons commercial banks are reluctant to extend loans to them, in part characteristic of the failure of the market. There have been some recent initiatives to set up targeted, largely donor-funded, loan programmes for small operators and businesses. It would be pertinent for the Bank of Mozambique to review the financial and credit needs of the large insufficiently served small business and unbanked population, and design a targeted and integrated plan to develop and encourage institutions to extend credit to the employment-generating sectors. Various country experiences where the central banks play such a role in inclusive financing could inform the design of such a plan.

1. Introduction

Over the last two decades, the Republic of Mozambique has been one of the fastest growing economies in sub-Saharan Africa. Nevertheless, Mozambique’s growth relies in part on extractive industries driven by capital-intensive ‘mega-projects’, which have only moderate linkages with the local economy. As found in other countries, even impressive records of economic growth do not necessarily translate into creation of productive employment and poverty reduction.[3] Indeed, recent studies show that the poverty rate in Mozambique, which is very high, has not shown an appreciable downward trend and that growth has not been sufficiently inclusive. Inequality in opportunities and socioeconomic development across regions has contributed to this pattern of growth. Therefore, economic diversification, creation of productive employment and poverty reduction figure prominently on the priority policy agenda of the Mozambique Government.

Productive employment creation has proved to be one of the most effective ways of redistributing the fruits of growth and reducing poverty. However, Mozambique faces acute employment challenges. Sustained economic growth since the end of the civil war has largely failed to generate sufficient quality employment in non-agricultural sectors. Nearly 80 per cent of the workforce is engaged in agriculture, mostly in subsistence farming. Given the limited number of employment opportunities in the formal economy, many new entrants into the labour market are forced into marginal jobs in the informal economy in urban areas and in subsistence agriculture in rural areas, both with little prospect of generating decent employment. Underemployment, low productivity and low quality jobs are the reality for the majority of workers in the country. Further, these employment challenges are compounded by an increasing pace of labour force expansion in the coming years.

Against this backdrop, Mozambique's medium-term Poverty Reduction Action Plan (PARP) 2011-2014 aims to accelerate inclusive growth with emphasis on employment promotion as one of the strategic pillars. Amongst challenges in generating non-mining private sector jobs, limited access to finance is identified as the most severe constraint on starting enterprises and expanding businesses. In fact, Mozambique is ranked 129th out of 185 economies on the ease of obtaining credit, according to the World Bank’s Doing Business 2013 report (World Bank, 2013). Insufficient financial inclusion has reduced the capacity of the economy to create productive employment. Therefore, monetary policy, within the broader strategic framework of the PARP, has an important role to play in promoting productive employment and decent work in Mozambique.

The Central Bank (*Banco de Moçambique*) is committed to achieving the objectives of keeping inflation low and stable, safeguarding the financial system, and encouraging lending to the private sector. Many central banks in the world implement various instruments and initiatives to boost private sector growth and/or deepen financial inclusion. They play active roles in steering economic growth, in addition to safeguarding macroeconomic stability. This paper explores how the Central Bank of Mozambique can play its part in fostering the inclusive growth to which the Government is fully committed. In particular, it examines how the Bank’s monetary policy framework can combine its traditional roles relating to price stability with a focused employment-oriented and developmental role (often dubbed ‘dual mandate’).[4] The context of such an approach is briefly explained in Section 2 below.

[3] Recent experiences of Botswana and Nigeria are a case in point.
[4] For an elaboration, see, for example, UN ESCAP (2013).

The rest of the paper is organized as follows. Sections 3 and 4 provide an overview of the macroeconomic, labour market and social development performance of Mozambique, setting the scene for further analysis and discussion of the role of the Central Bank, particularly in relation to the monetary policy framework, financial inclusion and creation of productive employment. Section 5 summarizes the current monetary policy stance of the Central Bank of Mozambique and analyses the monetary policy transmission mechanism. In the process, it highlights issues which the current monetary policy framework would need to address for potential growth and employment outcomes. Section 6 focuses on the linkage between access to finance and creation of productive employment. It examines the access of small and medium-sized enterprises (SMEs) to finance, given that lack of access to finance is arguably the dominant constraint on private sector growth. Access of farmers to finance and agricultural productivity are also discussed in this section. The final section provides a brief summary of the study and its policy recommendations.

2. Growth, employment, diversification and the role of central banks: The context

Economic growth, structural change and generation of productive employment have historically been the hallmarks of countries that have graduated from low-income to higher income economies.[5] The above objectives have also defined the parameters of macroeconomic planning as well as the roles of the stakeholders, including central banks, charged with their implementation. Since the 1980s, however, owing to a number of conjunctural factors, macroeconomic planning came to be focused overwhelmingly on attaining macroeconomic stability, largely through price stability and targeted reductions in fiscal and current account deficits. The story of the African economies of the 1980s and 1990s is well-documented: stabilization was achieved, but growth stagnated, and poverty and unemployment remained unacceptably high.[6] Stabilization, which was seen as a necessary condition, was not a sufficient condition for employment, growth and diversification. A critical issue that arose from the above experience, one which is yet to receive adequate policy attention, is whether a *one-dimensional* macroeconomic policy framework, focused single-mindedly on stabilization, can be conducive to longer-term growth prospects, as well as to structural change, without which high growth rates cannot be sustained.

Nevertheless, ever since stabilization came to define the macroeconomic policy framework, close attention has been paid to maintaining price stability, largely through inflation targeting.[7] Central banks were thus vested with custodial responsibility for controlling inflation, largely through restrictive monetary policies. In fact, central banks sought operational "independence" in pursuit of inflation targeting. In Africa, many countries approached inflation control and price stability through money and/or inflation targeting, while others focused on balancing price and exchange rate stability. Controlling broad money and interventions in the foreign exchange market provided the main instruments to control inflation. Until about 2000, a strict decline in money aggregates led to substantial fall in inflation rates (below 5 per cent). Thereafter, there was a spurt in broad money growth, and median inflation rates also rose. Ironically this was also the period that saw the GDP growth explosion in many countries, thereby calling into question the growth-inflation trade-off and the optimal inflation threshold.[8]

There are now diverse and persuasive country experiences to suggest that while price stability is crucial to maintaining investor confidence, monetary policies, if too restrictive, may not be conducive to sustaining aggregate demand, mobilization of investment resources and job creation. Thus it is important that monetary policies should be linked more coherently to outcomes in the "real" economy, in particular, to savings, investment and growth. The role of monetary policy and use of monetary instruments would need to be coherent with the overall objectives of development planning. It is equally important to note that while traditional monetary instruments are used to target inflation rates, there are several factors that may drive price levels, e.g. fiscal deficits, various supply constraints, imported inflation, etc.

[5] The East Asian economies are cases of such experience; cf. World Bank (1993).

[6] See Easterly (2001), who has argued that Africa actually experienced what he termed as two "lost decades".

[7] Cf. Islam and Anwar (2011) for an empirical insight.

[8] Cf. Njuguna (2008), ibid. There are very few evidence-based illustrations of why an inflation target of less than 5 per cent, as often observed in conditional lending, should be seen as sacrosanct in developing economies where some carefully-designed expansionary paths may be desirable both to mobilize resources and enhance growth and narrow the potential output gap.

The above observations suggest that central banks, as a crucial stakeholder in the design and implementation of the macroeconomic policy framework, need to address the following: 1) inflation targeting through traditional instruments may not always be effective since there can be many forces affecting price levels; 2) often the trade-off between employment and inflation is more apparent than real, and many have argued that it may be expedient for central banks to consider employment-targeting, while using short-term instruments to check inflation;[9] 3) since monetary policies are more effective where money and financial markets are well-developed, countries should undertake specific measures to develop such markets. Policy reforms should not only apply to deepening financial market development, but also to "widening" markets, so that the poor can have better access; and 4) the objectives of inflation targeting and price stability need to be assessed against the backdrop of the broader development framework (such as the PARP). The test of stability will lie not simply with restrictive policies, but with what investment and productivity outcomes this may entail.

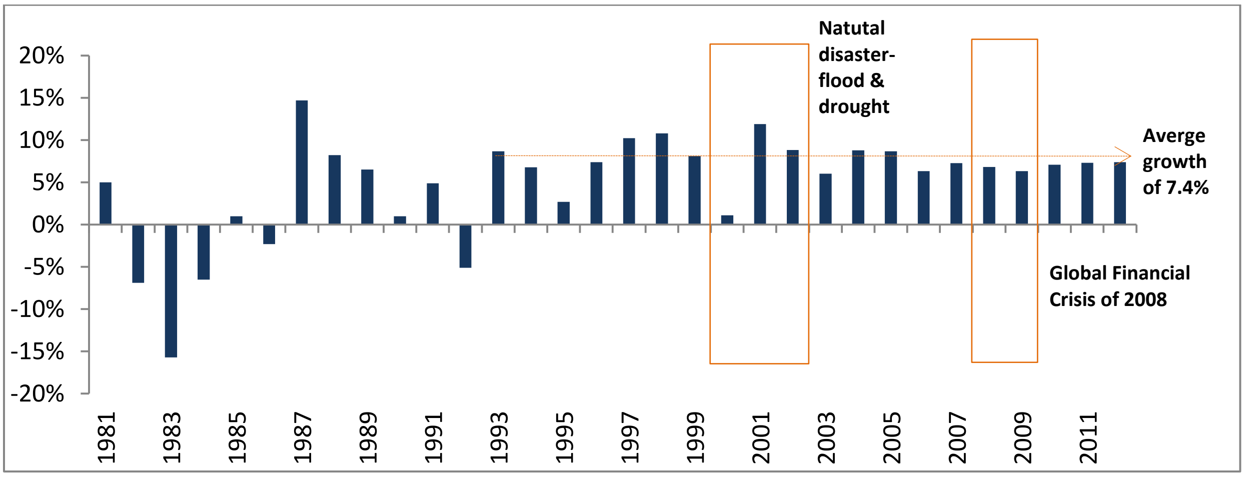
It is in the above context that this paper attempts to explore the role of the Central Bank in Mozambique, not only with respect to its primary objective of maintaining price stability but also within the broader framework of the country's development agenda, in particular, the need to incorporate inclusive growth, job creation and structural change.

[9] See Epstein (2003), for example, for some significant arguments.

3. Macroeconomic conditions and social development

Mozambique is one of the fastest growing non-oil economies in Africa. Since the end of the long period of civil war which lasted from 1977 to 1992, rehabilitation measures and macroeconomic reforms have helped the economy to recover. In the past two decades Mozambique has experienced annual GDP growth rate averaging 7.4 per cent (Figure 1). In 2012, per capita GDP reached USD 417.4, a significant increase from the USD184.1 recorded in 1993 (World Bank, 2013). The rapid growth in Mozambique during the past decades has been driven by several motors. First, large inflows of foreign direct investment (FDI), mostly in the mining, construction and telecommunication sectors, boosted the economy. Second, overseas development assistance (ODA) has supplemented the national budget. In fact, Mozambique records one of the highest ratios of aid to GDP in Africa, averaging at USD 89.2 per capita (AfDB, 2011). Third, the agriculture sector has been growing thanks to an increase in domestic demand, contributing just above 30 per cent of GDP in 2013. Finally, production and exports of aluminium have been growing (Bank of Mozambique, 2012, see annex V). Nevertheless, the Mozambique economy has been volatile due to factors including a narrowly based economy and the structural instabilities of its production base caused by natural disasters such as drought and flood.

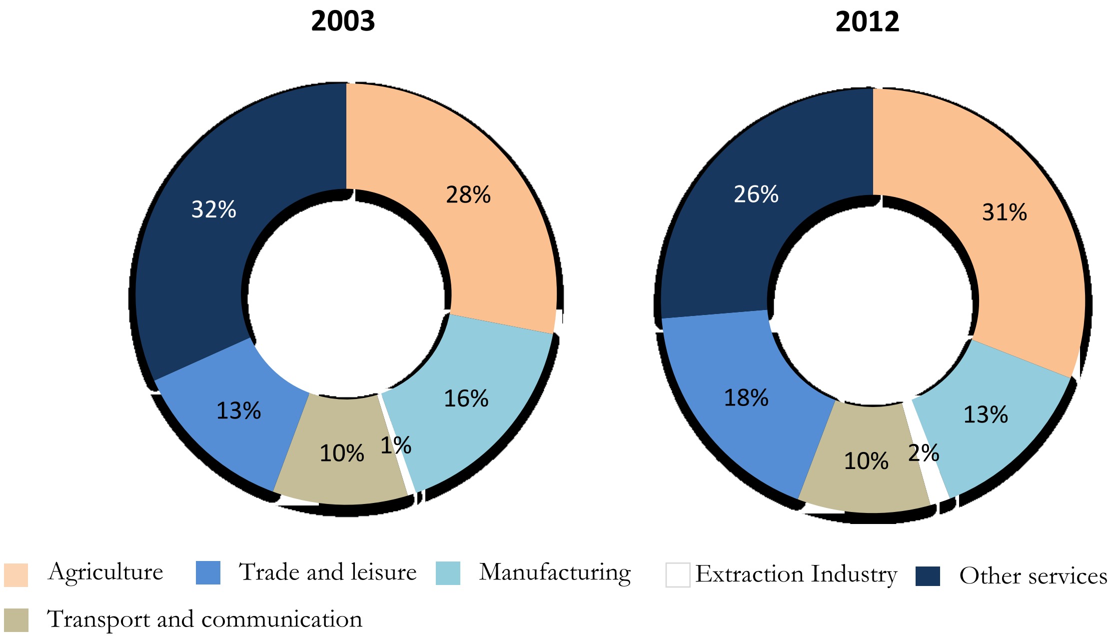
Figure 1: Annual GDP growth rate



Source: World Bank, World Development Indicators.

The extractive and energy sector, commonly characterized by "mega projects", dominates the economic landscape because of its large-scale production and foreign capital financing. It is among the fastest growing sectors, at 40.7 per cent annually, contributing approximately 2 per cent of GDP in 2012 (Bank of Mozambique, 2012). Also, the sector contributes remarkably to the country's external trade, as aluminium represented 50 per cent of total exports in 2010; the rising exploration of coal has led to its becoming the second most exported product (see annex V). Other major exports of Mozambique are natural gas and electricity, and traditional export products such as sugar, tobacco, fish and seafood, wood, cotton, chestnut-of-cashew and almonds (UN COMTRADE).

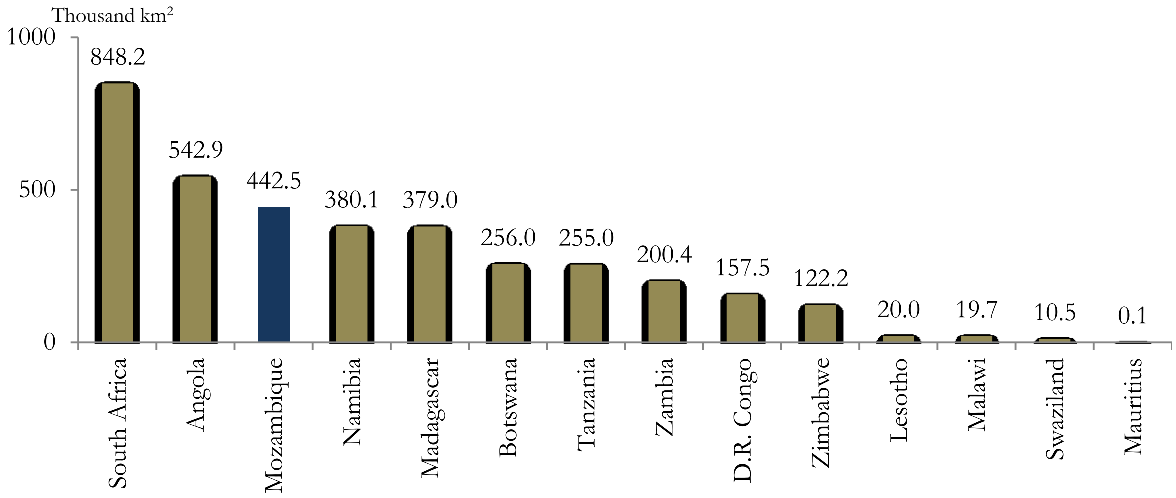
Figure 2: GDP by sector (2003 and 2012, per cent)



Source: AfDB (2012).

The agriculture and fishery sector accounted for 31 per cent of GDP in 2012; however, the growth potential of the agriculture sector remains untapped. According to the World Bank (2012a), Mozambique is endowed with vast tracts of rich arable land, most of it suitable for irrigation, which means that the country has the potential to become the region's "breadbasket" (see Figure 3). Currently, the agriculture sector continues to experience challenges such as relatively low productivity due to limited access of farmers to finance an underdevelopment of the input supply network. As a result, Mozambique imports consumer goods, which accounted for 35.9 per cent of GDP in 2011 (IMF, 2013a). It is in the policymakers' interest to tap into the dormant agricultural potential and improve the living standards of the rural population.

Figure 3: Uncultivated arable land, 2009 (thousand km^2)



Source: Mozambique CPI, World Bank (World Development Indicators).

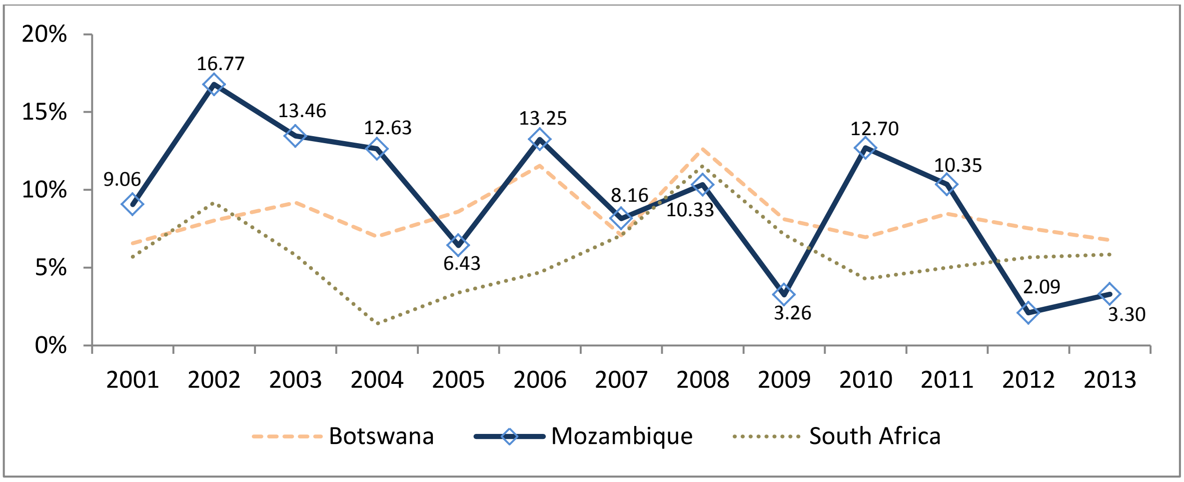
The fiscal deficit is expected to widen, following an increase from 2.5 per cent of GDP in 2008 to 4.0 per cent in 2012 (Table 1). Fiscal capital expenditure is expected to increase further in 2013 and 2014 because of the Government's integrated investment programme to close the infrastructure development gaps, as well as an increase in the provision of fuel and bread subsidies and some specific spending commitments under the PARP 2011-2014 strategy. Simultaneously, the inflow of external aid resources declined from 40 per cent of GDP in 2012 to 32.8 per cent in 2013, which has moderately reduced the domestic revenue allocation (IMF, 2013b). Despite the widening fiscal deficit, the Government remains optimistic about tax revenue generation from mega-projects, especially the coal and the gas extractive industry. In 2013, the extractive industry contributed 6.7 per cent to government revenue (see annex IV).

Table 1: Government finance (Per cent GDP)

Year	2000	2005	2006	2007	2008	2012	2013*
Government Revenue (% GDP)	21.93	20.12	22.93	25.20	25.34	28.90	31.67
Total expenditure and net lending (% GDP)	23.70	22.90	27.00	28.15	27.81	32.94	36.31
Overall Deficit (-)/ Surplus (+) (% GDP)	-1.73	-2.78	-4.07	-2.95	-2.48	-4.04	-4.64
Current Account Balance (% GDP)	-17.87	-17.22	-8.63	-10.92	-12.92	-36.49	-40.11

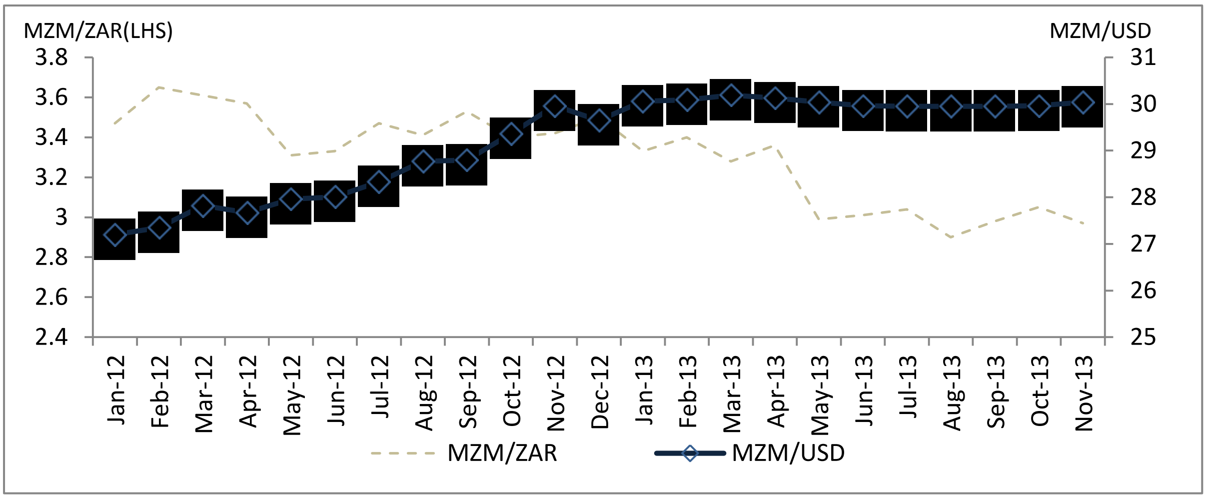
Source: IMF: World Economic Outlook, October 2013a, (*) estimates.

Figure 4: Inflation rate, Consumer Price Index (CPI) annual %



Source: IMF, Data for 2013 are estimates.

Figure 5: Nominal exchange rates, January 1 2012 to November 30, 2013



Source: Bank of Mozambique, World Development Indicators.

The primary objective of Mozambique's monetary policy is to maintain price stability. The Central Bank of Mozambique seeks to keep inflation at the target rate of 5 to 6 per cent in the medium term, expressed in terms of an annual rate of inflation based on the Consumer Price Index (CPI) in Maputo City. Inflation in Mozambique over the last 5 months of the year 2013 remained moderate compared to previous years. Although inflation soared in 2002 and 2010, Mozambique restored a downward trend after these two episodes of sudden price hikes. Indeed, the inflation rate stood at 12.7 per cent in 2010 falling subsequently to 4.5 per cent in August 2013, and further to 3.3 per cent in November 2013 (IMF, 2013). This recent downward trend in the inflation rate has been attributed to stability in the price of administered goods and services (e.g. fuel, public transport, and utilities), the fall in global commodity prices and, most importantly, stability in the exchange rate. The Metical has been appreciating slightly against the South African Rand and has been stable with respect to the US Dollar since its depreciation in 2012 (Bank of Mozambique, 2013a), as presented in Figure 5.

Despite its impressive economic performance over the past two decades, Mozambique is still amongst the poorest countries in Sub-Saharan Africa. In fact, nearly three-fifths of the population live on less than US$1.25 a day and 82 per cent of the population live on less than US$2 a day. Furthermore, social development lags behind that of neighbouring countries. According to the UNDP's Human Development Index, Mozambique is ranked 185th out of 187 countries. Inequality in income distribution is skewed; the Gini coefficient stood at 0.41 in 2008-09. Mozambique has a population of 25 million with a low life expectancy of 49 years, far shorter than the sub-Saharan African average of 74 years. This is in part an outcome of the high prevalence of HIV/AIDS that affects 11.5 per cent of the population (World Development Indicators, 2012).

The Government of Mozambique has been striving to enhance inclusiveness of growth so that poverty falls and all segments of the economy benefit from economic expansion. It adopted the Poverty Reduction Action Plan (PARP) 2011-2014 with the primary objective of reducing the incidence of poverty from 54.7 per cent in 2009 to 42 per cent in 2014. The Government has been determined to promote pro-poor growth by increasing investment and productivity in the agriculture sector; creating more credit facilities and employment; and improving people's employability through vocational training and other similar policies (IMF, PARP paper, 2011a).

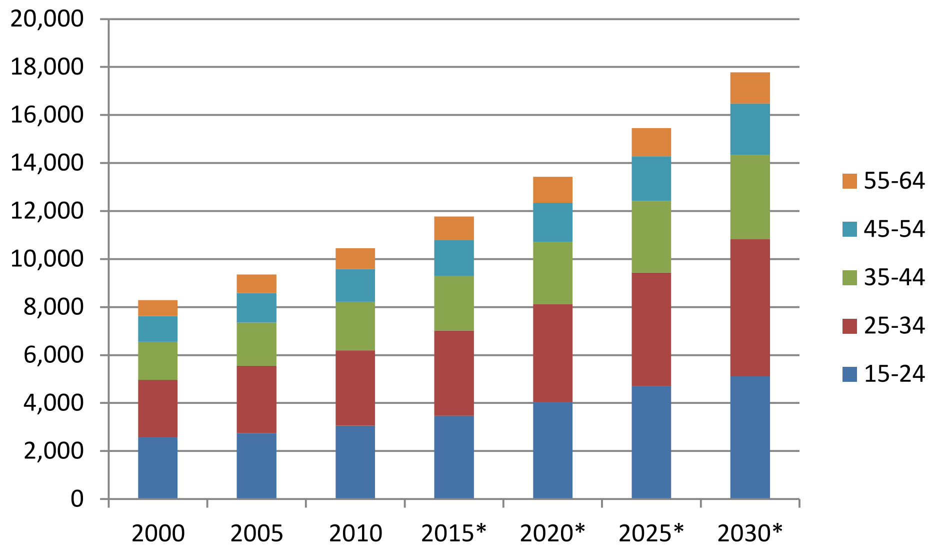
4. Employment and development challenges in Mozambique

This section presents an overview of the Mozambique labour market and highlights the employment challenges in coming years, which will be further discussed in the light of the monetary policy framework in the following sections. A deficit in productive employment is a glaring reality in Mozambique. Formal employment opportunities are scarce. About 80 per cent of workers are employed in agriculture, the majority in subsistence farming. As a result, deep-rooted poverty persists in rural areas. Large companies generate most of the existing formal employment and the potential of SMEs for job creation remains largely untapped (World Bank, 2012b). Factors such as access to finance, poor infrastructure, and the high cost of conducting business hamper private sector expansion and employment creation. Unless creation of productive employment accelerates, the employment challenge is most likely to be exacerbated in the coming years because Mozambique has a young labour force, which is projected to grow even more rapidly than before. This will exert increasing supply pressure on the labour market. Generating sufficient productive employment for labour market entrants, as well as for existing unemployed and underemployed workers, will remain a critical challenge.

Given the lack of specific labour force surveys, there are no precise estimates of unemployment and underemployment in Mozambique. The National Statistical Institute (INE) provides an unemployment figure of 18.7 per cent, while other estimates suggest much higher figures.[10] However, the young population and recent demographic dynamics suggest that the labour force (age 15 to 64) is likely to grow rapidly in the near future. While the economically active population grew on average at 2.3 per cent per year between 2000 and 2012, the pace of labour force expansion is projected to accelerate, reaching 2.7 per cent per year between 2012 and 2030 (Figure 6). This means that higher economic growth rates, as well as higher employment content of growth, will be required to reduce the widening gap between the demand and supply of labour. In other words, the pattern of economic growth of Mozambique needs to be more job-rich in order to accommodate the expanding labour force. Interestingly, there are more female workers in the young cohorts. This can be explained in part by gender bias in education: more boys remain in school than girls.

[10] For instance, the African Economic Outlook 2012 suggests Mozambique's unemployment could be around 27 per cent.

Figure 6: Labour force by age



Source: ILOSTAT, http://www.ilo.org/ilostat * projections.

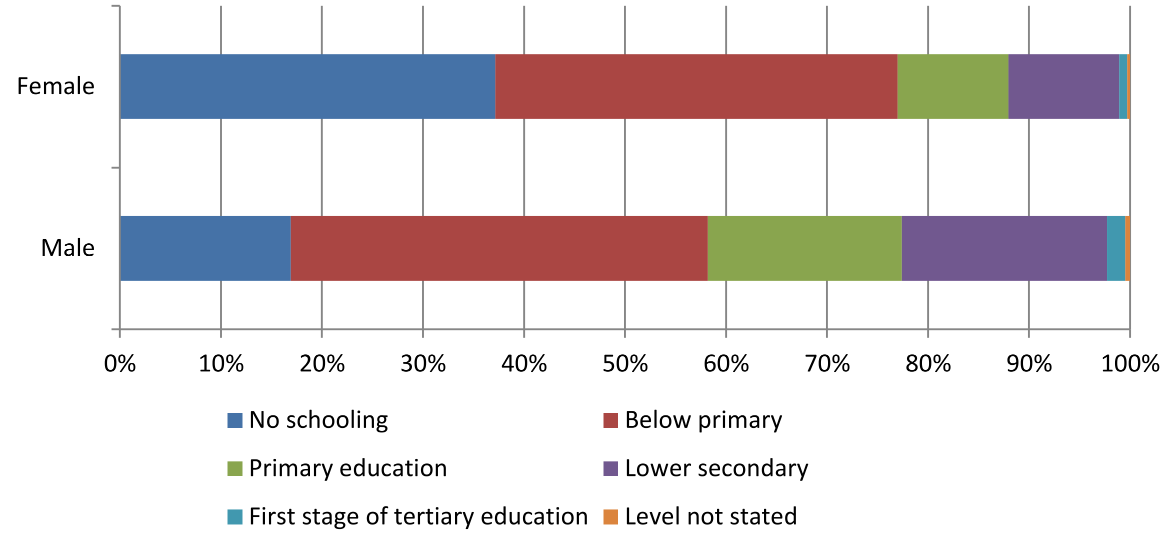
Table 2: Labour force (age 15-64), estimates for 2000 and 2012 and projections for 2020 and 2030

Age group	Year					Annual growth rate (%)	
	2000	2012	2020	2020	2030	2000-2012	2012-2030
15-24	2,593.7	3,211.0	4,050.4	4,050.4	5,114.8	1.8	2.6
25-34	2,378.6	3,286.3	4,076.3	4,076.3	5,709.6	2.7	3.1
35-44	1,587.1	2,122.7	2,580.7	2,580.7	3,530.1	2.5	2.9
45-54	1,062.1	1,411.1	1,637.8	1,637.8	2,129.2	2.4	2.3
55-64	675.0	916.8	1,086.3	1,086.3	1,291.1	2.6	1.9
Total (15-64)	8,296.5	10,948.0	13,431.6	13,431.6	17,774.8	2.3	2.7

Source: ILOSTAT; 7th edition, July 2013; http://www.ilo.org/ilostat (accessed on 28 January 2014)
Annual growth rates are the author's calculation.

Educational attainment in the Mozambique labour force is modest: nearly 70 per cent of workers had below primary education or no schooling in 2012. No more than 15 per cent of the total labour force had lower secondary education and 1.2 per cent had completed the first stage of tertiary education not leading directly to an advanced qualification. Current skills levels in the workforce are far from conducive to the growth of non-agricultural sectors and improved productivity, which are likely to require more skilled workers. It is encouraging to note that skills levels are likely to improve, since younger generations have the benefit of longer periods of education than their parents. In fact, nearly a quarter of young workers (age 15 to 24) have at least lower secondary education. Figure 7 shows a distinct gender bias in education as male workers tend to stay longer in education than their female counterparts. Male workers are about twice as likely to have lower secondary education or above than female workers. Improving access to education and addressing gender bias in education warrants greater attention from policymakers.

Figure 7: Labour force by education and sex (age 15+, 2012)



Source: ILOSTAT; 7th edition, July 2013; http://www.ilo.org/ilostat (accessed on 28 January 2014).

Though declining, the percentage of workers engaged in agriculture in 2008/09 was still nearly 80 per cent (Table 3). This figure, together with the fact that most farmers are smallholders, suggests a severe deficit in overall productive employment in the non-agricultural sectors. It is also remarkable that the sector composition of the workforce has shown little change over a decade, except that agriculture has seen its share fall by 4.6 percentage points while the share of commerce has almost doubled. It appears that, despite a rapid economic growth during the same period, there has been scant progress in the structural transformation of the economy, and the sectoral re-allocation of workers has stagnated.

Table 3: Workers by sector (per cent)

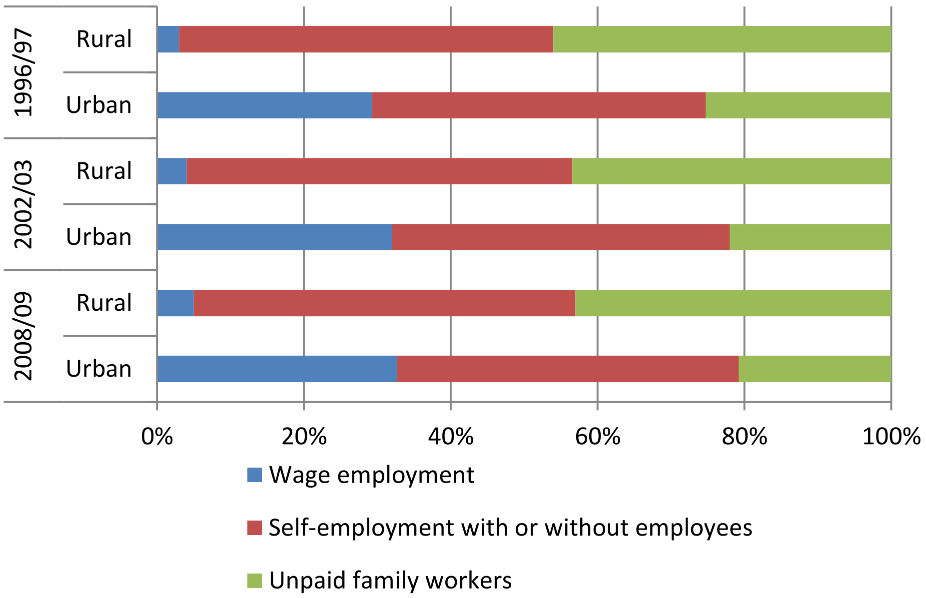
	1996/97	2002/03	2008/09
Agriculture	85.2	79.9	80.6
Mining	0.5	0.5	0.2
Manufacturing	2.7	3.6	2.7
Construction	1.4	1.6	1.7
Transport	1.1	1.1	0.8
Commerce	4.0	7.3	7.9
Other services	2.7	2.8	2.9
Education	0.8	1.6	1.7
Health	0.5	0.5	0.4
Government	1.2	1.2	1.1

Source: Jones and Tarp (2013), Table 4, based on household survey series.

Another worrying sign in the Mozambique labour market is the weak growth of wage employment, a proxy for formal employment. Sustained economic expansion has hardly improved the quality of employment, as shown in Figure 8. Approximately one third of urban sector workers are wage workers and almost half are self-employed. This pattern remained largely constant between 1996/97 and 2008/09. Wage employment is scarce in rural areas and over 40 per cent of rural workers are unpaid family workers. These data indicate that rapid economic growth over the past decade has had only a modest impact on the labour market and most people's prospects of finding quality employment.

Economic activity rates are high in Mozambique, especially in rural areas, since most people cannot afford being idle. Women's labour participation has significantly increased in urban areas, both among youth and adults (Table 3). It may be because more women have been compelled to participate in the labour market to earn a living. Indeed, over 60 per cent of employees were estimated to be living in poverty in Mozambique (ILO, 2012). Wage employment in Mozambique does not necessarily lift the worker's family out of poverty.

Figure 8: Workers by status in employment



Source: Jones and Tarp (2013), Figure 1, based on household survey series.

Table 4: Economic activity rates by location and gender

		Urban		Rural	
Age group	**Survey**	**Male**	**Female**	**Male**	**Female**
Youth	1996/97	52.0	49.2	74.2	90.1
	2008/09	50.2	57.1	77.1	89.3
Adult	1996/97	91.3	74.8	96.8	97.5
	2008/09	90.5	88.2	97.6	97.6

Source: Jones and Tarp (2013) estimates from the household survey series.

5. Monetary policy framework and operations

As mentioned in Section 2, central banks have largely maintained a conservative stance on monetary policy during the last few decades, i.e. up until the global financial crisis of 2008. However, since then, central banks around the world have witnessed unprecedented challenges that have significantly altered the role of monetary policy. Despite accommodating monetary policy responses through, *inter alia,* monetary easing, interest rates and the purchase of loans to steer the economy, their effect in general on the real economy still remains anaemic. Moreover, commercial banks' propensity to risk aversion has served to widen the margins between the policy rates and the lending rates of banks. Caruana (2011) observes that there is only partial pass-through on commercial lending rates subsequent to a reduction in central bank policy rate, which compromises the transmission of monetary policies to influence the real economy. This phenomenon is commonly observed in low-income countries; variations are typically structural, which requires deeper insight into the macroeconomic policy framework. This section discusses monetary policy and its transmission mechanism in Mozambique as a preamble to assessing the role of the Bank of Mozambique in creating economic diversity and productive employment.

According to the Bank of Mozambique, the primary objective of its monetary policy is to deliver price stability, as well as to support the Government's economic objectives.[11] Price stability is defined by the Government's inflation target which is reviewed and announced annually. The current medium-term inflation target was set at 5 to 6 per cent in December 2013. The Government is responsible for setting the inflation target, reflecting its socioeconomic development objectives. The Central Bank employs monetary intermediate and operational targets (Figure 9) and uses independent monetary policy instruments in order to achieve the policy goals. This monetary framework is known as money targeting. The Bank of Mozambique uses the broad money aggregate (M3) as its intermediate target. Intermediate targets are not under the direct control of the Central Bank, although they do provide a useful indication regarding monetary policy objectives. For its operational target, the Bank adjusts base money. The operational target is under the influence of the Central Bank in the short run, through the interbank market operations.

[11] The present Monetary Policy Strategy (MPS) is based on the combination of both the Medium-Term Strategy in Act n^{o} 1/92 of 3 January and the Bank of Mozambique Organic Act of 3 January and also on the Government target goals elaborated in the PARP agenda and also in the Regional Indicative Strategic Development Plan of the Southern African Development Community (SADC) (Bank of Mozambique, 2007).

Figure 9: Monetary policy: Instruments, targets and goals

In order to meet the inflation target, the Central Bank intervenes in the market through the use of indirect instruments. Open market operations are mainly used to adjust base money, and reserve requirements are used sporadically to neutralize structural excess liquidity. Activities in the open market are carried out by quantitative auction of treasury bills, repo and reserve repo operations. Liquidity control interventions are also undertaken using the Interbank Foreign Exchange Market (IFEM) (Bank of Mozambique, 2007). Though the Bank intervenes in the IFEM in order to mop up excess liquidity created by foreign aid inflows or to support the fuel import, the exchange rate is not explicitly used as a target or as an instrument to achieve price stability.[12] The Bank of Mozambique also engages in a communication strategy to enhance the transparency of Bank's policy decisions and to forge confidence in the financial market. Despite the large inflow of aid money and the recent exploration of natural resources, the so-called "Dutch disease" does not appear to pose an immediate threat.

5.1. Transmission mechanism in Mozambique

The monetary transmission mechanism is a process whereby decisions made by the Central Bank affect economic activities and price stability through several channels such as the interest rate channel, the exchange rate channel, the credit channel, the asset price channel, and the expectations channel. According to Mishra and Montiel (2012), monetary transmission mechanisms in low-income countries differ significantly from those in advanced countries, in particular owing to the existence of underdeveloped financial markets in the former. These underdeveloped financial markets often exhibit weak

[12] Interview with Mr. Jamal Omar (Assistant Director, Research and Statistics Department of the Bank of Mozambique). The interview was conducted by the ILO staff members on 7 November 2013.

synergy with the international capital market, thereby requiring persistent interventions by the Central Bank in the foreign exchange market. There is also, quite typically, limited coverage of financial services across the population (Christensen, 2011). Thus, central banks in low-income countries tend to use specific channels as summarized below (Table 5).

Table 5: Monetary transmission mechanism

5 (most important) to 0 (least important)

	Interest Rate Channel	Exchange rate Channel	Credit/bank lending Channel	Asset Price Channel	Expectations Channel
Botswana	●	0	●	0	●
Ghana	5	4	3	1	2
Kenya	5	4	5	3	3
Lesotho	●	●	0	0	0
Madagascar	●	0	●	0	0
Mauritius	4	5	3	1	2
Morocco	0	5	5	0	0
Mozambique	4	4	5	0	0
South Africa	5	3	5	3	2
Seychelles	●	●	●	0	0
Swaziland	5	3	2	0	0
Tanzania	3	1	2	0	0
Tunisia	1	3	3	0	0
Uganda	●				
Zambia	3	0	3	3	2

Note: The dark circle indicates that only those channels are used, with no ranking given. The authors modified the original table created by Christensen regarding the information on Mozambique based on input received from the Bank of Mozambique.

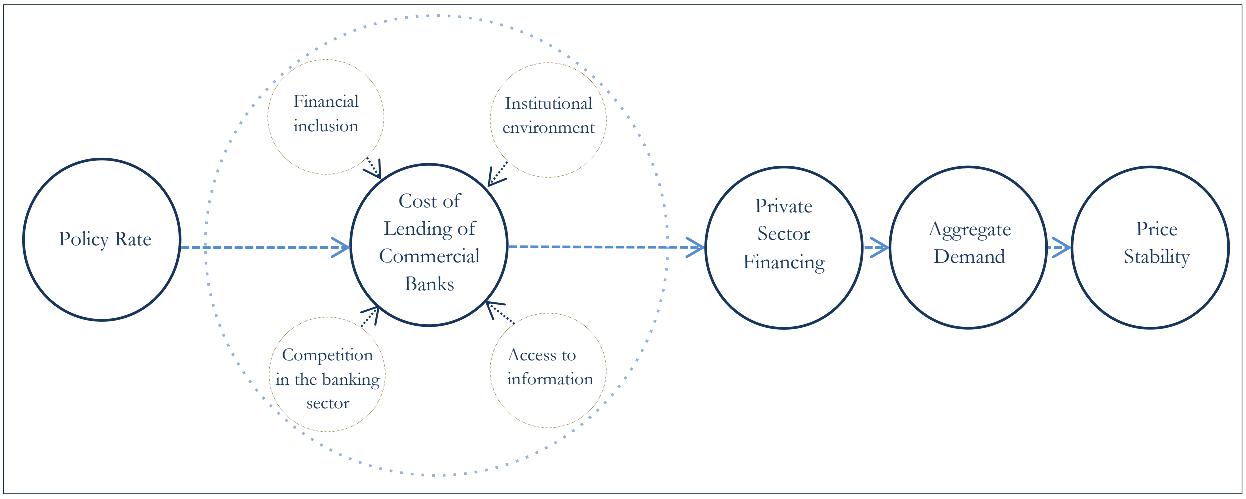
Source: Christensen (2011), Bank of Mozambique.

In Mozambique, given the pervasive focus on money targeting, the credit channel constitutes a dominant monetary transmission channel. However, the channel may not always be adequate to regulate money aggregates and their flows, and when the real target is control of inflation, other interventions are likely to be required. The Central Bank therefore also relies on the interest rate channel, through the standing facilities and monetary operations. The aim of the standing facilities is to adjust overnight liquidity, which signals the general monetary policy stance to commercial banks. The interest rates on the standing facilities constitute the upper and lower limit of interest rates in the interbank market, technically known as the “corridor-type system” (Keister, 2012).[13] The standing lending interest rate applies to commercial bank borrowings from the Central Bank in the interbank money market, while the standing deposit facility interest rate is the rate offered by the Central Bank on commercial bank deposits. Adjustment through the standing facility rates remains a significant feature of the monetary transmission mechanism in Mozambique. The Central Bank, in addition, also resorts to interventions in the IFEM. Given that the exchange rate is flexible, such interventions are largely to mop up excess liquidity through buying/selling of foreign currency, which in turn end up influencing price levels. Operations in the IFEM affect prices rather quickly, through their

[13] In managing banking sector liquidity, these interest rates serve as control factor and help ease fluctuations in the short-term interest rate in the interbank market.

impact on exchange rates, since about 60 per cent of Mozambique's Consumer Price Index (CPI) basket is made up of imported components.

Figure 10: The monetary policy transmission mechanism in Mozambique



Source: own elaboration.

Many economists contend that a significant part of monetary policy works through its impact on aggregate demand in the economy.[14] The implication is that changes in monetary policy affect the real economy in the short or medium term, though monetary policy is a major determinant of the general price level in the long run (George et al., 1999). In other words, the value of money is determined by monetary policy in the long-run: changes in the price level essentially reflect changes in the variation of purchasing power over time. Figure 10 illustrates linkages of factors involved in the transmission mechanism running from changes in policy rate to the real economy and the policy objective, i.e. price stability.

The traditional Keynesian monetary transmission model gives us an explanation of the interest rate channel. In summary, a change in the official policy rate by the central bank is expected to affect aggregate demand. For instance, an expansionary (contractionary) monetary policy stance would tend to decrease (increase) the interest rate, which decreases (increases) the cost of borrowing and increases (decreases) investment. According to the national income identity,[15] an increase in investment results in an increase in aggregate demand as well as the price level. This model is based on an assumption that official policy rates are promptly reflected in the lending rates of commercial banks. To the extent that the Bank of Mozambique relies on the interest rate channel to steer the price level, the transmission mechanism is of crucial importance.

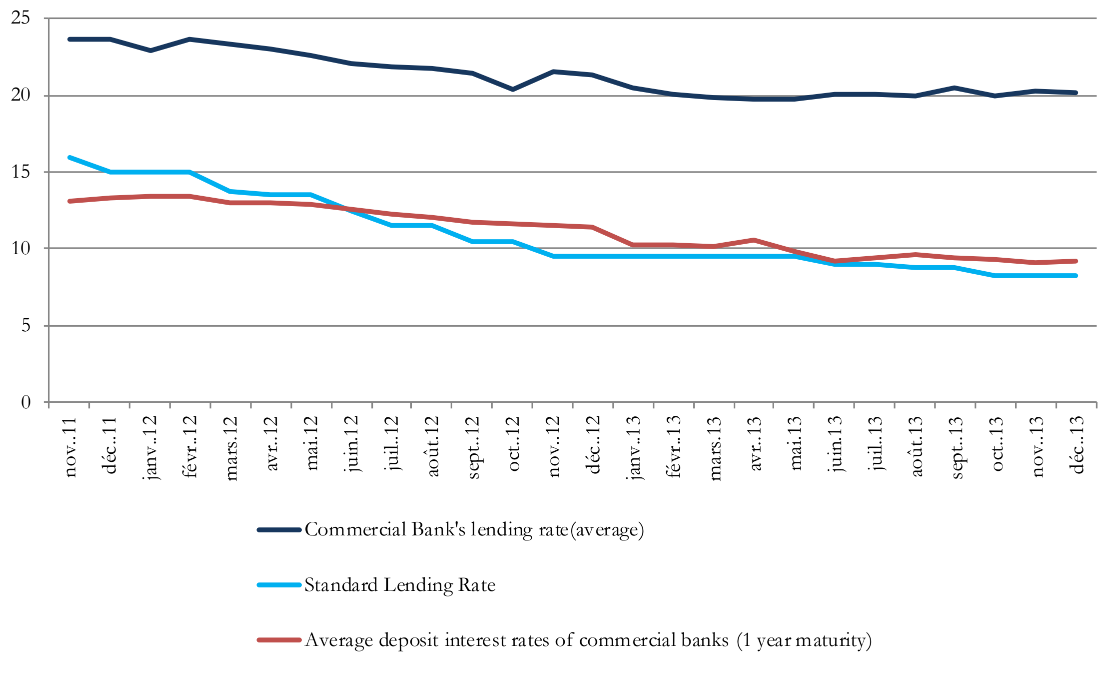
However, the case of Mozambique is somewhat different from the Keynesian model because of a weak transmission mechanism. Changes in the official policy rate (the standing facilities rates) immediately affect commercial banks' borrowing costs from the Central Bank, but the borrowing rates of the commercial banks diverge considerably because commercial banks factor in various costs of lending. These include costs that relate to such issues as financial inclusion, institutional environment, competition in the banking industry and access to borrowers' credit information, among others. They remain high due to insufficiently developed financial market institutions and physical

[14] See Bernanke and Gertler (1995) and George (1999).
[15] National income identity from introductory macroeconomics states that aggregate demand is equal to consumer spending (C) plus investment (I) plus government spending (G) plus net export (NX): Y=C+I+G+NX.

infrastructure, as well as a lack of competition in the Mozambique banking sector. These issues will be discussed in more detail in the next section. The high cost of lending rates that banks pass on to the private sector in turn make the latter's borrowing costs high. The private sector's inability to obtain financing limits the capacity of businesses to invest and create more employment. Hence, the intended aggregate demand effect of the monetary policy action may not fully materialize.

The Bank of Mozambique has consecutively cut the standing lending facility interest rate from 13.50 per cent in March 2012 to 8.25 per cent in October 2013.[16] During the same period, the average commercial bank lending rate (one year maturity) dropped by 3.3 percentage points from 23.33 per cent to 20.00 per cent. The response of the commercial banks to monetary policy action appears slow (Figure 11). As for lending rates for longer maturity of 2 to 2.5 years, the Central Bank reduced its rate by 8.5 percentage points between June 2011 and November 2013, but commercial banks decreased their rates by only 3.2 percentage points on average during the same period. While the Central Bank perceives that the response of commercial banks to monetary policy action is still slow, the commercial banks contend that the Central Bank has not supplied sufficient liquidity at that given price.[17] Some small banks offer high deposit interest rates to attract savings. The average deposit interest rate has been higher than the standing lending rate since June 2012.

Figure 11: Interest rates (%)



Source: Bank of Mozambique, Research and Statistics Department.

In 2012, lending to the private sector increased by 18.3 per cent to a stock value of MZN 116.3 million. This increase was due to the continuous loosening of monetary policy, as seen in Figure 12. It is important to note, however, that the majority of new loans were given to large corporates which have relatively good access to credit. Credit to

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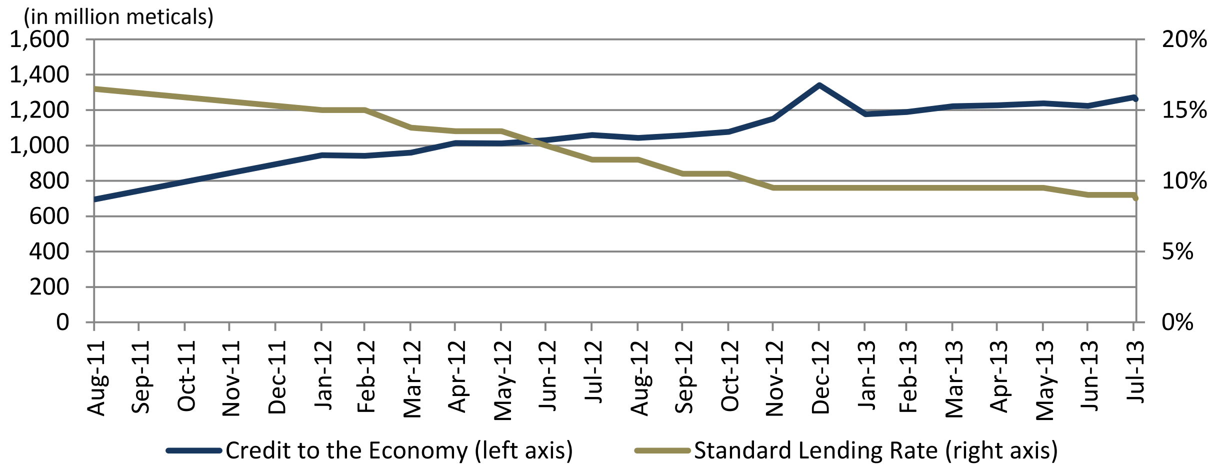
[16] The standing deposit facility rate was also reduced from 2.25 per cent in December 2012 to 1.5 per cent in November 2013.

[17] Interview with Mr. Carlos Madeira (Head, Global Markets Standard Bank HQ, Maputo)

the mining industry increased annually by 51 per cent, and by 33.7 per cent and 13.7 per cent respectively in the construction industry and communication and transport (Bank of Mozambique, 2012). Table 11 indicates a correlation between domestic credit to private sector as the percentage of GDP and GDP per capita. Though the data does not establish causality, it may be inferred that availability of credit to the private sector accelerates economic growth. Mozambique stands slightly below the average of low-income countries on these two variables.

Figure 12: The relationship between the standing lending rate and credit to the economy



Source: Bank of Mozambique (2012).

Table 6: Domestic credit to private sector and GDP per capita (2012)

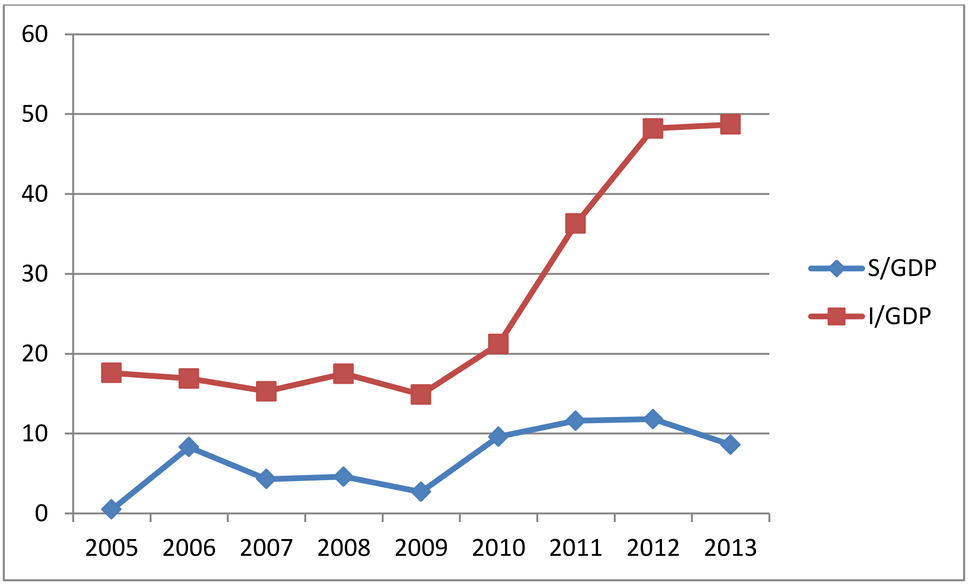
	Domestic credit to private sector (% of GDP)	GDP per capita (constant 2005 US$)
Low income	30.7	423
Lower middle income	42.3	1'221
Middle income	83.7	2'731
Upper middle income	95.3	4'315
High income	152.3	31'373
Sub-Saharan Africa (all income levels)	61.3	999
Mozambique	26.3	417

Source: World Bank, World Development Indicators.

The above discussion and the empirical evidence on the monetary policy framework and operations of the Central Bank tend to suggest the following. First, the primary objective of inflation targeting is addressed through a money targeting regime, but also through use of the interest rate channel, and interventions in the IFEM. In this process, it is observed that the transmission mechanisms are weak largely owing to less developed financial institutions and interbank money markets. Second, although the Central Bank has been reducing the standing lending facility interest rate, this has, for the various reasons cited above, not been reflected in commercial banks' lending rates, which continue to remain high. Thus one observes a sustained wide spread between deposit and lending rates and, in consequence, the widespread constraint of lack of access to finance. To the extent that credit has grown, access to finance has been largely confined to large and corporate borrowers and has therefore failed to facilitate inclusive growth.

Furthermore, while inflation remains contained, owing to several factors, including robust agricultural growth, the monetary policy operations have not yet shown tangible "real economy" effects. One such feature is the growth of domestic savings and domestic investment (see Figure 13), which are critical to the foundations of growth, diversification and job creation.

Figure 13: Mozambique – Investment-Savings Gap



Source: IMF, World Economic Outlook.

As Figure 13 shows, domestic savings as a percentage of GDP continue to remain very low, and the huge investment-savings gap is largely met by foreign direct investment. Thus, while inflation control is extremely conducive to investor confidence, future growth in domestic investment will depend on better alignment of deposit and lending rates; strengthening of the financial sector and more competition, strengthening interbank markets, availability and access to finance for SMEs, rural sector operators, and the large unbanked population. These are significant factors to take into consideration in understanding and evaluating how monetary policy could support Mozambique's employment and development challenges. In fact, in the most recent period (2013), owing to the very low inflation rates, the Bank has eased money targets and lowered policy rates to encourage further investment. Thus, while inflation control remains the key goal in sustaining price stability (IMF, 2011), the inflation-growth trade-off has to be continuously reassessed to ease resource/liquidity availability for private sector growth and greater fiscal space for the public initiatives in social and physical infrastructure that are key to structural change. The next section explores some of these issues that would address the Central Bank's potential role within a dual mandate framework.

6. Access to finance in Mozambique

6.1. Access to finance: Business sector

As discussed in the previous section, the Central Bank largely focuses on its key mandate of achieving the inflation target. An almost inevitable side effect of a stability-oriented monetary policy framework in a fast growing economy like Mozambique is insufficient liquidity in the financial market. As a result, the appetite of a fast-growing real economy for finance is left unfulfilled, which constrains economic growth and creation of productive employment. Arguably, the benefit of macroeconomic stability in the long run is often undermined by leaving growth and job-creation prospects untapped. This section takes a closer look at the issue of access to finance, especially from the vantage point of SMEs and farmers, whose heightened role is essential in an inclusive growth framework (see PARP).

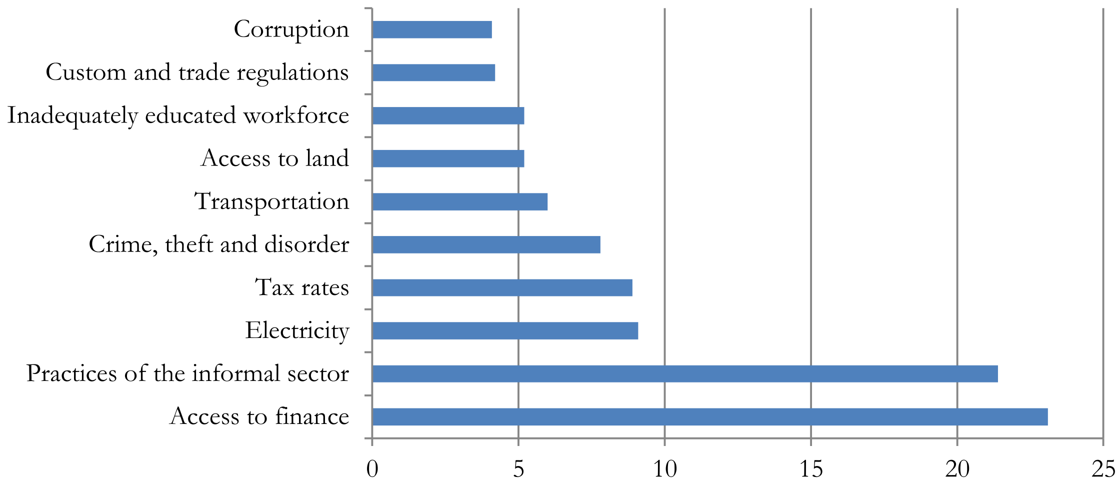
Table 7: Selected indicators of financial inclusion (per 100,000 adults)

	2004	2005	2006	2007	2008	2009	2010	2011
Automated teller machines (ATMs)	1.9	2.2	3.2	3.6	4.1	4.6	5.6	6.5
Borrowers from commercial banks	3.8	6.2	8.4	11.6	14.0	16.8	21.5	26.8
Commercial bank branches	1.8	2.0	2.0	2.4	2.5	2.9	3.3	3.6

Source: World Bank, World Development Indicators (accessed on 22 November 2013).

As in many African economies, growth in the real economy in Mozambique is fettered by limited access to finance. According to an enterprise survey, access to finance has emerged as the most severe constraint on businesses: nearly one out of four business owners and top managers of 479 firms surveyed identified access to finance as the most severe obstacle to their business (World Bank, 2007). The survey also revealed that 81.8 per cent of firms of all sizes needed loans, but banks provided financial solutions (e.g. bank loan and/or line of credit) to only 14.2 per cent of them. In addition, 86.0 per cent of the surveyed firms relied on their own internal funds for investment and only 3.1 per cent of the firms had working capital from banks. These figures imply insufficient financial intermediation in Mozambique, reflecting the fact that Mozambique lags behind the regional competitors in terms of firms' access to finance. For instance, while 22.0 per cent of firms in sub-Saharan Africa had a bank loan or line of credit, the corresponding share in Mozambique was 14.2 per cent. It is also important to note that ease of access to finance varies significantly by firm size. Large companies with over 100 employees have easier access by far to finance than smaller ones.

Figure 14: Top 10 business environment constraints (%)



Source: World Bank (2007).

Table 8: Access to finance by firm size

	Percent of firms with a checking or savings account	Percent of firms not needing a loan	Percent of firms with a bank loan/line of credit
Sub-Saharan Africa	86.5	34.6	22.0
Mozambique (firm size total)	75.7	18.2	14.2
Small (5-19 employees)	69.6	15.8	6.5
Medium (20-99)	85.6	25.9	16.3
Large (100+)	86.9	10.2	60.9

Source: World Bank, Enterprise surveys; http://www.enterprisesurveys.org/Data/ExploreEconomies/2007/Mozambique (accessed on 22 November 2013).

Table 9: Source of investment and working capital

	Proportion of investments financed internally (%)	Proportion of investments financed by banks (%)	Proportion of working capital financed by banks (%)
Sub-Saharan Africa	79.4	9.9	8.1
Mozambique (firm size total)	86.0	4.7	3.1
Small (5-19 employees)	91.0	1.1	0.8
Medium (20-99)	86.0	5.9	4.3
Large (100+)	74.1	11.5	15.9

Source: World Bank, Enterprise surveys; http://www.enterprisesurveys.org/Data/ExploreEconomies/2007/Mozambique (accessed on 22 November 2013).

Various factors negatively affect the access of small and medium-sized enterprises (SMEs) to finance, of which failure of the market is a major consideration. First, as noted earlier, commercial banks appear to be generally risk averse and selective about those that they serve. Customers who can provide collateral and existing medium-sized and large enterprises with a good credit history constitute the main body of commercial banks' corporate clientele. Second, since three major banks[18] whose main clients are large firms dominate the banking sector, liquidity available to meet the financial needs of SMEs is limited. There are 18 registered financial institutions in Mozambique which hold approximately 95 per cent of the overall assets in the financial market, and 85 per cent of the total financial assets are concentrated in three major banks (Africa Economic Outlook, 2012). With regard to the financial market structure, large companies benefit from competition among the top tier banks and borrow money at relatively lower interest rates. The bank's average interest rate is around 20 per cent.[19] However, interest rates for large loans are around 9 to 10 per cent due to competition among the large banks.[20] Third, market forces appear to drive financial institutions to target upmarket borrowers. Small-scale loans are relatively more costly than large ones from the banks' point of view because of the high costs of risk evaluation and monitoring costs per unit of profit. As a result, banks, including micro-banks, seem reluctant to lend to small-sized borrowers.[21]

Apart from the structural issues related to the financial market, insufficiently developed financial market infrastructure and borrowers' financial literacy hamper financial inclusion. First, the laws on collateral and bankruptcy in Mozambique are less effective than the sub-Saharan African average in terms of facilitating access to credit (World Bank, 2013). Unlike other countries where land is accepted as collateral, land belongs to the Mozambique State. The inability to use land as collateral may reduce access to finance for agricultural activities. Second, credit information has not been sufficiently shared to support the smooth functioning of the market. In fact, the public credit registry in Mozambique covers only 4.4 per cent of the adult population. Private credit bureaus do not exist in the country but are in the process of being established. Lack of information about potential borrowers' credit history may negatively affect risk evaluation and loan approval. Interest rates on loans would be higher, even if a loan is granted. Third, the judicial and the regulatory system in the country still leaves room for improvement. As a result, settlement of credit disputes and enforcement of court orders take a long time. Fourth, borrowers' financial literacy is another cause of insufficient provision of financial services to SMEs. Furthermore, SMEs often lack the capacity to produce professional and bankable business plans and financial statements that meet accounting standards.

In a bid to alleviate the financial constraints that confront SMEs and to foster development of the private sector, some commercial banks and donor organizations fund loan guarantee schemes and/or establish credit lines dedicated to SMEs. For instance, one commercial bank launched a credit line worth MZN 500 million (approximately USD 16.7 million) for SMEs. The line of credit was established to coincide with the "100 best SMEs" competition organized by the Ministry of Trade and Industry, a media company and other partner institutions. The SME credit line provides loans to SMEs up to MZN 50 million for a maximum duration of five years with a preferential grace period and interest rates (14 to 18 per cent). The bank also eased collateral requirements for this line of credit.

[18] Standard Bank, *Banco Mercantil de Investimentos* (BIM) and *Banco Comercial de Investimentos* (BCI).
[19] Commercial banks 'average prime rate' was 15.0 per cent in November 2013.
[20] Interview with Mr. Carlos Madeira (Head, Global Markets Standard Bank HQ, Maputo).
[21] Interview with Dr Gildo dos Santos Lucas (President of the Association of Microfinance Institutions). The interview was conducted on 12 November 2013.

The French Agency for Development (*Agence Française de Développement* – AFD), for instance, established a credit guarantee fund in a commercial bank so that the bank can increase loans to SMEs.[22] The AFD's fund shares up to 50 per cent of the default risk of loans. Loans covered by the scheme are sized between EUR 10,000 and EUR 300,000 with a maturity up to 5 years. The credit guarantee scheme is intended not only to ease access of SMEs to finance but also to diversify the geographical and sectoral coverage of SME loans.

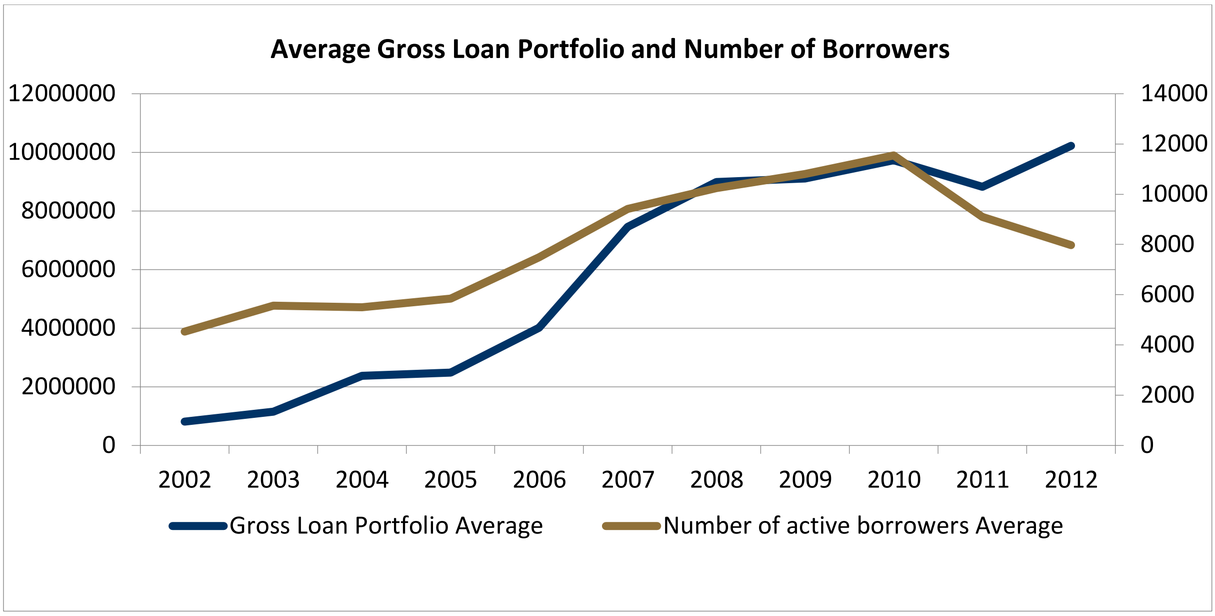
As an example of donor-funded credit lines, a loan provided to the Government by the World Bank included a component for credit facilities for SMEs. A credit line of USD 5.1 million was made available, of which USD 4.3 million was disbursed to SMEs including first-time borrowers through participating financial institutions. Although the overall employment effect of the credit line is not known, the World Bank[23] noted the following cases that imply a positive impact of loans on employment creation:

- A female entrepreneur who operated a catering service from home was able to obtain a formal business location, expand her business and take on five new women employees.
- A woman who operated a bakery business was able to expand her workforce from 18 to 24 following a loan which permitted her to buy new machinery.
- A businessman who used to trade in sweets was able to open a new sweet and candy factory employing 22 workers on a double shift.
- A chicken farmer added 5 more workers as a result of a working capital loan.

While targeted efforts are now being made to ease constraints on finance for the SME sector, these are still inadequate, and are mostly conducted under donor-funded initiatives. Measures need to be introduced for SMEs to gain greater access to mainstream banking and financial institutions. Apart from SMEs, there are also the needs of micro enterprises and unbanked individuals who may wish to access small loans for setting up self-employment activities. The Central Bank needs to strengthen the transmission mechanism in order to widen the transmission "field" through bank penetration and various forms of financial facilitation in the rural and informal sectors. The demand for micro-loans appears to be growing, and the Figure 15 below shows the broad growth in the operations of the microfinance institutions.

[22] See AFD website: http://www.afd.fr/lang/en/home/pays/afrique/geo-afr/mozambique/projets-mz/productif-mz/ariz-assurance-pour-le-risque-de-financement-de-linvestissement-privee [accessed on 16 January 2014].
[23] World Bank Implementation and Results Report, ICR0000173, 29 January 2007, pp. 36-37.

Figure 15: Microfinance lending in Mozambique



Source: Mix Market.

Apart from some variations, the microfinance trends indicate that there has been a steady rise in the number of borrowers and in gross lending. There is however a much higher need to expand microfinance, especially in giving effect to inclusive growth. Measures need to be taken to support expansion of micro-credit lending, and systematically address the various constraints, both from the supply as well as demand side (discussed further in the following section).

In sum, it can be argued that limited access to finance has largely resulted in deterring domestic investment and businesses expansion in the private sector. Given the fact that SMEs are an important motor of job creation, as observed in other countries, it follows that the current pattern of enterprises' access to finance has reduced the overall capacity of the economy to create productive employment and decent work. Given the weak transmission mechanism discussed in the previous section, traditional monetary policy tools may not be effective and sufficient to alleviate barriers to access of SMEs to finance. It follows that unconventional direct interventions in the financial market, such as establishment of credit guarantee schemes and/or dedicated credit lines for SMEs, are necessary in order to create productive employment through the expansion of businesses. Successful experience of microfinance institutions and development of SME banking in various other countries, such as Bangladesh, may be pertinent.

6.2. Access to finance: Agriculture sector

In Mozambique, 68.8 per cent of the population live in rural areas (INE, 2011). The vast majority of working-age rural residents are engaged in subsistence agriculture, except for a few working in agri-businesses such as sugar mills, tobacco factories and textiles. The agriculture sector in Mozambique accounted for nearly 80 per cent of employment in 2012 (AfDB, 2012). It is characterized by smallholders and a high incidence of poverty: 72 per cent of farmers possess 2 hectares of land or less and only one per cent has 10 hectares or more. According to one estimate, 56.9 per cent of the rural population live in abject poverty with less than MZN 18 (equivalent to USD 0.6) per day (UNDP, 2011). Despite its importance in the Mozambican economy, the agriculture sector suffers from insufficient access to finance, which hampers improvement in productivity. Though the sector contributes around 30 per cent of GDP and absorbs over three quarters of the labour force, the sector's share of credit allocation was 6.5 per cent in 2010, a notable decline from the 19.7 per cent achieved in 2000 (Table 9). Access of farmers to finance is crucial in enhancing productivity through the purchase of better inputs and mechanization, and thus alleviating poverty.

Table 10: Credit allocation by sector (constant 2000 MZN, '000)

	2000		2010	
	MZN	share	MZN	share
Agriculture	21,362,391	19.7%	21,438,666	6.5%
Industry	32,526,641	30.1%	38,700,718	11.7%
Construction	4,966,941	4.6%	23,780,940	7.2%
Tourism industry	2,064,762	1.9%	8,667,756	2.6%
Trade	21,344,171	19.7%	70,393,730	21.3%
Transport and communications	5,642,656	5.2%	42,316,332	12.8%
Other sectors	20,321,498	18.8%	124,784,703	37.8%
Total	108,229,059	100.0%	330,082,845	100.0%

Source: INE (*Centro de Promoção de Investimentos* - CPI) and Bank of Mozambique (credit by sector).

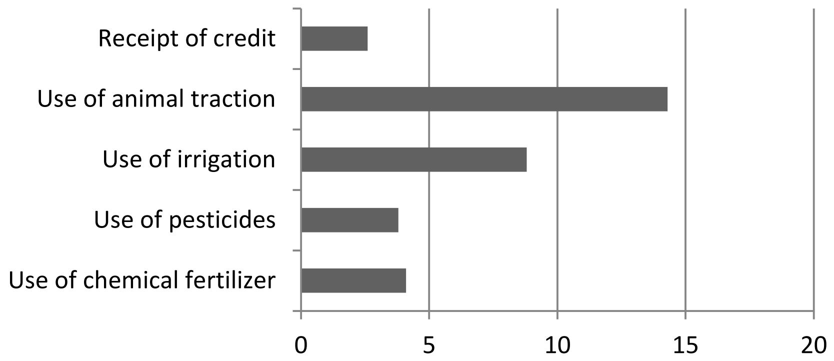
Mozambique has enhanced agricultural productivity; nevertheless it has untapped potential for further increasing agricultural productivity. Although the country's agricultural value added per worker was the lowest among the neighbouring countries in 2000 (Table 10), it charted a constant increase between 2000 and 2012. As a result, it has surpassed the agricultural productivity of Madagascar, Malawi and Zimbabwe. Nevertheless, Mozambique could further increase agricultural productivity with greater use of output-boosting inputs such as pesticides and fertilizer. The share of farms that use chemical fertilizers and pesticides is 4.1 per cent and 3.8 per cent, respectively (Figure 16). Most farm land is rain-fed and no more than 8.8 per cent of all farms rely on irrigation.

Table 11: Agriculture value added per worker (constant 2005 US$)

Country/Year	2000	2003	2006	2009	2012
Angola	279.2	376.7	503.0	757.7	866.7
Botswana	621.1	662.0	697.3	802.9	761.9
Madagascar	224.6	215.8	203.9	215.1	n.a
Malawi	213.2	208.8	185.7	223.9	n.a
Mozambique	158.2	190.9	221.2	261.0	301.1
Namibia	2,613.3	2,772.0	2,922.9	n.a	n.a
South Africa	3,688.4	4,028.4	4,257.4	5,338.7	5,967.2
Tanzania	240.8	258.6	278.8	291.2	301.8
Zambia	538.0	519.3	524.9	542.1	n.a
Zimbabwe	474.2	353.4	301.1	210.4	239.4

Source: World Bank, World Development Indicators (accessed on 17 January 2014).

Figure 16: Agricultural technology adoption (% of farms, 2008)



Source: Jones and Tarp (2013), Table A2.

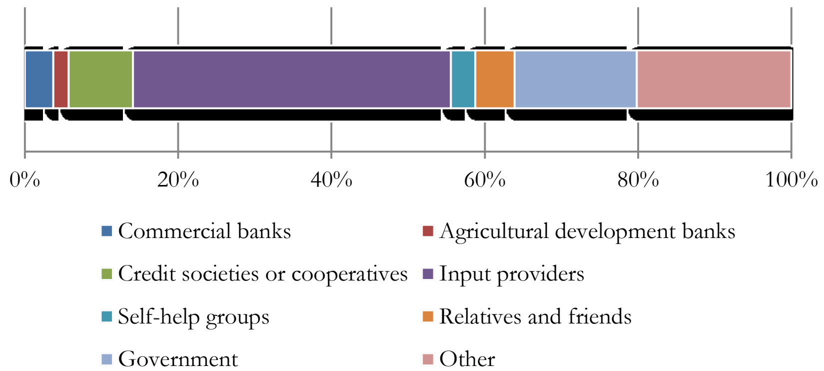
An important key to further enhancing agricultural productivity lies in farmers' access to finance. Farmers' ability to invest in better seed, fertilizer, pesticides and mechanization appears to be hampered by their limited access to finance. In fact, only 2.3 per cent of smallholders have access to credit (Table 12). Larger farmers have better access to credit, but not to the extent where they can efficiently tap into the full potential of the agriculture sector. It is important to note that input providers are the biggest financer in the agriculture sector and commercial banks play only a modest role in lending to farmers. The majority of farmers with credit are reported to be receiving credit from a tobacco company (World Bank, 2012).

Table 12: Share of farms with access to credit by farm size (2009-2010)

Farm size	No. of farms	Farms with credit	% of farms with credit
Small	3'801'259	86'044	2.3
Medium	25'654	1'790	7.0
Large	840	119	14.2

Source: World Bank (2012); Agricultural Census, 2009-2010, National Institute of Statistics (INE).

Figure 17: Credit source of farmers



Source: World Bank (2012); Agricultural Census, 2009-2010, INE.

In many countries, microfinance institutions penetrate a niche market that is not well served by commercial banks. There is no doubt as to the considerable demand for small-scale lending. However, some microfinance institutions in Mozambique are targeting upmarket clients, leaving microenterprises and farmers insufficiently served. Looking back at the history of microfinance industry in Mozambique, microfinance institutions started with donor funding support in 1998. As donor funds declined, these institutions gradually changed their business model to that of a "micro bank" because small-scale lending is too costly due to high operating and monitoring costs. Lack of infrastructure is often cited as a cause of the high costs of microfinance operations, especially in rural areas. Microfinance operators such as cooperatives still provide small loans, but their financial stability seems tenuous (World Bank, 2009).

Given the failure of the market in allocating capital to farmers, the Ministry of Agriculture has initiated direct interventions to provide financial solutions in the agriculture sector to support its development. It established the Agrarian Development Fund (*Fundo de Desenvolvimento Agrário*, FDA) in 2006. The FDA is an administratively and financially autonomous institution under the supervision of the Ministry. It allocates subsidized loans to support farmers' purchase of equipment, seed and fertilizer, as well as to fund agricultural development projects such as irrigation. Interest rates on FDA loans vary between 5 and 10 per cent, which is considerably lower than the market interest rates of 20 to 30 per cent.[24] For instance, the FDA established a credit line of MZN 20 million (USD 0.67 million) to support the poultry sector. Thanks to the scheme, chicken meat production increased by about 330 tons.[25] FDA also provides loans to the food processing industry. Since limited road connectivity hampers farmers' access to markets, post-harvest losses are is high. Local food processing is expected to reduce the loss.

In addition to government intervention, donor organizations also implement projects to enhance financial inclusion of the agriculture sector. For instance, USAID and the Swedish International Development Cooperation Agency (SIDA) share credit risks with a commercial bank in order to increase bank lending to the agriculture and tourism sectors. The total available credit volume for the two sectors amounts to USD 9.5 million. This credit guarantee scheme is intended to complement insufficient collateral possessed by loan applicants thereby facilitating their access to finance (SIDA, 2013). Apart from development cooperation by governments, private companies in developed economies also invest in the Mozambique agriculture sector. For example, a Dutch commercial bank is investing in an agriculture-focused commercial bank, *Banco Terra*. *Banco Terra* caters to the financial needs of individuals, companies, associations and cooperatives involved in the agricultural value chain and operates branches in districts with intensive agricultural activities.[26]

As noted above, the agriculture sector, despite various constraints and especially lack of finance, is a key contributor to GDP growth in Mozambique. This is also the sector which employs the bulk of the workforce, and is characterized by low-income and low-productivity activities. To achieve truly inclusive growth, the sector's activities, ranging from farming to agro-based enterprise development, would require specific interventions, including financial. Yet access to finance remains a critical constraint on small farmers and micro-enterprises. A large proportion of Mozambicans are unbanked. The financial sector can only expand if these groups are brought within the financial network, both through physical extension of institutions as well mobile banking initiatives (e.g. the M-Pesa in Kenya). It would be pertinent for the Central Bank to review the sector's financial and credit needs, and design a targeted and integrated plan to develop institutions and

[24] Interview with representatives of the Fund on 12 November 2013.
[25] Source: FDA website. http://www.fda.gov.mz/ (accessed on 20 January 2014).
[26] Source: *Banco Terra* website http://www.bancoterra.co.mz/ [accessed on 22 January 2014].

encourage them to extend credit to the sector. Various country experiences where the Central Bank plays such a role in inclusive financing could inform the design of such a plan.[27]

[27] The Bangladesh Bank, for example, has adopted a stipulation whereby commercial banks, local and foreign-owned, set aside a percentage of their loan funds to extend credit to farmers and rural enterprises.

7. Conclusions

Mozambique's macroeconomic policy framework is strongly oriented towards achieving stability, most notably low inflation. Economic growth and the creation of productive employment are perceived as natural outcomes of a stable macroeconomic environment. Although macroeconomic stability is widely recognized as a necessary condition for growth, country experiences show that it is often not sufficient for growth or the creation of productive employment and decent work. In Mozambique, the sustained economic growth since the end of the civil conflict has brought about only modest improvement in the labour market and the incidence of poverty. Three quarters of workers are still employed in the agriculture sector, the vast majority of them in low-productivity subsistence farming. Employment challenges are projected to intensify in coming years owing to the slow growth of formal sector jobs and the rapidly growing labour force.

The Central Bank conducts monetary policy largely following its mandate to achieve inflation targets set by the Government. It attempts to control inflation by adjusting the money supply, using open market operations. Because quantity adjustments are not always smooth, the Bank uses the interest rate channel. The Monetary Policy Committee of the Central Bank decides the standing lending facility interest rate and also the standing deposit facility interest rate. In theory, these reference rates guide market rates. The transmission mechanism of monetary policy, however, appears weak. This is in part because three banks dominate the market. Smaller financial institutions are left with a limited amount of liquidity and they maintain high interest rates on loans despite consecutive cuts in the Central Bank's reference rates. The latter offer high deposit interest rates above the Central Bank's lending rate in order to raise funds from depositors. The cost of gathering deposits is eventually passed on to investors via higher lending rates and on to consumers via higher production costs.

The Mozambique economy has been rapidly expanding over recent years, but the private sector's demand for capital has been insufficiently served. Access of SMEs to finance is fettered by the under-developed financial market and the current state of competition in that market. Since the top three banks that hold the lion's share of liquidity in the market mainly serve the financial needs of large enterprises and wealthy consumers, the amount of liquidity available for SMEs and farmers is extremely limited. This severely hampers business expansion and employment creation. This hindrance to enterprise development stems from the various factors that make small-scale loans unprofitable, including high operating costs because of poorly developed financial market institutions and infrastructure.

The agriculture sector in Mozambique is known to possess the potential to become a "breadbasket" of the region. The latent potential for increased agricultural production, however, remains untapped and the majority of agricultural workers are engaged in subsistence farming and live in poverty. As in the case of MSMEs, farmers' access to finance is limited. This is particularly so among smallholders. As a consequence, investment in agriculture stands at a sub-optimal level outside large-scale commercial agriculture such as tobacco.

Given the failure of the market described above, international development aid agencies have taken initiatives to facilitate the access of SMEs and farmers to finance. They establish time-bound credit guarantee funds or dedicated credit lines for target groups. The Agrarian Development Fund (FDA) is an example of government-led initiatives to provide financial support for the development of the agriculture sector. The amount of capital made available by these programmes lends important support to those who would otherwise have had limited access to finance. However, it falls far short of the amount necessary to meet the demand of the sector as a whole. Mozambique requires larger scale interventions in the financial market to channel capital to SMEs and smallholders, and mainstream their participation in the financial system

The crux of the above discussion and analysis is the call to review the dual-mandate perspective of the macroeconomic policy framework, which emphasizes stability without limiting the scope to pursue the goals of structural change and job generation. The role of the Central Bank and its monetary stance needs to be reviewed with this in mind, especially with regard to achieving the inclusive growth embodied in the PARP. Many central banks around the world have been pursuing the "dual-mandate" approach that embraces both macroeconomic stability and growth, including employment creation, as simultaneous policy goals. (See Annex for insights drawn from such operational roles of central banks in three countries: Brazil, Nigeria and Pakistan).

In order to play its part in the commitment toward the PARP's inclusive growth and job creation strategy, the Central Bank of Mozambique should re-assess its mandate, and articulate policy measures that incorporate employment as a macroeconomic objective. This would require the Central Bank assuming a proactive role, often through a monetary stance that supports domestic investment, and accommodates fiscal measures to promote expansion of priority sectors and creation of productive employment. While there is a need to carefully balance inflation control and credit growth, there is equally a need to assess the inflation-growth-employment nexus to accommodate greater fiscal space. Further, in order to mobilize domestic resources and raise domestic investment, measures are needed to ensure that lending and deposit rates are better aligned, and that commercial banks' lending rates are lower, and more competitive. This, in turn, would require further development of a more competitive and inclusive financial system.

Given that the bulk of the population lives in rural areas and/or works in the informal sector, policies should endeavour to enhance financial inclusion, establish credit guarantee schemes, and/or to set aside funds for loans to target groups. Enhancing financial inclusion by making financial services available in rural areas would help to increase savings, which would in turn increase the volume of loans to the real economy. Measures must also address the failure of the market and make credit available for SMEs and farmers who would otherwise have limited access to finance. Given the current state of competition in the financial market and the existing segments of the economy insufficiently served by the financial market, the Bank of Mozambique would need to consider targeted interventions in the financial market to ease the access of SMEs and farmers to finance. Expanding credit guarantee schemes and/or dedicated credit lines targeting those insufficiently served economic actors, for instance, would increase investment and employment. Crop insurance would also encourage lending to farmers and agricultural investment, thereby tapping into Mozambique's vast agricultural production potential.

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Annex I: Developmental roles of central banks

While an increasing number of central banks have been adopting an inflation targeting regime, many other central banks simultaneously pursue a broader set of policy goals including development and employment creation. In fact, the roles and functional scope of central banks vary from country to country. Some focus overwhelmingly on preserving the value of the national currency and achieving price stability; others adopt the "dual-mandate" approach that balances macroeconomic stability and more a growth- and employment-oriented agenda. The most notable example of this approach is the United States of America, where, according to the Federal Reserve Act, the Board of Governors and the Federal Open Market Committee are mandated "to promote effectively the goals of maximum employment, stable prices and moderate long-term interest rates." Further, some central banks act as development banks. This section looks at three cases: the central banks of Nigeria, Brazil and Pakistan to illustrate central bank policies and programmes that aim to promote development and create productive employment.

Central Bank of Nigeria

Nigeria is one of the largest exporters of oil in Africa. Its oil sector comprises 40 per cent of Nigerian GDP. In the past decade, the Nigerian economy has recorded one of the world's fastest growth rates. It is worth noting that the recent rapid growth has been driven by non-oil activities and about 70 per cent of the non-oil growth is driven by the agriculture sector. In order to develop the non-oil sector, the Central Bank of Nigeria (CBN) bridges financial gaps through development financing. The mandate of the CBN is to ensure monetary and price stability and promoting sustainable economic development. The Bank's development function is mainly targeted at the agriculture sector, rural development and micro-, small and medium-sized enterprises, with the purpose of developing the real sector of the economy to sustain economic growth and development.

The Central Bank of Nigeria's development finance arm manages several schemes. The Agricultural Credit Guarantee Scheme Fund (ACGSF) established in 1977 and co-funded by the Federal Government, hedges up to 75 per cent of the default risk of the loans provided by banks to farmers. Since its inception the Fund has guaranteed 803,264 loans worth NGN 62.1 billion (USD 380 million). The majority of the beneficiaries are smallholders. Nearly 54 per cent of guaranteed loans in 2012 were less than NGN 100,000 (USD 612). Over three quarters of the beneficiaries were food crop producers and 9 per cent were livestock farmers (CBN, 2013a). The Commercial Agriculture Credit Scheme (CACS) offers loans through participating banks to commercial farmers and businesses operating along the food value chain. Since the establishment of the CACS in 2009, it has disbursed NGN 199.1 billion (USD 1.2 billion) to finance 269 projects. According to the CBN, the CACS is estimated to have created over 100,000 jobs in 2012.

The CBN also facilitates access of enterprises to finance by establishing credit guarantee schemes, refinancing/restructuring facilities, and dedicated credit line. MSMEs play an important role in the economy: 17.6 million MSMEs generated 46.5 per cent of GDP and employed about 32.4 million people in 2012. Despite the importance of their role in the economy, MSMEs tend to be neglected in the financial market. To address this issue, the CBN set aside NGN 220 billion (USD 1.3 billion) to launch the Micro, Small and Medium Enterprises Development Fund (MNSEDF) in 2013 (CBN 2013b). The Fund enhances the access of MSMEs to finance by providing subsidized loans to MSMEs through participating financial institutions.[28] It is also intended to address gender

[28] Microfinance banks, non-governmental organizations, microfinance institutions, financial cooperatives and finance companies.

inequality in access to productive assets: the guidelines of the Fund stipulate that 60 per cent of credit must be allocated to women entrepreneurs. The target beneficiaries of the Fund include entrepreneurs in agriculture and agro-processing, trade and commerce, cottage industries and services (e.g. hotels, restaurants, canteens etc.), as well as artisans in various occupations (e.g. hairdressers, mechanics, welders, etc.). In addition to the MSMEDF, a credit guarantee scheme for SMEs, though smaller in capital size than the ACGSF, was launched by the CBN in 2010. Loans in services, manufacturing and health sectors are guaranteed by the scheme.

Central Bank of Brazil (*Banco central do Brasil*)

Brazil has successfully transformed itself from a food importer to a global food exporter of coffee, beef, poultry meat, orange juice, sugar, soybeans, etc. The country's vast tropical savannah eco-region, known as the Cerrado, has become a world class food basket. Cerrado farmers nearly doubled agricultural yields between 1985 and 2006. Among the policy interventions that have contributed to this success is the rural credit system (Rada and Valdes, 2012). Since the soil in the region has a low nutrient content, substantial use of fertilizers is inevitable. Since farmers' access to finance was severely limited in the early stage of the agricultural miracle, stimulating rural finance and making it available to allow farmers' to invest was a critical task. The Central Bank of Brazil (BCB) played an important role in this regard.

The BCB manages an insurance scheme, the Farm Activity Guarantee Programme (*Proagro*), which is designed for the agriculture sector. The Programme covers the farmer or rancher in case of loss of property, crops, and livestock due to natural phenomena, pests, and diseases (BCB, 2012). It has reduced farmers' income fluctuation risks and thus made it possible for financial institutions lend to farmers. As a result, farmers have been able to invest in modern technologies, purchase better inputs (e.g. seed and fertilizer) and increase yields (Hazell, Pomareda and Valdés, 1986). The BCB concluded 511,585 insurance contracts worth BRL8.2 billion (USD 3.4 billion) against 2011/2012 harvest.

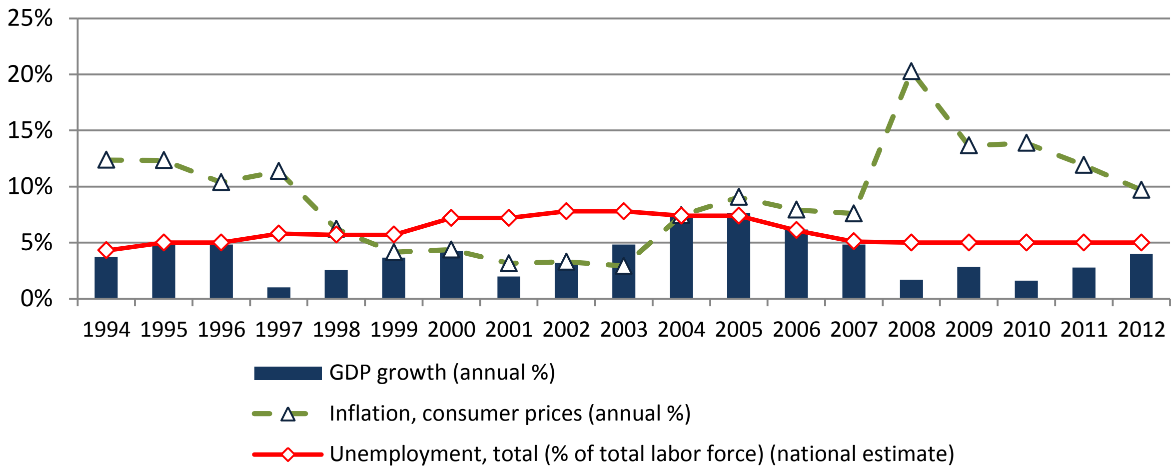
State Bank of Pakistan

The State Bank of Pakistan (SBP), the Central Bank, is tasked with the primary objective of achieving price stability with multi-dimensional targets. Unlike other contemporary central bank activities, the SBB combines its conventional functions with developmental roles. According to the SBP Act of 1956, the objectives of the SBP are:

1. To regulate the issue of Bank notes and keeping of reserves with a view to secure monetary stability in Pakistan and generally to operate the currency and credit system of the country to its advantage.
2. To regulate the monetary and credit system of Pakistan to foster its growth in the best national interest with a view to securing monetary stability and fuller utilization of the country's productive resources.

The State Bank of Pakistan intervenes in the market by making use of both indirect (market-oriented) and direct instruments of credit control. The indirect instruments include the SBP 3-day repo rate, treasury bills auctions, open market operations, statutory liquidity ratio and statutory cash reserve requirement (CRR). The direct instruments used by the SBP involve credit allocation methods and other forms of direct credit to priority sector.

Figure 18: Growth, inflation and unemployment in Pakistan



Source: World Bank, World Development Indicators.

The Central Bank's involvement in development, or its non-traditional function, has been characterized by the use of direct instruments in the form of rehabilitating the Pakistan banking system, developing financial institutions and debt instruments to promote financial intermediaries, creating development financial institutions (DFIs), directing credit in accordance with development priorities, providing subsidized credit, and fostering a sustainable capital market (SBP, 2000).

Annex II: Selected macroeconomic indicators

Indicator	Unit	1995	2005	2006	2007	2008	2009	2010	2011
Social Indicator									
Population	Million	15.82	19.551	19.942	20.34	20.747	21.162	21.585	22.017
Labour force, total	Million	7.50	9.92	10.14	10.37	10.60	10.85	11.10	11.36
Labour force participation rate	%, age 15-64	84.10	85.60	85.50	85.30	85.20	85.00	84.90	84.70
Life Expectancy	years	45.5	48.1						50.2
National Accounts									
GNI Current Price	Million US $	2,068.61	6,218.67	6,471.92	7,450.24	9,262.95	9,430.38	9,192.32	12,378.51
GNI per capita Constant 2005	US $	171.89	295.98	295.69	314.27	329.73	355.85	377.43	392.29
GDP Constant 2005	Million US $	3,007.15	6,578.52	6,994.36	7,503.69	8,016.16	8,524.01	9,127.91	9,796.25
GDP growth	Annual %	2.70	8.67	6.32	7.28	6.83	6.34	7.08	7.32
GDP per capita growth	Annual %	-0.69	5.72	3.48	4.46	4.06	3.61	4.38	4.64
Total investment	% GDP	30.63	17.68	17.00	15.31	17.60	14.95	28.20	36.91
Gross national savings	% GDP	19.01	0.46	8.36	4.38	4.68	2.71	10.78	11.13
Prices and Money									
Inflation, end of period consumer prices	% change	56.54	11.15	9.37	10.26	6.18	4.22	16.62	5.46
Exchange rate (Annual Average)	LCU/US$	9.02	23.06	25.40	25.84	24.30	27.52	33.96	29.07
Money and quasi money (M2)	% GDP	27.33	28.86	29.96	32.31	33.58	40.22	42.36	39.36
Government Finance									
General government (gov't) revenue	% GDP	21.78	20.12	22.93	25.20	25.34	27.06	29.47	30.04
General gov't total expenditure	% GDP	25.06	22.90	26.99	28.15	27.81	32.57	33.40	34.36
General gov't net lending/borrowing	% GDP	-3.28	-2.78	-4.07	-2.95	-2.48	-5.51	-3.93	-4.32
External Sector									
Volume of imports of goods and services	% change	-19.25	12.11	6.76	2.37	13.40	16.01	6.65	32.18
Volume of exports of goods and services	% change	3.46	3.92	6.77	-2.43	9.59	7.10	-10.28	11.80
Current account balance	% GDP	-11.62	-17.22	-8.63	-10.92	-12.92	-12.24	-17.42	-25.78
Debt and Financial Flows									
General gov't gross debt	% GDP	n/a	80.96	53.61	41.92	42.14	51.88	49.35	45.11
Foreign direct investment, net inflows	Million US $	45	122.41	185.38	416.69	559.12	895.68	1005.44	2079.31
Foreign direct investment, net inflows (% of GDP)	% GDP	2.00	1.86	2.61	5.19	5.65	9.26	10.84	16.54
Net ODA received per capita	US $	66.48	61.74	75.94	80.13	87.70	86.14	81.42	84.24

Source: IMF, World Economic Outlook Database, April 2013, World Bank (World Development Indicators) PPG and IMF.

Annex III: Inflation indicators Mozambique (annual changes)

	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13
Consumer Price Index	1.55	2.02	4.27	4.86	4.52
Food	1.43	1.63	4.01	8.41	10.35
Fruits and Vegetables	1.85	2.52	7.50	18.22	20.98
Non-Food	1.97	1.76	3.32	6.63	10.87
Core Inflation					
CPI Admin	1.74	2.25	4.53	5.21	4.84
CPI Fruit &Veg	1.12	1.80	3.83	4.46	4.62
CPI Fruit &Veg Adm	1.28	2.05	4.06	4.81	4.99
CPI Combust	1.62	2.11	4.37	4.99	4.64

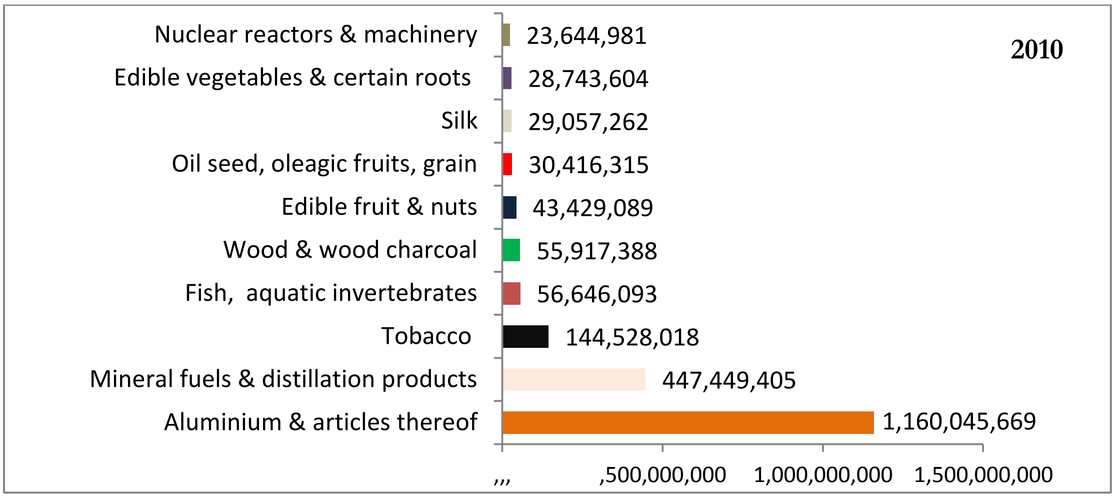
Source: INE, Bank of Mozambique.

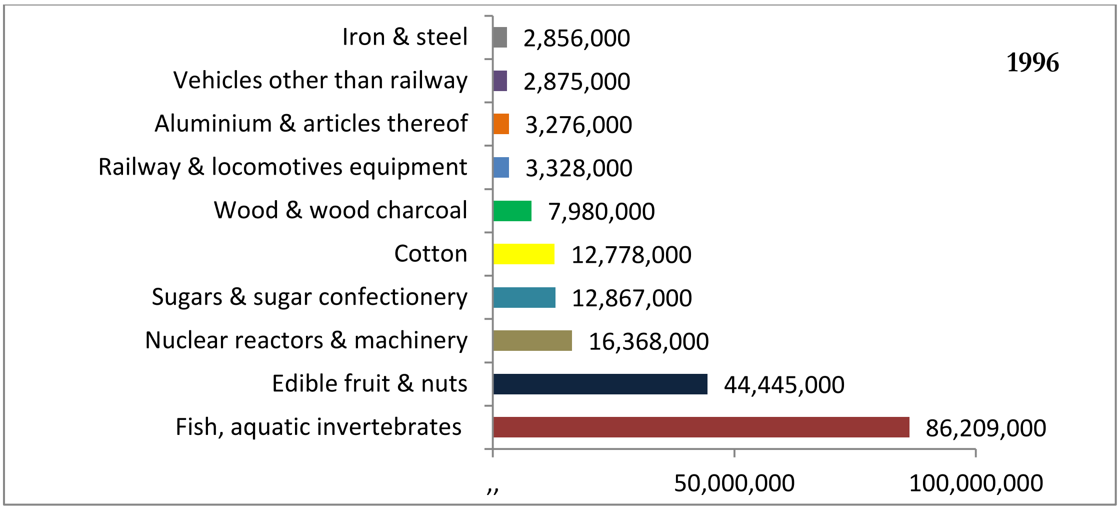
Annex IV: Contribution of mega projects (million MT)

Mega Projects	2012	2013	Variation (%)
Energy Production	505	590.3	16.90
Gas Exploration	765.1	1614.9	111.10
Exploitation of Mineral Resources	887.9	1238.4	39.50
Other	274.5	261.3	-4.80
Total	**2432.6**	**3704.8**	**52.30**
Total Revenue	43567.3	55564.7	27.50
Contribution of Mega Projects	5.60%	6.70%	

Source: Bank of Mozambique.

Annex V: Top 10 Exports in 1996 and 2010 (US Dollars)





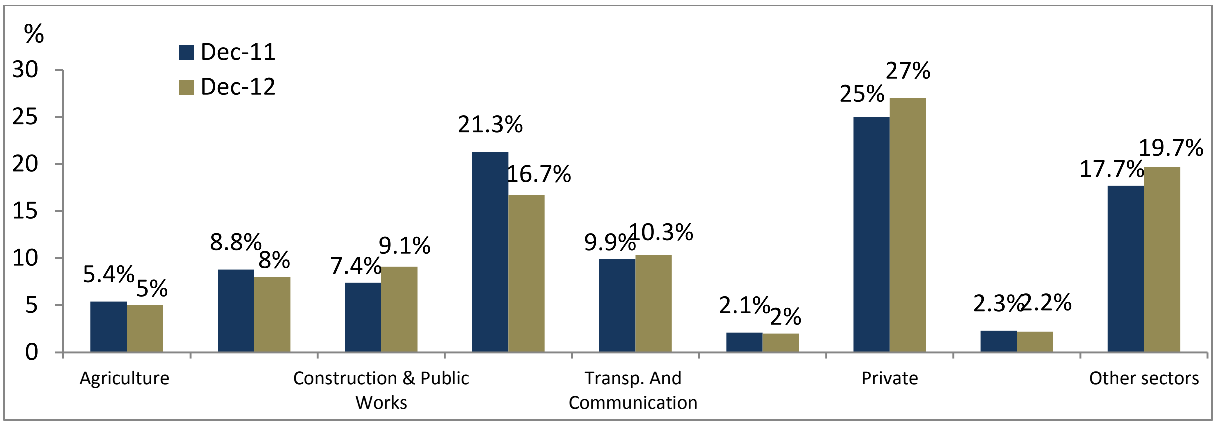
Source: UN COMTRADE.

Annex VI: Exports in 1996 and 2010

	1996 (US$)	2010 (US$)	Growth (%)
Fish, aquatic invertebrates	86,209,000	56,646,093	-34.29
Edible fruit and nuts	44,445,000	43,429,089	-2.29
Nuclear reactors and machinery	16,368,000	23,644,981	44.46
Sugars and sugar confectionery	12,867,000	9,277,879	-27.89
Cotton	12,778,000	7,760,928	-39.26
Wood and wood charcoal	7,980,000	55,917,388	600.72
Railway and locomotives equipment	3,328,000	34,121	-98.97
Aluminum and articles thereof	3,276,000	1,160,045,669	35310.43
Vehicles other than railway	2,875,000	3,984,523	38.59
Iron and steel	2,856,000	9,389,006	228.75

Source: UN COMTRADE.

Annex VII: Credit distribution to the economy by sector



Source: Bank of Mozambique (2012).