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A Decent Work Approach to Development and Growth in Africa”**

**Policy Coherence for Generating Employment and Decent
Work in Mozambique**

Background Paper

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- Abstract -

The ILO through its Policy Coherence Initiative (PCI) for Africa argues that policy reforms should focus on the more comprehensive set of objectives, including both economic growth and employment. Further, sequencing the reforms more judiciously enables staying the reforms course for the longer run.

Mozambique has seen strong GDP growth of 8.2% for 2000-06. This growth has been enabled by a stable and supportive macro framework. The external debt has halved from \$7.5 billion in 1995 to \$3.3 billion in 2006, representing a fall from 72% of GDP to 42%. The current account deficit has been brought down from 18% of GDP in 2003, to 3% by 2006. Foreign Direct Investment (FDI) flows into Mozambique over 2000-04 averaged \$242 million per year. However, despite the entailed policy platform being based on stringent monetary and fiscal policies, inflationary pressures still persist. Weakness in domestic investment complements this, with a major share of credit not going towards either industry or agriculture, but trade. This pattern of growth has strong implications for employment and other critical conditions of employment – that is for Decent Work.

While growth in Mozambique has been laudable under the existing policy framework, its impact on poverty and inequality has been limited. Poverty in Mozambique has a rural and agricultural bias, is highest in the South, and is highest for the self-employed and unpaid family labour. While the largest part of the labour market continues to be informal, time series data for employment shows that the traditional preponderance of the agriculture sector in employment still remains and the share of employment in manufacturing has shrunk.

Policy has focused on stabilising macro fundamentals, meeting Highly Indebted Poor Country (HIPC) conditionality, and espousing mega projects, which has been critical for Mozambique's growth in the last decade. A number of structural weaknesses in the economy have not been addressed, however, and this has constrained the impact of growth on employment and Decent Work. Better policy coherence, a better policy mix, and more judicious policy sequencing to create more policy space for employment and decent work, are all called for.

Policy Coherence for Generating Employment and Decent Work in Mozambique

*Background paper for the High Level Forum on “Working out of Poverty: A Decent Work Approach to Development and Growth in Africa”
Monrovia, 8-9 September 2008*

1. The need for Policy Coherence

The ILO’s Policy Coherence Initiative (PCI) for Africa is both diagnostic and prescriptive. It is prescriptive in that it seeks to examine macro policy at the country level, for its impact on employment and the conditions of this employment – that is for its impact on Decent Work. It is prescriptive in that, on the basis of this causality it then suggests some policy shift to improve the employment impact both quantitatively and qualitatively.

Policy reform addresses a large variety of structural weaknesses in the economy. It aims to stabilise macro fundamentals and make them more sustainable, thereby improving the environment for growth, poverty reduction, meeting the MDGs and improving welfare. The ILO through its PCI advocates that these reforms focus on the more comprehensive set of objectives, including both growth and employment, and that the policy mix therefore be more consistent and coherent, and its sequencing be more enabling for the achievement of both objectives. Cross-country policy experience shows that simultaneity of reforms can act to the detriment of employment and decent work, jeopardising the sustainability of these reforms, while coherence and judicious sequencing work to enable staying the reforms course for the longer run.

Mozambique’s growth path illustrates some of these down-side policy risks, through a revealed susceptibility towards a duality in the economy, between a large ‘mega’ project sector and the rest of the economy.

2. Growth

Mozambique had a population of 21 million in 2006¹. This mid sized country had a good GDP growth rate of 5.7% per annum over 1990-2000, which picked up even further to 8.2% over 2000-06 (Table 1). This is amongst the highest growth rates of the new century globally, and not just in Africa. The shorter term projection, for 2009 is an even higher growth rate of 9.6%. Medium-term projections now expect growth to average 8% per annum. As a result, GDP per capita has risen in these past ten years from \$208 in 1996 to \$350 in 2006. The Economist Intelligence Unit estimates GDP per capita to be much higher². This growth has been based on improved exploitation of a tremendous mineral endowment of aluminium, bauxite, gold, coal, tantalite and limestone, and with a 2,500 km. coastline as the basis for a large seafood and tourism industry.

¹ World Development Indicators, 2008.

² Economist Intelligence Unit, 2008

Table 1: Growth and Structure of Output

	1990-00	2000-06
GDP growth (%)	5.7	8.2
Agriculture	4.9	7.9
Industry	12.8	9.6
Manufacturing	10.2	12.4
Services	2.8	7.8
Structure of Output	1995	2006
Agriculture (%)	37	28
Industry (%)	15	26
Manufacturing (%)	8	16
Services (%)	48	46
Exports (\$ bn)	0.17	2.4
Food(%)	66	16
Agriculture (%)	16	3
Fuel(%)	2	15
Ores (%)	2	60
Manufacturing (%)	13	5
Imports (\$ bn)	0.7	2.8
Food(%)	22	14
Agriculture (%)	3	1
Fuel(%)	10	17
Ores (%)	1	0
Manufacturing (%)	62	48

Source: Economic Intelligence Unit, 2008

This high growth has been led by manufacturing growing at 10.2 % per annum over 1990-2000, and then at 12.4% over 2000-06. Growth in agriculture has been weaker over 1990-2000 at 5.7% per annum, but has picked up to 7.9% over 2000-06. Growth in services has been weaker still, 2.8% per annum over 1990-2000, but again picking up to 7.9% over 2000-06.

As a result of this pattern of growth, the share of agriculture in the GDP has dropped in the past decade, from 37% in 1995, to 28% in 2006, which is uncharacteristically low compared to many low income countries (Table 1). The share of industry in the GDP has risen from 15% to 26% over this period, with the share of manufacturing doubling from 8% to 16%. The largest share in GDP still continues to be for services, although this has shrunk marginally from 48% to 46% between 1995 and 2006.

Exports have a very high share in Gross National Income of 37%. However these exports are dominated by ores, whose share has risen from 2% in 1995 to 60% by

2006 (Table 1). The share of energy, principally gas and electricity, has gone up from 2% to 15% over this period³. Conversely, the share of manufactures in exports has shrunk from 13% in 1995 to 5% in 2006. The share of food in exports has declined dramatically over this period, from a predominant two thirds to 16%. The share of other agricultural products has also dropped from 16% to 3% over this period.

The main export is aluminium at close to \$1 billion per year⁴. Electricity and prawns give another \$100 million each per year. Cotton, sugar, timber and tobacco provide under \$40 million each per year. In addition, one million migrant workers provide remittances, in large part from South Africa, estimated at \$0.5 billion, some 7.4% of GDP⁵.

Therefore one main characteristic of pattern of growth in Mozambique has been that while growth has been led by exports, the growing and predominant share has been for ores, while the share of manufacturing has dwindled.

3. The Macro Policy Framework

The macro policies underlying the more recent growth in Mozambique have been based on a significant set of reforms. There has been a PRGF in place over 2004-06, albeit with a relatively small budget of \$16 million. The budget is symbolic, accounting for less than 2% of total assistance. However, abiding by the agreed policy platform has been important for the government's completion of HIPC conditionality and approval by other donors and foreign investors. The 5th Review of the PRGF went well in terms of meeting agreed targets for macro fundamentals, and in July 2007 the PRGF expired. This has been succeeded by an IMF Policy Support Instrument, instrument (PSI). The PSI is designed for low income countries that require the IMF's advice, monitoring and policy endorsement, but not its financial assistance. This signals to other agencies and donors the IMF's confidence in the overall policy environment.

Through a second PRSP called PARPA II, the Government is revising the earlier written policies and targets.

The World Bank and IMF's Heavily Indebted Poor Country initiative, and the Multilateral Debt Relief Initiative (MDRI), brought debt relief of \$3.7 billion in 1999 as Mozambique reached completion point. In 2000 Mozambique was admitted to the enhanced HIPC initiative, reached completion point in September 2001, when a further \$3 billion of debt stock was written off. Between 2004 and 2007, \$2.4 billion were written off under the MDRI and HIPC (Table 2). As a result, the external debt has halved from \$7.5 billion in 1995 to \$3.3 billion in 2006, representing a fall from 72% of GDP to 42%. Projections however do see this external debt rising up again, to \$5.5 billion by 2009, (Table 3).

³ Also note the rise in fuel imports from 10% of GDP to 17%.

⁴ Other ores produced include limestone, tantalite, gold, coal and bauxite.

⁵ International Fund for Agricultural Development, 2006.

Table 2: Mozambique HIPC Debt Relief (US \$ Million)

	2004	2005	2006	2007	2004-2007
HIPC	135.2	135.8	130.9	130	532
IDA	8.9	9.7	9.8	10.6	39
AFDB	2.6	2.5	2.6	2.9	10.6
IMF	-	15	34	-	49
Bilateral and other	123.7	108.7	84.5	116.5	433.4
Total	270.4	271.7	261.8	260	1064

Source: IMF BoP March 19, 2007

Table 3: External Debt & International reserves (US \$ million)

	2003 ^a	2004 ^a	2005 ^a	2006 ^a	2007 ^b	2008 ^c	2009 ^c
External Debt							
Debt stock	3,941	4,869	4,637	3,265	4,174	4,993	5,477
Debt service paid	97	88	99	55	52	70	81
Principal repayments	72	62	71	27	23	35	38
Interest	25	26	28	28	30	35	43
International reserves							
Total International reserves	938	1,131	1,054	1,156	1,445 ^a	1,946	2,004

^a Actual. ^b Economist Intelligence Unit Estimates. ^c Economist Intelligence Unit forecasts.

Source: IMF, *International Financial Statistics*.

ODA has been very high over the period 1999-2001, at 30% of the GDP (Table 4), falling by 2006 to 25%, which was still \$1.6 billion⁶.

⁶ World Development Indicators 2008.

Table 4: Net Official Development Assistance ^a (US \$ million)

	2001	2002	2003	2004	2005
Bilateral ^b	720.2	1661.0	697.1	731.3	770.8
US	91.8	159.7	135.4	110.0	96.0
UK	185.2	48.0	63.4	65.9	80.8
Germany	40.7	156.9	37.9	38.7	42.6
Denmark	48.3	51.9	66.4	67.4	54.9
Sweden	42.6	45.3	56.5	67.9	79.3
Norway	32.6	38.7	54.1	61.1	67.9
Portugal	34.3	23.9	19.1	24.3	22.6
Japan	33.5	69.7	35.3	19.4	14.8
Multilateral	206.7	537.4	226.8	510.7	513.3
International Development Association	53.0	297.2	159.1	194.5	242.7
EU	73.6	137.8	90.2	151.1	162.6
African Development Fund	56.5	73.1	31.9	91.4	73.4
UN Children's Fund (UNICEF)	8.4	6.5	7.8	8.5	8.7
UN Development Programme	6.5	4.0	8.9	8.5	7.4
UN High Commissioner for Refugees	1.1	1.9	1.5	2.2	2.4
Total incl others	931.1	2200.7	1036.7	1245.8	1285.9
Grants	830.5	1877.0	837.3	1032.7	999.2

^a Disbursements minus repayments. Official development assistance is defined as grants and loans with at least a 25% grant

element provided by OECD and OPEC member countries and multilateral agencies, and administered with the aim of promoting development and welfare in the recipient country. ^b OECD countries

Source: OECD, *Geographical Distribution of financial Flows to aid recipients*.

The entailed policy platform has been based on stringent monetary and fiscal policies.

The budgetary deficit persists at 5% of GDP, and is expected to widen to 6.3% of GDP over 2008, before falling slightly in 2009 to 6.1% of GDP, (Table 5). A very high rate of value added tax of 17.5% has been levied to control the fiscal budget and to reduce its high external dependence which runs at about 40%.

Table 5: Government finances (MT bn)

	2002	2003	2004	2005	2006
Tax revenue	10,629	13,629	15,598	18,534	23,313
Income and profits	2,116	3,236	3,548	2,269	6,367
Tax on goods and services	6,404	7,799	9,416	10,873	13,031
Trade taxes	1,851	2,229	2,284	2,816	3,284
Other taxes	258	366	350	376	532
Non-tax revenue	1,428	1,085	1,241	2,884	3,683
Total Revenue	12,057	14,714	16,838	21,418	26,997
Current expenditure	13,468	16,341	19,006	21,092	25,518
Wages & salaries	5,733	6,900	9,195	10,691	12,994
Capital expenditure	12,149	13,362	12,543	12,971	21,292
Net lending	3,414	481	1,058	671	1,736
Total expenditure	29,037	30,184	32,607	34,734	48,546
Unallocated revenue/expenditure	208	-458	-310	-141	-507
Balance excl grants	-16,765	-15,928	-16,079	-13,457	-22,056
Grants	10,020	10,841	10,053	9,975	19,124
Overall balance incl grants	-6,745	-5,087	-6,026	-3,482	-2,932
External borrowing (net)	5,939	4,994	3,788	5,035	8,767
Domestic financing (net)	806	93	-728	-2,335	-5,835

Note. Some totals do not sum in source

Source :IMF, *Republic of Mozambique: First Review Under the Policy Support Instrument, January 2008*

The current account deficit has been brought down from 18% of GDP in 2003, to 3% by 2006 (Table 6).

Table 6: Balance of Payments (US \$ m)

	2002	2003	2004	2005	2006
Merchandise exports fob	810	1,044	1,504	1,745	2,381
Merchandise imports cif	-1,543	-1,741	-2,035	-2,467	-2,941
Trade balance	-733	-697	-531	-721	-533
Services (net)	-210	-257	-301	-381	-592
Inflows	415	358	370	464	558
Outflows	-625	-614	-671	-846	-1,150
Current-account balance (excl grants)	-943	-953	-832	-1,103	-1,125
Unrequited official transfers (net) ^a	400	514	527	461	2,570
Current-account balance	-543	-440	-305	-642	1,445
Foreign direct investment	380	342	245	105	154
Loan amortisation	-182	-210	-291	-251	-2,147
Foreign borrowing	802	395	463	463	603
Capital account balance	871	433	333	347	1,422
Short-term capital plus errors & omissions	-230	129	185	238	115
Overall balance	98	122	213	-57	139
Financing	-98	-122	-213	57	-139

^a Excludes technical assistance.

Source :IMF, *Republic of Mozambique: First Review Under the Policy Support Instrument, January 2008*

Interest rates continue to be very high, with accordingly high spreads. The money market rate was 20% in 2002, dropping only to 15% by 2006 (Table 7). The lending rate was 27% in 2002, dropping only to 19% by 2006(based on published data). The spread has remained virtually constant at 8% over this period.

Table 7: Interest rates (%)

	2002	2003	2004	2005	2006
Discount rates (end-period)	9.95	9.95	9.95	9.95	9.95
Money-market rate	20.4	13.34	9.87	6.35	15.25
Commercial banks					
Deposit rate	17.99	12.15	9.91	7.8	10.35
Lending rate	26.71	24.69	22.08	19.47	18.53

Source :IMF, *International Financial Statistics. (Economic Intelligence Unit 2008)*

Inflationary pressures however are still persistent, although the consumer price index (CPI) has come down in the last half decade from 16% to 13% (Table 8). The Central Bank of Mozambique controls imported inflation by controlling broad money growth and reducing liquidity in the economy by issuing Treasury bills and the sale of foreign

exchange. However as growth continues to be strong, and with surging food and fuel prices, keeping inflation in single digits is likely to be challenging.

Table 8: Consumer prices ^a (2000=100)

	2002	2003	2004	2005	2006
Index	127.4	144.4	162.7	174.4	197.5
% change, year on year	16.9	13.3	12.7	7.2	13.2

^a Maputo only

Source: IMF, *International Financial Statistics*.

The exchange rate is depreciating, the Metical falling from M 23 to the Dollar, to M 25 by 2006 (table 9). This further depreciated to M 27, in the last two years. Foreign reserves have built up slowly, from \$0.8 billion in 2002 to \$1.2 billion in 2006 (Table 9). There is an attempt to effectively Dollarise the economy, to control the price indicators.

Table 9: Foreign Reserves (US \$ million) & Exchange rates

	2002	2003	2004	2005	2006
<u>Foreign Reserves</u>					
Foreign Exchange	802.42	937.41	1130.86	1053.58	1155.49
SDRs	0.007	0.08	0.08	0.23	0.23
IMF reserve position	0.01	0.01	0.01	0.01	0.01
Total reserves (excl gold)	802.5	937.5	1130.96	1053.82	1155.73
<u>Exchange rates</u>					
MT:US\$	23.68	23.78	22.58	23.06	25.4
MT:€	22.36	26.89	28.07	28.75	31.89
MT:R	2.25	3.15	3.5	3.63	3.76

Source: IMF, *International Financial Statistics*.

The Government's main planning instrument is the Five-Year Plan. This envisages maintenance of macro stability, and a second generation of reforms, based on trimming the public sector, improving public financial management, and improving the share of revenues in the GDP. And now PARPA II proposes as its main pillar for poverty reduction a human capital development program. The PARPA II document however only references employment somewhat obliquely, and not as a central pillar for poverty reduction and sustainable economic development.

After considerable deliberation, in November 2007 the government has passed a new set of labour laws. The law proposes to increase labour market flexibility by facilitating hiring and firing, and through contractual change. Of the four existing types of contracts, indeterminate, determinate, fixed time, and fixed, indeterminate contracts are ceasing, fixed contracts are to be left open to negotiation without a priori parameters, these will not be subject to collective bargaining, and severance pay will be left out. Indeed an early version of this law gives this flexibility to Small and

Medium Enterprises, defined as firms hiring under 100 workers, by allowing them to use fixed term contracts with a maximum duration of two years, for a period of up to 10 years. New severance pay scales now range from a maximum of 30 days salary to 3 days salary. And dispute resolution mechanisms are still to be addressed by specific legislation. The workers' representative organisations, the Organisation Travail Mozambique (OTM) and the Consolidated Labour of Mozambique (CONSILMO) are very apprehensive about the impact of this labour law reform on employment and the conditions of employment.

4. The Investment Environment

This stable macro framework has delivered high growth which is driven by investment and exports. The level of investment is however strongly dependent on Foreign Direct Investment (FDI), which flows into a few mega projects, which are designed for export. Maintaining such levels of investment may require a continuous increase in such projects, which may already not be sustainable for the longer term. An alternative strategy would be to increase the domestic component of investment which shows sign of weakness.

Mozambique experienced a boom in FDI in the early 2000s. According to UNCTAD's World Investment Report, FDI flows into Mozambique over 2000-04 averaged \$242 million per year, the third largest in Southern Africa⁷. The most prominent recipients have been a number of industrial mega projects.

The \$1.3 billion Mozal aluminium smelter near Maputo, began production in 2001, and catapulted Mozambique into the ranks of the world top aluminium producers. A further investment of \$0.8 billion doubled its capacity to half a billion tons per year by 2004. This transformed the structure of the country's exports. Exports doubled between 2000-01 to \$0.7 billion, with aluminium accounting for 65% of the increase.

A second mega project has been a \$1.3 billion gas export pipeline to South Africa, completed in 2004. A third, \$1.3 billion Moatize coal project is being developed currently. The aluminium and gas mega projects have led to the surging of exports to \$2.4 billion by 2006, (Table 10).

This considerable success faces two constraints however. One, the Mozambique government owns only 4% of Mozal's equity, the other shareholders being predominant, BHP Billiton with 47%, Mitsubishi with 25%, and the South African Industrial Development Corporation with 24%⁸. This implies that the Government's share in the growth and profitability of the Mozal project is extremely limited. There are also concerns that the revenue share that the Government contracted may have been too low. While this initially low tax rate may have been offered as an incentive, the track record of the investment environment established by the Government, and the success of Mozal, could well warrant some re-negotiation of the rate.

⁷ UN Conference on Trade and Development, World Investment Report.

⁸ Economist Intelligence Unit, 2008.

Table10 : Export by products (millions US\$), 1996 - 2006

Products	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Cashew nut (processes)	8,044	3,964	20,011	23,182	7,864	8,399	2,104	1,114	1,499	8,015	5,514	13,010
Cashew nut (unprocesses)	...	39,038	5,848	13,547	25,150	11,946	10,895	16,201	7,438	21,209	17,588	23,678
Prowns	75,305	79,871	75,364	58,178	65,564	91,458	92,448	114,241	75,822	91,751	70,888	86,676
Citrus	1,179	1,004	1,180	12,728	5,819	819	254	110	593	160	21	44
Cotton	18,899	12,746	22,160	10,916	19,991	25,495	18,271	20,717	32,441	35,791	56,267	45,691
Copra	5,837	2,410	3,385	3,717	3,469	2,143	809	967	46	95	0	0
Tyres	2,425	1,208	641	3,426	1,013	299	4,584	1,501	11,376	1,653	142	182
Timber	9,369	7,983	10,067	5,208	9,186	14,601	12,559	17,977	20,433	29,967	32,353	35,593
Lobster	2,353	1,868	1,630	22	642	269	307	855	455	756	841	1,172
Electricity	...	...	...	36,993	62,862	66,979	57,346	107,378	113,268	102,252	141,800	177,820
Natural Gas	...	...	...	...	...	...	...	...	...	31,273	100,158	109,606
Aluminium	...	...	...	...	...	60,160	383,100	361,100	567,600	915,011	1,020,547	1,401,315
Other agricultural products	8,514	7,088	25,006	16,687	13,710	19,503	13,932	41,472	36,214	63,118	84,191	140,831
Other products n.e.	42,378	68,904	64,777	59,994	55,606	61,891	106,526	126,180	176,724	202,810	214,946	345,515
TOTAL	174,303	226,084	230,069	244,599	270,876	363,962	703,133	809,812	1,043,912	1,503,860	1,745,256	2,381,131

Fonte: INE - Based on custom bulletins and HCB.

Two, access to cheap electricity was a key requirement for the Mozal project, which South Africa's ESKOM provides. However lack of additional power has meant the shelving of extension plans for Mozal III. After the completion of the two mega projects, FDI levels have fallen sharply, to \$153 million by 2006, (Table 11). Further mega projects are expected to be smaller in scale, such as the \$0.4 billion Moma titanium project in Nampula, or Corridor Sands project in Gaza.

Table11: Foreign Direct Investment (million of USD), 1999 - 2006

	1999	2000	2001	2002	2003	2004	2005	2006
Foreign Direct Investment	381.7	139.2	255.4	..	336.7	244.7	107.9	153.7

Source:

There are also further signs of the weakening of investment, through a longer term view of the drivers of growth for Mozambique, and the weakness of domestic investment.

Table 12 examines GDP growth over two time periods, 1980 to 1990, and 1990 to 2004, and disaggregates this growth into four drivers, investment, exports, government expenditure, and consumption⁹. GDP growth in the 80s is seen to be virtually zero, and then picks up to 6.1% per annum in 1990-2004. The major driver of this GDP growth however is not seen to be investment growth. Investment growth accounts for only 1.4 percentage points of the 6.1% GDP growth per annum, which is less than a quarter. Exports account for 2.9 percentage points of the 6.1% GDP growth, that is virtually a half. Consumption picks up over 1990-2004, to 3.8 percentage points. Government expenditure also picks up over this period to 0.5 percentage points.

Table12: Drivers of growth (%)

	Growth of GDP ¹⁰		Shares in growth									
			Consumption		Government Spending		Investment		Exports		Imports	
	1980-90	1990-04	1980-90	1990-04	1980-90	1990-04	1980-90	1990-04	1980-90	1990-04	1980-90	1990-04
Mozambique	0.15	6.11	-0.3	3.83	0.16	0.5	1.47	1.4	-0.25	2.92	0.92	2.54

Source: Computed from WDI 2007

So the main driver of growth in Mozambique is not seen to be investment, but exports¹¹ and consumption. The factor underlying this weakness in investment could

⁹ Derived from ILO study; for detailed methodology see: Mahmood M. 2008, Macro Policy for a Goldilocks Economy.

¹⁰ GDP growth comprises consumption growth plus government expenditure growth plus investment growth plus export growth and minus import growth.

¹¹ Take-up of the preferential access of Mozambique's exports under the African Growth Opportunities Act (AGOA), has however has been very low, coming to just \$9 million in 2004.

be the relative lack of domestic investment. Domestic credit for the private sector is estimated at 13.8% of GDP for 2006¹². Table 13 gives a breakdown of credit by sector. It shows that the largest recipient of credit is trade at 42% of the total. Moreover the share of trade in credit has more than doubled between 2000 and 2006. Conversely, not only are the shares of industry in credit, low at 16%, and for agriculture at 7%, but they have decreased significantly over this time period.

Table 13: Total Credit by Sector, 2000 - 2006

Designation	2000	2001	2002	2003	2004	2005	2006
Values in millions of Meticaís							
Agriculture	2277.9	2666.7	3427.1	407.8	1269.0	2329.9	3164.0
Industry	4746.6	3720.8	5580.7	2108.5	3064.0	2929.5	7354.0
Construction	1350.0	768.6	868.9	596.5	647.0	1259.9	2123.9
Transport and Communication	1133.5	774.9	964.0	578.2	756.0	2389.0	1943.2
Trade	3335.2	2558.4	2612.8	2298.5	3511.7	5180.2	19084.5
Particulars	1593.2	2171.0	2700.0	1076.4	2112.8	3109.4	4404.5
Other credits	4091.1	4812.5	5504.5	4373.0	4190.6	5183.5	7479.3
Total	18527.5	17473.0	21658.0	11439.0	15551.1	22381.4	45553.3
Structure (%)							
Agriculture	12.3	15.3	15.8	3.6	8.2	10.4	6.9
Industry	25.6	21.3	25.8	18.4	19.7	13.1	16.1
Construction	7.3	4.4	4.0	5.2	4.2	5.6	4.7
Transport and Communication	6.1	4.4	4.5	5.1	4.9	10.7	4.3
Trade	18.0	14.6	12.1	20.1	22.6	23.1	41.9
Particulars	8.6	12.4	12.5	9.4	13.6	13.9	9.7
Other credits	22.1	27.5	25.4	38.2	26.9	23.2	16.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
As percentage of GDP (%)							
Agriculture	4.4	4.6	5.2	0.5	1.3	2.1	2.5
Industry	9.2	6.4	8.5	2.5	3.1	2.6	5.7
Construction	2.6	1.3	1.3	0.7	0.7	1.1	1.7
Transport and Communication	2.2	1.3	1.5	0.7	0.8	2.2	1.5
Trade	6.5	4.4	4.0	2.7	3.5	4.7	14.8
Particulars	3.1	3.7	4.1	1.3	2.1	2.8	3.4
Other credits	8.0	8.3	8.4	5.2	4.2	4.7	5.8
Total	36.1	30.2	33.0	13.6	15.6	20.2	35.4

Source: Bank of Mozambique in INE: Conjuntura Económica

So Mozambique has had good growth, especially over the 2000s. This growth has been enabled by a stable and supportive macro framework. However the main driver of this growth has been observed to be exports, and not investment. And even this level of investment has been maintained by inflows of FDI for mega projects, which cannot be sustained at such peak levels, and has already started falling. Weakness in domestic investment complements this, with a major share of credit not going towards

¹² World Development Indicators, 2008.

either industry or agriculture, but trade. This pattern of growth has strong implications for employment and other critical conditions of employment – that is for decent work.

5. The Impact of Growth on Poverty, Employment and Decent Work

The ILO has five main points of concern with the growth path chosen through the underlying policy framework. One, the rate of poverty reduction is not commensurate with the rate of growth of GDP. Two, income inequalities are increasing over time. Three, the growth has been if not jobless, then certainly with a very low impact on employment and the conditions of work. Four, all these factors may be symptomatic of a dualism in the pattern of growth, with inordinate resources concentrated on the mega project sectors, and the rest of the economy constrained seriously by lack of investment. Five, underlying the weak development of the non- mega project economy may be a strongly perceived weakness in the development of domestic capital.

5.1 Poverty

Poverty headcounts are estimated by surveys for three years in the last decade, 1996-97, 2000-01, and 2002-03. These estimates are based on the calculation of a national poverty which uses a caloric criteria for a Required Dietary Allowance per adult equivalent¹³.

Table 14 shows that poverty dropped from 69% in 1996-97 to 61% in 2000-01, which is a 7% drop in 4 years. Between 2000-01 and 2002-03, poverty dropped further to 54%, which is a 7% drop in 2 years. So the rate of poverty reduction has increased as growth has picked up in the 2000s. However the longer term rate of poverty reduction, between 1996-97 and 2002-03 of 2.5% per year is much lower than the growth rate of GDP of 6% in the 90s, and 8% in the 2000s. Therefore the absolute level of poverty remains high at 54%.

¹³ For a detailed methodology see Chiconela J. 2004, Discussion Paper No. 7P, MPD; and MPD 2004, Poverty and Well Being in Mozambique, The Second National Assessment Discussion Paper No. 3E

Table 14: Comparison of poverty headcounts estimates from IAF Surveys and predictions from the QUIBB 2000/01

Regions/Provinces	Poverty headcount estimates				Poverty gap estimates		
	IAF 1996/97	QUIBB 2000/01	IAF 2002/03	Diferences	IAF 1996/97	IAF 2002/03	Diferences
National	69.4	60.7	54.1	-15.3	29.3	20.5	-8.8
Rural	71.3	64.5	55.3	-16.0	29.9	20.9	-9
Urban	62.1	51.6	51.5	-10.6	26.7	19.7	-7
North	66.3	61.6	55.3	-9.7	26.6	19.5	-7.2
Niassa	70.6	72.4	52.1	-18.5	30.1	15.8	-14.3
Cabo Delgado	57.4	50.7	63.2	5.8	19.8	21.6	1.8
Nampula	68.9	61.7	52.6	-16.3	28.6	19.5	-9.1
Centre	73.8	63.2	45.5	-29.2	32.7	16.0	-17.7
Zambézia	68.1	60.3	44.6	-23.5	26	14	-12
Tete	82.3	75.7	59.8	-22.5	39	26.3	-12.7
Manica	62.6	35.3	43.6	-19.0	24.2	16.8	-7.4
Sofala	87.9	81.5	36.1	-51.8	49.2	10.7	-38.5
South	65.8	54.2	66.5	0.8	26.8	29.1	2.2
Inhambane	82.6	69.3	80.7	-1.9	38.6	42.2	3.6
Gaza	64.7	56.9	60.1	-4.6	23	20.6	-2.4
Maputo prov	65.6	49.4	69.3	3.7	27.8	31.1	3.3
Maputo city	47.8	41	53.6	5.8	16.5	20.9	4.4

Source: MPD (2004) Poverty and Well-being in Mozambique: The Second National Assessment. Discussion Papers N° 3E
 MPD (1997) Poverty and Well-being in Mozambique: The First National Assessment. Discussion Papers N° 3E

Chiconela, J. (2004) Estimativas e Perfil da Pobreza em Moçambique: uma análise baseada no inquérito aos agregados familiares 2002-03. Discussion Papers N° 7P, MPD

Disaggregation of these estimates shows that poverty in Mozambique has a rural and agricultural bias, is highest in the South, and is highest for the self employed and unpaid family labour.

Table 14 shows that in 2002-03, rural poverty was estimates at 55%, above urban poverty at 52%. It also shows that the rate of reduction of rural poverty, 16% in 6 years, was higher than the rate of reduction for urban poverty, 11% in 6 years.

Tables 15 and 16 further identify rural poverty with agriculture and fisheries. Table 15 shows that the agricultural sector has the highest incidence of poverty of 53% in 2002-03, followed by construction and commerce with 40% each, manufacturing with 31%, and transport with 25%. The public sector, while not very large, also has a very high incidence of poverty of 53%, indicating weak wage conditions. Table 16 divides the poor into two categories, the ultra poor and poor, and shows that 85% of the ultra poor are in agriculture, which is a higher proportion than the sector's share of the population at 81%. The sector also has 85% of the poor, which is again higher than the sector's share of the population. For all the other sectors, their shares of the ultra poor and the poor are lower than their shares of the population.

Table15: Poverty estimates by sector of employment

Type of employer	Sample Size		Headcount		Poverty gap		Squared Poverty gap	
	1996/07	2002/03	1996/07	2002/03	1996/07	2002/03	1996/07	2002/03
Agriculture and fisheries	15009	12527	67.89 (1.26)	53.20 (1.50)	28.34 (0.83)	19.70 (0.70)	15.10 (0.60)	9.90 (0.50)
Manufacturing and mining	824	271	58.33 (2.92)	31.10 (4.00)	23.66 (1.63)	11.00 (1.60)	12.20 (1.11)	5.00 (0.80)
Construction	259	3237	60.46 (3.96)	40.50 (2.40)	22.17 (2.05)	14.80 (0.90)	10.37 (1.24)	7.10 (0.50)
Commerce and services	1214	316	49.50 (2.56)	40.10 (4.00)	16.74 (1.20)	14.40 (1.80)	7.84 (0.74)	6.80 (1.10)
Transport and communications	294	824	46.97 (4.30)	25.10 (3.40)	17.72 (1.97)	8.80 (1.40)	8.63 (1.15)	4.00 (0.70)
Public services	844	538	48.54 (3.81)	52.70 (4.30)	17.49 (1.73)	20.40 (2.00)	8.80 (1.01)	10.50 (1.20)
Total	18444	17713	66.10	52.30	27.30	19.60	14.38	9.80
			(1.19)		(0.76)		(0.54)	

Source: MPD (2004) Poverty and Well-being in Mozambique: The Second National Assessment. Discussion Papers N° 3E

MPD (1997) Poverty and Well-being in Mozambique: The First National Assessment. Discussion Papers N° 3E

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Note: Standard errors in parentheses, corrected for sample design effects. Sample size = 18444 obs for 1996/97 and 17713 for the 2002/03

Table 16: Sector of employment

Sectors	Ultra-poor		Poor		Non-poor		All	
	1996/07	2002/03	1996/07	2002/03	1996/07	2002/03	1996/07	2002/03
Agriculture and fisheries	92.60 (0.65)	85.40 (1.2)	91.00 (0.69)	85.10 (1.0)	83.90 (1.48)	76.80 (1.7)	88.60 (0.87)	81.20 (1.1)
Commerce and services	2.00 (0.24)	9.60 (0.8)	2.90 (0.26)	9.40 (0.7)	5.80 (0.71)	14.00 (1.2)	3.90 (0.38)	11.70 (0.8)
Public services	1.80 (0.25)	1.40 (0.3)	2.10 (0.24)	1.60 (0.2)	4.40 (0.59)	4.30 (0.5)	2.90 (0.28)	2.90 (0.3)
Manufacturing and mining	2.40 (0.33)	0.80 (0.1)	2.50 (0.25)	1.20 (0.2)	3.50 (0.40)	1.70 (0.2)	2.90 (0.26)	1.20 (0.2)
Construction	0.70 (0.17)	2.40 (0.3)	0.90 (0.15)	2.10 (0.2)	1.20 (0.20)	1.90 (0.2)	1.00 (0.15)	2.00 (0.2)
Transport and communications	0.50 (0.09)	0.50 (0.1)	0.60 (0.08)	0.70 (0.1)	1.30 (0.16)	1.30 (0.2)	0.80 (0.08)	0.90 (0.1)
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: MPD (2004) Poverty and Well-being in Mozambique: The Second National Assessment. Discussion Papers N° 3E

MPD (1997) Poverty and Well-being in Mozambique: The First National Assessment. Discussion Papers N° 3E

Chiconela, J. (2004) Estimativas e Perfil da Pobreza em Moçambique: uma análise baseada no inquérito aos agregados familiares 2002-03. Discussion Papers N° 7P, MPD

Note: 18,444 observations of persons aged seven years and older for the 1996/07 and 18,777 for the 2002/03; Standard errors in parentheses, corrected for sample design effects.

Table 14 and 17 show that poverty is higher in the South of the country. Table 14 shows that poverty is highest in the South, with a headcount of 67%, compared to the North with a headcount of 55%, and the centre with the lowest headcount of 46%. What is worrying is that poverty in the South is so deeply entrenched, that it has seen virtually no reduction in the headcount, only 0.8% in 6 years of high growth. Further, the depth of poverty – which is how far below the poverty line the population actually lies, and is indicated by the poverty gap estimates in Table 14, has actually increased in the South. In the other two regions, the level of poverty, and its depth, both dropped over this period. The level of poverty dropped by 29% in the center and 10% in the North, while the depth of poverty dropped by 18% in the center and 7% in the North.

Table 17 uses a lower poverty line, which is 60% of the first poverty line, to identify the very poor. This table finds that the distribution of the ultra poor under this lower poverty line, to be the highest in the South with 39% of the total, followed by the North and the Center with 30% each. Further, the share of the ultra poor in the South by this reckoning, has increased between 1996-97 with 22%, and 2002-03 with 39%. Conversely, the share of the ultra poor in the North has remained constant at about 30%, while it has dropped in the centre from 48% to 30%.

Table 17 : Estimates of ultra-poverty using alternative poverty-line by regions

Regions	1996/1997						2002/2003					
	Using food poverty line			Using 60% of total poverty line			Using food poverty line			Using 60% of total poverty line		
	Headcount index	Poverty gap index	Distribution of the ultra-poor	Headcount index	Poverty gap index	Distribution of the ultra-poor	Headcount index	Poverty gap index	Distribution of the ultra-poor	Headcount index	Poverty gap index	Distribution of the ultra-poor
Rural	55.7 (1.53)	20.3 (0.77)	83.1 (1.72)	38.8 (1.49)	12.1 (0.62)	81.8 (2.03)	36.9	12.6	70.3	25.0	6.2	68.4
Urban ^b	44.5 (2.89)	16.0 (1.69)	16.9 (1.72)	33.8 (2.98)	11.3 (1.54)	18.2 (2.03)	33.3	9.6	29.7	24.5	5.6	31.6
North ^c	50.0 (2.62)	17.4 (1.31)	30.4 (2.06)	34.1 (2.38)	10.3 (1.13)	29.3 (2.30)	36.5	10.4	33.1	23.5	3.9	30.6
Center ^c	59.4 (2.06)	22.6 (1.12)	47.4 (2.27)	42.9 (2.15)	14.1 (0.97)	48.4 (2.54)	28.8	9.6	33.9	17.8	4.1	30.1
South ^c	47.7 (2.02)	16.5 (1.10)	22.2 (1.40)	33.7 (2.08)	10.3 (0.87)	22.3 (1.56)	45.9	16.6	33.0	37.9	11.9	39.3
Mozambique	53.4	19.4	100.0	37.8	11.9	100.0	35.7	11.7	100.0	24.8	6.0	100.0

Source: MPD (2004) Poverty and Well-being in Mozambique: The Second National Assessment. Discussion Papers Nº 3E; MPD (1997) Poverty and Well-being in Mozambique: The First National Assessment.

Chiconela, J. (2004) Estimativas e Perfil da Pobreza em Moçambique: uma análise baseada no inquérito aos agregados familiares 2002-03. Discussion Papers Nº 7P, MPD

Note: Standard errors in parentheses, corrected for sample design effects.

^a Mean total consumption, temporally and spatially deflated, using national average prices as the base.

^b Urban areas include Maputo city, provincial capitals, and small urban centers in the 2002/03 HBS while in the 1996/7 it excludes small urban centers

^c North: Cabo Delgado, Nampula, and Niassa provinces

Center: Manica, Sofala, Tete, and Zambezia provinces

South: Gaza, Inhambane, and Maputo provinces, plus Maputo city

Table 18 shows the poor to be concentrated in self employment activities and unpaid work for the family. The tables attempt to link the poor to the nature of their employment, like public, private, self employment, family work, and employer. The tables again divide the poor into the ultra poor and the poor. Table 18 then finds that the highest proportion of the ultra poor are in unpaid work for the family, 47%, which is much higher than the proportion of the population in that line of work, 41%. 44% of the ultra poor are self employed, which is close to the share of the population in that category, 47%. Similarly the poor are also over represented in unpaid work, at 43%, compared to the share of the population doing this work, 41%. And the poor are over represented in self employment, at 48%, compared to the share of the population doing this work, 47%. Compared to self employment and unpaid work for the family, the next highest concentration of the ultra poor and the poor is much lower, at 4% in the private sector, which is proportional to the population working in this sector.

Table 18: Poverty status by type of employer

Type of employer	Ultra-poor		Poor		Non-poor		All	
	1996/07	2002/03	1996/07	2002/03	1996/07	2002/03	1996/07	2002/03
Public administration	1.39 (0.32)	1.60 (0.5)	1.44 (0.21)	2.00 (0.3)	3.50 (0.59)	4.90 (0.4)	2.14 (0.27)	3.30 (0.3)
State or public enterprise	2.68 (0.32)	0.50 (0.1)	2.90 (0.26)	0.30 (0.1)	4.10 (0.39)	1.10 (0.3)	3.31 (0.25)	0.70 (0.1)
Private sector	2.68 (0.31)	4.50 (0.5)	3.14 (0.29)	4.20 (0.4)	4.03 (0.43)	5.00 (0.4)	3.45 (0.30)	4.60 (0.3)
Cooperative sector	0.06 (0.03)	0.00 (0.0)	0.08 (0.03)	0.10 (0.0)	0.13 (0.04)	0.10 (0.1)	0.10 (0.02)	0.10 (0.0)
Self-employed	44.14 (1.40)	43.50 (1.0)	45.23 (0.99)	48.00 (0.8)	50.64 (0.97)	47.60 (1.1)	47.07 (0.79)	46.80 (0.7)
Unpaid work for family	48.66 (1.56)	46.30 (1.2)	46.78 (1.20)	42.50 (1.0)	36.80 (1.32)	37.70 (0.8)	43.39 (1.08)	40.90 (0.7)
Employer	0.15 (0.10)	3.60 (0.4)	0.20 (0.06)	3.10 (0.4)	0.35 (0.10)	3.70 (0.4)	0.25 (0.06)	3.50 (0.3)
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: MPD (2004) Poverty and Well-being in Mozambique: The Second National Assessment. Discussion Papers N° 3E

MPD (1997) Poverty and Well-being in Mozambique: The First National Assessment. Discussion Papers N° 3E

Chiconela, J. (2004) Estimativas e Perfil da Pobreza em Moçambique: uma análise baseada no inquérito aos agregados familiares 2002-03.

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Note: Sample size = 18,495 individuals (1996/07) and 18777 (2002/03); Standard errors in parentheses, corrected for sample design effects.

It is also disturbing to note that ultra poverty is deeply entrenched in self employment, where its share remained constant at 44% of the total, between 1996-97 and 2002-03. The share of unpaid work for the family dropped slightly over time, from 49% to 46%, with a proportionate 3% drop in the share of the population in this work.

Inequality in Mozambique is also relatively high and has increased with growth. The Gini coefficient for the distribution of income in 1996-97 was 0.40, and increased to 0.42. Estimates by the World Bank put the Gini coefficient much higher at 47.3¹⁴.

¹⁴ World Development Indicators, 2008.

So the impact of Mozambique's high growth in the 90s and the 2000s, on poverty has been limited. More than half the population remains under the national poverty line. And the poor are seen to be concentrated in the rural areas, in agriculture, in self employment and unpaid work for the family. Geographically the poor are concentrated in the South, which contains 26% of the population. Poverty is also deeper in the South, and more worryingly, it has got deeper over time. One estimate of income inequality also shows it to have increased with growth. So, while growth in Mozambique has been laudable under the existing policy framework, its impact on poverty and inequality has been limited. The primary mechanism for the majority of the population to share in the growth of the country has to be through generation of employment, and improvement in critical conditions of this employment, such as the wage and social protection – that is through generation of decent work. If the impact of growth on poverty has been limited, then it is due to limited generation of employment and decent work.

5.2 The Impact of Growth on Employment and Decent Work

It is difficult to determine the precise impact of growth on employment and many of the critical conditions of employment, because of lack of data which is comparable over time. In effect there is only one Labour force survey available for 2004-05. This does not allow a comparison with a pre growth year to show the impact of growth. Then the only alternative is to examine the structure of the labour market in 2004-05, to discern whether (a) high output growth has generated high employment growth in the economy, or whether (b) the high output growth sectors have also been high employment sectors, or whether (c) the high output growth sectors have generated high employment in linked sectors upstream or downstream; (d) certainly such high and sustained growth should have led to some diversification in the structure of the labour market, away from traditional sectors and occupations.

(a) Employment and Unemployment in the Whole Economy

Table 19 shows that high GDP growth has not generated commensurate employment, and that the level of unemployment remains very high. The table gives a total unemployment rate of 19% for 2004-05, 15% for men, and 22% for women. The urban population above 15 years of age, of 2.8 million as shown in Table 20, has a much higher unemployment rate of 31%. The rural population above 15 years of age, of 6 million, has an unemployment rate of 13%. Note that unemployment rate for women is higher than men.

Table 19: Unemployment by age group, local of residence and by sex 2004/05

Age	Total			Urban			Rural		
	Total	Men	Women	Total	Men	Women	Total	Men	Women
Total	18.7	14.7	21.7	31	25.6	35.7	12.9	9.1	15.7
15 – 19	36.8	36.9	36.7	56.8	53.4	60.1	26.4	26.8	26.1
20 – 24	27.2	22.8	30.2	45.1	38.4	50.8	16.6	11.6	19.7
25 – 29	19.6	12.6	24.8	30.9	23.4	37.3	14	6.6	19.1
30 – 34	15.1	8	20.6	22.3	12.1	30.5	11.9	6.3	16.3
35 – 39	11.1	7.1	13.8	18.9	12.2	24	7.7	4.6	9.6
40 – 44	10.3	5.6	14.6	14.5	10.3	18.7	8.1	3	12.5
45 – 49	9.6	6.3	12.3	13.9	10.9	16.9	7.7	3.7	10.5
50 – 54	8.2	6.1	9.9	15	11.4	18.5	5.3	3.7	6.6
55 – 59	7.4	6.3	8.3	13.3	11.5	15	5.5	4.3	6.3
60 – 64	9.2	7	11.1	15.9	13.8	17.6	7.2	5	9
65+	8.2	5.9	10.4	15.3	13.1	17	6.5	4.2	8.5

Source: IFTRAB 2004/05; The national definition of employment is equal to the OIT definition plus unsustainable employment

Table 20: Population of 15 years old and above by regions and provinces 2004/05

Regions/Provinces	Economically Active Population			Number of unemployed	
	Men	Women	Total	National Definition	OIT Definition
National	3,870,637	4,973,659	8,844,296	1,652,164	667,619
Rural			6,024,114	778,686	76092
Urban			2,820,182	873,478	591527
North			2,868,597	477,358	125296
Niassa			407,497	129,277	11508
Cabo Delgado			802,352	87,682	22473
Nampula			1,658,549	260,399	91315
Centre			3,633,611	590,390	114886
Zambézia			1,640,871	184,334	33084
Tete			684,338	113,038	12787
Manica			571,646	136,573	21218
Sofala			736,756	156,446	47798
South			2,342,087	584,416	427437
Inhambane			664,679	76,106	31582
Gaza			601,690	97,962	44737
Maputo prov			540,179	196,344	158682
Maputo city			535,540	213,984	192435

Source: IFTRAB 2004/05; The national definition of employment is equal to the OIT definition plus unsustainable employment

Most significantly, unemployment is the highest in the Southern region, where poverty was seen to be both deeply entrenched, and unyielding to growth. Table 21 shows that the South had an unemployment rate of 25%, much higher than the country's unemployment rate of 19%, and much higher than the other region's unemployment rates of 16% each in the North and the center. So in Mozambique, employment has a clear link to poverty, in that the region where unemployment is higher, has participated far less in the country's high GDP growth, leaving poverty deeply entrenched there. The policy lesson is also stark, as the ILO has argued at a global policy level, improvement in decent work which implies improvement in

employment and in the conditions of employment – is the only sustainable means for poverty reduction¹⁵.

Table 21 :Unemployment rates by provinces and regions, 2004/05

Regions/Provinces	ILO definition			National definition		
	Men	Women	Total	Men	Women	Total
National	7.0	8.0	7.5	14.7	21.7	18.7
Rural			1.3	9.1	15.7	12.9
Urban			21.0	25.6	35.7	31.0
North			4.4	10.4	22.0	16.6
Niassa			2.8	23.2	38.4	31.7
Cabo Delgado			2.8	5.4	15.5	10.9
Nampula			5.5	9.9	21.0	15.7
Centre			3.2	12.0	19.6	16.2
Zambézia			2.0	8.3	13.5	11.2
Tete			1.9	10.3	21.7	16.5
Manica			3.7	20.8	26.3	23.9
Sofala			6.5	14.8	26.4	21.2
South			18.3	25.6	24.5	25.0
Inhambane			4.8	11.7	11.3	11.5
Gaza			7.4	18.0	15.4	16.3
Maputo prov			29.4	35.5	37.1	36.3
Maputo city			35.9	35.2	44.2	40.0

Source: IFTRAB 2004/05; The national definition of employment is equal to the OIT definition plus unsustainable employment

Unemployment is the highest demographically amongst young people. Table 19 shows that the labour force in the age group of 15-19 years had the highest rates of unemployment of 37%, followed by the age group of 20-24 years olds with an unemployment rate of 27%, followed in turn by the age group of 25-29 year olds with an unemployment rate of 20%. This problem of unemployment for young people is particularly dire in urban areas, where the unemployment rates for these three age groups are respectively, 57%, 45%, and 31%. With one third to a half of young people unemployed, this is a tremendous loss in human resources for the economy, and also a socially destabilising factor for the society.

(b) Employment in the High Growth Sectors

If high GDP growth has not managed to generate sufficient employment to bring down aggregate unemployment, then the employment results could be better for the specific sectors that have seen such high growth, which is primarily extractives, in the mining sector, and some processing of these extractives in the manufacturing sector. However some very rare time series data for employment shows that the very high output growth in these sectors has not generated any significant employment at all.

Table 22 gives employment by sector for two points in time, 1996-97 and 2002-03. GDP growth over this period has been very high, over 6% in the 90s, and over 8% in

¹⁵ ILO, The Working out of Poverty, The Director General's Report to the International Labour Conference, 2003.

the 2000s. However employment in the mining sector has remained impervious to this high output growth in it, accounting for only 0.5% of total employment in 1996-97, and still the same 0.5% by 2002-03.

Table 22: Structure of Occupied Population by Sex and by Industry (%)

	1996/97			2002/03			Urban		Rural	
	Total	W	M	Total	W	M	1996/97	2002/03	1996/97	2002/03
Agriculture	87.7	95.1	79.6	80.5	89.9	69.3	36.5	47.8	94.4	93.0
Mining industry	0.5	0.0	1.1	0.5	0.1	1.0	1.8	1.0	0.4	0.3
Manufacturing industry	2.2	0.7	4.0	0.8	0.1	1.5	9.9	1.8	1.3	0.4
Electricity and water	1.2	0.1	2.3	2.1	0.1	4.5	5.1	5.2	0.7	0.9
Commerce	3.1	2.3	4.0	7.0	5.2	9.2	18.2	3.1	1.2	0.2
Transport and communications	0.9	0.1	1.8	1.0	0.1	2.1	6.0	18.2	0.2	2.7
Public administration	0.9	0.2	1.6	1.1	0.3	2.1	5.3	3.4	0.3	0.2
Others	3.5	1.5	5.6	7.0	4.2	10.4	17.3	19.5	1.7	2.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: INE: IAF 1996/97 and 2002/03, Final Report

If mining is by its nature a very capital intensive sector, and therefore does not generate high employment in that sector, then some downstream processing of extractives should have expanded employment in manufacturing. However, employment in the manufacturing sector does the opposite, by decreasing its already low share in total employment. Table 22 shows that in 1996-97, manufacturing employed only 2.2% of the total, which further drops by 2002-03 to 0.8%. Given the preponderance of rural employment, this could be masking changes in urban manufacturing. However the table shows that urban manufacturing too follows the national trend, dropping from 9.9% to 1.8%.

(c) Employment in the Sectors Linked to the High Growth Sectors.

If all growth in the mega project sectors is observed to be very capital intensive, then upstream and down stream sectors could have benefited from their setting up, processing, maintenance, and profitability. The major upstream sector is construction, while the downstream sectors would be commerce and transport and communications. The only linked sector whose employment share has expanded significantly is commerce.

There is no earlier data for employment in construction, but in 2002-03, construction only accounted for 2% of total employment. Transport and communication could be a critical sector for Mozambique since it is a conduit to the sea for other land locked countries. However the share of transport and communications in employment barely moves from 0.9% of the total in 1996-97 to 1.0% in 2002-03, as Table 22 shows. The only sector that expands its share of employment significantly over time is commerce, rising from 3% of the total in 1996-97 to 7% by 2002-03.

(d) Diversification of the Traditional Structure of the Labour Market, and the Wage

Since high GDP growth has still left very high unemployment levels, nor has it generated significant employment in the high growth sectors, or the linked sectors, the traditional structure of Mozambique's labour market has not changed much over this period. The traditional preponderance of the agriculture sector in employment still remains. But what is more worrying is that the share of employment in manufacturing has shrunk. While the largest part of the labour market continues to be informal.

Table 22 shows that the share of agriculture in total employment drops some, from 88% in 1996-97 to 81% in 2002-03. However the employment share of rural agriculture remains virtually constant over time, with 94% in 1996-97 and 93% in 2002-03. The share of manufacturing in total employment drops from 2.2% to a negligible 0.8%. The relative decline in the employment share of these sectors is largely taken up by the expansion in the employment share of commerce, from 3% in 1996-97 to 7% in 2002-03.

A more recent figure for 2004-05 still puts the employment share of manufacturing quite low, at 3% of the total¹⁶.

Table 23 shows that only 8% of the employed workers are in the formal economy, while 75% are in the informal economy. Table 24 shows much of this informality to be rural, in the agricultural sector.

Table 23: Number of workers (Formal, Informal and unemployed by type and by provinces 2005)

Regions/Provinces	Absolute values in thousand				Estructure in %			
	Informal	Formal	Unemployed	Total	Informal	Formal	Unemployed	Total
National	7659.1	802.7	1730.0	10191.8	75.1	7.9	17.0	100.0
Urbano	1657.9	607.8	1024.0	3289.7	50.4	18.5	31.1	100.0
Rural	6001.2	194.9	706.0	6902.1	86.9	2.8	10.2	100.0
North	2572.0	137.4	559.6	3269.0	78.7	4.2	17.1	100.0
Niassa	394.0	20.6	91.0	505.6	77.9	4.1	18.0	100.0
Cabo Delgado	710.1	39.3	161.6	911.0	77.9	4.3	17.7	100.0
Nampula	1467.9	77.5	307.0	1852.4	79.2	4.2	16.6	100.0
Centre	3495.7	295.6	536.3	4327.6	80.8	6.8	12.4	100.0
Zambézia	1529.3	84.9	174.7	1788.9	85.5	4.7	9.8	100.0
Tete	743.4	38.5	68.9	850.8	87.4	4.5	8.1	100.0
Manica	620.1	42.2	101.1	763.4	81.2	5.5	13.2	100.0
Sofala	602.9	130.0	191.6	924.5	65.2	14.1	20.7	100.0
South	1591.4	369.5	633.6	2594.5	61.3	14.2	24.4	100.0
Inhambane	601.2	50.5	174.5	826.2	72.8	6.1	21.1	100.0
Gaza	574.3	29.2	83.1	686.6	83.6	4.3	12.1	100.0
Maputo prov	266.9	112.2	160.0	539.1	49.5	20.8	29.7	100.0
Maputo city	149.0	177.6	216.0	542.6	27.5	32.7	39.8	100.0

Source: INE: Informal Sector in Mozambique: Results from the First National Survey (2005)

¹⁶ INE, Government of Mozambique, 2008.

Table 24: Number of informal workers by Sectors and provinces 2005

Regions/Provinces	Absolute values in thousands					Structure in %				
	Agriculture	Industry and Construction	Trade and Turismo	Other Services	Total	Agriculture	Industry and Construction	Trade and Turismo	Other Services	Total
National	6965.8	156.8	391.5	145.0	7659.1	90.9	2.0	5.1	1.9	100.0
Urbano	1142.0	114.1	304.8	97.0	1657.9	68.9	6.9	18.4	5.9	100.0
Rural	5823.8	42.7	86.7	48.0	6001.2	97.0	0.7	1.4	0.8	100.0
North	2446.7	45.4	70.3	9.5	2571.9	95.1	1.8	2.7	0.4	100.0
Niassa	381.8	1.2	9.3	1.7	394.0	96.9	0.3	2.4	0.4	100.0
Cabo Delgado	680.9	8.6	14.2	6.3	710.0	95.9	1.2	2.0	0.9	100.0
Nampula	1384.0	35.6	46.8	1.5	1467.9	94.3	2.4	3.2	0.1	100.0
Centre	3301.7	35.5	106.4	52.0	3495.6	94.5	1.0	3.0	1.5	100.0
Zambézia	1507.8	3.3	12.2	6.0	1529.3	98.6	0.2	0.8	0.4	100.0
Tete	706.9	13.3	17.2	6.0	743.4	95.1	1.8	2.3	0.8	100.0
Manica	570.0	9.9	29.5	10.7	620.1	91.9	1.6	4.8	1.7	100.0
Sofala	517.0	9.0	47.5	29.3	602.8	85.8	1.5	7.9	4.9	100.0
South	1217.4	75.8	214.8	83.6	1591.6	76.5	4.8	13.5	5.3	100.0
Inhambane	551.1	16.5	25.0	8.6	601.2	91.7	2.7	4.2	1.4	100.0
Gaza	522.0	14.9	32.2	5.3	574.4	90.9	2.6	5.6	0.9	100.0
Maputo prov	128.1	23.8	84.0	31.1	267.0	48.0	8.9	31.5	11.6	100.0
Maputo city	16.2	20.6	73.6	38.6	149.0	10.9	13.8	49.4	25.9	100.0

Source: INE: Informal Sector in Mozambique: Results from the First National Survey (2005)

Trade union membership covers only an approximate 5% of the labour force. If there is such slack in the labour market despite record growth, this is reflected in the conditions of work. Labour productivity has increased from \$1115 per worker in 1990 to \$1783 per worker in 2008¹⁷. However, on average the minimum wage negotiated of Meticals 1,400 per month, is estimated by OTM to have been so eroded by inflation that it meets only a half of an average family budget.

5.3 Has Growth been Narrowly Restricted to the Mega Projects

Growth should reduce poverty and increase incomes for a majority of the population. As such, growth can only be inclusive of the majority of the population if it generates employment of the majority, and improves its conditions of work, especially critical conditions like the real wage. In Mozambique, deep pockets of poverty have persisted, a fifth of the working age population is registered as unemployed, 75% of the work is in the informal economy where unemployment and underemployment are masked, and the high output growth sectors have not generated any significant longer term employment. Worse, one indicator shows the employment share of manufacturing to have shrunk. High GDP growth based on high inflows to export extractives has not helped build a domestic manufacturing industry to sustain long term growth

The striking observation, which does resonate with workers, employers and the Ministries of Planning and Development, Finance and Labour, is that the very high growth observed in Mozambique for a decade, has not only been led by mega projects, but may have largely been restricted to them. The rest of the non-mega project economy, which of course is much larger, and is partly reflected in the aggregate statistics of the labour force, therefore does not appear to show much impact from the mega projects.

The problem is that the labour use profile of these mega projects peaks only in their construction phase, after which they lapse into a capital-intensive running operation. For instance the \$1.3 billion aluminium smelter in Mozal, at the height of its construction, hired 11,000 workers, while its current operation requires only 600 workers, many of whom are expatriates with higher skill levels than domestic workers. Similarly, CONSILMO estimates that the 864 kilometer pipe line to South Africa requires 6,000 workers for its laying, but in operation its labour use will dwindle drastically.

The Ministry for Planning and Development acknowledges that the mega projects may be showpieces, with low impact on the rest of the economy, especially in terms of employment, but that these are necessary to demonstrate do-ability in the post-conflict country. But even the IMF acknowledges that the contribution of the mega projects to revenues is extremely limited, and that the very low royalties require re-negotiation of the contracts.

¹⁷ World Development Indicators, 2008.

6. The Weakness in Domestic Capital

If the mega projects are based on expatriate capital, often expatriate skills, and are capital-intensive, with a low impact on domestic employment, then the other side of the equation is still to be explained – what is happening to the rest of the non-mega project economy? Here AEPREMO, the major federations of employers' organisations, are emphatic in its insistence on the continued influence of Portuguese neo-colonialism on the domestic capital markets. It appears that in the non-mega project part of the economy, domestic capital is very weak and under-developed, because of the lack of access to banking credit. The major high street banks like BIM and BCI are still seen to have Portuguese roots, which tend to prefer loaning to expatriate capital investing in mega projects, which is apparently perceived to be lower risk, rather than domestic capital in grass-root small and medium sized enterprises (SMEs), which have the potential to be much more labour-intensive, but are perceived to be higher risk.

The constraints faced by domestic capital are compounded in the area of credit, by the lack of a development finance institution which could help even the commercial sector bias against domestic capital. The World Bank appears not to favour the idea. Other constraints on domestic capital include the ubiquitous lack of purchasing power, the high cost of capital, and very high rates of VAT which raise prices and reduce demand.

An interesting aspect of the non-mega project economy is its geographical and resulting economic fragmentation. The fertile and rain-fed north of the country has a food surplus which it tends to trade with its northern neighbours, while the drier south imports much of its consumables from South Africa. The lack of internal trade dynamics and infrastructure of course tends to weaken the domestic market.

There is general appeal between workers and employers to revive the domestic industries that closed with the early reforms, particularly textiles, shoes and rubber. If the tobacco processing industry can be revived by expatriate capital, there seems no reason why these other industries could not be restarted by domestic capital if the constraints on it were eased.

7. Macro Policy for Employment and Decent Work

This initial and summary analysis of macro policy highlights a number of policy weaknesses. Policy has focused on stabilising macro fundamentals, meeting HIPC conditionality, and espousing mega projects, which has been critical for Mozambique's growth in the last decade. But a number of structural weaknesses in the economy have not been addressed, which has constrained the impact of growth on employment and Decent Work. Some policy reforms are even observed to run counter to the policy objective of employment, as declared in national development planning frameworks like PARPA II. Better policy coherence, a better policy mix, and more judicious policy sequencing to create more policy space for employment and decent work, are all called for.