Report No. 59356-MZ

Mozambique
Reshaping Growth and Creating Jobs through Trade and Regional Integration

Country Economic Memorandum

March 2012

Poverty Reduction and Economic Management
Africa Region

Document of the World Bank

Currency Equivalence at Official Interbank Rate
US$1.00 = Metical 27.40 (as of March 15, 2012)

Government Fiscal Year
January 1 to December 31

Vice President:	Obiageli Katryn Ezekwesili
Country Director:	Laurence Clarke
Sector Director:	Marcelo Giugale
Sector Manager	John Panzer
Task Manager:	Gregor Binkert / Young-Chul Kim

Table of Contents

List of Figures

List of Tables

List of Boxes

ABBREVIATIONS AND ACRONYMS

AGOA	African Growth and Opportunity Act
AIA	Agribusiness Industries Association
AICAJU	Mozambique Nuts Processors Association
CEM	Country Economic Memorandum
CITE	Technology and Services Transfer Centers
CLUSA	Cooperative League of the USA
COMESA	Common Market for Eastern and Southern Africa
CPI	Investment Promotion Center
CTA	Confederation of Business Associations
CUSA	Council for US Aid
CVRD	Companhia Vale do Rio Doce
DUATs	Direito de uso e Aproveitamento de Terra (land use title document)
EBA	Everything But Arms Initiative
ECA	Economic Commission for Africa
ECSAFA	Eastern, Central and Southern African Federation of Accountants
EPA	European Partnership Agreement
EPU	Economic Planning Unit
EU	European Union
FDI	foreign direct investment
FIAS	Foreign Investment Advisory Service
FTA	Free Trade Area
FUTUR	Fundo Nacional do Tourismo
GOM	Government of Mozambique
HIPC	Highly Indebted Poor Country Initiative
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome
HRS	Household Responsibility System
ICA	Investment Climate Assessment
IFC	International Finance Corporation
IFRS	International Financial Reporting Standards
INE	National Statistics Institute
INNOQ	National Institute of Normalization and Quality

IPEX	Institute for Export Promotion
ISO	International Organization for Standardization
LPI	Logistics Performance Index
METR	Marginal Effective Tax Rate
MFN	Most-Favored Nation
MICE	Meetings, Incentives, Conferences, and Events
MINAG	Ministry of Agriculture
MITEP	Minimum Integrated Trade Expansion Platform
MRL	Minimum Residue Level
MT	Mozambican Metical
MW	Malawi
MZ	Mozambique
NGO	Non-Governmental Organization
OECD	Organization for Economic Co-operation and Development
OSBP	One-Stop Border Post
PTIS	Pro-active Trade Information System
SA	South Africa
SACU	Southern African Customs Union
SADC	Southern African Development Community
SISTAFE	Public Financial Management Reform Law
SME	Small and Medium-size Enterprise
SSA	Sub-Saharan Africa
TBT	Technical Barriers to Trade
TEU	Twenty-foot Equivalent Unit
TRIST	Tariff Reform Impact Simulation Tool
USAID	United States Agency for International Development
VAT	Value-Added Tax
WTO	World Trade Organization
ZAR	South African Rand

ACKNOWLEDGEMENTS

The work benefited from financial support from DFID and Swiss Development Corporation, as well as from World Bank Trade and Development Trust Fund supported by the Governments of Finland, Norway, Sweden and the United Kingdom.

This report has been a team effort. The report incorporates papers prepared by several World Bank staff members, including Fabiano Bastos, Ian Gillson, and Maria Teresa Benito-Spinetto (growth diagnostics); Jean-Pierre Chauffour and Jan Erik von Uexkull (macroeconomic and regulatory framework); Peter Moll and Antonio Nucifora (megaprojects); Rogier van den Brink, Michele Zini, and Guo Li (land); Jose Luis Guasch, Vincent Palmade, and Papa Demba Thiam (export promotion); Paul Dorosh, Gael Raballand, and Emily Schmidt (transport logistics); Ana Fernandes and Aaditya Mattoo (professional services); Ron Kopicki, Shaun Mann, Diepak Elmer, and Mallika Shakya (agribusiness). The team was led by Greg Binkert and produced the draft report. The final report was edited by Young Kim, with support of Sara Sundaram and Anne Louise Grinsted.

The report was prepared with close cooperation from countless officials of the Government of Mozambique, the development partners, the private sector, and other stakeholders, especially during the workshop held in Bilene in 2008. Although these valuable contributions cannot be individually acknowledged, the authors would like to express their appreciation to Antonio Cruz, Augusto Sumburane, Antonio de Abreu, Arlete Matola, Antonio Laice, Suzete Marina Christiano Tamo, Maria de Conceição de Quadros, Abobacar Changa, Domingos Tivane, Muchines, Cerina Mussá, Pedro Miambo, Duarte Casimiro, Paul de Wit and the late Raimundo Cossa. Among development partners and stakeholders, Chris Tanner, Jake Walter, Kevin Armstrong, Celia Jourdão, Adrian Frey, Jim LaFleur, and Julio Carrilio have provided valuable insights and comments.

SUMMARY OF MAIN FINDINGS

1. Economic development is necessarily a long-term process requiring a confluence of willful and accidental factors that transform an economy for the betterment of livelihood and well-being of its participants. So that the outcome of this long-term transformation is not left to chances, it is helpful for a country to have a clear vision and strategy to ensure that benefits of willful policy actions exceed the negative consequences of unintended or unforeseen events. The performance of the Mozambican economy, particularly after the General Peace Agreement in 1992, bear testament to ***the willful commitment to development that has consistently been able to overcome difficult challenges posed by exogenous shocks and the generally low initial capacity***.

2. Mozambique is a country endowed with abundant and relatively unexploited natural resources and situated strategically close to a large southern African market and along a global maritime shipping route. It has one of the best potential in Africa to develop into a middle-income status over the next few decades. In this respect, ***Mozambique is also at a critical turning point where prudent policies can materially accelerate the structural transformation needed to achieve that goal.*** It must overcome the existing constraints to faster growth, many of which are studied under this report, and it must create an environment in which a vast majority of its citizens will save and invest in upgrading their skills, inputs and technology in order to enhance their income.

3. Spreading the seeds of change costs money until the roots take hold to render the progress virtually irreversible. Yet, Mozambique is currently a capital-scarce country relying on foreign savings (aid and FDI) to finance the transformation of its economy. The march toward a new paradigm for a rapid and sustainable growth and development will necessitate ***a measured and tactical use of those scarce funds***. If spent imprudently, the system can get trapped in a low-growth equilibrium prone to periodic implosion or rescue from the international community (such as the HIPC debt relief).

4. ***No country has grown for 25 years or more without taking advantage of the global economy.*** This was one of the fundamental conclusions of the Growth Commission led by Nobel Prize laureate Michael Spence.[1] Since 1950, 13 economies have grown at an average rate of 7 percent a year or more for at least 25 years.[2] The Growth Commission found that all 13 economies imported ideas, innovation, knowledge, technology, and FDI from abroad, and exported goods and services into the vast global markets according to their comparative advantage. Domestic markets are too small to allow for the necessary specialization to become competitive. Exporting to the rest of the world not only provides an almost unlimited market for products and services, it also exposes large and small businesses to new ideas, knowledge, technology, and sources of finance.

[1] Commission on Growth and Development 2008.

[2] The 13 qualifying economies are: Botswana; Brazil; China; Hong Kong SAR, China; Indonesia; Japan; the Republic of Korea; Malaysia; Malta; Oman; Singapore; Taiwan, China; and Thailand. Two other countries, India and Vietnam, may be on their way to joining this group.

5. ***There are ample opportunities even amidst the unfolding global financial crisis.*** First, the shifting global demand patterns can work in favor of Mozambique as a net importer of primary commodities. They also provide the Mozambican entrepreneurs with ***the stimulus to diversify Mozambique's export basket*** in order to mitigate demand shocks as well as to take advantage of a broader spectrum of products in which Mozambique already has the ingredients to develop a competitive edge. Secondly, with careful planning and research, ***the retiring production lines in developed and emerging economies can be attracted to Mozambique*** and developed into light industry clusters. The potential for plant migration is not trivial given Mozambique's natural endowment and low wage levels. It is only a decade ago when Korean shoemaking industry migrated en masse to China where the factors of production were available at a fraction of the cost in Korea. Today, virtually all footwear sold in the Korean market is produced in China. Likewise, the apparel and hat manufacturers from Taiwan (China) and Korea who have been priced out of the global market due to high labor costs in their home countries have found new competitive edge in countries like Honduras, Vietnam, Swaziland, and Bangladesh. Are there reasons to negate such opportunities for Mozambique? This report argues the contrary.

6. ***This research report studies some of the more visible constraints to faster growth and economic transformation in Mozambique***. The issues presented in the report are those that can be characterized as low-hanging fruits – or changes that do not require inordinate amount of money or effort to put into place. The removal of these constraints is not a sufficient condition for faster growth, but rather a necessary condition ***to enable the second round reforms and investments*** to achieve their maximum beneficial impact.

7. Mozambique has already had 15 years of rapid growth. Some of it was catch-up after a devastating war; after about 1999, some of it has been the result of untapping the potential of natural resources through capital-intensive megaprojects. ***The question now is how to sustain high growth and reshape its pattern to generate more employment.*** There are four dimensions to meet this challenge: (1) Macro policies and business regulations need to be friendlier towards businesses and reduce the bias towards capital-intensive growth, (2) factor markets should allow a more efficient allocation of resources to the most productive uses, (3) logistics infrastructure needs to reduce the costs of importing, exporting, and transporting, and improve the reliability, and (4) institutions supporting exports are fundamental if small and medium businesses are to succeed in exporting and mastering the supply/value chain.

8. The wider agenda not dealt with in this report, such as rural transformation, diversification of exports, spatial dimensions of poverty and placement of infrastructure assets, deepening of the financial sector, promotion of informal enterprises into the formal economy, all need to be considered in a revolving analytical work program geared to establish a clear development vision and a strategy to make Mozambique grow faster. In this regard, the main goal of this report is to help Mozambicans in ***fostering a forum for rigorous debates around priorities, choices and tradeoffs***. In a way, the report represents the beginning of a renewed effort for the World Bank to support a robust development vision in Mozambique.

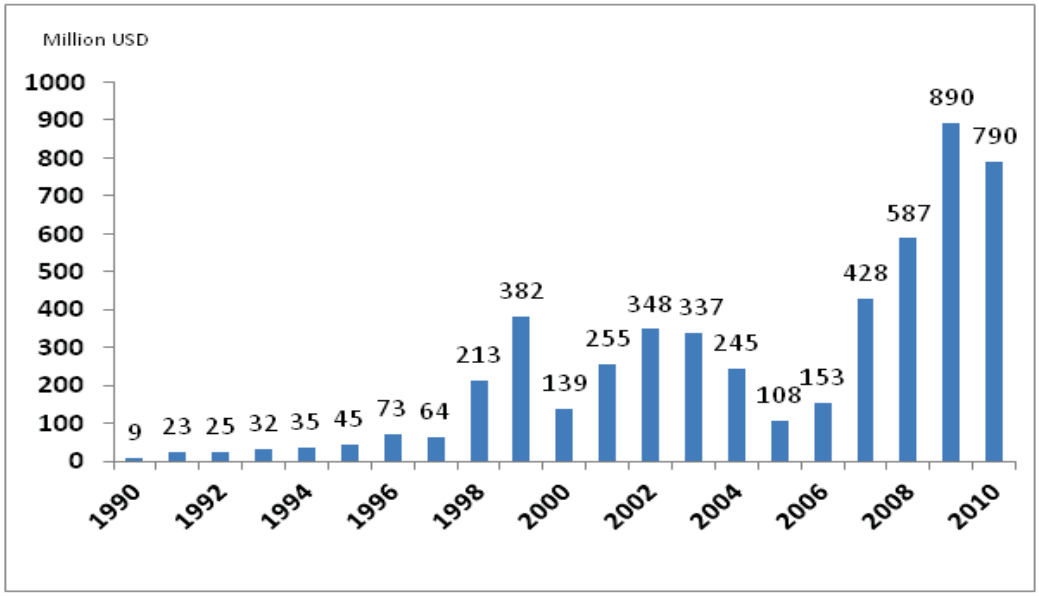
Setting the Stage

9. ***Mozambique has had an excellent growth and poverty reduction record since 1992.*** Average real GDP growth rate soared from zero per cent (1981–92) to 7.5 per cent (1993–2010) and real GDP per capita almost doubled after 1992. Although both numbers grew from a low base, the described phenomena were accompanied by clear improvements in Mozambique's relative performance within Sub-Saharan Africa (SSA). Additionally, the poverty headcount fell from 69 percent (1996) to 54 percent (2002) as consumption per capita grew by a cumulative 50 percent over the same period.

10. ***Dramatic changes were achieved in student enrollments throughout the system***, particularly after Mozambique qualified for debt relief under the HIPC Initiative. In primary education (grades 1–7), the number of students increased from about 1.3 million in 1992 to 4.2 million in 2008. Net enrollment rate at primary education doubled from 45 percent in 1998 to over 90 percent in 2008. Net enrollment of girls rose from 40 percent to 93 percent in the same period. The number of primary school teachers increased from 30,000 in 1992 to 73,900 today.

11. ***Foreign direct investment picked up markedly since 1998*** with the start of the mega projects and reached US$587 million in 2008 (Figure 1.1) and US$881 million in 2009. Foreign aid grew steadily to reach US$1.65 billion in 2008. These flows support the view that Mozambique has successfully built up its image as ***a market-oriented economy with strong prospects for structural transformation and high growth***.

Figure E.1: Foreign Direct Investment, 1990-2010
(In millions of U.S. Dollars)



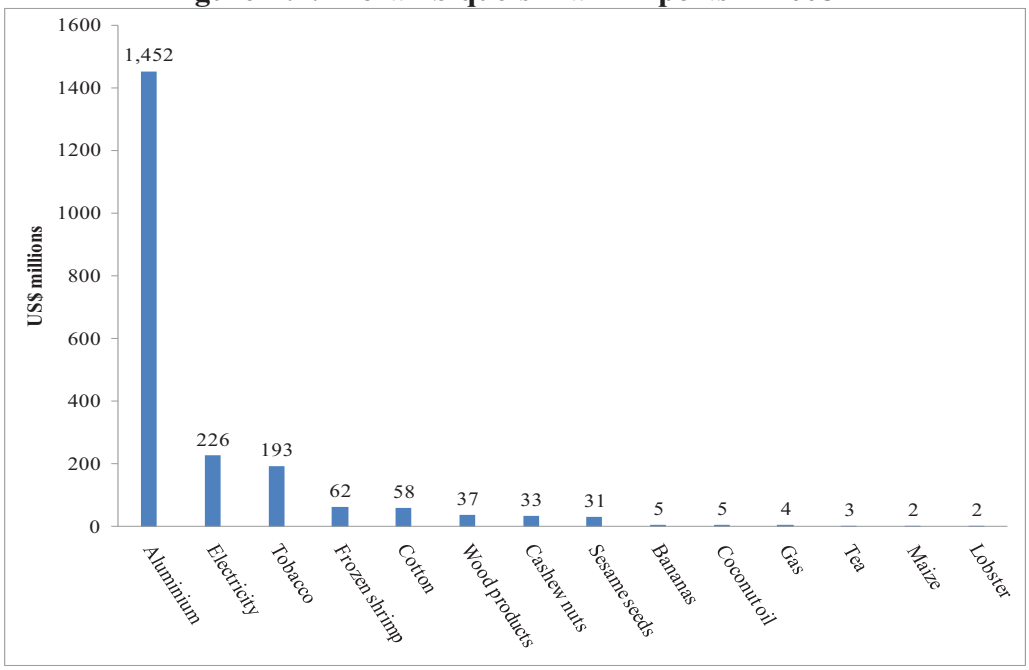
Source: Bank of Mozambique and WB estimates.

12. ***In tandem with this impressive performance, per capita income has continued to grow since 1992.*** GDP per capita, measured in constant 2000 US dollars, more than doubled during the 15 years since peace returned to Mozambique. This included a brief period of post-war

rebound (1992-1997), and a period of sustained high growth since 1998 fueled by large inflows of foreign direct investment. Nevertheless, in purchasing power parity terms, Mozambique's GNI per capita at US$834 in 2010 was the 10th from the bottom among Sub-Saharan African countries, and constituted only 1.8 percent of that of the United States and 7.5 percent of the world average.

13. ***The export basket is extremely limited with only 14 products registering exports in excess of US$1 million.*** About half of Mozambique's exports are concentrated in an enclave aluminum smelting operation which employs no more than 1,100 Mozambican nationals. For there to be a virtuous circle of increased incomes generating private savings for investment, Mozambican exports need to be further diversified, into traditional commodities with secure market access and non-traditional commodities which have higher value-added content, preferably taking full advantage of the relatively cheap labor.

Figure E.2: Mozambique's Main Exports in 2008



Source: UN COMTRADE

14. ***Additional and more strategic investments need to be made in education and job-training in order to upgrade the skills base of the Mozambican labor force.*** More than 90 percent of the labor force has either no formal education or only five years of formal education. Manufacturing requires a higher education profile (grades 6–12 and beyond) than is usually available in the country's labor force (Fox and Oviedo 2008). So, continuing to invest and prioritize education is key for inclusive growth, but in the long-run, effective demand for education can only be sustained only if it results in increased disposable incomes.

15. ***The Government needs to keep an open mind about temporarily using the recourse to imported skilled labor.*** This is all the more the case because use of foreign skilled labor serves as an important conduit to on-the-job acquisition of skills by the local employees. Under an unconstrained environment for labor mobility, particularly in industrial clusters, skills and

knowledge transfers among employees play a critical role in enabling technology spillovers. In capacity (knowledge)-constrained economies, imitation and assimilation through importation of missing skills and fee-based technology adoption can be stopgap measures until local capacity is built (e.g. African flower export industry).

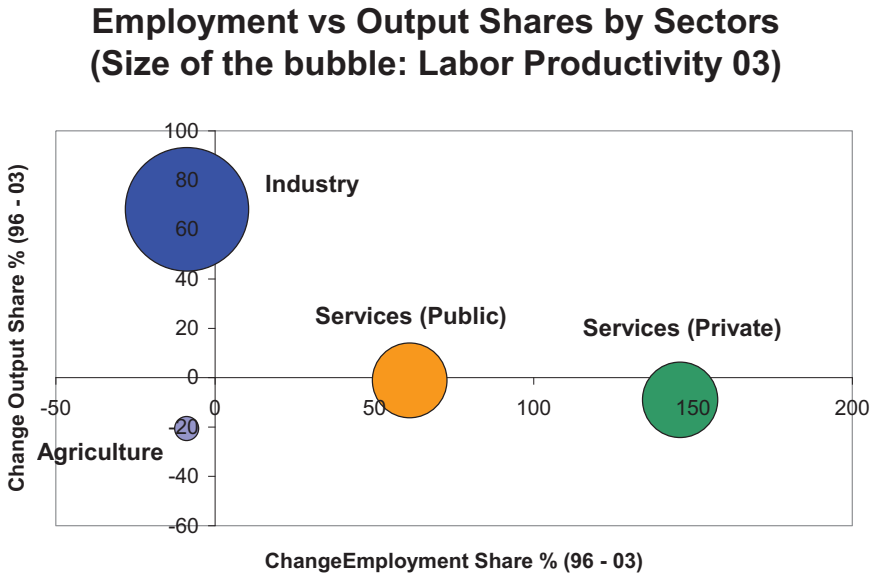
16. ***The growth impact of moving people out of low productivity agriculture into high value manufacturing and services is not likely to be attained without significant re-tuning of Mozambique's growth model.*** In terms of employment and productivity growth, agriculture displays the lowest level of labor productivity among the sectors, and between 1993 and 2006 its output and employment participation fell. While output shares were gained primarily by the industry sector, employment shares were gained by the private service sector (figure 1.3). The chart shows that labor moved from agriculture and large industries into low productivity services sectors, including the public sector.

17. Looking at the factors holding back more rapid growth, two themes have consistently been raised in all the sectors studied in this report. First, ***the government is perceived to have a "control and punish mentality"*** rather than facilitating and regulating economic activities. Second, ***implementation institutions are very weak***, resulting in government policies and strategies not being carried out and the application of laws and regulations often arbitrary with unintended consequences. The ongoing government initiative to improve the business environment is welcome, but more needs to be done and done faster to remove the pervasive bureaucratic controls that businesses have to navigate through.

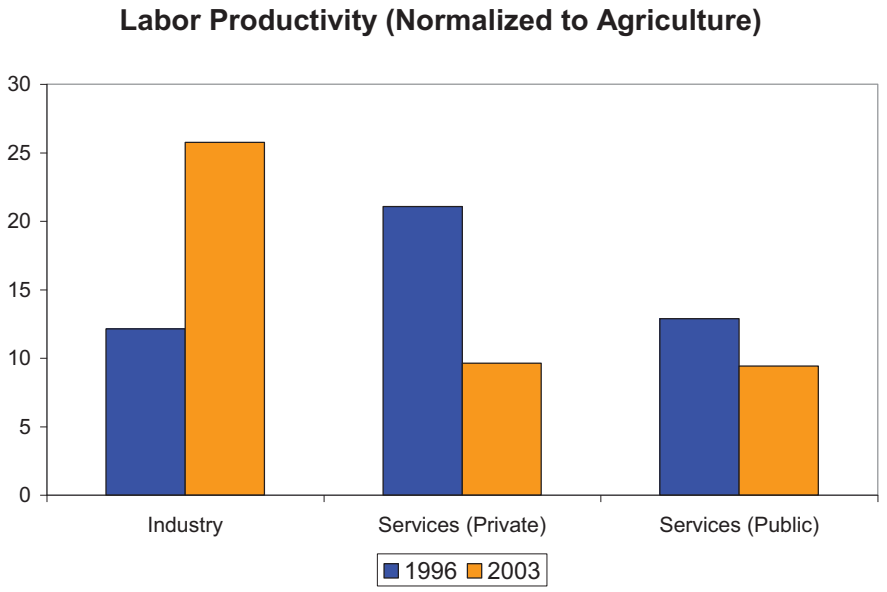
18. ***Such business-friendly reforms require political leadership and a committed, credible and capable government***. The Growth Commission Report noted that policy makers of high-growth economies "understood that growth does not just happen. It must be consciously chosen as an overarching goal by a country's leadership. In the fast-growing economies, policy makers understood that successful development entails a decades-long commitment."[3] Mozambique has a remarkable record of gradual, but consistent policy reforms ever since it started its Economic and Social Rehabilitation Program in 1987. No policy reversals have occurred during the past 20 years. Yet, Mozambique's difficulties in improving its business environment as measured by the Doing Business Indicators or the Competitiveness Index of the World Economic Forum despite the explicit intention stated by the top level of government, is an indication that leadership and inter-ministerial coordination need to be strengthened.[4]

[3] The Growth Commission Report, p. 26.
[4] Mozambique ranked 135th out of 183 economies in the 2010 Doing Business Report. It ranked 129th out of 133 countries on the 2009-10 Global Competitiveness Index.

Figure E.3: Employment, output shares, and labor productivity by sector, 1996-2003



Note: Services (private) includes trade, transport, and services. Services (public) includes health, education, and public administration. The greater the bubble size, the higher is the sectoral labor productivity.



Source: World Bank (2008).
Note: Services (private) includes trade, transport, and services. Services (public) includes health, education, and public administration.

Symptoms of Untapped Potential

19. ***Mozambique has a vast but unexploited potential to develop a diversified export base*** in mining, energy, agribusiness, fishing, forestry, tourism, light manufacturing, and services serving as a gateway to neighboring countries. It also enjoys a privileged geographical position being so close to South Africa's vast Gauteng and Mpumalanga markets. Labor costs are broadly competitive, even though productivity and qualification of the labor force are lower than in comparable countries. Vast areas of fertile arable land have not been exploited with only 4.5 million out of 36 million hectares currently being cultivated. Major rivers run through this agricultural land, but the level of irrigation currently in place is inadequate for large scale commercial farming and smallholders remain vulnerable to frequent droughts and floods.

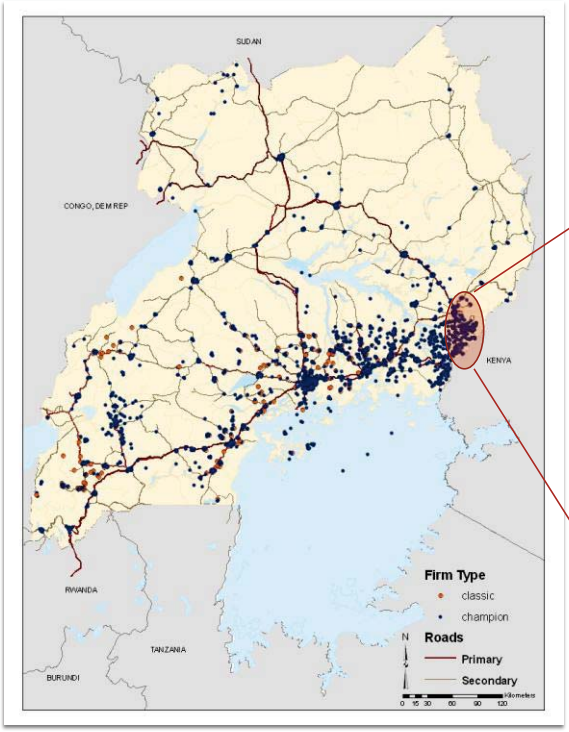
20. ***A stark contrast can be seen along the Maputo-Witbank highway (also known as the Maputo Corridor).*** The satellite imagery (Figure E.4) shows the land pressure being felt by farmers on the South African side of the border compared to a virtual non-existence of farms or industrial activity along the 90 Km highway from Ressano-Garcia to Matola. This area is envisioned to become the main staging area for producing and exporting goods into the South African market, but the record so far is not encouraging. A functioning business corridor or export processing zone needs to be populated with business activity (farms, factories, and human settlements). A comparable corridor from Uganda to Kenya shows a high concentration of Ugandan businesses forming clusters along the corridor, and more recently, near the border to supply the Kenyan market (Figure E.5).

Figure E.4: Land Use Along Mozambique-South Africa Border

Source: Google Earth™, 2009

Figure E.5: Uganda-Kenya Corridor

Proliferation of businesses near border



A comparable corridor from Uganda to Kenya shows a high concentration of Ugandan businesses forming clusters along the corridor…..

…… and more recently, near the border to supply the Kenyan market.

Source: World Bank, 2008 and Google Earth™, 2009

21. In addition to the virtually empty corridor shown above, there are other important symptoms of Mozambique's potential for growth remaining untapped. First, ***the bulk of rural households are engaged in agriculture (70 percent of Mozambicans), and largely trapped in low productivity subsistence agriculture*** using seeds, plants, tools, and techniques used 50 years ago. As fields are tilled, sown and harvested by farm household with little more than hoes and sickle, the average size of cultivated land per household is relatively small (>10 hectares). Consequently, opportunities for productivity improvements or shift into higher value cash and export crops are rather low. Moreover, the potential cost of uncertainty following technology adoption or crop diversification is often starvation for subsistence farmers. While this report does not study agriculture in detail, it remains an important and urgent issue in the government's strategic vision for accelerated structural transformation.

22. Second, ***labor that is shed by agriculture is not being effectively absorbed by high value-added industries***, and small businesses which do absorb a good share of this labor choose to remain in the informal economy, operating in low value product lines with little chances to export abroad. As a result, there is limited skills buildup through on-the-job training, and insufficient development of vertical or horizontal clustering. Over-regulation, rigid labor laws, and arbitrary inspections in the formal economy discourage business registration by micro and small enterprises.

23. Third, ***the acquisition of land lease (administered by the State) emerges as a major obstacle to business development***, both in various enterprise surveys conducted by the World Bank as well as in sector-specific studies undertaken for this report (see Chapter 7 of Volume 2). Not only are investors turned away by the sheer complexity of navigating through the land allocation system (DUAT), but the carrying cost of their capital while waiting for the necessary approvals makes it unappetizing to invest in Mozambique. The urban land system is also not geared to absorb large influxes of rural labor migrating to urban industrial areas. Coastal land with high potential for organized tourism development remains undeveloped, yet only about 10 percent of the coastal areas are available for additional lease.

24. Fourth, even after privatization and deregulation, ***the rail and port infrastructures operate below capacity***. This is a particularly odd phenomenon given that Mozambique borders three landlocked countries (Malawi, Zambia, and Zimbabwe) which historically relied on Mozambican ports for their trade, and railway lines exist between Mozambican ports and these countries. If a north-south link is built connecting the 3 main railway corridors, it would allow the neighboring countries to route their shipments to any of the 3 ports that is more efficient and competitive internationally. It would also enable domestically produced goods to move freely among different provinces and cities, allowing specialization and internal competition.

25. This report provides ***a long list of constraints that seem to prevent a more dynamic business growth and employment creation*** including the trade and tax regime; preferential treatment given to mega project investments; still inadequate and inefficient transport logistics; lack of articulation, standards, and facilitated technology diffusion; rigidity in land tenure system; and shortage of qualified professional skills in the labor force. Over-regulation and arbitrary interpretation of rules add a significant burden to business start-up and operation, particularly among foreign investors who bring capital and know-how needed to supply the global market.

Export Opportunities

26. Mozambique has a largely untapped potential in electricity production from hydro and coal as well as in mining in general. In addition, exploration for oil is ongoing and further natural gas fields have been identified. These projects are important for the country, but they create relatively few jobs. While megaprojects linked to mining and energy production have been flourishing, ***tourism and agri-business are only growing at a slow pace and light manufacturing (apparel in particular) has been struggling***.

Agribusiness

27. ***Mozambique's untapped export potential is perhaps greatest in the area of agribusiness.***[5] Mozambique continues to offer some special advantages to agribusiness investors—including extensive undeveloped, fertile farm land, abundance of water for irrigation, and diverse agro-ecological environments suitable for growing a variety of agricultural products.

[5] The term "agribusiness" refers to a diversity of commercial activities conducted both on farms and off farms. These activities include crop cultivation, animal rearing, forestry, input supplying, agro-processing, merchandising, exporting and retailing, as well as the operations of specialized service providers who support core agribusinesses with transportation, finance, information, and other critical services.

More detailed analyses that have been carried out for the horticulture, poultry, cashew, and fisheries sectors (see Volume 2) confirm not only the great potential, but also the big obstacles.

28. ***The number of agribusiness successes realized in the country over the past twenty years remains limited.*** The product mix has barely changed since the colonial times, technological change has been very limited, and few agribusiness investments have taken place with a few exceptions, such as sugar plantations and tobacco processing. Constraints that deter agribusiness investments include: (i) procedures for getting access to suitable land and water rights; (ii) high cost of expanding rural roads, irrigation, and electricity infrastructure; (iii) limited access to finance through commercial banks and credit guarantee programs; (iv) inadequate logistics and complex bureaucratic procedures for effective supply-chain management; and (v) minimum wage for labor which often exceeds labor productivity. These difficulties and constraints could be overcome through a series of reforms, prioritized investment programs, and public-private partnerships in creating the necessary support institutions and mobilize financial resources.

29. ***For Mozambican agribusiness to penetrate the regional and global market, a different frame of mind is needed*** in addition to the needed removal of the above constraints. Take for example cotton, the 5th largest export Mozambican commodity. Today, the genetic engineering has brought technology which is capable of growing cotton plant that yields colored bulbs or longer fibers. The green revolution in Korea in mid-1970s nearly doubled rice yield per hectare such that new product lines (such as rice-based cookies and rice wine) were developed to absorb the surplus. The North American market is flooded with quality fruits from Chile which take advantage of the inverted growing seasons. Mozambique needs to think out of the box and look for opportunities in every corner of its ecosphere in order to penetrate the global market with differentiated agricultural produce. If Mozambican cashew trees are aged and bear fruits of inferior appearance and yield, then well-coordinated efforts should be made to replace them with new and superior quality trees.

Tourism

30. ***Mozambique has excellent prospects as a high quality beach destination supported by the attraction of exceptional marine ecology*** and Maputo's potential to position itself as an emerging regional MICE (Meetings, Incentives, Conferences, and Events) destination. The Government has set a target of 4 million tourists by 2020 compared to about 1 million in 2006.

31. ***Tourism's current economic performance, however, is well below its potential and investments have been slow to mature.*** Only 18 percent of approved tourism investments between 2005 and 2007 have actually materialized.[6] The sector needs refocusing, upgrading, and clustering. The main reasons for the sub-optimal performance are: (i) complex land acquisition process; (ii) inadequate transport infrastructure, particularly air transport to coastal areas; and (iii) high cost of sourcing goods consumed by tourist from South Africa.

32. ***Acquiring prime coastal land for development of resorts is particularly problematic.*** Multiple DUATs (land use titles) are frequently issued for prime coastal areas. There are also

[6] Data from FUTUR.

risks associated with larger pieces of land required for multiple use resort types of investment (golf courses, retail complexes, hotels, holiday homes, and so on) because the available land along the coastline is being broken up into smaller pieces owned by several entities requiring extended negotiations for parties interested in larger tracts of land. The full legal process for obtaining a DUAT is lengthy and involves negotiations with communities, individuals and local government—around which there is little guidance for any of the stakeholders. This situation creates opportunity for speculation, rent seeking, and legal uncertainties. It also leaves communities vulnerable to political or economic pressure. This environment scares away high quality corporate investors.

33. ***Enabling investments by leading international investors would "put" Mozambique on the world tourism map***, drive down transportation and construction costs, and stimulate the growth of quality domestic operators. An anchor investment cluster approach as pursued by IFC in collaboration with FUTUR (*Fundo Nacional do Turismo*) is promising and might serve as a model.

34. Other immediate steps should include fostering airline competition (in particular between Maputo and Johannesburg), upgrading the airports, improving immigration and customs, liberalizing further high speed internet, improving retail and construction, which are key pillars of a successful tourism industry, and eradicating malaria and cholera starting in prime areas. Improving the management and utilization rate of Maputo's Joaquim Chissano conference center would help to position the city much better in the competitive but lucrative MICE market.

Apparel as an Example of Light Manufacturing

35. ***The apparel industry is an entry point for a broad range of light, labor-intensive manufacturing industries*** and has the capacity to unleash the economy's growth and competitiveness potential. Even though Mozambique missed the early AGOA (African Growth and Opportunities Act) opportunities in 2000-01, it can still develop a comparative advantage in producing and exporting clothing. As recently as 2005, there were 5 factories employing 2,000 workers; today, only one clothing factory is still operating with about 300 employees. Several foreign investors have shown a renewed interest to produce clothing again in Mozambique, so it is important to understand the constraints that have forced the factories to close down in the recent past.

36. ***Labor costs are quite competitive: hourly wages are lower than in Kenya or Swaziland, but higher than in Ghana or Bangladesh.*** Even adjusted for productivity differentials, labor costs in Mozambique are still competitive, but labor productivity should be raised. Renting factories or getting access to a serviced industrial site is very expensive and is often lengthy; trade logistics involving the ports of Maputo and Beira are not competitive for the time-sensitive production of clothing.

37. ***These constraints were also present in other developing countries which have attained middle-income status.*** Similar constraints in these countries were overcome through public-private partnerships involving training of workers and managers to raise productivity and quality, creation of industrial sites with reliable infrastructure (roads, water, and electricity), and improvements in trade logistics (simplified customs procedures, trade credits, etc.).

38. ***Mozambique's initial focus would be to export clothing into the South African market.*** Exports to consumers in the more demanding global market through AGOA and EU-EPA can be secured once a critical mass of investment in the sector has taken place and trade logistics have become more efficient. Creating an apparel cluster would also attract specialized business services, such as packaging, finishing and laundry, embroidery and screen-printing, trucking, and warehousing facilities.

Trading Services

39. ***Mozambique also has large potential for exporting transport services due to its location as well as existing infrastructure.*** These services include port, railway and trucking services. As an example, if only 1% of the cargo volume of the North-Eastern region of South Africa could be attracted to Maputo, the transit volume of Maputo port would already double. However, despite a more responsive Customs authorities at Maputo Port thanks to recent modernization program in Autoridade Tributaria, private operators providing dock services, scanning, and storage services have set up elaborate systems that virtually ensures long delays and maximum fees before goods are released to producers and consumers alike. The trucking industry could also be better integrated in the region; some countries charge very high fees for foreign trucks entering their territories and Mozambican truckers who do not have COMESA third party insurance are penalized.

Megaprojects

40. ***The existing megaprojects have changed the pattern of Mozambican growth and exports after 1999***, and they have put the country on the global map of international investors. However, they have created few jobs overall and are paying low taxes due to generous fiscal incentives. Several more megaprojects are being prepared, mainly to exploit the country's mining and energy potential. The natural resource base on which many planned megaprojects are based should now serve as a treasure trove which can finance costly infrastructure expansion and the structural transformation of the economy.

41. ***The investment climate for large projects has improved significantly since the 1990's, and giving extra incentives to capital-intensive projects is no longer justified.*** Given the role of fiscal incentives and potential contingent liabilities by the Government, their monitoring through the Ministry of Finance should be strengthened. The revised Fiscal benefits Code of 2009 envisages that future megaprojects should get the same investment incentives as all other investments. Nevertheless, the administrative process to access the fiscal benefits *de facto* continues to discriminate against smaller investments which are usually less capital-intensive.

Removing Constraints to Growth

42. ***A number of constraints have to be addressed to exploit these growth potentials*** through a mix of simultaneous policy reforms, investments, and strengthening of institutions. They can be categorized as macro policies, factor markets, trade logistics and export-supporting institutions.

Macro Policies

43. ***Mozambique has established a track record of sound macroeconomic policies and has instituted one of the most open trading regimes in Sub-Saharan Africa.*** Still, further reforms could improve the business environment and entice the potential investors. The Mozambican tax and tariff system is characterized by many different exemptions whose cumulative effects are unclear. And small entrepreneurs normally do not benefit from such exemptions, since there is a fixed cost involved in applying for them, which they cannot afford.

44. Despite good progress in reforming its tax policy over the last 15 years, ***the standard statutory tax regime (excluding incentives) continues to place a substantial burden on investors, notably small domestic entrepreneurs.*** The combination of a statutory tax regime with relatively high tax rates with a generous system of tax incentives impacts on investment decisions and the allocation of resources in a way that is not immediately visible but distortionary in the long run. One such distortion which is widely recognized is that the past tax regime encouraged industries using more capital rather than labor.

45. ***Mozambique's fiscal climate could be significantly improved by reducing simultaneously fiscal incentives and the number and level of tax rates without compromising government revenues.*** If a major streamlining of the tax incentives is not feasible—and the weight of the literature argues against incentives—steps can still be taken to limit their most adverse impacts. For example, calculations made for this report show that maximum tariff rates could be reduced to 10 percent without any loss in revenues if tariff exemptions were also eliminated. If the maximum tariffs were reduced to 5 percent, the revenue loss would be less than a quarter of a percent of total revenues.

46. ***Tax administration remains another impediment to Mozambique's competitiveness and productivity.*** Reducing the number of taxes on the books and simplifying compliance with tax legislation would reduce transaction costs of businesses. A large number of the firms interviewed in the recent Investment Climate Assessment (ICA 2008) reported that tax administration is a major or severe obstacle to doing business. Problems identified included arbitrary implementation of the tax code; frequent and time consuming tax inspections; unqualified tax inspectors; overly complicated paperwork; inability to get VAT refunds; and inadequate dispute resolution procedures.

47. ***The regulatory environment is still unfriendly to small and medium enterprises and licensing, inspections, and red tape are a heavy burden.*** Although Mozambique is committed to improve the business environment and has set itself the goal to be best among SADC countries in the Doing Business Indicators and has actually improved in the DBI ranking from 2007 to 2010, it still is ranked average among SADC countries.

Factor Markets

48. ***Factor markets—land, labor, and capital—need to allocate resources to their most productive uses.*** A new land law was approved in 1997, a new labor law in 2007, legislation for the financial sector evolves continuously, and all banks have been privatized in the 1990s. Still, the factor markets could and should work better to attract more domestic and foreign investment and sustain high growth rates.

49. ***The 1997 Land Law is generally considered to be exemplary in Africa.*** However, ten years after its approval, it is clear that its implementation is weak, and that the reality on the ground is one of extensive extra-legal land markets, multiple claims to the same pieces of land, and a lack of guidance on how to protect or compensate customary and good-faith occupation rights. This has led to extensive land speculation and corruption potentially leading to land conflicts and landlessness in the future. In the short run, it acts as a deterrent to investors, particularly in tourism and agribusiness.

50. ***Access to land for productive purposes needs to be improved.*** Clarify use-rights where there are multiple land claims; clarify development conditions for converting provisional DUAT's into permanent ones; strengthen institutions such as the cadastre; collect land taxes; allocate bigger revenue share from land taxes to cadastre and local governments; accelerate urban planning to allow faster issuance of urban DUAT's instead of continuing with the current extra-legal system in which local leaders collect private rents to provide land use certification.

51. ***Job creation in the non-agricultural formal sector has not kept up with labor force growth***, but disaggregated analysis shows responsiveness in employment generation across sub-sectors. As the economy evolved, labor was re-allocated from sectors with low growth to sectors with higher growth. From the supply-side perspective, education levels in Mozambique are still very low and constitute a structural constraint for job creation in the formal sector. ***Despite significant progress, education levels in Mozambique need drastic improvements.*** Continuing to invest and prioritize education is key for inclusive growth.

52. ***Immigration rules for qualified specialists who can provide managerial and technical expertise to Mozambican enterprises are still very restrictive***, particularly for companies providing professional services. The new labor law has not changed this situation significantly; in fact, there are many complaints that it has become even more difficult to hire highly skilled foreigners.

53. HIV/AIDS poses another serious threat to economic growth in Mozambique through its effects on the labor force. Fighting this epidemic is another priority to ensure labor-intensive growth.

54. ***Capital markets are still very shallow.***[7] The banking system has overcome the crisis of 2000-01 and has become sound and highly profitable. Exceptionally high capital adequacy ratio (17 percent on Basle I) and liquidity ratio (55.4 percent) of commercial banks raise a legitimate question as to whether there is sufficient financial intermediation for a fast growing economy. The growth of microfinance in recent years is very positive, and the government's emphasis on developing financial intermediation in the rural areas is starting to show some results. Yet, only a quarter of all districts have any kind of banking service, and the post office no longer provides the money transfer and savings functions. Housing finance is facing big constraints8 and trade finance is still underdeveloped.

Trade Logistics

55. Mozambique has the potential to be a major outlet for Southern Africa based on its strategic location and congestion in Durban port, provided that it becomes more logistics friendly. Maputo port is the closest route for the largest mining and manufacturing region of South Africa, while Beira and Nacala are the closest ports for the other neighboring countries.

56. ***Yet corridor traffic potential remains mainly untapped.*** Traffic originating from/to Gauteng and Mpumalanga provinces equals at least 700 million tons. If Maputo would capture 1 percent of this traffic, its total throughput would be doubled and port revenues would be increased by several dozens of millions of dollars**.** Despite a rather successful concession process, transit traffic at Maputo port remains relatively low and operates at less than 30 percent of its capacity. Beira port has also operated under capacity at less than 40 percent for the last 5 years. But it is also clear that competition for port services is strong, and competition will only get stronger once the new port in Coega, South Africa, will start to operate.

57. ***Mozambique's main deficiencies mostly derive from logistics problems and low transport reliability.*** Low ratings in the logistic performance index (LPI) (2.29) and for the timeliness index (2.4) put Mozambican ports at a disadvantage compared to the port of Durban (with a LPI of 3.46 and a timeliness index of 3.57). The World Bank's 2010 Doing Business Indicators report a web of procedures taking 23 days for exports and 30 days for imports. Some large South African shippers are still reluctant to shift their transport routes from Durban to Maputo due to the fact that they still perceive the business climate as unpredictable including a higher incidence of bribe payments for the port of Maputo than for Durban (Sequeira and others 2008). Also**,** the high scanning fees and poor integration of trucking services with the rest of the sub-region explains why South African shippers are still reluctant to use Mozambican ports.

58. ***High transport unpredictability is closely linked to low traffic volumes.*** As a result, shipping lines do not call directly in Maputo and cargo has to be transshipped in Durban or Mombasa. This problem cannot be solved in small steps. Physical investments and reforms of customs procedures have to be carried out simultaneously to reach a critical mass in port

[7] This CEM does not provide an in-depth analysis of the financial sector, because a comprehensive assessment has been carried out the by the World Bank and the IMF in 2009.

[8] A background study on housing finance was undertaken and is included in Volume II. It shows the interlinkage between sector policies (absence of an updated national housing policy and strategy), lack of clarity in the implementation of the land law, insufficient urban infrastructure investment, and the financial sector.

transport volume. At that point, international shipping lines will make direct calls, which will greatly improve predictability.

59. Constructing the One-Stop Border Post in Ressano Garcia for trade with South Africa is of highest priority and should be quickly emulated in other large border posts. At the same time, all the customs clearance procedures including at the dry ports have to be revised. Long truck immobilization creates unnecessary delays and costs for shippers and transporters. Capital dredging of the Beira port is also very important, as is the reconstruction of the road between Nampula City and the border of Malawi.

Institutions Supporting Exports

60. ***Strengthening specialized institutions that can support small- and medium-size exporters is important for product and market development***. This includes a national system for standards and quality controls; an ICT-based pro-active trade information system, Product ID-Cards, and CITEs (centers supporting knowledge, innovation, technology transfer and services otherwise not available).

61. ***More "articulators" are needed to connect Mozambican businesses and products with regional and global markets.*** For a country where production is highly fragmented, such articulation initiatives are critical to secure scale benefits and knowledge transfer. There are already a number of on-going articulation efforts in Mozambique through NGOs, producer associations, private sector firms, and Governments agencies. But more needs to be done to get the benefits of economies of scale.

62. ***For small and medium firms, the first step to enter the regional and global supply chains, supplier networks and export consortia is through the adoption and certification of quality standards.*** Yet, the Quality and Standards system is one of the weakest links of the export support framework. The current support provided by the National Institute of Normalization and Quality (INNOQ) is minimal, lacking scope, capacity and resources. For example, certain agricultural exports are at risk because of deficient capacities to satisfy the minimum residue level (MRL) of pesticides for producers and exporters.

63. ***A pro-active trade information system (PTIS) can make a significant difference in assisting SMEs to develop exportable products and penetrate foreign markets.*** A PTIS also entails assistance in capacity building to deliver training, product development, packaging, labeling, etc. The current export promotion institute (IPEX) does not have the capacity or resources to fulfill such a function.

64. ***Establishing centers for the transfer of Knowledge, Innovation, Technology, and Services (CITEs) has proven to be successful in other countries.*** Such centers address information and knowledge issues by providing specialized services to firms in existing or emerging sectors. They target specific products, such as wood and furniture, or leather and shoes, or metal mechanics or grapes or mangos or artichokes or nuts, or art-craft etc.

65. Setting up a Minimum Integrated Trade Expansion Platform (MITEP) would help SMEs overcome technical barriers to trade and develop business in both domestic and foreign markets.

The ideal platform should include: (i) minimum Quality, Standards, Testing, and Metrology infrastructure; (ii) ICT-based, proactive trade information system; (iii) development of specialized non-financial services for SMEs to develop products and market; (iv) rationalization of trade support structures and integration of their activities with those of investment promotion services, including articulation and knowledge transfer efforts.

66. The core paradigm should be about "capacity development for product and market development" to overcome technical barriers to trade and the knowledge gaps. The MITEP concept with its four pillars has already been mainstreamed in World Bank lending operations in Ghana, Benin and Guinea.

Professional Services

67. ***Professional services are important for the growth and transformation of a modern economy.*** They play a significant role in bringing down transaction costs and ensure that up-to-date knowledge is available to the firms. As part of the CEM, four such professional services were analyzed: engineering, auditing, legal, and medical services. They are examples of the challenges faced by the Mozambican economy as it becomes more sophisticated. Professional services are expensive and in short supply; at the same time, many highly skilled Mozambicans are emigrating as they can earn more money abroad. This paradox of having not enough supply of skills (making professional services very expensive) while at the same time not having enough demand for them (leading to emigration) needs to be analyzed carefully to come up with an appropriate package of policy reforms.

68. The CEM proposes three key areas of policy action:

- Education needs to be strengthened at all levels and become more relevant for the labor markets; regional cooperation promises to be a cost-effective way to achieve specialization in higher education.
- Immigration—in the short-run, a more liberal policy of granting work visas to skilled foreigners would help to develop the market for professional services in Mozambique and would enable Mozambican companies to compete better with foreign companies providing such services.
- Regulation and Standards—inappropriate standards often stifle demand for services in areas such as engineering and accounting. The market is clearly split: the few large companies demand top quality services and can pay a high price for them. A large number of SMEs, however, do not require much sophistication and mid-level technical qualifications are sufficient.

69. ***Professional associations can play a key role in the areas of policy intervention mentioned above***. They can create, with government support, a framework for *regulation* and appropriate standards. They can also monitor quality and skills development. Mozambican guilds should form partnerships for mutual recognition of professional qualifications.

Conclusion

70. The objective of this report is to provide an organized framework for the development of a long-term strategy in Mozambique for a more inclusive and shared growth. It focuses on the most obvious obstacles to business growth and sustainable development in Mozambique, emphasizing the role of trade and regional integration in creating jobs. It provides analyses of selected growth sectors in which Mozambique has a comparative advantage developing labor-intensive production, such as agribusiness, apparel and tourism among others. The reforms recommended above aimed at addressing issues that cut across all the sectors can be summarized as follows:

- Reform the tax and tariff system further and reduce administrative transaction costs.
- Improve the implementation of the land law
- Improve trade logistics
- Ensure a more pro-active role of the State in promoting exports

71. Reforms in these areas will be much more successful if Government actively works to dispel the perception of "control and punish" and defines a clearer role for itself to "facilitate and regulate." At the same time, it needs to focus on improving the implementation capacity of the public administration at the central and local level. However, it is important to remember that the private sector is usually better at product discovery than governments or public institutions. Years before southern Sudan was identified as a potential market for Ugandan and Kenyan goods by the respective governments, private businessmen from the two neighboring countries have moved into Juba and established trade routes and supply chains to export construction materials and consumer goods, as well as to provide key services like telecommunication, engineering and construction, and even education and health.

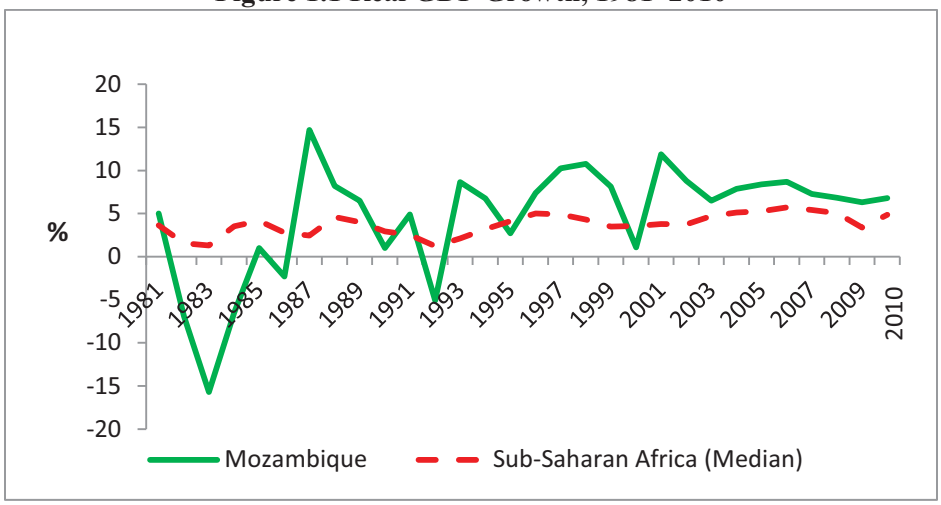
72. Changes in the mentality of civil servants, politicians, and even the public cannot be easily measured and are therefore excluded from policies discussed in this report. Yet, such attitudes matter a great deal. It requires leadership and skills in change management to convince people to change their mentality and attitudes.

73. Subsequent chapters provide in more detail the analyses and findings of the Country Economic Memorandum. Chapter 1 provides the growth diagnostics since the end of the civil war in 1992 until the present. Chapter 2 discusses possible reforms in trade regime, tax policy, and management of megaprojects. Chapters 3 and 4 look at the logistics and facilitation needed to create a more diversified export industry. Chapter 5 reviews the implementation of the laws governing land tenure and suggests ways to enable more intensive use of Mozambique's vast land resources. Chapter 6 identifies existing skills gap that inhibit the development of professional services in Mozambique and for potential services exports to the region. More detailed sector-specific findings are presented in Volume II of the CEM which is available on CD.

1. READY TO GROW FASTER

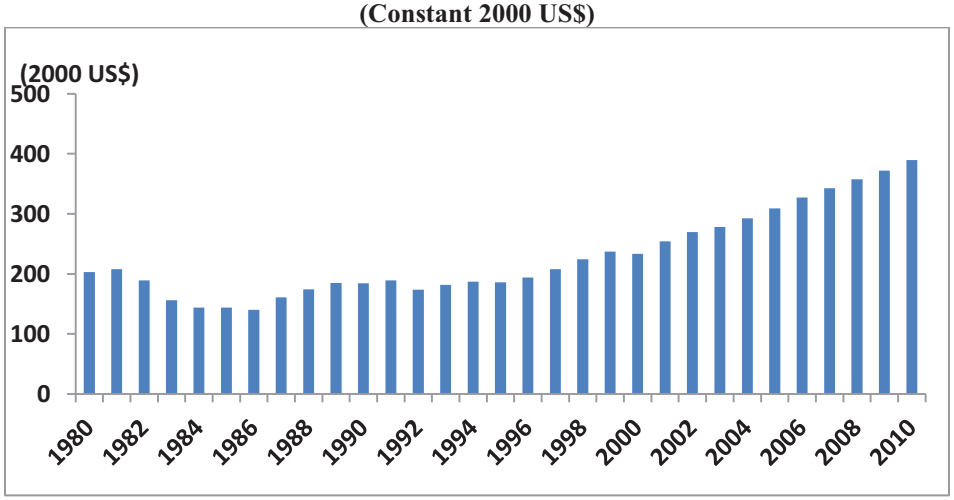
1.1 **Mozambique has had an excellent record of high growth and poverty reduction since the end of the civil war in 1992.** Average annual real GDP growth rate soared from zero percent (1981–92) to 7.5 percent (1993–2010), and real GDP per capita almost doubled: this, despite the massive floods in 2000 and 2001 (Figure 1.1). Although the economy grew from a low base in the aftermath of the civil war, Mozambique's performance was well above the Sub-Saharan Africa average. Similarly, the poverty headcount fell from 69 percent in 1996 to 54 percent in 2002, and consumption per capita grew by a cumulative 50 percent.

Figure 1.1 Real GDP Growth, 1981–2010



Source: World Development Indicators (various years).

Figure 1.2: GDP Per Capita 1980-2010
(Constant 2000 US$)



Source: World Development Indicators (various years)

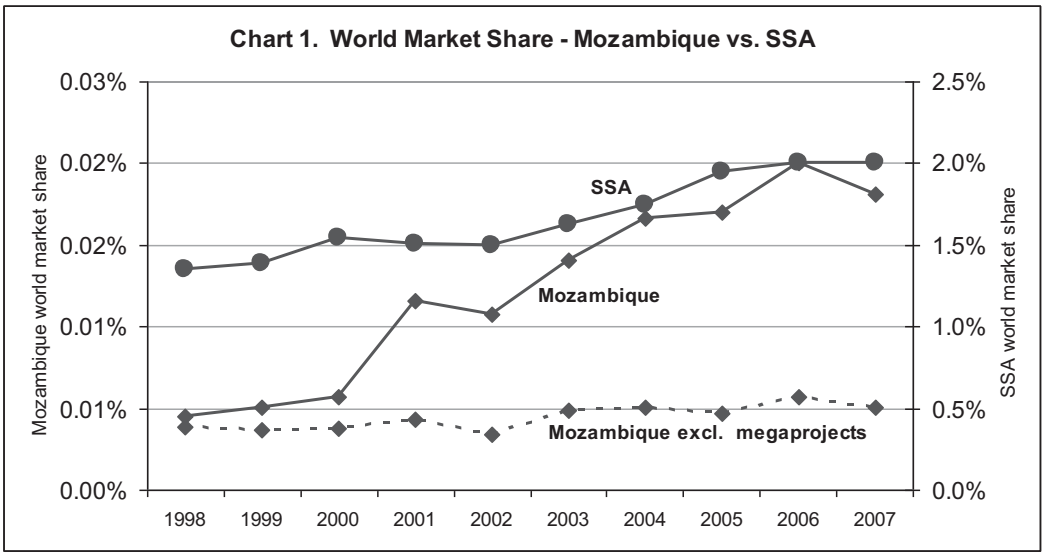
1.2 **In tandem with this impressive performance, per capita income has continued to grow since 1992.** GDP per capita, measured in constant 2000 US dollars, more than doubled during the 15 years since peace returned to Mozambique. This included a brief period of post-

war rebound (1992-1997), and a period of sustained high growth since 1998 fueled by large inflows of foreign direct investment. Nevertheless, in purchasing power parity terms, Mozambique's GNI per capita at US$834 in 2010 was the 10th from the bottom among Sub-Saharan African countries, and constituted only 1.8 percent of that of the United States and 7.5 percent of the world average.

1.3 **There is no room for complacency in thinking that rapid economic growth will be possible beyond the post-war recovery by throwing in more factor inputs**. Mozambique is endowed with ample arable land, water and energy resources, and a relatively large potential pool of labor. If right conditions were to be created, it is an economy which can take off on a growth path that only a few developing countries have managed to ride into their middle-income status. But the "right conditions" do need to be created.

1.4 **Political stability, a first wave of structural reforms, sound macroeconomic policies, and strong donor support following the end of the civil war all formed the basis of Mozambique's recent transformation.** After 1999, exports shot up, and Mozambique was one of the few countries in Sub-Saharan Africa to gain world market share (Figure 1.2). But these gains were due almost entirely to megaprojects; other exports grew only slightly. One study estimates that one-fifth of the GDP growth in recent years came from mega-projects.[9] The problem is that these projects have had a disappointingly small impact in terms of job creation (see Chapter 4). For growth to be self-sustaining eventually, financed increasingly from domestic savings, it is essential that more jobs are created and the workers' disposable incomes rise. This in turn triggers household investments in such things as education, tool acquisition, and secondary income generation activities. The multiplier effect and wide-ranging technology spillovers across the economy would provide an important push to Mozambique's future growth.

Figure 1.3: World Market Share—Mozambique and the Region



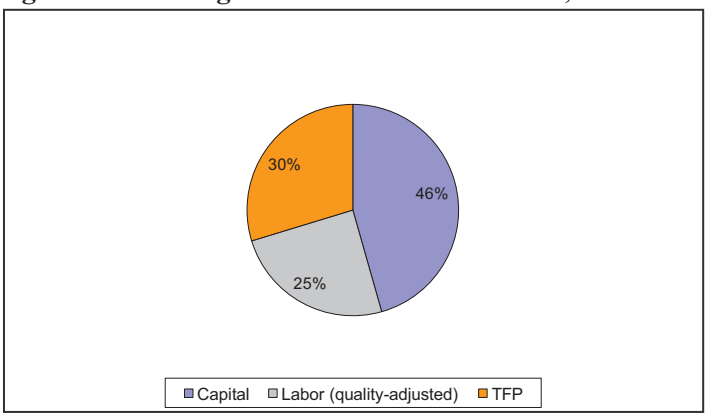
Source: UN COMTRADE database

[9] Sonne-Schmidt, C., C. Arndt, and M. Magaua (2008).

A. Drivers of Growth

1.5 **The accumulation of capital, the improvements in labor quality, and the growth of aggregate productivity drove growth.** From 1999 onward, the average capital contribution to growth was stronger than in the previous six years, a result consistent with the timing of megaprojects. Aggregate productivity increases contributed about a third to overall growth between 1993 and 2008 (Figure 1.3). And there is evidence of public capital accumulation catalyzing private inflows in the aftermath of the civil war, which later allowed sustained private investment to boost growth.

Figure 1.4: Average Contributions to Growth, 1993–2008



Source: WDI, IAF, staff calculation.

Box 1.1: Findings of the Growth Commission

Since 1950, a diverse group of 13 economies has grown at an average rate of 7 percent a year or more for 25 years or longer.1 The report of the Growth Commission has identified the common elements, while emphasizing that there is no single growth model or doctrine.

A close look at the 13 cases reveals five striking points of resemblance:

1. They fully exploited the world economy.
2. They maintained macroeconomic stability.
3. They mustered high rates of saving and investment.
4. They let markets allocate resources.
5. They had committed, credible, and capable governments.

During the periods of fast growth, these 13 economies all made the most of the global economy. This is their most important shared characteristic and the central lesson of this report. Sustained growth at this pace *was not possible before 1950. It became feasible only because the world economy became more open and more tightly integrated.*

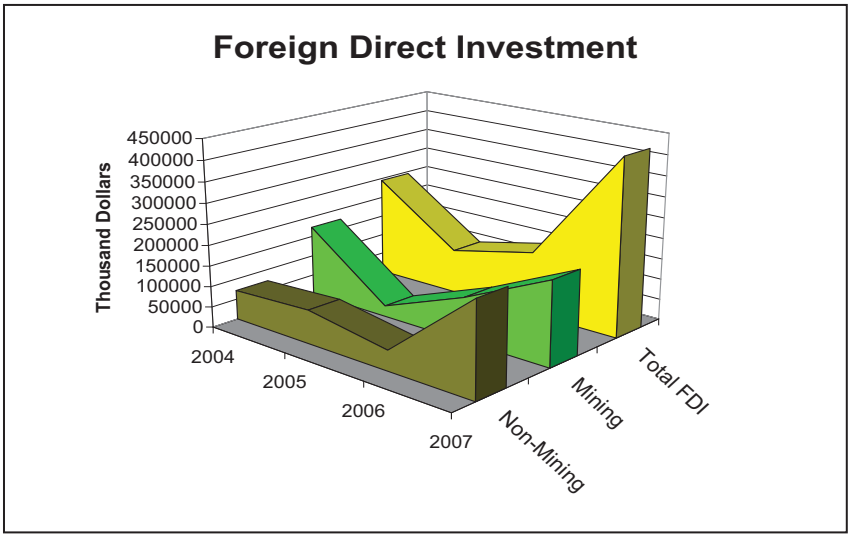
The high-growth countries benefited in two ways. One, they imported ideas, technology, and know-how from the rest of the world. Two, they exploited global demand, which provided a deep, elastic market for their goods. The inflow of knowledge dramatically increased the economy's productive potential; the global market provided the demand necessary to fulfill it. To put it very simply, they imported what the rest of the world knew, and exported what it wanted" (Growth Commission 2008, pp. 21–2).

1.6 **Investment in megaprojects triggered strong export and import activity from 1999 onward, with a direct impact on aggregate demand**. Although GDP and consumption have been trending up since the end of the civil war, the nature of growth has been different since 1999. Strong investment starting in 1999 matured into strong export performance from 2001 onward. It allowed for continuing increases in output and consumption, as imports grew at the same time. This inaugurated a different growth model: strong exports, though offset by accompanying imports, reflected stronger private sector activity. More recently, due to sharp aluminum price increases from 2004 onward, the pace of profit repatriation associated with megaprojects has widened the wedge between GNP and GDP.

1.7 **On the demand side, the direct impact of megaprojects on output was offset by growing imports of capital goods.** The megaprojects raised the average annual growth rate between 1996 and 2006 by about one percentage point (Sonne-Schmidt, Arndt, and Magaua 2008). This is not a particularly large number given the average annual growth of about 8 percent. And with foreign-owned capital-intensive and export-oriented companies benefiting from fiscal exemptions, the contributions of megaprojects to job creation, tax revenue, domestic intermediate inputs, and profits reinvested in the country were also small.

1.8 **Megaprojects had a positive signaling function, however.** They made a qualitative contribution to Mozambique's reputation as a viable investment destination. FDI continued to be strong even after the investment phase of the megaprojects was completed, accelerating in recent years and becoming more diversified. In 2008 FDI reached an estimated $587 million (approximately 6 percent of GDP), with the non-mining sector also attracting strong investments from abroad (figure 1.5).

Figure 1.5: Foreign Direct Investment



Source: Bank of Mozambique.

B. Changing Structure

1.9 **The economy posted double-digit growth rates in mining, manufacturing, construction, electricity, gas, and water since 1992.** After the civil war, a first wave of

structural reforms, and a stabilized macroeconomic environment enabled more private sector activity. Sectoral output shares changed substantially between 1993 and 2006, especially in agriculture, which nearly halved in output, while still contributing to growth. The shift reflects a transformation of output toward more productive sectors, good for aggregate productivity.[10]

Labor Markets

1.10 **Job creation in the nonagricultural formal sector has not kept up with labor force growth, but disaggregated analysis shows responsiveness across subsectors**. From business survey data, it has been estimated that total formal nonagricultural private sector employment grew by only 1.1 percent between 2002 and 2006.[11] In net terms, manufacturing created over 10,000 jobs between 2002 and 2006—mostly in food, beverages, and tobacco. The expected negative contributions from textile and apparels did not have much of an impact since employment in those sectors was already low. But the shrinking of the wood sector was more severe. Fishing, hotels and restaurants, and real estate also showed some potential for employment generation. The stagnant wholesale and retail performance can be explained by not capturing informal sector generation properly.[12] The negative employment growth in transport, storage, and communications is basically explained by the restructuring of Companhia de Ferros de Moçambique, and in the construction sector by the exit of a few big companies from the 2002 dataset. The sectoral responsiveness in employment indicates labor reallocations within the nonagricultural private sector.

1.11 **Large companies generate most formal employment, mainly as an expression of untapped SME potential.** Data from 600 firms suggests that large (more than 100 employees) and some medium-large (close to 100 employees) companies were responsible for a majority of jobs created in manufacturing, services, construction, and transportation between 2003 and 2006.[13] The dominance of large companies in formal employment generation reflects the ample space for promoting SME development. It is also possible to observe that the "entry margin" (creation of formal jobs through new firms) seems to be much more stifled for micro and small firms. This can be seen as a reflection of entry costs and overall business environment constraints impinging more on smaller producers.

1.12 **On the supply side, education levels in Mozambique are still very low, a structural constraint for job creation in the formal sector.** The human capital profile found in typical informal sector jobs differs considerably from that in wage employment. More than 90 percent of the labor force has either no formal education or only five years of formal education (table 1.1). The mismatch of education in the pool of workers and what is required for formal job generation constrains growth. Manufacturing requires a higher education profile (grades 6–12 and beyond)

[10] The shrinking labor force in agriculture in favor of other more productive sectors is a general pattern in the development process of many other advanced economies, and should not be viewed as a negative in Mozambique.
[11] This number excludes agriculture, public administration, education, and health. It is based on the CEMPRE/FUE data collection exercise started in 2002 by the National Statistics Institute (INE).
[12] The weak performance of formal employment generation in the retail sector in particular, and the employment trends of other major sectoral groupings are also consistent with results from monthly enterprise surveys conducted by INE, which rely on a much smaller sample of firms.
[13] The survey of 600 firms was carried out in 2007-08 on behalf of the World Bank for the new Investment Climate Assessment (forthcoming).

than is usually available in the country's labor force (Fox and Oviedo 2008). So, continuing to invest and prioritize education is key for inclusive growth.

Table 1.1: Level of education by type of employment, 2003 (percent)

Level of education	Labor force	Agriculture (all)	Self-employment (nonagriculture)	Wage (private)	Wage (public)
None or less than primary grades 1–5	78.0	86.6	55.4	37.4	10.9
Primary grades 1–5	13.4	10.4	27.3	31.8	18.2
Primary grades 6–7 or more	8.6	3.0	17.3	30.8	70.9

Note: Wage (private) includes trade, transport, and services. Wage (public) includes health, education, and public administration.

Source: World Bank (2008).

Box 1.2: Education achievements and challenges

The peace agreement in 1992 allowed for a gradual reconstruction of schools in the countryside. Debt relief under the Highly Indebted Poor Country Initiative (HIPC) in the late 1990s created fiscal space for the government decided to allocate a large share of the additional budgetary resources to the social sectors, with education getting the lion's share. The impact was huge. The education share of the government budget rose from about 12 percent in 1992 to 20 percent in 2005.

The results can be seen in the dramatic change in student enrollments throughout the system. In primary education (grades 1–7) the number of students increased from about 1,287,800 in 1992 to 1,910,189 in 1998 to 4,176,966 in 2008. In 1998 the net enrollment rate at primary education was 45 percent, and in 2008 is above 90 percent. The net enrollment of girls rose from 40 percent to 93 percent. The number of teachers for primary education increased from 30,000 in 1992 to 34,869 in 1998 and 73,900 today.

Upper primary education (grades 6–7) registered a six-fold increase from 114,800 in 1992 to 723,337 in 2006, and lower and upper secondary education, from about 30,000 in 1992 to 72,260 in 1998 and 476,779 in 2008. The number of new students admitted to higher education remained relatively stable at around 1,000 a year between 1992 and 1996, but doubled to 2,155 between 1996 and1999.

The total number of university students in 1992 was below 10,000. The increasing number of graduates in secondary education, the provision of private institutions as well as greater geographical coverage led to and huge increase in the number of students. In 2008 universities registered 50,000 students.
Demand has been rising faster than infrastructure and the training of teachers, with quality suffering as a result due to both shortage of resources and absorption capacity. Breaking through infrastructure bottlenecks will take time. To increase completion rates, continuing effort is needed to further alleviate households' infrastructure and financial constraints. Special efforts are needed to get girls to complete school.

Source: Ana Ruth Menezes.

1.13 **HIV/AIDS poses a serious threat to economic growth through its effects on the labor force.** Human capital accumulation can be severely hampered through the impact of deteriorating health on learning capacity and through the life-long negative consequences for children. Labor force growth is also held back due to higher mortality rates—life expectancy is expected to drop to 37 years by 2010, in contrast to 50 years without HIV/AIDS. Given the high prevalence rate of 16 percent the country faces (twice the Sub-Saharan average of 7.2 percent) and stubborn declining infection rates, annual economic growth can be reduced by as much as 1 percentage point (World Bank 2008).

Export Opportunities

1.14 **Mozambique has good export potential in mining, energy, agribusiness, fishing, forestry, tourism, and light manufacturing.** It also enjoys a privileged geographical position as the gateway for its neighboring countries and being so close to South Africa's Gauteng and Mpumalanga markets. Labor costs are broadly competitive, even though labor qualifications and productivity are lower than in comparable countries. Megaprojects linked to mining and energy production have been flourishing, but tourism and agribusiness are growing only at a slow pace and light manufacturing (particularly apparel) has been struggling.

1.15 **Mozambique has a largely untapped potential in electricity production from hydro and coal as well as in mining in general.** In addition, exploration for oil continues, and further natural gas fields have been identified. These projects are important for the country, but they do not create many jobs. (These sectors are analyzed in this CEM only in the context of the discussion of the governance of megaprojects in section 2).

Agribusiness

1.16 **Mozambique's untapped export potential is perhaps greatest in agribusiness,** which offers some special advantages to investors—extensive undeveloped fertile farm land, abundant water for irrigation, diverse agro-ecological environments suitable for growing a variety of agricultural products, proximity to the export markets in South Africa, and access to production and marketing expertise from Zimbabwe and South Africa.[14] About 46 percent of Mozambique's land, about 36 million hectares, is suitable for agricultural production, but less than 15 percent is under cultivation. The low utilization rates combined with the ability to produce a variety of crops suggest vast potential for the expansion of agriculture.

1.17 **Mozambique has the potential to be competitive in horticulture, poultry, cashew nuts, fish and prawns (including aquaculture), forestry, and biofuels**. The CEM looked at poultry, cashew nuts, horticulture, and fisheries. To illustrate, the discussion focuses on horticulture. (More analysis of the poultry, cashew, and fisheries is in volume two of this CEM.)

1.18 **Mozambique offers particularly good agro-ecological conditions for the large-scale production of various tropical and sub-tropical fruits and vegetables, including banana, papaya, oranges, tangerines, passion fruit, mango, litchi, and baby corn**. Much more value could be added by improving processing, packaging, and marketing. Banana production offers the most attractive near-term opportunity in the North. Bananas offer a good entry point for developing a more extensive and specialized horticulture sector.

1.19 **The country's agricultural product mix has changed only marginally from the pre-independence era.** The number of agri-business successes in the country over the past 5 years remains limited. Agriculture continues to be dominated by traditional commodities—maize, cassava, millet and rice for domestic consumption, and sugar, cashews, cotton and tea for export.

[14] The term "agribusiness" refers to a diversity of commercial activities conducted both on farms, as well as off farms. These activities include crop cultivation and animal rearing, forestry, input supplying, agro-processing, merchandising, exporting and retailing, as well as the operations of specialized service providers who support core agribusinesses with transportation, finance, information and other critical services.

The only new and significant export product is tobacco. Production expansion at the farm level remains extensive rather than input and technology intensive, and productivity levels remain very low and stagnant. Specialized service support in logistics, marketing, branding, food safety certification, quality control, and specialized finance remain weak. This makes supply chain management very difficult. A particularly serious obstacle is identifying suitable land and water rights for development. Increasing access to rural roads, irrigation, and electricity is also very expensive.

1.20 **Various organizational models have proven to be successful in agribusiness, such as producer associations, outgrower schemes, medium-size commercial farms, plantations, and vertical integration with multinational companies.** There is no reason why one model should be preferred a priori over the one. The choice often depends on local circumstances, the social organization of farmers and the opportunities offered by investors.

Tourism

1.21 **Mozambique has excellent prospects as a high-quality beach destination supported by exceptional marine ecology and Maputo's potential as an emerging regional Meetings, Incentives, Conferences and Events (MICE) destination**. The government has set a target of four million tourists by 2020 (in 2006 tourist numbers were close to one million).

1.22 **Tourism is well below its potential, and investments have been slow to mature.** Only 18 percent of approved tourism investments between 2005 and 2007 materialized.[15] The sector needs upgrading and clustering.

1.23 **The main reasons for the sub-optimal performance: land acquisition is too risky and lengthy for leading international investors, and key transport infrastructure is missing—similar to what we found in the agribusiness sector.** Multiple DUATs (land use titles) are frequently issued for prime areas. There are also risks associated with larger pieces of land required for multiple use resort types of investment (golf courses, retail complexes, hotels, holiday homes etc.) because the available land along the coastline is being broken up into smaller pieces owned by several entities requiring extended negotiations for parties interested in larger tracts of land. The full legal process for obtaining a DUAT is lengthy and involves negotiations with communities, individuals and local government—around which there is little guidance for any of the stakeholders. This situation creates opportunity for speculation, rent seeking, and legal uncertainties. It also leaves communities vulnerable to political or economic pressure. This environment scares away high quality corporate investors.

1.24 **This is a serious issue because enabling investments by leading international investors would "put" Mozambique on the world tourism map, drive down transportation and construction costs, and stimulate the growth of quality domestic operators**. An anchor investment cluster approach as pursued by IFC in collaboration with FUTUR is promising and might serve as a model.

1.25 **Other immediate steps should include fostering airline competition (in particular between Maputo and Johannesburg), upgrading the airports, improving immigration and**

[15] Data from FUTUR.

customs, liberalizing further high speed internet, improving retail and construction which are key pillars of a successful tourism industry, and eradicating malaria and cholera starting in prime areas. Improving the management and utilization rate of Maputo's Joaquim Chissano conference center would help to position the city much better in the competitive, but lucrative MICE market.

Apparel

1.26 **Apparel, an entry point for a broad range of light labor-intensive manufacturing, could unleash the economy's growth and competitiveness**. All but one clothing factory closed in recent years (as recently as 2005, there were five factories with 2,000 workers), and Mozambique missed the early AGOA opportunities in 2000–01. But the country still has a comparative advantage in producing and exporting clothing. Several foreign investors have renewed interest in producing clothing in Mozambique.

1.27 **Labor costs are quite competitive: hourly wages are lower than in Kenya and Swaziland but higher than in Ghana and Bangladesh.** Even adjusted for productivity differences, labor costs in Mozambique are competitive. There are three main issues. Labor productivity should be raised. Renting factories or getting access to a serviced industrial site is expensive and time-consuming. Trade logistics at the port of Maputo are not competitive for the time-sensitive production of clothing.

1.28 **These constraints could be resolved through public-private partnerships.** Training workers and managers can improve labor productivity in the factories. Such training should be provided by the government (perhaps with donor support) in partnership with the private sector.

1.29 **The identification of industrial sites should be supported by the government and an inter-ministerial task force to cut through the red tape as quickly as possible**. In the medium term, licensing requirements should be reformed and simplified. Where necessary, infrastructure (roads, water, and electricity) should be built to serve these industrial sites. (Improvements in trade logistics are the subject of section 3.)

1.30 **Mozambique's best chances today are to export clothing to the South African market.** It might succeed later in the more demanding American market under AGOA and the European market under EU-EBA once a critical mass of investment in the sector has taken place and trade logistics have become more efficient. An apparel cluster would also attract specialized business services, such as packaging, finishing, laundry, embroidery, screen-printing, trucking, and warehousing.

1.31 **Mozambique's location as a natural transport gateway gives it another comparative advantage.** The three ports of Maputo, Beira, and Nacala serve the neighboring countries. But economies of scale are essential to reduce the costs of transport and trade logistics in general. And competition among ports, already fierce, is expected to increase with South Africa's new Coega port. Goods exported from Mozambican ports have to be transshipped either in Durban or Mombasa, adding to the costs and making logistics less reliable. But international shipping lines will add more direct calls only if there is sufficient volume.

1.32 Key short-run measures to make the transport corridors more efficient are opening One-Stop Border Posts, dredging of Beira port, streamlining customs procedures, and reviewing port charges, particularly the scanning fees, which are above international norms.

C. Removing Constraints

1.33 **The CEM analyzes four groups of cross-cutting constraints:** (1) reduce market distortions, improve the regulatory environment, and get more benefits from megaprojects; (2) undertake infrastructure investments to reduce the costs of trade logistics; (3) provide services to support exports of new products; (4) improve access to land for investors without disenfranchising existing land users. These four groups are analyzed in the following sections. Here, some additional constraints are briefly summarized, with proposals to remove them.

Financial Sector

1.34 **Access to and cost of finance is mentioned by business people in all surveys as a severe constraint.** The ICA (2008) listed finance as the second most important constraint. A comprehensive assessment of the financial sector will be done soon with the support of the World Bank and IMF. So, this CEM did not analyze it in detail. Still, the following observations are clear:

- The cost of finance in Mozambique, high by Sub-Saharan African standards, deters investment and growth, even with a fairly sound financial environment.

- Access to finance is limited. Only 11 percent of the companies interviewed for the ICA (2008) survey reported having taken a bank loan. (A survey in 1997 found that 35 percent of the companies had access to banking finance.) Fewer than a quarter of districts have a bank. The rural network of bank branches was largely closed after the privatization of the State-owned banks in the 1990s. Microcredit is growing rapidly, but only a small percentage of the population benefits from it.

- Bolder measures to reform the financial sector would help the private sector enormously. Even though 14 banks operate in Mozambique, competition seems limited. They seem to prefer to charge high fees and high real interest rates and to restrict their lending to the safest clients. Innovations in lending are rare and special instruments of trade finance are still unavailable. Box 1.3 contains several proposals for short-run reforms. (Further reform proposals are being elaborated after the conclusion of the IMF-World Bank Financial Sector Assessment Program mission in February 2009.)

Box 1.3: Lifting financial constraints on private sector development in Mozambique

- Introduce more competition in the primary market for Treasury bills.
- Introduce new regulations to enhance transparency in the banking system, including standards for informing customers of the effective cost of borrowing and the fees for banking services.
- Liberalize the regime for export and import payments, but with stricter enforcement of the basic foreign exchange laws.
- Broaden the set of borrowers who can qualify for loans in foreign exchange without triggering the loan-loss provision requirement, in a way consistent with minimizing currency risk for the banking system.
- Develop a public information program to help unsophisticated local entrepreneurs understand basic business management techniques and the realities of dealing with banks.
- Organize a national conference on mobile-phone banking to expand access to financial services to previously unbanked population groups.
- Undertake a systematic study of fees for standard banking services in Mozambique.
- Break the judicial logjam in processing the execution of claims for payment by introducing the management-assisted judicial execution proposal.

At the same time, CTA's Financial Sector Working Group and member organizations should pursue a sustained dialogue with policymakers on issues that will take more time to resolve, such as among them:

- Negotiate donor support for technical assistance to help local businesses improve financial controls and package loan proposals for approval by the banks.
- Introduce an inflation rule as a tenet of monetary policy.
- Create a second-tier bond market to open new avenues for financing for larger domestic businesses, creating competition for the banks in dealing with traditional clients.
- Mobilize long-term savings through fundamental reforms to convert the pension system from pay-as-you-go principles to a defined contribution system.
- Modernize the information systems and expand the scope of coverage for property registries.

Source: USAID 2007b

Business Regulations and Licensing

1.35 **The regulatory environment has improved in recent years through a new commercial code, simplified business registration procedures, an electronic commercial registry, a new notary code, and One-Stop Shop**. Mozambique's Doing Business ranking improved from 139 in 2007 to 126 in 2010 out of 178 and 183 economies surveyed in 2007 and 2010, respectively. Thanks to several reforms, the time it takes to start a business fell from 29 days in 2007 to 13 days in 2010, and the number of procedures from 10 to 9 (table 1.2), respectively. The commercial code, the commercial registry code, and the notary code were all replaced. The commercial registry in Maputo was computerized, the publication in the official gazette is now done through the registry, and the public deed is no longer mandatory. Work also started on improving business licensing, with one-stop shops for investors since 2008. Competition continued to increase in the mobile segment of telecommunication and in airline transportation.

Table 1.2: Doing Business in Mozambique, 2007–10

Indicator	2007[a]	2010	Best performance in SADC	Best country in SADC	Mozambique rank among SADC countries
Ease of doing business (overall rank)	139	126	24	Mauritius	7
Time to start a business (days)	29	13	6	Mauritius	3
Time to deal with permits (days)	361	381	93	Mauritius	12
Number of procedures to start a business	10	9	2	Madagascar	8
Time to register property (days)	42	42	11	Botswana	7
Tax payments (number per year)	37	37	7	Mauritius	12
Time to pay taxes (hour per year)	230	230	104	Swaziland	9
Documents to import (number)	10	10	6	Mauritius	14
Documents to export (number)	8	7	4	Madagascar	8
Time to enforce a contract (days)	1010	730	270	Namibia	10
Time to close a business-bankruptcy (years)	5	5	1.5	Namibia	11
Getting credit—strength of credit information index (0-6)	3	4	6	South Africa	5
Protecting investors—Strength of investors protection index (0-10)	6	6	8	South Africa	4

a/ The overall ranking for 2007 has been recalculated to reflect the inclusion of new countries, for a total of 181 economies.
Source: Doing Business 2008 and 2011.

1.36 **Bolder steps are needed to adapt the business regulations to the need of a competitive economy.** Mozambique still follows an interventionist approach to economic management, coupled with a complex and burdensome system of licensing, red tape, and administrative controls. It ranks at 126 in the ease of starting business, making it the seventh country in this topic within SADC. The main reasons: high minimum capital requirement and number of procedures.[16] Mozambican firms remain subject to excessive operational licensing, inspections (labor, health, environment), and red tape that constrains the ease of doing business. Inspections continue to be a major cost for businesses, though the authorities are unifying the business inspection regime. The VAT refund process continues to be slow and cumbersome. The regulation of some infrastructure services, including transport, is inadequate to support growth. In air transport, for instance, the country—and its tourism industry—would gain tremendously from an open-sky policy.

1.37 **The heavy licensing requirements seem to be particularly resistant to reform**. Investors never know whether they have obtained all the necessary licenses—a complete list of licenses does not exist, and creative civil servants often go back to colonial legislation to justify the imposition of a license and threats of fines. Therefore, a more radical approach would make a lot of sense, as was done in Kenya. The basic principle of the "Guillotine Approach" to reform is to shift the burden of proof. Reformers do not have to justify why a specific license is no longer necessary. Instead, the authority issuing a license has to prove the need for the license. Once the inventory of necessary licenses is completed and published, all other licenses are automatically revoked (Box 1.4).

[16] The government has prepared legislation to eliminate the minimum capital requirement for registration, which would improve Mozambique's *Doing Business* ranking.

Box 1.4: Kenya's radical licensing reforms, 2005–07

In 2005 the government of Kenya launched an innovative reform to reduce its growing number of business licenses and fees, and the corruption connected to those instruments. With the support of FIAS/World Bank, private sector leaders, and a leading international consultancy, the government moved beyond previous strategies based on reforming licenses one at a time. It adapted a broad "guillotine approach" to rapidly identify, review, and streamline all business licenses and associated fees in Kenya.

A central reform committee was created under the Ministry of Finance, and a government-wide program began. The first task was to assemble Kenya's first complete inventory of licenses and fees. The committee identified 1,325 licenses, far more than originally expected. Over two years, it worked with more than 240 regulators across the public sector to help them comply with the circular issued by the government. It also brought in other experts to carry out more detailed reviews of licenses in some sectors.

Many licenses were found to be unneeded, illegal, or unnecessarily costly. The government accepted the committee's recommendations for large-scale changes, and the process of legal implementation is under way. By October 2007, 315 licenses had been eliminated, 379 simplified, and 294 licenses retained. Of the remaining licenses, about 300 licenses have been deferred due to new bills under preparation or new laws already passed, and 25 were reclassified and not counted as a license. Results from the licensing reform were a key contributor to Kenya's status as a top reformer in the World Bank's 2008 Doing Business Report.

The broad approach, core competencies, and political support have expanded the reform to an even broader focus on improving the capacities of regulatory institutions to regulate better. The government announced a broad-based regulatory reform strategy that will build skills for regulatory impact analysis and regulatory quality control—and, among other goals, reduce the cost of government "red tape" by a further 25 percent by 2010.

Source: Jacobs, Ladegaard, and Musau (2007).

Modernizing the Public Administration

1.38 **In today's global economy, competitiveness is not only about the capacity of private firms to compete in global markets, it is also increasingly about the capacity of governments to supply adequate services and modernize their ways of "doing business**." Fighting corruption, crime, and violence, modernizing the public sector, strengthening the judiciary, and improving public accountability and transparency would make the government more responsive to the needs of all economic agents.

1.39 **To improve the quality of services and bring government closer to the people, a comprehensive civil service reform and decentralization program was launched in 2001**. Good progress was made in public financial management: SISTAFE, central revenue authority, procurement, and auditing. In other areas, results were slow at first, but picked up speed with the second phase of reforms. A complete census of civil service was undertaken in 2007, and a new salary policy will be implemented in 2009. Decentralization is also under way. Staffing at the district level was strengthened, the district administrations were reorganized, consultative councils were set up, and each district is now receiving budget transfers for investments.

1.40 **Modernizing the public sector would help Mozambican firms compete globally.** Too many administrative processes and structures remain weak and fragmented. To modernize and

streamline administrative proceedings in key service delivery areas, the government launched the second phase of the public sector reform program (2007–11). It has also established coordination mechanisms to improve consistency in public sector reforms. Additional staff are being recruited to strengthen the districts' capacity to deliver services and assist the provincial governments. Such efforts at modernizing the public sector are part of the plan to help Mozambique compete in global markets.

1.41 **Strengthening the judiciary system would improve the rule of law and provide more economic security, particularly contract enforcement for SMEs**. Justice has long delays and heavy backlogs, particularly in labor and criminal jurisdictions. Courts are not located in all districts, and public defenders and legal aid are often lacking. Judicial decisions and the reasons behind them are not always publicly available, though a concerted effort among sector agencies in the justice sector is under way to improve jurisprudence. The judicial system is being strengthened by training existing staff and hiring new staff.

1.42 **Improving public accountability and transparency would make the government more responsive to the needs of all economic agents.** Mozambique joined the African Peer Review Mechanism in 2007 to improve transparency and the scrutiny of public accounts, creating a national forum for this purpose. While the government has initiated a comprehensive program to improve transparency and accountability throughout the public sector (an e-government strategy was approved in 2006), the program has yet to produce tangible results. The independent Supreme Audit Institution carries out audits at all levels of government, contributing to transparency and strengthening the credibility of the National Accounts.[17] It also has a strategic plan for external audits of all levels of government.

1.43 **The access to information and openness of public agencies remain uneven**. Decision-making is generally transparent, with decisions routinely published in the media, on the internet, and in the official gazette. But laws are not easily available or understandable to the public. Nor are they consistently enforced. In collaboration with civil society, including the union of journalists, a draft law was prepared on access to information. The government should now consider adopting a comprehensive law on freedom of information, guaranteeing access to all public sources of information.[18]

D. What's Needed

1.44 Four things are needed:

- **Second-generation policies.** The passive policies (fiscal, monetary, exchange rate regime, general business environment) are absolutely necessary, and Mozambique has made huge progress during the past decade. But successful exporting countries have also used direct interventions to accelerate labor-intensive exports and make growth inclusive. The main interventions are for infrastructure and institutions—for hardware and software in popular terms.

[17] Audits increased from 5 in 2003 to 171 in 2006.

[18] A national policy of management of government files and documents was approved in 2006, and the new national system of state archives was created in 2007, establishing the rules and procedures in this area.

- **A change in mentality.** Thinking has to change from control mentality and lots of punitive restrictions in internal and external markets, to facilitating production and job creation, to letting new markets emerge, developing new products, to capturing ideas, and adapting them to the local context.

- **Stronger implementation capacity.** The public administration can go a long way to making the Mozambican private sector more competitive and to creating jobs. Weak implementation of policies, laws, and regulations is a cross-cutting constraint in all areas.

- **Strong leadership.** It is an essential ingredient for making development succeed over a sustained period, as other countries has shown (box 1.5). An export initiative requires special attention and political will because of the need for coordination among ministries, agencies, and central and local governments.

Box 1.5: Reform teams and high economic growth

What do Botswana, Cape Verde, Malaysia, Mauritius, and Taiwan (China) have in common? They belong to an exclusive group of economies that grew out of poverty in less than 30 years. They also relied initially on a small, dedicated team of experts to get the job done. These teams brought to bear world-class skills along with direct access to the top level of government and a large development budget. That combination of skills, access, and resources gave them the clout to steer an ambitious reform agenda through vested interests and layers of government.

Malaysia's team was its Economic Planning Unit (EPU), which reported directly to the prime minister and started in the early 1960s with 15 staff. Cape Verde relied on three returnee advisers around the prime minister in 1975. Botswana also had an EPU, which started in 1965 with two economists and soon became the core of the powerful Ministry of Finance and Development Planning. Taiwan (China) had the Council for U.S. Aid (CUSA—created in 1948), which combined some of the economy's best engineering minds with top-notch U.S. economists.

The reform teams were embedded in the policy process and relieved of daily administrative matters while one step removed from the political frontline (box figure). That was the best way to leverage scarce technocratic expertise, maximize impact on policy formulation, and perform their six key functions.

Developing and updating the economic development strategy. The reform teams were charged with designing comprehensive yet focused strategies in preparation for or soon after independence. They identified key constraints and success factors by industry, such as ensuring good governance in mining (Botswana) and developing best-practice export processing zones for light manufacturing (Mauritius). They also adapted the strategies to changing conditions and terminated bad experiments.

Leading the dialogue with the private sector. Economic policymaking required the reform teams to lead an intense but arm's-length relationship with the private sector. In all cases, the autonomy and apolitical nature of the teams enabled them to engage with the business community while avoiding the risks of capture by dominant interest groups—what Peter Evans (1995) would call "embedded autonomy."

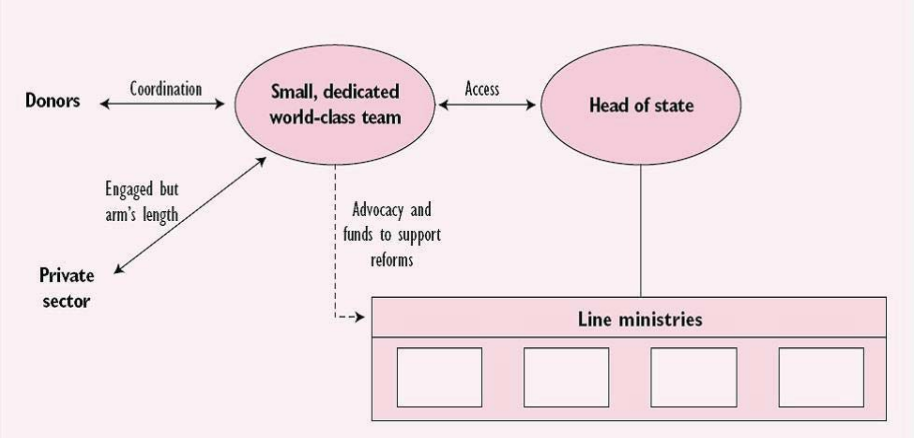
Leading critical policy negotiations. The reform teams brought unique skills and expertise to bear in key negotiations. These included for example negotiations with foreign companies on mining concessions in Botswana and with large U.S. electronics companies on the acquisition of technology licenses in Taiwan (China).

Mobilizing and allocating resources for implementing strategies. The teams played a key part in mobilizing resources for implementing strategies, particularly by coordinating donor support. In Taiwan (China), CUSA managed U.S. aid flows and Malaysia's EPU was in charge of the development budget, which amounted to a third of the national budget.

Compelling the administration to act. These central dedicated reform teams were in an ideal position to monitor progress and suggest corrective actions to the national leadership. Indeed, their unique combination of monitoring capacity and access to the top (the stick) and financial and technical resources (the carrot) enabled them to compel the administration to act.

Mobilizing political leadership. A sound development strategy is worth little if not backed by outstanding political leadership. An unexpected, yet crucial, positive side effect of the continual and almost symbiotic engagement of reform teams with top political figures was that the teams helped mobilize and sustain political consensus for reform. Key political leaders included C.Y. Yen—second chairman of CUSA and then president of Taiwan (China), Pedro Pires—team leader in Cape Verde in 1975 and current president of the country, or Quett Masire, Botswana's second president and former head of the EPU for 14 years.

How smart governments get started



Source: Alberto Criscuolo and Vincent Palmade.

2. TRADE, FISCAL POLICY, AND MEGAPROJECTS

2.1 Mozambique has made major headway in achieving macroeconomic stability. Inflation is under control. A flexible exchange rate ensures the broad competitiveness of the metical. Thanks to external assistance, fiscal deficits do not require large domestic financing, and Mozambique's external debt has been reduced. As a result, Mozambique's credit rating has improved and FDI inflows have increased.[19]

2.2 Mozambique's incentive system tends to encourage investments in large, capital-intensive, export-oriented or rent-seeking projects. Leveling the playing field through a more neutral incentive system would thus go a long way in promoting more domestic investments by SMEs, encouraging investments in people, and reaping the full benefits of Mozambique's economic potential.

A. Trade Policy for Competitiveness

2.3 **Market access is not a main constraint for exports, though Mozambique should strive for more open regionalism.** Mozambique is eligible for nonreciprocal duty-free access into most developed country markets for most products (for instance, to the US under AGOA and to the EU under EBA). It has also negotiated a reciprocal "interim" (goods only) EPA with the EU. It has a bilateral FTA agreement with South Africa, and it participates in the SADC Trade Protocol, which created a free trade area among a dozen countries in Southern Africa in 2008.

2.4 **The many bilateral and regional trade agreements may be suboptimal.** Such agreements may divert more trade than they create. They impose administrative costs on trade. And market access may turn out to be less than the full because of complex rules of origin. So, Mozambique is presented with three strategic options for its trade policy: implementing the SADC Protocol only; advancing toward a customs union with SACU; or accelerating the process of unilateral liberalization on a most-favored nation (MFN) basis for all trade partners worldwide.

2.5 **Thanks to trade reforms over the last 10 years, Mozambique's trade regime does not constitute a major impediment to competitiveness**. The country has one of the most open trade regimes in Africa. The simple average MFN tariff is 12.1 percent, and the trade weighted average is below 9 percent. The ad valorem tariff has four non-zero bands of 2.5, 5, 7.5, and 20 percent. About one-third of all tariff lines have a tariff rate of 5 percent or lower. The regime is fairly predictable as tariff rates are not adjusted frequently, and the adjustments are transparent. Surcharges in addition to regular tariffs are applied to imports of sugar, cement, galvanized steel, and certain steel tube products. In addition to duties and surcharges, goods imported to Mozambique may also be subject to the 17 percent VAT, and excise taxes levied on specific luxury products, such as cars and alcoholic drinks, range from 15 to 65 percent. These taxes are calculated cumulatively.

[19] In 2008 both Standard and Poor and Fitch upgraded Mozambique's sovereign rating from a B to a B+.

2.6 **Actual statutory tariff rates mask the true protection due to the extensive exemptions.** The web of exemptions distorts considerably the allocation of resources and intended purpose of the tariff structure. In addition to the exemption of import duties provided in the investment promotion center (CPI) general regime, specific tariff exemptions are granted to certain sectors (agriculture, tourism, and mining, and petroleum), to industries and companies operating in the industrial free zones or rapid development zones, and through other special exemption programs.[20] Overall, these exemptions (together with customs administration difficulties) reveal that customs duties collected as a proportion of the value of imports are much lower than the statutory rates.

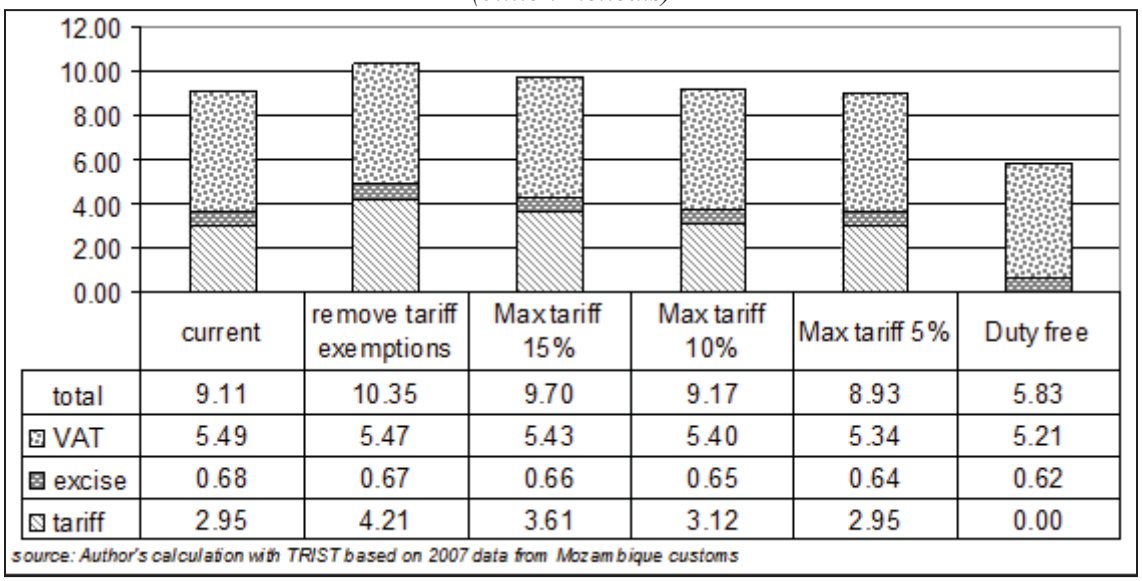
2.7 **Exemptions tend to distort incentives by favoring large over small importers because applying for exemptions involves a fixed cost**. Exemptions for both tariffs and VAT are much more prominent for large import flows than for small ones. In 2007, collected tariff revenue on the third of imports consisting of the largest flows was only 41 percent of potential revenue, whereas for the third of imports consisting of the smallest flows, about 90 percent of potential revenue was collected. For the VAT, the respective numbers were 56 percent and 87 percent.[21]

2.8 **Cutting both exemptions and tariffs would reduce distortions in the economy and create a level playing field for all producers regardless of their size and targeted markets (domestic or foreign).** And this leveling could be achieved without losing government revenues. According to the World Bank's Tariff Reform Impact Simulation Tool (TRIST), removing tariff exemptions, while keeping constant the VAT rate and excises, would significantly increase tariff revenue and reduce somewhat the excise and VAT revenue.[22] Overall, government revenue would increase by about 14 percent (figure 2.1). One could then assess the impact of capping the maximum tariff rate to 15, 10, 5 percent, or moving to duty free. Cutting the maximum tariff to 10 percent [23] is estimated to be revenue neutral, while eliminating tariffs altogether would reduce revenue by 36 percent.

[20] For instance, about 50 manufacturing firms that are able to demonstrate yearly revenue of more than $250,000 and value addition greater than 20 percent on imported inputs benefit from a special exemption program, the Regime Aduaneiro para a Industria Transformadora (cited in Alfieri and others 2007).
[21] Author's calculation based on 2007 Mozambique customs data.
[22] TRIST is an interactive Excel spreadsheet to simulate the short-term implications of tariff reform on fiscal revenue, imports, and other macroeconomic variables. Further explanations can be found in volume two.
[23] Note that the imports currently paying 0 percent or 2.5 percent would continue to pay at these rates.

Figure 2.1: Revenue Impact of Alternative Tariff Regimes

(billion meticais)



	current	remove tariff exemptions	Max tariff 15%	Max tariff 10%	Max tariff 5%	Duty free
total	9.11	10.35	9.70	9.17	8.93	5.83
VAT	5.49	5.47	5.43	5.40	5.34	5.21
excise	0.68	0.67	0.66	0.65	0.64	0.62
tariff	2.95	4.21	3.61	3.12	2.95	0.00

source: Author's calculation with TRIST based on 2007 data from Mozambique customs

2.9 **Eliminating exemptions not just on tariff but on excise taxes and VAT collected at the border would allow an even more ambitious revenue-neutral liberalization.** The maximum tariff could be cut by an additional 5 percentage points to 5 percent, while protecting the current revenue base. Going all the way to duty free would generate a loss of revenue equivalent to 17 percent of the current revenue.[24]

2.10 **To fully reap the benefits of global markets, Mozambique could reconsider its regional market access strategy in favor of broader multilateral liberalization.** As part of the SADC Trade Protocol, Mozambique is expected to eliminate duties on 85 percent of imports originating in SADC members.[25] In the context of the EPA, it has offered to cover 80.5 percent of trade with the EU. Consideration could therefore be given to bringing greater transparency, predictability, and fairness to the system of incentives in Mozambique by opening more widely. Liberalizing on a MFN basis would remove the bias against exporting, provide for a level set of incentives across sectors, and release substantial administrative resources to administer the current complex system. It would lead to much greater clarity in the incentive structure in Mozambique.

Fiscal Policy

2.11 **Mozambique made considerable progress in reforming its tax policy over the last 15 years, the standard statutory tax regime (excluding incentives) continues to place a substantial burden on investors, notably small domestic entrepreneurs.** With a tax revenue to GDP ratio of 14.4 percent in 2007, Mozambique is not an outlier in overall fiscal pressure in Sub-Saharan Africa. But these revenues are collected on an extremely narrow tax base using

[24] The calculations are in volume two.

[25] Customs data indicate that the implementation of the SADC protocol was only beginning to be implemented in 2007 with 0.05 percent of imports from SADC member entering duty free. This share is expected to increase dramatically in 2008 in order to meet the schedule of 85 percent of imports from SADC entering duty free.

fairly high (OECD-level) tax rates. These include a progressive individual income tax of up to 32 percent, a corporate income tax of 32 percent, a VAT of 17 percent (with zero rate for exempted products or sectors),[26] customs duties of up to 20 percent (excluding surcharges), and excise taxes of up to 75 percent. Capital gains are taxed at 32 percent, and dividends, interests, and royalties at 20 percent. Additional taxes are levied by local governments.

2.12 **Much like other SADC countries, Mozambique offers companies a wide range of fiscal incentives, so that the actual tax burden differs substantially from the statutory burden.** Investments processed through the Code of Fiscal Benefits (applicable to all investors with approval from the CPI) are provided with benefits in the form of tax incentives (tax rate reductions, accelerated depreciation, and investment tax credits), exchange control benefits (the right to repatriate benefits), and exemptions from customs duties. In addition to the general incentive scheme, investment incentives are also granted for specific sectors (agriculture, hotels and tourism, mining, petroleum) or for specific zones (rapid development zones, industrial free zones).

2.13 **The combination of a statutory tax regime with relatively high tax rates with a generous system of tax incentives distorts investment decisions and the allocation of resources in a way that is largely unobservable.** This is the case even under the current relatively ruled-based, transparent, and predictable CPI incentive system. The key elements of the business tax system with respect to investment are usually summarized in a measure called the marginal effective tax rate (METR) on capital.

2.14 **An analysis of Mozambique's METR shows that the effect of the tax system on investment decisions varies greatly across sectors and also depends on the possibility to benefit from the CPI incentives.** Agriculture provides the most attractive investment regime as regards tax, and financial services the least.[27] Of particular concern is the high METR for tourism investments, even under the CPI regime, compared with other countries and peer economies in the region (table 2.1). While Mozambique's overall METR with incentives does not compare unfavorably with neighboring countries, the situation of small businesses that cannot use the CPI regime is of serious concern. Mozambique's fiscal regime discourages investment by small entrepreneurs—the very entrepreneurs that are needed to sustain growth and job creation.

[26] The proposed changes in the VAT law grant a limited exemption on public works as a transitory solution but the government remains committed to the full taxation of services related to public works and will seek to gradually reduce the deduction from the tax base and eliminate the limited exemption in due course.
[27] FIAS (2006).

Table 2.1: Comparison of Marginal Effective Tax Rates

	Rwanda	South Africa	Tanzania	Lesotho	Mozambique	Mozambique (with CPI)
Agriculture	7%	5.7%	23.1%	18%	16%	6%
Manufacturing	7%	21.3%	15.3%	11%	40%	11%
Tourism	13%	13.9%	14.9%	43%	40%	16%
Financial Services	28%	29.8%	28.9%	51%	57%	46%

Note: Rwanda figures assumed access to a investment incentive regime available to many, but not all businesses.
Mining figures not included because of the vast differences between METRs depending on the mineral mined and bespoke project specific mining agreements.

Source: FIAS (2006).

2.15 **The effect of the tax system on the economy also depends on its administration, and Mozambique has substantial difficulties in this area.** Although the reform of the tax administration continued to progress in 2007, 30 percent of the large firms and 23 percent of exporters interviewed in the 2008 ICA reported that tax administration was a major or severe business constraint. Problems identified included arbitrary implementation of the tax code; frequent and time consuming tax inspections; unqualified tax inspectors; overly complicated paperwork; inability to get VAT refunds; and inadequate dispute resolution procedures. FIAS (2006) calculated that delays in issuing VAT refunds for a business under the CPI regime increase the METR by a few percentage points. And when VAT refunds are not issued at all, all the tax benefits of the CPI regime are undone.

2.16 **Mozambique's fiscal climate could be significantly improved by reducing simultaneously fiscal incentives and the number and level of tax rates—without compromising government revenues.** While the exact trade off needs careful consideration, the amount of fore gone revenues suggests that there is scope for significantly lowering and consolidating the income tax, corporate tax, and VAT, perhaps toward a flat tax. Consideration could be given to reducing the number of taxes and enlarging the tax base to create a level playing field for all potential investors. This would have the added benefit of considerably simplifying tax administration (while reducing the deadweight cost of tax compliance by businesses and individuals), allocating resources and investment to their most productive use, and reducing the room for discretion and corruption in fiscal matters.

2.17 **If a major streamlining of tax incentives is not feasible—and the weight of the literature argues against incentives—steps can still be taken to limit their most adverse impacts.** Incentives would be most cost-effective if they were time-bound (that is, limited in duration); intended for a specific purpose and evaluated against that objective; simple to understand (for example, limited to one or two tax instruments); reported annually as "tax expenditures" to Parliament as part of the budget envelope so as to be subject to fiscal discipline and judged against competing priorities; inclusive and available to small firms at the same cost as large firms; and monitored closely to see whether they are achieving their intended purpose.

Governance of Megaprojects

2.18 **The investment environment in Mozambique has changed dramatically since the first megaproject in 1997.** The four established megaprojects account for about 13 percent of GDP, 71 percent of exports, and 0.4 percent of employment. Another 11 megaprojects are in planning. The Mozambican government is increasingly seen as a reliable counterpart. With the increase in commodity prices, particularly coal, gas, and aluminium (though not titanium), Mozambique has become an attractive investment location.

2.19 **The key benefits are full-time jobs, tax revenues (including royalties), local purchasing of goods and services, and social programs (table 2.2).** No attempt is made to quantify the benefits of infrastructure constructed by the megaprojects. There are environmental costs also but these are unquantified at present and are not considered here.

Table 2.2: Summary of Benefits of Selected Megaprojects, 2007

Designation	Direct full-time employees, construction phase	Direct full-time employees (after construction phase)	Local purchasing ($ million)	Social programs ($ million)	Profits after financing charges ($ millions)	Dividends paid ($ millions)
Mozal I and II	9,000[a]	1,105	96[b]	5.0	549,634	475,000
Temane Gas	unknown	85[c]	unknown	1.0[d]		
Corridor Sands	2,600[e]	1,500[e]	na[j]	na		
Moma Sands	1,200 to 2,000	450[f]	unknown	0.2		
CVRD	4,000[g]	2,000	251[h]	2.3[i]		

a/ 4,000 during the construction phase of Mozal I, and 5,000 during the construction of Mozal II. Source: Economic Commission for Africa, Minerals cluster policy study in Africa: Pilot studies of South Africa and Mozambique. ECA/SDD/05/08.
b/ Plus about $8 million per month on water and electricity (the latter via the transmission company MOTRACO). In addition, discharge of ships by CFM and the Maputo Port Development Company.
c/ Plus 165 employees of contractors.
d/ $5 million in the first year, subsequently cut back to $1 million, will rise to $2 million in 2009.
e/ Plus 500 indirect jobs during the construction phase, and 2,500 jobs "induced" by the ripple effect of the activity (Economic Commission for Africa, Minerals cluster policy study in Africa, ECA/SDD/05/08). And during the operational phase: 1100 indirect and 2100 induced jobs.
f/ Interview with Mr. Gareth Clifton of Moma, March 4, 2008. 390 are year-round employees and 60 are seasonal.
g/ Including both direct and indirect (contractors). Source: Mirka Schreck (CVRD), personal communication, April 15, 2008.
h/ Anticipated local purchases annually from 2010 onwards. Purchases in 2007 are unknown.
i/ Total spending by CVRD on social programs between 2005 and 2007 was $6.9 million (loc. cit.) This is approximately $2.3 per annum.
j/ na is not applicable.

2.20 The main recommendations are:

- ***Implement oversight.*** Megaproject investments need oversight to improve fiscal revenues, reduce contingent liabilities, and improve financial transparency.

- ***Set up megaproject oversight unit.*** To assist in oversight, a "public-private partnership unit" or a "megaproject oversight unit" could be set up.
- ***Use performance bonds.*** Performance bonds could be required for megaprojects subject to substantial risk.
- ***Limit the government share.*** If a government share is essential for a megaproject to go ahead, it should be located in the Ministry of Finance as a share participation rather than as a direct participation by a parastatal.
- ***Issue share reservation.*** A fairly cheap way of increasing Mozambican share ownership is for the government to issue the megaproject license/concession subject to a "reservation" of a share for subsequent purchase by Mozambicans.
- ***Increase the spillover benefits.*** The "spillover benefits" of megaprojects could be increased somewhat by legislation requiring such firms to run social programs and local purchasing programs.
- ***Publicly disclose tax arrangements.*** Tax arrangements for beneficiaries of the Fiscal Benefits Code of 2002 should be publicly disclosed.

2.21 **The main recommendation is that the process of megaproject investment needs stronger oversight by the Ministries of Finance and Planning and Development at an early stage of the project cycle in order to reduce contingent liabilities and to increase financial transparency**. It is proposed that a "megaproject oversight unit" be set up in the Ministry of Finance, in coordination with the Ministry of Planning and Development, or the Prime Minister's office. The unit would provide information about tax and dividends, examine proposals for risks, advise on action concerning contingent liabilities, ensure the consistency of the megaproject proposals with the sectoral development plans, and arrange for multilateral guarantees. In particular, the unit would advise on optimal fiscal regimes (for a government that needs to finance poverty reduction programs) in the current international competitive context. And it would advise on high-risk projects that might involve the government in explicit or implicit contingent liabilities. When a project proposal appears to involve substantial risk for government or parastatal funds, the megaproject oversight unit may advise that the project post a performance bond. The unit should also advise on the extent of parastatal involvement in megaprojects, in the light of the parastatal's core mission, the parastatal's capacity, and the extent to which the megaproject is a public good.

2.22 **For the megaproject oversight unit to exercise its responsibilities properly, there would have to be an understanding that all ministries and all parastatals contemplating involvement in projects above a defined size report their intentions to the unit at the earliest possible stage**. Clearly defined criteria should be established and ministries required to satisfy these before the Ministry of Finance and the Ministry of Planning and Development give the green light.

2.23 **If the government believes a shareholding is necessary in a megaproject, the share should be financed from sources additional to general budgetary resources (not competitive with sources for poverty reduction), and that it be taken as an investment managed via the Ministry of Finance rather than as direct participation in day-to-day running of the firm**

through a parastatal. The objectives of this proposal are (a) to conserve funds for the government's poverty reduction program, (b) to reduce the continent liabilities arising from commercial risk and (c) to pursue transparency in tax and other financial flows (dividends). Factors to be weighed include the availability of funds for poverty reduction, the possibility that the strategic investor may prefer a government share to ensure its commitment, and the broadening of share ownership by Mozambican citizens. The cheapest way of pursuing the share ownership by Mozambican is for the government to issue the megaproject license or concession subject to a "reservation" of a share for subsequent purchase by Mozambicans. Analogous to a call option, this would cost much less than "warehousing" whereby the government purchases a percentage up front and sells it many years later to citizens. On the transparency of financial flows, dividends arising from shares are more easily traced if the shares are held by the Ministry of Finance than if they are held by a parastatal, which could put them into its general revenues and mask poor performance in its core tasks.

2.24 **Several factors should be weighed when determining the extent of direct parastatal involvement in megaprojects.** They include the compatibility of the megaproject with the key mission of the parastatal; the success of the parastatal in achieving its key objectives; the project's degree of risk; and the importance or otherwise of the megaproject to the achievement of the core objectives of the parastatal; the need of the megaproject management to get advice and data from the parastatals. There is an element of judgement in all of these points.

2.25 **There is some scope for increasing the tax take from the megaprojects**. Indeed, this is the key policy lever at the disposal of the Mozambican government in respect of megaprojects. The Mozambican tax system needs an overhaul. The mining tax arrangements have been reviewed in over the last few years, and are now on a par with mining taxation elsewhere in the world. Royalty rates are within the international range. But the corporate income tax (32 percent) is high by regional standards. The Code of Fiscal Incentives was revised in 2009 bringing substantial clarity in the array of benefits available to investment projects. The new Code of Fiscal Benefits has significantly reduced and clarified the additional benefits available for large investments projects. Nevertheless, since the administrative process to access the benefits is onerous for small firms, the Fiscal Benefits Code *de facto* continues to discriminates against smaller investments which might be more labor-intensive. A general reform of the tax system is called for (except the mining tax), simplifying and reducing the fiscal incentives, reducing the rate of corporate tax, and eliminating the special advantages for megaprojects.[28]

[28] While the effectiveness of fiscal incentives in attracting investment is widely debated internationally, nevertheless the weight of the literature argues that fiscal incentives do not lead to higher levels of investments. A survey on the impact of incentives in Mozambique found that fiscal benefits are not decisive for most investments (Bolnik B., 2009, Investing in Mozambique: The Role of Fiscal Incentives. Nathan Associates. Draft report – commissioned by USAID TIP Project). The survey on the impact of incentives in Mozambique was carried out in 2008 on a random sample of 60 companies that qualified for CIP fiscal benefits in 2005, 2006 and 2007. The results suggest that fiscal incentives played a limited role. The most critical factors influencing investment decision were the growing domestic market (38 times), the lack of local competition (16 times), political stability (14 times), the business environment (12 times), and access to neighboring markets (9 times); just one respondent cited "fiscal incentives". In fact, 85 percent of the investors stated their decision did not depend on receiving income tax breaks, giving 80 percent redundancy rate (i.e. 80% of the revenues forgone by granting the incentives did not benefits firms that would not otherwise have invested). For import duty relief on capital goods the corresponding redundancy rate was 73 percent. The main reason behind these findings, is that very few of these investment projects could be categorized as "footloose". Only 12 percent of the investors considered locations outside Mozambique—and none

2.26 **There is some scope for increasing the other spillovers from the megaprojects.** All megaprojects have a responsibility to improve the quality of life of people in their areas of operation—through social development programs (education, health, housing), local purchasing programs, and training. The goodwill helps avert possible criticism that might lead to the firms' becoming unwelcome in the country; it may also contribute to a more satisfied and productive workforce. These motives are strong for sitting and planned megaprojects. The government could perhaps legislate that firms adopt social programs, local purchases and training programs but not be overly specific. The government could also encourage firms to use more frequent payment cycles and split up their bidding lots to enable local firms to participate more easily.

2.27 **Tax arrangements for beneficiaries of the Fiscal Benefits Code of 2002 should be publicly disclosed.** Although the code was intended to eliminate the one-on-one negotiations of the four early megaprojects, it did not eliminate all confidentiality. As a result, the arbitrariness and inefficiency of Article 29 of the 2002 Fiscal Benefits Code was compounded by the lack of transparency.[29] Disclosure would permit better analysis, eliminate the aura of suspicion, and help convince the citizenry that the wave of investment is working to their advantage.

---

of them regarded tax breaks as critical. Fully 90 percent of the investments—and 80 percent of those critically influenced by tax breaks, were driven by domestic market opportunities. Nearly all respondents who viewed fiscal benefits as critical explained this by saying that the returns would otherwise have been too low or the costs too high to justify the investment. This suggests that the incentives made a difference mainly for projects with relatively low rates of return. In terms of the administrative process to access the benefits, four in five investors in sample reported no major delays or extra costs due to process of obtaining fiscal incentives. Nonetheless, one in five did encounter a significant burden of red tape, suggesting that the process can be cumbersome enough to drive away some investors, particularly smaller businesses.

[29] Article 29 of the 2002 Fiscal Benefits Code was eliminated and the possibility to negotiate additional benefits for megaprojects is not included under the new 2009 Fiscal Benefits Code.

3. LOGISTICS

3.1 **Mozambique has the potential to be a major outlet for Southern Africa if it becomes more logistics friendly and integrates reforms to its infrastructure and services providers with Southern Africa. Mozambique corridors serve mainly transit trade to and from its neighboring countries of South Africa, Zambia, Malawi and Zimbabwe.** Approximately 30 percent of this transit trade goes through Maputo Port and 50 percent through Beira Port. Without more transit traffic, the ports, roads, and railways will continue to operate at low rates of utilization.

3.2 **Maputo port is close to the most important South African region and is the shortest route.** It has a geographic advantage over Durban, South Africa's busiest port. It is closer to Johannesburg, 581 kilometers away by rail, compared with 750 kilometers distance between Durban port and Johannesburg. And the congestion at Durban makes Maputo attractive for shippers with time-sensitive goods.

Table 3.1: Distances in Southern Africa
(in kilometers)

	Bulawayo (ZB)	Blantyre (MW)	Ndola (ZM)	Lusaka (ZM)
Durban (SA)	1,421	2,323	1,877	2,381
Maputo (MZ)	1,208	1,723	1,440	1,950
Beira (MZ)	726	450	1,008	1,054
Nacala (MZ)	1,417	627	1,081	1,241

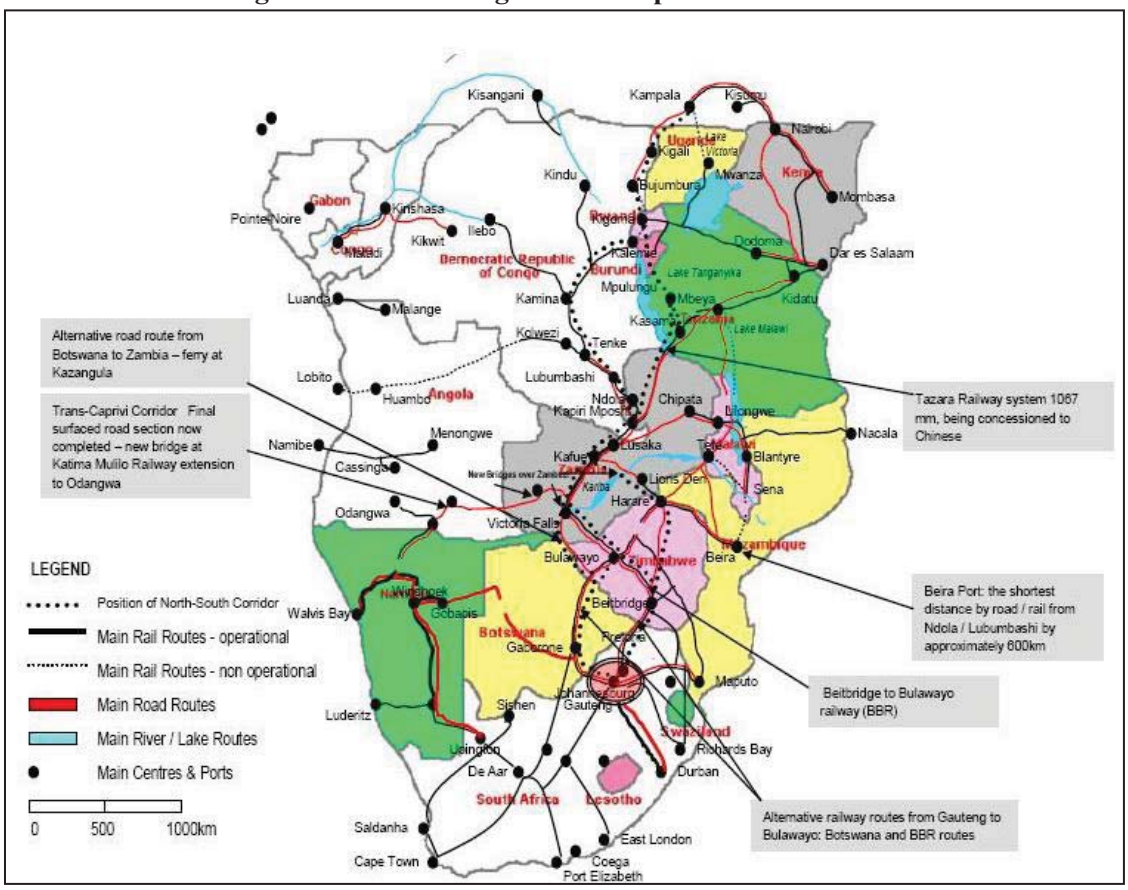
Source: Task team compilation.

3.3 **Beira port is the closest port to Zambia, Zimbabwe, and Lubumbashi (Democratic Republic of Congo).** Traffic in transit currently accounts for 70 percent of goods imported from Beira. The average traffic to Zimbabwe is 50 trucks a day, to Malawi more than 100 a day, and to Zambia 5 a week. The large sediments of the Pungue River in Beira cripple the port. Capital dredging, which would be necessary to increase vessels size calling at Beira and then lower maritime transport prices, has not been carried out for 15 years. The current high tide draft is 10 meters, [30] so Beira cannot operate more than six hours a day[31] unless vessels risk running aground. So, only small vessels with up to 800 TEU can enter the port. Expected to be functioning by 2010, a new dredge will have the capacity for capital dredging.

3.4 **Nacala port, in Northern Mozambique, was intended to give Malawi a shorter connection to the ocean.** It is a deep water port (up to 14 meters) with excellent maritime conditions. The port and railway were privatized in the late 1990s, but in 2007 it handled only about 1 million tons, and its loading and berthing infrastructures were still inadequate. The main road to Malawi is not paved after Nampula city and is impassable during the rainy season. And a stretch of the railway line connecting Malawi has never been rehabilitated. So, Nacala port continues to be uncompetitive for Malawian exporters, who prefer to truck their goods to Durban and Beira.

[30] A new coal terminal is being built and it is expected that big vessels will need 14 meters of draft.
[31] Capital dredging was approved by the government, but the financing and execution of works continue to be delayed.

Figure 3.1: SADC Regional Transport Corridors

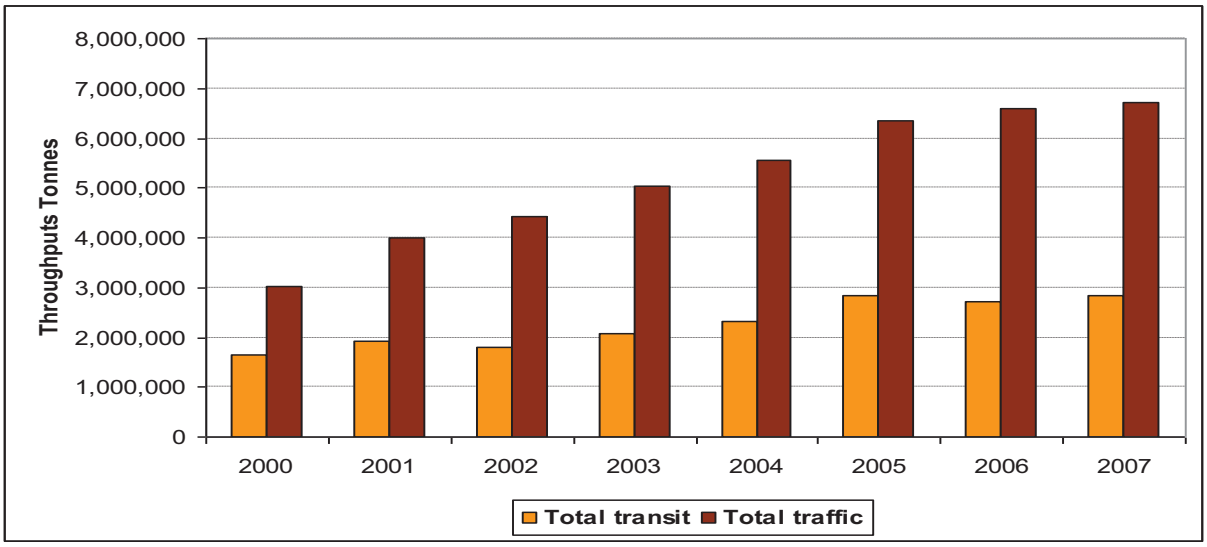


3.5 **Mozambique has undertaken major port and railway reforms and subsequently improved port efficiency and increased shipping lines frequency.** Since January 2008, Maputo port has had larger ships calling directly,[32] including those of such mega-carriers as MSC, OOCL and Delmas. But Mozambique ports remain largely served by feeder vessels: MSC runs feeder services from Durban to Maputo and Nacala (with 1,000 TEU vessels) and from Durban to Beira (with 600-800 TEU vessels) every 10 days.

3.6 **However, the potential for corridor traffic remains mainly untapped.** Even attracting only a small fraction of traffic from South Africa's north-west could boost Maputo's throughput. Traffic from and to Gauteng and Mpumalanga provinces is at least 700 million tons, so if Maputo were to capture just 1 percent of this traffic, its throughput would double and its port revenues would rise by tens of millions of dollars. Despite a rather successful concession, traffic in transit at the Maputo port remains relatively low, operating at less than 30 percent of capacity. Beira port also had operated at less than 40 percent of capacity for the last 5 years.

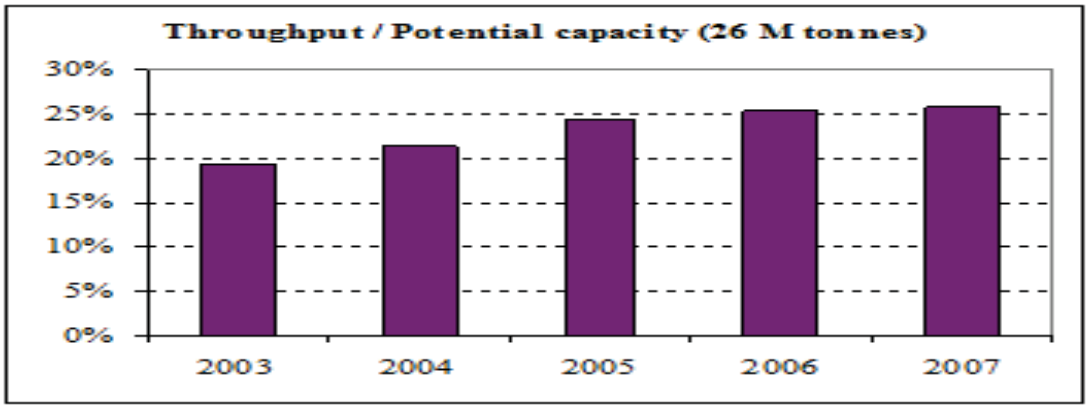
[32] MOL started calling directly to Maputo every 14 days. In March 2008, maritime transport prices for a container from Maputo to Europe were €2,000 (northbound) and €1,700 (southbound).

Figure 3.2: Maputo Port Throughput



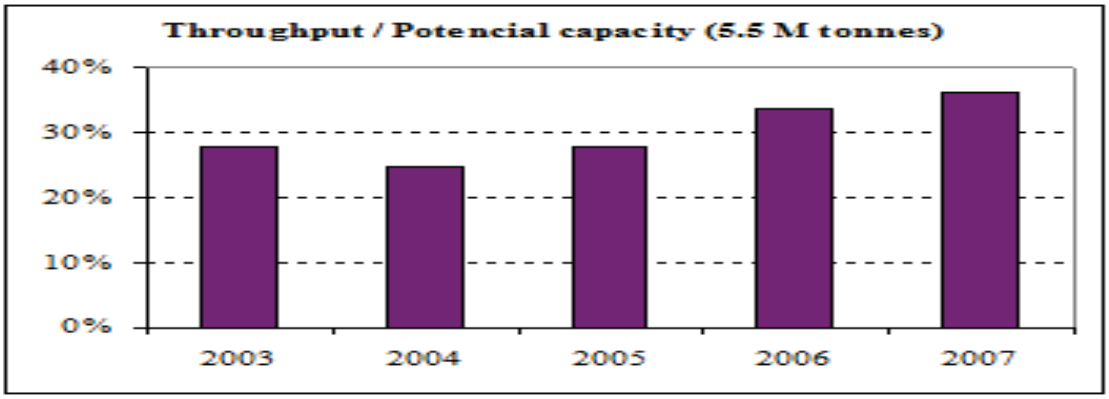
Source: MCLI from MPDC data.

Figure 3.3: Maputo Port



Source: MCLI

Figure 3.4: Beira Port



Source: Cornelder

3.7 **Durban port congestion will not automatically make Mozambique a major outlet for South African shippers.** If anything, competition for port services will increase. South Africa started to develop a new large port in Coega as a hub for all Southern Africa. When this port operates at full pace, the likelihood that South African shippers will shift from South Africa to Mozambique will be even lower.

3.8 **Some large South African shippers still perceive the business climate as unpredictable and are reluctant to redirect their logistics routes.** Corruption is more present in Maputo than in Durban (Sequeira and others, 2008). Bribes are paid on about 36 percent of all cargo movements for the port of Durban, costing an average of 7 percent of a one-way overland shipping rate for a standard 40 foot container. For Maputo, bribes are paid on about 54 percent of all cargo movements, and costing for 15 percent of the overland shipping rate for the same standard shipment. Unreliable logistics and poorly integrated trucking services make South African shippers even more reluctant to use Mozambican ports, especially Maputo. Moreover, scanning fees continue to be higher than world practices (Bolnick 2007, van Drune, Eric and Simme Veldman, 2008) and are levied even on bulk exports, such as coal and sugar. More important, the government's decision to establish a scanning fee was seen by many South African shippers as a bad signal, deterring their shift from Durban to Maputo.

3.9 **Road condition is not a major obstacle for trade on the main international corridors and the condition of the main North-South highway is usually good.**[33] Therefore the average transport speed on the main corridors is acceptable.

Table 3.2: Condition of the Mozambique road network in 2003

Road condition	Length (km)	Network percentage
Good	7,500	30
Fair	10,000	40
Poor	2,500	10
Bad	3,800	15
Impassable	1,300	5
Total	25,100	100

Source: Jacobs Consultancy (2005).

3.10 **Transport prices are not abnormally high along international corridors**. Compared with other major international corridors in Africa, transport prices from and to Mozambique are not abnormally high due to competition and low fixed costs.

Table 3.3: Shipping Rates from Johannesburg
(USD per 20 feet container)

Destination		Maputo	Durban
Railway	Per trip	269	337
	Per trip	1,075	625
Road	Per km	1.79	1.91
	Per ton km	0.051	0.031

Source: van Drune, Eric and Simme Veldman (2008):
Competitiveness of Maputo as regional port.

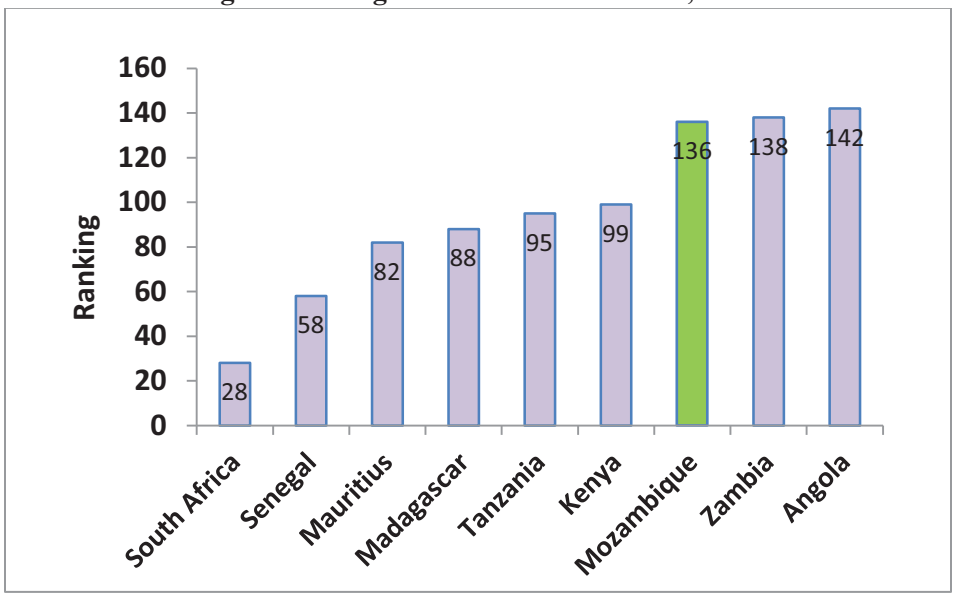
[33] For example, presently in Caia district (on the south bank of the Zambezi River in Sofala Province) a bridge is under construction over the river, which would facilitate the north-south link across the country.

A. Transport Reliability and Quality Matter

3.11 **Mozambique is approximately 2,000 kilometers long between its northern and southern tips.** While east-west transport linkages for rail and trucking are fairly well developed in Beira, Maputo, and Nampula, no rail lines run the north-south meridian of the country, roads are of variable quality, and bridges are missing from major river crossings. A truck originating in Nampula province, known for its cotton and cashew production, would have to navigate three countries just to arrive in Maputo. Ocean shipping from northern Mozambique to southern Mozambique costs as much as that from Asia to South Africa.[34] Overall the efficiency of moving goods in Mozambique shows a large variance with a low mean. Some corridors function reasonably well, such as Maputo-South Africa but all have weak links in the full distribution chain. Many areas in the hinterland lack effective access to markets.

3.12 **Mozambique's main deficiencies mostly derive from logistics and low transport reliability.** Logistics professionals perceive Mozambique as not logistics friendly. Mozambique ranks 26 among 37 Sub-Saharan African countries and 136 among 155 countries worldwide, according to the 2010 Logistics Performance Index. Mozambique scores poorly on all components of the LPI (overall score of 2.29), with timeliness being the worst (score of 2.4), and international shipments, being the best (score of 2.77). Timeliness associated issues give a definite advantage to Durban, which scores significantly better (With and LPI of 3.46 and timeliness score of 3.57) over Maputo and other Mozambican ports.

Figure 3.5: Logistic Performance Index, 2010



Source: connecting to compete 2010: Trade Logistics in the Global Economy, World Bank (2010).

3.13 **Users of Mozambique ports, including Maputo, face unpredictability because of the absence of direct calls (except MOL).**[35] Due to low volumes, shipping lines do not call directly at Maputo (van Drune, Eric and Simme Veldman, 2008). Unpredictability for shippers using

[34] Minor (2007, p. 16).

[35] Höegh Autoliners announced that starting in September 2008, it will add one Maputo port call per month to its Europe–Southern Africa trade route.

Maputo is even higher than for Durban because shipping agents or freight forwarders in Maputo seldom receive the accurate information on time from Durban. So, Maputo remains unattractive for many South African shippers. Cabotage seems to be underdeveloped in Mozambique[36] because transport by sea is almost half the cost of transport by road. However, due to more cumbersome procedures and delays for cabotage, demand remains low[37].

B. Building One Stop Border Posts

3.14 **Mozambique should facilitate trade with South Africa to stimulate growth**. The government needs to revise customs procedures and make some key investments to give the right signals. The most important action is to construct the One Stop Border Post (OSBP) at Lebombo/Ressano Garcia. All the customs clearance procedures including those at the dry ports, have to be streamlined, using risk profile analysis for inspections, deploying more information technology and so on. The scanning fees and criteria should be reviewed. It is also important that the software used by Mozambican and South African customs authorities be compatible.

Box 3.1: Trade Facilitation

The main elements behind a well functioning trade facilitation system are:

Cross border services: customs service, pre-shipment inspections, certificate of origin, custom inspections, permissions to export, and certifications of EPZ should be offered; the use and cost of scanners should be disclosed and agreed.

Finance: easy access to VAT refunds, letters of credit procedures and other instruments of trade finance; access to and payments in foreign exchange, existence of export insurance.

Documentation: there should be a single SADC document for imports and exports; required declarations should be submitted electronically.

Payments: electronic payments should be possible.

All these issues need to be addressed. Each of them has a fairly small impact—with some exceptions—but together they add considerably to logistics costs.

3.15 **A One Stop Border Post with improved customs clearance procedures is expected to have a very positive impact on trade flows and on the use of the Maputo port.** If Maputo port could capture only 1 percent of the cargo traffic generated by South Africa's north-east region, its transit traffic would double. This would attract major shipping lines to establish direct calls and produce tens of millions of dollars in added revenue.

3.16 **One Stop Border Posts have received substantial attention as a complement to trade liberalization and regional integration to improve intraregional trade and travel.** Current examples include the One Stop Border Posts between Kenya and Uganda at Malaba, between Zambia and Zimbabwe at Chirundu, between Zimbabwe and Mozambique at

[36] Mozline (and Navique) run cabotage services between Maputo, Beira, Nacala and Pemba. Mozline also offers pier to pier services to other shipping lines with a weekly frequency services to Beira and Nacala from Maputo. Mozline largest vessels have a capacity of around 700 TEU; it manages six vessels eastbound and six westbound.
[37] Mozline usually transports Southbound 50 TEU per trip (during the peak season).

Forbes/Machipanda, along the Trans-Kalahari Corridor, and in West Africa on borders of Ghana, Burkina Faso, Togo, and Mali.

3.17 **Several bilateral technical working groups have been created to analyze the legal, regulatory and management issues, as well as information and communications technology and human resources**. At the beginning of 2008, South Africa committed ZAR 600 million to establish the infrastructure for the OSBP. The opening is scheduled for April 2010.

C. Road Corridors - Connecting the Hinterland?

3.18 **Competition is relatively strong in the trucking industry on the main corridors**. The margins for trucking companies are around 10 percent. Mozambican truckers remain afloat thanks to protection from South African operators (except on the Maputo corridor) and the use of second-hand trucks. Truck use is low because of low freight volumes, cumbersome procedures, and bad roads on some corridors. South African and Mozambican operators charge similar prices on the Maputo corridor.

3.19 **Road corridors normally have significant spillovers in rural areas.** But only 19 percent of Mozambicans live within one hour's travel of an urban center of more than 50,000 people, and 45 percent within 3 hours travel time.[38] To get the full spillovers from corridors, the government and its development partners should strive to develop a link between corridors and rural areas. Investing in the main corridors and in existing feeder roads (within 10 km of the corridors) would improve roads access only slightly. Considering only the five northern and central provinces where the major improvements in corridors take place, investments in feeder roads increases the share of "spatially connected" population by only 1.4 percentage points—from 48.8 to 50.2 percent. So, without investments in low-volume roads, corridor improvement (even if combined with feeder roads) would have a limited impact on rural access to roads.

Recommendations to Realize the Potential

3.20 **Some key infrastructure investments can catalyze private investment and create a sound logistics base for exports**. The main ones are to build a One Stop Border Post at the border with South Africa, undertake the capital dredging of Beira port, and rebuild the main road linking Nacala to Malawi. For the rural areas to benefit from the development of the main transport corridors, investments should also be made in low-volume feeder roads. These investments have to be accompanied by institutional reforms to facilitate trade, such as streamlining customs procedures including pre-shipment inspection requirements, creating single SADC documents for imports and exports, facilitating payments mechanisms, and accelerating VAT refunds.

3.21 **The government also needs to improve international air access and the domestic services.** For both tourism and agribusiness (perishables goods) it is essential to have an effective coverage of domestic and international air service. It will be necessary to continue to implement fifth freedom rights for neighboring countries, allowing British Airways, KLM, and Air France to fly from other African cities to destinations in Mozambique) in line with SADC

[38] These calculations are based on road network data of 2007 and the geo-referenced population data from the 1997 census.

protocol agreements. It will also be necessary to enter code-share agreements with large airlines on key routes to Europe and to bring other players into the domestic market to increase supply and competition.

4. SUPPORTING EXPORTS

A. Identifying Export Opportunities

4.1 **Mozambique has many promising sectors, but more needs to be done to turn comparative advantage into marketable products.** Until now, the products exported by Mozambique have been pretty much the same as during the colonial period, with the exception of aluminum and natural gas. Large agribusiness companies have been reluctant to invest in Mozambique because of difficulties in getting access to land, the lack of infrastructure, poor trade logistics. The key is to set up public-private partnerships to develop specific products for specific markets and then to improve the functioning of the supply chain.

Agribusiness

4.2 **Agribusiness has the greatest potential.** Mozambique continues to offer special advantages particularly to agribusiness investors—including its extensive undeveloped, fertile farm land, its abundance of water for irrigation, its diverse agro-ecological environments suitable for growing a variety of agricultural products, its close proximity to South Africa, and its ready access to marketing and agricultural production expertise from Zimbabwe and South Africa. It has the potential to be competitive in a number of important agribusiness categories—cashew nuts, ocean and river fish, prawns (including aquaculture), forestry, biofuels, poultry, and horticulture.

4.3 **The processing of raw cashew nuts continues to recover using labor-intensive techniques after the collapse of this industry in the 1990s.** Over 20 medium size factories are operating in the rural areas employing about 6,000 workers. Big issues for the processors are labor relations, as productivity is not as high as in other countries, making it difficult to pay the national minimum industrial wage. This should be negotiated collectively with the trade unions to find a sustainable solution. Factories also need financing. Until now, USAID through TechnoServe has given risk guarantees, thereby giving the cashew companies access to bank credit. This program is coming to an end, and an alternative mechanism for credit guarantees should be found.

4.4 **But the biggest problem of the cashew sector is the age of most of the trees.** Their yields are low, and the cashew nuts are of inferior quality. In addition, many of them are prone to disease. Efforts to replace the old cashew trees with new, high-yielding varieties are under way, but need to be scaled up quickly. Also farmers have to be encouraged to cut down the old trees. The latter represent a disease risk for the new trees. Given that income from cashew nuts is an essential source of cash for many families, a compensation mechanism should be instituted until the new trees start producing nuts. Such a program would reduce poverty significantly, since cashews are grown almost exclusively by subsistence farmers and are usually collected by women.

4.5 **The poultry sector is also competitive, organized in the three corridors of Maputo, Beira/Manica, and Nampula.** Significant improvements have been made to manage the supply chain and domestic demand is growing at about 20 percent annually. A poultry industry will demand more maize and soybeans as feed for the chickens. This is both an opportunity for

farmers, as well as a challenge for the poultry industry. The cost of maize typically represents about 23 percent, and the cost of soybean about 26 percent of the poultry production costs. As production of poultry expands, and demand for maize increases due to other activities as well, the poultry producers depend on a positive supply response by maize and soybean farmers. Other issues are to simplify compliance with government regulations and strengthen veterinary services and certification in the locations where chicken are slaughtered. Last, the dumping of imported frozen chickens that are close to their expiration date should be prohibited.

4.6 **Mozambique offers particularly good agro-ecological conditions for the large scale production of cut flowers and tropical and sub-tropical fruits and vegetables, including baby corn, banana, papaya, oranges, tangerines, passion fruit, mango, and litchi.** Of the new products, banana production offers the most attractive near-term opportunity. Some plantations have been producing for several years in the South, and large-scale investments under the Chiquita brand are taking place in Nampula province. Banana production has positive spillover effects for other sectors, because banana exports are bulky and heavy; therefore, they require improvements in port operations and trade logistics in general. This will be beneficial for other producers as well.

4.7 **Traditionally, the market focus of the horticulture industry has been domestic.** But Mozambique's share of the South African market is increasing, and several breakthroughs have been realized recently in the European market. In 2007, 4,500 tons of fruit were exported into the 400,000 ton South African market. Clearly a great deal of room exists to expand sales into this market. Some medium sized Mozambican companies are particularly attractive partners for South African investors and, indeed, these partnerships are beginning to form. As Mozambican companies begin to expand their own production and packaging capacities and expand the markets they serve in South Africa, joint ventures with both South African and Zimbabwean companies make increasing economic sense.

4.8 **Specialized service support in the form of logistics, marketing, branding, labeling, food safety certification, quality control, and specialized finance remain weak, and investors are confronted with various and significant obstacles.** Support by the Government and/or donors to catalyze such services and make them more accessible to small businesses would make a big difference. It will also be easier for such services to emerge if exporters would create clusters of production. One of the most significant obstacles to invest in agribusiness is the process of identifying suitable land and water rights for development (discussed in detail in section 5).

Tourism

4.9 **Tourism is another area of big potential.** Mozambique is competitive in the market for high quality beach and eco-tourism, as well as in the MICE (Meetings, Incentives, Conferences, and Events) market. But the potential is underdeveloped. For example, only 18 percent of tourism investment approved in 2005–07 actually materialized.

4.10 **The biggest constraint on tourism is the land issue.** Many high value beach properties have multiple claims, may be subdivided inefficiently for large developments, and the process to acquire a land title recognized by all stakeholders is not clear (see section 5). Recent steps by the

government to reorganize the zoning of high value coastal land is welcome, as are the tourism anchor projects undertaken in at least 4 provinces with the support of IFC.

4.11 Other immediate steps facilitating tourism include fostering airline competition (in particular between Maputo and Johannesburg), upgrading the airports and improving immigration/customs; liberalize further high speed internet, improve retail and construction, which are key pillars of a successful tourism industry (see the section on the construction sector in volume two); and eradicate Malaria and Cholera (starting in prime areas).

Apparel

4.12 **The apparel industry is an entry point for a broad range of light manufacturing industries.** If managed well, it has the capacity to unleash the economy's growth and create thousands of jobs. But Mozambique exported less than $400,000 worth of apparels in 2005 and about 2000 workers were employed. Today, only one export-oriented factory is left, employing about 300 workers.

4.13 **Wages in Mozambique are competitive compared with South Africa, Lesotho, Swaziland, and Kenya.** Mozambican wages are at par with South Asia, e.g., Bangladesh, India and Pakistan, but its duty-free status in the US and EU markets under AGOA and EU-GSP++ gives it some advantage. The labor cost per shirt in Mozambique is at par with Madagascar and India and lower compared with Lesotho and Chinese EPZs. Experience has shown that labor productivity can be improved substantially through training workers and managers and using more advanced technology. Maputo has also a location advantage, as it is close to the large South African market. It is probably more advantageous to export clothing first to the South African market, and take advantage of the more demanding North American market through AGOA later.

B. Promoting Trade

4.14 **To tap Mozambique's comparative advantage to process or manufacture products demanded by the regional and global markets, the government needs to support active trade promotion**. Experiences from other countries have shown that institutions organized as public-private partnerships have made a significant difference in the capacity of small and medium enterprises to export and create jobs. Such institutions help in gathering "market intelligence" about the requirements and demand of regional and global markets, and they help to diffuse knowledge and innovations.

4.15 **IPEX is the institution in charge of export promotion in Mozambique.** As such, IPEX issues the directory of exporters. But this directory, published in 1994, is exclusively in Portuguese. Theoretically, IPEX is mandated to offer consulting services to support exports and hosts special sector departments. But, the institution is yet to be highly regarded by the industry. In effect, IPEX is still perceived as an administration without practical experience, means and first hand expertise to deliver on its mission. IPEX is currently on its learning curve and is involved in carrying out study missions to upgrade the knowledge of the personnel of promotional techniques and participates in trade fairs. It is necessary to rethink the mandate and

organization of IPEX. As discussed below, Mozambique should develop a Pro-Active Trade Information Systems (PTIS); IPEX might be a good institution to host such a system.

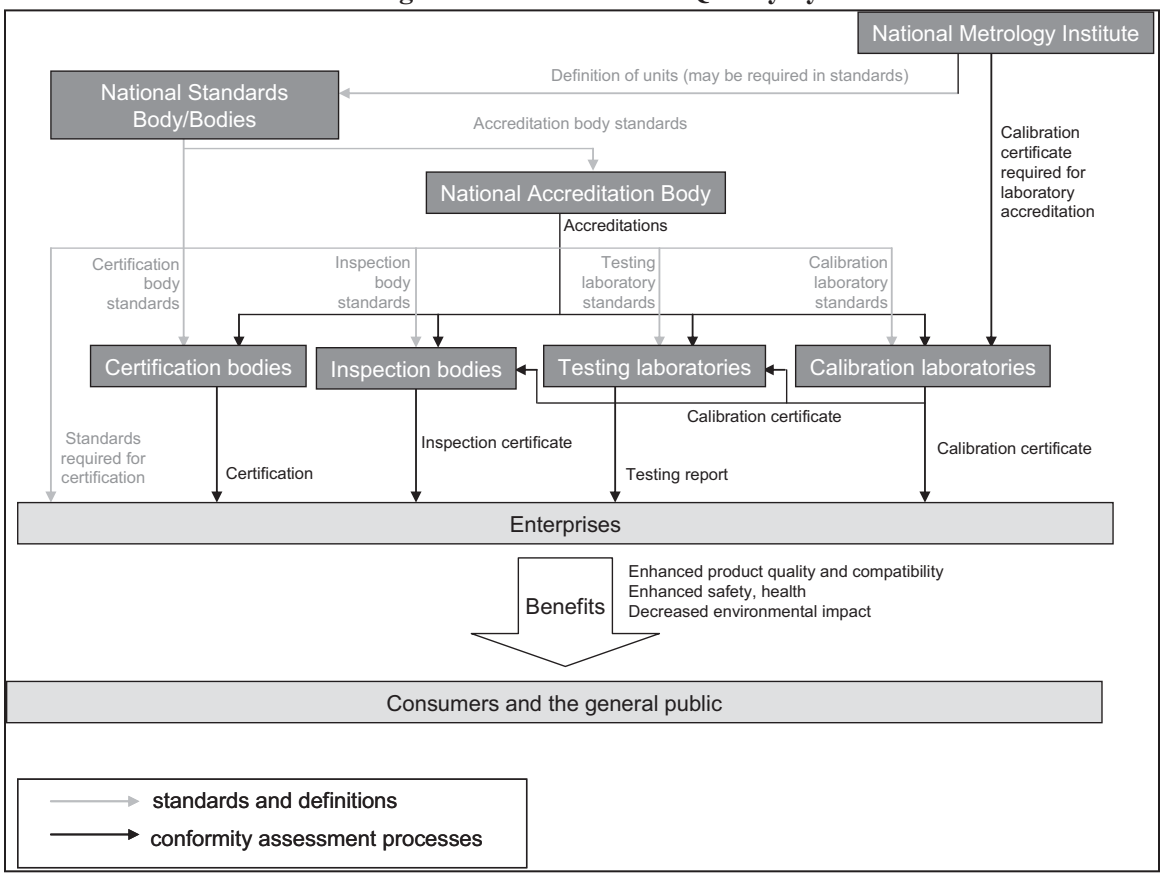
Quality and Standards

4.16 **The adoption of quality certification and standards can have a significant impact on poverty and inequality.** The entry ticket for small firms into supply chains, supplier networks and export consortia goes through the adoption and certification of quality standards. Ever more so, partners, networks, customers (if final goods) and major firms require from possible (small) suppliers appropriate standards and quality in goods and services. The impact on earnings and growth, and employment for those small firms or farmers can be quite significant. There are many examples of small firms, micro-enterprises, artisans, and farmers stepping out of poverty and subsistence, tripling their earnings as a result of adoption of standards, or through some minor adjustments in the characteristics of their products that opened new markets (World Bank 2004). In Mozambique, the Ministries of Industry and Commerce, Agriculture and Rural Development, Health, and Fisheries are involved in setting and implementing product standards.

4.17 **The quality system and the use and adoption of standards are the weakest links in the export support framework.** The current support is minimal, lacking scope, capacity and resources. INNOQ, FID, and IPEX are barely operational and their activities are not integrated to support export competitiveness (figure 4.1). INNOQ has issued a grand total of 72 norms since inception. Not only are capacities deficient in these areas, but the country has not yet succeeded in shifting from a coercive approach to standardization towards a more proactive one based on compliance with quality standards to support development of new products and markets.

4.18 **Mozambique has not developed a culture of quality.** As a result, for example, agricultural products are threatened because of deficient capacities to satisfy the minimum residue level of pesticides for producers and exporters. They, in turn, are not structurally linked to global supply chains. Therefore, strengthening the quality management system has become one of the most urgent issues be dealt with in Mozambique. This implies the need to strengthen metrology, standardization, testing, and quality agencies as well as to rationalize, harmonize and integrate their activities, including delivery systems, along the entire supply chains. This is the cost to pay in order to earn international accreditation for quality certification.

Figure 4.1: The National Quality System



4.19 **Created in 1993, the National Institute of Normalization and Quality (INNOQ) administers and develops product standards in Mozambique.** It has worked hard to adopt product standards despite having a staff of only seven, including an expatriate expert provided by the Commonwealth Secretariat[39]. The institute's priorities appear to be basic human health issues, adopting international standards for important export products, and responding to national and SADC priorities. By mid-2001 it had adopted standards for cement, maize, wheat, wheat and maize flour, roofing tiles, and salt. Other standards set for adoption in 2001 covered animal feed, cashews, copra, cotton, fresh milk, honey, juice, manioc, mineral water, seafood products, tea, and vegetables. Completing these standards is important since most are either current or potential exports.

4.20 **INNOQ is also working to adopt quality and environmental management standards (ISO 9000 and 14000 series) in order to train and audit Mozambican firms.** Once firms have been qualified they need to be audited periodically to maintain their qualifications. INNOQ has two qualified auditors to provide the necessary oversight. Further handicapping INNOQ are the limitations of the National Laboratory, which forces most analysis required for certification to be done in South Africa. INNOQ has been designated the enquiry point for Technical Barriers to

[39] Donors have provided assistance to INNOQ since its creation, but some have suspended assistance because they believe that such assistance, without commitment of other resources, cannot sustain the organization.

Trade (TBT) matters, but no enquiry point has been designated for sanitary and phytosanitary standards (SPS) matters.[40]

4.21 **The Department for Plant Protection in the Ministry of Agriculture (MINAG) is responsible for all plant and plant products in Mozambique.** Plants, roots, tubers, bulbs, stakes, branches, shoots, seeds, and honey, as well as their packaging, are subject to phytosanitary inspection before being cleared by customs, which has only a few agents experienced in SPS standards. MINAG's Veterinary Services Division is responsible for health and sanitary inspections and certifications. Animals, animal residue, and their products cannot be imported without the division's authorization. MINAG negotiates SPS trade matters and provides notifications to the Ministry of Commerce, which communicates these to international bodies, such as the WTO. The Ministry of Health is responsible for public health issues; the Ministry of Fisheries inspects imports and exports and issues licenses for trading fishery products.

4.22 **INNOQ requires substantial revamping, refocusing and upgrading in all elements, issuance of norms and standards, provision of metrology, testing, and certification and on securing effective accreditation.** It needs to secure partnerships with major South Africa labs to transfer knowledge and capacity, create a mobile fleet of labs and service, so as to effectively serve the major areas of the country; partner with major firms operating in Mozambique to leverage their own quality services and so on. This is a huge job and will take years. It is recommended that INNOQ focus on a few products and their supply chains at first. This needs to be done at the central and local/regional level. Afterwards, INNOQ should, expand its capacity to issue standards and certify quality for other products. In the meantime, deepening the partnerships with South African institutions could help exporters nevertheless—it would certainly be an improvement over the current situation.

Articulation

4.23 **For a country where production is highly fragmented, articulation initiatives are critical to secure scale benefits and knowledge transfers. These can induce much needed productivity gains, improve product fits for export markets, and increase entrepreneurship and demonstration effects.** The common profile of the beneficiaries are micro and small and medium-size enterprises (farmers or producers in light manufacturing, art-crafts or services). The typical role of those articulators are: organize and facilitate associativity of farmers or small producers with assistance on finance, accounting, leadership, technical (fertilizers, seeds, and soil treatment); marketing (access to local markets, exports, linking with buyers, traders or specialized wholesale and distribution firms, resorts, restaurants, and supermarkets); secure scale effects consolidating land, through various forms of associativity and even facilitate the financing by working with microfinance institutions.

4.24 **Ongoing articulation efforts in Mozambique need to be scaled up, improved, and extended to other products and geographical areas.** Some of the main articulators are NGOs, producers associations, private sector firms, and some government agencies—such as,

[40] Discussions to resolve the impasse over designating an official SPS enquiry point as required under the WTO Agreement on SPS are ongoing. INNOQ and the MINAG may be designated a joint enquiry point.

TechnoServe, SIGUAMA, AICAJU, IKORU, CLUSA, AIA. Those efforts, in a variety of form, extent and success, are present in cashews, macadamia, peanuts, fruits and horticulture (mangos, carrots, onions, papaya, tomatoes, beans, maize, soy beans), poultry, animal feed, coco, wood products, eco-tourism. The beneficiaries tend to be small family farms of half to four hectares, articulation size of about 20. For example TechnoServe, operating in the Beira corridor, has articulated 1,800 producers into: 94 associations, selling about $1 million, with an average earnings increase of 30 percent in 18 months. But few have transferred quality standards or fair trade and organic certification, although these are in the support strategy

4.25 **Significant efforts should go into linking sectors such as agribusiness and tourism, which are very complementary and quasi-captive markets.** An interesting example that ought to resonate for Mozambique is the articulation of farmers with hotels and restaurants (tourism sector) quite successfully in the Caribbean island of St. Lucia, focusing on quality, reliability with a significant impact on farmers' earnings. The articulation can be horizontal or vertical and both are desirable. Developing upstream industries and a local supply chain will contribute to the expansion of the sectors in Mozambique and can attract a critical mass of new entrants into the sector. A local linkages program has the potential to create productivity gains and the creation of better jobs in agriculture, food processing, distribution and logistics, and contribute to increased economic growth.

Information, Knowledge, and Service Transfers

4.26 **Production expansion at the farm level remains extensive rather than input and technology-intensive—and productivity levels remain very low and stagnant.** Choice of seeds and fertilizers and soil treatment are generally deficient. Specialized service support in the form of logistics, marketing, branding, food safety certification, quality control, and specialized finance remain weak. Similar problems are present in light manufacturing.

4.27 **Small and medium enterprises lack relevant international exposure and evolve with little awareness of global markets (or even domestic markets).** Access to industry databases detailing the current status of each industry in a country and internationally is essential to: (i) understand market requirements for each sector; (ii) support the gap-analysis of the country's current supply capacity vis-à-vis market requirements; and (iii) identify bottlenecks. But in many developing countries in particular, the information asymmetry is much wider as it encompasses: the lack of relevant information to address specific challenges of product adaptation and product development; the difficulties potential users face accessing relevant information; and the inability of entrepreneurs to effectively translate trade information into specific interventions to support industrial process plant retrofitting, product adaptation and product development.

4.28 **The information gap will be closed only if the information provided embodies relevant protocols and pedagogical tools.** Because it is important that information is presented in a professional manner, embodying all the essential elements from communication to action, it seems relevant to develop proactive information systems using the most appropriate on-line services. Information collation and delivery need to be proactive because limited market exposure reduces knowledge of business opportunities, hence limited ability to ask relevant questions. Therefore, the configuration of a Proactive Trade Information System (PTIS) should also entail assistance in capacity building to deliver online (possibly Web-based) services.

4.29 **The PTIS revolves around the development of "Product ID Cards" that feature information that can close the knowledge gap for any potentially viable product at all stages of its production, from supply of raw material to delivering final products.** This would include detailed information on standards and quality requirements, production environments and processes, configuration of production lines. And it would provide assistance in capacity building to deliver online, web-based services for training, product development and adaptation, packaging, and labeling.

4.30 **There are ways to successfully address many of those information and knowledge issues.** Knowledge, Innovation, and Technology and Services Transfer Centers (CITEs) are among them. CITEs facilitate the transfer of knowledge and existing technologies (off-the-shelf) to enterprises; address missing links in sectoral value chains and quality issues; identify bottlenecks and opportunities for further innovation of products and processes at the sectoral level; facilitate the commercialization of new products; provide value added services not reasonably available; and provide specialized training.

Box 4.1: Organization of CITEs

CITEs are public-private institutions, led by the private sector and focused specialization of their operations. They are not supposed to have a broad coverage. Instead, they target specific products, such as wood and furniture, leather and shoes, metal mechanics, grapes, mangos, artichokes, nuts, or artcraft.

CITEs can be fully private, but with access to public funds, or might be owned by the government. If the latter, they are governed by a board comprising representatives of the private sector of the industry, including management. CITEs are usually financed by public-private contributions. The capital and physical equipment, land and facilities are usually financed through a grant from the public sector or donation. In addition there might be funding for operating costs for a limited period of five to ten years. Centers charge fees for services to firms to ensure commitment and demand-driven service provision. While the initial capital investment is usually provided by the government, it is expected that overtime, centers are expected to cover their operational costs from services rendered to become financially sustainable and free-standing.

The centers can also be instrumental in securing local infrastructure improvements. For example, banana cultivation in Mozambique requires proper irrigation and drainage. Pre-existing infrastructure is often missing (where it does exist from previous Portuguese estates it typically requires significant investment to modernize). Producers must provide their own power line extensions for pumping water and their own year round road access for moving large volumes of bananas from fields to pack houses and from pack houses to market. For small scale farmers, investment in roadways, power lines, and irrigation systems poses a significant barrier to entry.

4.31 **CITEs can also facilitate articulation and get producers to organize themselves in associations.** The agglomeration provided by the CITEs can provide enough scale to articulate their views and needs as a group with the government. CITEs can also facilitate or be instrumental in cluster development and building scale. And for example that is critical in the apparel sector, where there is a need to create a critical mass of factories. The government may then act as a facilitator in developing these centers that in turn facilitate cluster development that would bring in specialized business services such as packaging, finishing and laundry, embroidery and screen-printing, trucking and warehousing facilities, and expo events. Having a critical mass of factories will also trigger better transparency, tax management, and standardization of customs services.

5. LAND TENURE FOR GROWTH AND POVERTY REDUCTION

Balancing Interests of Communities and Facilitating Access for Investors

5.1 **The 1997 Land Law has often been described as international best practice by scholars because it tried to reach a fair balance between safe-guarding the interests of the communities and facilitating investors' access to land.**[41] It does so by recognizing up front the land use rights known by the Portuguese acronym as DUATs[42] of those who have access to land under customary rights or through good faith occupation, and by spelling out a consultative process with existing right holders through which investors may secure access to land use rights.

5.2 **One of the main motivating factors of the Land Law was to ensure equity and avoid creating landlessness of the poor by putting a halt to speculative land grabs.** The idea that the evolution of property rights in land towards tradable rights is best promoted by first securing the rights of the existing users, and in particular the poor, is a sound one, and supported by a rich international literature (see Deininger 2003; De Soto 2000). For instance, the evolution of China's land tenure system has followed the same sequencing and was a key factor in its highly successful rural growth and poverty reduction strategy (see box 5.1).

5.3 **Furthermore, there is a rapidly growing literature which shows that countries with more equal land distributions not only grow faster permanently, but also give rise to more inclusive political, social, and economic institutions overall** (box 5.2). Hence, the motivation behind the design of the Mozambican land law is highly relevant from a pro-poor and sustainable economic growth perspective.

5.4 **Implementation of the law required putting in place a transparent and widely-understood consultation and negotiation process between communities (or individuals) and investors.** The general assessment of this process today—a decade after the law was passed—varies substantially. Some view the process as murky, lengthy, open to ad-hoc decision-making by government officials, and a break on investment. Others argue that the process is quite clear, that communities are in effect being consulted, and that if investors simply followed the letter of the law, they would have little difficulty in acquiring the land they needed, with secure property rights supported by the receiving community. They argue that the process is lengthy by design, to ensure a clear understanding and forge a good partnership between the stakeholders. According to these observers, it is when investors try to take short cuts with the law, aided and abetted by corrupt officials, that things become problematic (Tanner 2006).

---

[41] United Nations Human Settlements Programme (UN-HABITAT), 2005. "Law, Land Tenure and Gender Review Series: Southern Africa." Conceição de Quadros, M. (2002). Country Case Study: Mozambique. Paper presented at the Workshop on Integrating Land Issues into Poverty Reduction Strategies and the Broader Development Agenda, Kampala, April 2002. Tanner, C. (2002). Law-making in an African Context: the 1997 Mozambican Land Law. FAO Legal Papers Online #26, March 2002.

[42] DUAT is the Portuguese acronym for 'direito de uso e aproveitamento dos terras', translated: 'right of use and benefit of land. Technically, the right is a hybrid of the common leasehold (limited in time) and the civil law usufruct. In its heavy conditionality and limited term, it more closely resembles a lease.

Box 5.1: China: Granting Farmers Stable Long-term Land Use Rights

About 30 years ago, the dismantling of the people's commune system, based on collective land ownership and production, in the rural areas started China's economic reform process. However, instead of privatizing land ownership, the government kept collective land ownership and introduced the so-called Household Responsibility System (HRS). Under the HRS, the government granted individual farm households land use rights. These were initially for 15 years. In 1998, they were extended with an additional 30 years, and in October 2008, the Chinese government decided to convert the lease term to an open-ended one.

China has about 250 million farm households, with an average farm size per household of one-third of a hectare. By removing the incentive problems and high supervision cost associated with the commune system, the HRS is credited with increasing grain production by 40 percent from 1980 to 1990, and a further 13 percent by 2007. Net income per capita for rural households increased from 191 Yuan in 1980 to 686 Yuan in 1990, and to 4,140 Yuan in 2007. The World Bank estimates that the number of poor in China consuming less than a dollar-a-day fell from 634 to 212 million during the last two decades of the twentieth century, and that the number of poor decreased further to 135 million by 2004.

Rapid economic development and urbanization now pose new challenges to China's rural land tenure system. First, there is a huge demand for land for urban expansion, which inevitably will require the conversion of rural land into urban use. According to official estimates, about 200,000 to 300,000 ha of arable land have been converted to urban use annually since early 1990s. Second, there is a large migration from rural to urban areas. The total number of rural emigrants is estimated to be around 150 to 200 million in 2006. Consequently, there is a need to foster a rental market to ensure land left by the migrants can be used by those remaining. Different surveys suggest that about 15 to 20 percent of the arable land is currently being rented. To assist the land tenure system to respond effectively to these new challenges, the government sought to better protect and strengthen farmers' rights by upgrading their land use rights to the status of more formal property rights in land in the newly passed Property Rights Law of 2007. In addition, the Chinese government is now establishing a plot-level rural land registration system so that farmers can be issued land titles, documenting their rights. Finally, the government is now examining the possibility of allowing farmland to be used as collateral to improve farmers' access to formal credit.

5.5 The recommendations of this section are intended to strengthen the application of the existing Land Law, rather than proposing any revisions.

5.6 **There are three key issues that undermine the original intent of the land law to secure land use rights for people and investors alike:**

- There is a lack of clarity. Sometimes government officials interpret the law differently undermining the cornerstone of the Land Law that 'good faith occupation of the land' confers legal property rights. For example, Urban Land Regulation 2006 requires that the bona fide occupants' rights in informal urban settlements can be recognized only if they are consistent with the existing urban development plan. However, such plans generally do not exist or are out-dated. There is also significant uncertainty about the flexibility and public participation in developing such plans in future.
- There is a lack of capacity to ensure that the process is followed properly. While guidelines for community consultations do exist, they are poorly disseminated and understood. The skills and resources of communities, civil society organizations and the local government are insufficient to guarantee proper community consultations prior to the granting of use rights to investors.

- There is free granting and holding of use rights. The free allocation of provisional land use rights (DUATs), combined with the lack of collection of the land tax and absence of a clear and objective standard for determining whether an exploitation plan has been carried out, has encouraged land grabbing in both rural and urban areas beyond the investment capacity of the applicants.

5.7 There are two institutions involved in the land transfer process: the Registro Predial (which only exists at the national level) and the Cadastre (which exists at provincial and national levels). This double registration process is unnecessarily cumbersome, and many other countries have unified these processes into one registration. In addition, it is too centralized, making it difficult for ordinary citizens to access it.

Box 5.2: Land: Equity and Growth

Deininger (2003) and the World Bank's World Development Report (2003) provide evidence of the long-term implications of inequality in landholdings and development. By tracing individual countries' long-term development paths within sets of comparable countries[1] they further illustrate how initial inequality in landholdings leads to dramatically different development outcomes in the long run. Acemoglu, Johnson, and Robinson (2001 and 2002) use cross-country time series to show the same "path dependent" development pattern: countries with a more egalitarian distribution of land tend to have better, more inclusive political and economic institutions, which in turn lead to higher levels of economic growth. Sokoloff and Engermann (2000) demonstrate the same patterns comparing the evolution of North and South America, tracing initial political (in)equality to land distribution and subsequently to economic growth, democracy and education.

Urban Land

5.8 **A study by the late Jose Negrão estimated that only 13 percent of urban properties had been acquired through the regular government adjudication process.** A further 14 percent of plots had been acquired through inheritance and marriage, and 6 percent through simple occupation, but 62 percent through market transactions. While these market transactions are not registered in the Deeds Registry and the Cadastre, the participants do not consider them to be illegal, and the local political-administrative institutions and the municipal councils are often involved in processing these transactions and issuing certain documentation formalizing the transactions. In other words, an extra-legal documented land market is in operation already.[43] As a consequence, it is extremely difficult for anybody to find out the true ownership status of any land use right.

5.9 **Several other constraints in the urban land markets hamper the development of housing finance because there are too many risks for banks.** (1) On average, courts take seven years to allow property re-possession. (2) Titles remain insecure until one has completed construction on the land. If the building is only partially completed, the property cannot be disposed of. With only a provisional title, it is of course very difficult to obtain a mortgage. (3)

[43] The spontaneous emergence of such extra-legal land registration systems is not unique to Mozambique, but exists in many urban, and sometimes even rural, areas in the world. Hernando De Soto (2000) has drawn attention to this phenomenon and suggests that the regularization of these localized systems could unlock the capital value of the land.

The lack of urban planning makes the cities reluctant to issue DUATs, thereby exacerbating the extra-legal land markets.

Rural Land

5.10 **How are the communities consulted during the process of the issuing of new DUATs to investors?** Durang and Tanner (2004), based on case studies in Manica Province, come to the assessment, which is confirmed by several other studies and observers that consultations are often very superficial. Clearly, the inadequate consultation process is the consequence of the capacity problems.

5.11 **In addition, there are serious interpretation issues. Some officials hold the view that all land is owned by the state "until further notice".** In this view, communities only actually obtain substantive property rights in land after communities obtain approval for the registration of their use right. This interpretation seems to find its expression in the October 2007 amendment to the Land Law, which some observers interpret as restricting communities' land rights. Communities are now subjected to the same 3-tier approval system of development plans as investors. Two communities (in Sofala and Zambezi) have thus been asked to present their 'business plans', as part of the new process. However, the Constitution and the Land Law clearly state that they already have that right, and that, if they wish, communities can ask to formalize it. Some observers believe that this amendment has dented the basic feature of the Land Law (and the Constitution) that guarantees customary rights.

5.12 **The Land Law foresees that communities can ask for a DUAT to formalize the rights they have already.** The first step is called *delimitation*. Through participatory rural appraisal, it leads to a geo-referenced map showing the borders of the community and a description of the community and its resources (see, for example, box 5.3 on community-driven land certification in Ethiopia). If the community wants to go a step further, it can go through a more costly and complicated *demarcation* process, which leads to an official title deed, registered in the Title Deed Registry of the Ministry of Justice. According to Tanner, about 300 communities have gone through the first process, delimitation, and formally registered their property rights in the cadastre between 2001 and October 2007.

5.13 *Mining.* Mining is given top priority among all alternative uses for land in the implementation of the Land Law. Based on interviews with government officials at the Ministry of Mineral Resources, there may exist the interpretation that communities "do not have the DUAT" to begin with—another example of lack of clarity in interpretation of the law. It appears that some officials have adopted the standpoint that until a DUAT is formally issued by the Government, mining takes priority, and customary rights do not need to be compensated.

5.14 *Forestry and wildlife.* A new policy and a new law were approved in 1998 and 1999, respectively. They are entirely consistent with the Land Law in terms of their requirements for community consultations when investors seek forestry and wildlife exploitation concessions.[44] An added feature is that the 2002 regulations require that 20 percent of public revenues from

[44] The law also introduces a one-year "simple license", which does not require a full resource inventory, implementation plan and community consultations. Several companies have opted for this simple license in order to avoid costs and consultations.

commercial forest and wildlife ventures are earmarked for local communities to support local development. Currently, these funds are managed at the provincial and district levels and, together with an improved land taxation system, could contribute substantially to the own fiscal resource base of local government and communities.

Box 5.3: Benefits from community-driven land certification in Ethiopia

Based on promising results from issuing land use certificates to about 632,000 households in Tigray in 1998/99, other Ethiopian regions have embarked on a large-scale certification effort, issuing land use certificates to about 6 million households (18 million plots) in 2003-05. The process starts with local awareness campaigns, often with the distribution of written material, followed by elections of land use committees in each village. After a period of training, these committees, if necessary with assistance from elders, systematically resolve existing conflicts, referring cases that cannot be settled amicably to the courts.

This is followed by demarcation and surveys of undisputed plots in the presence of neighbors with subsequent issuance of land use certificates which, for married couples, include names and pictures of both spouses[1] but no sketch map or corner coordinates. And as land remains state owned with strong restrictions on transfers, certificates document only heritable use rights.

These limits notwithstanding, more than 80 percent of respondents in a nation-wide survey indicated that certification reduced conflicts, encouraged them to plant trees and rent out land, and improved women's situation—and that having a certificate would increase the possibility of getting compensation in case of land taking. Many (76 percent and 66 percent) expect demarcation of communal land to reduce encroachment and increase soil conservation. Comparing court files from before and after certification in Tigray points toward a reduction of conflict after certification but suggests that, without mechanisms to keep records current, this effect may be short. Estimates for Amhara suggest that such mechanisms should be possible at about $0.65 per transaction (Deininger *et al.* 2008b).

Demand for certificates is illustrated by the fact that 95 percent of households outside the program would like to acquire one and that 99 percent of those with a certificate would be willing to pay an average of B12 ($1.50) to replace it if lost, and 90 percent (most of them willing to pay) would like to add a sketch map.
A rough estimate puts the cost at $1 per plot, largely because all local inputs to conflict resolution and surveying are voluntarily provided by local land use committees. There are significant economic benefits in terms of land-related investment and participation in land markets (Deininger *et al.* 2008a). Adding differential handheld GPS with an accuracy of less than one meter to record corner coordinates would increase these costs by about 60 percent. Despite significant policy differences between Ethiopia and other countries, the certification shows that, with modern technology making low-cost approaches more feasible, systematic certification could help implement new land legislation in Africa and beyond.

Source: Deininger, Ali, and Alemu 2008a; Deininger, Ayalew, Holden and Zevenbergen 2008b

5.15 *Nature reserves.* DUATs cannot be issued in nature reserves. Instead, 'special licenses' are issued in such areas. It appears that these special licenses have sometimes been allocated directly by Cabinet, without the consultative process that the DUAT requires between established communities and prospective investors. This special dispensation of land, reportedly, has led to conflicts. In Vilanculos and Bazaruto, about 600 families were resettled after the declaration of a nature reserve. Negotiations were reportedly superficial, and compensation minimal because the community was assured that it could continue to harvest its coconut trees. Eventually, an electric fence was erected which prevented the community's access to the trees.

5.16 In summary, lack of clarity about the law combined with a lack of implementation capacity, an almost free access to DUATs, absence of effective ways to determine if a development plan has been carried out, and the fact that only 15 percent of the land taxes are

collected undermine the intentions of the law. This permits widespread land grabbing for speculative purposes and opens the door to corruption.

Land Taxation

5.17 **A "land tax" is a tax on the value of land, which is paid by the owner.** It is different from a property tax, in that a land tax taxes the value of the land only, whereas a property tax taxes the value of the land and the fixed improvements made on it (such as a house, a farm building, and irrigation canal).[45] It creates an incentive to develop land to its most profitable use. In this regard, land taxation discourages underutilization of land and land speculation and can be an entry point into a better definition of property rights.

5.18 **Mozambique already has a land tax in place and is well-placed to build on it, if it fixes some of its drawbacks and improves on it.** The land tax in Mozambique is collected by the provinces, which seems a good starting point to link the tax to local development. A formula exists for its use: 24 percent is kept at the provincial level, and 12 percent is given to the district level. The agricultural development fund gets 24 percent, and the National Treasury receives the remaining 40 percent.

5.19 **However, the current collection rate is estimated at only 15 percent, while taxes on land are low and favor large land owners, as opposed to small and intermediate individual commercial farming**.[46] The rates were set in 1998 and have not changed since, with inflation eroding them to economically insignificant levels. The general rate is 30 MT/ha, or slightly more than a dollar per hectare. For livestock cultivation, wildlife conservation, and permanents crops, such as coconuts and sugarcane (typically grown on large plantations) the rate is only 2 MT/ha, i.e. less than 10 cents per hectare. Other agricultural uses are taxed at 15 MT/ha. In the future, consideration should be given to revise land taxes to take the value of the land into account. (The value should be assessed by region, not by individual plot.)

5.20 **The ground rent, or land tax, should be imposed to ensure more intensive land use and make more land available for medium-size farm enterprises.** By improving the collection rate and substantially raising the rates, holding of excessive areas of land for speculative purposes will become much more costly, and resistance to reviewing provisional DUATs and downsizing them will diminish. Rates should automatically be adjusted for inflation on an annual basis.

5.21 **If an improved land registry (or at least a cadastral office) were to be housed at the district level, there would be a strong incentive argument to be made to also have the collection of the tax take place at the district level.** In addition, the land tax revenues (or at least a substantial share of such revenues) would provide an important source of own revenues for local governments.

[45] This section is partly taken from "Agricultural land tax, land use intensification, local development and land market reform" by Malcolm D. Childress, Andrew Hilton, David Solomon, and Rogier van den Brink, 2008.
[46] Communities and traditional smallholders are exempt from paying land taxes.

Policy Recommendations

5.22 **The assessment of urban and rural land issues in Mozambique suggests that facilitating access to land for investors and at the same time avoiding future landlessness can be achieved.** First, it is necessary to deepen the practical understanding around the implementation of the land law. It is also suggested to establish a national Land Policy Dialogue Platform with full stakeholder participation and linked to the national poverty reduction strategy.

5.23 **Second, an improved and decentralized land registration system can help, but it needs to be cost-effective and grounded in the Mozambican reality in urban and rural areas.** International experience clearly demonstrates that systematic registration could be a good model to adopt. In view of its public good nature and to avoid disadvantaging the poor, initial land rights registration should be either free or partially subsidized. The long-term financial sustainability of such a registration system will depend on user fees from subsequent registration and increased revenues from land taxation as a result of a more active land market induced by a higher degree of tenure security.

5.24 **Third, promoting productive use of the DUATs can be achieved in a number of practical ways**, ranging from regularly announcing the expiry of existing provisional DUATs, and placing the burden of proof to contest the expiry on the provisional DUAT holders, to ensuring that the transfer of the fixed investments made under rural DUATs should automatically include the transfer of the land, as is already the case for urban DUATs. It is also urgent to clarify the multiple ownership claims to the same pieces of property, particularly in areas with tourism potential.

5.25 **Finally, the ground rent, or land tax, should be consistently enforced to provide concrete incentives against speculation and in favor of more intensive land use.** The focus should be on improving the collection rate, raising the rates, adjusting the rates annually for inflation, and considering to decentralize the collection responsibility from province to district level when land registration offices are established at district level.

Facilitating Access to Land for Investors and Avoiding Future Landlessness

5.26 **Create better consensus on the land law.** The many implementation and interpretation issues surrounding fundamental aspects of the Land Law suggest that more effort needs to be invested in consensus-building, particularly with respect to the interpretation of community rights. More efforts need to be made in disseminating the land law to the public, and the training of the administration and the judiciary. A recent survey found that less than 10 percent of the rural population in Nampula knew about the Land Law (World Bank, 2008). To achieve greater clarity, a series of conferences and implementation workshops at national, provincial, district and community levels could be the start of such a process, followed by a more continuous and institutionalized capacity-building effort for improved implementation. We suggest establishing a national Land Policy Dialogue Platform with full stakeholder participation, and linked with the national poverty reduction strategies.

5.27 **Systematically adjudicate and title urban, peri-urban, and high value plots in rural areas.** For urban areas, undertaking systematic registration of property, with special emphasis on protecting good faith occupants, can be made cost-effective if such a registration involves communities and neighborhood in the delimitation and dispute resolution. This would regularize what is already happening—these lands are already extra-legally bought and sold—and constitute an essential first step in creating a transparent and efficient urban land market, accessible to all. The model of systematic adjudication and tilting should be piloted before scaling up nationwide.

5.28 This exercise should build on the already existing "extra-legal" procedures that people use, recognize bona fide occupation, clearly delimit truly unused public land, and eliminate the conflicts between bona fide occupants and holders of provisional DUATs which have been incorrectly issued—there may be multiple ownership claims to the same pieces of land.

5.29 **Disseminate, simplify, and further improve practical and clear guidelines for consultations with existing communities.** These guidelines should be established through a participatory process, involving all stakeholders, in particular those involved in implementation. This can at the same time help to create the necessary capacity to properly manage the consultation processes and other safeguards of the law for communities, civil society, local governments, the National Directorate of Land and Forestry, and the judicial system.

5.30 **Unify the land registration processes into a set of single, decentralized offices which are easily accessible to the public.** To be sustainable, these offices should use simple, cost-effective procedures, be self-financing in the long run, and be decentralized to the lowest possible level, following the principle of subsidiarity and a critical mass of business.

5.31 **Undertake systematic delimitation of all local community lands in rural areas.** This would increase communities' tenure security and constrain the government's allocation of 'free' land concessions to investors and speculators. Current back-of-the-envelope calculations suggest this is fiscally affordable. Community-driven processes similar to those now used in Ethiopia and Madagascar could be adopted but taking into account the need to organize and register the communities. Experience from Tanzania, which has surveyed the boundaries of about 8,000 administrative villages out of a total 14,000, suggests that systematic delimitation could be completed at a reasonable cost.

5.32 **Rural (final) DUATs should be allowed to be transferred without government approval, as is already the case for urban DUATs.** Similarly, the transfer of the fixed investments made under rural DUATs should automatically include the transfer of the land, again as is already the case for urban DUATs. This would be important to open up the opportunities for small and medium-scale producers to get access to productive land close to infrastructure. However, it would require an amendment to the law and development of a more detailed Rural Land Regulation similar to the one for urban land adopted in 2006.

Promoting Productive Use of DUATs

5.33 **A comprehensive review of all DUATs granted should be carried out.** This audit should assess how much land has already been allocated through concessions and which are in

clear violation of the development conditions, as prescribed by the Law. It would also be important to find out how much of that land is good agricultural land in peri-urban areas and in areas close to infrastructure. In coastal areas with high tourism potential, multiple ownership claims are common. Such an audit should also help to clarify this thorny multiple ownership claim issue which greatly deters serious investors.

5.34 **Formulating a clear and objective standard for determining whether a development plan has been executed.** If development conditions have not been met (e.g. clearly under-used land or land acquired for speculative uses), DUATs should be automatically revoked or sub-division allowed, so that the DUAT holder can keep the part he has invested in while reverting back to state-ownership the underutilized share of the land.

Collect Land Taxes

5.35 **Enforce collection of existing land tax, raise the rates, and decentralize collection to the district level.** The current collection rate is only 15 percent; so merely improving the collection rate on issued DUATs is likely to lead to DUATs voluntarily being given back to the state. Rates should also automatically be adjusted to keep pace with inflation and consideration should be given to revise land taxes to take the value of the land into account. Enforcing a simple land tax is probably the most efficient way to reduce the speculation in undeveloped land, clarify ownership, and ensure investors that they have access to productive land. A more detailed quantitative analysis of land taxation options is expected to be undertaken as a follow-up to the current report.

5.36 Further suggestions for reforms to strengthen the implementation of the 1997 Land Law are contained in volume two of this CEM.

6. PROFESSIONAL SERVICES AND DEVELOPMENT

6.1 **Professional business services, such as auditing, legal, and engineering, play a significant role in bringing down transaction costs.** A modern enterprise cannot be competitive without using such specialized service providers; they ensure cost-effectiveness, quality, and that up-to-date knowledge and innovative ideas are available to the firm. Furthermore, in the case of auditing, the Ministry of Finance requires enterprises to have an external auditor certifying their accounts and balance sheet for tax purposes.

6.2 **The demand, supply, and costs of professional services are the result of a complex interaction between market forces, education policies, regulations, immigration policies, and emigration behavior.** There is an over-supply of skills in some areas, and unsatisfied demand on other ones at the same time.[47]

Scarcity of Skills

6.3 **Even after controlling for per capita income, Mozambique is an outlier in terms of the scarce availability of skills, professionals, and professional services.** Only 0.6 percent of the private sector labor force has completed tertiary education, and professionals represent only 2.7 percent of the workforce in Mozambican firms, compared with an average of 5.8 percent for a number of other African countries.

6.4 **The Investment Climate Surveys conducted by the World Bank provide evidence of the limited use of professionals and of tertiary educated workers in manufacturing firms in Mozambique relative to the use by firms in other African countries** (table 6.1). In fact, Mozambique has the lowest share of professionals and of those with more than 12 years of education in the manufacturing workforce.

Table 6.1: Professionals and Tertiary-Educated Workers in Manufacturing Firms

	Average Share of Professionals in Total Workers	Average Percentage of Workers with Tertiary Education
Mozambique	**2.7%**	**1.6%**
Mauritius	2.8%	3.9%
Ethiopia	3.5%	
Eritrea	4.1%	
Nigeria	4.3%	
South Africa	4.6%	11.5%
Malawi	4.6%	
Kenya	4.6%	15.0%
Zambia	5.2%	14.7%
Madagascar	6.1%	12.0%
Uganda	6.9%	35.4%
Senegal	6.9%	
Mali	7.3%	11.5%
Benin	8.1%	15.6%
Tanzania	11.9%	

Note: The surveys were conducted for different countries in different years.
Source: Investment Climate Surveys.

[47] These interactions are analyzed in detail in the chapter on professional services in the second volume of the CEM.

6.5 **The appropriate policy response to this scarcity, however, depends on the conditions in the markets for specific professional skills.** In particular, taking a uniformly supply-augmenting approach to professional education may be inappropriate, because some of the skills supplied by higher education institutions are not demanded; secondly, emigration of skilled Mozambican professionals is very high even by African standards. In several situations, *stimulating demand* for appropriate skills and services seems to be a priority.

Emigration

6.6 **Mozambique is characterized by the apparent contradiction of having one of the strongest skills scarcities and one of the highest emigration rates for professionals in SSA.** As of the year 2000, 10,696 university-educated Mozambicans were living in OECD countries corresponding to about 45 percent of all university-educated citizens living in Mozambique (table 6.2). The South African population censuses of 1996 and 2001 report the presence of, respectively, 1,513 and 2,788 Mozambicans with tertiary education working in South Africa. This suggests that the *brain* drain continues, and that market demand for professionals is not yet sufficiently strong.

6.7 **This skilled emigration rate is huge compared with other SADC countries, and is only smaller than that for the island-state of Mauritius.** In contrast, migration rates for secondary-educated and primary-educated Mozambicans are more in line with those for other SADC countries. Thus, emigration from Mozambique is highly skewed towards university-educated individuals and professionals. It is likely that much of the emigration took place in the period of war. But if these rates of emigration are continuing, then that is because the high returns to tertiary education in Mozambique are still lower than those abroad.

Table 6.2: Emigration Rates by Level of Education in 2000 (percent)

	Tertiary Education	Secondary Education	Primary Education
Swaziland	0.5%	0.0%	0.0%
Namibia	3.5%	0.2%	0.1%
Botswana	3.6%	1.0%	0.1%
Lesotho	4.3%	0.2%	0.0%
South Africa	7.5%	0.8%	0.3%
Tanzania	12.4%	1.4%	0.1%
Zimbabwe	12.7%	1.8%	0.2%
Zambia	16.8%	1.1%	0.2%
Malawi	18.7%	2.5%	0.1%
Angola	33.0%	7.7%	1.9%
Mozambique	**45.1%**	**6.3%**	**0.6%**
Mauritius	56.2%	9.1%	7.5%

Source: Docquier and Marfouk (2004).
Note: The table shows for each country's migrants with a given education level as a share of all natives and migrants in that country with that same education level.

Market Structure

6.8 **The CEM studied the markets for four types of professional services in Mozambique**: accounting and auditing, engineering, corporate legal, and medical services. Within all services, markets are vertically segmented. In business services, large firms supply high quality and expensive accounting, auditing, IT, and legal services to large enterprises and donor-financed projects, whereas small firms and freelancers serve some middle-sized enterprises. Most SMEs do not consume these professional services and are consigned to the informal sector.

6.9 **There is also segmentation in social services: physicians serve mostly urban areas, whereas non-physician clinicians serve rural areas; the weakest students gravitate to the teaching profession.** Professionals are in many cases over-qualified to serve the bulk of the domestic consumers (rural households or SMEs), but of inferior quality to serve the big firms or rich consumers.

6.10 **The Investment Climate Surveys also provide some indication of the perceptions by manufacturing firms on the affordability and quality of specific professional services** (table 6.3). Affordability seems to vary across professional services: the percentage of firms that found accounting services to be affordable is high in Mozambique, as in the rest of the region, but legal, engineering, and IT services seem to be less widely affordable. But the perception of quality is much lower in Mozambique than other countries across the whole spectrum of services. We should note that firms that find services affordable tend to be large or medium-size firms.

Table 6.3: Affordability and quality of professional services

	Percentage of Firms that Find Accounting Services Affordable	Average Quality of Accounting Services	Percentage of Firms that Find Legal Services Affordable	Average Quality of Legal Services	Percentage of Firms that Find Engineering Services Affordable	Average Quality of Engineering Services	Percentage of Firms that Find IT Services Affordable	Average Quality of IT Services
Mozambique	**89%**	**1.5**	**44%**	**1.0**	**38%**	**1.0**	**52%**	**1.0**
Eritrea	93%	3.3	97%	3.0	60%	3.0	82%	2.6
Ethiopia	74%	3.2	75%	2.9	62%	3.0	51%	2.5
Mali	74%	2.7	33%	1.9	57%	2.5	64%	2.8
Senegal	91%	3.0	71%	2.6	63%	2.8	69%	2.9
Tanzania	81%	3.4	75%	3.0	67%	3.1	70%	3.0
Zambia	79%	3.3	66%	3.0	75%	2.9	83%	2.8

Source: Investment Climate Surveys.
Note: The surveys were conducted for different countries in different years. A higher value of the quality index indicates better quality.

Four Areas for Policy Action

- **Education/Training.** How is it possible to generate a stronger private/public response to the need for training locally or regionally?

- **Immigration**. How can more liberal foreign presence contribute to the development of professional services markets by both: generating demand by creating an awareness of the benefits of use certain services and enhancing supply by creating learning spillovers?
- **Emigration.** How can Mozambique cooperate with destination countries to allow opportunities for the skilled to earn and learn abroad but ensure that they return?
- **Regulation and Standards**. How can we ensure that the new regulatory framework helps develop appropriate standards for both services and service suppliers and monitors quality rather than imposes restrictions on entry/competition and segments markets?

Education

6.11 **In the past, development policy has viewed higher education with ambivalence, but there is a growing realization that appropriately designed higher education policies can play a vital role in promoting growth and reducing poverty in African countries.** It has been recognized that business skills and services, such as accounting and legal services, can help reduce transaction costs, which are a significant impediment to growth in Africa. And well-trained teachers and physicians can improve the health and productivity of Africans. Recent estimates suggest that a one-year increase in the tertiary education stock could increase African incomes per capita by about 3 percent in 5 years and by 12 percent eventually.

6.12 **Mozambique's poverty reduction strategy has already recognized this.** Among the three "pillars" of PARPA II was the expansion of human capital available for productive activities and improving the ability of the workforce to absorb new technologies. In particular, the PARPA II proposes improvements in the performance of the science and technology system in Mozambique by developing appropriate human resources, including qualified scientists, engineers, technical personnel, and information technology experts.

6.13 **Mozambique's indicators on education outputs are low even by low-income country standards.** For example, the gross secondary school enrollment rate of 15.5 percent in Mozambique in 2006 is strikingly low relative to rates of 29.1 percent in Malawi and 36.1 percent in Zambia.[48]

6.14 **Despite a threefold increase between 1990 and 2002, Brito (2003) finds that the number of students enrolled in higher education institutions in Mozambique as of 2002 is a microscopic segment of the population: only 40 of every 100,000 inhabitants, compared with 596 of every 100,000 inhabitants in Botswana.** Statistics from the Ministry of Education and Culture show that as of 2002, students enrolled in higher education institutions in Mozambique represented 0.38 percent of the potential student population (18-to-29-year-olds). That share increased to about 0.7 percent in 2005 and 1 percent in 2006.

6.15 **These constraints can only be overcome through consistent, long-term investments in education.** Furthermore, econometric analysis has shown that higher education has very good private and social rates of return. Therefore, it should be possible to mobilize private financial

[48] The low secondary enrollment rates relative to what would be expected at Mozambique's income level are verified both for lower-secondary as well as for upper-secondary education.

resources to invest in it. However, the financial markets have not been willing to lend for scholarships or to institutions of higher learning. Only donors including the World Bank have filled this gap through various programs.

6.16 **Regional cooperation is clearly needed to facilitate the emergence of regional hubs for higher education and skill formation in the Southern African region**. Such hubs can reduce the costs of education by exploiting economies of scale and help fulfill the regional need for a variety of specialized skills. Regional cooperation also entails the mutual recognition of diplomas and degrees.

Immigration

6.17 **In order to tap into the regional (or even global) pool of skills, Mozambique needs to reconsider its immigration policy.** It is not in Mozambique's interest to cut itself off from the regional and international market for skills. While there may be an interest in limiting the entry of foreign professionals to create opportunities for domestic professionals, such restrictions could undermine growth by penalizing industrial users of professional services in Mozambique. Restrictions on foreign entry also stifle the flow of information about new services and their benefits and deprive local professionals of valuable learning opportunities. Moreover, foreign professionals often share their knowledge and experience by engaging in local education and training. For example, some experienced foreign professionals working in Mozambique lecture university students in law and auditing, and more could be induced to do so.

6.18 **It is desirable to ensure greater coherence between policies affecting professional services and *international migration policy*, not only where supply is a constraint but also where demand needs to be stimulated.** Therefore, a more constructive policy would be to allow more liberal entry of foreign professionals. This could be done within the existing Labor Law.

Emigration

6.19 **As noted above, emigration rates for professionals are very high.** All the education and training efforts will provide few downstream benefits if the professionals simply leave. The ultimate remedy for this problem is the emergence of better opportunities in Mozambique which will come with economic growth. But there are bound to be situations where emigration is privately profitable but socially undesirable. In such circumstances, a balance between private and social interest could be struck by granting individuals the opportunity to earn and learn abroad on the condition that the stay abroad is temporary. Temporariness cannot be ensured by Mozambique unilaterally but may be accomplished through cooperation with destination countries. Mozambique can explore if Portugal and South Africa, the two major destinations, would agree to grant non-extendable visas to certain categories of Mozambican professionals—even though this may not be in the destination countries own interest but because of their broader commitment to development in the region. Cooperation agreements could be modeled along the lines of those between the Netherlands and Poland.

Regulation and Standards

6.20 **Inappropriate standards often stifle demand for services in areas such as engineering and accounting.** For example, international tenders for roads or electrification

projects require that only engineers with 15 years of experience be hired, under guidelines imposed by international financiers, such as the World Bank. While the presence of some experienced (usually foreign) engineers as team leaders may be desirable, minimum standards for all engineers unnecessarily prevent recent Mozambican engineering graduates from participating and acquiring work experience. Similarly, the Mozambican government's project to introduce International Financial Reporting Standards (IFRS) for corporate accounting may be excessively costly for certain types of firms, even though there is a provision for small firms to use a simplified standard.

Role of Professional Associations

6.21 **Professional associations can play a key role in the various areas of policy intervention mentioned above.** They can create, with government support, a framework for *regulation* and appropriate standards that are effective and appropriate to the needs of Mozambique They can also monitor quality. For example, in areas like accounting and engineering, guilds can help develop professional qualifications which are more attuned to the needs of Mozambican households and firms. A desirable precedent is the training and certification of medical technicians who are trained at a tenth of the cost of physicians, have achieved similar health outcomes, and have weaker incentives to emigrate: more than 80 percent of non-physician health workers work in provinces outside Maputo, compared with only a small fraction of doctors. The Ministry of Health achieved these results in collaboration with the Mozambican Association of Medical Doctors.

6.22 **Professional associations can also cooperate with regional organizations in developing standards for services and service professionals that reflect the needs of small enterprises, and not just of the minority of affluent consumers and large firms.** For example, in accounting, Mozambique could benefit from regional cooperation in the Eastern, Central and Southern African Federation of Accountants (ECSAFA) to develop standards serving the needs of SMEs.

6.23 **Professional associations can also take the lead in creating greater awareness among firms of the benefits of using professional help in areas like accounting and information technology.** Today, for example almost none of the firms in the vast retail sector in Mozambique keep formal accounts. Also, very few manufacturing firms use information technology.

6.24 **The risk is that professional associations will seek, as has been observed in other countries, to protect the interests of their constituents by creating unnecessary regulatory barriers to entry for foreign or foreign-trained professionals and hence segment the regional market.** This risk can be mitigated if Mozambican guilds form partnerships with and are open to members of guilds from other countries in the region and in the rest of the world establishing for example agreements for mutual recognition of professional qualifications.

Regional Cooperation

6.25 **Unilateral reforms by Mozambique would ideally be complemented by regional and international cooperation.** The development of credible appropriate standards may be more feasible and desirable if undertaken regionally. At the same time, harmonization and/or mutual recognition of qualifications and professional licensing requirements would lead to the creation

of a regionally integrated market for both training and professional services. (In other areas, however, cooperation will need to be bilateral, for example on migration with destination countries such as South Africa and Portugal.)

6.26 **Equally important is the regulatory harmonization in education**—so that students can go abroad, have their existing education recognized, and return to have their foreign qualifications recognized. SADC has already a special protocol on education and training, which is an excellent point of departure.

6.27 To summarize, the evolution of markets for professional services in Mozambique will be influenced by policy in four areas: education, immigration, emigration, and regulation. In each area, regional and international cooperation would ideally complement unilateral action by Mozambique.

REFERENCES

Acemoglu, D., and J. A. Robinson. 2000. "Why Did the West Extend the Franchise? Democracy, Inequality, and Growth in Historical Perspective." *Quarterly Journal of Economics 115* (4): 1167–99.

Alfai, E. 2007. "Legal Empowerment of the Poor: Defending Property Rights." United Nations Commission on Legal Empowerment of the Poor, Maputo.

Alfieri, Andrea, Alexis Rawlinson, and Xavier Cirera. 2007. "Estimating Tax and Trade Impacts of Alternative Trade Reform Scenarios in Mozambique." Discussion Paper 29E. NDSPA, Ministry of Planning and Development, Republic of Mozambique, Maputo.

Anderson, P. A. 2001. "The Impact of the Megaprojects on the Mozambican Economy." GEST Discussion Paper 18. Ministry of Planning and Finance, Maputo.

Arndt, Channing, and Finn Tarp. 2007. "Trade Policy and the Missing Revenue." Discussion Paper 49E. NDSPA, Ministry of Planning and Development, Maputo.

Benfica, R., C. Arndt, D. Tschirley, and D. Boughton. 2006. "Poverty Effects of Expansion and Policies in Cotton Economies in Rural Mozambique: An Economy-Wide Approach." PowerPoint presentation September 2006 in Maputo.

Benfica, R., A. D. Tschirley, and D. Boughton. 2006. "Interlinked Transactions in Cash Cropping Economies: The Determinants of Farmer Participation and Performance in the Zambezi River Valley of Mozambique." Paper presented at the 26th International Association of Agricultural Economists Conference, August 12–18, Gold Coast, Australia. www.aec.msu.edu/fs2/mozambique/cashcropping-benfica.pdf.

Benito-Spinetto, M., and P. Moll. 2005. "Macroeconomic Developments, Economic Growth and Consequences for Poverty." Background Paper for the 2005 Country Economic Memorandum. World Bank, Washington, DC.

Bloom, D., D. Canning, and K. Chan. 2006. "Higher Education and Economic Development in Africa." Africa Region Human Development Working Paper Series 102. World Bank, Washington, DC.

Bodibe, Oupa, ed. 2006. "The Extent and Effects of Casualisation in Southern Africa: Analysis of Lesotho, Mozambique, South Africa, Swaziland, Zambia and Zimbabwe." Research Report for the Danish Federation of Workers. National Labor and Economic Development Institute, Johannesburg, South Africa.

Borgarello, A., D. Marignani, and Z. M. P. Sande. 2004. "What Hinders Small and Medium Entrepreneurs in Mozambique?" I Quaderni della Cooperazione Italiana Paper 7.

Bosten, Emmy. 2006. "China's Engagement in the Construction Industry of Southern Africa: The Case of Mozambique." Paper for the Workshop, Aisan and Other Drivers of Global Change, January 19–21, St. Petersburg, Russia.

Brito, L. 2003. "The Mozambican Experience: Initiating and Sustaining Tertiary Education Reform." Case study prepared for the regional training conference Improving Tertiary Education in Sub-Saharan Africa: Things that Work! September 22–25 in Accra, Ghana.

Bruce, J. 2007. "Land Use Rights for Commercial Activities in Mozambique." United States Agency for International Development, Washington, DC.

Canton, E., and A. Blom. 2004. "Can Student Loans Improve Accessibility to Higher Education and Student Performance?" Policy Research Working Paper Series 3425, World Bank, Washington, DC.

Castel-Branco, C. N. 2004. "What Is the Experience and Impact on South African Trade and Investment on the Growth and Development of Local Economies? A View from Mozambique." In *Stability, Poverty Reduction, and South African Trade and Investment in Southern Africa*. Pretoria: Southern African Regional Poverty Network.

Childress, Malcolm, Andrew Hilton, David Solomon, and Rogier van den Brink. Forthcoming. "Agricultural Land Tax, Land Use Intensification, Local Development and Land Market Reform" in *Agricultural Land Redistribution: Towards Greater Consensus on the "How",* ed. Hans P. Binswanger-Mkhize, Camille Bourguignon, and Rogier van den Brink. Washington, DC: World Bank.

Clement, Jean A. P., and Shanaka J. Peiris, ed. 2008. *Post-Stabilization Economics in Sub-Saharan Africa*. Washington, DC: International Monetary Fund.

Cockroft, J. 2004. "The Textile and Garment Sectors in Mozambique. An Appraisal." United States Agency for International Development, Washington, DC.

Collier, P., and J. Gunning. 1999. "Why Has Africa Grown Slowly?" *Journal of Economic Perspectives* 13 (3): 3–22.

Commission on Growth and Development. 2008. *The Growth Report: Strategies for Sustained Growth and Inclusive Development.* Conference Edition. Washington, DC: World Bank.

Conceição de Quadros, M. 2002. "Country Case Study: Mozambique." Paper presented at the Workshop on Integrating Land Issues into Poverty Reduction Strategies and the Broader Development Agenda, Kampala, April.

Coughlin, P. 2006. "Agricultural Intensification in Mozambique: Infrastructure, Policy and Institutional Framework: When Do Problems Signal Opportunities?" Paper delivered at workshop at Hotel VIP in Maputo, September 12. Econ Policy Research Group.

———. 2007. "Competitive Commercial Agriculture in Sub-Saharan Africa—Mozambique." CCAA Background Working Paper. Econ Policy Research Group, Maputo.

CTA (Confederação Das Associações Económicas De Moçambique). 2006. "Política de Salário Mínimo em Mozambique. Maputo." Discussion paper. Confederação Das Associações Económicas De Moçambique, Maputo.

Datamonitor. 2007. *South Africa Country Profile.* New York: Datamonitor.

De Soto, Hernando. 2000. *The Mystery of Capitalism: Why Capitalism Triumphs in the West and Fails Everywhere Else*. London: Bantam Press.

Deininger, K. 2003. *Land Policies for Growth and Poverty Reduction. World Bank Policy Research Report Series.* Washington, DC: World Bank, and Oxford and New York: Oxford University Press.

Deininger, K., and P. Olinto. 2000. "Why Liberalization Alone Has Not Improved Agricultural Productivity in Zambia: The Role of Asset Ownership and Working Capital Constraints." World Bank Policy Research Working Paper 2302. World Bank, Washington, DC.

Diagnostic Trade Integration. 2004. *Removing Obstacles to Economic Growth in Mozambique*. Washington, DC: United States Agency for International Development.

Djankov, Simeon, Caroline Freund, and Cong Pham. 2006. "Trading on Time." World Bank Policy Research Working Paper 3909. World Bank, Washington, DC.

Durang, T., and C. Tanner. 2004. "Access to Land and Other Resources for Local Communities in Mozambique: Current Examples from Manica Province." Paper Presented to the Green Agri Net Conference on Land Administration in Practice, April 1–2 in Denmark.

Eifert, B., A. Gelb, and V. Ramachandran. 2005. "Business Environment and Comparative Advantage in Africa: Evidence from the Investment Climate Data." Center for Global Development Working Paper 56. Center for Global Development, Washington, DC.

EIU (Economist Intelligence Unit). 2007. *Country Profile Mozambique.* London: The Economist Group.

Ferrinho, P., and C. Omar. 2006. "The Human Resources for Health Situation in Mozambique." Africa Region Human Development Working Paper Series 91. World Bank, Washington, DC.

FIAS (Foreign Investment Advisory Service). 2006a. Market Diversification of the Lesotho Garment Industry." Discussion draft. World Bank, Washington, DC.

———. 2006b. "Study on the Impact of Taxes, Customs, Licenses and other Fees on the Investment Climate Mozambique." Country report. World Bank, Washington, DC.

———. 2006c. *The Tourism Sector in Mozambique: A Value Chain Analysis*. Washington, DC: World Bank.

Fox L., E. Bardasi, and K. Van den Broeck. 2005. "Poverty in Mozambique: Unraveling Changes and Determinants." African Region Working Paper Series 87. World Bank, Washington, DC.

Fox, L., and M. Gaal. 2007. *Working out of Poverty: Job Creation and the Quality of Growth in Africa*. Washington, DC: World Bank.

Fox, L., and A. Oviedo. 2008. "Are Skills Rewarded in Sub-Saharan Africa? Determinants of Wages and Productivity in the Manufacturing Sector." World Bank, Washington, DC.

Francisco, A., and K. Matter. 2007. "Poverty Observatory in Mozambique: Final Report." Swiss Agency for Development and the World Bank, Washington, DC.

Gillson, I. 2007. "Mozambique: Implications of a SADC Free Trade Area and EPA Negotiations." World Bank, Washington, DC.

———. 2008. 'Mozambique's Export Market Penetration." World Bank, Washington, DC.

Global Development Solutions LLC. 2005. "Value Chain Analysis for Strategic Sectors in Mozambique."

Hassan, Shakill. 2007. "Taxation and the Cost of Capital in Mozambique." Discussion Paper 39E. NDSPA, Ministry of Planning and Development, Republic of Mozambique, Maputo.

Hoekman, Bernard, and Alessandro Nicita. 2008. "Trade Policy, Trade Costs and Developing Country Trade." World Bank Policy Research Working Paper 4797. World Bank, Washington, DC.

Horton, C. 1996. "Capital flows from South Africa into Neighboring Countries: The Case of Textiles and Clothing." NALEDI paper. NALEDI, Johannesburg.

Ikenson, Daniel. 2008. *While Doha Sleeps: Securing Economic Growth through Trade Facilitation*. Trade Policy Analysis 37. Washington, DC: Cato Institute.

IMF (International Monetary Fund). 2004. Financial Sector Assessment Program. International Monetary Fund, Washington, DC.

———. 2005. "Republic of Mozambique: Selected Issues and Statistical Appendix." IMF Country Report 05/311. International Monetary Fund, Washington, DC.

———. 2007. “2007 Article IV Consultation, Sixth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility.” International Monetary Fund, Washington, DC.

———. 2008. “Second Review under the Policy Support Instrument and Request for Waiver of Nonobservance of Assessment Criteria.” International Monetary Fund, Washington, DC.

Infodev. 2007. “Maputo Business Incubator: Feasibility Study for IFC and InfoDEV.” PowerPoint presentation. World Bank, Washington, DC.

Jacobs, Scott, Peter Ladegaard, and Ben Musau. 2007. “Kenya’s Radical Licensing Reforms, 2005–07: Design, Results, and Lessons Learned.” Paper for the Africa Regional Consultative Conference Creating Better Business Environments for Enterprise Development: African and Global Lessons for More Effective Donor Practices, November, Accra.

Jenkins, Paul. 2001. “Strengthening Access to Land for Housing for the Poor in Maputo, Mozambique.” *International Journal of Urban and Regional Research* 25 (3): 629–48.

———. 2002. “The Role of the State in Emerging Urban Housing Markets in Maputo, Mozambique.”

Jones, Sam. 2006. “Growth Accounting for Mozambique (1980–2004).” Discussion Paper 22E. National Directorate of Studies and Policy Analysis, Ministry of Planning and Development, Maputo.

Kaplinsky, R., and M. Morris. 2006. “Dangling by a Thread: How Sharp Are the Chinese Scissors?” Institute of Development Studies, University of Sussex, Brighton, UK.

Kuegler, Alice. 2007. “Unlevel Playing Fields: The Application of Tax Incentives in Mozambique.” Discussion Paper. Directorate of Studies, Planning and Technical Assistance, National Tax Directorate Ministry of Finance, Maputo.

Lee Y. 2003. “New Opportunity for Textile and Garment Industry in Mozambique: Technical View of a Korean Expert.” Technical Report. Asia-Africa Investment and Technology Promotion Center, United Nations Industrial Development Organization.

LNDC (Lesotho National Development Corporation). 2008. “Lesotho Investors’ Guide.” Lesotho National Development Corporation, Maseru, Lesotho.

Lucas, Robert E. Jr. 2007. *Trade and the Diffusion of the Industrial Revolution*. NBER Working Paper 13286. Washington, DC: National Bureau of Economic Research.

Mário, M., P. Fry, L. Levey, and A. Chilundo. 2003. *Higher Education in Mozambique: A Case Study*. Oxford: James Currey Ltd..

Markusen, J. R., and N. Trofimenko. 2009. "Teaching Locals New Tricks: Foreign Experts as a Channel of Knowledge Transfers." *Journal of Development Economics* 88 (1): 120–31.

Ministerio da Industria e Comercio. 2007. "Pequenas e Medias Empresas em Mocambique." Maputo.

———. 2007. "Estrategia para o desenvolvimento do sector textile e de confeccoes." Draft. Maputo.

Minor, P. 2005. "Survey of US apparel buyers: Sourching from sub-Saharan Africa in the post-quota MFA." United States Agency for International Development, Washington, DC.

———. 2007. "Developing a cotton textile and apparel value chain in Mozambique." United States Agency for International Development, Washington, DC.

Morris, M., and L. Sedowski. 2006. "Report on Government Responses to New Post-MFA Realities in Lesotho." PRISM Working Paper. Policy Research on International Services and Manufacturing, University of Cape Town, Rondebosche, South Africa.

Mullan, F., and S. Frehywot. 2007. "Non-Physician Clinicians in 47 Sub-Saharan African Countries," *Lancet* 370: 2,158-63.

Myers, G.W., J. Eliseu, and E. Nhachungue. 1994. "Security, Conflict, and Reintegration in Mozambique: Case Studies of Land Access in the Postwar Period." LTC Research Paper 119. Land Tenure Center, University of Wisconsin-Madison, Madison, US.

National Directorate of Studies and Policy Analysis. 2006. "Enterprise Development in Mozambique: Results Based on Manufacturing Surveys Conducted in 2002 and 2006." Discussion Paper 33E. National Directorate of Studies and Policy Analysis, Maputo.

Ndulu, B., and S. O'Connell. 2003. "Revised Collins/Bosworth Growth Accounting Decompositions." AERC Growth Project. African Economic Research Consortium, Nairobi.

Palmade, V. 2005. "Industry Level Analysis: The Way to Identify the Binding Constraints to Economic Growth." World Bank Policy Research Working Paper 3551. World Bank, Washington, DC.

Psacharopoulos, G., and H. Patrinos. 2002. "Returns to Investment in Education, A Further Update." World Bank Policy Research Working Paper Series 2881. World Bank, Washington, DC.

República de Moçambique. 2006. *Plano de Acção para a Redução da Pobreza Absoluta, 2006-2009. PARPA II.* Maputo.

Rollo, V., and I. Gillson. 2008. "The Characteristics of Economic Partnership Agreements in Southern Africa. A Brief Analysis of the Merchandise Trade Provisions." World Bank, Washington, DC.

SADC (Southern African Development Community). 2007. "Review of the Status and Capacities for the Implementation of the Protocol on Education and Training." Southern African Development Community, Gaborone.

Salinger, L. 2003. "Competitiveness Audit of Madagascar's Cotton, Textiles and Garments Sector." United States Agency for International Development, Washington, DC.

Salm, Andrew, William J. Grant, Thuso J. Green, John R. Haycock, and John Raimondo. 2002. "Lesotho Garment Industry Subsector Study." Southern African Regional Poverty Network, Pretoria.

Salmi, J. 2003. "Student Loans in an International Perspective: The World Bank Experience." Latin America and the Caribbean Human and Social Development Group Paper Series 44. World Bank, Washington, DC.

Sebei, E. 2006. "Trade Potential between South Africa and Mozambique." Directorate of International Trade, Department of Agriculture, Pretoria.

Sokoloff, K.L., and S.L. Engerman. 2000. "Institutions, Factor Endowments, and Paths of Development in the New World." *Journal of Economic Perspectives* 14(3): 217–32.

Sonne-Schmidt, C., C. Arndt, and M. Magaua. 2008. "Contribution of Mega-projects on GDP."

Sulemane, J. 2001. "Economic Decline: A Study with Reference to Mozambique." Ph.D. Dissertation. University of Notre Dame, Notre Dame, US.

Summers, L. 1999 "Reflections on Managing Global Integration." *Journal of Economic Perspectives* 13(2): 3–18.

Tahari A., B. Akitoby, and E. Aka. 2004. "Sources of Growth in Sub-Saharan Africa." IMF Working Paper 04/176. International Monetary Fund, Washington, DC.

Tanner, C. 2002. "Law-Making in an African Context: the 1997 Mozambican Land Law." *FAO Legal Paper Online 26*. Food and Agriculture Organization of the United Nations, Rome. http://www.sarpn.org.za/CountryPovertyPapers/Mozambique/Legal/tanner.php.

Tanner, C., and S. Baleira. 2006. "Mozambique's Legal Framework for Access to Natural Resources: The Impact of New Legal Rights and Community Consultations on Local Livelihoods." *FAO LSP Working Paper 28*. Food and Agriculture Organization of the United Nations, Rome. ftp://ftp.fao.org/docrep/fao/009/ah249e/ah249e00.pdf.

UNDP (United Nations Development Programme). 2007. *Growth, Poverty and Inequality in Mozambique*. New York.

UN-HABITAT (United Nations Human Settlements Programme). 2005. "Law, Land Tenure and Gender Review Series: Southern Africa."

———. 2006. "Security of Tenure and Policy Preparation in Mozambique." Overall Project Report. Maputo.

US International Trade Commission. 2004a. *Sub-Saharan Africa: Factors Affecting Trade Patterns of Selected Industries*. Investigation 332-477, USITC publication 3914. Washington, DC.

———. 2004b. *Textiles and Apparel: Assessment of the Competitiveness of Certain Foreign Suppliers to the US market.* Investigation no. 332-448 USITC publication 3671. Washington, DC.

USAID (United States Agency for International Development). 2005. "Financial Services to Support International Trade in Mozambique." United States Agency for International Development, Washington, DC.

———. 2007a. "Reducing Import and Export Processing Times in Mozambique: Assessment and Recommendations." United States Agency for International Development, Washington, DC.

———. 2007b. "Financial Sector Constraints on Private Sector Development in Mozambique." United States Agency for International Development, Washington, DC.

———. 2007c. "Land Use Rights for Commercial Activities in Mozambique." United States Agency for International Development, Washington, DC.

USAID (United States Agency for International Development) and Government of Mozambique. 2002. *Country Strategic Plan FY 2004-2010*. Maputo.

Van Dunem, João E. 2007. "Confronting the Elasticity of Customs Evasion in Mozambique: An Empirical Study, in Fiscal Policy and Tax Incidence." Discussion Paper 39E. NDSPA, Ministry of Planning and Development, Maputo.

Vaz, F., S. Bergström, M. Vaz, J. and A. Bugalho. 1999. "Training Medical Assistants for Surgery." *Bulletin of the World Health Organization* 77(8).

Wilson, John, Catherine L. Mann, and Tsunehiro Otsuki. 2004. "Assessing the Potential Benefit of Trade Facilitation: A Global Perspective." World Bank Policy Research Paper 3224. World Bank, Washington, DC.

Wolf, M. 2002. "Deciding Women's Lives Are Worth Saving: Expanding the Role of Midlevel Providers in Safe Abortion Care." Issues in Abortion Care 7. IPAS Chapel Hill, NC.

World Bank. 2000. *Higher Education in Developing Countries: Peril and Promise*. Washington, DC.

———. 2002. *Constructing Knowledge Societies: New Challenges for tertiary Education*. Washington, DC.

———. 2004. *Skills Developments in Mozambique: Issues and Options*. Washington, DC.

———. 2005a. "Mozambique: Country Economic Memorandum. Sustaining Growth and Reducing Poverty." World Bank, Washington, DC.

———. 2005b. "Country Economic Memorandum Lesotho: Growth and Employment Options Study." World Bank, Washington, DC.

———. 2007a. "PSIA II—Follow Up Study of Primary Education and Baseline Study of Secondary Education, Mozambique." World Bank, Washington, DC.

———. 2007b. "South Africa: Enhancing the Effectiveness of Government in Promoting Micro, Small and Medium Enterprise (Value Chain: Apparel)." World Bank, Washington, DC.

———. 2007c. *Connecting to Compete: Trade Logistics in the Global Economy*. Washington, DC.

———. 2007d. Country Policy and Institutional Assessment. World Bank, Washington, DC.

———. 2007e. *World Development Report 2008: Agriculture for Development*. Washington, DC.

———. 2008a. *An overview of the constraints to the development of the housing finance sector World Bank: Maputo.* Washington, DC.

———. 2008b. *Expanding the Possible in Sub-Saharan Africa: How Tertiary Institutions Can Increase Growth and Competitiveness*. Washington, DC.

———. 2008c. *Mozambique, Beating the Odds: Sustaining Inclusion in a Growing Economy, A Mozambique Poverty, Gender, and Social Assessment*. Washington, DC.

———. 2008d. *Global Economic Prospects, Technology Diffusion in the Developing World.* Washington, DC.

———. 2008e. "Mozambique Investment Climate Assessment." Draft report (September). World Bank, Washington, DC.

———. 2008f. “Productivity Growth in Eastern Europe and the Former Soviet Union.” World Bank, Washington, DC.

———. Various years. *World Development Indicators*. Washington, DC.

IBRD 33451R1

JANUARY 2007