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Assessing the Competitiveness in Mozambique

Ylva Wide

Supervisor: Yves Bourdet

Abstract

Mozambique has benefited from very high economic growth the last decade and is a large receiver of foreign aid. In spite of these high growth rates and foreign aid the population living in absolute poverty is still extremely high. The reason for this is that the growth rates have been driven by capital intensive foreign owned megaprojects that do not provide many jobs for the Mozambicans.

This study was conducted through a series of interviews combined with individual research and analysis. It discusses the competitiveness of Mozambique by focusing on eventual obstacles, what measures to increase the competitiveness that already have been taken and what more could be done to further increase the competitiveness. The focus on competitiveness is motivated by the fact that an increased competitiveness will lead to a more efficient private sector and more jobs provided for the Mozambicans.

When examining Mozambique's Revealed Comparative Advantage (RCA) Mozambique is competitive in primary products but is poorly diversified beyond that. A recent devaluation of the Mozambican currency towards its major trading partners may positively influence Mozambique's comparative advantage; however, the country's inefficient institutions and high transportation costs will continue to cause significant harm to Mozambique's competitiveness. The low education and knowledge of many Mozambican officials, high levels of corruption, and an inefficient bureaucratic process combined with a highly insufficient transportation infrastructure make doing business in Mozambique very expensive. Overcoming these obstacles requires a diverse investment strategy. Investments in education could, in a long term perspective, improve the effectiveness of institutions, reduce corruption, and increase product sophistication. Investments in infrastructure would reduce transportation costs and the opportunity for Mozambique to function as a transport hub to its several landlocked neighboring countries.

Keywords: Mozambique, Competitiveness, Poverty, RCA, REER

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Abbreviations

ADB	African Development Bank
AGOA	US African Growth and Opportunity Act
ACP	African, Caribbean and Pacific countries
CEDARTE	Centre for Studies and Development of Handicraft
CPI	Investment Promotion Centre
CTA	Confederation of Business Association
DANIDA	Danish International Development Agency
DIP	Developmental Industrial Policy
DNA	Distribuidora Nacional De Azucar
EBA	Everything But Arms
EC	European Commision
EDM	Electricidade de Moçambique
EPZ	Export Processing Zone
EU	European Union
FDI	Foreign Direct Investments
FIZ	Free Industrial Zone
FTA	Free Trade Agreement
FRELIMO	Frente de Libertação de Moçambique
GCI	Global Competitive Index
GDP	Gross Domestic Product
GTZ	German Agency for Technical Cooperation
HCB	Hidroelectrica Cahora Bassa
HIPC	Highly Indebted Poor Countries
IMF	International Monetary Fund
INE	National Statistics Institute
IPR	Intellectual Property Rights
IPEX	Institute for Export Promotion

LDCs	Least Developed Countries
MFN	Most Favoured Nation
MIC	Ministry of Industry and Commerce
ODA	Official Development Assistance
OECD	Organization for Economic Co-operation and Development
PARPA	Plano de Acção para a Redução da Pobreza Absoluta
PFM	Public Financial Management
PRSP	Poverty Reduction Strategy Paper
WB	World Bank
REER	Real Exchange Rate
R&D	Research and Development
RENAMO	Resistência Nacional Moçambicana
SADC	South African Development Cooperation
SISTAFE	Sistema de Administração Financeira do Estado
SEZ	Special Economic Zones
SME	Small and Medium Enterprises
SNV	Netherlands Development Organization
TRIPS	Trade Related Aspects of Intellectual Property Rights
UNCTAD	United Nations Conference on Trade and Development
UNIDO	United Nations Industrial Development Organization
USAID	United States Agency for International Development
VAT	Value Added Tax
WTO	World Trade Organization

1 Introduction

Sub-Saharan Africa contains some of the poorest countries in the world. While many poor countries in other parts of the world have developed and increased the living standard of their population, Sub-Saharan countries have fallen behind. This study discusses how the poor countries can get their foot up on the development ladder and take part in the globalized economy. In order to meet this goal it is vital that these countries increase their competitiveness. Competitiveness does not have an intrinsic value but is a means to ensure that the poorest people in the world, the bottom billion, can raise their standard of living.

Even though economic growth in Mozambique has been relatively high for the last decade a huge part of the population still lives in absolute poverty. According to the Human Development Report 2009, some 75 % of the population of Mozambique is living under the poverty line of 1.25 dollar a day and 90 % living on less than 2 $ a day. Mozambique receives sizeable foreign development aid and the persistence of poverty has led to a debate about the efficiency of foreign aid.

The purpose of the present study is to assess the competitiveness of Mozambique's economy and to discuss what measures are likely to improve it. The study is structured as follows. The second chapter provides a theoretical background that highlights the dimensions of competitiveness and the factors that influence it. The third chapter examines the external trade performance of Mozambique. The fourth chapter assesses the actual competitiveness of Mozambique with the help of the framework developed in the theoretical chapter. The fifth chapter analyses the actions and measures that have been taken to improve the country's competitiveness. In a concluding chapter, the study is summarized and measures that can improve further the competitiveness of the Mozambican economy are discussed.

2 Competitiveness – Definitions and determinants

The term international competitiveness refers to a number of different things and economists do not agree on one definition. Discussion has dealt with whether or not competitiveness should be discussed through only a microeconomic perspective – international competitiveness of enterprises - or if it also should be analyzed through a macroeconomic – international competitiveness of countries - perspective. Paul Krugman argues that "competitiveness is a meaningless word when applied to national economies. And the obsession with competitiveness is both wrong and dangerous".[1] What Krugman means is that there is a difference between the interaction of countries and that of firms. The proponents of the macroeconomic perspective argue that there are useful definitions of the term international competitiveness. The one used in this study is the definition by the OECD where a nation's competitiveness is defined as "the ability of a country to operate efficiently and productively in relation to other countries while keeping living standards for its citizens high".[2] A nation thus needs to provide goods or services with lower price or higher quality than other nations in order to be competitive on the global market. Competitiveness without industrialization is not very likely and few – if any – countries have actually developed without industrializing.

Industrialization has become even more important in the globalized economy since produced final goods and components can now be sold all over the world. This creates a potential for rapid growth for those countries that are competitive enough. Rapid growth has shown itself to be distinctive to manufacturing. This is because when the manufacturing activity expands it does not – like agriculture or the extractive industries – run up against shortages of land and resources, but benefits from both static and dynamic economies of scale.[3]

[1] Krugman 1994 p. 44

[2] Ramirez and Tsangarides 2007 p. 4

[3] UNIDO 2009 p. 13

2.1 What influences the competitiveness of a country?

A number of factors influence the level of competitiveness of a country, from macroeconomic, like the external real exchange rate, to structural factors, such as infrastructure and the quality of institutions.

2.1.1 Exchange rate measures

To assess the competitiveness it is important to be able to compare the cost situation in the country analyzed with that in competing countries. This can be approximated by the real effective exchange rate which is defined as "the ratio of domestic consumer prices to (an exchange-rate adjusted) weighted index of consumer prices in trading partners".[4] The real effective exchange rate is calculated as a weighted average of bilateral real exchange rates:

$$REER_i = \prod_{i \neq j} \left(\frac{p_i e_{i1}}{p_j e_{j1}} \right)^{x_{ij}}$$

Where ej denotes the exchange value of country j's currency against the domestic currency, xij is country j's weight in country i's index, and pj is the price index of country j. A rise in the REER represents a real appreciation of the domestic currency.[5] The real effective exchange rate is thereafter compared to the nominal effective exchange rate to evaluate if there is a problem of over- or undervaluation. The REER can also be compared to the Equilibrium Real Effective Exchange Rate (EREER) to see if these are in line with each other or not. If the REER is higher than the EREER this could imply that the country's export is not performing as well as it might. If the REER is deviating from equilibrium this implies the existence of macroeconomic imbalances that need to be corrected through macroeconomic adjustment. If the REER is aligned with the EREER but the export is still not competitive structural reforms

[4] Ricci, Milesi-Ferretti and Lee 2006 p. 5

[5] Golub 2002 p. 14

aimed at improving the competitiveness of the export sector might be more appropriate.[6]

2.1.2 Level of industrialization and production base

The level of industrialization and the production base of a country are vital in deciding its level of competitiveness. Three things can be said to especially influence the competitiveness of a country; the diversification of industry, the sophistication of export and the location of industry.[7]

Diversification

Empirical evidence points toward a U-shaped relationship between specialization in production (and exports) and per capita income. This means that as income rises, countries become more diversified in terms of production and export structures. When the countries reach a very high level of income the diversification of their production and export tends to decrease again as they specialize in the production of their most profitable export.[8]

Industrial diversity makes a country less vulnerable to price fluctuations as well as makes it easier to take advantage of export opportunities on the global market. Another reason for the importance of industrial diversity in relation to development is the different type of business climate a wide range of industrial activities provide. It is easier for firms to enter and exit the market if there is a wide range of production possibilities and this facilitates the expansion of more productive firms in a sector and eases the exit of less productive ones.[9]

[6] Saxegaard 2008 p 370

[7] UNIDO 2009 p. 11, 27

[8] UNIDO 2009 p. 11f

[9] UNIDO 2009 p. 12

Product Sophistication

Countries that produce products mainly produced by high income countries tend to grow faster. This relationship between technological advance and rising income levels might be explained by the fact that as the manufacturing base in developing countries shifts from low-technology to higher-technology activities income levels rise as a result of knowledge-based spillovers to the rest of the economy. Another explanation is that sophisticated exports reflect the presence of highly globally competitive firms in an economy. Thus if a firm from a low income country can enter this market, the firm-level productivity must equal or exceed that of its high-income competitors.[10]

Another possibility for developing countries is to specialize in the task-based production. This is the production of intermediate goods through the specializations on one of the production stages of a final good. The logic for decomposing the production of a product is that different tasks in the production process might require distinct skills, use labor and capital in different proportions and require different inputs. Different countries might be able to provide these different skills and properties and thus take advantage of the locations' comparative advantage. It is possible that economies of scale may be reached at the level of task instead of at the level of final product. The task-based production depends on low transportation and coordination costs which today generally are quite high among developing countries. But as these costs fall it is possible that it will be more efficient to locate the production of different tasks in different locations. One concern with task-based production has been that developing countries might get stuck in producing low sophisticated products (or low skilled tasks). UNIDO (2009) shows that this is not the case. Just as with production of manufactured goods, the sophistication of task-based goods rises with the level of per capita income.[11]

[10] UNIDO 2009 p.13

[11] UNIDO 2009 p. 18ff

Agglomeration

Evidence suggests that agglomeration can contribute to improving competitiveness. If firms are located closely to each other there is room for positive externalities such as access to markets, industry-specific knowledge, information spillovers, competitive pressure, economies of scale and a pool of workers with specified skills. Other agglomeration externalities can be lower transportation and transactions cost which is highly relevant for developing countries for which these costs are frequently very high.[12]

The industrial clusters can either be involved in producing final products or be specified in one or many tasks of the production of products. The most common form of Special Economic Zones (SEZ) is the Export Processing Zone (EPZ), which is a combination of trade and spatial policies. There is limited information about how clusters help LDC:s. There seem to be three main elements that are critical to a successful policy. These are infrastructure, management and institutions. In order to attract foreign and domestic investors, infrastructure such as electricity, water supply and international communication has to be effective. The management has to be run by people with experience in business and not bureaucrats. The institutions also need to be clear and transparent and non-preferential to certain investors.[13]

2.1.3 Transport and Production Cost

Developing countries often suffer from high transportation costs because of poor infrastructure, inefficient logistic administration and climate related problems such as droughts and rainy periods. On the other hand labour costs are substantially lower in these countries. Another substantial part of the production costs is the cost of energy. In developing countries this can be both expensive and unpredictable with frequent energy black-outs.

[12] UNIDO 2009 p. 27f

[13] UNIDO 2009 p. 27, 74

The International transport cost has declined substantially, which makes other features of transport costs such as customs, port handling, internal transport and distribution a larger share of the production costs. This is especially visible in task-based production where intermediate costs constitute a large part of the final product. Other factors that influence the transportation costs are the timeliness and reliability of the supply chain.[14]

Developing countries often lack transparent and well-functioning institutions and the regulations and administration are often subject to inefficiency and corruption. Border restrictions other than customs regulation and practices have been proved to negatively affect trade. Where customs had to collaborate with other institutions such as the health department the administration is particularly restraining for trade. Logistic service reforms and improved coordination of public agencies active in border control emerge as something extremely important. Regional integration is also important as a means to decrease transportation costs and cumbersome customs regulation.[15]

2.1.4 Governance and Quality of Institutions

A number of things are important when it comes to the impact of governance and quality of institutions on the competitiveness of a country. First of all the process by which governments are selected, monitored and replaced is important in that it determines the political stability and accountability of the political system. The quality of public serviced provision, of the bureaucracy, the competence of civil servants, the independence of civil servants from political pressure and government credibility with regard to its public commitments are other important issues. Furthermore, a general respect for institutions is important as it leads to a low level of corruption and the protection of property rights to encourage domestic and international investment. The

[14] UNIDO 2009 p. 68

[15] UNIDO 2009 p. 70

functioning of the institutions is also very important for the business environment. The more efficient and transparent the institution, the more viable the business climate.[16]

Whether or not a government takes an active role in the industrial policy also affects the competitiveness of the country. A well designed and implemented developmental industrial policy (DIP) can increase the competitiveness by focusing on activities with increasing returns instead of those with decreasing or constant returns.[17]

Policies to attract and encourage FDI are important. FDI in developing countries, particularly in Sub-Saharan Africa, has largely been focused on extractive industries or on simple processing and labour-intensive activities with few local backward linkages. FDI inflows to manufactures remain marginal and the experience of LDCs suggests that the contribution of FDI to industrial and technological upgrading has been very limited. The default of the expected benefits of FDIs can partly be related to the lack of an industrial policy.[18]

[16] Bakhache, S et alt. 2006 p. 15ff

[17] UNCTAD 2009 p. 149

[18] Ibid p 159

3 Mozambique's Trade Specialization

The Mozambican export has increased more than threefold since 2004 and amounted to 2.65 billion US$ in 2008. The main export commodities are aluminum – which made up 55 % of total export in 2008 -, electricity, tobacco and natural gas. The major export partners in 2008 were the Netherlands who accounted for 55.5% (all the exported aluminum) of exported goods, South Africa with 9.2% and Zimbabwe with 2.1%. The major import partners in 2008 were South Africa with 27.4%, Netherlands with 15.7% and China with 4.3% of total imports.[19]

In this chapter the export performance of Mozambique is examined with the help of Balassa's measure of Revealed Comparative Advantage (RCA).

3.1 Balassa's indexes of revealed comparative advantage

The revealed comparative advantage suggests that a comparative advantage can be revealed by studying the existing trade patterns of a country. From the theory of RCA an index is derived measuring a country's share in export of a commodity relative to its total exports and the worlds export of the product.

$RCA_1 = (X_{ij}/X_{it})/(X_wj/X_{wt})$

Where X_{ij} and X_wj represents country i's and the world export of commodity j and X_{it} and X_{wt} the total export of country i and the world. If $RCA_1>1$ the country's share of of world exports of the good is greater than the country's share of world exports and a comparative advantage is revealed. If the $RCA_1<1$ the country has a comparative disadvantage. The RCA_1 thus measures exports in comparison to the export of the rest of the world and for this reason one must be aware of the country size effect. A small developing country with poorly diversified export may get very high levels of comparative advantage for those exports that are intensively exported – often

[19] https://www.cia.gov/library/publications/the-world-factbook/geos/mz.html

traditional products - and get very low levels for other products. Another disadvantage of the RCA_1 index is that it does not take barriers to trade or imports into account. For these reasons RCA_2 - which also take imports into account – will complement the RCA_1 and these indexes will then be used to complement each other in order to draw stronger conclusions.

$RCA_2 = (X_{ij} – M_{ij}) / (X_{ij} + M_{ij})$

Where X = export, M= Import, i = country and j = commodity. The RCA_2 takes a value between – 1 and 1. If the $RCA_2 > 0$ the country has a comparative advantage in the commodity j and if $RCA_2 < 0$ it has a disadvantage. If the RCA_2 is around zero it is ambiguous.[20]

3.2 Mozambique's revealed comparative advantages

The Mozambican specialization patterns will be assessed first at the two digit level and then on the four digit level for those product groups that are of most interest. The data is mainly collected from the ITC with some contribution from Comtrade and the results are based on the authors' calculation in accordance with the formulas above. The period investigated for is from 2001to 2008 and the numbers are presented as an average for year 2001/2002, 2005/2006 and 2007/2008. An exception is made at the four digit level where 2007 and 2008 are accounted for separately to highlight important improvements in the competitiveness between the two years.

[20] Greenaway and Milner 1993 p. 181 - 187

Table 1: RCA on a 2-digit level

HS Code	*Products*	*2001/2002*		*2005/2006*		*2007/2008*	
		RCA_1	RCA_2	RCA_1	RCA_2	RCA_1	RCA_2
3	Fish, crustaceans, molluscs, aquatic invertebrates nes	21.08	0.86	8.36	0.52	6.11	0.41
7	Edible vegetables and certain roots and tubers	0.38	-0.05	0.66	-0.3	1.06	-0.33
8	Edible fruit, nuts, peel of citrus fruit, melons	4.29	0.94	3.51	0.91	2.87	0.76
12	Oil seed, oleagic fruits, grain, seed, fruit, etc, nes	1.45	0.47	2.47	0.5	3.76	0.68
17	Sugars and sugar confectionery	6.42	0.32	8.91	0.63	12.12	0.73
23	Residues, wastes of food industry, animal fodder	4.28	0.6	3.07	0.17	1.11	0.29
24	Tobacco and manufactured tobacco substitutes	6.47	0.51	15.64	0.64	22.26	0.75
26	Ores, slag and ash	0.19	0.89	0.09	0.82	0.94	0.95
44	Wood and articles of wood, wood charcoal	1.86	0.47	1.76	0.43	1.71	0.32
49	Printed books, newspapers, pictures etc	0.06	-0.97	2.42	-0.78	1.78	-0.37
52	Cotton	3.65	0.57	5.78	0.87	4.94	0.88
53	Vegetable textile fibres nes, paper yarn, woven fabric	2.22	0.58	2.43	0.76	5.53	0.95
67	Bird skin, feathers, artificial flowers, human hair	0.01	-0.85	0.29	-0.26	3.08	0.81
76	Aluminium and articles thereof	47.57	0.98	55.19	0.98	54.29	0.98
78	Lead and articles thereof	0.31	0.19	1.13	0.63	1.49	0.93
99	Commodities not elsewhere specified	1.45	-0.89	0.3	-0.94	1.58	-0.74

Source: Authors own calculations based on data from ITC and Comtrade

Table 1 consists of those export commodities where Mozambique reveals a comparative advantage either by having a $RCA_1>1$ or a $RCA_2>0$.[21] What can be seen in the table is that the products mainly consist of primary products with a few exceptions. In product group 3 the comparative advantage has decreased substantially since 2001/2002 but is still on a high level. The most significant subgroup in this group is Crustaceans, which composed about 90 % of this product group in 2008. When looking at this group at the four-digit product level, the comparative advantage is very large in terms of both RCA_1 and RCA_2. The RCA in tobacco has increased substantially both in terms of RCA_1 and RCA_2. This depends on a sharp increase in the export of tobacco as well as a somewhat decreasing import. The RCA for product group 53 - vegetable textile fibres etc - has also increased both in terms of RCA_1 and RCA_2. This is the result of a doubling of the export of the product group between 2006 and 2007 as well as a reduction in import. Export group 67 – bird skin, feathers etc - has also dramatically improved their RCA between 2005/2006 and 2007/2008. The increase between these years is due to an increase in export of approximately 7 times

[21] See appenidix II for a complete table of RCA on the two digit level

between 2006 and 2008. Group 76 - aluminium and articles thereof - is the product group with the highest RCA both in terms of RCA_1 and RCA_2.

Mozambique shows a clear revealed comparative disadvantage – a $RCA_1>1$ and a negative RCA_2 - for 73 of the 97 products at the two-digit level for 2007/2008.[22] These products groups are both products associated with developing countries and more advanced manufacturing product groups.

Because of its unique importance for development the manufacturing product group was examined at four-digit level and table 2 illustrates those groups that had a RCA on this level.

Table 2: RCA on a 4-digit level

HS Code	***Product***	***2001/2002***		***2005/2006***		***2007***		***2008***	
		RCA_1	RCA_2	RCA_1	RCA_2	RCA_1	RCA_2	RCA_1	RCA_2
2616	Precious metal ores and concentrates	0.15	0.87	0	0	0.02	0.08	1.87	0.97
2716	Electrical energy	56.59	0.99	32.58	0.32	47.83	0.35	35	0.29
2805	Alkali/alkaline-earth metal;rare earth	0	-1	0	-1	0.01	-1	1.09	0.94
4413	Densified wood, in blocks, plates, strips or profile shapes	0.22	0.04	0.99	-0.34	0.54	-0.69	14.04	0.61
4907	Unused stamps;cheque forms,banknotes,bond	1.21	0.17	49.85	0.49	30.71	0.8	9.11	0.95
4908	Transfers (decalcomanias)	0	0	0	-1	1.14	0.99	15.8	0.99
6704	Wig,eyebrow,eyelash, etc.	0	0	0.74	-0.18	5.88	0.93	8.44	0.95
7307	Tube or pipe fittings, of iron or steel	0.06	-0.03	0.01	-0.09	0.1	-0.93	1.6	0.02
7322	Iron & steel radiators, air heaters&hot air distributors, etc.	0.03	0.43	0	-0.83	0	-1	1.55	0.95
8907	Floating structure,nes (raft/tank/ coffer-dam / landing stage)	0.29	-0.04	0.13	-0.84	0.08	-0.97	9.68	0

Source: Authors own calculation based on data from ITC

[22] See appenidix II for a complete table of RCA on the two digit level

Table 2 illustrates an increase between 2002/2003 and 2008 for the majority of the product groups represented. The increases in comparative advantage in product group 4413, 4908 and 8907 are remarkable. Group 4413 – Densified wood etc – has improved from 0.54 to 14.04 in terms of RCA_1 and -0.69 to 0.61 in terms of RCA_2 between 2007 and 2008. The increase in comparative advantage is a result of an increased export, decreased world export and a slight decrease in imports. Group 4908 – transfers – has increased from 1.14 to 15.8 in RCA_1 and group 8907 – floating structure etc – from 0.08 to 9.69 in terms of RCA_1. The increase of the RCA in group 8907 is due to a sharp increase in exports at the same time as the world exports increased relatively little. The reason why the RCA_2 is zero is because Mozambique imports slightly more of the product group than it exports, which indicates that Mozambique conducts intra industry trade within this product group. Product group 2716 – electrical energy - emerges on this level as a group with very high RCA_1. The reason why electrical energy has a relatively low RCA_2 is because Mozambique exports a large part of its production to South Africa where the product gets processed and is then imported back into the country. This leaves Mozambique with high levels of import which reduces the RCA_2. Mozambique has lost some of its comparative advantage in electrical energy since 2001/2002 due to a very high increase in world exports and an increase in the import of electrical energy which was nonexistent in 2001. The comparative advantage has also decreased between 2007 and 2008 as a result of a very small increase in the Mozambican export and a large increase in world export, but is still at a very high level with a RCA_1 of 35. Also product group 4907 – unused stamps etc – has lost a lot of competitiveness from 30.71 to 9.11 between 2007 and 2008 in terms of RCA_1. The loss in competitiveness depends on a sharp decrease in exports but a simultaneous drop in imports prevented the RCA_2 from falling correspondingly.

The RCA assessment for the Mozambican export indicates a country with a low export diversification. The RCA is present in a few products, many of which are produced by megaprojects, such as aluminum and electrical energy. The products for which

Mozambique has a RCA are mainly in primary products[23] with a few exceptions of products in the manufacturing industries. The results are quite stable over the years, with a few exceptions at the four-digit level between 2007 and 2008 where a few industries emerged with a revealed comparative advantage.

[23] As defined by Unido 2002 Annex I

4 Competitiveness in Mozambique

Mozambique is a large country of 801,590 km2 and approximately 21. 5 million inhabitants. The growth rates have been very high in recent years but this has not led to poverty reduction. One reason for this is that about 80% of the population work in agriculture, often on a self subsistence level. The high growth rates of the past decade are mainly due to foreign financed megaprojects and large inflows of foreign aid.[24] There are concerns that only the capital-intensive megaprojects are keeping the growth rates up and that the rest of the economic activity in the private sector is stagnant. It is thus important to spur the private sector so that dynamic, labour-intensive growth can emerge. Other concerns are that the high growth rates have been an effect of post-conflict catch-up growth and that this growth will lose ground without an improved policy and business environment.[25]

Mozambique is an extremely aid dependent country and more than half its budget revenues consists of donor aid. Mozambique aims to increase the ratio to GDP of tax revenue to 20 percent but in 2008 the ratio was only 14.4 percent. The tax base is low partly because of the large informal market in the country and also because the early megaprojects were granted large tax exemption. This policy was recently changed to only allow the tax exemption in the implementation and construction phases of the projects.[26]

In the Global Competitiveness Report for 2009-2010 Mozambique ranks number 129 out of 133 countries which is one ranking up from 2008. According to the reports Executive Opinion Survey[27] the three out of fifteen most problematic factors for doing

[24] AFDB/OECD 2008 p. 3

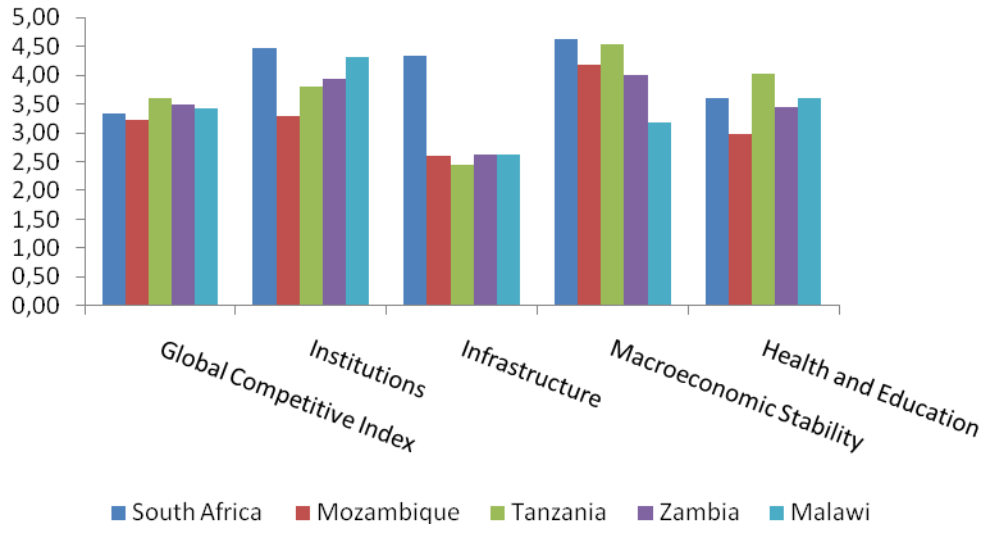
[25] EUI 2009 p. 7

[26] Carvalho and Sousa 2009 p. 14

[27] The GCR draws its data from international hard data sources and the Executive Opinion Survey where business executive answers questions about the environment in which they operate

business are access to finance, followed by corruption and inefficient government bureaucracy. According to the report Mozambique has a comparative advantage in the following indicators: total tax rate, government debt, female participation in the labour force, strength of investor's protection, FDI and technology transfer.

Figure 1: Global Competitive Index



Source: World Economic Forums' Global Competitiveness Index

The index is constructed by 12 pillars, with the four accounted for in figure 1 being the most relevant for the group of factor driven economies where Mozambique belongs. It is clear that Mozambique is performing worst of the compared countries in the overall GCI rank. It performs better than some of the comparatives in macroeconomic framework and better than Tanzania in the infrastructure pillar. Mozambique scores worst in health and primary education.

The chapter will start by focusing on the macroeconomic dimension of competitiveness and then move towards the more structural aspects of competitiveness, namely transportation and production costs, governance and the quality of institutions. Where relevant, Mozambique will be compared to the SADC member countries; Angola, Malawi, South Africa and Zambia. These are all neighbouring and competing countries except for Angola which shares the feature of being a former Portuguese colony with Mozambique. In some cases where data for

Angola has been unavailable data for Tanzania has been used. The comparisons are used to set Mozambique in perspective to other countries with similar preconditions.

4.1 Exchange rate measures

In the paper "An Assessment of External Price Competitiveness for Mozambique" Vitek concluded that the Mozambican currency (Metical), is overvalued by 26-41 %. The three approaches Vitek uses to find these results for the medium run equilibrium concept are the macroeconomic balance, equilibrium real exchange rate and external sustainability approaches.[28]

The Macroeconomic approach to the assessment of the external exchange rate focuses on the current account. This approach is calculated in three steps: the first one being an estimation of the equilibrium relationship between current account balances and a set of fundamentals. Secondly a CA norm – equilibrium current account – is computed from this relationship which is a function of the fundamentals that are projected to prevail in the medium term. The last step is to calculate the real exchange rate adjustment that is needed to close the gap between the estimated CA norm and the underlying current account balance – the current account balance that would emerge at a zero output gap both domestically and in partner countries. The results from the macroeconomic exchange rate assessment indicate that the metical is overvalued by approximately 26 % in real effective terms.[29]

The second approach is the Equilibrium real exchange rate approach which is estimated using the long run purchasing power parity to control for temporary but persistent deviations. The Equilibrium real exchange rate approach estimates an equilibrium real exchange rate as a "function of factors which cause temporary but

[28] Vitek 2009 p. 16f

[29] Vitek 2009 p. 9ff

persistent deviations from long run purchasing power parity."[30] The difference between the estimated equilibrium real exchange rate and its current value is the degree of medium run exchange rate disequilibrium. The result for Mozambique is that the metical is overvalued by 41 % in real effective terms.[31]

The last approach that Vitek uses is the External Sustainability Approach. This approach focuses on the ratio of the net foreign asset position to output and the current account norm is equated to that ratio of the current account balance to output that would stabilize this ratio. The proportional change in the real effective exchange rate that would close the gap between the underlying current account balance and the current account norm is the degree of medium run exchange rate disequilibrium. The degree of medium run exchange rate disequilibrium is the proportional change in the real effective exchange rate needed to reconcile it with the underlying current account balance. When applying this approach to Mozambique the metical is indicated to be overvalued by 38 % in real effective terms.[32]

The three approaches indicate an overvaluation of the metical between 26 and 41 % in 2008 . If the overvaluation was on its lowest level – 26 percent – the metical would have to devalue 21 percent for it to come back to the proper value.[33]

The metical depreciated substantially in nominal terms during 2009 and the question is whether or not this depreciation was enough to restore competitiveness. The rates of depreciation against the trade partners are of different magnitudes but they are all moving in the right direction. The metical has depreciated by approximately 14% against the US dollar since the beginning of year 2009. Against the Euro the metical depreciated 24.5 percent and against the rand as much as 49.6% between January and

[30] Vitek 2009 p. 12

[31] Vitek 2009 p. 12f

[32] Vitek 2009 p. 14f

[33] The currency is overvalued by 26 % and thus has to devalue by at least, 26=x/100*26 => 20.6≈21%

December 2009. If the overvaluation was not more than the result from the macroeconomic approach - that is 26% - the metical seems to have restored its competitiveness towards the Euro and the rand. If the overvaluation was at the upper end of the spectrum – 41 % - the metical will have restored its competitiveness against the rand but will have remained overvalued in relation to the euro and the dollar.

4.2 Level of industrialization and production base

The development of the industry in Mozambique is dominated by large mega-projects concentrated in the energy, industrial and mining sectors. The mega-project has been the primary driver of growth and exports but has been criticized for not generating enough employment or linkages with the rest of the economy. Most of the registered industrial enterprises are micro companies which are engaged in small scale production without creating a lot of employment opportunities.[34]

4.2.1 Diversification

A country with a diversified industry and export is less vulnerable to price fluctuations than a country producing only a few products. A diversified industry also leads to a more vibrant business climate where businesses can more easily enter and exit the market and more efficiently take advantage of emerging opportunities.

The manufacturing industry in Mozambique is poorly diversified and as can be seen in table 3 aluminum makes up more than half of the production value. Aluminum is produced from imported alumina in the megaproject enterprise Mozal. Other main commodities are food products and drinks and petroleum and natural gas. The tobacco industry increased from 0.9 % in 2004/2005 to its current value of 5.7 %; chemical products, which mainly consist of soap products, have also increased substantially whereas textile products have decreased from 1.61 % to the low level of 0.2 %.

[34] MIC 2008 p. 7 2007

Table 3: Distribution of Manufactured Production (in %)

Products	*2004/2005*	*2007/2008*
Non-ferrous metals (aluminum)	61.3%	57.6%
Food products and beverages	22.8%	19.8%
Crude petroleum and natural gas	4.9%	5.8%
Tobacco industry	0.9%	5.7%
Mineral products excluding metals	4.6%	3.4%
Textile product	1.6%	0.2%

Source: INE data from year 2006 was not available

The fact that non-ferrous metals decreased as a percentage value of the total manufactured production between 2007 and 2008 was due to a drastic decrease of the aluminum prices and not an actual decrease in production. In 2008 the production of aluminum and food products and beverages made up 76 % percent of the total value of the production which illustrates the low degree of diversification of manufactured production.

4.2.2 Product Sophistication

As mentioned in chapter 2 countries producing more sophisticated products tend to grow faster than countries producing less sophisticated products. Mozambique's main manufacturing products are aluminum and food and beverage products. These products are classified as primary products.[35]

When examining the Mozambican export at the 4-digit level there are a few products other than primary commodity products where Mozambique shows a revealed comparative advantage. Table 4 illustrates those products in which Mozambique has a comparative advantage.

[35] UNCTAD 2002 Annex I

Table 4: Sophistication of the Mozambican export 2008

Product Classification	*Product*	*Value of export in 1000 USD (2008)*	*RCA (2008)* RCA_1	RCA_2
Labour-intensive and resource-based manufactures	Precious metal ores and concentrates	809	1.87	0.97
	Wig,eyebrow,eyelash, etc.	2389	8.44	0.95
	Unused stamps;cheque forms,banknotes,bond certificates,etc.	6381	9.11	0.95
Manufactures with low skill and technology intensity	Iron & steel radiators, air heaters&hot air distributors, etc.	1039	1.55	0.95
	Tube or pipe fittings, of iron or steel	5106	1.6	0.02
	Floating structure,nes (raft/tank/ coffer-dam / landing stage)	2076	9.69	0
Manufactures with medium skill and technology intensity	Densified wood, in blocks, plates, strips or profile shapes	741	14.04	0.61
Manufactures with high skill and technology intensity	Alkali/alkaline-earth metal;rare earth metal,scandium&yttrium;mercury	91	1.09	0.94

Source: ITC and authors own calculations[36]

Table 4 demonstrates the low level of product sophistication of the Mozambican export. All of the product groups are exported in very small quantities and the largest product group – unused stamps etc – only makes up 0.2 % of the total export value.

The key to product sophistication is knowledge and with the low education levels in Mozambique the knowledge, innovation and capacity necessary to develop the industry are lacking.

4.2.3 Location

Another important feature of industry's competitiveness is its location. When the industry is located in clusters, different companies can share costs of transportation, infrastructure etc and take advantage of knowledge spillovers as well as being spurred to greater productivity by competition.

The Mozambican industry is mainly concentrated to the centers of Maputo, Nampula and Beria and this represents 80% of the country's entire industrial base. The free industrial zone Belulane is situated outside Maputo and links Maputo to some of the main industry areas in South Africa and Swaziland through a highway, as well as to

[36] The product classification is from UNCTAD Annex I in the "Trade and Development Report" 2002

the ports of Maputo and Matola. In 2007 there were 16 free zone projects employing 2.771 people in the FIZ with one of these companies being the big aluminum smelter Mozal.[37] Enterprises operating in the FIZ enjoy a 60% reduction of the corporate income tax on profits for 10 years, duty free imports for all goods and merchandise needed for the industrial activity, exemption from VAT and Specific consumption tax and exemption from real property transfer tax. In order to operate in the FIZ a company is required to provide jobs to Mozambicans and at least 85 % of the production must be exported.[38] Belulane industrial park is "set to become the premier location in Southern Africa to conduct export oriented and general industry business".[39] Few firms have settled in Belulane since businesses consider operating costs too high.[40]

As mentioned in the theoretical part the success of a cluster depends foremost on infrastructure, management and institutions. The infrastructure surrounding Belulane is of high standard and within the area itself parts of the 700 hectare park is serviced with infrastructure. The park is managed by the South African Management Advisory enterprise Chiefton and is a public-private partnership between the government and Chiefton. Being managed by a professional management enterprise gives the Belulane credibility but the fact that the company is South African underlines the lack of professional competence in Mozambique. The institutions such as customs and other dealing with the export constitute a serious problem for the success of the FIZ.

[37] MIC 2008 p. 7f

[38] http://www.beluzone.co.mz/panflet.pdf

[39] http://www.beluzone.co.mz/

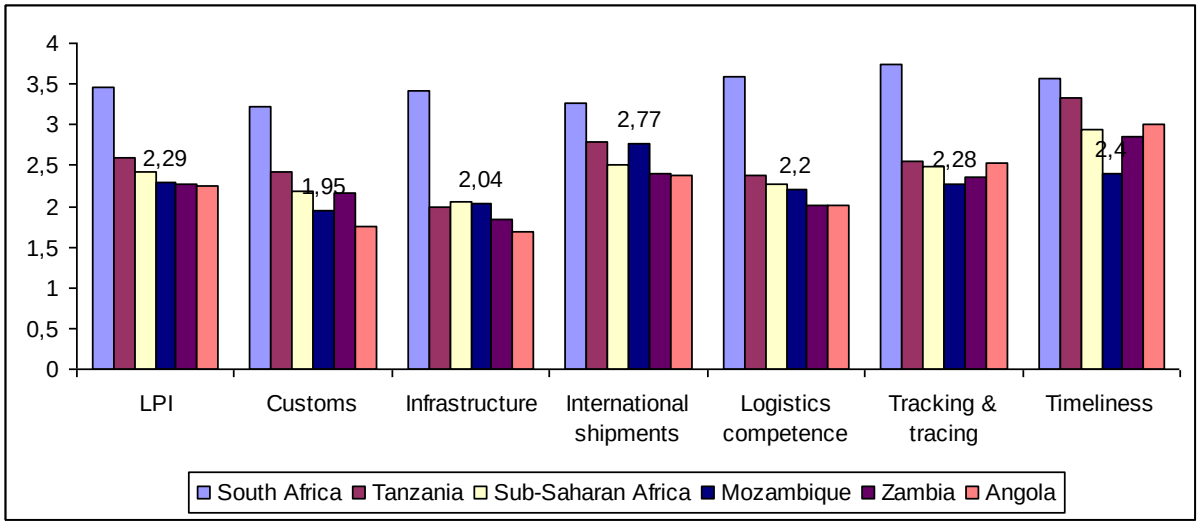
[40] AFDB/OECD 2007 p. 400

4.3 Transport and Production Costs

High transportation costs decrease the incentive to trade both within the country and with other countries. Other important costs are the costs for labour and energy, which constitute a significant share of production costs. The internal market of Mozambique is very small and participation in foreign trade is needed in order to promote growth.[41]

Trade logistics refer to a country's ability to move goods across borders. Figure 2 illustrates the WBs' logistic performance index which considers six dimensions affecting trade logistics.

Figure 2: Logistic Performance Index



Source: http://info.worldbank.org/etools/tradesurvey/mode1b.asp

The first dimension is the customs which is very important for international trade. A poorly managed customs will lead to delays, high costs and unpredictability of international trade. The second dimension infrastructure refers to the road, railways, boat and air-infrastructure as well as other kinds of infrastructure such as telecommunication and internet access. The infrastructure is important for the transportation of the product; if the infrastructure is poor, it makes up a large cost of the final product. It also affects the predictability and timeliness and the

[41] ADB/ADF 2009 p. 78

telecommunication affects the type of communication possible with potential trading partners as well as information about prices and other important inputs. As can be seen in the figure Mozambique is performing worse than the average for Sub-Saharan Africa in the logistic performance index. However Mozambique is performing better than average in international shipments. Its worst performance relative to the comparing countries is in timeliness of shipment in reaching destinations within the scheduled or expected delivery time and the ability of track and trace consignments.

4.3.1 Infrastructure and transportation costs

As mentioned in the beginning of the chapter Mozambique scores very poorly when it comes to infrastructure in the Global Competitiveness Report. Out of 133 countries the infrastructure pillar scored 116 and it was seen by local businessmen as one of the most problematic factors for doing business.[42]

The infrastructure in the south of Mozambique is of a much better standard than that in the north and transport links between the south and north of the country are very poorly developed.[43] The transport network is based on a concept of corridors and the three main ones link the ports of Mozambique with South Africa and the landlocked neighbors Malawi, Zambia and Zimbabwe. The Maputo port is the closest route for the largest mining and manufacturing region in South Africa, Beira is the closest port to Zambia, Zimbabwe, and Lubumbashi (in the Democratic Republic of Congo), and the port of Nacala was built with the purpose to give Malawi a shorter route to the ocean. What have prevented Mozambique from acting as a gateway are the unreasonable high costs and the low predictability of transport.[44]

[42] Schwab 2009 p. 230

[43] For a map over the infrastructure se Annex I

[44] WB, RPED and AFPS 2009 p. 78

In the past the preferred transport modes for import and export were the ports and railways service and in general the cost of railway transport is one-third of the cost of road transport over similar distances. However, these sectors have lost their competitiveness due to problems with the security of cargo, loading and delivery delays and road transportation and foreign ports have become the preferred option among enterprises.[45] The border post operations are performing poorly because of increasing congestion and inefficient administrative procedures. At Maputo port non-intrusive inspection scanning charges are levied on all cargo handled in the port. The fee for scanning is mandatory on all shipments even for items that are generally not scanned such as bulk cargo, bagged products and empty containers, whether they are inspected or not. This extra cost decreases the competitiveness of the Maputo corridor and the fees are far higher that what is normal in other countries and is not scaled to cargo value and volume. The rigidity and costs of the scanning lead to many cargo shippers preferring to use the South African port Durban where only 10 to 15 % of the containerized cargo is scanned.[46]

A major part of the infrastructure that was monopolized by the state has now gone from public to private ownership. The government has been very reluctant to privatize airspace because of the high revenues collected from the monopoly. This has led to high transportation costs and has been a large obstacle for the development of the tourism sector. The government and the private sector are however aware of the fact that an opening up of the airspace is inevitable and that this will bring large benefits and costs reductions to the country.[47] The government has recently announced that the airspace will be liberalized in the near future and this will surely raise the competitiveness of the tourism sector as well as lower the cost of commodity transportation.[48]

[45] Ibid p. 80

[46] Nathan Associates 2008 p. 32

[47] Interview with financial consult Andre Nogueira 2009-11-23

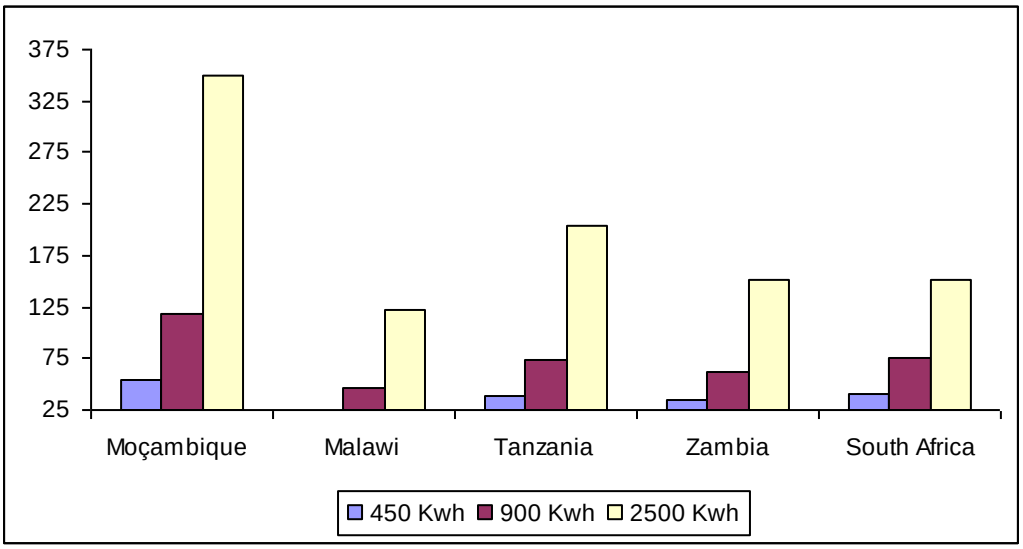
[48] Interview with Kekobad Patel at CTA 2009-11-25

Telecommunications are fairly well developed and the cost is relatively low. The telecommunication sector has been reformed and is now dominated by one private and one semi-private company. The opening up of the sector has led to increased private investment and improvement in the quality of services as well as decreased tariffs. Fixed lines are not particularly developed however and access to internet is not widespread. [49]

4.3.2 Other Production costs

Other costs that constitute large parts of the total production costs are the costs of electricity, water and labour. The cost of electricity is very high in Mozambique and according to the Ministry of Industry and Commerce (MIC) Mozambique has the highest cost amongst the SADC countries and this is a serious constraint for all forms of businesses.[50]

Figure 3: Energy Prices for Small Businesses and Services (US dollar 2006)



Source: MIC (2007)

[49] WB, RPED and AFPS 2009 p. 74ff

[50] MIC 2007 p. 1

As can be seen in figure 3 Mozambique has the highest cost amongst the countries compared. One reason for this is that even though Mozambique is a large energy producer a large share of energy is exported to South Africa for further processing and then imported back into Mozambique.[51] Another serious constraint when it comes to electricity is the unpredictability in some rural parts of the country and the large amount of outages that enterprises have to endure. The supply of energy comes mostly from Hidroelectrica Cahora Bassa (HCB) and is provided by the state owned Electricidade de Moçambique (EDM).

The estimated workforce in Mozambique is some 10 million out of a population of over 21 million. Between 80% and 90% of the workforce work in informal agriculture. The 2004 labour survey estimated the unemployment figures as high as 18 percent. To improve the inclusiveness and diversification of economic growth, employment generation in the nonagricultural formal sector is crucial.[52] The WB doing business index measures rigidity of employment by the difficulty of hiring, rigidity of hours and difficulty of redundancy. This is merged with a measure of the redundancy cost indicator that measures the cost of advance notice requirements, severance payments and penalties due when terminating a redundant worker, expressed in weeks of salary.

Table 5: Employing Workers

Year	*Rank*	*Rigidity of employment index (0-100)*	*Redundancy costs (weeks of salary)*
2008	..	46	143
2009	156	40	134
2010	156	40	134

Source: World Bank Ease of Doing Business Index

As can be seen in Table 5 the rigidity of employment and the redundancy cost have both been improved since 2008, which is due to the new labour legislation. The new law increased flexibility in the use of fixed term contracts and reduced the notice period for dismissals from 90 to 30 day as well as phased reductions in severance pay.

[51] ECONEX 2008 p. 29

[52] WB, RPED and AFPS 2009 p. 87

The education and skills of the labour force in Mozambique are very low and constitute a major obstacle to the development of the private and public sector. Wages in Mozambique are also very low and reflect the low level of education. Employment growth in recent years has mainly taken place in large firms in the manufacturing sector. The sectors of construction, transport and service have generated less employment, which is remarkable considering that a fast growing country like Mozambique should have a fast growing construction sector. This is probably due to the large informal market and the large share of construction jobs being informal.[53] The agricultural sector is also predominantly informal, which is due to the problem of financing the participation in the formal sector and the complicated regulations in the business environment.[54] The large informal market is also listed by businessmen as a severe threat to the formal market, since the informal market can afford to keep prices down. The informal market severely harms the productivity since resources that could be used in the formal market are reallocated to the informal market.

4.4 Governance and Quality of Institutions

The political climate in the country is stable, but it is a benefit both in public and social life to be a member of the ruling party and many politicians use their political influence to create business opportunities.[55]

4.4.1 Governance

"Governance is broadly defined as the set of traditions and institutions by which authority in the country is exercised. This includes (i) the process by which governments are selected, monitored, and replaced, (ii) the capacity of the government

[53] Ibid p. 87-89, 93f

[54] ADB/ADF 2008 p. 14

[55] EIU 2009 p. 4

to effectively formulate and implement sound policies, and (iii) the respect of citizens and the state for the institutions that govern economic and social interactions among them."[56]

Table 6 illustrates the WB's governance index of countries[57] and measures six indicators essential to governance. The percentile rank illustrates the position of the country in question compared to the other countries in the region. The governance score estimates the governance with values from -2.5 to + 2.5 and with higher values corresponding to better performances.

Table 6: Governance indicators

Governance Indicator	*Percentile Rank*	*Regional Average, Percentile*	*Governance Score*
	(0-100)	(0-100)	(-2.5 to +2.5)
Voice and Accountability	47.6	32.6	-0.02
Political Stability	55.5	33.5	+0.29
Government Effectiveness	42.7	26.3	-0.38
Regulatory Quality	35.3	28.9	-0.47
Rule of Law	28.2	28.6	-0.66
Control of Corruption	34.3	30.8	-0.55

Source: WB Governance Index

Mozambique is clearly performing best in the areas of political stability and voice and accountability with a percentile ranking far above the regional average. The government effectiveness is also on a relatively high level, but Mozambique performs worse in the rule of law which is the only indicator where Mozambique is performing worse than the regional average.

That Mozambique scores high in political stability is not surprising. The country is relatively stable and the political opposition can make their voice heard without resorting to violence. The second highest ranking is in voice and accountability which measures to what extent the citizens of a country can participate in choosing their

[56] Kaufmann et alt 2009 p. 10

[57] The indicators are the views "on the quality of governance provided by a large number of enterprise, citizen and expert survey respondents in industrial and developing countries." http://info.worldbank.org/governance/wgi/index.asp

government, the freedom of expression, of association and free media. The elections in Mozambique were deemed fair and free in October 2009, even though an allegation of strategic fraud was reported by the donor community.[58] The freedom of expression, including freedom of the media, is guaranteed in the constitution and protected by other pieces of legislation but there are reports of people losing business opportunities if admitting to not being on the side of the ruling party. Thus these rights are protected theoretically but not always in practice. The freedom of the press in Mozambique is restricted through different means and self-censorship is widely practiced among journalists. This self-censorship takes different forms, for example a media coverage that is biased towards FRELIMO and thus a lack of coverage of other political parties.[59]

The government effectiveness scores third best in the index and this measures the quality of public and civil services, the degree of independence from political pressure, the quality of policy formulation and implementation and the credibility of the government's commitment to such policies. The public and civil services are characterized by low capacity and little knowledge. Policy formulation in Mozambique is often formulated with the help of the donor community. This sometimes leads to doubt as to whether or not the government intend to implement the policies or if they only commit to these to please the donors.

When it comes to the regulatory quality Mozambique preformed better than 35 % of the world. This measures "perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector

[58] EIU 2009 p. 10

[59] White, Bujitu, Macoo (2006) p. 9

development".[60] Mozambique has implemented several reforms to improve the private sector environment and many on the donor funded programs aim at doing just that.

The two worst sectors are the rule of law and control of corruption. The rule of law reflects the confidence and obedience of the rules of society by agents and the likelihood of crime and violence. The crime rates are high in Mozambique and the law and rules of society are often ignored. The judicial system is very weak in the country and reflects the low education level and human capital. The corruption is also a serious and widespread problem in Mozambique.

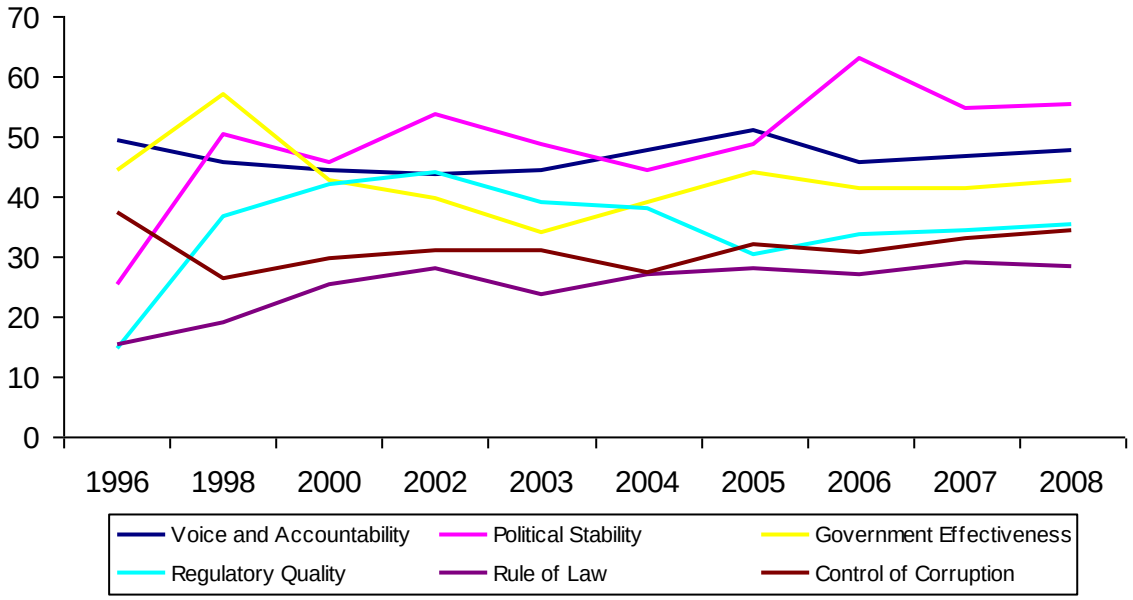
The problems of governance, inefficiency of bureaucracy and corruption are intertwined and the corruption can be divided into two levels. One is the case of petty corruption where in everyday business citizens and businessmen need to bribe poorly paid civil servants to perform their duties. This kind of corruption discourages investment and formal sector activity. The other kind of corruption is the grand corruption where higher-level government officials turn to nepotism and favoritism in allocation of government positions. The judicial sector is generally perceived to be highly corrupt and driven by political agendas which severely harm the business climate and the trust in a fair and open system by its citizens. The country can keep up this high level of corruption mainly because of the narrow political competition, limited accountability and transparency.[61] Mozambique is also a highly bureaucratic country with high levels of regulation and time-consuming and multiple procedures. The lack of capacity is visible also here in the low training of public employees, complexity of regulations and the lack of enforcement.[62]

[60] Kaufmann et alt 2009 p. 6

[61] ADB/ADF 2008p. 8ff

[62] Ibid p. 8

Figure 4: Governance indicators over time



Source: WB Governance Index

Figure 4 illustrates the development in the governance index over time with the ranking illustrating the position of the country in question compared to the other countries in the region. For Mozambique's best performing indicator, political stability, the development has gone from performing better than approximately 25 % of the countries in 1996 to a performance of approximately 55 % better than the countries in 2008. This is not surprising since Mozambique did suffer from a civil war ending in 1992. The government effectiveness has actually decreased which might be the result of the country moving towards a more functioning democracy where procedures take longer. The regulatory quality increased sharply after the first years after the war and up till 2002. After that it has decreased slightly. The voice and accountability, rule of law and control of corruption have been on relatively steady levels since 1996. These developments are all relative to how the comparing countries develop and some of the results might depend more on this than on actual developments in Mozambique.

4.4.2 Business climate and Institutions

In order to achieve external competitiveness a "good business climate which enhances firm-level productivity and promotes and attracts domestic and foreign investments is vital."[63] In order for a country to benefit from a healthy business climate it is important to provide supportive regulations and institutions dealing with the private sector. The WBs doing business index measures different regulations for businesses and property rights and claims that the indicators measured have a strong effect on economic growth.[64]

Table 7: Ease of Doing Business

Pillars	*2009*	*2010*	*Change in rank*
Ease of Doing Business	140	135	5
Starting a Business	143	96	47
Dealing with Construction Permits	151	159	-8
Employing Workers	156	156	0
Registering Property	154	151	3
Getting Credit	125	127	-2
Protecting Investors	38	41	-3
Paying Taxes	92	98	-6
Trading Across Borders	138	136	-2
Enforcing Contracts	128	129	-1
Closing a Business	135	136	1

Source: WB Doing Business Index

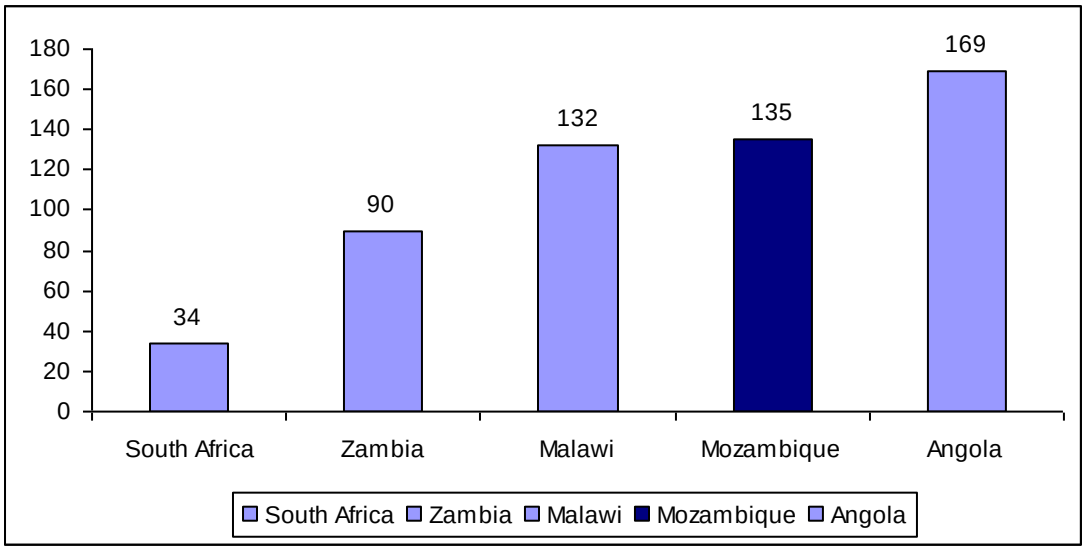
In the WB doing business report 2010 Mozambique ranked number 135 out of 183 countries. This is an improvement of 5 positions and the improvement is most visible in the sectors starting a business where Mozambique improved 47 ranks from number 143 to 96 due to a reform that removed the obligation of a minimum amount of capital to start a business. Mozambique ranks highest in protecting the investors with a ranking of 46 and worst in dealing with construction permits. In trading across borders Mozambique improved its position slightly due to a small change in the number of days to export and import. They also improved in registering property and trading

[63] Lledó 2008 p. 330

[64] Djankov, McLiesh and Ramalho 2006 p. 5

across borders, but declined in six of the ten categories with the worst result in the employment category. Other weak areas were the security of property rights and contract enforcement which suffer from restrictive regulation and institutional weaknesses. In Sub-Saharan Africa it is ranked 18th out of 46 countries.

Figure 5: Ease of Doing Business Rank



Source: WB Doing Business Index 2010

According to the African Competitiveness Report, the main obstacle for doing business in Mozambique is the difficulty of obtaining credit.[65] This was mentioned as a severe constraint in all of the interviews conducted for this study. The reason why access to credit is so difficult to obtain is due to different factors. One is that all land is owned by the state of Mozambique and can only be leased out for 50 years at a time and can for this reason not be used as collateral. Other reasons are high interest rates and low capacity amongst entrepreneurs as well as the fact that much of the economy is informal with no financial documentation which banks require. The lack of competence makes it difficult for entrepreneurs to present a viable business plan for the bank and the bank might not have a lot of staff able to evaluate such a plan. Another constraint is that credit is expensive because of the lack of competition in the banking sector. Since there are not many feasible projects with significant collateral,

[65] ADB/ADF 2009 p. 218

the banks are not competing over the chance to finance these projects, and thus the fees do not decrease.[66]

The protection of property rights is problematic in Mozambique due to the weak and inefficient judicial system. The copyright and related rights bill passed in 2000 combined with the 1999 Industrial Property Act brought Mozambique into compliance with the WTO agreement on the Trade Related Aspects of Intellectual Property Rights (TRIPS). Government entities and private sector organizations are working together on an IPR task force team to combat intellectual property right infringement and related public safety issues. In spite of this pirated copies of audio, videotapes and DVDs are being sold everywhere in Maputo.[67]

The customs works poorly in Mozambique even though some improvements like the abolishment of requirements for pre-declaration and prepayment of customs duties and taxes have been made. All operations under the foreign exchange regime require registration and authorization. According to Kekobad Patel at the Confederation of Business Association (CTA) the ineffectiveness and the inadequate composition of the customs is the largest constraint on the competitiveness of the export. There are frequently delays on both imports and exports when passing through customs and corruption is widespread. Pre inspections- defined as a barrier to trade by the WTO - of exports are widely used and these were installed by the government to seek revenue in the 1996. The CTA are lobbying for a phase out of the pre inspections. The problem of low education of the customs officers makes it easy for goods to go through clearance with the wrong price declared. Often the customs are not aware of the real market price and will for that reason accept prices under or over the market prices declared by the importer/exporter. The CTA wants to establish a unit inside the customs that is aware of the market prices so as to avoid this problem. There have been extensive negotiations between Mozambique and South Africa about the creation of a one-stop-border to facilitate the trade. The negotiations were at a very advanced

[66] ADB/ADF 2008 p. 7f

[67] http://www.state.gov/e/eeb/ifd/2008/100991.htm

stage but since South Africa, which was the largest financier of the reform, was hit severely by the financial crisis, the process was delayed.[68]

How exporting companies perceive the ease of exporting and dealing with customs varies between different exporting companies. The bigger and more influential once typically had more positive experiences of the process. The DNA is a cooperation owned by the sugar producers in Mozambique with the task to market, take care of the logistics and export the sugar. The sugar industry is the largest private employer in the country and has for this reason a good relationship with the government. Because of the good government relations and their size they are reported to have few problems with corruption. The same is true for the handicraft exporting organization CEDARTE, which is exporting on a regular basis. They reported experiences with typically unfamiliar officials sometimes trying to get an unofficial payment. Even so the overall experience of the company was that if you know your rights and are there to oversee the process there are no overbearing problems associated with exporting. The smaller exporters who do not export on a regular basis reported larger problems with officials demanding an unofficial payment. They reported that generally there would not be a problem to export but there would be long delays if no unofficial payment was made. All the businesses interviewed agreed that conducting export has improved a lot in recent years, with less unofficial payment being demanded, and fewer delays. The road infrastructure was also reported as improved, even though there are still large transactions costs and further improvements are needed.[69]

4.4.3 FDI

The attraction of FDI depends largely on the business climate and the functioning of the institutions of a country. To attract FDI:s is a specified goal in the industrial development plan and will be done partly by providing FIZ like the Belulane Park, where the beneficial tax and cost reductions can raise incentives for foreign

[68] Patel interview 2009-11-25

[69] Interviews with five different exporters

development and improve the business climate and work for more open and functioning institutions. The investment legislation provides customs and fiscal benefits to eligible foreign projects. The investment tax is for the first five years 5% of the total investment realized. There are also tax credits for the professional training of Mozambicans which consist of 5% of taxable income, also applicable for the first five years of operations. Other benefits are a 50% reduction of the real property transfer tax (SISA) for acquisition of immovable property used in industry, agro-industry and hotel industry. This tax reduction is only applicable if the property is acquired within the first three years from the date of authorization of the investment. Other than granting the above mentioned tax reductions for the first years of operation Mozambique also offers special investments incentives in projects seen as especially beneficial for the country. These are investments projects in advanced technology, agriculture, hotels and tourism and large-scale investments over $500 millions or investments in public domain infrastructure carried out under the regime of concession. There are higher tax reductions if these large projects are located in other provinces than Maputo province.[70]

[70] WTO 2008 p. 23

5 Initiatives taken to increase the competitiveness

The government, with help of the donor community, has taken several measures to improve the competitiveness of the country. Laws have been revised to make it easier to invest and ease the hiring of labour. A SME institute has been created with the donors' help inside the Ministry of Industry and Commerce, and a number of measures make it easier to start a business and tax reforms.

5.1 Improving the Business Climate

Measures taken in 2008 were the abolishment of minimum capital to start a business and administrative improvements in customs that have reduced the time required to clear traded goods.[71] The labour laws have historically been extremely rigid but a new law, enacted in 2007 after a consultative process with the government, unions and private sector employers, provides for improvement in hiring workers. This was done by the increase of the maximum duration of fixed-term contract and reduction of the notice period for redundancy dismissals. The law has improved the situation, but there are still problems with the hiring of foreign expertise since the new law made the hiring of foreign workers contingent on quota requirements.[72]

Another important improvement is the creation of a one-stop-shop where all the licenses required to start a business can be acquired. The one-stop-shops now exist in several parts of the country and their purpose is that all the licenses should be found at the same place. The one-stop-shop will also forward the signed documentation to the relevant agencies.[73]

[71] http://www.doingbusiness.org/Documents/CountryProfiles/MOZ.pdf

[72] WB, RPED and AFPS 2009 p p. 91

[73] Interview with CPI

5.2 Tax Reforms

Mozambique has also introduced several tax reforms. One of these was the introduction of a VAT tax in 1999 and the introduction of an electronic tax form which simplified the paying of social security taxes. A new corporate income tax code was also introduced to expand the simplified scheme to companies with revenues up to 2.5 million metical.[74] Other reforms are the investment in formal training for more judges, stricter performance management measures and greater administrative support to the judicial system to speed up the contract enforcement. Between the year 2006 and 2007 the country passed a new commercial code which implemented modern corporate governance rules and strengthened the rights and duties of minority shareholders and also identified the liabilities of the board of directors. The commercial code also modernized the business registration process, by abolishing several steps and through expanding the possibility of registering in an electronic format.[75] In 2002 the SISTAFE (Sistema de Administração Financeira do Estado) was launched with the aim to improve the PFM. This objective was met through the creation of a Treasury single account, a budget law and the projects information technology component e-sistafe.[76]

5.3 Transaction and Production Costs

In order to accelerate the expansion and improve the quality of the energy, the government consolidated in 2000 a National Energy Strategy which provided a legal framework for the restructuring and opening of the energy sector to private participation. The energy costs are however still very high and are considered a large constraint on businesses.[77]

[74] Clément and Peiris 2008 p. 16

[75]

[76] Clément and Peiris 2008 p. 18

[77] WB RPED and AFPS . 2009 p. 68

The transport sector has also been revised and in 1996 the government approved a transportation policy reform aimed at improving the sector. The policy reform provided for the concession of railways, ports and airports and changed the legal and regulatory system of the transportation sector. The reform also increased the institutional capacity and supported creation of independent planning, finance and regulatory bodies. The purpose of the reforms was to gain competitiveness by reducing transportation costs. The reforms succeeded in reconnecting the main strategic routes that had been destroyed during the civil war and led to improvements such as the bridge over the Zambezi river. However, the reforms have not succeeded in reducing costs substantially and connecting the urban areas to the rural areas.[78] Mozambique has also improved its trade policy by reducing the number and level of tariffs from a maximum tariff. The average MFN applied tariff is 10.3 percent down from over 15 percent in mid 1990s.[79]

5.4 Donor Projects

There are many donor projects that improve the competitiveness without directly targeting it such as projects improving the education, and infrastructure and discouraging corruption. There are however a number of donor programs that are focusing directly on the private sector and competitiveness. These are listed in table 8 below.

Table 8: Mapping of donor programs

Donor	Name	Aim
Denmark	Danida Private Sector Development Programme - Business to Business	Contribute to poverty reduction through private sector development in Moz. by establishing long-term cooperation between Danish and local companies.
FAO	Building Capacities for effective trade policy formulation and management	Strengthen capacity for trade policy analysis, policy harmonization and management, enhanced capacity for trade negotiations and increased supply capacity.

[78] Ibid p. 78f

[79] http://info.worldbank.org/etools/wti/ Mozambique_brief.pdf docs/

Germany	SME Program	To help with legal, political and institutional reforms that increase the possibilities for SMEs
Ireland	Competitiveness and Private Sector Development	Support to a component of the WB program, in the Ministry of Ind. and Comm. to improve business environment in Moz.
Netherlands	MAP support to APAC	Cooperative enterprise development for agricultural commercialization in central Mozambique
Norway	Modernization of Company Registry	Assistance to the Ministry of Justice to modernize and computerize the registry services of companies in Moz.
Sweden	Confederation of Business Associations (CTAs)	Supports the strengthening of CTA, the development of an ombudsman entity for the private sector and the establishment of two centers for Arbitration in Nampula and Beira.
Sweden	PSD Malonda III and Malonda PSD Niassa	Increase production and productivity w. focus on forestry, agriculture, trade and eco-tourism incl. support to the development of entrepreneurship in Niassa province.
Switzerland	Trade Policy Programme	Strengthen the trade policy formulation framework and process. It entails the identification of Moz. policy interests translated into negotiation positions to be defended at WTO negotiations and other international fora.
Switzerland	Technoserve - Trade Facilitation Programme	To improve the capacity of exporters to adopt and have certified quality, hygiene, worker safety, fair trade, and factory related environmental standards within Nacala, Beira and Maputo corridors.
Switzerland	IFC - Mozambique SME Initiative	To improve the access to financial services to SMEs through an investment program for financing SMEs and through a technical assistance program to support the investment program by providing direct assistance to companies.
Switzerland	UNIDO - Enhancing the capacities of the Mozambican food Safety and Quality insurance system for trade	Improve national capacity for food safety analyses, certification and inspection to enhance compliance with TBT/SPS systems requirements and international standards through delivery of internationally recognized food testing services.
UNDP	Trade and PSD - The Integrated Framework (IF) for Trade-Related Technical Assistance LDC:s	A major multi-agency international initiative which aims to deliver substantial increases in Mozambique's capacities to develop and implement appropriate trade policies and programs.
UNDP	Growing Sustainable Business	Facilitate partnerships between companies and relevant actors from the public sector and civil society to develop and undertake commercially viable invest projects w. positive impact on local economic development and poverty reduction.
UNIDO	Enhancing Quality Assurance System for Trade and Food Safety	Improve public sector quality infrastructure in order to locally test and certify 4 products- fruit/veg., nuts/cashew, edible oils and honey- Maputo/Moz
UNIDO, IFC, UNCTAD, EC	Business Environment Support and Trade Facilitation	Increase the capacity of official working with businesses and trade and promote export-led growth and the existing investment climate
UNIDO, ITC and UNCTAD	Business Environment Support and Trade Facilitation Project- (BESTF)	The promotion of a favorable business environment for investment through the strengthening of selected national institutions involved in this area, in order that Mozambique can fully enjoy the benefits of trade liberalization.
USA	Trade and investment project, governance and infrastructure	Increasing growth in a few strategic sectors with potential to attract private investment and create jobs

World Bank	MZ-Competitiveness & PS Development	Improve the business environment and to enhance enterprise competitiveness
World Bank	Enterprise Development Project (PoDE)	To broaden the base of private participation in Mozambique's economic growth by building the technical capabilities of majority Mozambican-owned firms in manufacturing and exports.

Source: The descriptions of the projects are the donor agencies own descriptions taken from the database Odamoz. The projects enlisted are the projects that fell into the category of business and other services or trade policy and regulation. Some of the projects listed in these categories were omitted because of their relative unimportance or lack of information.

Many of the donor programs are targeting SMEs. The reason for this is that Mozambique has few of these work generating enterprises relative to its abundance of growth enhancing megaprojects that do not provide the same work generation. In the Ministry of Industry and Commerce a SMEs institute has been formed with the support by Germany amongst others. The SME institute lobbies for legal, political and institutional reform programs and provides expert advice and capacity building in the ministry.[80] The World Bank competitiveness and private sector development program aims to improve the business environment and to enhance enterprise competitiveness in Mozambique. The project has 3 components which are to reduce the cost of doing business, build technical capacity at public sector agencies and develop region specific interventions in the tourism and horticulture sectors. Also this program focuses on the competitiveness of SMEs.[81] The Danish aid agency Danida provides a private sector development program by supporting the Mozambican private sector through cooperation between Danish companies and companies in Mozambique. Together with the EC, UNIDO is implementing the "Business Environment Support and Trade Facilitation (BESTF)" program. This program is meant to increase the capacity of official working with businesses and trade and promote export-led growth and the existing investment climate.[82] Actively supporting the private sector in Mozambique is Norway, through supporting macro-economic measures favorable to private sector initiatives, intervention such as infrastructure development and support at enterprise

[80] Odamoz

[81] WB et alt. 2009 p. 68

[82] http://www.unido.org/index.php?id=6396

levels to improve the competitiveness of firms.[83] USAID is also active in supporting the business environment in Mozambique and also has a trade and investment project that provides technical assistance to the Ministry of Trade and CTA as well as other institutions. USAID mainly focuses on increasing growth in a few strategic sectors that show strong potential to attract private investment and create jobs. The programs provide training and focus on the development and efficiency of SMEs. USAID also focuses on capacity building in the Ministry of Industry and Commerce in the negotiating and implementing of trade agreements.[84] The Netherlands also target the private sector mainly by consultancy assistance in the agriculture and tourism sectors. They also have large-scale investments in the transport sector as well as an agreement for the Program for Cooperation with Emerging Markets, which provides grants to investments project executed jointly by one foreign company and one Mozambican company. These projects have to be relevant for the development of the country and focus is on tourism, infrastructure and agro-processing. The Netherlands Development Financing Company finances private sector projects in Mozambique and aims at promoting cooperation between Dutch and Mozambican enterprise.[85]

The above mentioned reforms and donor programs have led to improvements in the doing business index in some areas such as in the time to start a business, the cost, minimal capital etc. The fact that Mozambique still has not improved its ranking by more than five is due partly to its failure to improve in other areas and too insignificant improvements in some of the improved areas, and partly on the fact that other countries are improving faster than Mozambique. In areas such as dealing with construction permits the cost has only slightly decreased and the time of the procedures has increased. In areas such as registering property (where Mozambique did score fairly well with a score of 41 in 2010) and paying taxes no significant changes are reported and the getting credit category has slightly worsened. It should be noted that the doing business index has several limitations such as only measuring the

[83] http://www.norway.org.mz/Embassy/MoU/Private_Sector/Private-Sector-Development/

[84] http://www.usaid.gov/mz/what_we_do.htm

[85] http://www.odamoz.org.mz/

climate in the largest business city of the country and only certain kinds of businesses. The index thus only captures a part of the variables important for the private sector and the competitiveness of a country.

6 Summary and policy implications

Mozambique has experienced rapid growth in recent years and has made a strong recovery from the violent civil war that ended in 1992. The high growth rate has mainly been driven by the foreign financed capital intensive megaproject. Consequently further efforts are needed to develop the private sector and expand business and investment possibilities.

When assessing the specialization of the Mozambican export Balassas' measure of revealed comparative advantage was used. The RCA assessment demonstrated a comparative advantage mostly in primary products. There were however some manufacturing product groups where Mozambique proved to have a comparative advantage. The manufacturing product groups where the RCA_1 was highest and where the comparative advantage was also supported by the RCA_2 was in 6704 (wig, eyebrow, eyelash etc), 4907 (unused stamps; cheque forms, banknotes, bond certificates etc) and 4413 (densified wood, in blocks, plates, strips or profile shapes).

In order to assess macroeconomic obstacles to the competitiveness of the country the reel exchange rate was examined. The Mozambican Metical show signs of having been overvalued but has now devalued substantially towards its major trade partners. Whether the devaluation is enough to restore its competitiveness against the euro and dollar is hard to say without further research, but the devaluation should lead to an improvement in the external competitiveness.

Even though the macroeconomic factors are improving with a devaluated metical the structural factors are severely harming the competitiveness of Mozambique. The structural obstacle for Mozambique such as ineffective institutions, high transportation cost and corruption may be far more harmful and deeper rooted than the real exchange rate.

Export from Mozambique has increased more than threefold since 2004. The industry and the export are however poorly diversified with aluminum making up more than half of the production value of the manufacturing industry as well as the export in 2008. The sophistication of its industry and export is very low and a general improvement in education level is crucial to improve the situation.

Mozambique has huge potential to function as a gateway for its landlocked neighboring countries but the infrastructure and institutions dealing with trade have to improve. Infrastructure between the north and south is very poorly developed making it extremely expensive to transport cargo between these areas.

Mozambique has by itself and with the donor community worked toward an improving business and export climate. Tax exemptions for investments and the creation of FIZ have been done to attract FDI. The creation of a one-stop-shop and the abolishment of the minimal capital needed to start a business have increased the business opportunities. Large parts of the infrastructure have been privatized and a scheduled opening of the Mozambican airspace will lead to lower costs and expand choices in shipping. However, much more is needed to effectively lower the cost of doing business in Mozambique. Mozambique's electricity costs are amongst the highest of the SADC countries and the country would do well in trying to process some of the energy produced in the country domestically instead of selling it all to South Africa and then buying back the processed energy at a very high price. Also, increasing investment in manufacturing groups that already have a comparative advantage may lead to higher technology products and knowledge spillovers to other industries. The possibilities for conducting business could also improve if it were easier to obtain credit. For this to happen interest rates need to fall and the banks have to be more open to lending to individuals. Expanding the availability of microloans for small scale businesses and people without education in rural areas may also be worth investigating. Investment in the transportation infrastructure is also vital. Mozambique's current deficiency in this sector is resulting in a substantial loss of business and any improvement here would produce substantial returns. While all of

these improvements are important, none of them will fix the institutional inefficiencies causing many of the problems in the private sector.

The institutional inefficiencies are a result of an inefficient bureaucratic system as well as low skill, low capacity and corruption amongst officials employed by the institutions. A poor performance in customs was reported in many of the interviews and reports that laid the basis of this study. Extensive regulations, corruption and low level of knowledge were noted to be severe problems hampering the competitiveness of the export. Corruption is present at all levels of society in Mozambique and everybody is subject to it. The political climate in Mozambique is stable but when conducting business it is beneficial to be openly in favor of the ruling party. This intertwining of the political and economical sectors makes it difficult for the country to improve the business climate. In order to fight corruption Mozambique needs to open up the political competition and relax the ruling party's grip of society through establishing a more efficient democracy where people are accountable for their actions and the transparency is higher. This is not easy and hard to represent in economic terms but substantial investment in education would undoubtedly aid in relaxing the ruling party's grip while simultaneously improving the capacity and sophistication of the labor force.

Even though Mozambique has many obstacles to overcome in order to increase its external competitiveness it has great possibilities to do so. The country benefits from political stability and receives substantial sums of foreign aid. It has also shown a commitment to improve by going through with a number of reforms that has increased the business possibilities. The Mozambican government would do well, together with representatives from the private market, civil society and the donor community, to put efforts into improving those areas that are most restricting for its competitiveness.

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Orlando da Conceição - Executive Director at CTA - 13 November 2009

Appendix I: Map of Mozambique

Appendix 2: RCA on a 2-digit level

HS Code	*All products*	*2001/2002*		*2005/2006*		*2007/2008*	
		RCA_1	**RCA_2**	**RCA_1**	**RCA_2**	**RCA_1**	**RCA_2**
1	Live animals	0,00	0,00	0,22	-0,72	0,52	-0,19
2	Meat and edible meat offal	0,00	-0,25	0,00	-1,00	0,00	-0,99
3	Fish, crustaceans, molluscs, aquatic invertebrates nes	21,09	-0,50	8,36	0,52	6,11	0,41
4	Dairy products, eggs, honey, edible animal product nes	0,03	4,44	0,00	-1,00	0,00	-1,00
5	Products of animal origin, nes	0,58	-0,50	0,17	0,57	0,36	0,71
6	Live trees, plants, bulbs, roots, cut flowers etc	0,00	0,37	0,10	-0,07	0,01	-0,97
7	Edible vegetables and certain roots and tubers	0,38	0,01	0,66	-0,30	1,06	-0,34
8	Edible fruit, nuts, peel of citrus fruit, melons	4,29	0,18	3,51	0,91	2,87	0,76
9	Coffee, tea, mate and spices	0,94	2,21	3,03	0,60	0,63	0,17
10	Cereals	1,08	1,81	0,50	-0,95	0,36	-0,95
11	Milling products, malt, starches, inulin, wheat gluten	3,44	-0,22	1,19	-0,67	0,50	-0,87
12	Oil seed, oleagic fruits, grain, seed, fruit, etc, nes	1,45	0,26	2,47	0,50	3,76	0,69
13	Lac, gums, resins, vegetable saps and extracts nes	0,00	1,49	0,00	-0,98	0,00	-0,91
14	Vegetable plaiting materials, vegetable products nes	0,19	-0,49	0,07	-0,82	0,86	-0,23
15	Animal,vegetable fats and oils, cleavage products, etc	2,11	-0,38	0,67	-0,78	0,52	-0,83
16	Meat, fish and seafood food preparations nes	0,04	-0,05	0,00	-0,99	0,00	-1,00
17	Sugars and sugar confectionery	6,42	-0,50	8,91	0,63	5,75	-0,02
18	Cocoa and cocoa preparations	0,00	4,77	0,00	-0,99	0,00	-1,00
19	Cereal, flour, starch, milk preparations and products	0,01	-0,50	0,00	-1,00	0,02	-0,98
20	Vegetable, fruit, nut, etc food preparations	0,02	-0,50	0,01	-0,97	0,00	-0,99
21	Miscellaneous edible preparations	0,08	-0,48	0,01	-0,99	0,01	-0,99
22	Beverages, spirits and vinegar	0,50	-0,49	0,05	-0,89	0,04	-0,91
23	Residues, wastes of food industry, animal fodder	4,28	-0,42	3,07	0,17	1,11	0,29
24	Tobacco and manufactured tobacco substitutes	6,48	1,62	15,65	0,64	22,26	0,75
25	Salt, sulphur, earth, stone, plaster, lime and cement	0,71	8,14	0,37	-0,91	0,70	-0,79
26	Ores, slag and ash	0,19	-0,27	0,10	0,82	0,94	0,96
27	Mineral fuels, oils, distillation products, etc	1,13	0,46	1,04	0,03	0,85	-0,31
28	Inorganic chemicals, precious metal compound, isotopes	0,04	0,54	0,01	-0,98	0,02	-0,92
29	Organic chemicals	0,00	-0,49	0,00	-0,95	0,00	-0,94
30	Pharmaceutical products	0,01	-0,48	0,00	-1,00	0,01	-0,99
31	Fertilizers	0,04	-0,50	0,03	-0,98	0,13	-0,96
32	Tanning, dyeing extracts, tannins, derivs,pigments etc	0,02	-0,48	0,01	-0,99	0,01	-0,98
33	Essential oils, perfumes, cosmetics, toiletries	0,11	-0,49	0,07	-0,90	0,06	-0,92
34	Soaps, lubricants, waxes, candles, modeling pastes	0,11	-0,41	0,05	-0,97	0,09	-0,94
35	Albuminoids, modified starches, glues, enzymes	0,00	-0,46	0,01	-0,98	0,01	-0,98
36	Explosives, pyrotechnics, matches, pyrophorics, etc	0,03	-0,49	0,00	-1,00	0,14	-0,92
37	Photographic or cinematographic goods	0,00	-0,50	0,00	-1,00	0,00	-0,99
38	Miscellaneous chemical products	0,03	-0,50	0,00	-1,00	0,05	-0,94
39	Plastics and articles thereof	0,04	-0,50	0,06	-0,83	0,04	-0,91
40	Rubber and articles thereof	0,45	-0,38	0,01	-0,99	0,03	-0,97
41	Raw hides and skins (other than fur skins) and leather	0,00	-0,49	0,05	-0,10	0,16	0,89
42	Articles of leather, animal gut, harness, travel goods	0,01	-0,03	0,01	-0,97	0,02	-0,94
43	Fur skins and artificial fur, manufactures thereof	0,00	-0,48	0,00	-0,30	0,02	-0,02
44	Wood and articles of wood, wood charcoal	1,86	-0,15	1,76	0,42	1,71	0,32
45	Cork and articles of cork	0,00	1,09	0,00	-1,00	0,00	-1,00
46	Manufactures of plaiting material, basketwork, etc.	0,00	-0,50	0,01	-0,90	0,12	-0,19
47	Pulp of wood, fibrous cellulosic material, waste etc	0,01	-0,44	0,00	-0,65	0,01	-0,74

48	Paper & paperboard, articles of pulp, paper and board	0,05	-0,33	0,04	-0,94	0,06	-0,91
49	Printed books, newspapers, pictures etc	0,06	-0,45	2,42	-0,39	1,78	-0,37
50	Silk	0,00	1,01	0,00	-1,00	0,00	-1,00
51	Wool, animal hair, horsehair yarn and fabric thereof	0,00	-0,50	0,00	-1,00	0,00	-1,00
52	Cotton	3,65	-0,50	5,79	0,86	4,95	0,87
53	Vegetable textile fibres nes, paper yarn, woven fabric	2,22	3,33	2,43	0,76	5,53	0,95
54	Manmade filaments	0,00	1,59	0,01	-0,99	0,00	-1,00
55	Manmade staple fibres	0,00	-0,49	0,00	-0,98	0,01	-0,91
56	Wadding, felt, nonwovens, yarns, twine, cordage, etc	0,08	-0,49	0,09	-0,85	0,04	-0,94
57	Carpets and other textile floor coverings	0,01	-0,38	0,00	-0,98	0,01	-0,95
58	Special woven or tufted fabric, lace, tapestry etc	0,01	-0,49	0,01	-0,99	0,01	-0,97
59	Impregnated, coated or laminated textile fabric	0,00	-0,49	0,00	-0,99	0,00	-0,99
60	Knitted or crocheted fabric	0,00	-0,49	0,00	-0,98	0,00	-0,93
61	Articles of apparel, accessories, knit or crochet	0,63	-0,49	0,11	-0,48	0,00	-0,97
62	Articles of apparel, accessories, not knit or crochet	0,39	-0,18	0,11	-0,40	0,02	-0,83
63	Other made textile articles, sets, worn clothing etc	0,06	-0,14	0,14	-0,92	0,14	-0,92
64	Footwear, gaiters and the like, parts thereof	0,02	-0,39	0,00	-0,99	0,00	-0,99
65	Headgear and parts thereof	0,00	-0,50	0,00	-0,99	0,01	-0,98
66	Umbrellas, walking-sticks, seat-sticks, whips, etc	0,00	-0,49	0,00	-1,00	0,00	-0,99
67	Bird skin, feathers, artificial flowers, human hair	0,01	-0,50	0,29	-0,26	3,07	0,82
68	Stone, plaster, cement, asbestos, mica, etc articles	0,18	0,02	0,25	-0,45	0,06	-0,85
69	Ceramic products	0,04	-0,10	0,07	-0,93	0,02	-0,98
70	Glass and glassware	0,00	-0,43	0,01	-0,98	0,01	-0,98
71	Pearls, precious stones, metals, coins, etc	0,07	-0,48	0,05	0,88	0,08	0,88
72	Iron and steel	0,15	0,46	0,25	-0,59	0,23	-0,54
73	Articles of iron or steel	0,30	-0,17	0,34	-0,70	0,22	-0,79
74	Copper and articles thereof	0,05	-0,18	0,07	-0,14	0,06	-0,20
75	Nickel and articles thereof	0,00	-0,03	0,00	-0,48	0,00	-0,17
76	Aluminium and articles thereof	47,57	-0,24	55,19	0,99	54,29	0,99
78	Lead and articles thereof	0,31	28,09	1,13	0,63	1,49	0,93
79	Zinc and articles thereof	0,03	0,88	0,00	-0,99	0,01	-0,98
80	Tin and articles thereof	0,00	-0,50	0,01	-0,63	0,12	0,06
81	Other base metals, cermets, articles thereof	0,00	-0,31	0,05	-0,11	0,06	0,58
82	Tools, implements, cutlery, etc of base metal	0,09	-0,03	0,04	-0,93	0,17	-0,78
83	Miscellaneous articles of base metal	0,01	-0,44	0,00	-0,99	0,01	-0,99
84	Nuclear reactors, boilers, machinery, etc	0,09	-0,50	0,11	-0,76	0,15	-0,72
85	Electrical, electronic equipment	0,02	-0,32	0,01	-0,96	0,02	-0,93
86	Railway, tramway locomotives, rolling stock, equipment	0,06	-0,47	1,00	-0,46	0,85	-0,31
87	Vehicles other than railway, tramway	0,12	0,27	0,11	-0,86	0,07	-0,92
88	Aircraft, spacecraft, and parts thereof	0,07	-0,38	0,21	-0,27	0,27	-0,06
89	Ships, boats and other floating structures	0,24	-0,03	0,20	-0,54	0,46	0,00
90	Optical, photo, technical, medical, etc apparatus	0,03	-0,17	0,03	-0,90	0,04	-0,84
91	Clocks and watches and parts thereof	0,02	-0,44	0,00	-0,93	0,00	-0,92
92	Musical instruments, parts and accessories	0,03	-0,46	0,10	-0,22	0,03	-0,78
93	Arms and ammunition, parts and accessories thereof	0,01	-0,06	0,00	-0,99	0,01	-0,88
94	Furniture, lighting, signs, prefabricated buildings	0,10	-0,50	0,03	-0,95	0,11	-0,84
95	Toys, games, sports requisites	0,01	-0,46	0,01	-0,96	0,00	-0,98
96	Miscellaneous manufactured articles	0,25	-0,48	0,02	-0,97	0,01	-0,98
97	Works of art, collectors pieces and antiques	0,06	-0,48	0,11	0,34	0,11	0,51
99	Commodities not elsewhere specified	1,45	0,22	0,30	-0,94	1,58	-0,74