


REMOVING OBSTACLES TO ECONOMIC GROWTH IN MOZAMBIQUE

A DIAGNOSTIC TRADE INTEGRATION STUDY

VOLUME I, EXECUTIVE SUMMARY AND ACTION MATRIX

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Foreword

In October 1997, trade ministers of the World Trade Organization (WTO) established the Integrated Framework (IF) for Trade-related Technical Assistance to least-developed countries (LDCs). The IF is a multi-agency, multi-donor program that coordinates trade-related technical assistance to LDCs by first assisting them in identifying barriers to the expansion of trade and then providing technical assistance to remove those barriers. The six agencies that comprise the IF are the WTO, the International Monetary Fund (IMF), the United Nations Conference on Trade and Development (UNCTAD), the United Nations Development Program (UNDP), the World Bank, and the International Trade Centre. A number of multilateral and bilateral donors also participate in the program.

The IF was redesigned in 2000 to ensure that trade issues are more fully integrated into the poverty reduction strategies of LDCs. IF collaborators agreed to conduct pilot diagnostic trade integration studies (DTIS) in LDCs seeking assistance and committed to trade reform. The diagnostic studies, which identify constraints on trade integration, are used to develop a national consensus on and action plans to address constraints, including technical assistance needs. The action plan forms the basis for consultations with donors on how technical assistance needs may be met. As of mid-2004, studies of 13 countries have been completed and work has commenced for studies of 6 more countries.

The DTIS for Mozambique will help build national consensus on the importance of trade to the country's development objectives, including sustainable growth that benefits the poor. A significant step in building consensus was the National Validation Workshop, held in Maputo in September 2004, to discuss the conclusions and recommendations presented in this report. The workshop included leaders of Mozambique's public and private sectors, non-governmental organizations, and donor organizations. It focused on the importance of trade to Mozambique's economic growth and poverty reduction strategies, identified and prioritized constraints on export growth, considered the consultants' preliminary recommendations and priorities for overcoming constraints, and discussed more generally the implications for the Mozambican economy and citizenry—especially the poor—of adopting a more pro-trade policy and regulatory environment.

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Introduction

Despite regional conflict, devastating floods, and fluctuating world prices for key commodities, Mozambique has registered remarkable achievements over the past decade in growth, stabilization, and reform. Yet the country is still one of the poorest in the world, with more than half of its population living in extreme poverty.

To lift its citizens from poverty, Mozambique must continue to grow rapidly over the next decade. These improvements will necessarily depend on export growth, because the internal market is too small and the purchasing power of Mozambican consumers too low to support the required growth rate through domestic demand alone. Furthermore, even in countries with large domestic markets, like China, export activities provide a strong impetus to growth by attracting investment, stimulating innovation, and enhancing efficiency. The challenge, then, is *to develop a strategy that will help Mozambique achieve rapid export growth while ensuring that such growth provides economic opportunities and higher incomes for the poor*.

The position of this study is that international trade must be an integral part of Mozambique's strategy to sustain rapid growth and reduce poverty. The public and private sectors must address the many barriers to trade and investment in a comprehensive and collaborative manner. This process will enable domestic entrepreneurs and foreign investors to take full advantage of opportunities to increase exports and create jobs on a broad base, which is essential for continued poverty reduction. Efforts to improve the climate for doing business in Mozambique will also help domestic firms improve efficiency and compete more effectively against import competition. Addressing these constraints implies a broad but essential agenda, one that can only be accomplished with full endorsement at high political levels, as well as effective intergovernmental coordination, public–private partnership, and targeted donor-funded technical assistance.

For Mozambique, developing export capacity requires improvements in three areas that will have economy-wide effects: (1) in the business-enabling environment, to stimulate domestic and foreign investment in labor-intensive sectors of the economy, (2) in the transportation infrastructure and in border clearance procedures, to reduce the high transaction costs that currently render Mozambican products uncompetitive in global markets,[1] and (3) in Mozambique's trade and investment policies, trade institutions, technical and analytic skill levels, and policy coordination processes, to address impediments to exports in a coordinated and comprehensive fashion.

Although this is an ambitious agenda, resource constraints must be kept squarely in mind in evaluating reform measures and setting priorities. Even with all of the funding available from donors and multilateral financial institutions, Mozambique faces very serious limitations in fiscal resources and administrative capacity for implementing public sector programs. These constraints underscore the importance of streamlining government operations, reducing inessential interventions, and harnessing private sector capital and initiative.

This study presents an assessment of Mozambique's trade integration needs and the relationship of those needs to poverty reduction goals in three volumes. Volume 1 presents a summary with recommendations and an action item matrix. Volume 2, the main report, examines cross-cutting themes and issues and sector-specific trade opportunities and constraints. Volume 3 contains supporting materials: detailed crop subsector analyses, and the results of a trade transport facilitation audit conducted by the World Bank.

The main report begins with a broad overview of the economy in Chapter 1. Chapter 2 profiles the poverty situation in Mozambique, as well as trade and poverty linkages. Chapter 3 describes the regulatory environment, sometimes referred to as the business-enabling environment. Chapter 4 focuses on trade facilitation, especially issues related to Customs, transport, and logistics. Chapter 5 discusses Mozambique's opportunities for increasing access to foreign markets through trading arrangements—multilateral, regional, and preferential. Chapter 6 describes the institutions and processes involved in trade and investment policy, negotiations, and public–private coordination in Mozambique. Chapter 7 examines trade and investment policy *per se*, particularly insofar as current policies may thwart export competitiveness or mar the country's investment environment. Chapter 8 introduces the key elements of a poverty-focused trade strategy in Mozambique. And Chapter 9 discusses mechanisms to implement a national trade strategy that seeks to provide

[1] The study focuses on international trade because that is the primary objective of the Integrated Framework process. Measures aimed at reducing transactions costs and enhancing efficiency in domestic trade are also vital for successful development. One reason, among many others, is that high domestic trading costs are themselves a major barrier to broad-based expansion of international trade.

greater opportunities to Mozambique's poor, while cushioning disruptive short-term effects of economic liberalization that will provide for improved competitiveness and growth opportunities.

In chapters 10-13 of the main report, we profile opportunities for and challenges to the expansion of Mozambican exports in sectors that are key to the Mozambican economy and to the impoverished in particular: agriculture, fishing, labor-intensive manufacturing, and tourism. Persons interviewed for this report are listed in Appendix A and sources consulted are listed in Appendix B.

Recommendations for capitalizing on Mozambique's inherent strengths, for addressing constraints, and for pursuing opportunities are highlighted in the summary and recommendations section and in the matrix of technical assistance action, and elaborated throughout the report.

Summary and Recommendations

Mozambique has achieved its impressive record of economic growth over the past 10 years through a combination of political stability, favorable economic policies, large foreign investment flows, and reintegration into regional and global markets. Generous support from the international community has also contributed to impressive growth. Earlier, the economy suffered severe burdens: a mass exodus of skilled workers after Independence in 1975, a failed experiment with central planning, and a bitter civil war that destroyed much of the infrastructure and displaced more than 4 million people (out of a population of 12 million in 1980)—capped by recurrent droughts and floods. Beginning in 1987, the nation's development path was transformed by a sweeping program of structural adjustment, followed by the adoption of a democratic constitution in 1990, a successful peace agreement in 1992, and multi-party elections in 1994 and 1999. Mozambique emerged as a model of successful conflict reconciliation, political transition, and economic recovery.

Mozambique has proven its resilience over this period. It has made significant progress in economic reform under difficult circumstances, including regional conflict, floods, and fluctuations in world prices for its commodities. Overcoming these obstacles and others, Mozambique has achieved one of the highest rates of economic growth in the world over the past decade. In so doing, it has sharply reduced the share of its population living in poverty. Still, with a poverty rate above 50 percent, Mozambique needs to accelerate economic growth in per capita income, especially among the poorest.

Because its domestic market is small and poor, Mozambique must attract outward-looking investment, especially in labor-intensive production or operations with strong upstream linkages. Such investments have been constrained by problems with Mozambique's business climate. Taking full advantage of opportunities for sustaining rapid and broad-based growth through trade will require coordinated policy, institutional, and administrative reforms that (1) attract efficient foreign and domestic investment, and (2) reduce transactions costs to make Mozambican producers more competitive both at home and in markets worldwide. At the same time, a trade-led poverty reduction strategy will require new institutional and human capacity. Mozambican producers must be able to learn of the opportunities and requirements of foreign markets and the processes and technology needed to meet those requirements. The Government of Mozambique will need to increase its participation in international trade fora and train more personnel in trade-related issues as it prepares the economy to become more competitive in global markets.

The main objective of this Diagnostic Trade Integration Study (DTIS) and of the National Validation Conference convened in September 2004 has been to analyze the constraints on trade in Mozambique and to identify reforms that will help the country maximize the benefits of trade as an essential part of the national strategy for economic development and poverty reduction. The DTIS consists of three volumes. Volume I contains this summary and Action Matrix. Volume II contains the main body of the diagnostic study in two parts. The first part surveys cross-cutting themes and issues, and the second examines export opportunities and constraints in selected sectors: agriculture, fisheries, labor-intensive manufacturing, and tourism. Volume III contains supporting materials: detailed crop sub-sector analyses and the results of a trade transport facilitation audit conducted by the World Bank.

Poverty Reduction and Trade

In 2001, the government issued a medium-term *Action Plan for Reducing Absolute Poverty*, known as the *PARPA 2001-2005*. The fundamental objective of the PARPA is to reduce the incidence of absolute poverty from 69.4 percent in 1997 to less than 60 percent in 2005 and less than 50 percent in 2010. The PARPA envisions broad-based economic growth as the main engine for achieving this objective.

The PARPA identifies six strategic priorities: education, health, agriculture and rural development, basic infrastructure, and macroeconomic and financial management. Trade policy enters the strategy as a major component of macroeconomic and financial management.[2] According to the PARPA, the achievement of rapid and broad-based growth requires maintaining an open economy and a competitive

[2] Along with monetary and fiscal policy, revenue mobilization, public expenditure management, financial market development, and public debt management.

exchange rate, eliminating barriers to exports and imports, and creating better services for the promotion of traditional and non-traditional exports.[3] More generally, the PARPA emphasizes many of the basic conditions, policies, and reforms identified in this study as requirements for trade enhancement: macroeconomic stability, financial market development, reforms that strengthen the legal and judicial system, revision of the Labor Law and the Commercial Code, further reduction of red tape to facilitate private investment, development of market-supporting infrastructure, and human resource development.

Although the PARPA incorporates important elements of trade policy, its operational matrix lists only two indicators relating directly to trade: managing monetary policy to maintain trade competitiveness, and finalizing an action plan to streamline customs clearances and refunds of value-added tax payments. The analysis in the present DTIS should provide a basis for more thorough treatment of trade-related measures and indicators in the new PARPA that will be prepared in 2005 to cover the 2006 to 2010 period.

Currently, the macroeconomic program outlined in the PARPA is on track, the fiscal program is very close to being realized, and the poverty reduction target for 2005 has in fact been surpassed (see sidebar).

Poverty Rate Declines Substantially… but Remains Too High

The extent of poverty reduction indicated by the 2002-2003 household survey surprised many people in Mozambique. Believing that growth was being driven by enclave mega-projects, many had expected that the poor were not benefiting from growth. This perception proved wrong. Growth has been broad-based, with large gains registered in every major sector, including agriculture.

The survey produced three key findings. First, the national poverty rate fell from 69.4 percent of the population in 1996-1997 to 54.1 percent in 2002-2003. Thus, the poverty reduction target set for 2005 has been attained and surpassed.

Second, rural poverty fell more than urban poverty. In rural areas, the poverty rate declined from 71.3 percent to 55.3 percent. In urban areas, poverty incidence declined from 62.0 percent to 51.5 percent.

Third, poverty is still severe and widespread. More than half the population—more than 10 million people-- are unable to obtain a minimally adequate standard of consumption.

[3] More specifically, the strategy calls for combining careful monetary policy with strong management of international reserves to foster a gradual real depreciation of the *metical,* as a "critical incentive" for exports and import substitution. The strategy also specifies a need to develop procedures for more rapid customs clearances and faster VAT refunds for exporters through computerization of these control systems. Other "key actions," include implementation of the SADC Trade Protocol, development of better options for export credits, and promotion of exports to the United States and Europe to take advantage of trade preferences accorded Mozambique by the United States and the European Union. Another trade measure is listed in the section on revenue mobilization: reduction in the top import duty rate to 25 percent. (The rate was reduced in 2003, and the government is planning further reduction to 20 percent in 2006.)

Nonetheless, the country remains extremely poor. Over half the population—fully 10 million people—cannot afford a minimally adequate level of consumption. Even though urban and rural poverty *rates* are not much different, poverty is overwhelmingly a rural phenomenon because 70 percent of the population resides in rural areas.

Stimulation of the agriculture sector is therefore critical to poverty reduction. Agriculture provides the primary source of livelihood for 93 percent of the rural population—as well as 47 percent of the people classified as living in urban areas. Nationally, agriculture is the primary economic activity for 80 percent of the population. In contrast, just 0.8 percent of the economically active population has jobs in manufacturing.

The poverty analysis presented in this study points to two critical considerations for trade policy in Mozambique. First, that poverty remains widespread and severe means that the government cannot relax its efforts to foster rapid and broad-based growth—and trade policy is an indispensable instrument for stimulating growth. Second, because of the preponderance of rural poverty, maximizing the short-term impact of trade on poverty may require expanding opportunities for the sale of cash crops. In the medium- to long-term, however, the critical issue is how trade can help transform the economy by facilitating creation of jobs in manufacturing and services.

Tapping Mozambique's Export Potential

The Government of Mozambique has already done much to improve the climate for trade and investment. To attract domestic and foreign investment, it passed an Investment Act in 1993, created an Investment Promotion Center in 1997, adopted legislation providing for the establishment and operation of export processing zones in 1999, and progressively liberalized the tax treatment of qualifying foreign investments. The government also reduced inflation from 50- to 70-percent annual rates in the mid-1990s to low single digits from 1997-1999, and then prevented a return to high inflation despite shocks relating to flooding, regional drought, banking failures, and a steep appreciation of the *rand*. Since 1998, the *metical,* Mozambique's currency, has depreciated by 15 to 20 percent in real terms against both the U.S. dollar and the *rand,* improving the competitive position of Mozambican products. Mozambique has attracted significant foreign investment in capital-intensive "mega-projects" since 1998. These large projects are contributing to a very rapid rise in exports and linking the economy increasingly to the global market, bringing in technology, management, and workforce training. Mega-projects, however, create few jobs and few linkages to the rest of the economy. In addition, that mega-projects obtain imported inputs duty free discourages domestic procurement.

Mozambique's unique attributes, however, suggest significant untapped potential for more labor-intensive exports of goods and services. Mozambique's location is ideal for rapid growth as a regional transportation hub and as a tourist destination; it has enormous expanses of arable land, nearly five times the amount now being farmed; and its labor resources are underused in rural areas and in cities. We believe that the Government of Mozambique should strive to create a comprehensive, market-oriented climate in which businesses respond to domestic and global market signals, resisting pressure to favor specific sectors or "pick winners" in the global marketplace.

In this summary, as in the main report, we highlight three main impediments to Mozambican exports, in the order that we believe they must be addressed: (1) a business environment that deters domestic and foreign investors from starting new businesses, particularly in labor-intensive sectors; (2) weaknesses in the transport infrastructure and in border crossing procedures that raise transport and transactions costs, rendering Mozambican products uncompetitive in global markets; and (3) trade policy and institutional weaknesses, particularly lack of a formal inter-institutional coordinating mechanism to ensure that the ramifications of economic policies are fully considered before policies are decided on. We recommend ways to address these three major impediments, and examine specific impediments to key labor-intensive exports: agriculture, fish and fish products, labor-intensive manufacturing, and tourism.

Dismantling Administrative, Regulatory, and Commercial Legal Barriers to Expanded Trade and Investment

Although the business-enabling environment has improved in recent years, cumbersome regulations and procedures still impose heavy costs on business. Small and medium-sized enterprises—producers with significant potential for export growth—have been especially disadvantaged by Mozambique's burdensome system of approvals, licenses, and special levies that impede market entry and raise the costs of doing business.

Mozambique remains one of the world's most difficult places to do business, ranking in the lowest quartile among 24 sub-Saharan countries rated in the African

Competitiveness Report. Similarly, the World Bank rates Mozambique's administrative barriers and institutional constraints among the world's worst in its report, *Doing Business in 2004*. For example, the *Doing Business* database shows that starting a new business in Mozambique takes an average of 214 days. This is very time-consuming, even in comparison to other heavily regulated sub-Saharan African countries (e.g., Madagascar, 66 days, and Niger, 27 days). New firms entering the market help drive exports, growth, and job creation. To facilitate such growth, barriers to entry must be simplified or reduced. In particular, this requires streamlining company registration procedures, reducing the burden of excessive official inspections, and sharing information about regulations and procedures more effectively with the public, and among pertinent agencies (e.g., Investment Promotion Center, Notary Office, Public Commercial Registry).

Mozambique's ***labor laws*** do not accord with international norms and seriously impede job creation in the private sector. Mozambique has a more highly regulated labor market than nine of the ten most regulated countries in the world. Worker retrenchment is especially difficult. A general revision of the Labor Law is needed to make it more flexible and transparent, and therefore easier to obey and administer. Requirements for worker dismissal notices and severance pay should be brought into accord with international standards. The processing of work permits should be clarified and expedited so that foreign investors can readily fill their skill and experience requirements. Provisions for shift work and overtime should also be made more flexible, and new Labor Tribunals must be implemented efficiently.

Acquiring land for business start-up or expansion is one of the most difficult obstacles facing investors, especially for new projects. Land in Mozambique is officially state-owned and cannot be sold, transacted, mortgaged, or pledged as security. Although the state grants land-use rights to individuals for up to 50 years—renewable for another 50 years—land registration records either do not exist or are not readily accessible. This makes it very difficult for a prospective investor to ascertain whether land-use rights to a suitable parcel may be acquired. Acquisition of such rights, moreover, requires the investor to fulfill the approved land-use plan within a specified period and failure to do so, among other conditions, can lead to revocation of such rights. Lack of a fair and transparent market in land rights inhibits the transfer of land to the most productive uses, while preventing farmers and entrepreneurs from using land as collateral to raise capital. Insecure land tenure also deters farmers from making long-term investments such as planting trees or installing irrigation.

Contract enforcement is another serious problem. The World Bank ranks Mozambique near the bottom of the international scale as measured by time delays and procedural complexity. Legal impediments to closing a business in Mozambique are onerous. Aside from antiquated laws and procedures, insufficient human resources, poor management, and endemic corruption plague the performance of the legal and judicial system. As a result, the public has little confidence in these institutions. Fighting corruption in the courts requires more concerted action by government leaders, business, civil society, and international agencies.

Mozambique's ***tax system*** has undergone major reform in the last decade. The government simplified the system, broadened the tax base, and replaced a cascading turnover tax with a 17 percent value-added tax (VAT). Nonetheless, the statutory marginal effective tax rate (METR) on businesses that do not obtain special fiscal benefits is higher than the average for countries in the Southern African Development Community (SADC). The METR measures the effect of the tax system on the rate of return to capital, taking into account technical features of the tax code such as depreciation allowances, tax loss carry-forward, and capital gains on the sale of assets. For comparable investments with equal ***pre-tax*** rates of return, standard tax rates render the ***after-tax*** return on investment lower in Mozambique than in nine other SADC countries. Special fiscal incentives make the country a highly competitive location for new investors. But the combination of relatively standard high tax rates with generous special incentives creates inequities, reduces efficiency, and complicates tax administration. Furthermore, tax incentives have no impact if underlying conditions render investments unprofitable. While mega-project investors have the clout and resources to overcome administrative and regulatory barriers, smaller labor-intensive investors are deterred from doing business in Mozambique despite tax incentives. Another important aspect of the tax environment is the quality of tax administration. The most widespread criticism is that the complexity of the system, the lack of public information, and the discretionary nature of tax enforcement provides opportunities for officials to manipulate fines and extract bribes. Delays in the payment of VAT refunds are also a major complaint; delays of three to four months—or even up to a year—are widely reported. These delays raise financing costs for exporters, who by law should bear no burden from this tax.

The ***financial system*** has evolved considerably in the last decade, resulting in a substantial increase in the type and number of operating financial institutions. Nonetheless, problems with the financial system constrain private investment and export development. High real interest rates and access to credit made difficult by stiff collateral requirements discourage firms from forming or expanding and inhibit productivity gains. Competition in the banking system is limited, resulting in high-cost operations and very conservative banking practices. Weaknesses in the real economy elevate lending risks, while a lack of accurate accounting information and problems with contract enforcement limit banks' ability to assess credit risk and recover loans—which also pushes up lending rates. Lack of freely marketable land-use rights prevents the use of land as collateral. These and other factors have also impaired the development of non-bank financial institutions such as stock and bond markets.

Export finance is difficult to obtain, except for large, reputable firms and those with adequate collateral. Fees and real interest rates are high for export financing. Some instruments, such as back-to-back letters of credit, which would be useful for export development in labor-intensive activities such as textiles and apparel, are not available. Rural areas are especially disadvantaged in financial services. Mozambique needs to address these weaknesses in the financial sector, especially to encourage competition, strengthen banking supervision, and improve the availability of financial information.

RECOMMENDATIONS

Continue to streamline business entry requirements. Registration time requirements need to be cut and duplication among agencies needs to be eliminated by improving the sharing of registration-related information. Computerization should be improved to reduce burdens in the registration system.

Clarify and streamline regulatory authority over business entry between national, provincial, and local entities. Investors should not be required to request licenses in each jurisdiction. In addition, different government agencies should better coordinate work on licenses and standards, and respect or accept each other's authority.

Develop more transparent and less discretionary procedures for planned and unplanned inspections by official agencies. Governments everywhere must ensure that taxes are paid and that safety, health, and environmental standards are met. Mozambique's inspections regime, however, is too intrusive and discretionary while not effectively guaranteeing that standards are met. The inspection process needs to be more transparent to the private sector, with safeguards from unjustified inspections and effective channels for appealing decisions. Rules on what constitutes compliance and noncompliance need to be clearer, as do the rights of businesses during the inspection process. Agencies conducting inspections should improve procedures for disseminating information to the public, and should continuously train inspection staff to increase competence, reduce corruption, and improve government's public image. One way to achieve a more objective inspection process is to reduce inspectors' range of discretion and discontinue the practice of allowing inspection agents to retain a share of fines.

Revise the Labor Law to make it flexible, clear, and easier to obey and to administer. Provisions dealing with retrenchment of workers need to be improved. Requirements for worker notice for dismissal and severance should be brought into accord with international standards. Ambiguities in the law regarding the calculation of severance and accrual of vacation should be clarified, as should procedures for calling strikes. Provisions for shift work and overtime should be made more flexible.

Expedite the processing of work permits. Work permit processing should be clarified and expedited by creating objective criteria that apply equally to each case, simplifying the application procedure, and improving coordination between the labor and immigration ministries to reduce delays and uncertainties about work permits.

Improve administration of labor law. Mozambique should develop training programs for labor, management, and government officials in labor relations. Moreover, the Labor Law and the Arbitration, Conciliation, and Mediation Law should be revised to permit labor arbitration and mediation of individual labor contracts. Finally, steps should be taken to reduce corruption in the Labor Inspectorate; unchecked, corruption will distort even an improved Labor Law and undermine the benefits of better training.

Establish a free market for transacting land-use rights, starting with commercially important development zones. Procedures established under the Land Law are complex and time-consuming for investors. And the way the law is abused in application is an even greater problem. Mozambique, like many countries, does not allow private ownership of land. Even so, a free and transparent market in land-use rights permits transactions that lead to an efficient use of land resources. At least officially, Mozambique lacks such a market. The government has to do more to create a market for land rights as an institutional cornerstone for stimulating investment, growth, and job creation. Creating a national market in land-use rights is neither politically feasible nor necessary at this time. Instead, the government should move gradually, starting with pilot systems for free trade in land-use rights in designated economic development zones.

Strengthen contract enforcement by reforming the commercial and civil codes. The basic codes governing business activity are highly complex, and at times overwhelm the technical capabilities of support personnel in the legal and judicial sector. These include the Civil Code, the Commercial Code, and the Code of Civil Process. Judges reportedly find the codes challenging as well, especially when lawyers use the complicated provisions for purposes of delay. These vital reforms are already on the government's legal reform agenda. Reforms need to focus on reducing the number of procedures, the time, and the costs involved in enforcing commercial contracts. Moreover, the codes are still deficient in some basic provisions for modern commercial activity, particularly those dealing with bankruptcy and reorganization of indebted firms to restore their economic viability. Selective reform of the legal framework is underway, and the government is developing a new bankruptcy law. It is important that these efforts be completed.

Improve the judicial execution of debts. This is another area of civil procedure in need of attention, as evidenced by the substantial backlog of cases. The process of judicial execution could be expedited by separating administrative tasks from those requiring judicial discretion. Administrative tasks, such as preparation of documents and service of process, can be contracted to private process managers.

Improve administration in the legal and judicial sector. Aside from antiquated laws and procedures, insufficient human and material resources, poor management, and corruption plague the performance of the legal and judicial system. Reforming the legal and judicial sector and improving contract enforcement in Mozambique will require the following complementary efforts: (1) training in all legal and judicial institutions; (2) strengthening managers' skills in legal institutions and adopting enhanced performance goals and accountability; (3) focusing more on reforming the administration of justice (including eliminating corruption) rather than on simply revising legislation. While many laws need revision, the greatest bottleneck is not the laws but their administration. Much more attention should be paid to day-to-day management of institutions that administer the laws and interact with the public.

Improve governance. Better governance is vital to the removal of administrative barriers. Good governance is hindered by weak public finances; bureaucratic attitudes that contribute to "passive resistance" in executing agencies and among officials, as well as pervasive corruption; weak civil service capacity; and organizational problems, such as unclear or overlapping functions and responsibilities. Efforts to improve governance must include (1) programs to strengthen public finances and rationalize the civil service, (2) capacity building and restructuring to address weaknesses in civil service staff and executing agencies, (3) achievement of political consensus and commitment by government leaders to adopt and implement required reforms, and (4) programs to fight corruption. The government has recently begun accelerating some of its plans for public sector reform by decentralizing government activities and improving the effectiveness of the civil service through training and salary reforms. These efforts should be intensified.

Strengthen anti-corruption efforts. Fighting corruption will require cooperation among government, business, civil society, and international agencies. Within government the following actions are needed to further address the problem: (1) develop more effective procedures/sanctions to reduce official corruption and improve implementation and enforcement of existing anti-corruption programs; (2) improve public accounting, auditing, and reporting procedures for principal public agencies; and grant the Ministry of Finance stronger authority to perform audits in the context of the ongoing audit/accounting reforms; and (3) develop a capacity-building program of training and visits for public officials to improve administration of regulations, official inspections, and service delivery.

Improve administration of tax regime. Mozambique's tax problems are largely the result of poor administration. Business firms complain about the arbitrary nature of tax administration, frequent and time-consuming tax inspections, unqualified tax inspectors, needlessly complicated paperwork, inability to get VAT refunds, and inadequate dispute resolution procedures. To address these issues the following actions should be considered: (1) clarify tax laws and regulations to make them less open to discretionary interpretation, and (2) continue eliminating frequent and time-consuming tax inspections. The government has already taken several steps to improve tax administration. In 2002, it established a large taxpayer unit, staffed with qualified tax personnel and efficiently managed to avoid multiple, discretionary inspections. It is also preparing to establish a central revenue authority that will unify and strengthen tax administration.

Introduce a formal system for tax dispute resolution. A transparent system for tax appeals would provide a formal mechanism for taxpayers to seek redress when they feel mistreated by tax officials, or when they want to challenge what they view as arbitrary penalties. At the same time, interest charges on overdue taxes must be structured to prevent abuse of the appeal process (e.g., to delay legitimate tax obligations). Mozambique's court system is known to be slow and sometimes corrupt, but no alternative mechanism for resolving such disputes exists. A new organic law for tax tribunals was submitted to the National Assembly in 2003. This should bolster public confidence in the tax system, but attention to effective implementation will be critical.

Expedite VAT refunds. The government should change the way it handles VAT refunds because the process for clearing refunds is time-consuming. Among other things, the government should consider establishing a special registry of export enterprises to expedite refund claims.

Strengthen competition in the financial markets, and further improve banking supervision. The government needs to address structural and institutional weaknesses that hinder financial intermediation for private sector development and the expansion of exports. It should consider (1) encouraging more robust competition by supporting the entry of new financial institutions, subject to proper prudential controls; and (2) further improving banking supervision to bolster the soundness of the financial system and increase public confidence.

Improve financial information and accounting standards. In addition to improving the administration of legal and judicial systems and creating a free market in land-use rights, this is one of the most important ways to reduce intermediation margins and improve access to credit. The government has recently taken some steps to improve financial information. The country's four largest banks are now undergoing an independent audit based on International Accounting Standards (IAS). On the basis of the auditor's recommendations, the government will develop a timetable to move the financial sector gradually toward IAS. This should help improve accounting standards, but more will need to be done. The government should also support private-sector efforts to raise accounting standards and increase the number of qualified accountants in the country. In addition, the government should take steps to establish public access to property registration data based on the information compiled for the Central Credit Risk Bureau at the Bank of Mozambique.

Facilitating Trade Through Improved Customs and Transport

Mozambique has made progress in facilitating trade[4] over the past few years. Much of the work on an ambitious program to improve major north-south highways has

[4] Trade facilitation is the sequence of actions leading to the movement of freight from producer to consumer. It involves three logistic stages—production, trade, transport—and encompasses institutional policy, regulations, documents, procedures, and physical freight logistics. Facilitation means improvement, and the easiest way to improve is to examine the various layers of the institutional or logistic problem until the weakest layer is found. Then simplification can begin.

begun; a new bridge is being built over the Zambezi River in Caia, a critical gateway for north-south trade; railways and highways in east-west corridors are being improved; and privatization of the Ports of Maputo, Beira, and Nacala has significantly improved port operations. In addition, the Directorate General for Customs (DGA) and other institutions that deal with imports and exports have done much to become modern public service agencies, making significant changes in their laws, organization, and operations. New customs-related laws comply with international standards, including conventions and recommendations of the World Customs Organization (WCO). Better-educated Customs officers are earning higher salaries and being rewarded for good performance thanks to greater flexibility within pay grades.

At the same time, delays, administrative burdens, and corruption associated with trade-related institutions still drive up traders' transaction costs. Eliminating unwarranted and onerous constraints embodied in laws, regulations, and procedures can help reduce costs—by as much as 30 percent of the value of traded goods. Lower costs will help Mozambican exporters become more competitive, lower prices for consumers, and make the country more attractive to investors. To achieve this goal, Mozambique must improve the laws, institutions, and operations of its trade-related institutions, especially its Customs agency. Lower transaction costs will then accrue from better managed, staffed, and equipped institutions that balance trade facilitation with appropriate control.

Challenges facing Mozambique in trade facilitation include (1) improving management, (2) integrating border institutions, (3) improving risk management, (4) streamlining Customs clearance processes, (5) addressing Customs' infrastructure needs, (6) improving technology utilization, and (7) developing stronger and more collaborative public–private sector relationships. Perhaps the most pressing concern is corruption, a resurging problem that can seriously undermine progress made to date and inhibit future advances.

Mozambique's commitment to a transformed Customs administration is serious and so far successful, but there is more work to be done. Positive developments include the engagement of the Crown Agents consultancy in 1997. Crown Agents have helped reorganize the agency, improve staff recruitment and resource allocation, and modernize headquarters' organization. Delegation of authority and responsibility to mid- and first-line managers and supervisors, however, is still insufficient.

The objectives for Customs include revenue collection, trade facilitation, and integrity improvement. Customs achieves its role as a revenue collector. Its improved personnel system and the assignment of more staff to key border locations initially reduced smuggling and corruption at the borders. Personnel with skills necessary to sustain this improvement—skills in risk management, auditing, and information technology (IT)—have just been hired, but are not fully operational. And while Customs' IT system is sufficient overall, it needs to be used to connect Customs with the trade community and to enable data exchange with neighboring customs agencies. To better facilitate trade, Customs needs to cultivate voluntary compliance within the trade community and make sure that facilitation is pursued at all levels of the organization, especially in the procedures for processing imports and exports.

Export procedures, for example, impede the flow of goods out of the country and hamper export development. All export documents and goods must be presented to Customs prior to export. Customs then examines each document and, in some locations, more than 50 percent of cargo. While large firms report no particular problems with export procedures, small- and medium-sized firms report a lack of transparency and inconsistent interpretation by Customs officials. Firms also report problems with certificates of origin required by the government. This process is time-consuming and unnecessary. In addition, Mozambique's Border Police play a duplicative role in the processing of goods. Responsible for border security, they are primarily concerned with drug trafficking, firearms smuggling, and stolen vehicles. At the land border crossings, except for the ports on the border with Zimbabwe, they examine documents and, at their discretion, conduct physical examinations of persons, vehicles, and goods.

Also important in trade facilitation, Mozambique's transport infrastructure is directed toward neighboring landlocked countries and South Africa and lacks a north-south railway connection. In addition, the conditions of the rail network are inadequate and much needs to be done to improve key roads. The rural economy needs to be better integrated into the main transport infrastructure so farmers can reach global markets with fresher, higher-quality produce. Handling and storage facilities in ports are in short supply, and terminals and bonded warehousing facilities do not meet the requirements of international shippers. Most shipping lines continue to use the Port of Durban in South Africa as a hub, with feeder services to Mozambique's ports. The freight-forwarding sector is poorly organized, lacks a legal framework, and provides services that are often below international standards. Lack of international experience in this area makes it difficult to compete with foreign companies.

While transport costs on some international routes have been lowered, transport costs on other critical trade routes remain excessively high. For example, road transport from Maputo to Lusaka averages US$0.021 per ton-km whereas road transport from Beira to Lusaka is nearly seven times higher at US$0.139 per ton-km. The price per container through the Nacala Corridor is four times more expensive than transport of a container from Maputo to Harare and twice as expensive as the Beira Corridor. This has certainly to do with the duration of the trip and the state of the railway infrastructure and availability of rolling stock. Rail cargo sometimes takes 14-20 days from Nacala to Blantyre because of congestion, derailments, equipment failures, and administrative confusion. Overall the average cost of railway transport in Mozambique is more than US$0.05 per ton-km, which is about double the international norm of US$0.025 per ton-km.

RECOMMENDATIONS

Customs has made considerable progress in its modernization and is approaching final implementation of world-standard laws and procedures. The next challenge is to move away from excessive bureaucratic control of imports and exports toward facilitation of international trade. Customs personnel must understand these changes in the context of free and open trade and their impact on economic activity and growth. Many of the following recommendations require changes in organizational culture as well as concrete actions. The actions will likely be easier, but the change in organizational culture is critical.

Seek additional avenues to attack corruption. Corruption remains a serious problem, and may be on the rise. A special department at the Deputy Director level of Customs is very active in spotting corruption, but Customs must seek more avenues for attacking it. As a first step, first- and second-line supervisors should be empowered to be responsible for anti-corruption efforts. They need to be in the workplace with their officers and to manage by walking about. Second, fighting corruption throughout the workplace will require cooperation with other agencies operating in the port environment. Third, Customs should be very clear about which parts of their offices and facilities are open to the public. A casual mingling of officers and the public provides opportunities for the exchange of money. Fourth, no money should be allowed in the open, except at cashier stations. Fifth, Customs must ask its own first-line supervisors and other officers for ideas to prevent corruption, since they see it every day.

Customs needs to ***empower*** its ***supervisors and managers and to clarify their roles and responsibilities***. Having hired intelligent and capable people, the organization must capitalize on this talent. For example, communication at the highest levels of management is good, but not at the lower levels. Problems from the public should be solved at the lowest level of supervision and these supervisors should be empowered and expected to make independent decisions.

A clear understanding of Customs' role in facilitating the movement of goods and people, and its consequences for economic growth, must be instilled in personnel so that Customs can ***move away from its focus on controlling trade to identifying and taking facilitative approaches.*** Export controls should be imposed only on a high-risk basis, with exams for only the most critical goods (i.e., weapons, drugs, currency). In some locations more than 50 percent of exports are subjected to physical examination. For both imports and exports, the results of examinations should be reported and analyzed to see if the high rate of examination is warranted.

Customs needs to recognize the trading public's need for awareness and understanding of the rules, regulations, and procedures that apply to the cross-border flows of goods, people, and money. The trading public needs and wants ***Customs procedures to be published in clear, easy to understand language*** so that it and Customs officers have the same understanding of the rules. The trading public also needs to be informed of changes in rules, and in this regard, transparency and predictability are important. Customs should implement public training or awareness sessions on policies, procedures, and other subjects important to the trade community. In addition, trade organizations should begin training their members. Here, Customs could provide "training of trainers" so that some members of the trade community would be qualified to train others. Customs' website should be used to inform and educate the public, and an employee or a team should be dedicated to maintaining the website.

Customs should ***tighten control of transit cargo and truck freight arriving at Ressano Garcia.*** While the new cargo "dry port" close to the border with South Africa is being developed, Customs needs to better control freight arriving at this border. This could be accomplished with technology (e.g., transponders, cameras) and by running control and auditing blitzes to ensure that every truck reports to either the Frigo warehouse or the Port of Maputo. When the dry port becomes operational and Ressano Garcia becomes a clearance station for passengers only, a study of the flow of vehicles and people should be conducted to determine how to best manage the traffic while maintaining appropriate control.

Plans to implement direct trader interface (DTI) and the automated collection of revenue should proceed at a fast pace, along with other computer and technology enhancements. Customs should consider acquiring some off-the-shelf risk management and data mining software. Automation will not only provide for quicker release times, but also free staff for other jobs and substantially assist anti-corruption campaigns. Apparently, all countries in southern Africa are striving for a common transit document. All of the other countries have ASYCUDA, the UNCTAD customs automated data system, or a system compatible with it. Mozambique does not now have compatibility with ASYCUDA, and this will hinder present and future data exchange with its neighbors.

Improve collection of trade data, as well as its dissemination and analysis. The National Institute for Statistics (INE) and the DGA need to better coordinate trade data assembly and analysis to expedite the release of data for analysis. Mozambique's submission to the Joint Integrated Technical Assistance Program (JITAP) identifies assistance to INE as critical to building analytic capacity. INE's technical assistance needs include the hardware and software necessary to improve its collection of external trade data. Customs needs to improve its accuracy and speed in collecting and entering trade data.

Customs should understand that for the public "customs clearance" includes all formalities related to exporting and importing. The traveling and trading public wants to clear Customs with a ***one-stop process at borders and airports that incorporates the needs of Customs, Immigration, and Agriculture***. In fact, at land borders the public wants one-stop processing that coordinates or addresses the border administration needs of both countries. This is not strictly within the scope of Customs' technical responsibilities, but Customs needs to address this concern and, in recognition of its significant progress in reform, lead such change.

To identify and address their problems and advocate for solutions, trade groups should consider the model of the UNECE (United Nations Economic Commission for Europe) for the ***creation of public–private trade facilitation committees***. These groups, known as Pro-Committees, comprise influential members of government trade-related departments (e.g., Ministry of Trade, Ministry of Interior, Customs) and private sector trade organizations, such as chambers of commerce, carrier organizations, and export/import groups. Donor assistance with the establishment of a trade facilitation Pro-Committee in Mozambique should be a worthwhile investment for trade facilitation.

Customs needs ***support for improvements in its infrastructure***, as officers and line personnel do not have the tools and equipment they need. Equipment and facilities are in short supply at most locations and personnel at remote border posts lack proper housing and office space. The new cargo facility, the dry port, at Ressano Garcia, is critical. Customs needs a major investment in its infrastructure—by its own estimate at least US$65 million for basic improvements.

Mozambique should ***continue developing transport infrastructure.*** Liberalization of transport and terminal operators is well underway and upgrades of major highways, railway lines, and bridges are planned, as well as privatizations of ports, terminals, airports, and airlines. When upgrades and privatizations are complete, transportation and related services will be much improved. In addition, Mozambique must ensure that new infrastructure is not damaged. For example, weighing stations for trucks should ensure that overweight trucks do not damage roads. Moreover, additional investment in dry ports, terminals, and basic transport infrastructure is needed to increase quality and encourage private capital. Border facilities must also be improved to accommodate efficient transport of goods, passengers, and services.

Improvements in the legal and regulatory framework for transport are needed. Legislation to regulate the transport of freight and passengers on roads, and legislation on a new Railway Code, maritime transport, coastal shipping, and aviation should be developed. A legal base for coordination and streamlining of border regulations should clearly define the mandates of border agencies and controlling authorities to avoid overlapping operations. International agreements, such as the SADC Protocol on Transport, Communications and Meteorology and the SADC Trade Protocol, can be converted into national legislation to obtain legal enforcement authority.

Multi-modal integration should be encouraged. A fully operational logistics corridor concept—integrating ports, maritime and coastal shipping, railways, road transport, terminals, and warehouses and distribution centers—is still far from implementation. Integrated modal connections and multimodal transport hardly exist. Recognizing this weakness, the Government of Mozambique and the Mozambican business community are developing the corridor concept in a public–private partnership.

Expanded ***training in transport and logistics management, financial management, marketing, and regulations*** is suggested**.** Training should target providers of logistics services, road transport operators, forwarders, and clearing agents.

Improving Access to Foreign Markets

Mozambique may be able to expand its exporters' opportunities in foreign markets under the terms of a variety of multilateral, regional, and bilateral trade negotiations, as well as under programs that provide Mozambican exporters with preferential access to major markets, including the United States and the EU.

Mozambique is a member of the World Trade Organization (WTO) and enjoys preferential access to export markets under trade arrangements that reduce duty rates on its exports absolutely and relative to suppliers that do not have such preferences. Mozambique is accorded preferential access to certain markets, including those of its neighbors, under the reciprocal and binding SADC Trade Protocol; of the United States under the African Growth and Opportunity Act (AGOA); and of the EU under the ACP / Cotonou Agreement and the Everything But Arms (EBA) initiative.

Internal constraints and complex rules of origin under regional trade agreements and preferential trade arrangements have limited Mozambique's ability to take advantage of many of these opportunities. Mozambique must take advantage of market opportunities created by margins of preference in regional and developed markets. At the same time, it must recognize that margins of preference are transitory and that most favored nation (MFN) reductions in duties in major markets provide investors and producers more certain market access. Further, the reduction in producer and export subsidies needed to permit agricultural trade flows based on Mozambique's competitive advantage can only be achieved through multilateral negotiations in the WTO Doha round of negotiations. Mozambique's opportunity to achieve significant permanent market access under the Doha Development Agenda appears to be reviving with the mid-2004 reinvigoration of those negotiations.

Mozambique must also carefully analyze how imminent revisions to these arrangements will affect opportunities and competitive pressures in key markets. One of the most significant sources of change is the negotiation of a free-trade agreement (FTA) between the United States and the five countries of the Southern African Customs Union. The agreement is likely to provide SACU countries preferential access to the U.S. market on terms better than those accorded to Mozambique while gradually reducing Mozambique's margin of tariff preference in SACU markets relative to U.S. suppliers.

Mozambique's market access under preferential arrangements is also being affected by the EU replacing preferences accorded former colonies in Africa, the Caribbean, and the Pacific (ACP) with Economic Partnership Agreements (EPA); by amendments to the U.S. AGOA; and by changes in the rules of origin under the EU's General System of Preferences (GSP) and EBA arrangement. Meanwhile, liberalization within SADC is largely stalled: no agreement has been reached on rules of origin; the incorporation of services has had a false start; and members appear unable to agree to accelerate liberalization under the SADC FTA. The mid-term review might help jumpstart these efforts.

The negotiating agenda—the Doha Round, SADC mid-term review, and EPA with the EU—is ambitious and far-reaching. Mozambique has a major stake in each negotiation and thus must participate. Mozambique's producers, exporters and importers, and government officials need a better understanding of these trade arrangements to improve market access and to benefit fully from the opportunities they offer.

RECOMMENDATIONS

Maximize the benefits of Doha Round and EPA negotiations to Mozambique through active participation in the negotiations and prioritization of Mozambican negotiating interests. Many products of interest to Mozambican producers have high tariffs and are subject to export subsidies or producer supports including sugar, cotton, groundnuts, tobacco, and maize. In many markets, these products also face tariff-rate quotas and prohibitively high out-of-quota tariffs. Products of interest to Mozambique that will be addressed in the non-agricultural market access negotiations include apparel, footwear, leather products, textiles, and fish and wood products. Mozambique can leverage tariff and investment reforms that it has already made by committing to them during the Doha Round negotiations.

Participate in tariff acceleration discussions within SADC. The markets of Malawi, Mauritius, Tanzania, Zambia, and Zimbabwe have not opened to Mozambican exports as rapidly as South Africa's market. For most products of interest, Mozambique must wait until 2008 (in some cases 2012) to benefit from tariff elimination by these SADC partners. Acceleration of free trade in SADC has languished, but the mid-term review offers an opportunity re-accelerate tariff reductions. Mozambique should move its own offer on sensitive products to 2012 rather 2015. The fact of parallel negotiations of an EPA with the EU, and the decision of SADC Ministers to begin negotiations in 2005 to make SADC a customs union, are further reasons to accelerate internal tariff reductions.

Continue efforts to liberalize SADC rules of origin. To meet SADC requirements and sell to South Africa, Mozambique must purchase raw material for plastics from

South Africa, rather than lower-cost sources, and must purchase fabrics from the region. South Africa is not a cost-efficient producer by international standards, so SADC rules of origin are encouraging trade diversion. Meanwhile, southern African firms competing in the SACU markets are free to import from more cost-efficient sources, leaving Mozambican producers at a competitive disadvantage in one of their most important markets.

Accelerate duty reductions between reciprocating partners within SADC. Mozambique has negotiated FTAs with Zimbabwe and nearly completed another with Malawi. Each provides for immediate elimination of duties. Under the SADC protocol,[5] however, Mozambique would have to grant duty-free access to all other SADC members without improving its own access to other SADC markets were either of these FTAs implemented. Free trade between Mozambique and Zimbabwe is consistent with the objectives of SADC, and implementation would not require either country to raise duties above those committed to their SADC partners. In fact, by setting an example, free trade between Mozambique and Zimbabwe might kick-start SADC's efforts to accelerate implementation of the FTA. Mozambique should complete FTA negotiations with Malawi, Zambia, and Mauritius.

Complete the evaluation of joining SACU. Mozambique recently considered the costs and benefits of joining SACU. Were it to join, it would no longer have its exports to South Africa circumscribed by SADC's stringent rules of origin. It would also have an opportunity to participate in the Trade and Development Cooperation Agreement between South Africa and the EU and the FTA being negotiated between SACU and the United States. SACU membership would require Mozambique to adopt SACU's common external tariff. This would raise Mozambique's duties on motor vehicles, ceramics, inorganic chemicals, and wadding, but lower them on a number of other products, where it might as a result feel keener competition from its SACU partners. The recently completed evaluation of joining SACU did not address all aspects such membership. Thus, Mozambique should explore the terms under which it might join SACU to complete its evaluation of membership as a means for accelerating free trade in the region.

[5] Under Article 27, SADC's most favored nation provision.

Strengthening Mozambique's Trade Institutions and Processes

The study team noted a number of weaknesses in Mozambique's trade institutions and processes, most notably insufficient numbers of trained staff to evaluate or analyze trade policy options, inadequate trade data, and lack of a formal institutional mechanism for interministerial coordination of trade policy. Weaknesses in standards-setting and conformity were also noted.

Trade-related institutions in Mozambique suffer from very limited human capacity, poor interministerial coordination, and weak organizational structure. Mozambique's submission to the Joint Integrated Technical Assistance Program (JITAP) pointed out the need for training to improve public and private sector capacity to analyze policy options and participate in trade policy deliberations and negotiations. It also pointed out the need to improve understanding of the benefits and obligations of WTO, regional, and bilateral agreements, especially in subjects important to Mozambique: agriculture, services, trade preferences, rules of origin, standards, and negotiations. The JITAP submission also pointed out a need for technical assistance to improve the management skills of the private sector so it can respond better to trade opportunities. It highlighted the need for technical assistance to individual firms and business associations related to market analysis, accounting, language, business, and financial planning.

Human capacity in the public sector poses another challenge. Turnover is high and skills and experience among public sector employees are limited. Training must therefore be considered a long-term structural problem, one that requires interventions at many levels. Because skills within government are both weak and sparsely distributed, on-the job training must be provided while undergraduates and graduate students are trained.

Trade policy decisions are also hampered by inadequate and unreliable trade and investment data. Volume data on exports and imports can be obtained only from original sources, and even then common units of measurements are not always used. Data provided by different government ministries and departments are often contradictory or inconsistent. This hinders analysis of export performance in general and in markets in which Mozambique enjoys preferential access (e.g., under the SADC Trade Protocol). Weak data also hinder identification of changes in the volume of imports that affect the health or competitiveness of domestic industries, forecasting of trends in trade, analysis of trade policy options, and support services for exporters and importers. Even where data exist, the private sector is either unaware of it or does not know how to use it. Statistics on foreign markets, even such large, data-rich markets as the United States, are even scarcer.

Analytical capacity also needs improvement. The MIC will need to deepen its knowledge of and ability to analyze issues related to trade and industrial policy. The MIC enjoys the services of an excellent research and information provider, the Market Management Assistance Project (Projecto de Assistencia a Gestão do Mercado), funded by the EU. It also receives support from the Technical Unit for Commercial Protocol (UTCOM), which is funded by USAID. At present, however, the EU and UTCOM projects are too narrow to support development of a national trade strategy.

Fundamentally, Mozambique's trade policymaking process is plagued by coordination problems. The MIC has primary responsibility for trade policy formulation, but the policies of other ministries affect trade performance. Each ministry pursues its mandate in its own way: the agriculture ministry may promote food security over external trade; the finance ministry will tend to defend revenue collections; and the transport ministry may wish to develop north-south links, rather than more export-friendly east-west infrastructure. Even the MIC has conflicting internal interests because it represents industries that favor trade liberalization as well as those that seek shelter from foreign competition.

As the number of regional trade negotiations has increased so has their complexity. In most, discussions go far beyond traditional matters of tariffs, quotas, and trade remedies. Mozambique's international trade rights and obligations extend to new trade agreement rules in textiles, agriculture, SPS measures, intellectual property rights, and services. In addition, the competitive position of Mozambique's producers is affected by a wide range of government policy and practices: customs practices, labor law, VAT refund practices, and company registration practices, among others. Many different ministries and government agencies establish and administer these policies.

At present, the MIC forms interministerial coordinating committees when issues arise. It identifies members, invites them to serve on the committee, and convenes meetings of the committee. These committees usually cover only one topic at a time. In addition, usually the same representative from a ministry, private sector organization, or non-governmental organization (NGO) serves on each committee. The lack of a formal interministerial process that handles multiple issues simultaneously (e.g., SADC, EPA, the Integrated Framework) wastes resources and time. A formal system would ensure that the resources to coordinate policy are available and that all viewpoints are considered.

Finally, Mozambique's standards-setting institutions and processes must be strengthened. Under the jurisdiction of the MIC, INNOQ is responsible for developing rules and regulations on product quality and safety and is the WTO enquiry point for the Agreement on Technical Barriers to Trade (TBT). MADER's Department of Vegetal Sanitation (DSV) is the enquiry point for vegetables and fruit and its Department for Livestock (DINAP) is the enquiry point for animals under the WTO's Agreement on Sanitary and Phytosanitary Standards (SPS). Since mid-2001, 100 new standards have been drafted but none have been adopted. INNOQ staff and facilities have remained largely unchanged over the past three years. Adoption of standards may be prolonged because INNOQ seeks the comments and/or clearance of other ministries, institutions, and the private sector before adopting them, and such comments have not been forthcoming. Moreover, although four metrology labs opened in 2002, INNOQ has not been approved to certify the labs, so they must be certified by the South African Bureau of Standards (SABS), which deployed a mobile laboratory in 2003. INNOQ itself has yet to be accredited. Product certification, when required, must still be done by the South African Bureau of Standards.

RECOMMENDATIONS

Expand trade training for Mozambican government officials. Funding should be made available so government officials can attend trade-related training programs in South Africa, as well as in the United States and EU. Staff of the MIC and selected staff in other ministries should also have access to training. University scholarships should be made available to promising university graduates who, in return, would spend some time working at the MIC and other agencies when they complete training. Because managers do not want to give up their most productive staff for long-term training, using consultants as replacements for long-term staff should be considered.

Expand and enrich trade analysis and data support institutions. We recommend expanding the EU- and USAID-supported trade analysis projects or incorporating them into a more broadly defined institutional support mechanism. South Africa's Trade and Industrial Policy Strategies (TIPS) project could be a model for

Mozambique.[6] The resulting institutional support mechanism would research trade and industrial issues and link into worldwide trade policy networks.

Formalize inter-institutional coordination of trade policy. Mozambique would benefit from establishing a mechanism for making government-wide trade policy decisions on a continuous basis. Multilateral, regional, and bilateral negotiation strategies must be integrated, and conflicts between ministerial mandates as they affect international trade must be resolved. Mozambique's major trading partners—South Africa, the EU, and the United States—have long recognized the value of a coordinated trade policy and have coordinating mechanisms in place. In fact, most major trading nations have a single entity with authority to conduct trade policy. The mandate of a coordinating unit must be strong enough to overcome the propensity of busy ministries not to consider trade policy objectives outside their jurisdiction.

Streamline standards-setting processes. The Government of Mozambique needs to decide which institution will set standards. Currently several institutions, each without sufficient resources, participate in the process. Combining the resources and authority into a single institution might serve to accelerate the adoption of the 100 standards pending and smooth the adoption process for future standards.

Adopting More Liberal Trade and Investment Policies

Mozambique has done much to create an attractive trade and investment environment in the past decade. It has simplified its tariff schedule and reduced the highest rate, which applies to imported "consumer goods," from 35 percent to 25 percent. It also has expanded the use of duty exemptions, both for imports into export-processing zones, and for selected imported inputs.

Still, the high duty rate on goods that enter as consumer goods even though they may be used as production inputs raises the effective rate of protection. In addition, many agricultural products, including virtually all meat, dairy, and fruit and vegetable products are also charged the consumer good duty rate.

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6 See www.tips.org.za. Other institutional arrangements include a collaborative arrangement between the organizations in South Africa and Mozambique, or expanding the mandate of TIPS to cover SADC. However, following on OECD recommendations, the TIPS approach might be broader still, linking donors, the Government of Mozambique and the private sector into various trade policy networks. See OECD, Strengthening Trade Capacity for Development, 2001, p.42ff.

The 2002 Mainstreaming Trade report recommended that Mozambique suspend or eliminate tariffs on imported inputs required for export production. Recently MIC made an effort to do so. Coverage has been limited to firms with sales of more than 600 billion *meticais* (US$250,000) and to certain sectors (textile, clothing, and footwear; food processing; other agro-based industries; metal mechanical; chemicals, plastics and rubber). Assembling the required documentation reportedly took on average one and one-half months, and only 16 of 30 applications have been approved so far. Most of the firms that have been approved, however, do not export, and thus the effect of the change has been to increase the effective protection of the domestic producers.

RECOMMENDATIONS

Reduce high tariffs, tariff escalation, and anti-export bias in tariff structure. Effective protection needs to be reduced. Lowering the ceiling tariff rate to 20 percent (currently scheduled for January 2006) will narrow the gap between the highest and lowest rate. Opportunities to accelerate this schedule in the context of regional or global negotiations should be embraced.

Prepare for contingent tariff measures. Offering temporary protection against an injurious and disruptive surge of imports can help build the private sector's trust in the government's trade reform plans. Mozambique, like many other least developed countries, does not have legislation or institutional mechanisms for raising tariffs temporarily in the event of such surges.

Strengthen the Investment Promotion Center (CPI) so it becomes an effective advocate for investors. CPI is effective in introducing potential investors to Mozambique and taking them through a process that culminates in an investment certificate. But CPI is far from a one-stop shop. If it were able to assist investors in obtaining the business licenses, land rights, tax registrations, and customs duty exemptions they need to begin operations, it could better convert approved investments into actual paid-in investment. CPI, moreover, should seek to encourage investment in labor-intensive industries, rather than capital-intensive mega-projects that do little to create jobs.

Increasing Labor-Intensive Exports: Sector-specific Challenges

In addition to cross-cutting challenges, more specific challenges in labor-intensive sectors such as agriculture, fisheries, manufacturing, and services, including tourism, must also be addressed. To tap the export potential of these sectors, the Government of Mozambique should consider a number of recommendations.

AGRICULTURE

Agriculture is the most important sector in Mozambique. It employs 80 percent of the workforce, accounts for 20 percent of gross domestic product (GDP), and comprises more than a third of Mozambique's exports (excluding exports from the Mozal mega-project.) At present, however, less than 15 percent of Mozambique's arable land is under cultivation. Fewer than 10 percent of existing farms use high-yielding seed varieties or modern inputs. As a result, yields are very low. Low levels of education, poorly developed transportation networks, high port costs, and other factors increase the costs of inputs and erode the farm-gate value of outputs. Much can be done in each of these areas.

With the country's strategic location, range of climatic and soil conditions, and abundance of land and water, Mozambique could become a substantial supplier of agricultural products to its neighbors, especially the larger and more affluent market of South Africa, as well as the distant, but wealthier, markets of developed countries. Agricultural products that hold export potential for Mozambique include major crops (cashew, coconut, cotton, sugar, tobacco); horticulture (grapefruit, cut flowers, vegetables); basic food crops (maize, rice, cassava); and diversification crops (beans, pulses, oilseeds, groundnuts).

Mozambique enjoys preferential access for its agricultural products in the SADC regional market and in the EU market under the ACP/Cotonou program, which is soon to be replaced by EPAs. It also has some opportunities in the U.S. market available only to sub-Saharan Africa countries under AGOA. Despite these preferences, foreign market barriers remain significant in many agricultural products of greatest interest to Mozambique, such as cotton, sugar, and maize. Such barriers include quotas, high out-of-quota tariffs, export subsidies, and domestic support programs.

In addition, meeting sanitary and phytosanitary (SPS) requirements in foreign markets is difficult. Mozambique needs to update its pest study and to seek help in eradicating or isolating some pests and in meeting other SPS requirements. Under the International Plant Protection Convention (IPPC), which sets requirements for implementing phytosanitary standards, national plant protection organizations are required to update surveys of pests and diseases affecting export crops. Most of Mozambique's most recent surveys are out of date, which alone is sufficient reason for an importing country to stop accepting Mozambique's exports. The Department of Quarantine is urgently seeking assistance from FAO to start updating Mozambique's pest status report.

Sector weaknesses that must be addressed for Mozambique to expand agricultural exports include low productivity, inability to meet foreign requirements for SPS control, limited agro-processing capabilities, high costs for seeds and other production inputs for export crops, ineffective producer organizations, high transport costs, and limited export development services such as post-harvest management, finance, and assistance in complying with foreign import regulations. Delays in VAT reimbursement on inputs, other Customs delays, difficulty obtaining import exemptions, and the high costs of administrative procedures (e.g., obtaining SPS and other certificates) further impede exports and deter start-up operations in promising activities such as horticulture.

Moreover, the problem of land-use rights, one of the main domestic constraints on production and agricultural exports, shows little sign of resolution. Lack of easily marketable ownership rights also prevents farmers and entrepreneurs from using land as collateral to raise capital, and deters agricultural producers from making long-term investments, such as planting trees or installing irrigation. Providing for secure transfer of land-use rights would help attract much-needed investment to this sector. One partial solution is to designate certain areas as prime agricultural locations subject to streamlined procedures.

Investors in agricultural development zones should be assisted in obtaining applicable duty exemptions, rules of origin certification, and the like. Much work also needs to be done to ensure that Mozambican agricultural producers are aware of export opportunities under current trade agreements and preference programs, and to ensure that future trade agreements, regional and global, reflect the export interests of Mozambican farmers.

To confront the sector's weaknesses and take advantage of export opportunities, we recommend a sector development strategy that focuses on

- Expanding and intensifying production by promoting commercial farming among smallholders and larger operations. Traditional products still have great development potential.
- Diversifying into higher value product lines and other export markets. The decline of Zimbabwe as the agricultural powerhouse of southern Africa presents a unique opportunity for Mozambique. Horticultural and cut flower exports to Europe are the principal example but other products and markets could be explored. For

example, mangoes and other fruit and vegetable products could be exported to the Middle East and the Indian subcontinent during these countries' off-seasons, and ginger and honey could be exported to South Africa.

Agricultural expansion, intensification, and diversification can be pursued through a variety of measures such as investment in rural infrastructure, agronomic research and extension, faster certification of new seed varieties; better market information systems, stronger institutions for quality certification; development of rural financing services, enhancement of competition in the rural marketing network, and wider establishment of farmers' organizations.

We further recommend arriving at consensus on a national policy of agricultural development, built on the "Draft Vision of the Agrarian Sector" now being developed by the Ministry of Agriculture and Rural Development (MADER).

FISHING AND FISHERIES

More than two-thirds of Mozambicans live within 90 miles of the coast, and the fishing sector is an important source of food, employment, and revenue. Nearly 3 percent of the population is economically dependent on the sector, which employs about 80,000 people. Until the Mozal aluminum project reached full operation in 2001, the fishing industry was Mozambique's leading source of foreign exchange earnings. More than half of the catch in Mozambique, however, is taken by foreign vessels.

We see opportunities of export expansion for non-traditional marine exports such as farmed seaweed, fresh fish, and shrimp aquaculture. Mozambican fishermen also have the opportunity to increase their earnings by targeting high-value fish for export, many of which now face zero duties in SADC markets, but whose full potential for commercial exploitation must be determined. Training artisanal fishermen in processing and handling techniques can help them capture higher values for their catch. Other opportunities exist for fishermen to earn income by developing domestic and export markets for fishery "by-catch," which at present is often discarded. Finally, with better access to ice artisanal fishermen could sell their catch fresh and command much higher prices than they currently do by selling their catch dried.

If and as the sector expands, however, Mozambique will need to manage its fisheries more effectively and sustainably. High-value species such as shrimp, which comprise more than 70 percent of the value of total fishery exports, must be well managed by a "Total Allowable Catch" (TAC) system that relies on a modernized system of scientific data to ensure sustainability. Combating illegal, unreported, and unregulated (IUU) fishing is critical to securing sustainability and preserving catch opportunities for the less sophisticated artisanal fisher segment. Cold storage, transport capabilities, and onshore processing facilities must be upgraded to accommodate quality demands of the export market. Standards agencies require improved capacity to certify products destined for export, while the industry itself must improve standards to comply with the strict SPS requirements of trading partners.

The EU-Mozambique Fisheries Access Agreement, which took effect January 1, 2004, will expire if and when EPAs are ratified in a few years. The agreement provides Mozambique with nearly €10 million annually under a "cash-for-access" agreement. These funds could be used productively to meet the certification, storage, transport, and processing needs. The agreement, however, does little to encourage Mozambique to develop a processing industry, meet international standards, or monitor and control fishing activities. During EPA negotiations, Mozambique should press the EU to invest in sustainable fishery policies and activities in Mozambique.

Mozambique's top technical assistance needs in the fisheries sector are in two related areas: (1) improving the ability of standards agencies to certify SPS requirements, especially for stringent criteria that apply in major developed country markets; and (2) building negotiating capacity for fisheries aspects of upcoming EPA negotiations.

MANUFACTURING

Though small, Mozambique's manufacturing sector has been growing significantly since 1998, accounting for one-fourth of GDP in 2002. Most of the rise in output is tied closely to the Mozal aluminum smelter. Other manufacturing is highly concentrated in a few subsectors: food processing and beverages.

From the standpoint of export development, manufacturing subsectors that are both labor-intensive and for which Mozambican products enjoy significant margins of preference in regional or developed country markets include leather and leather products, apparel, and processed foods and fruit juices (discussed in the agricultural portions of this study.) Opportunities provided by AGOA and duty-free access to the South Africa market offer potential for exports in the near term. In addition, negotiations under the Doha Development Agenda of the WTO, and the EU's EPAs, as well as SADC, offer opportunities for Mozambique to improve its access to key markets for its labor-intensive manufactures.

To take advantage of opportunities for expanding exports of finished leather goods, Mozambique must improve the price competitiveness and quality of local production, while improving linkages to local suppliers of leather inputs used in finished products. With World Bank assistance, one local producer of hides and leather has improved quality and expanded production and is now exporting cattle and goat hides to Asia. And, thanks to good local supply of leather inputs, a firm that had imported shoes for resale in the domestic market has expanded local production for sale in the same market. Donor support to producers of intermediate goods with backward linkages to agriculture and forward linkage to manufacturing is to be encouraged.

Mozambique’s production capacity for apparel exports is extremely limited, and its upstream fiber and textile industries are even less developed. Meanwhile, retailers worldwide want to reduce inventory costs and this is pushing the apparel business into shorter development, production, and delivery cycles. And when quotas that have long governed trade in textiles and apparel expire on January 1, 2005, the industry will become even more consolidated because buyers will no longer have to source imports from countries that have preferential quota access to major markets in the United States and EU.

Mozambique will retain preferential access to the U.S. and EU apparel markets under unilateral preference programs like AGOA and the EU Cotonou arrangement, provided its products meet the rules of origin. Provisions of both the U.S. and EU preference programs permit Mozambican producers to use yarns and fabrics from outside the region until 2007. Mozambique has very limited textile capacities, but these provisions provide some time for developing them.

To capitalize on preferential access opportunities, Mozambique will need to overcome the disadvantage of distance and shipping time from major developed country markets. A major impediment to the development of a competitive apparel industry is Mozambique’s rigid labor laws. Responding nimbly to requests from buyers may necessitate rapid expansion in the workforce and the use of multiple shifts; hiring and, conversely, retrenchments, must respond to shifts in demand. Under Mozambique’s laws, however, it is difficult to hire foreign managers, difficult to have employees work overtime and in shifts, and costly to layoff workers. This is a significant deterrent to international investors, as is high absenteeism, which is a problem that rigid labor laws exacerbate by making firing nearly impossible.

Other subsector-specific actions to promote the production and export of apparel over the next three to five years are also recommended:

- ***Create an apparel industry task force to identify and prioritize requirements and recommendations for improving the business environment***. Improving the business environment for textile and apparel industries will entail reforms addressing a wide range of issues, including those that concern apparel producers (e.g., shipment times, labor laws, red tape).
- ***Attract several medium- to large-scale foreign apparel firms (500-2,000 employees) to invest in Mozambique***. Once these firms are established, an aggressive marketing campaign could lead to a self-sustaining apparel industry.
- ***Support development of a strong apparel industry association***. The apparel industry is demand-driven and buyers' requirements are sure to change continuously. A strong industry association will be an important bridge between industry and government to ensure that regulations and government services continue to be responsive to market requirements.
- ***Support the improvement of value addition at the level of raw cotton production and spinning***. The productivity and quality of cotton crops needs to be improved. Development of any downstream textile production (yarn and fabric) must be based on business fundamentals (e.g., access to reliable materials, water and electricity, access to capital, transportation, skilled workers and regional and international markets).
- ***Build links and partnerships with regional textile suppliers*** to ensure that regional trade agreements or preferences, such as ACP / Cotonou, continue to permit the use of regionally available materials.

Most major apparel exporters in developing countries began as small producers serving domestic markets. Mozambique may therefore wish to consider providing worker training and better access to micro-enterprise loans and financing for fabric purchases to assist micro, small, and medium enterprises in meeting the apparel demands of local consumers and local institutional buyers (e.g., school and government uniforms).

TOURISM

Tourism is one of Mozambique's most promising service sectors. Tourism arrivals have increased continuously since the 1992 peace accord, with approximately 400,000 tourists visiting Mozambique in 2001, the last year for which data are available. Tourism contributes just 1.2 percent to Mozambique's GDP, compared to South Africa, where it contributes 8 percent. Given the attraction of tourists to remote areas because of the culture, wildlife, and natural beauty found there, tourism could generate jobs and provide income for significant numbers of the country's poor, including women, youth, and unskilled laborers. And, because three-fourths of the tourists visiting Mozambique arrive from South Africa, regional tourism integration should be the top priority in developing this sector.

Constraints on sector development are common to many developing countries. Infrastructure, particularly transport, is underdeveloped, expensive, and of substandard quality. Air transport, road networks, energy distribution, and telecommunications all need to be improved, as do water quality and solid waste management. In addition, restrictions on land-use rights and land tenure pose serious obstacles; application, registration, and licensing processes should be streamlined and made more transparent. Areas with tourism potential should be subject to integrated development planning to avoid irrational or unsystematic uses of land and supporting infrastructure.

Labor regulations that permit employment of seasonal workers and employment of expatriate workers would help provide for the sector's requirements. At the same time, staff in hotels and working in other support services need to be better trained.

Elements of a Pro-poor National Trade Strategy

Trade reform can and should be a major tool for poverty reduction in Mozambique. It should therefore figure prominently in the next PARPA. To maximize benefits for the poor, trade reform, as such, must be part of wider measures to facilitate the gains from trade, mitigate the costs of adjustment, and manage the risks from trade-related shocks.

Measures to facilitate broad-based gains from trade include the many actions discussed above to improve the business environment. These measures are vital for strengthening the response of Mozambique's exporters to global opportunities, and improving the productivity of local firms that face import competition. Enhancing the pro-poor impact of trade reforms requires focusing support programs on sectors and activities that offer the greatest potential to improve livelihoods and create new jobs for Mozambique's poor: agriculture and fisheries, labor-intensive manufacturing, agro-processing and fish processing, and tourism.

A pro-poor trade agenda must also aim to mitigate the adjustments associated with trade liberalization. Increased import competition, for example, will likely lead to job loss among low-income workers. Adjustments, however, are less troubling in economies that attract new investment to labor-intensive industries in response to opportunities created by liberalization. In Mozambique, labor reallocation has not worked smoothly because of problems in the investment climate. And even if job-creating investments do emerge, some poor workers and their extended families will likely suffer short-term hardship.

Staging implementation of the most disruptive reforms over a period of, say, five years can help employers adjust to competitive challenges. This staging could be accompanied by technical assistance to enhance the competitiveness of industries, clusters, or firms, and market-based financing for industrial restructuring, where viable.

A more direct approach is to help displaced workers by providing adjustment grants or retraining. Vocational and technical training, including training in small business management, may be especially valuable because it imparts portable and marketable skills. Public works schemes can also help particular groups cope with income loss due to trade liberalization. Mozambique does not have the fiscal resources needed to provide broad-based safety nets for unemployed workers.

By providing more production and marketing options, integration with global markets allows households to diversify and reduce risk. Trade also helps stabilize prices and supplies in the face of domestic shocks, such as droughts and floods—a significant benefit for poor households in Mozambique that are disproportionately affected by higher prices for daily necessities. At the same time, trade creates risks. Farmers or manufacturers who depend heavily on particular exports are vulnerable to adverse changes in global market conditions, such as the sharp decline in world cotton prices in the late 1990s. For households at the margin of subsistence, with few assets to cushion consumption and few skills for finding alternative livelihoods, the consequences of such shocks can be disastrous. The near-poor can also be thrown into poverty when they lose cash-crop earnings or wage jobs in industries forced to close because of trade shocks.

Thus, a pro-poor trade agenda must address the risks that poor households might face from exogenous shocks associated with trade liberalization and integration with global markets. At the microeconomic level, the scope for government cushioning widespread trade shocks is limited because of scant public sector resources. For shocks concentrated in particular regions or subsectors, targeted interventions, such as labor-intensive public works programs,[7] may be feasible. At the macroeconomic level, however, the government can take important steps to reduce vulnerability. For example, it can promote investments that result in diversified export earnings, ensure sound management of foreign exchange reserves, and enforce prudential regulation and supervision of the banking system to minimize the risk of international shocks threatening the financial system.

Finally, an effective pro-poor trade strategy requires data systems and procedures for monitoring how trade is affecting poor households. Better information yields better decisions and better incomes. Monitoring the impact of trade reforms and other trade-related programs, however, is not solely the responsibility of the government. To this end, a participatory Poverty Observatory was established in 2003. All members of the Observatory should be involved in the monitoring process, as should the press. Monitoring should include systematic and critical analysis of existing data sources, such as the national accounts, trade statistics, and the INE's periodic surveys. In addition, new data instruments should be developed, and the process for designing trade-related policies should involve thorough analysis of their impact on poverty and society.

Implementing a National Trade Strategy

High-level endorsement of trade as a part of Mozambique's development strategy will be critical to successful implementation of needed reforms. So too will be an effective mechanism for coordinating work among ministries with different perspectives and responsibilities affecting trade policy decisions. Intensive collaboration between the public and private sectors—a deepening of a process already underway in Mozambique—can serve to focus and accelerate implementation of the policy and regulatory reform agenda.

The election of a new President in late 2004 presents a good opportunity for leaders to affirm the importance of a trade as a vehicle for economic growth and poverty reduction. Such affirmation would send a strong signal about future policy direction to local and foreign investors.

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[7] There may be some scope to manage household vulnerability ex ante through extension services and public information programs to encourage diversification. But most poor farmers and low-income workers are very astute about diversifying their income sources, where possible.

Intergovernmental coordination of trade-related policies and programs could be facilitated and institutionalized through a formal mechanism. Many countries have or are developing such a mechanism. Such mechanisms are usually chaired by one agency, with interagency committees and subcommittees covering specific issues or sectors. In Mozambique, an interministerial body reporting to the Council of Economic Ministers and consisting of representatives of key economic ministries and chaired by the Minister of Industry and Trade, could well serve that function.

A mechanism for public-private sector dialogue already exists in Mozambique: the annual Private Sector Conference, sponsored by the Ministry of Industry and Trade and the Confederation of Mozambican Business Associations. This should be expanded to include broader representation, perhaps from labor unions and other elements of civil society. Task forces could be created to deal with specific issues, such as tax policy, customs facilitation, and business registration. The task forces would follow through on recommendations offered at the annual conference.

Incorporating the national trade strategy into the PARPA, which provides a mechanism for assessing progress on a regular basis, will provide for accountability in assessing results. More important, it will ensure that trade policy decisions are evaluated for their contribution to poverty reduction, rather than narrower interests or pressures.

Action Matrix

Objectives	Recommended Actions	Technical Assistance Needs	Local Agencies/ Existing External Support	Timeline
NATIONAL TRADE STRATEGY				
1. Facilitate intergovernmental coordination of trade-related policies and programs	Create interagency committee to facilitate intergovernmental coordination of trade-related policies and programs			2004
2. Reinforce and deepen public-private sector dialogue on trade-related issues	Broaden representation in public-private sector dialogue			Ongoing 2004-2005
	Create task forces to deal with specific trade-related issues and to follow through on recommendations offered at the annual conference			2004-2005
BUSINESS-ENABLING ENVIRONMENT				
3. Streamline registration and licensing systems	Ensure effective implementation of new business licensing procedures by specifying details and including a sector-by-sector analysis to guarantee coordination of reformulation		MIC/ USAID	
	Issue regular public reports on registration times			
	Computerize business registration system and decentralize licensing process	Systems analysis, design, and implementation	MIC	
	Coordinate licensing procedures across agencies to eliminate duplication and institutionalize one-stop-shops—which should be more autonomous, have regulations that harmonize nationally, and have decision-making/licensing capability			
	Harmonize and unify the various licensing fees to avoid high costs and multiplicity of individuals involved in collection		MIC	
4. Make inspections less burdensome and more effective	Provide businesses with transparent checklists of regulatory requirements and with correct procedures, including clarification of mechanisms for appeal		All inspecting agencies	

Objectives	Recommended Actions	Technical Assistance Needs	Local Agencies/ Existing External Support	Timeline
	Require inspectors to provide firms with an on-site copy of inspection reports duly signed by the inspectors, the manager, and the union representative			
	Establish clear rules for announced and surprise inspections, including inspection-free "grace periods" for companies that are in compliance, and create an award system for companies with the greatest compliance levels			
	Establish guidelines mandating that warnings be issued for first-time violations, except in circumstances seriously endangering health or safety			
	Issue explicit public guidance on methodology for applying graduated fines			
	Where possible, coordinate inspections of different agencies to reduce frequency of business interruptions			
	End the practice of allowing inspectors to retain a share of fines, with full and direct channeling of these collections to the General State Budget (OGE)	Evaluation of alternative compensation mechanisms		
	Promote training for all inspectors, with emphasis on helping businesses understand and comply with regulations, and with a view to eventual recognition by the government of private certifications	Training in service-oriented inspection procedures		
5. Reform labor regulations that impair investment and job creation	Reform provisions for dismissal and retrenchment to reduce investment risks and facilitate market-driven labor reallocation, including reformulation of INSS and INFP regulations, as well as possible mechanisms to finance training of personnel	Analysis of alternatives that accord with international practices		
	Improve transparency of regulations regarding leave accrual and severance pay			
	Simplify and clarify procedures for calling strikes			
	Increase flexibility of provisions for shift work and overtime	Analysis of alternatives that accord with international practices		

Objectives	Recommended Actions	Technical Assistance Needs	Local Agencies/ Existing External Support	Timeline
	Simplify the process for obtaining work permits by improving coordination between labor and immigration ministries	Evaluation of procedures	USAID	
	Issue clear rules on work permit process for foreign workers, including automatic work authorization within any entity's 15% quota		USAID	
	Issue regular public reports on processing times for work permits			
	Establish a legal and regulatory framework for non-judicial arbitration and mediation of labor disputes	Legal and regulatory reforms		
	Guarantee the implementation of Labor Courts, and the efficiency of the present Labor Sections of the Civil Courts			
	Complete revision of the system for labor indemnities			
6. Reduce impediments to obtaining, exchanging, and collateralizing land-use rights	Review each procedure for obtaining land-use rights to identify reforms that will simplify and expedite the process; adopt the principle of gradual, systematic land entitlement; and ensure that land use rights are not dependent on land entitlement	Evaluation of procedures		
	Improve the efficiency of processes for obtaining land-use rights			
	Adopt legislative, regulatory, and institutional reforms to establish a free market in land-use rights in pilot development zones for agriculture, industry, and tourism	Legal and regulatory reforms		
	Publish computerized information on the use and exploitation of land (agricultural, forest, tourism, mines, and housing), and determine the process for creating a national system of computerized registration, permitting free access to registration information	Institutional design; systems analysis; implementation		

Objectives	Recommended Actions	Technical Assistance Needs	Local Agencies/ Existing External Support	Timeline
	Disseminate information on the legal framework affecting use of registered, transmittable land-use rights as bank collateral	Legal analysis		
	Issue regular public reports on the time required to obtain land-use rights			
	When justified and possible, proceed with the systematic entitlement of land-use rights, including land acquired through occupation			
	Promote continuous training for employees involved in land-use and land-improvement rights, and remove the oversight function for geography and registration, assigning it to a specific entity within the ministry for training	Training program		
7. Strengthen contract enforcement	Complete work to reform the Code of Civil Procedure, the Commercial Code, the Code of Civil Process, and the legal framework for execution of debts and for bankruptcy	Legal reform and related regulations	USAID	
	Review each procedure for adjudication of debt and contract disputes to identify ways to simplify and expedite the process	Analysis of procedures and evaluation of alternatives	USAID	
	Establish performance goals for the judiciary; issue regular public reports on case backlogs and resolution times, in addition to what has already been done by the Superior Council of the Judicial Magistrate (CSMI)		USAID	
	Strengthen training for all members of the judiciary dealing with commercial cases, including management training as well as technical training	Training program	USAID	
	Prepare a plan for investment in new infrastructure for the judicial system [courts, attorneys-general, Criminal Investigation Police (PIC)]			
	Identify administrative tasks relating to contract enforcement that can be handled by private-sector process managers	Evaluation of options for privatizing administrative functions	USAID	

Objectives	Recommended Actions	Technical Assistance Needs	Local Agencies/ Existing External Support	Timeline
8. Improve governance and reduce corruption to reduce barriers to investment and costs of doing business	Continue programs to strengthen budget programming and public expenditure management, with the participation of civil society	Ongoing		
	Continue programs to rationalize the civil service and improve the job performance of civil servants with the participation of civil society	Ongoing		
	Intensify capacity building in all agencies dealing with programs that have important effects on the business climate, including the MIC, MPF, MADER	Customized capacity-building programs for these agencies		
	Expand and intensify programs to control corruption to include codes of behavior, education programs, public information campaigns, monitoring systems, improved pay scales as well as prosecution	Anti-corruption program support		
	Reduce opportunities for corruption by (1) improving public accounting, auditing, reporting and procurement systems; and (2) eliminating unnecessary regulations, requirements, inspections, and controls	(1) Ongoing reforms of public accounting, auditing, reporting, procurements (2) Analysis of regulations, requirements, inspections, and controls as sources of corruption		
9. Remedy problems with the tax system	Make tax laws, regulations, and procedures more transparent, and make the tax burden more realistic			
	Review all aspects of the tax system to simplify paperwork requirements and minimize discretionary powers of tax officials	Evaluation of tax system from taxpayer viewpoint, and recommendations for reform		
	Eliminate duplicative tax inspections and audits; coordinate investigations for income tax and VAT			
	Implement a more transparent and effective mechanism for taxpayers to seek redress when they feel mistreated by tax officials, or face arbitrary penalties. (Keep the interest charge on overdue taxes high enough to prevent use of the appeal process to delay payment of legitimate tax obligations.)	Implementation of new tax appeal system		

Objectives	Recommended Actions	Technical Assistance Needs	Local Agencies/ Existing External Support	Timeline
	Examine options for establishing alternative dispute resolution mechanisms for bypassing the court system to resolve tax disputes	Evaluation of options, recommendations for reform, support for implementation		
	Strengthen training of tax officials in all activities	Training program		
	Establish a formal process for dialogue between the MPF and the private sector on tax policy and tax administration			
	Make the tax regime for industrial free zones (IFZs) more attractive and regionally competitive and put into operation the FIZs already created			
	Devise simpler forms and faster procedures to handle VAT refunds, including a "green light" registry for recurrent exporters (with random audit)	Study of best practices that might be adapted to conditions in Mozambique		
10. Improve access to financial services and lower the cost of credit	See recommendations above on contract enforcement and land-use rights; these reforms are fundamental to reducing lending risks and expanding access to credit			
	Improve financial information and reduce lending risks by mandating stricter accounting standards and expanding the training of qualified accountants	Training for accountants		
	Rigorously pursue policies geared toward macroeconomic stability, low inflation, and minimal domestic financing of the government budget to reduce interest rates	Macroeconomic policy advisers	MPF and BdM	
	Publish the functions of the Central Credit Bureau for Risk at the Bank of Mozambique to provide lenders with ready access to repayment history of potential borrowers	Institutional design; systems analysis; implementation		
	Publish the public register of property and real estate of the Central Credit Bureau for Risk at the Bank of Mozambique as the basis for widening the range of acceptable collateral	Institutional design; systems analysis; implementation		

Objectives	Recommended Actions	Technical Assistance Needs	Local Agencies/ Existing External Support	Timeline
	Encourage entry of new banks and non-banks subject to strict prudential regulations to increase competition in the financial sector, and strengthen incentives for banks to improve operational efficiency, reduce large interest spreads, and seek new markets			
	Reduce competition from Treasury obligations that lead to high interest rates			
	Evaluate potential benefits and risks of establishing a venture capital fund or a credit guarantee fund, particularly for projects to develop exports, agriculture, agri-business, labor-intensive manufacturing, and tourism	Evaluation study, drawing on experience of successes and failures elsewhere		
11. Develop competition policy	Establish a working group within MIC to examine alternative approaches to enhancing competition in domestic markets			
	Continue to reduce the maximum import duty rate to spur competition and productivity			
	Enhance competition and efficiency by removing barriers to entry and expanding access to finance			
	Ensure any new competition law limits explicit cartels and overt price fixing, and establishes a competition agency, bearing in mind the specific nature of each activity	Design of new competition law and supporting regulations		
	Enable public advocacy of competition, including exposure of anti-competitive practices (a major task for the MIC working group, and later for the competition agency) and repeal of legislation that favors monopolies or market dominance by a limited number of entities	Training and advisory support for public advocacy function		

Objectives	Recommended Actions	Technical Assistance Needs	Local Agencies/ Existing External Support	Timeline
TRADE FACILITATION				
SIMPLIFICATION OF CUSTOMS PROCEDURES				
12. Improve the equipment and other resources of the Customs Department so that the staff can efficiently facilitate as well as control trade	Support investment in the infrastructure of the Customs Department and other services to strengthen performance at the border and entry stations	Identify priority uses for available resources	DGA, other relevant institutions, private sector / donor community	Near-term
	Support effort to create a “dry port” at Ressano Garcia, to improve control and facilitation			
	Improve coordination between the institutions represented at this border station			
13. Improve customs clearance processes and reduce clearance time by simplifying the clearance process and increasing the transparency of customs regulations and procedures	Increase knowledge of the laws and customs procedures for employees and the public through greater transparency	Educate members of the trade community concerning customs laws and procedures, including training of trainers in the private sector. • Publish in laymen’s language import and export procedures and changes to them • Use the customs website as tool for informing and updating the public	DGA, other relevant institutions, private sector / donor community	Near-term
	Improve coordination of all agencies at the border to streamline formalities and establish a one-stop clearance process	Create point of direct contact with the operators, and implement the automatic collection of receipts; move forward with other computer and technological improvements		
	Create conditions for electronic transmission of customs information, and improve the precision of foreign trade data collected by the customs units			

Objectives	Recommended Actions	Technical Assistance Needs	Local Agencies/ Existing External Support	Timeline
14. Reduce corruption to increase revenue collection and improve the business environment	Improve integrity of Customs by changing culture of agency and its practices and procedures. • Work in close collaboration with other institutions • Carry out training activities and create teams • Restrict access to customs areas at entry points • Analyze procedures for processing of payments • Evaluate requirements for improvement of integrity		DGA, other agencies / donor community	Near-term
15. Facilitate legitimate business activities by balancing actions that control imports and exports with those that facilitate them	Instill in Customs personnel an understanding of their role in the facilitation of trade and its consequences for economic growth. • Train personnel on the importance of facilitating commerce • Improve the use of selectivity criteria and risk assessment methods to inspect cargo • Consider standard software for risk management • Improve and expand dialogue with the private sector through new committees for the facilitation of commerce in the public and private sectors (pro-committees), following the UNECE model		DGA, private sector / donor community	Near-term
16. Expedite processing at the Ressano Garcia border crossing	Use technology to strengthen control of freight entering the country	Use transmitters / receivers or cameras to ensure that trucks report to processing areas	DGA, other relevant agencies, private sector / donor community	Near-term
IMPROVE TRANSPORTATION LOGISTICS				
17. Improve regulatory framework in transport logistics	Elaborate new transport legislation: Road Freight Act; Road Passenger Act; Railway Code; Act on Maritime and Coastal Shipping; Aviation Act	Assistance to improve the regulatory framework in transport logistics Assistance to improve the institutional framework in transport logistics	Ministry of Transport and Communications	Near-term
18. Further develop transport infrastructure and stimulate public-private partnerships	Facilitate investments in transport and intermodal infrastructure and (bonded) warehouses	Elaboration of a Master Plan for Transport Infrastructure	Ministry of Transport and Communications; National Directorate of Roads and Bridges	Near-term

Objectives	Recommended Actions	Technical Assistance Needs	Local Agencies/ Existing External Support	Timeline
	Pursue the policy of concessioning of transport infrastructure and privatization of transport, handling, and storage operations	Technical assistance in concessioning transport infrastructure and privatization of transport, handling, and storage operations	Ministry of Transport and Communications	Near-term
19. Build capacity among all stakeholders, in particular in the transport logistics industry	Organize training in transport and logistics management, financial management, marketing, and legislation and regulations for providers of logistics services, road transport operators, forwarders, and clearing agents	Organize and implement training activities in transport and logistics management, financial management, marketing and legislation and regulations for providers of logistics services, road transport operators, forwarders and clearing agents	Technical staff of transport institutions, and representatives of the transport industry	Near-term
TRADE AND INVESTMENT POLICY				
INCREASE ACCESS TO EXPORT MARKETS				
20. Maximize benefits of Doha Round and EPA negotiations for Mozambique by actively participating in negotiations and prioritizing Mozambican negotiating interests	Leverage trade policy reforms by offering selective WTO commitments	Fund panel of trade policy and trade data analysis experts to prepare briefing notes for trade ministry on developments in WTO negotiations in Geneva	MIC, MITUR, MADER/ related activities sponsored by EU/FAO, USAID, EU, WTO, UNDP	Ongoing 2004-2006
	Improve understanding of government (especially trade negotiators), producers, exporters, and importers of WTO and regional agreements and negotiations	Fund trade specialist at MIC to advise government trade negotiators on WTO and regional trade agreements	May require additional sources of funding, given 2004 end to existing USAID-funded trade advisor at MIC	Ongoing 2004-2006
	Identify products and markets of priority negotiating interest to Mozambique	Technical assistance to improve analytic capacity, including awareness of and ability to analyze trade data	MIC/ EU/FAO, USAID, EU, WTO, UNDP, ITC	Ongoing 2004-2006
21. Accelerate achievement of SADC FTA during 2004 mid-term review	Prepare proposal to accelerate implementation, including Mozambique's schedule	See Item 20	MIC/USAID	2005
	Prepare proposal to finalize and revise rules of origin	See Item 20	MIC/USAID	2005
22. Proceed with bilateral FTAs that achieve free trade earlier than SADC	Complete FTA negotiations with Malawi, Zambia, and Mauritius	See Item 20	MIC/USAID	2005 (depends on partners)

Objectives	Recommended Actions	Technical Assistance Needs	Local Agencies/ Existing External Support	Timeline
	Review consistency with SADC Protocol and propose waiver / amendment if necessary [Article 28 issue]	See Item 20	MIC / USAID	2005
23. Evaluate options to achieve free trade in Southern Africa	Complete technical evaluation of implications for Mozambique of joining SACU, including accession terms	See Item 20	MIC / USAID	2005
24. Prepare for negotiations of SADC Customs Union	Analyze Mozambican negotiating priorities and trade-offs by evaluating trade and tariff data involving SADC partners	See Item 20	MIC / EU / FAO, USAID, EU, WTO, UNDP, ITC	2005
STRENGTHEN MOZAMBICAN TRADE INSTITUTIONS AND PROCESSES				
25. Improve the technical and negotiating skills of officials with trade-related responsibilities	Expand trade training • Identify institutions and individuals for training • Initiate young professionals seminar • Schedule joint sessions with the private sector • Support the graduate program at Eduardo Mondlane University	Training as identified under JITAP On-the-job mentoring, workshops, seminars Training outside of Mozambique	MIC (DRI, DNC) MADER (Policy Studies) MPF (DGA, GEST) USAID, DFID, JITAP, WTO, possibly EU and World Bank Institute in future	Ongoing
26. Expand trade analysis and data support institutions	Encourage cross-fertilization of analysis between government and private institutions working on similar trade analysis by creating a public-private institutional support mechanism to research trade and industrial development issues, with an oversight board consisting of MIC and the CTA (co-chairs), donors, NGOs, other representatives of the private sector, national and international university representatives	Support institutions in and out of government working on or with trade data Funding and technical assistance for public-private institution to support analysis and research on trade and industrial development issues (may be modeled on Trade and Industrial Policy Strategies – TIPS – in South Africa)	MIC, INE, / EU, USAID, ITC, Possibly World Bank Institute in future	Ongoing 2005-2006
27. Formalize inter-institutional coordination of trade policy within the Mozambican government	Seek approval by MIC and then the Council of Economic Ministers of formal inter-institutional coordination mechanism	Technical and / or financial support for inter-institutional coordinating mechanism, including support for small staff to set agendas for inter-institutional meetings and provide background analysis on specific trade-related topics to be discussed	MIC, Council of Economic Ministers / USAID, JITAP	2004

Objectives	Recommended Actions	Technical Assistance Needs	Local Agencies/ Existing External Support	Timeline
28. Streamline standards-setting process	Support mutual recognition of INNOQ's work by standards bodies within the region	Provide technical training for INNOQ staff, and translation of SADC standards into Portuguese.	INNOQ/ Possibly ITC in future	2005
IMPROVE TRADE AND INVESTMENT POLICIES				
29. Reduce effective protection	Accelerate reduction of tariffs on consumer goods, in context of ongoing trade negotiations	See item 20	See item 20	Ongoing 2004-2006
30. Provide a temporary means for dealing with injurious import surges as tariffs are reduced	Draft safeguards legislation consistent with the SADC and WTO Agreements	Technical assistance to draft laws, conduct assessment of specific needs in this area	MIC New sources of funding/technical assistance required	2006
31. Coordinate investment promotion efforts with trade strategy (export promotion) efforts	Create joint working groups with appropriate ministries to ensure streamlined procedures for approving, registering, and licensing of strategic (labor- intensive) small and medium investments	Review of investment policy	CPI/ UNIDO, USAID (existing) New sources of funding and/or technical assistance required Possibly UNCTAD in future	2005
SECTOR-SPECIFIC MEASURES[a]				
AGRICULTURE				
32. Achieve consensus on a National Policy for Agricultural Development	Discuss draft of Vision of the Agrarian Sector to identify questions relating to implementation, to define responsibility, and to achieve consensus		EC, DANIDA, IFAD, Ireland, Italy, Netherlands, Sweden, USAID, World Bank	
33. Diversify products and markets	Renew mandate for the External Market Task Force • Expand the work group to include ministries/ directorates that can work directly on questions relating to bureaucracy • Mandate that the External Market Task Force find solutions relating to commerce in perishable products (e.g., through coordination with Customs) • Identify constraints on products that have access to the market: before the border, at the border, and in the export market • Improve understanding of the opportunities and requirements relating to regional trade agreements and preferential trade agreements		MADER/ EU	

Objectives	Recommended Actions	Technical Assistance Needs	Local Agencies/ Existing External Support	Timeline
34. Comply with SPS standards and quality norms, to guarantee access to the international market	Reorganize and strengthen public institutions responsible for SPS certification and hygienic standards (agro-business).; publish and make available measures and help private sector comply with international hygienic and SPS standards	Financial / technical assistance to • Update national legislation to align with international accords; • Mount control systems for animal and plant diseases; • Train technical officers on SPS standards (e.g., IPPC, IOE) and international quality requirements (e.g., CODEX), and other current standards in major export markets (e.g., EU, USA); • Invest in infrastructure necessary for certification (SPS, quality, hygienic standards) of agricultural export products; and • Assist private sector in achieving quality standards (Good Agricultural Practices) required by distributors in major world markets.	MADER (DSV, DINAP, GPSCA), INNOQ, IPEX, MinHealth	
35. Increase formal trans-border trade	Conclude bilateral free trade agreements with Malawi, Zambia, and Mauritius and accelerate the application of the agreement with Zimbabwe (see item 22)			
	Relax procedures at the borders to facilitate formal trade			
36. Improve the capacity of producers to obtain, change, and utilize land-usage rights as collateral	Create a database on available land, working from the land-use register, including strategic zoning of the land		MADER (DINAGECA)	

Objectives	Recommended Actions	Technical Assistance Needs	Local Agencies/ Existing External Support	Timeline
37. Increase the availability of credit for agrarian development	Support the MADER study of the creation of a fund for capital investment Explore solutions to permit "parallel sale," while assuring reimbursement for supplies provided to farmers in advance Promote creation of, and access to, a system of agricultural credits, to deal with risks of natural calamities		MADER	
38. Promote commercial agriculture among small farmers and the large operations, and train the national business community in better utilization of the land	Stimulate agricultural income and diversification of trade in agricultural products by • Developing agronomical research and extension, including for export crops • Certifying new seed varieties faster • Developing market information systems • Developing institutions and systems that better certify quality standards • Developing rural financing services to guarantee better access to credit for farmers • Developing rural roads, electricity, communications • Developing Farmers' organizations • Improving competition within the marketing network for agriculture-based products • Identify growth poles for developing existing crops grown by commercial and small farmers and distribute results as best practices		UNIDO	
FISHERIES				
39. Develop non-traditional marine products for export	Promote the development of a seaweed farming industry and shrimp aquaculture • Conduct studies to identify new species for commercial exploitation	Market analysis	World Bank Private Sector Development	
40. Increase value of fisheries exports	Develop cold storage and transport capabilities and upgrade onshore processing facilities			

Objectives	Recommended Actions	Technical Assistance Needs	Local Agencies/ Existing External Support	Timeline
	Train artisanal fishermen in handling, processing, and storage techniques	Training	FAO	
41. Manage fisheries more effectively and sustainably	Undertake research to determine sustainable volumes of fisheries capture	Scientific analysis	MoF, EC / EDF, DFID, IFAD, Danida, NORAD	
	Focus on improving greater regional cooperation for surveillance activities			
	Develop strategy to combat illegal, unregulated, and unreported fishing			
42. Secure improved access to export markets for fish	Develop negotiating capacity for fisheries aspects of EPA negotiations with the EU	Training	EU, ICEDA	
	Participate in a Fisheries Framework Agreement with either COMESA or SADC			
	Improve the ability of standardization agencies to certify systems and products for export to large markets		EU	
MANUFACTURING				
43. Encourage investment in labor-intensive manufacturing projects	Create joint working groups with appropriate ministries to ensure streamlined investment approval procedures for labor-intensive small and medium investments		USAID	
44. Exploit unrealized opportunities under regional trade agreements (SADC) and preferential trade programs (e.g., AGOA, EBA) for LDCs	Identify and address constraints (e.g., garments to the United States under AGOA)			
	Accelerate implementation of SADC Trade Protocol: • Revise rules of origin • Seek accelerated tariff reductions to encourage regional specialization and the development of integrated regional supply chains (e.g., cotton, yarn, fabric, garments)			
45. Reduce transaction costs for exports	Simplify procedures and reduce costs associated with exporting (e.g., reduce number of export certification processes that must be completed)			

Objectives	Recommended Actions	Technical Assistance Needs	Local Agencies/ Existing External Support	Timeline
	Reduce and promote the elimination of costs and inefficiencies associated with infrastructure, services, and power			
46. Encourage upstream and downstream linkages that add value to farm output (linking agriculture to manufacturing)				
47. Improve productivity of manufacturing sector	Strengthen workforce training and vocational training programs and make widely available			
	Improve technology by focusing on promoting new technologies in the manufacturing sector			
	Assist entrepreneurs in developing workforce policies and practices that will improve workers' productivity			
	Enable professional managers from abroad to easily obtain work visas			
TOURISM				
48. Review regulations in the services sector	Inventory and compile a detailed set of regulations that affect services sectors in Mozambique	Disseminate the existing legal instruments		
	Evaluate the pros and cons of making stronger GATS commitments in the WTO			
	Consider liberalizing and re-regulating services sectors important in trade to attract new investment (e.g., transport, ports, telecommunications)			
	In areas where few regulations exist, consider introducing some well-articulated regulations			
49. Encourage investment (foreign and domestic) in services sectors linked to tourism	Streamline application, registration, and licensing processes for investments in the tourism sector and make them more transparent (if necessary in pilot tourism zones)			
	Improve coordination between administering government entities—national, provincial , and local			

Objectives	Recommended Actions	Technical Assistance Needs	Local Agencies/ Existing External Support	Timeline
	Commit to current investment policies in sector in WTO / GATS			
50. Enhance skills of tourism workforce	Train staff for hotels and other tourism support services	Introduce courses in tourism at the mid-level of technical training		
51. Develop new tourism products, services, and niche markets	Explore development of hunting concessions and designated safari areas (engage local communities)	Identify zones of tourism that could harbor a critical mass of cruise ships		
	Examine possibility of entering cruise ship market; by upgrading ports and marketing attractions			
	Explore potential for adventure tourism operations (canoeing, rafting, climbing, hiking, mountain-biking, hang gliding)			
	Develop guided birding tours			
	Develop responsible diving operations in rich coastal areas			
	Develop deep-sea fishing operations (appeal to luxury market); bone-fishing (fly-fishing)			
	Examine private sector use of rail network to develop "Blue Train" operations			
52. Develop community-based tourism	Develop capacity of communities / individuals to engage directly in tourism enterprises (e.g., campgrounds / guest houses, butterfly sanctuary)			
	Develop community capacity to engage in tourism support businesses (e.g., guiding, transportation, boat trips, guest houses, produce / fish suppliers, restoration of old buildings, employment at lodges, restaurants)			
	Encourage joint ventures between communities and private sector operators to develop lodges and other ecotourism products / services			
	Provide business skills and training to communities; enhance community market access			
	Support community handicraft development; enhance market access			

Objectives	Recommended Actions	Technical Assistance Needs	Local Agencies/ Existing External Support	Timeline
53. Develop natural resource-based tourism and ecotourism	Identify an entity to coordinate development of communities	Identify businesses that can be established to promote the development of local communities		
	Prepare zoning plans, carefully examining infrastructure constraints			
	Examine integrated approach to TransFrontier Conservation Areas, Coastal Zone Management, and municipal development plans			
	Support model enterprises / tour operators in development of responsible guidelines in sensitive marine areas			
	Evaluate creation of "Elephant Corridors"			
	Develop tourism opportunities in the Niassa Reserve			
	Promote safari / boat tours in marine areas			
	Improve access roads to all parks and reserves			
	Support tendered concession areas for responsible development			
54. Develop cultural heritage resource management	Support tourism zoning plans for cultural sites (e.g., Ibo Island), establishing standards for historic preservation, lodging / restaurants standards, construction, etc.			
	Develop and expand tourism products and services around Mozambique's architecture, music, dance, gastronomy			
	Support restoration of historic towns (e.g., Ilha de Moz.); develop city tours with historical interpretation, storytelling, cultural attractions			
55. Develop "anchor" projects, with large investments in target areas; support projects of small and medium-size companies in parallel with significant investments in the development of areas selected as tourist centers	Identify tourist hubs for the development of anchor projects			

Objectives	Recommended Actions	Technical Assistance Needs	Local Agencies/ Existing External Support	Timeline
56. Improve tourism marketing, branding, quality management and outreach	Develop strategy for marketing and branding northern Mozambique as an international destination			
	Develop national tourism marketing and branding plan; enhance image abroad			
	Develop a tourism industry cluster web portal			
	Support community education and outreach campaigns on benefits of tourism and conservation of natural and cultural resources			
	Introduce accommodation standards-rating system			
STRENGTHENING THE IMPACT OF TRADE ON POVERTY REDUCTION				
57. Mainstream trade in the poverty reduction strategy	Highlight trade reform in the PARPA for 2006-2010, including links between trade and poverty reduction, and the importance of a strong supporting environment for implementation of the strategy		MPF, with MIC / World Bank	
58. Facilitate broad-based gains from trade	Stimulate incomes from agricultural activity (see section on Agriculture)	Technical assistance as needed for areas that are necessary for the development of the market	MADER / 9 donors (EC, Denmark (DANIDA), IFAD, Ireland, Italy, Netherlands, Sweden, USAID, World Bank	
	Promote off-farm employment and structural transformation by means of the full range of trade facilitation and business environment measures identified above, as well as the continued development of market-supporting institutions and infrastructure			
	Skills development	Support for education programs at all levels—vocational, technical, scientific, and managerial		
	Maintain a competitive real exchange rate			
	Ensure that resource extraction projects and other location-dependent investments contribute fully to government revenue, to maximize their contribution to poverty reduction			

Objectives	Recommended Actions	Technical Assistance Needs	Local Agencies/ Existing External Support	Timeline
	Gradually reduce import duty differentials to encourage producers to develop upstream linkages rather than depending on imported raw materials and intermediate goods			
	Stimulate labor-intensive manufacturing			
	Create an infrastructure of rural markets, and increase competition, to improve the distribution of goods and services			
59. Mitigate the costs of adjustment	Strengthen the capacity of domestic firms to adjust to import competition through reforms identified in the section on improving the business enabling environment			
	Continue phasing in trade liberalization to avoid highly disruptive changes in the policy regime—but with a faster schedule for reducing tariff disparities that breed inefficiency by creating high rates of effective protection	Analytical support		
	Within limits defined by fiscal and administrative capacity, consider targeted and temporary programs to help employers adjust to new competitive challenges from trade liberalization, with an emphasis on increasing productivity	Evaluation to identify cost-effective and affordable policy options		
	Again, within limits defined by fiscal and administrative capacity, consider targeted and temporary programs to provide displaced workers with adjustment or re-training assistance	Evaluation to identify cost-effective and affordable policy options		
	Develop safeguard mechanisms as allowed by the WTO to provide temporary relief for industries that are heavily affected by import competition	Trade adviser		
60. Manage the risks of trade-related shocks	Maintain macroeconomic stability and pursue measures (as discussed above) that strengthen the financial system	Macroeconomic policy adviser		
	Vigorously promote investments that result in more diversified export earnings (since diversification reduces risk)	Export promotion studies		

Objectives	Recommended Actions	Technical Assistance Needs	Local Agencies/ Existing External Support	Timeline
	Effectively manage foreign exchange reserves to maintain an adequate cushion for easing the adjustment to external shocks	Study of foreign exchange management options		
	Where trade shocks are concentrated in particular regions (e.g., from a sharp decline in world cotton prices), consider labor-intensive public works projects to provide temporary income or food during the immediate period of adjustment	Evaluation to identify cost-effective and affordable policy options		
	Intensify effort to comply with international standards for financial and fiscal transparency, as a basic tool for preventing economic problems from getting out of hand			
61. Monitor the impact of trade on poverty	Base trade policy decisions on evidence, by applying appropriate tools for poverty and social impact analysis	Technical training on poverty and social impact analysis; implementation support	MIC and MPF	
	Improve the quality and timeliness of important data for monitoring poverty and trade performance, including • National accounts statistics • Agricultural output and marketing statistics • Industrial production statistics • Household welfare indicators (including new questions for the QUIBB on export crops) • Labor market surveys	Statistics advisers		
	Improve systems for public dissemination of data on poverty and trade; include trade issues in deliberations of the Poverty Observatory	Non-technical training on poverty and social impact analysis; training for the press on poverty monitoring		
	Strengthen capacity of the government, and of independent researchers, to analyze poverty and trade data, monitor performance, and identify problems before they become crises	Capacity building, and support for independent research organizations		

NOTE:

[a] *Some objectives and recommended actions in the sector-specific portions of this matrix overlap with those in the earlier sections of the matrix. Where relevant, we have included more sector-specific actions that may be appropriate.*