August 2015

Revised Diagnostic Trade Integration Study for Mozambique

Contents

FOREWORD

Mozambique receives, as a least developed country (LDC), assistance from the donor community by way of the Enhanced Integrated Facility (EIF). The EIF assistance is directed in part through the periodic preparation of a diagnostic trade integration study (DTIS). The original Mozambican DTIS, entitled *Removing Obstacles to Economic Growth in Mozambique*, was conducted in 2004. This revised study comes after a decade of important changes that need to be taken into account, including economic progress, the discovery of natural resources, new national strategies, and trade negotiations.

This report represents a collaboration between teams of national and international consultants, under the general direction of the United Nations Conference on Trade and Development (UNCTAD) and with the active participation of the donor community. It is based upon a series of consultations that were held in-country, documentary and statistical research, and the discussion of successive drafts with government officials, civil society, and the donor community. Stefano Inama of UNCTAD served as team leader, while Craig VanGrasstek of Washington Trade Reports had principal responsibility for arranging and editing the material. Erminio Jocitala was the lead national consultant, writing several sections and providing research assistance for many others. The other national and international consultants who contributed to sections of this report were Francesco Abbate, Natasha Ward, Pierre Sauvé, Jahamo Salima, and Viriato Tamele.

It is important to note that while many persons in the Mozambican public and private sectors were consulted in the process of researching, writing, and revising this document, many of whom are cited here and/or listed among the persons consulted, the views expressed here are ultimately those of the authors.

ACRONYMS

ACTF	Coordination of Trans-Boundary Conservation Areas
ADNAP	National Administration for Fisheries
AEO	Authorized economic operator
AGOA	African Growth and Opportunity Act
ANAC	National Agency for Conservation Areas
APEI	Accelerated Program for Economic Integration
AT	Autoridade Tributaria
ATIA	African Trade Insurance Agency
AU	African Union
BASA	Bilateral air services agreement
BAU	One-stop shop
BCM	Banco Comercial de Moçambique
BIM	Banco Internacional de Moçambique
BMM	Mozambique Commodity Exchange
BoM	Bank of Mozambique
BPS	Biofuel Policy and Strategy
BRICS	Brazil, Russia, India, China, and South Africa
CAADAP	The Comprehensive Africa Agriculture Development Programme
CACM	Commercial arbitration, conciliation and mediation
CASP	Conferencia Anual do Sector Privado
CBI	Center for the Promotion of Imports from Developing Countries
CCSA	Conselho de Coordenação do Sector Agrário
CEM	Country Economic Memorandum
CEPAGRI	Agriculture Promotion Centre
CFM	Portos a Caminhos de Ferro de Moçambique
CII	Inter Institutional Committee for Trade
CIP	Centro de Integridade Pública de Moçambique
CMS	Customs Management Systems
COMESA	Common Market for Eastern and Southern Africa
CorE	Centros de Orientação ao Empresario

CPE	Conselho Empresarial Provincial
CPI	Centro de Promoção de Investimentos
CTA	Confederation of Business Associations of Mozambique
CTTFP	Comprehensive Trade and Transport Facilitation Programme
DASP	Office of Private Sector Support
DDA	Doha Development Agenda
DF	Donor Facilitator
DFQF	Duty-free, quota-free
DGA	Directorate of Customs
DINAP	Department of Livestock
DNATUR	National Directorate of Tourism
DNC	National Directorate for Trade
DNI	Directorate for National Industry
DNJFA	National Directorate of Games of Fortune
DNPIC	National Directorate for the Promotion of Cultural Industries
DPC	Directorate of Planning and Cooperation
DRI	Directorate of International Relations
DTIS	Diagnostic Trade Integration Study
EAC	East African Community
EIF	Enhanced Integrated Framework
EITI	Extractive Industry Transparency Initiative
EMAN	Strategy for the Improvement of the Business Climate
EMATUM	Mozambican Tuna Company
ENDE	Estrategia Nacional de Desenvolvimento
EPA	Economic Partnership Agreement
ES	Executive Secretary
EU	European Union
FDI	Foreign direct investment
FP	Focal Point
FSAP	Financial Sector Assessment Program
FSDS	Financial Sector Development Strategy

FTA	Free trade agreement (sometimes also free trade *area*)
GAPI	Consulting Office for SME Support
GAZEDA	Office for Accelerated Economic Development Zones
GDP	Gross domestic product
GI	Geographical indication
GIRBI	Group on the Removal of Investment Barriers
GoM	Government of Mozambique
GSP	Generalized System of Preference
IDCF	Innovation and Demonstration Catalytic Fund
IDPEE	National Institute for the Development of Small Scale Fisheries
IF	Integrated Framework
IFSC	Integrated Framework Steering Committee
IGT	General Inspection of Tourism
IIP	Institute of Industrial Property
IMF	International Monetary Fund
INAQUA	National Institute for the Development of Aquaculture
INATUR	National Tourism Institute
INCM	Instituto Nacional das Comunicações de Moçambique
INE	National Institute for Statistics
INIP	National Institute for Fisheries Inspection
INNOQ	Instituto Nacional de Normalização e Qualidade
IPEME	Instituto de Promoção de Pequenas e Médias Empresas
IPEX	Instituto para a Promoção de Exportações
IPI	Instituto de Propriedade Intelectual
IPR	Investment Policy Review
ISP	Internet service provider
ITC	International Trade Center
LDCs	Least Developed Countries
LNG	Liquefied natural gas
LPAC	Comité Local de Apreciação dos Projectos
LPI	Logistics Performance Index

M4P	Making Markets Work for the Poor
MDG	Millennium Development Goal
MF	Ministério da Finanças
MFN	Most favored nation
MIC	Ministério da Indústria e Comércio
MINAG	Ministério da Agricultura
MITEP	Minimum Integrated Trade Expansion Platform
MITRAB	Ministério do Trabalho
MITUR	Ministry of Tourism
MNC	Multinational corporation
MP	Ministry of Fisheries
MPD	Ministério de Planificação e Desenvolvimento
MSMEs	Micro, small and medium enterprises
NDC	Netherland Development Cooperation
NES	National Export Strategy
NIA	Quadro Nacional de Implementação
NIU	National Implementation Unity
NSC	National Steering Committee
NTB	Non-tariff barrier
OECD	Organization for Economic Cooperation and Development
PAFIR	Rural Finance Support Programme
PARP	Poverty Reduction Action Plan
PARPA	Plano de Acção de Redução da Pobreza
PCB	Biofuel purchases program
PEDPA	Strategic Plan for the Development of the Tuna Fishery
PEDSA	Strategic Plan for the Development of the Agricultural Sector
PEIP	Strategic Plan for Fishery Inspection
PESPA	Strategic Plan for the Artisanal Fishing Subsector
PNISA	Plano Nacional de Investimento do Sector Agrário
PQG	Plano Quinquenal do Governo
ProPESCA	Artisanal Fisheries Promotion Project

PRS	Plano de Redução da Pobreza
PSROs	Product specific rules of origin
PTCM	SADC Protocol on Transport, Communications and Meteorology
PTIS	Pro-active trade information system
QMS	Quality management strategy
REER	Real effective exchange rate
RT	Round Table
RTA	Regional trade arrangement
SACU	Southern African Customs Union
SADC	Southern African Development Community
SEBRAE	Brazilian Service of Support for Micro and Small Enterprises
SEW	Single Electronic Window System
SMEs	Small and Medium Enterprises
SPS	Sanitary and Phytosanitary Measures
STRI	Services Trade Restrictiveness Index
TBT	Technical Barriers to Trade
TFM	Trust Fund Manager
TFTA	Tripartite Free Trade Area
TIPMOZ	Trade and Investment Programme
TORs	Terms of reference
TRIMs	Trade-Related Investment Measures
UNCTAD	United Nations Conference for Trade and Development
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
UTRESPO	Unidade de Reestruturação do Sector Publico
VAT	Value-added tax
WCO	World Customs Organisation
WTO	World Trade Organisation

A. EXECUTIVE SUMMARY

The domestic and external framework conditions that Mozambique faces have changed significantly since the original DTIS, entitled *Removing Obstacles to Economic Growth in Mozambique*, was conducted in 2004. Four developments stand out as especially significant: (1) There are many and varied signs of economic progress in the country; (2) The future economic development of Mozambique will be significantly influenced by the exploration of recently discovered natural resources; (3) New economic planning strategies have been approved; and (4) Mozambique is now actively engaged in a wider range of trade negotiations. There is a need to update the DTIS 2004 in the light of these changed conditions, and to devise a new and comprehensive reform agenda for trade and trade-related issues with the aim of increasing the country's productive capacity, exploiting new trade opportunities, generating jobs, and reducing poverty.

A-1. Economic Conditions and Trade

Despite a weak global economic environment, Mozambique's economy has registered impressive real GDP growth. The rate of growth averaged 7.3% over the period 2005-2012. These high rates of growth do not change the fact that Mozambique is still among the poorest countries in the world, however, with a GDP per capita of US$650 in 2012. By one measure, it is among the poorest of the poor: Mozambique ranked 178th out of 187 countries in the UNDP's 2014 Human Development Index.

The contribution that exports of goods and services make to GDP has grown rapidly, nearly doubling from 16.5% in 2000 to 29% in 2011. Imports of goods and services have also expanded at a fast rate, although at a slightly slower pace than exports, increasing their share in GDP from 37% to 60%. These trends show the growing openness of Mozambican economy and its integration in regional and international markets.

One of the major shortcomings in Mozambique's economic growth has been a lackluster record in job creation. With a high population growth rate of 2.8%, the country must accommodate about 300,000 new entrants into the labor market each year. The absorption level of these new entrants into formal economy stands at 89% in average each year, according to data from *Balanco do Plano Economico Social-PES*, 2010, 2011 and 2012. High economic growth rates that are spurred mainly by capital-intensive projects have yet to generate many jobs. The unemployment rate stands at 27%, and the formal economy accounts for only one-third of overall employment. The most pressing need in Mozambique for the foreseeable future will therefore be to ensure that the creation of new employment opportunities keeps pace with the expanding size of the labor market. This is a goal to which trade, investment, and especially the energy mega-projects have made a contribution, but have not yet achieved the necessary strength and momentum.

The problem cannot be approached solely from the perspective of what may or may not be achieved through trade and foreign direct investment (FDI), as job creation has not just a demand side (i.e., what these employers seek) but also a supply side (i.e., what the local labor force can offer). The lack of capacity is an endemic problem in Mozambique, and if the country is to benefit from the investment that it has already attracted, and also to be seen favorably by other investors that may consider Mozambique in the future, it will need to address the skills deficit.

A-2. Policy and Governance Issues

The most significant observation to come out of this revised DTIS, from the perspective of Mozambican trade policy, concerns the need for broader market reforms. The argument is made throughout that trade policy must be seen as a complement rather than a substitute for wider economic initiatives. The experiences of other developing countries show a close association between countries' degrees of economic freedom, broadly defined, and the levels of success that they have achieved.[1] Action is needed in several areas, including the necessary investments and reforms in education, labor policy, infrastructure, and the functioning of public institutions.

Mozambique is now engaged in a wide array of trade negotiations and regional integration efforts. These various sub-regional, regional, and global initiatives are best seen not as competing but as complementary undertakings. They include the Southern African Development Community (SADC) and its Regional Indicative Strategic Development Plan; an interim economic partnership agreement (EPA) with the European Union; the Tripartite Free Trade Area (TFTA) that seeks to integrate the three Regional Economic Communities of SADC, the Common Market for Eastern and Southern Africa, and the East African Community; the long-term goal of establishing a Continental Free Trade Area (CFTA) and an African Economic Community with a single currency by 2023; and the Doha Round of multilateral trade negotiations. The effective functioning of regional trade agreements is a key determinant of whether Mozambique can become a regional hub. Current indications are that Mozambique is at risk of becoming mired in a slow-moving TFTA negotiating process that ends in an agreement of limited value, even while existing trade agreements are not fully implemented.

Corruption is a persistent problem, imposing a range of burdens on firms, citizens, and the state. There are concrete incentives for a country to ensure ethical behavior in its public institutions: The record shows that "clean" countries are more likely to be successful countries. The customs authority is especially prone to corruption, a point that is confirmed both by local observers and by objective sources, but the problem is by no means confined to that agency.

There are several steps that Mozambique could take to enhance its policymaking capabilities. The GoM should proceed with validation and implementation of the National Export Strategy, and formal mechanisms should be established to coordinate trade policy among government agencies and to promote greater dialogue between the public and private sectors in the development and execution of trade policy. Most importantly, a comprehensive trade strategy should be prepared to guide the GoM during trade negotiations at multilateral and regional level. Other recommendations made here relate more precisely to specific institutions.

There are significant overlaps between the mandates and activities of trade-related institutions, leading to legitimate concerns over duplication of effort, misallocation of resources, and a lack of coordination amongst these entities. Given this multiplicity of government bodies with responsibility for trade it is vital that there be close consultations among them. This is among the areas that require most improvement in Mozambique. Effective trade policymaking also requires the active engagement of the private sector. Although there are available platforms for public-private dialogue at the national level, consultations with the private sector at the provincial level suggest that the local private sector continues to have almost no input in the trade policymaking.

[1] See the analysis in Craig VanGrasstek, "The Trade Strategies of Developing Countries: A Framework for Analysis and Preliminary Evidence" (2014).

Mozambique has taken several steps to improve its position in the World Bank's *Doing Business* rankings, including extensive reforms aimed at easing the registration process of business and economic activities in the country, but there are still a number of bureaucratic and infrastructural hurdles that affect investors. Major challenges relate to the restrictive regime on access to land, the comprehensive licensing of activities, weaknesses in the regulatory framework of the financial sector, and inspections of premises, as well as the level of taxation. Access to land is the one constraint identified by manufacturers that has actually grown significantly worse since the previous DTIS.

Surveys of entrepreneurs in Mozambique indicate that access to credit remains the most serious constraint to doing business in this country. It is especially important to small and medium enterprises (SMEs), most of which have very limited working and investment capital. This situation heavily affects both the quantity and quality of SME production, and thus their exports. On the demand side, SMEs are often unaware of the existing credit facilities. On the supply side, banks believe that most enterprises do not meet their creditworthiness standards and collateral requirements.

In 2012 the Parliament approved a competition law based on a draft prepared with technical assistance from development partners. The law stipulates that all economic activities will be subject to competition regulations. It establishes norms and bans on anti-competitive practices, whether through horizontal or vertical agreements or through abuse of dominant position.

Delays at customs are problematic in Mozambique. There has been some improvement over the past decade, notably with respect to trade and transport infrastructure, customs clearance procedures, and private logistics services. The creation of a single electronic window was one important step forward. The new WTO Agreement on Trade Facilitation adopted in 2013 should also increase the momentum towards reform, providing both for new disciplines and for assistance in implementation from the donor community.

A-3. Sectoral Issues

Despite some shortcomings in its infrastructure, Mozambique still has advantages as a transport hub. The World Bank *Doing Business* data show that it is both cheaper and faster to move goods into and out of Mozambique than it is, on average, through other SADC countries.

Over the next ten years, coal and liquefied natural gas (LNG) are likely to contribute 2 percentage points per year to the expected 8% GDP growth. Although government revenue from mega-projects will be small over the medium term, the share is projected to reach about 25% of total fiscal revenue in the longer term, largely from the LNG sector. Efforts are needed to build linkages between the mega-projects and the rest of the economy.

Agriculture remains the core economic activity for most Mozambicans, with 86% of the people depending on agriculture as their primary means of subsistence. The agricultural sector faces challenges to produce in the quantity and quality required to provide the raw materials that are needed to supply industry, raise foreign exchange, compete effectively with imports, and diversify exports. The Strategic Plan for Agricultural Development (PEDSA) is a long-term (2010-2019) agricultural strategy developed to harmonize the strategies relating to various agricultural sub-sectors, including land, forests and wildlife, livestock, research, extension, the Green Revolution, and irrigation. The strategy recognizes that the national export potential remains largely untapped, and that there is a need to position Mozambique in the agro-commodities export business.

The National Investment Plan for the Agricultural Sector (PNISA) is the operational instrument of the PEDSA. PNISA is made of 21 programs under five key areas: agricultural production and productivity, access to markets, food and nutritional security, natural resources, and institutional reform and strengthening. It aims to accelerate the production of food security crops, guarantee income for producers, ensure access and secure tenure of natural resources, provide specialized services oriented to the development of value chain, and boost the development of higher agricultural and commercial potential areas. Officially launched in April, 2013, PNISA is yet to benefit from a comprehensive review. A recent progress report identifies limitations in the coordination mechanism, as well as unclear milestones and targets, as major deficiencies in the design that could undermine not only its implementation but also its purpose and performance.

The issue of geographical indications (GIs) is potentially valuable for Mozambique, holding out the possibility that certain products in the country could receive special recognition for their unique qualities increasing their commercial value and export opportunities. GIs are available not only to processed goods such as wines and cheeses, but also to unique raw materials (e.g., special flora and fauna). Mozambique is exploring the designation and promotion of GIs for a few products, such as the Camarao Branco de Mozambique, the goat of Tete, and massanica.

Mozambique has great potential in fisheries products, but the sector also faces challenges. The emphasis of GoM fisheries policy has shifted from exports to production for the domestic market through promotion of artisanal fisheries and aquaculture, while also taking measures to contain overexploitation. There are major challenges to building or re-building of fisheries infrastructures, namely ports, landing sites, markets, and centers for experimentation and education dedicated to aquaculture. In addition, the integration of offshore tuna fishing into the national economy continues to be a major challenge in the sector.

Mozambique is considered a promising region for biomass and bioenergy production within Southern Africa due to the relative abundance of land resources, favorable environmental conditions, and low population density. The GoM approved in 2009 the “Biofuel Policy and Strategy for Mozambique”, and in 2012 drafted the Biofuels Sustainability criteria which is expected to be approved at the ministerial level. The strategy stems from a feasibility assessment study that identified sugar cane and sweet sorghum as suitable feedstock for ethanol production, and *jatropha curcas* and coconut for biodiesel production. These cultivations could be harvested using marginal land, thus providing a revenue opportunity to the population/families cultivating lands not used for agricultural production.

Biofuel projects in Mozambique are still a work in progress. The initial interest of both domestic and international investors slowed down over the years, mainly because of the global financial crisis. Of the 225,732 hectares of authorized area for cultivation of ethanol and biofuel feedstock, only 2.7% is under cultivation. Equally, biofuel projects are negatively affected by political/bureaucratic delays to acquire land use licenses. For instance, the smallest authorized area for cultivation in four years (2008-2012) was only 1,220 hectares for more than 48 registered projects.[2]

Mozambique has great potential in tourism based on its range of beach products, eco-tourism, cultural diversity, and extensive coastline. The country also has an appealing history, diverse architecture, language, cuisine, and cultural and artistic expression. The GoM has made tourism a development priority since 2000. The relevance of tourism to economic growth and poverty reduction is also acknowledged by the Strategic Plan for the Tourism Sector, 2004-2014. The regime for the provision of air transport services, however, constrains the growth of the tourism industry.

The telecommunications sector represents a bottleneck to productive activities. It can hinder private sector development via the high price of access to international bandwidth; disagreements on interconnection fees and facilities sharing; a cumbersome and unwieldy

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[2] Anna Locke and Giles Henley, *Scoping Report on Biofuels Projects in Five Countries* (Overseas Development Institute, 2013).

licensing regime; and the low quality of service in some sub-sectors. These restrictions explain in large part the regulatory reform being proposed by the GoM in its 2013-2017 telecommunications strategy and the attendant proposal for a revised legal framework. The strategy lays out the vision for the telecommunications sector and sets strategic goals and a number of areas for priority action.

There has been a significant level of liberalization in the Mozambican banking services market, but this level of openness has not translated into increased affordability and availability of banking products. Access to finance remains an obstacle to improving Mozambique's investment climate. Cross-border lending by banks and acceptance of deposits is allowed, but is subject to restrictions on the period, size, and interest rate of the loan.

The significant importation of business services is suggestive of deficiencies in the local market for these skills. Such imports are necessary for a country to be a competitive exporter of goods. Commitments on the movement of natural persons (known in trade negotiations as "mode 4"), especially for intra-corporate transferees and business visitors, can be an essential element of reforms. Another key area that could benefit from commitments is professional services, especially for intra-corporate transferees, business visitors, contract service suppliers and independent professionals. One means of dealing with this skills gap is to relax the labor laws for a time, especially in areas that require highly skilled persons (e.g., high technology industries), in order to allow foreign companies to establish themselves.

Exports of cultural products and services is a promising area for Mozambique, both as ancillary sales to tourists and as exports *per se* to foreign markets. Given the ethnic diversity of the country and its regions, the domestic market for cultural goods and services is also large. As of this writing a draft national cultural policy is under review and the cultural industry policy and strategies under development and are expected to be submitted soon to the Council of Ministers.

A-4. Recommendations

This updated DTIS makes seventeen specific recommendations for action by the GoM and the donor community. They are summarized and classified below, together with a general recommendation regarding the long-term vision for the country's transition towards middle-income status.

The recommendations made here can be divided into three general categories. The first consists of procedural and policy issues that are horizontal in nature, cutting across a wide range of subjects. There are three such recommendations. One of them (Recommendation #1) provides for a positive agenda (i.e., a proactive approach) for Mozambique's trade negotiations, another (Recommendation #3) concerns the Enhanced Integrated Framework, while the third (Recommendation #4) relates to the National Export Strategy and a trade policy document. Taken together, these three recommendations aim to advance and elevate the mainstreaming of trade in the national development strategy.

The second and largest category of recommendations are those that relate to specific sectors of the economy. The most pressing need for Mozambique is to promote trade and investment in order to achieve improvements in productivity, create jobs, and fight poverty, and to that end these recommendations address the most significant opportunities and bottlenecks that the country currently faces.

The third set of recommendations concern institutional matters, including the division of labor between different government agencies and the ways that those agencies relate to one another and the private sector in the making and execution of policy. The report makes several recommendations that require the reform of national institutions.

A final recommendation concerns the ultimate objective of development, and is founded upon the observation that — its problems notwithstanding — Mozambique has the potential to achieve a brighter future than most LDCs. The country's geographical placement, its natural resources, its people and their partners can all work together to achieve higher levels of productivity and welfare. The country would do well to adopt as the long-term vision for its development strategy the eventual graduation from LDC status. While there are some advantages extended to countries that are formally designated as LDCs, the experience of other developing countries shows that trade and investment are ultimately a better formula for development than are aid and dependence. Designation as an LDC can convey more stigma than status. If Mozambique were to make that transition from the bottom to the middle rank of countries it would reinforce the message that this country is a safe, stable, and profitable place in which to invest.

A-5. Statistical Profile of Mozambique's Economy and Trade

BASIC INDICATORS

Population (thousands, 2013)	25,834	**Rank in world trade**, 2013	Exports	Imports
GDP (million current US$, 2013)	15,319	Merchandise	114	107
GDP (million current PPP US$, 2013)	27,006	excluding intra-EU trade	89	82
Current account balance (million US$, 2012)	- 6,297	Commercial services	109	93
Trade per capita (US$, 2011-2013)	634	excluding intra-EU trade	82	67
Trade to GDP ratio (2011-2013)	113.5			

	2013	Annual percentage change 2005-2013	2012	2013
Real GDP (2005=100)	171	7	7	7
Exports of goods and services (volume, 2005=100)	238	11	21	16
Imports of goods and services (volume, 2005=100)	248	12	25	14

MERCHANDISE TRADE

	2013	**Annual percentage change 2005-2013**	**2012**	**2013**
Merchandise exports, f.o.b. (million US$)	4 300	12	14	5
Merchandise imports, c.i.f. (million US$)	8 800	18	8	29

Share in world total exports	0.02	**Share in world total imports**	0.05
Breakdown in economy's total exports		**Breakdown in economy's total imports**	
By main commodity group (ITS)		*By main commodity group (ITS)*	
Agricultural products	19.1	Agricultural products	13.3
Fuels and mining products	60.3	Fuels and mining products	39.8
Manufactures	14.1	Manufactures	46.9
By main destination		*By main origin*	
1. European Union (28)	38.2	1. South Africa	32.7
2. South Africa	22.4	2. European Union (28)	15.1
3. India	16.9	3. United Arab Emirates	8.5
4. United States	3.6	4. China	6.4
5. China	2.6	5.Singapore	6.2

COMMERCIAL SERVICES TRADE

	2013	**Annual percentage change 2005-2013**	**2012**	**2013**
Commercial services exports(million US$)	1,579	22	57	56
Commercial services imports(million US$)	2,964	21	94	-29

Share in world total exports	0.03	**Share in world total imports**	0.07
Breakdown in economy's total exports		**Breakdown in economy's total imports**	
By principal services item		*By principal services item*	
Transportation	35.8	Transportation	20.3
Travel	24.7	Travel	4.1
Other commercial services	39.5	Other commercial services	75.6

INDUSTRIAL PROPERTY

Patent grants by patent office, 2007

Residents	Non-residents	Total
18	22	40

Trademark registrations by office, 2012

Direct residents	Direct non-residents	Madrid	Total
...	...	1 081	1 081

Source: Adapted from WTO data at http://stat.wto.org/CountryProfiles/MZ_e.htm.

B. Introduction

Analysis of the Problem: This introduction places the updated Diagnostic Trade Integration Study (DTIS) in context, explaining how changes on the ground have advanced to the point where the prior (2004) report now needs to be revised. These changes include the transition of the country from the immediate needs of a post-conflict state to one moving closer towards sustained and inclusive growth, as well as the need to take into account the proliferation of plans and strategies in trade-related areas.

The DTIS 2004 has been outdated by changed conditions, necessitating a new and comprehensive reform agenda. Domestic conditions and the global environment have changed in four important respects: (1) There are many and varied signs of economic progress in the country, starting with its high rate of growth; (2) the future economic development of Mozambique will be significantly influenced by the exploration of recently discovered natural resources; (3) new economic planning strategies have been approved; and (4) Mozambique is now actively engaged in a wider range of trade negotiations at the subregional, regional, cross-regional, and multilateral levels with a diverse array of developed and developing partners.

This revised DTIS emphasizes the need to achieve political and institutional reform as a foundation for development, insofar as expanded trade and investment offer only part of the solution for Mozambique's problems. Open markets and the attraction of foreign investors can produce results only if they are complemented by necessary investments and reforms in education, labor policy, infrastructure, and the functioning of public institutions, including reduction in corruption.

Proposed Solution: The principal needs today are to increase Mozambique's productive capacity in order to exploit new trade opportunities, create jobs, and reduce poverty. This DTIS update aims to do so by identifying a trade and investment policymaking roadmap, a policy on trade in selected services, and an assessment for further progressing on trade facilitation. The analysis concludes by summarizing and categorizing the recommendations that are made in the body of the updated DTIS. These can be divided into three general categories — including initiatives that are horizontal, sectoral, and institutional — as well as the long-term goal of moving Mozambique from the formal status of an LDC to the ranks of the middle-income countries.

The analysis underlines the importance of fully exploiting Mozambique's geographic advantages, while also stressing the need to address the problem of corruption and the importance of making trade policy part of a broader set of economic reforms. This updated DTIS starts from the proposition that the mainstreaming of trade policy in Mozambique's development policy is indispensable, but that it is equally important to acknowledge not just the potential but the limitations of this field of public policy. Trade policy can function well only when it is treated as a complement, and not as a substitute, for a wide-ranging development strategy.

B-1. The Need for a Revised DTIS

Ten years have now elapsed since the original DTIS for Mozambique, entitled *Removing Obstacles to Economic Growth in Mozambique*, was conducted in 2004. The objective of that first DTIS was to assist the Government of Mozambique (GoM) in developing export capacity that, according to the study, required improvements in three areas: (1) the business-enabling environment; (2) transportation infrastructure and border clearance procedures; and (3) trade and investment policies, trade institutions, technical and analytic skill levels, and policy coordination processes. The DTIS was validated in 2005, and later the GoM embarked on a series of actions (e.g. the 2006 Strategy to Improve the Business Environment- EMAN I), stressing the need for reforms in Mozambique's regulatory framework and dealing with topics ranging from firms' access to credit to reform of the labor laws.

The domestic and external framework conditions have changed significantly since that last DTIS. Four developments stand out as especially significant.

First, there are many and varied signs of economic progress in the country, starting with its high rate of growth. Real GDP rose during 2005-2012 by an average annual rate of 7.3%; if this rate were to be sustained, the economy could double in just under a decade (9.8 years). The development of mineral wealth suggests that similarly high rates might in fact be achieved in the years to come. The country's potential is also underlined by increased trade and especially investment. The number of Fortune Global 500 firms (i.e., the top 500 corporations worldwide as measured by revenue) that invest in Mozambique has increased from just one in 2001 to twelve in 2010.

Second, the future economic development of Mozambique will be significantly influenced by the exploration of recently discovered natural resources. Mozambique's economic potential is vast and promising. The country is endowed with significant natural resources, including natural gas, coal, titanium, hydropower, and underdeveloped agricultural land and fisheries. According to UNCTAD data, Mozambique's industrial foreign direct investment (FDI) flows in 2009 went mostly to mining, quarrying, and petroleum-related activities (55% of total), followed by agriculture, hunting and fishing activities (16%) and by transport, storage and communications activities (14%). This marked a drastic change from 2001, when 76% total FDI inflows went to the tertiary sector, mostly related to electricity, gas, and water production. The mega-projects will have manifold consequences for the country, not just with respect to the macroeconomic implications and an increase of FDI, but also bringing environmental and social repercussions.

Third, new economic planning strategies have been approved, among them the five-year program for the Government 2010-2014 (PQG – Plano Quinquenal do Governo), the Poverty Reduction Action Plan (PARP) 2011-2014, the Strategy for the Development of Small and Medium Size Enterprises (SMEs) in Mozambique, the Strategic Plan for Agricultural Development (PEDSA), the Strategy for the Improvement of the Business Climate (EMAN II), the Estrategia Nacional de Desenvolvimento (ENDE), and the Mozambique Export Promotion Strategy 2012-2017 (as yet unapproved). Some strategies are in the process of being revised, offering further opportunities to mainstream trade.

Fourth, Mozambique is now actively engaged in a wider range of trade negotiations. As examined in greater depth in Part II, these are taking place at the sub regional, regional, cross-regional, and multilateral levels with a diverse array of developed and developing partners.

In short, there is a need to update the DTIS 2004 in the light of these changed conditions, and to devise a new comprehensive reform agenda for trade and trade-related issues with the aim of increasing the country's productive capacity, exploit new trade opportunities, generate jobs, and reduce poverty. The objectives of this DTIS update are to identify a trade and investment policymaking roadmap, a policy on trade in selected services that are supporting productive capacities, especially for SMEs, and an assessment for further progressing on trade facilitation.

B-2. The Need to Generate Employment Opportunities

The most pressing need in Mozambique for the foreseeable future will be to ensure that the creation of new employment opportunities keeps pace with the expanding size of the labor market. This is a goal to which trade, investment, and especially the energy mega-projects have made a contribution, but have not yet achieved the necessary strength and momentum.

The recent trends offer only limited encouragement. It is true on the one hand that the mega-projects and other new investment in the country have created new employment opportunities. According to the Centro de Promoção de Investimentos (CPI), more than 1000 new investment projects were approved during 2010-2013, amounting to US$12.5 billion in foreign capital and carrying the potential to create 110,000 new jobs. On the other hand, these results fall short of what is needed when one views them in the proper scale: The projected employment gains from these investments amount to less than one-half of one percent of the total population. There are 300,000 new entrants to the job market each year, and the growing levels of urbanization point to the need for industrial jobs in the cities, coupled with regional development — both for agriculture and for industry — to stabilize the situation in the countryside. The absorption level of these new entrants into formal economy stands at 89% in average each year, according to reviewed data from *Balanco do Plano Economico Social-PES*, 2010, 2011 and 2012.

The problem cannot be approached solely from the perspective of what may or may not be achieved through FDI, as job creation has not just a demand side (i.e., what employers seek) but also a supply side (i.e., what the local labor force can offer). On the demand side, the kind of investment that the country has attracted in recent years tends to be more capital-intensive than labor-intensive, and many of the jobs that these mega-projects do generate are in specialized fields. Here then is the supply-side problem: The Mozambican workforce lacks the types of skilled professionals needed in the mega-projects and in many other actual or prospective FDI ventures. If the country is to benefit from the investment that it has already attracted, and also to be seen favorably by other investors that may consider Mozambique in the future, it will need to address the skills deficit.

The lack of skilled workers poses a serious constraint on the ability of the country to take full advantage of the opportunities that are presented by the new mega-projects. This can be seen, for example, in the need to bring in skilled and even semi-skilled labor in order to build the liquefied natural gas plants that are soon to be constructed. This is a hard fact that may generate equally hard feelings on the part of unemployed Mozambican workers. The more positive "spin" on this observation is that there are high rates of demand for trained personnel in Mozambique, and consequently the return on investment in education is also high. Mozambique is thus at less risk of suffering from a brain drain than are many other developing countries.

Lack of capacity is an endemic problem that manifests itself in many ways and at many levels, from the low rate of literacy and numeracy in the mass of the population to the lack of skilled professionals in almost every field in which goods-producing and services firms might either hire local workers or outsource their purchases. The Mozambican workforce may fall short on even fundamental work skills, such as punctuality, and while this shortcoming is not unique to the country it is nonetheless problematic. The same problem manifests itself in the public sector, where the educational background and present positions of many government officials are not closely related. Relatively few of the nation's youth have the privilege of achieving a college degree, but too many of those who have this opportunity choose academic paths that are better suited to the demands of government ministries than to the needs of potential employers in the private sector.

One project now underway seeks to encourage the training and hiring of workers by the mega-projects. As of this writing the initiative is limited to a pilot project with funding of about US$1 million, but if that pilot proves successful it may be expanded and replicated. An aid agency has reportedly shown interest in giving its support to a larger initiative of this sort. While this type of project could indeed help to leverage greater national benefits from the mineral wealth now being developed, it is also important to acknowledge the failure rate for such undertakings. The aluminum producer Mozal once had a similar initiative, for example, but there is reportedly nothing left from it.

Put another way, a key part of the foundation for effective policymaking on trade and investment must be an equally effective education policy. That, in turn, may also require effective measures to deal with childhood nutrition and other factors affecting attendance and classroom performance. The full range of the issues that ultimately need to be addressed in order to promote development is thus quite large, and includes many items that are outside the immediate focus of the present study.

B-3. The Need to Achieve Political and Institutional Reform

The observations made above underline the simple fact that while trade and investment offer an important part of the solution for Mozambique's development problems, the key word is "part." The efforts that Mozambique has already made to open its market and to welcome foreign investors, and that it is continuing to pursue through domestic reforms and international negotiations, will deliver the desired results only if they are complemented by equally important undertakings in other areas of public policy. These include the necessary investments and reforms in education, labor policy, infrastructure, and the functioning of public institutions.

B-3.a. <u>Promoting a Peaceful Political Environment</u>

The country's political history is immutable, and progressing beyond the established patterns of relations between contending parties is a long-term proposition. It is especially important to replace old antagonisms with the rule of law, as the recurrence of political violence in Mozambique would be detrimental to the country's prospects for trade, investment, and development.

One source of concern is the oft-observed association between natural resources and domestic political unrest. The "resource curse" sometimes manifests itself not just in the economic phenomenon known as the "Dutch disease" but also in heightened political risk. Many analysts contend that countries that are rich in hydrocarbons, precious metals, gemstones, or other economically desirable resources may find that these same resources encourage politically undesirable results. Resource-rich countries may be at greater risk of civil wars, insurgencies, or other forms of political violence than are other, less well-endowed countries.[3] One review of the status of conflicts throughout the globe, as prepared by the political risk firm Maplecroft, appeared to confirm this association in general even if it had not yet been seen in Mozambique in particular. While the report still classified Mozambique as falling in the "medium risk" category, many of the other countries designated in the "high risk" or "extreme risk" categories are rich in oil or other resources.[4] Similarly, another analysis concluded that the new gas production in Mozambique, "unless carefully managed," will "become a lost opportunity for development and a source of conflict that may generate a political and social backlash against the industry in the longer term."[5]

Other varieties of risk can also weigh down a country's prospects for trade, investment, and development. It would be highly prejudicial for prospective investors to associate a country with kidnappings, street crime, political violence, police harassment, and corruption. The relationship between these activities and the opportunities for FDI is suggested by the country rating of "C" that the globalEDGE program assigns to Mozambique, this classification being used to designate those countries that have a "very uncertain political and economic outlook and a business environment with

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[3] See for example Mats R. Berdal and David M. Malone, *Greed and Grievance: Economic Agendas in Civil Wars* (International Peace Academy, 2000). Note also that there are other analysts who question the alleged association between economic resources and political risk; see for example Kori Schake, "The Myth of the Resource Curse" at http://www.hoover.org/publications/defining-ideas/article/132126.

[4] See the Conflict and Political Violence Index at http://maplecroft.com/portfolio/new-analysis/2014/05/07/conflict-and-political-violence-intensifies-48-countries-2013-ukraine-sees-biggest-increase-risk-maplecroft/.

[5] Anne Frühauf, *Mozambique's LNG Revolution: A Political Risk Outlook for the Rovuma LNG Ventures* OIES Paper NG 86 (Oxford: Oxford Institute for Energy Studies, 2014), p.2.

many troublesome weaknesses can have a significant impact on corporate payment behavior" and in which "[c]orporate default probability is high."[6]

B-3.b. <u>The Need to Fight Corruption</u>

Corruption is a persistent problem in many developing countries, imposing a range of burdens on firms, citizens, and the state itself. These include increased costs on legitimate businesses, decreased revenue for the government, less efficient and equitable distribution of public services, a worsening international reputation, and a growing perception that the country is unwelcoming to trade and investment.

Comparative data on corruption show that Mozambique is not in the worst position, but that its record is poor and worsening. In 2014 Mozambique was tied with four other countries for 119th place out of 174 countries on the Corruption Perception Index (CPI) compiled by Transparency International.[7] Nor is the trend favorable: At the time of the last DTIS, Mozambique was tied with six other countries for 90th place on the CPI. Corruption remains a serious problem that threatens to stifle foreign investment and to rob the country of hard-earned gains from expanded production and trade. It is especially evident in the customs authority, a point that is confirmed both by local observers and by objective sources,[8] but is by no means confined to that agency.

Corruption is not solely a supply-side problem on the part of dishonest officials, but also depends on demand from the private sector. What is at issue here is not just corruption but capacity, as it can sometimes be unclear whether the failure of tax and customs officials to collect the proper revenues is the result of a mutual arrangement between firms and officials to defraud the government or is simply the consequence of the officials' inability to detect false statements filed by firms. Both practices are costly. The greatest costs are incalculable, as one may only speculate on the extent to which potential investors may be dissuaded from risking their capital in an economy that is perceived to be dishonest, unsafe, or both. The more immediate costs, as measured by foregone government revenue, may at least roughly be estimated. One study found that the GoM "lost $2.33 billion in illicit outflows of capital due to trade misinvoicing" over the nine-year period of 2002-2010 and that, when "combined with cumulative illicit inflows of $2.93 billion, may have denied the government $1.68 billion in revenue."[9] The authors of this report observed that "Mozambique has enormous potential for growth and development through its mineral and human resources," and that the country "has already taken steps to establish the culture of business transparency and accountability." They nevertheless concluded that more "remains to be done … to better curtail trade misinvoicing and establish the needed levels of transparency," and recommended "that development partners in Mozambique support the Government of Mozambique in these efforts and in further analyzing the various factors that drive trade misinvoicing as a conduit for illegal capital flight from the country."[10]

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[6] See http://www.transparency.org/cpi2014/results.

[7] *Ibid.*

[8] See Transparency International, *Overview of Corruption and Anti-Corruption in Mozambique* (2012), at http://www.transparency.org/files/content/corruptionqas/322_Overview_of_corruption_and_anti-corruption_in_Mozambique.pdf.

[9] Raymond Baker *et al.*, *Hiding in Plain Sight: Trade Misinvoicing and the Impact of Revenue Loss in Ghana, Kenya, Mozambique, Tanzania, and Uganda: 2002-2011* (N.P.: Global Financial Integrity, 2014), p.25.

[10] *Ibid.*, p.30.

Some progress is being made on public ethics, at least in formal terms. The Public Probity Law (No. 16/2012) enacted in 2012, coupled with the Witness Protection Law (No. 15/2012), put needed tools in place. The Public Probity Law bars civil servants from taking part in decision-making whenever their personal interests might impair their capacity to act in an independent and impartial manner, and bans official misconduct, illicit enrichment, and abuse of authority. Civil servants and holders of political office must also declare their assets, and the law provides that a civil servant may not directly or indirectly receive gifts or gratuities from natural or corporate persons. The law further provides for the creation of a Comissão de Ética Pública, an official body responsible for the regulation, assessment, and monitoring of conflicts of interest, and tasked with receiving reports of such conflicts of interest and taking appropriate legal steps. The agency began to receive denunciations as soon as it was established in January, 2013, most of them related to alleged conflicts of interest and corruption. The commission's ability to act on these denunciations is limited by the fact that it is still operating out of temporary offices in the National Assembly, is still awaiting approval of its regulatory framework, and does not yet have the full complement of personnel that it requires. The Centro de Integridade Pública de Moçambique (CIP) is another institution devoted to promoting ethics. Operating with the support of several members of the donor community, CIP is a non-partisan, non-profit, independent institution that aims to promote integrity, transparency, ethics, and good governance in the public sphere, as well as the promotion of human rights in Mozambique. One way that is does so is through the publication of research on these topics, some of which relate to issues involving trade and investment (e.g., in the minerals sector). Mozambique has also attained full membership of the Extractive Industry Transparency Initiative (EITI), and has been declared compliant with its standards.

B-3.c. The Relationship between Trade Liberalization and Broader Market Reforms

One of the key themes of this updated DTIS is that trade policy must be seen as a complement rather than a substitute for wider economic initiatives. As a general rule, the more successful developing countries over the past few decades have been those that adopt comprehensive economic reforms in which market forces play a greater role than does the state. For these countries, domestic reforms are complemented by similar undertakings in trade policy (e.g., acceding to the WTO, negotiating market-opening agreements, autonomously reducing barriers, etc.). The observed relationship between economic freedom and success bolsters the view that a modern economy that aims to compete effectively in the global market will have at its base efficient institutions that facilitate, but do not seek to control, the development of private enterprise.

Mozambique has made progress over the past generation in reforming its formerly planned economy by adopting market-oriented policies. The GoM implemented a program of structural reforms based on promoting growth that is led by the private sector while pursuing macro-economic stability and more effective fiscal policy. It privatized most state-owned companies and opened up all sectors to the private sector. The remaining public companies predominantly operate in the provision of such services as utilities (i.e., electricity, telecommunications, and water), airports, ports, and railways. There has also been a general liberalization in trade and prices. Trade subsidies and restrictions have been lifted, and price controls were removed in 1997.

In 2014 Mozambique ranked 128th out of 178 countries in the Index of Economic Freedom,[11] a measure reported each year by the Heritage Foundation and the *Wall Street Journal*. Those numbers very roughly approximate what one finds in the World Bank's Doing Business indicators, where

[11] The index is based on ten quantitative and qualitative factors, grouped into four broad categories. These include the rule of law (property rights and freedom from corruption), limited government (fiscal freedom and government spending), regulatory efficiency (business freedom, labor freedom, and monetary freedom), and open markets (trade freedom, investment freedom, and financial freedom). Each of the ten economic freedoms within these categories is graded on a scale of 0 to 100. The overall score is the average of these ten measures. See http://www.heritage.org/index/about.

Mozambique ranked in 139th place in 2014 (having fallen there from 110th place in 2006). Both measures suggest that Mozambique does not have one of the most state-centric economies in the world, but also that there remains considerable room for further reform.

Progress has been both incomplete and potentially reversible. The reintroduction of subsidies for staple foods in 2010, which came in response to riots over a rise in the cost of living, demonstrated the fragility of market reforms in the face of political pressures. The rise of the mega-projects offers great opportunities to the country, but also tempt policymakers to place immediate gains over the long-term needs of the country.

B-4. Priorities for Trade and Development

In addition to the action matrix this updated DTIS makes complementary recommendations for action by the GoM and the donor community. They are summarized below and classified in three categories, together with a general recommendation regarding the long-term vision for the country's transition towards middle-income status.

These recommendations take as their point of departure the observation that Mozambique's capacity to benefit from the opportunities of an increasingly open and connected global economy depend much more on domestic reform than on international initiatives. Because the country is principally an exporter of primary products (which tend to be duty-free in most markets) and an LDC (thus receiving preferential access for most other items), formal trade barriers abroad are of very limited importance to it exports. Even those barriers that do remain in place in major markets, such as sanitary measures, have more to do with domestic capacity constraints than with protectionism abroad. In short, the principal obstacles to the growth of export-oriented industries in Mozambique are indeed *in Mozambique*. The most urgent problems facing the country, and on which national policymakers and the donor community should focus their efforts, concern not the traditional issues in trade policy (i.e., tariffs, quotas, and other border measures) but the ability to offer goods and services that are competitive in international markets.

Readers should note that each of the recommendations shown here are presented in reduced form for the sake of simplicity; for the full text of each recommendation, and the arguments in favor of these steps, see the actual texts in the body of the report. Note as well that the numbering of the recommendations does not imply a prioritization, but is instead determined by the order in which they appear in the DTIS.

B-4.a. Horizontal Initiatives

The recommendations made here can be divided into three general categories. The first consists of procedural and policy issues that are horizontal in nature, cutting across a wide range of subjects. There are three such recommendations, each of which aim to advance and elevate the mainstreaming of trade in the national development strategy.

- ***Recommendation #1: A Positive Agenda for Mozambique's Trade Negotiations.*** Mozambique should develop, in close consultation with the private sector, a positive agenda on trade policy and trade negotiations. This means adopting a consistent and coherent set of objectives to be pursued on a proactive basis in the multiple negotiations in which the country is now engaged.
- ***Recommendation #3: The Enhanced Integrated Framework.*** As envisioned in a Tier I project, capacities should be upgraded at the national level if the EIF is to realize its intended benefits in a foreseeable future, and stakeholders must be guided to access funding beyond the resources available in the EIF Trust Fund.

- ***Recommendation #4: The National Export Strategy and a Trade Policy.*** The GoM should proceed with validation and implementation of the NES and the development of a trade policy.

B-4.b. Sectoral Initiatives

The most pressing need for Mozambique is to promote trade and investment in order to achieve improvements in productivity, create jobs, and fight poverty. This requires immediate attention in the execution of existing national laws, the enactment of others, and in the implementation of existing trade agreements and the negotiation of new ones.

- ***Recommendation #2: Support for the Further Development of Development Corridors.*** Support to transit trade should be a strategic objective of the Mozambican government. These initiatives merit the priority support of the donor community, including assistance in the purchase of equipment to be used by the customs authorities and in the training of personnel in the use of this equipment and related procedures.
- ***Recommendation #14: Transportation Services Commitments in Trade Agreements.*** Mozambique should improve the regulatory environment for trade in transport services by undertaking binding commitments in trade agreements to remove policies that stifle competition or create inefficiencies in the provision of transport services.
- ***Recommendation #15: Telecommunications Services.*** Mozambique should develop a roadmap with clearly identified timeframes to achieve the objectives set forth in the 2013 Telecommunications Strategy.
- ***Recommendation #16: Competition in the Banking Sector.*** The Bank of Mozambique should build upon the steps it has taken to promote greater transparency by ensuring that more information is available on commissions and fees and ensuring the unbundling of financial services offered by banks.
- ***Recommendation #17: Mode 4 Commitments in Trade Agreements.*** Mode 4 access should be provided for business visitors and intra-corporate transferees.

B-4.c. Institutional Initiatives

The task of reform and development is made more complicated by the fact that the most serious of these impediments are also the ones that are least susceptible to immediate change. The two deepest problems in Mozambique concern institutional development and education. Both of them are legacies of a long history in which the country went through successive phases of conquest, colonialism, revolution, civil war, and a command economy, none of which were friendly to the development of modern institutions and a diverse pool of national talent. Those reforms do not lend themselves well to the comparatively simple solutions of enacting a new law or approving a new infrastructure project, but will instead require sustained effort over a long period of time.

Each of the following consist of recommendations that require the reform of national institutions. This process of reform, especially with respect to entrenched practices, can be expected to require a lengthier commitment than some of measures that were summarized in the preceding section. These are the principal recommendations made in this updated DTIS with respect to the structure and procedures of institutions:

- ***Recommendation #5: Inter-Ministerial and Public-Private Consultation Mechanisms.*** A formal mechanism should be established for coordinating trade policy among government agencies, and complemented by initiatives to promote greater dialogue between the public and private sectors in the development and execution of trade policy.

- ***Recommendation #6: The Future of the Instituto de Promoção de Exportação.*** IPEX has proven to be a troubled institution, but its mandate remains important. This organization should be given an opportunity to prove its worth by giving it a well-ordered number of measurable goals to meet within a specific timeframe. If those goals cannot be met within the specified time, then merger with IPEME or reintegration with MIC should follow.
- ***Recommendation #7: Strengthening the Instituto para a Promoção das Pequenas e Médias Empresas.*** The top priority for IPEME is a capacity-building plan to buttress the ability of management to implement programs and projects for SME development. One option would be to strengthen IPEME through a multi-year program with a team of experienced personnel who have industrial and consulting experience.
- ***Recommendation #8: The Operation of the Instituto Nacional de Normalização e Qualidade.*** INNOQ makes a major contribution to the development of a national quality infrastructure. This institution and its stakeholders should work to increase the pace at which it adopts mutual recognition or equivalence mechanisms within regional fora, and enhancing Mozambique's participation in drafting such standards.
- ***Recommendation #9: The Independence of the Competition Commission.*** A schedule should be established for the movement of the new competition commission out of MIC, which might reasonably entail a two-year timeframe.
- ***Recommendation #10: Trade Facilitation and Customs Reform.*** More behavioral training is needed for senior management in the customs service, and the implications of the WTO Agreement on Trade Facilitation need to be fully assessed, starting with a review of fees and charges.

B-4.d. Positioning Mozambique to Graduate from LDC Status

Its problems notwithstanding, Mozambique has the potential to achieve a brighter future than most LDCs. The country has made notable progress over the past decade, it has a wider and deeper base of resources, and has greater expectations for sustained development through the exploitation of its geological and geographical advantages. At the time of the last DTIS, the primary focus of Mozambique's development policy was still on the eradication of poverty. Today the country is in a transitional phase, devoted in part to poverty eradication while still struggling to generate employment but also putting in place the policies needed to exploit natural resources and move towards sustained development.

The country would do well to adopt as a long-term vision the eventual graduation from LDC status. Doing so would mean emulating the example of four other formed LDCs that may today be deemed as success stories: Botswana graduated in 1994, Cape Verde did so in 2007, Maldives in 2011, and Samoa in 2014. Mozambique is not yet close to achieving the same milestones that these ex-LDCs did, nor can it reasonably expect to do so within the timeframe of the present DTIS, but it can at least identify graduation as a long-term goal and begin to place itself on a path towards achieving it.

While there are some advantages extended to countries that are formally designated as LDCs, the experience of other developing countries shows that trade and investment are ultimately a better formula for development than are aid and dependence. Designation as an LDC can convey more stigma than status. If Mozambique were to make that transition from the bottom to the middle rank of countries it would reinforce the message that this country is a safe, stable, and profitable place in which to invest. The costs imposed by graduation are not as great in practice as they might appear to be in principle. Mozambique is no longer as dependent on foreign aid as it once was. Losing LDC status might result in fewer development funds, but that would simply continue a trend that is already underway. Aid had contributed 43% of the country's income in 1990, but this had more than halved (down to 21%) in 2012.

LDC graduation will also help to strike a balance between the demands for poverty reduction and the need for economic reform. As is described at greater length in Appendix A, decisions on either the designation or the graduation of countries from LDC status are based not just on per capita income, but also on a country's place in the Human Assets Index (a composite index of measurements related to the quality of life) and the Economic Vulnerability Index (a composite index of measurements related to the vulnerability of the country to exogenous shocks). By making graduation dependent on the country's improvement of its status under these latter two measurements, and especially the Human Assets Index, it will ensure continued focus on such key factors as childhood nutrition, schooling, and literacy. Education is ultimately the bridge that links poverty-reduction with longer-term development, and the LDC graduation process ensures that this bridge is strong. In aiming for eventual graduation from LDC status, the country may thus acknowledge both the progress made so far and the challenges that lay ahead. The structure of the LDC criteria give the country specific goalposts by which to measure their further progress, and do so in a way that does not leave the poor behind. If graduation is achieved, it will position the country for greater trade, investment, and sustained growth as a middle-income country.

C. Taking Stock of Developments Since 2004

Analysis of the Problem: This part reviews the recent and current status of development in Mozambique, taking as its point of departure the previous (2004) DTIS. The principal points made here are that the country has achieved a high rate of growth, but that growth has not yet been translated into substantial reductions in poverty; it has taken several steps to liberalize trade, but non-tariff barriers remain a concern; trade has become a larger part of the economy, and trade may continue to grow as a result of the numerous regional and multilateral trade negotiations in which Mozambique is engaged.

The revised DTIS must also take into account the wide and expanding scope of what "trade policy" in understood to encompass. There is no single and universally accepted definition of what now constitutes trade policy, as this appears to vary from one instrument to another. The multilateral agreements reached in the World Trade Organization (WTO) now cover such topics as trade in services, the protection of intellectual property rights, trade-related investment measures, and sanitary and phytosanitary measures. The scope of issues can be even wider in bilateral or regional trade negotiations. Where some bilateral or regional arrangements are still focused principally on border measures, others break new ground on such new issues as labor rights, privacy, and competition policy. The topics that fall within the scope of trade policy may be even wider when one considers the issues that can arise in the dispute-settlement systems of the WTO and other trade agreements, where one party to the agreement will sometimes challenge on grounds of trade law the measures that another party considers instead to be questions of foreign, social, or environmental policy.

Proposed Solutions: Three recommendations emerge from this part of the analysis. The first recommendation calls for the development of a positive agenda on trade policy and trade negotiations, in which negotiators will pursue a consistent and comprehensive set of objectives based on an objective appraisal of Mozambican strengths and needs. A second recommendation is that Mozambique provide support to transit trade as a strategic objective. This includes necessary investments in infrastructure as well as reforms in regulations and the regional bond scheme. The third recommendation concerns the Enhanced Integration Framework. Capacities should be upgraded if the EIF is to realize its intended benefits in a foreseeable future, and stakeholders must be guided to access funding beyond the resources available in the EIF Trust Fund. Government should play a leading role in moving the EIF process forward, taking ownership of the process and making key decisions such as setting priorities and establishing structures from the DTIS and Action Matrix.

C-1. Defining the Scope of Trade and Development

Before undertaking a more detailed examination of the topic it is useful to begin by considering the scope of what falls within the broad rubric of trade and development. Just what does "trade policy" mean in the first place? That is a more difficult question to answer than might first appear, as the definition of this area of public policy has undergone a radical and continuing revision over the last generation. The field had long been confined principally to tariffs, quotas, and other border measures that are intended to tax, regulate, or restrict the movement of goods across borders, but has come over the years to encompass a much wider array of tradeables and associated issues. In addition to goods, the range of tradeables has now come to include services, capital (i.e., investment), and ideas (i.e., intellectual property rights). The addition of these and other issues to the trade policy portfolio has greatly expanded the importance of trade agreements and trade disputes, and has also greatly complicated the process of trade policymaking in both developed and developing countries. The time has long passed when trade policy could be left solely to trade ministries, or when trade ministries were expected to deal only with the issues that most narrowly fell within their bailiwick. Trade policymaking today requires a much higher level of coordination and mainstreaming than it did in past generations.

Table 1 : Idealized Representation of Different Government Agencies' Perspectives on Selected Trade-Related Issues

		Other Issues that Are or May Be Defined as "Trade" (Partial List)				
Ministry	Traditional Trade Policy (i.e., Tariffs & Quotas)	Trade in Services	Intellectual Property Rights	TBT & SPS Measures	Labor & the Environment	Government Procurement
Trade	■	■	■	■	■	■
Agriculture	■	■	■	□	■	☐
Energy	■	■		□	□	☐
Labor	■	■		□	■	☐
Finance	□	■				□
Foreign Affairs	□					☐
Culture		■	■			☐
Health		■	☐	□	□	☐
Education		■	☐		■	☐
Communications		■		□		☐
Transportation		■	□	□	□	☐
Environment				□	□	☐

Key:
The perspective that a ministry has on an issue will be principally affected by the following consideration:

■ : The issue affects the economic interests of the ministry's private sector constituents (note that the ministry may also be affected by either or both of the next two considerations).

□ : Issues that fall directly within the ministry's administrative/policy control (note that the ministry may also be affected by the next consideration).

☐ : Issues that affect the ministry's own operational or budgetary needs.

TBT & SPS Measures= Technical barrier to trade and sanitary/phytosanitary measures.

The idealized schema that is illustrated in Table 1 offers a simplified representation of the problem. This table shows the range of ministerial interests in a hypothetical country, and is not meant to provide a precise summary of the situation in Mozambique. It shows that only half of the cabinet was interested in trade policy when the subject was restricted to traditional border measures affecting goods, including four ministries that were concerned by how these instruments affected their private-sector constituencies and two ministries that had other administrative or policy interests in the topic. Other issues that have been added to multilateral trade negotiations in recent decades (i.e., services, intellectual property rights, and TBT/SPS matters) or that are now found in some plurilateral or regional agreements (i.e., labor and environmental rules and government procurement) have had two effects on national debates over trade policy. One is that they have brought into the debate virtually all other government agencies, as well as their associated constituencies. The scope of issues that are "on the table" in a trade negotiation or "in the dock" in a trade dispute has expanded to the point where almost no one can afford to remain entirely aloof from the policymaking process.

Another consequence of the expanding scope of issues is that the level of intensity of trade debates has changed. Back when tariffs were almost the only issue that trade policymakers needed to deal with, debates over trade policy had all the passion of a budget report. Now that negotiations and disputes deal with such diverse matters as development and social policy, as well as environmental protection and human rights, deliberations both within government and in civil society can become more heated and high-profile.

These considerations speak to several of the topics dealt with in this revised DTIS. Chief among them are how the country will design its system for trade policymaking. Mozambique, and indeed every country in the world, needs to make three decisions regarding the organization of its trade policymaking functions. First, which ministry or other agency will take the lead in trade policymaking? Second, what kinds of mechanisms will be created for consultations between that ministry, other governmental bodies (both in the executive and the legislative branches), and the private sector? Third, what additional offices will it create either inside or outside the main trade ministry in order to promote and facilitate trade and investment?

Mozambique is one of several countries that has opted to answer the first question by establishing a separate trade ministry as the lead agency. Several other countries follow this model, with other examples including some very large players in the world of trade (e.g., China, Japan, and Korea) and others that are smaller but for whom trade comprises a large share of the national economy (e.g., Colombia, Ecuador, and Malaysia). There are three other models that countries might choose in the organization of their trade policymaking functions. One is to treat trade policy primarily as a matter of foreign policy, and thus to give control over this issue to the ministry of foreign relations. Countries that have taken this approach include such diverse players as Australia, Brazil, Canada, Jamaica, and Kenya. Other countries fold responsibilities over trade in the economy ministry, as is the practice in such countries as Guatemala, Kazakhstan, Spain, and the United Arab Emirates. Yet a third approach is to establish a dedicated agency other than a ministry *per se* as the lead trade policymaker. The two largest players take this approach, as exemplified by the Directorate General for Trade of the European Commission (which is in charge of implementing the common trade policy of the European Union) and the Office of the U.S. Trade Representative (a specialized agency in the Executive Office of the President of the United States). Other countries that similarly rely upon a dedicated agency include Costa Rica and Peru.

Each one of these approaches has its advantages and its disadvantages, and entails different emphases and trade-offs. Those countries that choose to have either a separate trade ministry or a dedicated agency other than a ministry may be emphasizing the need for expertise and specialization, but do so at some cost to the ministry's influence. While dedicated ministries or agencies aim to create a lead policymaking body that concentrates in one place the expertise over trade policy, and ensures that this subject receives undivided attention, those same bodies typically have less power than do other, higher-profile ministries. That contrast is especially acute when one compares trade ministries (which in many countries are relatively small and under-resourced) with foreign ministries (which in many countries have greater prestige and resources). When trade policymaking is subsumed within the responsibilities of some other ministry, however, the topic may receive less attention from that ministry.

There is thus no "best practice" in the interministerial division of labor over trade policymaking that can be pointed to as a model, at least not on that first question. No matter which agency takes the lead, however, the other two questions remain relevant. Above all else, the widening subject matter of trade makes it essential that a country have in place a well-designed and –executed system for regular consultation and coordination within government and between the public and private sectors. Put another way, trade policymaking depends as much on internal coordination as it does on international negotiations. Moreover, countries need to address not only the removal of barriers to trade and investment, but also the exploitation of the resulting opportunities through trade and investment promotion. These are points that are taken up throughout this revised DTIS, and especially in the discussion of institutional issues in Part III.

C-2. Macroeconomic Context and the Poverty Dimension

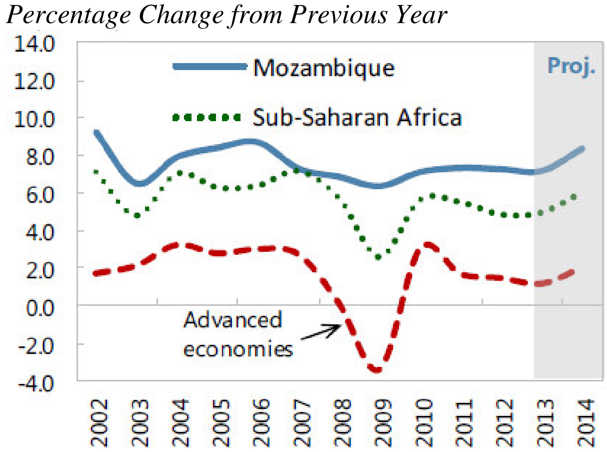
C-2.a. Macroeconomic Trends and Policies

Despite a weak global economic environment, Mozambique's economy has registered impressive real GDP growth. This is the strongest evidence of the country's potential for eventual graduation from LDC status, provided that the recent spurt of growth can be sustained and its benefits shared. The rate averaged 7.3% over the period 2005-2012 (see Figure 1). The main determinants of this remarkable performance include both domestic and international factors, such as sound macroeconomic policies, a significant reduction in the inflation rate, structural reforms, an opening to the global economy, and political stability, as well as rapid export growth spurred by a high volume of foreign direct investment, improved terms of trade, and a huge aid flow. The strong export performance is reflected in the contribution of exports of goods and services to GDP, which rapidly grew from 16% in 2000 to 30% in 2012. At the same time, imports of goods and services also expanded at a fast rate, increasing relative to GDP from 37% to 71%. These trends reflect the growing openness of Mozambican economy and its integration into regional and international markets.

As shown in Figure 2, the real effective exchange rate (REER)[12] has appreciated significantly since 2010, demonstrating not only a stronger balance of payments but also very favorable medium- and long-term prospects for exports and investment in the extractive industries. According to the IMF, the REER is at present relatively close to its equilibrium rate and broadly reflects the country's economic fundamentals. Future developments in the extractive industries may bring about an exchange rate appreciation, however, and thus run some risks for sectors other than natural resources.

Figure 1 : Real GDP

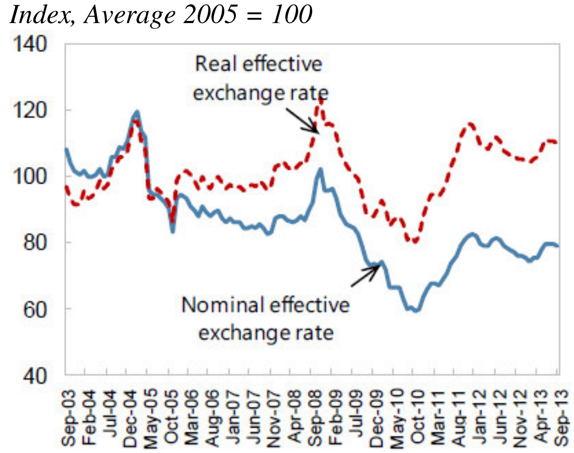
Percentage Change from Previous Year



Source: International Monetary Fund at http://www.imf.org/external/pubs/ft/scr/2014/cr1420.pdf.

Figure 2: Exchange Rates

Index, Average 2005 = 100



Source: International Monetary Fund at http://www.imf.org/external/pubs/ft/scr/2014/cr1420.pdf.

That last point relates to the widespread concern that the country could, if its new-found mineral wealth is not managed properly, succumb to what is called the "Dutch disease." Originally coined in 1977 by *The Economist* to describe the decline of the Dutch manufacturing sector after the discovery of natural gas in that country, this term is now generally used to mean any situation in which the exploitation of natural resources is associated with a decline in the price-competitiveness

[12] An REER is the weighted average of a country's currency relative to an index or basket of other major currencies.

of a country's manufacturing or agricultural sectors. This may result if an increase in revenues from natural resources makes the country's currency stronger compared to that of other countries, resulting in its other exports becoming more expensive and thus rendering its products less competitive on world markets. If Mozambique were to suffer from this economic malady, the apparent blessing of newfound natural resources would instead be, for other sectors of the economy, a curse. Some see the proposal to use revenues from extractive industries for export diversification as an antidote to the Dutch disease. Investing in alternative export sectors can help sustain growth and diversify risk, with a view to maximizing job creation and poverty reduction, so that non-renewable natural resources become more a blessing than a curse.

The services economy represents an important area of activity. In 2012, service activities accounted for a substantial 44.6% of GDP. However, services value-added as a percentage of GDP has been declining, albeit with slight fluctuations. The rate of growth of services value added has not changed substantially over a number of years as it hovered around roughly 7.0% between 2007 and 2012. In 2011, trade in services as a percentage of GDP stood at 17.7%.

C-2.b. <u>Poverty Reduction and Human Development</u>

Despite high rates of growth, Mozambique is still among the poorest countries in the world, with a GDP per capita of US$650 in 2012. By one measure, it is among the poorest of the poor: Mozambique ranked 178th out of 187 countries in the UNDP's 2014 Human Development Index. Following a significant decline in poverty incidence achieved in the late 1990s and early 2000s, poverty reduction appears to have decelerated and more than half of the population still lives below the national poverty line. Income inequality, as measured by a high Gini coefficient (0.41), remains a problem.

Another way of examining the state of poverty in Mozambique is to review the progress it has made towards achieving the Millennium Development Goals (MDGs), as shown in Table 2. Here the picture is somewhat brighter. According to the World Bank, the country can potentially achieve 13 out of the 21 MDG targets by 2015, including those relating to poverty reduction, under-five mortality, maternal mortality, and universal primary education. Gender disparity in primary school enrollment has disappeared. However, this major achievement has been accompanied by a "feminization" of poverty. While women remain in the agricultural and informal sectors, men move to higher paid occupations. Women focus on staple foods to feed their families and thus are less prone than men to grow export crops.

Table 2 : Mozambique's Performance under the Millennium Development Goals

	Latest Single Year			MDG Target
	2000-03	2004-08	2009-11	2015
Primary School Enrollment (net %)	56	89	90	100
Primary School Enrollment (gross %)	84	114	111	
Ratio of Girls to Boys in Primary and Secondary Education (%)	78	87	90	100
Adult Literacy Rate, Total (%)	48	NA	56	
Adult Literacy Rate, Female (%)	33	NA	43	
Under-5 Mortality Rate (per 1,000 live births)	152	119	103	108
Infant Mortality Rate (per 1,000 live births)	103	82	72	67
Life Expectancy at Birth (years)	48	49	50	
Physicians per 1,000 People	0.024	0.026	0.026	
Immunization, DPT (% of children 12-23 months)	76	75	76	
Immunization, Measles (% of children 12-23 months)	77	77	82	
Access to Improved Water Sources (% of population)	44	47	47	70
Access to Sanitation Facilities (% of population)	15	17	18	50

Source: World Bank World Development Indicators, UN Millennium Development Goals

One of the major shortcomings in Mozambique's economic growth has been job creation. With a high population growth rate of 2.8%, the country must accommodate about 300,000 new entrants into the labour market each year. High economic growth rates that are spurred mainly by capital-intensive projects have yet to generate many jobs. The unemployment rate stands at 27%, and the formal economy accounts for only one-third of overall employment.

C-3. Trade Policy and Performance

Mozambique has gradually liberalized its trade regime over the past ten years. In addition to achieving tariff reductions, as discussed below, the country has adopted other trade-related reforms. In 2005, for example, Mozambique revised and improved its legal framework for government procurement, although it appears that in some respects it has not yet achieved internationally recognized standards. Mozambique also improved its intellectual property regime in 2006, harmonizing with the Agreement on Trade-Related Aspects of Intellectual Property Rights. The numerous trade negotiations now underway, as summarized below, offer further opportunities for the adoption of negotiated reforms.

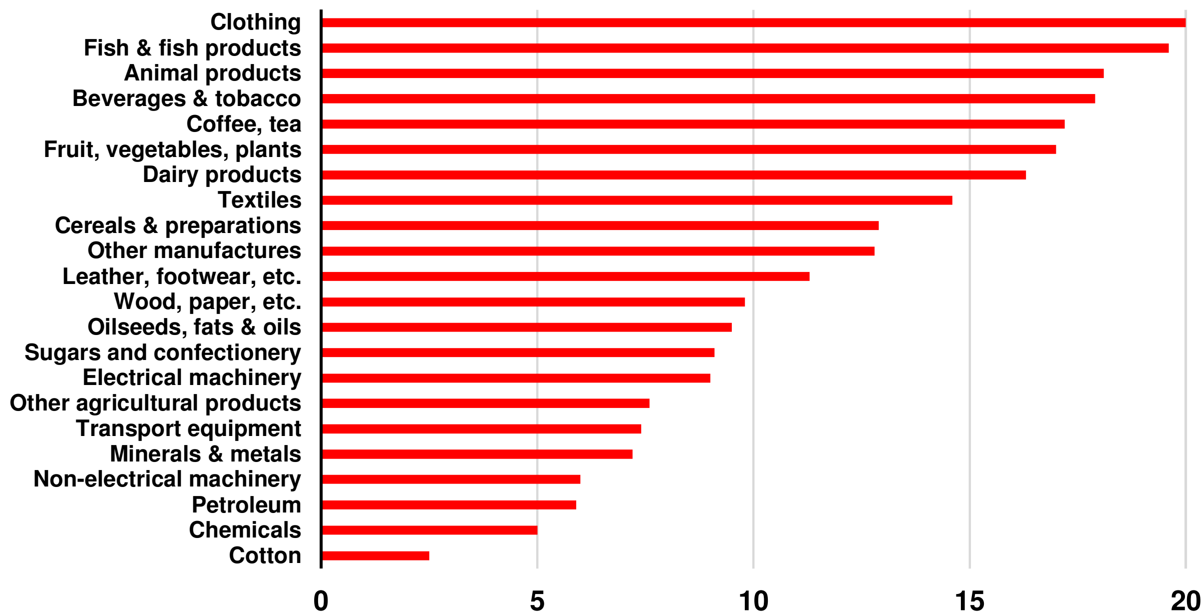
C-3.a. Tariff and Non-Tariff Barriers to Trade

a) Tariff Structure and Trade Agreements

The average MFN applied tariff rate was 10.1% in 2012, compared to 13.8% in 2001. In addition, maximum tariff rates were reduced from 30% to 20% in 2007. This reduction contributed to poverty alleviation, because the maximum rate applies to products such as food, beverages, and clothing, thus amounting to a consumption tax on many items bought by the urban poor.

Taxes and tariffs are used to regulate trade, but the GoM deploys these instruments in a rather scattered pattern. Export taxes are still used to promote processing, as in the case of raw cashew nuts (on which an 18% export tax is imposed), although the effectiveness of this tax is much debated. Mozambique's effective rate of protection, while still offering significant protection, is lower in most sectors than is the case for most of its Southern African neighbors. The data in Figure 3 show that there is a very wide range of applied tariffs on major import items. The difference is greatest between raw cotton (which is not likely to be imported in large quantities) and finished clothing (which is of great importance to domestic consumers). In addition the use of non-tariff barriers appears to be widespread in Mozambique and represents the bulk of the protection as further analyzed below. The overall tariff structure reflects a pattern of escalation that is negative from the raw materials to semi-processed stage. As stressed in the WTO's Trade Policy Review in 2009, this tariff structure —

Figure 3 : Average Applied Tariffs of Mozambique, 2012

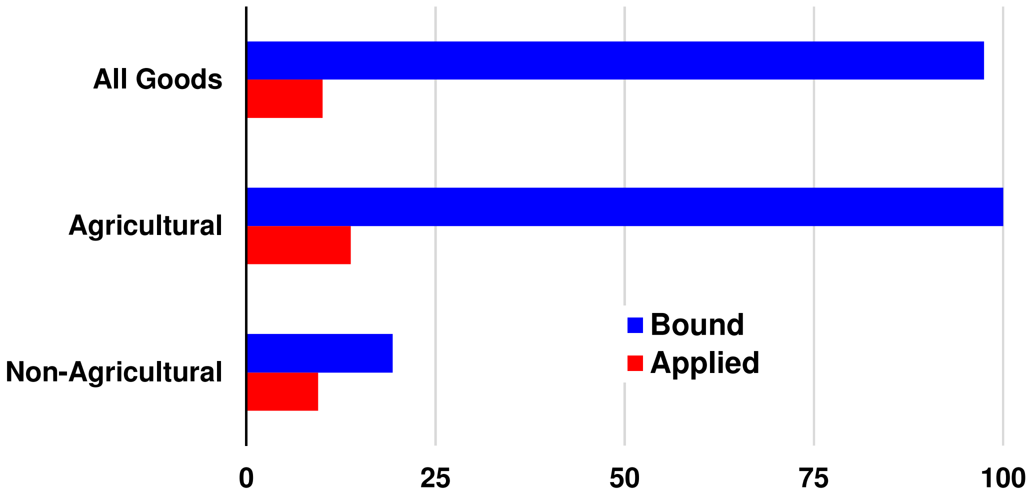


Source: Adapted from WTO data at http://stat.wto.org/TariffProfile/WSDBTariffPFView.aspx?Language=E&Country=MZ.

tends to discourage investment in the processing industries because the heavy taxation of imported inputs adds to production costs or reduces the competitiveness of products manufactured in Mozambique. Thus, the tariff structure may not be conducive to diversification of economic activity through manufacturing. It contributes to investor's arguments for duty and tax concessions, including under the Industrial Free Zone regime.

The data in Figure 4 show that there is a great deal of "water" in Mozambique's tariff commitments in the WTO, meaning that there is substantial distance between its bound rates (i.e., the maximum rates that it is permitted to impose) and its applied rates (i.e., the rates that it actually imposes on imports). This implies that even if Mozambique were to make new commitments in the WTO that reduced its bound rates — something that is unlikely both because of its LDC status and the stall in the Doha Round — the commitments might not require the government to make any changes in the actual applied rates.

Figure 4 : Average Bound and Applied Tariffs of Mozambique, 2012



Source: Adapted from WTO data at http://stat.wto.org/CountryProfiles/MZ_e.htm.

Mozambique is a member state of SADC and has signed a series of bilateral trade agreements. It has enjoyed the longest tariff reduction among all SADC member states (until 2015); it also requested special safeguards, but has thus far not used them. This has led some observers[13] to note that the agreements signed by Mozambique with limited trade liberalization may divert more trade than they create and are burdened by intricate rules of origin limiting market access.

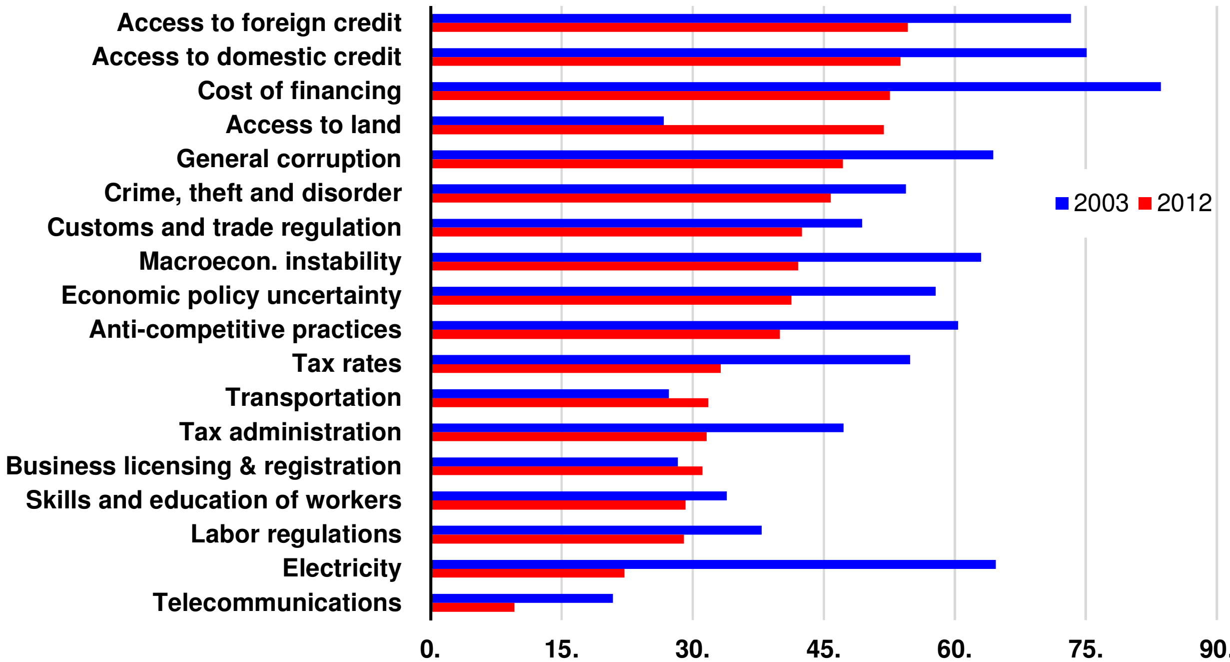
b) Non-Tariff Barriers

While tariff barriers are lower now than they were in the past, several non-tariff barriers remain in place. There is somewhat mixed evidence, however, on the extent to which these measures constrain trade.

When viewed in the larger context of the country's policies and resources, trade restrictions tend to rank somewhat low on the list of irritants. As can be seen from the data illustrated in Figure 5, firms in Mozambique — which are more often importers than exporters — place customs and trade regulations only in the middle rank of the constraints that they face, being more of a concern than utilities and labor regulations but not as great a problem as access to land and credit. The same might be said when looking outward at the barriers that Mozambique's exporters face in their access to foreign markets. While one may still find examples of tariff and non-tariff barriers that hinder these exports, markets today are much more open than they were a generation ago. Whether on a preferential or a non-preferential basis, Mozambique faces few real barriers to most major markets.

[13] World Bank (2012); A. Alfieri *et al*., *Estimating the Impact on Mozambique of Different Trade Policy Regimes*, 2006.

Figure 5 : Share of Mozambican Manufacturing Firms Perceiving Factors as Constraints, 2003 and 2012



Source: Table 3.9 of the National Directorate of Studies and Policy Analysis, Ministry of Planning and Development, Inquérito as Indústrias Manufactureiras 2012.

Traders in Mozambique and in partner countries nonetheless register a number of complaints regarding those Mozambican non-tariff measures that remain in place. This point can be appreciated from the data in Table 3, which summarize the complaints lodged against Mozambique in the Mechanism for Reporting, Monitoring & Eliminating Non-Tariff Barriers that is maintained by the Regional Economic Communities. The data show that 53 complaints were made against Mozambique from 2009 through the first ten months of 2014. These complaints fell into 21 separate categories, but the top five among them accounted for just over half of all complaints. The single largest cause for complaint was lengthy and costly customs clearance procedures (nine complaints), followed by five complaints each for arbitrariness and inadequate trade related infrastructure. Nearly all of the complaints made prior to 2013 have been resolved; as of this writing, five remain unresolved.

Consultations in Tete and Niassa with the local Conselho Empresarial Provincial (CPE) confirmed that bureaucracy and corruption are major constraints to domestic investment. Respondents also pointed to other problems, including poor infrastructure, unfair competition, lack of information, and high costs of air and surface transportation.

Other data suggest that Mozambique has achieved further progress in its reduction of trade barriers. For example, the country compares favorably with its regional neighbors in the openness of its regulatory regime for services, at least as measured by the World Bank's Services Trade Restrictiveness Index (STRI). Its overall index for all sectors and modes of supply stood at 18.6 on a scale ranging from 0 (totally open) to 100 (totally closed), which is below the global average of 28.3. From a sectoral perspective, the most stringent restrictions are evident in the telecommunications sub-sectors, followed by international air passenger transportation services.

Table 3 : Complaints Lodged against Mozambique Regarding Non-Tariff Barriers, 2009-2014

	2009	2010	2011	2012	2013	2014	Tot	% Resolved
Lengthy and Costly Customs Clearance Procedures	■■■		■■■■		■■		9	100.0%
Arbitrariness		■■	■		■■		5	100.0%
Inadequate Trade Related Infrastructure	■■■■	■					5	100.0%
Costly Road User Charges/Fees	■				■■□		4	75.0%
Issues Related to Transit				■	■□	□	4	50.0%
Arbitrary Customs Classification			■■				2	100.0%
Consular and Immigration Issues	■		■				2	100.0%
Costly Procedures			■■				2	100.0%
Government Policy and Regulations				■		■	2	100.0%
Inadequate or Unreasonable Customs Procedures and Charges	■		■				2	100.0%
Issues Related to Pre-Shipment Inspections	■■						2	100.0%
Issues Related to the Rules of Origin	■	■					2	100.0%
Lack of Information on Procedures (or Changes Thereof)	■	■					2	100.0%
Vehicle Standards			□		□		2	0.0%
Risk of Robbery and Theft along the Way	■■						2	100.0%
Additional Taxes and Other Charges					■		1	100.0%
Administrative Fees					■		1	100.0%
Inadequate or Unreasonable Testing and Certification Arrangements	■						1	100.0%
International Taxes and Charges Levied on Imports and Other Tariff Measures	■						1	100.0%
Issues Related to Transit Fees					■		1	100.0%
Transport-Related Corruption				■			1	100.0%
Total	18	5	12	3	13	2	53	90.6%

■ = Complaint that has been resolved.
□ = Complaint that was not yet resolved as of December, 2014.
Source: Calculated from data at http://www.tradebarriers.org/.

C-3.b. Trade Performance

The contribution that exports of goods and services make to GDP has grown rapidly, nearly doubling from 16.5% in 2000 to 29% in 2011. At the same time, imports of goods and services also expanded at a fast rate, although at a slightly slower pace than exports, increasing their share of GDP from 37% to 60%. These trends show the growing openness of Mozambican economy and its integration in regional and international markets. By 2011 the current account deficit (before grants) had risen to 32% of GDP, being financed largely by stagnant aid flows and fast-growing FDI inflows, amounting to almost $3 billion.

Mozambique's imports, as can be seen from the data in Table 4, are more heavily weighted towards fuels, capital goods, and inputs used by manufacturers than they are towards consumer goods. Taken together, imports of electricity plus petroleum and derivatives accounted for 23.3% of all imports in 2012. Goods for the aluminum industry were also prominent in the import bill. Related products also figure prominently in Mozambique's exports, as can be seen from the data in Table 5. Energy products comprised 27.8% of exports, and aluminum provided another 31.4%.

Since 2008 the average annual growth rate of Mozambique's exports to SADC (19%) has increased by more than the growth rate of its total exports (15%). SADC currently accounts for a third of Mozambique's total exports, up from just 17% in the early 2000s. However, the SADC FTA has not significantly changed Mozambique's main exported products to SADC, which remain largely driven by energy and mineral-related products. The sum of the top five products exported to SADC constitute 74% of total exports. While prior to the entrance into force of the FTA Mozambique was also exporting some agricultural goods, during the period 2008-2012 its exports were concentrated in mineral fuels and related materials.

Mozambique continues to export nearly half of its merchandise goods to the European Union. Merchandise exports to the major emerging markets commonly known as the BRICS (i.e., Brazil, Russia, India, China, and South Africa) have more than doubled between 2000-2001 and 2011-2012, going from 5% to 10.3% respectively. Primary commodities, excluding fuels, represent 90% of Mozambique's merchandise exports to the BRICS. Imports of manufactured products still originate primarily from developed countries, especially the European Union, but they are facing a serious competition from products originating from developing Asian economies. Manufactured imports from China have increased by 10 percentage points between 2000 and 2012. This diversification of import markets is a positive development when it leads to a fall in the overall import bill.

Table 4 : Mozambique's Top 25 Imports, 2012

HS Code	Description	Average Tariff	Value ($1000s)	% of Total Imports	Principal Supplier	Supplier's Share
2710.19	Petroleum oils	6.2	884,975	14.34	Bahrain	34.7
2716.00	Electrical energy	0.0	306,310	4.96	South Africa	99.6
7601.10	Aluminum unwrought, not alloyed	2.5	295,300	4.79	European Union	100.0
7604.10	Bars, rods & profiles, aluminum, not alloyed	7.5	266,406	4.32	European Union	99.7
2710.11	Light petroleum oils & preparations	5.7	249,445	4.04	European Union	33.2
2301.10	Flours etc. of meat unfit for humans	7.5	233,354	3.78	Brazil	99.7
7315.12	Chain, articulated link, iron or steel	7.5	214,527	3.48	South Africa	99.9
8704.21	Diesel powered trucks	5.0	130,162	2.11	South Africa	62.6
1001.90	Spelt, common wheat & meslin	2.5	103,328	1.67	Australia	28.4
1006.30	Semi-milled or wholly milled rice	7.5	93,413	1.51	Thailand	53.4
8479.89	Machines & mechanical appliances	5.0	92,176	1.49	USA	94.5
8431.43	Parts of boring or sinking machinery	5.0	77,407	1.25	European Union	88.3
4203.29	Protective gloves, mittens & mitts, leather	20.0	70,872	1.15	South Africa	99.9
8474.20	Crushing/grinding machines for minerals	5.0	61,846	1.00	South Africa	99.7
8704.10	Dump trucks designed for off-highway use	5.0	56,349	0.91	USA	54.4
8417.90	Parts of industrial/laboratory furnaces & ovens	5.0	48,752	0.79	South Africa	99.0
0303.79	Frozen fish (excl. livers & roes)	10.0	45,551	0.74	Namibia	55.8
3302.10	Mixtures for the food or drink industries	7.5	45,378	0.74	Zimbabwe	64.1
3004.90	Other medicaments for retail sale	0.0	41,108	0.67	India	54.1
8704.22	Diesel powered trucks	5.0	39,472	0.64	Japan	34.6
7308.90	Structures of iron or steel	7.5	37,805	0.61	South Africa	49.8
6309.00	Worn clothing & other worn articles	20.0	36,728	0.60	European Union	22.8
7210.49	Flat rolled products of iron/non-alloy steel	7.5	34,993	0.57	China	64.1
8429.59	Self-propelled excavating machinery	5.0	34,040	0.55	European Union	48.8
8708.99	Motor vehicle parts	7.5	33,878	0.55	South Africa	52.6
	Subtotal		**3,533,575**	**57.27**		
	All Other		**2,636,918**	**42.73**		
	Total		**6,170,493**	**100.00**	**South Africa**	**31.4**

Source: UNCTAD

Table 5 : Mozambique's Top 25 Exports, 2012

HS Code	Description	Value ($1000s)	% of Total Exports	Principal Partner	Partner's Share
7604.10	Aluminum bars, rods & profiles	1,088,629	31.39	European Union	92.3
2704.00	Coke & semi-coke of coal	435,233	12.55	China	100.0
2716.00	Electrical energy	233,409	6.73	South Africa	84.2
2401.20	Tobacco	219,079	6.32	European Union	63.0
2614.00	Titanium ores & concentrates	211,500	6.10	China	20.0
2711.11	Natural gas, liquefied	175,057	5.05	South Africa	100.0
1701.11	Raw cane sugar, in solid form	146,101	4.21	European Union	100.0
3802.90	Activated natural mineral products	111,060	3.20	India	39.7
9015.90	Parts & access. for surveying devices	100,984	2.91	South Africa	91.1
2711.21	Natural gas in gaseous state	73,100	2.11	South Africa	100.0
2710.19	Petroleum oils	46,860	1.35	Malawi	23.5
5203.00	Cotton, carded or combed	38,324	1.11	China	30.9
8905.90	Floating docks & vessels	36,979	1.07	Norway	62.3
4403.49	Tropical wood in the rough	31,273	0.90	China	100.0
1101.00	Wheat or meslin flour	31,206	0.90	Zimbabwe	99.1
8904.00	Tugs & pusher craft	30,201	0.87	South Africa	100.0
4407.99	Wood, sawn or chipped lengthwise	29,650	0.85	China	96.6
2615.10	Zirconium ores & concentrates	25,985	0.75	European Union	20.3
0803.00	Bananas, including plantains	23,791	0.69	South Africa	62.0
4407.10	Coniferous wood sawn or chipped	21,194	0.61	China	98.8
8431.43	Parts of boring or sinking machinery	19,938	0.57	Angola	87.0
4403.99	Wood, in the rough	19,888	0.57	China	99.5
2302.30	Brans & other residues of wheat	19,850	0.57	Swaziland	66.9
8436.10	Machinery to prepare animal feed	19,136	0.55	China	100.0
0306.13	Frozen shrimps & prawns	17,411	0.50	European Union	43.7
	Subtotal	**3,205,838**	**92.44**		
	All Other	**262,148**	**7.56**		
	Total	**3,467,986**	**100.00**	**European Union**	**40.5**

Source: UNCTAD.

Table 6 : Mozambique's Balance of Trade in Services, 2011

Millions of Current U.S. Dollars

	Exports	Imports	Balance
Transport	218.2	568.4	-350.2
Tourism	231.1	222.6	8.5
Other Services:	266.7	719.2	-452.5
Other Business Services	*109.4*	*321.5*	*-212.1*
Telecommunication, Computer & Information Services	*42.0*	*63.3*	*-21.4*
Construction Services	*16.7*	*254.8*	*-238.1*
Insurance and Pension Services	*6.0*	*13.3*	*-7.3*
Financial Services	*4.7*	*12.8*	*-8.1*
Personal, Cultural, and Recreational Services	*4.1*	*5.5*	*-1.5*
Total	**716.0**	**1,510.2**	**-794.1**

Source: World Bank, World Development Indicators.
Note that figures may not precisely due to rounding.

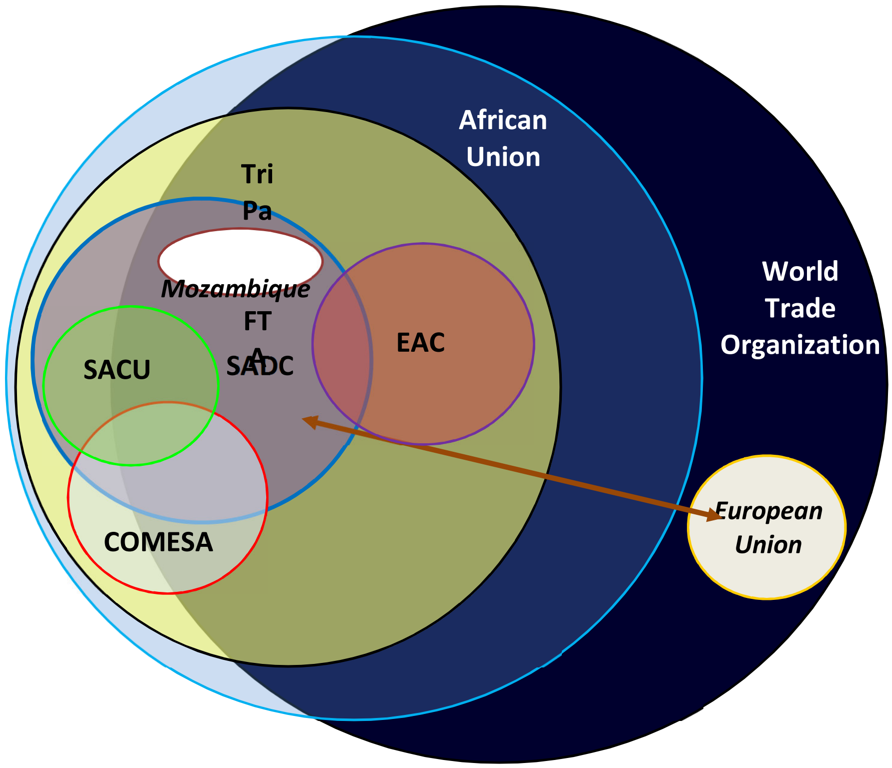
C-3.c. Trade Negotiations

Mozambique is now engaged in a wide array of trade negotiations. As can be seen from the illustration in Figure 6, the different trade arrangements might be understood as ever-wider (but not purely concentric) groupings of countries, such that the membership of the African Union (AU) is a subset of the overall membership of the WTO, and the AU membership is, in turn, divided into a series of sub-regional groupings. These various sub-regional, regional, and global initiatives are best seen not as competing but as complementary undertakings. The circles are not precisely nested one within another, however, due to the fact that WTO membership is not yet universal[14] and some countries are members of more than one group. The principal group in which Mozambique is a member — the Southern African Development Community (SADC) — is further complicated by the fact that a subset of its members are in the Southern African Customs Union (SACU).[15] Initiatives now underway in each of these groups aim to further the economic integration of their members, albeit with different degrees of effort and with distinct timetables:

[14] AU members that are still in the process of accession to the WTO include Algeria, Comoros, Equatorial Guinea, Ethiopia, Liberia, Libya, São Tomé and Príncipe, Seychelles, and Sudan. Note that the accession process for Seychelles is, as of this writing, expected to be completed shortly. Eritrea, Somalia, South Sudan, and Western Sahara are the only AU members that are neither members of the WTO nor currently in the process of accession.

[15] The five members of SACU are Botswana, Lesotho, Namibia, South Africa and Swaziland. The other members of SADC, in addition to Mozambique, are Angola, the Democratic Republic of the Congo, Madagascar, Malawi, Mauritius, Seychelles, Tanzania, Zambia, and Zimbabwe.

Figure 6 : Current and Prospective Trade Arrangements of Mozambique



- The SADC Regional Indicative Strategic Development Plan outlined a series of milestones to be achieved within the context of the SADC Common Agenda, notably:
    - A free trade area by 2008,
    - A customs union with common external tariffs for the free trade area by 2010, and
    - A common market with common policies on production regulation by 2015.
- However there has not been significant progress to date to establish a customs union, nor a common market. The region is not unique in this respect; in many part of the developing world and in Africa it has often been the case that the speed with which regional integration has been achieved as an economic fact has not matched the rapidity of leaders' commitment to this ideal.
- Negotiations among the EU and the SADC EPA Group were concluded on 15 July 2014 comprising Botswana, Lesotho, Mozambique, Namibia, South Africa and Swaziland. Angola has an option to join later. This EPA would provide a more permanent and legally enforceable basis for Mozambican access to the EU market than the Everything But Arms (EBA) program for LDC, and would also require that Mozambique make substantial market-opening commitments to the European Union.
- Within Africa, the Tripartite Free Trade Area (TFTA) is a regional initiative that seeks to integrate the three Regional Economic Communities of SADC, the Common Market for

Eastern and Southern Africa (COMESA),[16] and the East African Community (EAC).[17] The TFTA is currently under negotiation and Mozambique has yet to present a tariff offers as many other TFTA member states.

- Mozambique and a group of its neighbors are also engaged in the Accelerated Program for Economic Integration (APEI), an initiative that offers an opportunity to accelerate the implementation of reforms. Launched in the Seychelles in September, 2012, this is an undertaking by which five governments (also including Malawi, Mauritius, and Zambia) commit to implement a set of policy reforms that will improve their business regulatory environments. By joining this subgroup of COMESA and SADC members,[18] Mozambique clearly signaled that it is among the countries that wish to speed up the pace of integration in their current regional groupings. Building on the principles of "variable speed" and "variable geometry" that were agreed in these regional groupings in 2012, the five countries that comprise the APEI teamed up to implement the reform agenda more rapidly. They aim to do so by improving the business regulatory environment, eliminating barriers to trade in goods, promoting trade in services, and engaging in capacity-building through peer-to-peer learning. The APEI also permits donors to prioritize reforms for those countries that have taken a more forward position in the regional reform process. Among other important steps, Mozambique has been able to implement approval of the EMAN II and the Competition Law, and set up a website on international trade and an integrated platform for enterprise licensing.
- The longest-term project in the region is the AU's goal of establishing an African Economic Community with a single currency by 2023, which would combine into one initiative a free trade area, a customs union, a single market, a central bank, and a common currency.
- Within the WTO as a whole, the Bali Ministerial injected new impetus to the Doha Round of multilateral trade negotiations, and the trade facilitation agreement together with other Ministerial Decisions in favor to LDCs marked some progress. It is nevertheless unclear at the time of this writing whether, when, and on what terms the overall Doha Round negotiations may ultimately be reinvigorated, and whether the results may affect LDCs directly or (more likely) indirectly by way of reductions in the margins of preference that they presently enjoy.

The trade negotiations in which Mozambique is now engaged may lead both to a further integration of the economy and to a more efficient deployment of resources. One recent analysis examined the impact that the TFTA might have on the participating countries. It projected that Mozambique could enjoy a moderate aggregate net welfare gain (+0.21%) under a scenario in which all intra-TFTA tariffs are eliminated, and a stronger gain (+2.19%) under a scenario in which all intra-TFTA tariffs are eliminated and there is real transport/transaction cost reduction on intra-TFTA flows. The study found that the strongest sectoral impact would be for sugar products, with other countries' tariff cuts leading to a 60% increase in Mozambican sugar product exports and a 37% increase in Mozambican sugar production. Mozambique's exports of other manufactures would also enjoy a strong boost under this scenario (+18%), and domestic production in this sector would expand significantly (+7%). The report suggested that in order to offset the reduction in tariff revenue the

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[16] Mozambique is a former member of COMESA, which it left in 1997. Included among the current members of COMESA are eight of Mozambique's fellow SADC members (i.e., Democratic Republic of the Congo, Madagascar, Malawi, Mauritius, Seychelles, Swaziland, Zambia, and Zimbabwe), as well as twelve other countries (i.e., Djibouti, Eritrea, Ethiopia, Egypt, Libya, Sudan, Comoros, Burundi, Kenya, Rwanda, Uganda, South Sudan).

[17] The members of the EAC are Burundi, Kenya, Rwanda, Tanzania, and Uganda.

[18] Mozambique is the only one of these five countries that is a member of SADC but not COMESA; the other four are in both groups.

GoM might enact an increase in the effective income (or value-added) tax rate by 0.36 percentage points, or increase effective household consumption taxes by 0.45 percentage points.[19]

The effective functioning of regional trade arrangements (RTAs) such as the SADC trade protocol and the TFTA is a key determinant of whether Mozambique can improve its position as a regional hub. The SADC trade protocol, which at present is the only RTA effectively in force, has achieved only modest results in effectively liberalizing trade[20] even in the simplest form of border protection as tariffs. Malawi has a quite slow implementation level of SADC tariff commitments,[21] and some countries like Zimbabwe[22] and Tanzania[23] are claiming economic difficulties in order to reinstate tariffs in SADC interregional trade. Even the remaining tariff reduction implemented by other SADC member states may not have been applied at time of customs clearance due to the stringent rules of origin applicable under the SADC trade protocol.[24]

Table 7 : Utilization Rates of SADC Trade Protocol in Mozambique, 2010-2012

Origem	2010			2011			2012		
	Valor CIF	CIF Preferencial	CIF PREF/VALOR CIF	Valor CIF)	CIF Preferencial (b)	CIF PREF/VALOR CIF	Valor CIF (a)	CIF Preferencial (b)	CIF PREF/VALOR CIF
AFRICA DO SUL	36443,27	11864,753	*32,56%*	42.765,81	14.403,19	*33,68%*	38.446,98	16.360,02	*42,55%*
ANGOLA	25,32		*0,00%*	246,02	-	*0,00%*	124,06	-	*0,00%*
BOTSWANA	24,25	8,97	*37,01%*	50,85	6,51	*12,81%*	70,01	5,04	*7,19%*
LESOTHO	1,28	1,19	*92,98%*	0,04	-	*0,00%*	2,42	2,40	*99,36%*
MADAGASCAR	3,30	3,30	*99,98%*	1,11	-	*0,00%*	11,52	11,01	*95,62%*
MALAWI	274,30	102,54	*37,38%*	243,04	154,01	*63,37%*	397,19	113,17	*28,49%*
MAURÍCIAS	1.896,46	17,63	*0,93%*	526,84	15,14	*2,87%*	424,78	15,34	*3,61%*
NAMÍBIA	673,81	72,46	*10,75%*	824,43	45,33	*5,50%*	1.201,35	124,98	*10,40%*
RDC	2,75	-	*0,00%*	1,86	-	*0,00%*	10,19	-	*0,00%*
SEICHELES	24,20	-	*0,00%*	11,60	-	*0,00%*	4,57	-	*0,00%*
SWAZILANDIA	624,94	333,00	*53,29%*	480,86	187,22	*38,93%*	929,02	460,70	*49,59%*
TANZANIA	636,27	54,51	*8,57%*	459,69	72,01	*15,67%*	497,43	78,29	*15,74%*
ZAMBIA	62,88	22,24	*35,37%*	200,05	125,28	*62,63%*	420,33	175,80	*41,83%*
ZIMBABWE	332,69	173,90	*52,27%*	483,94	341,80	*70,63%*	524,91	322,97	*61,53%*
Total	**41.025,71**	**12.654,50**	***30,85%***	**46.296,12**	**15350,50**	***33,16%***	**43.064,75**	**17.669,71**	***41,03%***

According to the latest reports[25] TFTA Member states agreed to limit their tariff offers to 60-85% of their tariff lines and the remaining tariff lines will be phased out along the implementation period. On rules of origin, while the original approach contained in the Draft TFTA text was valid in terms of liberalization reports from the negotiations suggests that the TFTA countries have embarked on a parallel route. This route consists in comparing the product specific rules of origin (PSROs) to

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[19] Dirk Willenbockel, "General Equilibrium Analysis of the COMESA-EAC-SADC Tripartite FTA" (2013), page 54.

[20] See "Implementation of the SADC Trade Protocol and the Intra-SADC Trade Performance "TIPS,2008 available at http://www.tips.org.za/publication/implementation-sadc-trade-protocol-and-intra-sadc-trade-performance and the 2011 SADC Audit available at

https://tis.sadc.int/files/2513/3095/9663/CMT-23-7.4_2011_SADC_Trade_Audit_Final_-_Nov_2011.pdf.

[21] The SADC audit of 2011 indicated that "*While Malawi has phased down some SADC duties throughout the course of the last year, as of April 2011, Malawi was still at 2004/2005 tariff reduction levels.*"

[22] See press reports at http://www.herald.co.zw/zim-to-review-trade-pact-with-sa/

[23] See SADC audit mentioned above.

[24] See for instance Rules of Origin and SADC: The Case for Change in the Mid Term Review of the trade protocol World bank 2005 and Inama " Rules of origin international trade" Cambridge University press ,2009

[25] See the Trademark Southern Africa website for reports available at http://www.trademarksa.org/.

identify where the COMESA/EAC/SADC have similar PSROs. Such an exercise may result in long negotiations with an uncertain outcome. The current architecture of the TFTA agreement and the results so far achieved are not encouraging, taking into account that the TFTA launched at the 2008 COMESA/EAC/SADC Summit was expected to be already completed at this time of writing. The ambitions of the TFTA at that Summit encompassed not only tariffs and rules of origin but also trade in services and movement of persons.

Mozambique is at risk of becoming mired in a slow-moving TFTA negotiating process that ends in an agreement of limited value. This could lead to a situation in which, once the EU-SADC EPAs is successfully implemented, Mozambique may begin tariff dismantling towards the European Union before initiating such a process under the TFTA. While it is clear that the outcome of the TFTA negotiations does not solely depend on Mozambique's negotiating position, some observers believe that Mozambique could adopt a more constructive approach by presenting a tariff offer and support the adoption of lenient rules of origin to the TFTA and to the SADC-EPA process. A more positive engagement of Mozambique in these negotiations would also be in line with the proactive commitment that Mozambique has shown in the Accelerated Program of Economic Integration and will signal a policy shift to other LDCs of the region triggering a move towards deeper and meaningful regional trade integration.

As an LDC, Mozambique receives certain benefits in the trading system. These include duty-free, quota-free (DFQF) access to the markets of the industrialized countries, but the benefits of this status can appear larger than they really are. Many of the goods that Mozambique exports are primary products that would be subject to zero duty in most markets even if the country received no preferences at all. Moreover, even if Mozambique were to be graduated out of LDC status it could retain preferential access to most markets by way of trade agreements and other programs. Mozambique's access to SADC is based on reciprocity rather than preferences, and the same will be true for its access to the EU market if and when the EPA with that partner comes into effect. Similarly, Mozambique's access to the U.S. market under the African Growth and Opportunity Act (AGOA) is not dependent on LDC status, as the range of countries that are designated as "least developed" under AGOA is broader than the LDC group. In short, there may be few or no Mozambican exports for which tariff treatment would worsen in the event that it were formally to join the ranks of the middle-income countries.

C-4. The Competitiveness of Mozambique as a Regional Transportation Hub

Mozambique benefits from a favorable geographic placement that can be exploited to the benefit both of itself and its region by building upon its existing role as a regional transit hub. It is strategically situated at the crossroads between South-Eastern Africa and the fast-developing, emerging markets in South and South-East Asia. It handles 70% of goods transit in SADC, with logistical corridors linking the coastal ports with the four neighboring, land-locked countries. Regional integration, coupled with preferential access to major markets on other continents, greatly expand the potential market for Mozambican goods and services, while also making the country more attractive to foreign investors.

The permanent advantage of its geographic position needs to be complemented by efficient procedures and needed investments in the establishment and maintenance of infrastructure. Those steps must also be complemented by improvements in the institutional capacity of public officials, especially with respect to corruption.

Development of the transportation hubs will inevitably be difficult and expensive. The country's shortcomings are suggested by the fact that Mozambique ranked 147th out of 160 countries in the Logistics Performance Index.[26] "Addressing Mozambique's public infrastructure needs," according to a World Bank study, "will require sustained spending of more than $1.7 billion per year within the next decade, or the equivalent of 26 percent of the gross domestic product."[27] That would represent a substantial increase over the approximately 10% of GDP that the country spent on this function in the late 2000s. It is now needed to remedy what the authors deem "the starkest" of Mozambique's critical infrastructure challenges, which they assess in the following terms:

> While some of the transport corridors are mostly functional in providing regional connectivity and connecting mining and key production centers to ports, Mozambique's connectivity among urban and economic clusters is quite limited, lacking linkages that connect parallel corridors to each other. With the exception of the recently finalized north-south National Road N1, the country has no (or has very limited) connection among the several west-east corridors, and developing full connectivity would require sustained and enormous investments over decades, with the likely participation of the private sector and nontraditional financiers. Additionally, rural population accessibility to domestic (and eventually international) markets is an enormous challenge, and lags behind what is observed in the region. Finally, maintaining the rapidly expanding road and rail network is an enormous hurdle to overcome, institutionally and financially, as the size of the network seems to overshadow the capacity of the country to provide funds for its maintenance.[28]

Despite these shortcomings in its infrastructure, Mozambique still has advantages as a transport hub. As can be seen from the data summarized in Figure 7 and Figure 8, which are based on the World Bank's *Doing Business* series, it is both cheaper and faster to move goods into and out of Mozambique than it is, on average, in other SADC countries. Mozambique and its neighbors have improved their performance on both of these measures over the past decade, a point that underlines both the value of what has been achieved thus far and the importance of maintaining the pace of progress.

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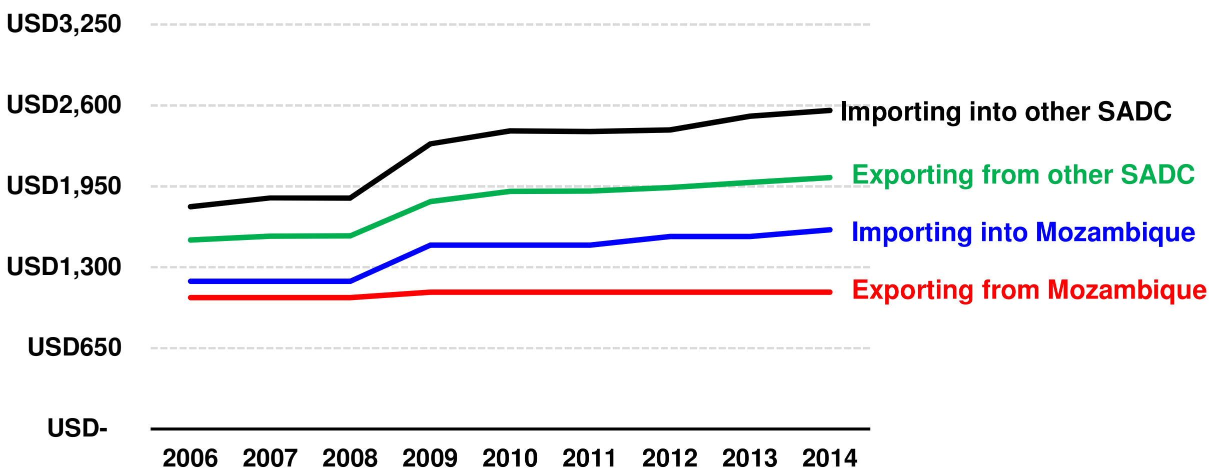
[26] http://lpi.worldbank.org/international/scorecard/radar/254/C/MOZ/2014#chartarea.

[27] Carolina Dominguez-Torres and Cecilia Briceño-Garmendia, *Mozambique's Infrastructure: A Continental Perspective* (Washington, D.C.: World Bank, 2011), p. 2.

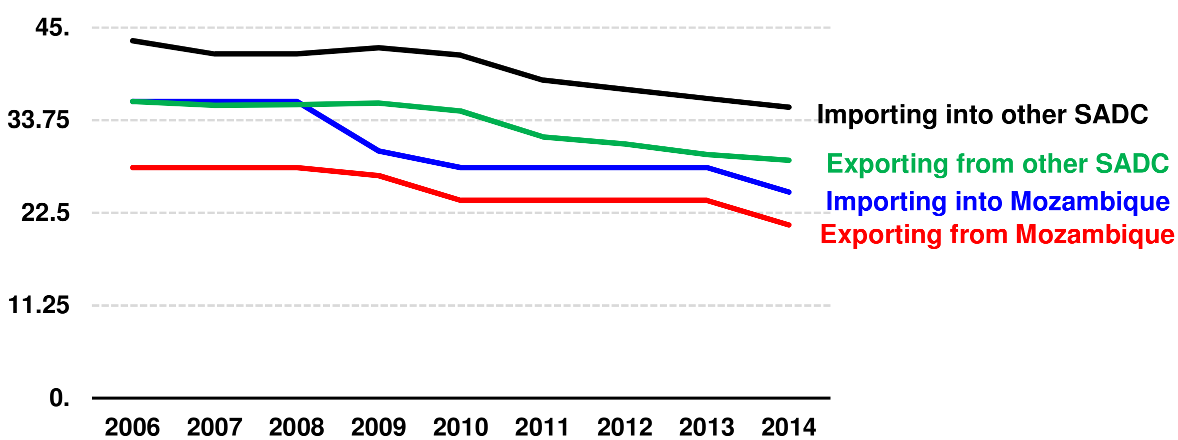
[28] *Ibid*., p.1.

Figure 7 : Average Cost to Move Containers in Mozambique and Other SADC Members, 2006-2014



Source: Calculated from World Bank data.

Figure 8 : Average Number of Days to Trade with Mozambique and Other SADC Members, 2006-2014



Source: Calculated from World Bank data.

C-5. Implementation of the Action Matrix 2004 and Lessons Learned

C-5.a. <u>Phases in the Implementation of the Action Matrix</u>

The impact of DTIS 2004 on Mozambique's formulation of trade policy and practices, and on the associated response of development partners, is characterized by two different phases.

In a first phase (2005-2008) the influence of that study was very strong, in that trade issues were integrated into national policy. The PARPA II (Poverty Reduction Plan, 2006-2009) incorporated many of the key recommendations of the DTIS and focused on trade-related matters much more than PARPA I. These includes among others, improvement of business climate, support private sector participation in economic development, improved statistical information, building skills and competences of labor force and definition of trade policy.

Similarly, the as-yet unimplemented National Industrial Policy (2007-2011)[29] called for deeper integration into regional and global markets and increased participation in regional and global value chains as well as sectoral strategies and regulatory reforms to achieve such integration. The achievements in terms of trade mainstreaming that were obtained in the first phase may be attributed not only to GoM attention to trade integration issues but also to the donor community's preparation of the DTIS and its dialogue with the GoM. This technical assistance initiative led to the Trade and Investment Programme, 2005-2010 (TIPMOZ), which *inter alia* promoted trade and economic policy reform.

In the second phase (2009-2012) trade mainstreaming lost momentum. Trade concerns in the latest Poverty Reduction Action Plan (PARP) 2011-2014 are not as evident as they were in the predecessor plan. In the newer document, trade issues are only mentioned in the context of trade facilitation and do not appear in the crucial chapter devoted to employment generation. In addition, the initialing of an interim Economic Partnership Agreement with the European Union in June, 2009 has not been preceded by a broad and intense dialogue by MIC with other ministries or with the private sector.[30] Furthermore, the more recent National Export Strategy (NES), 2012-2017 is not directly linked to Mozambique's National Development Strategy and to regional trade agreements.

A new phase started in 2012 with the progressive establishment of the National Implementation Unit (NIU) and the resumption of the National Steering Committee.

C-5.b. Assessment of Actions Implemented and Lessons Learned

The assessment is based on the subjective analysis of objectives and actions under the 2004 DTIS action matrix. A stakeholder consultation process was carried out to gather perceptions on the extent objectives and actions were realized; where perceptions could not be directly gathered from stakeholders, the team of consultants made the assessment based on their knowledge from reviewed secondary data. It worth pointing out that only seven window 2 projects were implemented under the Integrated Framework (IF) whereas the remaining were largely implemented through government sectoral policies and programs. Under this section we present separately the general assessment of the entire 2004 matrix based on views gathered from stakeholders and a consultant's assessment and the assessment of seven window 2 projects based on review carried out with the support EIF Donor Facilitator in Mozambique.

Although the assessment provided under Table 8 is based on perceptions gathered from different stakeholders, it does provide a broader insight into the extent the 2004 DTIS objectives and actions were realized. Of a total of 61 actions in the matrix, only 16.3% are viewed as fully realized; 6.5% as not implemented at all and 77% as implemented but are yet to produce intended outcomes.

Some lessons may be learned from the seven window 2 projects of the Integrated Framework (IF). The essential characteristics of these projects are summarized in Table 9. The implementation had many gaps, because important issues were left out such as sustainability, monitoring, and evaluation. The projects nonetheless helped increase the capacity of administrative and programmatic management of each of those sectors and in general for both the public and private sectors. The IF contributed insofar as trade is not seen as just a subject of the MIC but a shared responsibility of all sectors.

[29] Progress made and challenges facing Industrial Policy implementation are fairly documented in M. Krause and F. Kauffman, *Industrial Policy in Mozambique* (Discussion paper 10/2011: German Development Institute, 2011).

[30] M. Condon and M. Stern (2010), *German Aid for Trade: Past Experience, Lessons Learnt and the Way Forward - Country Case Study Mozambique*.

Table 8 : Assessment of the 2004 DTIS performance

Objective 1: National Trade Strategy		
1.1	Facilitate intergovernmental coordination of trade-related policies and programs	In progress
1.2	Reinforce and deepen private sector dialogue on trade-related issues	In progress
Objective 2: Business-Enabling Environment		
2.1	Streamline registration and licensing systems	In progress
2.2	Make inspection less burdensome and more effective	In progress
2.3	Reform labor regulations that impair investment and job creation	Achieved
2.4	Reduce impediments to obtaining, exchanging and collateralizing land-use rights	In progress
2.5	Strengthen contract enforcement	In progress
2.6	Improve governance and reduce corruption to reduce barrier to investment and costs of doing business	In progress
2.7	Remedy problems with the tax system	In progress
2.8	Improve access to financial services and lower the cost of credit	In progress
2.9	Develop competition policy	Achieved
Objective 3: Trade Facilitation		
3.1	Improve the equipment and other resources of the Customs Department so that the staff can efficiently facilitate as well as control trade	Achieved
3.2	Improve customs clearance process and reduce clearance time by simplifying the clearance process and increasing the transparency of customs regulations and procedures	In progress
3.3	Reduce corruption to increase revenue collection and improve the business environment	In progress
3.4	Facilitate legitimate business activities by balancing actions that control imports and exports with those that facilitate them	In progress
3.5	Expedite processing at the Ressano Garcia border crossing	In progress
Objective 4: Improve Transportation Logistics		
4.1	Improve regulatory framework in transport logistics	In progress
4.2	Further develop transport infrastructure and stimulate public-private partnerships	In progress
4.3	Build capacity among all stakeholder, in particular in the transport industry	In progress
Objective 5: Increase Access to Export Markets		
5.1	Maximize benefits of Doha Round and EPA negotiations for Mozambique by actively participating in negotiations and prioritizing Mozambican negotiating interests	In progress
5.2	Accelerate achievement of SADC FTA during mid-term review	In progress
5.3	Proceed with bilateral FTAs that achieve free trade earlier than SADC	In progress
5.4	Evaluate options to achieve free trade in Southern Africa	Achieved
5.5	Prepare for negotiations of SADC custom Union	Not achieved

Objective 6: Strengthening Mozambican Trade Institutions and Process		
6.1	Improve the technical and negotiating skills of officials with trade-related responsibilities	In progress
6.2	Expand trade analysis and data support institutions	In progress
6.3	Formalize inter-institutional coordination of trade policy within the Mozambican government	In progress
6.4	Streamline standard-setting process	In progress
Objective 7: Improve Trade and Investment Policies		
7.1	Reduce effective protection	In progress
7.2	Provide a temporary means for dealing with injurious import surges as tariffs are reduced	In progress
7.3	Coordinate investment promotion efforts with trade strategy (export promotion) efforts	Achieved
Objective 8: Agriculture		
8.1	Achieve consensus on a National Policy for Agriculture Development	Achieved
8.2	Diversify products and markets	In progress
8.3	Comply with SPS standards and quality norms, to guarantee access to the international market	In progress
8.4	Increase formal trans-border trade	In progress
8.5	Improve the capacity of producers to obtain, change, and utilize land-usage rights as collateral	In progress
8.6	Increase the availability of credit fir agrarian development	In progress
8.7	Promote commercial agriculture among small farmers and the large operations, and train the national business community in better utilization of the land	In progress
Objective 9: Fisheries		
9.1	Develop non-traditional marine products for export	Achieved
9.2	Increase value of fisheries exports	Achieved
9.3	Manage fisheries more effectively and sustainably	In progress
9.4	Secure improved access to export market for fish	Achieved
Objective 10: Manufacturing		
10.1	Encourage investment in labor-intensive manufacturing projects	Achieved
10.2	Exploit unrealized opportunities under regional trade agreement (SADC) and preferential trade programs (e.g., AGOA, EBA for LDCs)	In progress
10.3	Reduce transaction costs for exports	In progress
10.4	Encourage upstream and downstream linkages that add value to farm output (linking agriculture to manufacturing)	Not achieved
10.5	Improve productivity of manufacturing sector	Not achieved
Objective 11: Tourism		
11.1	Review regulations in the services sector	In progress
11.2	Encourage investment (foreign and domestic) in services sectors linked to tourism	In progress

11.3	Enhance skills of tourism workforce	In progress
11.4	Develop new tourism products services and niche markets	In progress
11.5	Develop community-based tourism	In progress
11.6	Develop natural resource-based tourism and ecotourism	In progress
11.7	Develop cultural heritage resource management	In progress
11.8	Develop “anchor” projects, with large investments in target areas; support projects of small and medium-size companies in parallel with significant investments in development areas	Achieved
11.9	Improve tourism marketing, branding, quality management and outreach	In progress
Objective 12: Strengthening the Impact of Trade on Poverty Reduction		
12.1	Mainstream trade in poverty reduction strategy	In progress
12.2	Facilitate broad-based gains from trade	In progress
12.3	Mitigate cost of adjustment	In progress
12.4	Manage the risks of trade-related shocks	In progress
12.5	Monitor the impact of trade on poverty	Not achieved

NOTE:
Achieved*- Objectives fully realized.*
In progress*- Objectives’ realization process initiated (at early or later stage) but requiring further actions for full realizations.*
Not achieved*- Objectives not realized and no concrete actions initiated for its realization.*
Not implemented*- Objective deemed irrelevant due to changes in the regional political landscape*

Table 9 : Summary of the Seven Window 2 Projects of the Integrated Framework

Project	Agency in Charge	Time-frame	Budget	Comments
Trade Specialist	MIC/DRI	Oct. 2006-Dec. 2008	US$100,760	There was a delay in the start of the project since there were difficulties in finding candidates with capacities related to the one in job description. The MIC/DRI team implemented part of the activities.
Purchase of laboratory equipment and training	INIP/MP	Feb. 2006-Feb. 2007	US$137,090	With the acquisition of laboratory equipment INIP was able to attract additional resources to expand laboratory facilities through the support of DFID and NORAD expanding the impacts of IF programme.
Monitoring of fish in national and international markets	INIP	June 2008-May 2010	US$103,900	The process of implementation of planned activities encountered difficulties, including a delay in implementation due to problems in finding a specific required specialist.
Produce the 3rd edition of the exporter manual	IPEX	Sept. 2006-Dec. 2007	US$49,000	Project was in line with the DTIS goal of diversification of products and markets – Improving the understanding of requirements and opportunities related to regional and preferential trade agreements.
Standards production project	INNOQ	Oct. 2008-Jan. 2012	US$147,271	Project was in line with the DTIS goal of achieving quality standards to ensure access to international markets, improving access to foreign markets for Mozambican products, and translate the SADC norms and international standards to Portuguese.
Training of technicians to use lab equipment and analytical tools	INNOQ	Oct. 2008-March 2010	US$132,749	Project was in line with the DTIS goal of achieving quality standards to ensure access to international markets, improving access to foreign markets for Mozambican products, and translate the SADC norms and international standards to Portuguese.
Production and improvement of external trade statistics	INE	July 2006-July 2007	US$298,177	Project was in line with the DTIS goal of aiming to monitor the impact of trade on poverty and, improving the collection, dissemination and analysis of information in general and particularly statistical data.

The IF projects aimed to increase institutional and personnel capacity of the implementing agencies. The INIP and INNOQ projects had very positive impacts, which realized additional projects and complementarily initiatives, the latter supported by bilateral partners. They improved access to information on trade and investment, greater international market access and competitiveness of domestic products. However, the IF programme in Mozambique faced difficulties, especially in designing and implementation of its projects. For instance the INE project had a lack of sustainability due the mobility of customs personnel.

This experience taught four principal lessons. First, trade mainstreaming in public policy is the key to increased coordination between government sectors and development stakeholder and increased Aid for Trade. Second, the active involvement of all the stakeholders in all stages of EIF is crucial to achieve its objectives. Third, trade and trade-related capacity building must be at the center of EIF, with participation of all stakeholders nevertheless the funding of production and productivity should also be considered. Fourth, a strong leadership of focal point and managerial NIU capacities and develop tools to communicate, monitoring and evaluation constitute important requisites.

C-6. Recommendations

Recommendation #1: A Positive Agenda for Mozambique's Trade Negotiations

Mozambique should develop, in close consultation with the private sector, a positive agenda on trade policy and trade negotiations. This means pursuing a proactive approach to negotiations, in which the country's negotiators pursue a consistent and comprehensive set of objectives that are based on an objective appraisal of Mozambican strengths and needs. The positive agenda should be articulated on the following premises: (a) Achieve a meaningful tariff liberalization scenario in the TFTA; (b) Develop and support the adoption of RoO that are reflecting global value chains both in TFTA and SADC-EPAs allowing cumulation where possible; (c) extend negotiations in TFTA and SADC-EPAs to selected trade in services areas; and (d) Identify the areas where the provision of the WTO Trade facilitation Agreement could be used as a leverage to implement regional commitments in SADC and TFTA.

Recommendation #2: Support for the Further Development of Transportation Corridors

Support to transit trade should be a strategic objective of the Mozambican government. Plans are underway for the further development of key corridors in Mozambique to serve national and neighboring traffic, especially the corridors from Beira to Zimbabwe and from Nacala to Malawi and Zambia. A more efficient Nacala corridor, especially one in which regulations and the regional bond scheme are reformed, could lead to higher shipping volumes, lower costs, and an expanded transit trade that offers significant opportunities for economically weaker regions in the north. Regional manufacturing activities, which currently operate at competitive disadvantages, could also benefit. To improve clearance of goods and decongest Beira Port and in line with trade facilitation agreement, the GoM is taking measures to set up a Road Cargo Terminal in Inchope, situated in Sofala Province. Today, Inchope is a transit place for hundreds of trucks daily with transit cargo from and to Beira, Democratic Republic of Congo (DRC), Malawi, Zambia, and Zimbabwe. Without infrastructures for custom control and all other required enforcement agencies, Inchope risks to become a smuggling point of goods from and to neighboring countries or elsewhere. The GoM expect transit goods to be directed to Inchope where all types of control will be performed and ensure custom and other authorities' enforcement while allowing flexibility of goods' clearance in Beira Port. Preliminary activities are underway which include- allocation of six hectares of land, assessment of affected households and infrastructures and pre-feasibility study.

Officials also hope to build up the inland town of Inchope as a "dry port" that would serve to decongest the port of Beira and facilitate the movement of goods to all neighboring goods, this being a "win-win" proposition that would aid Mozambique as a hub (with all of the ancillary services that this implies), improve enforcement of the rules, and reduce transportation time and costs for its partners in the region.

Based on arguments presented by the GoM, these are initiatives that merit the priority support of the donor community, including assistance in the purchase of equipment to be used by the customs authorities and in the training of personnel in the use of this equipment and related procedures. That in turn points to the need for the donor community to make good on the pledges made to assist countries in the implementation of the Trade Facilitation Agreement negotiated in the WTO.

See also Recommendation #17 concerning services negotiations in this and other areas.

Recommendation #3: Improved Participation and Use of the Enhanced Integrated Framework

For the upcoming phase the EIF must be able to put in place clear guidelines aiming to build capacity for the preparation of proposals at the national level. Capacities should be upgraded at the national level if the EIF is to realize its intended benefits in a foreseeable future. Moreover, stakeholders must be guided to access funding beyond the resources available in the EIF Trust Fund. Government should play a leading role in moving the EIF process forward, taking ownership of the process and making key decisions such as setting priorities and establishing structures from the DTIS and Action Matrix.

D. ENHANCING TRADE AND INVESTMENT POLICYMAKING AND MAINSTREAMING

Analysis of the Problem: This part deals with the ways that the GoM devises and executes trade policy. The principal point made here is that the policymaking process in Mozambique is not always as inclusive and coherent as it could be, and that there are several steps that the country could take to enhance its policymaking capabilities.

A review of the trade policymaking process in Mozambique identified three principal shortcomings. The first of these is the absence of a clear trade strategy, despite the fact that one has already been prepared but not yet adopted. The second shortcoming is in the structure and capacities of the main institutions devoted to devising and executing trade policy, especially with respect to the promotion of exports and investment. Here one encounters overlapping mandates and inadequate resources. The third problem concerns the coordination of policymaking both within government and between the public and private sectors. Taken together, these three problems inhibit the ability of the Government of Mozambique to take full advantage of the opportunities provided by the global trading system.

Proposed Solution: Two of the recommendations made in this part are of horizontal application: The GoM should proceed with validation and implementation of the National Export Strategy, and formal mechanisms should be established for coordinating trade policy among government agencies and to promote greater dialogue between the public and private sectors in the development and execution of trade policy. In addition a trade policy document should be prepared to guide the GoM during trade negotiations at multilateral and regional level. The latest trade policy document dates back to 1998[31] and although there have been plans to update in 2014-2015 it appears necessary to speed up the process. Other recommendations relate more precisely to specific institutions, including the Instituto de Promoção de Exportação, the Instituto para a Promoção das Pequenas e Médias Empresas, the Instituto Nacional de Normalização e Qualidade, and the Competition Commission. Recommendations are also made on the operation of the customs service, calling for further steps towards trade facilitation and customs reform.

D-1. The National Export Strategy

A National Export Strategy was developed from November, 2010 to November, 2011 by a team of national experts under the guidance of International Trade Centre experts as a tool for diagnosing key export sectors and their products, and for shaping-out strategic plans for implementing sector-specific strategies to generate value added products. The NES defines its main objective as "to contribute for the achieving of sustainable development and equitable economic prosperity for Mozambicans, through a global competitive exports sector characterized by innovation, diversification, quality and value added".

Two years after its completion, NES still remains to be approved by the GoM and implemented. There is a high risk that the NES will *de facto* be shelved, even if it is eventually embodied into ENDE. A similar situation has emerged with regard to the recommendations made by the UNCTAD-sponsored Investment Policy Review (IPR), validated in November, 2011 but not yet implemented. Whether this scenario will materialize or not depends heavily on GoM priorities.

[31] See «Boletim de la Republica» of 7 July 1998 approving «Política e Estratégia commercial»

D-2. Trade Development Institutions

D-2.a. Institutional Framework and Capacity

The Ministry of Industry and Trade (MIC) is the lead agency of government for trade matters. It formulates and implements trade policy and is involved in negotiations under authority of the Council of Ministers, the government's highest executive body. Directorates within MIC handle various aspects of trade policy formulation; they include the National Directorate on Industry (DNI), the National Directorate for Trade (DNC), the Office of Private Sector Support (DASP), and the Directorate for International Relations (DRI).

Representatives of the private sector have expressed unhappiness with the authority exercised by the Ministry of Commerce. One complaint is that the office of the Minister of Commerce does not have convening power. Specific examples have also been cited of instances in which initiatives undertaken by or with MIC on behalf of the trade community have been stalled or defeated. The CTA has frequently asked that trade issues be elevated within government by having their point of contact become the president or, failing that, the prime minister. Without entering into the internal question of whether such a step would be warranted, it is observed here that the GoM will need somehow to give greater weight to the lead ministry for trade if it is going to put in actual practice the avowed principle of mainstreaming trade policy within the country's development strategy.

Significant trade policy decisions are made only after debate in the Council of Ministers. There the views expressed on trade policy come not just from MIC as the lead ministry, but also from others that represent their respective constituencies. These include, among others, the Ministry of Agriculture and Rural Development, the Ministry of Finance, the Ministry of Culture, the Ministry of Transport and Communications, the Ministério da Planificação e Desenvolvimento, and the Ministry of Tourism. There are no formal inter-institutional arrangements to deal with participation by these ministries trade formulation and each ministry may be invited for a different trade related engagement.

Three government institutions in Mozambique are devoted to the promotion of trade and investment, each of which is also mandated to provide support to small and medium enterprises. They are as follows:

- The Instituto de Promoção de Exportação (IPEX) reports to the Minister of Commerce and Industry.
- The Instituto para a Promoção das Pequenas e Médias Empresas (IPEME) also reports to the Minister of Commerce and Industry.
- Centro de Promoção de Investimentos (CPI) was created to assist the Minister of Planning and Development in the implementation of the Law on Investment.

There are significant overlaps between the mandates and activities of these three institutions, most notably the assignment of promotional activities to all three institutions. This leads to legitimate concerns over duplication of effort, misallocation of resources, and a lack of coordination amongst these entities. The overlapping mandates can be further appreciated from the illustration in Table 10, which shows that there are several functions or capacities that are performed by two or even all three of these institutions, and only a few that are unique to one institution. Officials in the agencies themselves take differing views on the extent to which their mandates and activities compete with those of the other bodies. Some see their mandates as complementary rather than competitive, drawing distinctions between trade and investment; others more frankly acknowledge that there have been, and continue to be, problems with jurisdiction and coordination. Representatives of the donor community and the private sector are less ambivalent about the problem.

Table 10 : Mandates of three Institutions in Mozambique

	IPEME	IPEX	CPI
Works with SMEs	◆	◆	
Export promotion	◆	◆	
Business consultancy	◆		
Capacity-building programs	◆	◆	
Business information	◆	◆	◆
Financial advice and partnering	◆		◆
Investment promotion			◆

The largest degree of overlap appears to be between IPEX and IPEME, especially insofar as they aim to deal with approximately the same constituencies and provide similar services. The mandate is somewhat different for CPI, which deals both with SMEs and with larger firms, and which reports to the Minister of Planning and Development. Of the three institutions, CPI is widely perceived as having the most capacity, and IPEX as having the least.

Other agencies that are tasked with responsibilities related to the regulation of trade or trade-related issues include the following:

- The Directorate of Customs (DGA) is responsible for implementing WTO Customs Valuation Agreement, certifying the origin of exports, and certifying the origin of imports. It is also charged with administration of tariffs and border administration.
- The National Institute for Statistics (INE) collects and disseminates import and export data, and makes them available to government officials and the public. An initiative is being taken between MCNet and INE to share relevant trade-related information. This is an area where progress has been made since the last DTIS, The quality of the statistical data made available to policymakers and the private sector is much greater than one typically finds in an LDC.
- The Institute of Industrial Property (IIP) is responsible for the enforcement of intellectual property rights.
- The Special Economic Zones Office (GAZEDA) was established as an autonomous public body in 2007. Its main purpose is to promote and coordinate all activities related with the creation, development, and management of special economic zones and industrial free zones.
- Two sections of the Ministry of Agriculture have roles in the implementation of the WTO Agreement on Sanitary and Phytosanitary Standards (SPS). The Department of Vegetal

Sanitation which is the officially designated enquiry point for vegetables and fruits, and the Department of Livestock (DINAP) is the enquiry point for animals.

Given this multiplicity of government bodies with responsibility for trade it is vital that there be close consultations among them. This is among the areas that require most improvement in Mozambique. It would be an exaggeration to suggest that there is no inter-ministerial coordination at all in the development of the country's positions in trade negotiations. MIC routinely consults with other ministries and government agencies, as well as with civil society, in advance of major international meetings or other events that require a canvassing of views within government. Some of these arrangements are formalized through memoranda of understanding between ministries (e.g., between the Revenue authority and MIC) and with the private sector (e.g., between the Revenue Authority and CTA). Those arrangements notwithstanding, officials in several government agencies — including MIC as well as its partners — acknowledge problems. Consultations among the ministries are not conducted as regularly and as efficiently as they could, leading sometimes to delays in the development of national positions in the conduct of trade negotiations.

D-2.b. <u>The Instituto de Promoção de Exportação (IPEX)</u>

IPEX was created in 1990 with a mandate to develop and promote Mozambican exports of products and services, harmonizing its activities with all institutions dealing with foreign trade. The vision of the institution is to assert itself as a national focal point for the development and promotion of exports from Mozambique. IPEX's main activities are meant to be:

- Influence policy on foreign trade;
- Promote exports in coordination with the private sector;
- Develop exports, promoting the production and diversification of products, services and markets;
- Facilitate access beyond the border of national products and services; and
- Collect, process, and disseminate commercial information.

The DTIS 2004 observed that IPEX's efforts were hampered by poor information capacity and limited consultation with the private sector. It proposed international support to provide training to IPEX staff, strengthen their market information capacity, and establish a better consultative mechanism with the private sector. Since then IPEX has received budgetary support from the GoM and substantial technical assistance and equipment from a variety of development agencies, both multilateral and bilateral. The largest assistance came from the Center for the Promotion of Imports from Developing Countries (CBI), through which donors sought to strengthen the mandate of IPEX, allowing it to participate in and contribute to overcome the crucial constraints of Mozambique's exports. The targeted crops were cashew nuts, groundnuts, pineapple, piri-piri, mango, green beans, and handicrafts. It also received support from the ITC, UNIDO, the European Union, and USAID.

Despite this significant injection of technical assistance, IPEX is still not entirely performing its role. In the past few years, its most noticeable achievement has been the development of the National Export Strategy, with a strong influential support from ITC. Even so, the institution still appears beset by problems. It suffers not from deficits in technical capacity and in funding, but even a deficit in the energy and drive needed to operate effectively in support of entrepreneurs.

D-2.c. <u>Instituto para a Promoção das Pequenas e Médias Empresas (IPEME)</u>

IPEME is the youngest among the trade development institutions, having been established in 2008. It is the equivalent of business support organizations operating in several developed and developing countries, such as the Small Business Administration in the United States and the Brazilian Service of Support for Micro and Small Enterprises. IPEME was mandated to implement the Strategy for the Development of SMEs in Mozambique launched in 2007. Institutionally, IPEME is also expected to play a major role in trade and investment promotion in that its main tasks include the following:

- Provide business information that meets the needs of entrepreneurs, businesses;
- Offer business consultancy, mainly training on growth and development strategies for companies, entrepreneurship, business, marketing, access to investments;
- Facilitate business financing through provision of information on financial solutions for SMEs;
- Support the creation of new businesses through the provision of support during the conception of the idea, business creation, financing and first steps of the company.

IPEME has developed a series of initiatives and international partnerships. It has included SMEs in government trade promotion missions, as well as in international fairs for networking and SME-focused marketing. Donors have provided technical assistance support at the planning and strategy levels and promoted the development of a monitoring and evaluation procedure for this institution.

One of the most important instruments that IPEME has begun to develop and implement for supporting SMEs are the Business Advisory Centers for Entrepreneurs (Centros de Orientação ao Empresario - COrE). These are publicly run service platforms to provide guidance, support and training to the SME community. At present, three COrEs are operational in Maputo City, Chimoio (Manica) and Tete City (Tete). Those COrEs are being fully operated by IPEME, except the COrE in Chimoio, which is being run in partnership with the Instituto Superior Politécnico de Manica. The support most commonly requested of COrE is for business plan design, starting a company, sources of financing, organized accounting, and general business advice. The EC-UNIDO COMPETIR COM QUALIDADE is currently the most comprehensive technical assistance project benefiting IPEME. IPEME has projects in place to support the insertion of Mozambican SMEs into global value chains, especially those involving major foreign companies that invest in the country's minerals sector.

Interviews with the private sector indicate that IPEME is well regarded for its support in the creation and development of SMEs. This is especially notable in Tete, where SMEs are flourishing around MNCs in the mining sector. IPEME is equally visible in other provinces such as Maputo, Inhambane, Nampula, and Zambézia, though in small scale. IPEME is known for promoting awareness seminaries on financial opportunities for SMEs both internally and externally managed schemes. The private sector also appreciates the training offered by IPEME on specific business themes. Even so, the private sector is also critical of IPEME procedures that they characterize as lengthy, cumbersome, and bureaucratic, thus preventing them from fully enjoying the benefits of IPEME projects. These concerns are especially high for that majority of entrepreneurs who have had limited educational opportunities and may therefore be unable to meet the requirements.

The main challenge is that IPEME has a low capacity to implement its core mandate, and that becomes even more limited to projects. Furthermore, as in the case of the other trade development institutions, IPEME's management team has little private sector experience, as well as limited management background. There is also an issue of staff motivation and retention, because relevant staff for IPEME are often attracted by other, better-paid employment opportunities.

D-2.d. Centro de Promoção de Investimentos (CPI)

CPI acts as both a regulatory and promotional agency, with its principal aim being the promotion and coordination of foreign and national investments. It is a public institution with legal personality and administrative and financial autonomy, supervised by the minister in charge of Planning and Development. Its duties cover the development and implementation of promotion and coordination of processes for investments, assessment, monitoring and follow up of investment projects. CPI seeks to achieve its aims by providing —

- Promotion of business linkages between domestic and foreign companies, SMEs and large enterprises;
- Identification of potential financial partners and/or technology for the establishment of joint ventures;
- Identification and dissemination of investment opportunities;
- Promotion of business development assistance programs, particularly for domestic investors;
- Institutional assistance in the acquisition of business licenses;
- Capacity building programs for local suppliers; and
- Monitoring and follow up of the implementation of projects and identification of constrains.

CPI concentrates on those sectors identified in its 2014-2016 strategic plan. Manufacturing receives the top priority, followed by tourism, agriculture, and infrastructure. The agency is expanding through the establishment of offices abroad. In addition to reopening its South African office, this means opening new ones in China, Brazil, and Saudi Arabia. There are other relevant documents to investments promotion, namely the Integrated Investments Programme, 2014-2107, under revision and the National Development Strategy in both cases by the Ministry of Planning and Development.

Although CPI appears to have greater capacity than IPEME or especially IPEX, it still has great needs in capacity-building. These are being addressed through support that one donor began to extend following the negotiation of a bilateral investment treaty with Mozambique.

The CPI is benefiting from technical support to implement a database and facilitating platform for business linkages known as Subcontracting and Partnership Exchange (SPX). The project is cataloguing, profiling, and benchmarking SMEs and other local businesses, and is confronted with modest management and productivity, as well as with technological backwardness.

Consultations with the business community in the provinces found support for CPI. One reason why this institution is rated higher than others may relate to its increased visibility in Tete, where both domestic and foreign investments have been increasing. In provinces where major projects are in the pipeline CPI has also been visible mainly because of consultation meetings it carries out with local business community. CPI sponsors regular business missions with foreign investors and the local private sector, sometimes resulting in new partnerships between foreign and local investors. Participants nevertheless expressed concerns over the domestic distribution of CPI's efforts. These may be more concentrated in the Central and Northern provinces, whereas some businesspeople would prefer either a deconcentration and decentralization of powers to local offices or more institutional capacity-building for local offices, allowing them to handle matters with less intervention from Maputo.

D-2.e. <u>Instituto Nacional de Normalização e Qualidade (INNOQ)</u>

In addition to these trade- and investment-promotion institutions, the National Institute of Standards and Quality (INNOQ) is an important part of the country's trade regime. INNOQ was created in 1993 to operate in the various areas of the quality infrastructure (standardization, metrology, conformity assessment) and is critical to developing all aspects of exports where compliance is required. The institution is a key link in the efforts to bring Mozambican firms into global supply chains and other supplier relationships with the mega-projects via initiatives aiming, for example, to help firms become more attractive to foreign investors by achieving conformity with ISO standards.

The agency is the inquiry point under the WTO Agreement on Technical Barriers to Trade (TBT). INNOQ officials nonetheless acknowledge that there have been problems in the country's compliance with the requirement that new standards be notified to the WTO when they are still under consideration, so as to give other WTO members the opportunity to comment on the draft rules prior to their entry into force.

The development of quality infrastructure is a priority for both the country and the donor community. At the end of 2003, the Council of Ministers approved the Quality Policy and Strategy. INNOQ has received substantial assistance from donors, including the European Union, UNIDO, the World Bank, and the governments of Brazil, Germany, and Switzerland. At that time there were no accredited laboratories in Mozambique. One of the major achievements of the project, which concluded at the end of 2011, was the accreditation of four testing laboratories and one metrology laboratory. The Council of Ministers is, as of this writing, considering a proposal for the establishment of a National Quality Council. INNOQ would be the secretariat to that council, and would be empowered to collect all relevant regulatory information from all other stakeholders and to share that information with WTO and SADC. Adopting this reform would improve the institution's capacity to comply with the notification requirements in the WTO.

Significant progress was made towards improved quality and supply of INNOQ's services in the area of testing, standards, metrology, and certification. INNOQ started the process of verifications in Maputo and various provinces, comprising 43 municipalities and the number of calibrations increased from 156 in 2008 to 637 by the end of 2012. During the same period, the number of published standards jumped from 36 to 528. Awareness-raising seminars were organized in Maputo and some of the provinces, but a full-fledged campaign has not yet been launched. There have been other important positive changes, such as:

- Accreditation of the Fishery Laboratory, which makes export procedures easier for local fish companies and reduce risks of rejection at port of entry.
- Creation of the laboratory association, which is expected to run proficiency testing activities.
- Construction of INNOQ's new building has been an important achievement, increasing visibility and providing the necessary space and facilities to host state-of-the art laboratories.

INNOQ is in the process of expanding its range of capabilities. It already has the capacity to conduct metrology calibration for volume and mass, and is developing its capabilities for calibrating pressure, electricity, and temperature, as well as higher amounts of mass. The agency is also expanding its staff from the current 80 persons to something closer to the full complement of 145.

There are still several outstanding issues that need to be addressed in Mozambique's quality infrastructure. For example, the institute intends to develop and disseminate 36 standards in the food, construction, transportation, tourism, energy, and fuel sectors. It also intends to train technicians/staff in areas of standards, English language, technical design, training of trainers in standards, quality management, environment, occupational health and safety, food safety, social responsibility and energy management.

With respect to certification, INNOQ has to enhance the capacity of its collaborators to face the increasingly demanding market, especially in such areas as management systems' audit, certification of products, and laboratory testing of food and water. In the area of metrology (i.e., the science of measurement), the main objectives for INNOQ in the coming years are to procure the needed equipment for the institute and offices, provide for training, and to acquire the vehicles it needs to perform on-site verifications.

There are still several outstanding issues that need to be addressed in Mozambique's quality infrastructure. The follow up project, called COMPETIR COM QUALIDADE, is tackling a number of these issues, like the upgrading of the national quality policy and its implementation plan, the international recognition of the Mozambican conformity assessment bodies and responds to INNOQ's goal of progressively increasing its financial independence from donors and the ministry.

D-2.f. <u>Economic Reforms and Engagement with the Private Sector</u>

Effective trade policymaking requires the active engagement of the private sector. Although there are available platforms for public-private dialogue at the national level, consultations with the private sector at the provincial level suggest that the business sector in outlying areas has almost no input in the trade policymaking.

At the national level, consultations with the private sector are conducted through a series of regular meetings in which there is an inverse relationship between the level of the officials involved and the frequency of the encounters. The highest of these is the Conferencia Anual do Sector Privado (CASP), a presidential-level meeting that comes once a year. At the other end of the spectrum are the monthly meetings that working groups of the Confederation of Business Associations of Mozambique (CTA) hold with their government counterparts. Between these extremes one finds quarterly meetings with ministers and twice-yearly meetings with the prime minister.

The provincial experiences vary somewhat. In contrast to Niassa, for example, where the state remains the principal customer, in Tete the private sector benefits from the boom in the extractive industry. The private sector in the provinces also suffers from institutional shortcomings. Members have limited educational backgrounds, preventing them from engaging in policy issues with well-backed arguments. Local offices of the Conselho Empresarial Provincial — groups that represent business associations at provincial level and engages in dialogue with provincial and local governments — are invariably unable to meet basic running costs such as rent, electricity, and office stationary, straining their capacity to play a role in policymaking.

There is a multitude of challenges facing SMEs growth at provincial level. The data in Table 11 summarize the views expressed by SMEs in eight provinces, including Tete and Niassa. While firms held somewhat different views on some topics, in both provinces there are concerns over the impact of political instability, a lengthy business registration licensing system, weak public institutions, and poor infrastructures lead.

Table 11: Summary of Challenges Cited in Consultations with the Private Sector

Challenges common to all provinces Political instability between government and the opposition party Lengthy business registration licensing system Weak public institutions unable to protect the private sector and enforce laws and regulations Poor infrastructures leads to higher transaction costs The flourishing informal sector poses enormous challenges to formal business in terms of business fairness and price setting and including the internal productive capacity Need for private sector participation in development process and trade related policy Single Electronic Window continues to pose some challenges due to persistent delays resulting from failure of the system	
Tete Province Competition with well-established South African firms in the provision of services to MNCs MNCs viewed as favouring SMEs from Maputo Lack of strategic information on future business opportunities around MNCs Exchange rate policy viewed as a hindrance to export promotion	**Niassa Province** Limited GoM investments in the agriculture sector Limited number of qualified human resources in key areas Higher costs on imports Banking services limited to 4 out of 17 districts in the provinces
Zambézia Province Sustainable forest exploitation Endangered sustainability of fisheries resources due to employment of inappropriate fishing techniques such as the use of mosquito net Unexploited potential for aquaculture practice Agriculture potential especially of rice remains under developed and less exploited Disintegrated Industrial system which does not add value to locally made products	**Manica Province** River pollution due to illegal and artisanal mining undermining agriculture and fishery production Disincentive to exports due to non-existence of certified laboratory. The existing laboratory from the local university (UCM) requires assistance Local laboratory (Catholic University) does not provide certification of product Fruit flies pose considerable challenges to quality products for exports. Post-harvest losses of fruits due to limited processing capacity
Sofala Province Infrastructure inefficiency of Beira Port Lack of basic capacity within the fishery sector (boats supply, personnel such as boat captains, boats and others) Limited domestic investment in the fishery sector	**Inhambane Province** Limited information relating to international markets and business opportunities Decline of tourism sector due to a combination of political instability and corrupt practice by public officials placed throughout the main road from south Africa to Inhambane Limited number of qualified personnel to perform basic functions in the tourism sector Post-harvest losses due to deficient or non-existent processing, packaging industry (e.g., fruits, cassava, fishery products) combined with higher cost of air transportation for exports
Gaza Province Complex taxation system marked by intervention of a range of different public for same group of contributors Limited knowledge among business community on business laws and regulations Unexploited potential along the Limpopo river	**Maputo Province** Cumbersome import procedures invariably leading to corrupt practices at borders and along the main road connecting these borders with Maputo province Limited information on *pauta aduaneira* and origin certificate Limited presence of MIC at borders to perform inspection

Source: Consultations conducted in the course of researching the revised DTIS.

D-3. Improving the Regulatory Environment for Trade, Investment, and Competition

D-3.a. <u>Regulatory Framework for Investment and Investment Promotion</u>

From 2004 through 2013, Mozambique took several steps to improve its position in the World Bank's *Doing Business* rankings. Although the government has addressed some issues, there are still a number of bureaucratic and infrastructural hurdles that affect investors. Major challenges relate to the restrictive regime on access to land, the comprehensive licensing of activities, weaknesses in the regulatory framework of the financial sector, and inspections of premises, as well as the level of taxation. Some aspects of the legal framework "continue to reflect a relatively intrusive approach to investment regulation," according to UNCTAD's Investment Policy Review (2012: 36), and "regulations and administrative procedures tend to be excessively complex or burdensome and hence difficult to administer or comply with."

The current legislation on investment in Mozambique consists of Investment Law 3/93, the respective Regulation, Decree 43/2009, and a Code of Fiscal Benefits Law nr. 4/2009. The legislation provides a number of guarantees to domestic and foreign investors.

a) Registration

The GoM has carried out extensive reforms aiming at easing the registration process of business and economic activities in the country. The implementation of a "one stop shop" (BAU) in some cities, the elimination of unnecessary procedures, and reduction of registration costs were at the top of these reforms. Nevertheless, further reforms are needed. Despite these BAUs being relevant for the registration of economic activities, they are concentrated in major cities and are inadequately designed as they appear to serve simply as a mailbox. Critical decisions and relevant signatures are taken outside BAUs. Improvement of business registration is required in term of reducing time required to obtain licenses, improve geographical and sectoral coverage, improving management of BAUs and most importantly involve the private sector in the management structure of BAUs. The Ministry of Industry and Trade is working in a business registration electronic system that will reduce costs, time, and procedures of business registration in Mozambique.

These efforts have produced results: *Doing Business* data show that from 2013 to date, the number of days required for general business licensing moved from 13 to 10 days, for licensing specialized business (construction) from 152 to 120 days, and the number of procedures remains at 9. The private sector acknowledges this progress, but also highlights the constraints still in place. The licensing procedures for the construction and forest businesses, both of which are witnessing increased interest from local and national political elite and growing involvement of foreign investors, appear to be subject to especially difficult licensing procedures. Some representatives of the private sector are particularly unhappy that the authorities appear to take a more helpful approach to the registration and licensing of MNCs than they do for local businesses.

Sector-specific licenses are also required for some activities. For example, a Ministry of Tourism license is required to operate in the tourism sector. This is a double-licensing requirement that slows down the registration and commencement of operations and discourages investors, mainly because it is time-consuming and involves issues that may invite corruption (e.g., land licensing). This topic is discussed in a separate section.

Table 12 provides a summary of approved key regulatory framework affecting business registration and licensing. The Commercial Code of 2005 (law 10/2005) eased registration procedures by eliminating a number of requirements. The new code also improved corporate governance and protection for minority shareholders. Six forms of companies can be established under the code, subject to varying reporting, management, and transparency requirements. Among the options are the sociedade anónima (public limited company), the sociedade por quotas (private limited company), and the sociedade em nome colectivo (limited partnership).

Table 12 : Actions Taken Since the First DTIS on Business Registration

Instrument	Effect
Decree Nr. 49/2004 of 17 November	Simplify and decentralize the licensing of commercial business to rural areas; District Directorate of Industry and Trade and Administrative Posts at localities can handle the licensing process.
Decree Nr.45/2004 of 29 September	Exempts from environmental licensing activities unlikely to make important impact on the environment; Requires simplified impact assessment for business activities likely to have modest effects.
Decree Nr. 1/2006 of 3 May of the creation of specialized public institution dealing with excessive bureaucracy	The Decree approves the establishment of a specialized public institution "Registo das Entidades Legais" with the mandate to reduce excessive bureaucracy while promoting simplification of business registration through establishment of an electronic database and implementation of an efficient registration system.
Revision of Commercial Code	Reduces excessive bureaucracy in the process of business registration and licensing, Eliminates unnecessary requirement such as "public deed" for shareholders to establish a company.
Decree Nr. 14/2007 of 30 May on establishment of one-stop shops	Facilitate services on business licensing through provision of technical advice on the requirements for starting up business; Charges taxes on services rendered; Issuing of business identification documents.
Strategy for Improvement of Business Environment in Mozambique (EMAN I of 2008-2012 and EMAN II of 2013-2017)	Consolidates one-stop shops and make it an integrated platform and database for business; Simplify the legal framework governing business activities as a way to reduce excessive bureaucracy, which include simplification of business licensing regime, taxation and concession of NUIT; Implement monitoring and evaluation system to track changes resulting from EMAN II; Introduce alternative mechanisms for financing business small and medium enterprises that generally have reduced social capital and have no organized accounts.
Decree Nr. 34/2013 which approves the Regulation for Licensing Commercial Activities and revokes the Decree Nr. 49/2004 of 17 November	Further empowers one-stop shops in the process of business registration, especially with regard to licensing; With this decree one stop shops have the powers not only to license business but also to intervene in other technical matters such as securing the alignment between the licensing process and the urbanization plans; One stop shops are given the power to sanction enterprises breaching the regulations.

The regulations and procedures discussed below relate to sectors other than mining, with the minerals sector falling under the Mining Law (No. 14/2002). That law provides protection in cases of expropriation, and secures companies' rights to transfer funds abroad. The law also guarantees tax stability. Investors may enter into a mining contract that provides for stability given under the investment licenses. The law allows for negotiations on the scope and specific provisions which vary on a case-by-case basis. Mining investments are not provided tax incentives, apart from being allowed to import free of duty and VAT. Mining ventures have to pay royalties, general corporation taxes, and a surface tax. Royalties are charged on the value of minerals extracted, with rates ranging from 3% for coal to 10% for diamonds and precious minerals.

b) Access to Credit, Foreign Exchange, and Repatriation of Profits

The Foreign Exchange Law of 2009 eliminated the remaining exchange restrictions on the payments and transfers for current international transactions. It also introduced a compulsory requirement for the repatriation of foreign earnings, and provided for automatic conversion of 50% of export revenues into local currency. Investors may transfer profits only after they have cleared their tax obligations, and must also have either earned or saved foreign exchange. Exporters can retain or hold a share of their foreign exchange in convertible currency accounts in local banks, but are required to repatriate and remit all income from export of goods and services within ninety days.

The Law on Investment guarantees the transfer of funds for profits, royalties, principal and interest payments on loans, capital arising from the full or partial sale of assets, and proceeds from expropriation or nationalization. The guarantees apply only to holders of licenses, and are subject to conditions. The law conditions transfers of profits upon the investor generating a positive balance of foreign exchange earnings. Alternatively the investor may demonstrate that it has generated foreign exchange savings through import substitution. Transfers of capital or proceeds from expropriated assets may be subject to payments in order to avoid negative effects on the balance of payments. The transfer guarantees for profits and capital require a minimum initial equity investment of MTZ 2.5 million (US$78,000) by the foreign investor; the guarantee can also be granted if the project generates annual sales of at least MTZ 7.5 million (US$234,000), creates exports of MTZ 1.5 million (US$47,000), or employs at least 25 Mozambicans.

Surveys of business people in Mozambique indicate that access to credit remains the most serious constraint to doing business in this country. Access to credit is a major constraint to the operations of SMEs, most of which have very limited working and investment capital. This situation heavily affects both the quantity and quality of SME production and thus exports. On the demand side, SMEs are often unaware of the existing credit facilities. On the supply side, banks believe that most enterprises do not meet their creditworthiness standards and collateral requirements.

More than 96% of companies are classed as micro, small, and medium enterprises (MSMEs), with serious managerial problems, having no real assets and lacking even organized accounting systems. The combination of these problems makes most of these MSMEs unqualified for commercial credit. Even the few that qualify invariably face higher interest rates and short-time maturity of loans. Most banks are still concentrated in the city of Maputo and their efforts to expand their services in the rural areas are stifled by poor rural infrastructure. This geographic factor constitutes another obstacle to agricultural production and exports. In addition, limited competition among banks dampens deposit mobilization, thus resulting in high borrowing costs. Furthermore, there is a lack of credit instruments suitable for SMEs. Under these circumstances, most firms have to self-finance their export activities or use informal channels.

Box 1: Problems with Mozambique's Investment Regime

UNCTAD's Investment Policy Review (2012: 41-42) identified the following key problems arising from the Law on Investment and its associated regulations:

Conditioning the access to major tax and non-tax incentives to obtaining an investment license creates an un-level playing field. This is particularly the case between small and large foreign investors, and between national and foreign investors:

- Small foreign investors may be at a disadvantage as they are in a weaker bargaining position to secure access to incentives than large (mega) foreign investors.
- National investors, in particular smaller ones, may be at a disadvantage as many of them do not even apply for investment licenses with the CPI, and hence fail to qualify for incentives.
- Core standards of treatment and protection that international investors have come to expect are granted only to holders of investment licenses. In addition, mining and petroleum activities are specifically excluded from the ambit of the Law on Investment, which excludes key sectors for FDI from basic investment rules and creates unnecessary discrimination between activities.

The treatment of foreign investors regarding the transfer of funds and foreign exchange operations is in some cases problematic:

- The recently adopted obligation to convert foreign exchange earnings into meticais will be particularly damaging for the operating conditions of existing and prospecting foreign investors, as well as for the promotion of export-oriented activities. Such a measure will impose significant foreign exchange risk on investors, which they will not be able to hedge given the under-developed nature of domestic financial markets.
- The Law on Investment and its regulations make it possible for certain classes of investors, including those in SEZs and perhaps IFZs, to maintain foreign exchange accounts domestically or abroad and to retain parts of their earnings in foreign currency. It is likely that large investors will succeed in obtaining the authorizations needed, while smaller investors are likely to be submitted to the obligation to convert their foreign exchange earnings. This will create an un-level playing field between large and small investors.
- The ability to repatriate earnings and capital invested is fundamental for foreign investors. In that sense, the acceptance of the obligations under article VIII of the IMF agreement is a very positive move. The provisions of the Law on Investment and its implementation decree regarding transfer of profits, royalties or interest need to be aligned with this approach. It is, for example, inappropriate that guarantees under the Law on Investment for profit and capital repatriation be conditioned upon a minimum capital investment or job creation …
- The newly adopted foreign-exchange regulations impose a very heavy administrative burden on investors and the Bank of Mozambique.
- Issuing investment licenses with contractual value means that Mozambique's policy space and ability to undertake reforms is partly straightjacketed.
- The investment certification requirement and strong involvement of the CPI and GAZEDA in granting incentives introduce an uneasy mix of regulatory and promotional roles that may lead to confusion and perhaps even conflicts of interest.
- The investment certification requirement adds an extra level of bureaucracy in the business establishment procedures.
- The CPI and GAZEDA have very little ability to monitor project implementation.
- Certain aspects of the legal regime on expropriations or nationalizations are relatively weak compared to international standards, in particular regarding the determination of compensation amounts.

The World Bank is formulating a Financial Sector Development Policy Operation whose objective is to increase access to finance by households and firms, as well as to strengthen financial stability and the development financial markets. The GoM approved a Financial Sector Development Strategy (FSDS) for 2013-2022 in April, 2013. One of the objectives of the FSDS, which has benefited from the IMF-World Bank Financial Sector Assessment Program (FSAP) and the USAID-sponsored surveys, is to improve financial inclusion by "eliminating economy-wide structural impediments to financial intermediation that limit the number of creditworthy clients and increase the costs and risks of providing credit and financial services". In the FSDS, key priority areas are:

- Establishing credit registry bureaus. Improved credit information should particularly benefit individuals and smaller enterprises with no collateral;
- Promoting banking competition in order to reduce borrowing costs and thus increase access to credit.
- Promoting mobile banking which will facilitate the expansion of financial services to rural areas. This activity appears also in the NES plan of action, as mentioned earlier.
- Strengthening the legal framework for collaterals and insolvencies.

The FSDS envisages an important contribution by IPEME in two activities, namely expansion of IPEME's training programme for SMEs – including training for trainers – focusing on business plans and financial case studies, and a feasibility study on a national guarantee fund for agribusiness activities.

The role of the existing 166 microfinance institutions in increasing financial access is expected to receive greater attention with the implementation of the FSDS. UNDP's support to draft rural microfinance strategies and IFAD's Rural Finance Support Programme (PAFIR) should be fully utilized, including lessons learned from these initiatives.

These issues are not solely institutional or legal. The root causes for poor access to capital and credit include lack of managerial skills, cultural factors, and the limited formal education of many businesspersons. SMEs that cannot develop business plans or apply for bank credit are put at a disadvantage. As in so many other areas, education and capacity-building need to be a part of the solution to this problem.

Mozambique is not yet a member of the African Trade Insurance Agency (ATIA), a multilateral financial institution that has worked since 2001 to facilitate exports and foreign direct investment by providing export credit insurance, political risk insurance, investment insurance, and other financial products to help reduce the risks and costs of doing business in Africa.[32] The African Development Bank is prepared to assist Mozambique in the process of becoming an ATIA member. If the government were to take the decision to seek this membership, participation in ATIA would complement the country's existing memberships in the Multilateral Investment Guarantee Agency and the International Centre for Settlement of Investment Disputes.

c) Land Reform

Access to land is the one constraint identified by manufacturers that has actually grown significantly worse since the previous DTIS. Mozambique's land law is anachronistic. Article 109 of the Mozambican Constitution provides that all land belongs to the state, but domestic and foreign persons may obtain non-transferable user rights under the Land Law (No. 19/1997). The criteria for access to land are more restrictive for foreigners than they are for Mozambican nationals. The Land Law provides for a system of titles that grant user rights to individuals, companies, or organizations. The companies applying must be registered in Mozambique and must have an approved investment project. A foreign natural person may obtain land upon minimum residency in Mozambique of five years, and legal persons must be established or registered as a company in Mozambique. Definitive authorizations may be granted for 50 years, renewable for another 50 years.

The benefits of secure land tenure extend beyond the immediate needs of new businesses (foreign or domestic). Real property is one of the most significant sources of collateral in most countries, allowing its owners to leverage their holdings into lending for new

[32] See http://www.ati-aca.org/.

or expanded businesses. As long as land tenure remains in doubt, the country is denying itself an important source of collateralized capital. It could be beneficial for the investment climate if the GoM and the donor community were to place a high priority on reform of the land law, with special attention to those aspects of the law that may inhibit domestic and foreign investment in the country.

D-3.b. Competition Law and Policy

Taking the larger view, trade liberalization might properly be seen as a subset of competition policy rather than the other way around. In both areas of policy, the ultimate objective is to promote the interests of consumers by eliminating barriers to entry or other anti-competitive practices that might otherwise restrict the operation of the market economy. While Mozambique has worked in recent years to reduce its trade barriers, it has only recently begun to complement those reforms with the establishment of an authority with the power to identify and eliminate anti-competitive practices in the domestic economy. The creation of this authority should benefit consumers by dealing with collusion and restrictions in such areas as retail sales, insurance, and transportation. From the consumer perspective, the benefits of a well-executed competition policy can equal or even exceed those of trade policy.

Mozambique adopted a competition policy in 2007. Its main objectives are to: (1) guarantee effective competition; (2) foster dynamic markets; (3) control market concentration; (4) ensure the reliable supply of high-quality and cost-effective goods and services; (5) promote price stability; (6) build capacity among national enterprises and SMEs; and (7) safeguard the interest and purchasing power of consumers. The policy called for the adoption of a competition law and the establishment of an independent competition authority.

In December, 2012, the Parliament approved a competition law based on a draft prepared with technical assistance from development partners. The law stipulates that all economic activities will be subject to competition regulations. It establishes norms and bans on anti-competitive practices, whether through horizontal or vertical agreements or through abuse of dominant position. A detailed list of what constitutes prohibited practices is clearly spelled out in each case. The law envisages the establishment of a financially and administratively independent competition authority. Given the universal applicability of competition rules and the powers granted to certain sectoral regulators, including in areas relevant for competition, the law calls for a close cooperation between the future competition authority and sectoral bodies. The powers of the competition authority are significant with respect to investigation, inspection, and sanctions.

D-3.c. Trade Facilitation and Customs Reform

Delays at customs are problematic in Mozambique, as discussed above with respect both to the complaints lodged in the Mechanism for Reporting, Monitoring & Eliminating Non-Tariff Barriers and in the concerns expressed by representatives of the private sector. These delays add to the time and unpredictability of trading, inhibit export competitiveness, add costs to business that could be avoided, and discourage participation in global value chains. Mozambique's business community and its foreign trading partners continue to encounter significant problems with the transparency of customs and other border agents, and the timely and adequate supply of information related to regulatory changes.

There has been some improvement in Mozambique on these issues over the past decade, notably with respect to trade and transport infrastructure, customs clearance procedures, and private logistics services. The creation of a single electronic window, as called for in the previous DTIS, was one important step forward. The new WTO Agreement on Trade

Facilitation should also increase the momentum towards reform, providing both for new disciplines and for the provision of assistance for implementation from the donor community.

The data show that delays have improved only modestly, notwithstanding the strong support received by the Customs Administration from a number of development partners. The donor community has provided technical assistance, training, and goods to buttress the GoM's effort to improve the overall regulatory and trade facilitation framework, streamline procedures, and strengthen the management and technical capacity of Customs in order to lower transaction costs, reduce clearance time of imports and exports, and improve governance. Aid agencies have also assisted Customs in improving its procedures and processes, supporting more transparency and faster clearance times, thus helping customs in implementing aspects of the WTO Trade Facilitation Agreement (discussed below).

Despite important reforms implemented over the past decade, customs procedures are still relatively slow and inefficient. According to the World Bank's 2014 *Doing Business* report, Mozambique currently ranks 131st out of the 189 countries measured for the ease of trading across borders. This does reflect a modest improvement from 141st place in 2007, but that advance in the rankings is less than might have been expected from a country with three main sea ports (Beira, Maputo, and Nacala). Even though Mozambique may compare favorably with the other countries in East and Southern Africa that have major sea ports, it still takes an average firm 21 days to export a product;[33] see the comparative data discussed above. An imported good requires 25 days to clear customs in Maputo and even more time in the provinces. The World Bank recognized the improvements to trading across borders in Mozambique from the introduction of the new Single Electronic Window system (see below). However, the data suggest that the country has yet to translate the full benefits of the SEW into simplifications of and reductions in documentary requirements. Performance would improve significantly if Mozambique were to reduce the time it takes traders to complete documents. Mozambique Customs is also studying (with donor support) how harmonization and simplification of documentation could be achieved and bring Mozambique in line with the best practices that are enshrined in the WCO's Revised Kyoto Convention.

a) Reform Initiatives in National Law

Over the last ten years Mozambique Customs, with the participation of the private sector, has simplified a number of laws and regulations to bring them more in line with the international practices and standards, particularly with regard to cargo transit and goods' clearance procedures. During this period, apart from the legal and regulatory regime that appeared to be a barrier to trade and in need of reform, a number of other improvements have been achieved as a result of dialogue between the private sector and the customs authority, namely:

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[33] The calculations used in the *Doing Business* series to determine the time for exporting and importing are based on calendar days. The World Bank's description of the methodology (http://www.doingbusiness.org/methodology/trading-across-borders) specifies that the time calculation for each of four stages in an import or export process starts from the moment the stage is initiated and runs until it is completed. The calculations assume that neither the exporter nor the importer waste time, and that each commits to completing the process without delay. It is assumed that document preparation, inland transport and handling, customs clearance and inspections, and port and terminal handling require a minimum time of one day each and cannot take place simultaneously. The waiting time that occurs in practice (e.g., in queues to obtain a service or during the unloading and moving of the cargo at the seaport) is included in the measure. Note also that the calculations assume that the product in question does not require any special phytosanitary or environmental safety standards other than accepted international standards.

- The single electronic window, as discussed at greater length below, which will improve the collection of duties and taxes, enhance cargo security, strengthen risk assessment (e.g., through the introduction of risk profiling of persons, vehicles, importers, trading activities and better use of document scrutiny, information and intelligence) and reduce clearance time;
- Harmonization of documents and procedures for the movement of goods in the region;
- Improvement of infrastructure and equipment, particularly in the major Mozambican border in Ressano Garcia with South Africa, helping to streamline procedures and reduce delays;
- Improved conditions and equipment (e.g., for cargo examination and document processing) for the clearance of goods at the border;
- Border working hours extended up to 22:00 hours for commercial clearance and to midnight for others; and
- Elimination of visas to facilitate movement of people, including drivers, thus reducing costs and increasing trade and tourism.

Some progress has thus been achieved, but considerable challenges remain. International agreements may serve to move the reform process forward.

Consultations with the private sector reveal an appreciation of the increasing efficiency in the clearance of goods at the border. Hindrances nonetheless remain, including the mandatory use of custom brokers (*despachantes aduaneiros*), some of whom are alleged to use their positions to inflate costs on the importation of goods (especially on used vehicles) and the growing number of internal customs' check points. These two concerns are particularly relevant for the private sector in Niassa, many of whom consider custom brokers to be irrelevant and costly. Other complaints concern unnecessary customs checkpoints spread throughout major borders such as Mandimba (connecting Lichinga to Malawi) and Matchedje (the entry point to both Malawi and Tanzania). Bribery is allegedly common along these routes, with the private sector acknowledging that failure to make illicit payments could endanger their economic survival. The facility with which officials and *despachantes aduaneiros* engage in illicit practices can be attributed in large part to entrepreneurs' lack of knowledge on custom procedures. This sentiment is broadly shared across the country, but less prominent in Manica province where the private sector and the customs department have developed a strong institutional relationship and coordination that has greatly contributed to reduction of private sector complaints over the conduct of custom officials.

b) The WTO Agreement on Trade Facilitation

The new WTO Agreement on Trade Facilitation offers an opportunity to build upon recent progress at the domestic level. This agreement expands upon GATT articles that cover freedom of transit, fees and formalities, and transparency (i.e., V, VIII and X) to require that member states maintain or introduce customs procedures that are simple, efficient, and proportionate in cost. The agreement has two sections. Section I contains provisions for expediting the movement, release, and clearance of goods, and Section II contains special and differential treatment provisions for developing countries and LDCs aimed at helping them implement the provisions of the agreement. Several aspects of the agreement merit attention here; its provisions on a single window are discussed in a later section.

Freedom of Transit. Article 11 in Section I of the agreement provides in part that, "Traffic in transit shall not be conditioned upon collection of any fees or charges imposed in respect of transit, except the charges for transportation or those commensurate with administrative expenses entailed by transit or with the cost of services rendered." It further provides that —

> Each Member shall accord to products which will be in transit through the territory of any other Member treatment no less favourable than that which would be accorded to such products if they were being transported from their place of origin to their destination without going through the territory of such other Member.

In other words, the cost of transit is to reflect the cost of the service rendered in administering the transit procedure, and the procedure should be no more burdensome than if goods that are imported into Mozambique from an adjoining country for export were not in fact transiting through the territory of Mozambique. Currently, traders continue to experience problems with the release of transit bonds and guarantees once goods arrive at their destinations, as well as inconsistent requirements for bonds, and the diversion of some transit goods from their destination.

Fees and Charges. An often repeated complaint concerns the level of fees and charges levied in connection with customs procedures and documentary requirements. Among the fees and charges considered and reported by traders to be excessive are those for import and export licenses, transit fees, and charges for scanning. The latter is reported as being applied to 100% of cargo without the application of risk assessment and is seen as a means of increasing revenue.

Article 6 in Section I provides that fees and charges for customs processing "shall be limited in amount to the approximate cost of the services rendered on or in connection with the specific import or export operation in question," and "are not required to be linked to a specific import or export operation provided they are levied for services that are closely connected to the customs processing of good." This is not a new provision, in the sense that GATT Article VIII already provides that "all fees and charges … in connection with importation or exportation shall be limited in amount to the approximate cost of services rendered." This would typically include license fees, document fees, stamp fees and inspection fees, requirements relating to documentation needed for import, and procedures to be followed for customs clearance. The suggestion then that Mozambique imposes categories of fees or charges related to the value of the goods imported, rather than in relation to the "approximate cost of services rendered", would seem to be at odds with the provisions of the new Trade Facilitation Agreement and with the GATT.

Pre-Shipment Inspection. This is an issue on which officials in Mozambique, the private sector, and the donor community each have very differing views. Whereas supporters of PSI see it as a necessary instrument to ensure the fair valuation of imported goods, and have only slowly moved towards the phasing out of these requirements for some categories of goods, officials in developed countries generally see PSI requirements as an administrative barrier to trade. This is one of the issues dealt with in Article 10 in Section I, part of which states that "Members shall not require the use of pre-shipment inspections in relation to tariff classification and customs valuation." A footnote to this language further clarifies that, "This sub-paragraph refers to pre-shipment inspections covered by the Pre-shipment Inspection Agreement, and does not preclude pre-shipment inspections for [sanitary and phytosanitary] purposes."

In Mozambique, trader views on PSI are mixed. One importer of used cars believes that the existing PSI procedure works well and is prepared to pay for it, for example, while others that are exporting to countries that require PSI take the view that the requirement is lengthy, laborious, and an unnecessary transaction cost. According to the AT, Mozambique will retain PSI for medicines, chemicals, oils, meat, and second-hand cars.

Clearing Agents. The agreement may also increase the pressure on Mozambique and other countries to ease the current requirements for the use of customs brokers (known in Mozambique as "clearing agents" or *despachantes*). What is at issue here is not the usefulness of customs brokers, which can offer a needed service for those companies that engage only infrequently in importing and thus do not maintain a permanent, in-house capability to process the necessary documentation, but instead the legal requirement in Mozambique that these agents be employed by all importers for every transaction. Complaints also arise over the limited capability of the existing number of clearance agents to handle the current level of imports, much less the increased volume of transactions that may arise as a result of increased trade and investment. Over time this may come to form an increasingly restrictive bottleneck in the conduct of international business.

Another section in Article 10 in Section I addresses this issue. It provides in part that, "Without prejudice to the important policy concerns of some Members that currently maintain a special role for customs brokers, from the entry into force of this agreement Members shall not introduce the mandatory use of customs brokers." It also requires that members "apply rules that are transparent and objective" with respect "to the licensing of customs brokers." These provisions thus do not require that Mozambique dismantle its existing requirements for customs brokers, but do limit the further extension of these requirements. The terms of the agreement also underline the arguments in favor of the relaxation of legal requirements that may pose barriers to the further expansion of trade, in which any restrictions on imports may contribute to an anti-export bias in the economy.

Authorized Operators. Another provision of the new agreement is Article 7 of Section I, which provides for additional trade facilitation measures for "authorized operators" (a form of trusted trader). It states that, "Each Member shall provide additional trade facilitation measures related to import, export or transit formalities and procedures … to operators who meet specified criteria, hereinafter called authorized operators." In the alternative, a member "may offer such facilitation measures through customs procedures generally available to all operators and not be required to establish a separate scheme."

An authorized operator/trusted trader scheme has yet to get off the ground in Mozambique, yet certain traders have already received an authority to operate as such on an *ad hoc* basis. This has, however, operated on the basis of a bond from the trader which has made it easier for them to clear goods at the border, a bond which has not been called for more than ten years. The scheme is now accommodated within the SEW but it is yet to have acceptable adherence because many operators are unable to meet the requirements prescribed in the Ministerial Diploma 314/2012 of 23 December.

National Trade Facilitation Committee. There is as yet no national trade facilitation committee in Mozambique, under which customs and traders can jointly discuss improvements in documentation and border procedures and improve mutual understanding. The creation of such a committee is mandated by Article 13 of Section I.

Assistance and Capacity-Building Support. It should be stressed that the Agreement on Trade Facilitation does not anticipate that developing countries, and especially not the LDCs, will need to rely solely on their own resources when undertaking these reforms. It instead provides for aid to these countries in implementation. Article 1 in Section II of that agreement provides in part that —

> Assistance and support for capacity building should be provided to help developing and least-developed country Members implement the provisions of this agreement, in accordance with their nature and scope. The extent and the timing of implementing the provisions of this Agreement shall be related to the implementation capacities of developing and least developed country Members. Where a developing or least developed country Member continues to lack the necessary capacity, implementation of the provision(s) concerned will not be required until implementation capacity has been acquired.

Accordingly, developing country Member States such as Mozambique are now expected to assess their capability to implement the agreement by classifying their obligations according to three categories:

> **Category A** – commitments that a Member State has designated for implementation upon entry into force of the agreement;
>
> **Category B** – commitments that a Member State has designated for implementation on a date after a transitional period; and
>
> **Category C** – commitments that a Member State has designated for implementation on a date after a transitional period and the acquisition of implementation capacity through the provision of technical assistance and support for capacity building.

The same provision further provides that LDCs "will only be required to undertake commitments to the extent consistent with their individual development, financial and trade needs or their administrative and institutional capabilities." While that provision offers a means by which countries such as Mozambique might delay implementation of these provisions, it does not necessarily follow that it would be in the interests of the country to stall these reforms. To the contrary, it would aid the country in attracting new trade and investment if Mozambique were to make a more concerted effort — with the technical and financial support of the donor community — to remove administrative barriers to the efficient movement of both imports and exports.

Self-Assessment of Needs. Mozambique has initiated a process to assess its capacity to implement the WTO Agreement through the categorization of commitments. A first workshop took place in Maputo from 14-18 April 2014, in order to determine overall compliance levels and identify special and differential treatment needs, specifically measures needing more time to implement and those where technical assistance is needed, as well as identifying national priorities for implementation. Particular implementation challenges are likely to be:

- Cultural challenges – reluctance to change, levels of literacy;
- Legislative challenges – regular stakeholder consultation, electronic payment, procedures covering sanctions, advance rulings, border agency coordination, post-clearance audits, expedited shipments; priority clearance of perishable goods, mandatory use of customs brokers;
- Institutional challenges – lead institution for updating import and export procedures and publishing information, implementation of new procedures, training for focal points, technical capacity for tariff classification and customs valuation, establishment of national trade facilitation committee; and
- Technological challenges – network infrastructure (energy and telecommunications), interconnection between systems for import and export clearance, equipment for non-intrusive scanning; equipment for effective control of traffic.

c) *Trade Facilitation in Bilateral and Regional Agreements*

The Tripartite FTA negotiations now taking place include draft provisions to align regional customs procedures. Various annexes cover issues such as customs cooperation, simplification of documentation, transit rules and rules of origin, with the aim of creating uniform approaches to border management.

Of more significance for trade facilitation and customs harmonization at this stage is the Comprehensive Tripartite Trade and Transport Facilitation Programme (CTTTFP). The CTTTFP, which is focusing initially on the North-South Corridor, contemplates border and customs procedures (one-stop border posts; integrated border management, regional customs bond, transit management); immigration procedures; and transport procedures (regional third-party insurance, vehicle standards and regulation, self-regulation of transporters, overload control, harmonized road user charges, regional corridor management systems). It also provides the establishment of a Joint Competition Authority on Air Transport Liberalization, which is to oversee the full implementation of the Yamoussoukro Decision on Air Transport[34] to which Mozambique is a signatory.

At the SADC level, the Protocol on Trade that Mozambique ratified in 2000 commits Member States to cooperate with each other in customs matters, including simplification and harmonization of customs procedures, computerization of operations, exchange of information; to reduce the cost of all trade documentation and procedures through harmonization and standardization of document layout, alignment and data requirements, reduction in the number of documents and institutions required to handle them, greater use of data processing technology, adherence to international trade facilitation programs, and common rules for transit trade.

In the area of transport, the SADC Protocol on Transport, Communication and Meteorology (TCM) aims to establish efficient, cost-effective, and fully integrated transport infrastructure and operations. In particular, Article 5 provides that, "Member States shall facilitate the unimpeded flow of goods and passengers between and across their respective territories by promoting the development of a strong and competitive commercial road transport industry which provides effective transport services to consumers." Having said that, progress towards harmonization of vehicle regulation (e.g., with respect to vehicle dimensions, axle weights, and road user charges) has been slow and patchy.

Those reforms that are reached by way of international or regional agreements rely not just on Mozambique but also on its partners, which can add an additional cause for delay. That is the case, for example, with a bilateral agreement reached with South Africa for the simplification of procedures at the Ressano Garcia/Lemombo border post, where a one-stop border post is proposed. The South African parliament has ratified the agreement with Mozambique on one border-post but it is yet to enter into force. In anticipation, access roads have already been built, and there will be a designated area for customs control under which inspections can take place jointly.

Negotiations are underway with other neighbouring countries for similar agreements to build one-stop border posts, with agreements being at varying stages of approval or implementation with Malawi, Swaziland, Zambia and Zimbabwe, based originally on a Memorandum of Understanding for Cooperation between Customs Administrations signed by

[34] The Yamoussoukro Declaration, adopted in 1988, adopted principles for the liberalization of air services and paved the way for the Yamoussoukro Decision of 1999, in which 44 signatory countries agreed to deregulate air services, and promote regional air markets open to transnational competition. In 2000, the Decision was endorsed by head of states and governments at the Organization of African Unity, and became fully binding in 2002.

the six countries in 2001. Support is under discussion with the African Development Bank and the Japanese aid agency for the implementation of these agreements.

d) The Single Electronic Window System

One innovative approach to border processing and clearance is the establishment of single windows. These systems, which have now been implemented by many countries around the world, allow traders to submit all information required by regulatory agencies via a single electronic gateway instead of submitting separate information to multiple government entities using a variety of paper, electronic, or other interfaces. Establishing a single window involves significant challenges and complexity, requiring as it does the cooperation of multiple government agencies, many of which must engage in significant institutional reform.
The single window approach is yet another reform that is endorsed by the WTO Agreement on Trade Facilitation. Article 10 in Section I provides in part that —

> 4.1. Members shall endeavour to establish or maintain a single window, enabling traders to submit documentation and/or data requirements for importation, exportation or transit of goods through a single entry point to the participating authorities or agencies. After the examination by the participating authorities or agencies of the documentation and/or data, the results shall be notified to the applicants through the single window in a timely manner.
>
> 4.2. In cases where documentation and/or data requirements have already been received through the single window, the same documentation and/or data requirements shall not be requested by participating authorities or agencies except in urgent circumstances and other limited exceptions which are made public.

Mozambique's Single Electronic Window (SEW) system was among the reforms called for in the previous DTIS, and its creation was among the few advances that were achieved during the second phase (2009-2012) of the implementation of that study's action matrix. The Mozambican system was modeled largely after those of Ghana and Singapore, and was supported by assistance from the World Customs Organization. It is based on a public-private partnership formed in 2009, and thus is funded largely by contributions from the private sector. The shareholding is split on the basis of 60% held by a consortium of Escopil Internacional and SGS Moçambique, 20% held by the Government and 20% by the Confederation of Trade Associations (CTA). MCNet has a concession to operate the SEW for 15 years. According to MCNet, the system complies with international best practice and standards, in particular the principles established in the Revised Kyoto Convention overseen by the World Customs Organization (WCO), and the recommendations of the UN Centre for Trade Facilitation and Electronic Business (UN/CEFACT), a body that is overseen by the UN Economic Commission for Europe. It has also been aligned with SADC procedures. According to an assessment by UNECE, the SEW system is capable of handling up to 400,000 customs declarations per year (1,500 per day).

The system was rolled out in stages, starting with piloting of in TIMAR (Maputo Port) in September, 2011. It was then taken to Beira and Nacala in 2012. From 35 sites with SEW system initially planned, Mozambique went on to establish 72 sites as of this writing. Yet, the system is yet to address the needs of the country.

The only parts of the SEW's five modules that are currently operational in Mozambique are the import and export modules of the Customs Management Systems (CMS), and the clearing agents, shipping agents, and banking modules of Trade Net. MCNet and customs are working with nine banks in connection with SEW operations, namely Standard Bank, BCI,BIM, Mozabank, Barclays, Unico, Procredit, FNB, ABC and MCB. Of 95 planned employees, MCNet has currently 14 employees of which 95% are nationals. MCNet has also trained more than 7,000 stakeholders, and no one can be put on the system without this training, nor have access to the SEW without permission from customs.

Opinions differ somewhat on the extent to which the benefits of the new program have already been realized. Government officials were at first worried about its impact, and initially revenue fell sharply. However, it recovered fully within two years. The SEW has reduced the time for clearing cargo significantly; what used to take 72 hours has now been cut to two or three hours in most cases, although this improvement is not universally recognized by traders. Data on the ground back up the argument that the electronic single windows system has reduced the cost and time for clearance of goods, provided for quick and secure operations through use of computers, and improved competitiveness. The separate declarations that were formerly required to be made to the Central Bank and to Customs been replaced by a single declaration through Customs. Traders report that the system is excellent for importation, as the software appears to eliminate any misappropriation.

Some members of the donor community place greater emphasis on what are sometimes called the "teething pains" of the new system, but at least some of them are also hopeful that these problems will — with national effort and international support — ultimately be worked out.

One of these teething problems is a lack of electrical power, a problem that has been solved by the use of back-up generators and greater use of solar power. The system also suffers from frequent software failures. It is not clear whether this is a problem with the programme or a failure to cope with capacity.

Several concerns have inhibited use of the system. These include such considerations as the lack of full integration by banks into the system (which can complicate the payment of duty), shifts in the exchange rate that can prevent goods from being pre-cleared, and administrative delays. Another concern is the level of fees and charges imposed by MCNet on the use of the SEW, which has a particularly disproportionate impact on SMEs, which as a result are discouraged from using it. For example, a standard fee of $1,500 is reportedly charged on consignments of over $50,000. Other problems that have also arisen concern the technical capacity and Internet access of clearing agents. The SEW system is supposed to allow importers to follow the clearance of their goods via a track-and-trace system, rather than relying completely on clearing agents.

Transit goods remain a problem, since the single window for transit has not been put in place. There were once 130 transit operators, many of which were operating illegally. Now there are only 30. The AT blames the transit rules operated by neighboring countries for problems with transit, except with Malawi with which has collaboration on transit goods handling. Unlike traders, who view the biggest concern being transit bonds and guarantees, the AT believes that traders are used to the system and raise few complaints. They were not aware of examples cited by traders where it is not clear which trucks are associated with which transit bonds, resulting in bonds not being released until trucks have unloaded in company warehouses. The SEW should have the potential to simplify the transit process.

Fraud has also been reported, with suggestions from the trade that while the SEW itself has taken much of the opportunity for corruption out of the system by removing discretion, a parallel system is said to exist that enables customs officers to continue to obtain bribes, invent inspections, scanner checks, examinations, further documentary checks, and so on. Traders suggest that the problem is particularly bad at the end of the week, prior to weekends. MCNet admits that problems of corruption persist. Interestingly, the AT believes that some traders preferred the discretionary system that allowed them to take advantage of corrupt, illegal practices.

e) Deployment of Scanners

The acquisition and deployment of non-intrusive scanners are a priority, but this should be done in a way that balances the benefits of this equipment (both for trade and security) with the need to manage costs for traders. The business community has raised concerns over the manner in which scanning requirements have been implemented at one port. Their complaints center first on the fact that they must bear the costs themselves, pointing out that this same service is provided without such fees in South Africa. They are also concerned by the specific structure of the fees, insofar as (a) the scanning fee of US$100 per container is required on all loaded containers, whether or not the container in question is made subject to the random checks, and (b) the fees are nearly as high (US$80) for the scanning of empty containers. Without commenting on the specific level of the fees, there may be a greater justification for the universal application of the scanning fee — amounting as it does to the spreading of costs throughout the trading system — than there is for the fee on empty containers.

f) Additional Needs for Training and Equipment

Officials in both the GoM and among the donors point out further needs for training and equipment to improve the capacity of the customs service. While it is partly a matter of hardware, with one donor providing assistance in the acquisition of equipment for trade hubs, some donors stress that it is the quality of customs personnel — especially with respect to corruption — that matters most. This has been the subject of some projects in the past, such as one that, through 2011, provided for training of customs officials. This needs to be done not just in relation to improving technical understanding of the rationale for and application of new procedures, but also via management training for senior managers and supervisors in ethics, standards, behavior and attitudes, in order to eliminate corruption in Mozambique Customs that undermines the effectiveness of the SEW. The Revenue Authority places a high priority on improved capacity for valuation and post-clearance audits, for which assistance may be obtained from donors. A reference price database is also under development.

Further reforms are under study. One project will shortly produce an impact assessment of customs transit operations in Mozambique, and is also assessing the use of non-intrusive inspection.

D-4. Recommendations

Recommendation #4: The National Export Strategy and a Trade Policy Document

It is recommended here that the GoM proceed with validation and implementation of the NES, and that the international community provide support for its implementation. The NES continues to be a valid instrument because of its implications for export diversification, regional and rural development and poverty alleviation. As suggested by ITC, for the validation and implementation of the NES, a concerted effort needs to be undertaken by a variety of private and public stakeholders. This requires a number of actions, such as high-level endorsement of the NES, establishment of a public-private implementation management framework, sensitizing implementing institutions to build ownership, and direct budget support.

The existing Trade Policy and Strategy (PEC) document, as developed in 1997 and approved by Council of Ministers in 1998, is now outdated. The validation of the NES should therefore be accompanied by the development of a trade policy document guiding the GoM during the trade negotiations at Multilateral and regional level.

Recommendation #5: Inter-Ministerial and Public-Private Consultation Mechanisms

The previous DTIS 2004 found that Mozambique's trade policy is ambiguous and plagued by coordinating problems. To remedy that situation, it proposed a formal mechanism for coordinating trade policy among government agencies, to be serviced by a revamped MIC with much strengthened technical and negotiating capacities. While initial efforts were made by MIC to follow up on the recommendations, the inter-ministerial machinery on trade and investment policy advocated by the DTIS was not established.

The present DTIS reiterates the view expressed in its predecessor, but with renewed and stronger emphasis. Trade has come to play an even larger role in the national economy, and requires a more formal and regular arrangement for the exchange of information, intelligence, and ideas between ministries. It is important to have in place a mechanism through which all ministries and other governmental entities that deal with trade and trade-related issues may deal with one another.

This reform could be complemented by improvements to the mechanisms for consultation between the public and private sectors. Many different models are available for a closer public-private dialogue, including some in which representatives of the private sector are granted seats on a country's national trade policymaking council and others in which they form one or more bodies that have a relationship with that council. Whatever format is considered to be appropriate to a Mozambican context, the most important point is that the views of the private sector should be sought on a continuous basis, and not merely as follow-through on decisions that have already been made within government. Involving the private sector offers several advantages, including the sharing of needed expertise, a greater likelihood that negotiations and other initiatives will focus on issues that are relevant to industry, greater legitimacy to the policies that are adopted, and a more cooperative approach to the implementation of those policies.

Recommendation #6: The Future of IPEX

A decision is urgently needed on the future of IPEX. Three possible solutions to its lack of capacity suggest themselves: merge this institution with IPEME and support the revamped body (thus focusing primarily on the interests of SMEs), reintegrate it into MIC (thus seeking to eliminate duplication of efforts), or redouble the efforts to enhance its own abilities to carry out its mandate. It is recommended here that the institution be given an opportunity to prove that the third of these options is best by giving it a well-ordered number of measurable goals to meet within a specific timeframe. Those goals could include the execution of a set number of activities that achieve verifiable ends, such as promotional assistance to a given number of firms that lead to actual sales in foreign markets. If those goals cannot be met within the specified time, then merger with IPEME or reintegration with MIC should follow. Whichever of these alternatives is ultimately chosen, the aim should be the establishment of a cost-effective, viable trade information system that provides user-friendly data and services to the private sector. That is a goal that is not being met in the current institutional framework.

Recommendation #7: Strengthening IPEME

The top priority for IPEME is a capacity-building plan to buttress the ability of management to implement programs and projects for SME development. SMEs generally lack relevant information to address specific tasks of product adaptation and product development and evolve with little awareness of global and even national markets. It is essential for IPEME to be adequately funded in the future so that it can fulfill its mission and objectives, including in the provinces.

IPEME does not have the institutional capacity to participate effectively in advising government on the interests of the Mozambican private sector in trade negotiations. Agency officials identify this as an area in which their staff would benefit from capacity-building courses. IPEME should foster closer and sustainable collaboration with private sector associations and academic institutions, in areas of training, problem solving/priority setting and advocacy.

One option would be to strengthen IPEME through a multi-year program with a team of experienced personnel who have industrial and consulting experience. That could be done either if (as discussed as an option in Recommendation #6) it is merged with IPEX, or if the *status quo* is maintained and the two institutions are kept separate.

Recommendation #8: The Operation of INNOQ

INNOQ and its stakeholders should work to increase the pace at which it adopts mutual recognition or equivalence mechanisms within SADC and other regional fora, and enhancing Mozambique's participation in drafting such standards at regional level in order to promote deeper regional integration. It should also seek to improve performance in proficiency testing and inter-laboratory comparisons to determine the performance of individual laboratories. In addition there are a series of specific needs that need to be addressed to enhance INNOQ's capacity, as discussed in the body of this report.

Recommendation #9: The Independence of the Competition Commission

As of this writing the competition authority is in the process of being established, with its staff being hired and its members appointed. The institution is intended to be operated initially as an office within MIC. This should be a purely temporary and transitional phase in the evolution of the authority. It is a well-established principle that such authorities should be independent of other agencies of government so as to reduce the incidence of capture by private interests or political interference by other government officials. It is recommended that a schedule be established for the movement of this body out of MIC, both institutionally and (if resources permit) physically. This might reasonably entail a two-year timeframe.

Recommendation #10: Trade Facilitation and Customs Reform

Mozambique has signed the Arusha/Maputo Declaration on combating corruption within customs administration,[35] but there are doubts regarding the status of its implementation. More behavioral training is needed for senior management in order to raise awareness of best practices and to avoid corruption.

The implications of the WTO Agreement on Trade Facilitation need to be fully assessed, starting with a review of fees and charges. A review of the transparency of Mozambique's procedures should also be undertaken, considering the following points:

- Further simplification of documentation necessary for import and export is required. This will contribute to the reduction in trade transaction costs.

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[35] http://www.wcoomd.org/en/topics/integrity/~/media/WCO/Public/Global/PDF/About%20us/Legal%20Instruments/Declarations/Maputo_declaration_EN.ashx.

- Pre-existing trade facilitation measures should be reinstated. The SEW is not an end in itself, but a means for creating more efficient, streamlined clearance procedures for goods, to the benefit of traders and border agencies alike.
- Transit procedures should be brought within the scope of the SEW. This should be done in consultation with traders, to ensure that transit bonds can be released as early as possible, in line with the provisions of the WTO Trade Facilitation Agreement.

E. PRIORITY SECTORS FOR TRADE AND DEVELOPMENT

Analysis of the Problem: This part reviews the current status and prospects for specific sectors in Mozambique. The analysis is presented according to the familiar division of an economy into the primary, secondary, and tertiary sectors, which might alternatively be called the extractive industries (mines, farms, and fisheries), manufacturing, and services.

The analysis that follows is based primarily on those sectors that are currently active in Mozambique, without prejudice to those that might emerge in the future. When formerly closed markets open up we cannot accurately predict the industries in which a given country will prove to be competitive. This frustrates the instinct to plan, but that instinct itself can — if governments and donors become too interventionist in their efforts to second-guess or manipulate the market — produce policies that inhibit the proper operation of the market and the creation of wholly new economic activities. The sectors in which a country develops competitive, export-oriented industries can sometimes be surprising, as is the case for Mozambican architectural services (as discussed below). It is for these reasons that the present DTIS is cautious with respect to the identification of specific products or sectors that merit support from the government and the donor community. There are some specific interventions that can help existing industries to overcome known barriers at home and abroad, broader investments in infrastructure that can be expected to pay off in enhanced productivity, and steps that can be taken to facilitate investment of domestic and foreign capital in the country. As for the identification of sectors, specific products, or even firms that ought to be targeted, however, that is something that ultimately is better done by entrepreneurs (domestic and foreign) rather than by government officials, aid agencies, or consultants.

Proposed Solution: Seven recommendations are made in this part. They concern support for the fishery and biofuel sectors, competition in the banking industry, and three aspects of policy and negotiations on trade in services (i.e., tourism, telecommunications, transportation, and the movement of natural persons).

E-1. The Primary Sector: Minerals, Agriculture, and Fisheries

E-1.a. <u>The Extractive Industry</u>

According to the latest estimates,[36] the volume of natural gas in the offshore Rovuma basin is in excess of 100 trillion cubic feet, a level comparable to Norway's reserves. The construction of liquefied natural gas (LNG) plants is expected to entail an annual expenditure of US$4 billion (equivalent to 23% of the 2012 GDP). According to the IMF's latest projections, LNG production will start in 2020, with 20 million tons per year and a domestic value added of roughly $9 billion at current prices, corresponding to as much as 27% of projected 2020 GDP, excluding the LNG sector.[37] Coal production and exports have already begun and are expected to increase from 5 million tons in 2012 to 22 million tons by 2017 as

[36] EIU Country Report, Mozambique, March 2013

[37] IMF, Republic of Mozambique – Fifth Review under the Policy Support Instrument and Request for Modification of Assessment Criteria, January 3, 2013

necessary infrastructure projects (including the construction and rehabilitation of a second rail line through Malawi by Vale) are completed. The value-added share of coal and LNG sectors is projected to reach about 20% of GDP by 2023, far exceeding the share of existing mega-projects (5%). Over the next ten years, coal and LNG are likely to contribute 2 percentage points per year to the expected 8% GDP growth. Although government revenue from mega-projects will be small over the medium term, it is projected to reach about 25% of total fiscal revenue in the longer term, largely from the LNG sector.

These numbers necessarily include a great deal of conjecture. A consultant's study of the Natural Gas Master Plan stressed the critical importance of unknown factors. "We do not know when, where and how much additional gas reserves will be developed," the report observed, and "[w]orld gas and oil prices are subject to major supply and demand uncertainties." The report also noted that the economics of mega-projects are unclear as "much depends on gas prices and availability, commodity market conditions, and investment climate."[38] The authors nonetheless expressed the hope that these uncertainties can be reduced over time, and that by 2030 Mozambique could realize US$10 billion from its gas exports.

An extractive industry such as mining typically gives rise to two main groups of linkages. The first, includes backward (upstream) linkages to the mining supplier industries and a forward (downstream) linkage to the processors of the mine's output. The second group includes side-stream linkages (to industries or organizations providing technological, human resource and infrastructure inputs) and lateral migration linkages (development of alternative uses of generic technologies used in the industry).

Experience indicates that conscious policy efforts are needed for linkages to be built, such as those promoted by UNCTAD's Business Linkages Programme launched in Mozambique in 2008. This multi-stakeholder initiative aims at establishing linkages between SMEs and TNCs and transforming them into sustainable business relationships. The model is based on a targeted approach focusing on (i) attracting the FDI that best contribute to the development of productive capacities at the national level; and (ii) creating an environment that fosters the establishment of business linkages between FDI and domestic firms, particularly the SMEs, and that ensures the sustainability of the linkages. Some of the core principles and lessons of the initiative are summarized in Box 2.

A pilot project was undertaken in 2013 to create an environment conducive to sustainable business linkages between small local rural producers in the Nampula corridor and the mining company Kenmare, in Moma. The project specifically involves the creation of linkages with the local communities for the supply of local products (vegetable, fruit, eggs) to the caterer of the Kenmare mines. During a second phase, the project aims at extending coverage to chicken, beef, fish, chemicals, and other products, provided that they meet all the pre-requisites. The experience in agribusiness development in Africa suggests that without strong and sound market linkages, there is little incentive for smallholders farmers to move beyond subsistence.

Another project now underway aims at reinforcing the performance of enterprises and smallholders in the Zambezi Valley (provinces of Tete, Manica, Zambézia, and Sofala) and the Nacala corridors (provinces of Niassa and Nampula), focusing on the creation of growth poles. These two areas are targeted for their potential for economic diversification beyond mining and energy.

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[38] ICF International, *The Future of Natural Gas in Mozambique: Towards a Gas Master Plan* (2012), pages ES65-ES66.

Box 2: How to Optimize Value in Extractive Industries

Note: These are matters of general guidance that UNCTAD offers to all developing countries with respect to extractive industries. They are not unique to Mozambique.

- As extractive industries rely in non-renewable resources, local content policies should be conceived as a part of a long-run economic growth and development strategy. They would reach a higher multiplier effect if, from the beginning, they are consistent with a sustainable development strategy;
- In terms of regulation, the creation of an independent authority to monitor and enforce local content policies is essential. This Body must give the definition of what constitutes local value added, design reasonable and affordable targets and monitor compliance of local content regulation;
- Country experiences show that a certain degree of preference to ensure local producers participation in the value chain has positive effects in the industry development. In some countries, the creation of a State-owned company has played a significant role in stimulating the local participation in extractive industries;
- Building local capacity in the provision of goods and services to meet international standards. In the area of goods, such laws … could be inconsistent with the WTO TRIMs Agreement except for Least Developed Countries who may be given the flexibility to use TRIMs until the year 2020.
- Local content takes time to develop and be competitive so it is important that negotiations to build capacity begin with the extractive companies when they are being given access to the natural resources. Furthermore, the educational system prevailing will need to align courses offered to students with the demands of the sector. This would need collaboration with the industry to undertake the necessary research and development so as to build a competitive supplier base;
- Policies alone will not boost local content development but also factors such as good governance are needed. Rent-seeking behavior, lack of awareness of available opportunities, and long waiting times to certify local contractors to international standards all contribute to stifling growth of local entrepreneurs in the industry. If value retention is to be increased through competitive local participation then there is also a need to establish good institutions and benchmarks to effectively monitor its progress.

Excerpted from UNCTAD, *Extractive Industries: Optimizing Value Retention in Host Countries* (2012)

E-1.b. Agriculture and Agro Processing

Agriculture remains the core economic activity in Mozambique, where 86% of the total population depends on agriculture as their primary means of subsistence. The GoM considers agriculture as the main vehicle to overcome poverty. The contribution of agriculture to the GDP was in 2012 around 29.5 % and the contribution of the agro-commodities to overall exports was around 16%. Much has to be done to increase production and productivity so that the country can expand its exports. This will require greater mobilization and more efficient use of the country’s substantial rural population.

a) The Strategic Plan for Agricultural Development and the National Investment Plan for the Agricultural Sector

The Strategic Plan for Agricultural Development (PEDSA) is a long-term (2010-2019) agricultural strategy developed to harmonize the strategies relating to various agricultural sub-sectors, including land, forests and wildlife, livestock, research, extension, the Green Revolution, and irrigation. The national agricultural sector faces challenges to produce in the quantity and quality required to provide enough raw materials to supply industry, raise foreign exchange, compete effectively with imports, and diversify exports. The strategy recognises that the national export potential is untapped, and that there is a need to position Mozambique in the agro-commodities export business. PEDSA focuses its attention particularly on promoting initiatives that incentivise higher levels of productivity and production of the so-called traditional exports crops such as sugar cane, cotton, cashew nuts, oilseed, and fruits and vegetables crops, as well compliance of non-tariff barriers with WTO rules. The specific objectives for agricultural development are:

- Increase agricultural production and productivity and its competitiveness
- Improved infrastructures and services for markets and marketing
- Sustainable use of land, water, forest and wildlife resources
- Put in place legal framework and policies conducive to agricultural investment
- Strengthen agricultural institutions

While there are aspects of markets and marketing of agriculture products, the overriding concern is food security through improved production by the small-holder sector.

In September, 2008, South Africa banned the import of fresh fruits from Mozambique, and in February, 2010 Zimbabwe took the same action in relation to Mozambican fresh fruits. The strategy attempts to prevent similar occurrences in the future by setting "the harmonization of legal and regulatory framework for agricultural marketing in line with the regional protocols on plant and animal health with CODEX in relation to safe food production" as a priority action.

The National Investment Plan for the Agricultural Sector (PNISA) is the operational instrument of the PEDSA. Under the leadership of the Ministry of Agriculture, the plan was approved in April, 2013 and is expected to terminate by 2017. PNISA aims to accelerate the production of food security crops, guarantee income for producers, ensure access and secure tenure of natural resources, provide specialized services oriented to the development of value chain, and to boost the development of higher agricultural and commercial potential areas. PNISA is composed of five components, namely (i) improvement of production and productivity; (ii) access to markets; (iii) natural resources, (iv) food security and nutritional, and (v) capacity building and restructure. It operates through research, extension services, financing, marketing and processing, institutional strengthening, and training and capacity-building. The target groups are small and medium farmers, including commercial farmers. The crops that will have dedicated attention are staple crops as maize, rice, wheat, beans, cassava, tomato, potato, and sweet potato. Cash crops are also considered, including cashew, cotton, soy beans, sesame seeds, and tobacco.

The budget of PNISA evidences the priority of the plan to address production and productivity-related issues, where US$3.7 billion (74% of the total budget) is concentrated. Aspects related to irrigation and agricultural research constitute the top priorities, absorbing more than half of the total budget. The government still putting its effort on food crops (13%) and cash crops (7%), an effort that the plan emphasizes should be complemented by private sector investments.

Market-access issues absorbs 11% of the total budget, recognizing that is relevant to generate income and food security at the household level, and expand agricultural commodity trade nationally, regionally, and internationally. For that purpose 65% of the budget goes to the rural roads, 27% for agribusiness, and 1% to finance post-harvest intervention.

PNISA is widely accepted as the main tool that guides public and private agricultural investments. Its contribution to export diversification is intrinsically linked to the ability of different actors to mobilize resources for its implementation, and to the pace at which each program is implemented. By the time of its approval the mobilized financial resources was equivalent to 22% of the requirements.

b) The Mozambique Commodity Exchange

Approved in September, 2012 by the Council of Ministers, the Mozambique Commodity Exchange (BMM) is a new institution created as part of the PEDSA in order to "bring order, efficiency, transparency and integrity in agricultural markets" through better coordination between different actors in the value chain. The BMM is a tripartite initiative between the ministries of Agriculture, Industry and Commerce, and Finance, and is still in its early insertion stage within the agricultural market systems. As of yet, no transactions are taking place. There still remains much to clarify for the key potential users about the role of the institution and the operating mechanisms of the bourse. It appears that only dry and storable agricultural commodities will be traded, but the selection of these goods has yet to be determined by an in-depth analysis. Because Mozambique exports predominantly unprocessed agricultural commodities, the potential contribution of BMM to growing and diversified national exports may thus be limited.

The experiences of other African countries with comparable institutions suggest both the potential and the limits of these institutions. The Ethiopia Commodity Exchange represents a good success story that shows how such entities can have a positive impact on a country's exports. Accordingly to *Forbes*, "Ethiopian coffee exports increased to $797m in 2011/12 from $529m in 2007/8, when the exchange was established."[39] The Ethiopian institution has boosted export quality due to standards and quality requirements that producers have to comply with, and exporters have benefited from stabilized supply chains. By contrast, the implementation of Zambian Commodity Exchange did not translate into good performance of Zambian exports as expected due to "pending legislation to certify warehouses" by the time that it started operating. The individual performance of each bourse can be attributed for differences in how agricultural markets are structured in each country as stated by on analysis:

> We must recognize that commodity exchanges are situated in a broader context of agricultural markets which are often characterized by inefficient legal systems, limited number of potential participants, passive financial institutions, political interests, and high levels of unpredictability policy.[40]

The issues presented above are well identified in both PEDSA and PNISA, and demand appropriate treatment and timely implementation in order to build the enabling environment for export promotion and diversification.

c) Agricultural Production

According to INE's Censo Agro-Pecuário 2010, the Mozambican agricultural sector encompasses 3.8 million farms, and is dominated by smallholder farmers producing primarily for subsistence. This group of farmers occupied more than 95% of the total area cultivated, with plots ranging between 0.5 and 3 hectares. The main food crops grown by small farmers mainly for household consumption are maize, cassava, sorghum, rice, common beans, groundnuts, cowpeas, and pigeon peas. These crops are also sold in local markets by small farmers, and are becoming an important source of cash for rural households. The main cash crops produced in

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[39] http://www.forbes.com/sites/skollworldforum/2013/08/15/africas-agriculture-commodity-exchanges-take-root/

[40] Nicholas Sitko and T.S. Jayne, *Constrangimentos para o estabelecimento de bolsas de mercadorias em áfrica: implicações do caso zambiano para Moçambique*, August 2012.

the country are cashew, cotton, sugar cane, tobacco, tea, pigeon pea, sesame, vegetables, and fruits (principally citrus, bananas, mangos, pineapples, and coconuts). Fruit production is still a fledgling business whose commercial production is the domain of private agribusinesses that produce mainly for the export market. The livestock sector, too, is dominated by smallholders. They focus on chickens, goats, pigs, and cattle production.

Mozambican farmers operate under a number of constraints. In 2012, only 7% of farmers had access to extension services provided by the public sector and NGOs. The use of fertilizers is still very low, showing a decline for the period 2002-2012. Only 3% of small- and medium-sized farms make use of it. A recent study[41] conducted in the seed sub-sector demonstrated that less than 10% of total seed utilized by the small household farmers is certified, and it is distributed mainly through government and NGOs. Access to commercial credit by farmers remains a challenge. The most common form of access to it is through inputs (i.e., seeds and/or chemicals). The main drivers of that option are the promoters of out-grower schemes. In the rural areas, the government also facilitated access to credit for agriculture under the Support Program for Rural Finance funded by IFAD and BAD. In 2010, the utilization of mechanized services (tractors) in the sector was limited to around 57 thousand farms out of 3.8 million that exists in the country. Support to farmers and for agriculture is made through exemptions on VAT on the first transmission of produce (i.e., from farmer to the buyer), and a 50% exemption of fuel for agriculture.

As can be seen from the data in Table 13, production has increased in recent years at an especially rapid rate for cotton and sugar cane, with increases also registered for pineapples and groundnuts. Production of goats has been stable, while cashew nuts and tobacco have experienced small declines.

Cotton. The number of cotton producers has lately registered a slight decrease. Cotton producers from Nampula province has passed from 18% in 2002 to 11% in 2012. Meanwhile in Cabo Delgado the numbers increased in the same proportion. It is interesting to note that within the same period the proportion of farmers selling the crop has almost doubled increasing from 37% to 64%. The fluctuations in prices at the producer level have had a strong influence on level of production. ITC Trademap data show that the world market price for cotton fluctuated between US$1369/tonne in 2007 and US$2948/tonne in 2012.

Table 13 : Production Volumes of Selected Agricultural Commodities, 2008-2012

	Index Values Based on 2008-09 Average				2012
	2008-09	**2010**	**2011**	**2012**	**Tonnes**
Cotton	100.0	60.7	105.2	256.3	173,000
Sugar cane	100.0	116.8	145.8	145.7	3,393,904
Pineapples	100.0	128.7	127.1	127.1	54,000
Groundnuts	100.0	158.1	95.9	113.2	112,913
Goats	100.0	89.3	91.4	99.0	—
Cashew nuts	100.0	129.6	151.4	86.9	64,731
Tobacco	100.0	105.2	109.9	85.5	54,450

Sources*: Calculated from INE - Statistical Yearbook 2012 for cotton and FAOStat 2013 for all other commodities.*

A recent analysis by a division of the Food and Agriculture Organization found that even though "the government supports cotton farmers by regulating prices, cotton producers in

[41] *Analysis of Seed Production, Commercialization and Use in Mozambique*, 2011.

Mozambique receive prices that are lower than international reference prices."[42] The analysis suggested several measures that could improve prices for producers, such as fostering competition along the entire cotton value chain, especially among processing companies (ginners); making processing more efficient to increase both the quantity and quality of outputs; revising the domestic price fixing system to align producers' prices with prices in international markets; and strengthening the market power of producers, relative to ginners, to improve transparency and equity in cotton market transactions.

Sugar Cane. Viewed in absolute terms, it is the sugar industry that experienced the most substantial production growth over the years. This is a consequence of the large investments made in the sugar cane industry by foreign investors, promoted by the conducive policy adopted by the GoM for this sub-sector.

Pineapple. The national production of pineapple is driven by the local demand, marketed fresh in local markets. Produced by 360,000 household farms,[43] the flow of produce from production areas to the consumption centers is conducted by informal traders. Producers increasingly see this crop as a profitable alternative to boost their household income. Trademap data show that the international import prices are very competitive (US$779/tonne in 2012) and the annual growth of quantities imported during 2008-2012 was 3%.

Groundnuts. There are a variety of groundnuts produced by farmers, but is the small grain known as *nametil* that is exported. Data from IAI 2012 indicate the proportion of total farmers involved in the production of this variety has declined in 10 years, passing from 36% in 2002 to 28% in 2012. In the same period the trend of farmers selling the crop rose: Where in 2002 they were 18% (2002), by 2008 the reached the maximum of 26% before falling back to 22% in 2012. The world import price is being quite stabilized; Trademap data indicates that it increased from US$1078/tonne (2009) to US$1222/tonne (2012).

Goats. Since the 1990s the livestock sector is experiencing a massive program of animal husbandry promotion (including goats) in order to revitalise the sector affected by the civil war. Only 20% of total farms are dedicated to goat production, and the commercial production is still in the growth stage. In this sense, much of the production is for local consumption, mostly sold alive in the rural areas as well in the main markets of the major cities.

Cashew nuts. This is an export crop. Production decreased by 45% between 2011 and 2012, being affected by the age of cashew trees and diseases. According to the IAI 2012 in 2002 the stock of trees was 28,500, up from 19,900 in 2010 (i.e., a 43% increase). The percentage of trees affected by diseases, however, is around 60%. Being a rain-fed crop, production of cashew has also been influenced by fluctuations of the rainfall patterns.

Tobacco. The trends shows a reduction of farmers engaged in the production of tobacco. In the Tete province, where the majority producers are located, the share producing this crop fell from 12% in 2002 to 7% in 2012. Despite the fact that this is a 100% cash crop, the percentage of farmers has oscillated along the years but in overall the sector has been experiencing a growth of numbers of
farms that sell tobacco and we can assume that the import tobacco prices is the driver of this trends and also by improved mechanism of tobacco classification, focus of disagreement between producers and promoters of culture. In 2008 it was US$4,046/tonne and by 2012 it was US$5,053/tonne.

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[42] Monitoring African Food and Agricultural Policies, *Rethinking Mozambique's Cotton Price Fixing System to Align Producers' Prices with International Prices* MAFAP Policy Brief #7 (Rome: Food and Agriculture Organization, 2013).

[43] INE: Censo Agro-Pecuario 2010.

d) Agricultural Imports

Cereals comprise the largest component of the agricultural import bill. The most imported cereals are rice, wheat, and maize. These imports have fluctuated greatly in recent years, as can be seen from the data in Table 14, with the value of imports in 2011 being more than twice what they were in 2010 before dropping again in 2012.

Table 14 : Import Value of Selected Agricultural Commodities, 2009-2012

Thousands of Current U.S. Dollars and Percentage Change

	2009	**2010**	**2011**	**2012**	**% Δ 2009-12**
Cereals	275,596	149,165	308,267	208,892	-24.2
Sugars & sugar confectionery	10,828	5,220	31,599	19,510	80.2
Vegetable, fruit, nut, etc. food preparations	14,477	10,489	16,712	15,505	7.1
Edible vegetables & certain roots & tubers	11,971	10,239	14,274	14,416	20.4
Cereal, flour, starch, milk preps. & products	15,056	9,227	14,979	12,790	-15.1
Tobacco & manufactured tobacco substitutes	2,981	7,727	11,419	11,518	286.4
Cotton	4,496	4,726	6563	5.699	-99.9
Edible fruit, nuts, peel of citrus fruit, melons	2,683	2,682	5,309	5,427	102.3
Oil seed, oleagic fruits, grain, seed, fruit, etc.	7,726	4,120	8,127	5,323	-31.1
Coffee, tea, mate & spices	4,480	3,806	4,099	3,285	-26.7
Total	**350,294**	**207,401**	**421,348**	**302,365**	**-13.7**

Sugar is the second-largest item in Mozambique's agricultural imports, and is also the most politically sensitive of these crops. The GoM has undertaken significant efforts to revitalize the production of raw sugar, including the extension of import protection via tariffs. The import of sugar is subject to a monthly variable surtax that is calculated according to the relationship between the actual CIF price and a reference price.

The data in Table 15 show the preferential and non-preferential tariffs that Mozambique applies to imports of selected agricultural commodities. Five products out of seven under consideration have a maximum import duty of 20% and two (cotton and tobacco) are subject to just 2.5%. The listed products are subject to VAT of 17%. Under the SADC regional trade agreement, all products except shelled cashew nuts face zero tax. The SADC schedule of tariff reductions provides that shelled cashew nuts from South Africa remain subject to duty until 2015.

Table 15 : Import Tariffs and Taxes Applied to Selected Agricultural Commodities, 2014

Percentage Ad Valorem

	General Regime	South Africa	Other SADC Members	VAT
Cotton	2.5	10.0	0.0	17.0
Piri-piri	20.0	10.0	0.0	17.0
Cashew nuts in shell	20.0	10.0	0.0	17.0
Cashew nuts shelled	20.0	10.0	0.0	17.0
Groundnuts	20.0	10.0	0.0	17.0
Pineapple	20.0	0.0	0.0	17.0
Tobacco	2.5	10.0	0.0	17.0
Sugar	7.5	10.0	0.0	0.0
Goat	20.0	10.0	0.0	17.0
Rice	7.5	10.0	0.0	0.0
Wheat	2.5	10.0	0.0	17.0
Tomato	20.0	10.0	0.0	0.0
Oranges	20.0	10.0	0.0	17.0

Source: MCNET, 2014

The Doha Round negotiations in the WTO do not appear likely to have a very significant impact on agricultural trade issues for Mozambique. As an LDC Mozambique would be exempt from any tariff cuts in these negotiations, and even if the country were to graduate from that status it is doubtful that any agricultural tariff commitments would be so large as to require actual reductions in Mozambique's applied tariffs. The country is a member of several coalitions that are engaged in these negotiations, most of which consist of groups in which all members of the African Group and/or the LDCs participate. These include the coalitions of the African, Caribbean, and Pacific (ACP), the Group of 90, the Group of 33, and the "W52 sponsors". The latter group is involved in the negotiations on geographical indications, as discussed below. With that one exception, the groups in which Mozambique is active are more devoted to defensive than to offensive interests (i.e., they place greater emphasis on avoiding new commitments on the part of their members than on obtaining new commitments from other members).

e) Agricultural Exports

Mozambique's agricultural exports consist mainly of the traditional products: cashew nuts, cotton, groundnuts, and pigeon peas; see Table IV.4. The National Export Strategy identifies cashew and agro-processing (pulp and fruits) has those that offers competitive advantage. The advantage of cashew derives for the fact that in the SADC region is the only producer and the market is already established and growing nevertheless the level of productions and the quality of produces being not sufficient enough to meet market demand.

Table 16 : Export Value of Selected Agricultural Commodities, 2009-2012
Thousands of Current U.S. Dollars and Percentage Change

	2009	2010	2011	2012	% Δ 2009-12
Sugar	58,310	87,513	87,944	146,105	150.6
Cotton	26,490	29,057	36,947	47,561	79.5
Tobacco	179,337	142,635	178,404	227,872	27.1
Cashew nuts shelled	15,251	10,816	16,928	13,850	-9.2
Cashew nuts in shell	13,197	14,851	34,082	3,920	-70.3
Total exports	**292,585**	**284,872**	**354,305**	**439,308**	**50.1**

Source: IPEX, 2013

Mozambique's agricultural commodities exports comprise essentially unprocessed and semi-processed products. The semi-processed ones include fundamentally cotton, tobacco, cashew nuts, pigeon pea and groundnuts. This scenario reflects in some extent the level of development of Mozambique agro-processing industry. Low productions and productivities is the immediate factor influencing negatively to the expansion of this sub-sector.

Observers suggest that Mozambique can be competitive in exports of pigeon pea to the Indian and Bangladesh markets, maximizing the differences of harvesting seasons/crop cycle with the two countries. The export potential for fruits is also largely untapped, given the immense range of fruit varieties and the potential to introduce new ones. Post-harvest losses are very high, however, due to limited options of storing and processing. It is notable that the investment in mango production and its exports are increasing, similarly to the pigeon pea the competitiveness of this crop is driven by the differences of crop cycle with India and Bangladesh being the major importers from the SADC region.

One major challenge for fruit exports is sanitary issues, particularly the high prevalence of fruit flies in certain parts of the country. This has negatively affected domestic and international trade, especially mango and banana from the central region. Another sanitary issue concerns coconut yellowing disease, which has been reducing the potential of the coconut crop, especially in Zambézia province.

f) Geographical Indications

The recognition of geographical indications (GIs) is potentially valuable for Mozambique, holding out the possibility that certain products in the country could receive special treatment for their unique qualities increasing their commercial value and export opportunities. Current WTO rules allow the names of certain products to be used exclusively by producers from the regions in which the items were originally produced. This is an issue that can be pursued both in international negotiations and in the development of specific products nationally.

Mozambique participates in the Doha Round negotiations on geographical indications as member of "W52 sponsors" group. These are the countries that are sponsors of a document known as TN/C/W/52, a proposal for "modalities" in GI negotiations to extend the higher level of protection beyond wines and spirits, and on "disclosure" (i.e., patent applicants to disclose the origin of genetic resources and traditional knowledge used in the inventions).

At the national level, Mozambique is exploring the designation and promotion of a few products. With UNCTAD support the Institute for Intellectual Property (IPI) developed the terms of geographical indications for the *Camarao Branco do Mozambique* (a case described in Box 3 in the next section) and the *goat of Tete*, but these proposals are still under development. Much remains to be done in coordination among the different government departments for the promotion of geographical indications. Yet there is considerable potential. The Mozambique prawns are widely acclaimed regionally even if they have not yet reached international recognition in lucrative markets such as Europe. The goat of Tete is raised under certain combination of factors (e.g., its special feed) that confer unique quality and taste of its meat. The main problem concerns the need to link the rural communities producing these goods to the IPI as well as to other relevant institutions.

Box 3: The Experience of the Camarao Branco do Mozambique as a Geographical Indication

The Instituto of Protecao Industrial (IPI) is the custodian of the law instituting the recognition and protection of geographical indications in Mozambique. Since 2009 IPI has initiated consultations with different stakeholders in the GoM and with associations of fishermen in Maputo and Beira to support them in lodging an application for registering the white prawns of Mozambique as a geographical indication. With the assistance on UNCTAD, and in consultations with officials of INIP and ADNAP, a specification book (*cuaderno*) for the registration of the white prawns of Mozambique has been developed. Its content has been validated in workshops held in Maputo and Beira where private sector representative have been participating. Efforts have been made to involve them since the early stage IDPPE, given that the artisanal fishermen were expected to be the main beneficiaries from the recognition of the white prawns under as GIs. Despite the attempts made to coordinate the activities of the fisheries and commerce ministries to join forces in supporting the project, and the widespread support from associations of fishermen, the *cuaderno* has yet to be submitted by representatives of the associations of fishermen for GI registration.

There are projects in the pipeline for other products, the further development of which will depend on the availability of funds. One is for the pineapple from Muxungué, a fruit that has a size, variety, and taste that are different from those produced in the rest of the country. The piri-piri from Nhacoongo produces a sauce that is very well branded and accepted by consumers because of its particular taste. Zambézia produces a special strain of aromatic rice. The tea of Gurué, which comes from the Zambézia province and the district of Gurué, is distinct due to its special agro-ecological conditions. As of now the only one of these products for which formal export data are available is tea. In 2012 the United Arab Emirate surpassed Kenya as the main market destination for this product, taking in almost 80% of Mozambique's exports.

g) Agricultural and Agro-Processing Projects

Beyond PEDSA and PNISA there are several initiatives underway in Mozambique related to export diversification for achieving inclusive growth, while other initiatives are related to an improvement in the potential of traditional sectors with declared pro-poor objectives.

The AgriFUTURO Project is a five-year initiative aiming to increase competitiveness in nine value chains, namely bananas, pineapples, mangos; maize, soybeans, sesame; groundnuts; cashews, and forestry. It is tailored to support farmers oriented to the market recognizing the role that large agribusinesses and services providers can play in boosting the participation of small farmers in the market. Its activities included facilitation of basic seed multiplication; the formation of Integrated Value Chain Associations, and the formation of new cooperatives in accordance with the new policies and support existing legislation to comply with the new cooperatives, to name a few.

Other notable projects in this sector include PROSUL and PROIR. PROSUL is a seven-year value chain development project in the Maputo-Limpopo corridor with US$44.8 million in funding. The project aims to achieve goals of the PEDSA and its targeting the following chain: horticulture, animal husbandry and cassava, including access to financial services. PROIR is a sustainable irrigation project that aims to rehabilitate irrigation systems in order to increase irrigable areas. It is hoped that this project will ultimately produce multiplier effects in food production for consumption and the market.

E-1.c. Fishery Sector

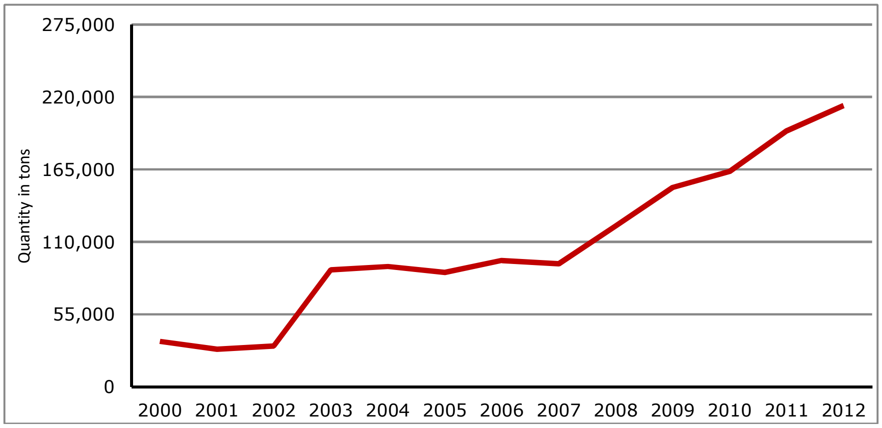
Mozambique has great potential in fisheries products. The country has 2,750 km of coastline along the Indian Ocean and 200 miles off coast of Exclusive Economic Zone (EEZ) bringing up to around 586,000 km of ocean water masses that contain a variety of fisheries products. The current estimate of potential is around 300,000 tons of fisheries resources of which 260,000 tons are at sea and the remaining 31,000 tons in inland waters. The country enjoys a considerable market resulting from free access of fisheries products to the EU market under the Everything-but-Arms Agreement, the Generalized System of Preference (GSP) scheme, as well as to the SADC market under the free trade area protocol; fisheries products are also exported to Asia. In fact, Mozambique has faced fewer problems in its fisheries exports than have many other developing countries, both LDCs and middle-income countries for whom meeting the sanitary standards of major foreign markets is often a problem. The country has not been subject to cut-offs in its access to the European Union's fisheries market.

The sector also faces challenges. Mozambique's fisheries resources face gaps in the supply chain. There is also a deficit of human and financial resources within the Ministry of Fisheries to deal with major challenges within the sector, especially with regard to inspection, research and training, as well as laboratory supplies and consumables. The emphasis of GoM fisheries policy has shifted from exports to production for the domestic market through promotion of artisanal fisheries and aquaculture, while also taking measures to contain overexploitation, especially of deep water shrimps (a major export product) while ensuring fisheries resources' sustainability.

a) Fisheries Production and Exports

The output of Mozambique's fisheries increased from 34,390 tons in 2000 to 213,436 tons in 2012, as shown in Figure 9. This occurred despite falling demand for fisheries products in the EU market. By contrast, commercial production and exports — as shown in Figure 10 — have not grown since the turn of the century. Both experienced some expansion in the middle of the last decade, but each was lower in 2012 than they had been in 2000. There are multiple reasons behind these developments, including reduced EU demand for fisheries products, competition from Latin America fisheries in the EU market, and oil price increases that raised operational costs. It may also be attributed in part to GoM measures to safeguard sustainability of deep water shrimps, the most valuable and major exported fisheries product resulted in reduction of catch as well as the reduction in the number of industrial operators involved, especially on Sofala Bank. Moreover, the government reduced the fishing season from 9 to 6 months, making it difficult for operators to make a profit in the tight fishing season.

Figure 9 : Total Fisheries Production in Mozambique (tonnes), 2005-2012



Source: Calculated from data collected from government reports.

Figure 10 : Commercial Production and Exports of Fisheries in Mozambique (tonnes), 2000-2010

Source: Ministry of Fisheries.

Table 17 : Volume of Mozambican Fishery Exports, 2000-2010

	Exports (2000-2010) in tons*										
Years	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Tanganhica sardine	3,813	1,722	2,034	2,757	5,149	3,615	5,071	2,289	2,201	2,902	2,598
Shallow water shrimp	9,729	9,331	9,100	8,398	9,084	9,414	8,670	7,760	5,021	5,202	4,695
Deep water shrimp	1,282	1,662	1,500	1,012	904	1,565	1,881	1,460	1,428	1,235	1,122
Fish	625	865	500	445	607	329	280	478	907	659	680
Langoustine	94	116	70	127	117	102	136	132	86	128	73
Crab	78	102	110	434	192	324	376	432	385	254	263
Cephalopods					203	165	39	21	25	25	6
Lobster	102	20	100	21	30	10	8	8	10	6	19
Total production	15,723	13,818	13,414	13,194	16,286	15,524	16,461	12,580	10,063	10,411	9,456

**includes only industrial and semi-industrial fishing, which happen to be the commercial subsectors*

Source: Ministry of Fisheries.

The data shown in Table 17 offer more detailed information on specific types of fish and related products. All fisheries products for export declined during the period under review being the most significant decline that of shallow water shrimp by almost 50% followed by Tanganyika sardine by 32%, mostly exported to SADC region. Deep water shrimps fell by 12% during the same period.

The GoM acknowledges that overfishing and poaching off its coast are serious problems, as is the incidence of natural disasters. A recent UN report by the South West Indian Ocean Fisheries indicated widespread overfishing of tuna and shrimp due to the absence of an effective and efficient marine management, an ever-increasing number of fishermen (both artisanal and commercial), and illegal fishing. According to the Institute of Security Studies, poaching and overfishing off the coast of southern Africa is extreme and damaging to the marine environment. The group estimates losses of $38 million for Mozambique from illegal, unreported, and unregulated fishing of tuna and shrimp. The GoM is unable to patrol effectively its 2,750km of coastline, even with the five navy patrol vessels donated by the United States and South Africa.

b) Institutional Framework

The current institutional arrangement of the Ministry of Fisheries (MOF) is made of two national directorates: the National Directorate of Economics and Fisheries Policies and the National Directorate of Surveillance. There are seven departments which include the departments of Cooperation, Human Resources, Technology and Equipment, Legal, Administration and Finance. The subordinate institutions include the Fisheries School, the National Institute for the Development of Small Scale Fisheries (IDPEE) and the National Institute for Fisheries Research (INIP). Three entities are under the authority of the Ministry of Fisheries and these are the National Administration for Fisheries (ADNAP), the Fisheries Promotion Fund (FFP) and the National Institute for Fisheries Inspection (INIP). ADNAP is the management authority. In the management process, the ADNAP is supported by the National Institute for Fisheries Research (INIP) and the National Institute for Fisheries Inspection (INIP). For sectoral programme promotion and development there are following institutions: IDPEE), the National Institute for the Development of Aquaculture (INAQUA), the Fisheries Promotion Fund, and the Fisheries School. The fisheries administration extends to local level represented by provincial and district services for fisheries. The Ministry of Fisheries operates with limited qualified personnel and financial capacity. The Ministry cannot fully protect fisheries resources for a sustainable exploitation. An upgrading is needed to its capacity to monitor and control, requiring the regular capacity building of personnel.

The Ministry of Fisheries has framework instruments in place, which can be summarized as follows: the Fisheries Master Plan (2013-2019) and the Strategic Plan for the Artisanal Fishing Subsector (PESPA), Strategy for Aquaculture Development- EDA, 2008-2017, Strategic Plan for the Development of the Tuna Fishery (PEDPA), Strategic Plan for Fishery Inspection (PEIP), Strategy for Development of Fishery Research, and the National Plan for Combat of Illegal, Non-reported and Non-regulated Fishing. The legal instruments are the following: the Fishery Act 22/2013 (the new Fishery Law); the general regulation for Aquaculture, 2001; the general regulation on maritime fishing- REPMAR (under revision), the general regulation of hygiene and sanitary control of food products of aquaculture source and the regulation for recreation and sports fishing.

Experts in the field of fisheries consider the country to be progressive in terms of institutional mechanisms and regulation, specifically as regards quality and safety of food products of aquatic origin, provided for under Decree 76/2009 December.15, which establish the hygienic and sanitary requirements and quality management on the activities of handling and/or processing, distribution and trade of food products of aquatic origin, to ensure compliance DASC market requirements and better protection for consumers and human health, and the health and welfare of animals and the environment.. The European Union recognizes INIP as the Competent Authority responsible for implementing the health of productive units, licensing, certification, and health analysis laboratory of fishery products. INIP has three laboratories for the inspection of fish, which was believed to Maputo in 2012. The European Union conducts periodic audits to ensure that INIP meets the safety standards required in the international market.

There are no tariff barriers in the international market for fisheries exports, but meeting sanitary requirements can be a technical challenge. Because the current laboratories are designed to certify a limited number of products, Mozambique cannot diversify its fisheries products. Rapid changes in the technological demands on laboratories limit the country's capacity to adjust and adapt quickly, due to the cost of acquiring new equipment and training the needed human resources. The "brain drain" also poses a serious challenge to INIP, as qualified personnel have incentives to leave for better-paying jobs in the private sector.

c) Projects and Trade Negotiations

There are major challenges to building or re-building fisheries infrastructure, namely ports, landing sites, markets, and centers for experimentation and education dedicated to aquaculture (including laboratories). The integration of tuna fishing into the national economy, which mainly takes place offshore, continues to be a major challenge in the sector.

IFAD has developed the Artisanal Fisheries Promotion Project (ProPESCA), which is related to the second set of initiatives aiming at better exploitation of existing resources in the fisheries sector with immediate effects on the poor. The objective of this project is to boost fishing productivity and subsequent sales sustainably by increasing the quantity and more importantly the value of the catch and by improving all links in the value chain in collaboration with the Ministry of Fisheries and other relevant ministries. The Ministry of Fisheries is also seeking certification of two laboratories in the Beira and Zambézia provinces.

Consultations started in early 2013 between Mozambique and Russia authorities, aimed at establishing a legal framework for access into the Russian market.

The GoM recently signed a contract with a shipyard in Cherbourg in France to supply 30 ships. Purchased by EMATUM (Mozambican Tuna Company) the ships consist of 24 tuna fishing vessels and 6 patrol vessels in a deal worth US$850 million. EMATUM is expected to boost tuna fishing in Mozambique and enhance water patrol. It should however be noted that, due to such practices as the incorporation of off-budget public expenditure and the issuing of government-guarantee bonds, EMATUM operations raised severe concerns and even led a number of donors and development partners to delay budget support disbursements in late 2013.

E-1.d. <u>The Secondary Sector: Biofuels and Manufactures</u>

a) Biofuels

Mozambique is considered a promising region for biomass and bioenergy production within Southern Africa due to the relative abundance of land resources, favorable environmental conditions, and low population density. It has been estimated that Mozambique has 27 Mha of fertile land, 5 million of which are in production (mostly concentrated in the regions of Inhambane, Zambézia and Niassa). The cultivated land is projected to increase by 26% to about 8 Mha in 2015.[44] Productivity in Mozambique is very low compared to what it is technically feasible. Thus, there is a large potentiality to increase the efficiency of food production through technological advantages and the improved use of under-utilized marginal land.

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[44] Batidzirai, B., Faaij, A., Smeets, E. (2006) *Biomass and Bioenergy Supply for Mozambique. Energy for Sustainable Development*, Vol. X, No. 1, p.57.

In the light of yearly imports of 700,000 m^3 of petroleum products, the high dependence on the volatility of external prices of oil, and the availability of cultivated land (through increased productivity and use of marginal land), the GoM approved in 2009 the "Biofuel Policy and Strategy for Mozambique". Its goals are fivefold: (i) to reduce dependency on imported fossil fuels; (ii) to stimulate the local energy resource use to substitute/compliment the imported fossil fuels, (iii) to reduce the fuel costs to the final consumer, (iv) to promote rural development through investment in biofuels, and (v) to protect the domestic economic development against the volatility of fuel prices.

The strategy stems from a feasibility assessment study that identified sugar cane and sweet sorghum as suitable feedstock for ethanol production, and *jatropha curcas* and coconut for biodiesel production. These cultivations could be harvested using marginal land, thus providing a revenue opportunity to the families cultivating lands not used for agricultural production. Biofuel production will be carried out in three stages: a pilot phase will last until 2015, followed by an operation period (until 2020), which will be followed by a production expansion.

The typical criticism to biofuel production is linked to food availability: The use of food crops as feedstock can compete with food production, converting land to the former use, contributing to lowering the share of food being produced for national/household consumption, increasing food imports, worsening trade balance, finally hurting the poorest part of the population. According to a computable general equilibrium model to assess the implications of biofuel expansion in Mozambique, a stronger trade-off between biofuels and food availability emerges when female labour is used intensively, as women are drawn away from food production.[45] This is an important consideration that needs to be taken into account during the strategy planning and implementation phases.

From the GoM strategy it is clear that the land being devoted to biofuel production will not result from a diversion of land already used for food and subsistence production. The land will have to be carefully selected and clearly defined in order not to displace existing cultivations, thus jeopardizing food security worsening the social conditions of the communities living there. Donors and private organizations have also set up projects that carry forward the same goal, while strengthening the value chain of the domestically produced agricultural goods and promoting international environmental benefits.

b) Light Manufacturing

The manufacturing sector in Mozambique is notable for its small size as well as its low and declining productivity. The country nonetheless benefits from some advantages that could help it to attract new investment in light manufacturing, such as competitive labor costs and proximity to the large South African market. Preferential access to that market is conditional, however, on the compliance with SADC rules of origin.

Some past efforts to promote new investment in this sector do not appear to have taken into account key realities in the global market. A case in point is the Strategy for the Development of the Textile and Clothing Sector that was adopted in 2008. There was indeed a time when virtually any developing country could compete in the production of apparel, primarily because most international trade in this sector was tightly controlled through quotas. Those restrictions were phased out in the ten years that followed conclusion of the Uruguay Round of multilateral trade negotiations, however, and by 2005 the market was far more open than it had once been. A small number of competitive, high-volume producers soon captured large shares, especially China and other Asian developing counties, pushing out many less competitive producers. Even with the preferential tariff treatment such as that offered in access

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[45] Arndt, C., Benfica, R., Thurlow, J. and IFPRI. 2012. *Gender Implications of Biofuels Expansion in Africa: The Case of Mozambique*. Selected paper for presentation at the IAAE Conference, Brazil, 18-24 August 2012.

to the markets of the European Union (under EBA) and the United States (under AGOA), most African apparel producers either downsized or disappeared (apart from the notable exception of Lesotho). Today there is virtually no apparel exported out of Mozambique.

E-1.e. The Tertiary Sector: Trade in Services

The services sector is generally smaller in developing countries (and especially LDCs) than it is in more developed countries, but it is no less important for countries' development. Production and export of almost all types of goods depend critically on access to services at world-class levels of price and quality. While Mozambique has some capacity to provide such services domestically, this is an area where the interests of the economy as a whole may be best served if, while the country is still developing its capacities in this area, the market were more welcoming to foreign providers.

a) Tourism Services

The relevance of the tourism industry in development policy is unquestionable. The country combines a range of beach products, eco-tourism,[46] cultural diversity, and a coastline of 2,700 km along the Indian Ocean. The coast is particularly attractive insofar as it provides visitors with distinct marine species including dolphins, whales, sharks, lines, turtles, and some very rare dugongs. This is coupled with a history that combines the influences of Portuguese settlers, Arabic and Kiswahili traders, and Bantu migrants. Mozambique has an appealing history, diverse architecture, language, cuisine, and cultural and artistic expression. The interior of the country is made of large areas of wild vegetation, unexplored landscape, and areas of dense vegetation, appropriate to experience real African life. Located mainly in rural areas, the conservation areas provide a range of ecosystem with rich and diverse platform for exploring natural and wildlife-based tourism.

The southern region of Mozambique dominates the industry, accounting for nearly 50% of total earnings generated, thanks to a relatively good quality of infrastructure and considerable investments in the region. There are provincial differentiations, with Maputo city dominating business tourism, Inhambane leading leisure and lodging tourism, and Gaza also with leisure and lodging but at a smaller scale. The southern region features the trans-boundary conservation project of Limpopo in Inhambane, which includes the National Park of Kruger Park in South Africa and Gonarezhou in Zimbabwe. Other eco-tourism developments in the region include the special reserve and the Trans-Boundary Conservation Area of Maputo province; Zinave Park, Bazaruto, Chimanimani and Pomene.

Tourism in the central region of Mozambique is well-known for the Gorongoza National Park, the buffalo reserve of Marromeu and the wildlife of Gorongoza. Despite this, business tourism dominates the region due to the role of the Beira's Port which links Mozambique to neighboring countries such as Malawi, Zimbabwe, Zambia and Congo. Business tourism is also visible in Tete and built mainly around the booming extractive industry. There is timid development of leisure industry building up in Zambézia province. Manica eco-system remains untapped.

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[46] The existing Eco-Tourism Projects are: Parks (Limpopo, Banhine, Zinave, Gorongosa, Bazaruto and Querimbas); Reserves (Niassa, Pomene, Chimanimani and Maputo).

Table 18 : Relevant Laws and Regulations for the Tourism Industry

Instrument	Description
Law on Forestry and Wildlife 1999	Sets down principles and rules for the protection, conservation and sustainable use of forest and wildlife resources
Regulation on the Law on Forestry and Wildlife	Applicable to activities such as conservation, exploitation and production of forest and wildlife resources including areas of marketing, transport, storage and transformation of these resources. The most important pieces of these regulations are those relating to national parks and reserves
Forestry and Wildlife Regulations Annex I 2002	Classifies list of the timber-producing species referred to in the forestry and wildlife law
Forestry and Wildlife Regulations Annex II 2002	Provides the list of protected animals those which cannot be hunted as provided in the Forestry and Wildlife legislation.
Forestry and Wildlife Regulations Annex III 2002	Details the graduation of fines for misconduct and infractions of forestry and wildlife legislation.
Decree 12/2002 for Law on Forestry and Wildlife	Passed by the Council of Ministers, the decree authorizes the regulations to the Law on Forestry and Wildlife.
Tourism Law 2004	Sets out the applicable legislation to tourism activities both to public and private sector- it includes suppliers of tourism products and services, tourist and consumers of tourism products and services.
Regulations on community benefits from tourism activities	Establishes that 20% of the value of taxes derived from tourism be awarded to local communities. It provides details on community registration, management and finance distribution and others.
Diving Regulations Decree	Replaces that of 1968 and requires registration and authorization of dive centers from the National Maritime authority- it refers to issues such as admission, certification and practice of diving instructors
Taxes and tariffs for protected areas 2009	Outlines tax and tariffs applied to protected areas- parks and reserves
Conservation Policy and Implementation strategy 2009	Presents the strategy for the conservation of natural resources and biodiversity in Mozambique

The northern region is perhaps the most attractive touristic region and enjoys international visibility. The region features historic places such as Mozambique and Ibo highlands, the internationally acclaimed archipelago of Quirimbas, the Niassa Reserve and the bio-diversity of Lake Niassa. However, business tourism continues to dominate the region mainly due to the importance of the North Corridor Project, Nacala Port, Gas and Oils Exploration project and this is particularly relevant for Cabo-Delgado and Nampula provinces. Tourism in Niassa is yet to develop due to limited investments not only in the industry but also and in infrastructure.

The GoM has since 2000 made tourism a development priority. Presidential Decree 9/2000 established the Ministry of Tourism (MITUR) in clear recognition of the potential in the industry to generate employment, promote infrastructure development and local economies and generate resources to comfort country's balance of payment. The relevance of tourism to economic growth and poverty reduction is also acknowledged by the Strategic Plan for the Tourism Sector, 2004-2014. Other relevant instruments to the industry include- the land, labor, environmental framework, fishery and investment laws. It is relevant to note the strategic plan of MITUR phases out in 2014 and a new one is under development.

The broad mandate of the MITUR is to plan and implement policies within the domains of tourism activities, touristic lodging, restoration and night clubs, casinos, and conservation areas. The ministry is made up of the General Inspection of Tourism (IGT) which is tasked primarily to enforce laws, regulations and policies within the sector; the National Directorate of Tourism (DNATUR) whose role is to guide, discipline and support touristic activities, touristic lodging, restoration and beverage and night club enterprises; the National Directorate of Games of Fortune (DNJFA) plays the role of instructing the process of licensing exploration of gambling; the national Directorate of Planning and Cooperation (DPC) is the technical unit of the ministry with the role of carrying out analysis and planning within the sector. Other units with more traditional roles include the legal, human resources and financial and administration departments.

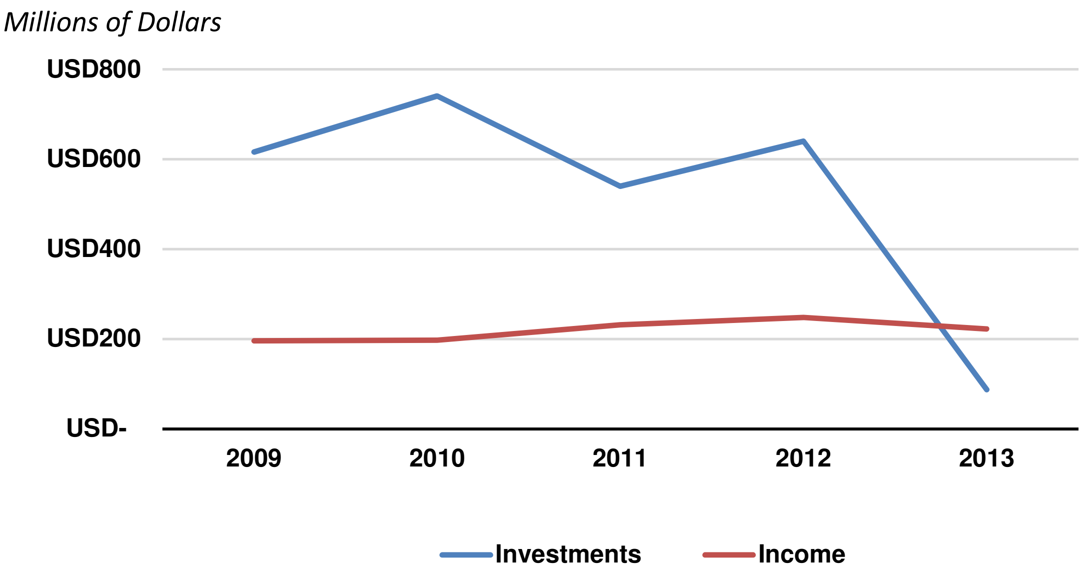
Other subordinate institutions include the National Institute of Tourism (INATUR) established by Decree 36/2008, with the role of promoting development of the tourism sector, classification of tourism enterprises, development of areas of touristic interest among others; the unit for Coordination of Trans-Boundary Conservation Areas (ACTF) is tasked to promote connectivity and effectiveness of biodiversity conservation in the areas while enhancing community benefits through promotion of environmentally sustainable tourism; the other subordinate institution is the National Agency for Conservation Areas (ANAC), whose mission is to ensure conservation of biodiversity, administration and promotion of sustainable use of conservation areas as well as establishing partnership for development of conservation areas. The ministry is represented in all provinces by local provincial Directorates of Tourism.

The average contribution of this sector to the GDP during 2000-2013 is around 5.6%; around 7.3% as a share of country's exports and 4.9% as a share of jobs generated in the economy (see Figure 11: Relevant Laws and Regulations for the Tourism Industry Tourism in the Economy, 2000-2013Figure 11). In value terms, the sector contributed MZN 13.9 billion in 2013 and MZN 14.5 billion is expected in 2014. The contribution of tourism to exports was relatively impressive in 2000 and 2010, with 13.4% and 9.9% of shares respectively. Employment had its higher contribution in 2009 with share of 7%. Exports and employment declined from 2010 to 2013.

Figure 11: Relevant Laws and Regulations for the Tourism Industry Tourism in the Economy, 2000-2013

Source: World Travel and Tourism Council (www.wttc.org).

Figure 12 : Investment and Income in the Tourism Sector



Source: World Travel and Tourism Council (www.wttc.org).

Figure 12 shows that nominal investment in the sector fell from US$615.5 million in 2009 to US$87.1 million in 2013, representing a decline of 85.8% in relative terms. The decline in investment was particularly pronounced in 2013. Tourism earnings consistently increased from 2009 to 2012 but again, like the other parameter of analysis on arrivals, it fell by 10% from 2012 to 2013. During 2009-2013 an average of 1.9 million persons per year arrived in the country.

A recent report on *The Economic Impact of Conflict on the Tourism Sector 2014,* commissioned by the USAID/SPEED in Mozambique, indicates the ongoing military conflict between the Government and the National Resistance of Mozambique has a negative impact on investors' confidence within the sector.

b) Air and Ground Transportation Services

As noted above, the regime for the provision of air transport services constrains the growth of the tourism industry. Because only the Portuguese carrier TAP operates an intercontinental direct flight to Mozambique, all other long-haul flights from Europe and the United States to Maputo are routed through Johannesburg and hence are costly. Regional airfares are higher in Mozambique than in other regional destinations due to limited connectivity and regulated offers. Moreover, domestic fares for travel in Mozambique are very high. All of these factors suggest that measures that seek to stimulate effective competition in this sector are likely to yield significant benefits to the wider economy in general and to the tourism industry in particular.

The Civil Aviation Law 21/2009 liberalized domestic air services, while the provision of international air transport services is in accordance with Mozambique's bilateral air services agreements (BASA). The more recent agreements provide for the first four freedoms of the air; prohibit cabotage, designate a single carrier per country to service the route; require that tariffs be approved; and that capacity be determined by the carriers. Clearly these BASAs severely reduce access to the Mozambican air transport services market via cross-border supply. Law 21/2009 reserves for national carriers the provision of air services between two points in Mozambique, even when the flight originates or makes a stop in a foreign country. Further, to be designated as a national carrier, the airline must be domestically incorporated and Mozambique must be the airline's principal place of business. Further incentives are reserved for national carriers servicing low-traffic domestic destinations.

Additional restrictions are contained in Regulation 39/2011 on the operation of air transport and air transport-related services. Many of those restrictions require the granting of a concession. This regulation also features procedures that may potentially make it more difficult for new operators to enter the market. For example, Article 14 of the regulation requires that the views of the operator already servicing a particular route must be sought in the process of determining an application for the allocation for new operator on that route. Other restrictions include the limitation of the license of a foreign operator to six months subject to renewal while domestic operators' licenses are valid for an indefinite period provided their operator's certificate is valid.

According to a World Bank study, competition is relatively strong in the Mozambican trucking industry on the main transport corridors, with profit margins for trucking companies estimated at 10%. Mozambican truckers are able to compete thanks to protection from South African operators (except on the Maputo corridor) and the use of second-hand trucks.[47] Nevertheless, truck use is not optimal because of low freight volumes, cumbersome procedures, and bad roads on some corridors.

c) Telecommunications Services

The telecommunications sector represents a bottleneck to the productive activities of both domestic businesses and foreign investors. It can hinder private sector development via the high price of access to international bandwidth; disagreements on interconnection fees and facilities sharing; a cumbersome and unwieldy licensing regime; and the low quality of service in some sub-sectors. These restrictions explain in large part the regulatory reform being proposed by the GoM in its 2013-2017 telecommunications strategy and the attendant proposal for a revised legal framework. The strategy lays out the vision for the telecommunications sector and sets strategic goals and a number of areas for priority action. These include the simplification of the licensing regime, the liberalization of services and networks, the reorganization of the state-owned telecommunications enterprises, and improving the legal framework.

Mozambique's telecommunications market is segmented into the fixed-line and mobile telephony services markets. The sole operator in the fixed-line segment is the state-owned company TDM, while three companies (i.e., Mozambique Cellular, Vodacom Mozambique, and Movitel) operate in the mobile market. In addition, there are eighteen data transmission and Internet operators, and ten Internet service providers (ISPs) that resell TDM's Internet access products. Although the telecommunications law of 2004 liberalized fixed line telephony from 2007, the market for the provision of these services is closed as a result of an exclusive license granted to the TDM monopoly (which is 80% state-owned) until 2028. In addition, the market is reserved for public investment. TDM's exclusivity relates to the provision of fixed-line telecommunications network services (telephone lines), customer premises equipment, local and long-distance (national and international) calls. There is clearly a correlation between the market structure and the slow growth rates being experienced in these services.

Mozambican consumers are enjoying the benefits of increased competition. With subscriptions growing at 21.4% annually between 2007 and 2012, Mozambique achieved a

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[47] Carolina Dominguez-Torres and Cecilia Briceño-Garmendia, *Mozambique's Infrastructure: A Continental Perspective* (Washington, D.C.: World Bank, 2011).

33.13% mobile phone penetration rate which is roughly in line with the trend across the SADC region. This compares dismally with Mozambique's tele-density of 0.36% with only the Democratic Republic of the Congo faring comparatively worse with a penetration rate of 0.08 lines per inhabitant. During the period 2007 to 2012, Mozambique's tele-density grew at an annual rate of 0.1%. Fixed-line telephone subscriptions fell from 87.36 thousand 2002 to 65.99 thousand in 2005 and thereafter slowly rose to 88.14 thousand in 2012. The growth in subscribers to fixed broadband services has been similarly unimpressive, increasing to 20.28 thousand in 2012 with only 0.08% of Mozambicans having access to the service. A similar pattern is evident across the SADC region, with only Mauritius and the Seychelles experiencing double digit growth and Namibia and South Africa trailing far behind with access rates of 2.78% and 2.18% respectively.

Liberalisation efforts appear to have been focused on encouraging service provision through the establishment of commercial presence. While the current telecommunications law aims to create a framework for the liberalization of the industry and provides a transitory regime for the elimination of the TDM monopoly, the company's current license seems to preserve its privileged position until 2028. Significant liberalization has taken place with respect to the mobile telephony services sub-sector with Article 70 (4) of the 2004 Telecommunications Law conferring on these suppliers the right to install, establish and operate telecommunications networks for the provision of domestic or international services.

With respect to Mozambique's mobile telecommunications sub-sector, for entry in the market through the acquisition of an existing firm, the foreign ownership limit depends on the authorization of the Ministry of Finance. In addition, the number of licenses may be limited since the regulatory authority decides when to issue a license. Other limitations include the requirement of authorization from the Ministry of Labour and a labour market test before foreign employees can be hired and the repatriation of earnings requires the approval of the Investment Promotion Center and registration with the Central Bank.

Mozambique's telecommunications laws and regulations reflect the principles contained in the WTO's Reference Paper on Basic Telecommunications. For example, Decree 34/2001 explicitly recognizes and adopts the principles in the reference paper in relation to inter-connection; the Telecommunications Law of 2004 prohibits anti-competitive behavior and establishes that the National Communications Institute of Mozambique (Instituto Nacional das Comunicações de Moçambique-INCM), the regulatory authority, is autonomous legally, financially, and administratively.

d) Financial Services

Financial services are both a key sector in services trade and a necessary prerequisite for foreign direct investment in other goods and services sectors. Countries in which the financial sector is not well regulated or rather small — including Mozambique — operate at a disadvantage in attracting foreign economic partners. Banking dominates Mozambique's financial sector, with commercial banks accounting for 90% of the sector's assets. Three large banks with major foreign capital together account for 85% of the financial sector's total assets. Banco Internacional de Moçambique SA is the country's largest bank with a 40% market share and operates as a subsidiary of Banco Comercial Português SA.

There has been a significant level of liberalization in the Mozambican banking services market. For example, foreign investors may either operate their business concerns as a branch or incorporate domestically and national treatment type restrictions are not maintained in the banking sub-sector. Unfortunately, this level of openness has not translated to increased affordability and availability of banking products as access to finance remains an obstacle to improving Mozambique's investment climate. Of the 479 firms interviewed in the World Bank's 2007 Enterprise Survey of Mozambique, access to finance topped the list of 10 obstacles to business — 23.1% of respondents identified it as the main obstacle in the business environment.

With respect to the burden imposed by conditions attached to loans, excessive collateral requirements are likely to constrain investment opportunities. In this regard, Mozambique fares comparatively worse than its counterparts, with 90.6% of loans requiring collateral as opposed to SSA and the world average of 80.1 and 70.9 respectively. However, with respect to the value of collateral as a percentage of the loan, on average, Mozambique performs substantially better than both its regional and global counterparts, with the value of collateral in Mozambique standing at 92.0% of the loan in contrast with SSA's 160.0% and the world's 167.9%.

Cross-border lending by banks and acceptance of deposits is allowed, but is subject to restrictions on the period, size, and interest rate of the loan. For the provision of these services through the establishment of a commercial presence, the incorporation of a company requires authorization, which is granted on a case-by-case basis by the Central Bank. In addition, the repatriation of earnings requires the approval of the Investment Promotion Center and registration with the Central Bank. The sale of a branch of a foreign insurer requires prior authorization by the Minister of Finance; the establishment of branches of foreign insurers seems to be subject to an economic needs test, insurance mediation is reserved Mozambican residents and companies with headquarters in Mozambique; and the majority of the members of the board of joint stock insurance companies must be resident in Mozambique. In addition, there is a prohibition on non-resident insurance companies from covering risks in Mozambique unless the companies established in Mozambique deem that the risk is too high. Further, the provision of life and non-life insurance is separated (i.e., an insurance company only may provide one type of insurance).

Restrictions are lower in the insurance sub-sector than in the banking sector, but the most restrictive practices are applied to the cross-border supply of insurance services. While the cross-border provision of automobile and life insurance and re-insurance is allowed, the provision of the former two services is subject to the demonstration of the local/domestic unavailability of the services provided. In addition, there are limitations on the value of the insurance policy and the final sector receiving the service. The only restrictions on the provision of these services through the establishment of a commercial presence are the requirement to secure the approval of the Investment Promotion Center and to register with the Central Bank.

e) The Movement of Natural Persons

Mozambique faces several challenges in the availability of skilled personnel. The low level of skills is closely tied to the quality of services that can be offered by domestic providers. The significant importation of business services is certainly suggestive of some deficiency in the local market for these skills.

Imports of services can be necessary for a country to be a competitive exporter of goods. The IMF's 2013 Article Consultation Staff Report noted that service imports almost doubled in 2012 in conjunction with the increase in natural gas exploration expenditures. Mode 4 service provision is likely to represent a significant component of these imports. Any commitments on mode 3 would need to be complemented by commitments on mode 4 to ensure that Mozambique is able to tap into the transformative effects of efficient and effective service provision. Commitments on mode 4, especially for intra-corporate transferees and business visitors, can be an essential element of reforms. Another key area that could benefit from commitments is professional services, especially for intra-corporate transferees, business visitors, contract service suppliers and independent professionals.

One means of dealing with this skills gap is to relax the labor laws for a time, especially in areas that require highly skilled persons (e.g., high technology industries), in order to allow foreign companies to establish themselves. Programs might be developed to train Mozambicans in the needed skills, and to encourage hiring of the graduates in foreign companies, but it would be counter-productive to make such hiring a prerequisite for investment. One might point to the Irish example as a model. There the government promoted its plans to make the country a worldwide hub for information technology by allowing new industries in relevant sectors to employ up to 50% foreigners if the needed skills were not available in the country.

The main laws pertaining to the movement of natural persons are the 2004 Constitution of the Republic, Immigration Law 5 of 1993, and Labour Law 23 of 2007. Other important instruments include Decree 26 of 1999 which regulates work visas. Work-related visas in Mozambique include a business visa which is valid for thirty days for persons who are not to be employed in Mozambique; a work visa, for thirty days for persons seeking to render paid or unpaid services; or a non-permanent resident visa that can be valid from ninety days to five years.

Foreign employees can be contracted either where a company has an investment authorization that pre-establishes the total number of foreign employees needed for the operation or a quota system where the permitted number of foreign employees is a percentage of the number of Mozambican employees. Access under the latter scheme is determined by the size of the company: foreign employees can make up to 5% of the total number of workers in large firms, 8% of the total number of workers in medium firms and up to 10% of the total number of workers in small firms. This is among the areas where Mozambique discriminates against foreign providers. A foreigner will qualify for this quota only if he or she has the academic or professional qualifications necessary for the position and there are no Mozambican citizens with such qualifications (or their number is insufficient).

f) Cultural Industries

Exports of cultural products and services is a promising area for Mozambique, both as ancillary sales to tourists and as exports *per se* to foreign markets. Given the ethnic diversity of the country and its regions, the domestic market for cultural goods and services is also large. As of this writing a draft national cultural policy is under review and the cultural industry policy and strategies under development and are expected to be submitted soon to the Council of Ministers. It is a joint product of the Ministry of Culture, the Ministry of Industry and Commerce, and the Ministry of Tourism. It will be based in part on work already done with the assistance of international organizations.

Box 4: Architecture as an Example of Business and Cultural Service Exports

Trade in services is often thought of as an area in which only the developed countries are dominant, and in which the opportunities for developing countries in general — and especially the LDCs — are largely confined to tourism and mode 4 exports of workers in lower-wage, labor-intensive sectors. While there is some truth to that generalization, it is also a great exaggeration that underestimates the capacity of talented professionals to offer their services on the global market.

The experience of the architect José Forjaz offers an example of how Mozambique can compete in even the more advanced range of business services. Forjaz received his training in Portugal and the United States, and has been in practice since 1960. His firm, JF Architects, specializes in urban and architectural design projects and is one of the more important architectural practices in Southern Africa. The firm's work in Mozambique has been concentrated in the fields of housing as well as public and educational buildings at the primary, secondary, and especially the university levels. Some of its more notable international commissions including campuses of the University of Botswana, Lesotho & Swaziland in Kwaluseni, Swaziland and Gaberone, Botswana; urban equipment for the Chicala neighborhood in Luanda, Angola; social facilities for the resettlement villages in Luanda; the Samora Machel Memorial and Joe Slovo Memorial in South Africa; and the residence of Dr. Kofi Annan in Accra, Ghana.

This example illustrates two points about the potential for services exports from Mozambique. One is that it is hazardous to reach general conclusions about the sectors in which developing countries may have export interests. The other is that the prospects for higher value-added exports can be good in those areas that meet at the intersection between commerce and culture. Just as gastronomy is simply an elevated form of food, and *haute couture* a higher level of clothing, architecture can be an important — and profitable — expression of a culture's values through the shelters that it constructs.

Under a pilot project financed by the European Union and jointly implemented by ILO, UNCTAD, and UNESCO during 2008-2011, UNCTAD prepared a study on creative industries. The study proposed a plan of action to be conducted with the support of relevant United Nations agencies, and an institutional mechanism to facilitate concerted policy actions and inter-ministerial decisions. The study also identified visuals arts, crafts, and fashion as the sectors with the best prospects of contributing to employment, exports and GDP in the short and medium term. Promising sectors with potential of generating employment and income include music, dance, theatre, spectacles, cinema, book, design, and gastronomy. In addition, the creative industries can have a positive impact on enhancing gender equality, as they offer numerous possibilities to women to be active in the creative sectors. They also contribute to social inclusion because of their attractiveness to young people, including those from rural communities. Furthermore, the study stressed the links between creative industries and tourism, proposing actions to generate greater synergies between the two sectors.

The National Directorate for the Promotion of Cultural Industries (DNPIC) within the Ministry of Culture is principally responsible for the promotion of these creative industries. It collaborates in these activities with the National Institute of Books and Disks and the National Institute of Audiovisual and Cinema, and seeks to advance opportunities, both domestically and internationally, for such sectors as handicrafts, fashion, gastronomy, dance, and music. One means of assisting artisans in these areas is by organizing fairs in each province of the country, providing the infrastructure for them to offer their goods and services to national and foreign visitors. It is within this context that the National Directorate for Promotion of Cultural Industries has been developing a project for implementation of standard infrastructure for fairs and exhibition in all provinces. The directorate also promotes the country's culture in international fairs, including those held in Lisbon and Macau. The efforts made by this organic unit within the Ministry of Culture aim to ensure that Mozambican artists are capable of generating income and are less dependent on government provisions for transportation and other expenses for their participation in both national and international fairs.

One way that governments can assist cultural industries, and especially musicians, is through stricter enforcement of intellectual property rights and related rights. Successful musicians in developing countries often find their revenues cut through piracy of their recordings, which affects them both by denying them the revenue they might expect from their own performances while also diverting the public's entertainment expenditures to cheap, illicit copies of music and films produced in other countries. Street vendors of pirated recordings are as plentiful in Mozambique as they are in many other countries, and while the government tries to discourage them through enforcement and public-awareness campaigns it has thus far had only limited success.

Another tool currently under development should help the government to target and monitor more effectively its activities in this area. The Ministry of Culture and the Statistical Institute are working together to conduct a census of the cultural industries, aiming to put together a more precise picture of the numbers of persons employed in cultural industries as a way of quantifying the contribution of culture to GDP.

E-1.f. Recommendations

Recommendation #11: The Fisheries Sector

Further steps to secure the sustainability of fisheries resources should seriously be considered due to overexploitation. Capacity building will be required, especially for artisanal and aquaculture operators, to boost internal production and consumption. The operations of the Propesca project should be mainstreamed into other government departments dealing with other initiatives to add value to the fisheries product especially looking at marketing the products to local markets and processing facilities. Access to credit for artisanal operators is essential to ensure artisanal operators migrate to commercial fishing. Water patrol should also be a priority to avoid illegal fishing on Mozambique waters.

Consideration should also be given to supporting the establishment of a local tuna-processing industry, particularly in the main fishery ports, as a way of adding value to the end product for export purposes. An additional option is the promotion of local ports for transshipment and disembarkation of fisheries products for local consumption while promoting local industrial fleet dedicated to tuna fishing. Encouragement of this industry would ideally come through investment in these operations by national or foreign investors on a market basis. Government may also have a role to play in supporting fishing and aquaculture infrastructure, such as ports, fishery terminals, public markets, extension and experimentation centers, and laboratories.

Recommendation #12: Biofuels

The GoM should attempt to implement two goals: (i) create a domestic market demand for ethanol and biodiesel for transport and industrial purposes, and (ii) expand it to the regional and international level, with South Africa as the main regional partner. To do so, it could avail itself of the technology already available from its Southern partners, like Brazil, with which Mozambique shares similar climatic and soil conditions, among others. A biofuel venture, in partnership with the Brazilian Petrobras, should lead to a creation of a sugar cane biofuel plant in the providence of Gaza, valued at $500 million, over 30,000 hectares of land. Much could be gained from shared technological information, skills, and competences.

The GoM should also consider allowing the gradual introduction of gasoline mixed with ethanol and diesel mixed with biodiesel, to further reduce the price to the final consumer of gasoline and diesel, thus facilitating regional transport.

A better exploitation of the sugar industry could also contribute to the production of ethanol. Ethanol can be extracted from the cane, and the bagasse left over from processing could be used to provide heat and electricity. The production of biofuel from sugar cane seems to be cost-effective: yields between 60 and 90 tons/hectare, production cost of 20 per-ha yield, average price of $18 per ton of feedstock and a biofuel yield of between 3.7-5.5 tons/hectare.[48]

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[48] World Bank. 2008. *Mozambique Biofuels Assessment. Final Report*.

For the strategy to be successful, the GoM will also need to simplify and speed up the logistic and transport-related sector at both the regional and international level. To expand to the regional market, it is important that a harmonization of specification for imported fuels (e.g., gasoline and ethanol blend) as well as an agreement on the biodiesel and ethanol standards take place at the regional level.

Recommendation #13: Tourism Services

Due to its importance and global appeal, the GoM should seek to prioritize conservation, especially because conservation areas have the potential to bring about enormous benefits to communities. Incomes generated from conservation areas has more than doubled from 2009 to 2013, having moved from MZN 34.6 million to MZN 76.4 million respectively, according to MITUR. Investment in conservation areas should be done alongside strengthening the management capacity of conservation areas of community members but also public administration officers.

Recommendation #14: Transportation Services Commitments in Trade Agreements

Mozambique should improve the regulatory environment for trade in transport services by pursuing domestic reforms, and by undertaking binding commitments in trade agreements, to remove policies that stifle competition or create inefficiencies in the provision of transport services. Undertaking such commitments could assist Mozambique in achieving a higher level of compliance with its obligations under other regional instruments such as the removal of cabotage restrictions on maritime and road transport services. Mozambique should also implement its obligations under the Yamoussoukro Declaration (providing for the gradual liberalization of scheduled and non-scheduled intra-Africa air transport services) in order to stimulate effective competition in the provision of air transport services.

Recommendation #15: Telecommunications Services

The 2013 Telecommunications Strategy formulated by the Ministry of Transport and Communications provides a vision for the development of the sector and strong basis for the reform of the regulatory regime for telecommunications services. In order to improve basic access to telecommunications services and to ensure the delivery of more affordable services, Mozambique should develop a roadmap with clearly identified timeframes to achieve the objectives set forth in this strategy paper. In implementing the roadmap, there needs to be consistent monitoring and assessment to determine whether policy actions are achieving the desired objectives.

Recommendation #16: Competition in the Banking Sector

Efficient competition needs to be stimulated in the banking sector. One way in which this could be done is to ensure that Article 46 of Law 15/99 is effectively used to deal with any anti-competitive behavior. The Bank of Mozambique has recently taken important steps to promote greater transparency in the sector, such as recommending to banks that they post their commission fees on-line. It should build upon these steps to ensure that more information is publicly available and ensuring that there is an unbundling of financial services offered by banks. The newly established competition authority should cooperate with the Bank of Mozambique in these efforts.

Recommendation #17: Mode 4 Commitments in Trade Agreements

In order for Mozambique to exploit its natural advantages and become a competitive transport hub in South East Africa it must ensure that the sector supporting these activities is efficient and effective. It is recommended that mode 4 access be provided in the services auxiliary to all modes of transport sub-sector for business visitors and intra-corporate transferees. For air passenger transportation services, commitments on mode 4 should cover business visitors and intra-corporate transferees. In financial services, where sectors such as insurance could benefit significantly from increased competition, commitments on intra-corporate transferees could provide investors with the security that they would be able to source skilled human resources abroad as necessary. Commitments on business visitors might be helpful. This recommendation would help to achieve the objectives of Recommendation #2 on the development of transportation corridors.

F. DIAGNOSTIC TRADE INTEGRATION STUDY (DTIS) - ACTION MATRIX (23.03.15)

Strategic Objective	Key Actions	Requirements			Lead Institutions	Other Institutions Involved	Timeframe [49]	Status[50]
		Policy Implement.	*Policy Change*	*Tech.& Finan. Assist.*				
Improving Trade Policy and Trade Mainstreaming	**1. Review/update, validate and implement the National Export Strategy (NES)** a) Review/update NES, and relate it to national Trade Policy and Strategy, ENDE (Estratégia Nacional de Desenvolvimento) and the government`s five year plan (Plano Quinquenal do Governo) b) Validate NES and devise roadmap for its implementation	X	X	X	MIC (IPEX)/ MEF	IPEME, MMAIP, MASA, MIREME, Private Sector (PS), Civil Society Organizatios (CSO)	Short to medium term	
	2. Review/update the national Trade Policy and Strategy a) Draft TORs, identify and recruit consultants and initiate participatory and inclusive stakeholders consultation, taking into account the ENE, ENDE, Plano Quinquenal do Governo (PQG) and other existing sector strategies b) Approve, publish and implement the national Trade Policy and Strategy	X	X	X	MIC	IPEME, MMAIP, MASA, MIREME, MEF, CSO, PS	Short to medium term	
	3. Enhance capacities of key government institutions, private sector and CSO on trade issues a) Review the Inter-Institutional Consultation Mechanism on trade policy and trade mainstreaming b) Strengthen the Public-Private Dialogue (PDD) Mechanism, taking into account CTA and other stakeholders			X	MIC/MEF/ PS	CSO, Others	Short to medium term	

[49] Short term: 1 year; Medium term: 1-5 years; Long term: more than 5 years

[50] During the meeting of the National Steering Committee (05.12.2014), the request to establish a monitoring system for the Action Matrix that had been already made during the DTISU Validation Workshop (19.-20.11.2014), was reemphasized. It was agreed that the National Implementation Unit should prepare a proposal and submit it for approval to the NSC for its approval.

Strategic Objective	Key Actions	Requirements			Lead Institutions	Other Institutions Involved	Timeframe [49]	Status[50]
		Policy Implement.	*Policy Change*	*Tech.& Finan. Assist.*				
	c) Establish a mechanism for monitoring the economic benefits resulting from trade							
	4. Mainstream trade into national development and sector strategies/ plans a) Enhance capacity of key government institutions, private sector and CSO on trade issues through training and seminars (e.g. "open trade week") b) Align the key actions of the DTISU Action Matrix with the Plano Econômico e Social (PES) and PQG			X	MIC/MEF/PS	IPEX	Short term	
	5. Identify and reduce Non-Tariff Barriers (NTB) a) Identify, classify and make an inventory of existing NTBs, according to existing methodologies b) Prioritize and create mechanisms to remove identified NTBs	X	X	X	MIC/AT/MASA /BM	IPEX, IPEME, CPI, INNOQ, MEF, SP	Short to medium term	
	6. Guarantee the operationalization of an autonomous Competition Authority	X		X	MIC	PS	Short to medium term	
Liberalizing Trade in Services	**7. Prepare and assess services offers within the framework of liberalizing trade in services: tourism, transport, energy, telecommunication, construction and financial services** a) Use the national Trade Policy and Strategy and other relevant strategies/plans of development as a basis for formulating a negotiating strategy at multilateral, regional (SADC, TFTA) and bilateral (EU-SADC EPA) levels b) Identify offensive interests where Mozambique may wish to have access to partners and draft possible service commitments in the context of the Free Trade Area of SADC, TFTA and EU-SADC EPA c) Monitor the implementation of the commitments undertaken through the Inter-Institutional Consultation Mechanism		X	X	MIC	MICULT, MTC, MIREME, MOPHRH, MEF,PS	Short term	

Strategic Objective	Key Actions	Requirements			Lead Institutions	Other Institutions Involved	Timeframe [49]	Status[50]
		Policy Imple ment.	*Policy Change*	*Tech.& Finan. Assist.*				
Improving Trade Facilitation and Infrastructure	**8. Assess the implications of the WTO Trade Facilitation Agreement (TFA) and design a roadmap for its implementation** a) Based on the findings of the preliminary self assessment, draft a roadmap for implementation of the TFA according to categories A,B,C, as foreseen in the TFA b) Approach potential donors regarding possible support for the key measures that are deemed priority for early adoption c) Identify provisions of the TFA, especially on customs transit issues that could serve as leverage for the implementation of existing commitments at SADC. d) Seek consultations with neighbouring countries on the implementation of the TFA to achieve ,where possible, coordinated implementation efforts of selected measures of the TFA at common border posts e) Use the provision of the TFA to further simplify import and export procedures such as 1) reduction of the use of pre-shipment inspection, 2) eliminate the mandatory use of customs brokers and improve transparency, 3) promote the system of authorized operators	X	X	X	MEF (AT)	MIC, PS, MEF, MISAU, MASA, MINT	Short term	
	9. Complete implementation and further improve functioning of the Single Electronic Window (SEW) a) Review the level of fees and charges of the SEW b) Integrate the services of other institutions (e.g. Ministry of Agriculture and Food Security, Ministry of Health, …) c) Continue capacity building/training for users d) Coordinate transit measures of SEW with neighbouring countries e) Link SEW to INE (Instituto Nacional de Estatística) to improve trade statistics	X		X	MEF(AT)	MIC, PS, INE, MEF, MISAU, MASA, MINT	Short to medium term	
	10. Improve trade-related infrastructure and management (one stop border posts, ports, airports, development corridors, …)	X		X	MTC/MEF (AT)/	MIC, MEF, MINT, PS, GAZEDA, CPI	Short to long term	

Strategic Objective	Key Actions	Requirements			Lead Institutions	Other Institutions Involved	Timeframe[49]	Status[50]
		Policy Implement.	*Policy Change*	*Tech.& Finan. Assist.*				
					MOPHRH			
	11. Raise awareness on best practices of custom handling through training and capacity building a) Develop a tailored training course for customs officials, brokers and business community b) Strengthen the quick consultation channel on trade and customs issues			X	MEF (AT)	MIC, PS, *Associação dos Despachantes*	Short term	
Improving Efficiency of Trade Support Institutions	**12. Strengthen coordination mechanisms of trade support institutions, including the private sector and CSO** a) Conduct a survey to clearly identify the areas where overlaps between institutions exist and where coordination is necessary for the achievement of trade objectives b) Submit the survey with recommendations to the Inter-Institutional Consultation Mechanism for its validation c) Implement the recommendations with MIC as monitoring agency		X	X	MIC	IPEX, MEF, MIREME, MMAIP, PS, CSO	Short to medium term	
	13. Assess and strengthen the institutional capacity of trade support institutions (e.g. IPEME, INNOQ, IPEX, CPI) a) In light with the proposed new statutes, provide further support to strengthen the institutional capacity of IPEX b) Operationalize the identified actions of INNOQ, make it more effective and include it in the National Trade Policy and Strategy as an essential prerequisite to diversify exports through implementation of Mozambican standards, metrology and assessment of standards compliance c) Develop and disseminate at least 36 standards in the food, construction, transportation, tourism, energy and fuel sectors d) Develop a capacity-building plan to buttress the ability of IPEME to implement programs and projects for SME development	X		X	MIC/MEF	IPEME, INNOQ, PS, IPI, ICM, CPI GAZEDA, IIP, IPEX, MMAIPS, MASA	Short to medium term	

Strategic Objective	Key Actions	Requirements			Lead Institutions	Other Institutions Involved	Timeframe [49]	Status[50]
		Policy Implement.	*Policy Change*	*Tech.& Finan. Assist.*				
	e) Design a plan for IPEME aimed at improving the concept and accelerating the establishment of the COrE scheme in the provinces f) Support the expansion of Business Development Centres including incubators g) CPI continues to review the investment regime in the light of the Private Investment Promotion Strategy (PEPIP 2014-2016) and its proposed roadmap for implementation, in coordination with MIC and other Government Institutions.							
	14. Integrate the licensing of economic and commercial activities into the system of the electronic platform	X	X	X	MIC (DASP)	MJ, MITRAB, MEF/AT, MICOA, MASA, MINT, MISAU, MITUR; MIREME, MMAIP; MOPHRH, BM, PS, municipal councils	Short to medium term	
Developing Productive Capacity	**15. Implement the NES to better integrate Mozambique in the global trading system and global value chains** a) Link the identified sectors/products with the national Trade Policy and Strategy b) Identify support policies for the development of this sectors/products c) For fisheries: Ensure that the activities of the Pro-Pesca project and other activities are mainstreamed in the MMAIP and other ministries d) Explore and study the use of technology already available from South partners, like Brazil, for further diversification of products in the industries of sugar cane and biofuels e) Enhance knowledge transfer and promote productive and entrepreneurial capacities f) Develop a strategy with IPI, MMAIP and MASA in order to explore the potential of geographical indications for selected Mozambican products	X		X	MIC/MASA	INIP, IIAM, CEPAGRI, MASA, MMAIP, IPEX, Academia, PS	Short to medium term	

Strategic Objective	Key Actions	Requirements			Lead Institutions	Other Institutions Involved	Timeframe [49]	Status[50]
		Policy Imple ment.	*Policy Change*	*Tech.& Finan. Assist.*				
	g) Consider the opportunities offered by the EMATUM project to establish canneries in Mozambique							
	16. Encourage the use of local content and business linkages, not only within the extractive industry a) Assist SME to establish business linkages b) Identify policies and trade instruments that could be used to create incentives to use local content and to develop export-processing zones (EPZs) that are compatible with WTO rules and obligations.		X	X	MIC (IPEME)	INIP, IIAM, CEPAGRI, IPEX, IPEME, Academia, CPI, GAZEDA, MIREME	Short to medium term	

LIST OF ABBREVIATIONS

AT - Autoridade Tributária

BM - Banco de Moçambique

CEPAGRI - Centro de Promoção da Agricultura

CPI - Centro de Promoção de Investimentos

ICM - Instituto de Cereais de Moçambique

IIAM - Instituto de Investigação Agrária de Moçambique

IIP - Instituto de Investigação Pesqueira

INE - Instituto Nacional de Estatística

INIP - Instituto Nacional de Inspecção do Pescado

INNOQ - Instituto Nacional de Normalização e Qualidade

IPEME - Instituto para a Promoção das Pequenas e Médias Empresas

IPEX - Instituto para Promoção de Exportações

IPI - Instituto de Propriedade Industrial

MASA - Ministério da Agricultura e Segurança Alimentar

MEF - Ministério de Economia e Finanças

MIC - Ministério da Indústria e Comércio

MICULT - Ministério da Cultura e Turismo

MINJUST - Ministério da Justiça e Assuntos Constitucionais e Religiosos

MINT - Ministério do Interior

MIREME - Ministério dos Recursos Minerais e Energia

MISAU - Ministério da Saúde

MMAIP - Ministério do Mar, Águas Interiores e Pescas

MOPHRH - Ministério das Obras Públicas, Habitação e Recursos Hídricos

MTADR - Ministério da Terra, Ambiente e Desenvolvimento Rural

MITES - Ministério do Trabalho, Emprego e Segurança Social

MTC - Ministério dos Transportes e Comunicações

OSC - Organizações da Sociedade Civil

SP - Sector Privado

G. APPENDIX

G-1. The Process and Criteria for Graduation from LDC Status

G-1.a. Introduction

The Committee for Development Policy (CDP), a subsidiary body of the United Nations Economic and Social Council, is responsible for reviewing the status of LDCs. It uses a set of formal criteria both for identifying countries as LDCs and for graduating them from this status. Currently, the following criteria are used to classify or graduate LDCs:

- Gross National Income (GNI) per capita, an absolute measure of national income;
- The Human Assets Index, a composite index of measurements related to the quality of life; and
- The Economic Vulnerability Index, a composite index of measurements related to the vulnerability of the country to exogenous shocks.

In the review process, the CDP determines threshold levels on each of the three criteria to identify the countries to be added to or graduated from the category. These are relative rather than absolute rankings: The position of a country does not depend solely on its own development, but also on the development of all other countries considered. For the calculation of HAI and EVI, information on all developing countries is taken into account.

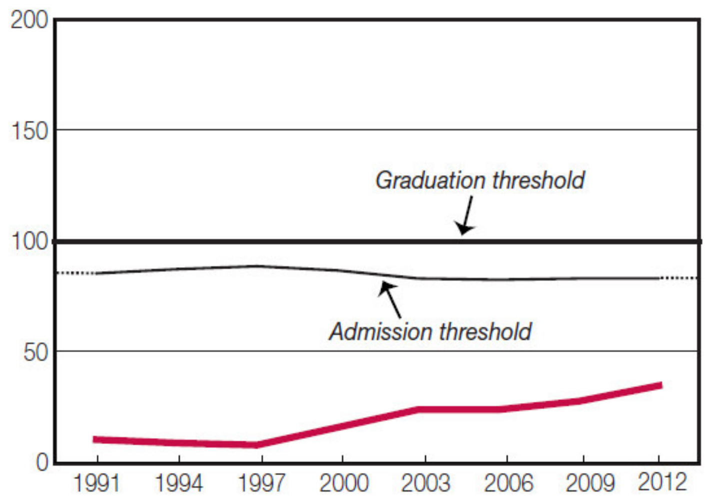
Since graduation rules have been established in 1991, one of the guiding principles has been to ensure that graduation will take place only after a country's development prospects have significantly improved and that the graduated country can sustain its development path. The rules are intentionally asymmetrical with regard to the criteria for inclusion and graduation: Thresholds for graduation are set at a higher level than those for inclusion; to be eligible for graduation a country must cease to meet two out of the three criteria (except in cases where GNI per capita is at least twice the graduation threshold levels); eligibility for inclusion is ascertained once, whereas eligibility for graduation has to be observed over two consecutive triennial reviews; and inclusion is immediate, while graduation takes place only after three years.

Gross National Income (GNI) per capita

The GNI measure used by the CDP is expressed in current U.S. dollars based on the World Bank's Atlas Method, an approach that reduces the effects of short-term fluctuations in inflation and exchange rates. The threshold for inclusion is based on a three-year average of the level of GNI per capita. The threshold for graduation is set at a higher level, usually 20% above the inclusion threshold.

The data in Figure 13 show on the one hand that as of 2012 Mozambique had yet to achieve even half of the GNI per capita level for graduation from LDC status, but also showed on the other hand that the country's income level has grown at an impressive rate for several years. The performance levels achieved in the 2009 and 2012 reviews came after sustained income growth at an average rate of 8%, which was coupled with reasonable population growth (decreasing from 2.7% to 2.3% over the decade). Substantial changes in economic specialization have been high among the factors explaining the observed progress. After years of dependence on exports of shrimp and cashew nuts, Mozambique has been able to diversify its economy toward such higher-value products as aluminum and electricity. These marks of structural progress augur well for further upward movement under the graduation line. While it will still take many more years of sustained growth to reach the graduation level, the trend is definitely moving in the right direction.

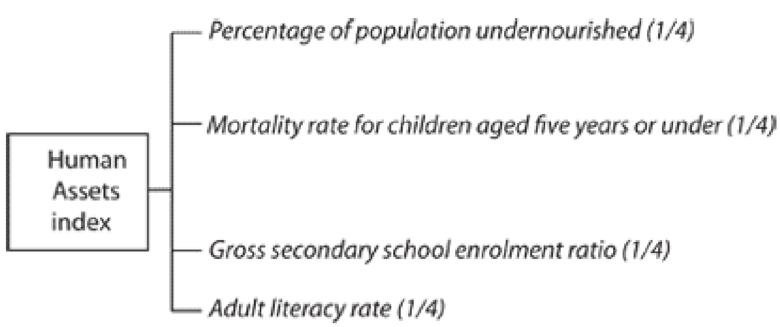
Figure 13 : Mozambique's GNI per capita, 1991-2012



Source: UNCTAD.

G-1.b. <u>Human Assets Index</u>

The HAI provides information regarding the level of development of human capital. It is a combination of four indicators, two indicators of which relate to health and nutrition outcomes and two of which concern education:

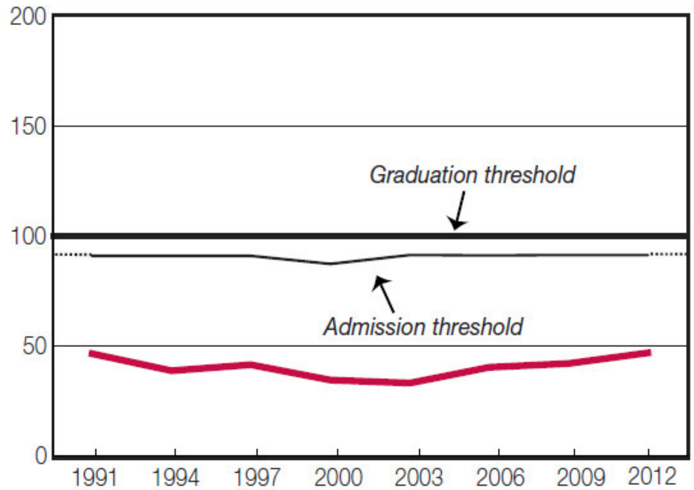


Numbers in parenthesis indicate the weight in the overall HAI.

Once again the data for Mozambique show a country that is moving in the right direction. It has been faring better with respect to some of the most important components of the HAI (both statistically and socially), namely a decline in child mortality and increases in secondary school enrolment as well as adult literacy. That said, Mozambique still lags behind other sub-Saharan African countries. Undernourishment is higher, and secondary school enrolment lower, than averages for the comparative regional group by 32% and 25%, respectively. Mozambique is also surpassed by the same comparative African cluster (on an average basis) with respect to child mortality and adult literacy, albeit by small margins (2%

and 5%, respectively). Overall, continued efforts in human capital development will be necessary if the goal of intensifying structural progress is on the country's agenda.

Figure 14 : Mozambique's Human Assets Index, 1991-2012



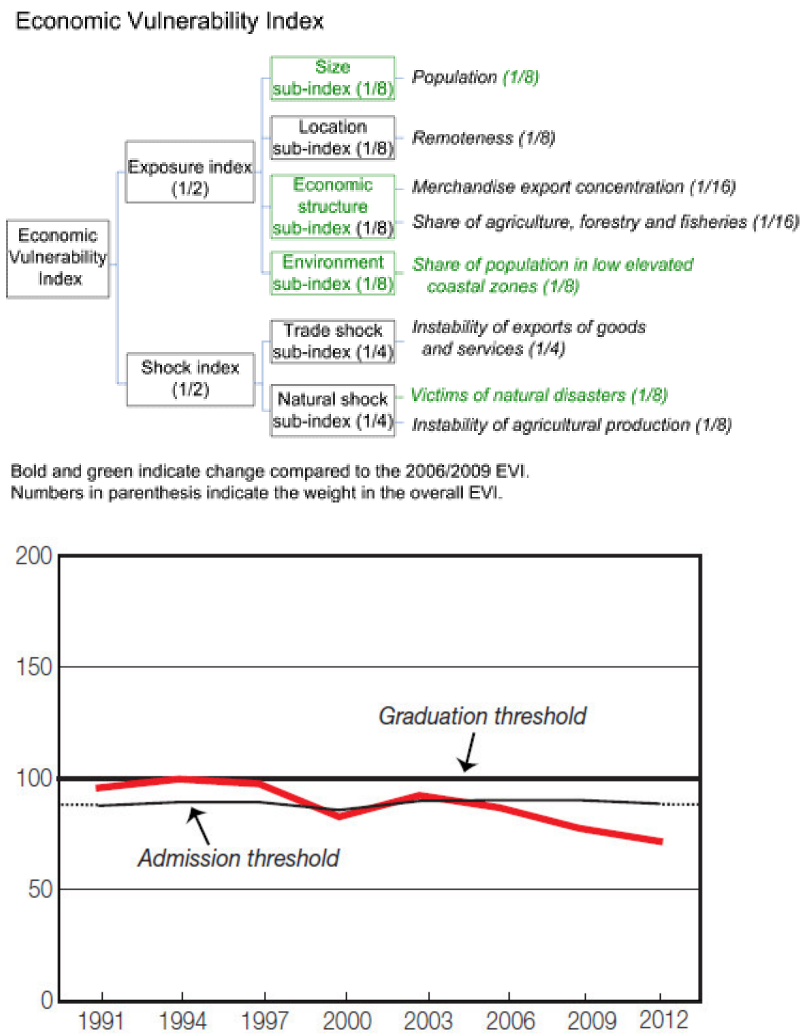
Source: UNCTAD.

G-1.c. <u>Economic Vulnerability Index</u>

Economic vulnerability is a major structural obstacle to development. The EVI is designed to reflect the risk posed to a country's development by exogenous shocks, the impact of which depends on the magnitude of the shocks and on structural characteristics that determine the extent to which the country would be affected by such shocks (i.e., its resilience). In this regard, EVI does not take into account vulnerabilities that result from economic policy choices made in the recent past and which are of a conjectural nature.

The EVI incorporates eight indicators, grouped into two broad areas comprising an exposure index and a shock index. The weights attached to each indicator in each composite index and sub-index are as shown below. It is notable that two trade measures figure prominently in these calculations, with 1/16 of the index being determined by a country's merchandise export concentration, and fully a fourth being determined by the instability of its exports of goods and services.

Figure 15 : Mozambique's Economic Vulnerability Index, 1991-2012



Source: UNCTAD.

The data for Mozambique in Figure 15 can be seen either positively or negatively. On the positive side, this is the one criterion on which Mozambique comes closest to achieving the standard for LDC graduation. On the negative side, this is also the one area where the trend has lately moved in the wrong direction. U.N. officials nonetheless point out that this trend may be more statistical than substantive, with the apparent decline in recent years being better explained as the result of methodological changes in the relevant composite indicator than it is by any actual worsening of economic vulnerability in the country. It is partly due to the addition a new EVI component, the ratio of people in low-lying areas, which is more relevant to sea level rise than to economic fragility. Here the country's score reveals greater exposure to climate-related threats than is the case for other sub-Saharan African states. Another new EVI component is the disaster victims ratio, a measurement that indicates a significantly greater impact on Mozambique of natural shocks such as drought and flooding. The addition of these two measures tends to hide the genuine, structural progress that Mozambique has made lately on other aspects of the EVI, namely its relatively low merchandise and service exports instability. Mozambique's improvement on those last two EVI components reflect the benefits it has enjoyed from economic diversification.

G-2. List of Persons Met

Name	Position	Institution
Calado Domingos M. da Silva	Director of International Relations	Ministry of Industry and Commerce-MIC
Célio Elias Zaqueu Nhachungue	Deputy Director of International Relations	Ministry of Industry and Commerce-MIC
Agonias António Macia	Head of Department of Specialized Organizations	Ministry of Industry and Commerce-MIC
Steffen Grammling	Senior Project Manager	Donor Facilitation of Enhanced Integrated Framework (EIF) in Mozambique
Maurício Cumbi	Director for International Cooperation Services	Mozambique Revenue Authority-AT
Eleutério Mabjaia	Director for Research and Statistics	Institute for Promotion of Small and Medium Enterprises-IPEME
José Tembe	Coordinator	Institute for Promotion of Small and Medium Enterprises-IPEME
Amílcar Arone	Head of Department	Ministry of Planning and Development-MPD
Alfredo Muthombene	Planning Technician at the National Planning Directorate	Ministry of Planning and Development-MPD
Godinho Alves	Deputy General Director	Investment Promotion Centre-CIP
Kekobad Patel	Chairman of the Fiscal Customs and International Trade Policy Committee	Confederation of Mozambique Business Associations-CTA
Eduardo Macuacua	Deputy Executive Director	Confederation of Mozambique Business Associations-CTA
José Manuel Fernando Jossias	Director for Product and Market Development Services	Institute for Export Promotion-IPEX
Mário Romão	Planning and Development Director	Ministry of Mineral Resources-MIREM
Elisabeth Júnior	Senior Technician at the National Directorate of Mines	Ministry of Mineral Resources-MIREM
Myriam Sekkat	Attaché	European Union/ Delegation to the Republic of Mozambique
Alfredo Filipe Sitoi	Director	National Institute for Standardization and Quality
José M. Alberto Pita	National Director for Promotion of Cultural Industries	Ministry of Culture
Horácio M. Morgado	Staff	USAID/SPEED Project
André Almeida Santos	Principal Country Economist	African Development Bank

Name	Position	Institution
Carlos Rafa Mate	Advisor	Royal Norwegian Embassy
Emile Perez	Private sector development	Swedish Embassy
Jaime Comiche	UNIDO	Country Representative
Sergio Distá	-	DFID
Garen Work	-	DFID
Rogério Ossemane	-	DFID
Mazen Bouri	-	World Bank
Odília Massangaia	-	Italian Cooperation
Ana David Timana	Deputy Director	National Institute for Fisheries Inspection/Ministry of Fisheries
Carlos Riquixo	-	National Institute for Fisheries Inspection/Ministry of Fisheries
Carlos Cardoso	President	CEP-Tete
António Campos	Staff	CPI-Tete
Elton Michel Remígio	Staff	CEP-Tete
José Manuel Gaisse	President	CEP-Niassa
Quenesse Aly	Representative	AREPOMADIL-Niassa
Pequenino Bacião	Representative	AFORME-Niassa
Mendes Sozinho	Representative	AFORME-Niassa
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Herculano Arão	Entrepreneur	Maputo province
Maria Moisés	Entrepreneur	Maputo province
João David	Representative	BAU-Maputo province
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Elvira Sitoi	Staff	DPIC-Maputo province
Jareta Ramos	Entrepreneur	J.M.C-Maputo province
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Name	Position	Institution
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Mansur Hanif	Entrepreneur	Quelimane-Zambézia
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Mahimed Hussein	Entrepreneur	Quelimane-Zambézia
Aissa Vicente	Representative of local entrepreneur	Quelimane-Zambézia
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Ezembro Domingos	Entrepreneur	Quelimane-Zambézia
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Rosário Hermínio	Representative	INIP-Sofala
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Name	Position	Institution
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Carlos Govene	Staff	DPA-Inhambane
Name	Position	Institution
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Luisa Bruno	Staff	SDAE-Maxixe
Teresinha Mateus	Staff	DPICI
Palizina Jacane	Staff	DPICI
José Guila	Staff	Farmer
Amâncio Wetela	Staff	Farmer
Pedro Vilanculo	Staff	DPICI
Mauro Nelo	Staff	DPICI
Virgolino Matavele	Staff	DPICI
Arnaldo Miguel	Staff	DPICI
Hilário Zibane	Staff	DPICI
Lourenço Matsinhe	Staff	DPICI
Borges Chivambo	Assistant	CEP/CTA-Maxixe-Inhambane
Abdul Rahimu	Transportation Portfolio	CEP/CTA-Maxixe-Inhambane
Nial Laxmicanj	Trade portfolio	CEP/CTA-Maxixe-Inhambane
Juri Dinis	HR Manager	Taurus-Maxixe-Inhambane
Hilário Cuambe	HR Assistant	Taurus-Maxixe-Inhambane
Mussa Samo	Advisor	CEP/GIZ