

## **Mozambique Mission Report**

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### **1. Purpose of the mission**

Prof. Ohno was invited by the Japan Bank for International Cooperation (JBIC) to deliver presentations at two workshops jointly organized by the JBIC, the Investment Promotion Center of Mozambique (CPI) and the Board for Economic Zones and Accelerated Development (GAZEDA) on the theme "Economic Development of the Nacala Development Corridor: Learning from the Experiences of Vietnam". Elumba Jean Denis N. was also dispatched by GRIPS to join Prof. Kenichi Ohno on a fact-finding mission to Mozambique on the same itinerary (from the 14th to 24th of February 2008).

In addition, we met key stakeholders responsible for economic development planning to learn how policy dialogue is coordinated within the government and between the government and the private sector, in order to understand the strategic importance of the Nacala Development Corridor within the broader framework of the national economic development plan of Mozambique.

### **2. Background to the mission**

The Nacala Development Corridor, with the Nacala port, strategically situated on the Mozambique channel (a busy and important route for East African commerce) on the Indian Ocean is a region with vast untapped natural resources that offer great development potential for agricultural, mining, energy, tourism, and industrial development. However, inadequacies of the infrastructure networks have hampered the utilization of this development potential. While some rehabilitation has been done along the corridor, there is great need for more extensive rehabilitation in certain sections.

The Nacala Development Corridor is one of the first development corridors identified as a regional development priority by the NEPAD. The port of Nacala is an exceptionally good natural port that can accommodate almost any size of vessel. If operated efficiently, and utilized at greater capacity, it should become a

major source of economic activity in Mozambique, and the region.

The government of Japan gives high priority to the development of the Nacala Development Corridor, with particular focus on rehabilitation of roads. A feasibility study for the rehabilitation of the road between Nampula and Cuamba has already been conducted by the Japan International Cooperation Agency (JICA). The project is at a negotiation phase between the two governments for possible finance agreement through the JBIC and the African Development Bank (AfDB).

In view of the similarities between Mozambique and Vietnam, and its own involvement in infrastructure finance in South East Asia, the JBIC has been promoting trilateral cooperation between Japan, Mozambique and Vietnam for the development of the Nacala Development Corridor. It is in this regard that the JBIC has encouraged exchange of experiences between these countries in the area of infrastructure development. In August of 2007, the JBIC organized a "sharing of experience" mission to Vietnam and invited officials from Mozambique involved in economic development planning to participate.

This mission to Mozambique is a follow up of the first "sharing of experience" mission in Vietnam. This time, the mission was expanded to include, besides officials involved in infrastructure and economic development planning in both Mozambique and Vietnam, Japanese academics with background experience in East Asia economic development planning and other multi-sectoral participants. This report reflects the understanding that has emerged from consultation with various stakeholders on the structure of the economic development of the Nacala Development Corridor.

### **3. Mozambique's economy**

In recent years Mozambique has earned a reputation for prudent macroeconomic management backed by remarkable achievements in economic growth. While these achievements are credited to stability, favourable economic policies (reforms), and large foreign investment inflows, there is no denying that Mozambique's growth has a strong foreign aid bias and the growth has not yielded social benefits across the spectrum. Several challenges remain. Per capita income remains low (\$300) and a large portion of the population (almost half the population) still lives below the poverty line.

#### **4. Mission highlights**

##### **A. Workshop in Nampula**

We drove approximately 250 Km of rehabilitated road, from Nampula to Nacala where the first workshop was held. The road was in relatively good condition. However there were few access roads and we saw few signs of economic activity along the road except the vicinity of the port, which suggested little linkage with the rural economy. At present there are few planned projects that will link up with economic activities along the road. At the workshop, the governor of the Nampula Province delivered a speech to the participants outlining his administration's view on the strategic importance of the Nacala Development Corridor to the economic development of the province.

##### **B. Visit to MOZAL**

We visited Mozal, the US\$1.3 billion aluminium smelter plant outside Maputo. Thanks to the rising commodity prices in the world market, the company has registered large profits in recent years and is planning to expand its operations in the country to meet growing demand for aluminium in the global market. The planned expansion is contingent on additional electrical energy.

The International Finance Corporation (IFC) has identified lack of linkages between mega-projects (such as Mozal) and local industry as an area to focus on and has set up a project to finance linkage programs that will train Mozambican companies to meet Mozal's standards. They are working with Mozal, looking at their value chain to maximize this potential. Creation of more employment in addition to the current 1,000 local employees on Mozal's payroll is expected.

In the mean time, in order to extend social benefits to the wider community, Mozal funds community development programs to the tune of up to US\$3 million a year (there are plans to increase this funding to US\$5 million a year). The Mozal Community Development (MCD) runs several projects that involve building schools, providing of health care, etc.

##### **C. Consultations with various stakeholders**

We visited institutions responsible for formulating and implementing economic

development strategy. We briefly describe them below and give our assessment of the needs and constraints in policy development and inter-agency coordination.

(i) National Directorate of Industry (NDI)

Operating under the Ministry of Trade and Industry (MTI), the National Directorate of Industry's role is to formulate and implement industrial policy and promote growth in the manufacturing sector. It is also responsible for informing the industrial sector of opportunities arising from trade agreements. For example, it administers the MTI's program to exempt inputs imported for certain domestic industries (garments, chemicals, engineering, food processing) from tariffs.

The NDI has formulated the industrial strategy of Mozambique. This document (we obtained a soft copy) is a SWOT analysis of the Mozambique industry that presents priority areas for implementation. It comes with an action plan that details how the strategy will be implemented. The action plan, being an internal document, was not made available to us.

(ii) Export Promotion Agency (IPEX)

The Export Promotion Agency's (IPEX) role is to promote Mozambican exports to the world. IPEX identifies products with good export potential (by province), prepares strategies for each and organizes trade missions to targeted markets overseas. To achieve its mission IPEX works closely with Mozambican producers promoting export oriented production and providing market access information. IPEX actively participates and coordinates in trade policy formulation.

(iii) The Confederation of Business Associations of Mozambique (CTA)

The CTA is a federation of 57 business associations representing more than three thousand companies from various sectors of Mozambique's economy. Its members are also geographically representative including associations from all provinces. The CTA's role is to address constraints that its members experience in Mozambique, and liaise with the government to remove them. As the ultimate bearer of the effect of policy, the CTA has set up various mechanisms to engage with the government in order to feed into private sector related policy formulation. They have permanent working groups that address sector-specific issues and have annual reviews of progress with senior officials of ministries relevant to the sectors. This public-private partnership is further enhanced through the annual conference of the private

sector in Mozambique. It is not always the case that their recommendations are taken into account by the government, as was the case with the industrial strategy, which has just been proposed for approval to parliament. From our discussions, it was clear that the Mozambique private sector has considerable insight into the steps needed to reduce costs and to become more competitive domestically and in foreign markets.

(iv) The Investment Promotion Center of Mozambique (CPI)

Operating under the Ministry of Planning and Development's jurisdiction, the CPI's main role is to attract and facilitate domestic and foreign investment that will stimulate job creation. It serves as the primary agent for promoting and facilitating investment in Mozambique. Its functions of administering the export processing zones (EPZ) have been assigned to a newly created agency, the GAZEDA to focus on attracting more investment. While the government's goal of creating several agencies with seemingly overlapping responsibilities and mandates is to decentralize their activities to improve effectiveness, more capacity building is needed in terms of coordination at the institutional level.

Despite its shortcomings, and compared to other developing countries, Mozambique's economic development policy structure has several aspects of planning right, especially with their bottoms up approach.

D. Business climate assessment: opinions of a Japanese investor

According to a local Japanese investor, claims of improved investment climate have mixed record on the ground and may be limited to big projects. The interests of foreign and local SME investors continue to be largely overlooked. Complicated regulatory procedures, inconsistent applications of laws (an archaic commercial procedures based on inherited colonial code is still in use with few changes), and jurisdictional overlap among government agencies, not only promote corruption, but also stifle business start up and expansion and destabilize the commercial environment. In particular, labour laws offer unusually generous protection for workers. For example, there is restriction on period of work (including the probationary period) before automatically triggering permanent employment status. These restrictions greatly increase costs and impair labour mobility and the creation of new jobs.

## 5. Mega projects

Mega projects at various stages of planning include the following.

- (i) *Cahora Bassa*: Major expansion of hydroelectric power generating capacity at Cahora Bassa on the Zambezi River. At present the dam generates a nominal capacity of 2,000MW, supplying electricity for domestic consumption (Mozambique: 350MW; Mozal: 900MW), as well as for export to Zimbabwe and South Africa. The government is now seeking investors to expand capacity at the Cahora Bassa Dam, and for a new 1,600-MW hydroelectric facility on the Zambezi River, south of the Cahora Bassa.
- (ii) *Moatize coal fields*: Development of the Moatize coal fields in Tete Province (concession to a Brazilian company). Moatize in northwestern Mozambique is considered to be the largest unexplored coal deposits in the world. The project will likely include the development and improvement of mine facilities, railway line and a power station.
- (iii) *Zambezi River Bridge*: Construction of the Zambezi river bridge at Caia.
- (iv) *Mpanda Nkua Dam*: Construction of a new dam at Mpanda Nkua (1,600MW).
- (v) *Temane natural gas fields*: Development of the Temane natural gas field south of Maputo.
- (vi) *Development of the tourism industry*: Mozambique has all the ingredients for an exciting tourist destination. Cultural heritage, natural beauty, various national parks and game reserves and the spectacular Mozambique coastline. Wildlife experts report common sightings of elephants on white sand beaches (an extreme rarity in wildlife parks such as the Masai Mara, Serengeti or Kruger). This tourism development potential would even be greater if considered regionally. However, development in the sector is constrained by poor infrastructure, lack of skilled human resource, poor regional and international marketing, etc.

To become a premier tourist destination in the region, Mozambique would need to invest heavily in infrastructure, product development, and marketing. A variety of new investment opportunities have been identified for prospective private sector investment in Mozambique. The IFC's South East Tourism Investment program is supporting development of tourism with regional linkage. It has identified sites and is now marketing these to parties it knows will be interested especially if the IFC is involved. One such party is the Dubai World Investment Consortium that is interested to develop the

Bailene Beach Resorts.

## **6. Development policy formulation**

There is a strong desire for economic development at the highest level of government, as demonstrated by the emphasis on rehabilitation of roads, railways, ports and airport infrastructure, as well as the bulk electricity and telecommunications infrastructure that is required to underpin economic growth and development. Several planning initiatives limited to specific economic sectors or regions have proposed important initiatives and strategies, but no comprehensive economic development plan is compiled for the country as a whole. The government works with guidelines and action plans targeting specific issues on 5 years government programs. On a need basis, they set up task forces that work in informal ad-hoc consultations to formulate policy "guidelines". These guidelines are not detailed documents. They present priority areas, which will be used by various directorates (if approved by the council of economic ministers) to formulate strategies. Various ministries work in conjunction with other related ministries to formulate significant sector-specific strategies. Policy is not coordinated through a formal body that oversees various policy formulation processes.

The concept of economic development planning is important for keeping development efforts on-track, for drawing attention to outcome, and for drawing lessons of good practice from accumulated experiences from other countries who have been there before.

Hence, the needed for a comprehensive economic planning framework that must identify appropriate industrial activities, incentives for investment, infrastructure and public service needs, a clear spatial strategy, and be anchored on solid and sustainable community participation to foster a sense of ownership and support of the plans, (including environmental protection measures), and be compatible with core economic activities in each region.

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