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Case study on Mozambique*

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Table of Contents

Chapter	Pages
List of Abbreviations	3
I. Introduction	4
II. Trade Policy Challenges	5
III. Development Policies and strategies	7
IV. Trade and Development Policy Recommendations	14
V. Conclusions	15
References	16
Annex	17

LIST OF ABBREVIATIONS

SADC	Southern African Development Community
EU	European Union
US	United States
PARPA	Poverty Reduction Strategy Paper
ERSP	Economic and Social Rehabilitation Programme
GDP	Gross Domestic Product
GNP	Gross National Product
GNI	Gross National Income
DTIS	Diagnostic Trade Integration Study
HIPC	Heavily Indebted Poor Countries
CFMP	Medium Term Fiscal Scenario
OE	State Budget
PES	Social Economic Plan
VAT	Value Added
WTO	World Trade Organization
MPD	Ministry of Development & Planning
DTIS	Diagnostic Trade Integration Study
CPA	Cotonou Partnership Agreement
WTO	World Trade Organisation
LDCs	Least Developed Countries
AGOA	Africa Growth Opportunity Act
EBA	Everything But Arms
MDGs	Millennium Development Goals
INE	National Statistics Institute
UNCTAD	United Nation Conference on Trade and Development
UNDP	United Nation Development Programme
GOM	Government of Mozambique

I Introduction

1. Mozambique's population of 19 million is projected to grow at about 2.4 percent annually between 2007 and 2010. Since dependency rates are falling, and the country is one of the most land-abundant in Africa, population dynamics have not been a major drive of poverty trends.
2. Indeed, demographic dynamics have helped support rising per capita incomes and falling poverty. The urban working population is expected to grow at 4 percent until 2010, underscoring the need for a growth path with job creation.
3. The country still ranked among the Least Developed Countries (LDCs) with low socio-economic indicators. For example, GDP per capita in 2006 was estimated at about US\$349 which represents a significant increase as compared to the mid 1990s level of US\$217. Moreover, the country had high levels of foreign debt (originally \$5.7 billion at 1998 net present value). Mozambique was the first African country to receive debt relief under the initial Highly Poor Countries (HIPC) initiative in 1999, in part, due to good track record on economic reforms. Finally, in April 2000, Mozambique qualified for the Enhanced HIPC and attained its completion point in September 2001.
4. While Mozambique's recent growth rates are impressive, however some observers worry about the pattern of growth and its sustainability. Despite some progress in boosting agricultural production, achieving broad-based growth remains a key challenge. Recent industrial development strategies have focused on Capital-intensive mega-projects (i.e. the case of MOZAL in Maputo, and SASOL Natural Gas project in Inhambane). Despite their magnitude, nevertheless, these projects seem to generate few spillover effects on the rest of the economy, either in terms of job creation or tax revenues. Unemployment and poverty, including administrative barriers that limit the growth of the private sector also remain critical problems.
5. Poverty in Mozambique is multi-dimensional, far reaching, and affects both rural and urban populations. It is reinforced by the fact that the majority of the population, which is rural, is not yet benefiting in a sustainable way from the country's agricultural wealth and is living below the food poverty line, receiving less than 80% of 2,200 calories per day resulting in recurrent malnutrition especially among children. The effects of war have also directly contributed to its severity, as has the new threat of HIV/AIDS² pandemic.
6. In rural areas, poverty is linked to the effects of low productivity, poor social and economic infrastructures, vulnerability due to adverse climate conditions and natural disasters, and rapid population growth. The majority of households continue to rely on rudimentary technology and most cannot afford or do not have access to improved agricultural inputs. The continuing absence of infrastructure inhibits the development of trade in the rural areas and access to basic services.
7. This paper aims to address some challenges on trade and economic development as well as policies recommendations in the case of Mozambique.

² Human Development Report, 2005

II. Trade Policy and Challenges

8. Domestic policies are the key elements in ensuring effective economic participation in the global economy³. First and foremost are trade policies that are broadly neutral with respect to both imports and exports, and which in particular leave potential export free of unnecessary regulatory burdens on investment, imports, employment, and production.

9. Domestic policy environment and lengthy procedures governing the process of starting a business in Mozambique still needs further improvement to give the business sector better opportunity to participate and become competitive not only in the domestic market but also in the regional and global trade arena, and ultimately benefit from the liberalization process.

10. Mozambique has reformed its tariff structure in recent years essentially complying with the SADC and the WTO agreements. However, many business sectors believe that the adoption of a much more uniform tariff rates would reduce corruption and smuggling. This measure would also reduce the anti-export bias. However, the reluctance in simplifying the tax structure may be related to government's revenue dependency on import taxes. But in contrast, recent figures indicate that the government's budget depends on trade taxes for only about 15 percent of total revenue.

11. A large cost of the barriers on international trade impacts not only on export oriented sector but also in some domestic sectors which depends on imported inputs. Freeing exports from these hidden costs would require meaningful reform in import tariffs, and adoption of institutional measures aimed at simplifying customs and trade related procedures. Moreover, the removal of unnecessary quantitative and qualitative barriers to trade (i.e. complex domestic regulatory environment) is one of the highest priorities in trade policy reforms currently underway in Mozambique.

12. Trade has the potential to be a powerful catalyst for economic development. Under the right conditions, international trade could generate a powerful impetus for accelerated programmers towards MDGs.

13. Mozambique's external trade policies are designed to create an environment conducive to promoting its products in international markets, especially those of the developed countries like Europe, America, and Asia without prejudice to the promotion of intra-regional trade. Trade policies are formulated with a view to speeding up Mozambique's industrialization process, and in such a way to make access of Mozambican products to foreign markets much easier. In pursuing these objectives, Mozambique has entered into multilateral, regional, bilateral and preferential trade agreements as mentioned below.

14. Mozambique has embarked on preferential trade agreements allowing access to EU grants preference for LDCs through its Everything but Arms Initiative – a duty-free market access provision introduced in 2001 as well as in the US African Growth and Opportunity Act (AGOA), which gives preferential access to US markets for several products, including textiles and clotting.

³ OECD Report, 2004

15. **Trade policy reforms:** The trade weighted average tariff is 9 percent⁴, one of the lowest in Africa. There are four non-zero bands. The top tariff rate has been steadily lowered, from rates approaching 100 percent in the early 1990s, down to 25 percent in 2003. Further reductions in tariffs will follow as the SADC trade protocol which is being implemented.

16. The plan was to reduce the top tariff rate 20 percent in 2006. Management of customs was contracted out during the 1990s, leading to increases in efficiency of collection which more than compensated for the decline in the tariff rates.

17. Mozambique's export performance has been strong, growing at 22 percent annually (in US dollar terms) between 1999 and 2004, mainly owing to mega-projects. (See Table 1 in annex).

18. The trade policy reforms in Mozambique include a progressive reduction of taxes on international trade, reduction of barriers to imports and exports of goods and services.

19. An ongoing process of tariff reforms is in place in order to gradually lower the level of protectionism in many areas. The most recent Index of Economic Freedom by the Heritage Foundation places Mozambique as a country with high level of protection, but with a stable trade policy. This can be illustrated by the fact that Mozambique still applies tariff peaks⁵ of about 35 percent of all tariff lines.

20. Market access is not a binding constraint on export growth at the present, as the country has access to the EU market under Cotonou Agreement and the Everything-but-Arms Initiative, and the US market under the Africa and Opportunity Act.

21. The country's access to South African market is also relatively free. In the medium term market access may be a binding constraint when the country reaches its full export potential. To avoid this, it needs to participate in the on-going mid-term review of the SADC trade protocol to improve the rules of origin, and also in the Economic Partnership Agreement with the EU which will replace if not yet the Cotonou Agreement.

22. **Foreign Trade:** Rapid expansion of exports has been an important source of growth during the past 10 years in Mozambique. Since the early 1990s, exports have expanded at an average rate of 10 percent per year, substantially higher than world exports (6 percent).

23. Mozambique is one of the few countries in Africa that managed to increase its share in world exports. This rapid export expansion was, in part, led by private initiative both national and foreign and largely due to the implantation of Mega projects like MOZAL (Aluminum) and SASOL (Natural gas).

24. Mozambique's principal export market is the Netherlands, to which 100 per cent of Mozal's aluminum is exported. Other important destinations for Mozambique's exports include South Africa, Malawi and Portugal.

⁴ Mozambique Economic Memorandum, Pag 9

⁵ Tariff peaks are defined as tariff rates above 15 percent

25. The largest source of imports is South Africa, followed by the Netherlands, Portugal, India and the US. In short, the Mozambique's trade is at present dominated by the Mozal and Sasol mega-projects.
26. The main constraints and challenges for trade in Mozambique are as follows:
- a. High marketing costs.
 - b. Weak institutions and lack of infrastructures.
 - c. High transport costs.
 - d. Access to roads, technologies, market information and productive assets such as land capital and water.
27. All of today's developed countries have benefited of heavy investments to boost their production and trading capacity before engaging in international trade, so donors should feel that aid is critical. In fact trade-related assistance is an integral part of the Doha Work programme. It is mentioned more than twenty times in the Doha Declaration (paragraph 2, 16, 21, 24, 26, 27, 33, 38, 39, 40, 42 and 43) and should therefore be negotiated and implemented in its time and in a proper manner, independently from the advancement of a pre-established agenda of trade liberalization.
28. Mozambique has also benefited in different initiatives of trade related technical assistance.

III. Development Policies and Strategies

29. In Mozambique, several policies and strategies of national, regional and global scope, aimed at economic development and poverty reduction tend to overlap in their essence.
30. The most important are:
- PARPA⁶;
 - The Agenda 2025;
 - The Government Quinquenal Program – GQP (2005-2009);
31. Apart from PARPA and the GQP, there are multisector programmes, through which the government establishes priorities and coordinates actions in the struggle against poverty, such as for example the Food Security and Nutrition Strategy, the Agriculture Marketing Strategy and the Road Strategy.
32. Mozambique's long-term vision is envisaged in the 2025 Agenda, which draws all major objectives that should be attained by 2025. This agenda is a comprehensive document, which explores possible future scenarios and policy alternatives as well as the expected outcomes. It is a consensual document agreed upon by all social stakeholders, including political parties, as a result of a participatory and consultative process. From this document are guidelines for other lower level school planning instruments. The main pillars of the 2025 Agenda are (Conselheiros 2003):

⁶ PARPA = Poverty Reduction Strategy

1. Human capital – education and health;
2. Social capital – peace and political stability, ethnic diversity and national cohesion, social justice, regional asymmetries;
3. Economy and development; and
4. Good governance.

33. The GQP, a plan produced following each electoral cycle, sets the broad goals for the following five-year period. The Government Programme for 2005-2009 sets out the following fundamental goals:

- Reducing the levels of poverty, through the promotion of a rapid, sustainable and comprehensive economic growth;
- Ensuring the country's social and economic development, with focus on the rural areas in view to reduce regional imbalances;
- Maintaining economic stability and promoting a business enabling environment that is attractive to foreign investment;
- Keeping inflation at low and stable levels; and
- Keeping stable and competitive real exchange rate to stimulate exports.

34. The materialization of this vision will be possible with support of other planning instruments like the medium term expenditure framework (CFMP)⁷ and of short term instruments like Social and Economic Plan (PES) and State Budget (OE).⁸ Medium Term Expenditure Framework defines a medium term macro framework consistent with policy objectives. This document which makes the prediction of resources and of spending priorities also provides a strong consistency to be gained with the execution instruments such as PES and OE. Annually, the Government of Mozambique is required to submit its Social and Economic Plan to Parliament for appreciation and approval (See Fig 1).

Poverty Reduction Action Plan (PARPA)

35. In the contest of poor economic performance, the government of Mozambique introduced a comprehensive Economic Rehabilitation Programme (ERP/SAP) in 1987, with the assistance of the IMF and the World Bank. Subsequently, the reform efforts were translated into the Economic and Social Rehabilitation Programme (ERSP) in 1989 which include on the social dimensions of the adjustment effort.

36. The Government of Mozambique with support of the donors has approved the PARPA II (PRSP). The overall objective of PARPA II is to reduce the number of the population living in absolute poverty by 30 percent over thirteen years, from 70 percent in 1997 to below 60 percent in 2006 and 50 percent by 2010.

37. PARPA emphasizes economic growth, public sector investment in human capital and productive infrastructure, and institutional reform to improve the enabling environment for the private sector participation in the economy. PARPA underlines that

7 CFMP – Cenário Fiscal de Médio Prazo (Medium Term Fiscal Framework)

8 PES – Plano Económico e Social (Economic and Social Plan); OE – Orçamento do Estado (Government Budget);

economic growth must be both rapid and broad-based to benefit the poor, and the strategy is to achieve an average growth rate of 8 percent for the period of 2001-2010.

38. In terms of inclusiveness of the activities envisaged in each of the national policies and strategies, PARPA II covers almost all the activities envisaged in the other national strategies mentioned above and generally provides greater involvement of the public and private sectors, including the civil society.

39. The Government of Mozambique's central development goal is to create the conditions for poverty-reducing economic growth, while lowering the country's dependence on external aid through: a) macroeconomic policies that consolidate economic stability and reduce imbalances; b) promotion of private sector investment, taking into account regional imbalances and environment protection; c) promotion of social equity to reduce poverty and promote balanced economic and social growth; and d) strengthening management capacity in the public sector.

40. The Government regards the public sector as a priority area for reform. Efforts are aimed at reorganizing and reforming the civil service at the central and provincial levels; establishing municipal governments; and training public servants. New career and remuneration systems are being developed to provide greater incentives.

41. Transport and infrastructure development are high Government priorities with major investments aimed at: a) establishing a trunk road network linking all of Mozambique's provinces; b) providing increased rural access to markets and social services; and c) increasing foreign exchange earnings through rehabilitation and concessions for transit corridors. In addition, complementary investments in water and urban development are aimed at promoting private sector development while improving living conditions for the urban poor.

42. Smallholder agricultural development and sound natural resource management are considered by Government as fundamental to growth, poverty reduction and social sector development.

43. The Government's health policy objective is to promote, protect, and improve the health of all Mozambicans, paying particular attention to the reduction of mortality and morbidity of children, women and vulnerable groups.

44. In support of the education sector, Government seeks to ensure universal access to primary education for all children with the objective of achieving universal primary education for all children no later than 2015.

45. Government's goals in the water and sanitation sector are to increase access to a safe water supply in rural areas and in urban and peri-urban areas.

46. It is important to note that the reforms in the macro-economic environment greatly attract:

- Foreign private capital;
- The support of the international community, whose assistance on grant or soft loan terms today covers half of public expenditure.

47. One of the biggest challenges facing the Government is to make significant improvements in co-ordination and articulation between institutions, policies and strategies at all levels – central, district and provincial, which is particularly important to promote decentralization and encourage a more active role for state institutions.

48. Mozambique appears to be well placed to experience a long period of sustained per capita growth, and also to achieve some of the key Millennium Development Goals, such as the expected halving of the poverty rate by 2015.

49. Nevertheless there are many remaining challenges. There remains the possibility that with swifter progress in certain key reforms, the growth rate could be as high as 7 or 8 per cent in the long term, and that poverty reduction could be quicker.

50. The challenges facing Mozambique's decision makers can be divided into three categories: macroeconomic management, private sector development and natural resources.

Macroeconomic Management

51. Today it is common cause that macroeconomic stability and predictability is the crucial foundation for growth and poverty reduction. This encompasses both price stability and fiscal control. Despite the country's growth and progress on the macroeconomic front, there still a danger of price instability. The banking system in the mid-1990s, together with tight money, resulted in single-digit inflation up to 1999. But there have two phases of inflation of 17 percent in 2002, and another in 2003/4 resulting in inflation of 17 percent in early 2004, subsequently falling to 8 percent by January 2005.

52. In these instances, monetary policy had to be tightened by increasing reserve requirements, raising the bank rate and accelerating the sale of exchange reserves to the public.

53. By less developed country standards, Mozambique has maintained a good record of fiscal discipline. The present problem on the fiscal side is that revenue performance slackened in the past two-three years, and it needs to improve because the Government's spending requirements in education, health and infrastructure will likely continue to rise.

54. The public external debt was considerably reduced through two HIPC operations. Combined with country's excellent prospects for exports, the net present value of foreign debt service divided by exports was projected to fall from its 2004 level of 84 percent to 50 percent by 2020. Values of 125-150 percent are considered in the HIPC context to indicate a debt overhang problem.

Private Sector Development

55. Here I refer to the long pending agenda of reforms aimed at promoting private sector initiative in business and removing barriers to investment for both domestic and foreign investors.

56. Rapid expansion of exports has been an important source of growth during the past 15 years. As I mentioned above that the most export growth was due to the mega

projects and that traditional exports grew slowly, the key challenge in broadening the base for value added growth to achieve poverty reduction objectives will be the removal of barriers so as allow small and medium enterprises to contribute more in the economy.

57. Much needs to be done to improve the support services for exports to eliminate the anti-export bias inherent in the import duty system. The priorities are: extension of export incentives to small companies, acceleration of value added tax (VAT) reimbursement, improving the access of companies to the financial system, and improving standards and capacity to meet sanitary and photo-sanitary requirements, particularly for the EU market.

Natural Resources

58. An important part of increasing economic development and reducing poverty is improving the regulatory framework for natural resources, especially in water, mining rural land, fisheries and forestry.

59. In Mozambique, certain characteristics are common to these five natural five natural resources areas namely an overall regulatory environment that seeks to protect the poor through open access and zero rent extraction by the state; a reluctance to use transparent procedures for allocation of resource use rights; and under-collection of rents that would rightly accrue to the state.

60. Of the five natural resources, the one needing the most attention by policy-makers is water: small scale irrigation, flood and drought mitigation, and water supply all have roles to play for economic development and poverty reduction.

61. Mining is becoming an increasingly valuable natural resource. The recent purchase by a Brazilian mining firm of exploration rights in the Moatize coalfield has underscored the excellent prospects for this sector.

62. However, Mozambique's mining output is still well below that of countries with similar geological potential.

63. Rural land administration has been reformed by a new land law (1977) and regulations (1999) aiming to protect the traditional land use rights of smallholders. The lack of an official land market creates opportunities for rent seeking and is inefficient because land rights will not naturally gravitate to their most productive uses.

64. Fisheries account for 1.6 percent of GDP and 10-15 percent of exports and most of this arise from industrial and semi-industrial shrimp fishing. Artisanal and substance fishing are also important in that they provide employment for a majority of rural peoples.

65. Forestry account for 2.5 percent of GDP presently. The output of the sub sector is about 120,000 cubic meters per year. Experts put the potential of some 500,000 cubic meters.

66. The forestry sector is also important as a contributor to the livelihood of tens of thousand of rural dwellers.

67. *Qualitative overview of the domestic economy.* Mozambique has been showing impressive positive results in the last decade, from a war economy to a prosperous

economy, with high growth rates, averaging 6.6 in the last 6 years (1999 – 2004). Excluding the effects of the 2000 floods, which resulted in growth declining to 1.9 percent, the economy grew by about 8.5 percent in that period.

68. A combination of several factors, including political stability, economic reforms, steady foreign investment flows, and the gradual integration in regional markets, without ignoring the role of international community support, had an important role in the high economic growth rates recorded in recent years (DTIS 2004).

69. Undoubtedly the country has been recording remarkable improvements in various areas, such as macroeconomic management, through which it achieved significant levels of macroeconomic stability, with inflation declining from about 53% in 1995 to sustainable levels in recent years, with a 12% average in the last five years, 9.1% in 2004 (Table 1).

70. Despite these substantial achievements, Mozambique is still one of the world's poorest countries, with about 54.1% of its population living below the poverty line, according to data of the II Household Survey of 2002-2003, against about 69.4% in 1997-1998, representing a 15% percent reduction in poverty levels only in five years. About 37.9% of the population lives on \$1.00 per day, and 78.4% with less than \$2.00 per day. GDP per capita stands at about \$240.0, being therefore among the poorest, occupying the 171st place in the ranking of the Human Development Index, in a group of 177 countries (GOM & UNDP 2005).

71. ***Fiscal policy reforms.*** Aimed at increasing internal revenue were adopted in the last 10 years, through tax base enlargement, reduction of tax rates, introduction of value added tax, review of the code of fiscal benefits (2002), reforms in direct taxes, with the introduction of IRPS and IRPC. These reforms have been accompanied by the modernization of the fiscal administration, which should culminate with the establishment of the Central Revenue Authority of Mozambique. In 2004, the Government introduced the single tax-identification number (NUIT), which allows better control of revenues from collective and singular persons.

72. Still in the context of fiscal policies, precisely in public finance the reforms should contribute to:

- A gradual increase of the level of internal revenues;
- A simplification and consolidation of the tax system;
- An adoption of measures aimed at widening the tax base;
- A continuation of the modernization of tax administration;
- An increase of transparency in the region and utilization of public funds;
- A continuation of the implementation of the national debt strategy, aimed at a long term and sustainable indebtedness;
- A continued allocation of most resources to key selected areas in PARPA;
- An adoption of a new public procurement regime.

73. ***Macroeconomic Conditions Prevailing within Mozambique:*** The sectoral composition of GDP shows that agriculture remains the largest contributor to the economy followed by trade. As a result of economic restructuring, which led to increased flow of foreign investment industry and services have known a gradual increase, with

focus on industry, as a result of mega projects such as Mozal and Sasol (Table 2 and Fig 2).

74. In the last ten years, Mozambique recorded an annual average growth rate of about 6.7%, with the lowest registered in 2000 (1.5%), as a result of floods during that year, which destroyed a considerable part of food and cash crops. The Government of Mozambique is committed to moving forward with policies and program aimed at maintaining the economic growth rates at 7-8% levels within the next five years. Projections show this a realistic scenario given the country's relative macroeconomic stability and in terms of attracting foreign investment, and also due to the entry into operation of Mozal II and other mega projects, including SASOL, Chibuto Heavy Sands (Table 2 and Fig 3).

75. Macroeconomic Challenges Facing Mozambique:

- ***HIV/AIDS:*** The incidence of HIV/AIDS could undermine growth and poverty alleviation goals defined by the Government. A recent study estimates that the current HIV/AIDS incidence trends could contribute to GDP rate reduction by about one percentage point in the coming years (Arndt 2003).
- ***Poverty:*** In a five-year period (1997 to 2003) the poverty incidence level declined by about 15%. Projections suggest that by 2015 the incidence levels could be at about 44% (GOM and UNDP 2005). Despite this success it's likely that there will be still hungry people in 2015.
- ***Lack of Human Capital:*** The low level of human capital in Mozambique is consistently indicated as one of the constraints to the country's economic growth. Data point to a growth rate of about 0.3%, with the largest parts of higher school students made up of men (0.5) than women (0.2).
- ***Lack of Economic Diversification:*** Excluding mega projects, Mozambique's traditional exports are essentially primary products and not manufactured, particularly fishing products and cash crops (cotton and cashew nuts). The exports from mega projects have accounted for around 50 percent of the total exports since 2003.
- ***Lack of Economic Infrastructure:*** In the last five-years major inroads have been made in the road sector, resulting in the reduction of the extension of roads classified as bad. Although there have been improvements in the primary and secondary roads, the low level of quality of tertiary roads are still a severe problem. Tertiary roads are crucial for the overall development of the country particularly rural areas, with strong potential for poverty reduction.
- ***Lack of Finance:*** The high level of interest rates are mentioned as one of the most serious constraints in access to credit. Although the rates have been declining in real terms in the last years. Most has still to be done in order to push the rates down and expand the volume of credit to the private sector. The high levels of interest rates are the result of a poor lending environment due the lack of

contract enforcement legislation on one hand and poor collateral capacity to access credit on the other.

IV. Trade and Development Policies Recommendations

76. **In term of recommendations:** the first and most important is macroeconomic management. Without low inflation and fiscal control, none of the structural reforms will succeed in maintaining good growth rates and economic development.

77. Given the Government's plans to expand poverty-related spending, the only way that crippling deficits can be avoided is through raising revenues by broadening the tax base. Fortunately was recently created in 2006 an independent tax agency (ATM – *Autoridade Tributária de Moçambique*).

78. To enhance trade and development policies Mozambique should:

- i. Take active measures towards building domestic services capacity, efficiency and export competitiveness;
- ii. Obtain training and technology, together with the financial measures to develop infrastructures;
- iii. Improve access to distribution channels and information networks especially in service industries such as tourism, transport, communication and construction;
- iv. Discipline business practices that restrain competition and thereby restrict participation of service suppliers;
- v. Gain a policy space to formulate its own country specific development strategy, to continuously provide to its people with a positive vision of what the society and the economy will look like in the next ten, twenty, thirty years down the road involving the participation of different social stakeholders ranging from government, civil society, business, youth, trade unions, etc;
- vi. Have capable institutions to manage the economic and social transformation and develop appropriate tools for improving legal, regulatory and institutional frameworks in order to achieve a well working service sector instead of sticking only in agriculture sector;
- vii. Undertake the on going integration process to the global economy based on a pragmatic and realistic assessment of potential impacts of such integration in the national development policies, priorities and goals;
- viii. Develop a legal tool or define appropriate policy that prevents a predatory behavior with anti-competitive practices by dominant integrated suppliers in the originating markets.

V. Conclusions

79. To enhance economic development and the competitiveness of Mozambique's trade it is recommended:

- a. to promote policies affecting supply side;
- b. to set up a strategic and deliberative approach to globalization as well as regionalization and trade liberalization by adopting a supportive policy approach focused in the preservation of a wide range of policy choices and flexibility that can be used to adjust the pace and direction of economic development initiatives;
- c. to improve the quality of the business operating environment, reducing the cost of doing business and enhancing demand side conditions such as market access;
- d. to provide effective trade support services (Market information, trade finance, and competence development, trade promotion, quality management) to enable export oriented enterprises to operate better in international markets; and
- e. to improve inter-institutional coordination and strengthen the capacity of export institution to effectively provide adequate services to the export sector.

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ANNEXES

Table 1: Mozambique – Basic Macroeconomic Indicators

	1999	2000	2001	2002	2003	2004
Real GDP Growth - %	7.5	1.9	13.1	8.2	7.8	7.2
GNI per capita (USD)	243	216	209	226	258	321
Inflation - annual average - %	6.2	11.4	21.9	9.1	13.8	9.1
Exchange Rate (MZM/USD) – end of the period	13.300	17.140	3.320	23.854	23.857	18.899
Merchandise Exports (mil. USD)	207.9	236.8	262.6	211.3	363.0	403.4
Merchandise Imports (mil. USD)	575.6	869.6	726.1	853.7	1.368.2	1.474.2
Export/Import ratio - %	23.7	31.3	66.1	52.5	60.0	73.9
Current Account Deficit % of GDP (excl. grants)	-28.2	-27.2	-26.1	-23.1	-19.9	-13.8
Investment/GDP ratio - %	36.7	33.5	25.9	29.8	25.9	20.1
Savings/GDP ratio - %	13.7	11.6	8	11	10.8	11.8
Foreign Direct Investment (FDI) - mil. USD	119.8	302.4	961.4	578.4	120.1	124.2
Foreign Reserves (months of imports)	5.2	5.8	5.1	5.4	6.0	5.1
Govt. Domestic Revenue (% of GDP)	12	12.9	12.4	12.4	12.9	12.3
Total Govt. Expenditure (% of GDP)	24.7	26.6	32.1	30.0	26.5	23.7
Bank of Mozambique credit to Government, trillion MZM	5.6	5.1	4.3	3.6	3.5	4.3
Overall Fiscal Deficit (before grants) - % of GDP	-13.2	-13.7	-19.9	-17.3	-14.0	-11.7
Overall Fiscal Balance (after grants) - % of GDP	-1.0	-5.8	-6.0	-7.2	-4.5	-4.4
Growth of Money Supply (M2) - %	35.1	42.4	33.2	21.5	18.7	5.9
Average Lending rate - % (1 year maturity)	25.13	35.58	33.59	26.56	23.37
Average Deposit rate - % (1 year maturity)	12.9	20.0	17.58	11.42	8.85
NPV External Debt/Exports	212	177	110	92	102	84
Nominal GDP (USD mil.)	4.1	3.8	3.7	4.1	4.8	6.1

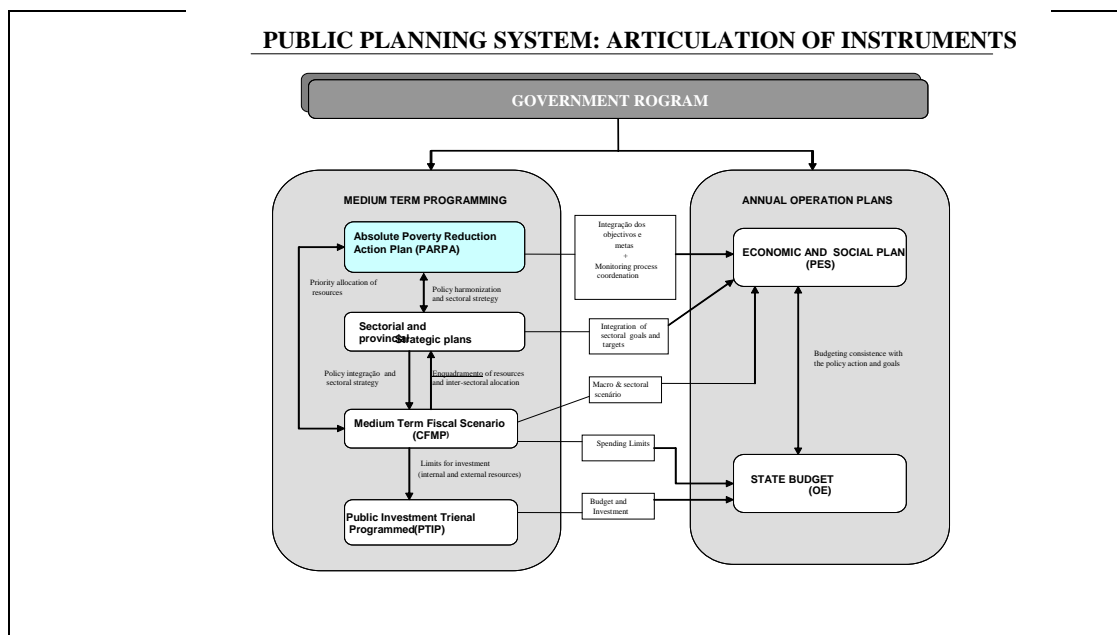
Source: INE (www.ine.gov.mz)

Table 2: Sectoral Breakdown of GDP, 1997-2003

	1997	1998	1999	2000	2001	2002	2003
Agriculture	30	27.3	25.7	21.2	201.	206	19.4
Fishing	3.9	3.0	2.5	2.4	1.9	1.5	1.4
Mining	0.3	0.3	0.1	0.3	0.3	0.3	0.3
Manufacturing	9.5	10.9	11.6	12.0	13.6	12.0	11.7
Electricity and water	0.8	2.0	2.8	3.0	3.2	3.7	3.9
Construction	6.6	8.3	7.8	8.8	8.1	7.9	11.7
Commerce	23.0	22.3	22.1	21.5	22.7	24.7	22.5
Restaurants and hotels	1.2	1.1	1.2	1.3	1.4	1.3	1.3
Finance and insurance	3.2	2.7	2.0	4.0	3.7	3.8	3.2
Real estate	3.7	3.6	3.1	2.6	2.2	1.8	1.7
Public administration and defence	2.5	2.8	3.6	3.6	3.7	3.6	3.8
Transports and communications	8.9	9.2	9.6	10.5	10.8	11.3	12.2
Education services	1.5	1.8	2.5	2.8	2.5	2.4	2.5
Health services	0.4	0.5	0.8	1.1	1.1	1.0	1.0
Other services	4.2	4.1	4.4	4.9	4.8	4.1	3.5

Source: INE, 2004

Figure 1: Public Planning System in Mozambique



Source: MPD, 2005

Figure 2: Composition of GDP (2004)

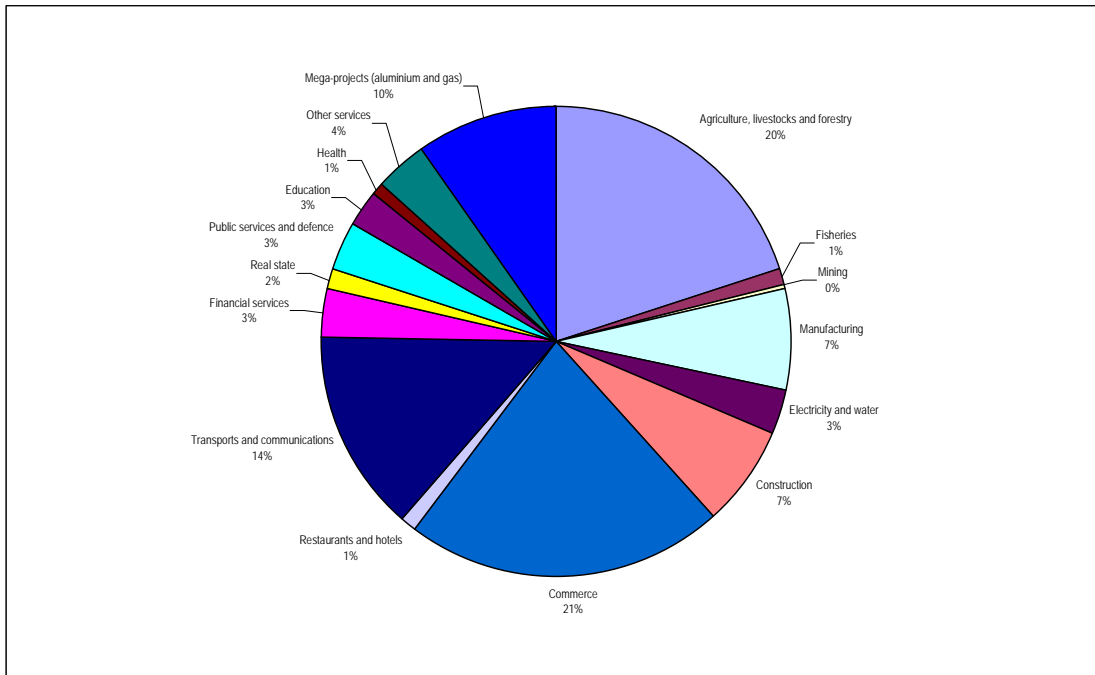
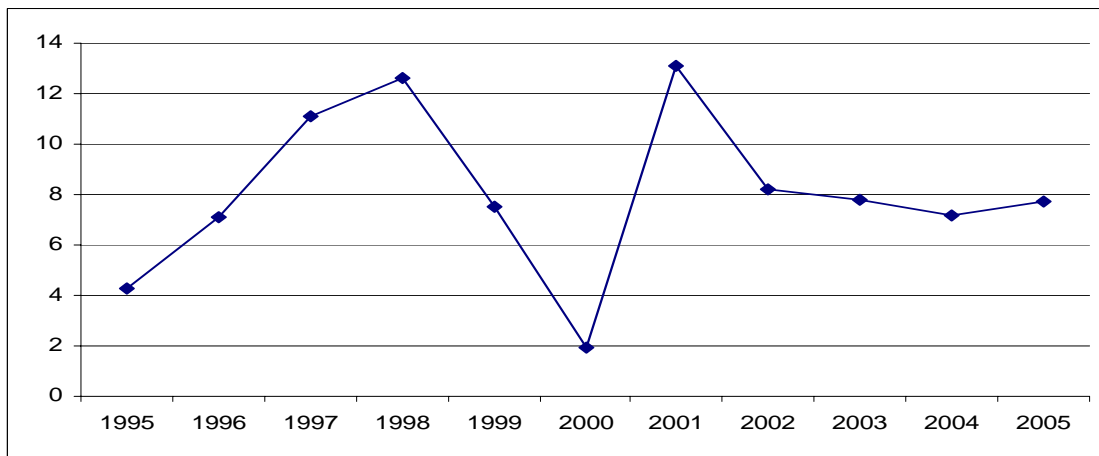


Fig. 2: Mozambique: Real GDP Growth (1995-2004)



Source: Ubisse & Sambo Country Study, 2005