MAINSTREAMING TRADE
A Poverty Reduction Strategy for Mozambique

SUMMARY AND RECOMMENDATIONS

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Summary and Recommendations

In the past ten years Mozambique has proven its resilience. It has made significant progress in economic reform under difficult circumstances, including regional conflict, floods, and fluctuations in world prices for its commodities. But with 70 percent of the population living in poverty, the country is still among the world's poorest. To reduce poverty Mozambique needs to achieve rapid growth in per capita income, especially among the poorest. In short, the poor of Mozambique urgently need jobs.

At present, however, Mozambique's domestic market is too small and too poor to generate these jobs. Increasing labor-intensive exports therefore appears to be the most viable option for doing so. Export-driven economic growth and poverty reduction will depend on coordinated government-wide policy and administrative reforms that (1) attract foreign and domestic investment, and (2) reduce transaction costs for producers, enabling them to be more competitive in markets worldwide. At the same time, a trade-led poverty reduction strategy will require new institutional and human capacity. Mozambican producers must be able to learn of the opportunities and requirements of foreign markets and the processes and technology needed to meet those requirements. The Government of Mozambique will need to train more personnel in trade-related issues as it prepares the economy to become more competitive in global markets.

The scope of reforms needed to make trade central to Mozambique's strategy for economic development and poverty reduction is the subject of this report and of Mozambique's national conference. The Technical Assistance Action matrix at the end of this summary lists actions recommended in the report and the issues that each addresses. It also provides a column for registering agencies and donors that will take the lead in each area, and a column for timetables and milestones.

EXPORT POTENTIAL

The Government of Mozambique has done much in recent years to create a climate conducive to trade and investment. For example, inflation is expected to decline to about 8 percent annually in 2002, following a 21 percent rise in 2000 and 2001. The metical, Mozambique's currency, has remained stable against the U.S. dollar since October 2001, despite a sharp depreciation in the South African rand. Over the same period the country's exports remained strong, even if "mega projects" are discounted. This suggests that the metical's recent appreciation is not hampering Mozambique's competitiveness. In a review published in 2002, the International Monetary Fund concluded that Mozambique has been able to absorb aid inflows with little economic disruption. Most of the country's enterprises have been privatized during the past five years. Indeed, the 2002 *Index of Economic Freedom* ranked Mozambique second in the world for improvement in "economic freedom" since 1995. In addition, Mozambique is working to attract foreign investment, especially in large-scale projects designed to exploit and leverage the country's large natural resource base.

Still, Mozambique's unique attributes imply a significant, but untapped export potential. Mozambique's location is ideal for a transportation hub; its arable land is approximately five times that which is now being farmed; and its labor resources are underused in rural areas and in cities.

We believe that the Government of Mozambique should resist pressure to favor specific sectors it might deem to be "winners." It should instead strive to create a comprehensive market-oriented climate in which businesses can act on market signals, including signals from the global marketplace. Nevertheless, labor-intensive sectors such as agriculture, fisheries, manufacturing, and tourism hold much promise. This report recommends actions that the Government of Mozambique might consider in tapping the export potential of these sectors.

Agriculture

Agriculture is the most important sector in Mozambique, accounting for about 35 percent of gross domestic product (GDP) and 40 percent of exports, and employing 75 percent of the workforce. Agricultural productivity can be elevated significantly with improved technologies, such as seeds, fertilizer, and irrigation. Improved farm-to-market transportation links could improve the quality of perishable goods reaching export markets while reducing spoilage. Cross-border trade between Mozambique and its inland neighbors offers significant potential.

Agricultural products with export potential for Mozambique are bananas; cashew; citrus; coconut, copra, and coconut oil; cotton; sugar; and tobacco. Policies that help increase the value added in country and that encourage increased production would create jobs and help reduce poverty. Mozambican producers will need to become more familiar with global sanitary and phytosanitary standards, and additional government resources may be needed to strengthen Mozambique's ability to participate in standards-related negotiations and conduct standards-related tests on imports and exports.

Fisheries

Fish exports, mostly prawns, account for nearly half of Mozambique's exports (excluding exports from the aluminum mega project). Because the prawn fishery is considered to be at its annual exploitable limit, growth in exports will depend on increasing the catch of other high-value species, improving the cold chain to reduce post-harvest losses, and marketing fresh, chilled, and frozen products. Many poor fishermen need access to ice or other refrigeration and better cold storage and transportation to reduce post-harvest losses of high-value species. As with agriculture, acceptance of Mozambican products in world markets will depend in part on meeting foreign standards and requirements.

Manufacturing

Manufacturing comprises only about one-eighth of the Mozambican economy and is concentrated in food processing, beverages, and metallurgy. Growth in food-processing exports is linked to the development of the agricultural sector.

The vitality of Mozambique's apparel and textile sectors could be restored if producers take advantage of tariff and quota preferences afforded by the U.S. African Growth and Opportunity Act

(AGOA), and if production costs are lowered. Such costs could be lowered by reducing tariffs on imported inputs, such as buttons and zippers, and streamlining customs processes for imported inputs. Because most Mozambican apparel producers export all of their production, they could be certified as eligible for export processing zone (EPZ) status. They would then qualify for tax exemptions and expedited customs clearance. In addition, relaxing the labor laws would enable employers to hire and fire workers, reward workers on the basis of performance, and recruit expatriate workers with special skills.

We also believe Mozambican leather manufactures can be developed for export markets. This includes hides, skins, and leather products, such as accessories, footwear, handbags, and luggage. Producers need to be encouraged to improve the quality of their products as well as their awareness of the conditions and requirements of foreign markets.

Tourism

Mozambique is rich in natural beauty, historical sites, and cultural attractions. Its beautiful coastline is lined with beaches and fringed by reefs ideal for snorkeling and diving. Its towns boast historical mosques and churches. So far, tourism development has focused on beach destinations along the coast, but Mozambique's nature reserves, mountains, lakes and lagoons, and exceptional flora and fauna offer ample opportunity for developing other types of tourism.

Tourism development would benefit greatly from improving basic infrastructure, improving labor relations, and streamlining the system for exchanging land-use rights. To attract investment necessary for tourism development, Mozambique should strive to make itself as attractive to investors as other countries in the Southern Africa Development Community (SADC). It should study the commitments of other SADC countries made under the World Trade Organization's (WTO) General Agreement on Trade and Services (GATS) then submit an offer by March 2003 for the services negotiation during the current round of multilateral negotiations.

In addition, security concerns must be addressed if tourists are to feel comfortable visiting Mozambique. The government is working to increase security and create an atmosphere favorable to the development of tourism.

ACCESS TO EXPORT MARKETS

A member of the WTO and SADC, Mozambique benefits from preferential trade arrangements that reduce duty rates on its exports. To improve its export performance, Mozambique must take advantage of market opportunities, including new access to regional markets and preferential access to markets in developed countries.

Multilateral Negotiations

Opportunities for Mozambican exports will increase as multilateral, regional, and bilateral trade negotiations progress, especially if the Mozambican government participates in these negotiations and is able to secure improved market access for sectors in which Mozambican producers have a comparative or competitive advantage. Mozambique should negotiate to reduce the high tariffs that abound in many of its labor-intensive sectors, including textiles, apparel, leather products, footwear, and processed foods. It should also negotiate to reduce other market distortions, such as agriculture subsidies, which hamper Mozambican exporters' ability to compete in global markets.

Developing as well as developed countries impose these distortions. For example, Mozambique's neighbors and largest trading partners impose high barriers for the products Mozambique most seeks to export. Mozambican producers could have much to gain from a round of multilateral negotiations pursuant to the Doha Development Agenda launched in November 2001, particularly if these negotiations succeed in curbing export subsidies for agricultural goods and reducing tariff peaks and tariff escalation in both agricultural products and labor-intensive manufactures.

To request tariff reductions on commercially meaningful product groups, Mozambique needs to first identify those products. Ensuring that Mozambican interests are identified and prioritized appropriately will require closer public–private dialogue and stronger capacity in the government and private sector organizations to analyze national interests.

Regional Trade Agreements

Mozambique also stands to benefit from trade liberalization negotiated through regional trade agreements. For example, nearly half of Mozambique's trade is with SADC countries, with South Africa accounting for about 80 percent of that trade. Mozambican exporters will benefit from staged reductions of the common external tariff of members of the Southern Africa Customs Union (SACU). In addition, Mozambique has preferential access to the South African market (through non-SADC suppliers) for some agricultural products, processed agricultural products, minerals, plastics, wood and paper products, footwear, metal products, and automotive parts. The markets of other SADC partners, including Malawi, Mauritius, Tanzania, Zambia, and Zimbabwe, will open more rapidly to Mozambique than to South Africa. In 1998, Mozambique withdrew from the Common Market for Eastern and Southern Africa (COMESA), putting its producers at a competitive disadvantage in most COMESA markets.

The relationship between Mozambique's national interests and SADC membership warrants analysis. Mozambique is among the poorest countries in SADC so it is allowed a longer transition time than other members. But the shelter of extended transitions tends not to strengthen but to weaken firms. Mozambique will need to work hard to ensure that the competitiveness of sheltered sectors improves during the transition period. This will require investing in infrastructure, training workers, and reducing input costs (e.g., for imports). In addition, SADC's complex rules of origin, some of which have yet to be agreed on, may require producers to shift their source of raw material from more cost-efficient suppliers to South African suppliers. In some cases, meeting regional content requirements may be impossible. The SADC review scheduled for 2004 presents an important opportunity for Mozambique and other SADC countries to re-examine rules of origin.

Preferential Trade Arrangements

Mozambique has significant, but underused market access opportunities in developed countries that provide preferential access to products from least-developed countries. The U.S. African Growth and Opportunity Act and the European Union's (EU) Everything But Arms (EBA) initiative both provide tariff and quota preferences to many products from Mozambique.

AGOA provides preferential access for more than 1,800 tariff items, including hundreds previously excluded from benefits under the U.S. Generalized System of Preferences. Under a special rule, AGOA permits Mozambique and other countries at similar levels of development to ship apparel duty-free to the United States until September 30, 2004. The fabric used in the apparel can be manufactured anywhere in the world. From 2004 to 2008, Mozambique will be afforded access to the U.S. market under more restricted rules of origin, but still at preferential rates. To take advantage of these tariff preferences, the Mozambican government and private sector producers require assistance in understanding the details of preferential schemes, such as rules of origin.

Mozambique also faces the challenge of negotiating an agreement with the EU by 2008. The Contonou Partnership Agreement, successor to the Lomé IV convention, provides preferential market access to least-developed countries until 2009, after which it will be replaced by economic partnership agreements (EPA) negotiated between the EU and African, Caribbean, and Pacific (ACP) countries previously covered by the Lomé convention. The EU prefers to enter negotiations with regional trade agreements that include ACP partners. Negotiating with customs unions that apply a common external tariff will be much easier than negotiating with individual countries or regional groupings with differentiated tariff structures. Mozambique is the only member of a regional trade agreement in Southern Africa that is *not* also a member of a current or planned customs union. This could put the country at a significant competitive disadvantage. If it does not rejoin COMESA or join SACU, Mozambique will have to negotiate a separate EPA with the EU or forego this opportunity to secure preferential access to EU markets. It would, of course, still have some preferential access through the EU's Generalized System of Preferences.

Tariff preferences create opportunities but do not guarantee a competitive advantage or export success. Thirty-four other African countries will be striving to take advantage of AGOA and dozens of least-developed countries enjoy preferential access to the EU market. The quality and price of exports will be critical. For example, high transport costs, slow customs processing times on crucial inputs, and delays loading and unloading ships in port can quickly erode the advantage of a 20 percent tariff preference by increasing an export's final price.

To support the development of a competitive and efficient export sector, the Mozambican government will need to analyze systematically and comprehensively the obstacles its producers face in making and exporting the goods desired in regional and world markets. It will also need to develop a strategy for reducing or eliminating each obstacle, a timetable for doing so, and tangible measures of progress.

TRADE AND INVESTMENT ENVIRONMENT

Mozambique's trade and investment environment comprises trade and investment institutions, processes, personnel, and policies; trade support infrastructure, such as customs; transportation infrastructure; the tax system; the financial sector; standard setting organizations; land and labor policies; and the general commercial and regulatory environment.

In various ways and to varying extent, this environment constrains the competitiveness of Mozambican producers. Many constraints have been documented and discussed but few have been eliminated. A more comprehensive international trade strategy needs to be developed and agreed on, one that represents the collaborative and collective views of the Mozambican public and private sectors. Indeed, a variety of reforms are warranted throughout the economy. Comprehensive reforms, rather than programs targeted to a particular industry, offer the best possibility of creating an economy in which producers respond optimally to market signals.

Institutions and Processes

The Ministry of Industry and Commerce (MIC) is responsible for export promotion and formulating and implementing trade policy. MIC resources, however, are not adequate to these tasks. The Ministry must depend on the cooperation and staffing support of numerous ministries and agencies. In addition, its authority to manage the tools of trade policy is incomplete. The following are recommendations for improving institutional capacity through coordination, training, and data support.

- ***Strengthen Trade Institutions and Interministerial Coordination.*** No coordinating body or mechanism regularly brings together ministries involved in trade-related areas or ensures effective public–private sector coordination on trade-related policy issues. Single issues may rise to the Council of Economic Ministers for resolution, but the relation of the issue to a national strategy is usually not clear.
- ***Train Trade Personnel.*** Mozambique has limited analytical capacity to assess its national interest with respect to trade policy issues on which the Government must take a stance. Salaries are low and retaining qualified staff is difficult. Public sector officials should receive training in basic and specialized skills.
- ***Improve Data and Analytical Support***. Data on imports derived from customs data is improving, but data on services, the labor force, and exports is scarce. Dissemination and collection need improvement—trade information is not readily available to the private sector, including export and investment promotion agencies.

Trade Policy and Facilitation Environment

The Mozambican government has made many improvements in its trade regime and institutions, trade and investment policy, trade facilitation measures and institutions, regulatory policies, and physical infrastructure. All of these affect Mozambican export production and price competitiveness. The improvements recommended here could help stimulate export growth, particularly in exports of labor-intensive goods, and thereby create jobs and ultimately reduce poverty.

Trade and Investment Policy

- ***Remove Anti-export Biases in the Tariff Structure.*** Imported consumer goods are subject to a tariff rate of 30 percent, which is to be reduced to 25 percent in 2003 and 20 percent in 2006. But many production inputs, such as fabrics and packaging material, used in value-added exports are classified not as intermediate goods but as consumer goods. If reclassified as intermediate goods they would be subject to a much lower tariff—7.5 percent.

- ***Replace Overall High Tariff Rates with Targeted, Temporary Tariff Measures.*** Part of the compact between government and the private sector in liberalizing trade is that government provide temporary protection to domestic producers harmed by surges of imports. But Mozambique does not have legislation and institutions to take "trade remedy" actions. It does have the right to selectively raise rates on goods dumped in its market, subsidized by foreign governments, or temporarily surging and thereby disrupting domestic industries. Introducing contingent protection measures, consistent with WTO rules, could pave the way for reductions of generalized high tariffs and removal of the anti-export bias in the tariff structure.
- ***Strengthen Authority, Visibility of Investment Promotion Center.*** The Investment Promotion Center (CPI) coordinates the promotion of foreign investment and certification of EPZ status. While CPI concentrates on large international investment, it should do more to attract smaller investors, particularly in labor-intensive sectors. The CPI should eventually serve as a "one-stop-shop" for investors seeking business licenses, tax registration, approval of customs duty exemptions, land allocations, and expatriate labor permits.
- ***Boost Linkages between Export-processing Zones and the Broader Economy.*** Linkages between EPZs and the broader economy are extremely important to development. But such linkages depend on general economic reforms—the very reforms that make EPZs attractive. To encourage linkages, firms applying for EPZ status should demonstrate how the firm is linked to or plans to link to the local economy. Progress toward defined goals should be monitored.

Trade Facilitation—Customs

- ***Adopt the Customs Valuation Agreement.*** Mozambique has pledged to implement the Customs Valuation Agreement (CVA) in 2003. Its Customs agency still uses the Brussels Definition of Value, which permits customs officers to raise the value to what they believe to be appropriate, based on the price in the importing country. The CVA, in contrast, assures that valuation is based on transaction value, the price of goods paid. Adoption of the CVA should improve transparency and predictability in customs processing.
- ***Selectively Target Pre-shipment Inspections.*** About one-third of Mozambican imports undergo pre-shipment inspection to ensure that they have been correctly valued or classified, or that they meet quality standards. As trade grows, the burden of these inspections increases and consequent delays add to producers' transaction costs. Risk-management procedures could help Mozambique target its inspections selectively.
- ***Regulate Costs, Introduce Competition to Warehousing.*** All imported goods entering Mozambique through the Ressano Garcia and Namaacha border posts must be stored at the Frigo Customs Terminal, on the outskirts of Maputo, until customs procedures are completed. Frigo, a private, lightly regulated monopoly, charges high storage fees based on the value of the goods, rather than the space required to store them.

- ***Provide Information, Training on Rules of Origin.*** Many developing countries have difficulty administering rules of origin, and Mozambique is no exception. Rules of origin differ among the many trade agreements or preferential trade arrangements that affect Mozambican imports as well as exports. Customs officials, who must enforce rules of origin on imports and certify that exports meet requirements, need to be better trained and frequently updated on rules of origin.
- ***Improve Customs Administration Integrity.*** Mozambique should continue implementing the Arusha Declaration on Integrity in Customs and should take advantage of the many resources of the World Customs Organization to improve the integrity of its customs administration. These resources will help the customs administration identify areas for improvement, design and execute integrity action plans, and develop or upgrade a code of conduct. At the same time, Mozambique should promote technologies that eliminate opportunities and incentives for corruption, practice management strategies that acknowledge the unique operating environment of customs and revenue administrations, create regional mechanisms for identifying policies and practices that reward integrity and combat corruption, and work with the business community to identify practical steps to correct corruption in customs and revenue administrations.
- ***Improve Export Clearance Procedures.*** Mozambican exporters must obtain several certificates and a license to export each time they export. Certification requires inspection, but inspections are often delayed. Obtaining licenses and certificates costs time and money, with fees in excess of the actual cost of inspections or licenses. All these costs reduce the competitive position of the producer. Mozambique should limit procedural requirements and costs to those necessary. To make Mozambican exporters more competitive, transaction costs and time delays should be reduced wherever possible.

Physical Infrastructure

- ***Conduct Trade–Transportation Diagnostic to Identify and Prioritize Improvements.*** Previous studies of impediments to trade competitiveness in Cambodia, Madagascar, and Mauritania found that transportation costs and delays were significantly greater in those countries than in many others producing similar products for export markets. Likewise, anecdotal evidence suggests that high transport, port, and telecommunications costs reduce the price-competitiveness of Mozambican exports.

Regulatory Environment

Small and medium enterprises, producers with perhaps the greatest potential for export growth, are burdened by a complex and burdensome system of approvals, licenses, and levies that impede market entry and raise the cost of doing business. Removing such constraints can greatly stimulate economic activity, promoting exports and reducing poverty. Regulatory constraints that impede export expansion are found in the tax system, the financial sector, standards and conformity assessment, land acquisition and use, the labor market, company registration and licensing, and telecommunications.

- ***Expedite Rebates of Value-added Taxes on Exports.*** Inordinate delays in rebates—sometimes as long as one year—raise production costs and tie up needed working capital.
- ***Improve Coordination among Tax Authorities.*** Local and national tax authorities often are unaware of all rulings or notices issued by national tax authorities.
- ***Improve Access to Financing, Especially for Poor and Rural Communities.*** Rural communities have virtually no formal banking services. Micro-financing is also extremely limited, compared with other countries of similar development.
- ***Strengthen Standards Organizations.*** Mozambique's National Institute of Normalization and Quality is adopting standards for items of potential export interest, despite having only seven staff members, one of whom is an expatriate provided by donors.
- ***Simplify Land Registration, Land-use Processes.*** Securing access to land imposes a significant burden on foreign as well as domestic investors. In a recent World Bank survey, 32 developing countries were ranked according to the number of days and total cost necessary to secure access to land and develop a business site. Mozambique was ranked among the most difficult.
- ***Expedite Processing of Work Permits.*** Labor-market rigidities reduce labor productivity and raise production costs. The Ministry of Labor, for example, imposes burdensome reporting requirements. Companies can contract foreign citizens only with the Ministry's prior authorization. This makes it difficult to obtain managerial, marketing, or technical expertise. The process for obtaining approval needs to be streamlined.
- ***Increase Workforce Training.*** Trade liberalization will expose some protected sectors to competition, and will likely increase "churning" in the labor market. Workers displaced from uncompetitive sectors will need to be trained in sectors that offer greater opportunity.
- ***Make Labor Laws More Flexible.*** The cost of firing workers is so onerous that many companies choose to keep unproductive workers on the payroll. This limits their ability to reward the productivity of other workers or hire workers with new skills.
- ***Streamline Company Registration.*** The current system is time-consuming and duplicative, with little information shared between agencies.
- ***Curb Arbitrary Inspections.*** Numerous inspections by various ministries and municipal and district authorities raises the cost of doing business. These inspections often involve unwarranted levies or bribes.
- ***Support the Commercial Dispute Resolution Mechanism.*** Commercial law has improved, but its administration has been troubled. The new Center for Arbitration, Conciliation and Mediation (CACM) settles disputes between local and foreign investors quickly, efficiently, and without corruption. The judicial system and the CACM need to be strengthened. Mozambique's commercial code and practices should be studied and compared with those of

neighboring countries in order to update laws and regulations and make Mozambique more attractive to investors.

- ***Liberalize Telecommunications to Spread Availability, Reduce Costs.*** Many Mozambicans lack phone service and the waiting list for service is long. Reducing costs and increasing access to telecommunications, including access to the Internet, can help Mozambican producers become more price-competitive in global markets. Privatization and liberalization should be managed with the interests of the poor in mind. Private providers, for example, could be required to extend services to marginal areas.
- ***Curb Corruption.*** Systemic or pervasive corruption drives up business costs and deters investment. Mozambique is ranked high in international surveys of investor perceptions of corruption; domestic investors and businesses also view corruption as pervasive. Developing the institutions and capacities needed to curb systemic corruption should be integral to Mozambique's national trade strategy, as should public scrutiny through parliament and civil-society bodies.

The Technical Assistance Action matrix at the end of this summary provides details on specific actions for trade policy, trade-related institutions and personnel, investment policy, trade facilitation (customs), supporting infrastructure and telecommunications, the tax system, financial sector, standards and quality control, and land and labor policy and other regulatory issues. The matrix also presents actions for tapping export potential in agriculture, fisheries, textiles and apparel, leather manufacturing, and tourism.

NATIONAL TRADE STRATEGY AND THE PARPA

Mozambique's poverty reduction strategy paper—the Action Plan for the Absolute Reduction in Poverty (PARPA)—recognizes that the principal engine of poverty reduction will be high rates of growth. It also recognizes that achieving such growth requires an enabling environment, one characterized by continued trade liberalization. The PARPA does not, however, reflect the importance of trade, nor does it outline steps for harnessing the power of trade to create jobs and reduce poverty. But, to create jobs and ultimately reduce poverty, Mozambique's exporters need to capitalize on market opportunities under current trade agreements and be able to expect improved market access through ongoing and future trade negotiations. To become more competitive, Mozambique's producers need to be free of impediments to global integration, such as some of the policy and regulatory constraints identified in this report.

Developing a national trade strategy and integrating it with the PARPA may be the best way to (1) ensure the interministerial collaboration and consensus necessary to "mainstream" trade and (2) provide a forum for high-level and regular dialogue between government and private-sector leaders. For example, to coordinate and build consensus during the SADC negotiations, Mozambique created the Technical Unit for Commercial Protocol (UTCOM), an interministerial and private sector committee chaired by the Ministry of Industry and Commerce. Integrating and coordinating all trade negotiations will require a wider strategy and broader coordinating mechanism. Including the national trade strategy in the PARPA would help ensure that trade policy decisions get the high-level attention they deserve and that they are evaluated for their impact on poverty reduction, rather than narrower interests.

Above all, the national trade strategy should affirm and be guided by a vision of the importance of trade to poverty alleviation. It should also

- Convey a long-term vision of trade policy and its integration into the Mozambican development agenda;
- Link negotiating objectives in bilateral, regional, and multilateral trade forums to achieve desired export growth;
- Outline the general strategy and specific objectives for trade reform;
- Assess and address the possible impact of trade reform on poverty (e.g., distributional outcomes that might result from import liberalization);
- Include policies and priorities that will help to ensure that the poor benefit from reforms;
- Incorporate social protection policies and safety nets to mitigate possible negative effects of trade reform;
- Address strategies for the pace, design, and sequencing of trade reform; and
- Present an action plan of recommendations for the Government of Mozambique.

The action plan should indicate which agency or ministry will take primary responsibility for an action and specific indicators of achievement. Where donor assistance is required, needs should be detailed and previous and current donor activities summarized.

Developing a national trade strategy requires broad coordination and consensus. We therefore propose that the Government of Mozambique establish a National Trade Strategy Committee (NTSC), consisting of ministers from all ministries involved in trade activities and chaired by the Minister of Industry and Commerce. Achieving consensus on a national trade strategy and fully integrating it into Mozambique's development agenda, as embodied in the PARPA, will be a first step in fostering collaboration and cooperation, as well as ensuring follow-through on identified needs and priorities.

PREPARING FOR TRADE LIBERALIZATION

In developing a national trade strategy, the Government of Mozambique must consider the impact of trade liberalization on its poorest citizens and develop programs that will ease the transition for those least able to cope. It should consider the impact of reform on the rural poor, on industrial employment and wages, on enterprises and costs of goods, and on government revenue and expenditure. Reforms should be paced and sequenced to minimize negative effects on the poor, and policies and programs put in place to help the poor adjust to a changing economic environment.

Many of Mozambique's rural poor are subsistence producers and may not be negatively affected by trade. Others may benefit as they introduce higher quality inputs and as foreign markets become more open to their goods through global, regional, and bilateral trade initiatives. For still others, short-term disruptions, dislocations, or even loss of livelihood may be inevitable. To assist these poor, the government should consider developing programs that provide immediate income. Previous poverty-reduction analyses for Mozambique have suggested labor-intensive road construction as a transitional program. Such a program would not only employ dislocated rural poor, but also help create the infrastructure needed to bring farm output to market.

Urban workers will also need to adjust. If Mozambique removes constraints on export competitiveness, new opportunities for workers should materialize, as has been demonstrated in other countries undergoing similar transformations. Labor market reforms would ease the transition. Such reforms would enable mobility, so that workers and employers need not become trapped in industries and sectors struggling to meet competitive pressures once the protective shield of high tariffs is dismantled. Worker retraining programs have also been shown to be beneficial.

Industrialists will also have to adjust. Firms do not always respond nimbly when trade negotiations yield new opportunities or reforms change the environment. Sluggish response is sometimes caused by a lack of information, but lack of confidence in the stability of the reform program is much more common. To overcome uncertainty, broad-based trade policy and related reforms must be perceived as sustainable and indicative of future policy direction. Confidence grows when reform activity is coordinated, highly visible, and clearly supported by the highest levels of government. As businesses grow confident in the direction of future trade and investment policies they will be more likely and better able to respond to new market opportunities.

Also important will be adjustment in government revenue. Many governments considering trade liberalization and attendant tariff reductions fear decreases in revenue. But Mozambique’s recent experience with reductions in tariff and non-tariff barriers, and the experiences of other countries, such as the Philippines, suggests that this fear may be unwarranted. Much can be done, and Mozambique has already done much, to shift the source of government revenue toward taxes on income and profits, or on goods and services (e.g., through a value-added tax). In both cases, revenue will increase with growth in general economic activity, which is likely with trade liberalization. Much also can be done to increase collection rates for other taxes and imports (e.g., by reducing corruption among customs officials).

CONCLUSION

Comprehensive and integrated trade, investment, and commercial reforms—as well as infrastructure improvements—are needed to improve the competitiveness of Mozambican producers in global markets. A national trade strategy developed by all major public and private sector stakeholders in the reform process would be the most effective way to (1) ensure that reforms create a climate that encourages development of labor-intensive sectors, and (2) prepare for the social, economic, and fiscal impacts of such policies.

To carry out such reforms, the Government of Mozambique will need donor assistance in a variety of areas, including improving public administration and the legal system, educating and training officials on trade issues and analysis, strengthening institutions such as customs and the national standards organization, and funding significant infrastructure improvements. Donor assistance also may be helpful in preparing and hosting workshops that present policy issues and forge national consensus on future priorities and policy initiatives.

The following Technical Assistance Action matrix provides details on specific actions, columns for registering agencies and donors that will lead those actions, and columns for timetables and milestones.

Matrix for Technical Assistance Action

Recommendation	Issues	Agency/Donor	Timeline and Milestones
NATIONAL TRADE STRATEGY (NTS)			
Create interagency National Trade Strategy Committee (NTSC), led by the Ministry of Industry and Commerce (MIC) and including all ministries with trade-related functions	▪ Integrate trade strategy with the Poverty Reduction Strategy Paper (PARPA) process to ensure high-level attention and regular, systematic review ▪ Currently, there is no formal interministerial coordination mechanism on trade policy issues		
Draft and achieve consensus on NTS; interim steps, responsibilities of key agencies and donors, and timeframe for achieving tangible goals.	▪ Include all government agencies, private sector and non-governmental organizations, and donors ▪ Workshops on specific topics may facilitate consensus-building		
Incorporate results of Seventh Private Sector Conference into NTS	▪ Reforms to make Mozambican producers more competitive in domestic and export markets complement each other.		
TRADE-RELATED INSTITUTIONS, PERSONNEL, AND PROCESSES			
Address immediate trade training needs			
Provide short-term, focused trade training (e.g., workshops, study abroad, resident international trade advisors) for government officials on WTO and regional trade issues and negotiations.	▪ Limited capacity to assess national interest in relation to trade policy. ▪ Number and complexity of trade negotiations is increasing exponentially, but staff is not keeping up.		
Increase trade training for government officials			
Provide funding to permit Mozambican officials to receive trade-related training in experienced South African institutions. Provide for staff replacements as necessary.	▪ Using experienced South African educational institutions with established trade training programs may be more cost-effective than developing new programs for Mozambique.		
Identify ways to retain talented and qualified government officials and keep them from moving to the private sector or into donor-funded jobs (e.g., improve salaries)	▪ Turnover among government officials is high because of low salaries.		

Recommendation	Issues	Agency/Donor	Timeline and Milestones
Strengthen data collection, analysis, dissemination			
Improve availability and reliability of trade-related data, including trade statistics, trade-related costs (e.g., transportation, customs processing, tariffs in external markets)	▪ Import data are improving, but export data are limited, inaccurate. ▪ Data on workforce, services, output, national markets are weak.		
Broaden availability of trade-related information and statistics to include private sector entities, associations, and export-promotion and investment promotion organizations.	▪ Statistics are not widely disseminated, even to export and investment agencies.		
Create institution (governmental or non-governmental) to analyze trade and industrial issues.	▪ Current analytical support to the MIC from projects funded by the EU and USAID (Market Management Assistance Project and UTCOM) may need to be expanded or redefined to cover the NTS. South African Trade and Industrial Policy Strategies (TIPS) is a possible model. ▪ Oversight by MIC, CTA, and others.		
Develop CGE model to analyze the social impact of trade and other options, especially the impact on poverty.	▪ CGE model could explore relationship between poverty, macroeconomic policy, exchange rate, labor market, agricultural market, access to trade-related services.		
TRADE POLICY FRAMEWORK			
Eliminate anti-export bias in tariff structure			
Reduce tariff (currently 30%) on inputs to textile, agriculture, manufacturing production (e.g., packaging material, herbicides, insecticides, pesticides)	▪ Inputs to production subject to 30% tariff because considered "consumer goods" rather than intermediate inputs.		
Reduce tariff escalation (i.e., gap between rates for raw material and intermediate product and consumer tariff rates)	▪ High tariff on consumer goods (as opposed to raw materials and intermediate products).		

Recommendation	Issues	Agency/Donor	Timeline and Milestones
Develop contingent protection measures and related institutions			
Draft national trade remedy legislation and regulations; develop institutional structures and human capacity to implement and respond to trade remedy measures.	▪ Lack of trade remedy legislation and institutions retards further trade liberalization, especially for consumer goods. Trade remedies should be used selectively on imported goods that are causing temporary harm to a domestic industry.		
INVESTMENT POLICY FRAMEWORK			
Strengthen the Investment Promotion Center (CPI) and make it independent			
Reduce CPI project approval time.	▪ CPI approval averages 18 to 24 months. ▪ Improve coordination among government institutions responsible for approving foreign direct investment.		
Expedite CPI approval of export processing zone (EPZ) status for local firms.	▪ CPI's subordinate relationship to MPF has sometimes interfered with its ability to act as an advocate for investors.		
Require firms applying for EPZ status to develop benchmarks that will be tracked to demonstrate the firm's development of linkages to the broader economy.	▪ EPZs thrive by distinguishing their environment from the broader economy, but national economic development, including economy-wide job creation, will be hampered if EPZs remain enclaves.		
TRADE FACILITATION/CUSTOMS			
Implement the Customs Valuation Agreement (CVA)			
Use transaction value for goods subject to import duties (GATT 1994 Article VII) instead of the Brussels Definition of Value (BDV)	▪ Mozambique is scheduled to implement the CVA in 2003. ▪ Use of the BDV encourages excessive discretion among customs officials, who may raise the value of an import based on what is deemed to be an appropriate price in the import market.		
Streamline customs and related cargo processing times			
Achieve Customs' goal of processing 80 percent of customs entries in 24 hours	▪ Perceptions of clearance time varies widely. Customs statistics say that imports clear in 3-5 days; the private sector says that it takes 15 days.		

Recommendation	Issues	Agency/Donor	Timeline and Milestones
Reduce pre-shipment inspections by employing risk-assessment procedures that target shipments effectively and selectively.	▪ The 30% PSI inspection rate is cumbersome, particularly as import volumes grow.		
Eliminate mandatory warehousing requirements (Frigo) or allow more competition in warehousing.	▪ Storage fees should based on the space required to store the merchandise and not the value of the merchandise.		
Improve customs administration integrity.	▪ Implement WCO Arusha Declaration on Integrity in Customs; take advantage of WCO training and resources		
Undertake World Customs Organization (WCO) diagnostic.	▪ Diagnosis would help prioritize technical assistance relating to customs.		
Improve customs agents' understanding of and ability to implement and follow rules of origin.	▪ Rules of origin differ among the many trade agreements or arrangements to which Mozambique is a party.		
Improve private sector understanding of and ability to comply with rules of origin in foreign markets.	▪ The private sector's ability to capitalize on new market opportunities, particularly in regional markets or in the United States or the European Union under preferential trade arrangements, will depend on their understanding of the rules of origin governing those agreements.		
Simplify export procedures, certification.	▪ Export certification requirements (origin, quality, standards) seem unnecessarily complex.		
INFRASTRUCTURE			
Conduct comprehensive trade-transportation diagnostic assessment	Transportation infrastructure has multiple weaknesses; comprehensive, systematic review of the relative costs and trade effects of improvements will help ensure that funds for modernization will be well spent, yielding maximum trade. Key issues: ▪ Poor north-south road transportation links between urban and rural areas ▪ Limited competition, infrequent services, high costs in port facilities ▪ Limited coastal shipping capacity and high costs ▪ Limited choices in air transport services, high costs; impediment to tourism		

Recommendation	Issues	Agency/Donor	Timeline and Milestones
TAX SYSTEM			
Expedite VAT rebates on exports	▪ Delays in VAT rebates tie up working capital needed by entrepreneurs.		
Improve coordination among national and local tax authorities	▪ Local tax authorities often lack current information on policy pronouncements from central tax authorities.		
FINANCIAL SECTOR			
Improve access to affordable credit, especially in rural areas	▪ Interest rates are currently above 35% for loans in meticals and 10% and above for dollar loans. ▪ Very few micro-finance institutions and commercial banks are outside urban areas. ▪ Policy, legal, and regulatory constraints on private lending to SMEs should be identified and addressed.		
STANDARDS AND QUALITY CONTROL			
Strengthen government's capacity to set and meet standards	▪ Limited number of qualified technical personnel to handle simultaneous negotiations, standards-setting discussions. ▪ Current emphasis on developing standards for export products is correct given limited resources. ▪ INNOQ is constrained by absence of national quality policy, labeling requirements, legislation related to weights and measures.		
LAND POLICY			
Simplify land-registration process	▪ Land-use rights are not well defined; the framework for exchanging land-use rights is rigid and inefficient. ▪ Land registry is deficient; difficult to identify who holds lease to a plot of land. ▪ Foreign investors have difficulty securing land access to develop business sites; FIAS working paper ranked Mozambique among the most difficult of 32 developing countries for number of days and total cost of securing access to land and developing a business site.		

Recommendation	Issues	Agency/Donor	Timeline and Milestones
LABOR POLICY			
Expedite processing of work permits	▪ Companies can contract foreign citizens only with prior authorization by the Ministry of Labor. Obtaining approval is time-consuming, non-transparent, and involves multiple ministries.		
Improve workforce training	▪ Training programs should target workers in sectors that will be negatively affected by trade liberalization. Training should enable them to re-enter the workforce quickly and find productive jobs in growing sectors.		
Improve labor force data	▪ Data on unemployment and foreign workers needed as input to decisions by Immigration on issuing work permits; design of retraining and adjustment assistance by Ministry of Labor.		
Ease rules on hiring and firing of workers	▪ Current system makes it costly for companies to dismiss unproductive workers; as a result, employees are often kept on payroll even if they don't work. This raises production costs, curbs companies' abilities to raise salaries according to productivity.		
OTHER REGULATORY ISSUES			
Streamline company registration, licensing	▪ Registration is time-consuming, duplicative; information should be shared among Notary Office, Public Commercial Registry, Government Printing Office, and other agencies. ▪ Computerization would expedite processing, information-sharing among parties involved in registration.		
Improve expertise of inspectors, curb unnecessary inspections	▪ Process involves multiple inspections, legitimate and illegitimate, by various ministries and municipal and district authorities. The process is disorganized because inspectors do not have clear responsibilities.		

Recommendation	Issues	Agency/Donor	Timeline and Milestones
Support commercial dispute resolution mechanism	▪ Center for Arbitration, Conciliation, and Mediation established in early 2002 to settle disputes between local and foreign investors efficiently. Previously, investors complained about arbitrary decisions, corruption, long court delays.		
Broaden access to telecommunications and reduce costs	▪ Phone service is very limited and expensive, especially in rural areas.		
Curb corruption	▪ Foreign investors rank corruption in Mozambique among the world's worst; more than half of domestic firms believe corruption is pervasive in judicial system and ministries.		
AGRICULTURE			
Improve productivity			
Improve availability of technology, better seed varieties, irrigation, finance, needed production inputs	▪ High import duties, delays in VAT refunds on imported inputs used for export, and lack of access to finance in rural areas impedes introduction and dispersion of new technology. ▪ Most agricultural producers depend completely on rainfall to irrigate crops, despite abundant groundwater resources under coastal plains.		
Reduce import duties on needed farm inputs	▪ Many agricultural inputs (e.g., pesticides and herbicides) are classified as consumer goods, rather than intermediate goods. As a result, they are subject to a 30% import tariff, rather than the 7.5% duty on intermediate goods.		
Improve land property rights regime	▪ Current system discourages long-term investments in technology, infrastructure, crops. ▪ Smallholders cannot use land as collateral to access finance needed to improve production/productivity.		
Expedite transportation/distribution of farm output			

Recommendation	Issues	Agency/Donor	Timeline and Milestones
Improve rural-urban road links	▪ Poor north-south road networks delay farm products in reaching urban areas for processing or for export. ▪ High transport costs render farm exports uncompetitive in price. ▪ Poor roads cause perishable produce to degrade before reaching market destinations and cause high post-harvest losses.		
Improve cold storage facilities	▪ Limited cold storage facilities raise post-harvest losses, degrade product quality, rendering it unsuitable for export markets.		
Encourage foreign and/or domestic investment in value-added production and processing	▪ Mozambique exports many agricultural products (maize, paprika, pigeon peas) to Malawi for further processing before export to third countries. ▪ Juice concentrates are an attractive export prospect, if Mozambique can attract investment for processing facilities.		
Improve producers' ability to meet sanitary and phytosanitary standards in key foreign markets	▪ Producers need information on SPS standards in major foreign markets (or prospective foreign markets) and may need assistance in meeting quality standards. ▪ The Government of Mozambique may need assistance in building capacity to certify products exported from Mozambique meet international standards.		
FISHERIES			
Improve access to ice	▪ Ice is found in only a few places along the coast, usually near shrimp processing facilities. Using ice, rather than drying, for preservation will raise the value of the fish being sold.		
Improve access to traders	▪ Artisanal fishers lack basic infrastructure (such as cold storage, transport). This prevents them from providing products that are desirable for export. Traders could provide both needed infrastructure and market awareness, encouraging fisherman to meet foreign market requirements.		
Improve quality control, awareness of market standards	▪ Producers need information on SPS standards in major foreign markets (or prospective foreign markets).		

Recommendation	Issues	Agency/Donor	Timeline and Milestones
TEXTILES & APPAREL			
Reduce tariffs on needed imported inputs	▪ Imported fabrics, buttons, accessories are still required; tariff rates should be reduced from (30%) consumer goods level to much more favorable duty for intermediate goods (7.5%)		
Improve market information	▪ Producers need to develop alliances and partnerships with buyers in foreign markets to meet design and quality requirements.		
Streamline customs processing times / reduce costs for imported inputs	▪ Port delays on imported inputs are reported to be two to three weeks, versus two days in more efficient ports, adding significantly to transactions costs.		
Certify apparel producers as EPZs	▪ Most Mozambican apparel producers export all of their output; they should be expeditiously certified as EPZs to receive tax, customs clearance benefits.		
Liberalize labor regulations	▪ A skilled, flexible labor force is essential to a competitive apparel industry. Productivity gains will be achievable if workers are rewarded for performance.		
Take advantage of AGOA opportunities to revitalize textiles and apparel sectors	▪ AGOA gives Mozambique tariff preferences in the U.S. market regardless of the origin of yarns and fabrics used through September 30, 2004. Tariff preferences continue to 2008 if "regional" inputs are used. ▪ AGOA would give non-LDC producers in sub-Saharan Africa (South Africa, Mauritius) preferential access to the U.S. market *if* apparel is produced using regional yarn and textiles. Mozambique should seek to supply these apparel producers.		
TOURISM			
Prepare and table a GATS offer for the current round of WTO services negotiations	▪ All other SADC countries made GATS commitments during the Uruguay Round and made commitments on full market access for tourism services. ▪ GATS commitments lock in domestic reform measures. ▪ GATS offer should cover the rights of establishment and specify as few restrictions as possible.		