Mozambique: the business view

Results of a survey on the business environment and investment climate

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St Margaret's
3 Rockridge Road, Parktown, 2193

P O Box 7006, Johannesburg, 2000

Tel. +27 (11) 356-4650
Fax. +27 (11) 726-4705
e-mail: businessleadership@businessleadership.org.za
www.businessleadership.org.za

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Dianna Games

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About the author

Dianna Games is director of Africa @ Work, a company specialising in research, media, events and consulting on business in Africa. Dianna travels regularly on the continent. She writes a regular column on African issues for *Business Day*, compiles research reports on business in Africa for various clients, analyses African issues for business and the media, and gives occasional guest lectures on doing business in Africa. She is also editor of the *South African Journal of International Affairs*, and CEO of the South Africa-Nigeria Chamber of Commerce.

About this report

This report – the results of a survey conducted on behalf of the Brenthurst Foundation and Business Leadership South Africa. It is one of a series of reports on the investment and business climate in southern African countries, based on input from the private sector.

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Introduction

MOZAMBIQUE HAS CHANGED rapidly from a centrally planned economy into a more liberalised, market-driven system. The results of the change are reflected in the country's high rates of economic growth over the past decade, precipitated by donor-driven reconstruction spending and investment in resources, services, and megaprojects.

Successive democratic governments have worked hard to get the country back on track after a long and debilitating war, and have introduced many far-reaching reforms. Market forces now determine macroeconomic factors; government subsidies and most restrictions on exports have been lifted, and operating requirements, licensing, import tariffs, and other important areas of the economy have been simplified. A new Commercial Code was introduced in 2006 – an update on an 1888 version that had been in use until then – and many other legal reforms have been introduced to modernise the economy. Investment is growing rapidly, and new investors, primarily from Europe, Asia and South Africa, are flocking to Mozambique.

The development of spatial development initiatives and transport corridors, designed to attract investment and facilitate broad-based growth, is a key factor in future growth.

President Armando Guebuza has established a Presidential International Advisory Board, comprising leading business executives from around the world, which met for the first time in Maputo in February 2007.[1] It has been tasked with advising the government on the changes Mozambique needs to make to become more internationally competitive.[2]

To date, Mozambique's total debt forgiveness under the Heavily Indebted Poor Countries (HIPC) initiative is a massive $2,36 billion, boosted by the recent G8 initiative to write off 100 per cent of debts owed to the World Bank, IMF and African Development Bank as at the end of 2003 by 19 of the world's poorest countries. The World Bank alone wrote off $1,306 billion. Significant debts have also been written off on a bilateral basis; most recently, China cancelled a debt of $20 million accumulated by Mozambique between 1980 and 2005.

On the downside, high rates of economic growth mask the country's widespread poverty, high unemployment, and significant donor dependence. More than 70 per cent of the population is classified as poor or very poor, and more than half of the government's budget is donor-supported.

Another negative aspect of Mozambique is its skewed development. An estimated 40 per cent of the country's wealth is concentrated in the southern capital of Maputo, but the most populous provinces – Nampula and Zambezia – are in the north. Government is also highly centralised, with all but minor planning and budget decisions emanating from the capital. This has created significant logistical and cost problems for companies operating anywhere else, particularly given high transport costs and transactional delays. However, central government is attempting to provide the country's 128 districts with more financial capacity. Earlier this year, President Guebuza stated that districts' development budgets would gradually be increased.

Development is still largely tied to megaprojects, although both donors and the government are trying to broaden and diversify this. Outside the big projects, there is a danger that development may begin to 'flat-line'. The longer it takes for improvements to reach the whole country, the lower the expectations of development may become.

In this context, the Brenthurst Foundation and Business Leadership South Africa commissioned the author to conduct a survey among companies operating in Mozambique, aimed at recording their perceptions of their operating environment, as well as their views on how it could be improved.

The results of the survey questionnaire were amplified by qualitative information from interviews conducted with business people in the northern, central and southern regions. The results are detailed in the second half of this report.

Company representatives interviewed for this report all agreed that the business environment had improved significantly, particularly over the past two to five years. Many business people, Mozambicans in particular, highlighted how far the government – and the country – had come in a short time. But they also listed many challenges still faced by business operators, and proposed some solutions.

Some of the problems raised were specific to sectors, geographic location, type of business, and personal experience. However, respondents broadly agreed on many of the issues, and the results of the questionnaire have been reproduced as a collective whole for ease of use. They provide a snapshot of what seem to be the key problems associated with doing business in Mozambique, and are elaborated upon in the last section.

Overview of the Mozambican economy

THE GOVERNMENT OF Mozambique has been lauded for sustaining the country's democratic transition and for transforming a country devastated by war into an economic success story, enjoying by one of the highest growth rates in the world. Real GDP growth since 1993 has averaged 8,1 per cent, while inflation has decreased from more than 50 per cent in the mid-1990s to near-single digits today. Macroeconomic and political stability have provided the foundation for tackling the key challenges that lie ahead, notably achieving sustained and broad-based economic growth, and alleviating poverty.

Table 1: Macroeconomic indicators in Mozambique

	2000	2002	2004
Real GDP growth	1,9%	8,2%	7,5%
Annual average inflation	12,74%	17,15%	12,71%
Govt expenditure to GDP	26,7%	27,9%	24,4%
Trade balance (US$ millions)	–799	–733	–531
Tax revenue	M6 862bn	M10 629bn	M15 598bn
Non-tax revenue	M474bn	M1 070bn	M1 085bn
Grants	M4 576bn	M10 020bn	M10 053bn
Exchange rate (annual average)	15,569%	23,271%	22,149%
Current expenditure	M7 686bn	M13 468bn	M19 006bn

Note: the figures in meticais precede the 2007 revaluation.

Source: IMF.

Rapid economic growth has been sustained despite some exogenous shocks, particularly the oil price spikes in 2005 and a serious drought in parts of the country in the same year, which negatively affected the stability of the currency. Mozambique has received sound investment ratings from international agencies, which have, along with all the other positive indicators, boosted investor confidence.[3]

The biggest signal to investors that Mozambique is an increasingly good place to do business has been the success of the $2 billion Mozal aluminium smelter, which has also helped to attract at least double that amount in other new investments, many of them directly linked to the smelter.

The government has been criticised for relying on megaprojects to drive its economy, on the grounds that they are poorly linked to the local economy. In fact, these projects have had many positive spin-offs. For example, Mozal created more than 15 000 temporary jobs during construction of its two phases, 65 per cent of which were for Mozambicans; it spends $10 million a month on supplies; it has spent $8 million on training 10 000 people; and continues to spend

$2,5 million a year on training. It has established a training centre also used by other companies active in Mozambique, and runs extensive community development programmes.

Mozal has also had a significant effect on the secondary tier of the economy through the creation of supplier companies and linkages, thereby increasing the tax base, and creating new training and skills transfer opportunities. The diversity of companies surrounding each megaproject has opened up new opportunities, and helped to create a new skills base.

Mozal's tax breaks have been widely criticised, but even its 1 per cent turnover tax amounts to tens of millions of dollars a year. Moreover, according to the World Bank, negotiating the deal with Mozal has provided the government with valuable experience, as well as a model for future transactions (World Bank 2000). The government has begun to place greater emphasis on community development, local employment, and a larger fiscal contribution in bids for big projects. The bid by the Brazilian Companhia Vale do Rio Doce for the Moatize coal project, for example, includes significant social responsibility clauses, including $6,5 million for community upliftment in the two-year exploration and feasibility stage alone.

The South African oil giant Sasol, another company involved in a megaproject, generated wages of more than $5 million for more than 300 Mozambican contractors while building its natural gas fields and pipeline (Grobbelaar 2004). The company pays royalties of 5 per cent of turnover, pays VAT and income tax, and procures many goods and services locally. It has a five-year tax break, ending in 2009, after which corporate taxes will apply.

Megaprojects in the pipeline include:

- The $450 million Moma titanium mine and smelter south of Nacala. The lead investor is Ireland's Kenmare Resources. The mine, which started operating in April 2007, is expected to produce three titanium ores for export to South Africa, the United States and Europe.
- A $1,5 billion investment in developing the Moatize coal fields, an estimated deposit of 2,4 billion tonnes of metallurgical and thermal coal, by Brazil's Companhia Vale do Rio Doce (CVRD).
- The $500-million Corridor Sands Titanium Project in Gaza province in the south, which is being developed by BHP Billiton.
- The building of a $5 billion refinery on the coast of Nampula province, which will produce 300 000 barrels of fuel a day and employ 450 Mozambican workers when it comes on stream in seven year's time. Two thirds of the fuel produced will be exported. The largest investor, with a share of about 70 per cent, is the United States-based company Ayr Logistics, with the rest made up of South African and Mozambican investors.

Another spur to economic growth has been the creation of spatial development corridors, linked to major projects and transport routes to the hinterland. The Maputo Development Corridor, a joint venture between the governments of South Africa and Mozambique and private construction companies and banks, has boosted the port of Maputo and attracted more than $3 billion in investment. Other corridor initiatives in Mozambique, currently in different stages of development, are:

- The Nacala Corridor, the backbone of which is the railway line from the deep-water port of Nacala in northern Mozambique through southern and central Malawi to western Zambia.
- The Limpopo Valley Spatial Development Initiative, which includes a rail link from southern Zimbabwe to Maputo port and the Great Limpopo Transfrontier Park, an amalgamation of game reserves in three countries.
- The Zambezi Valley Spatial Development Initiative, which includes the Beira Development Corridor (a fuel pipeline and road and railway links between the port of Beira and Zimbabwe) as well as the Moatize coal fields project and related infrastructure.

Economic gains have been supported by the overhaul of outdated legislation and other moves to modernise the state. In 2006 in particular, significant legal reforms were introduced, most notably the updating of the country's 1888 Commercial Code. This was enacted in late 2005, and became effective in June 2006. The six-month delay was aimed at enabling companies to familiarise themselves with the new framework, given that 900 provisions were changed.

In 2004 an Anti-Corruption Law was passed, mainly to regulate the public sector. It includes defined procedures for the signing of contracts between the private and public sectors, such as clauses specifying that the parties did not offer, solicit, or accept a bribe. A Banking Law governs issues relating to money laundering. President Guebuza has been outspoken on the issue of corruption, urging people to change their mindset. Public sector reform is now in its second phase and also appears to be driven by the President, who comments regularly in public forums on the need to make the state bureaucracy more efficient.

Investment gains

The success of the government's concerted efforts to increase foreign direct investment (FDI) is shown in Table 2. FDI increased from $9 million in 1990 to $480 million in 2005. Sectoral investment in 2005 was dominated by the hotel and tourism sector ($176 million), followed by agriculture and agro-industry ($168 million), industry ($49,4 million), transport and communications ($32 million), other ($30,6 million), mineral resources ($15,7 million), construction and public works ($5,4 million), banking and insurance ($1,9 million) and aquaculture and fisheries ($900 000).

Table 2: Foreign direct investment, 1990 to 2005

Year	No of projects	FDI $m
1990	31	20
1991	25	21
1992	27	77
1993	29	46
1994	123	136
1995	166	60
1996	270	97
1997	184	558
1998	209	207
1999	235	101
2000	179	230
2001	129	528
2002	128	559
2003	112	122
2004	105	122
2005	139	165

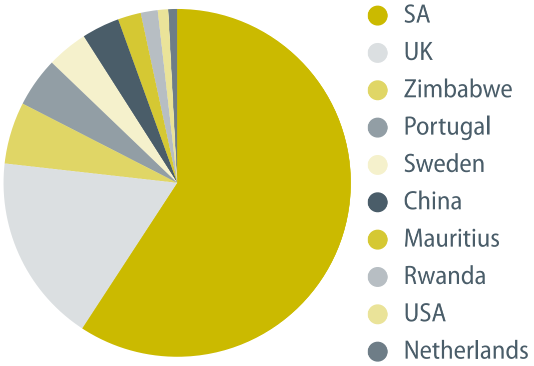
Source: US Department of State, http://www.state.gov/e/eeb/ifd/2006/62018.htm.

According to the Mozambican Investment Promotion Centre, (Centro de Promoção de Investimentos, or CPI), in 2006 a total of 157 projects worth $847 million were approved, creating nearly 20 000 jobs. More than 76 per cent of these projects are situated in the Maputo region. The hotels and tourism sector led with $407 million in new investment, mostly in the Inhambane area.

A total of 46 investment projects totalling $244,3 million were approved in the first quarter of 2007. Approvals were mostly in industry (17 projects worth $162 million), followed by transport and telecommunications ($40,7 million), and hotels and tourism ($18,3 million). Most investment is still taking place in Maputo, followed by Nampula, Inhambane and Gaza provinces. The investment proposals came from 17 countries, namely the United Kingdom, South Africa, Tanzania, the United States, China, Canada, Seychelles, Malawi, Nigeria, Ireland, Zimbabwe, India, Kenya, Zambia, Mauritius, and Australia, reflecting the diversity of economic interest in the country.

As Figure 1 shows, most investment in Mozambique comes from the neighbouring economic powerhouse of South Africa. In 2005, South African investment accounted for 58 per cent of FDI, while the United Kingdom, the next biggest investor, accounted for 17 per cent. In 2006 investment from South Africa was worth about $60 million, followed by Mauritius with $45 million and the United Kingdom with $21 million.

Figure 1: FDI in Mozambique by country, 2005



Source: CPI.

South Africa is also the source of most of Mozambique's imports, which totalled $2,8 billion in 2006[4], and in 2006 Mozambique was the country's third biggest African trading partner after Zambia and Zimbabwe. However, there is a major trade imbalance in South Africa's favour (Table 3). Most of Mozambique's exports – primarily aluminium from Mozal – go to a trans-shipment centre in the Netherlands; this totalled nearly 60 per cent of exports in 2006.

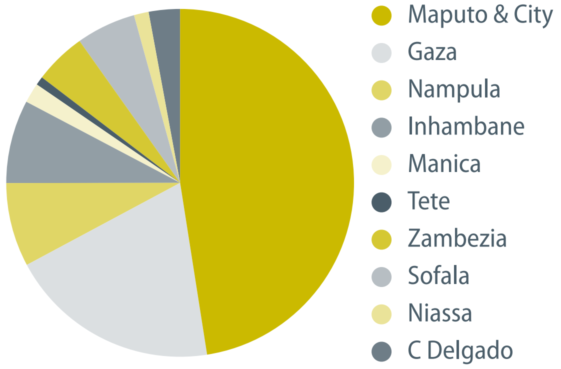
Table 3: South Africa–Mozambique trade (R000s)

Year	Imports from Mozambique	Exports to Mozambique
2006	R318 590	R6 240 445
2005	R199 282	R6 402 557
2004	R204 845	R5 077 739
2003	R280 806	R5 676 203

Source: SA Department of Trade and Industry (online), www.thedti.org.za.

As the investment figures show, Maputo is still absorbing the lion's share of investment, and the city's rapid growth and sophistication reflect the new money coming in and growing incomes more strikingly than any other area. Retail developments are growing rapidly. One large shopping complex on the beachfront has South Africa's Game store as the anchor tenant. Another major complex is being built on the site of the old showgrounds. It will comprise 28 000 square metres of shops on two levels, with another South African supermarket chain, Pick 'n Pay, as the anchor tenant; 20 000 square metres of offices; high-density upmarket apartments; and a 13 000 square metre exhibition centre. And a third complex – a nine-floor building comprising cinemas, restaurants and offices – is nearing completion. All this development is premised on rising future incomes.

Figure 2: Investment by province, 2005



Source: CPI.

Mozambique could find itself on an even steeper development trajectory if oil is found. Following an international tender process, the Mozambican government has authorised five international companies to explore for oil in the Rovuma Basin in the north of the country. The American group Terraliance is expected to start prospecting off the coast of Sofala province in 2008, and the Norwegian company DNO will drill its third well in the area early next year. There is also talk of possible diamond deposits in an area near the Zimbabwe border, and two diamond mining companies have expressed an interest in exploring it.

The provinces

Mozambique's Achilles heel is the slow development of its provinces, where the bulk of people live. The country is divided into 10 provinces – one of them Maputo – as well as 128 districts. But the government is acutely aware of the problem and, with international donors, is emphasising development and poverty alleviation north of Maputo. Roads and railways are being upgraded, and new bridges built, most notably across the Zambezi, to link the north and south of the country.

Nampula, considered to be the capital of the northern regions, is set to become a boom town in the next few years as development in agriculture, mining and tourism starts taking root and Nacala port, about 200 kilometres away, begins to benefit from commercialisation. According to the provincial government, growth in Nampula doubled to 12 per cent in 2006 over the 2004 figure.

However, the country's 'second city' of Beira has been adversely affected by the economic decline and political turmoil in Zimbabwe, and is not faring well. This has particularly affected tourism, and previously bustling hotels are now empty shells. The manufacturing and industrial concerns that were part of the pre-war city are mostly gone, and the provincial economy is now driven by agriculture, fishing and transport. Although the relocation of Zimbabwean farmers to towns such as Chimoio has increased agricultural activity in the area, the benefits have not been as great as has been hoped. About half of the farmers who moved there have since left the country, for various reasons.

Business people in the area say they need to focus on tourism and agribusiness to create jobs in an area where unemployment is estimated at more than 70 per cent. But the issue of tourism is a vexed one – tourists will not come until there are proper facilities for them, and the hotels will not be built until the tourists come.

The British group Echo Delta pledged to spend $5 million to rehabilitate two of Beira's former top tourist hotels – the Dom Carlos and Estoril – in partnership with the government and the Beira City Council. However, in two years nothing has happened, and there are doubts about the plan being realised. Echo Delta already runs resorts on two islands in the Bazaruto archipelago in Inhambane province as well as in the archipelago's anchor centre of Vilancoulos. Tourism into the nearby Gorongoza National Park is also said to be picking up.

Poor roads and high transport and shipping costs have pushed up the costs of doing business in all areas north of Maputo, and keep prices of goods high. There is a lack of support services for companies operating in Beira, and services often have to be imported from the capital, at a cost. The Commercial Association of Beira says the cost of moving one truck from Beira to Maputo is about $2 000 one way. Most building materials are imported from South Africa. Cement produced in Dondo, just outside Beira, sells for $10 a bag – about 40 per cent more than the equivalent product in South Africa. However, British investors and the state are building a cement factory outside Maputo, which may ease the situation slightly.

The centralisation of government activities and the limited devolution of decision-making and spending power to the provinces have constrained their development. Business people in the provinces interviewed for this study complained that the concentration of authority in Maputo caused delays in getting things done – such as securing business permits, getting approvals for purchases outside the country, and acquiring licences. They said that because so many companies in the city had closed down, the overall business environment was poor, the business community lacked cohesion, and it did not have much power to lobby the government.

All provincial spending decisions flow from the central government, and approval has to be sought from it. Provinces have to wait for government officials to get around to implementing requests. There were also complaints about capacity problems in provincial government agencies, with the best-trained bureaucrats being kept in Maputo. Business representatives expressed concern that it would be difficult to attract investment to outlying cities because of the added problems of operating in them.

However, the government is addressing this problem – in line with its increasing focus on decentralisation. It has increased annual budget allocations to districts for financing small-scale infrastructure projects (on the basis of a participatory planning process) from $10 000 to $300 000 a year. But before this initiative can be effective, the government needs to upgrade the quality of officialdom in the provinces. Moreover, it recently amended the 1997 Land Law to limit the powers of provincial governors to allocate land to companies and others (all land in Mozambique is owned by the state). They can allocate only up to 1 000 hectares; all larger allocations must be made by central government.

The ports

Activity in Mozambique's ports, along with its transport routes, largely reflect east – west connections with the regional hinterland rather than the state of the Mozambican economy itself, and are largely dependent on developments in the country's landlocked neighbours. But, despite Malawi's small economy and the economic woes of Zimbabwe, the volumes of cargo handled by the Mozambican ports of Maputo, Beira, Nacala, Quelimane, and Mocímboa da Praia – in the south, centre and north of the country – grew significantly in the first six months of 2006. Total cargo handled by these ports was estimated at about five million metric tonnes, 300 000 more than in 2005. The number of ports, and their strategic location, is regarded as a major competitive advantage, and they are an important resource that needs to be handled carefully.

Although the concessioning of the major ports and related infrastructure has been well received by industry, the government is being criticised for installing cargo security scanners at the ports and making users pay for this service regardless of whether their goods are actually scanned. Although similar scanners are used worldwide, in most places users are only charged if their goods are scanned. This system is making Mozambique's ports uncompetitive. One private sector organisation estimated that it would cost companies using Maputo port an additional $6 million a year cumulatively, based on current throughput, and the port operator reported that its growth rate of 12–16 per cent a year from 2003 had slowed to 2 per cent as a result of the introduction of the scanner at the port.5 In July 2007 the government reduced the costs of the scanning operation, but users say the reduction is not sufficient to make the port competitive.

The scanner contract, handed to a foreign company in 2005 without any consultation with organised business or port owners, has come under fire because the added costs to companies may divert business away from the ports, particularly Maputo, which is trying to attract traffic away from the South African ports of Richard's Bay and Durban.

Maputo

Maputo has by far the most advanced of the three major harbours, with traffic doubling in the three years to 2007 since the Maputo Port Development Company (MPDC) was awarded a 15-year renewable concession to run it. The MPDC,[6] which has a 51 per cent stake in the port, has invested $50 million since 2003. **In 2006, 6 672,2 metric tonnes of cargo went through the port**, more than many other regional ports, including Cape Town and Dar es Salaam, although still significantly less than Durban, which handles more containers in three months than Maputo does in several years. However, Maputo does have several advantages over Durban, including that it is cheaper to use, there are no delays due to congestion, it is closer to Gauteng, and is at least a day's sailing closer to Asian markets. These advantages will be consolidated by the introduction of a car terminal, a $12,5 million upgrade to the sugar terminal, and new bulk facilities, among other planned improvements.

Maputo's main function at present is to service South Africa's industrial heartland of Gauteng, and agricultural areas along the Maputo Corridor as well as Swaziland. Aluminium from Mozal and coal from South Africa are two of the main products moving through the port, although cargo is highly diversified – ranging from cars and steel to sugar and cashew nuts. A minimal volume of traffic moves to and from the northern regions and hinterland. An important development has been the link with several Far East shipping lines, based in Mumbai and China, which reflects changing regional trading patterns.

Mozambique is spending $12 million to refurbish the main railway line between Maputo harbour and the South African border at Ressano Garcia, after dismissing the South African rail parastatal Spoornet for non-performance on its contract. Survey respondents complained about border inefficiency and a delay in setting up a 24-hour border operation. This was said to restrict the growth of port traffic and undermine the benefit of being closer than Durban to industry in Gauteng. The authorities appear to have listened to the complaints, and the border opening hours were increased from 12 to 18 hours in mid-2007. The key border post between South Africa and Mozambique – Ressano Garcia – is a pilot in a programme to introduce 'one-stop' border crossings between countries in Africa. The border post is one of the busiest in the region for passenger traffic as well, particularly since the two countries dropped visa restrictions several years ago.

Beira

In 1998 the CDN consortium, headed by the Dutch-owned company Cornelder de Mozambique, was given a 25-year concession to manage Beira port. It has a 67 per cent stake in the Mozambican company running the port, with the transport parastatal CFM holding the remaining 33 per cent. According to the port authority, the port has grown by 12 per cent a year over the past three years, with growth in 2006 nearly 20 per cent over 2005, and turnover of $30 million in 2006. This growth has largely been driven by Malawian exports of tobacco, tea and groundnuts, and imports of fertiliser and wheat. Traffic to and from Zambia is growing rapidly, as is traffic in a small but growing quantity of goods moving through Zambia to and from the southern mining areas of the Democratic Republic of Congo (DRC).

Mozambique's own exports through Beira – including tobacco, timber, prawns, cotton and sugar – are growing, and in 2006 made up 49,9 per cent of total container traffic. The Zimbabwe trade has not reduced so much as changed in terms of the nature of imports/exports. Where exports were once mainly agricultural commodities, the bulk of current exports comprises granite, destined for Europe and Japan, and a variety of minerals such as vermiculite, iron ore, and marble.

A major problem is that Beira port is not a natural deep-water harbour, and has an entrance channel which is prone to silting up. Dredging the channel is a major headache, and costs about $5 million a year. Besides this, properly dredging the port to make good years of neglect would cost up to $30 million. Large ships cannot enter the port and have to transfer their cargoes to and from smaller vessels, thus further pushing up costs for users. As a result, only feeder services use the harbour, on a four-port run from Durban and back, and not shipping lines directly. Vessels can also be held up by tides, and the loading of goods is said to be very slow, resulting in delays of up to three months for customers who are forced to clear their goods a second time if they miss their original schedule.

Nacala

The Sociedade de Desenvolvimento do Corredor de Nacala consortium, a mix of Mozambican and international investors, took over the deep water port of Nacala in early 2005, holding 51 per cent of the shares alongside CFM's 49 per cent. The concession holders had to rebuild the port's client base, having lost business due to years of poor management and neglect. Nearly $4 million has been spent on improving the port, which employs about 350 people. Traffic is rapidly increasing, with a 43 per cent increase in the third quarter of 2006 over the same period in 2005. The port relies heavily on traffic to and from Blantyre in Malawi, via road and rail, and also benefits from limited traffic from Zambia and the DRC.

It is also likely to benefit from major investment and rapidly increasing cargoes as a result of the kick-off of the Moatize coal project. But the Moatize project may also have the unintended consequence of frustrating development of the Nacala Corridor, as it threatens to swamp the port with its imports and exports, squeezing out other users.

Agriculture

Along with tourism, agriculture is seen as a route to rapidly increasing Mozambique's development, and alleviating poverty. However, agricultural output is very low, despite the fact that the majority of the population works in this sector. Only about 3 per cent of output is commercially produced, and less than 10 per cent of arable land is being utilised. The problems bedevilling agriculture include inadequate infrastructure, particularly rural roads; limited access to finance and particularly credit; a lack of commercial focus; scant knowledge of export markets on the part of local enterprises; and poor business organisation. Most farmers are still engaged in subsistence agriculture, lowering the sector's contribution to the economy and government revenue. Poor roads and high transport costs limit the movement of surplus crops, and food often rots before it can get to a market. The problem is compounded by a lack of value addition to produce.

The important commercial crops are sugar, tobacco (a relatively new crop for Mozambique), and cotton. In areas suitable for these crops, small farmers are contracted by large food distribution companies to grow for them, increasing the skills base and earning capacity in the sector. Mozambique's sugar exports reached a record 175 837 tonnes in 2006, bringing in total revenue of $67,3 million – a 78,5 per cent increase over 2005. Major investments from South Africa and Mauritius are driving growth in sugar production, with companies taking advantage of low-cost production that is complemented by European Union trade preferences to Least Developed Countries (LDCs), of which Mozambique is one.

The leading South African food producer Tongaat Hulett recently announced a major expansion plan in the country, while the American multinational Universal Leaf has built one of Africa's largest tobacco processing plants, a $55 million investment, in the northern city of Tete; it is supplied by former Zimbabwean commercial farmers and small-scale farmers in the region. Production of burley tobacco surged from 6,1 million kilograms in 2000 to 44,1 million kilograms in 2005, and was estimated at 48 million kilograms in 2006.

The country is looking to produce drought-resistant crops and crops that can be converted industrially, such as the jatropha plant, the seeds of which are used in biodiesel. Several companies are already lining up to begin such projects.

Cashew growing has made a comeback, with increased production and exports from a range of primarily small-scale operations. One key project that has helped to revive the cashew industry, run by the international non-governmental organisation Technoserve, highlights the potential for growth in agriculture generally, given the right set of circumstances, focus and skills. Since 2001, with donor funding, Technoserve has helped to establish 12 cashew factories that now sell more than $3,5 million-worth of cashews a year, and employ more than 3 000 workers. The factories provide a reliable market for thousands of smallholder farmers. This project is succeeding partly because factory owners have been given management assistance and technical advice, and have been linked to export markets and capital.

Respondents in the agriculture sector said agricultural training facilities were urgently needed as people lacked the skills to become more than subsistence farmers, and lacked the knowledge of markets and prices to make their businesses profitable. The dearth of commercial acumen hindered any incentive to move beyond subsistence farming. Many believe that the state ownership of all land is a further disincentive to local people to farm commercially, although the government maintains that its leasehold system is sufficiently entrenched for the ownership issue to not be a problem.

Tourism

Tourism is seen as another key driver of Mozambique's economy. In 2005 this was the second biggest investment sector, and the government's investment promotion centre receives new enquiries every day. In 2005 revenue from international tourists reached $108 million, and rose to $144 million in 2006. The government hopes to earn more than $170 million from tourism in 2007, as the tourism market broadens from having the bulk of tourists coming from the region to greater numbers of northern hemisphere tourists.[7]

The sector currently employs about 35 000 people.[8] Most of these jobs have been created during the past decade – in 1986 fewer than 8 000 people were employed in this sector. Tourist numbers have also increased hugely to about 700 000 a year, compared to about 5 000 a year in the early 1990s.

But tourism still faces a number of infrastructure handicaps, such as poor road and telecommunications links, inadequate power supply outside the cities, and no potable water in remote areas. The government recently revised its tourism incentives, extending them to include tax rebates for companies that establish their own infrastructure, such as roads, and tariff reductions on materials for building tourism facilities. Currently more than 80 per cent of the goods required by tour operators are imported, resulting in major costs that have to be passed on to tourists.

The lack of competition in the aviation sector has been a major constraint on tourism. Routes are dominated by the state-owned airline, LAM, which now only operates on regional routes, its single weekly international long-haul flight to Europe having been taken over by the Portuguese carrier TAP, the only European airline to fly direct to Mozambique. The only local competitor to LAM is Air Corridor. Most holiday visitors have to fly to Mozambique via Johannesburg or Nairobi, and then take additional – and expensive – charter flights to resorts that conform to the Mozambican government's strategy of low-volume, high-price tourism.

Many respondents raised the high cost of air tickets as a general problem for business outside Maputo, but particularly for the tourism sector, in which Mozambique competes with other attractive destinations in the region. For example, it costs about $360 to fly from Maputo to Vilancoulos and another $120 for a charter flight to the nearby Bazaruto Archipelago islands, a popular destination for international tourists. It costs about $400 return from Maputo to Nampula, while the same journey by road takes three to four days and is not commercially viable. Tourism operators believed that the deregulation of the aviation industry would allow them to develop more diverse packages both within the country and across the border to neighbouring areas, such as Mpumalanga in South Africa. It would also allow them to better capitalise on the interest shown in Mozambique at international trade shows. Overseas tourists did not want to have to fly either to Lisbon or Johannesburg in order to visit the country, they said.

Tourist facilities have mostly been developed by foreign hotel chains such as Serena, Rani Hotels, and Pestana. Many of the outlying hotels cater for small groups only and lack the critical mass of a big resort that could significantly boost tourism.

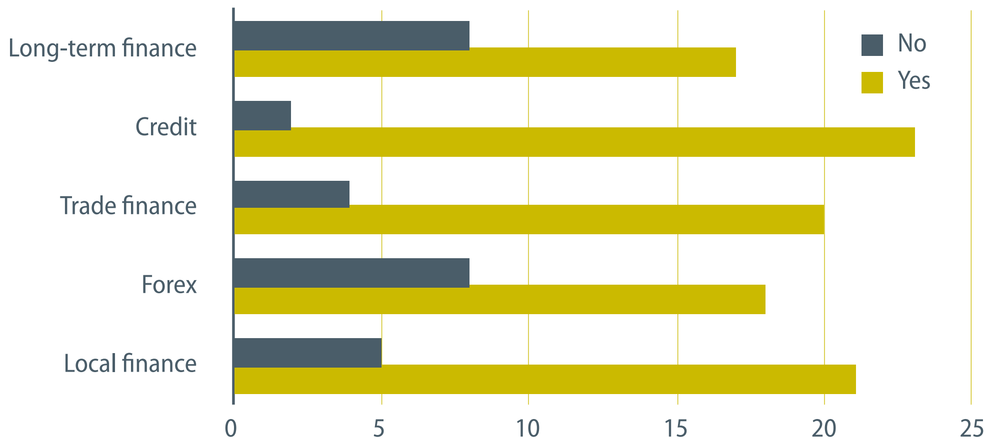
Respondents involved in tourism in Nampula and Sofala did not seem to know how to take advantage of opportunities in the sector, and were providing services that did not necessarily attract foreign tourists. They said their operating costs were high as they had had to rebuild facilities after the war and did not benefit from economies of scale, resulting in higher charges. They did not have facilities to train staff, or access to funding for expansion, and bureaucracy was time-consuming and costly. Representatives of the tourism association in Nampula said they had discussed problems experienced by its members with the central government, but the situation had not changed.

Financial services

The banking sector in Mozambique is highly regulated and considered to be restrictive for private operators. One of the big challenges for private institutions is the level of interference from the regulator. The central bank has been criticised for making regular and sporadic changes to rules and regulations affecting the banking sector without consulting players in the industry.

One change introduced is the requirement for all non-exporting companies to borrow in local currency rather than in foreign exchange. The regulations on borrowing make it punitive for the banks to lend in forex to non-exporters. This has resulted in the institutions themselves regulating such borrowing, rather than the authorities. The downsides of local borrowing are higher and less stable interest rates of 16–30 per cent, against 9–10 per cent for dollar lending; the fact that there are no hedging instruments; and the fact that returns have to be in local meticais to cover the loan and the increased currency risk, despite the relative stability of the local currency. The increased cost for business has an impact on the general cost of operating in Mozambique.

Figure 3: Should the government improve the availability of …



Source: Brenthurst/Business Leadership South Africa Survey

The government is also exerting informal pressure on private banks to take their services to less profitable, far-flung areas of the country. The governor of the central bank, Ernest Gove, said recently that the 228 branches of commercial banks in Mozambique were concentrated in the major cities. There were banks in only 28 of the country's 129 districts, even though the other 100 districts covered more than 80 per cent of the country. But incomes outside Maputo are generally low, and large numbers of people remain unbanked. The cost of setting up in these areas is also high, and banks have to provide satellite links for real-time banking, as well as their own power supply in many cases. However, the government has indicated that it will use incentives to lure banks into the countryside, and the central bank has expanded its offices into other areas. It is also encouraging microfinance institutions to expand their operations. Currently, there are 55 such institutions operating in seven of the 11 provinces.

There are seven large banks in Mozambique, making it markedly overtraded for the small banking population. The largest bank is BIM, with a large Portuguese shareholding, and 74 branches. The second largest is Banco Austral, in which the South African banking group ABSA has an 80 per cent shareholding, with 47 branches, 23 of which are in Maputo. Standard Bank of South Africa and BCI Fomento are the next largest.

Opportunities for large project financing are limited because of lending caps in the local market and limited available finance. It is estimated that $40 million is about the most the local banks together could raise without outside support, while large projects are usually looking for amounts of $200 million and upwards. As a result, long-term project finance is raised offshore.

Mortgage financing is also limited; because all land is owned by the government, it is not accepted as collateral for private deals. It is only viable for the banks to look at financing additions and improvements to land once a building is about 80 per cent complete – otherwise the transaction becomes high-risk, except in the case of regular or low-risk clients. Such financing must also be done in the local currency – as per the regulations referred to above – which can make it costly for clients.

Access to finance, including credit, which survey respondents identified as a particular problem, is circumscribed by restrictive lending policies, and unsupported by the legal framework. Collateral is also a problem, as noted earlier. Getting a court date to deal with issues such as bad debt can take several years, for example, and the conclusion of a case much longer. This has encouraged banks to be conservative in their lending practices.

The Bank of Mozambique is reportedly looking at ways to strengthen the credit rating system. According to the World Bank's *Doing Business 2007* survey, Mozambique has a central public credit registry, but it only covers a meagre 0,7 per cent of adults in the country. The registry only records information from financial institutions, and gives an incomplete picture of borrowers' credit profiles as it does not include credit lines from retailers and utilities.

Telecommunications

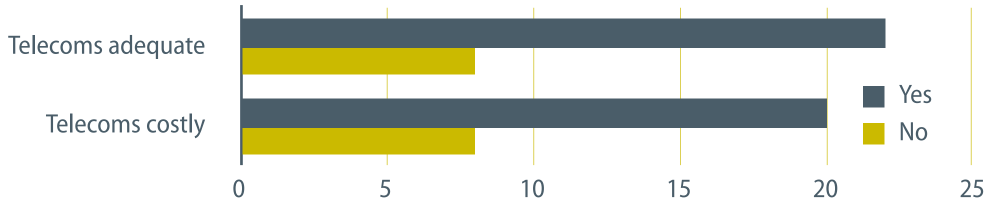
Telecommunications is still a developing area, and the country has yet to be fully connected up. The sector has been dominated by government monopolies that have stifled competition. War and floods have damaged infrastructure. As the survey results below show, telecommunications is still a large cost for business. The state-owned landline operator TDM had an entrenched monopoly until 2004 and it is taking time to unravel this, keeping telecommunications expensive.

Landline costs, once among the world's highest, remain high, but competition introduced into the lucrative mobile phone market by the entry of South Africa's Vodacom in 2002 has helped to bring prices down. However, frustrations suffered by the new operator in competing with the incumbent government-owned competitor, mCel, have helped the latter maintain a majority market share – about 65 per cent from nearly 1,3 million subscribers. Nonetheless, there is a lot of room for the overall market to grow. In 2006 Vodacom reported that in the six months from June to December its subscriber base had risen from 584 000 to 856 000, reflecting the pace of growth in the sector.

Information and telecommunications (ICT) statistics include:

- Internet hosts: 6 985 (2006)
- Internet users: 178 000 (2005)
- Landlines: 67 000 – fewer than one per 100 people (2006)
- Mobile subscribers: 2 339 million (2006)9

Figure 4: Views on telecommunications



Source: Brenthurst/Business Leadership South Africa Survey

Between the two companies, mobile phone coverage is mostly limited to urban areas and main transport routes, although investment in the networks is continuing with a view to expanding coverage. The government is also extending a fibre-optic cable across the country.

The private sector

In 1995 the government began to reduce bureaucratic barriers to doing business. However, despite major strides, red tape remains a bugbear for businesses, as reflected below. Much of the progress in improving the business environment has emanated from annual dialogue between the government and the private sector chamber federation, CTA. Each year for the past 10 years, CTA has staged an annual conference to create awareness in government ranks of the problems the private sector faces. A matrix of problems encountered by member chambers around the country, as well as proposed solutions from the government's side, is drawn up. At each meeting, progress is measured against the matrix, and government is put on the spot if agreed-to measures have not been executed.

But, despite the many improvements emanating from this process, the business chambers are often accused of being easily intimidated by government and of not raising some of the more serious and challenging issues. Many business people say that if you want change in Mozambique, it is better to lobby donors than the business organisations.

The local private sector is still small, and the government remains the biggest employer, accounting for about one fifth of formal employment. Business is still primarily driven by donor money. 'The whole country is one massive capacity-building project, and building the private sector is part of this,' said one consultant. Besides the efforts of international donors, companies are driving skills development, and representatives of most companies interviewed said they were providing in-house training. The difficulty of getting expatriate permits, coupled with a low skills base and pressure from the government for local employment, means it is in companies' interests to build a sustainable skills base locally. Other major problems for local businesses include inadequate access to finance, particularly in a high-cost environment such as Mozambique, and competitiveness. This is becoming an issue as the August 2008 deadline for the creation of the Southern African Development Community (SADC) free trade area approaches.

One local private sector constraint is what a government official called 'a lack of entrepreneurial focus'. In a country where the state has, for many years, taken responsibility for the population's basic needs, many people are not geared to running their own businesses, or, if they are small traders, expanding their operations. As in many African countries, people tend to simply become traders. Some companies complained that the high donor presence in the economy was helping to perpetuate the dependence on 'someone else' to get things done and pay for things, and thus the idea that companies do not have to make money to survive. This also undermined the development of a more widespread entrepreneurial drive. However, the injection of foreign currency into the economy was welcomed.

The World Bank's 2006 *Doing Business* survey ranks Mozambique at number 140 in a list of 175 countries surveyed globally in terms of ease of doing business, down three places from its 2005 ranking. It was at number 19 in a similar ranking of 45 sub-Saharan Africa countries. In the global survey, the country's lowest rankings were in starting a business (153), employing workers (157), and enforcing contracts (168). In terms of political stability, participants in this survey widely agreed that the country was not likely to lapse back into conflict and that democratic gains were significant and well entrenched, bolstered by peaceful elections and a fairly strong multiparty system. Nevertheless, 59 per cent said their companies had country risk insurance for Mozambique.

The Brenthurst/ Business Leadership South Africa survey of business in Mozambique

Method

SEVERAL DOZEN COMPANIES of various sizes operating in Maputo, Beira and Nampula were asked to complete a questionnaire containing detailed questions about the operating environment. Face-to-face and telephonic interviews supplemented the questionnaire research. The aim of the survey, the first of a series in African countries, is to reflect the impressions, experiences and opinions of private sector role players in order to establish how their operating environment can be improved and to indicate to government in a neutral way what the needs of the private sector are. All companies participated on the basis of confidentiality.

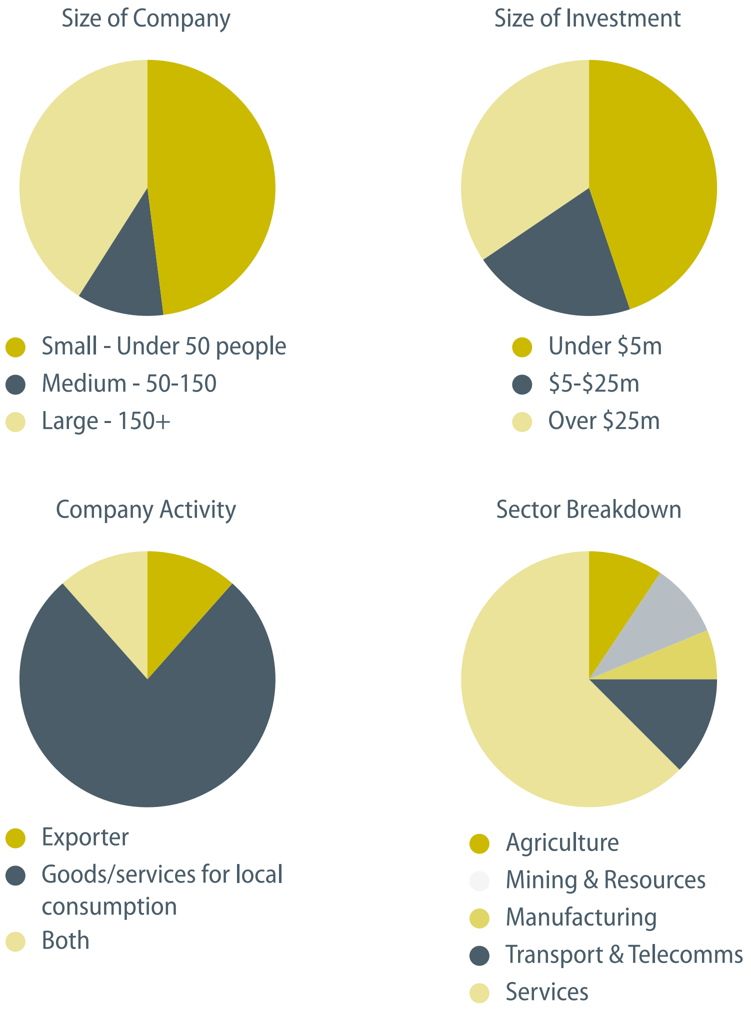
Some of the results appeared to depend on whether the company in question was large or small, local or foreign, based in the capital or in more remote regions, and on the type of business. For example, large foreign companies did not find corruption as much of a problem as smaller firms did, while the issues relating to importing skills, customs procedures and regional integration affected certain types of companies in different ways to others. Not all participants answered all questions, and this related mostly to the questions' relevance to the business.

However, most participants answered most questions, making the results representative on the whole. Just more than half the participating companies were foreign; there were almost equal numbers of small and large companies, with a smattering of medium-sized firms; most had been operating in Mozambique for between five and 10 years; and 61 per cent were operating in other African countries as well. Most were active in the services sector, including tourism, financial services, property, consulting, and infrastructure development.

Main findings[10]

Almost all respondents said the business climate had improved markedly over the past two to five years, particularly in terms of the government's market-driven orientation and its real efforts to understand business and its needs. Positive elements also included the privatisation of key areas of the economy in order to unlock growth; improving infrastructure; tackling corruption at high levels; showing the will to tackle problems; improving the legal framework; reducing bureaucracy; and opening up to private investment. However, the survey focused on determining remaining bottlenecks to business development – hence the greater emphasis on problems rather than positive developments. The main findings are detailed below.

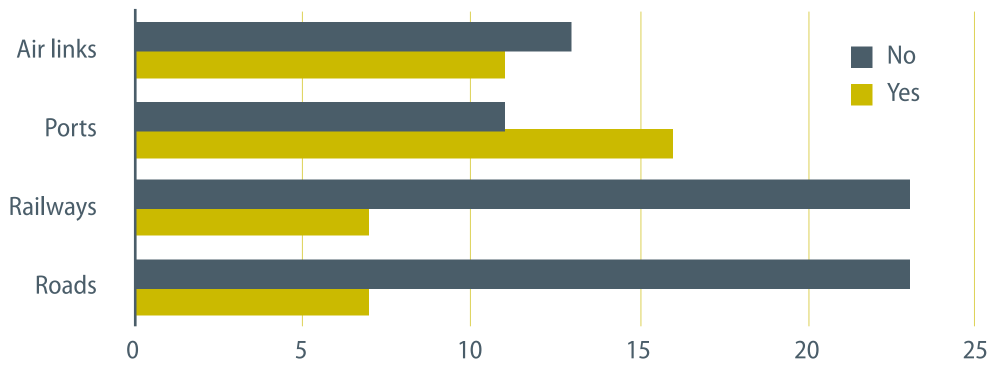
Figure 5: Profile of participating companies



Infrastructure

Seventy-seven per cent of respondents believed infrastructure in general was inadequate. Many of those interviewed said this contributed significantly to the high costs of doing business as well as to overall underdevelopment. The biggest problems identified were poor road and rail networks, which, respondents said, made transport costs unnecessarily high. A few respondents, mostly based in Maputo and who did not do business in the northern regions, said they believed infrastructure was adequate.

Figure 6: Is infrastructure adequate?



Respondents also disagreed on whether generators were necessary to keep their business going. While more believed they were necessary, a significant number did not have an issue with the provision of power.

Figure 7: Perceptions of the business climate

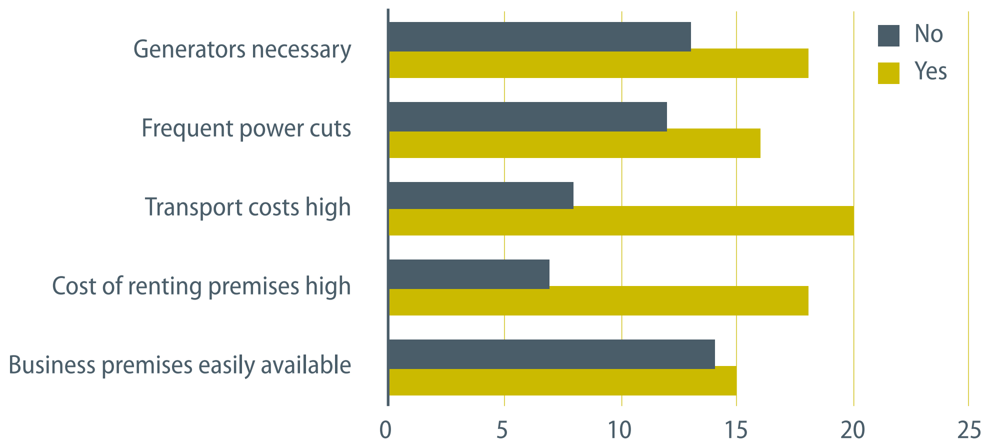
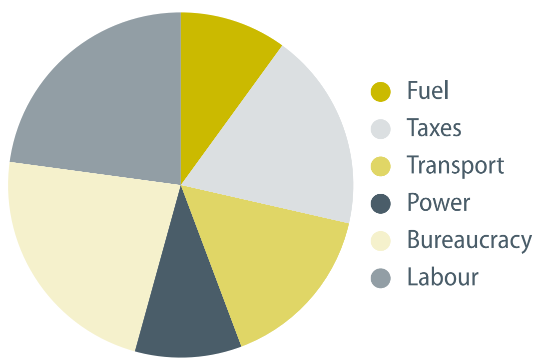


Figure 8: Perceptions of the main costs of doing business



Bureaucracy and government

Respondents cited excessive bureaucracy as one of the main problems associated with doing business in Mozambique; they said this was a major cost to business in terms of time and the 'hassle factor'. Particular problems included the complex procedures and onerous documentation that accompany any interaction with government officials, and the over zealous scrutiny of companies, which even have to submit employees' leave schedules to the government and post the salaries of all staff in a public place on their premises.

The excessive use of on-site inspectors to look at labour issues, tax issues and company books was widely criticised for being invasive, a waste of time, and an opportunity for graft. According to respondents, inspectors often did not have the skills to deal with specialised businesses, and challenging any decision to fine a company could take months.

A lack of delegation of government authority was cited as a problem, as it caused delays in getting things done. Ministers were criticised for being prone to micromanagement, to the detriment of efficiency. Respondents also raised the constant changing of rules, and said it took time and money for companies to keep up with constant changes and stay on the right side of the law.

Many respondents said better – not more – technocrats were needed, while reducing the time to make decisions and improve the transparency of government actions and thinking were cited as being two areas that needed attention. While state information, notably statistics, was improving, respondents said, the information was still often out of date. Access to officials was also important, although most respondents said they had regular contact with government.

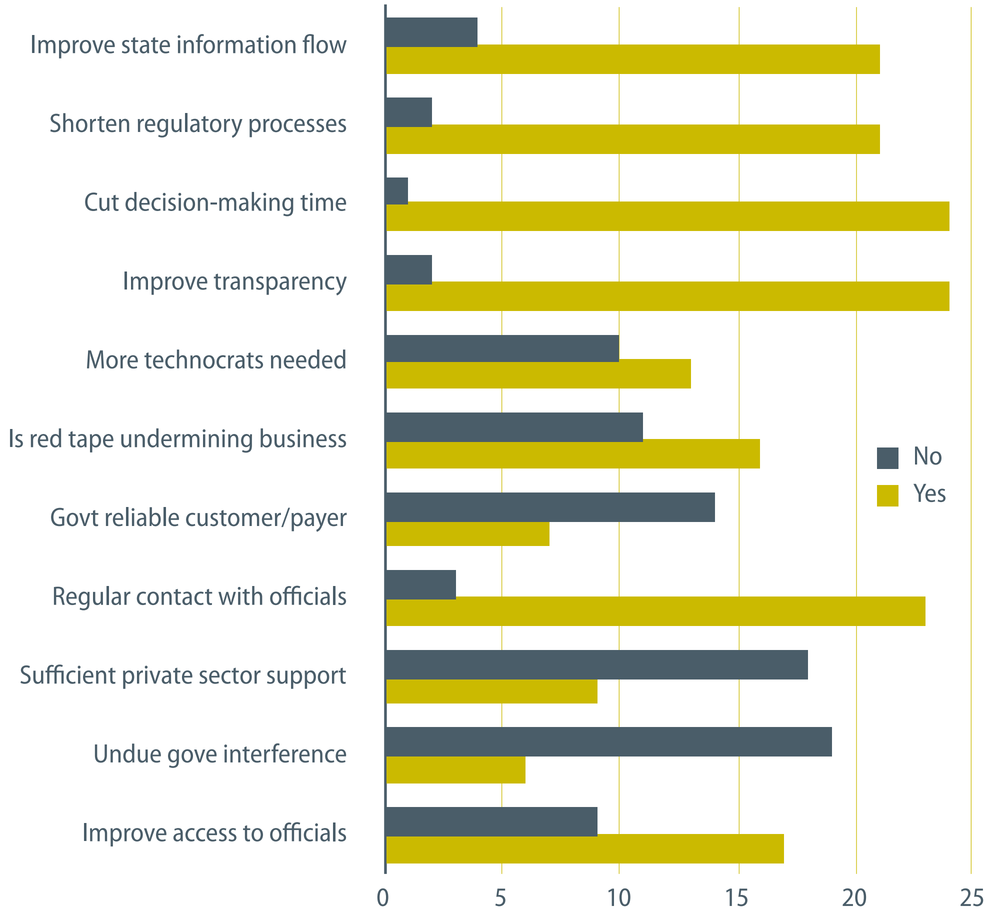
Excessive bureaucracy was blamed for petty corruption in that it provided opportunities for bribery in order to prevent fines, or to get things done more quickly. 'We need better people and simpler systems. Just that would make government more efficient,' one businessman said.

Many respondents said government was a poor client, a serious problem in a country dominated by government activity. While the government did pay its debts in the end, getting it to do so was often a long, slow process that caused serious cash flow problems for companies, and added to the unpredictable nature of the operating environment.

Respondents said government policy was unpredictable, and the government sometimes imposed new rules and regulations without consulting business about their potential effects. Representatives of some companies, particularly small ones, said the government tended to impose blanket regulations without taking account of differences between sectors, company size, geographic locations, and other variations.

In the area of property development, respondents complained about the inefficiency of local government and the difficulty of bureaucratic procedures in respect of land deals. These problems have been known to hold up planned developments for as long as five years.

Figure 9: Government and business



Legislation

Tied to the problem of bureaucracy is that of complicated legislation. Respondents said they found it difficult to interpret many legal provisions, and were therefore often targeted by tax inspectors and the like for unwittingly violating rules. They said there were too many regulations relating to single issues, and called for laws to be simplified and streamlined.

Employment of expatriates

Respondents suggested that the employment of expatriates should be less strictly controlled, as Mozambique did not yet have the required skills base to make it internationally competitive. Sixty-five per cent of respondents said they had experienced problems in this regard. This did not mean that companies would hire foreign skills unnecessarily, as these were costly, they maintained. A small percentage of expatriate employment is allowed, but this percentage is not guaranteed, and companies wishing to employ non-Mozambicans still need to go through a process of advertising posts to ensure that no locals qualify. There have been reports of Mozambicans falsifying their qualifications and experience to get such jobs, or using patronage networks to get jobs for which they are not qualified. Companies then find it almost impossible to replace them because of strict labour laws.

Before an expatriate worker's contract can be renewed, the trade unions have to 'express an opinion' on the matter, partly to ensure that enough was being done to hire local people and to ensure that Mozambicans were trained for the same positions.

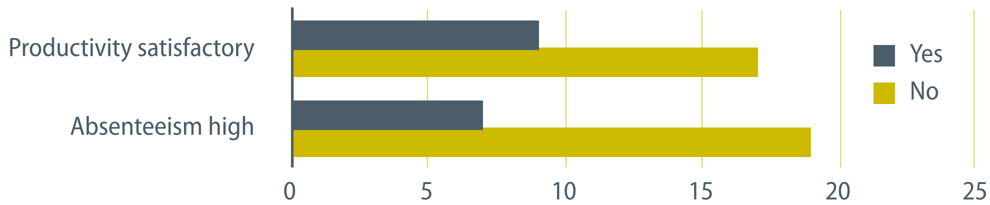
A tripartite commission of labour, private sector and government has set limits to the numbers of foreign workers who can be recruited without the labour ministry's permission. Foreign workers can be hired on a sliding scale, depending on total employment levels, but even these percentages are not guaranteed.

However, the new labour law, which came into effect on 31 October 2007, has eased the requirements for employing foreigners somewhat.

Other labour issues

Many respondents said the state overprotected workers at the expense of employers, which some attributed to a legacy of the previous political era, but also pressure on the government to provide jobs. The costs of dismissing employees were exorbitant, and procedures for doing so were onerous, resulting in staff being retained even if they had violated their employment contracts. The onus of proof was on the employer. Even if an employer had followed all the prescribed steps, the employee could still go to court over unfair dismissal and win.

Figure 10: Perceptions of labour productivity

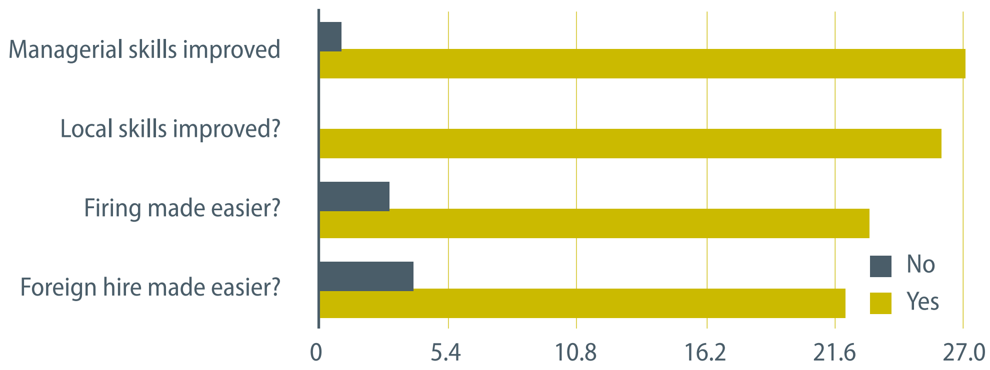


Most companies said that although absenteeism was not a problem, productivity was low, which made labour expensive. However, training, although an initial expense, was improving the situation rapidly.

Parliament had passed a new labour law, which was due to come into effect on 31 October 2007. Business had strongly opposed some of its provisions, notably its weighting in favour of employees, leaving employers with relatively little power. The government's defence was that labour needed protection in an environment where there was no social security.

However, legal experts say the new labour law referred to earlier has made processes a little more employer-friendly, making it easier to fire people, for example, and introducing stricter controls on leave and holidays.

Figure 11: Perceptions of the labour regime



Land

There seemed to be some confusion about the requirements and entitlements around land and leases. The reform of the centralised land registry was deemed crucial to ensuring the proper management of leases, and preventing the bogus or competing ownership claims that sometimes surfaced in land deals.

There were also complaints that while the government provided access to land, it did nothing to help Mozambicans develop it, particularly in respect of financing. One of the biggest problems in accessing finance was that land had no collateral value, and only the improvements on it had. Even in the latter case, banks were reluctant to lend money until construction was well under way. Some respondents suggested that leases should be 'commercialised', thus making them more easily tradable.

Legal system

Most respondents believed the legal system was ineffective and needed to be improved. Even though they widely agreed that court decisions were enforced, the process of arriving at them was cumbersome, and it could take years for cases to be concluded. The length of the legal process opened it up to bribery. The World Bank's *2005 World Development Report* stated that the slow and inefficient judicial system was a major impediment to investment, with the length of time it took to enforce contracts through the courts being much longer than the world average of 388 days, and even the average of 416 days for low-income countries.

There seemed to be some confusion about whether arbitration and dispute mechanisms existed. In fact, the CTA set one up more than three years ago. Almost half of the respondents who were aware of this believed it was largely ineffective. One of the issues was the lack of a mechanism to force issues to be concluded, although the CTA maintained that there was an enforcement mechanism, which suggests that this is not being used effectively.

Another problem in the legal area was interpretation of the law by the authorities. There are many grey areas around specific definitions, which could be a minefield for business people not familiar with the details. The mere fact that legal reform is taking place poses challenges for companies in keeping pace with the minutiae of new laws (this also relates to the inspection issue dealt with in the section on bureaucracy). Companies complained that they were forced to spend a great deal of time trying to get to grips with extensive and complicated legal issues, which could be better spent on running their businesses.

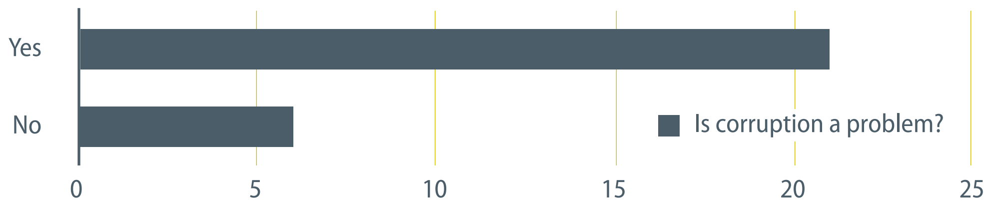
Company registration

This is still an unnecessarily complex and time-consuming process – despite major improvements since the World Bank's finding in 2004 that it took 153 days and 14 separate procedures to start up a business in Mozambique. Seventy-seven per cent of those who responded to the question on this issue said company registration was still too difficult, and presented unpredictable problems. One business organisation said it could take three months or three weeks to complete the same process, and it was not clear what this depended on.

Curruption[11]

Most respondents cited corruption as a problem, but this appears to exist mainly on a petty level. Fifty-seven per cent of respondents believed government officials to be most responsible for corruption, followed by local business people at 33 per cent and foreign business at 10 per cent. Foreign businesses which used corrupt practices did so mostly in an attempt to bypass the official routes. They were criticised for being too quick to offer bribes in anticipation of problems. But, as noted previously, excessive bureaucracy was listed as the main reason for corruption.

Figure 12: Views on corruption



Customs

Companies found customs procedures time-consuming and needlessly cumbersome, with 75 per cent of respondents saying they found them difficult. Tariffs were criticised for being too high, despite officials' views that they were in line with SADC schedules. Respondents also complained about the fact that the busy border post at Ressano Garcia was not open for 24 hours a day, and that conditions at the border were poor, resulting in delays in getting goods through.

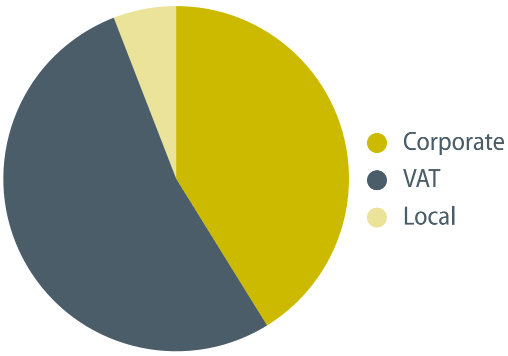
Taxes

There were many complaints about taxes, mostly relating to VAT and corporate tax. Respondents complained that VAT was too high (17 per cent, compared to 14 per cent in neighbouring South Africa); that it could not be levied on all services (for example rentals), resulting in a major cost for some companies; that VAT refunds, running into many millions of dollars, were difficult to obtain as the money tended to be diverted to other spending priorities; and that many local suppliers were not VAT-compliant, which also presented a cost to companies.

Respondents did not feel that taxes in general were onerous compared to other countries, although some said taking the tax burden as a whole showed a less positive picture. For companies paying VAT (17 per cent), withholding tax (20 per cent), and corporate tax (about 35 per cent), the tax burden would be 72 per cent, especially where VAT refunds were not forthcoming. Income tax was levied on top of this, ranging from less than 5 per cent to 30 per cent, depending on income. Representatives of small companies in the north of the country believed they were being taxed the same as companies in Maputo without seeing the benefits in terms of support services, infrastructure, and so on.

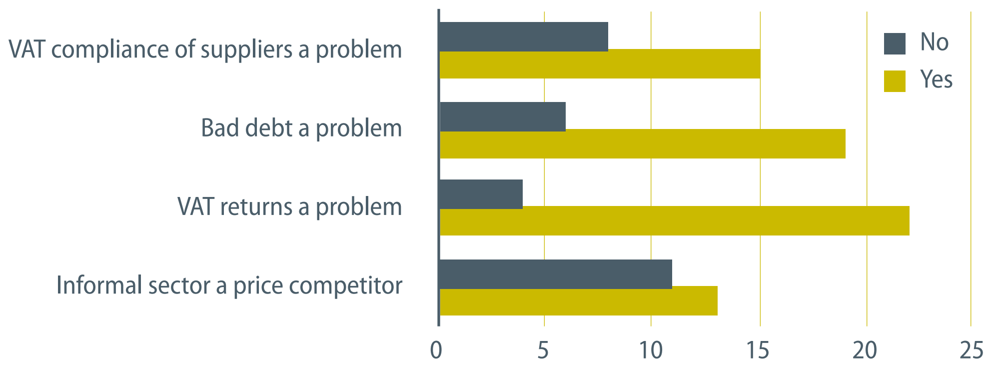
Another issue raised was the application of VAT legislation. For instance, VAT cannot be claimed on rental income, resulting in an extra cost of 17 per cent for property owners. This is a steep cost for property developers in a country where the costs of building are up to 40 per cent higher than in South Africa, from where most building materials are imported. This in turn pushes up office rentals – 72 per cent of survey respondents said they believed office rentals were on the high side.

Figure 13: Most problematic taxes



There were also complaints that not enough was being done to stop smuggling and the attendant tax evasion. The informal sector, which comprises the biggest part of the economy, has become a serious price competitor for formal sector, tax-paying traders, partly because informal traders are able to sell smuggled goods with no repercussions.

Figure 14: Views on the business climate



Language

Not being able to speak Portuguese was cited as a significant barrier to doing business in Mozambique, particularly outside Maputo. The government is also increasingly requiring documents to be in the official language, necessitating time-consuming translation services for many foreign companies. The language problem also opens up the possibility of misunderstandings in business agreements and dialogue.

Intellectual property

Nine tenths of respondents believed that intellectual property needed to be better protected. While there is a law in place, enforcement is weak and the sale of counterfeit goods is a problem. The scale of the problem was highlighted by the fact that in 2006 Mozambican customs authorities seized counterfeit and pirated goods valued at about $4,7 million. Many of these were small items, sold by hawkers on the streets of Maputo, such as DVDs and branded clothing, butrespondents worry that if the problem is not tackled at this level it will have ramifications at the corporate level.

Industrial policy

Respondents believed the government had not drawn up an innovative long-term industrial policy with time frames and incentives to encourage manufacturing and support market-driven enterprise. A few believed private enterprise would be better off without such government intervention, but most felt that the widespread poverty and distribution of people and resources necessitated some support at the SME level. One person cited the case of Cameroon, where the government had drawn up a 15-year plan to promote local manufacturing. Many small businesses said what they needed was an easier and cheaper operating environment and markets for their goods – and they would do the rest.

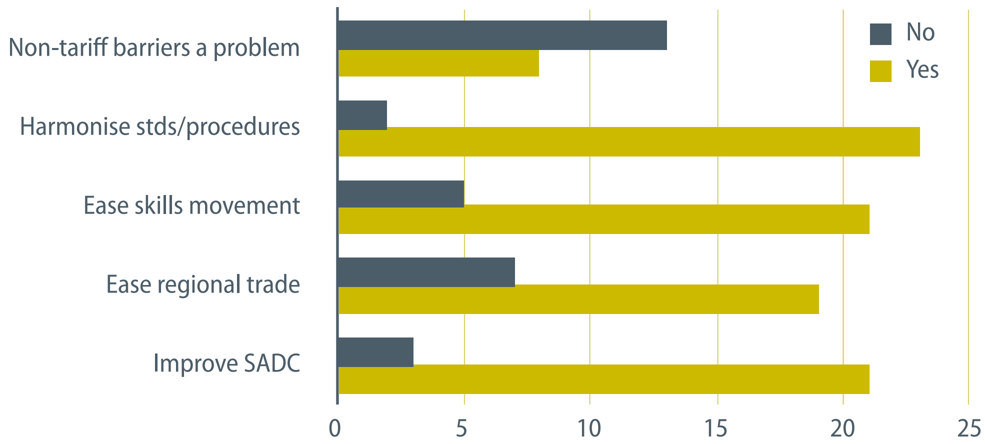
Education and training

A lack of sufficient technical training forces companies to provide their own – yet another extra cost to conducting business. Respondents suggested that the government and its donor community needed to do much more in this area, starting at the high school level. Many respondents suggested that sector-specific training facilities should be provided, particularly for farmers. The government says it is aware of the problem and aims to establish at least one technical college in each province.

Trade

Most respondents believed that regional trade needed to be improved, that the government should be more flexible about the movement of skills, and that border procedures should be better harmonised. This reflects the make-up of the majority of companies, which, as reflected above, are also active in other African countries. With a free trade regime scheduled for 2008, respondents were concerned about the relevance and efficiency of SADC as a regional institution. As regards the role of non-tariff barriers in regional trade, respondents said South Africa's were the worst, and made it very difficult to do business with that country.

Figure 15: Views on regional trade



Conclusion and recommendations

MOZAMBIQUE HAS DONE a great deal to make its economy more accessible to foreign investment, and in the process has made it easier for local companies to prosper. The proximity of South Africa has certainly been a spur to growth, but interest in the country is highly diversified, ranging from China to Brazil, with continuing interest shown by key trading partners in Europe and the United States. Oil and diamond reserves, once proven, will lead to a major spike in interest in the country. Before this happens, the government should create measures to protect revenue from these resources against the corrupting influence of the riches that inevitably flow from them.

However, as this survey shows, there are many issues the government still needs to tackle to make Mozambique an easier place in which to do business. It obviously needs to balance this with the poverty and development challenges it still faces.

Recommendations flowing from the survey results are the following:

- The government needs to give the private sector more freedom to manage its affairs; the authorities should not intervene unnecessarily in the running of business, and should further simplify bureaucratic requirements. This would have the corollary of reducing the cost of doing business, and making Mozambique a more attractive destination for international capital. It would also help businesses to become more competitive ahead of the introduction of the SADC free trade area in 2008.
- The problems surrounding the movement of goods through border posts must be addressed. Although many improvements have been made, remaininig obstacles continue to hamper regional trade. There are many private sector bodies helping to facilitate trade, particularly between South Africa and Mozambique – notably the Maputo Corridor Logistics Initiative, which represents most users of the Maputo Corridor – that would help officials streamline the process.
- The government's initiatives in terms of providing more infrastructure and incentives to develop the tourism sector need to be complemented by a more open approach to the competitiveness of the aviation market. This includes opening the skies in line with trends elsewhere in Africa as well as overseas.[12]

- The government should consider creating a more supportive framework for the key financial sector, thus allowing the wheels of the economy to be greased more efficiently, and freeing up funds for development.
- The tradeability of land leases needs to be considered, thus allowing Mozambicans to use land as collateral for loans from financial institutions for the development of commercial agriculture.
- The government needs to consider what is required to make Mozambique's many ports realise their commercial value, and what might be constraining the growth of one of the country's main competitive advantages.
- The same should be done in the area of energy provision. Mozambique could increase its attractiveness to investors by making power available at more competitive prices, and could leverage its energy resources by supplying power to neighbouring countries which lack the capacity to meet their own energy needs.
- The bureaucracy itself needs to become more efficient, in line with the overall modernisation of the economy. This includes the more effective decentralisation of government to the provinces, to allow faster growth in outlying areas.

Endnotes

1 In the 2006 Global Competitiveness Index, compiled by the World Economic Forum, Mozambique slipped nine places to 121 out of 125 countries measured, down from 112 in 2005.

2 Mozambique has received a B (stable) rating from both Standard & Poor's and Fitch.

3 US Department for State, Background Note: Mozambique, http://www.state.gov/r/pa/ei/bgn/7035.htm.

4 Dick Moore, commercial director of the Maputo Port Development Company, cited in CPI Newsletter, 31 May 2007.

5 The MPDC is a consortium made up of Britain's second largest ports operator, Mersey Docks and Harbour Company; Skanska BOT AB of Sweden; and Liscont Operadores de Contentores, SA of Portugal. The state-owned ports and railway company, CFM, and the government own the remaining 49 per cent of the shares.

6 Albino Mahumana, national director of Tourism, Independent Online, 20 December 2006, http://www.ioltravel.co.za/article/view/3601716.

7 Ibid.

8 Mozambique Chapter, CIA Factbook, 2007. https://www.cia.gov/library/publications /the-world-factbook/geos/mz.html.

9 These are in addition to those findings outlined in the first half of the report.

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