



*DPG
Meeting
Sept 15,
2010*

**ELIMINATING THE BARRIERS
TO AN INCLUSIVE DEVELOPMENT**

Moçambique

A country of great potential



- **A rich natural endowment**
- **Large regional market**
 - ✓ more than 100 million people with average income 5 times greater
 - ✓ regional market & infrastructure integration underway
- **Electricity exports & expansion**
- **Gas exports & offshore gas/oil**
- **Large FDI – over \$500m since 2008**
- **Large Official Development Aid**
 - ✓ projected at \$1.9 billion
 - ✓ roughly \$86 per head
- **Easy access to global markets**

And more

Mozambique

A country of great potential

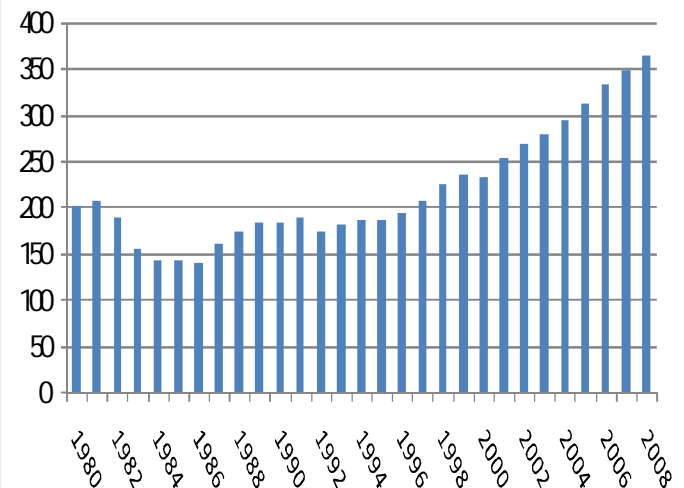
- **7th fastest growing economy during last 15 years**
- **Committed to faster structural transformation**
 - ✓ Embarked on business-friendly regulatory reforms, albeit at a slow pace
 - ✓ Investment in human capital
- **Strong desire to realize the potential for:**
 - ✓ Natural resources development
 - ✓ Commercial agriculture
 - ✓ Regional transport logistics services
 - ✓ Electricity for exports
 - ✓ Special Economic/Industrial Zones
 - ✓ Eco and coastal tourism
- **Consistent focus on macro stability**

GDP Growth, 1992-2008

Rank	Country Name	% per annum
1	Equatorial Guinea	22.98
2	China	10.40
3	Vietnam	7.66
4	Uganda	7.19
5	Angola	7.11
6	Bhutan	7.01
7	Mozambique	6.82
8	India	6.76
9	Lao PDR	6.61
10	Sudan	6.49

Source: WDI 2009

GDP per capita (constant 2000 US\$)

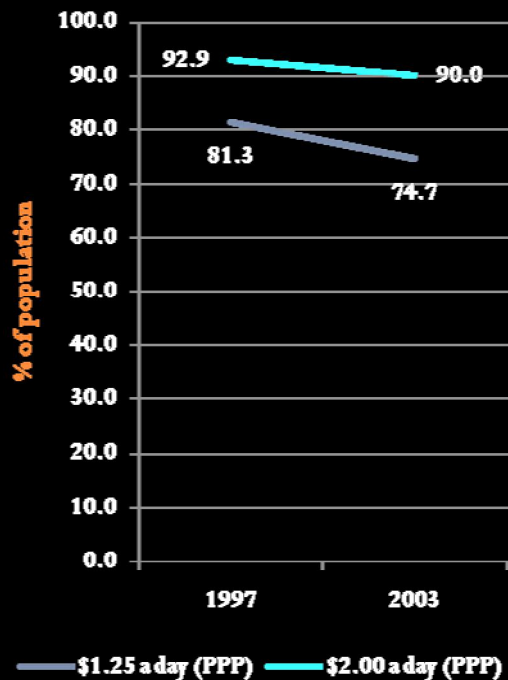


Unexplored potential

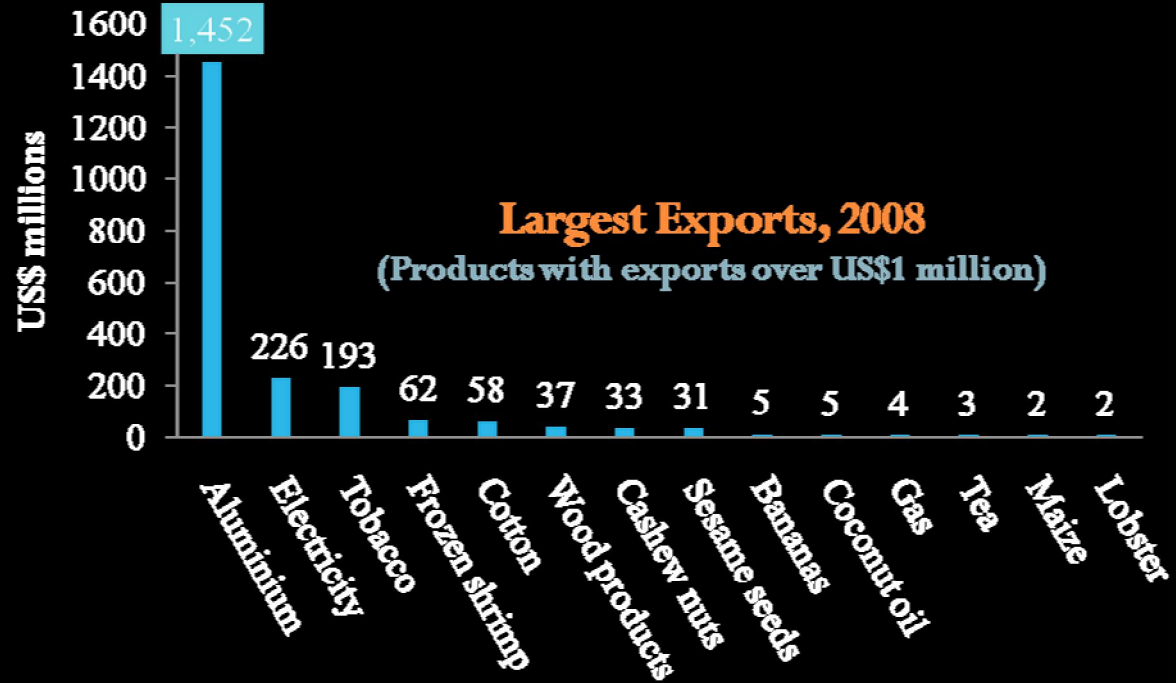
- **But Mozambique is growing from a low base**
 - ✓ GDP per capita of Mozambique was US\$855 in PPP terms in 2008
 - ✓ Equal to only 1.8 percent of GDP pc of USA and 8.2 percent of the world average
- **Poverty reduction at a slow pace**
- **Narrow export basket; Focus on megaprojects**
- **Growing labor force, but low job creation**
- **Low utilization of production factors**
 - ✓ Vast areas of fertile arable land have not been exploited with only 4.5 million out of 36 million hectares currently being cultivated
 - ✓ labor that is shed by agriculture is not being effectively absorbed by high value-added industries
 - ✓ even after privatization and deregulation, the rail and port infrastructures operate below capacity

Challenges are significant

Poverty Headcount Ratio

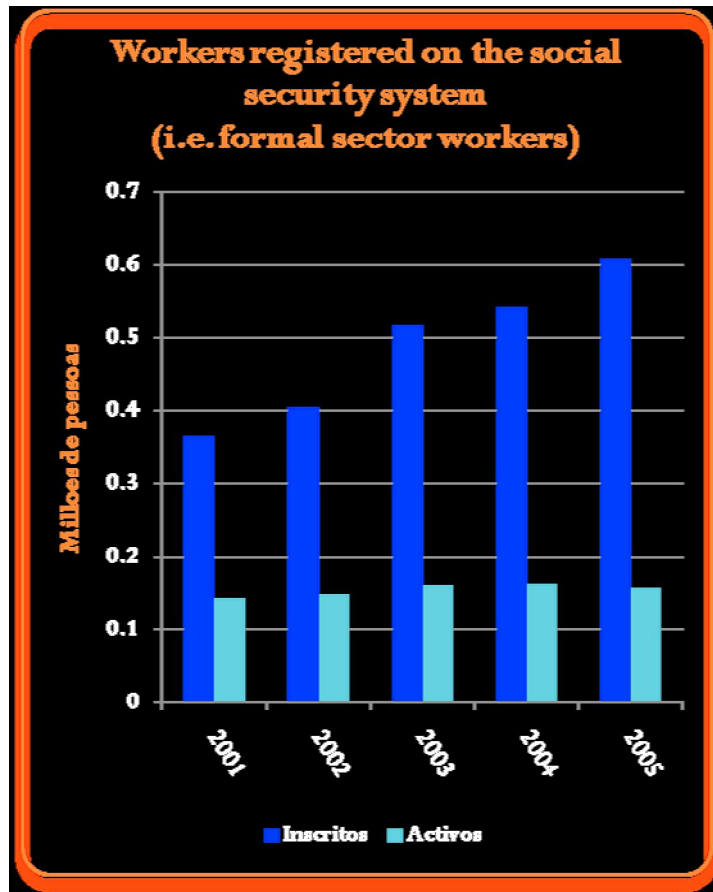


- ❖ High level of poverty by international measure
- ❖ Relatively unimpressive poverty reduction

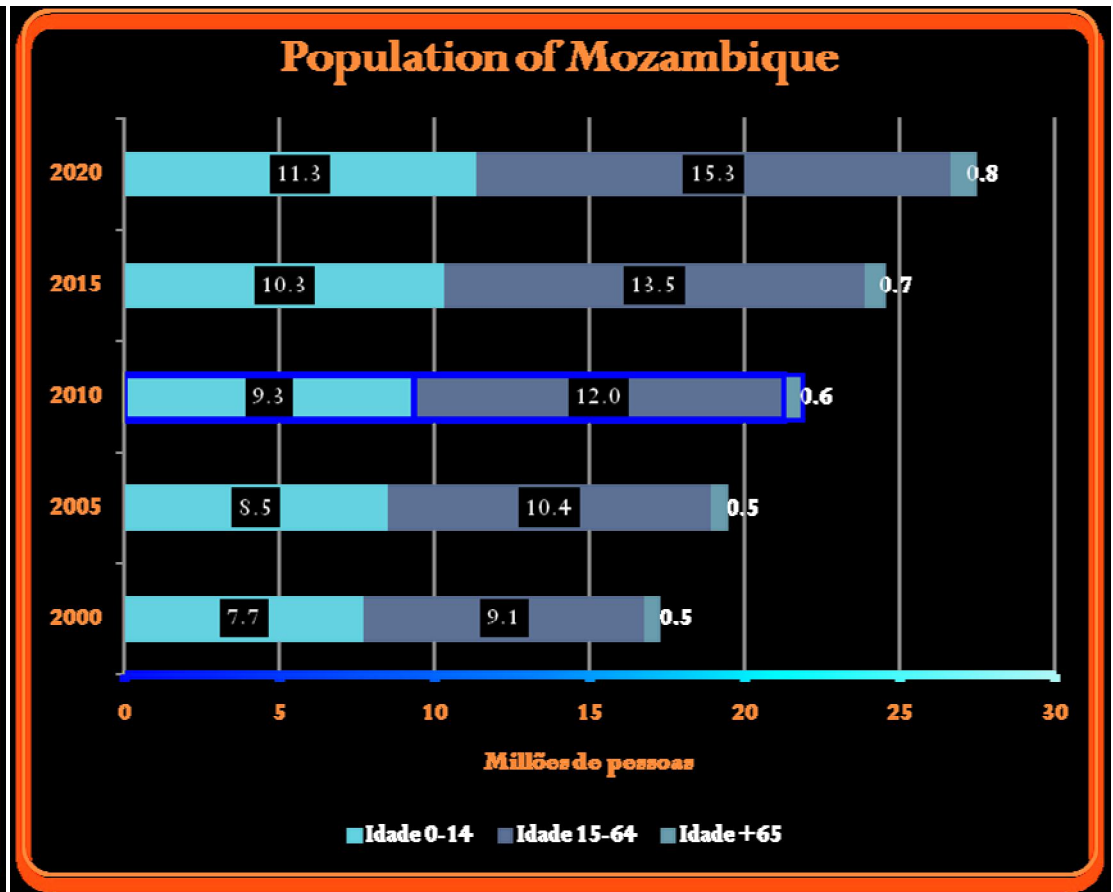


- ❖ Exports are highly concentrated
- ❖ Aluminum exports > all other commodity exports combined
- ❖ Only 14 products with exports of over US\$1 million

Challenges are significant

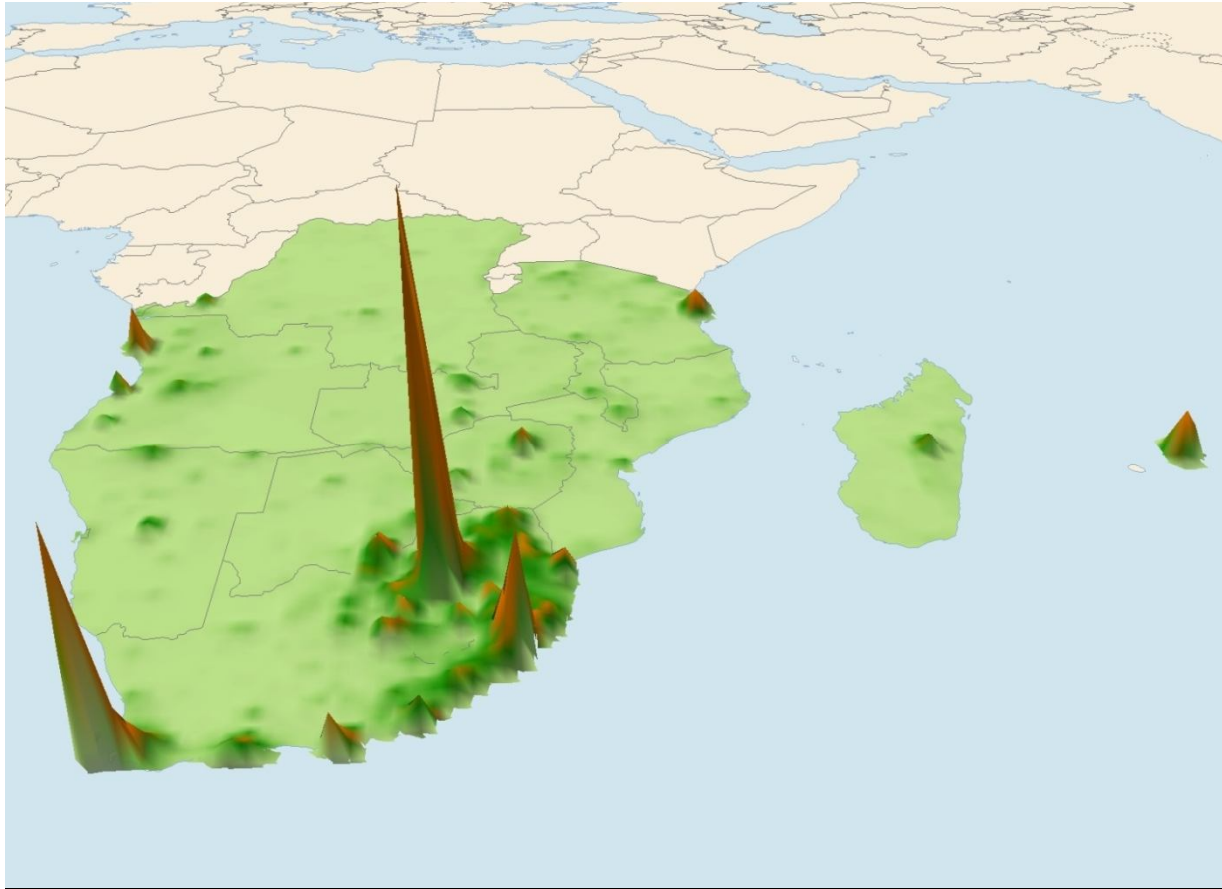


- ❖ Formal sector jobs are growing
- ❖ but at a fraction of labor force growth



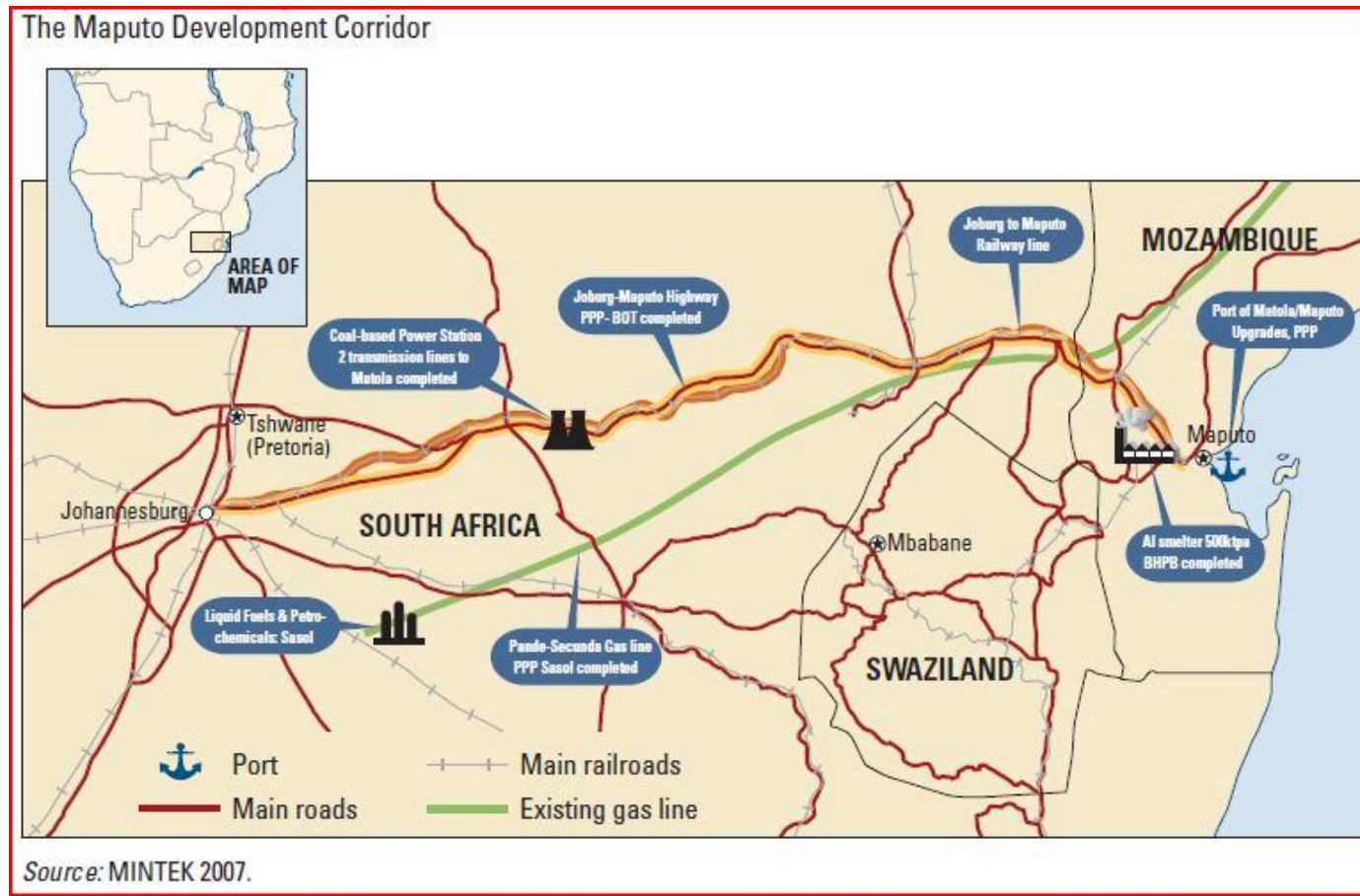
- ❖ Relatively high population growth of 2.4% per annum
- ❖ Increase in working age population outstrips job creation

Economic geography of SADC



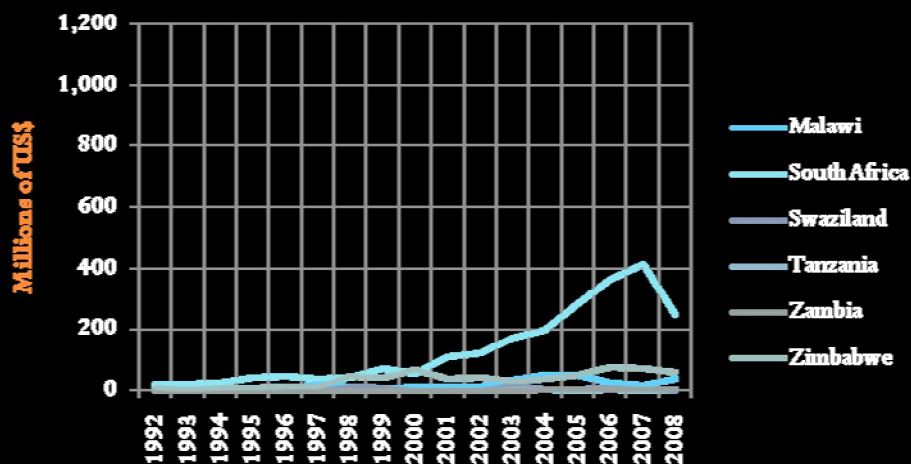
- **Where is the market for Mozambique?**
 - ✓ Maputo is situated within 500 km of two major South African markets
 - ✓ Mozambique served its landlocked neighbors (Malawi, Swaziland, Zambia, Zimbabwe)
 - ✓ ... which can be reconnected by upgrading existing transport infrastructure

Physical access to markets

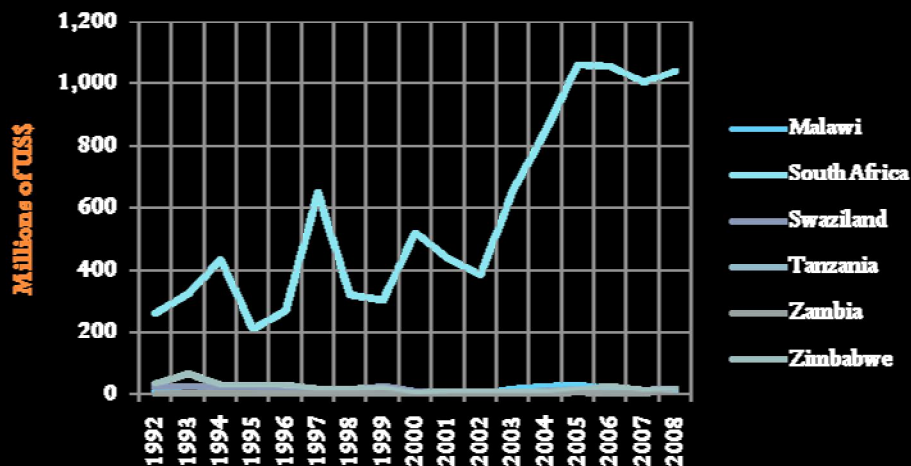


- Maputo Development Corridor builds on existing logistics infrastructure
 - ✓ including roads, railroads, gas pipeline, transmission line, and a modern port
 - ✓ ... and timebound regional integration program

Exports to Bordering Countries

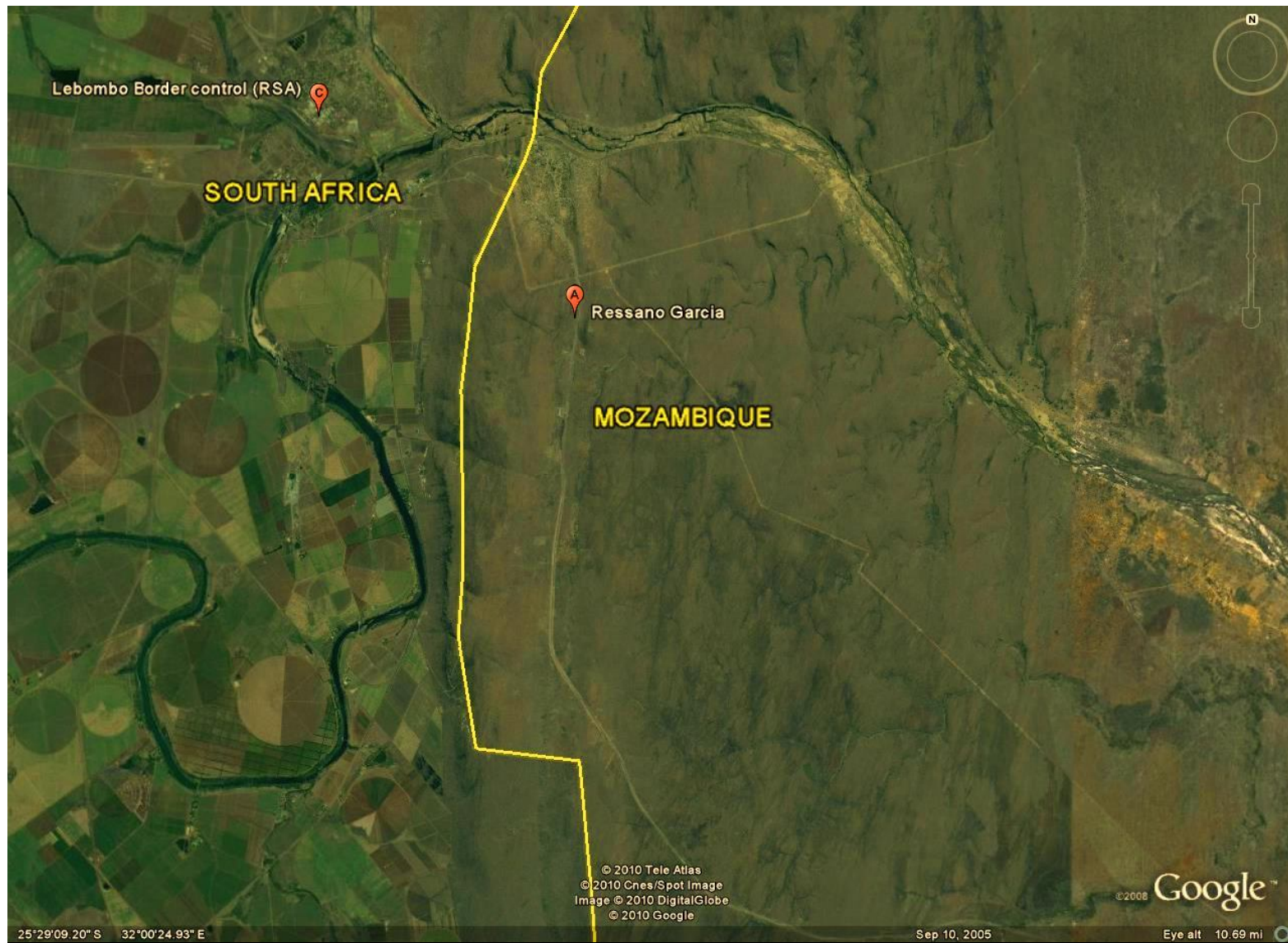


Imports from Bordering Countries



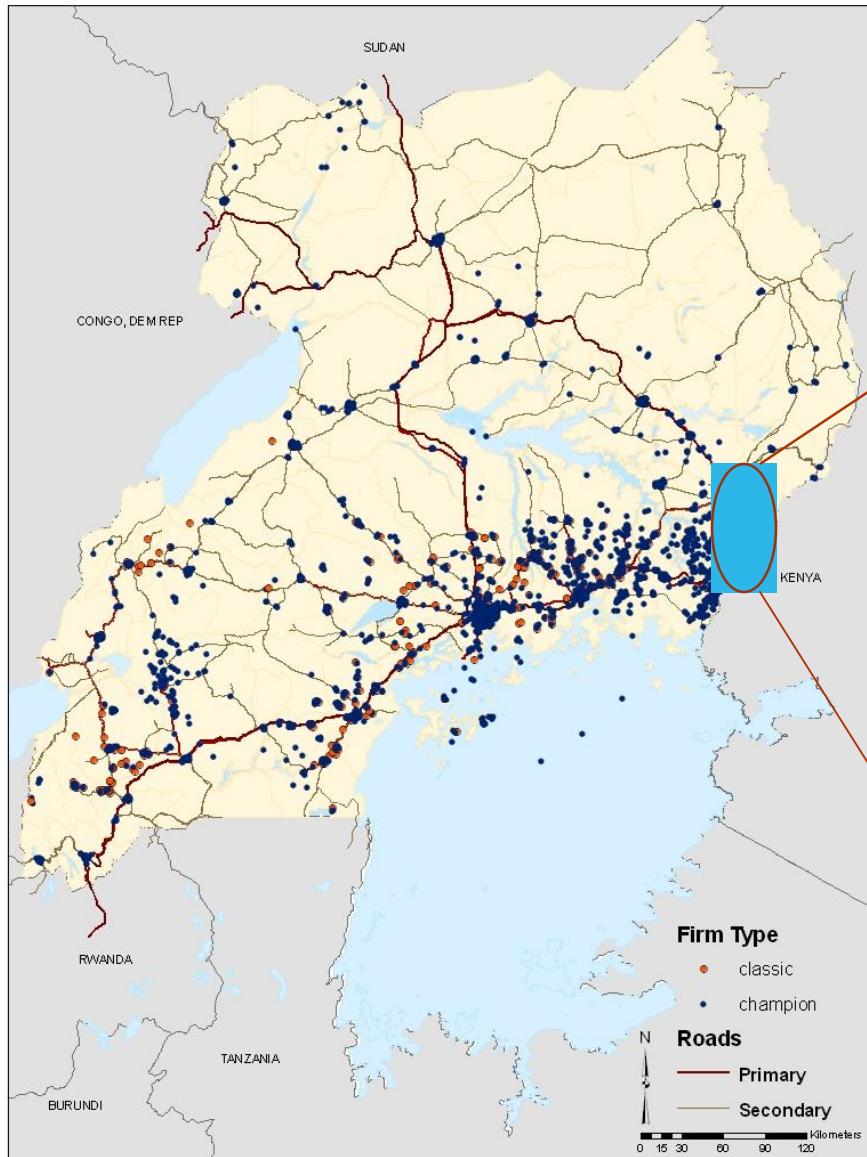
Mozambique: Regional Trade Flows 2007

- South Africa is the main user of Maputo Corridor
 - ✓ Imports from South Africa were 2.4 times greater than exports to South Africa
 - ✓ over 50% of Mozambican exports to South Africa is electricity
 - ✓ chronic bilateral trade deficit with South Africa
- Bilateral net importers are Malawi and Zimbabwe
- Swaziland, Tanzania, and Zambia are net exporters to Mozambique



The satellite imagery shows the land pressure being felt by farmers on the South African side of the border compared to a virtual non-existence of farms or industrial activity along the 90 Km highway from Ressano-Garcia to Matola.

Proliferation of businesses near border

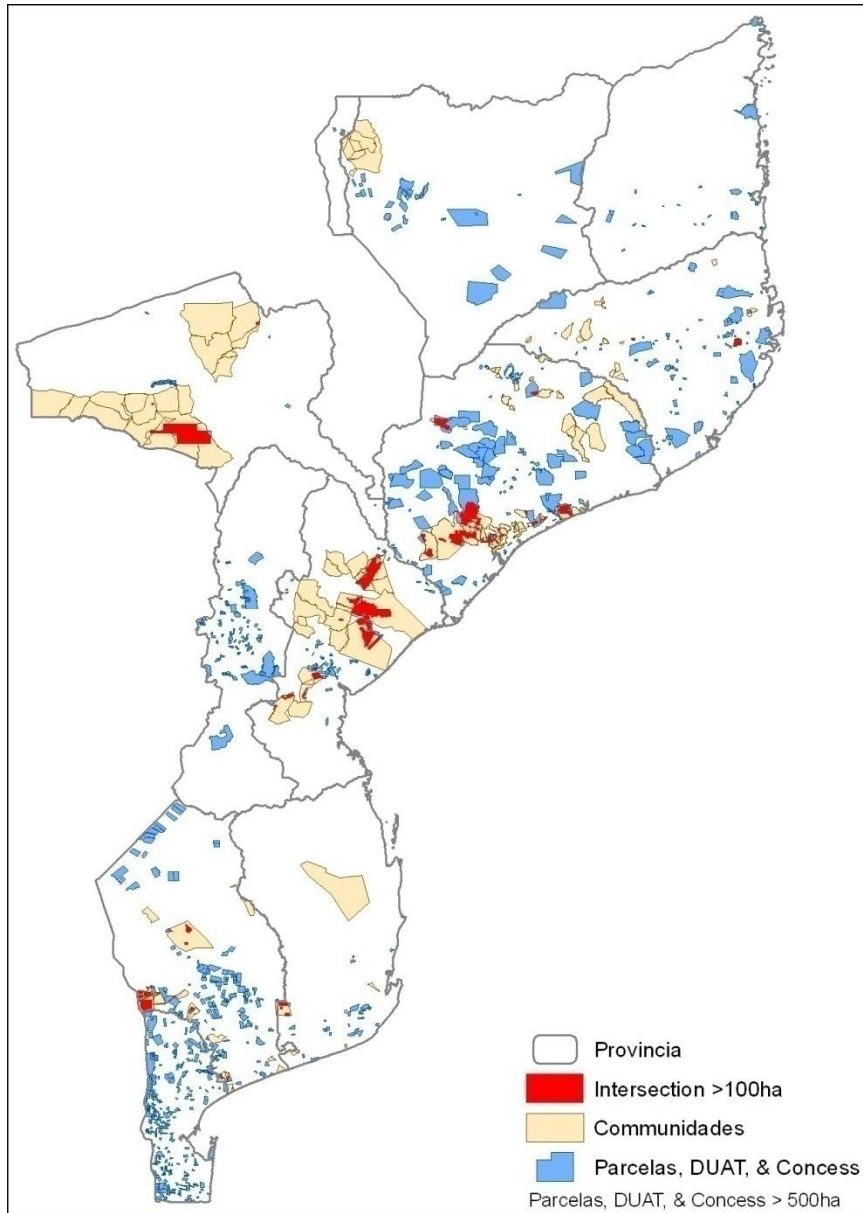


A comparable corridor from Uganda to Kenya shows a high concentration of Ugandan businesses forming clusters along the corridor.....



..... and more recently, near the border to supply the Kenyan market.

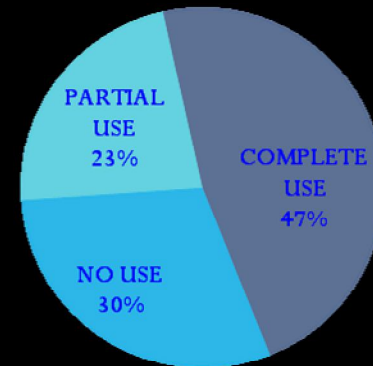
Registered Land Rights



Abundant land
. but sparse use

- Roughly 5% of land use rights is registered
 - ✓ community land demarcation
 - ✓ land use rights (DUAT)

**Results of Land Use Audit,
2002-2008**
(Sample of 1,625,543 Hectares)

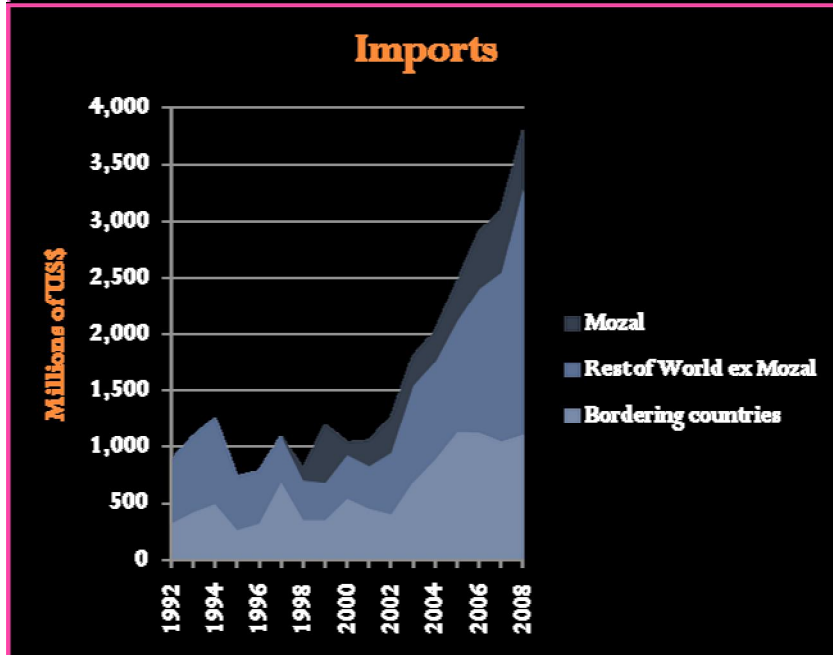
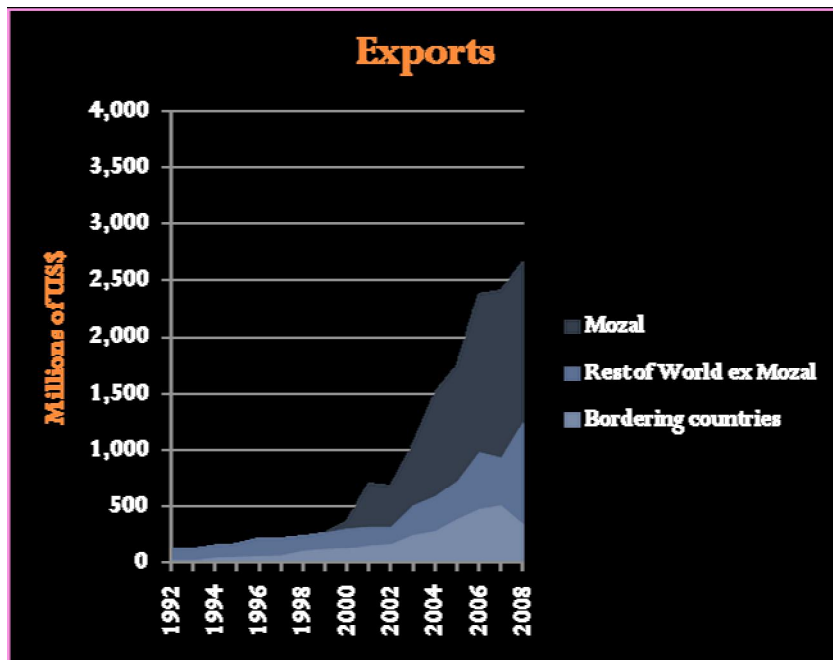


- Less than 72% of land fully used, 30% not used
- Land tax: 0.08, 0.6, 8 US\$/yr.ha respectively for livestock, rainfed agriculture, and tourism.



Megaprojects

...and the elusive spillover effect



- Trade grew exponentially since 2000
 - ✓ export growth fueled by mega-projects
 - ✓ import growth by both consumption goods and mega-projects
- MOZAL exports exceeded all other exports combined since 2004
- MOZAL exports were nearly 3 times as big as its imports
 - ✓ net gain for on the BOP is much smaller after netting out debt service, support service fees, and yes, DIVIDENDS to foreign shareholders
 - ✓ from export earnings perspective, MOZAL is largely a phantom operation

Balança de Pagamentos dos Megaprojetos

(em milhões de dolares)

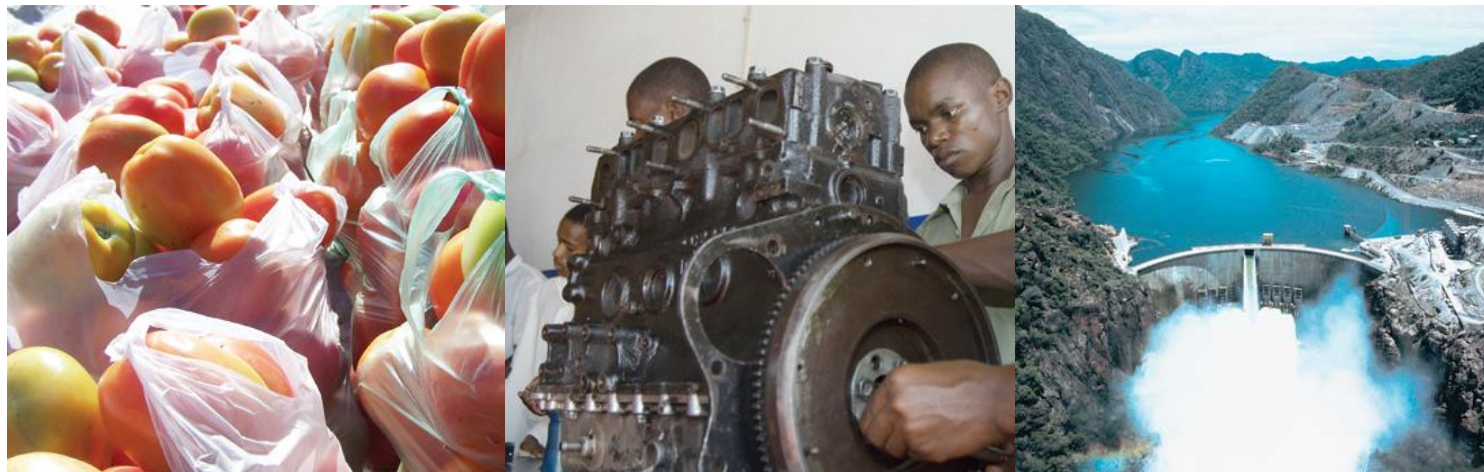
	2008
Balança de mercadorias	1,318
Exportações	1,889
Importações	-571
Balança de serviços	-838
Pagamentos para serviços	-171
Lucros e dividendos	-667
Balança de Conta de capital	-121
fluxos de capital	301
serviço da dívida	-422
Balança global	359

Fonte: FMI

ilusão de exportação

1,530

- These are clearly high return investments
 - ✓ net gain to non-residents are high, so FDI will continue to increase
 - ✓ net gain to residents are modest, both in income and employment creation
- Bias toward nontradables through exchange rate appreciation
 - ✓ depresses traditional exports
- Exemptions and simplified procedures favor megaprojects
 - ✓ the rest of the businesses suffer from regulatory overload



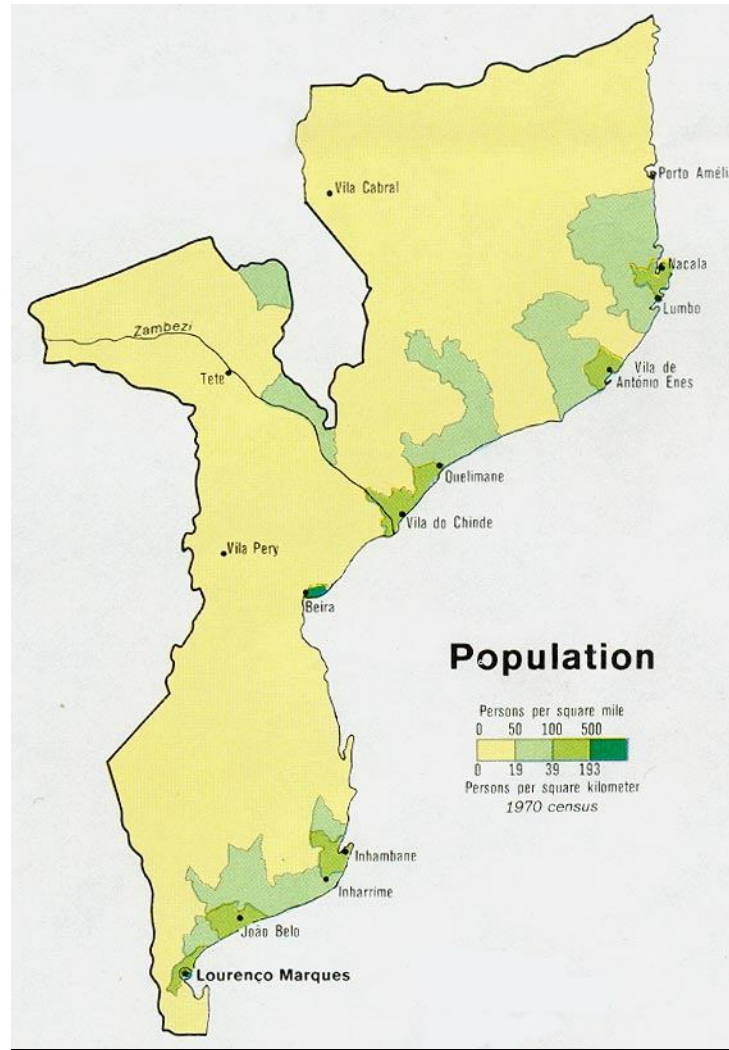
Broadening growth

...and unleashing the potential

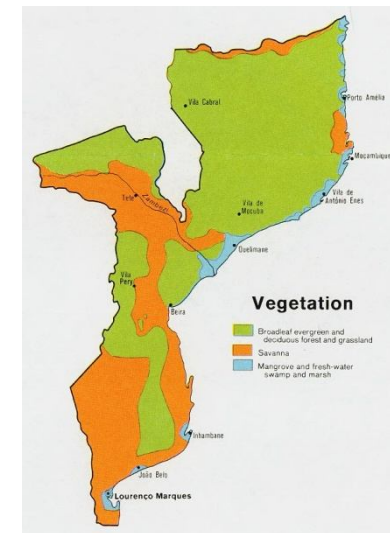
Pre-Independence Map of Mozambique

Pockets of population centers created by history. Today, 35 percent of people live within 75 kms of an international border. The immediate proximity to the border (25km) is less populated (9% of people).

Over half of Mozambicans (52%) live within 75 kms of the coastline. And 33% live within 25 kms of the coastline.



✓ Only 14 percent of the population live in central areas, the savana, forest, and grassland of the country.



Least internally connected countries: Road network

Rank	Countries	Road per land area (km/100 sq.km)
1	Sudan	0.50
2	Mauritania	0.74
3	Mali	1.24
4	United Arab Emirates	1.30
5	Chad	2.65
6	Suriname	2.88
7	Ethiopia	2.96
8	Mongolia	3.14
9	Afghanistan	3.22
10	Russian Federation	3.25
11	Gabon	3.28
12	Somalia	3.52
13	Congo, Rep.	3.75
15	Central African Republic	3.90

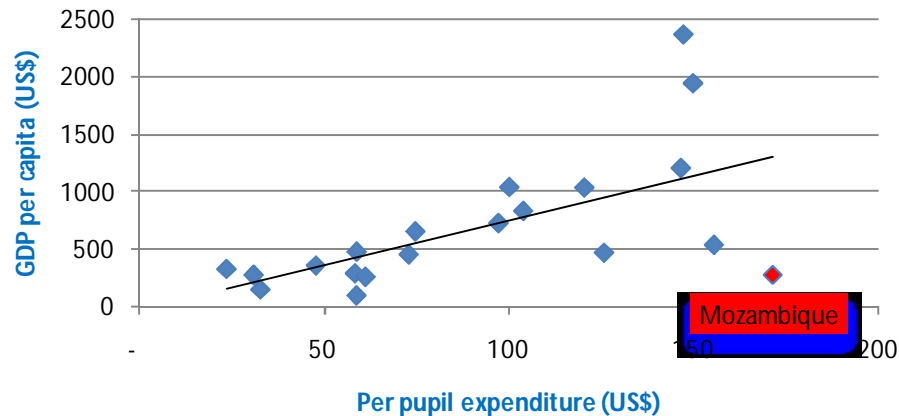
Source: WDI 2009



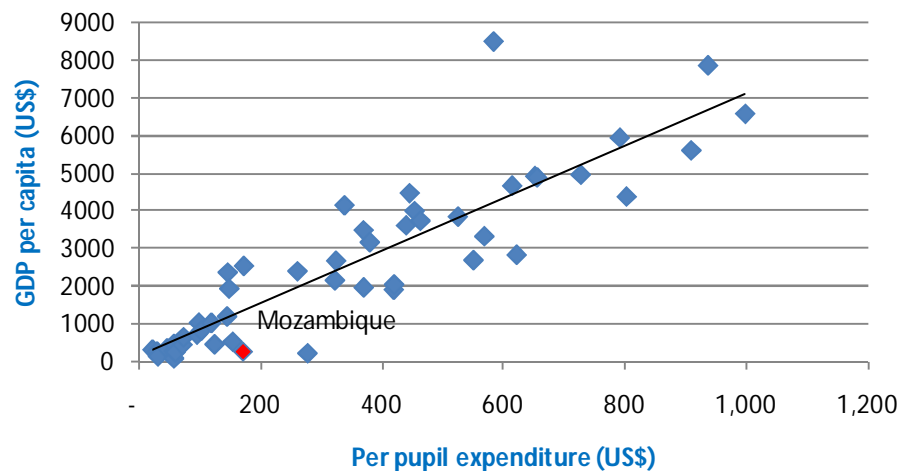
- Mozambique has a very low road density. Compare: Vietnam's 69 km and India's 112 km
- ✓ But South Africa has 29 km, Zambia 9 km, Zimbabwe 25 km (per 100 km² of land area) accessible to Mozambican traffic
- ✓ Transport development strategy needs to consider whether to link population centers, natural resource pockets, neighboring countries, or the agricultural belts. The choice is not easy and tradeoffs may have implications for generations.

Investment in Primary Education, 2004

(20 lowest spending countries)



(Countries spending \$1000 or per pupil)



- In 2004, Mozambique spent US\$51 per child in primary school, or 10th lowest level among 81 countries in the sample.
 - ✓ but primary school completion rate was 29.5 %.
 - ✓ normalized to 100 % completion rate, Mozambique would have spent US\$172 per child graduate.
- Not only the money used is low in absolute terms, but also education system is not efficient.
- Compared to other countries, Mozambique makes relatively more effort (being right side of the trendlines)

Most affected by HIV/AIDS, 2007

Rank	Countries	Prevalence of HIV, total (% of population ages 15-49)
1	Swaziland	26.1
2	Botswana	23.9
3	Lesotho	23.2
4	South Africa	18.1
5	Namibia	15.3
6	Zimbabwe	15.3
7	Zambia	15.2
8	Mozambique	12.5
9	Malawi	11.9
10	Central African Republic	6.3
11	Tanzania	6.2
12	Gabon	5.9
13	Uganda	5.4
14	Cameroon	5.1
15	Cote d'Ivoire	3.9

Source: WDI 2009

The Scourge of HIV/AIDS....

.... Nothing more needs to be said



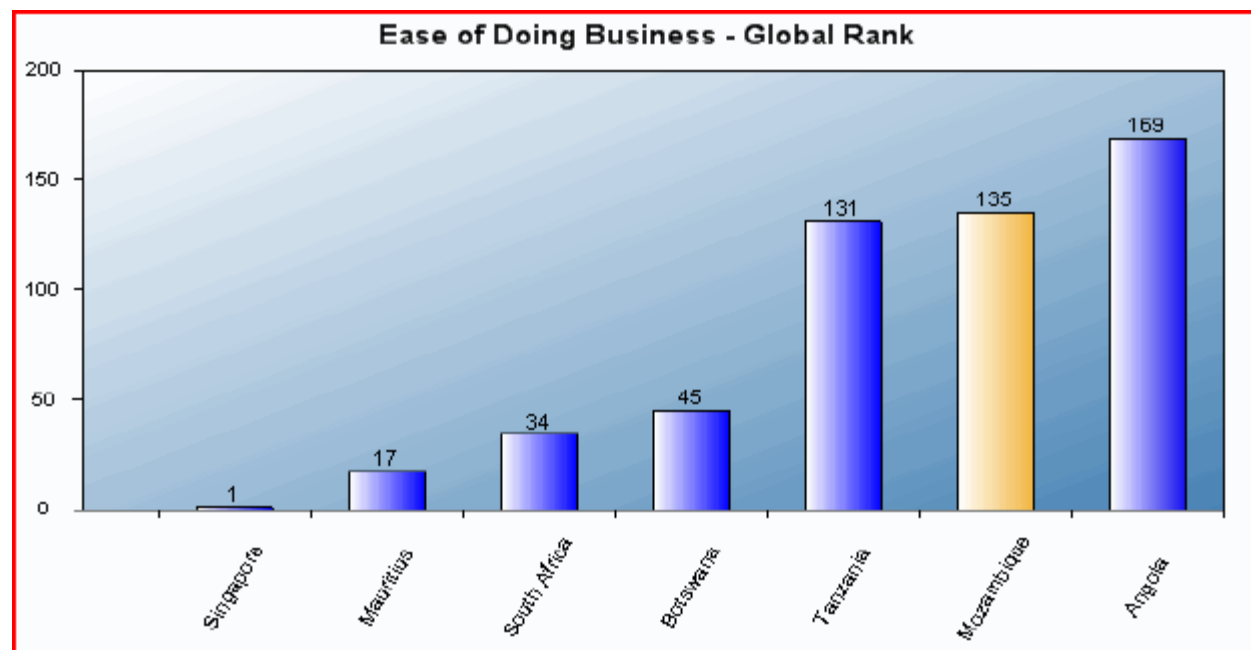
Not so easy doing business in Mozambique

	Country ranking
Doing Business	135
Dealing with Construction Permits	159
Employing Workers	156
Registering Property	151
Trading Across Borders	136
Closing a Business	136
Enforcing Contracts	129
Getting Credit	127
Paying Taxes	98
Starting a Business	96
Protecting Investors	41

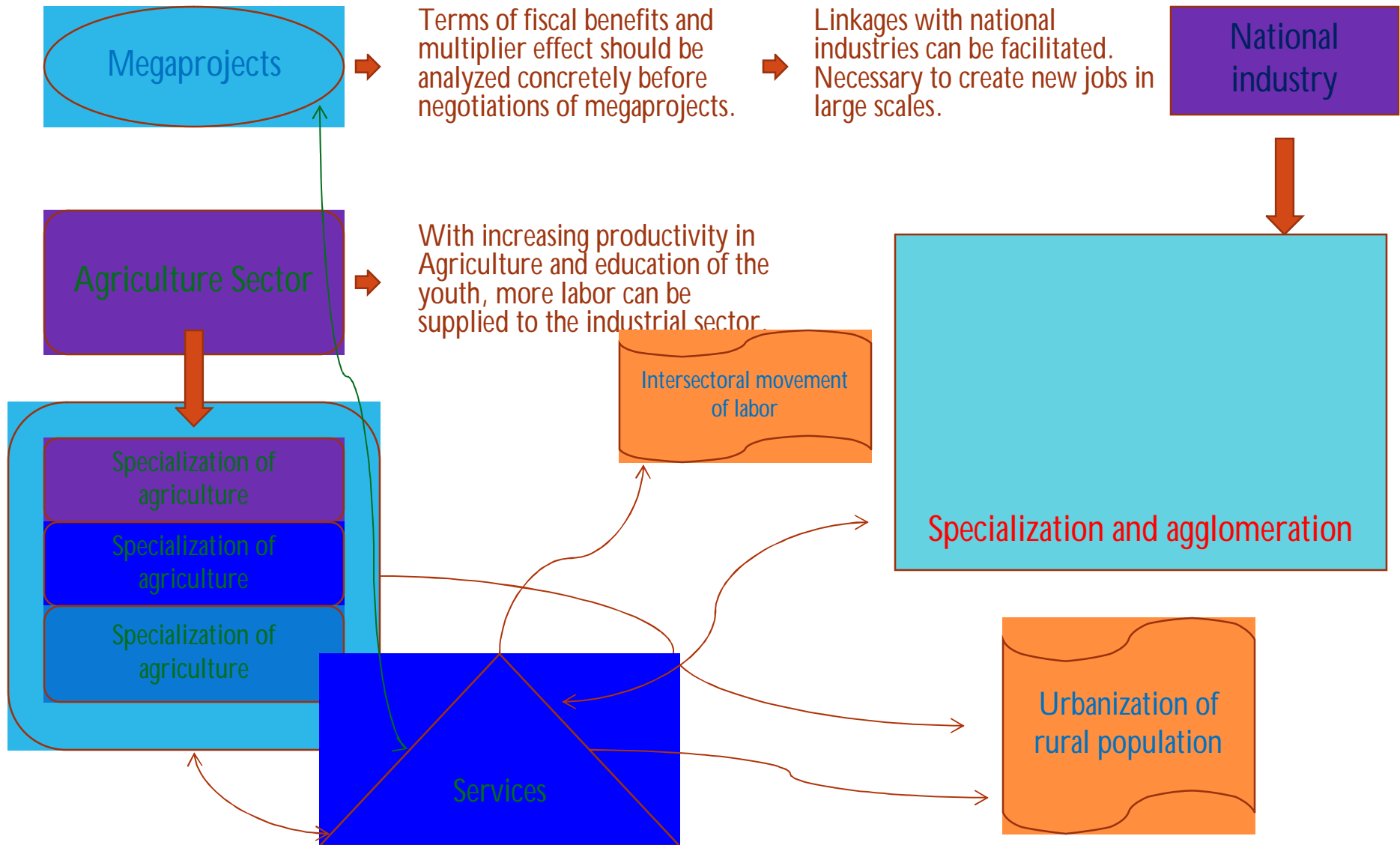
Source: *Doing Business 2010 Report*

- Country ranking moved up 5 places compared to 2009 report.

- ✓ Big jump of 45 places for Starting a Business
- ✓ Marginal improvements in Registering property and Trading across borders



Removing obstacles to an inclusive development in Mozambique





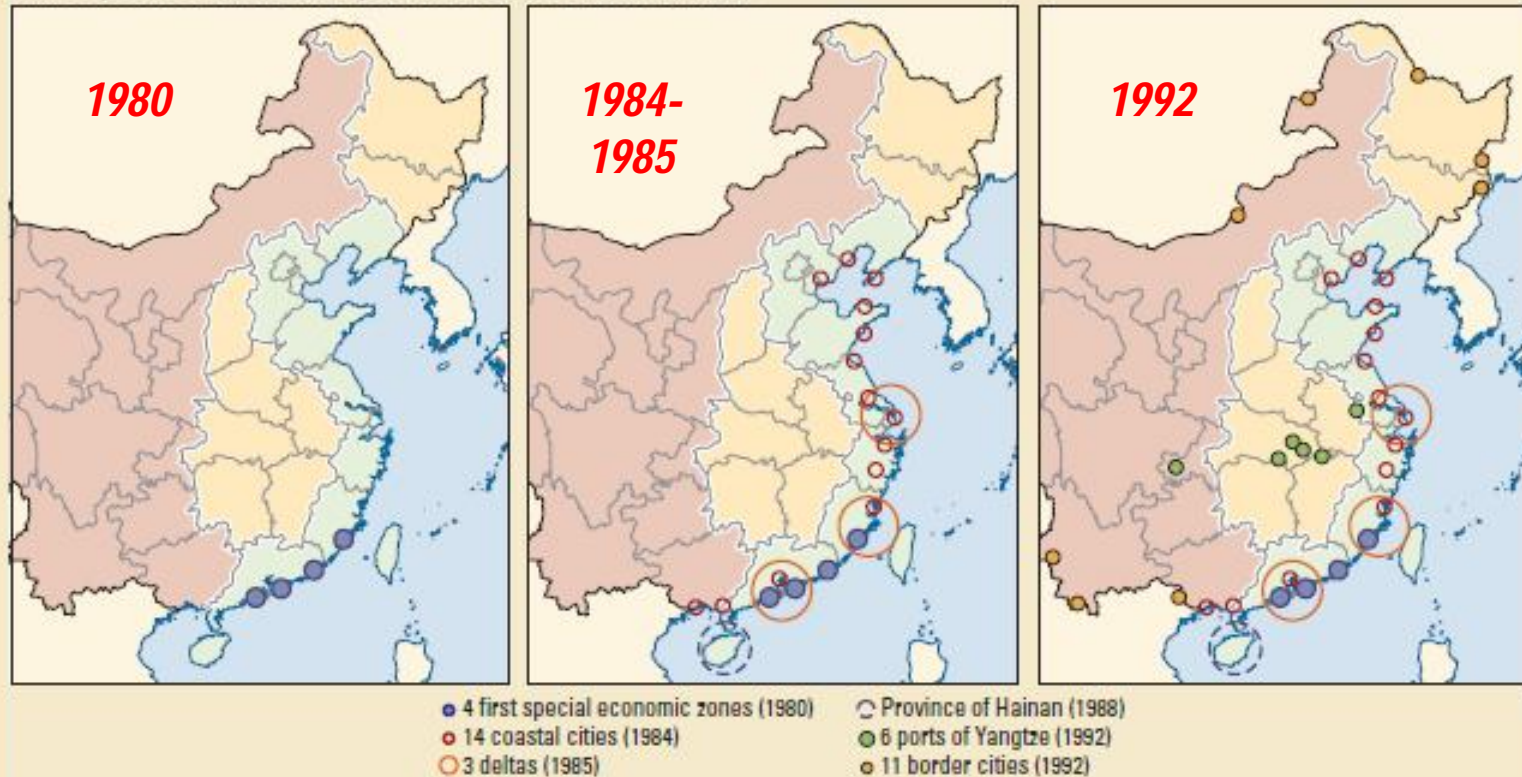
Money is a part of the problem, but only a part.



Some Observations:

- *Idle factors of production need to be put to use. They need to be able to move to where they are needed. Or attract those businesses which need them.*
- *Broadening of growth requires removing biases toward megaprojects and large businesses.*
- *Infrastructure planning need to take into account where people and resources are located. But there is a series of tradeoffs.*
- *Bureaucracy and regulation overload is incompatible with broadbased high growth. They need to be systematically removed as soon as possible.*
- *As business environment improves, it becomes more lucrative to borrow to invest. Returns to investment has to be higher than competing countries. Money follows success.*

China's special economic zones opened the country to external markets



Source: WDR 2009 team, based on Huang and Luo forthcoming.

This is a transformative location map Chinese export industries. It shows the evolution of specialization and agglomeration in zones spread out in different parts of China. What would be the vision for Mozambique? What are the geographic, demographic, commercial and logistic factors which influences this vision? No one doubts that Mozambique has a great potential to grow and prosper. But how, when, and how fast? Observations put forward in this presentation are simplifications.