Mozambique Transaction cost study

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1 Introduction

Africa, compared to other regions, has the highest incidence of poverty. With research showing a positive link between exports and growth, a rise in exports out of Africa is essential for sustained growth of the continent. However, Africa has been unsuccessful to capture the international market and make use of this vehicle to steer away from poverty.

How can this situation be altered? Until now the private sector has contributed very little to growth in Africa, mainly due to the crowding out by the public sector. There is a growing consensus amongst researchers that a thriving private sector is crucial for sustained economic growth and a thriving export sector. The remaining question is what role government should play. The two extremes seem to be on the one hand a government that steers the export sector in a specific direction; and on the other a government that plays no further role than to create an environment supportive of the private sector.

The effectiveness of special enterprise support schemes, in which 'wise' planners detect a need, throw resources at it, and micro-engineer the outcomes, has been questioned in research. The World Bank publications are highly sceptical about deliberate government action aimed at improving the performance of enterprises and developing competitive advantages. They warn that strategies that claim to pick winners can go spectacularly wrong and are expensive gambles with public funds.

The alternative is to decrease the role of government by reforming the regulatory environment for business, for example the simplification of business registration procedures as well as reforms of labour regulations and property titling (UNIDO). To diminish the role of government, is not, however, to ignore the critical role government has to play in correcting market failures. The private sector – and the decisions of investors, producers and workers – drive a country's economic development, but the government plays a critical role in creating an environment in which incentives accord with market forces and in which fiscal, legal and other institutions do not distort or impede private actors but facilitate competitiveness. The question is how to find the right balance between measures designed to unleash market forces and those designed to correct market failures.

This report aims to highlight a number of areas in which the Mozambique government can improve the business friendly environment, and show how this supports exports. This is done through a transaction cost analysis of different sectors in the Mozambique economy.

Traditionally transaction costs referred to costs incurred through handling, transport, storage, processing, packaging, market fees, risk management, brokerage, export handling, marketing, etc. More recently the new industrial economics (NIE) added non-price costs, such as the expenses incurred in finding someone to trade with, time spent negotiating a deal and the costs involved in ensuring that contracts are honoured.

In Mozambique there has been an improvement in the business-enabling environment in recent years, but there remain cumbersome regulations and procedures that continue to impose heavy costs on businesses. Despite these improvements, Mozambique remains one of the world's most difficult places to do business. This report will examine the different components that make up the costs of transacting and doing business. The aim is to quantify these costs and to put them into the context of policy reform.

The report is organised in the following manner. Section 1 deals with the theoretical framework of the study and provides a brief overview of the theory of transaction costs. Section 2 gives an overview of the current state of affairs in Mozambique by looking at the general level of development and competitiveness. Section 3 aims to quantify elements of transaction costs and to provide comparative data. In section 4, the overall analysis of transaction cost elements are applied to three specific sectors which are very important in the Mozambican economy, i.e. Transport, Agriculture and Tourism.

Section 5 provides an overview of some Mozambican government programs aimed at improving the business enabling environment. The specific focus is on Trade and Industrial Policy. Finally, section 6 provides an overview of comparable policy developments in SA.

SECTION 1: THEORY

2 A theoretical approach to transaction costs

Organisations are the role-players in an economy. Broadly described, they can be seen as bounded by some common purpose to achieve certain objectives. This includes political bodies (political parties, a city council, a regulatory agency), economic bodies (firms, trade unions, family farms, cooperatives), social bodies (churches, clubs, athletic associations), and educational bodies (schools, universities). These organisations, i.e. the role-players, are bounded by certain rule, i.e. the rules of the game. In a capitalist society entrepreneurs are the main players and the prevailing rules will determine the choices these entrepreneurs make (for instance what to produce), and consequently the direction of change in an economy. In other words, entrepreneurs respond to incentives created by rules.

Unfortunately, there is no reason to believe that these rules are efficient or that they respond quickly or efficiently to changes in economic circumstances. North (1990, 1995) explains it with the following two analogies:

> *the Mafia will develop different skills than will General Motors executives. If the institutional framework makes the highest pay-off for 'pirate' organisations, then organisational success and survival will depend on the successful learning of being better pirates (North 1995: 21).*
>
> *If the maximizing behaviour of firms consists of sabotaging competitors, or for labour organisations in engaging in slowdowns, or for farmers in restricting output in order to increase the price of their products, then economic growth will be slowed down (North 1990: 78).*

For economic growth to occur the institutional structure must make it attractive for the role-players to invest in productive activities. If productivity-raising activities had the highest pay-off, then the economy will grow. Unfortunately, all countries have incentives that stimulate productive activity as well as those that slow it down; even the most productive economies in the modern world have a mixture of growth creating and growth retarding rules. For a country to develop, the signals that lead to an increase in productivity must overshadow those that hamper development.

Rules in a society have a direct as well as indirect effect on transaction costs. Theoretically transaction costs can be zero where repetitive exchange takes place between parties that completely trust one another and where full knowledge of the product traded exists. In all other instances information is incomplete and asymmetrically held by the parties to the exchange. In a world of impersonal exchange, exchange takes place with multiple individuals and they do not have much knowledge about each other. Under such circumstances economic transaction costs are positive.

Where do transaction costs originate?

- Parties that want to engage in a transaction have to find each other, and determine whether the other party is able and willing to fulfil the transaction. They have to communicate and exchange information regarding the transaction and there must be certainty about the terms of exchange. In other words, negotiations have to take place between the trading parties.
- Before the transaction can be completed the goods must be described, inspected, weighed and measured.
- Ways to settle disputes have to be explored. Often lawyers are consulted to draw up contracts, and in some cases compliance needs to be enforced through legal action and breach of contract may lead to litigation (North 1990 and Coase 1937).

These costs, the cost of acquiring information, the cost of protecting rights and the cost of policing and enforcing agreements, have come to be known as economic transaction costs and can be described as the "cost of running the economic system".

The regulatory business environment covers regulations that immediately affect businesses through the costs of compliance. These are composed of direct costs, such as license fees, and indirect costs resulting from (often unnecessary) transactions – for instance the time that has to be spent on obtaining a licence as well as increasing costs stemming from inappropriate government regulations that make contract enforcement or the hiring and firing of workers complicated and costly (UNIDO). The Doing Business series published by the World Bank measures the costs and time associated with complying with 10 types of regulations: starting a business, employing workers, getting credit, enforcing contacts, closing a business, registering property, dealing with licences, protecting investors, paying taxes and trading across borders.

So far the focus has been on transaction costs that are determined in the market (e.g. legal fees, credit rating search), but total transaction costs also include costs that are unobservable (e.g. the cost of uncertainty in the market). Unlike the observable costs the unobservable costs are difficult to identify and measure. And it is often these unobservable costs that restrain trade, like for instance in sub-Saharan Africa (SSA) where the deficient state of the transport and communications infrastructure create difficulties for the trading partners. Another unobservable cost present in SSA is the bad neighbourhood. It was empirically shown that being in a bad neighbourhood reduces economic growth. Uncertainty created by the neighbourhood can, for instance, deter international investors from investing in the region because the transaction costs of securing the investment become too high relative to the profit.

Location of a country is important for determining economic transaction costs, primarily for two reasons. Firstly, neighbouring units provide an easily accessible market for goods and secondly, and this is most important for landlocked countries, they provide access to other markets. With access to markets seen as one of the main engines of growth, both these reasons are important for growth and development.

Even as far back as Adam Smith, economists realised that productivity gains achieved through specialisation are the secret to the wealth of nations. But for these gains to materialise, producers must have access to markets where they can sell their specialised output and buy other goods - the larger the market, the greater the scope for specialisation. Through specialisation each country can make the most of its comparative advantage. This notion is supported by a large number of international cross-sectional analyses that show a strong correlation between trade and economic growth. The fact that Mozambique is located in sub-Saharan Africa, the poorest region in the world, creates unique problems. With the exception of South Africa, most other economies are too small to be able to import any significant amount of goods.

Another unobservable cost is the cost associated with corruption, where money or favours are exchanged for benefits. Corruption can be conceived of as the transfer of a service between the bribe donor and the bribe recipient. Two basic types of services can be provided: "according-to-rule" transactions and "against-the-rule" transactions. In the former, someone is compensated extra-legally to do what he or she is ordinarily required to do by law. Such "grease" payments are often made to ensure that permits are processed in a timely manner. In the "against-the-rule" transactions, the bribe is paid to obtain the cooperation of someone to do something they are forbidden to do. An example would be money paid to award a contract to a company which would not otherwise have been awarded the contract.

To lower transaction costs, questions like the following should be asked. What can be done about:

- producer bargaining power;
- road infrastructure and transport;
- international freight costs;
- finance for agricultural trade and agribusiness;
- market information;
- electricity supply;
- local taxation;
- contract enforcement;
- corruption;

In what follows we will apply the theory to the actual situation in Mozambique today in order to identify bottlenecks that currently exist and to suggest remedial measures.

SECTION 2: MOZAMBIQUE – STATUS QUO

3 Mozambique

In this section, a brief overview will be given of the current state of affairs in Mozambique and the main structural features that are hampering international trade and growth.

3.1 General

Mozambique has transformed itself successfully since the late 1980s from a centrally planned economy to a market economy. However, the economy is still characterised by the large contribution of the primary sector to overall economic growth (22% agricultural contribution to GDP). More than 80% of the population is engaged in small-scale agriculture. Although many previously state owned enterprises have been privatised, many sectors are still characterised by a lack of vigorous competition.

Mozambique is a member of the Southern African Development Community (SADC). The main goals of SADC are to form common political interests and support greater trade and investment flows between members. Key to achieving these goals is the formation of the SADC Free Trade Area (FTA) which is due for full implementation shortly. The SADC FTA will create a regional market worth $431 billion with a total population of 247 million (www.sadc.int/fta). South Africa is the biggest economy with a Gross Domestic Product that represents 65% of the total SADC market (Otter et al,2008:2). Mozambique is one of the smaller economies in the SADC and clearly it will be important for them to be competitive in terms of its trade with the other members of the FTA.

The next table shows that when one considers the structure of the Mozambique economy in relation to the other SADC countries, it is clear that the agricultural sector is relatively important.

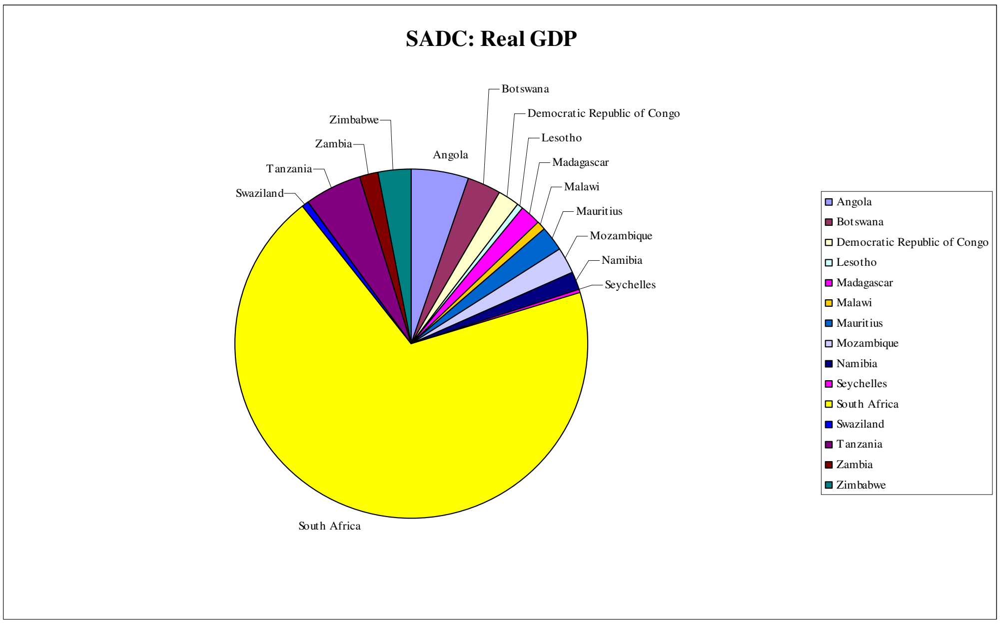
Table 1: GDP Structure in SADC countries (% contribution in 2005)

Country	Agriculture	Industry	Manufacturing	Services
Angola	7.2	74.0	3.6	18.7
Botswana	2.3	53.3	3.9	44.4
Congo DR	46.0	25.3	5.5	28.7
Lesotho	17.3	41.4	18.5	41.3
Madagascar	27.9	15.8	14.0	56.4
Malawi	34.7	19.4	12.5	45.9
Mauritius	6.1	28.2	20.2	65.7
Mozambique	**22.3**	**29.8**	**14.2**	**47.9**[1]
Namibia	9.9	31.7	13.5	58.4
SA	2.5	30.3	18.6	67.1
Swaziland	11.5	47.6	36.9	40.9
Tanzania	44.5	17.8	7.5	37.6
Zambia	18.5	25.1	11.7	56.3
Zimbabwe	18.1	22.6	12.8	59.3

Source: Otter et al. 2008.

[1] According to the Official SADC Trade, Industry and Investment Review 2007/2008, Services accounted for 34.6% of GDP in 2005.

Figure 1: Real GDP of SADC members



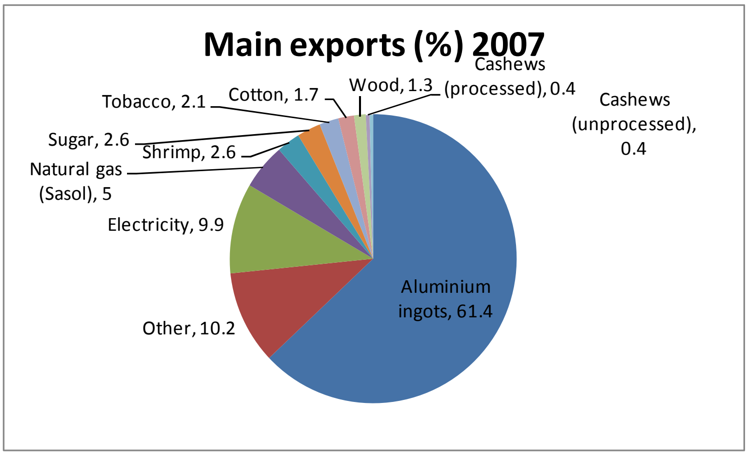
Source: Sherman Robinson (Nov 2007), 'Mozambique and regional integration in Southern Africa.

In terms of inter-SADC trade, Mozambique falls within the group of SADC countries (with the BLNS, Malawi, Zambia and Zimbabwe) that depend heavily on SADC, particularly for imports. These countries source about 50% or more of their imports from SADC and sell upwards of 20% of their exports to SADC (Otter et al. 2008:15).

According to the Official SADC Trade, Industry and Investment Review 2007/2008 (p. 174), the following sectors of the Mozambique economy have 'vast potential': mining, agriculture and forestry, fishing, manufacturing, construction, tourism and financial services.

The following graph shows the composition of the main exports from Mozambique.

Figure 2: Composition of Mozambican exports (2007).



Source: Nathan & Associates Inc (2008), 'Private Investment in the Agriculture Sector in Mozambique', p.23.

The graph illustrates the importance of the aluminium products exported from the Mozal Aluminium Smelter. Construction on the plant began in 1998 and production started in 2000.

The following are some general features of Mozambique's exports:

- exports are concentrated in commodities or other primary products, such as cashew nuts and kernel, fresh produce and fruits and seafood;
- potential exports: apparel because of low labour costs and relatively light investment necessary for setting up a factory;
- in need of: foreign investors;
- companies in the free trade zone managed by the Investment Promotion centre (CPI) do not export, but sell to Mozal aluminium smelter – it does not attract foreign investors;
- under-prepared exports do more harm than good when looking for new markets – seen as unfit for the international market place

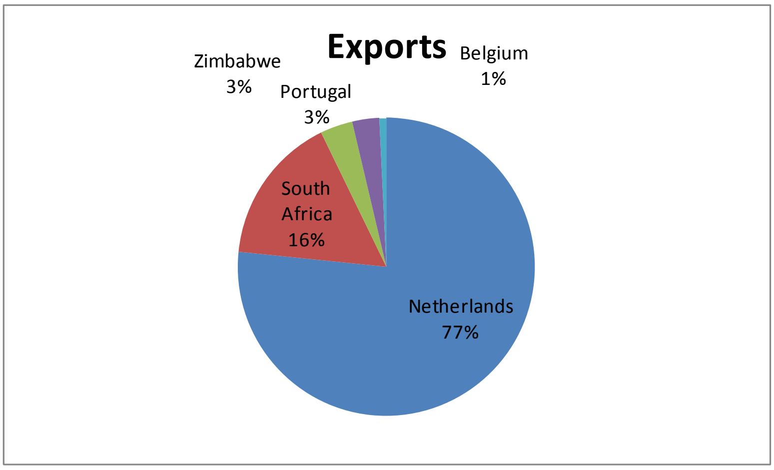
The following are some of the reasons cited for the lack of foreign investors in Mozambique:

- complaints about red tape and lack of interest
- corruption
- unprepared staff in public administration

- anecdotal evidence that the pressure on customs units to meet revenue targets, induce them to give priority to imports versus exports
- customs staff are unprepared and need serious and regular training and skills updating

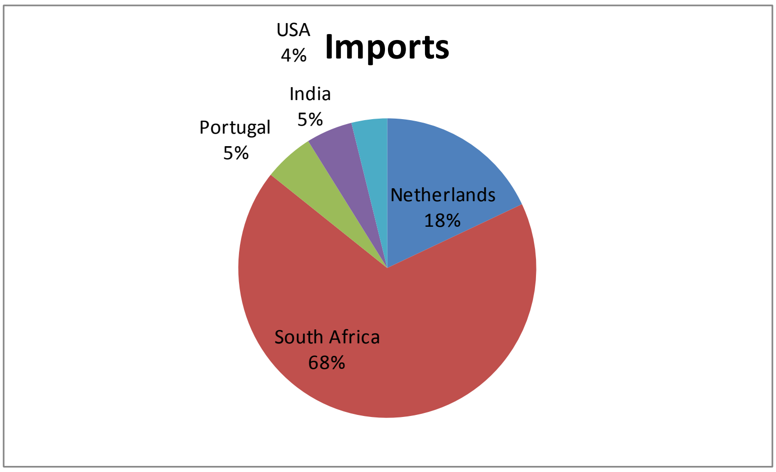
The next two graphs indicate the main trading partners of Mozambique.

Figure 3: Composition of exports to 5 main destinations (2004 data)



Source: The Official SADC Trade, Industry and Investment Review, 2007/2008, p. 174.

Figure 4: Composition of imports from five main trading partners



Source: The Official SADC Trade, Industry and Investment Review, 2007/2008, p. 174.

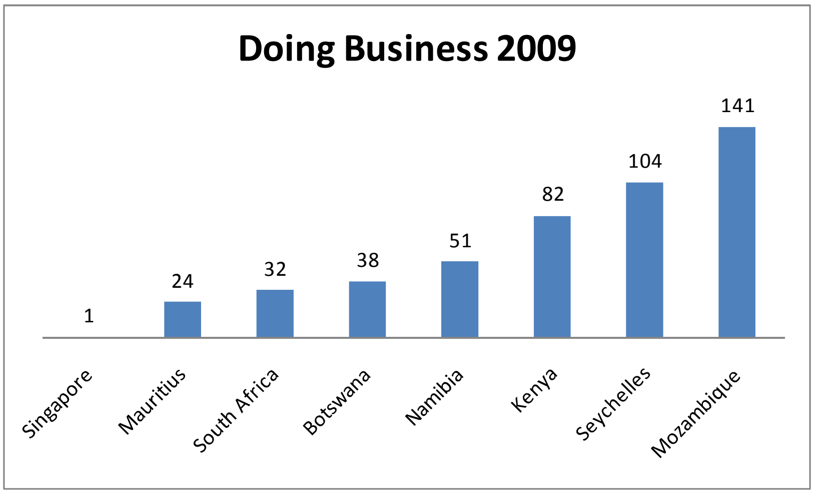
The main import goods include raw materials, spare parts, mining equipment, pharmaceuticals, consumer goods, chemical goods and crude oil.

If one looks at the total value of exports from Mozambique compared to imports, it is clear that exports is only a small fraction of total imports. In the rest of this report ways to improve this situation will be explored and more specifically the reduction of transaction costs.

3.2 Competitiveness

According to the World Bank series on ‘Doing Business’, Mozambique was ranked 141st out of 181 economies in Doing Business 2009. This is down from 134th in 2008. South Africa was ranked 32nd. The graph below shows Mozambique’s relative ranking compared to some other countries.

Figure 5: Doing business 2009 – overall rankings



Source: World Bank/ IFC, Doing Business 2009

There is certainly room for improvement and Mozambique will have to ensure that the right policies are in place to create a business environment conducive for investment and trade. The table below shows that in some of the important categories Mozambique in fact deteriorated relatively to the rest of the countries in the sample.

Table 2: World Bank Doing Business (2008)

Topic	Mozambique Rank (2006)	Mozambique Rank (2008)	Mozambique Rank (2009)
Starting a business	153	125	144
Dealing with Construction Permits	106	147	153
Employing workers	156	162	161
Registering property	137	126	149
Getting credit	76	97	123
Protecting investors	137	33	38
Paying taxes	78	72	88
Trading across borders	137	140	140
Enforcing contracts	168	138	124
Closing a business	125	134	133

Sources: World Bank Doing Business, James LaFleur 'Mozambican Business environment baseline projections with benchmarks' (2006).

However, this does not mean that Mozambique has not been busy with extensive reforms. The table below shows that Mozambique has been amongst the top reformers in Africa, on at least three of the indicators of Doing Business.

Table 3: Mozambique among the top reformers in Africa – Reformed in 3 Areas

	Mozambique	Mauritius	Madagascar	SA
Starting a business	√	√	√	
Dealing with licences		√		
Employing workers				
Registering property		√		
Getting credit				√
Protecting investors	√			
Paying taxes		√		√
Trading across borders		√	√	
Enforcing contracts				√
Closing a business	√	√		

Source: World Bank/ IFC Doing Business 2008 - Mozambique

There are various suggestions on how Mozambique could further improve its position i.t.o. the Doing Business index. One would be to eliminate the minimum capital requirement entirely, which would bring Mozambique in line with countries such as Botswana, Mauritius, Namibia and South Africa. Some of the registrations at various authorities (e.g. 'Repaticao de Financas, VAT and Social Security) could be merged into one procedure. Scanning of cargo could be done on a selective basis (e.g. less than 20% of cargo), abolish pre-shipment inspection altogether, create a single window which links customs with banks and port authorities, etc. On the labour front, Mozambique still has one of the highest termination costs in SADC (143 weeks compared to Botswana (90 weeks), Malawi (84 weeks), Seychelles (39 weeks), Madagascar (30 weeks) and SA (24 weeks)) (Doing Business presentation, 2008).

According to a recent USAID publication, 'Doing Business in Mozambique – Quick fixes for 2009', it would be possible to improve the ranking of Mozambique through some well designed changes. They also suggest removing the minimum capital requirement which is described as: 'open a provisional bank account, deposit minimum capital and obtain a verification of deposit with a local bank'. But they also explain that this minimum capital requirement is not actually a real impediment, as banks in any event require a deposit of more than 2000 MT in order to open a bank account.

In terms of obtaining construction licences, at present there are three steps: request and obtain the right to the use and enjoyment of the land, request and obtain a topographic plan, and request and obtain building permit. The first two steps take 120 days and have to be completed before undertaking the third, which takes an additional 45 days. If these three could be combined to happen concurrently, that will save time. In terms of registering property, it seems that the main recommendation from consultants is that the property transfer tax (SISA) should be converted into a service fee. The problem seems to be that since the SISA is levied at 2 percent of the property value with an additional 0.4 percent payable to the municipality, this has led to large-scale property undervaluation and the bypassing of legal channels. The USAID document also proposes that pre-shipment inspections should be eliminated.

Another measure that can be used to make intra-country comparisons is the logistics performance index (LPI) developed by the World Bank. The LPI is the simple average of the country scores on seven key dimensions:

1. Efficiency and effectiveness of the clearance process by Customs and other border control agencies;
2. Quality of Transport and IT infrastructure for logistics;
3. Ease and affordability of arranging shipments;
4. Competence in the local logistics industry (e.g., transport operators, customs brokers);
5. Ability to track and trace shipments;
6. Domestic logistics costs (e.g., local transportation, terminal handling, warehousing); and

7. Timeliness of shipments in reaching destination.

The index is constructed using the Principal Component Analysis (PCA) method in order to improve the confidence intervals. The scorecards demonstrate comparative performance - the dimensions shown on a scale from 1 to 5 (1 being the worst) relevant to the possible Comparison groups – all countries (World), region and income groups. The database contains 150 countries. In the general ranking, Mozambique was number 110. This is relatively worse than some of the other SADC countries, i.e. South Africa (24th), Angola (86th), Lesotho (108th), Malawi (91st).

Table 4: LPI: Mozambique (compared to SSA and SA)

	Mozambique		Sub-Saharan Africa		South Africa	
			score	difference	score	difference
Overall LPI	score	2.29				
	rank	110				
	conf	0.18	2.35	-0.05	3.53	-1.24
Customs	score	2.23				
	rank	94				
	conf	0.5	2.21	0.02	3.22	-0.99
Infrastructure	score	2.08				
	rank	110				
	conf	0.38	2.11	-0.04	3.42	-1.35
International shipments	score	2.25				
	rank	118				
	conf	0.45	2.36	-0.11	3.56	-1.31
Logistics competence	score	2.36				
	rank	99				
	conf	0.51	2.33	0.04	3.54	-1.18
Tracking & tracing	score	2				
	rank	129				
	conf	0.44	2.31	-0.31	3.71	-1.71
Domestic logistics costs	score	2.83				
	rank	95				
	conf	0.58	2.98	-0.15	2.61	0.22
Timeliness	score	2.83				
	rank	101				
	conf	0.43	2.77	0.06	3.78	-0.95

Again, the score of Mozambique relative to SA is not very good. However, also in terms of this index, Mozambique seems to have made some improvements. The next table shows the improvement in the business environment in Mozambique (comparison to Malawi, Mauritius and SA). The question asked to respondents was: 'Evaluate the evolution of the following factors in your country of work, over the past 3 years'.

Table 5: Mozambique – LPI: Improvement over the past 3 years.

	Percent of respondents answering better/much better			
	Malawi	Mauritius	Mozambique	South Africa
Overall business environment	100%	50%	100%	50%
Good governance and eradication of corruption	100%	50%	0	33.33%
Regulatory regime	100%	50%	0	50%
Availability of private sector services	100%	100%	100%	83.33%
Quality of telecommunications infrastructure	100%	100%	100%	66.67%
Quality of transport infrastructure	50%	50%	100%	33.33%
Other border crossing-related government agencies clearance procedures	100%	100%	100%	33.33%
Customs clearance procedures	100%	100%	100%	50%

Source: World Bank, LPI.

In the World Bank Doing Business publications Celebrating Reform (2008:8), Mozambique is cited as a country that has progressed with reforms: "Since its start in October 2003, the Doing Business project has inspired or informed 86 reforms around the world. Mozambique is reforming several aspects of its business environment, with the goal of reaching the top rank on the ease of doing business in southern Africa". In a study by Nathan & Associates, 'Mozambique—Business Environment Assessment, 2004', they report that 61% of the people they interviewed indicated that Mozambique's business environment has improved over the last 5 years; 21% felt that it had worsened and 18% felt that no significant change had occurred. They reported (2004:69) that: 'The general opinion was that improvement could have and should have been much greater if only the government had been more committed to it and had exercised more political will. The disadvantages faced by businesses in Mozambique when compared regionally and internationally are still enormous. Should this continue, the already low capacity to compete is likely to worsen, turning Mozambique into a mere sideshow in terms of the potential in the region'.

In sum therefore, Mozambique has room for improvement i.t.o. the cost of doing business and the logistical costs. However, it is certainly in the process of implementing various reform processes. In what follows we will present some quantification of the actual transaction costs and compare that to similar costs in South Africa, in order to get a complete picture of the situation.

SECTION 3: QUANTIFICATION OF TRANSACTIONS COSTS

In this section, we will give an overview of some of the main elements of transaction costs in Mozambique. Where possible the comparative data for SA as well as the 'SADC best' will be provided. A brief discussion of the most important elements will follow the comparative tables.

4.1 General position of Mozambique

The following table shows the general position of Mozambique i.t.o. global competitiveness, doing business, corruption and property rights.

Table 6: Mozambique's overall position

	Ranking	Mozambique	South Africa	SADC (Best)
Global Competitiveness[2]	**World (134)**	130	45	45
Doing Business	**World (178)**	134	35	27[3]
Corruption	**World (145)**	88[4]	32[5]	28[6]
Property Rights	**World (134)**	116	20	20

2 The Global Competitiveness Report 2008-2009.
3 Mauritius
4 http://www.worldaudit.org/countries/mozambique.htm
5 http://www.worldaudit.org/countries/south-africa.htm
6 Botswana

The position of Mozambique i.t.o. competitiveness and the progress made in this regard, have already been discussed above. The next tables will focus on specific costs that determine competitiveness and relative costs.

4.2 Licenses

The following table shows the costs of licenses in respect of building permits, the cost of registering property, environmental permits, permits for forestry, resource mining, hotels/ restaurants, vehicles, fishery and land.

Table 7: Cost of licenses

Licenses		Mozambique	South Africa	SADC (Best)
Building Permits	**Ranking (World = 178)**[7]	152	30	30
	Costs (% of income per capita)	747.8	27.5	27.5
	Number of procedures	17	17	17
	Time (days)	381	174	174
Registering Property	**Costs (% of property value)**	12.9	8.8	4.4[8]
	Number of procedures	8	6	9
	Time (days)	42	24	73
Environmental Permit's	**Costs (% of the value of the investment)**	0.1		
	Time (working days)	88		
Forestry	**Costs ($/m^3)**			
	Precious Species	40		
	1st class	10		
	2nd class	6		
	3rd class	4		
	4th class	2		
	Time	*Not Available*		

[7] Based on costs.
[8] Tanzania.

Resource Mining	Costs ($/ha)	Foreign firms	Domestic firms		
	For 12 months	1.00	0.12		
	1st Extension of 12 months	1.50	0.2		
	2nd Extension of 12 months	2.00	0.24		
	Time (days)	50			
Hotel/Restaurant	**Costs ($)**				
	Group I[9]	1,102.00			
	Groups II to VII[10]	706			
	Group VIII[11]	556			
	Restaurants and bars[12]	80			
	Tourist Agencies	9,280			
	Time (Days)[13]	107			
Industry	**Costs (number of minimum wages)**	$0.20 per Km for transport			
	Big[14]	16			
	Medium[15]	12			
	Small[16]	7			
	Micro[17]	1			
	Time (days)	59			
Commercial vehicle					
Cargo	**Costs ($/Year)**	A once-off deposit of $80 for administrative costs			
	Up to 5 tonnes	7.20			
	Between 5 and 10 tonnes	14.40			
	Between 10 and	43.20			

[9] Hotels, Lodges and tourist resorts (1 to 5 stars).
[10] Pensions and Hostels.
[11] Room renting including rural tourism.
[12] Renewal of license is subject to extra $40.
[13] 70 days for restaurants and bars.
[14] If it meets 2 of the 3 requirements: (i) Initial investment at least or beyond 10 million USD; (ii) Installed potency at least or beyond 1000KvA; (iii) At least 250 workers.
[15] If it meets 2 of the 3 requirements: (i) Initial investment at least or beyond 2.5 million USD; (ii) Installed potency at least or beyond 500KvA; (iii) At least 125 workers.
[16] If it meets 2 of the 3 requirements: (i) Initial investment at least or beyond 25,000 USD; (ii) Installed potency at least or beyond 10KvA; (iii) At least 25 workers.
[17] If it meets 2 of the 3 requirements: (i) Initial investment smaller than 25,000 USD; (ii) Installed potency smaller than 10KvA; (iii) Less than 25 workers.

	16 tonnes			
	Beyond 16 tonnes	86.40		
	Time (days)	*Not Available*		
Passengers	**Costs ($/Year)**	A once-off deposit of $80 for administrative costs		
	Gasoline Cylinder (Cm^3)			
	Up to 1000	8		
	Between 1000 and 1300	16		
	Between 1300 and 1750	24		
	Between 1750 and 2600	64		
	Between 2600 and 3500	96		
	Beyond 3500	176		
	Time (days)	*Not Available*		
Fishery				
Prawns[18] (Industrial)	**($/quarter)**	412		
	Inspection Services			
	Sanitary authorization for export processing firm ($)	120		
	Sanitary License for export ($/year)	160		
	Sanitary Certification for Export ($/tonne)	6		
	Sanitary Certification for Import ($/tonne)	6		
	International Traffic permit	14		

[18] Most exported marine animal.

	($/tonne)			
	Time (days)	*Not Available*		
Land	**Ranking (World = 178)**	126	76	36
	Costs ($/ha)	*Not Applicable (In Mozambique the land is state property)*		
	Land use concessions licenses ($/ha)		510	6
	Provisional authorization taxes[19]	24		
	Definite authorization taxes[20]	12		
	Livestock[21]	0.08		
	Agriculture	0.60		
	Other activities	1.20		
	Tourism, summer vacation, and commerce within 1 ha from the cost	8.00		
	Time (days)	90	24	23

a) Licenses

According to the USAID document (2004) Removing obstacles to economic growth in Mozambique: 'Although the business-enabling environment has improved in recent years, cumbersome regulations and procedures still impose heavy costs on business. Small and medium-sized enterprises – producers with significant potential for export growth – have been especially disadvantaged by Mozambique's burdensome system of approvals, licenses, and special levies that impede market entry and raise the cost of doing business (2004:9).

The table above shows that obtaining a building permit takes approximately 5 times as long in Mozambique as in SA. The cost is 27 times that of the SA equivalent, and the time involved more than double the time it would take in SA.

[19] Independently of the number of hectares (ha).
[20] Idem.
[21] Yearly per ha for this and the ones below.

In terms of registering a property, whereas the cost in SA (% of property value) is 8.8%, it is almost 50% higher in Mozambique at 12.9%. It is almost 3 times as much as in Tanzania (SADC best). Registering a property in Mozambique (keeping in mind that it is in any case only leased), takes on average 42 days compared to 24 days in SA.

For the rest of the indicators, i.e. environmental permits, licenses for forestry, resource mining, hotels/ restaurants, fishery and commercial vehicles, it was not possible to obtain comparative costs for SA (or the SADC best) within the time frame of this study. However, more detailed aspects of commercial licensing are discussed below.

In order to obtain a license for a national commercial establishment, the following documentation must be submitted, with the licensing request letter that must be addressed to the licensing authority of the area where the establishment is situated:

- Identification;
- Type of commercial activity;
- A sketch plan of the installation to be used for commercial activity;
- Public deed or government gazette accompanied by the respective commercial registration;
- Proof of commercial registration issued by the Ministry of Finance;
- Request for inspection.

In the case of foreign commercial licenses, all of the above applies as well as some additional requirements such as the 'opinion of the body responsible for the sector', a business visa or residence permit compatible with the activity requested, etc. (USAID, Mozambique Business Environment Assessment, 2004, appendix D).

The following table provides specific costs relating commercial licenses.

Table 8: Costs of commercial licenses and inspections[22]

Activity	Cities			Towns	Rural areas
	Group 1[23]	Group 2[24]	Group 3[25]		
Issuance of operating licenses per class (Meticals)					
Retail and wholesale	500000	400000	300000	150000	50000

[22] These figures are given in 'Old Family Meticais' (2004), before the rebasement of the exchange rate in 2006.
[23] Maputo, Matola, Beira, Nampula, Nacala.
[24] Pemba, Quelimane Tete Inhambane Maxixe, Xai-Xai Chimoio, Chokwé
[25] Lichinga, Other Cities.

commerce or wholesale only with import and export					
Service provision	1000000	750000	500000	100000	50000
Additions	2500000	1000000	750000	500000	200000
Wholesale and retail commerce	400000	300000	250000	100000	50000
Wholesale only	300000	250000	200000	1500000	750000
Retail or general commercial activity with or without export	250000	150000	100000	1000000	500000
Costs for inspections (METICALS)					
Hypermarkets, supermarkets, commercial centers, vehicle and parts Sales stands, video clubs including sale of household electrical items, wholesale and retail Sales with import and export, hardware, interior design, household and furnishing shops	2500000	1500000	1000000	750000	300000
Grocery, general store, bakeries, chilled food stores, domestic goods, fishmongers, florists, chemist, auction houses, discos, sales of seeds, plants and medicinal herbs, sporting goods, decorative items, fashion outlets, hairdressers, watch sellers, optometrists, drinking establishments, butchers, video clubs and service	1500000	1000000	750000	500000	200000
Tobacconists, perfume shops, photographers, cinemas, bread deposits, shoemakers, dressmakers, watch menders, repair of small electrical goods	1000000	750000	500000	300000	100000

Source: USAID, Mozambique Business Environment Assessment, 2004, appendix D, p. D-5.

Although we do not have comparable costs for SA, it is clear from the table above that the licensing costs are very high and similarly the costs of inspections. Also, some of the requirements e.g. the opinion of the sectoral body creates opportunities for bribes and corruption.

For industrial licenses, taxes are calculated according to a formula where a factor (as listed in the table above) is multiplied by the minimum wage. For big industrial firms this factor is 16, for medium firms 12, for small firms 7 and for micro firms it is equal to 1. Inspection costs are calculated in the same way, with a factor of 6 for large firms, 4 for medium and 2 for small firms. Inspection is not required for a micro firm[26].

b) Land

The table shows that Mozambique's ranking i.t.o. land access and land use is 126th, compared to SA (76th) and the SADC best (36th). According to the USAID publication 'Removing obstacles to economic growth in Mozambique' (2004:10):'Acquiring land for business start-up or expansion is one of the most difficult obstacles facing investors, especially for new projects. Land in Mozambique is officially state-owned and cannot be sold, transacted, mortgaged, or pledged as security. Although the state grants land-use rights to individuals for up to 50 years – renewable for another 50 years- land registration records either do not exist or are not readily accessible. This makes it very difficult for a prospective investor to ascertain whether land-use rights to a suitable parcel may be acquired'.

Obtaining a right to utilisation (usage title) from the state is a cumbersome process. The state will take into consideration the intended use, as well as rights obtained through inheritance or occupation unless the land is legally reserved or legally attributed to another person or entity. The approval of an application for usage title does not preclude the need to apply for other authorizations and licenses as required by the relevant legislation, depending on the activity to be undertaken. These licenses will have their own period of validity according to the legislation applicable in each sector, and such periods are independent of the period for which the usage title is conceded. After renewal of the initial title (100 years), a complete new request must be submitted.

There is also overlapping authority which can create endless problems for applicants. In areas covered by town plans, the mayor, village heads, and district administrator are all authorised to issue usage titles in their respective areas of competence.

[26] The latest data on minimum wages indicate a minimum wage of $88.75/ month for the Electricity sector, $93.80/ month for the Civil service and $79.00 per month for the Industrial sector.

According to a presentation on the 'Impact of the use of ICTs for local Governance in Mozambique' (June 2006), the process of concession of rights to use the land involves 22 ministries and other governmental institutions on the one hand, and relies on the participation of the local communities on the other hand.

There are two types of land rights ownership:

a) Through occupation – communities and individuals within themselves can secure occupancy rights based upon customary (non written forms) norms and practices as long as they are not contrary to the constitution.

b) Through formal authorization by the state – to obtain land right ownership title the applicant must follow a legally described process and procedures.

It is difficult to compare the costs of land usage titles in Mozambique to that of other SADC countries, as the process is very complex. Firstly, one has to obtain provisional authorisation which is valid for 5 years for nationals and 2 years for foreigners. This tax costs 600 000 Mt. But there are also process costs involved which include a location draft (200 000 Mt), Consultation fees, Community incentive (300 000 Mt), and an application form (10 000 Mt). The definitive authorisation costs 300 000 Mt. Then there are also annual taxes which are shown in the table below.

Table 9: Annual property taxes[27]

Purpose	Value
Cattle breeding, wildlife breeding, permanent crops	2 000 Mt/ha
Agriculture	15 000 Mt/ha
Other	30 000 Mt/ha
Tourism, temporary residential (holiday homes), commerce up to 1ha on the beach front	200 000 Mt/ha

The values in the table above are then calculated according to land location, size and use. E.g. if the location is Maputo a factor of 2 is applied, if the size is over 1 000 hectares, the factor is again 2, and if the purpose is community based associations, then the factor is 0.5.

It is therefore not possible to calculate an average value, but it is clear that the complexity of the system certainly adds to transaction costs in Mozambique, relative to SA where land

[27] These figures are given in 'Old Family Meticais' (2004), before the rebasement of the exchange rate in 2006.

rights and title deeds are well developed, property markets function well and prices are market determined.

As summarised by USAID (2004:13) in their publication 'Removing obstacles to economic growth in Mozambique': 'Procedures established under the Land Law are complex and time-consuming for investors. And the way the law is abused in application is an even greater problem…The government has to do more to create a market for land rights as an institutional cornerstone for stimulating investment, growth and job creation'.

4.3 Cost of capital

The following table shows that nominal and real interest rates in Mozambique are much higher than in SA. Mozambique's ranking in terms of the interest rate spread is also relatively weak. High interest rate spreads and high real interest rates are indicative of an underdeveloped banking sector where there is not enough competition. This was also noted by Bruce Bolnik in a paper on 'Financial Sector Constraints on Private sector development in Mozambique' (August 2005) in which he noted that the degree of concentration in the banking sector helps to explain the high profit margins, the large spread between deposit and lending rates, and the high banking fees in the system.

Table 10: Cost of capital

Cost of Capital		Mozambique	South Africa	SADC (Best)
Ranking	World (178)	97	26	26
Interest rates				
Nominal[28]	%/year	25	15.5	
Real[29]	%/year	15	1.9	
10-year government bond rate	%/ year	15.1	7.6	
Interest Rate Spread (Ranking)	World (132)	97	45	45
Private bureau coverage	%/adults	0.0	64.8	64.8

[28] Prime rate
[29] Calculated using the formula "real interest rate = nominal interest rate – CPIX (for South Africa)", where CPIX was used as a proxy for expected inflation.

According to the USAID document Removing obstacles to economic growth in Mozambique (2004:11): ‘The financial system has evolved considerably in the last decade, resulting in a substantial increase in the type and number of operating financial institutions. Nonetheless, problems with the financial system constrain private investment and export development. High real interest rates and access to credit made difficult by stiff collateral requirements discourage firms from forming or expanding and inhibit productivity gains. Competition in the banking system is limited, resulting in high-cost operations and very conservative banking practices’.

These factors will have to get special attention, as banking costs and the cost of capital are important aspects of transaction costs. It is understood that the government is pursuing programs to develop the financial sector, with donor support. Two examples of such programs are the Financial Sector Technical Assistance Program (FSTAP) and the Rural Finance Support Program (RFSP). This is essential as illustrated by the large literature on the link between financial development and growth. Mozambique will not be able to reach its full developmental potential if the financial sector is not mature and functioning well.

4.4 Energy costs

In the table below, comparative prices of electricity are provided (based on a study Hertzmark and Nathan Associates, June 2008; and by Core International for the Southern Africa Power Pool (SAPP), between July and September 2007).

Table 11: Comparative energy costs

Energy		Mozambique	SA	Lesotho	Zambia
Electricity	**Average value of electricity $/MWh**				
	Industrial	45-60	19-34	43	54
	Commercial[30]	120	75	91	77
	Residential	90	70	70	38-106
	Monthly costs ($/KWh[31])				
	Fixed rate	2.83			
	Up to 200 KWh	0.09848			

[30] Including small industrial facilities.
[31] General tariff

	Between 201 and 500 KWh	0.14064			
	Beyond 500 KWh	0.15388			
Fuel	**$/litre**				
	Petrol	1.66	1.25		
	Diesel	1.33	1.24		

The next two tables also show comparative data for Mozambique (2006 data)

Table 12: Prices for domestic consumption (in $US, 2006)

País / *Country*	Empresa/ *Company*	75 Kwh	200 Kwh	450 Kwh
Moçambique	EDM	$9	$19	$46
Malawi	ESCOM	$2	$6	$12
Tanzânia	TANESCO	$4	$16	$36
Swazilândia	SEB	$6	$15	$32
Zâmbia	ZESCO	$4	$7	$14
África do Sul	ESKOM	$5	$15	$35

Source: CASP X Discussion papers: 'Strategy towards the improvement of the business environment'.

Table 13: Energy prices for small businesses and services

País / *Country*	Empresa/ *Company*	450 Kwh	900 Kwh	2500 Kwh
Moçambique	EDM	$55	$119	$349
Malawi	ESCOM	$24	$46	$123
Tanzânia	TANESCO	$38	$74	$203
Swazilândia	SEB	$43	$84	$231
Zâmbia	ZESCO	$35	$61	$151
África do Sul	ESKOM	$40	$75	$152

Source: CASP X Discussion papers: 'Strategy towards the improvement of the business environment'.

In short, the tables show that electricity transaction costs put the country's industry at a distinct competitive disadvantage relative to South Africa, but not necessarily to the region.

According to a USAID publication (2004: 75): 'The cost of fuels and lubricants is extremely high and reduces competitiveness by increasing the cost of transport and national production'.

According to the Mozambican Estratégia para a Melhoria do Ambiente de Negócios (Strategy for Business Environment Improvement) approved in February 2008, energy prices in Mozambique are extremely high, in fact the highest in SADC, making it very costly for domestic consumption and most importantly for the SMEs, thus reducing their competitive advantage. However, the majority of the energy consumed in Mozambique is produced by the Cahora-Bassa Hydroelectric facility, known as one with the lowest production costs in the world.

One of the main reasons behind these high energy tariffs in Mozambique is the fact that energy is primarily produced in Mozambique and then exported to the Republic of South Africa for further processing. After that, it is imported back to Mozambique for consumption at (much) higher than initial costs of production, increasing transaction costs for the Mozambican industry. Mozambique exports (net) roughly 35% of its total generation, 10.5 TWh, mostly to South Africa and Zimbabwe (minor).

Another factor hindering the competitiveness of the Mozambican firms is the quality of the energy supplied. To be more precise, due to the obsolete stage of the energy transportation infrastructure caused by towers and cables sabotage, the country suffers from frequent outages. For instance, currently firms experience 60 outages a month on average. Consequently, industries cannot use continuous processes, often experience damages of electronic components, and have to incur additional costs of backup generation and power conditioning.

Additionally, Mozambique is a member of the Southern African Power Pool (SAPP) which has a total generating capacity of 54 GW. In the SAPP the largest electricity generator is South Africa (more than 36 GW), with Eskom's transmission system being a vital element in SAPP's commerce. Nevertheless, the current power supply crisis in the latter country and slow response from Eskom to tackle this problem has led to load shedding, voltage reductions and supply insecurity throughout the region. For instance, according to a study on Electricity Pricing Assessment for Mozambique (Hertzmark and Nathan Associates, 2008), prices for industrial customers in South Africa will need to move to US$ 0.08/KWh and higher within 2-3 years for Eskom to avoid catastrophic financial losses, with adverse implications for the region and particularly for Mozambique.

Equally important, the level of electricity tariffs in Mozambique favours the industrial sector, with the commercial (including small industrial facilities) and residential users paying higher tariffs. Notwithstanding this fact, in comparison to South Africa the Mozambican industrial sector experiences a higher burden, since while in the former economy the normal tariff is on average US$ 19-34 per MWh, in the latter these values more than double. Further, it is well known that separate transmission tariffs (i.e., distinctions according to voltage, power factor, etc.) promote efficiency and incentives for investment. In this respect, unlike South Africa, Mozambique has no separate charge for generation. Nonetheless, Zambian tariffs are more efficiency-promoting.

In addition, though Mozambique has a long coastline which favours bulk trade, limited transmission grid reduces possible locations for factories. For example, the Northern part of the country is virtually out of bounds for electricity-using industries. Further, in spite of being rich in natural gas, this natural resource is not adding significant value to the national economy.

In brief, average industrial tariffs and energy quality in Mozambique have put the country's industry at a distinct competitive disadvantage vis-à-vis South Africa, but not against other regional countries. Moreover, due to the power supply crisis in South Africa, its competitive advantage is about to disappear.

The following summarises the effect of the high industrial tariffs of Mozambique relative to SA:

Case study: Industrial firm electricity costs (June 2008)

Consider a firm with a demand for 1,152,000 kWh/month (load factor of 80%);

• In Mozambique an industrial customer will pay US$51,840- $69,120/month

• In South Africa an industrial customer will pay US$28,296 (low season) to $56,569 (high season)

- Weighted average monthly bill is US$35 365
- Savings over Mozambique is ~$US 16-24k per month
- South African firms enjoy a 32-49% cost advantage
- New tariff structure for Eskom should eliminate this differential

Source: USAID Presentation to CTA: Electricity Pricing Assessment for Mozambique Donald Hertzmark/ Nathan Associates. June 2008, Maputo.

In light of the aforementioned problems the government stated its strategic actions in the Estratégia para a Melhoria do Ambiente de Negócios (Strategy for Business Environment Improvement) approved in February 2008. These can be summarised as: improvement of the security system of the electricity supply infrastructure; rehabilitation and improvement of the electricity transportation system, chiefly in the areas of more industrial concentration (i.e., in industrial clusters); revision of the electricity tariffs; reduction of electricity costs for the SMEs; reduction of electricity tariffs in off-peak times; increase in the quality of the electricity supplied thus reducing the number of outages; revision of the legal framework of electricity supply in order to permit accountability/responsibility of the supplier; and finally, creation of electricity and fuel tariff distinction for productive and non-productive use.

4.5 Water

Table 14: Cost of water

Water		Mozambique	South Africa
Maputo and Matola cities	**($/month)**		
	Up to 50 m^3 (Industrial use)	35	34.9[32] 44.21[33]
	Tariff for Rent of Counter Meter/Valve (Diameter = 8")[34]	20.176	5.44[35]

Mozambique has a valuable source of fresh water that is however inefficiently used. First, the irrigation systems are utilised below capacity. Second, the canalisation of water for domestic and industrial use is mostly inefficient and with numerous interruptions. As a result, the economic agents have to invest in water conservation systems, hence increasing their production and transaction costs. So the rehabilitation of the main irrigation systems in the country and the improvement of the water canalisation system are important priorities to increase the country's competitiveness among SADC economies.

[32] Rand Water, bulk provision to mines
[33] Rand Water, bulk provision to Sasol Synfuels (representative industrial user)
[34] Highest possible.
[35] Rand Water, service charge per valve of 200 mm (= 8'') {$16 per valve of 1000mm/39.37 inches = highest possible}

4.6 Labour costs

The following table shows that Mozambique has a relative disadvantage in terms of its ranking and especially the firing costs relative to SA. It has however, a much lower minimum wage than SA, which is probably also a reflection of its largely unskilled work force.

Table 15: Labour costs

Labour		Mozambique	South Africa	SADC (Best)
Ranking[36]	World (126)	162	39	39
Costs (Minimum wage)	$/month	80	250	250
Firing costs	Weeks	134[37]	24	24

Before the recent reform of the labour law, the USAID publication 'Removing obstacles to economic growth in Mozambique' (2004:10) described the Mozambican labour law as inefficient: 'Mozambique's labour laws do not accord with international norms and seriously impede job creation in the private sector. Mozambique has a more highly regulated job market than nine of the ten most regulated countries in the world. Worker retrenchment is especially difficult. A general revision of the Labour Law is needed to make it more flexible and transparent, and therefore easier to obey and administer. Requirements for worker dismissal notices and severance pay should be brought into accord with international standards'.

Mozambique has subsequently embarked on an extensive process of labour law reform. The latest version that we have seen of the proposed new labour law is 11 May 2007. Proposals from business regarding the new labour dispensation emphasised that it should not be a piece-meal amendment of some aspects, but a full overhaul of the old system. The aim should be to revise three dimensions: flexibility, complexity and ambiguity. It was also stressed that foreigners should be seen as necessary to provide support and job creation for the national labour market, rather than as a threat to the national labour force.

4.1.7 Transport costs

The next table gives an overview of comparative transport costs.

Table 16: Transport costs

[36] Based in firing costs.
[37] This is for an employee that works for a company for 20 years.

Transport		Mozambique		South Africa		
Railway cargo						
National	**$**	**Full container**	**Empty container**			
	Maputo – R. Garcia (88 Km)	59.87	25.33	JNB/Pretoria to Durban	404.67	
	Maputo – Goba (74 Km)	51.33	35.47	Middleburg to Durban	786.67	
	Maputo – Chicualacuala (534 Km)	324	142	Nelspruit to Durban	933.33	
International	**$**					
	JNB/Pretoria to Maputo[38]	357.2		357.2		
	Middleburg to Maputo	345.07		345.07		
	Nelspruit to Maputo	209.07		209.07		
Air transport						
National (Cargo)	**Maputo/Beira ($/Kg)[39]**					
	Up to 5Kg[40]	12				
	Between 6kg and 45Kg	1.12				
	More than 45Kg	0.748				
	More than 100Kg	0.56				
	More than 250Kg	0.504				
	Johannesburg/Durban ($/Kg)					
National (Passengers)	**Maputo/Beira ($)[41]**	128				
	Johannesburg/Durban ($)			90[42]		
International (Cargo)	**Maputo/Lisbon ($/Kg)[43]**					
	Up to 5Kg[44]	48				

[38] Cross-border railway cargo with same values for Mozambique and South Africa Intentionally.
[39] This refers to the National Air Company (Linhas Aéreas de Moçambique).
[40] This price is not per kg; VAT excluded here and below.
[41] This refers to the National Air Company (Linhas Aéreas de Moçambique).
[42] One way low price fare on www.flysaa.com
[43] No data for Maputo/London. Lisbon as only European city. This refers to the National Air Company (Linhas Aéreas de Moçambique).

	Between 6kg and 45Kg	3.12			
	More than 100Kg	2.36			
	Johannesburg/London ($/Kg)				
International (Passengers)	**Maputo/London ($)**				
	Johannesburg/London ($)				
Marine (Cargo)					
National	**Maputo/Nacala ($/tonne)**				
	Durban/PE/C. Town ($/tonne)				
International [45]	**Main Asian Ports**				
	Hong Kong to	**$/ (1x20') Container**	**$/ (1x40') Container**		
	Maputo	2,950	5,300		
	Beira	2,950	n.a.		
	Nacala	2,950	n.a		
	Singapore to	**$/ (1x20') Container**	**$/ (1x40') Container**		
	Maputo/Beira	2,750	2,750		
	Nacala	4,900	4,900		
	Busan to	**$/ (1x20') Container**	**$/ (1x40') Container**		
	Maputo/Beira	3,050	5,500		
	Nacala	3,050	5,500		
	Bangkok to	**$/ (1x20') Container**	**$/ (1x40') Container**		
	Maputo/Beira	2,950	2,950		

[44] This price is not per kg.
[45] 2006 prices for freight from all ports but Durban (MOGARGO – Empresa Moçambicana de Cargas)

	Nacala	5,300	5,300		
	Jakarta to	$/ (1x20') Container	$/ (1x40') Container		
	Maputo/Beira	2,850	2,850		
	Nacala	5,100	5,100		
	Shangai to	$/ (1x20') Container	$/ (1x40') Container		
	Maputo/Beira	3,200	3,200		
	Nacala	5,800	5,800		
	Port Kelang to	$/ (1x20') Container	$/ (1x40') Container		
	Maputo/Beira	3,200	3,200		
	Nacala	5,800	5,800		
	China Ports	$/ (1x20') Container	$/ (1x40') Container		
	Fuzhou to Maputo/Beira/Nacala	3,300	6,000		
	Xiamen to Maputo/Beira/Nacala	3,200	5,800		
	Main European, Brazilian and South African Ports				
	Leixões and Lisbon to	$/ (1x20') Container	$/ (1x40') Container		
	Maputo/Beira	2,450	4,475		
	Nacala	2,950	5,200		
	Valencia to	$/ (1x20') Container	$/ (1x40') Container		

	Maputo/Beira	2,450	4,250		
	Nacala	2,950	5,250		
	Tilbury & NWC Ports to	**$/ (1x20') Container**	**$/ (1x40') Container**		
	Maputo/Beira	2,700	4,800		
	Nacala	3,100	5,550		
	Durban to[46]	**$/ (1x20') Container**	**$/ (1x40') Container**		
	Maputo	1,050	2,100		
	Beira	1,100	2,200		
	Nacala	1,250	2,250		

Transport costs will not be dealt with further at this stage, but will be discussed in detail below. However, it is worth noting at least at this stage that the Mozambican economic is characterised by high transport costs. An example is the cost of moving a 24-ton container by truck from Maputo to Pemba, which is $7 000. This is 2 ½ times the cost of shipping it from Dubai or China ($2 550)[47]. In order to address these high transport costs, there is ongoing investments in infrastructure, especially in roads and ports.

4.8 Telecommunication costs

The following table gives an indication of telecommunications costs in Mozambique.

Table 17: Telecommunications costs

Telecommunications		**Mozambique**		**South Africa**
Fixed line	**Domestically ($/min)**	0.12		
	SADC	**Initial 3 minutes ($)**	**($/per additional min)**	
		0.984	0.328	
	Europe and USA	1.056	0.352	
Metering Period	**Seconds**			35.5[48]

[46] 2002 prices (MOCARGO).
[47] La Fleur, J. & Patel, K. (2007) 'Trade Facilitation: Facilitation Trade for enhanced competitiveness in commonwealth countries – Mozambique.
[48] All distances.

Cost per metering period				R0.500[49]	
Mobile		**Vodacom Mozambique[50]**		**Vodacom South Africa[51]**	
	Monthly subscription ($)	67,4		85.33[52] (106.67[53])	
	Domestic calls ($/min)	**Off-peak**	**Peak**	**Off-peak**	**Peak**
	Vodacom to Vodacom	0.1296	0.1584	0.12	0.1906
	Vodacom to other mobile networks	0.2616	0.312	0.1533	0.2466
	Vodacom to fixed	0.1608	0.2688	0.12	0.1533
	International calls ($/min)	**Off-peak**	**Peak**	**Off-peak**	**Peak**
	South Africa (Vodacom)	0.4704	0.4704	-	-
	SADC, UK & US ($/min)	0.5304	0.5304	0.17	0.3213
	Europe ($/min)	1.0632	1.0632	0.17	0.3213
	SMS[54] (domestic)	0.045	0.045	0.0467	0.1133
	SMS (international)	0.1236	0.1236	0.232	0.232
	Data[55] ($/Mb)	0.2698	0.2698	0.2667	0.2667
ADSL	**$/month**				
	128kb/s[56]	35.96		19.87	

[49] Payphone unit charge (Telkom).
[50] Pro 400s package (includes 400 anytime minutes per month on a per second basis), representing the highest possible package for a user on a Vodacom Mozambique contract.
[51] Talk 500s package (includes 500 anytime minutes per month on a per second basis), representing the highest possible package for a user on a Vodacom South Africa contract.
[52] Equivalent monthly payment for 400 anytime minutes per month package based on 80% of Talk 500s monthly subscription fee.
[53] Full monthly subscription for Talk 500s package.
[54] SMS rates are for "out of bundle" SMS's. Pro 400s package (Mozambique) includes 50 free SMS's per month. Talk 500s (South Africa) package includes 100 free SMS's per month.
[55] Pro 400s package (Mozambique) includes 20 Mb's per month; Talk 500s package (South Africa)
[56] Values for Telecomunicações de Moçambique (Mozambique) and Telkom (South Africa)

In general, when considering telecommunications prices relative to SA, it seems that Mozambique compares fairly well with South African costs. Mozambique began liberalizing its telecom sector in 1992. However, it seems that regulatory reform and liberalisation continue to be marred by delays, changes in course and lack of focus and commitment.

Telecommunicacoes de Moçambique (TDM) covers 60% of the country and has approximately 75,000 subscribers and enjoys a temporary franchised monopoly on the provision of telephone services via copper-based technology. As far as mobile services are concerned, mCel, the wholly owned subsidiary of TDM has invested +US$150 million and continues to add base stations and signal presence. It connects its switching centers using the TDM backbone and VSAT links and has +700,000 subscribers. Vodcom competes with mCel and TDM for favourable interconnection rates in proceedings at the INCM. It has +250,000 subscribers, is currently building its own backbone linking some sites and currently uses one switching centre in Maputo.

The table above shows that internet costs $ 35.96 per month in Mozambique compared to the Telkom price of R79.00 per month. Data from an article by Chris Morris 'a comparative study of eAdoption activities in South Africa and Mozambique (2006) show that internet costs in Mozambique for 20 hours of use per month in 2003 were $51 compared to $33 in South Africa. However, at that stage fees in South Africa were up to 400% higher than the cost of similar services in 13 comparable countries

The provision of e-mail and internet services in Mozambique was initiated by the Eduardo Mondlane University Informatics Centre (CIUEM) in 1993. In 2006 there were around 10- 12 active ISPs in the country and an estimated number of 3 internet users per 1000 people while in SA there were 33 internet users per 1000 people.

According to Morris (2006): 'In terms of global ranking [14] Mozambique scores lower in terms of e-readiness (96) compared to South Africa (34). South Africa has the advantage of well established telecommunications and electricity infrastructure in urban areas but both countries face similar infrastructure challenges in rural areas'.

In order to address this backlog, the government of Mozambique approved, in December 2000, an ICT Policy and in June 2002 the cabinet approved the ICT Policy Implementation Strategy. The ICT Policy defines the priorities areas for future actions, namely education, human resource development, health, infrastructure, universal access and governance. The

ICT Policy Implementation Strategy has as the main aim to translate the ICT Policy objectives into a tangible reality.

Some of the objectives of the Mozambiquan Universal Access Policy are to extend the fibre and microwave backbone, which today reaches only half of the provincial capitals and a minority of district centres and to provide telecentres with internet access in all district centres.

The provision of Internet based services by Mozambiquan banks, resulted in the urgent requirement to establish rules and legal instruments (e-legislation) to improve the legal certainty and security of on-line business transactions (both e-government and e-commerce) and on-line activities in general. Thus, in 2005 the government has started drafting the Mozambican eLegislation, which will create the required legal certainty for the occurrence of e-business, e-commerce, and e-government transactions (Morris, 2006).

4.9 Taxes

The next table shows the ranking of Mozambique in terms of tax rates relative to SA and SADC best.

Table 18: Taxes

Taxes		Mozambique	South Africa	SADC (Best)
Ranking[57]	World (178)	43	62	6
Corporate Income taxes	Max %	32	29	21.7[58]
Personal Income Taxes	Max %	32	29	
VAT	Max %	17	14	
Costs	% of profits	34.3	37.1	16.1[59]
Time	Hours/year	230	350	76[60]
Number	Payments	37	11	7[61]

[57] Based on Costs (% of profits).
[58] Mauritius
[59] Zambia.
[60] Seychelles.
[61] Mauritius.

According to the USAID document, Removing obstacles to economic growth in Mozambique (2004:11):'Mozambique's tax system has undergone major reform in the last decade. The government simplified the tax system, broadened the tax base, and replaced a cascading turnover tax with a 17 percent value added tax (VAT). Nonetheless, the statutory marginal effective tax rate (METR) on businesses that do not obtain special fiscal benefits is higher than the average for countries in the Southern African Development Community (SADC)'. And later in the document: 'Special fiscal incentives make the country a highly competitive location for new investors. But the combination of relatively standard high tax rates with generous special incentives creates inequities, reduces efficiency, and complicates tax administration'.

According to Bolnick (2006)[62], The Mozambican government has been pursuing a comprehensive tax reform program to modernize and strengthen the tax system. Bolnick reports that: 'In Mozambique, the principle source of domestic revenue, as estimated in the 2004 budget, is the value added tax (39% of revenue), income taxes (22%), and other taxes on international trade (14%). Excise and petroleum taxes, combined, account for another 18% of domestic revenue. Over the past five years, the ratio of tax revenue to GDP has gradually increased from 11.1% in 1999 to 13.7% (projected) in 2004'. Some of the reforms that were implemented were (Bolnick, 2006):

- 'Replacing a distortionary turnover tax with a 17% value added tax (VAT) in 1999;
- Restructuring the excise tax which currently applies to over 140 specific products at rates between 15 to 65%;
- The introduction of two new income tax codes, a company tax with a basic rate of 32% and an individual tax with marginal tax rates ranging from 10-32% in 2002;
- The reduction of import duties with standard tariff rates which range from 0% on designated basic goods, to 25% on consumer goods. The standard tariff on intermediate goods is 7.5%, 5% on capital goods and fuel and 2.5% on raw materials;
- Adopting reforms for fuel tax, the stamp tax and municipal levies;
- Introducing Unique Taxpayer Identification Numbers, enacting a new decree on tax penalties, restructuring the tax department and establishing a legal framework for the establishment of a central revenue authority'.

In terms of comparisons with other countries, the VAT rate of 17% is slightly above the regional average. However (as stated by Bolnick (2006)): '…for imported goods, VAT plus

[62] Tax reform and business environment in Mozambique

duty equals an effective tax rate of 46.25% for goods subject to excise tax. The picture is similar for corporate tax. The basic rate of 32% equals the SADC average, but the combined burden of company tax plus tax on dividends makes it the highest in SADC. The Marginal Effective Tax Rate (METR), a measure of the extent to which the tax system overall reduces returns of investment ranges from 48-56% for investment projects. This large "tax wedge" would deter investors. For individual income tax, the top rate of 32% is in line with international norms'.

It seems therefore that the tax reforms have helped to bring Mozambique in line with its regional counterparts, although there has been criticism from business that the tax system is too complex for conditions in Mozambique (see Bolnick, 2006).

4.10 International Trade

The table below gives an overview of export and import comparisons.

Table 19: International Trade

International Trade		Mozambique	South Africa	SADC (Best)
Ranking	World (181)[63]	98 – 116	127 – 133	12 - 22
Export	**Costs**			
	$/Container	1,200	1,445	725[64]
	Documents (Number)	8	8	5
	Time (days)	26	30	17
Import	**Costs**			
	$/Container	1,475	1,721	677[65]
	Documents (Number)	10	9	6
	Time (days)	32	35	16

Mozambique has reformed its international trade system by lowering import duties, lowering the maximum tariff and improving customs administration. Mozambique has eliminated specific tariffs in favour of ad valorem duties. Yet, although Mozambique has managed to improve its international trade regime, the table shows that it still takes on average 26 days to export a container (after the agreement has been made and the bill of credit been signed by

[63] Based on cost of exports and imports.
[64] Mauritius.
[65] Mauritius.

both parties) and an average of 32 days to import a container. Interestingly these times are shorter than comparable periods in SA, but substantially longer than those in Mauritius (SADC best). The cost per container is also cheaper in Mozambique compared to SA (both for exports and imports), but again much more expensive than in Mauritius.

Much of Mozambique's recent successes in economic growth have been export-driven. Since the early 1990s, exports have grown by 10 percent annually.

Another issue that seems to delay imports and exports is the high rate of inspection of both export and import shipments. It is reported that this rate is as high as between 70% and 80%[66].

During 2006 a concession for the use of modern scanning technology of shipments was granted to a private company, Kudumba. There was a large protest against the high scanning fees. The main criticism was that the high charges will divert traffic from Mozambican ports thereby reducing international trade and foreign investment. A recent study on port scanning fees[67] referred to twenty ports in sixteen countries where container security fees are charged. These ranged from $1.50 to $US19 per TEU[68]. SA does not charge inspection fees. Mozambique on the other hand charges very high fees:

- Import containers $100 per TEU;
- Export containers $ 70 per TEU;
- Empty containers $ 20 per TEU;
- Transit containers $ 45 per TEU;
- Vehicles $ 65 per unit;
- Bulk cargo $ 0.25 to $1.90 per ton.

Fees are levied on 100% of the shipments, including empty containers and bulk cargo, irrespective of whether the shipment is inspected. This is not in line with international standard implementation of scanning fees.

Port scanning fees: World Bank research

- 1% increase in transportation costs – 2.4% decline in merchandise trade;
- Shipments from Mozambique to US or EU - $100= increase of 5%;
- Could reduce trade by more than 10%.

[66] La Fleur, J. & Patel, K. (2007) 'Trade Facilitation: Facilitation Trade for enhanced competitiveness in commonwealth countries – Mozambique.

[67] Nathan Associates (2007) 'Briefing Note: The economic costs of port scanning fees in Mozambique'.

[68] TEU=Twenty-foot equivalent unit. This is a standard measure of container traffic.

Source: Nathan Associates (2007) 'Briefing Note: The economic costs of port scanning fees in Mozambique'

4.11 Starting a business

The table below shows the transaction costs in terms of starting a business.

Table 20: Starting a business

Starting a business		Mozambique	South Africa	SADC (Best)
Ranking	**World (181)**	132	52	27
Procedures[69]	**Number**	10	6	5[70]
Duration[71]	**Time (days)**	26	22	7
Minimum Capital	**% of Gross National Income per capita**	122.5	0	0

The table above shows that it takes an average of 26 days per procedure to start a business in Mozambique (with 10 procedures), compared to 22 days per procedure in SA (with 6 procedures). In Madagascar (SADC best) it takes only 7 days for 5 procedures. In Mozambique a new company is therefore looking at a total of 260 days to start a business

In the USAID document (2004) 'Removing obstacles to economic growth in Mozambique', the authors comment on the long time it takes to start a business in Mozambique as follows: 'This is very time consuming, even in comparison to other heavily regulated sub-Saharan African countries…New firms entering the market help drive exports, growth, and job creation. To facilitate such growth, barriers to entry must be simplified or reduced. In particular, this requires streamlining company registration procedures, reducing the burden of excessive official inspections, and sharing information about regulations and procedures more effectively with the public, and among pertinent agencies (e.g. Investment Promotion Centre, Notary Office, Public Commercial Registry)' (2004:10).

[69] All procedures required to register a firm.
[70] Madagascar.
[71] Average time spent during each procedure.

Another source of data, is a paper delivered at the 10th CASP by the Ministerio da Industria e Comercio, with the title 'Strategy towards the improvement of the business environment'. The data show that there has been quite some improvement in the number of days required to establish a company, as well as in the number of procedures. This is shown in the table below.

Table 21: Time for establishment and registration of companies.

Year	Number of days	Number of procedures
2004	**540**	**18**
2005	**153**	**14**
2006	**153**	**14**
2007	**113**	**13**

Source: Ministerio da Industria e Comercio (2007) 'Strategy towards the improvement of the business environment'. 10th CASP

Mozambique has therefore made some improvements, but will need to do more to compete with its SADC neighbours.

SECTION 4: SECTOR SPECIFIC ANALYSES

Having discussed the main components of transaction costs in Mozambique, this section proceeds with an application of the analysis of transaction costs to three specific dimensions of the Mozambican economy. The areas that were chosen for a deeper analysis are transport, agriculture and tourism. The reason being that document after document that have been examined emphasise the potential of the agricultural and tourism sectors. This does not mean that other sectors like commerce, manufacturing, banking etc are not important, but in what follows the focus will fall on the three aspect identified.

In a 2004 USAID publication, Removing obstacles to economic growth in Mozambique, the following was stated in terms of the potential of transport, agriculture and tourism: 'Mozambique's location is ideal for rapid growth as a regional transportation hub and a tourist destination; it has enormous expanses of arable land, nearly five times the amount now being farmed; and its labour resources are underused in rural areas and cities'.

5.1 Transport

a) General overview

Roads

The Official SADC Trade, Industry and Investment Review 2007/2008 describes Mozambique as strategically located in the region with a long tradition in rendering transport and logistical services to the business community not only in Mozambique but also in the northern and eastern regions of Botswana, South Africa, Swaziland, Zambia and Zimbabwe. The connection to the neighbouring countries was always accorded priority, to the detriment of internal links, especially in the rural areas. The northern part of the country is particularly affected, while the west-east connections are generally better than the north-south connections. However, more recently Mozambique has embarked on programs to improve major north-south highways.

In the USAID publication 'Removing obstacles to economic growth in Mozambique (December 2004:9), three main impediments to Mozambican exports are cited, of which one is 'weaknesses in the transport infrastructure and in border crossing procedures that raise transport and transaction costs, rendering Mozambican products uncompetitive in global markets'.

The government of Mozambique has developed a strategy for regional integration into SADC called the Estratégia de Moçambique para o processo de integração regional na SADC. This policy notes that in 2005 only 52% of the roads were in good and reasonable conditions, therefore being a trade barrier within the economy and between it and the hinterland. In this respect the government plans to promote a permanent high quality system of main roads; to synchronise roads construction and rehabilitation with their necessity with respect to the transport of raw materials to the industry, to the transport of the final goods to the markets, and to the evolution of tourism.

Harbours and Rail

Mozambique's three main ports, at Maputo, Beira and Nacala, form the hubs of the transport system. The port of Maputo serves South Africa, Swaziland and Zimbabwe, while the ports of Beira and Nacala handle cargo from Malawi, Zambia, Zimbabwe, and occasionally from Botswana and the Democratic Republic of Congo. All of the ports have container facilities.

Apart from upgrading important highways, railways and highways in east-west corridors are being improved; and privatisation of the Ports of Maputo, Beira and Nacala has significantly improved port operations. The principal railway lines run from Maputo to South Africa, Beira to Zimbabwe, and Nacala to Malawi, covering a distance of 3,123 kilometres.

The plans for harbours and rail under the 'Estratégia de Moçambique para o processo de integração regional na SADC' notes that the main Mozambican ports serve mainly the hinterland countries. Firstly, the Port of Maputo serves the Republic of South Africa, Zimbabwe, Zambia, and the Democratic Republic of Congo. Secondly, the Port of Beira serves Zimbabwe, Zambia, and the Democratic Republic of Congo. Finally, the Port of Nacala serves Malawi. By 2005 only 65% of the main ports' capacities were in use. This warranted a reduction of port tariffs and of the number of days cargo stays at the ports.

The railway system mainly connects the hinterland countries to the main national ports. In other words, it does not serve much the domestic economy. For instance, 52% of commodities' traffic is in relation to South Africa. However, only 62% of the overall number of lines is in use. As a result, potentially domestic productive zones are thus alternatively served by an inefficient road transportation system. In brief, ports and railway development would reduce transport inefficiencies within the country and between the economy and the hinterland.

In this matter, the government plans to promote investments that increase the efficiency and security of the national railway system. In addition, it plans to develop and expand the railway transport system thus making it the main form of transportation. Further, it aims to increase the connectivity of the regional transport network. Finally, the government wants to increase the supply at lower costs of cabotage (navigation along the country's coast) services.

Air

The market for airways was liberalized, thus increasing competition and reducing costs. Air traffic had a growth rate of 238.2 percent in 2004, owing to the opening of new entry points to the country, the implementation of the new civil aviation policy, the streamlining of the licensing and aircraft entry procedures, the increase of tourist activities and traffic related to international events.

Scheduled services on main routes are provided by the State airline Linhas Aéreas de Moçambique (LAM). Scheduled services to internal destinations not served by LAM are provided by several private charter airlines. There are an estimated 158 airports in Mozambique of which 22 have paved runways.

Transport Corridors

The Maputo transport and development corridor project was conceived by the governments of Mozambique and South Africa as a private sector-led initiative to improve transport and infrastructure and to generate 'development spin-offs' along road and rail routes shared by the two countries. The improved railway line and new toll road links South Africa's Gauteng and Mpumalanga provinces with the port of Maputo. In mid-1996 the two governments agreed to put up 10 percent of the funding for the corridor, with the rest to be provided by private investors who would invest in and operate the road, rail and port infrastructure. Trans-African Concessions (TRAC), a French-led international consortium, won the contract for the Maputo-Gauteng toll road to build and operate the road for a 30-year period before handing it over to the State. The toll road opened for traffic in 2000. The last toll plaza opened in January 2001.

Several other potential transport and development corridors are envisaged, including the expansion of the Beira and Nacala corridors and a Maputaland tourism corridor running south from Maputo to Ponta do Ouro and northern KwaZulu-Natal in South Africa.

b) Transaction costs

According to the USAID publication ‘Removing obstacles to economic growth in Mozambique (December 2004:18), transport costs have been lowered on some international routes, but remain ‘excessively high’ on other critical trade routes. They cite examples (2004 data) of road transport from Maputo to Lusaka that averages $0.021 per ton-km, whereas road transport from Beira to Lusaka is nearly seven times higher at $0.139 per ton-km. Furthermore, they state that the price per container through the Ncala Corridor is four times more expensive than transport of a container from Maputo to Harare and twice as expensive as the Beira Corridor. They explain that this is related to the duration of the trip and the state of the railway infrastructure and availability of rolling stock. According to them, rail cargo sometimes takes 14-20 days from Nacala to Blantyre because of congestion, derailments, equipment failures, and administrative confusion. They find therefore that the average cost of railway transport in Mozambique is more than $0.05 per ton-km, which is about double the international norm of $0.025 per ton-km.

c) Sector specific issues

Although money has been invested in upgrading of roads, rail and ports, according to the USAID publication 'Removing obstacles to economic growth in Mozambique (December 2004:18), the following problems remain: inadequate rail networks, road infrastructure, rural economy that is not yet integrated into the main transport infrastructure, handling and storage facilities at ports that are in short supply, poorly organised freight forwarding sector, etc.

Interviews were conducted during October 2008 with representatives from various business sectors and the following are some of the issues that were identified by them as posing specific challenges in the transport sector.

Issues in the Transport sector identified during interviews (October 2008)

- Delays and discretion at customs
- Inappropriate weighbridge facilities
- Delays in the returns of value added tax paid on inputs
- Labour law and its relation to skilled workforce
- Lack of skills, especially with regards to skilled drivers

According to the USAID document (2004) Removing obstacles to economic growth in Mozambique, the following should be done to improve transportation logistics. Government should improve the regulatory framework in transport logistics. This implies that the Ministry of Transport and Communications should elaborate new transport legislation. Transport infrastructure should be further developed and public-private partnerships should be stimulated. Government should pursue a policy of concessioning of transport infrastructure and privatisation of transport, handling and storage operations.

d) Government programmes – Transport policy

Apart from the satisfaction of the basic necessities of movement for the population, the transport system is essential for the economy since it connects input sources with production centres, and the latter with the markets, therefore integrating the economy at the national and regional levels.

Government policy in Mozambique recognises the importance of the private sector in the creation and rehabilitation of the infrastructures, in partial or total management (by contract or concession) of ports, railways and airports, and finally in the exploitation of airways and naval firms. Further, the role of government is focused in the definition of policies and promotion of an enabling environment for the development of the private sector.

The objectives of the Transport Policy can be summarised by the following points: First, incentivise and improve the road and ground, railway, airway, and nautical transportation systems, in order to facilitate domestic and international trade. Second, reactivate, improve, and prioritise the passenger transportation system. Third, increase the conditions, the means and the infrastructures for a better merchandise circulation, with special focus to cabotage services (coastal navigation). Fourth, transform the Nacala, Beira and Maputo corridors in national development poles. Fifth, develop the port and railway infrastructures, chiefly in the industrial zones. And finally, increase the private sector participation in all means of transportation.

To achieve the aforementioned objectives the government prioritises investments in these sectors. In other words, for the railway transportation system, the government prioritises the rehabilitation of the infrastructures of the Maputo, Beira and Nacala corridors. Apart from these corridors, it prioritises the rehabilitation of the Sena, Cuamba-Lichinga, and Quelimane-Mocuba lines. Finally, it plans to rehabilitate the complementary infrastructures to the ones mentioned above.

Regarding the ports, the government prioritises the rehabilitation of the main infrastructures and equipments of the primary, secondary and tertiary ports, thus improving their efficiency and dynamism. With respect to naval transportation, it prioritises the investment in the rehabilitation and conservation of the equipments for navigation support. Moreover, it prioritises the investment in more secure sea navigation. Relating to the road and ground transportation system the government planned to invest in the expansion of the public transportation in the three main cities, Maputo, Beira and Nampula. Furthermore, it planned to acquire buses for public transportation in the urban centres where the private sector services are not adequately supplied, therefore complementing the market operation.

With regard to the civil air navigation, the government investment focus is on the improvement of the security by rehabilitating and increasing the maintenance of the equipments for navigation support and communications. Additionally, the government prioritises the rehabilitation of the aerodromes of Ponta de Ouro, Inhambane and Vilanculos.

5.2 Agriculture

a) General overview

With an estimated 36 million hectares of arable land, Mozambique offers a lot of potential in terms of agricultural production. Add to this the fact that only between 10 and 15 percent of this is currently in productive use and it is easy to see why many still view the agricultural sector as key to Mozambique's future growth.[72] Even the contemporary importance of the agricultural sector is easy to see from its contribution to both GDP and employment. The sector is estimated to employ 80% of Mozambique's workforce and has accounted for on average above 20% of GDP over the last few years. Agriculture is also responsible for a third of the country's exports (excluding exports from the Mozal aluminium project).[73] It is also estimated that value added in the agricultural sector grew by an average annual rate of 5.7 percent between 1996 and 2006, reaching a level of 7.7 percent in the last five years. The early growth in value added was driven predominantly by the resettlement of families that had been displaced during the war.

Diversity of soil types and climatic conditions imply that available land is suitable for a large variety of crops. Most of the agriculture practised in Mozambique is non-irrigated. However, Mozambique's network of more than 60 rivers has allowed for the construction of irrigation schemes. Total potential irrigated area is estimated at 3.3 million hectares. The main irrigation systems are at Chokwe and the sugar plantations in Incomati, Maragra, Buzi, Mafambisse and Luambo, covering a total of some 59,000 hectares. The Zambezi Valley has great investment potential in the agricultural sector offering both excellent arable land and readily available irrigation. To assist the development of this area, the government set up the Zambezi Planning Office in 1997 to promote and coordinate social and economic development. Special tax incentives were also offered[74].

At present the agricultural sector is still dominated by the family sub-sector which accounts for 90 percent of the cultivated areas and includes 2.5 million households. This sub-sector relies on rain-fed farming and has very basic techniques resulting in low yields. The remaining arable land is cultivated by large commercial farms that concentrate on cash and export crops[75].

In 1996 the Mozambican government launched an ambitious commercial agriculture joint venture between South African farmers and Mozambique (MOZAGRIUS, coordinated by the Ministry of Agriculture and Rural Development), a broadly successful scheme to attract farmers from South Africa to the largest and most fertile northern province of Niassa. Farmers

[72] The Official SADC Trade, Industry and Investment Review 2007/2008: 169-181 at 177.
[73] Nathan Associates (2004) Removing obstacles to economic growth in Mozambique: A diagnostic trade integration study: 1 – 40 at 32.
[74] The Official SADC Trade, Industry and Investment Review 2007/2008: 169-181 at 177.
[75] The Official SADC Trade, Industry and Investment Review 2007/2008: 169-181 at 177.

participating in the scheme have already settled in Niassa. There is also an influx of farmers from Zimbabwe who have settled in the Manica province.

Livestock Production[76]

Mozambique has good climatic and land conditions for the development of livestock. The rearing of cattle, pigs, goats, rabbits and poultry has great potential as the existing supply does not meet domestic demand, with significant volumes of meat, poultry and dairy products currently being imported, mainly from South Africa and Europe.

The impact of drought, which worsened in the second half of 2005, affected cattle and goat herd breeding reducing the sector's growth to 0.7 percent during the year compared to the 5.1 percent growth recorded in 2004.

Fisheries

The fisheries sector is a major source of foreign exchange earnings, accounting for around 2 percent of GDP in 2004. The sector recorded negative rates in 2004 (a reduction of 8 percent in relation to 2003) due to unfavourable climatic conditions. The country has a potential catch of fish and shellfish of some 300,000 tonnes a year. The sector has both industrial and small-scale fisheries and employs up to 100,000 people, 90 percent of whom are artisanal fishermen or involved in fish processing and marketing activities.

The Mozambican fishing fleet is limited, although there are a number of direct licensing schemes and joint venture companies with Japanese, Spanish, Portuguese and South African fishing firms. Prawns and shrimp are harvested mainly by these companies. Activities undertaken towards the industrialisation of the sector have resulted in a rise of industrial fisheries, with particular reference to lobster (100 percent), squid and octopus (175 percent), Kapenta (67.6 percent), crayfish (20 percent), and squid and octopus (73.5 percent).

The main export species include crayfish, shrimp, and langoustine. Mozambique exports primarily raw fish. The government strategy is to promote the value-added in this sector and it

[76] Specifics of livestock production, fisheries and forestry are taken predominantly from the Official SADC Trade, Industry and Investment Review 2007/2008.

thus welcomes foreign investors who can provide semi-industrial shrimp vessels as well as installations of processing plants and fishing infrastructure.

Aquaculture in Mozambique is in its infancy and its future development is a top priority for the government, especially of shrimp aquaculture. The first major foreign investment came from the French firm Aquamar, Lda. The value of prawn exports decreased by US$20.9 million in 2005, due to weak capture as a result of lesser availability and the competitiveness of Chinese prawns in the American market, which being produced in an aquaculture regime are traded at prices almost half of those applied for prawns captured in the sea.

Forestry

Mozambique has an estimated 19 million hectares of productive woodland. Tropical hardwoods are the most valuable products, although pine and eucalyptus plantations also exist. The more important species include umbila, jambirre, chanfuta and African sandalwood. The country's logging capacity is estimated at around 500,000 cubic metres per year. Current off-take is well below this level. Apart from the natural forests, there is potential for the development of plantation forests with around one million hectares of land with suitable conditions available. The natural potential of the sector, coupled with the present under-development, offers a wide range of opportunities for investors to meet expanding local and international demand for timber, construction materials, furniture, and pulp for the paper industry.

b) Sector specific issues

Previous reports covering transaction costs in the agricultural sector (e.g. Nathan Associates, 2004 & 2008) identified a number of transactional cost issues that had a particular impact on the agricultural sector in Mozambique. Identified issues included the system used to administrate land use (DUAT), a lack of available finance, insufficient or low quality infrastructure investment (and the maintenance of this infrastructure), difficulties with tax administration, meeting sanitary and phytosanitary requirements for export, various kinds of delays when importing and exporting and difficulties in obtaining returns of value added tax (VAT) paid on inputs into the production process. While many of these constraining factors are not unique to the agricultural sector, their existence has a particularly dire impact on the agricultural business environment.

For example, the system of DUAT, whereby land cannot be owned, but users are granted concessions to use a given piece of land for 50 years have had dire consequences on the level of investment in agriculture in Mozambique. While DUAT's are granted, the process of acquiring them is often both lengthy and complicated, discouraging investment in the agricultural sector. Also, the process of assignment is often not entirely transparent and instances of double assignment and subsequent contestability have been noted. In rural areas, the added complication of local inhabitants claiming original rights at some later stage has also emerged. All this creates uncertainty in the mind of the investor with associated transactional costs.

Administration of land by way of the DUAT system has transactional cost effects that go further than that directly relating to the allocation of land use. In other institutional settings land is often used as collateral to secure finance. Under the DUAT system, this is not possible, adding to the already high interest rates and banking costs facing operators in the Mozambican banking sector.

The following sector specific issues were noted by industry representatives interviewed during October 2008.

Issues identified in interviews

- Assignment of land use (DUAT)
- Labour law and discretion in labour inspections
- Electricity costs and disruption in supply
- Phytosanitary implementation
- Delays in the return of value added tax paid on inputs
- Delays and discretion at customs

c) **Case study of transaction costs in Agriculture: South African export ban on Mozambican bananas**

In early 2008 a fruit fly infestation was found in the Niassa and Manica provinces. South Africa subsequently banned all banana imports from Mozambique to South Africa until such time as it was clear that this infestation would not spread to South African crops. Fruit flies of the sort attack a range of fruits and vegetables including citrus fruit, bananas, guavas, mangoes, melons, avocadoes, tomatoes and pumpkins. Mozambique has exported on average 20 000 tonnes of bananas to South Africa in recent years and the export ban therefore represents a large loss in export revenue for the current calendar year.

In response to the export ban, the Mozambican Ministry of Agriculture set up check points to stop the spread of fruit flies to other parts of the country. However, representatives from the agricultural sector felt that these actions were either too late or not administrated adequately and would lead to a prolonging of a significant transaction cost that could have been avoided all together.

The perceived inaction of government in the case of the fruit fly infestation is a good example of a transactional cost in the Mozambican agricultural industry that is comparatively high relative to some of its major trading parties as well as other countries in the region. On the plus side, it is also an area that can be potentially easily improved in order to create a business environment that is conducive to investment and business in general.

d) Government Programmes – Agricultural Promotion – Agricultural Sector Public Expenditure Programme (PROAGRI)

PROAGRI is a (US$656.5 million) fifteen year three-phased (five years each) agricultural programme that has the purpose of improving the impact of public expenditure in securing an enabling environment for sustainable and equitable growth in the rural sector such that poverty is reduced and food security improved, while the physical and social environment is protected.

The objective of the first five-year phase was to establish an institutional structure to provide cost-effective delivery of a core set of agriculture and natural resources related services therefore downsizing and decentralising the then Ministry of Agriculture and Fisheries (now Ministry of Agriculture).

Three primary strategic priorities were raised (in the Sector-related Country Assistance Strategy). The first strategy emphasised the will to guarantee a broad-based future economic growth. The second priority was focused on human resource development, which included strengthening the Government's institutional capacity. Finally, the third priority was to strengthen development partnerships among Government, donors, NGOs, civil society, and the private sector.

The idea of this programme was/is to promote a rapid, broad-based, private sector-led growth through reforming the then Ministry of Agriculture and Fisheries' activities so that they are designed to create an attractive economic environment for sustainable development.

PROAGRI was/is supposed to provide the mechanism through which the then Ministry of Agriculture and Fisheries would implement its strategy. So, concerning this Ministry's strategy to:

- develop an enabling environment for market-based agricultural development, PROAGRI was supposed to support agricultural policy analysis, policy formulation, and monitoring, therefore allowing the Ministry to improve competition and transparency in agricultural markets. Additionally, PROAGRI would strengthen the Ministry's capacity to gather, analyse, and make available agricultural information;
- improve the road transport and communications infrastructure, PROAGRI would strengthen the Ministry's capacity to assist the National Directorate of Roads and Bridges in identifying key roads for rehabilitation so that smallholders have greater access to local and regional markets;
- intensify smallholder production through making appropriate technologies available, PROAGRI would improve the effectiveness of public support services for agriculture through developing decentralised and demand-driven approaches to crop, forestry, and livestock research and extension, small-scale irrigation development, and market intelligence;
- regulate agricultural markets and natural resource use to establish the "rules of the game" and ensure that externalities are internalised, PROAGRI would support further design and implementation of improved land tenure regulation in order to reinforce smallholder tenure security and establish the incentives for sustainable exploitation of forests, rivers, and other natural resources. Moreover, PROAGRI would support the Ministry in addressing issues surrounding intellectual property rights and patents for the import and sale of trademark genetic material and other technology.

5.3 Tourism

a) General overview

Tourism is a sector that holds enormous potential for the development of Mozambique. Tourist arrivals have increased dramatically from 450 000 in 1999 to 880 000 in 2006. This however must be compared to the 16.9 million tourists that visited the SADC region in 2006. In the overall SADC region, tourism contributed 3.4% to GDP in 2006 and was responsible for 1.75 million direct jobs during the same period. According to a USAID study[77] in 2004, tourism contributed 1.2 percent to Mozambique's GDP, compared to SA, where it contributed 8 percent. About 75% of the tourists visiting Mozambique arrive from South Africa.

The USAID document (2004:37) cites the following general constraints to the development of the sector. Infrastructure, particularly transport, is underdeveloped, expensive and of substandard quality. Furthermore, air transport, road networks, energy distribution, and telecommunications all need to be improved, as do water quality and solid waste management. They also refer to the regulatory environment when they say that (2004:37): 'In addition, restrictions on land-use rights and land tenure pose serious obstacles; application, registration, and licensing processes should be streamlined and made more transparent. Areas with tourism potential should be subject to integrated development planning to avoid irrational or unsystematic uses of land and supporting infrastructure. Labour regulations that permit employment of seasonal workers and employment of expatriate workers would help for the sector's requirements. At the same time, staff in hotels and working in other support services need to be better trained'.

b) Transaction costs

Many of the factors already discussed, such as the ease of starting a business, land rights, etc. are applicable to the tourism sector. Broadly speaking, given the importance of this sector, investment is absolutely essential. The following discussion of broad measures that can be used to reduce transaction costs draws heavily from the Action Matrix developed by Nathan Associates for USAID in the document: 'Removing obstacles to economic growth in Mozambique – a diagnostic trade integration study' (Dec 2004).

Government should encourage both foreign and domestic investment in services sectors that are linked to tourism. This should be done by streamlining the application, registration, and licensing procedures in the tourism sectors. Another possibility would be to identify tourism zones that could be specifically targeted. It is understood that this has already been done under government's National Tourism Policy and Implementation Strategy of April 2003. It is stated by the Trade and Investment Programme: 'Tourism Activity Approval Document, Fiscal years (2005-2007)' compiled under the auspices of the USAID that: 'The Government of

[77] USAID. 'Removing obstacles to economic growth in Mozambique – a diagnostic trade integration study'. December 2004

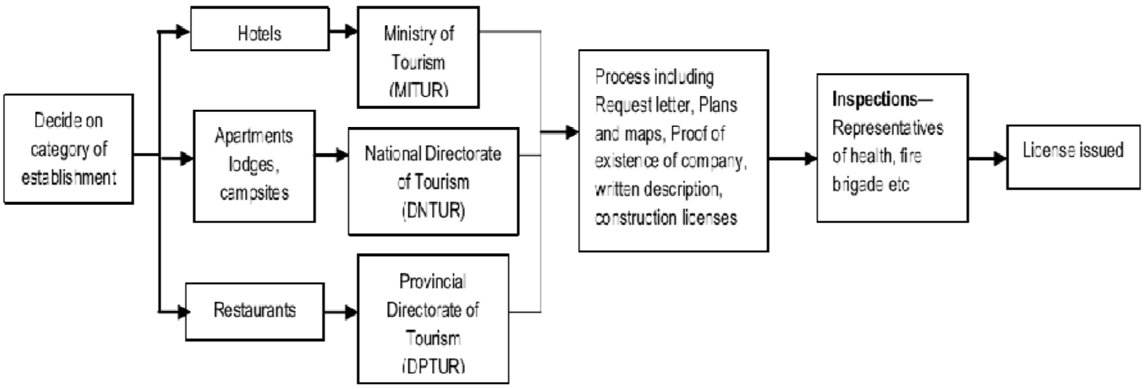
Mozambique decided to promote the development of tourism into a major industry that will alleviate poverty, create jobs, boost foreign exchange earnings, sustain protected areas and reduce pressure on the environment. Within the framework of this policy, northern Mozambique, specifically the Provinces of Cabo Delgado, Nampula, Niassa and Zambezia, are to be developed as exclusive destinations and marketed to affluent segments of the international travel market based on the region's historic, cultural and natural heritage'.

Labour skills are important and more specifically resources should be spent on the training of staff for hotels and other tourism support services. As part of the sector development strategy, government should also support small and medium sized enterprises (SMME) in parallel with significant investments in the development of areas selected as tourist centres.

c) Sector specific issues

The following sector specific costs have been documented in the technical report 'Mozambique—Business Environment Assessment, 2004' (Nathan & Associates). This is the most recent figures we could obtain. According to this document, the tourism licensing process can be depicted as follows:

Figure 6: Tourism licensing process



Source: Mozambique—Business Environment Assessment, 2004' (Nathan & Associates).

All tourism establishments must obtain a license from government before commencing operations. Starting construction of a hotel or tourism establishment without authorisation is subject to fines of between 50 000 and 100 000 Meticais. There are various government ministries involved. Tourism accommodation licensing is the responsibility of the Minister of Tourism or the National Director of Tourism. Restaurants and drinking establishment licensing is the responsibility of the Provincial Governor or the Provincial Director of Tourism. In the cities of Quelimane, Tete, Pemba, and Inhambane (and other places where they are being established) one-stop shops support the implementation of new investments, provide information and technical assistance, and move processes through the registry and licensing stages.

The following is a list of the application requirements:

- Application with notarised signature;
- Approval from municipal authorities if the establishment is located within an urban area;
- Environmental certificate;
- Construction project including topographical plan, implementation plan, water, drainage etc.
- Written description including plans, photos, sketches, etc. depending on whether the establishment exists already, or is to be constructed;
- Rental contract or proof of ownership;
- Request for inspection, approval of name, and price list;
- Request for inspection, approval of name and price list;
- Request for issuance of license and registration of managers;
- Registration of the establishment: identity of directors; company running the establishment including judicial status; identification of directors or managers; identity of person responsible for the establishment.

The following sets out some examples of licensing costs.

Table 22: Licensing costs - tourism[78]

Type of establishment	Activity	Cost (MT)
Hotels, including lodges, etc.	Project analysis	3 500 000
	Inspections	8 000 000
	License issuance	5 000 000
	License alteration	3 000 000
	Name approval	500 000
	Management certification	3 500 000
	Management registry	300 000

[78] These values are given in meticals, before the rebasement of the exchange rate in 2006.

	Health & safety and fire brigade	2 000 000
	TOTAL	**27 550 000**
Boarding houses and inns	Project analysis	3 000 000
	Inspections	5 000 000
	License issuance	3 500 000
	License alteration	3 800 000
	Name approval	350 000
	Health & safety and fire brigade	2 000 000
	Total	**17 650 000**
Guest house (including residential tourism units, rural and agro-tourism)	Project analysis	2 500 000
	Inspections	3 500 000
	License issuance	3 000 000
	License alteration	2 600 000
	Name approval	300 000
	Health & safety and fire brigade	2 000 000
	Total	**13 900 000**
Restaurant and drinking establishments	License issuance	2 000 000
	License renewal	1 000 000
	Total	**3 000 000**
Travel and tourism agencies	Project analysis	5 000 000
	Inspections	5 000 000
	License issuance	3 000 000
	License renewal	1 500 000
	Change of location of establishment	2 000 000
	Opening a branch	1 500 000
	Foreign delegation	6 000 000
	Bank guarantee	100 000 000
	Insurance	2 000 000
	Total	**232 000 000**

Source: Mozambique—Business Environment Assessment, 2004' (Nathan & Associates). Appendix F

The following points give an indication of the time periods required:

- Consideration of the process – 60 days for accommodation establishments, and 30 days for restaurants and drinking establishments;
- Decision on application – 8 days for accommodation establishments and 5 days for restaurants and drinking establishments;
- Inspections – 20 days from date of submission of application;
- Inspection report approved by higher authority – 8 days, then communicated to applicant within 7 days;
- Issuance of license – 5 days following approval of inspection.

The following is a list of sector specific issues that were identified by industry role players during interviews conducted in October 2008.

Issues identified in interviews
• Assignment of land use (DUAT) • Labour law and discretion in labour inspections • Electricity costs and disruptions in supply • Monopoly market conditions in supply of air transport

d) Case study and proposals

In one of the discussion papers presented at the 10th CASP, on the Tourism Sector in Mozambique (IFC – OECD & FIAS (August 2006)), the authors highlighted the need for several reforms to be undertaken to make tourism more attractive. They proposed simplification of visa requirements, noting that there are long visa processing times and higher costs relative to competing destinations that offer visa free entry. At airports there are delays and hassles for tourists. Also delays at borders and high transaction costs of importing necessary goods raise the cost for hotel operators. They proposed that mechanisms that would enable tour operators to pre-arrange visa and entry permits should be established.

Regarding arrival by air, the authors note that direct intercontinental flights from Europe are limited. This means that intercontinental air fares to Maputo are relatively more expensive when compared to business conference destinations in South Africa. The report also notes that regional air fares to Maputo are also less price-competitive when compared to airfares to South Africa. They also refer to lack of reliability regarding delays, cancellations and rerouting. The following case study on air transport to Mozambique has been published in a Commark Trust paper, 'Clear skies over southern Africa, The importance of air transport liberalisation for shared economic growth', October 2006. It is reproduced below, as it provides a good case study of an important aspect of the tourism sector.

CASE STUDY- THE COST OF FLYING TO MOZAMBIQUE

Mozambique clearly demonstrates the potential effects of a conflict between a government's tourism policy and its policy towards its national airline. The Mozambican government has recognised the importance of tourism. In 2000 it created a Ministry of Tourism, and it has drafted a number of plans for the development of the sector.12 However, it continues
to protect the national airline by restricting international routes. This artificially reduces the number of tourists visiting Mozambique, and undermines the tourism policy. The costs of supporting the national airline clearly outweigh the enefits of liberalisation in terms of job creation and economic growth. The government has gradually moved towards liberalisation.

The state-owned domestic airline, LAM Mozambique Airlines, previously had a monopoly in both the domestic and international markets. In 2002 the domestic market was partially liberalised, allowing smaller airlines to start flying internal routes. The government attempted to privatise LAM in 1997, but the privatisation agency, Unidade Técnica para a Reestruturaçäo de Empresas, was not satisfied with any of the bids (NORAD 2002).

According to the Economic Intelligence Unit (2003), there are signs that the Mozambican government wants to fully liberalise the country's air transport markets, but it is facing opposition from vested interests within the country. It continues to restrict international routes, which is having a detrimental effect on tourism.

Mozambique has stunning tourist attractions. With 2 500 kilometres of coastline, white beaches, and clear blue water, it is an ideal beach holiday destination. The interior has wildlife and rugged mountains. About 10 percent of Mozambique's land area has been set aside for wildlife management, including national parks, game reserves, and hunting areas (NORAD 2002). This rich natural heritage puts it in an extremely good position to attract tourists. However, its bilateral air service agreements make it expensive for tourists to get there.

The agreement between South Africa and Mozambique does not allow more than one airline from each country to fly a particular route, and restricts the number of seats. The results are evident in the cost of flying to Maputo from Johannesburg compared with flying from Johannesburg to Durba.n Durban and Maputo are a similar distance from Johannesburg, so flights to either from Johannesburg should cost more or less the same. However, if airport taxes are excluded, the cheapest return fare to Maputo is 163 percent more expensive than to Durban (alternatively,

Source: Commark Trust paper, 'Clear skies over southern Africa, The importance of air transport liberalisation for shared economic growth', October 2006, p. 19.

e) Government sector-specific programs: Tourism Promotion – Tourism Policy and Strategy

In 2000, the government of Mozambique adopted the Action Plan for Reduction of Absolute Poverty (PARPA). Also in 2000, they created a Ministry of Tourism. Tourism is seen as a priority area in which additional investment may create the jobs that are necessary to meet the PARPA objectives. However, the government recognises that it still remains in the early stages of its development as a tourism destination and its product base remains largely underdeveloped. The main challenge lies in the promotion and development of tourism as an engine for economic growth and in the engagement of public and private sector as well as communities in making the delivery of services in the tourism sector a reality.

The overall objectives of the tourism policy are the development and positioning of the country as a world-class tourism destination, the contribution to employment creation, economic growth and poverty alleviation, the development of sustainable and responsible tourism, the increase in participation in the conservation and protection of biodiversity, the preservation of cultural values and national pride, and finally the enhancement of the quality of life for all the people of Mozambique.

Regarding the government strategy to promote this sector, it can be summarised by the following points: Firstly, it supports the integration of tourism planning at the national level. In this respect the government plans to support tourism as a strategic economic sector in the national interest, influencing the different actors and making sure that all stakeholders are aware of the specific requirements for tourism. In addition, it prioritises the enhancement of tourism development opportunities in synergy with opportunities that are offered by regional development initiatives as a way of promoting international and sectoral initiatives in both social service delivery and poverty reduction initiatives. Further, it wants to make sure that provincial tourism development plans and strategies are aligned. Finally, the government prioritises the engagement of the private sector and communities as appropriate in order to ensure their involvement in tourism development.

Secondly, the government incentivises the integration of tourism planning at provincial and district level. Concerning this, it will make sure that the support, control and co-ordination of planning at provincial and district levels are provided by the provincial government. Moreover, it encourages the engagement of the private sector and communities in order to ensure their involvement in tourism development. Lastly, it wants to guarantee the inclusion of tourism development plans as appropriate in the formulation of land development objectives, land uses and area zoning.

Thirdly, the government prioritises tourism development in strategic areas but making sure that land-use plans are prepared in consultation with local communities, therefore avoiding incompatible activities and interests. Equally important, it encourages the development of Master Plans that include zoning and define standards for the Priority Areas for Tourism Investment.

Fourthly, relating to the use of land for tourism purposes, the government encourages long-term land-use concessions for tourism projects with long-term sustainability in order to maximise tourism impact and avoid short-term exploitation. Apart from this, it discourages land speculation through the adoption of actions that rigorously monitor the terms and conditions established in the land-use concessions.

Fifthly, regarding road and ground transportation services, air services, and rail and sea transportation services, the government's priority is to identify the requirements of tourism regarding road provision and access and promote their delivery. Besides, it supports the expansion of the range of transportation services, such as (private) taxi's, rent-a-car companies, coach operators and ground handler operations, and encourages the development of a road signage system in accordance with international standards that includes tourism signs. Further, it promotes a national, regional and international air network to service tourism in Mozambique. Furthermore, the government encourages a healthy and competitive national air industry that fosters the entry of new national, regional and international players. Additionally, it supports the strengthening of the linkages between tourism and other economic sectors through the use of rail and sea transport infrastructure. And finally, it encourages the development and rehabilitation of ports in support of cruise tourism and waterfront development for tourism purposes.

Sixthly, the government supports the provision of tourism information centres at strategic locations that will disseminate information to visitors, influence visitor distribution and consumption patterns and raise the profile of local destinations, as well as supports the protection of tourists in collaboration with competent organisations and authorities.

Seventhly, with respect to investment promotion, the government wants to maximise the capacity to mobilise international and regional financing sources with the aim to increase the available government budget to finance the development of tourism. What is more, it supports the establishment of mechanisms that facilitate the attraction of investment in tourism in conservation areas.

Eighthly, the government promotes the purchase of locally-made goods and the use of services provided by local companies or the local population wherever quality, quantity and consistency permits, and supports economic measures that expand both regular jobs and casual earning opportunities in tourism and related sectors, in order to enhance participation by and benefits for Mozambicans, therefore promoting economic linkages.

Finally, the government encourages private sector investment by creating a platform for promoting and attracting national investors into tourism development, by encouraging the financial sector to facilitate access to credit schemes for SMMEs and community initiatives in tourism, by attracting foreign direct investment particularly in the development of major catalytic projects, and lastly by supporting investment that will create employment and that will result in the transfer of skills and technology to nationals.

SECTION 5: GOVERNMENT PROGRAMMES AIMED AT IMPROVING THE BUSINESS ENVIRONMENT

6.1 Government Programmes

Mozambique has fully realised the need to improve the climate for trade and investment in order to attract domestic and foreign investment. In order to do this, government passed an Investment Act in 1993, created an Investment Promotion Centre in 1997, adopted legislation providing for the establishment and operation of export processing zones in 1999, and progressively liberalised the tax treatment of qualifying foreign investments (USAID, Removing obstacles to Economic Growth in Mozambique (2004:8)). The following are general financial incentives and guarantees available under the 1993 Investment Law. This section is taken from the Official SADC Trade, Industry and Investment Review 2007/2008, p. 173:

“According to the 1993 Investment Law, to be eligible for the guarantees and financial incentives, the minimum value of direct national investment is fixed at the equivalent in national currency of US$5,000 and, for the specific purpose of remittance of profits abroad, the minimum value of direct foreign investment is fixed at US$50,000.

Financial Incentives

- Exemption from customs duties on equipment for new investment project feasibility studies, implementation and operations;
- For investments in new or paralysed undertakings, a 50 percent reduction in Industrial Contribution Tax and Supplementary Tax rates for a maximum of 10 years except in the case of investments located in the less-developed provinces, where the initial reduction is 80 percent with an effective further reduction of 50 percent for six years;
- For investments in operating enterprises, deduction from taxable income of 100 percent of investments made in new equipment, construction of plant and/or agricultural infrastructures for five years; and
- The right to consider certain expenses as losses, such as:
  - Costs of construction or rehabilitation of public infrastructures,

- Costs of training Mozambican workers, and
- Private purchases of works of art, or other contributions to cultural development.

Investment Guarantees

- Guarantees over security and legal protection of property rights;
- Rights to the import of own-equity capital or loans to carry out investments;
- Entitlement to just and equitable compensation in the event of expropriation based on absolute necessity and weighty reasons of public interest, health and public order; and
- Rights to the remittance abroad, within 90 days, of:
  - Payments of royalties and other fees for contracting and transferring technology,
  - Loan repayments and interest charges due abroad,
  - Amounts paid as just and suitable compensation, if such occurs, and
  - Repatriation of capital invested upon liquidation or total or partial sale of the undertaking.

Mozambique is also a signatory to the Multilateral Investment Guarantee Agency (MIGA), the Overseas Private Investment Corporation (OPIC), and the International Convention and Centre for Settlement of Investment Disputes (ICSID).

In what follows, more detailed programmes are discussed, i.e. Industrial Policy, Regional Integration into SADC and Trade Policy.

6.2 Industrial Promotion – Industrial Policy and Strategy

The Constitution of the Republic of Mozambique attributes to industry a catalyst role in the economy. Further, the industry should modernise the economy, fostering its growth and qualitative transformation. In other words, it should have linkages with the other sectors, in particular with the agricultural sector.

Regarding the latter, from the other sectors the industry will receive the inputs, transforming and adding value to them. Moreover, in the long-term it will supply back these sectors with factors of production that will ensure an increase in production and productivity.

Industrial Policy

Industrial policy can be defined as the principles, measures and activities taken in order to contribute to economic and social development, by increasing output, productivity and quality of industrial production, based on private initiatives, chiefly in the sectors of agro-industry, textile, construction, fishery, mining and energy, using the natural resources on a sustainable basis and technologies that promote employment, causing an increase in the supply of consumption goods and production factors.

The overall goal of the Mozambican Industrial Policy is the creation of a modern and competitive industrial base that is increasingly less dependent on external resources. For the development of this sector in the medium- and long-term, the Industrial Policy points out the following specific objectives. Firstly, value addition to the natural resources. Secondly, the contribution to the balance of payments. Thirdly, satisying basic necessities. And fourthly, the promotion of labour-intensive technologies.

The Industrial Policy defines as priority sectors the food industry and agro-industry (sugar, cashew, tea, copra, cereals, fruits and cotton), the textile, clothing and footwear industries, metals and electronic industries, the construction industry, the fishery industry, mining, and finally the energy industry.

The Role of the State

The role of the State is to orient, regulate and supervise the industrial development and to create the conditions that will stimulate industrial activity. It will intervene in the economy through the establishment of the industrial policy. Another way of intervention will be the creation of an enabling environment for investment and production. Further, it will apply a system of incentives for the economic activity, including building of infrastructures and other complementary investment, whenever its presence in the economy constitutes a factor of encouragement for the private sector.

The Role of the Private Sector

The private sector has a crucial role to play in industrial policy. Especially in terms of investment, and to participate in the expansion and implementation of the industrial policy.
Besides defining the role for the domestic private sector, this policy recognises foreign investment as an important source of funds, technology and know-how for the implementation of the industrial policy. Equally important, foreign investment might give nationals access to the external markets.

Industrial Strategy

The industrial strategy can be summarised as follows: (i) promotion of the role of the private sector. In this respect, the government will create an enabling environment for the investment and production, will promote SMMEs including the micro-industry, will implement training and skill acquisition programmes, and establish incentives for investment; (ii) promotion of foreign investment. Foreign investment will be focused on industrial development and exports. Further, the government will create ways to attract foreign investment including the industrial investment opportunities in Mozambique, maintenance of political, social and economic stability, establishment of bilateral agreements to avoid double taxation of investors, and finally, stimulation of mergers between foreigners and nationals in order to guarantee the transference and absorption of know-how;
(iii) public investment. It will be focused on the development of infrastructures, including industrial zones, and services such as supply of water and electricity, research and technical assistance, and quality control. Additionally, the government will participate in priority projects and complementary investments to foster the development of other industries; (iv) financing. Regarding this, the government will create specific commercial bank credit lines for the industry thus reducing bank risk and directing the credit to specific areas and objectives, including SMMEs, micro-firms, rehabilitation, young entrepreneurs, etc. Additional measures will be taken, namely the reduction of the bureaucracy and procedures for access to credit, reduction of the time spent for credit approval, and the improving of the financing conditions. Finally, the government will encourage the creation of non-bank funds for the industrial development; (v) imports. The government will facilitate and simplify the import procedures for the industrial firms, chiefly regarding raw-materials and intermediate goods; (vi) exports promotion. The government will promote exports by increasing access to credit for exporting industrial firms, by developing commercial information regarding the export markets, by fostering quality in the industrial production, and finally, by promoting the products from the national industry; (vii) creation of export processing zones and lastly; (viii) promotion of technological development.

An Industrial Free Zone has been established around the Mozal Smelter to encourage the establishment of downstream projects, which have the added advantage of availability of high quality stainless steel, low cost labour and relatively low electricity costs.

6.3 Estratégia de Moçambique para o processo de integração regional na SADC (Mozambique's Strategy for Regional Integration into the SADC)

This section provides a brief overview of two (Mozambican) government programmes aimed at facilitating trade, as well as a summary of the industrial free trade zones. Firstly, the *"Estratégia de Moçambique para o processo de integração regional na SADC"* is the Mozambican strategy for regional integration into SADC. It briefly describes the government strategy with respect to infrastructure development in the sectors of transports, water, energy, industry, agriculture and tourism. This programme involves infrastructure development, such as:

- Ports and Railway
- Roads and Bridges
- The market for airways was liberalized, thus increasing competition and reducing costs.

The details of these programmes have already been discussed under Transport policy above.

- Water

In terms of improving access to clean water, the government plans to guarantee the implementation of the SADC Protocol on Water; to optimise the use of the irrigation dams in the country; to rehabilitate existing and build new irrigation systems in the Limpopo Valley, Incomáti and Pungué; to promote the efficiency and to extend the period of water supply for 24 hours per day; and to minimise the losses of water by pipe ruptures and clandestine connections.

- Energy

On the one hand, Mozambique is a major source of energy resources, some of them already in exploitation, namely electricity and natural gas. On the other hand, the SADC region is in need of such resources. In this matter the government plans to guarantee the implementation of the SADC Protocol on energy; to implement and develop programs of rural electrification prioritising the production centres such as irrigation systems and potential industrial zones; to increase the quality of electricity supply and revise the tariffs for the industry; to promote the use of alternative sources of energy, such as solar and aeolic energy; and to promote the joint exploration of oil and natural gas extant in the county.

- Industry

The government plans to revitalise the national industry (food, beverages and tobacco, textile, metals and wood) by substituting the obsolete equipment and introducing new and modern ones, by increasing the skills of the labour force, and by increasing the production and quality of the products. To be more precise, the government plans to modernise technologically the existing industries; to develop the packing industry; to invest in production, transport and communications infrastructures; to invest in permanent research and divulgation of market opportunities; to improve the business environment; to promote export oriented industries in the rural areas; and to consolidate the project “Made in Mozambique”.

- Agriculture

The main features of agriculture have been discussed above. In Mozambique agriculture is mostly practiced for subsistence purposes and it is the main economic activity of 80% of the rural population. The peasants produce a little bit of everything, thus with no specialisation. Moreover, the seeds are not previously selected for quality, and the irrigation system is mostly inexistent, so reducing the productivity level and increasing the costs of crop production. As a result, the economy is not self-sufficient and has only a small share in the regional markets.

According to the government strategy for regional integration into SADC, each sector must elaborate a specific action plan for regional integration that, it turn, must be integrated with the remaining sectors’ plans, for harmonisation purposes. Equally important, the government prioritises: the divulgation and use of the regionally agreed instruments to promote food security and sanitary measures; the increase in the speed of land concession processes; the direction of the research institutions in order to serve the productive sector; the increase in the linkages research-peasant-extension services in order to facilitate the divulgation and adoption of newer and better technologies; the promotion of good production and post-harvest practices; the encouragement of the specialisation of production in order to reach economies of scale in specific crops and therefore increasing production; the creation of appropriate incentives to shift the peasants from practicing subsistence agriculture to commercial agriculture; the actualisation and mapping of the existing list of pests in the country; the prevention and control of plants and animals diseases; and finally, the regionalisation of agriculture and animals creation according to comparative advantages and market opportunities.

- Tourism

It was pointed out above that Mozambique the tourism sector holds much promise. In this respect, the government plans to involve the country in the Regional Tourism Organisation of

Southern Africa (RETOSA) and guarantee the implementation of the SADC Tourism Protocol; Additionally, it wants to eliminate all the visa requirements for citizens of SADC countries; Further, it plans to increase the quality of tourism services in the country; Moreover, it wants to market the country in the region; to create a network for research, statistics and information exchange; to harmonise and develop the regional policies, strategies and legislation; and finally, it plans to create incentives for investments in the tourism sector.

6.4 Trade Policy and Strategy

This section gives a brief overview of Trade Policy and Strategy. This program summarises the objectives and priorities of trade development, the role of the state and the role of the private sector.

The objectives of Government's trade programme are promoting economic and social development and eliminating poverty in Mozambique. The Trade Policy defines the guiding principles, the objectives and priorities of trade development based on private initiative, on market forces and on the regulating and facilitating role of the state.

The government defines trade policy as the set of principles, measures and activities that, based on the country's economic policy, are aimed at stimulating the development of trade with a view to encourage the production of goods and services in response to domestic and external markets' needs, using human capital and natural resources in a sustainable manner.

- Objectives of Trade Development

The development of trade has the following objectives: (i) in the subsector of domestic trade it aims to contribute towards the growth of agricultural and industrial production supplying the internal market and attaining food security; to contribute towards inflation reduction via an increase in supply of goods; to improve the terms of trade between agricultural and manufactured goods; to promote the establishment of a trade network that promotes specialisation; to promote progressive integration of the informal trade into formal trade; to contribute towards the reduction of transaction costs; and to promote the transfers of surplus agricultural produce from production to consumption areas.

(ii) in the subsector of external trade, it aims to contribute towards the improvement of the balance of payments; to promote the increase and diversification of exports in sectors that increase foreign exchange revenues; to guarantee the supply of raw materials and equipment for the domestic market thus stimulating the production of goods for the internal and external markets; to contribute towards economic co-operation and integration at the regional level; and to establish policy measures which promote exports and the substitution of imports.

- Priorities

The definition of trade policy priorities allows guiding scarce human, material and financial resources to those sectors and activities which contribute more to the development of the trade sector in line with the aforementioned objectives. So, in the subsector of domestic trade the priorities are: (i) the rehabilitation and expansion of the rural trade network; the marketing of agricultural products and the enhancement of food security; the facilitation and simplification of the mechanisms for trade licensing; the coordination with concerned institutions regarding the rehabilitation and development of the road network, with particular attention to those that are vital for rural economic activities.

(ii) in the subsector of external trade the priorities are: to increase and diversify exports, particularly of non-traditional products; to explore new markets for export products; to guarantee provision of raw materials for the domestic market; to support exporters in the areas of marketing, development and quality of products; to increase cooperation and economic integration at the regional level; to harmonise tariffs and trade policies in the region and the facilitation of cross-border trade.

- The Role of the State

According to this Trade Policy and Strategy, it is the State's responsibility to guide and regulate the development of trade and create conditions that promote growth. To be more precise, it is the role of the State: to create a favourable environment for national and foreign investment in the trade sector; to undertake investments which generate externalities; to support the creation and development of a national laboratory network to undertake recognised quality tests, and the establishment of a national system of standards; to promote and integrate the small scale agriculture into the market; and to create an attractive environment for private initiative and favourable towards competition.

- The Role of the Private Sector

The same document states that the private sector has a crucial role in trade development. It assumes leadership: in making investments in the area of trade; in purchasing agricultural surpluses and channelling these towards domestic and export markets; in diversifying the exportable production and doing market research; and finally, in guaranteeing the supply of raw materials and equipment to stimulate the production of consumption and export goods.

- Strategy in the Subsector of External Trade

Finally, this Trade Policy and Strategy document has as main vectors for strategic action, in the subsector of external trade the following: (i) the promotion of exports; for this is warranted: the promotion and support of initiatives aimed at a continuing diversification of products destined for exports, through the granting of incentives to exports; the consolidation of the existing and the obtainment of access to new markets for (non-traditional) export products; the monitoring of external market developments and support of exporters in the areas of marketing and product and quality development; the simplification of export procedures and documentation; the decentralisation of the process of licensing and registration of export operations; the encouragement of the utilisation of financial instruments that contribute to an increase of exports; the endowment of the IPEX (the institute that promotes exports in Mozambique) with human, material and financial means; and the development of a national system of duly recognised accreditation.
(ii) On the imports side the idea is to provide the domestic market with the necessary raw materials and equipment in order to stimulate the production of goods for consumption and for export. In sum, the strategy is: to simplify the import procedures; to decentralise the licensing process and the registration of imports; to establish and enforce the observance of technical norms for imports; to reduce to a minimum the import duties on inputs and capital goods, particularly those which are applied for an increase in exports and the substitution of imports; and finally, to consolidate the mechanism of pre-shipment inspection of commodities, through a systematic and continuous evaluation of its performance.

6.4.1 Export promotion through Industrial Free Trade Zones (IFZs).

According to the Official SADC Trade, Industry and Investment Review 2007/2008: 'The cornerstone of Mozambique's push to expand its export markets are the Industrial Free Zones (IFZs). An export industry located in an IFZ enjoys full exemption of customs duties, VAT, and import or export taxes on construction material, machinery and equipment. IFZ enterprises are also exempted from income tax. The proposed sites for the development of IFZs are at the Industria Ceramica de Mozambique site in Maputo province, Sofala province near the port of Beira, Nampula province and the port of Nacala. The Beira and Maputo free trade zones have been officially approved.

National and foreign investors may hold licences for the development and/or administration of IFZs. The IFZs are geared towards exports, although a maximum of 15 percent of their output may be sold on the domestic market, against payment of customs duties on imported components. The minimum investment required to obtain a licence to develop and administer an IFZ is set at US$5 million and the minimum amount of investment required to qualify for direct investment under the IFZ regime and for an IFZ certificate is US$5,000'. (http://www.sadcreview.com/country_profiles/mozambique/mozambique.htm)

SECTION 6: COMPARISON TO SOUTH AFRICA

7.1 Comparison with South Africa

In this section a summary is provided of programmes sponsored by the South African government in aid of strengthening the export capacity of the economy. Focus will fall on export incentives, industrial development zones and strategies to promote SMMEs. Some obervations will also be made regarding the regulatory environment.

Export incentives

The Department of Trade and Industry has the following strategic objectives:

- Increasing the quality and quantum of foreign and domestic direct investment by undertaking effective investment recruitment campaigns, providing an efficient facilitation and information service in order to retain and expand investment into South Africa as well as into Africa.
- Developing new and existing South African exporters' capabilities in order to grow exports globally (goods, services and capital) by providing appropriate information, financial support and practical assistance to sustain organic growth in traditional markets and to penetrate new high growth markets.

Trade and Investment South Africa (TISA) works closely with the DTI to promote these objectives through the following three business units:

1. Investment Promotion and Facilitation

TISA is responsible for attracting foreign direct investment as well as developing and promoting local direct investment by:

Identifying investment opportunities in South Africa

- Packaging investment opportunities
- Identifying potential investors
- Promoting investment opportunities
- Facilitating investment into and in South Africa
- Providing a dedicated aftercare service
- Providing general information on investing in South Africa and the domestic business environment
- Arranging inward and outward investment missions
- Facilitating funding and government support

2. Export development and Promotion

Development and promotion of South African goods and services including specific assistance in terms of export advice, matchmaking and market intelligence. The Export Promotion Directorate is responsible for developing and promoting South African goods and services including specific technical interventions in terms of EMIA financial support, matchmaking, market intelligence, trade lead facilitation and in-market support. This business unit aims to increase the market penetration of South African companies in order to export products and services into various markets. The assistance provided is in the form of financial or non-financial assistance.

The aim of the Export Promotion Clusters sub-directorates are to lead and facilitate access to sustainable economic activity and employment for all South Africans through higher levels of employment, and increased access for South African products and services in international markets; and, to create a fair, competitive and efficient marketplace for domestic and foreign business as well as for consumers.

Some of the services and offerings provided by the Unit are:

- Gathering of market intelligence
- Identify markets with potential and export opportunities
- Identify and facilitate the removal of obstacles impeding export growth
- Match potential exporters with foreign buyers
- Export Marketing and Incentive Assistance
- Development of exporters especially SMME's
- Export advisory services
- Export market information
- Export Marketing Incentive Assistance (EMIA) with respect to:

- National pavilions
- Individual exhibitions
- Provision of finance for export skills development capabilities
- Financial assistance for inward and outward missions
- Primary Market Research
- Financial assistance for Patent registration/trade mark & quality mark
- Sector specific funding

The purpose of assistance under the EMIA scheme is to partially compensate exporters for costs incurred in respect of activities aimed at developing export markets for South African products and services and to recruit new foreign direct investment into South Africa.

3. International operations business unit

International Operations Unit is responsible for the effective management and administration of the Department's Foreign Office network.

Industrial Development Zones

The Industrial Development Zone (IDZ) programme is one of many incentives offered by the DTI to encourage international competitiveness of the South African based manufacturing sector.

IDZs are purpose-built industrial estates linked to an international port or airport in which quality infrastructure and expedited customs procedures are coupled with unique duty-free operating environments suited to export-oriented production.

The IDZ will provide, inter-alia, the following benefits to IDZ / CCA enterprises:

- A Customs Controlled Area (CCA) with dedicated SARS Customs officials to provide support with customs and excise requirements;
- Duty-fr ee on imports of production-related raw materials including machinery and assets to be used in production - with the aim of exporting the finished products;
- Zero-rating on VAT for supplies procured in SA;
- Accessibility to most government incentives that will contribute to lowering the cost of production;
- A one-stop shop centre for all the necessary regulatory and documentation preparations for an investor;
- World-class infrastructure that offers international best practice environment.

Government will license operators to develop and run the IDZs, provide enterprise support measures, minimise red tape and provide efficient services to enterprises within an IDZ. There are currently four IDZ in the country i.e.:

Coega IDZ Port Elizabeth (Eastern Cape)
East London IDZ, East London (Eastern Cape)
Richard's Bay IDZ, Richard's Bay (KZN)
JIA IDZ, Kempton Park (Gauteng)

Small Medium and Micro enterprises

South Africa has, since 1994, been faced with the double challenges of re-integration into global markets as a global economy, while at the same time positioning itself to realise the high expectations of its populace regarding a successful transition towards a more democratic order. To achieve the objectives of economic growth through competitiveness on the one hand and employment generation and income redistribution as a result of this growth on the other, South Africa's small micro and medium sized enterprise (SMME) economy has been actively promoted since 1995.

SMMEs encompass a very broad range of firms, from established traditional family businesses employing over a hundred people (medium-sized enterprises), down to the survivalist self-employed from the poorest layers of the population (informal micro-enterprises). While the upper end of the range is comparable to the SME population of developed countries, statistics reveal that an immense majority of SMMEs are concentrated on the very lowest end. These are primarily black survivalist firms (TIPS 2002).

During apartheid, South Africa's SMME economy was either largely neglected by policy-makers or, in the case of black-owned enterprises, actively discouraged by repressive measures. In line with the political disinterest, small enterprises were wiped off the research agenda of most business schools and university commerce departments.

The establishment of the Small Business Development Corporation (SBDC) in the early 1980s was the first government initiative to support small firms, but only in the late 1980s did a racially unbiased political interest in the development of small business in South Africa begin to take root.

The 1995 White Paper on National Strategy for the Development and Promotion of Small Business in South Africa has been the first major effort by the South African government to design a policy framework particularly targeting the entire spectrum of the small enterprise sector. The overall objective of the strategy was to create an enabling environment for SMME growth in the country as a way of addressing basic inequalities in the economy.

The mechanisms for small business support outlined in the White Paper became constitutional through the National Small Business Act, which also provides the first comprehensive definition of SMMEs. The Act legalised the establishment of new institutions, affirmative procurement reform, and the formation of an advisory board to review SMMEs' legal and regulatory environment.

In the Act three broad sets of enterprises were identified, namely:

- Survivalist enterprises (informal): Operated out of necessity to secure a minimal income with little capital and skills and with scant prospect for upward growth;
- Micro-enterprises: With growth potential that involves the owner and family members or at the most four employees and whose turnover is below R 150 000, the threshold for VAT registration; and
- Formal small and medium-sized enterprises: With five to 100 and 100 to 200 employees respectively which are still owner-managed and fulfil all the trappings associated with formality.

In response to the challenges set out in the White Paper, the Centre for Small Business Promotion (CSBP) of the DTI and the National Small Business Council (NSBC), as well as the Ntsika Enterprise Promotion Agency (in short Ntsika or NEPA) and Khula Enterprise Finance, were established to drive the National Small Business Strategy. While the NSBC had the task of 'democratising' the issue of small business development (although it was closed in late 1997 due to allegations of misuse of funds) and the CSBP was mandated to 'co-ordinate, monitor and evaluate the implementation of the strategy,' Ntsika and Khula are expected to build the technical and financial capacity of non-financial and financial retail service providers.

The DTI, together with the IDC, have introduced a number of specific programmes aimed at increasing the competitiveness of formal SMME manufacturers. There are, however, indications that despite their good intentions, these policy measures suffer from sub-optimal implementation due to a general distrust of external agencies by SMMEs on the one hand,

and the incapacity of support institutions to persuasively raise awareness about their existence and effectiveness on the other (TIPS 2002).

Ntsika Enterprise Promotion Agency

Ntsika was initiated by the DTI to implement the national SMME strategy. It provides non-financial support to SMMEs via a range of programmes that are accessible through a network of retail service providers classified as:

- Local Business Service Centres (LBSCs): For assistance in business administration and general information. There are currently 106 LBSCs accredited and supported by Ntsika.
- Tender Advice Centres (TACs): To provide assistance and training to SMMEs on government tendering processes and inform about current tenders.
- Manufacturing Advice Centres (MACs): These are coordinated and monitored by the national NAMAC in collaboration with the Centre for Scientific and Industrial Research (CSIR) to provide industry-specific assessments and link SMEs to highly-specialised service providers. The Durban MAC (DUMAC) and Port Elisabeth MAC (PEMAC) are operating, while the Western Cape MAC has just been launched and the Gauteng MACs are still in planning.

Thirteen technical colleges were founded for the purpose of implementing the Technopreneur Programme for potential SMME entrepreneurs to improve their technical skills. Entrepreneurs are meant to apply these skills under supervision before they start their own businesses.

In addition, LBSC and other NGO staff can receive Ntsika-funded training offered by eleven so-called Service Provider Development Programme Organisations.

Khula Enterprise Finance Ltd

Khula has initiated, since its establishment in 1996, a number of loan schemes to increase access to finance for SMMEs through Retail Financial Intermediaries (RFIs), which are SMME departments of commercial banks or accredited NGOs. RFIs apply their own minimum lending criteria (the most basic is the provision of a business plan) as the responsibility of risk assessment lies entirely with the RFIs. This might explain why only four out of every 300 applicants have been granted a loan so far (Khula Annual Website Report for 1999). The schemes currently existent can be grouped as follows:

- Business Loan Scheme: Out of the total of R400 million, loans to the value of R1 million to R100 million are forwarded to RFIs to capacitate them or increase their willingness to provide loans to SMMEs.
- Guarantee Schemes: Guarantees are underwritten by Khula to reduce the risk of lending to SMMEs without sufficient collateral. The Emerging Entrepreneur Scheme, for example, targets existing SMMEs which need up to R75 000 of which Khula guarantees up to 80%, while the maximum amount covered by Khula under the Standard Scheme is R600 000. A special product called 'Siza Bantu' has been introduced in 1999 for micro-loans up to R10 000, which are 95% guaranteed by Khula. 'Khula Start' is a progressive loan guarantee scheme targeting an enterprise venture of groups in peri-urban or rural areas of up to ten individuals. Initially, between R300-600 are lent monthly and repayable in four months. After the successful completion of this phase, larger loans with longer repayment periods are granted.
- Equity Funds: Through the internet-based Emerging Enterprise Zone (EEZ) as part of the Johannesburg Stock Exchange (JSE), SMMEs are expected to gain access to equity funding (up to R250 000, constituting less than 45% of total equity and to be re-capitalised within five years) from private investors with whom Khula might partner. This recent scheme has seen four (out of 36) successful applications. Unclear business plans or problems to determine the willingness or ability to repay have been two of the reasons for rejection (Khula Annual Website Report for 1999), while only a minority of SMMEs has access to the Internet (Ntsika, 1999).

In addition, Khula Institutional Support Services Ltd offers seed loans to organisations that aim to become RFIs. Khula also runs a capacity building programme for existing and potential RFI staff.

DTI and its related institutions

A number of DTI Incentive Schemes were designed exclusively for (registered) SMME industrialists and include (DTI, 1998):

- Standard Leased Factory Building Scheme, of the Industrial Development Corporation (IDC), which makes general purpose factory buildings available for lease to SMEs;
- Small/Medium Manufacturing Development Programme (SMEDP), which consists of a tax-exempt establishment grant as a percentage of the investment for the first two years and a Skills Support Programme (SSP) if the business has an approved training programme as outlined in the 1998 Skills Development Act;

- Economic Empowerment Scheme, for the expansion or establishment project of PDI SMME entrepreneurs to which the IDC contributes the majority of capital outlay;
- Venture Capital Scheme, with which the IDC co-finances viable product ventures;
- Normal Finance Scheme, which provides for low-interest IDC-administered finance during expansion;
- Import Finance Scheme, which consists of credit and guarantee facilities for importing capital goods and services;
- Short-Term Export Finance Guarantee Facility, through which the Credit Guarantee Insurance Corporation (CGIC) can provide pre- and post-shipment export finance guarantees for SMMEs; and
- Export Marketing and Investment Assistance Scheme (EMIA), which provides funding of primary market research, outward selling and inward buying trade missions and assistance to take part in exhibitions. Moreover, Ntsika has established the European Union Trade and Investment Programme under the auspices of the DTI to enable SMMEs through technical assistance to become exporters.

Provincial SMME Desks

The provincial SMME Desks were established to ensure provincial representation of SMME interests as well as contribute to implementation of the national strategy. Their main task is to link national or sectoral programmes with local or regional implementation bodies and establish a comprehensive SMME database on which national policy changes can be based. Nevertheless, the capacity of these Desks varies. In 1997, Mpumalanga's SMME Desk had established a comprehensive SMME database and a synergistic network of SMME service providers, while the Northwest SMME Desk had undertaken no such action. In 2000, only two of the nine provinces organise annual Service Provider Forums.

Besides these SMME-specific institutions and programmes, the (formal) SMME economy is surrounded by a rich body of sector and industry-specific institutions.

Regulatory Environment

Taxation

The South African tax system has changed from a source-based to a residence-based system with effect from the 1 January 2001, in line with international trends. This means that South African residents will be taxed on their worldwide income. Non-South African residents will still be taxed on income from South African sources subject to the double taxation agreements with the different countries. The principle taxes imposed in South Africa are direct and indirect taxes:

Direct Taxes include income tax, secondary tax on companies (STC), capital gains tax (CGT) and donations tax.

Indirect Taxes include value added tax (VAT), estate duty, stamp duties, transfer duties on real estate, customs & excise duties, marketable security taxes, skills development levies, municipal taxes on owners of real estate, airport taxes & fuel levies.

Competition and Regulatory Policy

South African authorities embarked on a major overhaul of competition policy, which led to the formulation of a new policy, the Competition Act, 1998 (Act No. 89 of 1998). It seeks to achieve the following objectives:

- To promote the efficiency, adaptability and development of the economy;
- To provide consumers with competitive prices and product choices;
- To promote employment and advance the social and economic welfare of South Africans;
- To expand opportunities for South African participation in world markets and recognize the role of foreign competition in the Republic;
- To ensure that small and medium-sized enterprises have an equitable opportunity to participate in the economy;
- To promote a greater spread of ownership, in particular to increase the ownership stakes of historically disadvantaged persons.

In meeting these objectives, it is focused on restricting anti-competition practices, eliminating abuse of dominant positions and strengthening merger control.

Three institutions are created in terms of the Act to achieve the above objectives:

1. The Competition Commission, which is independent but its decisions may be appealed to the Competition Tribunal and the Competition Appeal Court;
2. The Competition Tribunal, which has jurisdiction throughout South Africa and is independent from the competition institutions; and
3. The Competition Appeal Court, which has status similar to that of a High Court and has jurisdiction throughout South Africa.

Intellectual Property Rights

South Africa has a developed system of intellectual property law covering patents, industrial designs, copyright and trademarks. It is also a signatory to most of the international conventions in this field.

Environmental Regulations

In terms of Section 24 of the Constitution and the National Environmental Management Act (NEMA), the DTI is to take care that a sound balance is maintained between environmental and socio-economic aspects in all policies, plans, programmes and decisions, including the encouragement of investment, granting of incentives and all other interventions.

The DTI encourages existing industries to implement Cleaner Production (CP) as an internationally adopted tool that incur savings, increase competitiveness and elevates companies to higher levels of resource and energy efficiency.

The DTI at the 2002 World Summit on Sustainable Development established the National Cleaner Production Centre (NCPC), which implements CP in priority sectors, focusing on textiles, agro-processing and chemicals. NCPC sector projects are conducted in terms of TISA Customised Sector Programmes (CSP).

8. Conclusions

This will be written once the draft has been finalised.