

Achieving Mozambican Competitiveness. And Does the Global Financial Crisis Make a Difference?



Martin Webber
Executive Vice President
J.E. Austin Associates, Inc
mwebber@jeaustin.com

October 2008

Presentation Summary

- **What makes a country Competitive?**
- Determinants of Competitiveness
 - 1) Attractive to investors
 - 2) Services and skills available to business
 - 3) Competitive business
- Financial Crisis – how does it impact Mozambique’s pursuit of competitiveness
- Roles in building competitiveness

Senegal v. Ghana: The Story of an AGOA Investor



Comparing Investor Interest and Institutional Performance

What makes a country Competitive?



High Performance Countries

Breakout countries (high growth that began in the 19th century)

- UK
- USA – but “asleep at the wheel” in repeated financial supervision
- France, Germany, Benelux, Scandinavia, Switzerland, Austria
- Anglo countries
- Argentina (commodity boom)

Catch-up Growth Historic High Performers (diagonal line steep, continued):

- Ireland
- Japan
- Korea
- Taiwan
- Hong Kong
- Vietnam
- E. Europe & Baltic states
- Chile
- Costa Rica

- China

Not a short-term achievement: Competitiveness requires long-term enhancements in productivity and strategy to achieve economic growth

October 2008

Mozambique's Competitiveness

- How would we know that Mozambique is competitive?
- How would we know that Mozambique is intent on achieving competitiveness



How would we recognize a competitive Mozambique?

- Mozambicans are investing in businesses and agriculture
- Foreign investors are investing in non-extractive industries
- Mozambican services and products command premium prices
- Productivity per worker is high, so businesses invest in their workforce
- Labor is highly employed
- Mozambique is the choice service hub for East and Southern Africa

What would we expect to see in a country rapidly pursuing competitiveness?

- 1) Passion for actionable performance information
 - Actively collecting, understanding and utilizing data
- 2) Emphasizing key drivers of the competitive economy
 - Value proposition, skills, services, efficiencies
- 3) Constantly improving the environment for business
 - Reducing costs and risks, improving logistics and services
 - Institutional competitiveness in the public sector
- 4) Aggressively finding ways and reducing barriers to reach global markets



What would we expect to see in a country rapidly pursuing competitiveness?



- 5) Ensuring the workforce has the skills competitive businesses needs.
- 6) Fostering innovation and entrepreneurship.
- 7) Effective, action-oriented public-private dialogue.
- 8) National value proposition and competitiveness vision. Society-wide awareness of the requirements for competitiveness.

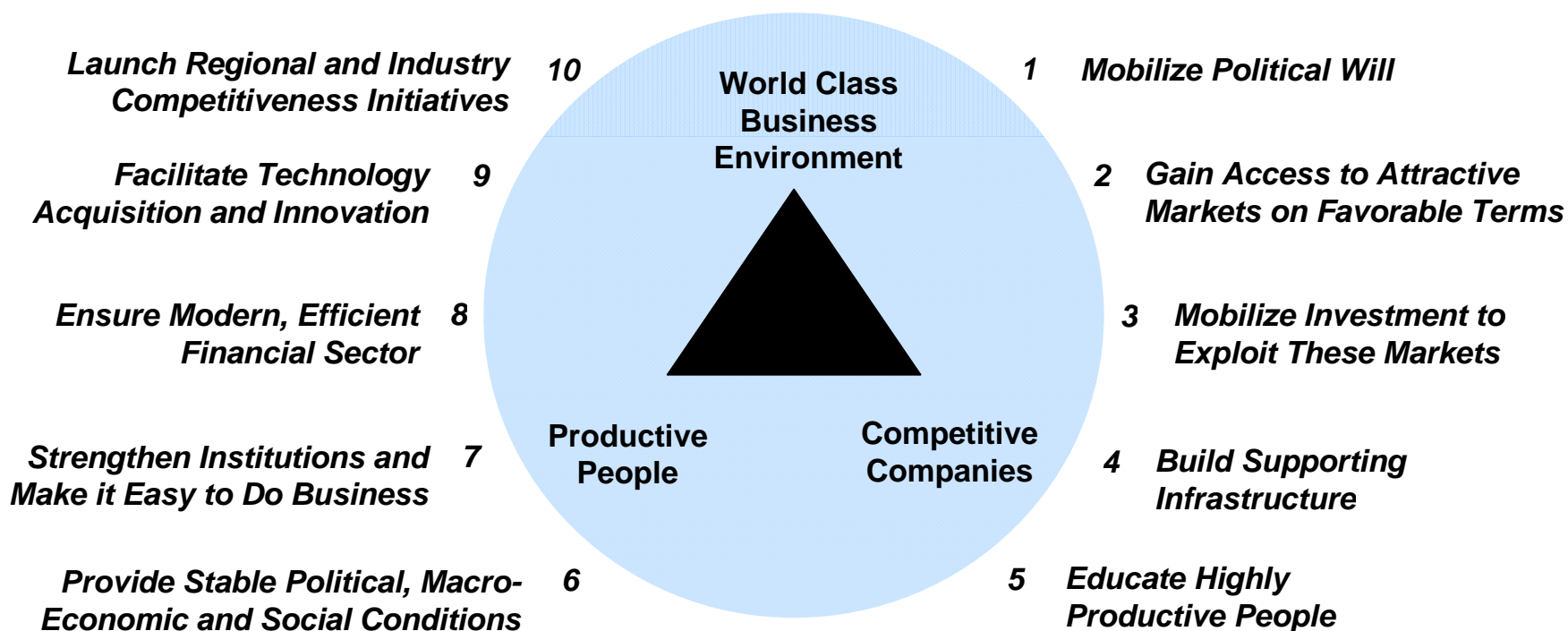


**What would we expect to see
in a country rapidly pursuing
competitiveness?**



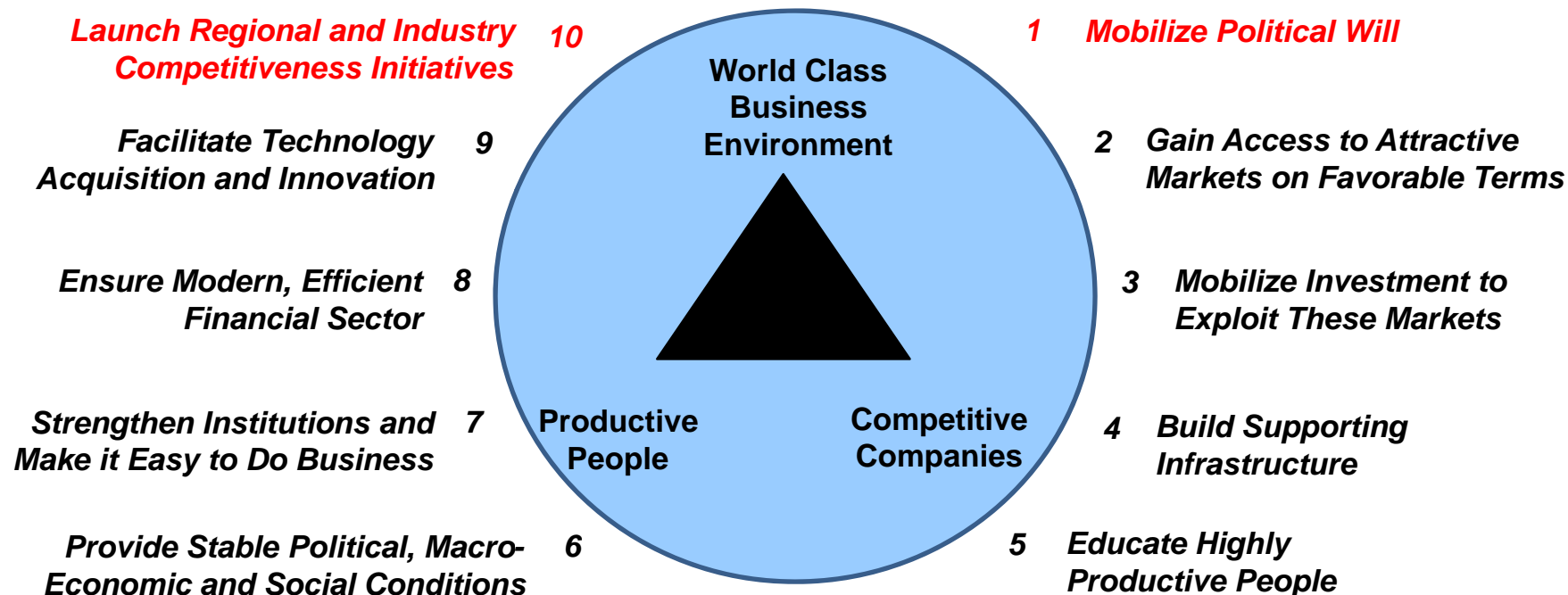
?

National Competitiveness Framework

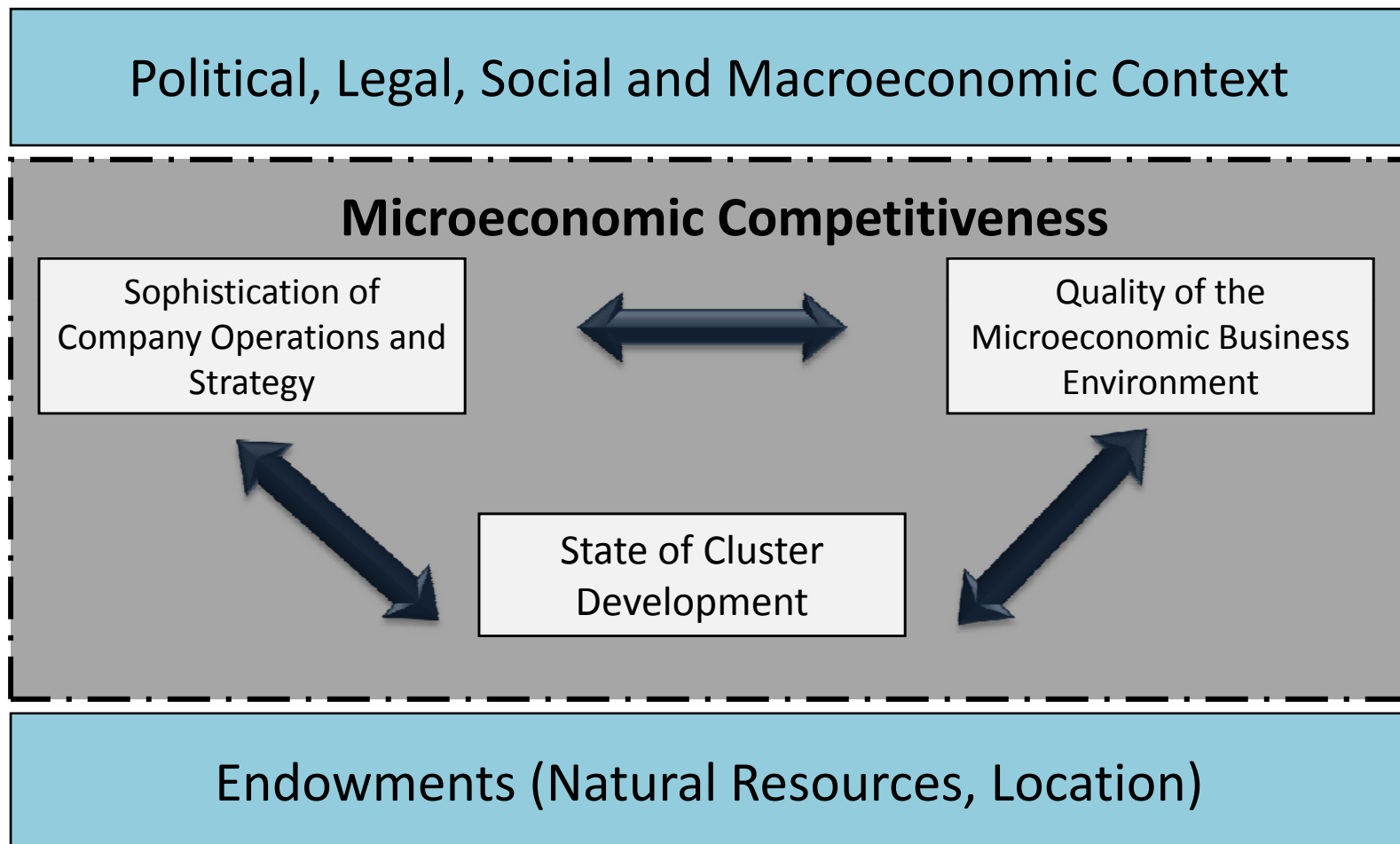


National Competitiveness Framework

Building Egypt's Competitiveness



The Competitiveness Paradigm: Porter Model Framework



Source: Michael Porter, 2007

Presentation Summary

- What makes a country Competitive?
- **Determinants of Competitiveness**
 - 1) Attractive to investors
 - 2) Services and skills available to business
 - 3) Competitive business
- Financial Crisis – how does it impact Mozambique’s pursuit of competitiveness
- Roles in building competitiveness

Competitiveness Rankings: The World is Paying Attention

Global Competitiveness Index, WEF
Business Competitiveness Index, ISC, HBS
World Bank Doing Business
World Competitiveness Yearbook, IMD
Quality of Life Index
Global Innovation Index
EIU Risk Indices (country and financial market)
UN Human Development Index
AT Kearney FDI Index

Global rankings are measuring the standards for success in the global economy: raising standards of living, reforming institutions, attracting talent and investment

1. What is attractive to investors?

- Predictable, manageable risks
- Low transaction costs
- Locations that are “right”
- Access to skills
- Access to services

Doing Business Indicators (2009)



Ease of Doing Business

Overall rankings

	2006	2007	2008	2009
Australia	6	8	10	9
Botswana	40	48	52	38
Ghana	82	94	82	87
Madagascar	131	149	151	144
Mauritius	23	32	29	24
Mozambique	110	140	139	141
R. South Africa	28	29	35	32
Senegal	132	146	168	149
Tanzania	140	142	124	127
Zambia	67	102	101	100

Global Competitiveness Report

Scores and rankings

	2004/05		2005/06		2006/07		2007/08	
	Rank	Score	Rank	Score	Rank	Score	Rank	Score
Australia	16	4.63	18	5.31	19	5.29	19	5.17
Botswana	58	3.75	72	3.94	81	3.79	76	3.96
Ghana	68	3.62	78	3.82	N/A	N/A	N/A	N/A
Madagascar	85	3.36	107	3.3	109	3.27	118	3.36
Mauritius	50	3.86	55	4.08	55	4.2	40	4.16
Mozambique	100	2.98	112	3.17	121	2.94	128	3.02
RSA	36	4.08	40	4.43	45	4.36	44	4.42
Senegal	N/A	N/A	N/A	N/A	N/A	N/A	100	3.61
Tanzania	97	3.14	105	3.35	104	3.39	104	3.56
Zambia	91	3.25	N/A	N/A	115	3.16	122	3.29

October 2008



Doing Business Indicators (2009)



Mozambique's best performance

Protecting investors	38 th
Paying taxes	88 th
Getting credit	123 rd

Generally, Mozambique underperforms

Registering property	149 th
Dealing with construction permits	153 rd
Employing workers	161 st



Doing Business Indicators (2009)



Where Mozambique has shown the greatest improvements

	<u>2008 Rank</u>	<u>2009 Rank</u>	<u>Δ</u>
Enforcing contracts	142	124	+18
Trading across borders	145	140	+5
Employing workers	166	161	+5

2. Competitive business

Traditional approach: produce more and sell more cheaply; subsidize at times

Competitiveness approach: higher-value products and services, value added where possible, more market linkage

Competitiveness approach: higher-value products and services, value added where possible, more market linkage

- Businesses learning to compete in the global marketplace
- Effective business strategy
- Operational efficiencies and economies of scale
- Business-business collaboration when a firm can't do it alone (associations, value chains, clusters, joint ventures)

Competitiveness approach: higher-value products and services, value added where possible, more market linkage

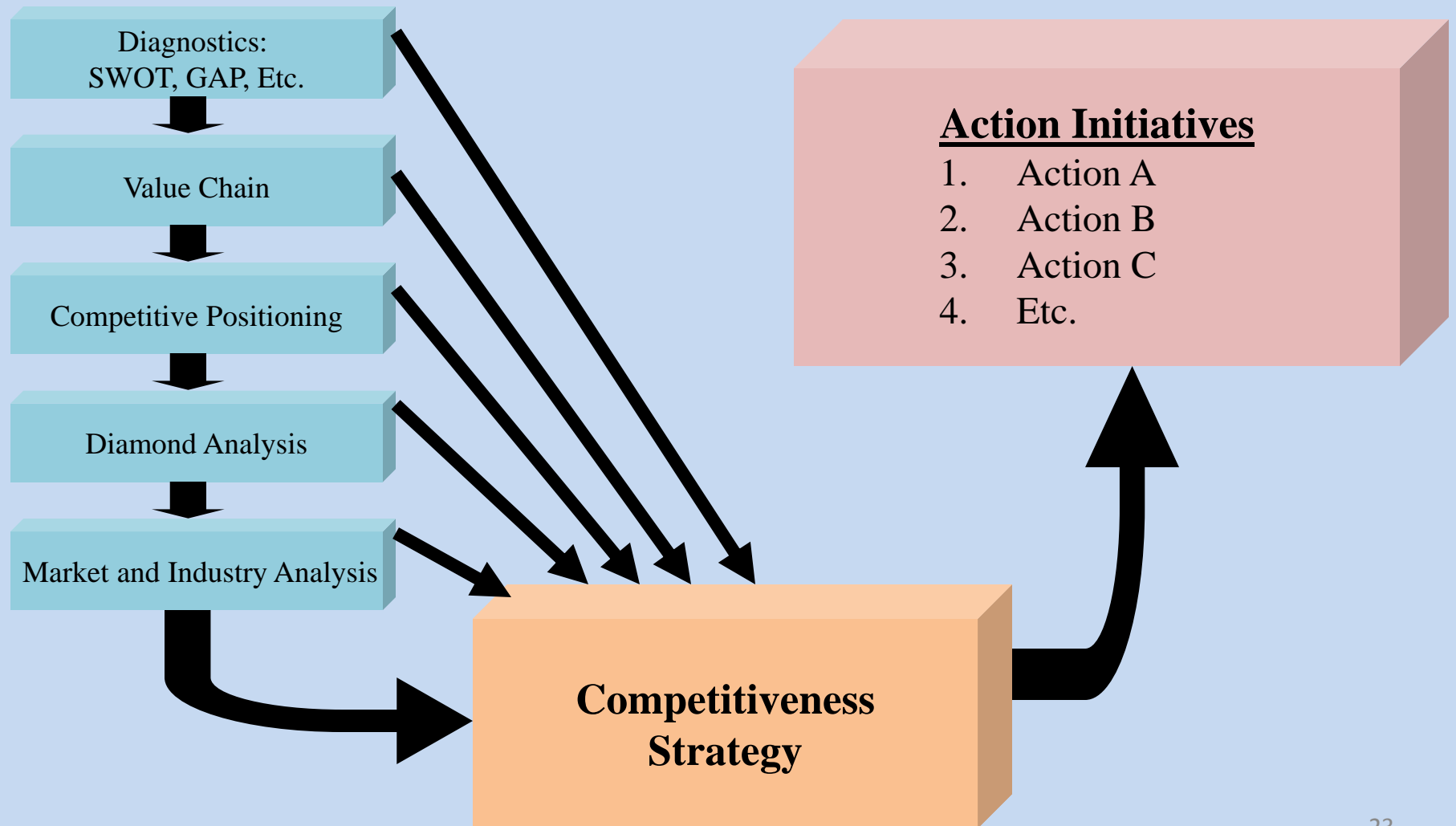
Questions and answer:

- Which markets and customers will pay more for a product or service?
- Which qualities will they pay more for?
- How can Mozambican business meet the needs of these more demanding customers?

and strategies to respond!



Business Competitiveness: Implementing Strategies

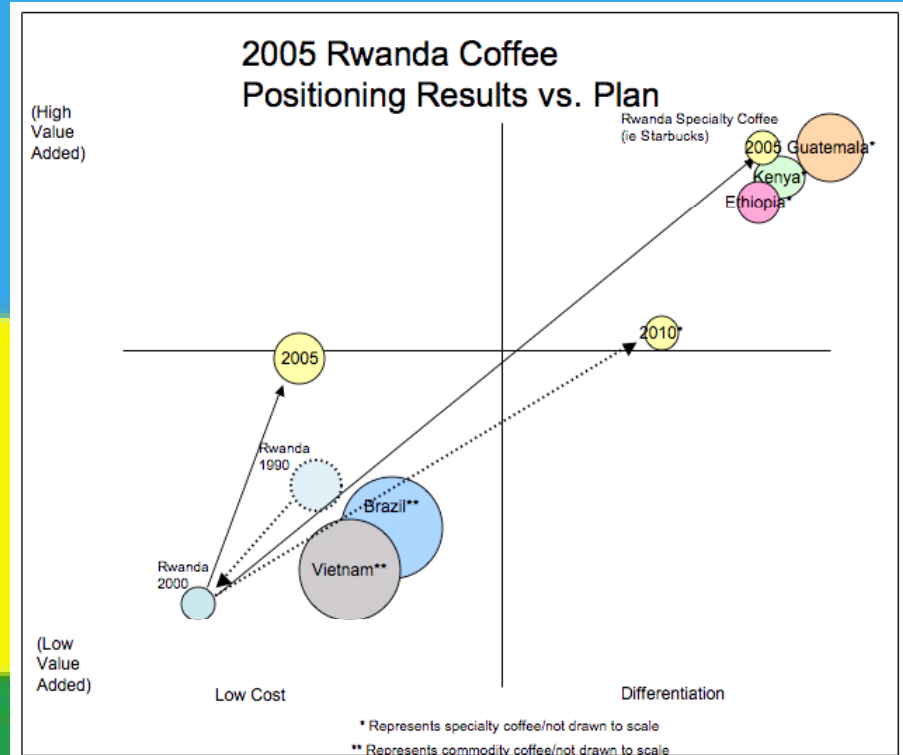
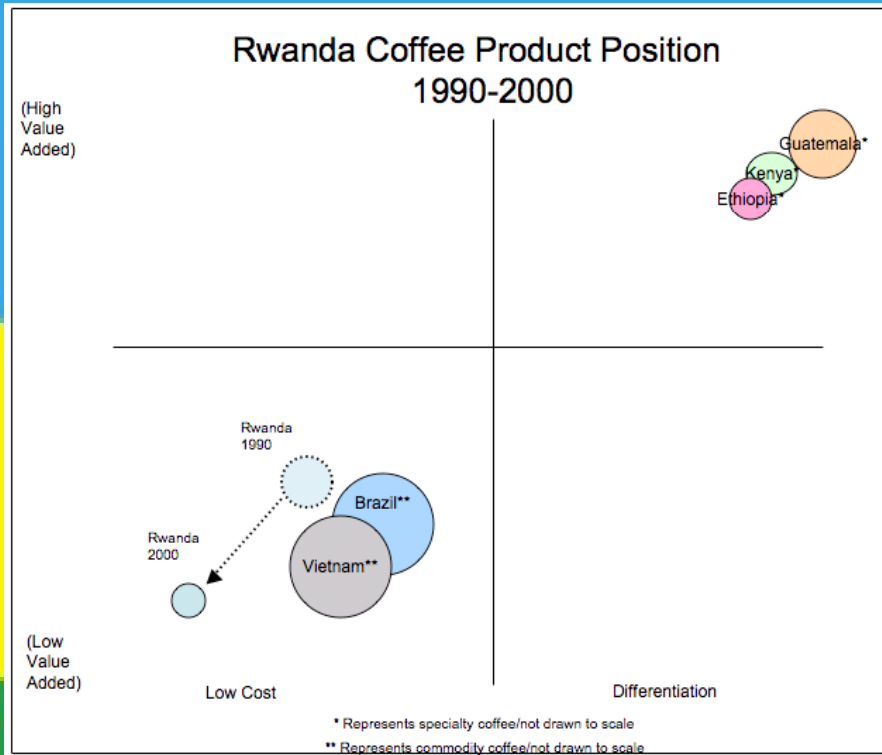


World Bank Value Chain Guide: 6 themes, 13 tools (expected December 2008)

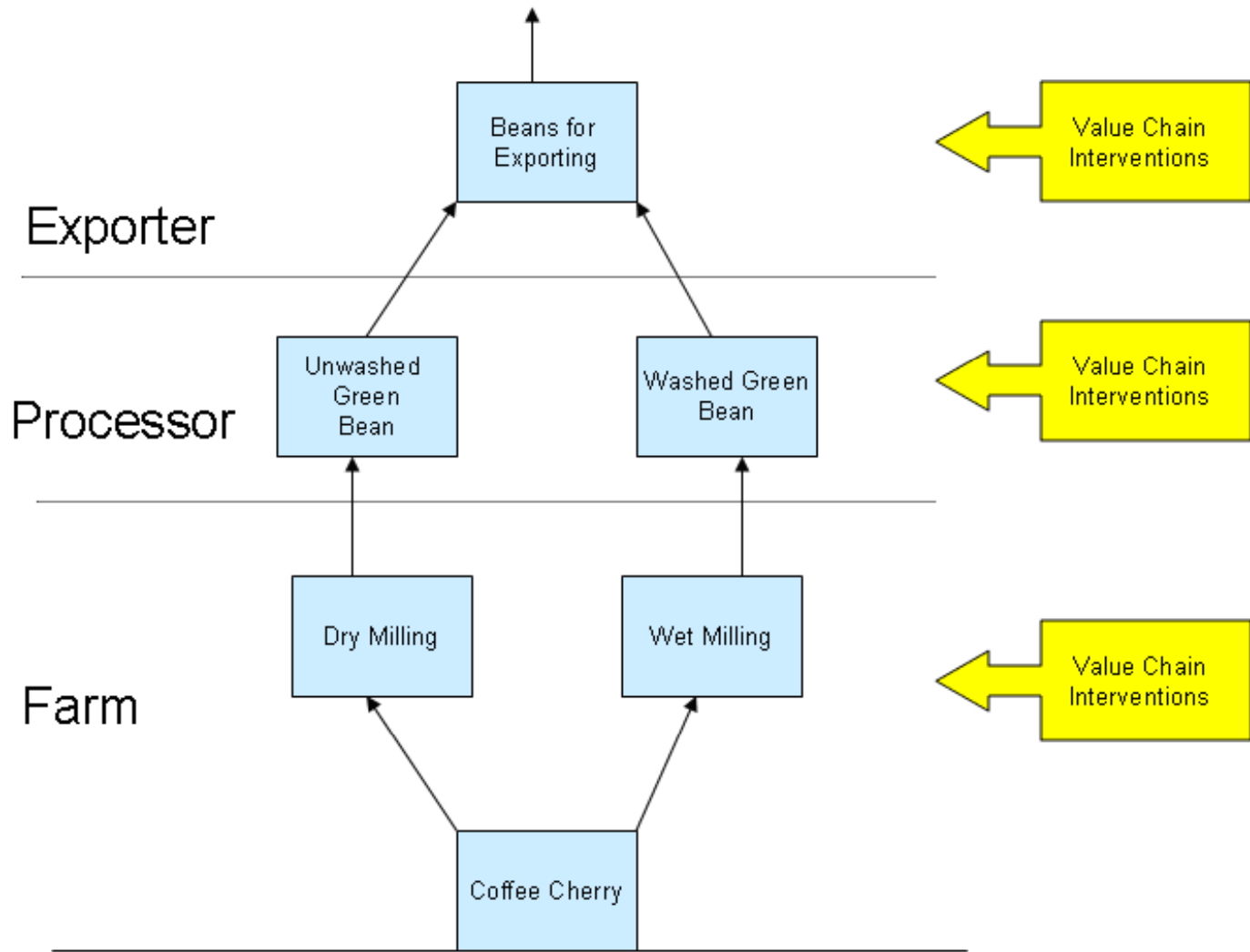
1. Designing strategies and business plans—
Obtaining and using information
2. Developing robust new businesses
3. Supplying the market—Aligning supply to
match market opportunity
4. Reaching the market—Market positioning and
market opportunities
5. Improving the business and policy environment
6. Monitoring results in value-chain development

RWANDA

Coffee Sector – Business Strategies (Positioning)



Coffee Value Chain





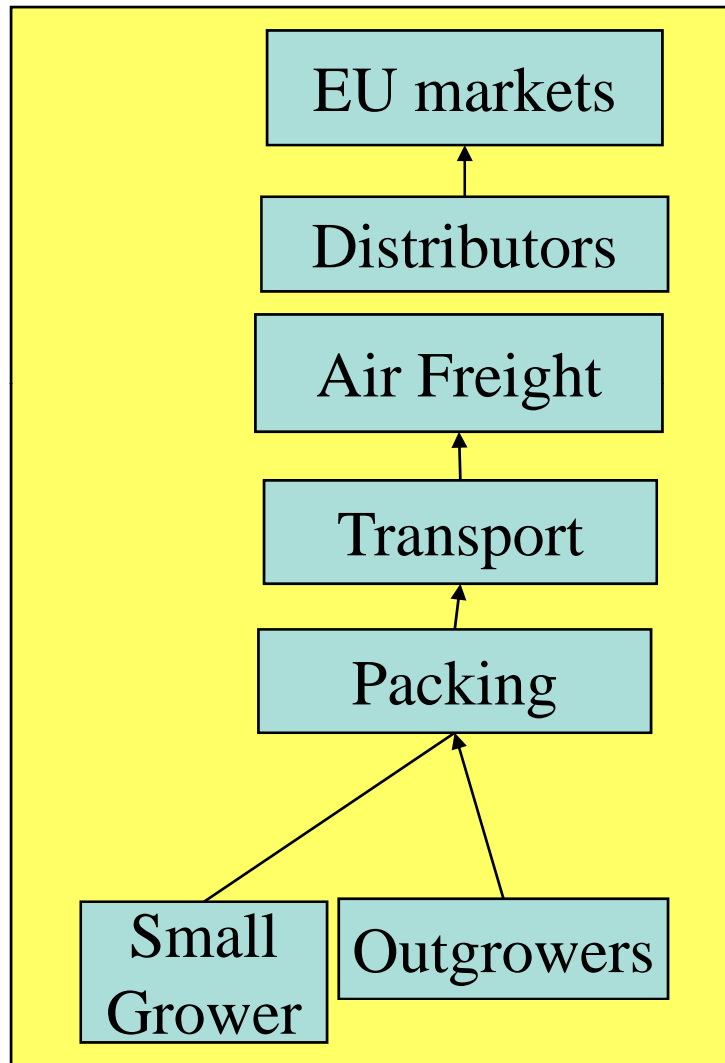
Ghana Pineapples: Vertical and Horizontal Integration

Capturing value through forward and backward
integration

Horizontal collaboration – taking advantage of
economies of scale

October 2008

J.E.AUSTIN ASSOCIATES, INC.



Ghana Fresh Pineapple Value Chain: **Starting Situation**

October 2008

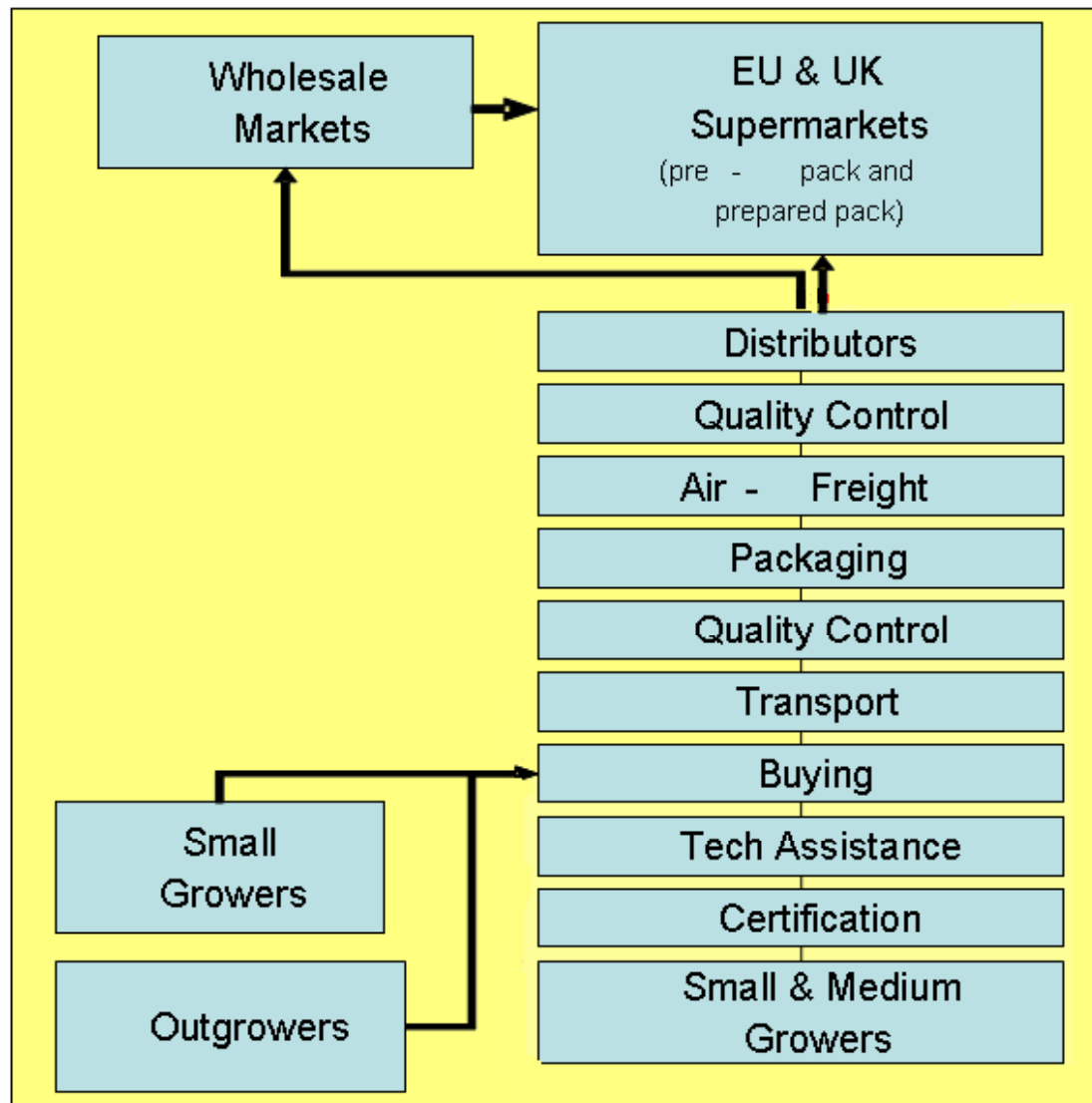


Some Reasons to Consider Vertical Integration

Why Integrate?	Considerations
Control Reasons	<ul style="list-style-type: none"> • Insufficient supply • Inadequate supply • Need for highly specialized inputs • Cost savings
Lack of Intermediation	<ul style="list-style-type: none"> • Ineffective communication and flow of information between members • Nonexistent technical/embedded services
Establishment and Expansion	<ul style="list-style-type: none"> • Solidify position in value chain • Lower costs through economies of scale • Alter competitive landscape
Capture More Value	<ul style="list-style-type: none"> • Opportunities to increase revenues without overstressing resources • Opportunities to undertake more functions without overstressing resources • Opportunities to create value



Ghana Fresh Pineapple Value Chain

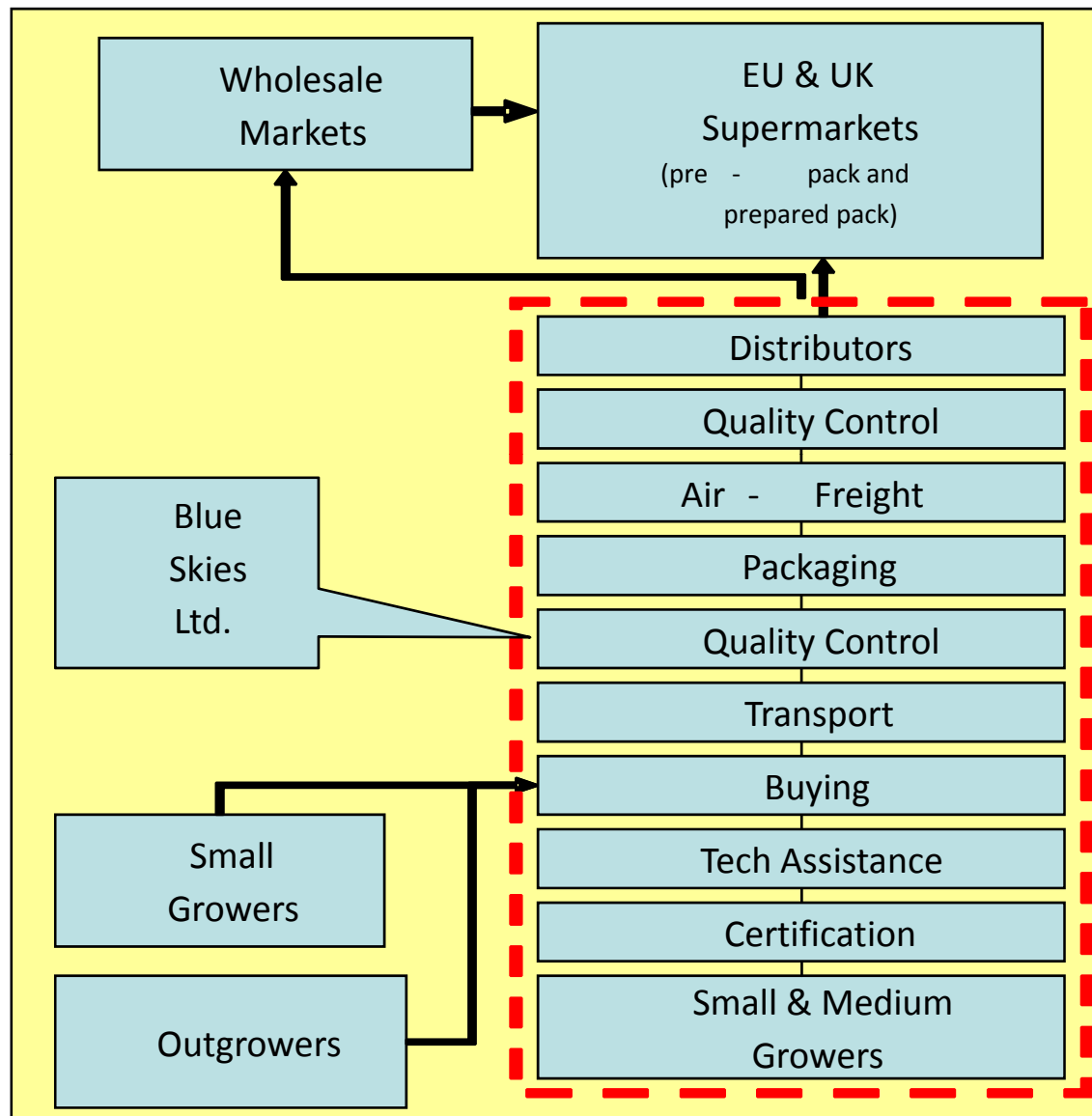


Blue Skies:
Capturing value
though forward
and backward
integration

October 2008

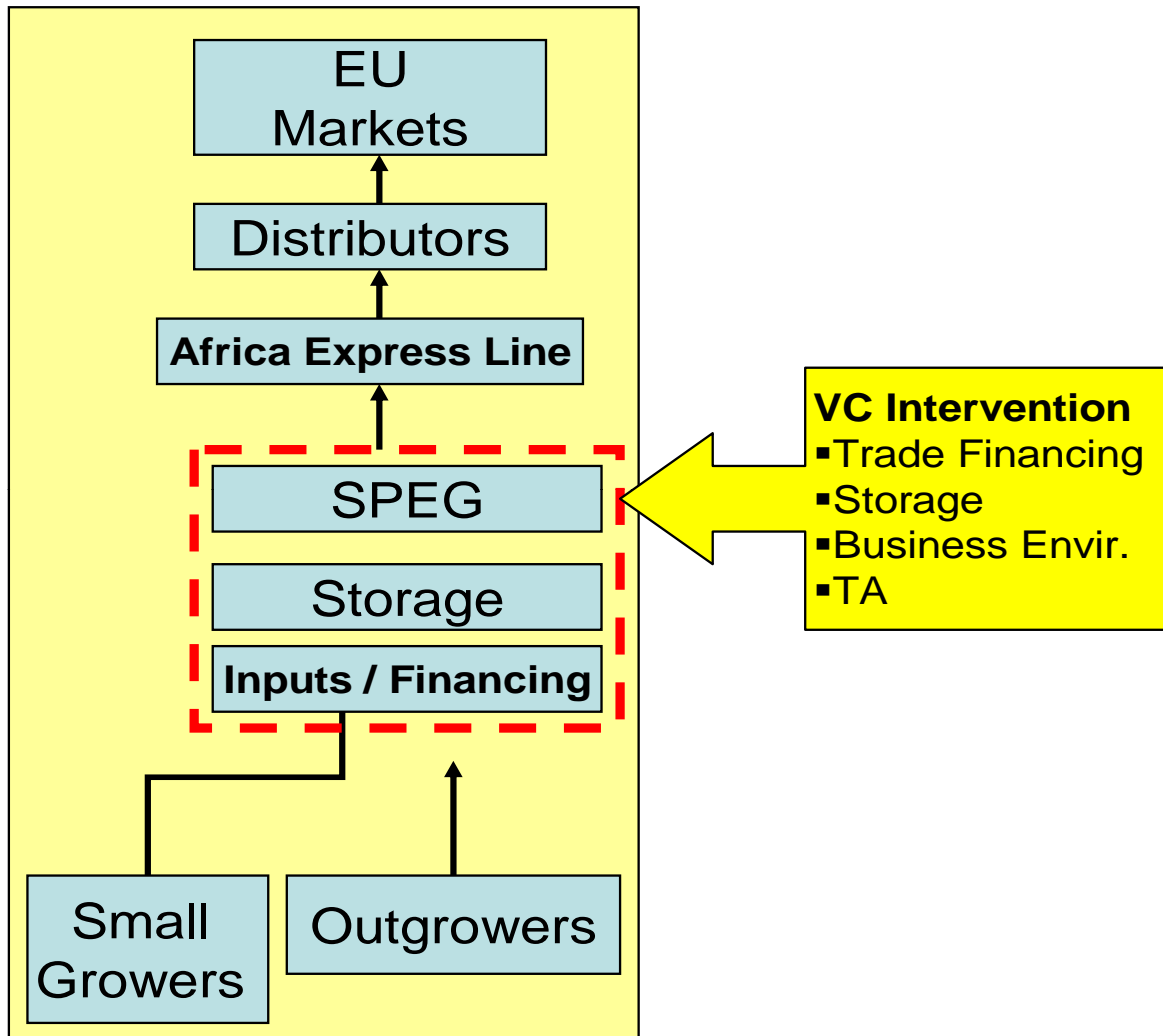


Ghana Fresh Pineapple Value Chain



Blue Skies:
Capturing value
through forward
and backward
integration

Ghana Pineapple Value Chain



SPEG Exporter Channel

SPEG:
Horizontal
collaboration
– Taking
advantage of
economies of
scale





Horizontal collaboration – Recognizing economies of scale



- Sea Freight Pineapple Exporters of Ghana (SPEG) Association
 - driving force in the Ghanaian pineapple industry; profitable from its inception
- **Main innovation:** shipping and warehousing at port to house pineapples
- SPEG is also working with its members to meet **EUREPGAP standards** and implement new traceability, standards and certifications schemes
- **Pineapple exports from Ghana have increased** from 15,764 tons and \$5.6 million in 1995 to 57,392 tons and \$18.3 million in 2003. The percentage of sea freighted exports to total pineapple exports increased from 17% in 1995 to 68% in 2003.

October 2008

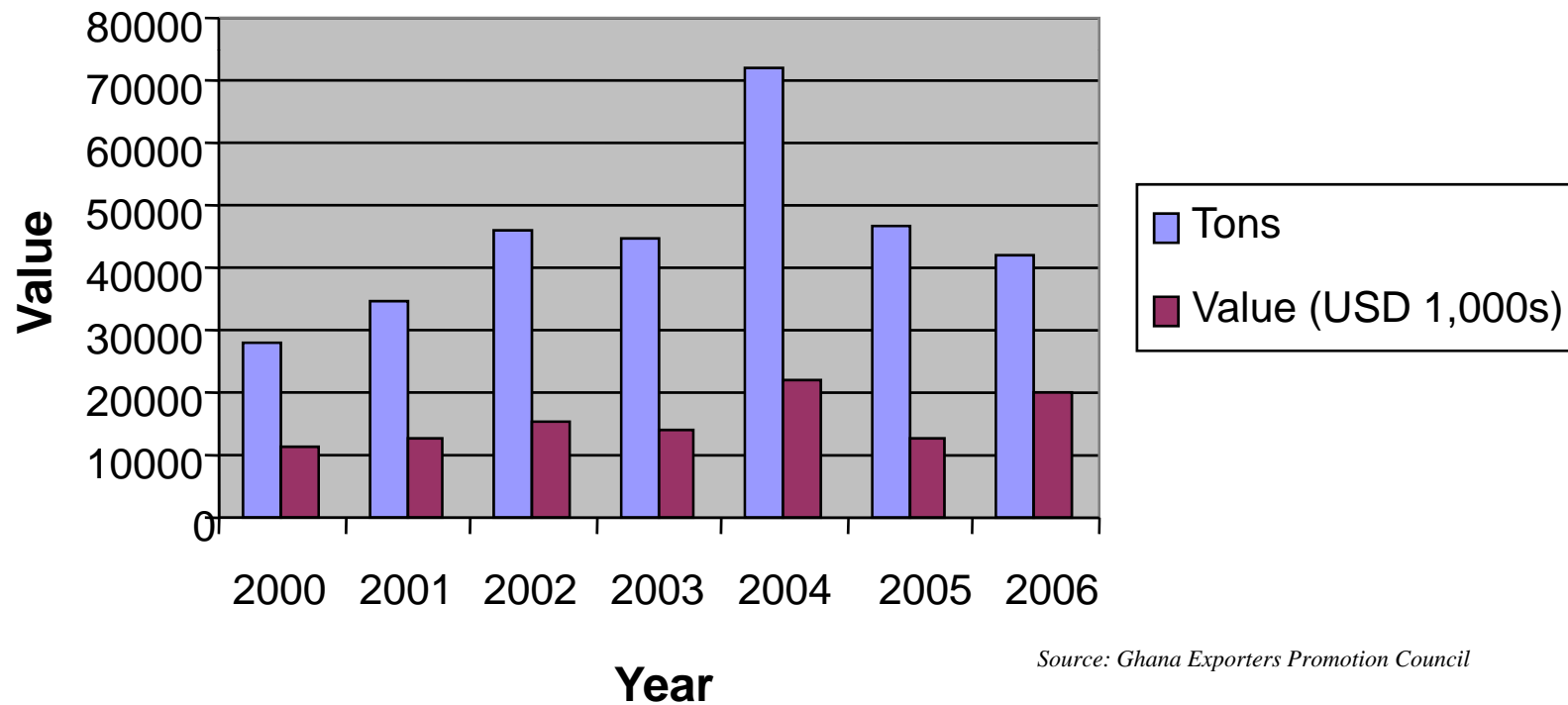
J.E.AUSTIN ASSOCIATES, INC.



Horizontal collaboration – taking advantage of economies of scale

Case: Ghana pineapple

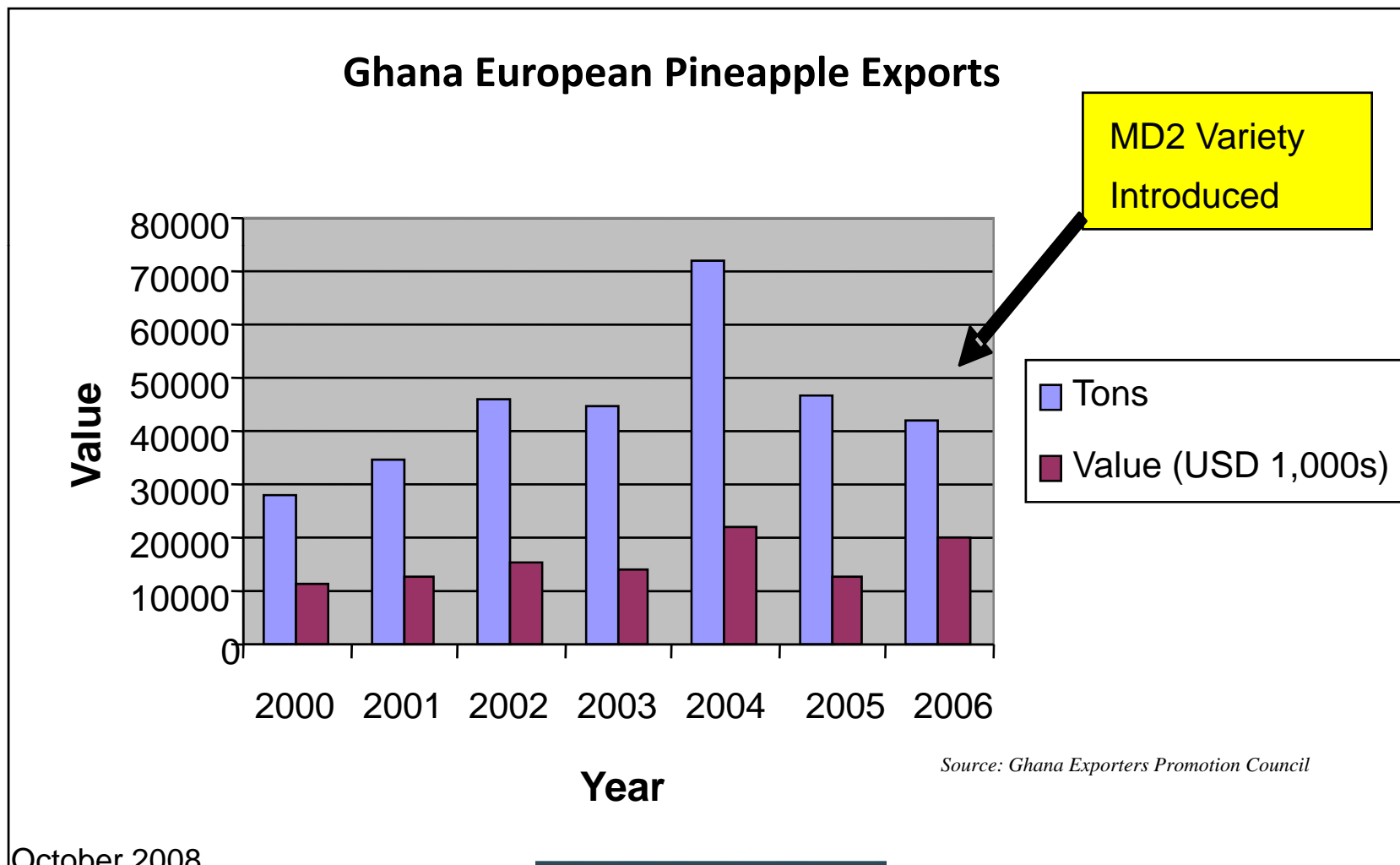
Ghana European Pineapple Exports



Source: Ghana Exporters Promotion Council

Horizontal collaboration – taking advantage of economies of scale

Case: Ghana pineapple

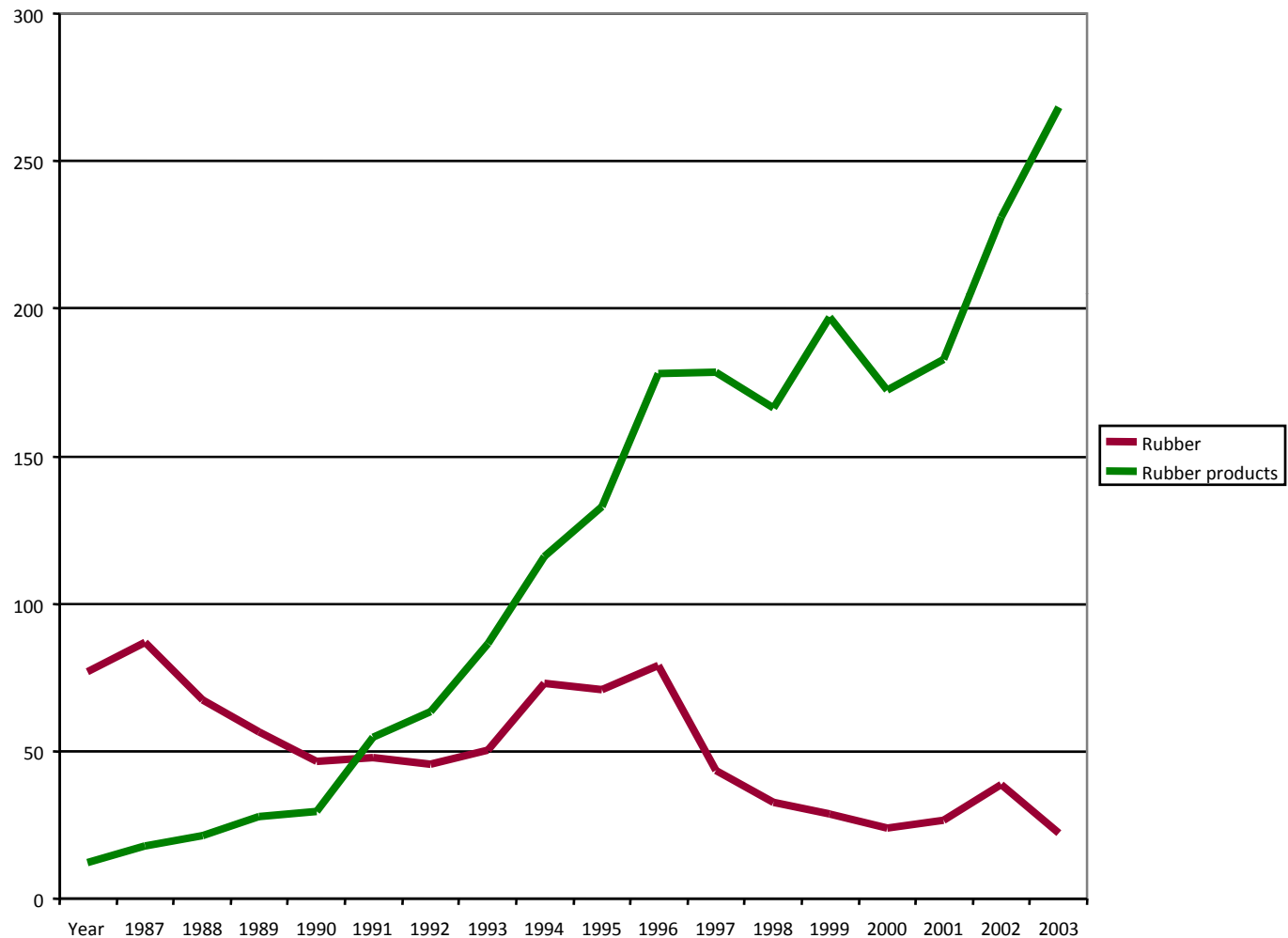


October 2008

Sri Lankan Rubber



The Sri Lanka Rubber Industry Repositioned Itself from Raw Rubber to Rubber Manufactured Exports



Source: Sri Lanka National Statistics

3. Services available to businesses

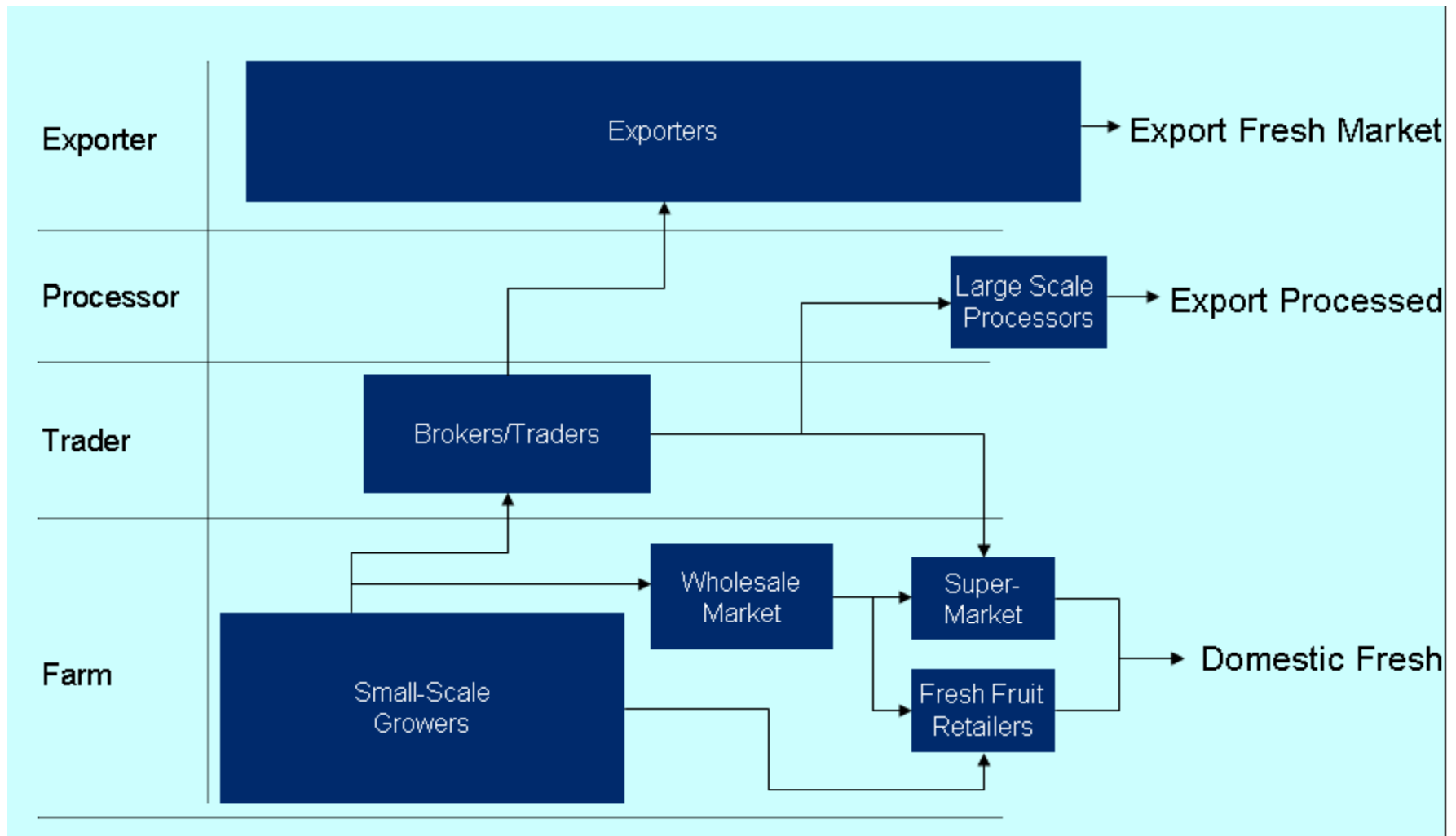
Employees with the skills that business needs:

- Pro-workplace attitudes
- Basic skills (i.e. trainable)
- Technical skills (vocational-technical)
- Experience in a work environment (vocational-technical and university)
- Advanced skills (university)
- Management skills, marketing skills
- Senior personnel with global industry perspective and network

Access to efficient and cost effective services, such as:

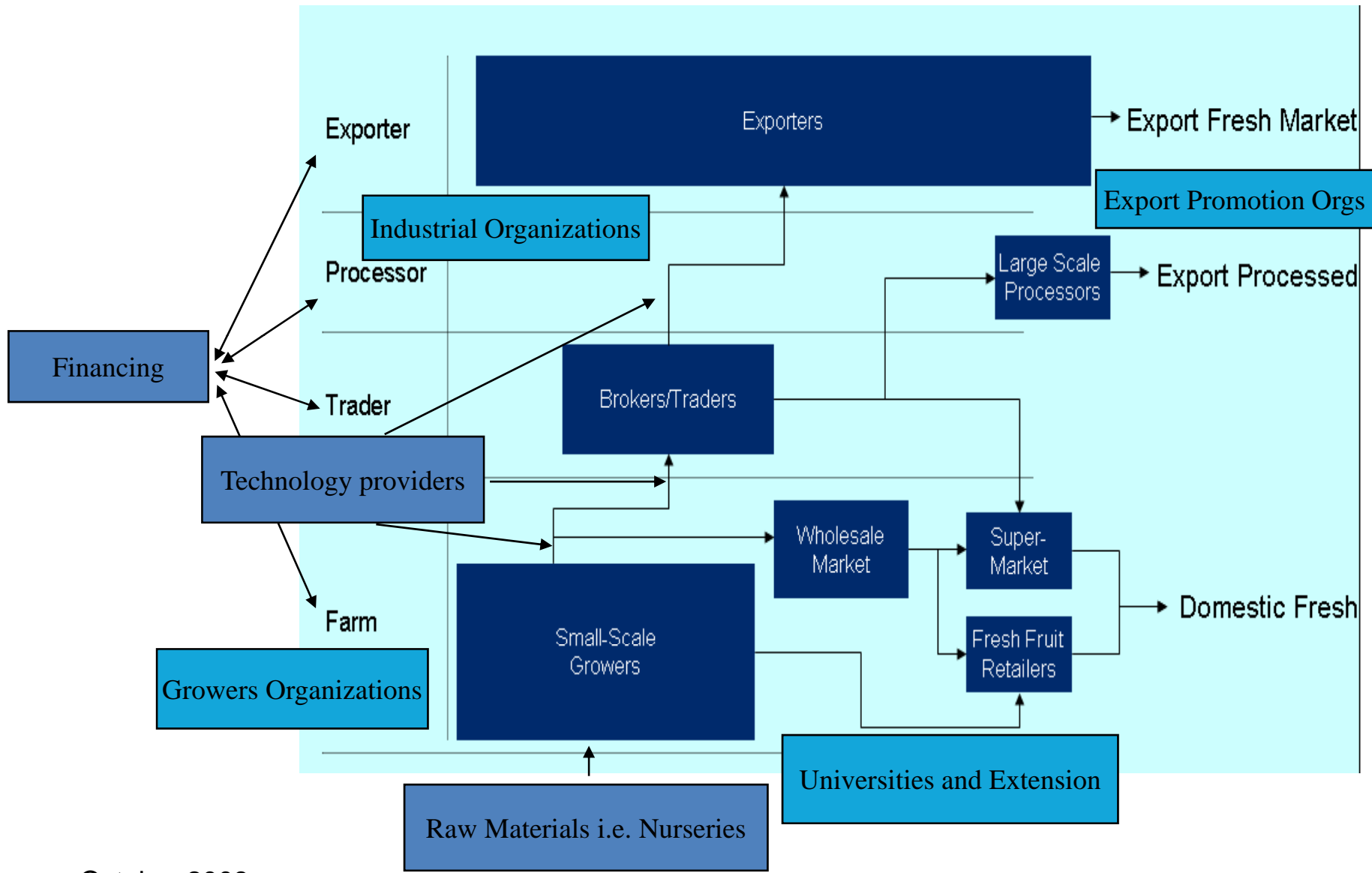
- Communications
- Transport and Logistics
- Packaging
- Financial services
- Customs operations
- Credit risk information
- Equipment and maintenance
- Much more

Kenyan Avocado Value Chain



October 2008

Kenyan Avocado VC – with service providers



October 2008

Kenyan Avocado Value Chain



Basic VC

Exporters
Processors
Brokers
Retailers
Small Growers

Enhanced with service providers

Exporters
Export Promotion Authorities
Processors
Industrial Organizations
Brokers
Packaging Specialists
Retailers
Crop Protection and Machinery
Companies
Agricultural Banks
Growers Associations
Extension
Small Growers
Raw Materials Providers

Presentation Summary

- What makes a country Competitive?
- Determinants of Competitiveness
 - 1) Attractive to investors
 - 2) Services and skills available to business
 - 3) Competitive business
- **Financial Crisis – how does it impact Mozambique’s pursuit of competitiveness**
- Roles in building competitiveness



Mobilizing investments: Countries emphasized various models

- Singapore and Ireland: Foreign Direct Investment
- Japan and South Korea: Large Domestic Companies
- Taiwan: Small Family Companies
- Asian Tigers: High Savings and High Investment



Finance is critical to all sectors

Provide a well-functioning financial sector



- Accessible and deep credit penetration (with credit risk information)
- Efficient allocation of resources
- Competition driving innovation in financial products
- Demonstrations reduce financing risk for replicable businesses
- FDI, especially “smart” FDI
 - Joint ventures
- Supply chain financing
- Risk management and appropriate regulation

October 2008



Financial Crisis!

Competitiveness is a long term endeavor.

Will the financial crisis have (negative) long term impacts for Mozambique?

October 2008

J.E.AUSTIN ASSOCIATES, INC.

Financial Crisis

Impacts:

- 1) **Lower demand** for basic products – mining, agricultural commodities, commodity tourism
 - Hence less national income to invest in productivity
- 2) **Less development assistance?**
- 3) **More difficult to attract investment**
 - Less investment capital available
 - Smaller appetite for risk

Financial Crisis

Really big impact:

- Competitor countries will emerge from the crisis with IMPROVED levels of productivity and competitiveness.

So...

Conclusion (Mitigation)

- Even more important to make Mozambique attractive to investors

Remove risks, unnecessary costs, impediments to business operating efficiently

- Emphasize competitive business strategies and operations: *higher value, market linkage, differentiation*

Presentation Summary

- What makes a country Competitive?
- Determinants of Competitiveness
 - 1) Attractive to investors
 - 2) Services and skills available to business
 - 3) Competitive business
- Financial Crisis – how does it impact Mozambique’s pursuit of competitiveness
- **Roles in building competitiveness**

Roles in building competitiveness

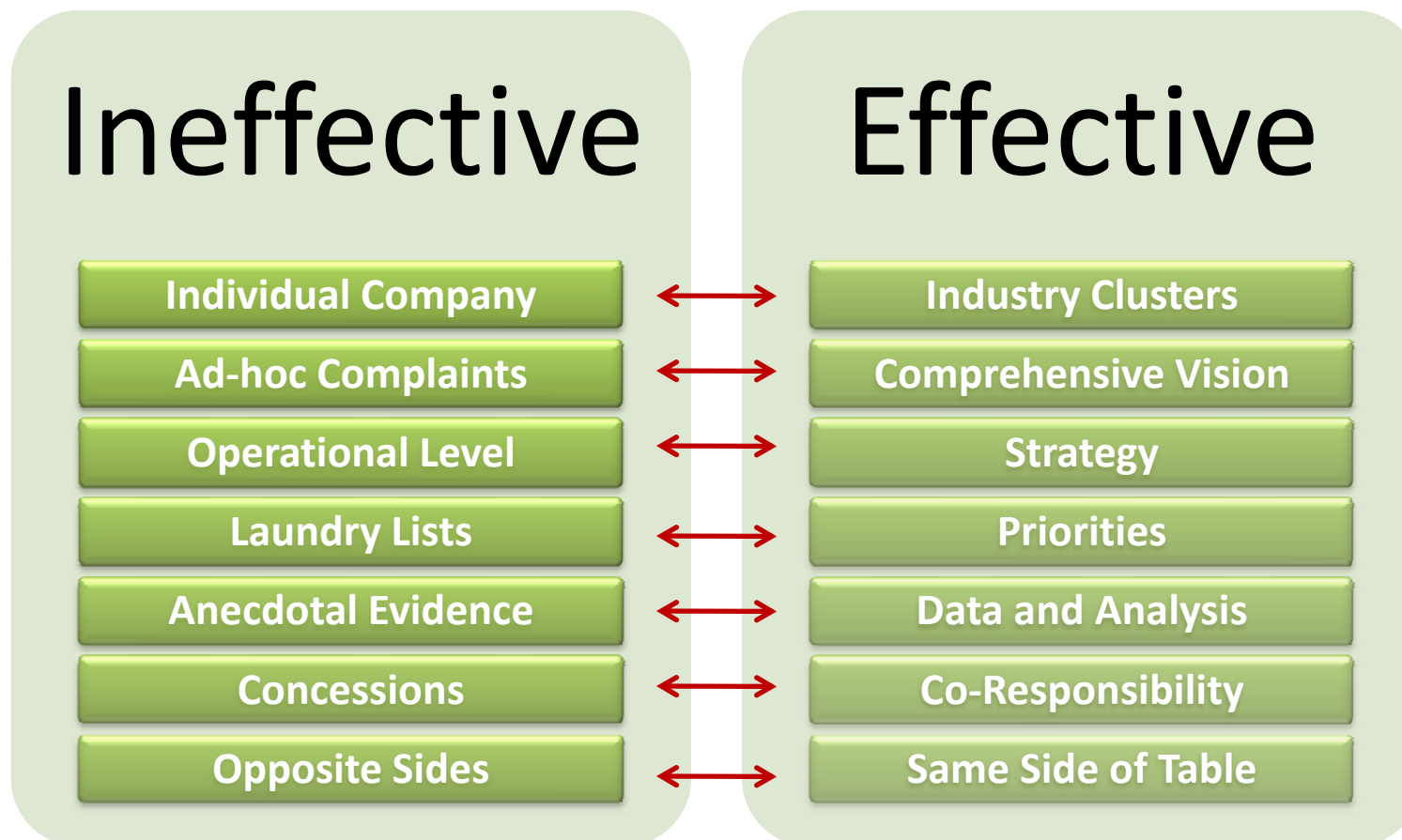
- ***Business***

- 1) Good strategies, well implemented
- 2) Let government know what is needed
- 3) Business-business collaboration when collaboration has impact – services, co-investments

- ***Government***

- 1) Listen to business
- 2) Make Mozambique a sound location for business strategy, investment and operation
- 3) Address issues of risks, transaction costs, quality of the public sector, service availability, skills

Pursuing Effective Public-Private Dialogue: How Does It Work in Mozambique?



Mobilizing Political Will

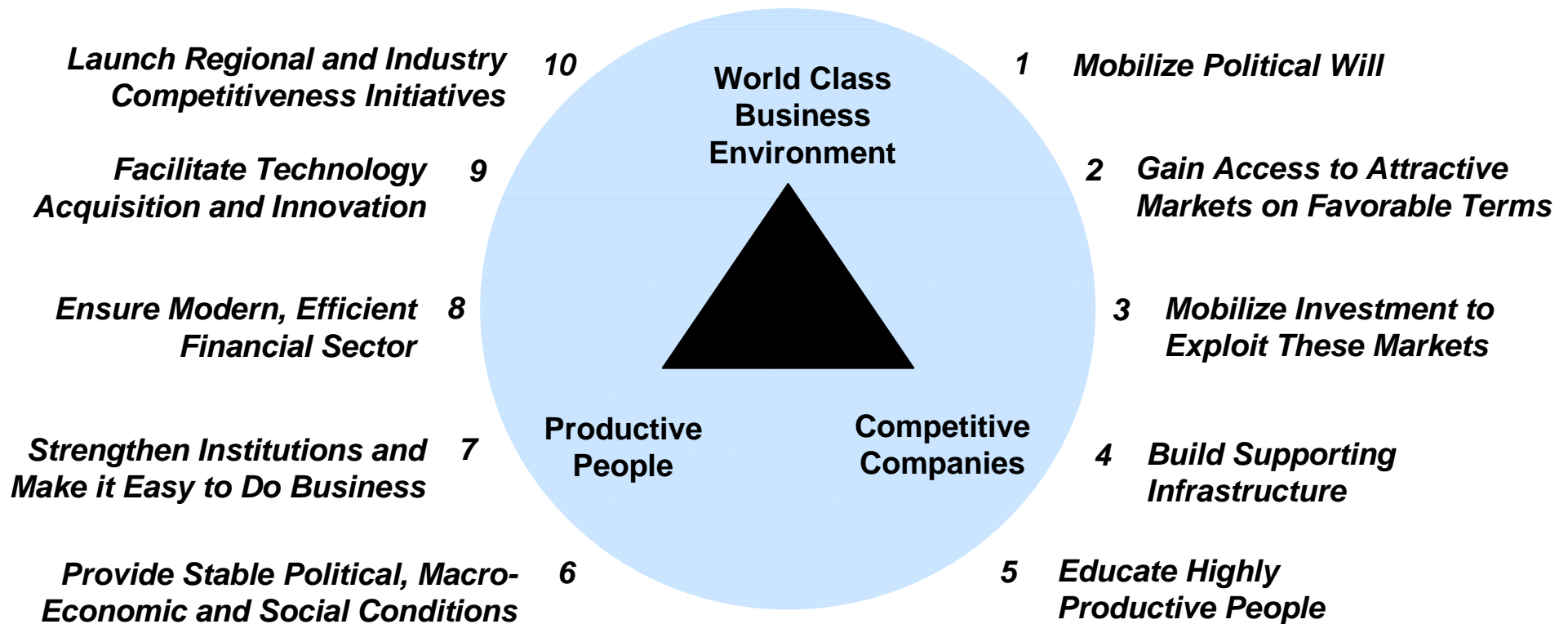
Biggest challenge = mindset of people

- Need to change the vocabulary
- Need to change mindsets
- Need to share the vision and principles

Political will is the critical enabler.



National Competitiveness Framework





Thank You

October 2008

J.E.AUSTIN ASSOCIATES, INC.