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SPEED
Por Melhor Ambiente
De Negócios

Business Environment in Moçambique



A snapshot



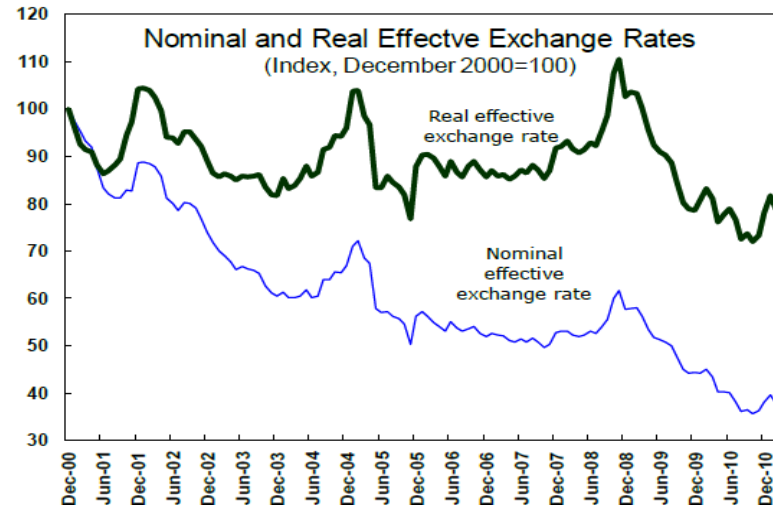
Rosario Marapusse

Maputo, October 2012

1. Business Environment Today

1.1. From post-conflict to progress

- The country's recent economic performance has been grounded in overall macroeconomic stability, policy reform and pro-poor government expenditure;
- The Government's primary budget deficit is declining and debt is being kept within sustainable levels;
- The economy is mainly driven by mega-projects and the South African market;
- During the last 15 years, Mozambique has received about USD 8 billion in foreign aid, almost USD 600 million per year, which is 50% of annual budget and 17% of country's GDP.



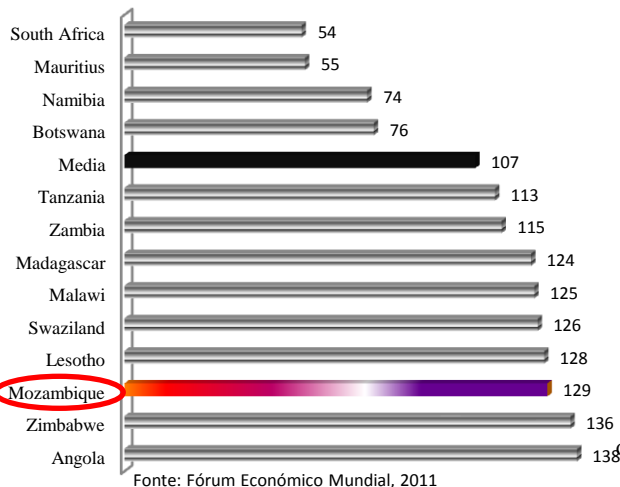
Index	2003	2004	2005	2006	2007	2008	2009	2010	2011
GDP (million USD)	4789	5904	6579	6948	10892	11604	12154		
GDP growth (%)	7.9	7.5	8.4	8	7.2	7	6.8		
GNI per capita	230	270	310	340					
Inflation (%)	13.5	12.9	6.4	13.2	7.9	7.1	5.3		
USD/MZM exchange rate	23.78	22.58	23.06	24.98	27.07	28.23	28.89		

1. Business Environment Today

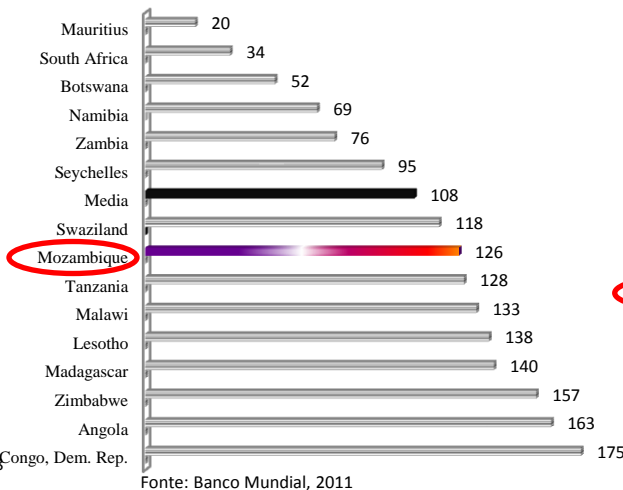
1.2. Quick overview to international rankings

- Mozambique has made considerable progress in removing administrative barriers to establishment and operation of private enterprises;
- Government policy is focused on providing incentives to promote investment and the key laws and regulations are already in place;
- Banking and foreign exchange have been liberalized;
- The Government's privatization program has facilitated investment, especially in infrastructure PPPs such as ports and railways;
- In spite of significant efforts Mozambique still scores poorly in international assessments of business environment.

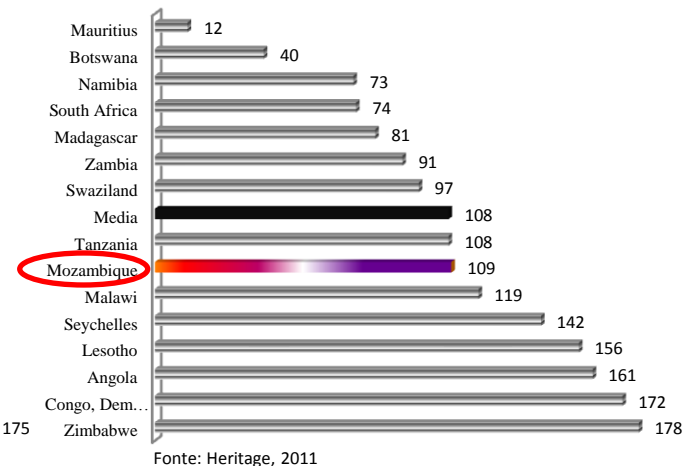
Índice de Competitividade Global 2010-2011



Doing Business 2011



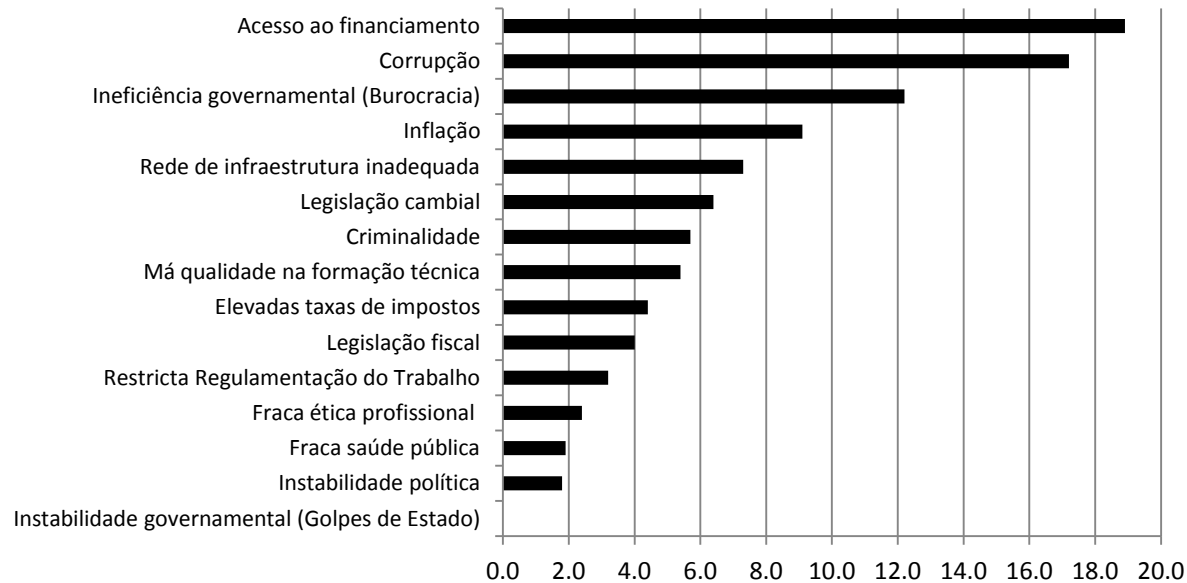
Índice de Liberdade Económica 2011



2. BE: Challenges and constraints

2.1 The most problematic factors

- KPMG ranking, WB ranking. Have a look to the email sent to AF



Fonte: Fórum Económico Mundial, 2011

2.1 The most problematic factors

2.1.1 Bureaucracy and corruption

Key issues on bureaucracy:

- Mozambique is broadly perceived as a highly bureaucratic operating environment for private companies due to:
 - The low level of training of public employees,
 - The complexity of the regulations;
 - and the lack of enforcement

Key issues on corruption:

- Corruption remains persistent and represents a significant risk to further growth and development.
- Two levels of corruption:
 - Petty corruption involving low-level civil servants;
 - Grand corruption involving higher-level government officials;
- It is a result of:
 - Weak institutional capacity;
 - Limited transparency;
 - Lack of accountability.

USAID/SPEED contribution:

- Contributed to the Anti-corruption legislation;
- Drafting a Law for public role in policy

Indicador de Governação	Ranking (percentil)	Média regional (percentil)	Diferença (Governance score)	
	0-100	0-100	-2.5 to +2.5	
Estabilidade política	55.5	33.5	0.29	1º
Prestação de contas e responsabilização	47.6	32.6	-0.02	2º
Eficácia governativa	42.7	26.3	-0.38	3º
Qualidade do processo regulatório	35.3	28.9	-0.47	4º
Corupção	34.3	30.8	-0.55	5º
Estado de direito	28.2	28.6	-0.66	6º

Fonte: Índice de Governação

2.1 The most problematic factors

2.1.2 Access to finance

Banks only lend against significant collateral :

- Much of the economy is informal. Banks cannot ask for financial documentation;
- All land belongs to the State and usage rights cannot be transferred. As a result, land cannot be used as collateral. Only in some cases (urban buildings) can a building be used as collateral.
- The bankruptcy procedures are slow and inefficient; banks know that they will recover only part of their loan (in the distant future), and so demand more collateral. **(SPEED)**

Lack of capacity

- Most entrepreneurs have little management experience and are unable to write solid business plans;
- Most banks do not have enough staff capable of evaluating a business plan.
- This situation impedes information flows and the development of confidence between borrowers and lenders.

Credit is costly

- Credit spreads and bank fees are abnormally high. The concentration of the banking sector reduces the competition. Fee income accounted for 43% of the income of the banks in 2005 and 2006.
- The rates are only bearable for short-term, highmargin trade operations – not for agriculture or industry.

Physical access to banks can be difficult

- *Half of bank branches are located in the Maputo province.*
- In other areas of the country, there are few branches and access is difficult.

The situation is even worse in the agriculture sector

- Lack of short-term working capital loans and no long-term investment loans;
- There is no network of local bank branches with intimate knowledge of their clients and therefore able to lend without collateral;
- However, there are some alternative financing methods: remittances from migrant workers employed in South Africa

2.1 The most problematic factors

2.1.3 Access to land

Key issues:

- Lack of clarity on the requirements and processes necessary to obtain a title, especially for large projects;
- Using land as guarantee or collateral is impossible because of no private ownership and use rights are not tradable;
- Land is held by people (single or collective persons) who are not using or developing it;
- Deliberate bureaucracy and generalized corruption;
- Lack of practical application of the land law;
- Centralized geography and mapping department.

Reforms required:

- Disseminate the land law, its applications and principal requirements, more widely, in particular as it relates to the approval of investment projects.
- Reform the land law allowing the transferability of ownership so land may be used as collateral for bank loans and other forms of credit.
- Simplify administrative processes by computerizing departments and front desks.
- Conduct mapping and zoning in advance of requests to identify which land is already allocated and which is not.
- Build institutional capacity building in the provinces and districts to counteract the centralization of the land registry in Maputo.

USAID/SPEED contribution:

- Drafted and published a Land Manual to address the lack of information on the requirements and processes necessary to obtain a title;
- Concessions in protected areas

2.1 The most problematic factors

2.1.4 Paying taxes

Key issues:

- Companies must make 37 payments, spend 230 hours to comply with current tax legislation. This has resulted in relatively high compliance costs, in particular for an economy where nearly 80% of companies have only five employees;
- It seems GoM is not interested in applying laws to better manage the country, but to better collect fines.
- Those working in finance departments do not have a solid understanding of the legislation, and this includes finance inspectors, who often charge payments not stipulated in the legislation.
- The rates are excessive (39% of profit) in comparison with the cost of living in Mozambique and in fact reduction could increase income for the government because the informal sector is a refuge from formal sector taxes. Lower rates and better application would increase significantly the number of those contributing.
- Lack of punctuality of functionaries causes long lines, especially in the last 4 or 5 days before payments are due.
- Long delays in VAT reimbursement

Reforms required:

- Fiscal reform should be accompanied by incentives to modernize companies in accounting and financial management;
- Streamline the procedures to pay taxes; **(SPEED)**
- Stop requiring registration for ISPC on those with turnovers less than the minimum threshold for payment of ISPC; **(SPEED)**
- Develop and approve invoices that can be issued by purchasing firms on behalf of the supplier; **(SPEED)**
- Develop rules so that “taxa liberatoria” is not applied to smallholder farmers; **(SPEED)**
- Amend the VAT law and clearly state which supplies are exempt and which are zero-rated; **(SPEED)**
- Develop a taxpayer service function including creation of brochures on VAT issues. **(SPEED)**

2.1 The most problematic factors

2.1.5 Trading across borders

Key issues:

- Very high inherent costs, such as:
 - Warehousing in terminals that are charged according to value of goods and not space occupied;
 - High scanning fees
- Excessive bureaucracy at the customs terminals (eg. PSI) frequently cause delays, raising costs for the company and encouraging unofficial payments.
- Corruption above all in the middle and lower levels of the hierarchy.
- Lack of appropriate location for verifying goods often results in delays and damage to goods.
- Reduced operating hours at borders and terminals.

Reforms required in relation to the import process:

- Revise the method for calculating warehousing prices (not on value of goods);
- Have 24-hour operations at the border;
- Continue organizing and simplifying processes, and encouraging transparency, clarity and efficiency in the terminals.
- Improve dissemination of new legislation, and further clarify dissemination of procedures. **(SPEED)**
- Improve the IT system (single window). **(SPEED)**
- Expedite clearance for certain types of goods, such as perishables and raw materials needed for national industry.
- Review the capacity for PSI which often penalizes importers by causing excessive delays through inefficiency. **(SPEED)**

2.1 The most problematic factors

2.1.7 Dealing with construction permits

Key issues:

- Lack of information on the requirements and processes necessary to obtain a title, especially for large projects;
- Using land as guarantee or collateral is complicated or impossible because it is not possible to own land;
- Land is held by people (single or collective persons) who are not using or developing it;
- Deliberate bureaucracy and generalized corruption;
- Lack of practical application of the land law;
- Centralized geography and mapping department.

Reforms required:

- Disseminate the land law, its applications and principal requirements, more widely, in particular as it relates to the approval of investment projects.
- Reform the land law allowing private ownership so land may be used as collateral for bank loans and other forms of credit.
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2.1.6 Infrastructure

General overview

- Mozambique's infrastructure development has been hampered by long-lasting civil wars and floods;
- Railway and port charges once made up a large share of the country's public revenue and rail, road and port handling were major service industries;
- There is a significant difference between the extreme South of the country (Maputo and Maputo province) and the rest of the country. Infrastructure (access to energy, transport), though not perfect, is much more developed around Maputo than elsewhere.

Key issues:

- Lack of competition in air transport;
- Under-developed potential in ports
- Quality and cost of electricity;
- Telecoms are poor, except mobiles;
- More progress on water and sanitation needed

2.2. Recent improvements

- **Registration of companies:** Created one-stop-shop, but it is not effective yet;
- **Licensing:** Created the simplified regime for licensing;
- **Labor dispute resolution:** Mediation and arbitration mechanism established;
- **Trading across borders:** Single window created;
- **Construction Permits:** Simplification of administrative procedures in Maputo.

2.3. New strategy coming soon – EMAN II

STRENGTHS

- Political and macroeconomic stability
- Success case among international community
- Considerable natural and mineral resources; and good geographical location
- Preferential access to import markets
- Low wages
- Proximity to large South African market

OPPORTUNITIES

- Become trade hub for Southern Africa
- Become a global agricultural producer/exporter
- Potential for tourism, FDI
- Natural resources to be further developed
- Develop linkages between mega projects and local firms
- Increase competition in transportation services

WEAKNESSES

- Poor quality of labor force
- Rigid labor laws
- High cost and limited access to financing
- Red tape (registration, licenses)
- Highly degraded basic infrastructure
- Poor export capability
- High HIV/AIDS prevalence, malaria

THREATS

- High level of corruption, low governance
- Food crisis
- Excess bureaucracy
- Increase oil prices
- Foreign competition threatens local firms
- Inadequacy of infrastructure (blackouts, etc.)
- Global warming (floods, drought, etc.)

3.

Opportunities for developing a vibrant private sector

Energy and Mineral resources

Coal;
Hydropower;
Natural Gas and oil;
Metals and gemstones.

Logistics and Transport Services

Serving landlocked neighbors;
Privatization (of air transport and coastal shipping);
Building on mega-projects;
Development of free zones.

Agribusiness

New commercial cultures;
Demand for biofuels;
Counter-seasonal production;
Rebuild livestock capacity

Tourism

Coastal and marine resources;
Wilderness and ecotourism;
Cultural tourism;
Building on regional tourism



Thank you!



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