

Mozambique-Country Economic Memorandum



Broadening Growth through Job Creation, Higher Productivity, and Regional Integration

Overview

The Country Economic Memorandum (CEM) highlighted the untapped potential for broad-based growth through exploitation of its natural and geographical endowment and suggested ways of linking into the large regional market in southern Africa. Follow-up workshops in Namaacha (Mar 2010) and Maputo (Feb 2011) facilitated national debates on the reorientation of policies to remove constraints to growth and to achieve inclusive growth addressing pro-business reforms; raising agricultural productivity; improving land use; taxation of megaprojects; management of natural resources concessions; improving labor market skills; and reorientation of public expenditure toward the traditional sectors. As a result of these debates generated by the CEM, the third PRSP draft incorporates these issues and commits to a new inclusive growth strategy.

Challenge

Mozambique successfully emerged from post-war recovery achieving one of the highest GDP growth rates in the world for nearly 2 decades. The Government instituted reforms to restore a stable macroeconomic environment and rebuild the social infrastructure, attracting high levels of FDI and development aid. Substantial expansion of basic services allowed improvements in access to education and health services, together with a steady reduction in poverty. However, poverty reduction has stagnated in recent years, with traditional productive sectors trailing behind the capital-intensive megaprojects and natural resource development. Despite the existence of a large regional market, Mozambican export basket is quite narrow and not linked sufficiently with the traditional sectors (particularly agriculture) in which the majority of the labor force is engaged. Subsequent policy dialogues helped highlight the need for policy adjustments to make growth more inclusive and to better realize the growth potential, leading to efforts to remove the most significant constraints.

Approach

The CEM analyzed the development and growth experience in Mozambique over the last decade and highlighted the untapped potential for the country to diversify its productive and export base to access the neighboring southern African market where the average per capita income is five times greater than Mozambique. It identified various existing constraints to market access and broad-based growth and suggested key reforms in trade facilitation, trade

MORE INFORMATION

- » CEM Executive Summary (in Portuguese)
- » 2010 Namaacha Workshop
- » 2011 Maputo Workshop
- » Country Website
- » Country Brief
- » Data and Statistics

logistics, development of professional skills, natural resource management and taxation, and private sector development. The Bank is engaged in follow-up policy dialogue and technical support: land policy, private-public partnerships (PPPs), mineral concessions, and business licensing reforms. On land policy, the CEM contrasted the visible difference in land use intensity between Mozambique and South Africa which led to follow-up advisory work on land taxation and land valuation. On PPPs, technical support is being provided for the drafting of the PPP Law and for the operationalization of the new PPP Unit in Ministry of Finance. In addition, there is a wide recognition that spillovers from megaprojects need to be maximized through complementary development of supporting services, food agriculture, and focused TVET for skills development. Technical support for management and taxation of concessions has begun following the February 2011 Maputo workshop. Lastly, the Ministries of Justice; and Industry and Trade are keen on accelerating business licensing reforms (possibly using guillotine approach). Many of these have become PRSC triggers, also endorsed by development partners.

Results

The activity had the following impact:

- Key CEM findings on land taxation, business licensing reforms, megaproject/PPPs were converted into performance indicators for G19 general budget support and Governance Action Program (GAP matrix) during 2009-2010. As a first step to discourage land speculation, the Government adjusted the land taxes to adjust backwards for inflation since 1996. The second stage reform envisions a land taxation differentiating idle land and high value land based on location, soil, rainfall, proximity to roads and markets. Work is also underway to accelerate licensing reforms and to implement a guillotine approach to reduce bureaucratic procedures. The Government has drafted a PPP law and set up a PPP Unit in Ministry of Finance with Bank assistance.
- The Government asked the Bank to organize two national workshops: March 2010 workshop focusing on infrastructure gaps and financing of public infrastructure projects; February 2011 workshop on the transformation of productive sectors for inclusive growth and job creation. These 2 workshops enabled the national debate on Mozambique's development model and policy and expenditure reorientations needed. These discussions are reflected in the draft PRSP expected to be finalized in April 2011. The Bank's engagement and inputs have influenced the design of the third PRSP to focus on rural development and agricultural productivity, structural transformation to create more employment, and to improve the fiscal contribution of the mineral development and megaprojects.
- The CEM and the follow-up engagement by the Bank enriched the Government-donor policy dialogue under G19. The Bank supplied the dialogue forum with substantive observations and questions, and helped to create a constructive environment for cooperation. They underpinned the reforms in economic governance through adoption of a 10-point Governance Action Plan, helped to form a consensus on the need to negotiate better terms for megaprojects, and led to a curtailing of fiscal benefits (tax exemptions) offered to investors.

Bank Contribution

The total cost of the AAA activity was US\$941 thousand for the preparation of the CEM between FY06-FY10 and approximately US\$300,000 for follow-up activities.

Partners

The activity was financed both from the Bank Budget as well as financial contributions for workshops from Swiss Development Corporation, the Belgian Trust Fund and DFID.

Toward the Future

Government has requested the Bank's support in developing a broad-based long-term growth strategy. The Bank and Government intend to hold the national growth workshops on an

annual basis and produce a series of joint policy papers in order to motivate the debate. The Bank is also providing technical assistance in several strategic areas including land, mining concessions, business licensing reforms, and PPPs.