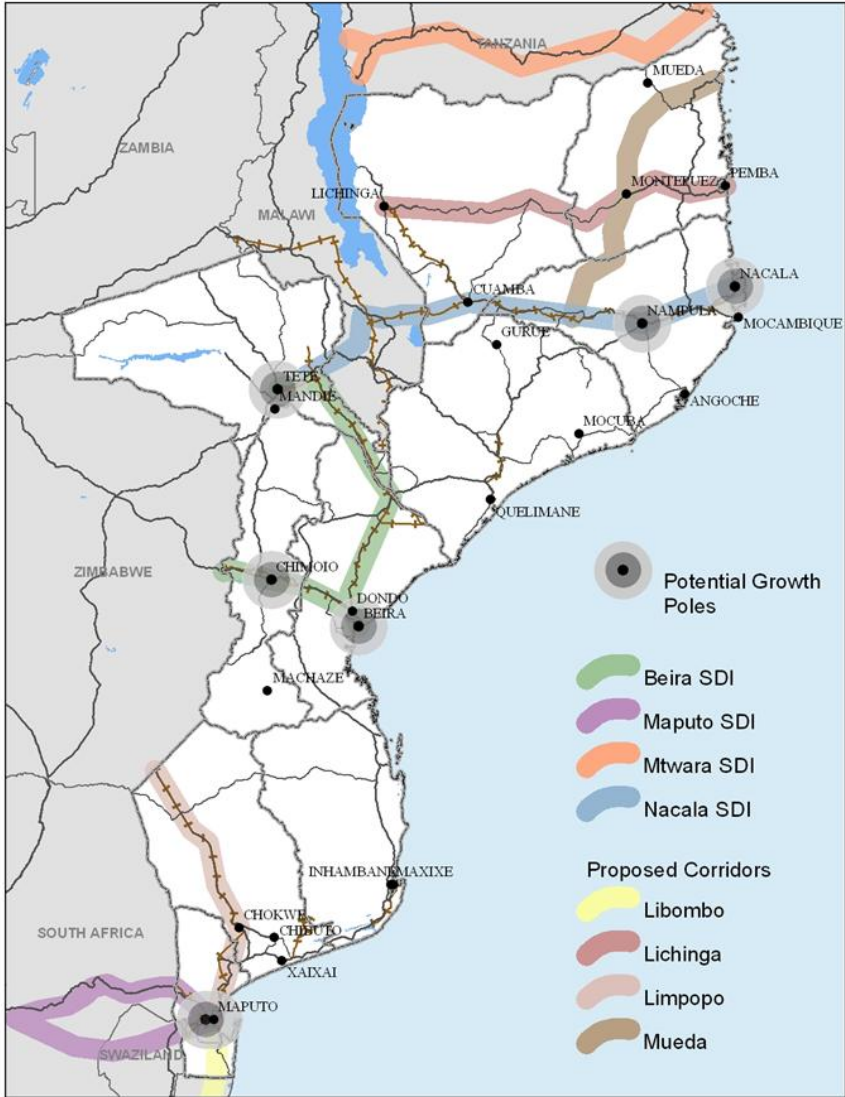


Prospects for Growth Poles in Mozambique

Summary Report

August 2010



The World Bank
 Finance & Private Sector Development
 Africa Region

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¹ This summary report is based on the findings of a more extensive study prepared by Mazen Bouri (Private Sector Development Specialist, AFTFE), Michael Engman (Young Professional, AFTFE), Tugba Gurcanlar (Consultant, AFTFW), Karen Jensen (Junior Professional Officer, AFTFE) and Ganesh Rasagam (Task Team Leader, Senior Private Sector Development Specialist, AFTFE), with valuable input from Ranga Rajan Krishnamani (Consultant, PRMTR) and Siobhan Murray (Technical Specialist, DECPI), and with the guidance of Michael Fuchs (Advisor, AFTFE) and Marilou Uy (Sector Director, AFTFP) in the World Bank's Finance and Private Sector Development Department, Africa Region (AFTFP).

1. OVERVIEW OF AN INTEGRATED GROWTH POLES STRATEGY IN MOZAMBIQUE

Study objective and scope

The objective of this study is to assist the Government of Mozambique in designing and implementing growth pole² strategies in selected subregions, based on current and proposed programs and international experiences. The study focuses on subregions situated on the three main development corridors: Beira, Maputo, and Nacala. These subregions were chosen based on their concentration of private investments, opportunities for private sector-led growth, current development challenges, and ongoing interventions, as well as their potential to demonstrate the benefits of an integrated growth poles approach. The corridors cover in particular the provinces of Maputo, Nampula, Sofala and Tete.

National context and growth poles strategies

The main goals of an integrated growth poles strategy for Mozambique are to promote private sector-led growth and employment while maximizing the development outcomes for sustainable and equitable growth, especially in underserved provinces. It consists of six pillars: (i) enhancing subnational economic competitiveness through business environment reforms; (ii) nurturing and developing local and indigenous enterprises by fostering linkages with large foreign investments; (iii) strengthening local institutional capacity; (iv) upgrading urban infrastructure; (v) strengthening economic governance; and (vi) improving management of the social and environmental impacts of large investments.

In terms of national development objectives, the growth poles strategy supports the Government's program for shared and equitable growth throughout the country. It addresses critical development challenges at the subnational level and seeks to strengthen the competitiveness of regions within the corridors. It also accelerates the outcomes of ongoing spatial development initiatives (SDIs) through targeted interventions. The proposed growth poles strategy in Mozambique will complement existing initiatives by the Government and its development partners, including the World Bank, at the national and local levels. One of its main objectives is to support local authorities in planning, coordinating, and finding synergies among the government, donor, and private sector interventions in the context of decentralization. Where possible, the growth poles strategy will build on lessons learned from local initiatives, and complement or scale up those that support an overall local development strategy.

Promoting shared and equitable growth: Over the past decade, economic growth has been driven primarily by a number of large investment projects in agriculture, infrastructure and mining, as well as by large inflows of overseas development assistance (ODA). Megaprojects³ have helped stimulate economic growth but account for less than 2 percent of urban private sector employment. The challenge is therefore to enhance job creation and technology transfers associated with large productive investments. In 2007-2009, the total value of investment projects authorized by Mozambique's Investment Promotion Agency (CPI) amounted to \$14.9 billion. If a significant proportion of these projects are realized and well managed, they would have the potential to transform the socioeconomic environment in Mozambique and create many thousands of new jobs.

² Growth poles can be defined as “points of economic growth or centers of economic activity that benefit from agglomeration economies, and through their interaction with surrounding areas spread prosperity from the core to the periphery.” See main report for the economic rationale and spatial planning aspects of a growth pole strategy.

³ Those investment that are larger than US\$500 million.

Accordingly, the Government's Second Action Plan for the Reduction of Absolute Poverty for 2006–09 (PARPA II) emphasizes private sector-led growth and greater productivity to manage and help realize this great potential for growth. PARPA II focuses on district-based development, creation of an environment favorable to growth of the productive sectors, and measures to help micro, small, and medium-sized enterprises (MSMEs) flourish in the formal sector. A key element of PARPA II is growth and employment driven by the private sector—especially by maximizing the linkages with and benefits from megaprojects and large infrastructure investments. These priorities are also reflected in both the Government's Five-Year Development Program (2005-2010) and the World Bank's Country Partnership Strategy (2008–2011), and are expected to be reaffirmed in the next Poverty Reduction Strategy Paper (2011–2015), currently under preparation. The objectives of growth pole strategies in Mozambique are directly in line with the priorities expressed in these national plans and programs.

Some early results from these strategies to promote equitable growth can be found in the spread of proposed private investments across the country. The geographic concentration of investments is increasingly reaching new subregions in line with the Government's strategy of decentralization and national and regional integration. This strategy aims to ensure sustainable and equitable growth throughout the country, especially the interior provinces. In 1990–2003, 75 percent of foreign direct investment (FDI) inflows were concentrated in Maputo City and Maputo Province. In 2005–2009, 12 percent of CPI-authorized investment projects were concentrated in Maputo Province, with most of the investments directed to the poorer interior provinces and districts far from Maputo. As investors increasingly venture outside the Maputo metro area, including in provinces such as Nampula, Sofala and Tete, they face challenges associated with less developed infrastructure, institutions and support services, and limited human capital. These provinces are well positioned to benefit from an integrated growth poles strategy in line with the government's strategy of decentralization and national and regional integration to ensure equitable and sustainable growth in the various parts of the country.

Addressing critical development challenges: With the country's gross domestic product (PPP) per capita at US\$886 (2009) and more than half the population still living below the poverty line, the Government of Mozambique faces considerable social and economic challenges. These include youth unemployment and poverty; the high prevalence of HIV infections; rural-urban migration; inadequate physical infrastructure and social services; lack of capacity to sustainably manage natural resources; and governance of mining revenues. An integrated growth poles strategy can help address some of these challenges through a coherent series of public and private sector investments planned and coordinated with the participation and strong ownership of local stakeholders.

Strengthening subnational competitiveness: Despite efforts to improve the investment climate, Mozambique still ranks low on international indicators of economic competitiveness and business environment. For example, in the 2009 World Bank/IFC *Ease of Doing Business Indicators*, Mozambique ranked 135 out of 183 countries, compared to 34 for South Africa and 45 for Botswana. It is particularly costly and/or burdensome to deal with construction permits, employ workers, register property, trade across borders, and enforce contracts. Similarly, in the World Economic Forum's *Global Competitiveness Report 2009-2010*, Mozambique ranked 129 out of 133 countries in terms of economic competitiveness. Poor access to finance, the perceived prevalence of corruption, inefficient government bureaucracy, inadequate infrastructure, and the education level of the workforce were regarded as particularly challenging. A World Bank enterprises survey in 2007 also found that the top private sector constraints in

Mozambique related to access to finance, practices of the informal sector, inadequate electricity supply, high tax rates, and crime, theft, and disorder. The shortage of technical skills is a particular constraint to local economic development and other concerns may be exacerbated in the provinces outside the capital. Addressing business environment constraints at the sub-national level in coordination with national agencies could lead to stronger ownership of the reform process and better outcomes.

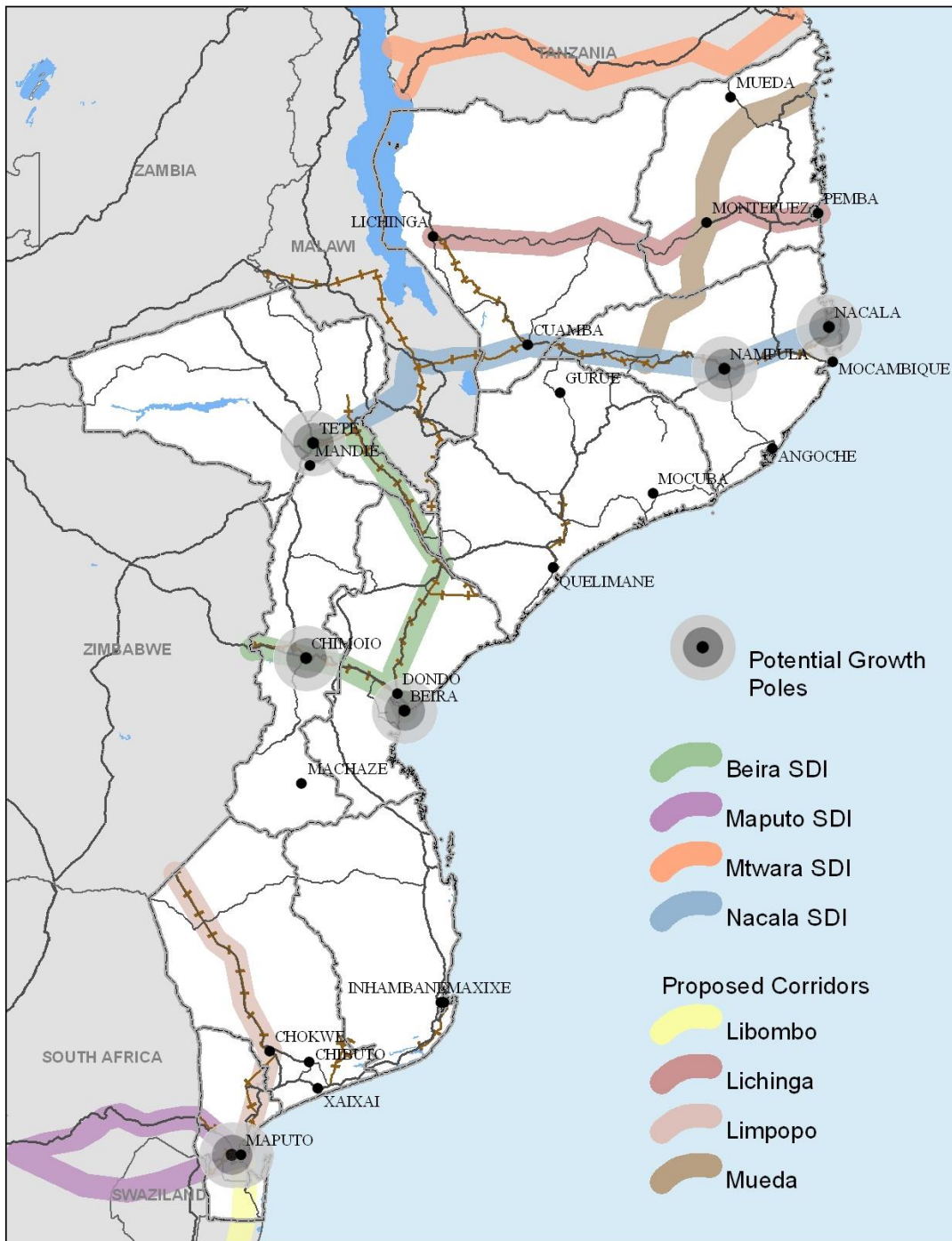
Accelerating the outcomes of development corridors: Mozambique has adopted a number of spatial development initiatives (SDIs), or development corridors, geared towards regional integration (Figure 1). The major development corridors include the Beira Corridor, the Maputo Corridor, the Mtwara Corridor, and the Nacala Corridor. While the Maputo Corridor has enjoyed some success, the other expected impacts of the SDI approach, in terms of *densification* (e.g. through provision of feeder infrastructure to support smallholder agriculture producers) and *deepening* (forging backward and forward linkages between the large investments and MSMEs), have yet to materialize for Mozambique. Given the current strong demand from private investors, the conditions are right for an accelerated growth poles approach to focus on selected sub-regions within these corridors to pilot innovative economic development models. A growth poles approach could also seek to maximize the efficiency gains from infrastructure spending by tapping synergies with existing projects, forging public-private partnerships and optimizing the utilization of infrastructure investments by targeting high growth areas. The strategy therefore complements the SDI and other development programs in the sub-regions.

2. ASSESSMENT OF POTENTIAL GROWTH POLES

The study assessed potential growth poles along the Beira, Maputo and Nacala Corridors, based on the size of authorized private investments, the current growth drivers, key development challenges, and existing mechanisms for public-private interactions and development partner programs. Based on this assessment, the best prospects for piloting a growth pole development strategy in Mozambique appear to be in **Tete Province** and **Nampula Province**. Maputo City, together with the Maputo Province, is already a well-developed growth pole, which undoubtedly has further potential for growth and will benefit from a growth poles approach possibly in the context of the industrial zones and the one stop border crossing facility. Similarly, Beira also offers potential as a growth pole especially in the context of the Beira Agricultural Growth Corridor initiative.⁴

⁴ Other spatial development initiatives may be assessed in a subsequent phase. It has been proposed that the provinces of Inhambane, Niassa and Zambezia are covered later on. Further analysis could determine the exact geographical delineation of the growth poles in each of these provinces, based on the location of investments and the required infrastructure investments, as well as spatial planning considerations.

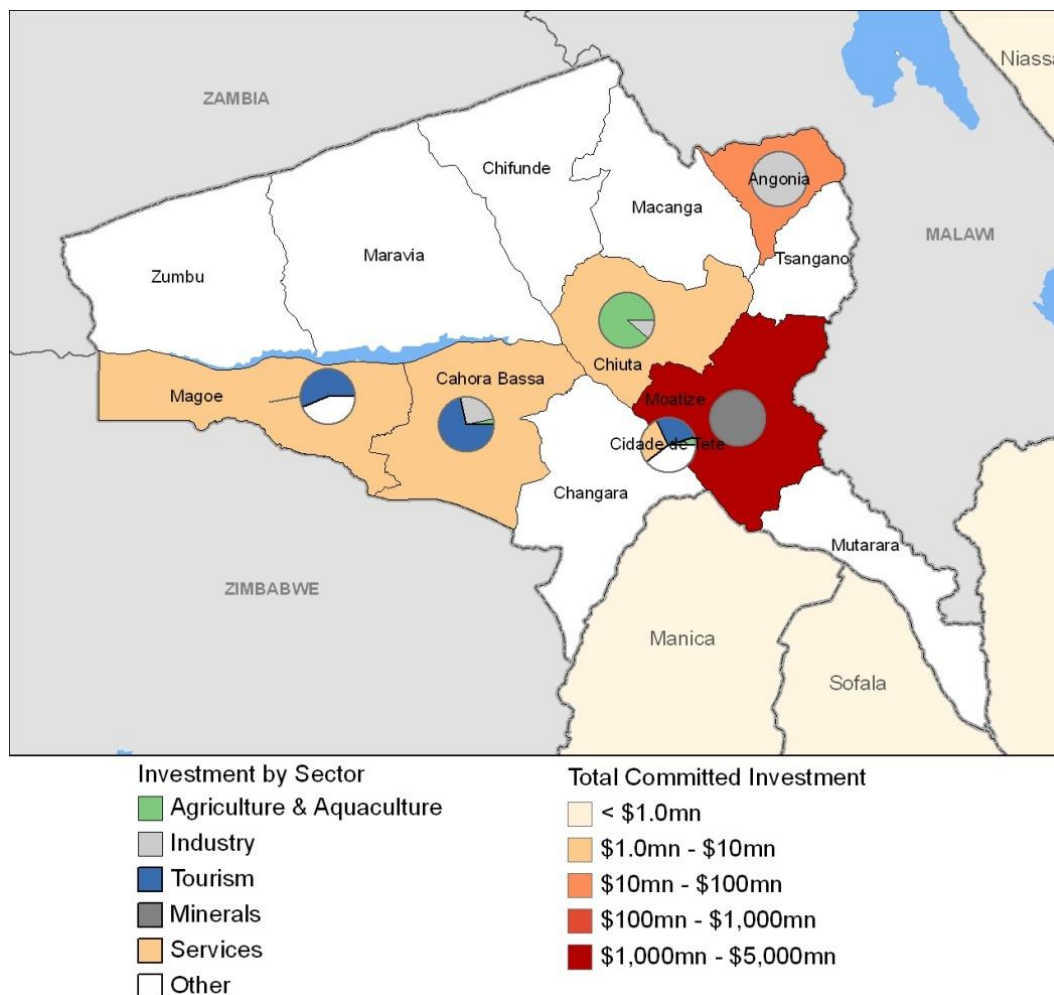
Figure 1. Development corridors and potential growth poles



I. Prospects for Growth Poles in Tete Province

Tete Province is experiencing rapid growth, due mainly to investments in the mining sector, which have given rise to a nascent support industry in and around Tete town, and to a large inflow of workers from other provinces and countries. The local economy is expected to continue its rapid expansion in the coming years, in particular if the planned mining and energy projects materialize; these projects would generate large investments in transport infrastructure, bringing great benefits to the local population. Most of these investments, however, are planned for areas where the provincial government and municipalities have limited capacity to plan, coordinate, and implement programs and deliver social services. Sustainable economic growth could also be constrained by weak education and training institutions, an unpredictable investment climate, insufficient supply chains and linkages to the local economy, and fragile trade infrastructure.

Figure 2. Tete Province: CPI-Authorized Investment Projects by District and Sector, 2005-09



Current and planned investments

In 2005–2009, 11 percent (US\$1.8 billion out of US\$16.2 billion) of investment projects authorized by CPI targeted Tete Province (Figure 2). Authorized investments to the province rose from US\$3.9 million

in 2005 to US\$120.5 million in 2009, with most inflows concentrated in the Moatize district, where major coal extraction licenses are issued. While mining-related projects made up the great majority of total investments in the province, Tete also attracted significant investments in construction, energy, hospitality and infrastructure. In addition, CPI authorized US\$12 million worth of projects in the agriculture and fisheries sector in Tete Province.

Mining prospecting and mining operations: The Government of Mozambique has entered into a 35-year concession agreement with the Brazilian mining firm Vale S.A. for the production of coking coal in Tete's Moatize district. The company believes that its operation, to begin in 2011, could become the biggest coal production plant in the world. As of December 2009, the company had invested US\$450 million and employed 3,600 construction workers in the construction phase. Once construction is completed, the facility will employ approximately 1,000 mining workers and spend US\$250 per year (3 percent of GDP) on domestic goods and services. By 2012, Vale's operations could contribute 8 percent of the country's GDP, and by 2015 project royalties and taxes are expected to make up 15 percent of Government revenue. At the local level, the project could generate 12,000 direct and indirect jobs, vocational training, and opportunities for small and medium enterprises (SMEs).

Another mining firm, Riversdale Mining Ltd of Australia, which has been in Mozambique since 2006, is developing the Benga Coal Project, in a joint venture with Tata Steel Ltd. The project is expected to be operational by mid-2011 and to initially produce up to 2 million tons of coking coal per year. During the construction phase, the venture will employ about 1,000 workers, and 400–600 workers will be needed to produce 2 million tons of coking coal per year. In addition to the investments by Vale and Riversdale Mining, there are a number of concessions for exploration in Tete province that may lead to commercial mining, including African Queen Mines, Baobab Resources Plc, and Coal India Ltd, which are prospecting for gold, iron, vanadium, and titanium in addition to coking coal.

Energy projects: There are plans for new investment in power generation in Tete province, including four megaprojects in hydroelectric and gas- and coal-fired power stations. If realized, these projects could greatly increase the country's exports of electricity and facilitate the electrification of households and small businesses. Plans for these megaprojects include: (i) construction of a hydroelectric power station adjacent to the existing one at the Cahora Bassa dam, with an estimated nominal power capacity of 850–1,250 MW; (ii) construction of a hydroelectric power station and a new dam downstream from Cahora Bassa at Mphanda Nkuwa, with costs and capacity estimated at US\$1.8–US\$2.8 billion and 1,500–2,500 MW; (iii) development of the Benga power project, including a 500 MW thermal power station, by Riversdale Mining and joint venture partner Elgas; and (iv) construction of a 600 MW thermal coal plant by Vale S.A. In addition, the World Bank is supporting a Regional Transmission Development Project, which will progressively connect the proposed coal and hydro projects to the electricity networks in Mozambique and South Africa.

Transport infrastructure: The main infrastructure bottlenecks impeding the transportation of coal to international markets are the capacity of railway links, the capacity of coal terminals at ports, and the capacity of ports to handle ocean-going vessels. Three transport routes are under consideration or development to connect Tete province with the sea, each with its advantages and constraints: the Moatize–Beira railway corridor, the Moatize–Nacala railway corridor, and barging on the Zambezi River. The most immediately feasible route is the Moatize–Beira railway corridor, although its capacity may not be sufficient as production from the coal mines increases. In the long run, the best prospect is the

Moatize–Nacala corridor, but this will require large investments and close coordination between Malawi and Mozambique to extend and upgrade the railway line. The challenges associated with building the Nacala corridor (rail, port, support infrastructure, such as coal terminals) are formidable, and the mining companies may have little choice but to take responsibility for the construction of the rail infrastructure. Barging on the Zambezi River appears to be the least feasible route due to a variety of environmental and logistical constraints.

Proposed growth pole interventions

The large investment projects in Tete province provide great opportunities for economic and social advancement if properly administered. The Government of Mozambique could promote shared and equitable growth through a number of initiatives:

- ***Improve the local investment climate.*** Despite Tete’s economic activity, the investment climate remains unfavorable for entrepreneurs. The cost of doing business and entry barriers in the formal sector have spawned a large informal sector. Improving the local investment climate and implementing a business environment program are key priorities of the provincial government’s strategic development plan.
- ***Promote business linkages by nurturing local entrepreneurs.*** The local authorities want to nurture indigenous entrepreneurs and promote the integration of domestic enterprises into the supply chains of the multinationals that invest in Mozambique. This would reduce the cost of inputs for investors, generate more sustainable jobs, and result in shared economic prosperity.
- ***Facilitate trade across borders.*** Several stakeholders consulted during the study noted that high trade transaction costs are a barrier to bringing goods into and out of the country. In general, the small traders—the SMEs which Mozambique needs to nurture—suffer most from inefficient and burdensome customs procedures.
- ***Build government capacity to plan, coordinate, and implement development programs.*** Representatives from the public and private sectors agree that building provincial and local capacity to coordinate the implementation of large investments should be a top priority. The lack of coordination creates delays and makes large projects more cumbersome and costly.
- ***Prepare for transparent and accountable oversight of mining revenue.*** Mozambique has laid a good foundation for managing the demand for its mining resources. The challenge now is to effectively manage the mining investments as they begin to materialize. Targeted efforts are needed to establish mechanisms and institutions for effective revenue capture, management, and distribution.
- ***Strengthen education and training institutions.*** Tete Province has a limited pool of educated local workers to meet the demand not only for mining professionals, but also for workers in the transport, catering, cleaning, retailing, banking, and construction sectors. The local education system needs to be strengthened to produce the skills required by these sectors.
- ***Maintain open access to infrastructure assets.*** The country’s regulatory authorities need to be strengthened to guard against anti-competitive practices and ensure that planned investments in infrastructure (rail, ports) and electricity generation capacity benefit the entire society.

- ***Minimize the social and environmental effects of mining and energy projects.*** The new investments in mining and energy production could have potentially adverse social and environmental impacts, including the resettlement of local communities and the pollution of air and water resources. The economic success of Tete town is putting additional stress on already stretched public services, and the inflow of guest workers may increase health risks, which need to be addressed jointly by local government and the private sector.

II. Prospects for Growth Poles in Nampula Province

Nampula Province also has the potential to implement a growth poles strategy, especially in the corridor between Nacala–Velha and Malema, which includes the districts of Ribaué, Nampula, Meconta, Mecuburi, Monapo, and Ilha de Moçambique. There is strong private sector interest in these areas, including two authorized and one operational megaprojects in mining and agribusiness totaling nearly US\$8 billion. There is also an array of donor activity, including planned infrastructure development projects, which in particular target road development and water and sanitation. The provincial government's priorities—coordination of development activity to ensure effective use of scarce resources; creation of strong public-private partnerships; strengthening of the institutional framework for development and planning; expansion of urban and rural infrastructure; and acceleration of social development—are closely aligned with the overall objectives of a growth poles approach.

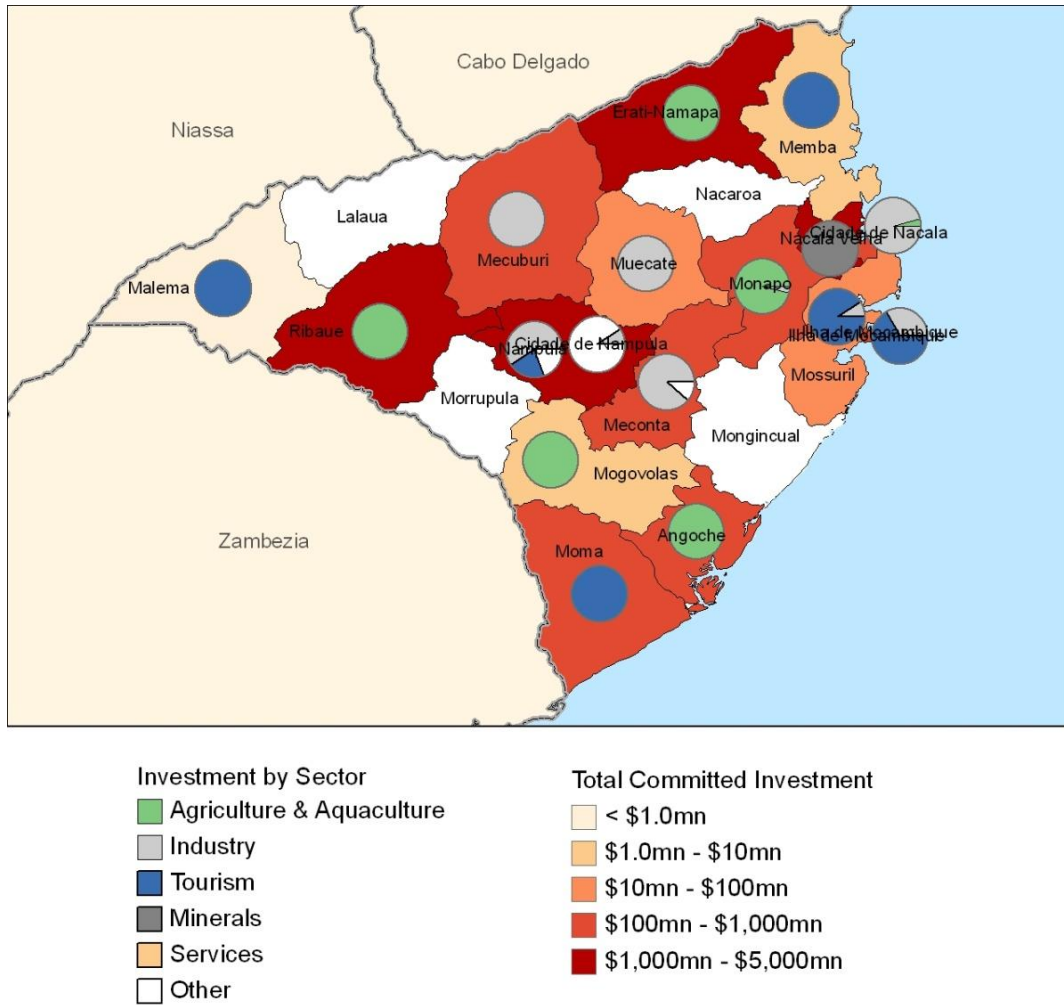
Current and planned investments

Nampula has a number of donor programs, primarily in the areas of roads, water and sanitation, agriculture, and tourism. There are also plans for donor and private sector involvement in upgrading Nacala Port and the railroads running between Nacala and Malawi. The province already has a significant level of private sector activity. In 2005-2009, Nampula captured close to half of all private investments authorized in the country, most of which will be concentrated in two megaprojects, one in mining (the Ayr-Petro Nacala refinery in Nacala–Velha) and one in the agriculture sector (Lurio Green Resources, a eucalyptus tree plantation in Mecuburi, Ribaué, and Nampula-Rapale). Other proposed investments are concentrated in Nacala–Velha, Ribawé Erati, Nampula City, Monapo, and Nacala (Figure 3).

The sectors identified as having high potential for growth and poverty reduction in Nampula are agribusiness, mining, and tourism; and Nacala Port is expected to benefit from the mining and infrastructure investments in Tete. The province also has the potential for growth in horticulture, biofuels and fishery production, and agricultural and wood processing.

Megaprojects: The megaprojects approved in Nampula region include: (i) investment in the extraction of titanium from heavy sands in Moma district by Kenmare Resources (Ireland); (ii) construction and operation of an oil refinery in Nacala-a-Velha district by Ayr-Petro; and (iii) eucalyptus plantations in Mecuburi, Ribawé, and Nampula-Rapale districts by Lurio Green Resources. Approved in 2004, 2007, and 2009 respectively, only the investment in Moma is currently operational.

Figure 3. Nampula Province: CPI-Authorized Investment Projects by District and Sector, 2005-09



Nacala Special Economic Zone: Since the Nacala Special Economic Zone was launched in 2009, national and foreign investment in the agriculture, biofuels, services, and tourism sectors in the zone has reached an estimated US\$80 million. The zone comprises the Nacala–Velha and port districts, covers an area of 1,300 km², and has a population of around 0.3 million. In addition to the existing industries, the Government is attempting to attract logistics companies to the zone. The zone’s ultimate success, however, will depend on upgrading of the Nacala Port and the railway line between Nacala and Malawi, as well as development of the Nacala airport. In addition, the management of the zone and administration of investment incentives will require strong institutions and a sound regulatory framework, which are not yet in place.

Agriculture and agribusiness investments: Nampula’s agricultural and agribusiness sectors are attracting significant donor and private sector interest. Major donors supporting commercial and rural agricultural development include USAID, the Millennium Challenge Corporation (MCC), and the World Bank. USAID and the MCC are supporting both commercial and rural agriculture through programs totaling approximately US\$127 million. Other donor partners, including Japan International Cooperation Agency (JICA) and the Government of Brazil are also looking to support agribusiness along the Nacala

Development Corridor. Private sector investors include Chiquita and Matanuska Ltd, which are investing in banana production in Nampula. The province is also a major source of cashews and nuts. More than 85 percent of the country's cashew trees are in Nampula province, and there is an agglomeration of nut processors. Finally, the province is attracting investments in emerging sectors such as biofuels. The Italian company AVIA is investing US\$20.1 million in jatropha production on more than 10,000 hectares of land in Nacala-a-Velha.

Tourism: Despite its pristine beaches and unique natural endowments, tourism is still underdeveloped in the province. USAID is supporting tourism sector planning, related policy reforms, and investment promotion in Nampula and the other Northern Arc provinces (Cabo Delgado and Niassa). Approved investments in the tourism sector are estimated at around US\$38 million.

Transport and urban infrastructure: The Government of Mozambique aspires to become a regional trans-shipment route, and is considering investing, with private parties, up to US\$1.6 billion to upgrade its port, rail, and roads infrastructure in the Nacala Corridor over the next five years to increase capacity. The donors supporting infrastructure development in Nampula include: (a) the Government of Japan, providing technical assistance for the rehabilitation of Nacala Port; (b) the World Bank, African Development Bank, MCC, DFID, the EU, and JICA, supporting road development in Nampula through support to the Integrated Road Sector Program (PRISE); and (c) a similar multi-donor group, investing in the Water Supply and Sanitation Project in cities and small towns. There is also a proposal to convert the Nacala Airfield to a commercial airport, which is expected to take place by 2011.

Proposed growth pole interventions

- ***Improve the business environment.*** Recent surveys indicate that enterprises in Nampula face serious constraints, including lack of access to finance and land, competition from the informal sector, poor supply and high cost of electricity, and high tax rates. While the established private sector is more likely to find competition from the informal sector and lack of access to finance as major issues, those looking to enter the market or develop their businesses highlight regulatory barriers, including business licensing and tax administration and the coordination among different public agencies as major hurdles. To maximize the effectiveness of existing interventions, as well as support entrepreneurship, nationwide business environment and regulatory reforms are essential. These should be complemented by regional initiatives. Business start-up and operating procedures at the provincial level should be rationalized, modernized, and made more transparent.
- ***Strengthen the capacity of key institutions.*** The province is supporting the private sector through better coordination of services for business—the creation of the Nampula Coordination Unit for Integrated Development (UCODIN) being an example. There are also many institutions responsible for donor coordination, business regulation, SME development, and linkages, but some have overlapping functions that reduce their effectiveness. The number and functions of these different agencies could be rationalized, their capacity strengthened, and their legal underpinnings reformed and modernized. There is also a need to build provincial and municipal-level capacity to better plan and coordinate development programs; as well as to strengthen oversight of the agencies that support and regulate business activity.

- ***Scale up infrastructure development and reform its regulation.*** Addressing the province’s considerable unmet infrastructure needs will require an integrated and strategically sequenced approach to local-level infrastructure planning and development. Most donor interventions in the province support infrastructure development; yet the roads, bridges, railways, and port remain undeveloped, as also emphasized in the Nampula Provincial Development Strategy. Poor infrastructure, primarily the poor road network, degraded rail lines, and inadequate water supply hurt promising sectors such as agriculture, tourism, and transport. The establishment of adequate regulatory frameworks and institutions is essential to support PPPs in the provision and management of infrastructure. There are also opportunities to tap synergies in infrastructure investments, such as new roads that support agricultural development.
- ***Support establishment of linkages.*** A growth pole approach in Nampula should enable linkages between existing investments and local communities through: (i) out-grower schemes, (ii) skills development, and (iii) SME development. Despite good potential and improving performance, less than 2 percent of the 4.5 million ha of land available for agriculture in Nampula is irrigated. Agricultural productivity remains low; most small-scale farmers are not market oriented and lack access to credit, modern technologies, and markets. There are opportunities to create linkages between large private investments and local smallholding producers through support for out-grower schemes, especially in the agribusiness sector, and more generally through support to SME development. In addition, the number of graduates from technical schools compares poorly to most other provinces in Mozambique. The shortage of critical skills to support private investments needs to be addressed through the establishment of more technical schools and partnerships with the private sector.

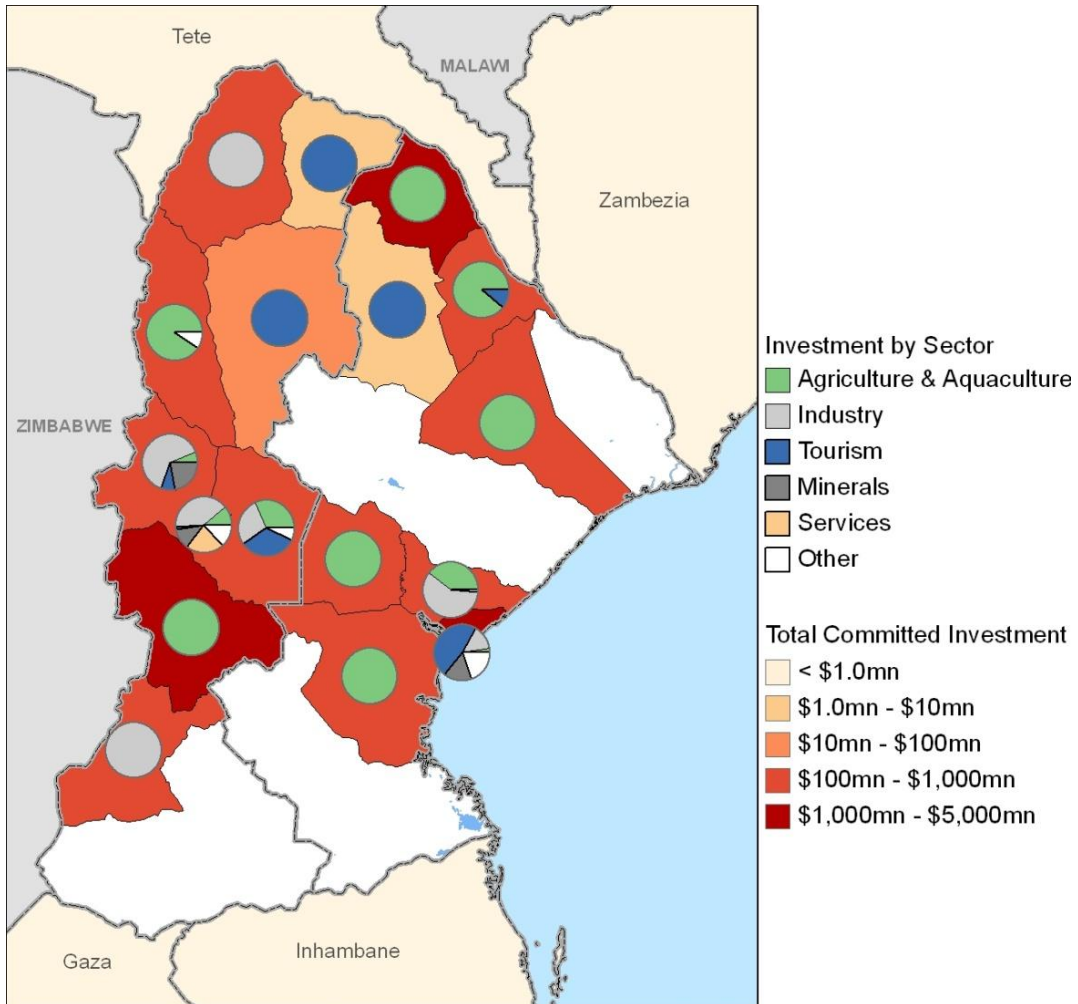
III. Prospects for Growth Poles in Sofala Province

The Beira Corridor, covering Manica Province and in particular Sofala Province (Figure 4), contains productive areas of agricultural land where new investment in commercial production may act as future growth poles. However, businesses in the provinces face a number of challenges, including inadequate infrastructure, weak public services and legal and judiciary system, low labor productivity, and limited access to finance and banking services. Challenges in the regulatory environment, and complicated processes and delays to get licenses and permits are among the major issues restraining a vibrant local economy from developing. MSMEs, in particular, are burdened by regulations and inspections. There is scope for enhanced integration of national institutions in the region, more interaction between the national and lower-level governments, and the development of a strategic vision for supporting private sector development.

Current and planned investments

The Beira Corridor is one of the most productive agricultural areas in Mozambique. It has particularly high potential for maize, sorghum, millets, wheat, rice, oil seeds, legumes, fruits, nuts, and livestock. Renewed interest in the corridor is being driven by large-scale anchor investments in the agriculture sector, particularly sugar and cotton; as well as by investments in coal, infrastructure, and other industry.

Figure 4. Manica & Sofala Provinces: CPI-Authorized Investment Projects by District and Sector, 2005-09



To develop the farmland along this transport corridor, the governments of Mozambique and Norway, along with private investors and donors such as Alliance, CEPAGR and Yara are supporting an initiative known as the *Beira Agricultural Growth Corridor (BAGC)*, to stimulate an agricultural revival in Mozambique and the Southern Africa region. The initiative aims to develop a detailed investment blueprint for commercial agriculture investors; and to ensure that public and private sector investments along the agriculture value chain are properly coordinated.

Current and planned private sector investments that are coordinated under the BAGC total more than US\$1 billion. These include investments in horticulture (production of corn, chilies, rice, cereals, and oil seeds for export to Europe and South Africa); ecotourism to restore ecosystems and benefit local communities; fisheries; grain processing; cattle ranching; and the production of biofuels, which comprise the largest share of investments.

Donors are also financing various types of infrastructure investments and technical assistance in the corridor. These include upgrading of Beira Port (the European Investment Bank and the Danish and

Dutch governments); rehabilitation of the runway, lights, and traffic control equipment at Beira airport (Danida); an urban water project (World Bank); business environment reform (GTZ); sustainable, equitable growth in the agricultural sector, along with the conservation of natural resources (the Austrian Development Agency); and feasibility studies for potential investment projects (the Swedish International Development Agency).

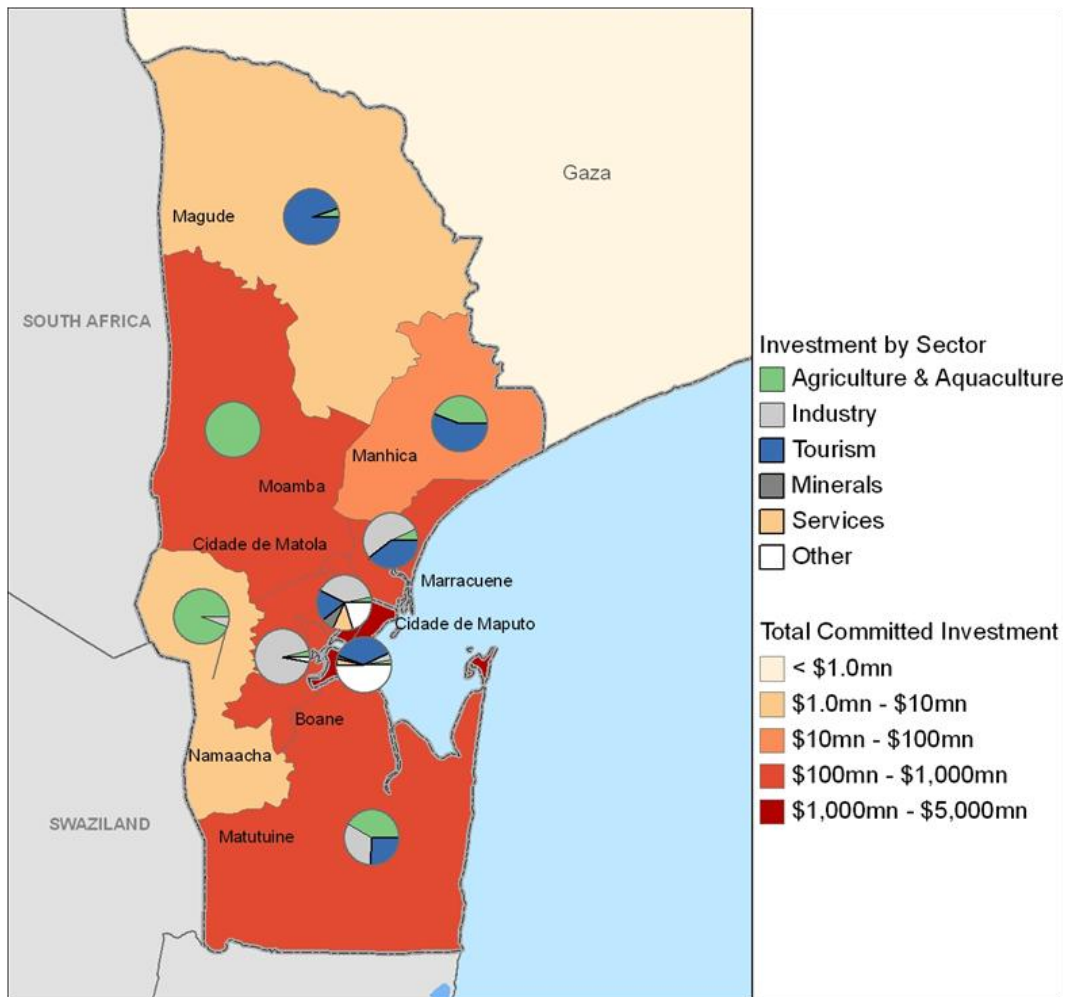
Proposed growth pole interventions

- ***Improve the business environment.*** Surveys suggest that the Sofala Province is less business-friendly and more bureaucratic than most other provinces in Mozambique. The central region is also subject to the largest number of government inspections. SMEs, in particular, feel burdened by regulations and inspections. There have been attempts to make the process easier through one-stop shops, but the reluctance of various institutions to relinquish influence has impeded progress.
- ***Enhance skills in the work force.*** As in other regions, the private sector and business associations in the Beira Corridor highlight labor skills and productivity as major constraints. Many services are not available and have to be contracted from Maputo.
- ***Improve transport and urban infrastructure.*** The main infrastructure constraints are the lack of capacity and inefficiency of Beira Port and the high cost of port services. Improving access to electricity and water and sanitation are other key priorities.
- ***Strengthen capacity for service provision.*** The capacity of provincial and local government agencies for planning and coordinating development programs, as well as for urban planning and the provision of public services, requires considerable strengthening. There is also scope for improving communication and coordination between national and local institutions in the delivery of services.
- ***Support the Beira Agricultural Growth Corridor.*** The private sector-led BAGC initiative could potentially have a huge transformational impact on the region in terms of growth and employment opportunities. A growth pole approach could support this initiative through infrastructure investments and by establishing an enabling institutional and policy environment.

IV. Prospects for Growth Poles in Maputo Province

The Maputo City/Maputo Province region, including the industrial city of Matola, is the economic and financial center of Mozambique. It is already a well-established growth pole on the Maputo Development Corridor (MDC) and has attracted the vast majority of the country's FDI inflows, including key infrastructure and social investments. The country's largest industrial park, Beluluane, and the Mozal aluminum plant, are located in Maputo, as are large food and beverage processors, cement producers, and agribusiness enterprises, including the Maragara sugar mill and the banana producer Banalandia. Maputo also benefits from a number of universities and technical schools and has a significantly higher endowment of human capital stock compared to the rest of the country. Much of the tourism growth in Mozambique has also occurred in the Maputo area, which includes the Maputo Elephant Reserve and the Kruger Transfrontier Park, which also encompasses parts of South Africa and Swaziland.

Figure 5. Maputo Province: CPI-Authorized Investment Projects by District and Sector, 2005-09



Current and planned investments

Industrial production: Figure 5 illustrates how investment projects authorized by CPI in 2005-2009 within Maputo and its surrounding districts included several industrial projects. Some of these investments were associated with Mozambique’s first megaproject, the US\$2.8 billion aluminum smelter projects Mozal I and II, located in the Matola region. Mozal’s small and medium enterprise linkage program, Mozlink, supported by CPI and the IFC, has helped local enterprises that supply goods and services in areas such as signage, air conditioners, cleaning chemicals, pumps, mosquito nets, landscaping, and protective clothing. Mozal spends around US\$100 million a year on local goods and services, excluding payments for electricity and water.

Industrial investments were also made in the Beluluane Industrial Park, located near Mozal, on 24 ha in the Matola industrial zone. Since its establishment in 2007, this park has generated US\$20 million in investment and attracted 22 businesses employing some 1,000 workers. The Matola Industrial Zone also hosts, most notably, the Aga Khan-supported textile factory. There are plans for a US\$50 million gas pipeline to the zone. While the zone has enjoyed relative success, it is still far from achieving its potential. Issues hampering its development include lack of financial resources to further expand zone

infrastructure, lack of diversification (most enterprises in the zone are dependent on Mozal), water shortages, and a scarcity of skilled workers. The Tete-Maputo power transmission line project is expected to improve the availability of power and there are proposals to upgrade road and water supply networks.

Agriculture and services: Figure 5 also reveals that Maputo Province hosts a number of projects linked to agriculture outside the capital and several significant investments have recently been authorized by CPI in the tourism/hospitality sector—both within Maputo and surrounding districts. Investments in transport and communication infrastructure have been significant. For example, Maputo airport is currently being upgraded with new passenger and freight terminals.

In addition to investments in productive capacity, Maputo Province has gained from two other ongoing initiatives. First, the ProMaputo program is aimed at strengthening the institutional and financial capacity of the Maputo City Council to develop and ensure quality service delivery and to implement selected priority investments. One of the outputs of the program has been Maputo City's first Urban Strategic Plan and future projects will for example address land use planning and metropolitan governance. This program offers valuable lessons to the other growth pole regions. Second, the Maputo Corridor Logistics Initiative (MCLI)—a non-profit organization consisting of infrastructure investors, service providers, and stakeholders from Mozambique, South Africa, and Swaziland—promotes and develops the Maputo Corridor as the region's primary logistics transportation route. MCLI serves as a voice for the private sector, and plays a major role in coordinating the development of logistics policy between the public and private sectors.

Proposed growth pole interventions

- ***Strengthen implementation of the Maputo Development Corridor.*** The Maputo corridor starts in the Maputo port area and continues into South Africa's north eastern regions. There is a marked imbalance in the development of the MDC between South Africa and Mozambique. While Maputo has the potential to become the main regional gateway, there are a number of constraints to be addressed. Maputo Port needs to be upgraded to become more competitive in terms of handling capacity, service quality, and costs. Rail infrastructure and services need to be expanded to carry regional freight. A one-stop border post with South Africa needs to be established at Lebombo/Ressano Garcia to facilitate cross-border trade.
- ***Establish the Matola Industrial Zone as a Premium Location for Investment and Growth.*** The infrastructure, institutional, and management issues surrounding the Beluluane/Matola Industrial Zone need to be addressed through an integrated approach. Power and water supply shortages pose serious constraints to businesses. An integrated growth strategy would encompass undertaking critical investment climate reforms in the areas of trade facilitation, business start-ups, and SME development. It would also promote linkages through enhancing the access to finance, training, and advisory services for SMEs, building on the Mozlink experience. A proper institutional and governance framework for a Maputo Corridor Growth Strategy, based on a partnership between the Government and the private sector, also needs to be developed, in coordination with South African stakeholders. The role of the MCLI would be critical in such an initiative.

3. NATIONAL INITIATIVES TO SUPPORT THE GROWTH POLES STRATEGY

A number of national level cross-cutting initiatives need to be in place to support the strategy. These include: (i) plans to improve of the business environment, (ii) a rationalization of public sector agencies supporting private institutions, (iii) a strengthening of inter-ministerial and national/local coordination, (iv) the provision of greater oversight, transparency and accountability over megaprojects and strengthened provisions for public-private partnerships, and (v) an engagement of the private sector and development partners in the conceptualization, design and implementation of the strategy.

Improvement of the business environment: The Government is intensifying its reforms to help raise Mozambique's growth potential, including by diversifying exports and stimulating new investment. In coordination with the World Bank, the Government will fast-track efforts at the national level to: (i) eliminate red tape involved in starting and running a business, and streamline business-related licensing procedures; (ii) implement the new Bankruptcy Law once it is adopted by parliament; (iii) consolidate procedures for registration of property; and (iv) ease clearance procedures to facilitate cross-border trade. The implementation of these measures at the local level can be supported under the growth poles strategy. Other reforms critical to making the economy competitive include improving access to land, modernizing labor regulations, simplifying tax administration, strengthening protections for investments, and strengthening contract enforcement.

Rationalization of public sector agencies responsible for supporting private investments: The roles and functions of the various agencies involved in private sector development should be rationalized to provide more focused and effective support. These agencies include the Center for Investment Promotion (CPI); the Institute for Export Promotion (IPEX); the Institute for the Promotion of Small and Medium Enterprises (IPEME); the one-stop shops; the Private Sector Support Unit under the Ministry of Industry and Commerce (MIC); and the provincial departments of the same ministry. While the MIC is the focal point for business environment reforms, the reform agenda is broader than any one ministry and all key ministries need to work on removing constraints to private sector growth.

Inter-ministerial and national/local coordination: The growth poles strategy needs a high level of political commitment and ownership at both the national and local levels. In Madagascar, the Growth Poles Project Steering Committee was chaired by a representative of the presidency and consisted of key ministers, provincial governors, and private sector leaders who met every quarter. A similar structure may be required in Mozambique to champion the strategy, possibly at the level of the presidency or prime minister. The role of the newly established Coordination Commission for Studies and Projects (COCEP, or Comisao de Coordenacao de Estudos e Projectos) embedded in the Ministry of Transport is critical in this regard. COCEP is positioned to provide the spatial planning support for the growth poles in line with the SDIs. For COCEP to be truly effective, and to be consistent with the Government's decentralization strategy, it may need to establish regional offices in the growth pole areas under the coordination of the provincial authorities. COCEP should focus on its core mandate of spatial planning, while issues concerning large investments should be left to a separate institution.

Improved supervision of megaprojects and public-private partnerships: To strengthen the oversight, transparency, and accountability of megaprojects, the Government has proposed a draft Public-Private Partnership and Megaprojects Law that would regulate such enterprises and grant the rights to use and develop assets, property, and natural resources. The legislation provides for the establishment of a new

unit under the Ministry of Finance that would negotiate all megaprojects regardless of sector. The unit would also formulate sector policies for public-private partnerships (PPPs) and megaprojects, and analyze and monitor PPP transactions. However, such a unit would need political support at the highest level to be effective. It would also need to be autonomous and have clearly defined responsibilities and communication protocols. The unit should have the capacity to evaluate investment proposals using best-practice criteria and methodologies; assess risks and contingent liabilities; and determine the need for special incentives.

Coordination of initiatives by the private sector and development partners: Successful growth poles are driven by private sector interests and investments, with the public sector playing a coordinating and regulatory role and delivering services efficiently. By showing strong ownership and engaging the private sector in conceptualization, design, and implementation of the growth poles strategy, the Government will be able to focus and channel the resources and expertise available in the private sector. The growth poles strategy also requires buy-in and commitment from donors during the preliminary stages of conceptualization and design.

4. NEXT STEPS

This report provided a preliminary assessment of the potential for growth poles along Mozambique's three main development corridors—the Beira corridor, the Maputo corridor, and the Nacala corridor; focusing on the Maputo Province, the Nampula Province, the Sofala Province and the Tete Province. The proposed next steps are to:

- ***Build awareness and stakeholder consensus on a growth poles approach.*** To chart a way forward, it is necessary to discuss the study's preliminary findings and proposals with key stakeholders in the national and provincial governments, the private sector, and the development community. Key issues are to ensure that: (i) the growth poles strategy is integrated into the spatial planning work being undertaken by COCEP; and that (ii) there is consensus among the key stakeholders, including the donor community, on the identification of potential growth poles and the implementation of the strategy.
- ***Provide detailed identification of potential growth poles.*** A more detailed assessment of the potential for growth pole development is needed. It should include a framework for the selection of growth pole areas, criteria to select priority areas and projects, a results framework for evaluating outcomes and assessing the benefits and costs of implementing a growth poles strategy, a timeline for proposed interventions, and the availability of donor and private sector financing. The focus should be on implementing a core set of priority projects in pilot growth pole areas where there is demonstrated private and local public sector commitment and ownership.
- ***Ensure Government ownership and leadership.*** Adoption of a growth poles strategy by the Government of Mozambique will require high-level political commitment and support, possibly at the level of the prime minister or presidency. The Office of Studies at the Presidency has expressed strong interest in such a strategy, and could possibly lead the initiative. A key step toward its adoption would be to establish a joint public-private task force or steering committee that includes the main national and provincial stakeholders and civil society groups.