



Report on  
“The Current Situation of the Mozambican  
Private Sector Development and Its  
Implications to Japan’s Economic  
Cooperation”  
Case Study of Nampula Province

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## INDEX

List of figures .....	i
List of Maps.....	i
List of tables.....	i
Acronyms.....	ii
Executive Summary.....	iv
1. Introduction.....	1
2. Goals of the study and work undertaken.....	2
2.1. Goal of the study.....	2
2.2. Activities performed and brief comments.....	3
2.2.1. Collection of data, documents and lists of firms.....	3
2.2.2. Meetings with public institutions, NGOs and the private sector.....	4
3. National strategies, policies, regulations and actions plans for the development of private sector.....	6
3.1. Government organization.....	6
3.1.1. Plans and programs.....	7
3.1.2. Strategies and policies.....	9
3.2. Donors .....	15
3.3. Private sector institutions.....	17
3.4. What can be done?.....	17
4. Case study Nampula province – Economic, social and institutional Analysis: the context of investment and development strategies.....	19
4.1. Social analysis.....	19
4.1.1. Geographic location.....	19
4.2.2. Human development.....	19
4.2. Infrastructures and economic growth.....	22
4.2.1. Infrastructures.....	22
4.2.2. Economic activity.....	32
4.2.3. Economic growth.....	35
4.3. Investment dynamic in Nampula.....	41
4.3.1. Private investment.....	41
4.3.2. Public investment.....	51
4.3.3. Financing and financial institutions.....	52

4.4. Institutional capacities and economics dynamics: public sector.....	57
4.4.1. Role of the state and the context of capacity building.....	57
4.4.2. Information and data base.....	65
4.5. Institutional capacities and economic dynamics: private sector, civil society	67
4.5.1. International community.....	67
4.5.2. Private sector.....	72
4.5.3. NGOs and international agencies.....	77
5. Conclusions and recommendation.....	79
6. References.....	82
Annex 1: Terms of reference.....	86
Annex 2: List of interviews.....	89
Annex 3: outlines of the questionnaire.....	91

## List of Figures

Figure 1: Nampula – total private investment by source, 1990-2009 (US\$ millions).....	41
Figure 2: Nampula – comparing shares, by source, of provincial and national investment (1990-2009, in %). .....	42
Figure 3: Nampula – provincial shares of total national investment by source (%)	43
Figure 4: Nampula – allocation of private investment by sector, 1990-2009 (US\$ millions)	44
Figure 5: Nampula – share of provincial investment by source and sector, 1990-2009 (%)	44

## List of Maps

Map 1: Donors' distribution in Mozambique by provinces.....	16
Map 2: Distributions of roads in Nampula .....	24
Map 3: Distribution of some infrastructures such as communications, roads, railways and energy.....	25
Map 4: Donor and non government organization in Nampula.....	78

## List of Tables

Table 1: Indicators of performance by PEDSA.....	10
Table 2: Development of human capital and institutional capacity of the agrarian sector	11
Table 3: Summary table of EDA criteria by basic pillars.....	12
Table 4: The potential crops and potential production province.....	13
Table 5a: Total inhabitants by district and sex.....	20
Table 5b: Social and economic data of Nampula.....	21
Table 6: Distribution of accommodation and travel agencies by district.....	29
Table 7: Number of sectors mills and shops operating by district.....	30
Table 8: Crops in Nampula,2009-2010.....	34
Table 9: Economic growth in Nampula and comparison with national averages.....	36
Table 10: Sectoral contribution to GDP Growth in Nampula (in%).....	38
Table 11: Bank counters distribution by district.....	53
Table 12: Credit institution in Nampula.....	53
Table 13: Number of extensionists in 2009.....	77

## ACRONYMS

<b>ADAP</b>	(Associação para o Desenvolvimento Agro-pecuário) – Association for Agricultural and Livestock Development
<b>ADIPSA</b>	(Apoio ao Desenvolvimento das iniciativas Privadas no Sector Agrário) – Private sector agrarian initiatives support program.
<b>AMODER</b>	(Associação Moçambicana para o Desenvolvimento Rural) - Mozambican Association for Rural Development
<b>ANE</b>	(Administração Nacional de Estradas de Nampula) - National Administration for Roads
<b>ADB</b>	African Development Bank
<b>BCI</b>	(Banco Comercial e de Investimentos) – Commercial and Investment Bank
<b>BIM</b>	(Banco Internacional de Moçambique) – International Bank of Mozambique
<b>CANAN</b>	(Companhia Algodoeira de Moçambique) – Mozambican Cotton Company
<b>CARE</b>	North American non - Governmental Organization
<b>CEPAGRI</b>	(Centro de promoção da agricultura) – Center for the Promotion of Agriculture
<b>CFMP</b>	Cenário fiscal de Médio Prazo – Mid-term Fiscal Framework
<b>CLUSA</b>	Cooperative League of the United States of America
<b>CMN</b>	(Caixas das Mulheres de Nampula) – Nampula Women’s Fund
<b>COCAMO</b>	(Cooperação Canadá-Moçambique)
<b>CPI</b>	(Centro de Promoção de Investimento) – Investment Promotion Center
<b>CRER</b>	(Credito para Empresas rurais)- Rural Entreprises Credit
<b>DNRME</b>	Direcção Nacional de Recursos Minerais e Energia – National Direction of Mineral Resources and Energy
<b>DPA</b>	(Direcção Provincial da Agricultura) – Provincial Direction of Agriculture
<b>DPT</b>	(Direcção provincial de Turismo) Provincial Direction of Tourism
<b>DPTC</b>	(Direcção provincial de Transportes e Comunicações) – Provincial Direction of Transport and Communications
<b>ESSOR</b>	French Non Governmental Organization
<b>EU</b>	European Union
<b>FCC</b>	(fundo de crédito comunitário) - Community Credit Fund
<b>FNB</b>	First National Bank
<b>GAPI</b>	(Sociedade de Promoção de Pequenos Investimentos, SARL) – Small Investments Promotion Society

<b>ICC</b>	International Capital Corporation
<b>IDPP</b>	(Instituto para o Desenvolvimento de Pequenos Pescadores) - Institute of Development of Small Scale Fisheries
<b>IITA</b>	International Institute for tropical agriculture
<b>IKURU</b>	Farmer Owned Company, it means STRENGTH in local language,
<b>IRAM</b>	(Instituto de Pesquisa e Aplicação dos Métodos de Desenvolvimento) - Institute of Researches Applications Methods
<b>JICA</b>	Japan International Cooperation Agency
<b>MAE</b>	(Ministério de Administração Estatal) - Ministry of State Management
<b>MIC</b>	(Ministério da indústria e comércio) – Ministry of Industry and Trade
<b>MTn</b>	Metical
<b>NGO</b>	Non-Governmental Organizations
<b>NOVIB</b>	Oxfam organization
<b>OLIPA-</b>	(Associação para o Desenvolvimento Sustentável) - Association for Sustainable
<b>ODES</b>	Development
<b>OPHAVELA</b>	Microfinance operator
<b>ORAM</b>	(Associação Rural de Ajuda Mutua) – Rural Association of Mutual Aid
<b>PARPA</b>	(Plano de Acção para a Redução da Pobreza Absoluta) – Action Plan for the Reduction of Absolute Poverty
<b>PASANA</b>	Programa de Agricultura Sustentável para Associações em Nampula – Sustainable Agriculture Program for Associations in Nampula
<b>PEP</b>	(Plano Estratégico Provincial de Nampula) – Provincial Strategic Development Plan (Nampula)
<b>SAMO</b>	(Sociedade Algodoeira de Monapo) – Cotton Society of Monapo
<b>SANAN</b>	(Sociedade Algodoeira e Namialo) - Cotton Society of Namialo
<b>SNV</b>	Nethersland development organization
<b>UCODIN</b>	(Unidade Coordenadora para o desenvolvimento Integrado de Nampula) – Unit for Coordination of Integrated Development of Nampula
<b>WRI</b>	World Relief International

## Executive Summary

This report is responding to the Japanese Cooperation (JC) concern about how to make Japan's support to the private sector development in Mozambique more effective. The request from the JC (see TORs annex 1) comes from the recognition that their private sector support programs in Mozambique are relatively new and, as such, the Japan's ODA task force suffers from little institutional memory in which to base their strategic analysis of how best to address the private sector development issues, with a focus on a public-private partnership (PPP) approach. The province of Nampula was selected as a case study in order to make a more in-depth analysis of the dynamics involving the private sector development that could not only guide the JC intervention in that province but also give some insights about more general issues affecting the private sector at a more broad level.

Based on the insights provided by the identification of the strategic, policy and legal environment, mapping out of interventions and identification of the economic and social dynamics, the study develops an analysis that leads to recommendations with respect to the crucial areas for the Japanese private sector development programme, including the next steps to be taken by the Japanese Cooperation in order to move forward. The conclusions and recommendations wraps up two main aspects developed along the report: the identification of niche sectors and of the methodological approach to be adopted when designing the intervention package.

The report identifies 3 niche sectors, namely: agro-industry, fisheries and tourism. The identification of the niche sectors was based on a criteria that considered three main aspects: (i) areas of bigger economic and social impact, that is, with greater potential for, directly or indirectly, raising incomes for a larger proportion of the population (specially for the more vulnerable) in sectors that best contribute for the diversification and articulation of the economy; (ii) areas with less support (or with relatively more space for additional intervention) in order to avoid unnecessary overlapping of activities and to explore positive synergies; and (iii) areas where the possibilities of success are, at least, 'reasonable' (which would depend on the sector and the target group potential, availability of information about best practices, alignment with the provincial and national developmental priorities, etc.).

In order to take advantage of the opportunities presented by the Nampula province for the development of the private sector, interventions need to be designed within an inter-sectoral dimension involving the different elements of the value chain, including the support services, the related support programs in place and the institutional and regulatory framework. More specifically, some of the basic conditions for the success of the private sector support initiatives are: provision of inter-sectoral goals (through definition of inter-sectoral development poles, or pegs); organization of systems of information; development of business support services and economic and technical analysis of investment; improvement of mechanisms of intra-government coordination; systematic analysis and generalisation of best practices; support to developing business networks, partnerships, associations and other institutions that support production, establishment and enforcing of quality standards, technology acquisition and mastering, investment and trade; development of workers and peasants organizations that will become more relevant as economic growth accelerates. These are all part of institutional development needs to provide strategic frameworks to improve the quality and direction of investment and achieve broad-based, fast economic growth.

It would be important that the JC interventions are preceded by a study that highlights the possibilities of developing better forms of coordination at national as well as at local level. For example, at a more national level, it would be useful to put together a study and a plan that links SME, markets and trade (including import substitution and export promotion along product chains), linkages, fiscal and monetary issues, choice of technology and training, standards, for a couple of products, thus helping government institutions to learn strategy, information gathering and collection, coordination and planning, and evaluation of results and correction. The key components of such training package would include information gathering, analysis (including cost benefit analysis and prioritization), ways to develop a more coordinated relationship between government and private agents, and identification of linkages. At a local level it should demonstrate the possibilities of coordination between national and local projects. That is, a project with a national component and a local component coordinated, such that the local is an extension or implementation of the national. This would allow for a better understanding of how coordination between national and sub national levels can be achieved, and lessons for decentralization can also be produced.



## 1. INTRODUCTION

This report is responding to the Japanese Cooperation (JC) concern about how to make Japan's support to the private sector development in Mozambique more effective. The request from the JC (see TORs annex 1) comes from the recognition that their private sector support programs in Mozambique are relatively new and, as such, the Japan's ODA task force suffers from little institutional memory in which to base their strategic analysis of how best to address the private sector development issues, with a focus on a public-private partnership (PPP) approach. The province of Nampula was selected as a case study in order to make a more in-depth analysis of the dynamics involving the private sector development that could not only guide the JC intervention in that province but also give some insights about more general issues affecting the private sector at a more broad level.

In order to address the main goals of the study, the report is structured into four main sections. Following the introduction, the next section presents the goals of the study and the work that was undertaken by the consultant. The third section presents the mapping of the public institutions and regulatory framework and of donors' interventions in the country. The fourth section presents an analysis of the social, economic, institutional and regulatory conditions in Nampula as well as the mapping of donor interventions in the province. The fifth section presents the conclusions and recommendations in terms of the niche sectors for the JC intervention as well as the methodological approach that the Japanese Cooperation adopt in order to develop a successful private sector support programme.

## 2. GOALS OF THE STUDY AND WORK UNDERTAKEN

### 2.1. Goals of the Study

The proposed rapid assessment study aimed at identifying the areas of bigger concern for the development of the private sector in Mozambique and niche areas for the Japanese ODA interventions. The development of the private sector should be envisaged within a wider national development strategy seeking to respond to challenges of growth, diversification, articulation, and broadening the social base of accumulation and distribution.

In order to respond to these broad objectives, the study started from identifying the main current national strategies, policies and legal framework that impact on the private sector activities. This assessment is important in order to understand the government priorities and mechanisms to pursue those, the effective impact that these guiding documents (associated with the institutional framework) have on the private sector development and to identify the institutions and legal framework that should be considered when designing each specific intervention programme.

Second, the study also defined as crucial the mapping out of the different private sector support initiatives – who is doing (or is planning to do) what and where. The institutions intervening in the private sector support initiatives include government departments and public institutions that play a key role in industrial strategies and policies, such as those related to investment incentives, standards and quality, licensing, patenting, export promotion, providers of industrial and management training, providers of research capacities, consultancy and advisory services, organizations related to agro and rural industrialization etc. Intervening institutions may also be found amongst firms and business networks and associations, financial institutions, other bilateral and multilateral donors and development agencies, trade unions, academic institutions and organizations of independent research, consultancy and engineering companies, environment lobby groups and other groups of the civil society. This mapping was seen as crucial to identify best practices, possible partners, sectors and groups targeted (which would help identifying the non-targeted groups or insufficiently targeted by the existing and potential support programmes), in order to identify possible niches for the Japanese intervention.

Third, the study collected information about the main economic and social dynamics in Nampula province in order to better understand the potential for raising income of the

population while diversifying and articulating the local economy – and with that the national economy – with a long term sustainability perspective.

Based on the insights provided by the identification of the strategic, policy and legal environment, mapping out of interventions and identification of the economic and social dynamics, the study develops an analysis that leads to recommendations with respect to the crucial areas for the Japanese private sector development programme, including the next steps to be taken by the Japanese Cooperation in order to move forward. The conclusions and recommendations wraps up two main aspects developed along the report: the identification of niche sectors and of the methodological approach to be adopted when designing the intervention package.

The identification of the niche sectors was based on a criteria that considered three main aspects: (i) areas of bigger economic and social impact, that is, with greater potential for, directly or indirectly, raising incomes for a larger proportion of the population (specially for the more vulnerable) in sectors that best contribute for the diversification and articulation of the economy; (ii) areas with less support (or with relatively more space for additional intervention) in order to avoid unnecessary overlapping of activities and to explore positive synergies; and (iii) areas where the possibilities of success are, at least, ‘reasonable’ (which would depend on the sector and the target group potential, availability of information about best practices, alignment with the provincial and national developmental priorities, etc.). The identification of the methodological approach was based on the recognition of the extreme importance of strong horizontal and vertical coordination along the all value chain of the sectors including the supporting agents and activities and the institutional and regulatory framework.

## **2.2. Activities performed and brief comments**

### ***2.2.1. Collection of data, documents and lists of firms***

The first part of the study involved the collection of data, documents and lists of organization and firms, according to the list attached (annex 2). The collection of data and documents in Maputo was time consuming but straightforward. The collection of lists of firms and other economic groups and organizations in Nampula was a much more difficult task.

The list of institution and firms had to be obtained from many different sources: provincial directorates, business associations, PODE,<sup>1</sup> UCODIN and informal sources. At the end, we managed to get a relatively good list of firms, but no one in Nampula had a consolidated list of firms and economic groups in the province.

We also attempted to check the lists of potential investors and investment projects, provided by CPI,<sup>2</sup> with lists of actual investors and investment projects known by provincial directorates, as this could provide information on existing firms, economically active firms (firms making new investment) and potential firms.<sup>3</sup>

### *2.2.2. Meetings with public institutions, NGOs and the private sector*

Meetings were held with the directors of the following provincial directorates: Transports and Communications, Agriculture and Rural Development, Mineral Resources and Energy, and Tourism. It was not possible to meet with the provincial director of Industry and Trade, because he was not available.

Meetings were also held with the provincial and/or regional delegates of CPI, CEPAGRI, ANE, CTA and with top officials of UCODIN.<sup>4</sup> It was not possible to meet with the provincial and/or regional delegates of IPEX because he was not in Nampula.

The meetings with public organizations, at provincial levels, allowed us to discuss their views about the role of the state and the practices of different organizations with respect to what they actually do; to assess the problems of articulation, coordination and information in horizontal (intra and inter sectoral) and vertical (between levels of decision making) dimensions; as well as to understand their views of the dynamics of private investment and activity, the relationship between private and public agents, and the types of intervention that are required.

We had meetings with NGO's, namely CARE,<sup>5</sup> CLUSA<sup>6</sup>. These NGOs were selected on the basis of the relevance of the work they are doing to the analysis of investment dynamics in

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<sup>1</sup> World Bank financed programme for private enterprise development.

<sup>2</sup> Investment Promotion Centre.

<sup>3</sup> CPI's data base on investment is about intentions of investment rather than actual investment. The data base includes some information about the implementation status of investment projects, but this information is not entirely reliable and updated, and the definitions used are not always clear. For example, when a project is said to be in implementation, it is not clear whether the investment has been made or that the investors are in the process of mobilising finance for investment. Thus, it is important that CPI lists are confirmed against provincial information about what is actually being done.

<sup>4</sup> Unit for Coordination of Integrated Development of Nampula.

Nampula and the identification of capacity needs. Although there are other NGOs working in relevant economic aspects in Nampula, we chose these because they seemed to us to have more weight with respect to investment dynamics and relationships with the state, as well as being very influential on what other NGOs do.

The meetings with NGOs allowed us to discuss what they are doing in terms of private sector support for development and investment management, the capacity gaps they have identified, and their view of the role of the state and of the dynamics of investment; as well as to identify issues of strategic articulation, complementary and conflict between NGOs, the state and other economic agents at different levels.

We had meetings with, a private firm and economic group: SONIL which is a group that in addition to being involving in a large shopping chain (selling furniture, office supplies, appliances, school materials etc) also has a tobacco processing factory in Nampula.

Additionally, we also had meetings with the regional delegates of GAPI, and with Technoserve,<sup>7</sup> which are service providers – training, technical assistance and finance – to the private sector.

Private firms, economic groups and service providers were chosen on the basis of several criteria: their relevance to understanding investment dynamics in the province; their weight in specific areas; coverage of main areas of industrial economic activity in Nampula; and availability to be interviewed. All the interviews were based on a common questionnaire, which was adjusted to different circumstances (see annex 3).

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<sup>5</sup> This NGO is supported financially by the United States Aid Agency (USAID). It works in a variety of agricultural and agro-processing programmes, namely diversification of cash crops and food crops production in cotton dominated areas, provision of a variety of extension services to small agro producers and rural traders, promotion of organic production of oil seeds, as well as local extraction of oil in small scale processing units, promotion of associations, promotion of small saving schemes.

<sup>6</sup> This organization, financially supported by USAID, specialises in supporting the development of rural service, peasant associations.

<sup>7</sup> It is a business support, non-profit organization, which is financed by USAID. In Nampula, Technoserve is focused on providing technical and, indirectly, financial support to emerging businesses, such as the new cashew industry, oil seed processing and others. The inclusion of "finance" as part of the services provided by Technoserve is due to the fact that the technical services they provide, including the access to equipment that is required to start the business, is highly subsidised. A subsidy on vital services is crucial for the ability of businesses to start, not to speak of becoming successful, and obviously may reduce very significantly the financial costs of starting and developing businesses. It is in this sense that we argue that Technoserve also provides (indirect) financial support.

### **3. NATIONAL STRATEGIES, POLICIES, REGULATIONS AND ACTION PLANS FOR THE DEVELOPMENT OF THE PRIVATE SECTOR**

#### **3.1 Government Organization**

The most relevant government departments at national level and their main responsibilities are: the Ministry of Planning and Development (MPD) which is responsible for the planning of public investment; the Ministry of Finance (MdF) responsible for the management of public expenditure, tax policies, customs policies and investment policies; the Bank of Mozambique (BdM) responsible for monetary policies impacting on the price level, cost of money, opportunity cost of different alternative uses of money etc.; sectoral Ministries that focus on specific policies and strategies, specific regulations, negotiation of investments, negotiations of components of tax and other policies). Among the ministries the Ministry of Industry and Trade (MIC), besides dealing with a broad range of industries, provides more general interventions supervising and promoting some key areas such as trade (both at domestic and international level), quality promotion, and small and medium enterprises.

The Local governments and municipalities are responsible to replicate some of the national structures but with limited power (scale and activity) and have to negotiate with local interest groups.

Under this complex of departments affecting private sector development the big questions that arise is related to how combined these departments are: (i) Are these organizations coordinated? (ii) Are the policies, strategies and plans coordinated? (iii) What factors affect coordination? Here, the concept of the role of the state, the dominant factors in economic policy (like stabilisation), the methods for intervention and coordination (including the role of donors) and the different interest groups are some factors that can be determinant to the coordination among institutions and plans.

The formal government programs are driven by three major factors:

**Aid:** Mozambique is one of the most aid-dependant countries in the world. As such, government programs have to be, at a large extent, agreed with donors. Therefore government has agreed with International Financial Institutions (IFIs) and donors on a core package of policies to pursue the goals of macroeconomic stabilisation (mainly inflation and, by consequence, exchange rates), poverty reduction and liberalization. These goals were also

agreed by the government, the IFIs and bilateral donors as the main determinants for the development of the economy as they would create the conditions for the private sector to engage more effectively in the development process. Because in general aid comes already with a pre-set of conditions and the significance of the aid flows for the implementation of government activities is huge, the possibilities of shifting from this set of core policies are reduced – however, experience shows that there is always room for some change if lobbying groups are strong and able to present a strong case.

Dominant interest groups: the stronger lobbying groups are the large international capital and domestic associates, and the local political and economic elites which, by contributing with their social capital, manage to join the FDI projects, thus increasing the lobbying power of both;

Political legitimization: the government is legitimized by its role as services and infra-structures provider. Here, aid plays a key role as it largely determines the government capacity to provide public goods and services and it also contributes for the reduced internal discussions about the government expenses priorities. However, because political costs and economic risks of aid dependency are increasing, taxation is starting to become more important – although fiscal revenues are still relatively small when compared to other countries – and that will eventually create the conditions for a larger sense of responsibility and engagement of national citizens in discussing development options.

### ***3.1.1. Plans and Programs***

The development policy of Mozambique is based on a higher plan which is the Government's Five-Year Plan (PQG), as well as under the Poverty Reduction Strategy (PARPA) and various sectoral plans which give rise to various political strategies and government regulations. The coordination between the various strategies and regulations is still problematic because it has: (a) different audiences: PQG for parliament and elections; PARPA for donors; PES is tactical, for delivering of services and tactical negotiation; (b) different goals: programs and plans for resource mobilisation and expenditure; CFMP and OGE for macroeconomic stabilisation; and local strategies for resource mobilization, and local plans and budgets for management of service provision and expenditure.

### *A. Government's Five Year Programme (Programa Quinquenal do Governo - PQG)*

The PQG was prepared for the first time in 1995 with a period of five years (1995-1999) followed by the second PQG in 2000 (2000-2004), and the third in 2005 (2005-2009) and finally the fourth program for the period 2010-2014 which is actually in force. All these plans have aimed at combating poverty and improving the living conditions of Mozambican people in an environment of peace and harmony, reducing inequalities between regions. This programme focuses on the sectors of education, health, agriculture, rural development and infrastructure. The priorities of PQGs are:

#### *PQG 1995-1999:*

- Peacekeeping
- Eradication of Poverty
- Promoting the development of rural education and health care

#### *PQG 2000-2004:*

- Reduction in the levels of absolute poverty
- Promotion of fast and sustainable Economic Development
- Reduction of regional inequalities
- Strengthening of peace, national unity, administration of justice, democracy and patriotism

#### *PQG 2005-2009:*

- Reduction of absolute poverty by developing education, health and rural areas;
- Reduction of regional disparities with a focus on rural areas;
- Strengthening of peace, national unity, the administration of justice, democracy and patriotism;
- Elimination of corruption and bureaucracy;
- Promotion of international cooperation and national self-sufficiency;
- Training and promotion of values such as work culture, honesty and enthusiasm.

#### *PQG 2010-2014:*

- Consolidation of national unity, peace and democracy;
- Combating poverty and promoting a culture of work;
- Good governance, decentralization, fighting corruption and culture of accountability;



- Strengthening sovereignty; and
- Strengthening international cooperation.

*B. Plan of Action for the Reduction of Absolute Poverty (Plano de Acção para a Redução da Pobreza Absoluta - PARPA)*

PARPA I (2001-2005)

Along with the second PQG it was prepared the PARPA I (2001-2005) that emphasized six key fundamental points: education, health, agriculture and rural development, basic infrastructure, good governance and macroeconomic and financial policies.

PARPA II (2006-2009)

PARPA II (it was an extension of PARPA I) was prepared in 2006 covering the period 2006-2009. This document is designed to be in agreement with the third PQG (2005-2009). PARPA II is presented through three fundamental pillars: governance, human capital and economic development.

*C. Economic and Social Plan and State Budget Provincial (Plano Económico e Social e Orçamento de Estado Provincial - PESOP)*

It is the management instrument of economic and social development of the provincial government aimed at achieving the priority actions in the fight against absolute poverty defined in the Government's Five Year Program and in the PARPA II in conjunction with the strategic vision of local development.

### **3.1.2. Strategies and Policies**

*A. PROAGRI*

The 1<sup>st</sup> phase of the government program for the agricultural sector (PROAGRI) basically consisted of institutional reform and modernization of the sector. This program was implemented for the period 1999-2004 with the aim of reducing poverty and food insecurity. PROAGRI II prepared in 2004 for the period 2006-2010 aimed to contribute to improved food security and poverty reduction through support to small farmers, the private sector, government agencies and non-governmental organizations in order to feed on agricultural productivity,

agro-industry and marketing within the principles of sustainable exploitation of natural resources, i.e. to ensure the transformation of subsistence agriculture in an increasingly productive agriculture to produce surpluses and the development of an efficient and competitive business, based on the laws market.

The intervention areas of PROAGRI II and its objectives are:

- At the households level, the aim is to develop agriculture and natural resource use to improve their lives;
- At the commercial sector level, it is preponderant to stimulate the growth of agriculture and the application of natural resource to ensure domestic production and;
- Ensure the sustainable management of natural resources in order to bring economic, social and environmental benefits (access, security and rights), based on conservation actions.

#### B. PEDSA

The Strategic Plan for Agriculture Development (PEDSA) is a plan that fits the instruments established by the National Planning System, with a medium to long term view based on three priorities: (i) Food security and nutrition; (ii) The competitiveness of domestic production and higher income levels for producers; and (iii) Sustainable use of natural resources and environmental preservation.

According to PEDSA, agriculture should grow at, in average, 7% per year. The source of growth will be the productivity (ton/ha) of cereals and it is that such productivity will increase by at least 100% and 25% of the cultivated area by 2019. Below are the main indicators:

Table 1: Indicators of performance by PEDSA

INCIDENCE	KEY PERFORMANCE INDICATOR	Meta	
		Baseline 2009	2019
<i>Sector growth</i>	Average annual growth rate of agriculture	7%	7%
<i>Investment in Agriculture</i>	Public expenditure for agriculture as a percentage of GDP of the agricultural sector	8%	10%
<i>Vulnerability</i>	Population's vulnerability to food insecurity	400.000	100.000

Source: PEDSA, 2009

But for this to be realized the PEDSA also foresees the development of human capital and the main indicators described below:

Table 2: Development of human capital and institutional capacity of the agrarian sector

Specific Objectives	Strategic Actions	Indicators	Baseline	Goal (2015)
Increasing the level of informal training of producers	Increase the access to agricultural extension services	% of producers with access to extension services	11% in 2008	30% of producers have access to extension services
Training in agro-business	Train producer associations in the field of agro-business Promote agriculture as a business			
Adult education	Promote functional literacy programs			
Schools, Institutes, Agriculture Faculty	Revise the curriculum so as to include theory and practice of management of agro-business, infrastructure, equipment and put qualified teachers.			

Source: PEDSA, 2009

In general, PEDSA proposes to:

- Create a common vision for key actors in the agricultural sector;
- Fill the gap of an harmonized framework to guide decisions;
- Tackling the issues that affect the investor confidence in agriculture;
- Accelerate the global competitiveness and ensure sustainability;
- Pretend the creation of lasting partnership between public, private, communities and NGOs

The PEDSA has a ten-year perspective, from 2009 until 2018 and its implementation is materialized through five-year plans, of which:

- Phase I: 2009-2011. Procedures with immediate impact against hunger, with an emphasis on action plan to tackle the crisis of food prices.
- Phase II: 2011-2018. Expansion and consolidation of interventions to overcome the millennium development goals (evaluation mid 2015).

### C. EDR

*The Rural Development Strategy* (EDR) was officially launched in 2006. Its main aim is to challenge (i) recovery and integration of the positive experiences of Rural Development in the past, (ii) promoting greater involvement and use of knowledge of local communities, (iii)

territorial/regional planning as one of the vital elements of rural development, (iv) policies and institutions more inclusive and enabling the poor have a voice in their own development options, mobilizing for that all rural development actors in order to put the farmer at the center of the fight against poverty (v) strengthening of institutional coordination, (vi) strengthening of coordination within and between sectors of development actions.

#### *D. EDA*

This Agrarian Development Strategy (EDA) can be summed up in four columns as shown below:

*Table 3: Summary table of EDA criteria by basic pillars*

Criteria	Basic Pillars			
	Supply chains and value	Horizontal coordination	Markets and organizational capacity	Research, analysis and development
<b>Potential for reducing poverty, improving food security and wealth creation</b>	The investment in the supply chain and value creates value added and employment, increases the food security and wealth creation	Multidisciplinary actions achieved as a result of horizontal coordination improve links in the supply chain in a systematic way	Access to markets constitute one of the biggest incentives for production and productivity increase and, as a result	Research and development increases ability to identify opportunities for agricultural products with greater potential for poverty reduction
<b>Agroecological potential to increase the competitiveness of agricultural production</b>	Agro-ecological potential can only be fully exploited, with positive effects on the economy as a whole, if there are investments across the supply chain and value chain to add value to products	Horizontal coordination, both within the MINAG requires between this and other sectors added value back to the use of agro-ecological potential. existing opportunities both domestically and in the regional context requires horizontal structural links	To harness the potential agro-económico be as large as possible, this should be aligned with a range of market information and greater ability of producers	Research and development is essential to the use of agro-ecological potential.
<b>Potential to promote diversification in the productive base</b>	The approach of the production chain and value allows investments in products that promote agricultural diversification in the productive base	Horizontal coordination helps in establishing the same priorities or their harmonization in terms of research, technological development and discovery of new markets	Diversification helps to conquer niche markets through the discovery of high value crops, with great potential in the international market and reduces risk in terms of climatic factors, pests and diseases, and the price fluctuation	diversification of production must in part be guided by the results of research, analysis and development. diversification requires more investment in research.
<b>Potential for adopting technologies based on existing opportunities</b>	The adoption of new technologies is correlated with the addition of value to the product which, in turn, is related to the opportunities created by demand in the country, region and world.	Horizontal coordination allows the technological development is done in harmony with the needs of markets and the challenges of quality and value addition	Technology adoption increases produtividade and consequently higher production volumes. Producers need to organize themselves to conquer markets, increase the bargaining power and their income	research, analysis and development increases the ability to harness the potential for technology adoption on the basis of existing opportunities

*Note: Table 3 presents a translation of the table contents presented in the EDA document in Portuguese. There are a few points that are not clear in the text in Portuguese. In those cases the consultant has done a direct translation of the text.*

The table below shows the crops and the provinces with greater potential for the same type of production as the ones identified by EDA.

Table 4: The potential crops and potential production province

Priority crops	Provinces with greatest potential
Corn	Cabo Delgado, Nampula, Niassa, Tete, Zambézia, Manica e Sofala
Rice	Maputo, Gaza, Sofala e Zambézia
Beans	Whole country
Tobacco	Manica, Tete, Niassa, Zambézia, Nampula, Cabo Delgado
Cotton	Sofala, Niassa, Cabo Delgado, Nampula, Zambézia
Soybean	Tete, Sofala, Manica, Nampula
Coconut	Inhambane, Zambézia, Nampula, Cabo Delgado
Vegetables	Maputo, Gaza, Manica, Sofala, Tete
"reno" potatoes	Maputo, Tete, Manica, Niassa
Sugar cane	Maputo, Sofala, Zambézia
Cashew	Gaza, Inhambane, Nampula, Cabo Delgado
Citrus	Maputo, Inhambane, Manica
Mango	Maputo, Gaza, Inhambane, Manica, Zambézia, Nampula, Cabo Delgado
Litches	Maputo, Manica, Niassa, Tete
Banana	Maputo, Gaza, Manica, Sofala
Cassava	Inhambane, Cabo Delgado, Nampula, Zambézia

### *E. Industrial policy*

The industrial policy defines the food industry and agro-industry as the priority sectors, based on the country's existing and potential capacity in terms of production, inter-sectoral linkages, employment creation, foreign exchange savings and employment creation, and regional diversification of the industrial location. It subsequently identifies some of the priority products, namely: sugar, tea, cashew nuts, coconuts, cereals and horticulture. The policy points out the main responsibilities, in relation to investment, of the government (guiding, regulating, monitoring and carrying out complementary investment necessary for an enabling environment for the development of the private investment) of the private sector (responsible for the essential of investment) and of the informal sector (highlighting the need for joining the formal sector).

### *F. Investment Policy*

The investment policy creates the Investment Promotion Center (CPI) – responsible to coordinate the promotion, analysis, follow-up and verification of investments carried out under the law referred to above and its regulations. Among other aspects it also defines areas reserved for public investment, defines the criteria for Foreign Direct Investment (FDI) registration and eligibility for guarantees, and the procedures to undertake in order to submit an investment proposal, the competence and time-limits for decision making on investment proposals.

### *G. Code of Fiscal Benefits*

The code of fiscal benefits was promulgated on the 1<sup>st</sup> of January 2009. The code defines several forms in which fiscal benefits can be granted, namely: deductions from taxable income; deductions from tax; accelerated depreciation and reintegration; investment tax credit; exemptions; and the reduction in tax rate and the deferral of the payment of tax. It also provides some information about which kind of investments are entitled to which kind of benefits (including information about the percentages of taxes deductions).

### *H. Land Policies*

States that the land is owned by the Mozambican state and this cannot be sold or alienated. However, to use the land this needs to be granted the Right to Use and Utilization of Land (DUAT)<sup>8</sup>. Therefore:

- The Minister of Agriculture permits applications for use and enjoyment of the land areas between 1000-10000 ha;
- The Governor provincial permits applications for use and enjoyment of the land areas up to a maximum of 1000 ha,
- The Council of Ministers authorizes requests to use and enjoyment of the land areas beyond the jurisdiction of the Minister of Agriculture, provided they are land use plan or framework which can be a map of land use.

Summing up, the different sectors as many and different plans and strategy for example Agriculture has about 5 (five); Industry and trade (10 industrial policies: 1 general, 5 subsector, 4 thematic (exports, SMEs, quality, industrial property); 2 trade policies and different trade agreements: domestic, international, regional and European); Tourism (policy and strategy plus a fiscal package that differentiates between large scale, with more incentives, and small and medium scale, with less incentives); Other sector (several in mining and mineral resources, including for specific minerals like gas and oil, energy, roads, etc.)

The question is that is there any core component of economic policy around which these policies and strategies can be coordinated; what is the agro-industrial strategy; how can we

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<sup>8</sup> The DUAT for purposes of economic activity is subject to a period of 50 years renewable for similar period on request.

coordinate these strategies in order to create complementarities and competition between them.

### **3.2. Donors**

Donors are increasingly interested in private sector support programs because of three main reasons. First, when supporting sector programs donors have more space to control for the effectiveness and efficiency of aid in poverty reduction and development, and the role of aid in reduction of aid dependency. Second, they can change concentration and dependence on large FDI project (focused on minerals and energy), increase diversification and improve articulation. Third, it creates the space for the promotion of interests of companies from donor countries.

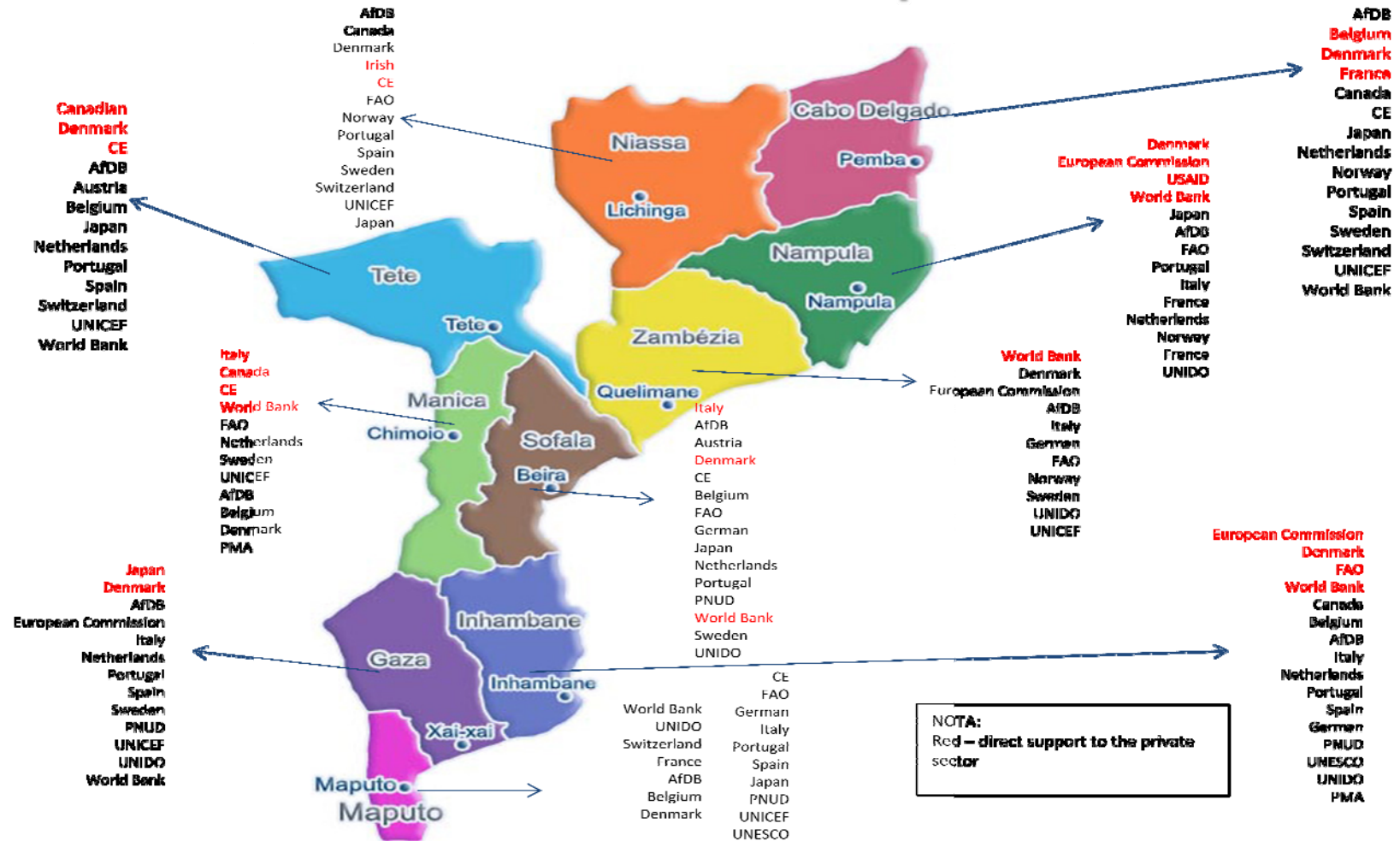
There are many sector programs in place supported by donors. Some of them are pursued at national level (ex, MIC, fisheries, tourism), and some at local level (provinces or districts, associations, specific interest groups such as women or local producers of a particular good).

Support can be provided through the overall donor program and some through NGOs operating locally.

The focus of the programs is diversified. Some are focused on red-tape and removal of bureaucratic barriers; others focus on capabilities, training, finance or linkages promotion.

The rate of success of these programmes also varies. Obviously, the rate of success depends on how success is measured and it is largely determined by the existing strategic framework and by the linkages generated in the economy.

## Donors in Mozambique



MAP 1: Donors distribution in Mozambique by provinces



The Map 1 shows how donors<sup>9</sup> are distributed in Mozambique by provinces. The red colour is to show who has programs that is direct support to private sector. For example, in Inhambane we have four donors with programs to private sector support, namely European commission, Denmark, FAO, World Bank. European commission has a program of support production and commerce of the cashew nut industry in south region of Mozambique. Denmark has a program named divulgation of the aquaculture process in the province of Inhambane. FAO is dealing with strengthening cultural and creative industries and inclusive policies in Mozambique.

In the province of GAZA, the Denmark is developing a project of aquaculture and at the same time developing other project support decentralised energy systems. The Danida Agricultural Sector Program Support (ASPS) has the following main components: Support to PROAGRI Sector budget support to the Mozambican Government National Agricultural Programme (PROAGRI) - at national level and in the province of Cabo Delgado. The component is focusing on the core functions of MINAG. i.e. financial management, planning and monitoring systems; agricultural research and natural resource management Support to Rural Roads Support to the Mozambican Government to rehabilitate and maintain rural roads in specific agricultural areas in Tete and Manica provinces.

### 3.3. Private sector institutions

From the many private institutions operating in the country the study selected those operating (also) in Nampula province and, as such, the analysis of the role of private institutions will be developed in the case study section (next).

### 3.4. What can be done?

The analysis of the existing public institutional and regulatory framework revealed a series of weaknesses with which any private sector support initiative will have to deal with:

- Existence of many programs, plans, policies and strategies, and many government departments, pursuing different specific goals and being motivated by different interests and lacking coordination and complementarity;
- Conflict between monetarist stabilisation (ex, sterilisation) and development of productive investment, particular from nationals (on a broad basis);

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<sup>9</sup> For more detail of each donors project and program access [www.odamoz.org.mz](http://www.odamoz.org.mz)

- Packages of fiscal incentives and a rent-seeking relationship between the government and the private sector;
- Weak government sector departments: information, analysis, understanding, motivation, and competence, including some problems of corruption;
- Conflicting administrative frameworks: attention to simplification and de-bureaucratisation, sometimes eliminating or minimising the role played by some key issues (ex, technological licensing, economic analysis of large projects seeking resources, training), while some unnecessary and bureaucratic rules are maintained;
- Lack of coordinated productive services and infrastructures;
- Structure and combination of incentives/des-incentives is more favourable for large FDI projects.

As such, better national and local level coordination is crucial for the success of the different initiatives. Here, the JC intervention could be fundamental if it could provide a concrete example for showing and providing an opportunity for learning about the development of national level coordination. For example, this can be achieved by putting together a study and a plan that links SME, markets and trade (including import substitution and export promotion along product chains), inter firm and inter and intra sector linkages, fiscal and monetary issues, choice of technology and training, standards, for a couple of products, thus helping government institutions to learn strategy, information gathering and collection, coordination and planning, and evaluation of results and correction. The key components of such an intervention would include information gathering, analysis (including cost benefit analysis and prioritization), ways to develop a more coordinated relationship between government and private agents, and identification of linkages.

At a local level it should demonstrate the possibilities of coordination between national and local projects. That is, a project with a national component and a local component coordinated, such that the local is an extension or implementation of the national. This would allow for a better understanding of how coordination between national and sub national levels can be achieved, and lessons for decentralisation can also be produced.

#### **4. CASE STUDY - NAMPULA PROVINCE - ECONOMIC, SOCIAL AND INSTITUTIONAL ANALYSIS: THE CONTEXT OF INVESTMENT AND DEVELOPMENT STRATEGIES**

##### **4.1. Social Analysis**

###### ***4.1.1. Geographic Location***

Nampula is located in the northern region of Mozambique with a surface area about 81,606 Km<sup>2</sup>. It is located in the best agroecological potential which is not exploited at full.

Soils can be characterized according to the area:

- Inland soils are essentially sandy with very low fertility and low water retention. This includes districts such as Memba, Nacala-a-Velha, Nacala Porto, Mossuril, Ilha de Mozambique, Mogincual, Angoche and some areas of Erati.
- Soils in the coastal zone in the east of Nampula are clayey, red and permeable. Such soils are found in the districts of Mecuburi, Ribaue, Murrupula, Lalaua e Malema
- The intermediate zone (between the littoral and inland) is the best for agricultural activities with argillaceous and red soils. These soils can be found in districts such as Erati, Muecate, Nampula-Rapale, Meconta, Monapo, Nacaroa, Mogovolas e Moma (Chalaua).

###### ***4.1.2. Human development<sup>10</sup>***

The Table (5a and 5b) shows that Nampula had about 4 million inhabitants in 2007. Two millions are women and 1.9 millions are men.

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<sup>10</sup> Data in this section is based on UNDP. 2008. Mozambique: National Human Development Report. Maputo; Government of Nampula. 2003a. Plano Estratégico Provincial (PEP) 2003/2007. Nampula; and Government of Nampula. 2003b. Relatório do cumprimento do PES 2002.

Table 5a: Total inhabitants by district and sex

	Women	Men	Total inhabitants
Nampula Province	2,076,684	1,999,958	4,076,642
Angoche	141,593	135,819	277,412
Eráti	136,341	123,319	259,660
Ilha de Moçambique	25,337	23,502	48,839
Lalaua	37,220	36,697	73,917
Malema	87,021	82,013	169,034
Meconta	80,236	77,578	157,814
Mecubúri	89,058	92,372	181,430
Memba	122,611	112,388	234,999
Mogincual	67,088	64,473	131,561
Mogovolas	140,285	133,021	273,306
Moma	165,980	163,201	329,181
Monapo	156,438	148,783	305,221
Mossuril	60,325	56,757	117,082
Muecate	48,748	46,638	95,386
Murupula	73,352	69,810	143,162
Nacala-Porto	105,828	102,066	207,894
Nacala-a-Velha	45,938	43,398	89,336
Nacarôa	56,268	52,074	108,342
Nampula-Rapale	106,454	102,592	209,046
Ribáue	94,882	91,238	186,120
Nampula city	235,681	242,219	477,900

Source: INE. 2007. III Censo Geral da População e Habitação. População por Província e Distrito ( available at [www.ine.gov.mz](http://www.ine.gov.mz), accessed on 8<sup>th</sup> April 2010)

Data from 2007, of the human development report, show that Nampula is the third worse province of the country with respect to Human Development Index (HDI) (2.24), Human Poverty Index (HPI) (53.6), and life expectancy at birth (44.3 years), ahead only of the provinces of Cabo Delgado and Zambézia. Nampula is the fifth worse province with respect to

poverty incidence (69% of the population), and children vulnerability. More than 92% of the population does not have access to electricity, 78% are deprived of access to radio and clean water, and 75% has no access to health assistance.

Nampula is the third province with respect to adult illiteracy rate (64% in 2007), and is the province with the lowest gross and net rates of enrolment amongst the population in schooling age, both in the primary and secondary levels. In the primary school, for each teacher there are, on average, 61 students.

Table 5b: Social and economic data of Nampula

	2003/2004	2007	2020 (proj)
Population	3.504.496	4.076.642	4.750.465a
GDP growth	8%	8%	8%
GDP per capita (Mtn)	5.000	6.800	23.900
Poverty Index	54%	54%	30%-35%
illiteracy rate	65%	45%b	20%c
Taxa Líquida de Escolaridade	60%	86.8	100%
doctors per inhabitant	1/52400	1/46000	1/10.000
Taxa de Letalidade por Malária*	6%	7%	3%
HIV (sero-prevalência)	9.2%	8%	8%
Access to drinking water	20%	31.2%	80%
Access to electric power	3%	13%	25%
Transitable Roads	77%	91%	100%

a- Projeções 1997 b – Média Nacional c – Projecção Agenda 2025

Fonte: INE, Anuário Estatístico, 2007

Estimates from the Ministry of Health indicate that the rate of prevalence of HIV/AIDS in Nampula is 8% in 2007 (table 4b), which is similar to the national average. It is estimated that the impact of this, and other endemic illnesses such as malaria, have a very significant negative impact on the ability of the families, particularly of the poorer and more vulnerable, to engage in income generation, poverty reduction activities. For example, it is known that the incidence of malaria is higher and more devastating during the sowing (raining and hot) season, when peasants also are less well fed and need more energy for the heavy work ahead. It is expected that HIV/AIDS will have a very significant demographic impact, with all its subsequent economic and social consequences. Thus, the issue of endemic illnesses has to

be addressed from different dimensions, including changes in technology and social organization of production.

The majority of the active population is in one way or another linked with land and related activities, in particular smallholding agrarian activities. This is often misleadingly understood as meaning that these people are agricultural producers. In fact, many, if not the majority, seek in agriculture another source of income and are involved in a diversified, often not specialised, range of low income activities. Thus, for many, wage work is a better alternative than supply of agricultural inputs and extension services.

Data on employment are scarce, not accurate and not representative of the real situation. This is so partly because of the tendency to massively underestimate the role of wage income for rural households. However, existing figures can give an idea of the dynamics of the labour market, even if it is a pale image of the reality.

## **4.2. Infrastructures and economic growth**

### ***4.2.1. Infrastructures***

The infrastructure development in Nampula is very limited. In fact, infrastructures are concentrated in Nampula city and in some district headquarters. Despite the effort (of the government) the general preservation and conditions of infrastructures is unsatisfactory. So the network of water pumps, roads and bridges demands still need more stable and continuous maintenance. In the raining seasons, for instance, roads and bridges are mostly not passable in the province.

#### *A. Roads*

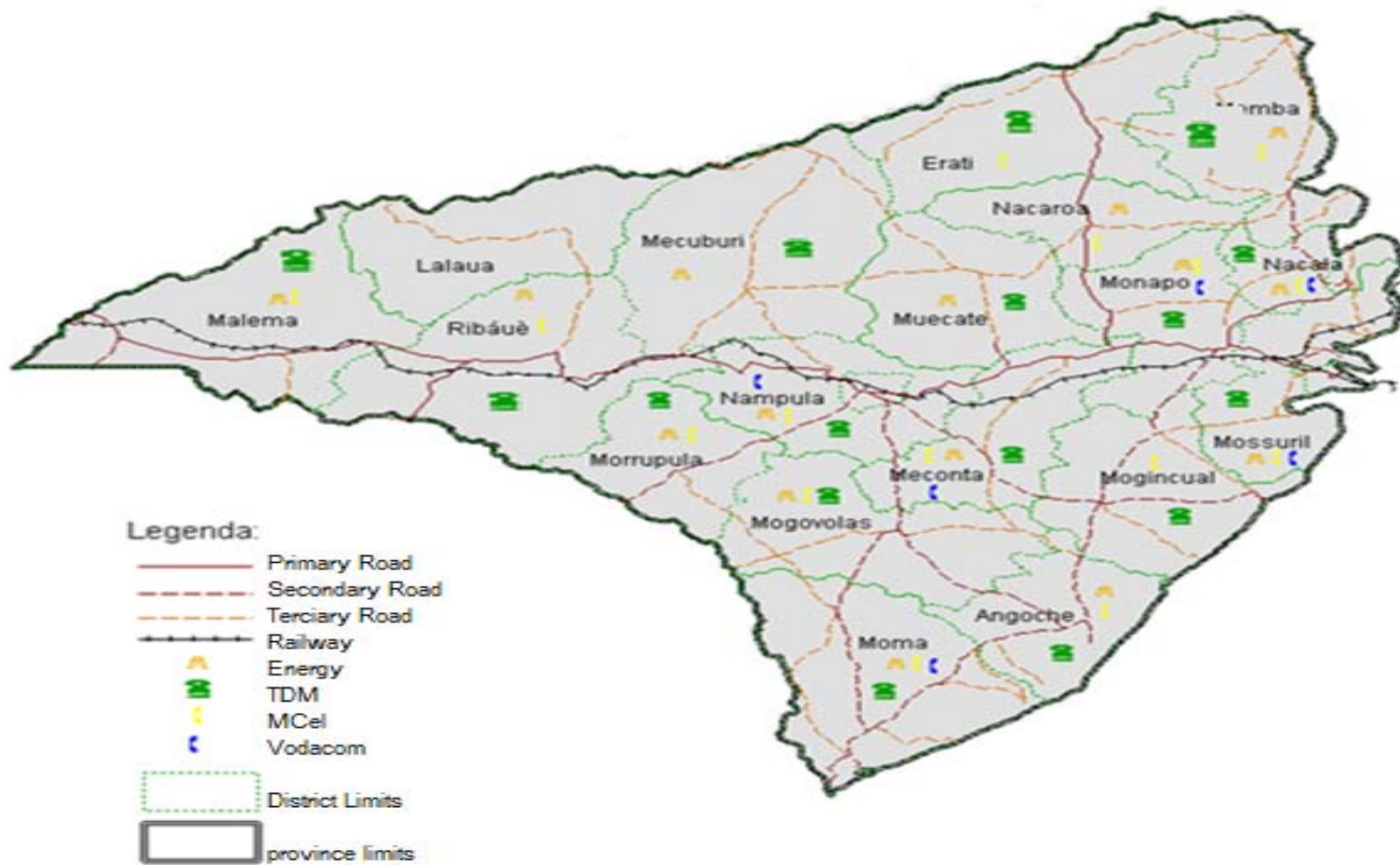
The roads network in Nampula has a total length of 6 305 Km from which 4.013 Km are classified roads and 2 292 Km are non-classified roads. 4 013 km of the classified roads comprise 987 Km of primary roads, 166 Km of secondary roads, 1 925 Km of tertiary roads and 935 Km of vicinal roads. The classified roads connect districts headquarters and allow better transitivity as well as the flow of agricultural commodities. The district government manages funds of 1 million metical for the maintenance and rehabilitation of the non-classified roads with technical support from ANE.(interview with ANE). The main roads are the following:

- Center – Northeast: paved road (it links Nampula city with Nacala Porto city, Ilha de Moçambique and two provinces: Zambézia e Cabo Delgado);
- Nampula – Angoche: bulldozed road; e
- Nampula – Malema: bulldozed road;
- Nampula – Moma: paved road.



Map 2: Distribution of Roads in Nampula





Map 3: Distribution of some infrastructures such as communications (mobile and fix phones), Roads, Railways and Energy

The main agricultural development challenges pointed by some interviewees focused on roads and transport problems which have impact on the commercialization. For instance, IKURU mentioned that there is a significant amount of onion produced along the railway but the train only stops in some specific stations. Besides the volume of production does not justify the creation of the new stations along the railway.

There are also problems related to rehabilitation of some infrastructures in Nampula such as the following tertiary roads Namaponda/Muatua, Muatua/Carrane, Angoche/Sangage, Comba/Gelo, and Nameteiria/Magira. For example, the port sector in Angoche is completely non-operational due to siltation of the canal and degradation of the wharf (interview with ANE and DPTC). The bridges on Ampuesse, Monapo and Mucucuria rivers, require reparation and/or construction.

There some tertiary roads (see Map 2) that connect important population agglomerates with transit problems due to absence of bridges such as:

- Rapale Tchaiane road, on Monapo, Muetaze e Nahavara rivers;
- Rapale-Naphome, on Mutivaze, Cutuqueia e Ratane rivers;
- Level crossing road (from Mutivaze) to Namarata, on Macala river;
- The road from Muriasse to Naiculo, Muepelume river;
- The road from Namaita-Sede to Niheia, on Namarapala river;
- The road from Anchilo-Sede to Localidade de Namiconha on Mutomote river;
- The road from Localidade Sede de Namiconha to Tapula, on Mutomote river.

### *B. Transport*

There are three main bus transporters well equipped namely Maningue Nice, Mecula, Nampula Expresso. However, there are some transporters that own one or two<sup>11</sup>.

CFM is the only rail company that operates in Nampula. It comprises two railways and one branch line with a total of 920 Kms. The Nacala (Nacala-Lichinga) railway line is useful for Monapo, Namialo, Meconta, Nacavala, Nampula, Rapale, Mutivaze, Ribáuè, Iapala, Malema, Mutuáli, Lúrio, Cuamba, Mitande and Lichinga. The Cuamba line connect Nampula and Entre

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<sup>11</sup> Interview with Nampula DPTC

Lagos, in the border with Malawi (PEP, 2009). Indeed rail transportation is more important for Malawi than it is for Nampula in terms of the volume of cargo.

Air transportation is mainly guaranteed by Linhas Aéreas de Moçambique (LAM). There are also two private transporters nameley STA and SAR (PEP, 2009).

At the moment the government does not own any ship transport but there are some private owned boats (for passangers and cargo) which are licensed by the maritime administrations by coastal districts such as Angoche, Nacala and Ilha de Moçambique. At the moment there as 3460 registered boats that ensure the flow of people and goods in the coastal districts of Nacala-Porto, Nacala-a-Velha, Ilha de Moçambique, Memba, Angoche, Moma and Mossuril.

### *C. Communication*

Communication is guaranteed by land line and mobile companies (with access to internet). TDM reaches all headquarters of the districts. The coverage of Mcel mobile phone company comprises Angoche, Erati, Malema, Meconta, Memba, Mogincual, Mogovolas, Moma, Monapo, Mossuril, Murrupula, Nacala-a-Velha, Nacaroa, Nampula, Ribaue except Lalaua, Muecate and Mecuburi. The coverage of the Vodacom mobile company includes Nampula, Ilha de Moçambique, Nacala, Meconta, Moma, Ribaue, Monapo. Communication by radio covers the province as a whole while television signal only reaches all districtal headquarters. (see Map 3)

### *D. Energy*

Electricity from Cahora Bassa feeds sixteen district headquarters, 19 administrative posts and 20 localities while the rest 6 district headquarters use energy from generators. However, the district of Erati will soon be electrified. (see Map 3)

The examples below show what happens in relation to energy use and access in Nampula:

The district of Nacala-a-Velha uses electricity from Cahora-Bassa, however, the beneficiaries are limited, namely: the inhabitants of the district headquarter, Muamula, Muhecula (dam), and 12 industrial plants (7 salines e 5 mills).

Mogincual will only be connected to national electricity grid in the five-year period of 2010-2014 in spite of its neighboring districts being already using electricity from Cahora Bassa. That

means that until then, the exploration of the potential of the Mongincual in fishing, tourism, wood processing and cashew nuts will be deferred.

In some administrative posts there is an increasing use of the alternative source of energy– the solar panels – because the government cannot invest in hydro-electricity. This has happened in Aubi (Angoche), Liupo (Mogincual), Luluti (Mogovolas), Chalaua (Moma), Chinga (Morrupula), Nihessiwe (Morrupula), Sauasaua (Nacaroa), Milhana (Mecuburri), Muiti (Mecuburi), Namilasse (Morrupula).<sup>12</sup> The energy used in the very interior zones is wood and coal.

### *E. Water*

Water is the very scarce resource in almost all districts of Nampula. In some villages people walk from 2 to 10Km to the nearest place where to find water. All water wells are equipped with manual pumps. However, since the wells are not deep enough, they provide water only for a limited period during the year.

The sources of the clean water in the districts are not enough. That is why population use the running water from rivers and traditional wells. These alternative sources of water are prone to bring diseases related to inappropriate water consumed. For instance, the district headquarters and Administrative posts of Namialo has a piped water with pumping system that is not working anymore due to the pumping system that is currently not working due to the damage of its infrastructure in dams located in the rivers Nacopo and Monapo respectively.

### *F. Touristic infrastructure*

The table 6 shows the distribution of accommodation, restaurants and travel agencies by district.

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<sup>12</sup> Interview with the provincial direction for mining and energy.

Table 6: Distribution of accommodation and travel agencies by district

N/O	Location	accommodation	Restaurants e drinks	Travel Agencies	Capacity			
					Beds	Rooms	Tables	Chairs
1	Ribaue	9	1	0	93	66	51	168
2	Mogovolas	1	2	0	30	19	34	86
3	Namapa-Erati	7	4	0	56	38	22	76
4	Nacala-Porto	9	11	1	184	105	342	1317
5	Malema	4	3	0	98	91	108	385
6	Mongicual	4	1	0	31	27	84	326
7	Monapo	9	15	0	52	37	14	67
8	Angoche	10	10	0	61	57	59	204
9	Ilha de Moçambique	43	16	0	218	129	n.a	n.a
10	Nacala-Velha	7	1	0	37	34	n.a	n.a
11	Mecuburi	5	7	0	56	50	n.a	n.a
12	Mossuril	n.a	n.a	n.a	n.a	n.a	n.a	n.a
13	Meconta	n.a	n.a	n.a	n.a	n.a	n.a	n.a
14	Lalaua	5	0	0	31	23	n.a	n.a
15	Moma	15	11	0	139	124	160	357
16	Cidade de Nampula	34	140	4	879	548	n.a	n.a
17	Murrupula	n.a	n.a	n.a	n.a	n.a	n.a	n.a
18	Erati	n.a	n.a	n.a	n.a	n.a	n.a	n.a
19	Muecate	n.a	n.a	n.a	n.a	n.a	n.a	n.a
20	Nacarua	n.a	n.a	n.a	n.a	n.a	n.a	n.a
21	Memba	n.a	n.a	n.a	n.a	n.a	n.a	n.a

Source: data base from Direcção Provincial do Turismo de Nampula, 2010

### *G. Commercial network and agro-industry<sup>13</sup>*

Most agro-industrial enterprises or are inoperable or operate (table 7) in poor conditions using manual devices. In some districts the placement and installation of industries is dependent on the arrival area of the national energy network, because nobody is interested in maintaining high operating costs when nearby can install a factory to operate at relatively low cost. The small local industry (fishing, carpentry and crafts) is an alternative farming, or extension of their business.

<sup>13</sup> MAE, 2005 e entrevista CPI, DPA

Table 7: Number of factories, mills and shops operating by district

Distrito	Factories		Mills		Shops	
	Total	Operating	Total	Operating	Total	Operating
Angoche	12	3	8	7	-	-
Erati	1	1	5	5	57	46
Malema	1	1	1	1	-	-
Meconta	6	-	19	-	-	-
Mecuburi	-	-	5	2	26	26
Mogincual	6	6	3	3	88	16
Mogovolas	1	1	4	3	75	21
Moma	4	4	3	3	96	80
Monapo	9	7	-	-	-	-
Mossuril	-	-	8	1	105	21
Muecate	-	-	-	-	32	6
Murupula	2	2	9	9	-	-
Nacala	-	-	4	4	31	15
Nacaraoa	-	-	1	1	31	23
Nampula	5	5	11	11	39	-
Ribaue	2	2	-	-	26	-

- without information

Source: Interviews with various provincial Departments UCODIN e CEPAGRI; MAE, 2005; ICC, 2007

Angoche had, in previous years, a business of agro-industry. Nowadays, from the 12 industrial companies of the district, only three are operational. The district has a total of 22 small industries were from the existing 8 mills only 7 are operational, 3 bakeries, 2 butchers all non-operational, 3 salines, 2 carpenter shops, 1 printer shop and 3 potters, all of these in operation.

In Erati from the 57 existing stores in the district, only 46 are operational. There are also five mills and a cotton-processing plant in operation, in addition to a grinding, a service station, two carpenter shops, a sawmill and four bakeries (inoperable).

In Meconta, the industrial sector is represented by the cotton ginning factories of SODAN, manufacture of biscuits, ACAI, the quarry for crushing, the Sawmill CFM-Norte in Nacavala for manufacture of sleepers. Also, there are 19 mills, three service stations, three bakeries and two sawmills.

There are in Mecuburi district 26 stores operating. There are also five mills (3 closed), 2 service stations, carpentry and two bakeries. Alongside the formal business women who dedicate themselves to making and selling traditional drinks and items of pottery, and men manufacturing and selling mats and baskets.

Mogincual has 6 industries shelling of cashew nuts, 2 Sawmills, three private mills, 3 salterns and 5 potteries. The district had a sales network of 88 shops of which only 16 are operating. Many owners are undercapitalized.

The district of Mogovolas is a cashew producer. Apart from the provincial capital, Nampula, often come to these district merchants from the cities of Maputo, Beira and Quelimane to buy local products. The most important industrial cotton ginning unit existing is LOMAC. There are also 75 shops (54 closed), 4 mills (one closed), two carpenters, four workshops (two closed) and three bakeries. The district currently has 113 shops (43 closed).

The network's industrial district Monapo consists of nine factories, including:

- Industrial Monapo Company (CIM) - production of oils and soaps and supplies to local people and other parts of the country;
- SANAN (Cotton Society of Namialo) - cotton ginning, fiber is designed for export and for the public seed cotton production;
- Manufacturing of sisal Mecuco, Meserepane, Jagai and Ramiane - sisal production and refining for domestic market;
- Production Company School of Carapira - production and marketing of wood furniture, wood and metal;
- CCM (Cashew Company of Monapo) - shelling of cashew nuts and bagasse production (closed in 2000);
- SAMO (Cotton Society of Monapo) - cotton ginning (closed in 2001).

In Mossuril of 105 existing stores in the district 84 are unworkable. There are 19 salt producers, one of which is in the process of reorganizing production. The fishing industry has 400 registered fishers. There are also eight mills (one inoperable) 3 carpentry, sawmill, workshop and three bakeries (one inoperable). The district of Murrupula has only nine mills, two sawmills of wood, one factory processing of cashew nuts, which is employing 150 workers and a little husking rice factory.

The formal trade sector in Nacala-a-Velha has 31 shops of which only 15 are operational. There are also 4 mills, 3 plants for the extraction of salt, 1 carpentry and 2 bakeries. There are 100 registered fisheries. In Nacaroa the formal trade has 31 stores (8 closed). There is only one mill. The sawmills of the districts are in rehabilitation and have only equipment for cutting and transporting trees, but there is no processing equipment.

Nampula district has one industrial unit of spirits located in the Nairuco hills, with a production capacity of 60,000 liters per year. Other industrial mills are mills (in total 11 which 4 are located in Anchilo, 3 in Mutivane, 3 in Rapale and 1 in Namaita) with a production capacity of 50 tons of

Maize Flour per month. There are also 39 shops, 5 in the administrative post of Mutivaze, 9 in Rapale, 7 in Namaita and 18 in Anchilo.

In the agro-processing sector there are in Ribaue the following units: Factory pressing and ginning cotton which belongs to CANAN with a capacity of 20 tones. In the mineral industry worked in previous years the factory of lime of Ribaue using row material such as kaolin, but currently its paralyzed because there are no investors. The formal business of the district includes 26 shops and rural canteens mostly paralyzed.

The agricultural commerce is difficult due the lack of capital of the traders and lack of credit to finance the activity. The lack of commercial network in the isolated areas is mitigate by the informal trade that is mostly done either in small markets (around the main roads) or in Sundays fairs operating in the areas of higher production of cereals and vegetables.

The number of functional stores is not desperate to vent properly and marketing coverage to the province. However, the access roads and the scarcity or availability of power quality are the biggest obstacle to comprehensive marketing, which does not encourage the majority of commercial actors to achieve the desired shape of the buying and selling of agricultural products.

Currently some provision companies has been emerging such as, SEMOC that provide seeds, fertilizers, MEDIMOC providing veterinary inputs, AGRO-ALFA provide agricultural machinery and ENTREPOSTO selling tractors. However, these companies cannot meet the needs of both producers and the companies that are located in other districts, this happens not only because they are centered in the city of Nampula, but also because they do not have the capacity to produce enough to the demand for those goods and services.

#### ***4.2.2. Economic Activity***

Agriculture is the main economic activity in the province of Nampula and is complemented by the creation of small animals (especially birds). The potential for the development of agriculture is 4 500 000ha for rain-fed agriculture, 74 000ha for irrigated agriculture and to 83 000ha for forestry. Nampula also have favorable conditions for livestock husbandry practices, especially in bovine, goat, sheep and poultry in the districts of Mogovolas, Moma, Angoche and Nampula-Rapale which have some infrastructure for the expansion of the activity.



About 80% of production is done by households and associations, which use rudimentary means, such as the hoe, with few agro-chemicals and machinery, low capacity for utilization and conservation of water etc. In recent years there has been an effort to mechanization through the use of tractors (which are rented) and animal traction.

Agricultural production is predominantly under rain-fed conditions, and not always successful, since the risk of crop failure is high, given the low storage capacity. Small farmers concentrate most of their activity during rainy seasons. Some families employ traditional methods of soil fertility such as fallow land, soil incorporation of plant stover, manure or ashes. Aside from climate issues, the main constraints to production are pests, drought, lack or inadequacy of seeds and pesticides.

Two kinds of culture are produced: food and cash crops. Main cash crops are cotton, tobacco, castor and sesame (table 8). Cultures and potential production areas in the province are:

- Maize – Murrupula, Lalaua, Monapo, Malema, Ribaue
- Groundnuts – Mogovolas, Murrupula, Nacarua, Muecate e Meconta
- Rice – Angoche, Moma e Murrupula
- Cassava - Malema, Erati, Ribaue, Murrupula, Nampula-Rapale e Mecuburi
- Vegetables – Malema e Ribaue
- Cashew – Mogovolas, Angoche, Moma e Mogincual
- Cotton – Nacarua, Meconta e Monapo
- Timber – Nampula-Rapale, Mecuburi e Muecate

Table 8: Crops in Nampula, 2009-2010

Crops	Planned 2009/10 (ha)	Production 2008/09	Projected 2009/10	Growth rate (%)
FOOD CROPS				
Maize	227,350	219,400	265,313	17
Sorghum	156,414	112,300	141,321	21
Millet	17,786	8,500	16,588	49
Rice	66,528	38,900	64,483	40
Beans	140,099	64,500	89,400	28
Groundnuts	157,438	83,750	113,520	26
Cassava	616,892	3,495,200	3,860,322	9
Sweet potatoes	11,500	18,725	25,650	27
Potatoes	100		1,500	100
Vegetables	7,100	16,202	53,271	70
Sub total	1,401,211	4,057,477	4,631,372	12
CASH CROPS				
Cotton	99,499	34,973	59,217	41
Tobacco	8,392	1,500	5,068	70
Sunflower	7,640	4,364	5,702	23
Sesame	55,848	29,428	35,314	17
Soy	3,750	3,252	4,875	33
Sub total	175,130	73,517	110,177	33
Total	1,576,342	4,130,994	4,741,549	13

Source: DPA Nampula, March 2010

The agrarian economy is dominated by the following interventions:

- medium-sized plants for cashew-nuts processing;
- Commercialization of maize, nuts and sesame by traders such as GANI and IKURU;
- Poultry activity in Nampula by GETT Ltd and Novos Horizontes to provide inputs for producers in other areas;
- Commercialization of vegetables, fruits and other foodstuffs in Nampula.

Prices of agricultural products vary and are the result of negotiations between producers and buyers. In the case of maize marketing, the producers do not sell at the price they want. It is the trader going to the producing areas who determines the price, because the access roads are not the best. Prices vary depending on the periods. In harvesting periods it may cost 2 MTn and in times of scarcity it can reach 5 MTn.

The major constraints on domestic demand are the bad road conditions and lack of transport capacity, both by sea, rail and road. These result in higher costs for goods brought from North to South which translates into higher prices for consumers of basic commodities in the South.

At the same time, the markets in the North cannot always absorb the quantities produced, resulting in lower prices for producers, not providing the incentives for increased production.

As such cross border trade plays an important role as alternative market especially for small producers. The adjacent market of Malawi has functioned as a stabilizer of prices for producers, especially in harvesting time, ensuring that prices are not so low. To help formalize the purchase prices, the provincial department of agriculture organizes fairs every Sundays. For companies that make the exploitation of forests, the government encourages them to do the promotion of food. A major problem faced in the major production areas is the issue of roads, which influences the prices of products in the market.

#### *4.2.3. Economic growth*

Table 9 shows that, on average, between 1996 and 2007, real GDP and real per capita GDP annual growth rates in Nampula were 7% and 4%, respectively. These figures are strongly influenced by the abnormally high growth rates recorded in 1997. From 2004 to 2007 Nampula's economy has grown at two digits – with the exception of 2006 showing an abnormally negative growth rate.

In comparison, the average annual rate of growth of Nampula's real GDP and real per capita GDP (7% and 4% respectively) has been below national averages (8% and 6% respectively). If these differences between Nampula and national average rates of growth are maintained, Nampula's share of national GDP (14% in 2007) will continue to fall, and the population of the province (20% of national population) will continue to be entrapped in vicious circles of poverty and impoverishment.

Table 9: Economic growth in Nampula and comparison with national averages

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>Nampula's growth data: GDP, population and per capita GDP</b>												
GDP (000 contos, previous year constant prices)	4,639	5,499	5,919	6,034	6,064	6,125	6,474	6,807	7,578	8,318	8,152	9,276
GDP annual growth rate (%)		19	8	2	0	1	6	5	11	10	-2	14
Population (thousand people)	3,010	3,063	3,129	3,196	3,266	3,331	3,424	3,504	3,588	3,676	3,767	4,077
Population annual growth rate (%)		2	2	2	2	2	3	2	2	2	2	8(a)
Annual GDP per capita (meticaïs)	1,541	1,795	1,892	1,889	1,857	1,839	1,891	1,943	2,112	2,263	2,164	2,275
GDP per capita annual growth rate (5)		16	5	-1	-2	-1	3	3	9	7	-4	5
<b>Comparison between Nampula and national average annual growth rates: GDP and per capita GDP (in %)</b>												
Nampula GDP average annual growth rate												7
National GDP average annual growth rate												8
Nampula per capita GDP average annual growth rate												4
National per capita GDP average annual growth rate												6

*Sources: Estimated from INE. Statistics yearbooks (various); UNDP. 2008. National Human Development Report. Maputo.* **Notes:** 1 conto = 1,000.00 Meticaïs. Average annual growth rates for the period are geometric means of changes during the period. (a) This growth rate was calculated based on the data provided by the sources used. However, it is unlikely that the population has grown 8% from 2006 to 2007. As in 2007 it was carried out the last Census of the Population, it could be the case that the 2007 data reflects the effective number of people in Nampula, whereas data for 2006 (and for some of the previous years) was estimated data.

Two questions, then, are posed: how fast the economy of Nampula *has* to grow, and how fast it *can* grow in order to achieve a fairer share of national GDP, which is at least equivalent to Nampula's share of national population. In other words, assuming that population growth rates and national GDP growth rates are not changed, how fast, and for how long, should the economy of Nampula grow, and what can make it grow at the desirable rate?

If the average annual rate of growth of Nampula's economy increases to 10% (two percentage points above the national average growth rate in the last decade and three percentage points above the province's annual growth rate in the last decade and above the national growth rate projections for the next years), it will take 13 years for Nampula's real GDP to equal 20% of real national GDP.

If the average annual rate of growth of Nampula's economy increases to 12% (the average of the last four years – 2004-2007 – excluding the abnormally negative rate of 2006, it would take 8 years for Nampula's real GDP to equal 20% of real national GDP. This would make a much firmer impact on poverty reduction, would require significantly more economic effort and would accelerate the process of catching up.

This exercise shows that the economy of Nampula has to grow at annual rates of at least 10%-12%, if the province is ever going to gain a fairer share of national GDP and wide spread poverty is ever going to be seriously confronted and eliminated. The question, now, is to what extent can the economy of Nampula grow at such average annual rates? To answer this question, it will be necessary to understand what the dynamics of growth in Nampula are and can be. Table 9 shows the contribution of various sectors to GDP growth in Nampula, which obviously depends on the sectoral share of GDP and rate of growth in any particular year.

Table 10: Sectoral contribution to GDP growth in Nampula (in %)

Sector	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>GDP growth rate</b>	<b>19</b>	<b>8</b>	<b>2</b>	<b>0</b>	<b>1</b>	<b>6</b>	<b>5</b>	<b>11</b>	<b>10</b>	<b>-2</b>
<b>Agriculture, Forestry and Livestock</b>										
Share of GDP	60	61	59	58	25	33	33	33	33	32
Sectoral growth rate	21	9	2	-1	0	48	8	6	8	13
Contribution to GDP growth	13	5	1	-1	0	16	3	2	3	4
<b>Manufacturing Industry</b>										
Share of GDP	6	7	7	6	6	7	8	9	8	7
Sectoral growth rate	38	15	-13	17	11	22	29	18	-2	5
Contribution to GDP growth	2	1	-1	1	1	2	2	2	0	0
<b>Fisheries</b>										
Share of GDP	4	4	4	3	3	3	3	3	3	4
Sectoral growth rate	18	8	-24	1	3	17	14	0	-8	29
Contribution to GDP growth	1	0	-1	0	0	0	0	0	0	1
<b>Transports &amp; Communications</b>										
Share of GDP	5	5	5	6	12	12	11	12	10	12
Sectoral growth rate	19	9	21	1	8	12	0	11	-7	5
Contribution to GDP growth	1	0	1	0	0	1	0	1	-1	1
<b>Trade</b>										
Share of GDP	14	13	13	14	19	10	9	8	11	10
Sectoral growth rate	10	8	10	8	10	-41	-2	2	41	4
Contribution to GDP growth	1	1	1	1	1	-4	0	0	5	0
<b>Other Industries (a)</b>										
Share of GDP	1	1	1	2	9	6	7	6	6	7
Sectoral growth rate	19	7	105	0	3	147	111	-69	58	89
Contribution to GDP growth	0	0	2	0	0	9	8	-4	3	6
<b>Other Services (b)</b>										
Share of GDP	10	10	11	11	15	21	21	21	22	2
Sectoral growth rate	19	18	2	0	4	54	92	81	52	95
Contribution to GDP growth	2	2	0	0	0	11	19	17	11	20
<b>Adjustments (for import taxes)</b>					11	9	10	10	9	8
<b>Adjustments (due to rounding figures)</b>	-1	-1	-1	-1	-2	-1	-2	-2	-2	-1

Sources: Estimated from INE. Statistics Yearbooks (various) and UNDP. 2001 and 2008. National Human Development Report. Maputo.

Notes: (a) includes mining, construction electricity, water, restaurants and hotels; (b) includes civil service, defence services, financial services, real estate, education, health, and other services. From 2001 there was a methodological change which consisted in the introduction of an adjustment factor for import taxes that largely explains the differences between sectors.

GDP in Nampula is highly sensitive to changes in agricultural value added because the agriculture share of GDP is very high. From 1997-2006, this sector has grown, on average, at a faster rate than the provincial GDP. It has also shown a high and quite stable growth in the last four years of the period analyzed.

These aspects allied to the potential for diversification and articulation that agro-industrial production and associated value and logistic chains bring to the economy, make the case for the defining agro-industrialization as a priority for development in Nampula.

Also, in all known cases of successful and sustainable economic development, the agriculture share of GDP and national employment, and the self-employment share of labour allocation, fell very significantly as the economy grew and became more complex, competitive and dynamic. This reduction has been achieved because the others sectors grew faster, not because of the reduction of the agricultural output. This means that the development of the Mozambican economy and its structural transformation “out of agriculture” has to be achieved through a more intensive exploitation of the agricultural potential – keeping the long term economic and environmental sustainability perspective – by linking it with the rest of the economy. In this process, agro-industrialization, whose performance is closely linked with the agricultural output and complex chains of logistics and other linkages, plays a key role in the first stages of the transformation.

Given the enormous and barely explored potential of the fishing and tourism sectors and its high potential to create linkages in the economy these sectors also represent niche sectors for the Japanese cooperation intervention. In fact, in spite of the reduced share of the tourism sector in the provincial GDP (less than 1%), its importance and potential has been widely recognized. The current process of formulation of the Tourism Master Plan for the Northern provinces is evidence of the importance of this activity and promises to bring increased dynamism to the sector.

However, it should be noted for improving performance in agro-industrialization, fishing and tourism sectors, it is important that a range of other supporting activities is developed. Those include the development of logistics and value chains, goods, financial and input markets, transportation, education and training programmes, etc. This highlights the need for a value chain approach to the support programs as bottlenecks in supporting areas can deeply constrain the success of the program.

Mega projects, such as those associated with Nacala corridor, heavy sands in Moma, phosphates, and others may accelerate growth very significantly in relatively short periods of time, but their main contribution depends on the development of linkages with the other sectors of the economy. Agro-industrialisation, fishing and tourism industries may add to the growth momentum, maintain it in the long run, improve its quality and widen the social and economic benefits of growth. Thus, there is some potential to accelerate growth, although little is said about precise quantitative rates of growth that can be achieved.

In brief, economic growth in Nampula will have to be very significantly accelerated, and this will require a change in economic structure that creates the ability to take advantage of the potential that is dormant in the province's economy. The development strategy that creates broad based, articulated, fast growth inter-sectoral development poles, or pegs, is, thus, necessary.

The question of accelerated, broad-based and articulated growth in Nampula is crucial also for the Mozambican economy as a whole. This is so because this province can become the engine for diversified, fast and sustainable growth for the entire economy due to its potential with respect to agro-industrialization, fishing industries, tourism and mega projects. Besides, the province is well located to create an alternative growth dynamics that enables inter-regional differences across Mozambique to be reduced in the foreseeable future. Thus, the success of Nampula's growth strategy may be closely related to the possibility of successful fast economic development to occur in Mozambique.

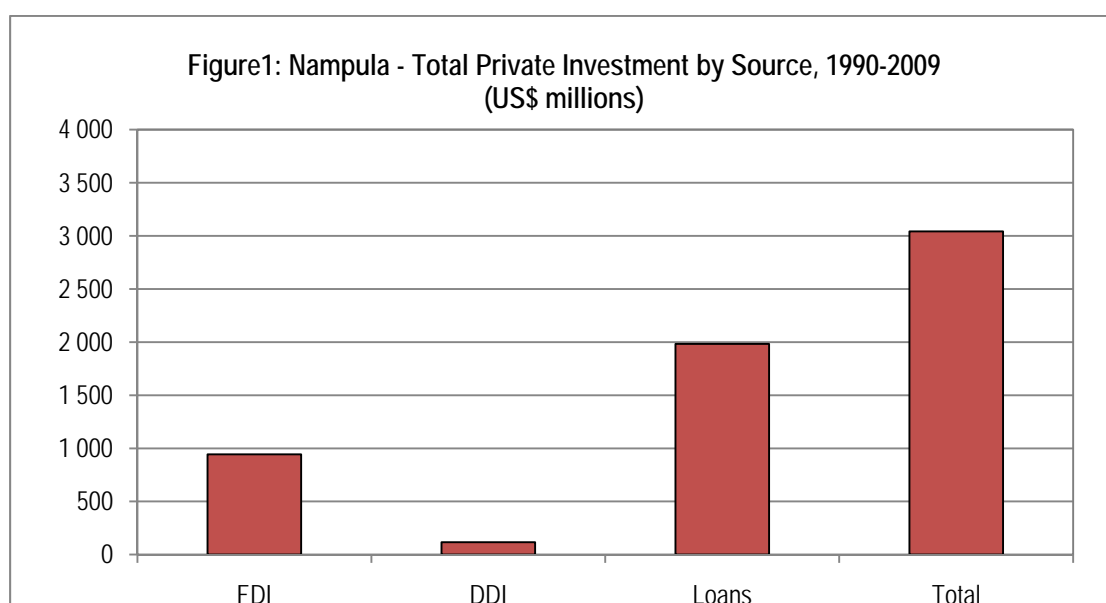
The next section, which looks at current investment dynamics, discusses whether the provincial economy is moving in this direction or not.



### 4.3. Investment dynamics in Nampula

#### 4.3.1. Private investment<sup>14</sup>

Between 1990 and early 2009, approximately 210 private investment projects were approved for the province of Nampula, potentially creating about 40,585 jobs. The total value of these projects is US\$ 3,042 millions of which 31% corresponds to Foreign Direct Investment (FDI), 4% is Domestic Direct Investment (DDI), and 65% are loans from domestic and foreign banks, and other non-banking financing of private investment (see figures 1 and 2).

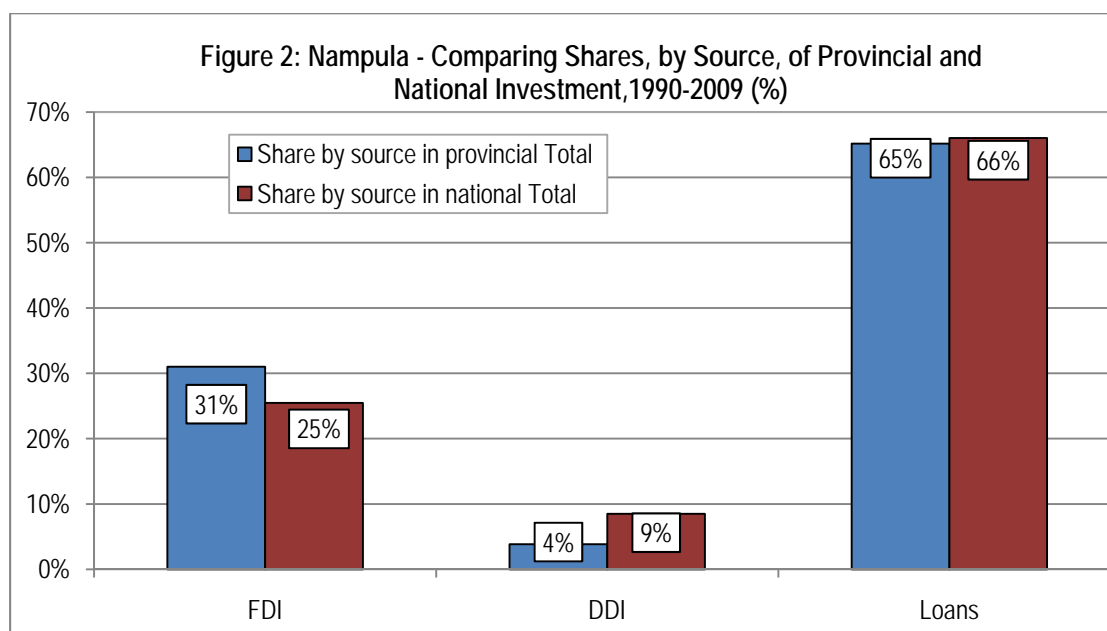


Source: Estimated from a list of investment projects approved by CPI from 1990-2009

Figure 2 compares the provincial shares of different sources of investment with the national shares. It shows that the DDI share of total private investment is less than a half in Nampula

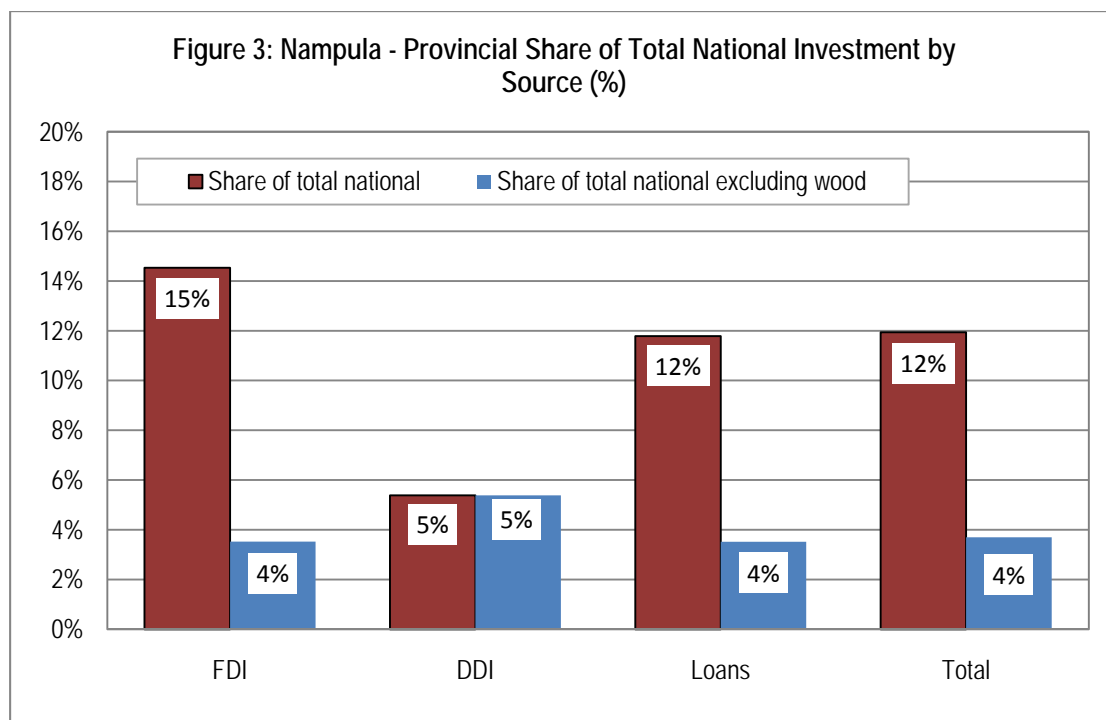
<sup>14</sup> Most data about private investment has been estimated for this report on the basis of a list of private investment projects approved by CPI. This list does not include, of course, private investment projects that have not applied for investment incentives through CPI. Therefore, the list is expected to be biased against micro and small investment projects. However, what the list does not capture in terms of number of projects, it captures in terms of value of investment. It is estimated that in terms of value, projects approved by CPI represent well over 90% of total. Another short-coming of the list is that it is about intentions of investment, rather than actual investment already made. However, we checked the list of intentions with provincial directorates to identify which projects are being implemented and which have been cancelled. Despite the difficulties in getting a completely accurate list of projects in implementation or implemented, discussed elsewhere in this report, we have significantly improved the private investment in Nampula. Another short-coming of the list is that it is about intentions of investment, rather than actual investment already made. However, we checked the list of intentions with provincial directorates to identify which projects are being implemented and which have been cancelled. Despite the difficulties in getting a completely accurate list of projects in implementation or implemented, discussed elsewhere in this report, we have significantly improved the accuracy of the original list by making such checks. It is worth mention the exclusion of the oil refinery project approved for Nacala-a-Velha, worth US\$ 5 billion, which has been suspended.

(4%) than at national level (9%). The FDI share is higher in the province (31%) than at national level (25%).



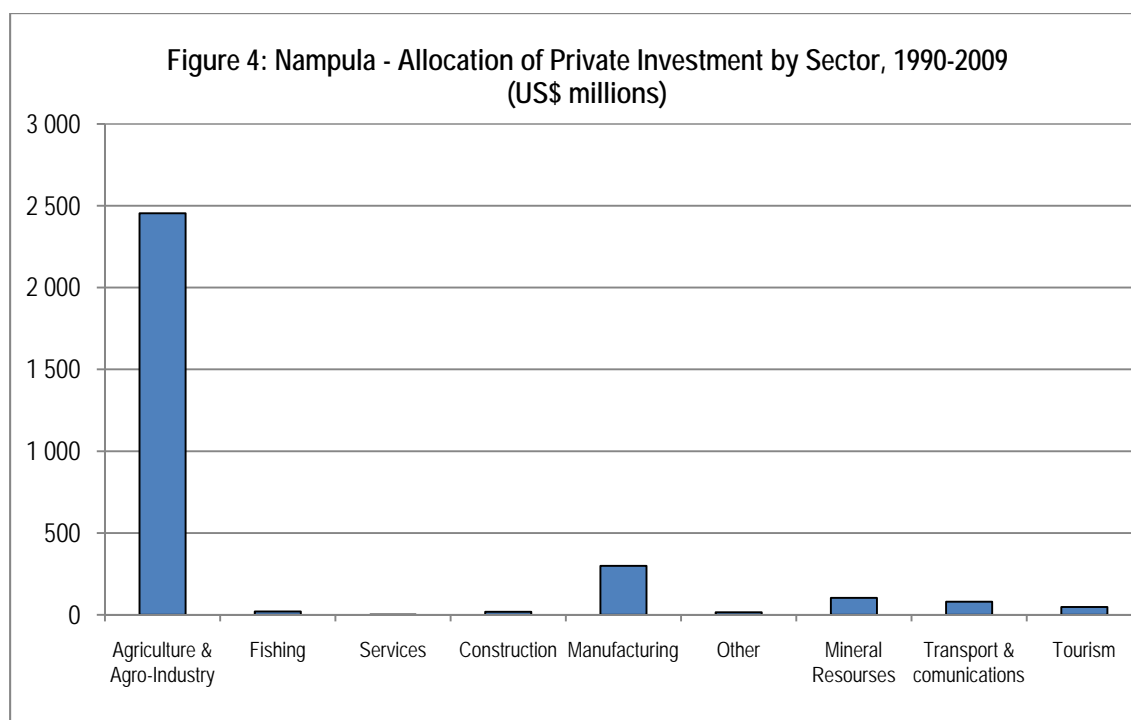
*Source: Estimated from a list of investment projects approved by CPI from 1990-2009*

Figure 3 shows that when the provincial investment sources of investment are measured as a proportion of the same sources at a national level, total investment in the province represents 12% of total national investment, FDI (15% of total national FDI), DDI (5%) and loans (12%). From this numbers we can see that the shares of investment in the province fall below its share of total population (20%) and total investment also fall below the provincial share of national GDP (14%). Furthermore, it should be noted that a single project (for timber production) approved in 2009, worth about US\$ 2.2 billion, represents 73% of the total investment in the province in 1990-2009 and, when this project is excluded from both the provincial as well as the national level, the provincial share of the total national investment falls to 4%.

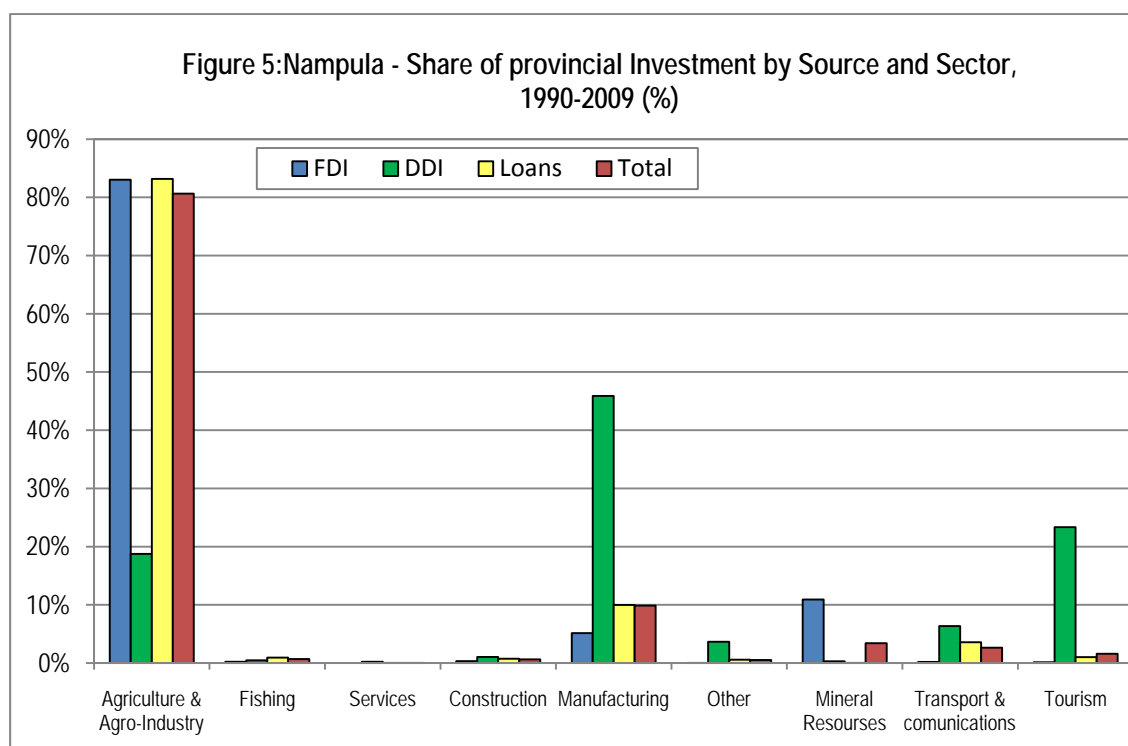


*Source: Estimated from a list of investment projects approved by CPI from 1990-2009*

Figure 4 shows the total investment by sectors and figure 5 shows the sector distribution of approved investment (total investment, FDI, DDI and loans) in the province. Agriculture and agro-industry (81%) and manufacturing (10%) are the leading sectors in total investment. Manufacturing (46% of DDI), tourism (23%) and agriculture and agro-industry (19%) lead the provincial share of DDI; Agriculture and agro-industry (83% of FDI) and mineral resources (11%) lead the provincial share of FDI (figure 3). It is interesting to compare these figures with national averages, where manufacturing (17%), mineral resources (16%), tourism (13%), agriculture and agro-industry (11%), and transport and communication (10%) lead the share of total investment.



Source: Estimated from a list of investment projects approved by CPI from 1990-2009



Source: Estimated from a list of investment projects approved by CPI from 1990-2009

This data show that, in spite of the enormous potential of the fishing and tourism sectors in terms of profitability, promotion of linkages and of poverty reduction, they have been largely neglected by the investment in the province. It could be the case that the recent elaboration of the tourism master plan for the North of Mozambique, which reveals the government and investors belief on the tourism sector potential, would provide some important guidelines and institutional conditions for the tourism sector to emerge stronger in the province. The agricultural and agro-industrial absorption of 81% of the total investment in the province suggests that the importance and potential of the sector has been recognized by investors. However, it should be noted the enormous concentration of investment within the sector. In fact, the larger investment for the whole period is a timber exploration project representing 90% of the total investment in the agriculture and agro-industry sector. When this project is excluded, the provincial share of investment in the agriculture and agro-industry falls to 29%, manufacturing takes the lead with 36%, followed by mineral resources (12%) and transport and communications (10%). As such, the agro-industrial sector seems to offer a good opportunity for diversifying the provincial and the national economy.

The relatively high share of DDI in sectors like manufacturing (46%), tourism (23%) and agriculture and agro-industry (19%), may indicate an opportunity for an investment strategy that mobilises domestic savings, particularly those in the hands of traders, financial institutions and other profitable firms, to finance diversified productive investment in the province. Furthermore, FDI in Nampula is highly concentrated in one agro-industrial project and one mineral resource project both accounting for about 90% of the total FDI in the province. Thus, the investment strategy in the province should pay more attention to the domestic investment-profit *nexus*, by which private investment and profits are dynamically related, as well as to trying to diversify sources and allocation of FDI.

Mobilizing private domestic savings and diversifying FDI could be part of the same dynamics and strategy. This requires that priorities are clearly defined and articulated around investment and development pegs (ex., agro-industrialization); which could be based upon inter-sectoral, vertical production and value chains (ex., the entire cashew or vegetable oil industry); which also have an horizontal component (ex., relationship with metal-engineering firms, or export promotion services); and which target clear and precise objectives (ex., exports of high quality, diversified agro-industrial products, competitive import substitution).

One example of an agro-industry in Nampula may help to understand the role that pegs and chains of production and values may play in investment strategy. The old, large cashew processing factories were all closed in the late 1990s as a direct result of the liberalisation of exports of raw cashew and their own industrial inefficiencies. It is often argued that these firms were technological and scale inefficient, such that they spent more on seeking rents through protection against exports of raw cashew, than on trying to acquire industrial competitiveness. Liberalisation of exports of unprocessed nuts is supposed to have eliminated the climate for rent seeking and to have opened the doors for smaller firms, scale and technologically more efficient, to emerge.

The success of all smaller firms depends, amongst other factors such as technology and management, on the possibility to select and buy raw cashew nuts of high quality. Thus, supply of good quality raw material is crucial for the success of the processing plants. Cashew nuts have been collected mostly by smallholders, and there is no systematic policy to change this. The government and NGOs see support to smallholders as a way to address rural poverty and a series of other development goals, but there is no evidence that smallholders can supply enough quantities of quality raw materials to the factories in the foreseeable future, and that they are better off by holding a few cashew trees. In fact, INCAJU in Nampula has reported that peasants are not particularly committed to acquiring new cashew tree plants, and has identified this as a major impediment to the implementation of the cashew nut programme in the province.<sup>15</sup>

The processing capacity that is being installed will absorb more than one third of current supply of cashew nuts, which will create extreme pressures on the availability of quality raw materials. Given that the vast majority of cashew trees in the province are too old and attacked by diseases, if supply conditions of raw materials do not change quickly the processing industry will fail and rent-seeking may be brought back in different forms (protection, oligopolistic industrial organizations, etc.). One very likely form of market rents that may be created is that entry and exit may be controlled to allow incumbent processing firms to have easy access to quality raw materials at the price and quantities required.

First, a clear strategy to support vertical integration and successful entrepreneurs in the industry in exchange for aggressive and successful penetration of external markets, may accelerate rehabilitation and expansion of cashew tree plantations, generate new dynamics of

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<sup>15</sup> Government of Nampula. 2003b. Relatório do cumprimento do PES 2002. Nampula.

employment creation and export growth, help to build industrial efficiency and minimise rent-seeking. Without a market for rents there is no rent-seeking.

Second, industrial growth often involves some sort of *fallacy of composition*: what is true for one small/medium firm may not be true to many small/medium firms. Thus, if the integration and scale of industrial operations does not increase – either through internal vertical integration or some other form of industrial association, network of partnership – industrial inefficiencies will develop and, with it, unproductive rent-seeking may increase. In this case, the supply of quality raw materials in sufficient quantity and low costs (including low transaction costs) is crucial for the successful expansion of the industry.

Alternatively, an oligopolistic industry will develop. If this is the case, then it would be better for the economy if such an oligopolistic industry is developed around public industrial policy rather than only around private interests and “trade wars”.

Third, the industry has to be seen as a whole, and poverty reduction has to become part of an economic growth and expansion strategy, that involves increasing the share of wage work and cooperatives in employment and income. Cashew nut production projects should not be used as social security nets that are in conflict with growth and keep smallholders, and the whole economy, trapped in low income gear. Instead, it would be more interesting to link promotion of cashew nut production with the needs of successful expansion of processing, either through vertical integration internalised by processing firms, private ownership of specialised cashew tree plantations, or through medium and large scale peasant associations and cooperatives that could simultaneously generate economies of scale and benefit from broad based and more equitable development.

However, wage work can be a path to poverty reduction and economic growth only if factor productivity and industrial relations improve very significantly. This would require better and more effective industrial and employee organizations, training for workers and managers, and a profound change in the relations between labour and management, which could help productivity increase and improvement in working conditions. We are not arguing for rigid wage structures. In fact, flexible wage dynamics, related to transparent productivity and quality standards controlled by management and employee organizations could work far better at linking productivity, wage and working conditions at large. However, it is quite clear that the state should pay significantly more attention to working conditions and labour interests,

particularly if the intention of policy is to link economic growth and poverty reduction in a dynamic and practical form.

Fourth, business support has to be directed at growth of firms and industrial operations as a whole, as well as at continuous industrial development (including the development of networks, regulation of subcontracts and promotion of vertical integration), or most firms will not survive and industrial restructuring will yield a high social cost through bankruptcies, unemployment and unregulated oligopolies.

Fifth, it is important that growth strategies help to diversify industrial and investment opportunities, rather than packing one single growing industry to the point of collective failure.

Sixth, diversification within the industry, including new products derived from higher levels of processing, may widen the range of opportunities and benefits, develop dynamics of innovation, and strengthen sustainability associated with growth of any particular industry. Thus, industrial strategies should also tackle the issue of intra-industry diversification.

As it would be expected, private investment in agriculture is concentrated around activities developed within the institutional framework of medium and large companies, such as, for example cotton concessions.<sup>16</sup> Outside this institutional framework, investment in agriculture is mostly financed through NGO direct intervention.

Given the high concentration of investment in few sectors and within sectors – large part of the investment in agro-industries (90%) comes from a single project of timber exploration, almost 100% of the investment in mineral resources is associated with the heavy sands mega project located in Moma and investment in agriculture is mostly related to cotton and cashew production and livestock, the investment strategy in Nampula has to address, simultaneously, two problems: diversification and promotion of economic sustainability.

Economic sustainability of investment strategies means that investment can reproduce itself and expand with minimal risk of collapse and without impeding further investment from taking place. If a significant share of investment depends on scarce resources, such as foreign currency, without creating or saving them, such as through efficient exports or import substitution, then the chances that such investment collapses and increases resource

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<sup>16</sup> Data from the report of implementation of PES 2002 show that growth in agriculture, which is the slowest growing sector in the economy of Nampula, has been determined by what happens with private enterprises and, particularly, cotton.



constraints to further investment are very high. Thus, an investment strategy in Nampula has to take into account the crucial need of promoting efficient and sustainable exports and effective import substitution. This requires not only a choice of products, such as those that can be exported, but rigorous economic analysis of their actual worth (for example, adequate market and cost analysis), as well as the development of necessary supporting institutional conditions related to quality control, information about markets and technology, training and other business services.

Market analysis may well identify opportunities for linkages to develop, for example around higher levels of processing along a chain of production and value. This may strengthen economic structures, generate more employment, improve market conditions faced by firms and expand the benefits, at large, from growth of any particular investment and industry.

Diversification is important for several reasons. First, it enables the creation of capacities, experiences and linkages over a larger range of activities, thus increasing the chances that the economy can take advantage of market opportunities, respond to market challenges and become less vulnerable to economic shocks. Second, it increases the opportunities and capacities to take advantage of economic linkages and synergies, thus enabling substitution of imports and incorporation of more resources into chains of production and value, adding more value to economic activities, and generating more employment. Third, it widens the scope for innovation, technological development and positive synergies between different fields of science and chains of production and value. Fourth, it improves the chances that diversified and economically solid and sound firms will develop, and investment will flow from existing to new and emerging activities. Finally, it may also reduce regional asymmetries and diversify political and institutional organization and power, thus reducing the chances of oligopolistic political economy.

However, diversification of investment, particularly if involving mobilisation of domestic private savings, requires strong strategic frameworks for information and articulation around development pegs and production and value chains, as well as investment and business services that help to develop firms and competencies, and also provide sound economic advice to investors about investment choices. Two examples may clarify this point.

Cashew processing, vegetable oils and soaps, and textiles lacked a vision of the industry as a whole, as well as a strategy to link supply of raw materials in quantity and quality to processing

plants, and a link between processing strategy and markets. In these three industries, the actions of different agents are not articulated, reflecting both a conflict of interest between them and the difficulties of organising industrial collective action in absence of strategic state intervention. In the specific case of cashew, information failure about the strategies of other agents also played an important role in the collapse of the old industry: liberalisation of exports of unprocessed cashew nuts was decided, under economic pressure, soon after privatisation of cashew processing plants took place, thus changing the information sets available to all agents and rendering most of productive investment made in the industry worthless.

Furthermore, in all cases firm strategies either overvalued market conditions (capacity to have access to raw materials of quality, and to expand market access for the finished product); and/or were part of very wide horizontal diversification of economic groups, which were more committed to risk saving strategies than to any one particular branch of business. For example, and not surprisingly, when most of the large cashew processing plants started to face difficulties to acquire raw materials, many of the investors in processing become exporters of unprocessed nuts.

On the other hand, at least two of Nampula's larger trading groups are investing into agriculture and agro-industry, and planning to put considerable financial resources simultaneously in cotton and sisal, two of the most price-volatile commodities. Their decision has been based upon incomplete information about short term price increases in both crops, without due consideration for their long term downward price trends and high price-volatility. Additionally, they have not considered information about higher value and more dynamic markets for manufactured products based on cotton and sisal, and they are not planning to add significant value to their exports. Finally, both groups lack a professional and more modern business structure that go beyond tight links between family ownership, management and control. Thus, they may be running into troubled investment decisions without having the managerial capabilities to adjust and change business strategy if deemed necessary.

Some may argue that these investments are private resources, such that the public should not be too concerned with their failure. This argument is inadequate for three reasons. First, economic failure leads to unemployment and regional stagnation. For example, the closure of the old cashew industry and of the cotton and oil plants in Monapo have unemployed more than 10,000 workers (which have not found yet their way back into the job market), and has stopped economic and social dynamics in the potentially rich district of Monapo. Second,

resources wasted through failure could have been better used doing something else, or in the same industry if the adequate strategic and business framework had been developed. Third, large business failure reduces development opportunities and economic confidence, and increases costs for the economy as a whole.

Thus, there are significant social costs associated with the failure of private businesses, such that reducing the chances for such failure should be one central goal in public policy. One way of reducing the risk of failure is by coordinating investment strategies around strategic pegs, adjusted to regional differences, and taking into consideration the social and economic chains of production and value.

#### **4.3.2 Public investment**

Over the period 1998-2002, the provincial government revenue continued to depend, heavily, on remittances from the central government (95%). Total expenditure continued to be dominated by current expenditure (76%). Salaries, alone, represented 47% of total expenditure, and 61% of current expenditure. Budgeted public investment (24% of total expenditure) is a very marginal component (less than 3%) of total investment in the province. Two thirds of public expenditure is allocated to priority sectors defined by the PARPA I, namely: education, health, roads, access to clean water, and agriculture and rural development. The provincial government runs a continuous budget deficit that, in 2002, accounted for 5% of the provincial GDP.<sup>17</sup>

In addition to budgeted expenditure, there are several organizations (NGOs and development agencies) that are financing projects, at district level, that are directly related to public activities. Many other organizations work in extension services, road rehabilitation and maintenance, construction and rehabilitation of schools and health centres, etc.

There is no systematic information regarding these *off-budget* expenditures and projects. Collecting and analysing it on a regular basis seems to be a crucial role for government departments. This information would be useful for coordination and optimisation of linkages between the government, private and civil society organizations and capacities. On the other

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<sup>17</sup> Most recent data was obtained from the Provincial Strategic Plan (PEP), 2003-2007. A new PEP for 2010-2014 is still under preparation.

hand, such *off-budget* expenditures have significant impact on macroeconomic sustainability, in particular through impact they have on future current expenditure.<sup>18</sup>

Expenditure financed directly through the central budget exceeds the provincial government's expenditure. Therefore, public current and capital expenditure in Nampula is much higher than what is recorded in the provincial budget.

The opportunity for significant increases in public money available depends on two major variables: public savings and revenue, and the mid-term macroeconomic and fiscal framework established by the central government.

Therefore, it seems that, with respect to public investment, the capacities of the provincial government have to be developed in the following main areas. First, the local revenue has to increase, such that more resources are available to finance investment, independently of the availability and allocation of central resources. Second, systematic collection of information about, and management of the pressures and opportunities created by, *off-budget* expenditure are central components in the effort to coordinate and promote investment. Third, because of the weight of centrally financed, public projects, the provincial government needs to develop negotiation capacities to influence the level and allocation of flows of central resources, and needs to improve linkages and synergies between locally and centrally financed, public projects. Finally, public expenditure, in particular its investment component, needs to become more articulated with private and other sources of investment, such that the multiplier impact of all investment is increased.

#### **4.3.3. *Financing and financial institutions***

##### **A. *Overview***

Financial institutions in Nampula are regulated by national legislation, and the main provincial institutions in charge of enforcing such regulations are the local branch of the central bank, Banco de Moçambique, and DPPF.<sup>19</sup>

The formal financial system in Nampula is formed by two types of institutions: commercial banks and credit institutions (Table 11 and 12). Millennium BIM, Standard Bank, Barclays, BCI-

<sup>18</sup> See detailed discussion of these issues with respect to state planning and budgeting, in this report.

<sup>19</sup> Provincial Directorate of Planning and Finance.

Fomento, Banco Terra, FNB, and ProCredit Bank operate at the province level. The table below shows that there is a greater concentration of banks in the larger cities of the province namely, Nampula and Nacala-Porto. There are no exchange shops in Nampula.

Table 11: Bank counters distribution by district

Districts	BIM	BCI	Barclays	Standard Bank	Banco terra	FNB	Banco Procredit	Total
City of Nampula	5	2	1	2	1	1	2	14
Angoche	1	-	-	-	-	-	-	1
Monapo	1	-	-	-	-	-	-	1
Namialo	1	1	-	-	-	-	-	2
Nacala - Porto	2	2	1	1	-	1	1	8
Malema	-	-	-	-	1	-	-	1
Ilha de Moçambique	1	-	-	-	-	-	-	1
Nametil	-	1	-	-	-	-	-	1
Total	11	6	2	3	2	2	3	29

Source: Interviews with CPI, CTA, DPA, UCODIN, DPT and data from WebPages of the banks (accessed in the 9<sup>th</sup> of April 2010).

From the list of banks above, the one that has a line of credit to agro-business is Banco Terra. However, producers still have difficulty in fulfilling the requirements for gaining access to this credit.

Table 12: Credit Institutions

Institution	Credit lines
GAPI, SARL	Basic Investment
AMODER	Agrarian commercialization
Visão Mundial	Agrarian commercialization
FFPI	Small and médium enterprises
IRAM	Rural microfinances
CARE	Agrarian commercialization

In districts where there are no banks operating, nor any formal system of credit providing funds in accessible conditions to local operators, access to credit comes from the informal sector, particularly from local traders and families of those concerned. The Funds for Rural Women (CMR) encourages savings and loans, while the *xitique* system is widely used by women supported by the CRER, in a program known as mutual aid. In general, women who use CMR and CRER funds do business in the informal sector selling and

purchasing basic essentials, including preparation of meals and financing vegetables production.

Privatisation and liberalisation of the banking system allowed modernisation of operations and the introduction of new financial services and products (ex., introduction of electronic cash machines and credit and payment card systems, development of investment banking linked with the stock exchange). However, it has also consolidated oligopolistic market power, which has an impact on the services that are provided and on the size of the spreads that push interest rates up. Additionally, the concentration of banking services in main cities or areas of high value production consolidates existing patterns of economic concentration and narrow specialisation, prevents the mobilisation of rural savings and creates serious obstacles for broad-based finance of economic growth to take place.

There are a few public and private, non-banking credit organizations that operate in specialised business areas. FFPI is the main public fund for development, but more than 80% of its operations are linked with donor driven programmes, particularly those directed at integrated, small scale fishing projects. What goes into small industry is too small to have an impact. Thus, FFPI has informally become an agency for implementing financial support to donor projects. GAPI is the main private sector fund, which lends at market rates and provides, with the lending, business support services (ex., formulation and control of business plans).

There are a number of non-banking, organizations and initiatives linked to micro-credit, usually financed by foreign NGOs and/or development cooperation agencies. These organizations rarely provide finance that helps to build solid productive capacities; their main clients are micro income generating activities associated with small trade and services but little ability to sustain economic growth. However, this network is relatively well spread, if not well coordinated and well known, and therefore is an important part of financial structure of the province.

There are only a handful of local savings organizations, because micro-financial institutions are too small and are not allowed to collect savings. Obviously, if the financial system does not collect savings, it is unlikely to be able to expand on a sustainable way.

Credit links are commonly developed between economic agents: credit provision of raw materials, other inputs and merchandise, advance payment of orders, limited marketing funds, and so on. Typical examples are the provision of pesticides and cotton seeds to peasants by cotton ginning factories operating under concessions; marketing funds or credit merchandise

provided by large traders to retailers involved in the purchase of unprocessed cashew nuts; provision of credit seeds to smallholders by NGOs involved in promotion of cash and food crop diversification; advance payment to builders by the local organs of the state for the building of schools and health centres, and rehabilitation of roads, and so forth. These forms of credit are not used for investment, but only for working capital and financing of operations. These credit links are not systematically studied, are not quantified and their social and economic impact is not rigorously known.

### *B. Challenges<sup>20</sup>*

Between 2000 and 2002, total credit to the economy, financed through domestic banks, exceeded twelve billion MTn, whereas total sum of deposits was less than ten billion MTn. Of these deposits, the domestic currency share declined from 68% to 58%. If the public deficit is added to these figures, the province has a financial deficit of about seven hundred million MTn per year. This excludes off-budget operations which, in the absence of aid, would have to be financed through some form of deficit. Rough estimates from one year of data collection show that off-budget expenditure can amount to as much as 150-200 million MTn per year. Thus, the *de facto* financial gap of the province should be around 850-900 million MTn per year.

Private enterprises, mostly in trade and other services, absorbed two thirds of the credit to the economy, generally to be applied in working capital and financing of other current operations instead of investment. This tendency not to invest with bank loans is explained by a combination of factors: high interest and collateral costs and short periods of maturation of credit; type of business, mostly trade, for which credit is obtained; firms' strategies based on risk spreading and reduction, and on extracting what is possible out of the set of current economic opportunities, rather than creating new capacities and opportunities; negative economic environment for long term investment, which forces firms into short term, high return and low risk strategies.

There is no expectation that public investment will increase significantly in real terms in the foreseeable future, or that banks will ease credit conditions to the economy in any substantive way. This is because the mid-term macroeconomic and fiscal framework continues to be focused on economic stabilisation through tight control of monetary variables, and the overall

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<sup>20</sup> Most data presented in this section has been updated from PEP 2003-2007.

economic philosophy continues to be based on minimising the role of the state in economic activity. Additionally, public and private savings are often negative.

Thus, the first challenge seems to be, very clearly, how to increase and mobilise domestic savings. This cannot be done by increasing interest rates, as these are already very high. Increasing bank, or other saving mechanisms, coverage of rural areas seems to be a more likely to succeed and more sustainable strategy. The problem is how to take the banks to, and develop credible saving institutions in, the rural areas, and what the role of the state and private agents could be in this process.

The second challenge is how to mobilise private capital, domestic and foreign, to create new capacities and opportunities; how to maximise synergies between private and public resources and capacities; and how to direct the bulk of investment to priority areas that may have higher linkage potential and multiplier impact.

In this connection, the third challenge is how to significantly improve micro-financing initiatives, and increase their potential, through rationalisation, generalisation of best practices, getting them involved in saving collection and in more substantive types of productive investment.

It seems that the definition of inter-sectoral growth and development objectives, like agro-industrialisation, organised around social and economic chains of production and value, may at least provide a starting point to establish articulated, credible and bankable strategies. This would also improve the chances that the linkage potential is expanded and materialised, and that investment would yield higher economic returns. This would also be a learning opportunity for the public and private sectors alike, in terms of: making linkages happen; selecting, gathering and using economic information about production, technology, finance and markets for their best advantage; articulating capacities and partnerships in useful ways; and learning how to create advantages through a more holistic approach to economic and business development.



#### 4.4. Institutional capacities and economic dynamics: the public sector

##### 4.4.1. *Role of the state and the context of capacity building*

###### A. *Facilitation*

The role of the state, and the state interaction with the private sector and civil society at large, were particularly important aspects of the discussion about capacity building. All provincial directorates and other public organizations that were interviewed defined their role primarily as “facilitation” of processes that are taking place. The term “facilitation” was vaguely defined, and its meaning ranged from “not interfering with” to “helping” – in turn, the meaning of “helping” ranged from “simplifying” or “deciding quickly”, to “doing something complementary” that would “facilitate”, such as organising a business centre, selecting project sites according to some idea of balanced and fair regional distribution of investment, or providing facilities.

An “unspoken” and “informal” definition of “facilitation” is the role of state as an implementing agency of private sector/donor interests and projects – “mobilisation and organization” of the population (usually meaning organization of access to labour); management and implementation of donor-funded projects; financing of private sector activities through, for example, outsourcing of infrastructural rehabilitation or maintenance; facilitation of access to raw materials at some given price (for example, through concessions of by organising associations of small producers); etc.<sup>21</sup>

The definition of the primary role of the state in these terms has serious implications for strategy and capacity building, as “facilitation” (in its many different variations) basically means that the state “helps” processes that are happening, rather than creating new dynamics and changing existing dynamics. The implication of this model of the state for capacity building is that the state needs to be a “helping hand” – which does not disturb or impede, but rather lets things happen and makes the process smoother. This requires a state that responds to market failure in the sense of doing the activities (providing services, etc.) that the private sector is not capable of or interested in, and doing it in a way that brings the private sector into such activities, so that the state can withdraw from it. This is not a state with a sense of strategy, but

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<sup>21</sup> In many public organizations and state driven projects, only the donor funded component works, or at least has enough funds to work. On the one hand, it reflects the dependency of the state budget, decentralised district planning and private investment on inflows of foreign capital. On the other hand, it reveals the relevance of off budget expenditure. Finally, it indicates the extent to which donors can determine the direction of state activity.

rather one that responds to pressures from specific interest groups previously defined, and that establishes general rules. In this case, capacity building means increasing the sensitivity of the state to pressure, improving the legal/normative capabilities of the state, and making sure that some fundamental market failure (particularly related to information failure) can be addressed in general terms.

In the interviews with the provincial directorates, other definitions of the role of the state, complementary to "facilitation", were identified, namely: education and/or mobilisation, regulation and control, and coordination and promotion.

### *B. Education/mobilization*

Education/mobilization is usually related to explaining, or making people aware of, rules, problems, programs, etc., and mobilizing people to participate. There are many instances in which education/mobilization is the main form of state intervention. For some public organizations, education/mobilization is the main form of action, either because they believe it to be the right action to undertake; because they do not have a clear idea of what else to do; or because they do not have the means to undertake other actions. In other cases, this is the only action left to be undertaken – for example, the implementation of large projects, decided at national level with little or no participation of the sectoral provincial directorate, often requires only few interventions from provincial directorates in the form of "mobilization of the population", "mobilization of local entrepreneurs", etc. Another common case in which education/mobilization becomes the central action of the state at local level is when a NGO, a development agency or a private entrepreneur intends to implement a project and local public organizations are asked to "mobilize" the population to provide labour, food, materials, to participate in the discussion of the location of the project site, to be aware of the project, etc.

Education/mobilization usually means passing on information/messages about a project or activity, and calling upon the interested and/or focal groups to participate in the action or to understand and implement the message. Hence, education and mobilization are not necessarily actions of a proactive state, and can be a signal of a reactive state. Of course, it all depends on the message, the context of the action and its purpose. However, education/mobilization comes to the fore more often as a result of the crisis of mission of the state (not being clear of what else to do or having no means, responsibilities and articulation required to do other things); or as a reaction to projects and interests of influential agents other

than the state itself (and such agents rarely respond to state strategies). Thus, education/mobilization is not necessarily a response to, or part of, strategic state intervention.

There is, of course, an important role for information gathering and sharing, and awareness creation, in development strategy, and these activities can become strategic interventions. For example, the experience of district strategic development planning and the process of formulation of the provincial strategic planning were preceded by sharing of information, mobilization and awareness creation, so that people, organizations and communities could understand the purpose, relevance and rules of such exercises, and participate in them full hearted.

Even in such example, awareness creation and sharing of information could become meaningless activities if they are not part of a more general strategy that addresses issues related to the actual use made of the information shared and implementation of specific action programmes; if there is no strategic framework for investment, linkages and capabilities to develop; if investment related services are poor; if district planning does not mobilise resources and actually does not changes people's lives. More generally, education/mobilization, sharing of information and awareness creation, by themselves, are not necessarily strategic or reactive activities – it all depends on whether they form part of a strategic or a reactive environment.

### *C. Regulation*

Regulation is another common definition of the role of the state. This concept usually means the establishment of rules that should be followed and the control, by the state, that such rules are applied. The more common cases in which the concept of regulation is used are: bidding contracts and general rules (related to the environment, licensing, and others). There is no reference to regulation of competition.

There are a few fundamental problems with the concept of regulation. First, most of the important rules are decided centrally; the provincial responsibility is control of implementation rather than defining rules that apply to local conditions. Second, even when the rules are clear and adapted to local conditions, capacity to control implementation is often in short supply. Third, not uncommonly, the institutional setting of the legislation does not help to enforce compliance with the rules. Fourth, the systematic violation of some rules by some interest groups reveals political economy issues that go far beyond the institutional, administrative

ability to control. Finally, the precedence given to liberalisation or, at least, to no state intervention in business decisions, creates difficulties for regulation and control of implementation.

Business licensing provides a good example for these problems. On the one hand, most new projects and businesses to be licensed fall within the responsibilities of central government and ministries, because of the nature of the law and of the investment dynamics in the province. Apart from micro and small projects, most of which require no license, very few licensing requirements fall within the province portfolio.

On the other hand, contractual conditionalities attached to licenses reflect national, sectoral policies and strategies, as well as mechanisms of resource allocation, which have some, but limited, inputs from the provinces. More importantly, such conditionalities reflect negotiations that take place between different agents and central ministries (or the central government as a whole). These negotiations often reflect political economy conditions associated with the influence that specific agents hold on the state, and that cannot be changed at provincial level. These are the cases of, for example, the allocation of quotas and licenses for industrial fishing and logging. Conditionalities attached to such licenses (respectively, development of inland processing and freezing capacities for fishing; and establishment of sawmills and sustainable (reforestation) management plans for logging) have not been complied with, despite complaints by provincial directorates; and there is no evidence that central government departments are in control of the situation.

In brief, there are not many instances in which the provincial government regulates the economic life, and its role in controlling implementation of centrally established rules and contracts is marginal.

There are, however, three possible entry points for the regulatory role of the provincial government to be developed, namely: (i) contributing to formulation and negotiation of sectoral policy and strategies, and resulting contracts and rules; (ii) reinforcing the negotiation capacity with central government with respect to policy formulation and implementation; and (iii) assuming more responsibility for the performance of centrally approved and managed projects. Provincial pressure and determination can force changes in national policy.

#### *D. Coordination and promotion*

Coordination and promotion are the most critical and the most difficult roles to be performed by the state, because they require strategic vision and direction, technical and administrative capacity, ability to challenge and articulate different interests and interest groups in a coherent way, and willingness to relax and discard unproven assumptions about market superiority vis-à-vis the state. Each of these requirements is difficult to address.

Proactive, strategic coordination and promotion of economic activity is not entirely coherent with the definition of “facilitation” as the primary role of the state in economic development. “Facilitation” fundamentally means “helping” or “not impeding” existing dynamics and pressures to take place (or, in other words, making, or at least not impeding, the market to work in a smoother way). In mainstream economic jargon, facilitation is a market-conforming intervention.

On the other hand, strategic coordination and promotion of economic development may also involve facilitation (as defined above), but are not confined to it. Coordination of complementary<sup>22</sup> and competitive investment<sup>23</sup> may be market conforming, in the sense that they help markets, agents and decisions to become more efficient economically. However, these two types of coordination may not use mainstream market mechanisms,<sup>24</sup> may actually violate the basic assumptions of perfectly competitive, flexible and efficient markets, may change market signals and achieve outcomes that differ substantially from what markets alone, without deliberate coordination, would be able to achieve.

Of course, these types of coordination can be performed by firms, without public intervention, under two conditions: (i) that firms have the ability to organize collective action (partnerships,

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<sup>22</sup> Investment is complementary when it occurs in areas that link with, complement, increase or realise the potential and improve efficiency and efficacy of an existing investment project. For example, investment in oil seed production, or marketing facilities for oil seeds, may be complementary to a vegetable food oil factory. Investment in a road may be complementary to investment in a port. Coordination of complementary investment aims at making, or at least helping, potential and efficiency improving linkages to occur; and/or at providing strong signals towards priority directions for private sector investment. This might be achieved either through public investment and/or through institutional arrangements by which public and private investors deliberately share and coordinate their information and strategies. This would, of course, violate the basic assumptions of perfectly competitive markets.

<sup>23</sup> Competitive investment usually refers to similar types of investment that compete for the same resources or markets. There are other forms of potential competitive investment, such as: investment that competes for access to the same and limited financial resources; investment that competes for access to the same and limited supply of raw materials or markets for finished products. Coordination of competing investment usually requires the introduction of barriers to market entry (and sometimes to market exit as well), which would violate a fundamental assumption about market flexibility and efficiency.

<sup>24</sup> Refers to the mechanism of relative prices in resource allocation.

industrial associations, business networks, etc); and (ii) that firms are capable of internalising different activities, such that vertical and/or horizontal integration would occur and coordination of the chain of activities would be done by the firm. However, in either case firms acquire or consolidate market power, and coordinate strategies and decisions, thus violating all assumptions of perfectly competitive markets. Furthermore, coordination achieved through oligopolistic organization of industry (along vertical and horizontal chains of production and value) may be efficiency and efficacy improving for the firms involved, but it is not capable of coherently articulate competing interests.

Thus, in orthodox economic jargon, public and private coordination of investment, alike, involve market power and market distortions relative to what a perfectly competitive market would be like. Neither public nor private coordination is market conforming, and both can be superior to competitive markets by avoiding resource and time waste and actually making things happen. Therefore, the three main issues at stake are: (i) whether these types of coordination are efficiency and efficacy improving; (ii) whether the agents have the informational, technical, political and strategic capacity to perform and enforce coordination, as well as the ability and willingness to acquire such capacities; and (iii) whether competing, social and economic interests are coherently articulated in a way that improves the net social benefit of coordination of investment and economic development at large. Furthermore, it is necessary to assess which form of coordination is available and possible in each case, and which one is economically more efficient.

There are several levels of coordination to be addressed, namely: vertical coordination (between different levels of decision making) within the government; horizontal coordination (between different departments of the government at the same level of decision making); coordination with NGOs and other organizations providing a multitude of services; and coordination of private investment (complementary and competitive).

Strategic vertical coordination has been a focus of discussion in different ways. There have been references to “decentralisation within sectoral planning”; and to the link between vertical (different levels and/or intra-sectoral) and horizontal (same level, and/or inter-sectoral) coordination. The recently approved bill of local organs of the state emphasises the role of horizontal coordination at provincial and local levels, but does not exactly address the issue of how central policies, strategies and decision making processes articulate with the activity of local organs of the state.

Coordination with, and of, the multitude of service providers (Mozambican civil society, foreign NGOs and development agencies) is mainly reactive. It has to be acknowledged that the complexity of formal and informal linkages, agendas and methods makes coordination extremely difficult. However, it seems that the main reason why coordination is mainly reactive is linked with three other issues, namely: the mission crisis of the state (discussed elsewhere); the disarticulation of strategies and policies between levels of decision making; and the ambiguity in terms of policy direction. In other words, it is difficult to engage in strategic coordination if one does not know (or is not sure about) whether this should be done; and if one is not clear about the direction to follow. In face of these two types of uncertainty, one of the rational strategies of the state is to let actions to take place, as long as they somehow conform to very broadly and vaguely defined objectives and rules.

Two typical examples of reactive coordination may help to clarify the point. On the one hand, the government at all levels reacts to private investors' interests and proposals – selects sites, discusses incentives and decides whether the state gets itself to participate or not in projects, and how. However, there is no clear set of strategies, priorities and mechanisms that would attract and link specific types of investors and investment in an articulated manner. On the other hand, there are many different experiences of institutional development, provision of extension and other services, organization of links between different types of private agents, operation of concessions with different results, etc., but there is no systematic assessment and learning mechanism that would enable the identification, understanding and generalization of best practices.

There are several dangers with the lack of coordination at this level, namely: decision making power shifts to other organizations and the state becomes an implementing agency; synergies between different experiences and processes are not maximised or, even, do not take place; economic inefficiencies emerge and the state is forced into short term, unsustainable, remedial policy measures; and the mechanism of negotiating policy and priorities between different agents develops around more influential organizations (typically, one foreign NGO or development agency, well funded from elsewhere and implementing a large programme that involves sub-contracting of other organizations), and the state becomes either an observer, or simply another agent trying to negotiate around someone else's agenda.

Coordination of investment, complementary and competitive, is a very critical issue that requires purpose and direction, in addition to technical, administrative and political capacity.

The PEP 2003-2007 has not address this issue to its full extent for two reasons. First, it does not have enough detail about how different sectors and investment decisions should be articulated. Second, the project portfolio (attached to PEP) were a simple sum of the projects that each sector had already identified prior to the formulation of PEP, many of which are centrally defined projects that required little participation from the provincial government in the process of decision making. This “sum of projects” does not necessarily form an articulated strategy.

With respect to investment, coordination failure<sup>25</sup> can be shown through several examples, namely: (i) failure to establish systematic links between producers of oil seeds and the oil seed industry; (ii) failure to start addressing the issue of quantity and quality supply of cashew nuts to the processing industry; (iii) failure to coordinate competitive investment in the cotton ginning industry; (iv) failure to advise new investors in productive activities about priorities and best/worse sectors, and to provide information; (v) failure to internalise activities (as current expenditure) that have been started/financed by other agents (ex., maintenance of local infrastructures); (vi) failure to link engineering capacities with capital investment projects in different areas (ex., the information about the projected expansion of labour intensive, small and medium cashew processing factories had not reached metal-engineering factories); (vii) need for projects to internalise costs within the context of inefficient risk and uncertainty reducing strategies, that could have been avoided with better institutional coordination.

More important is the failure to identify few and well focused development poles within the province, not entirely dependent on external forces and wishes (like the Nacala corridor, the international airport, and the Moma heavy sand project are), but that take advantage of, and articulate, internal dynamics of capital accumulation and mobilisation, and the productive activity and potential of different regions in the province. Examples of such poles could be the development of agro-industries around oil seeds, cashew nuts and maize and/or cassava processing, and/or around vegetable and fruit drying; and the development of the fishing industry (canning tuna, drying fish). To take advantage of such opportunities, different task forces could be created to enable and ensure intra- and inter-sectoral coordination required for each package. This could provide different regions of the province with development opportunities that could attract private investors, including banks, and make them apply productively what they have earned through trade, financial dealings or other means.

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<sup>25</sup> In the context of coordination failure, we are referring to institutional failure to coordinate, not to government failure as such.



The logical question here is: can't the private sector coordinate without the need for state intervention? There are many instances in which the private sector cannot coordinate, or cannot coordinate better than the state, given the costs of coordination and of organizing collective action; and also because interests of different agents may differ. Additionally, vertical integration, the preferred form of private sector coordination, is not always feasible at least in the short term and in the beginning of creation of industries.<sup>26</sup> State driven coordination could save economic costs and accelerate industrial efficiency to develop, at the same time that the state could provide the "first mover" advantage not only to one agent but to an entire process.

In addition to provision of information, the government in Nampula could use UCODIN as the basis for definition and coordination of development poles, therefore adding value to the standard coordination mechanisms that are already in place.

#### **4.4.2. *Information and data bases***

Despite emphasising the role of information sharing, and notwithstanding the obvious problems of incomplete information (and other forms of information failure) – of which the inability to providing consolidated and updated lists of firms is only one, amongst many, examples – there is little *systematic* concern about the role of the state in data gathering and analysis, and in providing a universal platform for easy, cheap, quick and massive access to information. There is little, if any, systematic analysis of the information gathered, what to do with it, how to make it accessible, for whom and for what purposes.

Furthermore, there is no systematic analysis, for policy proposals, of data collected on a day to day basis. For example, state budget data or production data have been utilised to show movements in trends, namely what has fallen or increased, but have not been analysed on a systematic basis to understand dynamic trends and processes, and illuminate policy decisions.

Additionally, apart from identifying where infrastructures are located and where new infrastructures should be built, not very much is done with the data.<sup>27</sup> Even the decisions about where to locate infrastructure is done primarily on the basis some idea about fair regional

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<sup>26</sup> Please, refer to an earlier discussion, in this section, of the coordination problem involving firms and the state.

<sup>27</sup> This is the result not only of a technical problem associated with the ability to analyse data and extract relevant information out of it. This also results from the fact that district administrations only have very limited power (and capacities) in term of economic management.

distribution of resources before considerations regarding strategic economic development issues.

Government organizations do not know well what is going on with respect to production, investment, social and economic trends; private sector activity, central government activity, dynamics at district level; programmes and projects undertaken by other government organizations; firms that exist, what they do and what their characteristics are. Private companies have little access of information about markets, prices, technology, standards, competitive market conditions (local, regional and international); economic trends and dynamics at provincial, regional and international level; investment, complementary business opportunities and competitive treats; availability and performance of business support services and programmes, changes that occur in the legislation that are relevant for economic and business activities, firms that are born or close down, assets that can be acquired and for what purposes.<sup>28</sup>

Usually, information that businesses have and use comes from networking with other businesses or through parent firms. By definition, this information is limited and determined by the degree of vertical integration of business, and often fails when it comes to coordination outside the partnership already established. The economic relevance of this is that complementary and competitive investment is not coordinated outside specific business networks; and the information thus gathered rarely helps to diversify, in a strategic manner, away from the existing mainstream business activity and established social patterns of growth and development. Hence, either businesses do not diversify and/or expand; or they do so at high risk and cost and with little information and analytical power to base strategic decisions upon; or they depend on a parent firm to take strategic decisions.

Even when the data is available, the problem is how to extract analytical information out of data sets – this requires that organizations know what they want to know and develop the capacity and routines to base their decisions on sound data analysis, and that they are capable of thinking about the data they need, how to collect and analyse it. People working on the data need to have some basically sound training in the subject that they are analysing (agriculture, industry, finance, etc.), and some good knowledge of real processes and problems, so that

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<sup>28</sup> SIMA (agricultural markets' information system), is one of the few public structured programmes that is trying to address, on a systematic way, the information problem for local agricultural markets and entrepreneurs.

they can think about what they want to get out of the data, how to do it, and what is the data telling them.

There is no systematic collection of, and access to,<sup>29</sup> reports and studies written or done by government organizations, private companies, NGOs, development agencies, local governments, research groups, academics, civil society groups. As a result, not only reports and studies are duplicated, but also synergies between them are not developed properly, and analytical confrontation and implementation of conclusions reached in the different studies are poor.

Thus, it seems that gathering, processing, and sharing of information on a systematic, quick, cheap and easy manner is a crucial role that can be played by the state. The state can even make use of modern information technology and develop common platforms, with some degree of limited access to very sensitive information, which could improve very significantly the coordination, articulation, efficiency and efficacy of government, civil society and private sector. However, this area of work is very seriously neglected, despite the fact that it is frequently mentioned in meetings and interviews. Together with the information system, training and other support services, including facilities and awareness campaigns, would have to be put in place.

#### **4.5. Institutional capacities and economic dynamics: private sector, civil society and the international community**

##### **4.5.1. *Private sector***

###### *A. Overview*

Institutionally speaking, there are six main dynamics associated with the private sector: (i) the emergence of economic groups that are usually based around large trading capital and that are used to support horizontal diversification (such as the Gulamo, AGT (Gani) and ARJ (Rassul) groups); (ii) the emergence of medium entrepreneurs that are linked with NGOs and subsidised systems of service support (such as the new cashew and oil seed factories); (iii) the

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<sup>29</sup> Of course, access to reports and other forms of data collection and analysis is a sensitive issue, which require careful consideration about problems like classified data and others. There are, however, technical and institutional solutions that can be adopted. What matters is that problems of this sort do not prevent action from being taken in order to build an information basis and platforms for accessing such information.

consolidation of strong economic relationships between relatively large and very small economic agents, usually engaged in the flexible exploitation of short term opportunities without investing in the development of productive capacities (such as the timber exporters from Moma, exporters of raw agro products all over the province, cotton concession); (iv) the consolidation of economic groups that take advantage of licensing mechanism to acquire rents – for example, by renting fishing licenses or abusing of artisanal logging licenses; (v) the emergence of medium and large foreign capital (such as Pesca Norte, Matanuska, Coca-Cola, Cervejas de Moçambique and Moma Heavy Sands), that respond to corporate strategies and incentives defined elsewhere; (vi) the expansion of the associative movement of small and medium producers, such as peasant associations, small producers of sunflower oil, and IKURU, one of the main business association of Nampula.

All these institutional dynamics are influential, if not directly in the policy formulation process, at least in the implementation process.

With the exception of the foreign capital based institutional dynamics, the others have yet little sustainability, at least in terms of replicability. Economic groups are spreading into productive investment fast, despite the fact that they have no experience as producers and some of their investment decisions are not wise.

Groups that are exploiting rents and short term opportunities may be short lived, because their tactics will eventually undermine the basis of their capital accumulation.

Associations are a complex issue. Many NGOs and international agencies are promoting different types of associations, from local producer associations to business associations at provincial level. The experiences of local producer associations are mixed: some work relatively well, some work badly or do not work at all. Those which work are almost invariably associated with larger companies, namely concessions and others that are suppliers or receivers of services (but many that do not work well are also associated with such companies). The majority of associations are involved in trade and service provision to their members, but have no impact on the organization of production.<sup>30</sup> Thus, although trade, supply of inputs and product quality may improve, production scale and technology and the level of income are not changing quick enough to be able to create sustainable processes of change

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<sup>30</sup> Interview with CLUSA

and accumulation. Thus, the experience of associations has not been fully absorbed by the communities that are supposed to benefit from it.

Business associations also have mixed results. Those that have very specific membership and that deal with very specific issues related to their members tend to be stronger than the more general associations. It seems that as far as business associations is concerned, institutional development started from the roof, rather than from the foundations.

Development of different industries will require that industry specific associations are developed to provide essential business services to their members: quality control, establishment of brand name and reputation, organization of finance, training, etc. As these associations are developed, the more general ones, like IKURU, may become stronger (if they find a role that adds value to the network of business associations) or weaker (if they do not).

#### *B. Business networks and strategies*

There are marked differences between business networks, which are linked with the internal organization and capabilities of the firms and, also, with the institutional settings and information capacities of the businesses. For example, large traders have developed links with Indian, other South Asian and middle-Eastern corporations and business networks, and have access to markets, finance, technical assistance and business information through such networks. However, their activity is often limited to trading and unprocessed exports of high value crops, such as cashew nuts. NGOs and other new businesses have developed networks in niche markets for exports of nontraditional high value cash crops, such oil seeds and paprika. Outside their specific areas of activity, they have little information and maybe they have little objective interest in doing business while the current setting is still profitable.

Some of these businesses, such as the large traditional traders, have started to diversify horizontally into agriculture production and agro-industry (ex., Gulamo groups investment in tea and cereal mills; and AGT investment in cattle, sisal and cotton); as well as into other industries (ex., ARJ cement factory in Nacala and SONIL in tobacco). However, some of these new activities lack strategic direction and focus, systematic information and any sort of sound economic and technical analysis. For example, some businesses are moving full stream into cotton and sisal, simultaneously, because the current international price is slightly better than last year's. However, it is well known that the markets for these crops are not dynamic, world

prices have been following downward trends for decades, and price volatility is very high. Thus, investing a few million US\$ to start agri-businesses in both crops simultaneously seems to be, at best, a very risky business decision.

Additionally, these businesses generally do not have a management structure to deal with the complexity of expanding and diversifying business dynamics – management is excessively centralised and personalised, based on tight personal control rather than incentives, motivation and structured delegation; developed around family links rather than merit, capabilities and a dynamic structure of management; and have some difficulties to understand and adopt innovation. In a way, with some qualification, it is possible to argue that the combination between ownership and management, within this specific setting, is limiting for business development. Thus, although it might be very important to attract these businesses into diversified productive dynamics, because they have often been the only centres of capital accumulation through trade and services of different sorts, it is also important to acknowledge that they are not prepared to make business decisions of high calibre outside their traditional areas and institutional basis. This means that strong business support services including, amongst others, management training and restructuring, information services and investment advising centres, should be developed to help productive diversification.

NGOs, development agencies, public organizations and firms involved in extension, and promotion of productive and institutional capacities complain that brokers undermine the system by undercutting the link between promotion, production and trade, and by weakening the institutional organization and bargaining power of peasants. However, some of such organizations, particularly NGOs and development agencies that are trying to link production and external markets through the NGO network, also rely on brokers to be able to buy and sell.

Thus, brokers play a role that is important, but such a role is definitely not being explored effectively and efficiently from the economy point of view. This happens for different reasons. On the one hand, there is the ideological belief in market superiority and in the inability and inappropriateness of attempting to coordinate business dynamics. On the other hand, there is not enough information about, and not enough effort to understand the business context, which is partly due to limited institutional capacity, including serious information weaknesses, and partly due to policy and ideology about institutions, development and priorities – such that, such capacity gaps are not dealt with because it is not thought to be important to do so (and some may even believe that it would be inadequate, or not market conforming, to attempt to do so).

Moreover, uncoordinated organizations operate at different levels of activity chains, focusing on different groups of agents and trying to change their business behaviour irrespectively of the understanding of the economics of such agents, the social and economic relationships between different agents, and the social and economic conditions and pressures under which they operate, and how they influence and are influenced by such conditions and pressures.

Synergies between production, different supply and demand services, trade, different agents and wide based development that tackles poverty and crucial economic weaknesses can only develop effective and efficiently through some mechanism of coordination with clear purposes – markets may generate opportunities and dynamics, but do not necessarily generate information sets, institutional arrangements and development goals that unify the energy of the economy to take advantage of growth and development linkages for some desirable social and economic pattern of development to be achieved. Strategic pegs might be a way of providing motivation and focus for, and means of, coordination.

### *C. Relationship between the public and private sectors*

The relationship between public and private entities has developed significantly over the past years. Community participation, outsourcing, public-private partnerships, etc., have got the public and private sectors working much more closely.

DPIC is the focal point for the interaction between the state and the private sector. The main form of organized interaction between the private sector and the state is the government/private sector provincial conference, which in principle should happen twice per year.

Some progress has been registered with respect to reduction of inefficiency related barriers, but procedures and rules are defined centrally and the provincial government has only very limited impact on streamlining them. There is no progress with respect to access of finance, which was to be expected.

The government has not been able to intervene and help the development of a new class of productive entrepreneurs that result from horizontal diversification of trading groups. Some of them are wasting considerable amounts of money in projects that may not yield private and social returns, such as the cases of the construction of a new large scale cotton ginning factory in Namialo, near to two existing factories; concentration of investment in cotton and sisal

because of short term international price improvement in volatile areas; horizontal diversification without any obvious strategy beyond getting access to resources like land; etc. The capital that is moving from trade to production can play an important role, if it is possible to guide it to better development projects.

The need of a strategy for development of rural production, agro-processing and promotion of capital accumulation has not been addressed. The government is either watching the private sector making their own way, whether by following obviously wrong paths or not, or concentrating in poverty mitigation through usually inefficient support to micro and smallholders that have little economic basis to develop independently.

The government has not explored its comparative advantage with respect to information to influence investment and private sector behaviour, and to articulate public interventions at different levels and between and within sectors.

The government has not developed a labour and industrial relations strategy, which takes into consideration the developments that are taking place, how to protect labour, promote businesses and ensure that training, improving working conditions and productivity increases are at the top of the agenda for businesses and trade unions.

#### ***4.5.2. NGOs and international agencies***

There are many NGOs and international agencies operating in the field in similar areas. They have significant influence in areas like extension services (more than half of extensionists in the province), provision of inputs and direct technical support, trading or facilitation of access to markets for new cash crops, provision of micro finance, introduction of new methods of conservation of agro products (for example, sun drying), etc. They also provide support to local public services and organizations and finance infrastructural projects that are relevant for their projects. Thus, these organizations are influential at the levels of policy making and policy implementation.

The network of organizations is a complex one: they involve national and international NGOs, as well as international government agencies. There are agencies that define strategies and policies and finance them, and other that implement programmes. A number of NGOs articulate their interventions by supporting different levels of activity in the chain of production,



commercialisation and transformation of rural product by adopting the form of a consortium with other NGOs. The main NGOs involved in this type of arrangement are: CARE (providing extension services, diversification of production, financial services), OLIPA (promoting associations and commercialisation), CLUSA (promoting associations, marketing and certification), AMODER<sup>31</sup> (providing credit lines for commercialisation of agricultural surpluses), Technoserve (providing assistance for identification of agro-industry projects, identification of technology, plant design, formulation and implementation of business plans, mobilization of finance) and the metal engineering company AGRO ALFA (providing technology and inputs for animal traction and agro-processing).<sup>32</sup>

Different complementarities in activities can also be found in districts where there is no formal consortium between NGOs, but in which NGOs intervene in a concerted way such as to support various levels of activities. Although these NGOs do not work under any binding agreement between them, they enable the realisation of the majority of micro and small scale agro-industrial investment projects in the province.

This network of organizations is not well coordinated by the government or local administrators. Although many of such organizations argue that they follow the government poverty reduction strategy, it is now difficult to distinguish when the government strategy has been influenced by this network of organizations, or the strategies of these agencies have been influenced by the government. Additionally, they follow different methods and establish different institutional frameworks in their areas of influence, such that there is some degree of proliferation of institutions and methods of doing things, but without the organization of a formal and systematic process of learning from them and selecting the best practices for replication.

In general, the strategies pursued by such organizations are focused around smallholder economy – micro finance, micro savings, micro production of oil seeds and cashew nuts, etc. There is no evidence, so far, that this strategy is better than any other at reducing poverty and creating the basis for capital accumulation, and there are theoretical and empirical reasons to believe that a smallholder based strategy may not help poverty reduction in any significant and sustainable way and may be inadequate to accelerate economic growth.

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<sup>31</sup> Associação Moçambicana para o Desenvolvimento Rural.

<sup>32</sup> Existing projects embedding this type of synergies between NGOs are, amongst others: PASAN, Programa de Agricultura Sustentável para as Associações em Nampula (in the districts of Lalaua, Malema and Ribaue); IDEMO, *Iniciativas para o Desenvolvimento de Murrupula* (district of Murrupula); Project of diversification of food and cash crops in cotton zones in partnership with SODAN (*Sociedade Algodoeira de Nampula*) (in Monapo district); Project supporting production and commercialisation of caju (OLIPA and KULIMA).

The poverty issue cannot be dealt with properly on the basis of charity or mitigation of extreme poverty at household level. Only if the economy moves towards greater levels of capital accumulation, and business development and production systems change towards more complex cooperation (being this achieved through cooperatives or private investment and wage work), will the issue of poverty be given a chance of being addressed properly within the dynamics of economic growth and development, rather than mitigation, charity and aid.

Donors, particularly the EU granted capital funds and loans to AMODER and GAPI to encourage the activities of traders.

There is an increasing number of savings and credit associations in rural areas. Institutions like OPHAVELA offer technical assistance for the creation of such associations and are currently operating in the districts of Malema, Ribaue, Lalaua, Murrupula Nampula, Muecate, Meconta, Monapo, Mogovolas, Moma, Angoche, Mogincual. The main activities of OPHAVELA are:

Formation of groups of rotating savings and credit (PCRs) in rural communities in Nampula;

Training of community promoters in rural communities in Nampula;

Training institutions interested in implementing the PCR methodology in the neighboring provinces of Nampula.

Another micro-finance institution is IRAM serving as a cooperative of credit in the districts of Meconta, Mecuburi, Muecate, Nampula Rapale. In Nampula, the credit for inputs has been provided mainly by large agricultural processing companies, known as 'promoting enterprises', particularly those that produce cotton. In Nacala-a-Velha there is no formal credit system installed in the district. To encourage the business five informal traders benefited from support funds from AMODER-Mozambican Association for Rural Development.

In 1994 it was established the Fund of Nampula Women (CMN - Caixa das Mulheres de Nampula), targeting exclusively women, with subsequent support from the Canada-Mozambique Cooperation (COCAMO).

NGOs such as CARE and World Vision have introduced successfully new cash crops namely, sesame, paprika, sunflower and soybeans. The Cooperative League of the USA (CLUSA) and CARE, have also increased significantly the production and marketing of crops through the promotion of farmers' associations and coordination groups. The finance for the promotion of

cash crops production by smallholders emerged in various forms, either through direct credit for inputs, either of advances by the merchants (Vletter, 2006).

The micro-finance for small informal traders, were provided mainly by the FCC (N) program of the WRI. One of the financial institutions giving credit not only to individuals but also to the associations is GAPI. Its focus is in the rural areas, in particular the marketing of products such as cereals and agro-industrial products (it focuses in rural areas because differently from cities, they lack commercial banks).

GAPI is also working with some lines of credit for forestry (supported by the Nordic countries) and fisheries (funded by ADB) and they also work with IDPP to support the artisanal fishermen. Because credit involves risks and GAPI attempts to minimize risks through the guarantees that the groups provide. However, currently, GAPI has been working with groups which have no guarantees thanks to partnerships developed with other institutions that create guarantee funds - solidarity guarantees.

CLUSA is a non-profit NGO promoting the creation of associations and providing training. They joined GAPI because its function was not to give credit. So CLUSA formed these groups in subjects as stock control, management, construction of warehouses and product quality.

Thus, groups like IKURU emerge working for the increase in the value-added of the peasants' production. The Forum and associations sell to large stockholders who set the products prices. IKURU Shareholders are: GAPI (45%), Forum of associations (10%), NOVIB (45%-Dutch institution that promotes development - in some cases granting credits through its head office in Holland (external credit)).

GAPI works in partnership with ADIPSA, the Business Development Service (BDS) - providing training in business management, planning, etc.. This partnership comes in response to the need of associating credit with training. Thus, GAPI works with some groups of associations chosen by ADIPSA (1° de Maio de Ribaue and Fórum Mavil II, located along the Nacala corridor) preparing them to better manage the funds received while ADIPSA grants technical assistance.

Until 2000/2002 there were no poultry centers in Nampula. Nowadays, GETT Ltd and New Horizons are institutions that have almost a monopoly in poultry production and are self-sustainable. These, apart from producing chicks, feed, poultry and eggs, also produce drugs.

Initially, GETT had all the support from GAPI to buy corn for feed production including the purchase of equipment for corn processing. This support was on the condition that the company had no monopoly of poultry production. Thus GETT formed associations (providing chicks, feed and giving technical assistance) and buys the chickens produced by the associations. Example of some associations that joined GETT are: MUCUACHE located in the administrative post of Muhala receiving credit in kind; NATIKIR block from whom GETT buys the chickens at a price marked by GETT. GETT and New Horizons do not export the product (despite having their own slaughterhouses and packing systems and conservation) instead they supply to Shoprite Nampula, and to some provinces such as Zambezia and Cabo Delgado.

In 2007, aiming to increase the productivity of cassava, staple food for a large part of the Mozambican population, IIAM received funds from USAID in the amount of US\$ 580 000, to rehabilitate its Biotechnology Laboratory, and additional US\$ 705 000 from the partners NGOs, CARE and Save the Children for the construction of irrigation greenhouses and sites for the multiplication and distribution of cassava plants in Nampula, where there was incidence of a virus causing the rotting of cassava.

CARE implemented PASANA (Programme of Sustainable Farming for Associations) in conjunction with OLIPA. This program aimed to support the development of farmer organizations. The main role of CARE is the provision of agricultural services that help members of organizations of farmers to produce more crops that can be easily marketed. OLIPA role is to develop associations capable of marketing the products of their members, providing management training and adult literacy programs. In September 2003 the project supported 188 farmers associations with 7 881 members and 70 adult literacy groups with 2 291 members.

In Nampula, there are a number of NGOs (see map below) working with producers to improve production techniques, offering technical assistance, providing inputs and providing training to trainers. These NGOs carry out their activities according to its objectives but there is an exchange of information between, for instance, extension workers from NGOs and the provincial and district extensionists.

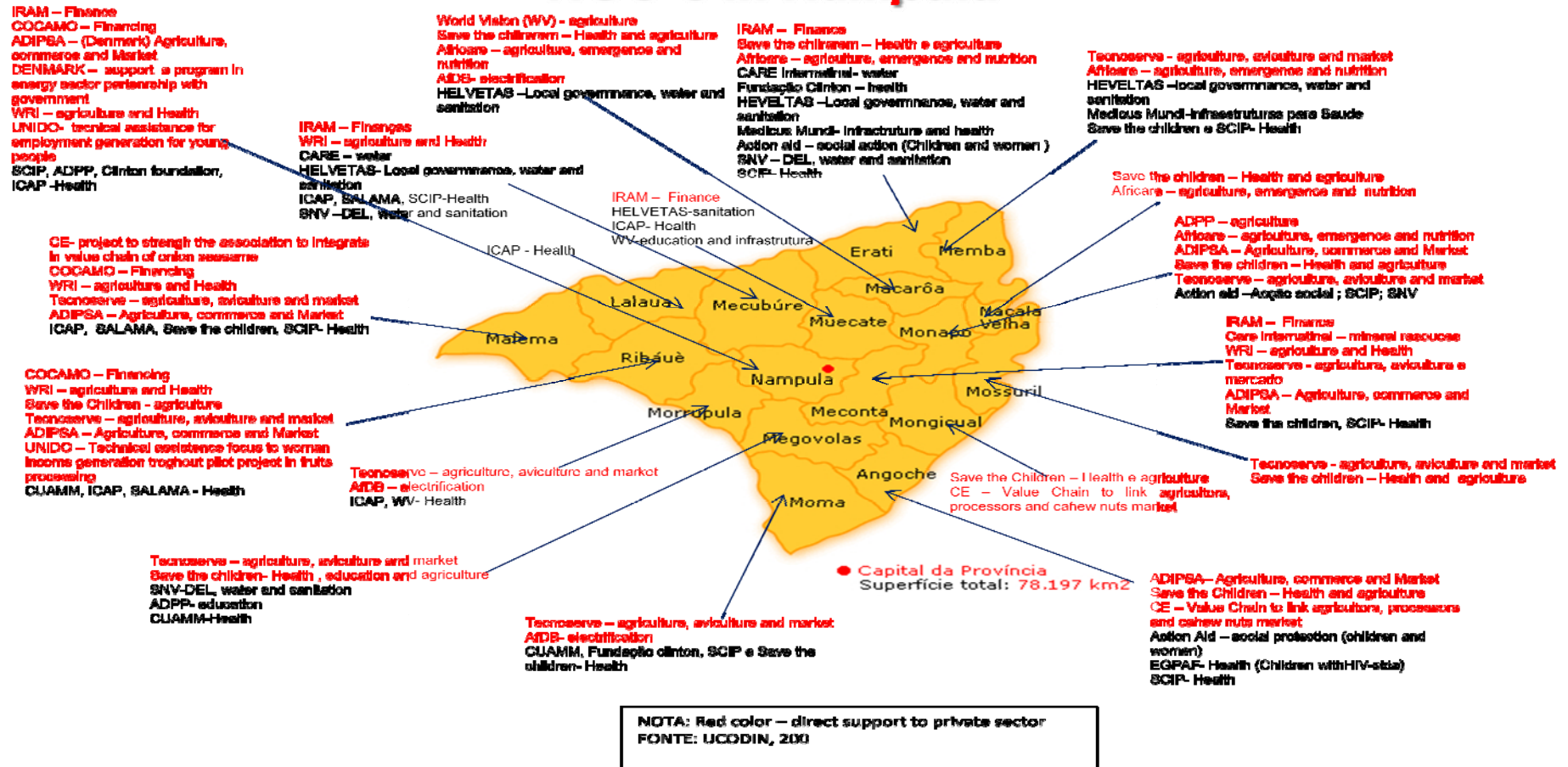
Table 13: Number of extensionists in 2009

	Government	NGO		Agro-industries			Total
	Public extensionists	Extensionists	Assistance to farmers	extensionists	Assistance to farmers	Farmers-Trainers	
Murrupula*	5	7	0	1	0	-	13
Malema*	3	10	0	4	0	-	17
Ribaue*	3	5	0	3	0	-	11
Meconta*	9	3	0	3	0	-	15
Mogovolas*	6	7	0	0	0	-	13
Muecate	8	1	0	6	0	-	15
Nampula	8	3	0	0	0	-	11
Monapo	8	9	0	6	0	-	23
Total	50	45	0	23	0	-	118

Source: JICA, 2010; Note: \* Food Production

NGOs operating at the province level in Nampula dealing directly with issues related to agricultural production and productivity are: Action Aid, ADAP, Africare ADPP, ADIPSA, ORAM, CARE, ESSOR, Heifer International, IITA, Kulima, CLUSA, OLIPA -ODES, SNV, SCIP, Technoserve. Other NGOs working on issues related to financing in particular micro-credit and operating as credit cooperatives are: IRAM, OPHAVELA. Water, agriculture, social work, Finance - Save the Children, Trocaire, World Relief International, World Vision.

## NGO's in Nampula



Map 4: Donors and Non Government Organizations in Nampula

## **5. CONCLUSIONS AND RECOMMENDATIONS**

The conclusions and recommendations presented in this section are built from the previous discussion which can be divided in two groups: (i) the analysis of the institutional framework focusing on the national and provincial mapping of the different public, donors and private interventions impacting the private sector dynamics as well as the relevant public institutional and regulatory framework (departments and policies, plans, strategies, laws); and (ii) the economic and social analysis of the Nampula province.

The economic and social analysis identified the need for the economy of Nampula to grow significantly faster and in a much more, long term, sustainable way. This requires, as argued, that economic growth and development patterns are broad-based, diversified, incorporate and add value to more local resources, create new capacities, ease the pressure on scarce resources and are very significantly improved in terms of quality and factor productivity.

Further, an analysis of private investment trends shows that FDI is highly correlated with mega projects and DDI is less concentrated than overall investment. Thus, there is room for strategies that diversify FDI and mobilise DDI, and the analyses shows that these two goals can and must be achieved together. Additionally, there is a role for strategy to direct investment into activities that save foreign currency by efficiently substituting imports, and generate foreign currency by aggressively penetrating into profitable export markets.

Sector investment data shows that, in spite of the enormous potential of the fishing and tourism sectors in terms of profitability, promotion of linkages and of poverty reduction, they have been largely neglected by the investment in the province. It could be the case that the recent elaboration of the tourism master plan for the North of Mozambique, which reveals the government belief on the tourism sector potential, would provide some important guidelines and institutional conditions for the tourism sector to emerge stronger in the province. The agricultural and agro-industrial absorption of 81% of the total investment in the province suggests that the importance and potential of the sector has been recognized by investors. However, it should be noted the enormous concentration of investment within the sector. In fact, the larger investment for the whole period is a timber exploration project representing 90% of the total investment in the agriculture and agro-industry sector. As such, the agro-industrial sector seems to offer a good opportunity for diversifying the provincial and the national structure of production.

As such, based on the criteria defined in light of the potential for diversification, articulation of the economy and broadening the social base of accumulation and on existing space for additional meaningful intervention from the Japanese Cooperation, it emerged that the niche sectors are the agro-industry, the fishing and the tourism sectors. These sectors are important to overcome the failure to identify few and well focused development poles within the province, not entirely dependent on external forces and wishes (like the Nacala corridor, the international airport, the Moma heavy sand project are and the large FDI project based on timber extraction), but that take advantage of, and articulate, internal dynamics of capital accumulation and mobilisation, and the productive activity and potential of different regions in the province. Examples of such poles could be the development of agro-industries around oil seeds, cashew nuts and maize and/or cassava processing, and/or around vegetable and fruit drying; and the development of the fishing industry (canning tuna, drying fish).

To take advantage of such opportunities, interventions need to be designed within an inter-sectoral dimension involving the different elements of the value chain, including the support services, the related support programs in place and the institutional and regulatory framework. More specifically, some of the basic conditions for the success of the private sector support initiatives are: provision of inter-sectoral goals (through definition of inter-sectoral development poles, or pegs); organization of systems of information; development of business support services and economic and technical analysis if investment; improvement of mechanisms of intra-government coordination; systematic analysis and generalisation of best practices; support to developing business networks, partnerships, associations and other institutions that support production, establishment and enforcing of quality standards, technology acquisition and mastering, investment and trade; development of workers and peasants organizations that will become more relevant as economic growth accelerates. These are all part of institutional development needs to provide strategic frameworks to improve the quality and direction of investment and achieve broad-based, fast economic growth.

It would be important that the JC interventions are preceded by a study that highlights the possibilities of developing better forms of coordination at national as well as at local level. For example, at a more national level, it would be useful to put together a study and a plan that links SME, markets and trade (including import substitution and export promotion along product chains), linkages, fiscal and monetary issues, choice of technology and training, standards, for a couple of products, thus helping government institutions to learn strategy, information



gathering and collection, coordination and planning, and evaluation of results and correction. The key components of such training package would include information gathering, analysis (including cost benefit analysis and prioritization), ways to develop a more coordinated relationship between government and private agents, and identification of linkages. At a local level it should demonstrate the possibilities of coordination between national and local projects. That is, a project with a national component and a local component coordinated, such that the local is an extension or implementation of the national. This would allow for a better understanding of how coordination between national and sub national levels can be achieved, and lessons for decentralization can also be produced.

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## Annex 1: Terms of reference

### OUTLINE OF THE RESEARCH ON: “THE CURRENT SITUATION OF MOZAMBIKAN PRIVATE SECTOR DEVELOPMENT AND ITS IMPLICATIONS TO JAPAN’S ECONOMIC COOPERATION”

#### 1. CONTEXT

- 1.1. **Mozambique**, albeit being categorized as the least developed country, **is one of the countries with high potentials of economic development**. The country is endowed with a wide range of natural resources from abundant fertile land, 2,500 kilometers of coastline with three major ports to untapped energy resources such as hydroelectricity, coal, natural gas, bio-fuels and possibly petroleum.
- 1.2. **Mozambique is advantageous compared to other neighboring countries in attracting Japan’s economic cooperation and private investment**. Due to their per-capita income levels and the political intentions of the recipient governments the neighboring countries have some restriction on the applicability of Japan’s aid schemes, while Mozambique enjoys a full range of the available schemes (grants both to the governmental and non-governmental institutions, concessional loans and technical cooperation). In addition, in case of Mozambique, there seems to be a comfortable demarcation among Japanese private companies with intentions to make inroads into African markets.
- 1.3. **These factors should aid Mozambique in benefiting from Japan’s integral economic cooperation in private sector development**. Yet, as private sector development is relatively new in the context of Japan’s economic cooperation with Mozambique, Japan’s ODA task force (ODA-TF) in Mozambique is suffering from its little institutional memory. Hence, the urgent need for the solid information base on which the future assistance strategy can be developed with a focus on Public-Private Partnership (PPP) has arisen.

#### 2. OBJECTIVES

- 2.1. To provide the overview and the analysis of the current national strategy/policy/legal framework for private sector development and to identify the challenges on the basis of the aforementioned analysis.
- 2.2. To map out who’s doing what in private sector development and to identify PPP-related good practice and a possible niche if any.
- 2.3. To come up with the policy implications to Japan’s future economic cooperation with Mozambique on the basis of the aforementioned analyses (1. and 2.).

#### 3. TASKS, METHODOLOGY, DELIVERABLES AND TIME FRAME

##### 3.1. **Tasks**

- 3.1.1. To synthesize the national strategies/policies/regulations/action plans for private sector development (such as the Government’s five-year plan (PQG), The 2<sup>nd</sup> Poverty Reduction Strategy Paper (PARPAII), Strategy for the improvement of business environment and Strategy for the development of small and medium enterprises in Mozambique), and their implementation status.
- 3.1.2. To map out “who’s doing what” in private sector development with a focus on PPP.
- 3.1.3. To collect and compile the information on future directions of both the Mozambican Government’s efforts as well as of the other donors’ assistance in private sector

development.

- 3.1.4. To identify PPP-related good practices and a niche in private sector development in Mozambique.

## 3.2. Methodology

- 3.2.1. The major methodology to carry out the aforementioned tasks will be existing literature review and semi-structured/informal interviews of stakeholders.
- 3.2.2. The scope of the research can be narrowed down based on a consultation of Japan's ODA country rolling plan (available upon request).
- 3.2.3. The geographical focus of the research can be an option, and field trips to the focused areas where Japan intends to concentrate its economic cooperation (i.e., Nacala Corridor) are encouraged, but not a requirement.

## 3.3. Deliverables

- 3.3.1. The findings and results of the aforementioned tasks are to be submitted in a report format (both in English and Portuguese) as a final product. The submission will be done both in electrical format and in hard copies.
- 3.3.2. The 1-pager summaries of the findings from Phase 2 and 3 (see in Section 3.4 for details) are to be separately produced and annexed to the final report.
- 3.3.3. When the first draft report is ready, the consultant will be asked to present to ODA-TF.
- 3.3.4. The consultant may be asked to give the PPP mission from Tokyo a brief (or to produce a briefing material) about the (preliminary) findings of the research in January 2010.

## 3.4. Time Frame

The provision of service for conducting this research is estimated at a maximum of 45 days and the research needs to be completed by the end of March 2010.

### 3.4.1. Phase 1 (3 man-days)

- Consultation with Embassy of Japan (EoJ) and Japan International Cooperation Agency (JICA) about the research direction
- Briefing about Japan's economic cooperation with Mozambique
- Preparation and making appointments

### 3.4.2. Phase 2 (14 man-days)

- Analyses of existing government documents and other literature in the area of private sector development
- Forecast/Analysis of the forthcoming government strategy for private sector development

### 3.4.3. Phase 3 (14 man-days)

- Analyses of past and on-going efforts made by other donors in the area of private sector development
- Forecast/Analysis of future efforts/directions of other donors for private sector development

### 3.4.4. Phase 4 (14 man-days)

- Report writing
- Consultation with ODA-TF about the first draft
- Circulation and collection of comments from other stakeholders
- Compilation and reflection of received comments and finalization of the report
- Presentation of the final report to ODA-TF (and a wider group if ODA-TF feels the necessity)

## 4. QUALIFICATIONS

- Excellent writing, communication and presentation skills both in Portuguese and English (all the documentation including deliverables and communication with EoJ and JICA will be done in English)
- Strong knowledge of the Mozambican context in terms of national policies, legislations and other institutional set up, and main issues/challenges in private sector development in Mozambique.
- Undergraduate Degree or above in development studies (development economics, industrial development, rural development) or other related studies (laws, politics, social studies).
- 8 years (5 years in case of master degree) or more of experiences in research/study/consulting in the area of development
- Computer skills (e-mail, internet, Microsoft Office applications, etc.)

#### 5. DOCUMENTS FOR BIDDING

The consultants interested in bidding will provide the following documents to the EoJ no later than October 20, 2009.

##### 5.1. one copy of technical proposal (in English) which includes :

- a research proposal to demonstrate the consultant's understanding of this terms of reference and to suggest the research methodology to be used (3 page at maximum)
- an English CV to demonstrate the consultant's experiences in the related sectors/fields
- team composition and division of labor in case that the consultants work in a team

##### 5.2. one copy of financial proposal (in English) which includes:

- contents of consultancy service
- research period (tentative initial and conclusion date)
- date for submitting the final product
- total budget (with and without tax) and its breakdown (personnel expenses; daily allowances/accommodation and transport costs in case of field trip; printing, etc.)
- term of validity (the period which the proposal is valid from the submission date)
- payment condition (see Article 6 of the draft Contract for this research)

#### 6. CONTACT

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## Annex 2: List of Interviews

### MAPUTO

Institution	Interviewee	Position
Technoserve	Higino de Marrule	Director for R&D
Cooperação italiana	Rosario Marrapusse	Economist – Budget support
CPI	Antonio Macamo	Departament of companies linkages
Banco terra	Kathryn Larcombe	Commercial Director
Embaixada da Dinamarca	Sonia Cumbi	Programme Coordinator
USAID	Nelson Guilaze	senior policy analyst
CTA	Eduardo Macuacua	economic advisor
Moçfer	Arnaldo Ribeiro	Vice CEO
INNOQ	Alfredo Filipe Siteo	Director
CFI	Simon Novele	Director
IFC	Katia Ribeiro	Investment officer
UNIDO	Jaime Comiche	Head of UNIDO
GAPI	Luis Costa	Director of studies
IPEX	Cecilia Candrinho	Commercial Director
DNI	Sidonio	Director
Cepagri	Danilo Abdula	Agrarian economist
Banco Mundial	Karen Jensen	Private sector development analyst
Fundo de desenvolvimento agrícola	Brazilino	Analyst of Credit
GTZ	Svenja Rodriguez	Program Coordinator
AgroAlfa	José Alves	CEO
GAZEDA	Danilo Nalá	Director
European Commision	Myriam Sekkat	Attachee

## NAMPULA

Institution	Interviewee	Position
CPI – Centro de Promoção de Investimento	Bonifácio Saulosse	Director of CPI
ASTRA – Associação dos transportadores de nampula	Vasconcelos	President of the association
CEPAGRI – centro de promoção da agricultura	Ana Jamisse	Provincial delegate
SONIL -	Ossman Miquidade	
GAPI – sociedade de investimentos	Nazir Mussa	Provincial delegate
DPA – Direcção provincial da Agricultura	José Varimelo	Provincial Director
CLUSA - Cooperative League of United State of America	Stephen Gudz	President
DPT – Direcção provincial do turismo	Rodrigues Machoco	Provincial Director
DPRME – Direcção Provincial de Recursos Minerais e Energia	Moisés Paulino	Provincial Director
DPTC – Direcção provincial de transportes e comunicações	Carlos Viera	Provincial sub-Director
IKURU – associação de camponeses	Mr. Raposo	President of the association
CARE -	Casimiro Macoo	
TECNOSERVE -	Luís Pereira	Provincial delegate
CTA – confederação das associações económicas de Moçambique	Ekan Madeira	Provincial delegate
ANE – Administração Nacional de Estradas	Miguel Mangué	Civil Engineer
UCODIN – Unidade coordenadora de desenvolvimento integrado de Nampula	Sara Mondlane	Secretary of the president
ASSOTHUR – Associação do turismo de Nampula	Jorge Bomba	Secretary of the association

## **Annex 3: Outlines of the Questionnaire**

### **Production**

Who are the producers? Where are the SMEs? What they produce? What are the general and specific problems of production and trade? What are the support services? In which areas the provincial departments of agriculture act?

### **Supplies**

Is there any business of factors of productions enterprises? To who is it distributed? The peasant buy or not?

### **Market**

How the prices are set? How the market is organized? How the trade is set? Which products are tradable? What is the production destination? How is it articulated the interest of different institutions with the trade and production opportunities? Which dynamics emerged around mega-projects?

### **Technical Assistance and Extension**

Exist or not? Who does what?

### **Funding**

Exist or not? Who does what?

### **Transport**

How the different mode of transport links with agricultural and commerce?

### **Land/water supply**

Is there any registration of land allocation? For who? Where it is? Are there any conflicts? What are the challenges for land and water?

### **Information**

Exist or not a center of information in transport and logistics?

## **Tourism and Mineral Resource Sectors**

Which Dynamics are emerging in these two sectors? Who is doing what?

What is happening in these two sectors that are relevant to agro-industrial development?

Where the projects are located?

### **CTA, CPI**

Are there local consulting firm (accounting, audit, services, rules, standards, technical assistance, management and business planning, corporate finance)? What are the projects approved over the last 5 years? What is the stage of the projects? Which difficulties they face? From the approval projects which recourses they received from the State? Which banks are there in Nampula province? What are the district covered by the banking system and why?

### **CLUSA, IKURU, CARE**

What are they you doing? How many sustainable companies went out of this process? How long have they been working with these institutions? What are the main challenges and problems faced?