ECONSTOR
Make Your Publications Visible.

A Service of
ZBW
Leibniz-Informationszentrum Wirtschaft
Leibniz Information Centre for Economics

Krause, Matthias; Kaufmann, Friedrich

Working Paper

Industrial policy in Mozambique

Discussion Paper, No. 10/2011

Provided in Cooperation with:
German Institute of Development and Sustainability (IDOS), Bonn

Suggested Citation: Krause, Matthias; Kaufmann, Friedrich (2011) : Industrial policy in Mozambique, Discussion Paper, No. 10/2011, ISBN 978-3-88985-538-1, Deutsches Institut für Entwicklungspolitik (DIE), Bonn

This Version is available at:
https://hdl.handle.net/10419/199365

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.

WWW.ECONSTOR.EU

Mitglied der Leibniz-Gemeinschaft

d·i·e

Deutsches Institut für Entwicklungspolitik

German Development Institute

Discussion Paper 10/2011

Industrial Policy in Mozambique

Matthias Krause
Friedrich Kaufmann

Industrial policy in Mozambique

Matthias Krause

Friedrich Kaufmann

Bonn 2011

Discussion Paper / Deutsches Institut für Entwicklungspolitik
ISSN 1860-0441

Die deutsche Nationalbibliothek verzeichnet diese Publikation in der Deutschen Nationalbibliografie; detaillierte bibliografische Daten sind im Internet über http://dnb.d-nb.de abrufbar.

The Deutsche Nationalbibliothek lists this publication in the Deutsche Nationalbibliografie; detailed bibliographic data is available in the Internet at http://dnb.d-nb.de

ISBN 978-3-88985-538-1

Matthias Krause, Economist, Inter-American Development Bank, Washington, DC
E-mail: MATTHIASK@iadb.org

Friedrich Kaufmann, Economist, Consultant, Bonn
E-mail: Friedrich.Kaufmann@gmx.net

© Deutsches Institut für Entwicklungspolitik gGmbH
Tulpenfeld 6, 53113 Bonn
☏ +49 (0)228 94927-0
🖷 +49 (0)228 94927-130
E-Mail:die@die-gdi.de
http://www.die-gdi.de

Acknowledgements

The authors would first like to thank all their interview partners for meeting with us to share their ideas and further information. For additional important contact information and logistical support, special thanks go to Ilse Fuernkranz (who was at GAPI–Norte during our field stay), Svenja Paulino and Kathrin Seelige (at GIZ Maputo at the time of our field stay). Many thanks also go to Tilman Altenburg (German Development Institute, DIE) for his comments and thorough revisions of several versions of this study. Last, but not least, we are very grateful for the comments on an earlier version of this study received from Prof. Elisio Macamo (University of Basel) and other participants of the International Workshop, "Industrial Policy in Developing Countries", held at the DIE (Bonn, November 18–19, 2009).

Financial support for this study from the BMZ and GIZ is gratefully acknowledged.

Contents

Abbreviations

Summary **1**

1 Introduction **5**

2 A framework for analysis **6**

3 The main challenges for structural transformation **9**

3.1 A brief overview of Mozambique's economic history 10

3.2 Macroeconomic development 11

3.3 The enterprise structure, business environment and competitiveness 13

3.4 Sector-specific opportunities and challenges 17

3.5 Preliminary conclusions 20

4 Governance patterns: the background of industrial policy making **20**

4.1 The pervasiveness of corruption and rent-seeking 21

4.2 Single-party dominance, weak checks and balances and the rule of law 22

4.3 Important industrial policy players 23

5 Industrial development strategy **26**

5.1 The povertyreduction strategy 27

5.2 Industrial policy strategy 28

5.3 SME policy strategy 29

5.4 Investment promotion strategy 31

5.5 Strategy for improving the business climate 33

5.6 Preliminary conclusions 35

6 Two case studies: the cashew industry and linkages promotion **36**

6.1 The promotion of the cashew industry 36

6.1.1 Specific challenges to the development of the cashew industry 37

6.1.2 Assessment of the cashew policy and the industrial policy management 42

6.2 The promotion of linkages between FDI and local SMEs: the MOZAL case 47

6.2.1 Specific challenges and promotional measures 48

6.2.2 Assessment of promotional measures and industrial policy management 50

7 Conclusions **54**

Bibliography **57**

Annexes **63**

Table A1: Distribution of SMEs by activity 65

Table A2: Fiscal Benefits according to Law 4/2009 66

Table A3: Raw cashewnut uses (volume in metric tonnes) 67

Table A4: Interviews 68

Tables

Table 1: Macroeconomic indicators of Mozambique 12

Table 2: Mozambique's rank in the Doing Business Index 16

Table 3: Mozambique's ranking in the Global Competitiveness Index 17

Table 4: World Bank Governance Indicators: Mozambique's percentile rank 1996–2008 21

Table 5: Investment objectives of national interest 32

Figures

Figure 1: Main constraints to firm investment according to World Bank's enterprise surveys 16

Figure 2: The SME development strategy 30

Figure 3: The cashew value chain 39

Boxes

Box 1: Recent World Bank projects in the area of SME and private-sector development 31

Box 2: The history of Mozambique's cashew industry and policy 38

Abbreviations

ACIS	Associação Comercial e Industrial de Sofala
ACP	Africa, Caribbean and Pacific
AGOA	African Growth and Opportunity Act
AfDB	African Development Bank
AIA	Agro Industriais Associadas
AICAJU	Associação dos Industriais do Cajú
APRM	African Peer Review Mechanism
AU	African Union
BMZ	Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung / German Federal Ministry for Economic Cooperation and Development
CIM	Centrum für Internationale Migration
CIP	Centro de Integridade Pública
CLUSA	The Cooperative League of the United States of America
CNSL	Cashew Nut Shell Liquid
CPI	Centro de Promoção de Investimentos
CTA	Confederação das Associações Económicas de Moçambique
EBA	Everything But Arms
EIU	The Economist Intelligence Unit
EU	European Union
FDI	Foreign Direct Investment
FFPI	Fundo de Fomento à Pequena Industria
FIAS	Foreign Investment Advisory Facility
FOB	Free On Board
GAPI	Gabinete de Consultoria e Apoio à Pequena Indústria
GCI	Global Competitiveness Index
GDP	Gross Domestic Product
FRELIMO	Frente de Libertação de Moçambique
GAZEDA	Gabinete de Zonas Económicas Especiais e Desenvolvimento Acelerado
GIZ (formerly GTZ)	Deutsche Gesellschaft für Internationale Zusammenarbeit
GOM	Government of Mozambique
GTZ (now GIZ)	Deutsche Gesellschaft für Technische Zusammenarbeit / German technical cooperation
ICC	International Chamber of Commerce
ICSID	International Centre for Settlement of Investment Disputes
IDIL	Instituto de Desenvolvimento Local Industrial
IESE	Instituto de Estudos Sociais e Económicos
IFC	International Finance Corporation
IIAM	Instituto de Investigação Agrária de Moçambique / Mozambican Institute for Agricultural Research
IMF	International Monetary Fund
INCAJU	Instituto de Fomento do Cajú / National Institute for Cashew Promotion
IPEME	Instituto para a Promoção das Pequenas e Médias Empresas
IPMC	Industrial Policy-Making Capacity
MIC	Ministério da Indústria e Comércio / Ministry for Industry and Trade

MIGA	Multilateral Investment Guarantee Agency
MPD	Ministério do Planejamento e Desenvolvimento
NGOs	Non-governmental Organisations
ODA	Official Development Aid
OIC	Organisation of the Islamic Conference
OPIC	Overseas Private Investment Corporation
PAP	Programme Aid Partner
PARPA	Plano de Acção para a Redução da Pobreza Absoluta
PES	Plano Económico e Social
PODE	Project for Entrepreneurial Development
PPP	Purchasing-Power Parity
RCN	Raw Cashew Nut
RENAMO	Resistência Nacional de Moçambique
SADC	Southern African Development Community
SME	Small And Medium-Sized Enterprise
SMEELP	SME Empowerment Linkages Program
TIA	Trabalho de Inquérito Agrícola
UN	United Nations
UNIDO	United Nations Industrial Development Organization
USA	United States of America
USAID	United States Agency for International Development
VAT	Value-added tax
WEF	World Economic Forum

Summary

Productivity growth is a precondition for increasing standards of living and maintaining competitiveness in the globalised economy. The productivity gap that separates poor and rich countries has never been as wide as it is today. Poor countries in particular need to emphasise productivity growth in order to alleviate poverty. Although the private sector is undoubtedly the main driver of economic growth, governments, too, can help accelerate structural change towards more competitive and higher-value activities. This is what industrial policy is about.

For this study, we define 'industrial policy' as any government measure, or set of measures, to promote or prevent structural change in ways that the government views as desirable. Industrial policy can be classified either as functional or selective. *Functional* policies aim at shaping the framework conditions for the whole enterprise sector – e.g. through improving macroeconomic stability, upgrading general infrastructure (like electricity generation capacity) or reforming the legal framework for business. *Selective* policies, in contrast, point at specific industries, sectors, regions or firms using subsidies, tariffs, taxes and tax exemptions, targeted infrastructure facilities and targeted businessdevelopment services to foster technological learning or to build up industry-specific marketing or export-service companies.

Many scholars now acknowledge that selective industrial policy can work well in countries with strong merit-based public services and political checks and balances. Opinions diverge widely, however, with regard to the role of industrial policies – especially selective policies – in low and lower-middle income countries. These countries typically have weak institutions, poorly developed administrative capacities and a shortage of public and private financial capital. Hence, even if it is clear that low and lower middle income countries are faced with particularly severe market failures that justify applying selective industrial policies, there is a big question about the ability of governments to intervene in markets so as to increase public welfare.

There are very few empirical studies available that analyse industrial policies in low and lower-middle income countries. Most case studies focus on the old industrialised countries or on success stories from the newly industrialised countries. This study about industrial policy in Mozambique intends to help fill this gap. It is part of a comparative research project that includes other country cases from the developing world (see Altenburg 2011). The purpose of the study is to describe Mozambique's main challenges to structural transformation, its governance structures in the field of industrial policy, and – most importantly – to assess the quality of industrial policies and industrial policy making in Mozambique.

Mozambique is recovering from the ravages of a long struggle for independence from Portugal that was followed by a protracted civil war. At the end of the 1980s the government abandoned socialism, underwent a structural adjustment programme and established a market-based economy. During the past 15 years, Mozambique's development has been marked by peace and stability, falling poverty rates and high macroeconomic growth. Nevertheless, it is still one of the poorest countries in the world and the government budget is largely dependent on official development assistance (ODA).

In Mozambique there is an urgent need for policies that foster broad-based sustainable economic development and generate income and jobs for its population. The remarkable macroeconomic growth rates are in large part explained by huge capital-intensive foreign direct investment (FDI) projects that add very few jobs to the economy, by the inflow of ODA and by the very low level of initial gross domestic product (GDP). The vast majority of Mozambicans are not connected to the few profitable and high-value-creating economic enclaves, and instead work in subsistence farming, or in mostly informal or non-competitive small and medium enterprises (SMEs). Linkages between firms are poorly developed and there are very few domestic firms that succeed in supplying high-end domestic markets or export markets. Well-designed and well-coordinated industrial policy could thus constitute a crucial instrument to foster much-needed, broad-based economic growth. Among the sectors that are regarded as potential growth sectors are agriculture and agro-industry, tourism, mining and energy.

Our results, however, show a huge gap between the need for welfare-enhancing industrial policies and the capability of the government to design and implement them.

Several governance features weaken the government's industrialpolicy management capability: The strong dominance of a single party Frente de Libertação de Moçambique (FRELIMO) blurs the boundaries between it and the government, and weakens checks and balances. This is compounded by very close ties between party cadres and leading businesses (several party cadres direct important business groups that they acquired during the privatisation process); weak civil-society organisations; the lack of an independent judiciary; and corruption. Moreover, either business associations are weak or they lack strong bases; only now are think tanks being developed. Finally, there are only a few very weak cross-sectoral coordination platforms to coordinate policies between line ministries and different levels of government, and between the private sector and the government.

Both on paper and in practice functional industrial policies are more elaborated and more prominent than selective industrial policies, for instance, trade liberalisation and privatisation reforms, general FDI promotion, and reforms to make regulations more business-friendly and improve the general business climate, including access to finance. In contrast, selective industrial approaches are less palpable. The Government of Mozambique (GOM) does not follow a clear strategy of outlining and guiding targeted selective policies to foster the competitiveness of local enterprises, such as developing specific technological capabilities or creating agglomeration economies and other spillovers that would enable local enterprises to take advantage of the market enhancement achieved through functional policies.

Two selective industrial policies that do stand out are analysed in greater detail in this study: the promotion of the cashew industry and the promotion of linkages between a huge FDI project, the MOZAL aluminium smelter, and local SMEs. Although we have found partial successes, no far-reaching development effects are discernable from these approaches. Our investigation confirms several of the structural deficiencies of the economy and of governance weaknesses that have already been pointed out. The partial successes found in the two case studies – for cashews, they involved the founding of an export-service company and the supply of overseas markets, and for linkage promotion they involved the establishment of a number of backward linkages between MOZAL and local SMEs, along with (technological) upgrading of these SMEs – are limited in scope and substantially due to the strategic advice and practical support of specific donor projects.

We conclude that the GOM's strategic capability for industrial policy management lacks the vision and leadership needed to define an appropriate mix between investment climate improvements – to create the conditions for private investments and market competition – and targeted interventions – to accelerate productivity growth and to enhance firms' competitiveness. The donors are crucial policy players in Mozambique, but they are unable to compensate for these weaknesses because they are not a homogeneous group that advocates for one main strategic line of action. Many of them have followed an approach inspired by the 'Washington Consensus' that disregarded selective measures: For them, industrial policy is not a field of intervention with priority. In most cases in which donors support selective measures in particular projects, these are limited in scale, scope and time, and often do not incorporate government planning and learning cycles.

The Government's attitude towards industrial policy is more reactive to the interests of big investors and donors than it is proactive or strategic. We base this assessment on our observation that the policy measures and projects that are enacted and implemented are those backed by the coherently and clearly articulated interests of investors (such as investment promotion law, big FDI projects in the energy and mining sector) or of donors (liberalisation, privatisation and Doing-Business-style reforms, which were supported by a coalition of powerful donor organisations). In contrast, more complex industrial policy approaches – such as regarding SME promotion – that demand an active government role in providing strategic direction, building coalitions with enterprises, financial institutions, local governments and donors, facilitating or building coordination platforms, etc. only exist on paper and don't have the drive needed to be implemented on a relevant scale. This pattern can partly be explained by the low technical capacity and institutional development of the State Administration, the weak formal organisation of the local private sector – especially small enterprises – and high aid-dependency. The latter creates incentives for the Government to focus primarily on keeping high levels of aid flows in order to secure political legitimacy by high spending levels in the social sectors, and thus to neglect – in relative terms – engaging in an active industrial policy.

Furthermore, widespread corruption leads to poor enforcement of measures intended to foster local industry (such as the tax on raw cashewnut exports), in the lack of transparency in awarding contracts, or in the intentional distortion of the implementation of business regulations to the advantage of inspectors and at the expense of businesses. The FRELIMOparty's dominance and weak checks and balances run the risk of selective interventions and service providers being misused to transfer resources to constituencies before elections in order to secure votes (as interviewees reported in the case of cashew promotion). Finally, the fact that top FRELIMO cadres simultaneously hold public office and command powerful business groups creates considerable conflicts of interest. This situation makes industrial policy and economic policy vulnerable to non-productive misuse for the special benefit of enterprises owned by FRELIMO and its cadres.

Despite this rather pessimistic assessment of Mozambique's industrialpolicy management capability, it is important to acknowledge that some progress and learning have taken place in recent years. Capacities in the State Administration (particularly at the Central Government level), business associations and think tanks are slowly improving, and along with them, the conditions for establishing coordination platforms for selective industrial

policies as well. The Government has, moreover, corrected some deficiencies in its policy framework, such as the extremely generous tax exemptions for large FDI projects or the state-centred top-down approach to SME promotion. Finally, as emphasised above, we have also discovered some positive experiences with selective approaches that could be replicated. Hence, in Mozambique there seem to be more prospects for a welfare-enhancing industrial policy that improves the general investment climate and uses targeted interventions to stimulate competitiveness and productivity growth of enterprises. Nevertheless, for such an approach to be effectively implemented the Government and donors will have to radically revise their strategies and priorities, control corruption, and institute a system of checks and balances.

1 Introduction

Productivity growth is a precondition for increasing people's living standards and maintaining competitiveness in the globalised economy. The productivity gap separating poor and rich countries has never been as wide as it is today. In developing countries, low total-factor productivity is the main reason for persisting poverty, so to alleviate poverty these countries in particular need to increase productivity growth. The challenge is not only to develop more productive ways of doing business in the established activities but also to accelerate the structural transformation from low productivity activities in agriculture, petty trade and skill-extensive services to new activities that are knowledge-intensive and exploit the advantages of inter-firm specialisation.

The main driver of structural change is clearly the private sector. Yet governments play important roles in setting policy frameworks that allow for competition and encourage innovation and technological change, and also in correcting market failures. There may be a need for governments to encourage new activities that cannot emerge without several, simultaneous interrelated investments being made (that exceed the capabilities of individual entrepreneurs); or to support activities that do not pay off immediately for an individual investor, but are likely to produce manifold linkages and spillovers in the future. With such actions, governments can accelerate structural change towards more competitive and higher-value activities. This is what industrial policy is about.

While the theoretical case for industrial policy is not in question, there is no consensus about the proper degree of intervention. The controversy is mainly about selective interventions that favour some sectors over others, thus interfering with the price mechanism, which is normally the main signalling device of market economies. Critics argue that governments are usually not very good at identifying coordination failures or anticipating future knowledge spillovers, and that their decisions may well end up reducing allocative efficiency and creating perverse incentives for both investors and bureaucrats.

It is now widely accepted that industrial policy can work well in countries with strong merit-based public services and political checks and balances. Opinions diverge widely, however, with regard to the role of industrial policies in low and lower-middle income countries where financial resources are often severely limited and core institutions need to develop administrative capacities and better incentive systems. According to all available governance indicators, most low and lower-middle income countries lag far behind with regard to government effectiveness, transparency and accountability[1]. Hence, even if it is clear that these countries face particularly severe market failures, there is considerable doubt as to governments' ability to intervene in markets so as to increase public welfare.

In any case, it is unlikely that the appropriate policy mix will be the same in low and lower-middle income countries as in rich countries because their requirements and capacity for public intervention are substantially different. Yet most empirical case studies of industrial policy focus on the old industrialised countries or the famous success stories of technological catching up (such as Korea, Taiwan, Singapore, Malaysia, Brazil and Chile). Much less is known about the quality and outcomes of industrial policies in low and lower-middle income countries.

1 For more details see Altenburg (2011).

This study of industrial policy in Mozambique – part of a comparative research project that includes other cases of countries from the developing world [2] – intends to help fill this gap. It describes Mozambique's main challenges to structural transformation, its governance structures in the field of industrial policy, and most importantly, assesses the quality of industrial policies and industrial policy making in Mozambique.

Chapter 2 outlines the conceptual framework of the study by giving a brief overview of the issues in the industrial policy debate and introducing the concepts used here to assess the quality of industrial policy making. **Chapter 3** describes the context of industrial policy in Mozambique by working out the main challenges to the economy regarding structural transformation. **Chapter 4** describes the governance patterns that affect the Government's ability and willingness to design and implement sound industrial policies. **Chapter 5** describes and assesses the main industrial policy strategies put into place by the Government before **Chapter 6** plunges deeper into the implementation of industrial policy by reviewing two cases: (i) the promotion of the cashew industry and (ii) the promotion of linkages between SMEs and FDI projects. Finally, **Chapter 7** summarises the lessons of the preceding chapters and presents some conclusions.

2 A framework for analysis

For the purpose of the aforementioned comparative research project, we define 'industrial policy' as any government measure, or set of measures, to promote or prevent structural change in ways that the government views as desirable. Two implications of this definition need to be highlighted. First, industrial policy has a normative perspective. Most policy documents address a range of targets, including productivity growth, employment creation, social inclusion and environmental sustainability. Second, thanks to this definition, industrial policies are not restricted to the manufacturing sector, but may also include policy measures that attempt to promote promising activities in agriculture or services.

For the sake of simplicity, measures from the field of industrial policy can be classified either as *functional* or *selective* (see Altenburg 2011, 12–13). *Functional* policies aim to shape the framework conditions for the whole enterprise sector in a non-discriminatory fashion, for example, through improving macroeconomic stability, or supplying the infrastructure or the legal framework for doing business. *Selective* policies, in contrast, address specific industries, sectors, regions, or firms through subsidies, tariffs, taxes or tax exemptions, targeted infrastructure facilities, etc.

As indicated above, there is a lot of debate about the justification and effectiveness of selective industrial policies (see Altenburg 2011 for a more thorough discussion of the pros and cons). In this debate, there are basically two points at issue:

1. Dissent over the *magnitude* and *practical relevance of market failures* that justify targeted government interventions from a welfare-economics perspective. While one line

2 The DIE research project, "Industrial policy in low- and lower-middle-income countries", includes Egypt, Ethiopia, Namibia, the Syrian Arab Republic, Tunisia and Vietnam – in addition to Mozambique. For an overview and lessons from the seven country studies, see Alternburg (2011).

of argumentation regards the typical market failures being discussed (coordination failures, dynamic economies of scale, knowledge spillovers and information externalities) as being exceptions to the rule of perfectly functioning markets, the other line of argumentation emphasises the pervasiveness of market failures in real-world economies or goes so far as to dismiss using welfare theorems based on neoclassical theory as a benchmark – due to their underlying unrealistic assumptions (such as perfect competition, perfect information, the absence of external effects, etc.).

2. Dissent over *governments' ability* and *willingness* to design and implement welfare-enhancing (selective) industrial policies. The debate on 'ability' focuses on information requirements and government effectiveness, while the debate on 'willingness' centres around shortcomings regarding the accountability of governors and the transparency of the industrialpolicy making process – features that determine whether industrial policies serve broad public, or narrow special, interests. *Pessimists* argue that governors face severe information constraints that make it nearly impossible to base policy decisions on objective facts. This increases the probability that governments will be captured by special interests, and pass measures based on grounds like favouritism and rent-seeking, rather than on the struggle for broad-based welfare enhancement. Most proponents of this school of thought favour a clear separation of government and the private sector when it comes to political decisions. *Optimists*, in contrast, argue that information constraints in the field of industrial policy are no stricter than in any other policy field, and that depending on the governance features of policy making, policy outcomes may very well be beneficial for the general public. Proponents of this line of argumentation often call for an intense exchange of information between the government and the private sector when it comes to industrial policy making (in order to overcome information constraints). Governments should be embedded with the private sector in an institutionalised exchange, yet at the same time be autonomous in their decision taking so as to avoid political capture (see Evans 1996).

As mentioned in the introduction, there is a growing body of empirical studies on issues facing industrialised and newly industrialising countries. However, much less empirical research has been done on low and lower-middle income countries. We suppose that both the scope of market failure, as well as the capacity to design and enact sound selective industrial policies, differ in low and lower-middle income countries. This report, therefore, seeks to help fill this gap in the research.

Although this study deals with the first point at issue alluded to above – particularly when describing the challenges for structural transformation faced by the Mozambican economy (Chapter 3) – it places more emphasis on the second point. As a basis for assessing the Government's ability and willingness to design and implement sound industrial policies that sustainably improve the economy's competitive performance, we introduce below the concept of *industrial policy management capability* (Altenburg 2011), in four major components:

1. *"**Strategic capability** refers to the ability to design policies conducive to sustainable and inclusive productivity growth. This presupposes a good understanding of the changing requirements of the global economy as well as the ability to monitor industrial development at home; in addition, it assumes an analytical ability to translate the observed phenomena into a strategy of socio-economic transformation; to set tar-*

gets and identify incremental steps towards their achievement; and to create a social contract in support of this strategy. Where external actors play key roles (large foreign investors, donor agencies, etc.), it is important to align them with the strategy.

2. *The* ***capability to establish clear rules*** *for market-based competition that facilitate contract enforcement and easy entry or exit for firms and provide safeguards against monopolies and cartels.*

3. *The* ***capability to deliver services effectively****. Where markets fail to deliver the necessary services, governments must be able to set up service agencies and devise incentive schemes and verifiable performance measurement systems that ensure effective and customer-oriented service provision. Meritocratic recruitment and promotion systems are key to ensure that the agency staff has a good understanding of the opportunities and constraints faced by the private sector. Close interaction and feedback loops between service providers and those affected by their decisions are important to maintain 'embedded' relationships.*

4. *The* ***capability to create or remove protection when needed, while avoiding political capture****. Certain levels of protection and other targeted support may need to be provided by the state to encourage economic diversification and upgrading, but they should be phased out as soon as these targets have been achieved. This requires close observation of learning processes and the independence to withdraw or reallocate rents before they become unproductive. The transparent, predictable and rules-based formulation and implementation of policies are important to prevent the abuse of incentive systems by politicians, bureaucrats or beneficiaries in industries. Governments must be held to account for their interventions, such as through general checks and balances in the political system – including electoral competition, an independent judiciary, and critical feedback from independent media – as well as monitoring and evaluation mechanisms built into all major industrial policy programmes."* (Altenburg 2011, 21)

Well-developed capabilities in these areas will favour that industrial policy process be based on knowledge rather than on wishful thinking, and more oriented towards the broad public interest than towards narrow special interests.

In addition, it is possible to distil some lessons from the policy-oriented literature regarding "principles of successful industrial policy making" (Altenburg 2009). These principles complement the concept of *industrial policy management capability* when the quality of Mozambique's industrial policy is analysed here. Regarding the implementation of industrial policies, Altenburg (2009, 19) emphasises the following key design principles:

- *" … [I]mplementing agencies need to have a good understanding of markets and the way private enterprises operate. To collaborate effectively with the private sector, customer orientation and business-like behaviour are essential. […] Contests that allow private sector firms to bid for public resources can be particularly useful. Another possibility is demand-side financing via grants or voucher systems.*

- *Policy instruments should be as simple and low-cost as possible, especially when the administrative capacity of implementing agencies is weak. Self-targeting of beneficiaries is a good way to avoid political capture. Likewise, compulsory co-financing by customers ensures that these will only utilise services which they actually need.*

- *Support should only be provided on a temporary basis as long as market actors need to adjust to a changing environment. Credible exit strategies need to be formulated early on to signal that support is given for adapting to new challenges – not as an indefinite subsidy for inefficient rent-seeking industries.*
- *Finally, industrial policy should be designed as a systematic process of experimental learning. For this purpose, independent monitoring and evaluation (M&E) is essential. It serves the dual function of learning from trial and error and safeguarding against political capture."*

The remainder of this report describes and assesses the quality of industrial policy making in Mozambique, using the concepts outlined above. It should be noted that, as in other low-income countries, the availability of reliable data is a major problem there. Policy performance is hardly ever monitored and evaluated. While this report also uses quantitative data sources wherever available, many judgements rely on qualitative information gathered from experts. The interviews (see Table A4) were conducted in 2009; literature and data from January 2010 was used.

3 The main challenges for structural transformation

Several analysts consider Mozambique to be one of the few economic success stories in sub-Saharan Africa. The country is recovering from the ravages of a long struggle for independence from Portugal and a protracted civil war. Over the last decade, Mozambique has been characterized by peace and stability, falling poverty rates and high macroeconomic growth rates, and benefits from large-scale financial and technical international assistance (Clement / Peiris 2008, 11).

Nevertheless, Mozambique is still one of the poorest countries in the world, ranking 172nd out of 182 countries, according to the latest United Nations Human Development Index (UNDP 2009: life expectancy at birth is 47.8 years, the adult literacy rate is 44.4 percent, GDP per capita in purchasing-power parities is USD 802, and 74.7 percent of the population survives on less than USD 1.25 a day). The literacy rate and higher education provision are well below sub-Saharan standards (EIU 2008, 17). According to the United Nations report on the global AIDS epidemic (UNAIDS 2006, 412), 16.1 percent of adults between 15 and 49 years of age are HIV (Human Immunodeficiency Virus) positive.

The world's 36th largest country in terms of landmass, Mozambique has a total population of approximately 21 million people who are concentrated in the capital, Maputo, and in the Northern provinces, Nampula and Zambezi; the rest of the country is sparsely populated. The country is rich in natural resources. Of the total 799,380 square km, 45 percent is considered cultivable (Hughes 2005, 4–5). Mozambique also has mineral resources, including gas, coal, gold, titanium, ilmenite, zircon, rutile, and marbles (CPI 2006). The country benefits from three East–West 'development corridors' – connecting Malawi with the port of Nacala (Northern Mozambique), Zimbabwe with the port of Beira (Central Mozambique), and South Africa with the port of Maputo (Southern Mozambique) – which makes Mozambique a potentially important transport and logistics hub for the region (Kaufmann and Simons-Kaufmann 2008). The high cost and the low reliability of transport have prevented Mozambique from taking greater advantage of this potential (Wide 2010, 24).

The remainder of this chapter reviews Mozambique's main challenges to structural transformation. After a brief summary of Mozambique's economic history (3.1), it summarises the country's recent macroeconomic development (3.2). The chapter then characterizes Mozambique's enterprise structure, reviews the available indicators for the business environment and competitiveness levels (3.3), and examines some sector-specific opportunities and challenges (3.4), before presenting some conclusions (3.5).

3.1 A brief overview of Mozambique's economic history

To provide a point of reference for the sub-chapters, a brief overview of the Mozambique's economic history is given here. Economic policy making in Mozambique can be divided into three major phases:

- Under colonialism, economic policy was dominated by Portuguese home-country interests and characterized by a mercantilist trade policy, few investments in public infrastructure and education, and a strategy of settler colonisation (Cahen 1993, 49). In the context of this study it is worth mentioning that the colonial government had a quite successful selective industrial policy for the cashew sector in the 1960s and 1970s (see Case Study 6.1 for more details on the cashew industry).

- After independence in 1975, the Government followed a central planning approach to economic policy, nationalizing certain social and economic sectors (such as schools, hospitals, and banks) and promoting production cooperatives in rural areas (Cahen 1993, 51). This policy offered few incentives to the private sector and entrepreneurship.

- The latest phase, which began in the late 1980s, is characterized by the transition to a formally democratic, multi-party political system and a market-based economic system largely built on private ownership. The Government follows an open policy regarding foreign trade that eases foreign investment and prioritizes free trade over the promotion of local manufacturing and processing. Because of Mozambique's aid dependency, donors and multilateral institutions like the International Monetary Fund (IMF) and the World Bank have a say in all major policy areas, including economic policy.

Until the 17th century, the territory that today makes up the Republic of Mozambique was mostly under Arab–Swahili influence. With the arrival of the first Portuguese in the 17th century, trading posts were opened along the coast. Portugal kept a relatively low profile in the area, although this was raised significantly in the 1950s under the dictatorship of Salazar (EIU 2008). Even so, Portugal invested relatively few resources in Mozambique, particularly with respect to health and education. Mozambique was considered to be a 'province', where almost all the qualified employees in both the private sector and the public administration, were Portuguese (Hodges / Tibana 2004, 19). Even in reference to that era, the Portuguese colonial administration can be qualified as old-fashioned and strongly bureaucratic (Simons-Kaufmann 2003, 77).

In 1962 the *Frente de Libertação de Moçambique* (FRELIMO) was founded and started to operate from Tanzania, beginning a war of liberation under the leadership of Samora Machel. Independence was granted in 1975, after the end of the dictatorship in Portugal and the transition of power to a FRELIMO Government led by Machel. In 1977 a single-party Marxist state was announced at the 4th FRELIMO Congress. Mozambican nationalism

grew and FRELIMO gained political supremacy (EIU 2008, 5). The new Government followed a centralised planning approach to economic policy, nationalizing key industries and promoting production cooperatives in rural areas. But this approach was not successful and led to a severe social crisis (Cahen 1993, 51–54).

After 1975 most Portuguese left Mozambique. Most private companies and the public administration were barely functioning, and many assets were useless or obsolete as a result of damage during the war for independence or their deliberate destruction by former owners before they left the country. A counter-revolutionary rebel group, the *Resistência Nacional de Moçambique* (RENAMO), founded in 1975 was supported by Rhodesia and South Africa. The civil war between FRELIMO and RENAMO (from 1977 to 1992) further destroyed Mozambique's infrastructure and economy, bringing the country to the brink of collapse.

Between 1980 and 1986, national production decreased by 30 percent and exports by 75 percent (Simons-Kaufmann 2003, 80). Under pressure from international creditors, Mozambique joined the IMF and the World Bank in 1984 and started its structural adjustment program in 1987. In order to reverse the negative economic development, the Mozambican Government aimed at reducing State control over the economy by privatising public companies; promoting the 'family sector' in agriculture; improving the marketing of agricultural products; adjusting trade imbalances; improving resource distribution; and expanding the private sector's responsibility for economic activities. Since instituting these reforms, Mozambique has enjoyed strong donor support. It remains one of the most aid-dependent countries in the world, with more than 50 percent of the State budget funded through external assistance (Bertelsmann Foundation 2008). It is therefore no surprise that donors took, and are still taking, an important role in setting Mozambique's agenda and influencing its economic and social policies.

In addition to the economic reforms, in November 1990 Mozambique adopted a new constitution that formally separated the executive, legislative and judiciary functions, and contained a commitment to multiparty democracy. It provided for an electoral system based on a proportional representation, with a majority voting system for presidential elections and a proportional system for legislative elections (EIU 2008, 9). The country has been politically stable since the Rome General Peace Accords ended the civil war in 1992. In 1994, democratic elections gave a majority to FRELIMO (under President Chissano). With the 2004 elections, President Guebuza (also FRELIMO) came into power, and basically continued the Chissano Administration's economic and social policies, although he also adopted a strategy with more pronounced nationalistic accents that aims at enhancing party influence at various levels of government (EIU 2008, 8).

3.2 Macroeconomic development

In spite of frequent natural disasters and economic shocks, between 1996 and 2005, Mozambique was able to achieve stable average economic growth of 8.5 percent per year, which is among the highest on the African continent (EIU 2008, 33). Table 1 gives an overview of macroeconomic indicators for the period from 2002 to 2008.

Mozambique's robust macroeconomic performance has been driven by recovery in a range of sectors that were devastated by war and poor economic policy – including agriculture, transport, manufacturing, tourism and banking – as well as by large inflows of

Table 1: Macroeconomic indicators of Mozambique							
Year	2002	2003	2004	2005	2006	2007	2008*
Nominal GDP (USD bn.)	4.1	4.8	6.1	6.6	7.0	7.8	11.9
GDP per capita (USD at PPP)			630.0	683.0	749.0*	807.0*	871.0
Real GDP growth (%)	8.2	7.8	7.5	7.7	8.5*	7.0*	6.5
Consumer price inflation (end-period in %)	16.8	13.4	9.1	11.9	9.4	10.2	6.2
Population (mil.)	18.7	19.1	20.1	20.5	21.0	21.4	21.8
Exports of goods fob (USD mil.)	809.8	1,043.9	1,503.9	1,745.3	2,381.0	2,412.0	2,466.0
Imports of goods fob (USD mil.)	1,476.5	1,648.1	1,849.7	2,242.3	2,649.0	2,811.0	3,061.0
Current acc. balance (USD mil.)	-869.1	-816.5	-607.4	-760.6	-773.0	-795.0	-1,022.0
* EIU estimates							
Source: EIU (2007; 2009)							

foreign aid and foreign capital. The showcase 'mega project'[3] MOZAL (an aluminium smelter located close to Maputo; for more details, see Case Study 6.2) started in 1998, was an important milestone in Mozambique's development because it opened the doors to FDI in the late nineties (Wells / Buehrer 2002). Since then, Mozambique has begun to be considered a 'success story' by some observers (Clement / Peiris 2008, 11) and various capital-intense mega projects financed with private capital have been started, particularly in the mining sector[4].

Mozambique's international trade is not well diversified. Exports mostly consist of primary products, in particular aluminium (produced in MOZAL), electricity, tobacco, gas, prawns, sugar, cotton, cashew and timber. The major export partners in 2009 were the European Union (EU: 57.8 percent of exports, mainly aluminium), South Africa (11.4 percent), China (3.7 percent), India (2.9 percent), Malawi (2.3 percent), and the USA (2.1 percent). The main imports are fuels; manufactured goods (consumer goods, machinery, and vehicles); agricultural products (mainly cereals); and alumina (a pre-product of aluminium). The major import partners are South Africa (33.5 percent of imports), the EU (18.5 percent), India (5.9 percent), China (4.2 percent), the USA (3.3 percent) and Japan (3.1 percent) (EU 2010; International Trade Centre, no year).

Mozambique is a member of the Southern African Development Community (SADC), the World Trade Organization (WTO), the United Nations, the African Union (AU), the Organisation of the Islamic Conference (OIC) and the Commonwealth, and has signed the following major trade protocols: the SADC Trade Protocol, the African Growth Opportunity Act (with the USA), the Everything But Arms (EBA) and Cotonou Agreements (with the EU). Due to the limited competitiveness of most domestic companies, the export opportunities of these agreements have hardly been used (República de Moçambique 2007a). The trade integration processes in the context of the SADC and globalisation are viewed as threats, pressuring the non-competitive national industries to improve quickly or exit the market.

3 The term 'mega project' is commonly used in Mozambique for huge investment finance with foreign capital, predominantly in the mining and energy sector.

4 Besides the MOZAL aluminium smelter, the SASOL gas pipeline and the coalmine in Tete (developed by the Brazilian Companhia Vale do Rio Doce) – each with more than USD 1 billion invested – are the most prominent mega projects.

In spite of the encouraging macroeconomic growth rates, there are concerns that the economy is developing at two speeds (EIU 2008, 33). To a large extent, growth has occurred thanks to massive inflows of FDI in capital-intensive mega projects that have little direct impact on employment and few linkages to the local economy. Improvements in export performance are also almost exclusively due to mega projects exploiting the mineral and other natural resources, without adding much value to the country (Saxegard 2008, 359). For example, the aluminium exports from MOZAL alone account for 42 percent of Mozambique's total export revenue; the manufacturing value added without MOZAL is as low as it was in 1971 (APRM 2009, 163–65). Development is clearly faltering in large parts of the economy where the majority of the Mozambicans earn their livelihoods, for instance in small-scale agriculture and in the SME sector.

3.3 The enterprise structure, business environment and competitiveness

The enterprise structure and linkages

Colonialism left a country with no entrepreneurs and little capital. After the socialist phase, therefore, a major economic-policy objective was to privatise and create a class of entrepreneurs. The core element of the 1990s reforms was privatisation of most State-owned enterprises. In 1999, the programme for privatising and restructuring SMEs was completed, with more than 1,200 companies transferred to the private sector (Simons-Kaufmann 2003, 82). Most big companies were sold to foreign investors, while smaller companies were mostly bought by domestic investors. Of the larger companies, to date only 20 companies – predominantly public-service providers and utilities, such as the airports authority, the ports-and-railways authority, as well as the water and electricity providers – continue under public ownership. Formally, all the economic institutions required for a market economy are in place (Simons-Kaufmann 2003) – except for safeguards to prevent the creation of economic monopolies and cartels, and the abuse of monopolistic market power, which from a welfare-oriented economic-policy perspective, is a major deficiency.

The privatisation process of the 1990s was far from 'perfect': In order to build up local entrepreneurs and firms, the *Caixa de Crédito Agrário e de Desenvolvimento Rural* started to hand out credits (also using donor funds) to freedom fighters, militaries and party members – without any intention of getting the money back (Hanlon / Smart 2008, 106). World Bank-sponsored SME programmes that aimed at assisting the privatised SMEs also faced serious repayment problems. In 1998 the World Bank stated that of the USD 30 million spent in SME restructuring programmes, 90 percent would never be paid back (Landau 1998, 62). Loans financed out of the State budget that were handed out to companies owned by the party elite didn't perform much better (Hanlon / Smart 2008, 107). The unfavourable track record of such interventions is one of the reasons why donors oppose the creation of a State-owned development bank in Mozambique.

Today, the enterprise structure is marked by (i) a few big enterprises, some of which are owned by foreign investors, some are State-owned, and some are private Mozambican enterprises owned by the political and business elite; (ii) formally registered SMEs, a few owned by international, but most owned by Mozambican, investors; and (iii) a vast universe of informal SMEs, mostly micro enterprises (Kaufmann 2007). According to the

Ministério da Indústria e Comércio (MIC) (2008a, 34) SMEs[5] make up 98.6 percent of all enterprises, employing 43 percent of the workers and accounting for 76 percent of the total sales. In terms of the number of business units, the SME sector is clearly dominated by the trade and service sectors (see Table A1 in the Annex). Commerce and retail businesses account for nearly 60 percent of all units, followed by restaurants and accommodation (20 percent). Manufacturing, with less than 10 percent of business units, nevertheless accounts for almost 40 percent of the total sales volume. Most of these industries (about 80 percent) are located in Maputo and Beira, respectively the capital and the second largest city.

An influential strand in the literature regards SMEs in general as important drivers for growth and poverty reduction (Lledo 2008, 330). But in Mozambique at present, no such role is discernible for the SME sector, which mainly consists of micro-enterprises that are oriented towards the local market and are not competitive. In general, they lack growth perspectives (Kaufmann and Parlmeyer 2000). In an empirical study Krause et al. (2010) found that the formalisation and development of SMEs are hampered by the entrepreneurs' and workers' poor education and training, burdensome and non-transparent regulations, the high cost of credit and the poorly developed infrastructure.

A further important feature of the SME sector – which can be regarded both as a symptom, and a cause, of its lack of dynamism – is the fact that inter-firm linkages are not well developed, either amongst the SMEs or between SMEs and large firms (República de Moçambique 2007b, 29). Only in rare cases have Mozambican SMEs managed to establish and benefit from industrial linkages with, for instance, FDI projects. Strategic clusters or networks do not exist, and subcontracting and outsourcing services to local SMEs is not a common practice of big enterprises (Kaufmann 2008).

Most national companies do not have any competitive advantage in terms of technologies, processes, products or marketing strategies (República de Moçambique 2007a). Mozambique's manufacturing sector is small, with production highly concentrated in a few sectors. It also exhibits a low degree of intra-sector linkages: With the exception of agro-processors, most producers source their raw materials from abroad rather than from the local economy. At the same time, manufacturers are overwhelmingly inwards oriented; very few firms export a substantial part of their outputs.

The business environment and competitiveness

Mozambique can be classified as highly bureaucratic, with cumbersome regulations that are inefficiently and inconsistently applied (KPMG 2008; World Bank 2009b[6]). According to the World Bank's 2010 ranking in the 'Ease of Doing Business Index', Mozambique is 135th out of 183 countries (see Table 2). Although the indicator for 'Starting a Business' has recently improved, other indicators in areas that are directly linked to the process of starting a business, for instance, 'Dealing with Construction Permits', 'Registering Property' and 'Employing Workers' are highly problematic. In

5 The National Institute of Statistics' (INE) definition of an SME: An enterprise that employs up to 99 workers (MIC 2008a, 5).

6 See also Eberherr / Kaufmann / Simons-Kaufmann (2009) for the province of Inhambane, and Krause et al. (2010) for an analysis of the impact of business regulations on the formalisation and development of SMEs.

the area of labour regulations, a recent reform instituted some slight improvements, especially for SMEs, by reducing the cost of severance payments. For ongoing businesses, Mozambique's low rankings for 'Trading Across Borders', 'Getting Credit' and 'Enforcing Contracts' – the latter directly linked to the poor performance of the legal system – are still major concerns that induce high transaction costs, thereby reducing the competitiveness of existing companies and compromising the motivation for start-ups. Overall, although there has been some modest progress with regard to business regulations, no significant improvements have been made in recent years. This is explained by the lack of trained administrative staff; the tradition of a bureaucracy that considers its main function to be controlling the business sector; problems with inter-ministerial coordination; and insufficient drive for 'radical' reforms.

The Doing Business Index basically attempts to measure the cost of business regulations. An alternate approach to describe the business environment is to take the entrepreneur's perspective and ask what they consider to be their major constraints. In this vein, Figure 1 shows the top 10 constraints according to the World Bank's Enterprise Surveys. Amongst the most pressing constraints named by entrepreneurs are access to finance, informal or illegal competition, physical infrastructure (electricity and transport), tax rates and crime, theft and disorder.

The Mozambican Business Confidence Index (KPMG 2008), published by KPMG Mozambique and the umbrella business association, *Confederação das Associações Económicas* (CTA), is also based on an enterprise survey that includes a significant number of SMEs in the provinces outside Maputo. According to this source, entrepreneurs' greatest concerns are corruption, crime, and excessive bureaucracy. Interestingly, the results vary significantly between regions and sectors, suggesting a need for differentiated analysis and policy action (Kaufmann / Krause 2008).

The Global Competitiveness Index (GCI) of the World Economic Forum takes an even broader perspective on the business environment (see Table 3). It assesses a broad variety of 'pillars' that enhance an economy's competitiveness, ranging from basic requirements (e.g., infrastructure and macroeconomic stability) to enhancers of innovation and sophistication (e.g., the intensity of innovations). After the review undertaken so far, it comes as no surprise that Mozambique ranks very low in the GCI: 130th out of 134 countries. The country's economy can be characterised as being purely factor-driven.

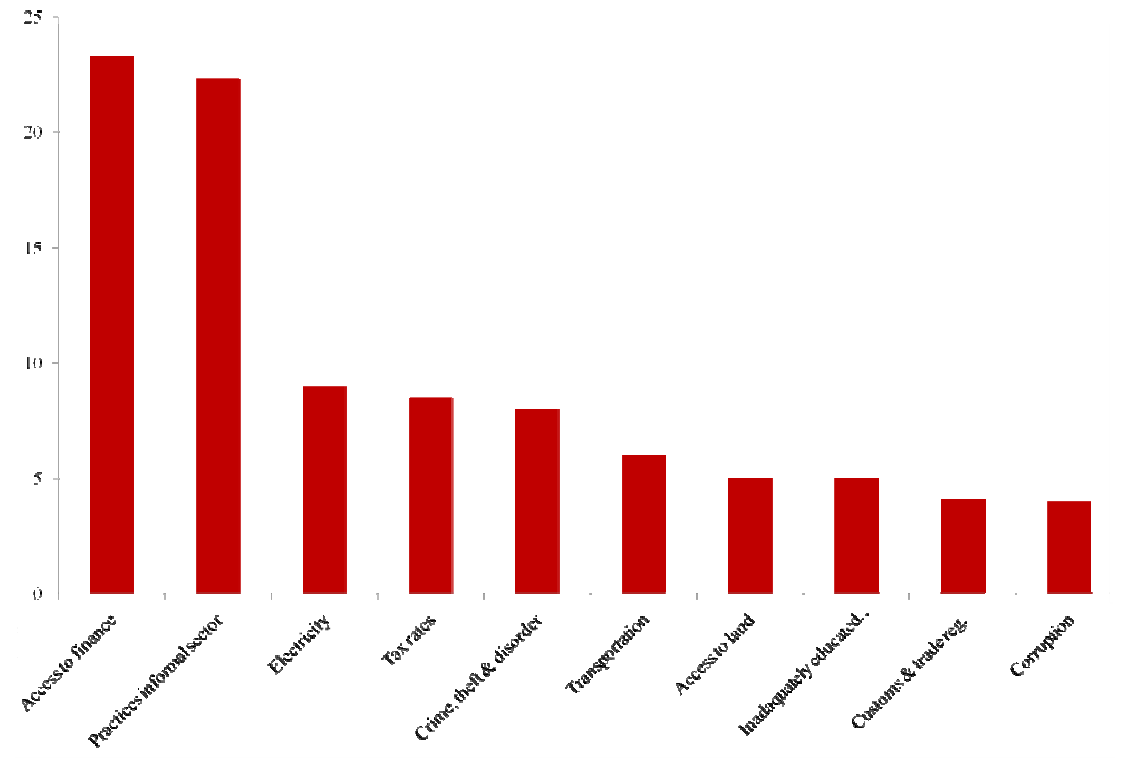
As can be seen in Table 3, for most pillars Mozambique is ranked at the very low end of the scale. An exception is labour-market efficiency (rank 98), which has improved since the recent labour-law reform. Still, the 'basic requirements' are weak, with infrastructure, health and primary education ranked particularly low. With regard to transport infrastructure – despite the significant investments since the end of the civil war – Mozambique has the lowest road coverage in Southern Africa: 32 km of roads per 1,000 km^2 in 2003, compared to an average of 135 km. Out of the classified road network, only 57 percent is maintained, – again the lowest rate in Southern Africa where in 1997 the average was 71 percent (World Bank 2003).

Table 2: Mozambique's rank in the Doing Business Index

Ease of...	Doing Business 2010 Rank	Doing Business 2009 Rank	Change in rank
Doing business	135	140	+5
Starting a business	96	143	+47
Dealing with construction permits	159	151	-8
Employing workers	156	156	0
Registering property	151	154	+3
Getting credit	127	125	-2
Protecting investors	41	38	-3
Paying taxes	97	92	-5
Trading across borders	136	138	+2
Enforcing contracts	129	128	-1
Closing a business	136	135	-1

Source: Doing Business website (www.doingbusiness.org)

Figure 1: Main constraints to firm investment according to World Bank's enterprise surveys



Source: The World Bank Group (2011)

Table 3: Mozambique's ranking in the Global Competitiveness Index		
	Rank	Score
GCI 2008–2009 (out of 134)	**130**	**3.1**
GCI 2007–2008 (out of 131)	128	3.0
GCI 2006–2007 (out of 122)	119	3.2
Basic requirements 2008–2009	**131**	**3.2**
1st pillar: institutions	112	3.3
2nd pillar: infrastructure	124	2.2
3rd pillar: macroeconomic stability	112	4.2
4th pillar: health and primary education	132	3.2
Efficiency enhancers 2008–2009	**129**	**3.1**
5th pillar: higher education and training	129	2.6
6 th pillar: goods market efficiency	127	3.4
7 th pillar: labour market efficiency	98	4.1
8 th pillar: financial market sophistication	122	3.3
9 th pillar: technological readiness	116	2.5
10 th pillar: market size	107	2.6
Innovation and sophistication factors 2008–2009	**127**	**2.8**
11 th pillar: business sophistication	128	3.1
12 th pillar: innovation	120	2.5
Score: 7 highest, 1 lowest		
Source: WEF (2008, 250)		

The GCI assesses Mozambique's potential transaction-cost-reducing institutions, like ethical business behaviour, effective and reliable police and court services, intellectual property protection and effective company boards, as being 'weak'. Business development services are rarely available for SMEs, particularly outside Maputo. All the sub-factors of 'business sophistication' – which include factors like local supplier quantity, local supplier quality, state of cluster development, value-chain breadth, and production-process sophistication – are ranked below 100. Altogether, the poorly developed 'pillars' result in a very low factor productivity, which constitutes a big challenge for Mozambique's economic development (Jones 2008; World Bank 2009a).

3.4 Sector-specific opportunities and challenges

According to several experts, Mozambique's main opportunities for economic development are its natural endowments and the production of primary products.[7] The African Peer Review Mechanism (APRM 2009, 169) supports this view in a recent publication

7 For more details see, e.g. Wide (2010).

that identifies the following key sectors with growth potential: agriculture, mining, and tourism. The opportunities and specific challenges in realising the potential in these sectors are briefly summarised below.

Agriculture

Mozambique is endowed with a huge area of cultivable land. Out of the total surface area of 799,380 km^2, 45 percent is considered cultivable, of which 2.8 percent is occupied by permanent, and 53 percent by shifting, agriculture (Hughes 2005, 4–5). Consequently, great potential is foreseen in the intensification of agriculture, which is now characterized by subsistence farming. According to Castel-Branco (2002, 232), *"[A]gro-industry is important from the point of view of rural industrialisation, inter-sectorial linkages, employment, diversification of production and trade, and balance of the class interests that influence the manufacturing sector."*

Some cash crops have done better, among them, sugar, tobacco, horticulture, and bananas. Foreign investors are mostly driving the improvements through contract farming (tobacco) or plantation agriculture (sugar). Cashew production and processing are also slowly recovering, especially in the northern parts of the country (see the Case Study in Section 6.1). Bio-fuel is considered to have potential, but is still insignificant. The increasing quantity of timber exports (unprocessed logs), mainly to Asia, should be regarded more as a threat to sustainable development than as an opportunity because logs come mostly from primary forests with little or no replanting and exploitation is largely illegal (EIU 2008, 35–38).

Probably the three most important barriers to the development of agriculture are (i) the difficult access to land and the insecurity of land-use rights as well as (ii) the structure and organisation of farmers, who are mostly atomised smallholders engaged in subsistence farming (there are very few commercially oriented farmers or farmers' associations that could form the backbone of a modernization process); and (iii) the lack of efficient extension services. Regarding the first barrier, an important feature of Mozambican land law must be stressed: All land is owned by the State. However, individuals are granted land use rights for 50 years that can be renewed for another 50 years. The difficulty and insecurity doesn't come so much from the rules themselves, as from the way they are implemented, which gives scope for extensive bureaucratic interference, creating opportunities for corruption and rent-seeking behaviour (Hughes 2005, 26).[8] Furthermore, this legal situation makes access to finance more difficult (because of the resulting lack of collaterals).

Further challenges to the development of agriculture are fragmented markets, poor transport and storage infrastructure, low productivity (below sub-Saharan standards), and pronounced climatic variability. Finally, supporting institutions like research facilities are either not available or inefficient (Hanlon / Smart 2008).

Although donors have allocated substantial resources to this sector through the PROAGRI programme that was created to guide aid allocation and public expenditure in agriculture, so far the results have been disappointing.

8 Jim LaFleur (Table A4) sees the unequal and unfair access to land as the major factor limiting economic, and especially agricultural, development. See also Hanlon / Smart (2008).

Mining and energy

As already described in this chapter, Mozambique is endowed with important mineral and natural resources, including gas, hydroelectricity, coal, gold, titanium, ilmenite, zircon, rutile and marbles (CPI 2006). Not surprisingly, the most important FDI projects, each involving more than USD 1 billion, have been made in this sector: MOZAL (see Section 6.2), SASOL (gas deposits), and Companhia Vale do Rio Doce (coal deposits).

The most important constraints to attracting more investments in the mining sector are insufficient information about the geology, poor infrastructure, inadequate legal and regulatory frameworks (especially regarding land tenure), and a lack of reliability and transparency in the awarding of concessions. Mozambique recognizes that it has to improve governance in this sector, and the Government has expressed its intention to accede to the Extractive Industries Transparency International Initiative (APRM 2009, 164; Hartley / Otto 2008).

However, the biggest challenge is to use Mozambique's mineral and energy-resources wealth for broad-based development that benefits the whole economy. Mega projects in the mining sector are characterized by capital-intense investments that, apart from the construction phase, generate only modest domestic employment and typically do not create significant backward or forward linkages with local enterprises or knowledge spillovers. In this context, the practice of granting generous tax exemptions to foreign investors in the mining sector should also be reviewed: According to the APRM (2009, 164), MOZAL has been granted tax exemptions for 50 years, Sasol for 35 years, and Vale do Rio Doce for 25 years. While tax incentives may be an important policy instrument to attract investments in the first place, excessive scope and duration of exemptions prevents the generation of tax revenue needed to build and improve market-enhancing institutions and invest in 'basic requirements' such as health, education and infrastructure.

Tourism

The number of tourists visiting Mozambique increased fourfold between 1995 and 2004 (EIU 2008, 60). Up-market accommodations, diving, game parks and water sports are viewed as strategic opportunities for tourism development. Still, given Mozambique's strong tourism asset base, including a long coast with beautiful beaches and islands, as well as its proximity to South Africa, the development of this sector has lagged behind expectation. The country receives only 2 tourists per 100 inhabitants, which is half the continent's average. Apparently, Mozambique-based companies have difficulty competing on the international market, which must be considered key, given the low domestic demand for tourism services (FIAS 2006, Ch. 1).

On one hand, the constraints are rooted in the flaws of the Mozambican business regulations and public administration reviewed above, such as uncertainty regarding land access, cumbersome licensing procedures, excessive bureaucracy and corruption. Another set of factors has to do with the lack of complementary public investments and the tourism industry's low level of organisation and development, such as unfavourable bilateral air-service agreements which, given the country's remote location, make air connections to Europe too expensive; the lack of investment in domestic airports; weak coordination among key stakeholders and weak effort at marketing Mozambique's image and destinations abroad; and the low quality of tour operators and ancillary-service providers (Kaufmann / Krause 2008, 234–235).

3.5 Preliminary conclusions

In 2002, Castel-Branco (2002, 231) described the Mozambican economy as characterized by the following basic features: *"semi-processing of primary products for export"*; the production of internationally uncompetitive goods for the domestic market; and the provision of migrant labour force and transport services for the Southern African region.

The review in this chapter suggests that this concise summary is still accurate. Consequently, one important challenge to structural transformation is increasing the value added to the exported (mineral and agricultural) products by linking the domestic enterprises to these export processes, and by gradually diversifying production, both for export and for the domestic market.

In order to master these and further challenges, industrial policy has to deal with a complex set of structural deficits that together result in the Mozambican economy's extremely low productivity and competitiveness. The most important deficits can be summarised as follows:

- The lack of management knowledge and the labour force's low level of training and skills (80 percent of the labour force is inadequately trained);
- A badly trained and ineffective public-administration staff, combined with cumbersome regulations and corruption, that result in high costs of doing business and exporting;
- The lack of access to credit and the high cost of capital;
- The lack of businessdevelopment services;
- Insufficient norms, standards and quality checks;
- High costs and irregular supply of water and energy;
- High costs and the low predictability of transport;
- Obsolete technology and the shortage of spare parts (50 percent of all companies use technology that is more than 15 years old);
- The lack of coordination between different State institutions promoting industrial development – which results in the absence of systematic and consistent approaches.

4 Governance patterns: the background of industrial policy making

This chapter characterizes some basic governance patterns of Mozambique that arguably influence the country's industrialpolicy management capability. By way of introduction, Table 4 provides an overview of the World Bank Governance Indicators for the years 1996, 2000, 2004 and 2008. While the upward tendency of the indicator for 'political stability' clearly reflects the post-war achievements of peace and the orderly succession of governments, as shown in a comparison of the years 2000 and 2008, the remaining indicators have stagnated. The lowest rankings in 2008 are registered for 'rule of law' (percentile rank 32.1), 'regulatory quality' (37.7) and 'control of corruption' (38.2).

Table 4: World Bank Governance Indicators: Mozambique's percentile rank* 1996–2008				
Governance indicator	***2008***	***2004***	***2000***	***1996***
Voice and accountability	46.2	47.6	44.7	49.3
Political stability	54.5	39.4	46.2	30.3
Government effectiveness	42.5	36.9	41.7	53.9
Regulatory quality	37.7	36.6	43.9	19.0
Rule of law	32.1	29.5	29.0	24.3
Control of corruption	38.2	29.6	38.3	51.0
*) The percentile rank indicates the percentage of countries worldwide that rate below the selected country. Higher values indicate better governance ratings.				
Source: World Bank; online: http://info.worldbank.org/governance/wgi/ (accessed 27 Nov. 2010)				

We discuss below a set of governance features and actors that we regard as important context factors influencing or shaping the industrialpolicy-making process in Mozambique. These are the pervasiveness of corruption and rent-seeking (4.1); the dominance of FRELIMO and the weakness of checks and balances and the rule of law (4.2); and the main industrialpolicy players, such as the economic interest groups linked to the political elite and the donors (4.3).

4.1 The pervasiveness of corruption and rent-seeking

Besides the World Bank Governance Indicator 'control of corruption', several other sources point to the pervasiveness of corruption in Mozambique (e.g., USAID 2005; Bertelsmann Foundation 2008; Transparency International 2008; APRM 2009). For instance, Transparency International (2008) characterizes Mozambique as 'endemic corrupt', with a score of 2.8.[9] Corruption takes a variety of forms, all of which are common in Mozambique: (i) state capture by particularistic or narrow interests in order to influence laws, regulations and policies; (ii) patronage and nepotism resulting for example in contracts that are awarded based on favours or in unmerited appointments to public office; and (iii) administrative or bureaucratic corruption, which refers to the intentional distortion of regulatory implementation to the advantage of individuals (APRM 2009, 294). The pervasiveness of corruption constitutes a handicap to successful industrial policy because it increases the likelihood that industrial policy measures will be misused for rent-seeking activities and the exclusive benefit of a narrow, privileged class of businessmen and politicians.

Although the Government has launched an anti-corruption strategy, there is no evidence of a decline in corruption, and corrupt practices appear to be socially tolerated (APRM 2009, 98). According to United States Agency for International Development (USAID) (2005, 5–8), some features of Mozambique's governance make it particularly difficult to fight corruption. First, there are the social legacies, in particular the lack of democratic culture and the dominant role of the extended family in social and economic life. The view that citizens have the right (and obligation) to hold elected governors accountable for their actions is not yet developed in the young Mozambican democracy. Moreover, it is the extended

9 On Transparency International's scale, the worst possible score is 1 and the best possible score is 10.

family above all that provides Mozambicans with social security and income opportunities. *"As a result, much behaviour that might be viewed as conflicts of interest, nepotism, and favouritism is not generally judged as corrupt practices. Instead, Mozambicans who achieve positions of authority and influence, are often expected to use their position to help family members and friends to get jobs, avoid red tape, and circumvent the system"* (USAID 2005, 8). Second, checks and balances and the rule of law are weak in the Mozambican system, which means that horizontal accountability mechanisms are poorly developed and impunity is common. These latter two features are further elaborated below (4.2).

The view that corruption is very deeply rooted in Mozambique and practically constitutes a part of its 'culture', is put into perspective by Hanlon / Mosse (2009, 3) who state that *"[t]he late 1970s had been an era of exceptional integrity; the leadership under Samora Machel was quite puritanical and any corruption was harshly punished, while the enthusiasm for independence and building a new country created a collaborative spirit that militated against private enrichment."* The authors argue that corruption started to spread because of the civil war, which made controls impossible, and the opaque way in which privatisation was carried out (see Section 3.3), which was tolerated by donors because they were so anxious to promote privatisation (Hanlon / Mosse 2009, 4).

4.2 Single-party dominance, weak checks and balances and the rule of law

The FRELIMO party has ruled Mozambique since independence in 1975. Only after the end of the civil war was the FRELIMO Government legitimised in 1994 by free general elections (for the Presidency and the Parliament). FRELIMO has won all subsequent elections at the national level (1999, 2004 and 2009), always winning the absolute majority in the national parliament and the presidential elections. This 'quasi monopoly' has contributed to blurring the distinction between party and Government and has undermined the checks and balances between the country's different branches of government (USAID 2005; see also Öhm 2009). Because of its supremacy and the electoral system, FRELIMO has strong influence over members of parliament. Parliamentarians *"are chosen on [the] basis of proportional representation using provincial party lists"* (Chakravarti 2005, 146), which gives the party strong control over them. Moreover, the party – through its members in the executive branch – practically controls the judiciary, thereby undermining its independence (Mosse 2006).[10] For example, the nomination of judges is not carried out in a transparent manner, and to become a judge, a candidate apparently has to have close ties to the executive or the party. According to Hanlon / Smart (2008, 116–118), the development of an independent, well-functioning legal system is not a high priority for the Government.

FRELIMO's supremacy has reduced its incentives to reach out to civil society for alternative perspectives, which contributes to polarization and reduces its accountability to citizens. Apart from RENAMO and to a certain extent, a new party founded in Beira in 2009 (the Democratic Movement of Mozambique), there are no significant national power bases in the country that could compete with the ruling party to make political competition more vigorous and transparent.[11] Moreover, the blurring of the separation of powers and the lack

10 The lack of independence is just one problem of the legal system in Mozambique. Another big problem is the lack of expertise and training (Mosse 2006; USAID 2005).

11 In 2003, RENAMO at least managed to win the local mayoral elections for mayors in 5 out of 33 autonomous cities – all the others were won by FRELIMO; in 2008, however, FRELIMO won the local

of independence of the judiciary has generated a culture of impunity that undermines the rule of law. Party officials seldom risk sanctions or punishment for disrespecting the law or for corrupt behaviour (Öhm 2009). Finally, the party's dominance has a big influence on recruitment for public service: In practice, only FRELIMO members are recruited – which apart from being discriminatory, harms the capacity and quality of the public service when party membership is given preference over technical qualifications. The capacity of public servants is generally low, with only a few receiving adequate formation or training for their positions (DFID 2006).

Civil society is not able to countervail this lack of checks and balances. There is no well-developed network of civil society organisations or formalised interest groups (more on the role of business associations below). Civil society organisations typically depend on state or donor initiatives and their agendas are closely connected to their sponsors' agendas (Nuvunga 2009, 20). Moreover, there are only a few opportunities for civil society organisations to monitor government activities, and their capacity and levels of organisation are weak (MASC 2008). The most important group of civil society organisations is the 'G20 Network', which was set up during the 'Poverty Observatory' process to monitor the implementation of the Mozambican povertyreduction strategy (PARPA – Plano de Acção para a Redução da Pobreza Absoluta, see also Section 5.1). Independent local research capacity in Mozambique is weak and slowly developing – although lasting recent years, some noteworthy think tanks have been established, such as the Instituto de Estudos Sociais e Económicos (IESE), the Centro de Integridade Pública (CIP) and Cruzeiro do Sul.

Since the formal installation of a multi-party democracy, the media have become more pluralistic (Hanlon / Smart 2008, 200). But despite increasing diversity, the State continues to play an influential role since it owns an important part of the media. Because of high levels of illiteracy and poverty, radio is the only medium to reach most of the population (Hodges / Tibana 2004). According to the Freedom of the Press Index 2008, Mozambique is classified as 'partly free', ranking 86th out of 195 countries (Beula 2009) – which is above average for sub-Saharan Africa.

4.3 Important industrial policy players

This section briefly characterizes the role of three important groups of players that have a stake or a say in industrial policy making: the business elite linked to FRELIMO, the business associations and donors.

The business elite linked to FRELIMO

There are important ties between the political and economic elite in Mozambique that create conflicts of interest.[12] Particularly influential are high-level FRELIMO cadres, such as the Machel family, the Chissano family or the Guebuza family, who simultaneously run

mayoral elections for mayors in all but one autonomous city: Beira – which was won by an independent candidate.

12 A well-documented case concerned awarding a concession for non-intrusive inspection services (scanners) for the port of Maputo to a FRELIMO-owned enterprise. Cf. Mosse / Munguambe (2007).

important business groups.[13] Particularly during the privatisation process, these and other party cadres used their political power to increase their private wealth. They have built up powerful business groups, secured the land-use rights of large, economically-attractive areas, and obtained concessions for profitable business activities (Hanlon / Mosse 2009).[14]

The fact that FRELIMO has managed to remain united over such a long period has helped it stay in power. However, according to Hanlon / Mosse (2009, 4), despite the party's outward unity, the party elite is divided into two groups: (i) the predatory group that merely looks for rent-seeking and personal gain, leaving the development agenda to donors and foreign investors, and (ii) the developmental group that "*looked to entrepreneurial activities that would promote Mozambican development, and continued with a traditional Frelimo ideology of wanting to 'develop' Mozambique.*" Hanlon / Mosse (2009) state that the latter group has become more influential under President Guebuza, and speculate whether the combination of a development-oriented industrial policy agenda supported by this FRELIMO faction and the productive use of its business empires (by Guebuza, for instance) could serve as the backbone of a successful welfare-enhancing industrial development for Mozambique in the style of the Asian tigers.

Business associations

Since the late 1980s, numerous business associations have been established in Mozambique, some of which represent sector interests at the national level, while others represent regional business interests across sectors. In general, few of these business associations are effective in communicating business interests to the Government or in providing business-development services to their members; further, few manage to collect member fees and remain afloat. One possible explanation for the relatively low relevance of business associations in Mozambique is that most important State–business relations are made using the close ties between the party and the business elite. For a businessman it is probably therefore much more important to be a party member, or to be otherwise connected to FRELIMO, than to be a member of a business association.

Nevertheless, there are some relevant business associations (e.g. ACIS, see below) that have formed the umbrella organisation *Confederação das Associações Económicas de Moçambique* (CTA), which has become the private sector's principal and almost 'official' Government interlocutor (Hodges / Tibana 2004, 81). Strongly supported by donors, the CTA has a growing technical capacity and organises a series of dialogues with the Government on private-sector policy issues, like the annual private-sector conference or the semi-annual forum with the Prime Minister. Moreover, the CTA represents business in the private sector's donor working group.

The CTA is still struggling to define its role. Its mission to represent private-sector interests is challenged by the enterprise sector's fragmentation (see Section 3.3) and by the strong network of political and business elites described above. Big international investors are usually able to negotiate directly with governments and do not depend on the CTA (see also the case study in Section 6.2). The same is true for businesses linked to the regime that use informal channels or the party to communicate with the Government. The

13 See also: The Indian Ocean Newsletter 31.5.2008: "Guebuza family has finger in every pie".
14 On this topic, see also EIU (2008, 30) and APRM (2009, 279–81).

vast universe of unorganised informal and micro-enterprises do not have the means to engage with the CTA, which therefore remains largely limited to the small group of formal SMEs. The CTA depends to a good degree on donor contributions (it also receives some support from the State budget, and from its members). Several CTA members and executives are linked to, or are members, of the ruling party, creating a conflict of interest when the CTA negotiates with the Government.

One of the few business associations that apparently represent genuine business interests, and that has the organisational and financial means to articulate and voice these interests, is the rapidly growing ACIS (Associação Comercial e Industrial de Sofala). ACIS is based in Beira, the capital of the province of Sofala. Its members are mainly formal, medium-sized enterprises – many of them owned by foreign investors – that are not closely linked to the political elite. ACIS has repeatedly criticised the Government openly.

Donors

Since the late 1980s, when Mozambique started to cooperate with the IMF and World Bank in a structural adjustment programme, donors have been important, influential stakeholders in policy formulation (for the World Bank's influence on the cashew-policy framework, see Box 2 in Section 6.1). Today over 20 multi- and bilateral agencies are engaged in official development cooperation with Mozambique, which is one of the most aid-dependent countries in the world.

Some analysts consider Mozambique to be 'a model for donor coordination' and a case in which the international donor community and the partner government have jointly improved aid effectiveness (Fischer et al. 2008, 238 ff.). Donors are an important, if not the most important, dialogue partners of the Government (de Renzio / Hanlon 2007). The Programme Aid Partners (PAP), who are engaged in budget support, participate in policy formulation in a particularly active manner – through donor working groups, joint-review mechanisms, and the elaboration of programme approaches, etc. They also shape policy through the Programme Assessment Framework (PAF), which defines priorities for action and indicators to monitor the development process, including good governance and economic development.[15]

The dialogue between the PAPs and the Government in the context of the budget-support mechanism offers potentially transparent, open and productive discussion and cooperation. Several observers consider that donors play a positive role in promoting the Government of Mozambique's development-orientation and accountability. But it is not always clear if reforms are backed by genuine national policy and party interests, or if instead they are donor-driven – and thus ultimately lack the ownership needed to be effectively implemented. Since Mozambique is highly dependent on aid and democratic accountability is not well developed, the Government risks being more accountable to the donors than to its constituency (Castel-Branco 2008; de Renzio / Hanlon 2007). Not even PAPs always speak with one voice which may hamper consistency in policy formulation. Moreover, critics maintain that on some occasions, donors appear to have tolerated Government corruption to achieve their programmatic goals, such as the privatisation of Mozambique's enterprises (Hanlon / Mosse 2009, 4).

15 See http://www.pap.org.mz/.

Donors have not promoted a selective industrialpolicy agenda, but rather the opposite. The 'Washington Consensus' did not favour selective industrialpolicy approaches, and most donors conventionally viewed economic development as being basically about macroeconomic stability, liberalisation, privatisation, and lowering the costs of transactions through Doing-Business-style reforms – issues that in recent years have dominated the debate about economic reform. The joint review, which assesses government performance based on defined indicators, does not reflect a philosophy of selective industrial policy, but does mention indicators for monitoring the implementation of Doing-Business-style reforms.[16]

Moreover, donors prefer to engage in clearly defined sectors like health and education. Industrial policy is a cross-cutting task which is neither reflected in donor structures, such as donor working groups, nor in the organisation of the line ministries. In fact, the Government lacks a powerful coordination platform to implement an industrial policy approach. Something similar happens in the policy field of private-sector development, which is not part of the donors' combined-budget-support efforts. Private-sector development or local economic-development activities often result from bilateral donor projects that are not linked to any national strategy. Several of these projects support local value chains, for example, local brick production for construction or the production of oil from locally grown seeds. These efforts are mostly limited in scope and time and do not incorporate government planning and learning cycles, and their impact on the structural transformation of the economy is generally limited.

5 Industrial development strategy

This chapter summarises the key Government strategies in the field of industrial policy (those that aim to structurally transform the economy), as defined in Chapter 2. These strategies are not necessarily 'selective' and they are not necessarily mutually coherent. Since most of these strategies are very recent, the chapter focuses on describing and summarising the respective Government papers; discussion of the implementation and impact of the strategies is cursory and restricted to a few cases where information is available. For more evidence on the implementation and impact of industrial policies, see the two Case Studies in Chapter 6 on cashew-industry- and linkage promotion.

The rest of this chapter summarises and discusses the following strategies: the povertyreduction strategy (5.1), the industrial development strategy (5.2), the investment promotion strategy (5.3), the SME policy strategy (5.4), and the strategy to improve the business climate (5.5). The chapter ends with some preliminary conclusions (5.6).

16 Indicadores do Quadro de Avaliacao de Desempenho (QAD–PAF 2008–2010); online: http://www.pap.org.mz /jr_08.htm, (accessed 9 Apr. 2009)

5.1 The povertyreduction strategy

A relevant document that treats industrial policy issues is the global povertyreduction strategy paper, PARPA II (República de Moçambique 2006a). Its broad scope includes almost every aspect of economic and social development. More specific strategy papers mentioned in PARPA II are the Industrial Policy Strategy, the SME Strategy and the Business Climate Strategy (see below). Unlike PARPA I (2001–2006), which focused almost exclusively on the social sectors, PARPA II (2006–2010[17]) acknowledges the importance of economic growth for poverty reduction. Nevertheless, the main focus of PARPA II remains the social sectors, which receive the most funds. The objectives for economic development expressed in the document are to: (i) foster rural development; (ii) develop the national business community; and (iii) create an environment favourable for business investment. For example, one of its 13 priorities is promoting the expansion of agro-industrial and labour-intensive manufacturing activities, in particular of small and medium export-oriented businesses with great potential to add value and create new jobs (República de Moçambique 2006b, 34–35).

Almost all national planning instruments, donor interventions and aid inflows are linked to the strategies and lines of action outlined in PARPA II. Since it is based on a national consensus of the various interest groups, the document remains very general and does not set clear priorities.[18] As a consequence, it is not suited to be a practical guide to the allocation of public resources.

Moreover, until recently there was no formal system that linked the objectives and actions defined in PARPA II with the State planning and budgeting process. The Government of Mozambique's annual development plan (Plano Económico e Social – PES)[19] and the State budget, which drew on the Five-Year Plan approved by the national assembly, were created independently of PARPA II. PARPA II has recently been integrated into State planning and budgeting, and from 2009 on it is supposed to be in complete harmony with the country's Five-Year Plan.

The PARPA process formally opened some space for more participatory policy-formulation and planning and is committed to make this an ongoing endeavour, involving representatives of the Government, the private sector, trade union confederations, civil society and donors (Fox 2008). An annual, participatory poverty assessment provides an alternative perspective on poverty in the country, usually aiming to present voices and perspectives of the poor. Although participation is an important first step, the impacts of the PARPA process remain very limited. Low capacity of both the Government and civil society impedes meaningful participatory monitoring and presents a major obstacle to effective civil-society participation (see also Section 4.2).

---

17 Originally from 2006 to 2009, then prolonged until 2010.

18 If national interest is broadly defined as broadly as 'poverty reduction' or 'accelerated growth', it is possible to have most social groups and organizations on board, for example. Such a definition of the national interest is useless, however, from the point of view of supporting ownership, leadership and commitment, because it offers no clear reference point for the political, social and economic agenda (Castel-Branco 2008).

19 The annual PES is basically a prevision for the following year that establishes quantitative and qualitative goals for each sector, without links to other sectors. The targets are usually set independently by the line ministries.

5.2 Industrial policy strategy

The so-called 'Industrial Policy and Strategy' that the Council of Ministers approved in July 2007, intends to stimulate production and productivity. It also supports the creation of conditions that allow for the introduction of new technologies, qualifications, ways of organising production, and products (República de Moçambique 2007a, 4). It takes a very broad and general approach, which gives the impression that the Government does not want to "miss anything" – instead of setting a clear, realistic focus. The strategy paper strikingly does not address the specific role of the mega projects and how they could strategically be used to boost economic development (APRM 2009, 165).

The strategy recommends several selective industrialpolicy measures (see below). These recommendations are based on general principles, such as an industry's ability *"to modernize and develop rapidly"* and to penetrate domestic and international markets; to positively contribute to the balance of payments (through exports or import substitution) and the State budget; to contribute to diversification, particularly of rural markets and production; to maximise linkages and the use of national resources; and to contribute to employment and to the reduction of regional imbalances (República de Moçambique 2007a, 25). In particular, the following selective industrialpolicy approaches are highlighted:

- *"The development of linkages between the beneficiaries of industrial development, encouraging them to organize into productive clusters in order to increase the productivity and efficiency of the entire value chain.*
- *Focus on areas that have a major economic and social impact, such as for instance the food-processing industry, with its capacity to maximize agricultural and fishery potential, and in turn providing multi–sectorial linkages, employment, and import substitution as well as increased and diversified exports.*
- *The promotion of the vertical and horizontal integration of the food sector.*
- *The promotion of industries that allow for the adequate and sustainable exploitation of productive resources and capacities, such as industries for the processing of timber and its derivatives, and industries producing construction materials, among others.*
- *The promotion of import substitution for the metal, the chemical and the construction material industries.*
- *The development and the strengthening of Free Zones with a view to attracting both capital and labour intensive industries"* (República de Moçambique 2007a, 4).

The strategy also includes some functional (non-selective) measures, like programmes to develop infrastructure services (energy, water and transport); vocational training programmes for technical capacity building and *"the promotion of public-private partnerships for the development of technological services, alternative technology, information and industrial counselling"* (República de Moçambique 2007a, 5).

The document does not address whether the State has the capacity to design, coordinate and implement these industrial policy measures. The need to improve coordination and sharing of information among the authorities and stakeholders is recognised. But there is no mention of concrete actors or coordination platforms that would be responsible for implementing the action plan. Moreover, the issue of how to finance the public investments needed to achieve the goals of the strategy (e.g., in infrastructure and vocational training programmes) is not addressed. (Hardly any resources are available from the national

budget, which means that these investments depend to a large degree on the availability of donor funds.) The paper also sketches a monitoring plan, but says nothing about one important challenge to the implementation and monitoring of the complex industrialpolicy approaches proposed: the public administration's low capacity.

The strategy paper further refers to sub-sector strategies (either already elaborated or to be elaborated with the assistance of consultants), which thoroughly analyse the market potential and the conditions of the respective sectors, using international benchmarking along the value chain. One example is the sub-sector strategy for the textile industry (República de Moçambique 2008b). But concrete policy measures and the actions necessary to boost textile production are not developed in the document, and there is no clear commitment discernable to provide the public and/or specific goods needed to transform the potentials analysed into practical results.

5.3 SME policy strategy

The "Strategy for the Development of Small and Medium Size Enterprises in Mozambique", which was approved in August 2007 (República de Moçambique 2007b), results from the demands of PARPA II and the Industrial Development Strategy. Because of limited national experience and capacity, it was elaborated with the assistance of donors and external consultants. Although CTA was consulted throughout the process of strategy formulation, private sector representatives and Government officials were not able to agree on certain important elements. During the consultations, for example, private-sector participants advocated for creating a non-governmental institute for SME promotion. But this was not in the interest of the Government, who decided to set up a State-owned SME institute (see below).

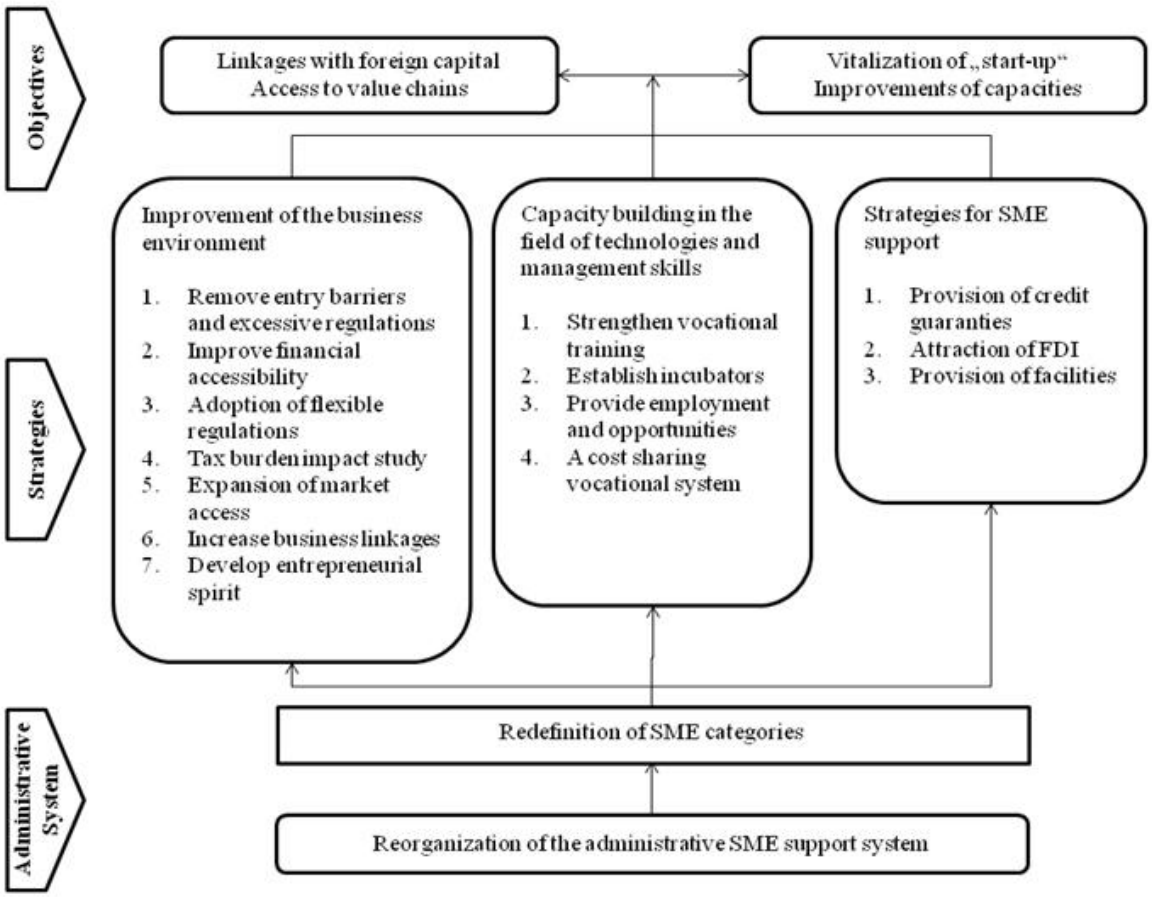
The document underlines the important role of SMEs as drivers of employment, competitiveness, diversification and innovation, as well as their role in mobilising social resources (República de Moçambique 2007b, 1; see also Kaufmann / Fungulane / Macamo 2008). The strategy analyses Mazambique's status quo, its specific complex barriers and shortcomings to SME development – and defines objectives, priority measures and a sequence of actions. A State-owned SME institute, the Instituto para a Promoção das Pequenas e Médias Empresas (IPEME) was founded in 2008 to implement or facilitate the strategy. The lines of actions proposed in the strategy are threefold:

1. improve the business environment for SMEs
2. strengthen SMEs' technological and management capacities
3. give strategic support (e.g., to exporters and high-tech firms, etc.)

The strategy emphasises that selective interventions are likely to fail unless the general business environment is improved. Thus, improvement of the business environment to create a level playing field and reduce the transaction costs for SMEs takes priority in sequence and importance. This item is high on the political agenda; currently, the introduction of a 'negative licensing system' to spur enterprise creation is being discussed. This basically means that any SME that applies for a license is automatically licensed unless the competent authority explicitly objects the application for justified reasons. Simplification of the arbitrary inspection and tax systems is also part of the reforms.[20] In 2008, a general "Strategy for Improving the Business Climate" was approved, which addresses these issues in detail (see below).

20 For more details on these and other barriers for SME development, see Krause et al. (2010).

Figure 2: The SME development strategy



Source: República de Moçambique (2007b, 36)

The second pillar, capacity development, will also include all sectors and regions. The newly founded IPEME is supposed to play an important role as facilitator here. Only the third pillar is selective. Its focus will be on growth drivers, such as export-oriented SMEs and high-tech companies, which would qualify for special credit lines or special credit-guarantee conditions (República de Moçambique 2007b, 35ff). Figure 2 shows the planned system for SME development (República de Moçambique 2007b). Since both the strategy and IPEME are very recent, it is too early to evaluate their success.

As conceived in the strategy, IPEME's role is that of a facilitator and not one of an implementer. The basic idea is that IPEME will facilitate access to private business-development services. The strategy draws on lessons learned from prior unsuccessful experiences in the area of SME support. The IDIL (Instituto de Desenvolvimento Local Industrial)[21] and FFPI (Fundo de Fomento à Pequena Industria)[22], which, with its own advisory staff and credit funds, took a more 'implementing stance', will be closed down.[23]

21 IDIL ran an incubator near Maputo and offered training courses to small-scale entrepreneurs and start-ups.
22 FFPI gives credits up to USD 60,000 to SMEs. For more details, see Bogarello et al. (2004, 25).
23 Although no impact assessments of IDIL and FFPI are available, no significant impact has been visible.

Besides providing information for SMEs (market information, business linkages, etc.), IPEME will apply instruments like interest-rate bonification[24] with commercial banks and leasing institutes, credit guarantees, and matching grants facilitating access to business-development services and credit for SMEs (República de Moçambique 2007c). Moreover, a think tank will be formed (in or out of the institute) to prepare policy papers and studies for identifying market failures and growth barriers for SMEs in the specific national context.

Currently, talks with donors are being held to secure financing for these activities (see also Box 1 for examples of major World Bank projects in the area of SME promotion). Confidence in the new institution still has to develop, and the Government must show that it has learned from previous failures to support SME activities. The fact that IPEME is conceived as a facilitator and that the private sector is to be involved in the institute's steering committee, as well as in the elaboration of its action plan, are promising signals (República de Moçambique 2007c).

Box 1: Recent World Bank projects in the area of SME and private-sector development

Like several other donors, the World Bank supports SME and private-sector development in Mozambique through various projects. Worthy of mention is the 'Project for Entrepreneurial Development (PODE)', which is managed through a separate project-implementation unit. PODE's technical learning component helped hundreds of local SMEs (mostly around Maputo) to develop their business through a matching-grant scheme that co-finances training sessions, consultancies, export promotion activities, etc. (Borgarello et al. 2004, 23). A welcome side effect was the increase in demand for businessdevelopment services in Maputo and the founding of new firms that offer these services.

The recently approved 'New Mozambique Competitiveness and Private Sector Development Project' (2/2009) integrates various approaches, including selective industrialpolicy measures. The project's volume of USD 25 million is far bigger than the Ministry's (MIC) budget. Whether the project will cooperate with the new SME institute, IPEME, is still unclear. There is a certain risk of duplicating functions in the area of SME promotion. One project component aims at developing the competitiveness of SMEs through the provision of credit and technical assistance. Another component focuses on improving the general business environment and implementing the existing strategy for that purpose (see Section 5.5. below). A third component includes selective measures for certain regions and sectors. It plans to promote the tourism sector in the province of Inhambane as a model and anchor province for tourism. A horticulture technological centre for the province of Nampula is also envisaged. As in the PODE case, project implementation is conducted by a special unit, which is linked to the MIC and headed by the former National Director for Industry – who left the MIC to take up this post.

Project management through special implementation units that are institutionally separate from the State administration or line ministries may be more efficient because these units are able to recruit qualified staff, assign a sufficient part of the budget for administration, monitoring and evaluations, and typically follow rigid rules for procurement. But this weakens the public administration because project implementation units create parallel structures and accountability relations, and tend to recruit Government employees by offering better salaries and incentives. In fact, given the huge project budgets, project implementation units in Mozambique can be more powerful than their ministerial counterparts.

5.4 Investment promotion strategy

Investment Law 4/93 is the main document that regulates investment procedures and investment incentives. The law aims at promoting domestic and foreign investment in general, following what could be described as an 'open-door-policy' approach. Fiscal benefits are by far the most important (and often the only) instrument used for investment promotion.

24 An instrument to achieve lower interest rates through providing grants.

The implementing agent for the promotion activities, both at the national and international levels, is the investment-promotion agency, the Centro de Promoção de Investimentos (CPI), which was created under the Ministry of Finance and Planning (now the Ministry of Planning and Development). The CPI's most important operational function is to authorise investments and approve them for qualification of fiscal benefits. In addition, the agency acts as a 'troubleshooter' helping investors deal with the bureaucracy and comply with regulations. Moreover, the CPI proactively markets the country, with offices in Shanghai, Brussels, and South Africa. Presidential visits, international trade fairs, delegations and conferences, such as the World Economic Forum, are some of their working platforms.[25]

The Investment Law guarantees equal treatment of all investors and explicitly mentions international investors (Article 4). Nevertheless, labour regulations constitute a disincentive for foreign investors, in particular those that restrict the number of work authorizations for expatriates, thereby hampering the transfer of human capital and skills (DNAEP 2006).

Aside from a few sectors that are reserved for public ownership[26], private (foreign) investments are welcome and qualify for fiscal benefits – as long as they are approved by the CPI and fulfil seven out of 10 investment objectives. The 10 investment objectives of national interest are summarised in the following table:

Table 5: Investment objectives of national interest	
a)	The development, rehabilitation, modernisation or expansion of economic infrastructures for the operation of productive activities or for rendering services necessary for supporting productive economic activities and promoting the country's development;
b)	The expansion and improvement of national production capacity or of capacity to render services which support productive activities;
c)	Contributing towards training, expansion, and development of national entrepreneurs and Mozambi can business partners;
d)	The creation of jobs for national workers and the raising of professional skill levels of the Mozambi can labour force;
e)	The promotion of technological development and the improvement of entrepreneurial productivity and efficiency;
f)	The increase and diversification of exports;
g)	The rendering of productive services and of those generating foreign currency;
h)	The reduction and substitution of imports;
i)	Contributing towards improving the supply of domestic markets and the satisfaction of the priority and basic needs of the population;
j)	Any direct or indirect contribution towards improving the balance of payments and government budget revenue.
Source:	Investment Law 4/93, Art. 7

25 See also www.mozbusiness.gov.mz/index.php/about-cpi.

26 Article 5 defines the national priorities (areas reserved for the public sector), namely:
a) the production of electrical energy for public consumption in accordance with the relevant legislation,
b) the public supply of water for domestic and industrial purposes in urban centres,
c) the operation of postal services and public telecommunications,
d) the development and operation of national parks, both marine and terrestrial, and of other areas under protection by law,
e) the production, distribution and trade of arms and ammunition.

This broad formulation of objectives leaves space for the approval of almost any kind of investment. Fiscal benefits are partly differentiated by sector and geographic area, and on one occasion the CPI supported the creation of the Beluluane Industrial Park in a free zone (see below). Nevertheless, the CPI does not follow any clearly integrated strategy to target specific sectors with growth potential or promote the creation of industrial clusters, for example. Selective industrialpolicy approaches, like the ones discussed in the Industrial Development Strategy above, are mostly unknown to the CPI or are irrelevant in practice.[27] One notable exception is the linkage programme around the MOZAL aluminium smelter that is coordinated by the CPI and the International Finance Corporation, (IFC; see the Case Study in Section 6.2). In general, the CPI works on an ad-hoc basis, trying to attract any kind of investment. One factor that hinders integrated approaches to investment promotion is the lack of public finance for investments in complementary public goods or infrastructure.

Fiscal benefits are regulated in the code of fiscal benefits, which was reformulated in 2009 (Law 4/2009). One objective of the reformulation was to increase Mozambique's fiscal stability and reduce the extraordinary benefits for mega projects. The provisions for fiscal benefits are differentiated by geographical area and sector (see Table A2 in the Annex for an overview of the various fiscal benefits in Law 4/2009). The provisions include incentives for de-concentration: since Maputo has by large received the greatest amount of investments, the Government is now trying to promote investment outside the capital by offering greater fiscal benefits to firms that invest in the 'hinterland'. Basic infrastructure, rural commerce, rural industry and agriculture, manufacturing and tourism, as well as science and technology parks, enjoy special fiscal regimes.

Finally, the law also grants extraordinary fiscal benefits to free zones (Rapid Development Zones, Free Industrial Zones, Special Economic Zones – see Table A2). In 2007, there were 16 free-zone projects in Mozambique (Wide 2010, 22), including the Beluluane Industrial Park outside Maputo (adjacent to MOZAL). So far, there is no evidence that the free zones have contributed to creating agglomeration economies and industrial clusters. Only a few firms have settled in Beluluane, for instance.

5.5 Strategy for improving the business climate

After many years of discussion, studies and pressure from the donors (the IMF, World Bank and bilateral donors), as well as from the private sector (the CTA and others), the Government elaborated a comprehensive strategy for improving the business climate that was approved in 2008 (MIC 2008b). It was personally backed by the President of Mozambique with hearings with the private sector, and discussions in the Council of Ministers. MIC is responsible for coordinating the implementation of the strategy; the implementation plan is part of the public-sector-reform agenda that is supervised by the Comissão Interministerial da Reforma do Sector Público, or CIRESP, that is headed by the Prime Minister – which gives it a relatively high political profile.

The approach is market oriented and inspired by the Doing Business reports of the World Bank Group (see Section 3.3). One Government motivation to implement this strategy was

27 Interview with Nuno Maposse (Table A4).

to raise Mozambique's position in the Doing Business ranking. The strategy is functional (that is, non-specific) in the sense that it does not contain any measures targeted to specific regions or sectors. Its main objective is to level the playing field for businesses in general, and to reduce transaction costs.

The strategy comprises four main lines of action: (i) to cut red tape and deregulate in many areas (import–export, the tax system, inspection, licensing and registering, and labour law); (ii) to reform businesses taxes and ease access to credit; (iii) to improve the energy infrastructure; and (iv) to strengthen property and investors' rights (MIC 2008b). There are important links to the SME strategy presented above. Among the more than 100 specific activities still to be implemented under the SME strategy are the following: creation of a unified, simplified and non-punitive inspection system; simplification of the tax system for SMEs; ongoing implementation and improvement of the programme for the creation of one-stop shops[28] (for an empirical investigation of the effects of Doing-Business-style reform on the formalisation and development of small enterprises in Mozambique, see Krause et al. 2010).

There are several challenges to successfully putting the measures foreseen in the Business Climate Strategy into practice. The low capacity and weakness of the public administration is a handicap for the implementation of legal and regulatory reforms, especially outside Maputo.[29] Another challenge is funding the reform measures: Some reforms are not very cost-intensive (e.g., a new decree that simplifies business registration), while others are (investments in the energy infrastructure). Another major challenge is the coordination and management of cross-sector tasks. Since many of the envisaged reforms concern more than one ministry and there will be winners and losers, success will depend on political will and management to push the reforms. For example, the new inspection system will redirect budgets, authority and manpower away from line ministries: one objective of the reforms is to reduce corruption through a more centralised and transparent inspection system that applies an educational approach (instead of a punitive approach based exclusively on fines). Strong resistance from the line ministries to the reform project was visible early on.

The MIC is currently elaborating an implementation strategy and a monitoring system for the Business Climate Strategy with the help of a donor (see Borowczak 2008/2009). But the coordinating inter-ministerial working group has not been working effectively; its members apparently do not have the necessary support from their line ministries. Rules and means for the private sector to participate in the monitoring and implementation process still need to be developed. Experiences in Government – private-sector dialogue forums, such as the annual private-sector conference and the CTA working groups, have shown that the follow-up of reforms and the attribution of responsibilities are not always successful.

---

28 One-stop shops are government service centres where enterprises can complete different bureaucratic regulatory procedures (e.g., register a business, obtain a license, pay taxes, etc.) at one place.

29 To give just one example: The public administration in the provinces is often not informed about reforms and follows outdated laws and regulations.

5.6 Preliminary conclusions

The major strategy documents presented and discussed above are very recent, so little can be said about their successful implementation and impacts. When judging the strategies on paper, the first thing to note is that there are important lacunae: Despite the factual importance of mega projects, no strategy paper exists about how to use the mega projects to boost broad-based development,[30] and despite the potential acknowledged by experts and the Government, there is also no comprehensive strategy document on the tourism sector (APRM 2009, 165, 170). In addition, concerns about the possible negative impacts of industrial development on environmental sustainability are not addressed in the strategy papers. It should be noted that most strategy papers say little about how to design monitoring and evaluation tools. This means that during the implementation of the respective strategies, 'learning cycles' – which are necessary to achieve a 'welfare-enhancing', 'efficient' and 'up-dated' industrial policy – are not really considered and reflected. A notable exception is the Strategy for Improving the Business Climate, which has a specific monitoring tool that was designed during the implementation. But in all cases, there still is no evaluation of impacts. Finally, the major strategy papers (Industrial Policy, SME Policy and Business Climate) would benefit from a greater elaboration of the link between the policy approaches that are outlined and the overall goal of poverty reduction. This could contribute to raising the awareness of key actors about the crucial role of economic and industrial policies in reducing poverty.

In terms of the mix of selective and non-selective industrialpolicy approaches that the major strategies propose, the balance tends to be in favour of the non-selective approaches. From a historical perspective, this can be explained by the fact that Mozambique did not fare well with its socialist economic policy, which was abandoned in the late 1980s, and that the major donors, who became very influential in the 1990s, were very inspired by the Washington Consensus, and thus reluctant to selective industrialpolicy approaches. Nevertheless, the strategy papers discussed contain important elements of selective approaches – most notably, the Industrial Policy Strategy, and to a lesser extent, the SME Policy Strategy. Some objectives mentioned in this respect are maximization of the value added by promoting sectors that use local resources and labour-intensive technologies (such as the food industry); the promotion of export-oriented SMEs; and the promotion of linkages and cluster creation. However, overall, the strategy papers discussed do not present a coherent picture, do not address some important areas (see above), and lack a clear 'vision' (see also Castel-Branco 2008).

This raises the question about the process of elaboration of these strategies, and their relation to the main industrialpolicy players' interests and economic realities. Given the lack of capacity of the respective ministries and national stakeholders such as business associations, most of the strategy documents were produced with considerable technical assistance by donors (among others, United Nations Industrial Development Organization [UNIDO], the World Bank, the African Development Bank [AfDB], and the GTZ). This fact partially explains their lack of coherence and calls into question the effectiveness of the big efforts of donors and the GOM in terms of harmonisation and coordination (see Section 4.3 above).

30 There is, however, one linkage programme in place that promotes linkages between SMEs and the MOZAL aluminium smelter and other multinational enterprises (see Section 6.2).

More important than the incoherence of the industrial development strategies on paper, is the question whether the actors involved in implementation manage to make good and practical industrial policies to create and coordinate measures and incentives relevant for addressing the economy's structural deficiencies and are effective in promoting productivity, competitiveness, and income generation. In this regard, it can be said that the institutional capacity to design and coordinate such approaches – that typically require cooperation across ministries or sectors and between different government levels, as well as by public and private actors – is generally low. Since colonial times in Mozambique, there has been a marked tendency towards sector and vertical planning, and far less for horizontal coordination and integration.[31] Moreover, the political elite's willingness and incentives to implement welfare-enhancing industrial policies that promote broad-based growth is also in question: at least a part of this elite seems to care primarily about their own business interests; institutions and actors that could check this elite and prevent corruption are weak (see Chapter 4).

These questions related to the implementation and effects of practical selective-industrial policies are analysed in more depth in the following two case studies.

6 Two case studies: the cashew industry and linkages promotion

This chapter describes and assesses in detail the policies and policy management in two cases in which selective industrial policies are applied: the promotion of the cashew industry and the promotion of linkages between the huge aluminium smelter, MOZAL, and local SMEs. The economic challenges, as well as the industrial policy approach, are described for each case. An assessment of the success of the promotional measures and the quality of the industrial policy management follows.

6.1 The promotion of the cashew industry[32]

The promotion of the cashew industry is relevant to this study for the following reasons: first, Mozambique is abundant in both fertile land and rural labour, which is why the agro-industry as a whole is considered a potential growth sector (see Section 3.4). Second, the country has a tradition in raw cashewnut (RCN) production and processing.[33] For a brief period in the 1970s, Mozambique was the world's largest RCN producer and processor. Third, the characteristics of the cashew sector suggest that expansion would lead to broad-based growth since smallholders grow most of the cashew trees: one million peasant families produce RCNs (INCAJU s. a., 3). Moreover, RCNs can be processed into cashew kernels by using a labour-intensive technology. Therefore, expansion of the cashew industry

31 Interview with John Barnes (Table A4).

32 This subchapter is an abridged and revised version of the paper "Industrial Policy in the Cashew Sector in Mozambique" (Krause / Kaufmann 2010).

33 Here 'processing' means the transformation of RCNs into cashew kernels. This basically involves: (i) roasting the RCNs, which is necessary to be able to cut the outer shell; (ii) cutting the outer shells and retrieving the cashew kernels; (iii) peeling away the thin skin around the kernels; and (iv) package ing. For more details see Cramer (1999).

could potentially directly reduce poverty by generating cash income for farmers and also creating a significant number of jobs in processing factories (Benfica / Tschirley / Sambo 2002, 4).

The rest of this case study is organised as follows: first, the specific challenges for the structural transformation of the cashew industry are discussed (6.1.1, which includes a brief review of the recent history of the cashew sector). Then the cashew-policy framework and the industrial policy management are assessed against this background (6.1.2).

6.1.1 Specific challenges to the development of the cashew industry

The current state of the cashew industry

During the last decades, Mozambique's cashew sector was hit by several shocks, including the exodus of the Portuguese entrepreneurial know-how after independence (1975), the civil war (1982–1992), and the rapid liberalisation of the formerly highly protected processing industry in the 1990s. Today, Mozambique's farmers produce just around 33 percent of the historic peak of RCN production, and the domestic processing industry produces just 10 percent of the 1973 historic peak cashew-kernel production (see Box 2 for a historical overview of Mozambique's cashew industry and policy).

Conversely, the world market for cashews has expanded considerably during the last decades. The supply side is dominated by India, Vietnam and Brazil, which combined account for 90 percent of cashew-kernel exports, and Western African countries, which make the bulk of RCN exports (Technoserve, Inc. 2009; EDE Consulting 2005, 13–14). India, the USA and the EU dominate world demand. Because the USA and the EU do not have processing industries to transform RCNs into cashew kernels, they import all the cashew kernels consumed, or 65 percent of world imports (EDE Consulting 2005, 14). India, in contrast, has the world's biggest processing industry and is the world's biggest RCN importer; India's processing capacity doubles domestic RCN production.[34] Indian processors meet their huge domestic demand, and 40 percent of the international demand, for cashew kernels.

Although nowadays Mozambique is an insignificant player in the world market (see Box 2), domestically, the cashew sector is still important: in 2007 an estimated one million farmers were involved in RCN production, with around 6,000 workers employed in approximately 20 processing plants; cashew exports (both RCNs and cashew kernels) yielded a revenue of around USD 35 million (INCAJU 2008b), equivalent to about 2 percent of the country's export revenue, making cashews the sixth most important export good after aluminium at 61 percent (electricity is 7 percent; prawns, 6 percent; tobacco and sugar, 3 percent each; Condon / Stern 2009).

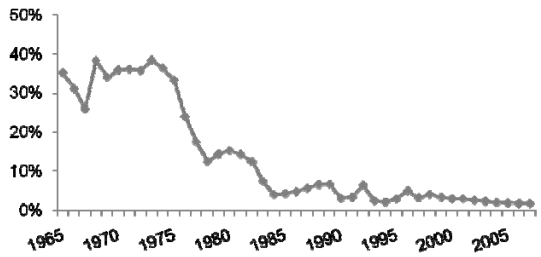
34 India's processing capacity is 1.2 million-metric tons of RCNs, equivalent to roughly 300,000 metric tons of cashew kernels (The Hindu Business Line 2009).

Box 2: The history of Mozambique's cashew industry and policy

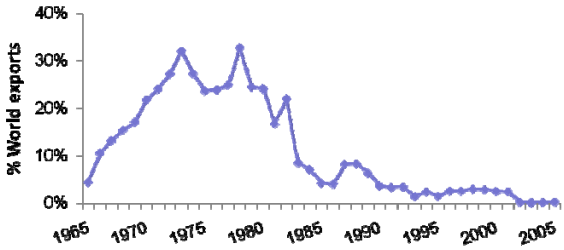
In the 1970s, Mozambique was the world's largest cashew producer, producing 40 percent of the world's RCNs and providing 30 percent of the world's cashew-kernel exports (see charts below). According to McMillan, Rodrik and Welch (2002, Annex), RCN production peaked in 1973 with 240,000 metric tonnes, of which around 210,000 tonnes were processed inside the country in big mechanised factories. Around that period, RCN production involved millions of peasant growers, the processing industry employed more than 10,000 workers (making it the fourth largest employer after railways, sugar, and textiles; Hanlon 2000, 29), and cashew products represented 21.3 percent of Mozambique's total exports (Leite 1999, 3). Today, Mozambique is a small player in the world cashew market. Global RCN production (3.2 million metric tonnes in 2007; Technoserve, Inc. 2009) has expanded rapidly over the last two decades, thanks to dramatic production increases in Vietnam and Western African countries, while Mozambique's production has declined to 78,000 metric tonnes (the yearly average from 2006 to 2008) – which is just about 33 percent of the 1973 production. The volume of RCNs processed domestically has declined to 22,000 metric tonnes, around 10 percent of the volume processed in 1973 (our calculation based on INCAJU 2008b, 12).

Mozambique

Share of World RCN Production



Share of World Cashew-Kernel Exports



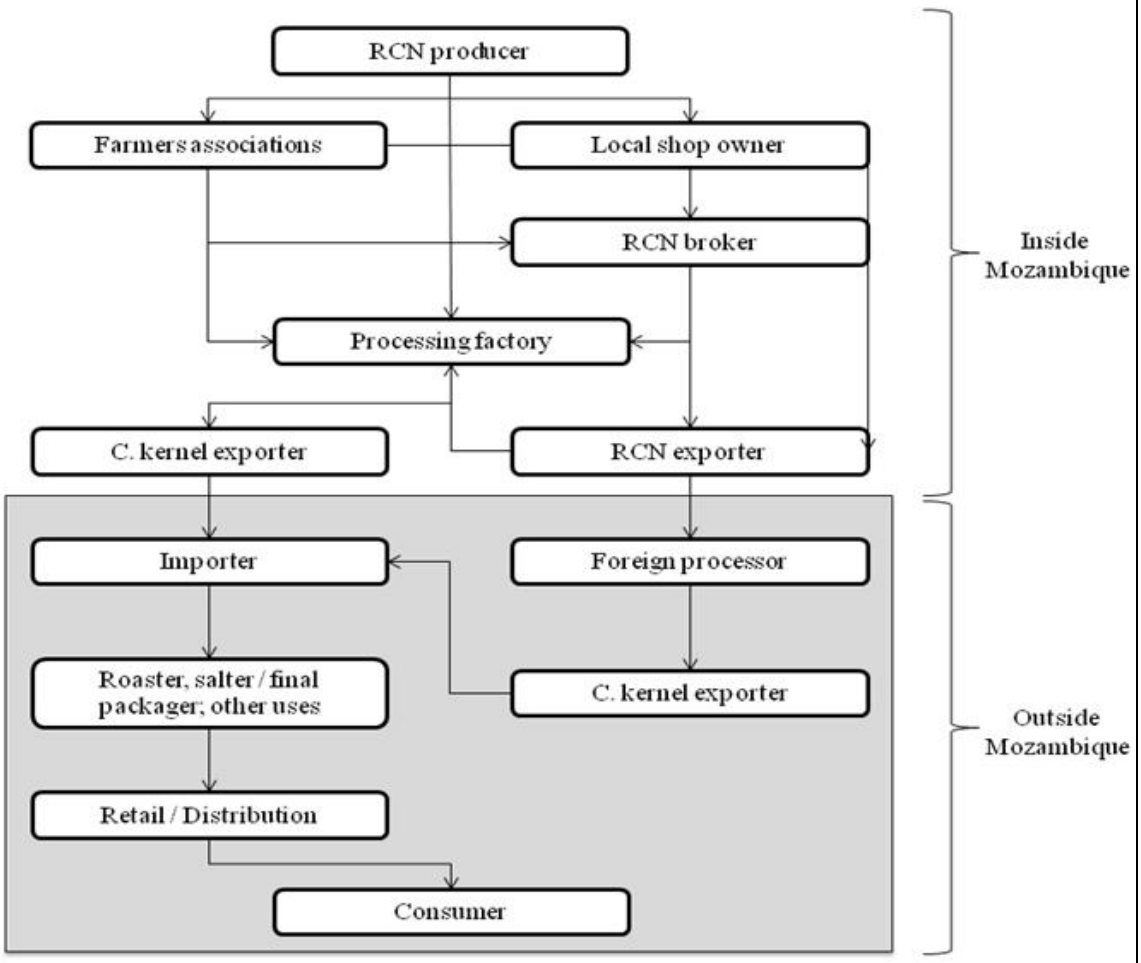
Source: Technoserve, Inc. (2009)

Mozambique achieved its dominant market position in the 1970s because of an industrial policy of the colonial Portuguese government that 'stimulated' – through obligation – the replanting of cashew trees and small farmers' output (Technoserve, Inc. 2009); developed a mechanised national processing industry using tariffs to protect it from Indian processors; and regulated producer prices and margins throughout the cashew marketing chain (Leite 1999, 3; McMillan / Rodrik / Welch 2002, 4–5). After independence, the cashew industry declined because of the exodus of Portuguese managerial know-how and the adoption of central-planning-like policies. This situation was exacerbated by the civil war that caused the destruction of infrastructure facilities and a subsequent lack of reinvestments (INCAJU 2008a).

From the late 1980s on, Mozambique gained access to external finance through the Bretton Woods Institutions, which in turn meant that economic policy – including its cashew policy – began to be dominated by a 'structural adjustment philosophy'. Under pressure from the World Bank (Hanlon 2000, 36), the Government dismantled the protections for the cashew processing industry. It lifted the ban on RCN exports that had been introduced in 1978, and substituted for it a tax on RCN exports that was stepwise reduced from 60 percent in 1991 to 14 percent in 1996–1997 (McMillan / Rodrik / Welch 2002, 6). Along with these trade reforms, in 1991 privatisation was begun. By 1994 all formerly State-owned processing plants had been sold to private investors. One consequence of the RCN trade liberalisation was the almost complete collapse of the privatised national processing industry, meaning a loss of around 8,000 jobs according to McMillan / Rodrik / Welch (2002, 22–23) or even 10,000 jobs, according to Hanlon and Smart (2008, 39). For farmers, liberalisation had a positive effect since it increased the farm-gate price for RCNs, and RCN traders were able to increase their mark-up. McMillan / Rodrik / Welch (2002, 1–3) estimate that on balance the reforms' efficiency gains were insignificant and the increase in income for farmers (USD 5.30 per year per household) very modest.

In reaction to the downturn of the processing industry, in 1999 the Mozambican Congress passed a law protecting the domestic processing industry with an export tax on RCNs (to be levied at between 18 and 22 percent). Moreover, the law established that the funds raised through the export tax should be used to cover the expenses of the National Institute for Cashew Promotion (INCAJU, created in 1997), which is mandated to promote RCN production and processing.

Figure 3: The cashew value chain



Source: Technoserve Inc. (2009)

Figure 3 shows the international cashew value chain. The stages: (i) RCN production; (ii) processing (the transformation of RCNs into cashew kernels): as well as (iii) domestic trade and export of RCNs and cashew kernels, take place in Mozambique. In the course of rebuilding the processing industry after its near collapse in 2001, labour-intensive Indian technology was introduced in Mozambique that uses manually operated devices to cut the outer shells of the RCNs. Apart from a small volume that is produced for the domestic final-consumer market, the processing that takes place in Mozambique excludes the final processing stage (roasting, salting, and final packaging of cashew kernels). Nevertheless, the last two stages of (a) roasting/salting/final packaging and (b) retail/distribution – that are dominated by American, European, and Indian firms – make up as much as 80 percent of the final consumer price for whole cashew kernels, whereas the earlier stages account for merely 20 percent (Technoserve, Inc. 2009; Francisco / Barrenho 2008, 7–8). One characteristic feature of the cashew value chain is that it is hardly vertically integrated (Cramer 1999, 1256).

The challenges

The challenges to structural transformation of the cashew sector depend on the desired developmental goals. From the available strategic documents (INCAJU 2008a; 2008b) and

the cashew- policy framework itself (see below), it's clear that the Government's goals are to promote productivity, jobs and income relying on the development of the domestic processing industry as one centrepiece of the strategy (an alternative approach would be to promote RCN production relying on RCN exports alone). This approach of extending the domestic value chain[35] is coherent with the objectives stated in PARPA II (to promote the expansion of agro-industrial and labour-intensive manufacturing activities; República de Moçambique 2006a, 34–35) and the Industrial Policy Strategy (to focus on areas with major economic and social impacts, such as the food-processing industry; República de Moçambique 2007a, 4 – for more details, see Chapter 5).

Since the domestic market for cashew kernels is negligible, this strategy can only succeed if the Mozambican processing industry is able to compete in the world market and penetrate large, open export-consumer markets (those of the USA and the EU being the most important).[36] This implies various challenges along the cashew value chain concerning the upstream stages, the processing stage itself, as well as the downstream stages:

The upstream stages

Here, the crucial issue from the processing industry's point of view is to source RCNs in sufficient quality and quantity at a competitive price. In Mozambique, however, there are problems with both quality and quantity. The outturn (pounds of sellable kernels per 80 kg bag of RCNs) in Mozambique is low (42 to 46) compared with the world's leading producers (India and Vietnam: 50 to 56; Francisco / Barrenho 2008, 48). The low average quality of RCNs partly has to do with poor post-harvesting handling, but mostly with low-tech farming practices. RCN production levels have stagnated lasting recent years. This is due to several factors: the cashew orchard has high percentages of old trees and trees plagued with diseases and pests. Small farmers produce almost all[37] of Mozambique's RCNs. Many of these small farmers just 'collect' RCNs instead of actively 'farming' (planting, pruning, spraying and spreading manure), which results in very low productivity per tree (2 to 4 kg RCNs – less than half of the attainable levels of 8 to 10 kg; INCAJU s. a., 6; Technoserve, Inc. 2009). Consequently, the challenges consist of investing in replanting cashew trees and maintaining them to increase productivity, as well as in improving post-harvesting handling.

A further problem for the processing industry is to manage to buy RCNs on the market at competitive prices. Although the 18 percent export tax on RCNs (see more on the export tax below) gives the domestic processing industry a competitive edge, it has to compete with big traders who mainly export RCNs to India. These RCN traders possess a dense net of well-established rural trading posts.[38] One challenge for processors lies in building reliable supply networks and trusty trade relations with RCN brokers or farmers' associa-

35 More precisely, preserving the extension of the domestic value chain that had existed since the 1970s.
36 India also has a huge consumer market for cashew kernels. However, it is highly protected against cashew-kernel imports.
37 According to a source cited by Francisco / Barrenho (2008, 48) as much as 98 percent of RCNs are produced by small farmers.
38 Insight gained in an interview with Yunuss A. Gafar (Table A4).

tions.[39] (From the processing industry's point of view, the alternatives are to invest either in contract farming schemes or in their own cashew plantations. Benfica / Tschirley / Sambo 2002 conclude that the prospects for the former's success are poor due to a high risk of default[40], and that the latter is not desirable from a povertyreduction perspective.) The other challenge for the processing industry consists in getting sufficient short-term capital at affordable interest rates to finance RCN purchases during the harvesting season.

The processing stage

Access to short-term credit in sufficient quantity and at affordable interest rates is probably one of the processors' most important challenges, since the working-capital requirements for buying RCNs are extremely high (typically between USD 0.5 and 2.5 million, depending on the processing capacity). Compared with RCN traders and Indian processors, Mozambican processors are at a competitive disadvantage because they have to commit more working capital: They buy the whole stock during the Mozambican harvesting season and transform it into sales revenue spread throughout the year. In contrast, traders do not need to keep their stock for such a long period, and Indian processors manage to shorten stock-keeping by sourcing from several regions of the world with different harvesting seasons. Moreover, Mozambican processors typically depend on the poorly developed domestic banking sector to arrange for credit, whereas RCN traders enjoy access to commercial credit from their Indian trade partners[41] and Indian processors have access to a well-developed financial sector and a dense net of trading partners.

Another challenge is the low productivity of Mozambican workers. This is partly due to high rates of absenteeism, which in many cases is caused by malaria (Technoserve, Inc. 2009). According to one factory owner, absenteeism is around 30 percent[42]; according to Francisco / Barrenho (2008, 66) it is as much as 50 percent. One factory owner reported that because of low labour productivity, he was starting to mechanise. An additional challenge to factories' competitiveness is the relatively rigid labour legislation.[43] Finally, weaknesses in the business environment such as poor transport, water and communications infrastructures, tend to increase production costs.

The downstream stages

The international trading environment for cashew kernels is highly imperfect. According to Cramer (1999, 1255) the competitive assets of successful exporting firms are quality standards and management, market and technical information, as well as established input supplies and final output-buyer networks. A precondition for supplying the high-end con-

39 In recent years, more and more farmers' associations have emerged (in many cases with the support of development cooperation), but they are still not widespread and typically have weak institutional capacities. Interview with Martin Mason (Table A4) and with representatives from the Fórum Naihava, a union of various farmers' associations in the district of Mogovolas, province of Nampula (Table A4). Cf. also Francisco / Barrenho (2008, 47) and Hanlon / Smart (2008, Chapter 3).

40 Farmers can always sell their production to RCN exporters if they offer better prices than the processors.

41 The trade relations between Mozambique-based RCN traders and Indian traders are reinforced by ethnic ties.

42 Interview with Felipe Miranda (Table A4).

43 On this topic, cf. also Krause et al. (2010, 98).

sumer markets in the USA and the EU is to build trustful relations with the huge output buyers that command the supply of retail markets, and to invest in quality management so as to comply with the high standards of product quality and quantity, timing and reliability that these buyers demand. With international development cooperation support, a group of Northern Mozambican processors founded a jointly owned export-service company, Agro Industrias Associadas (AIA), and have been successful in penetrating this high-end market through a cashew-kernel broker based in the Netherlands (Technoserve, Inc, 2009). Despite this success, other processors still do not enjoy well-established quality management systems and final output-buyer networks. An alternative, or complementary, final consumer market to be explored is South Africa, which imports cashew kernels in significant quantities. Mozambican exports enjoy duty-free access to the South African market. Nevertheless, just as for Europe and the USA, good buyer relations have to be built up, and the required quality standards have to be met, in order to take advantage of this potential market.

Moreover, at least theoretically, there is potential to further enlarge the domestic-cashew value chain. Given the significant value added in the final processing (roasting/flavouring) and packaging stage, this market is attractive to the Mozambican cashew industry. However, this market has even higher entry barriers (additional standards like food safety and hygiene standards, timing, sales management).

6.1.2 Assessment of the cashew policy and the industrial policy management

The cashew policy framework and its main actors

The GOM's current cashew-policy framework can be characterized by the following measures at the macro (a) and meso levels (b and c) (INCAJU 2008a):

a. An export tax of 18 to 22 percent on the FOB export price of RCNs (currently 18 percent), with tax revenues used to finance the promotion activities mentioned below

b. Promotion of RCN production: research, nurseries for improved varieties, pests and disease management and extension services (80 percent of export-tax revenues)

c. Promotion of the cashew processing industry: credit guarantees (20 percent of export-tax revenue), as well as business and technical advisory services.

From a formal perspective, the National Institute for Cashew Promotion (INCAJU) is the key cashew-strategy actor, since it is responsible for designing, monitoring and, in some cases, implementing the promotional activities. INCAJU, which depends on the Ministry of Agriculture, was created in 1997 and has its own legal identity and budget.[44] The strategy for the promotional activities was set out in a master plan for the period from 2000 to 2005. By August 2009, this master plan had not yet been actualised, which means that INCAJU's recent work has been based on an outdated strategy.[45] Further Government ac-

44 See also the institutional information on INCAJU's website: http://www.incaju.gov.mz.
45 Information gained in interviews with Jake Walter and Raimundo Matule (Table A4).

tors involved in cashew-policy making are the Ministry of Agriculture and the MIC (the latter only concerning the export tax).

Donors play an important role in supporting the promotion of the cashew industry through technical and financial assistance, the most important being United States Agency for International Development (USAID), the African Development Bank, the EU, and the Swiss, Dutch, and French Cooperations.[46] Important NGOs, consulting firms and banks that are engaged in promotional activities include Technoserve, Inc., GAPI (a business and financial services provider), CLUSA (an NGO that promotes farmers' associations and provides extension services), and BCI Fomento (one of Mozambique's major commercial banks that implements two subsidised credit lines for processors, see below). Another organisation worth mentioning is the AICAJU, the national association of the Mozambican cashew processors and traders, which mainly engages in lobbying. (Smallholding cashew farmers lack a significant lobbying organisation.)

With regard to the promotional activities aiming at the **RCN production stage**, research is conducted by the Mozambican Institute for Agricultural Research (IIAM), which has focused on growing improved varieties of cashew trees (with increased tolerance of pests and diseases and precocious production) and has certified several clones for replanting and propagation. INCAJU, with its own staff and facilities, grows seedlings of the improved varieties in several nurseries located in the main cashew-producing regions and distributes them to farmers. Seedlings are sold at cost price, and smallholders and farmers associations enjoy special discounts. Moreover, INCAJU sponsors a subsidised spraying scheme of self-employed small operators and service providers who charge a fee to farmers for spraying their cashew trees.

There are also a series of donor-financed activities underway, mainly carried out by NGOs such as the Cooperated League of the United States of America (CLUSA), which include extension services and technical assistance for cashew farmers, especially with respect to the promotion of farmers' associations. Some of these approaches – such as those of CLUSA and GAPI – have been inspired by a value-chain perspective that seeks to strengthen linkages between farmers, traders and processors.

With regard to promotional activities targeting the **cashew processing stage**, two credit lines are available for processors, both offered by BCI Fomento. The first credit line, guaranteed by INCAJU, is for long-term investment in fixed assets such as land, buildings and machinery. In 2007, a total of USD 1 million was disbursed under this credit line (INCAJU 2008a, 19); the overall default rate since the creation of the credit line is 15 percent. The second credit line, with annual disbursements of USD 10 to 12 million, is guaranteed by USAID. It aims at providing much-needed working-capital financing for processors during the harvesting season. This credit line has shown a default rate of 3 percent since its creation in 2003.[47]

46 According to information obtained in an interview with Carlos Costa (see Table A4), aid for the cashew sector in recent years totalled ca. USD 250 to 300 million.

47 Information on the default rates (as of 2009) was obtained in an interview with a representative from BCI Fomento who is not listed in Table A4 for reasons of confidentiality.

There have also been a series of programmes, mainly financed by donors (USAID and the Dutch and Swiss Cooperations, among others), that aim at rebuilding the processing industry after its almost complete collapse around 2001. Technoserve, Inc. (and to a lesser degree, GAPI) played major roles in designing and implementing these programmes by engaging in processor start-up assistance and finance, business and management training, definition and establishment of industry standards, Government lobbying, institutional support (for example, with respect to the creation of the export-service company AIA) and attempts to link processing to RCN production (Technoserve Inc. 2009; Simonetti / Wuyts / Wuyts-Fivawo 2007). Technoserve, Inc. also provided the GOM with strategic policy advice and advocated for the introduction of the labour-intensive Indian processing technology in Mozambique.

An assessment of the cashew strategy and the industrial policy management

The cashew strategy

Is the GOM's cashew-policy framework successful at creating jobs and income for farmers, workers and factories, promoting the expansion of the processing industry, and addressing and overcoming the main challenges outlined above? When Mozambique's present production and job figures are compared with the historical peak in the mid 1970s, or with the figures of today's leading cashew producers (see Section 6.1.1), it appears that the cashew strategy is not successful. The picture changes when the year 2001, which coincides with the almost complete collapse of the processing industry, is used as the benchmark. Technoserve, Inc. (2009) provides an analysis of the economic impact[48] of the redevelopment of the processing industry at several stages of the cashew value chain for the period from 2001 to 2008. The study concludes that this redevelopment has had a positive net-economic impact. The growth of the processing industry in this period (from one factory in 2001 to 16 factories in 2008) implies net economic benefits for the processing firms (profits), for the workers employed in the factories (wage income), for the RCN-producing farmers (through higher demand for RCNs, which resulted in higher farm-gate prices), and for local communities (as a result of the cash income generated by farmers and workers). It has implied net losses for RNC traders (slimmer spread of farm-gate and export prices due to competition from processing factories) and for the Government (foregone tax income because of a decrease in RCN exports). Nevertheless, according to the study, the net effect is positive (USD 4 million for the period from 2001 to 2008; Technoserve Inc. 2009, 62).

Another way of assessing the cashew-policy framework is to analyse whether or not it addresses the main challenges outlined in Section 6.1.1 and helps tackle them. In general, the framework does address several of the challenges, for example, those regarding replanting and intensification of maintenance, or the provision of working-capital financing for processors. Another question, however, is if cashew policies effectively tackle these challenges. This is assessed below.[49]

48 The study is limited to the private economic benefits and losses and does not consider social benefits and losses, such as the price effect of the RCN export tax, the cost of the promotion activities themselves etc.

49 Based on interviews and in the literature cited.

Given the high entry barriers to the consumer markets of the EU and the USA, the establishment of the AIA export-service company, the introduction of the cashew-kernel brand 'Zambique' (owned by AIA), the introduction of quality standards for producing and handling cashew kernels, and the establishment of stable buyer relations with a broker based in Rotterdam can be considered a success. Donor-financed technical assistance has contributed to these achievements, whereas the involvement of INCAJU and other Government agencies in these activities was rather marginal.

The effectiveness of the financial services provided to processors can be assessed as 'mixed'. The credit line guaranteed by INCAJU to provide investment financing has repayment problems. According to several interview partners, one reason for this is that in several cases INCAJU has intervened so that loans were assigned according to political and not technical criteria. The other, much bigger credit line guaranteed by USAID that is intended to finance working capital, shows no significant repayment problems. Nevertheless, two interview partners stated that despite the latter credit line, processors enjoy less favourable financing conditions than some RCN traders and exporters, a factor that constituted an unfair competitive disadvantage. They claimed that, in addition to the RCN traders' and exporters' advantages mentioned in Section 6.1.1 (challenges to the processing stage), there was a scheme of illegal RCN exports to India that evaded the export tax and foreign exchange control, which in turn was linked to illegal imports of consumer goods from India (evading the import tax and the value-added tax – VAT), as well as to illegal exports of the national currency.[50] Such a scheme would give the traders and exporters involved access to foreign exchange and to commercial credit at much more favourable rates than the ones offered by the special credit line for Mozambican processors.

One important challenge, the low productivity of workers, is not addressed in the cashew-policy framework. Important issues here are training and alphabetisation of workers as well as improvements of the rural health care services. Schooling, training and health care services attached to processing factories could play an important role for improving the situation.

Despite the big efforts made and the substantial resources invested by INCAJU in seedling production, replanting and maintenance of trees as well as in disease control and extension services (INCAJU 2008a), the measures aiming at increasing RCN production and RCN-farming productivity have not been effective. This is not to deny partial achievements, such as IIAM's successful growing of improved varieties, but the bottom line is that RCN production in Mozambique has been stagnating for years (Technoserve, Inc. 2009, 80). This means that assuming RCN exporters are able to maintain their market share, the growth of Mozambican processors is constrained by the scarcity of domestic RCNs.

A major bottleneck is the distribution and successful replanting of the seedlings grown in INCAJU-managed nurseries: only a small share of the seedlings grown is successfully replanted and survives the first few years (here logistics and timing/coordination with the rainy season, as well as know-how and maintenance, are key). The problem is compounded by the factors of a poor rural-transport infrastructure and a farm structure that is

50 Information from two interview partners is not listed in Table A4 for confidentiality reasons. However, this information has been cross-checked and confirmed with other interviewees. Regarding the evasion of the export tax and the involvement of customs authorities, see also Maculuve (2006).

characterized by an abundance of dispersed smallholders engaged in subsistence farming and a scarcity of productive associations or commercial farmers. Moreover, according to some interview partners, the INCAJU management has used seedling distribution to farmers to gain political support for FRELIMO several times, particularly before elections, without regard for the negative impacts on the effectiveness of replanting measures.[51] Consequently, Technoserve, Inc. (2009) recommends that replanting schemes should be led by the private sector. This would probably result in more targeted replanting efforts near existing processing factories, in collaboration with farmers' associations or commercial farmers. Individual commercial farmers as well as farmers' associations can play important roles as multipliers of knowledge and best-farming practices, and help to increase RCN producers' bargaining power and create linkages with traders and processors.[52]

Still other factors hamper investments in farming and replanting: In general, the investment climate for farming is poor, in particular in what refers to the difficult access to, and the insecurity of, land and property rights, the widespread theft of RCNs (particularly when grown in plantations), the lack of rural credit, and poor transport and irrigation infrastructure (see also Section 3.4). It is difficult to imagine that many effective farmers' associations and commercial farmers will be able to develop without an improvement in the investment climate for farming activities.

Finally, the export tax has an ambiguous effect. While it gives Mozambican processors – as compared with RCN exporters – a competitive edge, for farmers, it also means a loss of income because it reduces farm-gate prices and constitutes a disincentive for investing in RCN farming. From a welfare perspective, this can only be justified if the benefits associated with cashew processing exceed the losses that accrue to farmers.[53] In any case, as the processing industry grows in competiveness, the Government should gradually reduce the tax so as to reduce the burden on smallholders. Alternatively, the tax should be abolished right away and a substitution found for less distortive promotional measures.

Industrial policy management

Overall the GOM's capability in industrial policy management with regard to cashew promotion is judged as weak.

First, it is striking to note that the GOM, mainly through INCAJU, has been less involved in the more successful promotional activities – for instance, those related to promoting downstream linkages, which have been basically donor-driven – and more involved in the less successful, such as the promotion of investment financing for processors and RCN production.

Second, INCAJU does not possess the intellectual leadership as far as cashew policies in Mozambique are concerned. Instead, intellectual leaders are the specialized business-

51 I.e. factors like coordination with the rainy season and capacity of farmers to replant seedlings successfully were disregarded.

52 Effective farmers' associations or commercial farmers are, however, scarce (see above), which means that in many cases, associations and farmers will need assistance to become effective.

53 McMillan / Rodrik / Welch (2002) assess the welfare effect of the liberalisation of the cashew sector in the 1990s, and conclude that positive and negative effects more or less outweighed each other. See also Box 2.

services providers such as Technoserve, Inc. and GAPI. Moreover, INCAJU does not appear to have a clear strategic vision for the cashew sector, as is illustrated by the fact that in August 2009, the GOM was still working with the old 2000 to 2005 Master Plan, and had not managed to update its strategy.

Third, the way seedling distribution is managed indicates that INCAJU has been partially directed by FRELIMO party interests, and that some of the promotional activities follow political rather than technical rationales. This is corroborated by the fact that some interview partners perceive INCAJU's top management as politicized and driven by party interests.[54]

Fourth, indications were given in interviews that there is a scheme of RCN export-tax evasion and of illegal exports of the national currency that damages the competitiveness of the domestic-processing industry and lowers tax revenues. It is inconceivable that such a scheme could operate without being backed by powerful actors from the political elite.[55] This means that the Government's official cashew-promotion policy seems to be undermined by corrupt activities apparently backed by the political elite.

Fifth, the GOM shows weaknesses in coordinating the policies that affect the cashew value chain (which often involve sub-national levels of government) and in establishing effective platforms to engage with industry representatives. For example, the Government undertakes hardly any coordinated efforts to improve the local investment climate for cashew farming and processing (health care, training and education, access to land-use rights, local infrastructure, etc.). Although INCAJU facilitates a cashew-policy dialogue with the processing industry that is represented by AICAJU and other important stakeholders like the cashew-workers union and farmers' representatives, interview partners from the processing industry maintain that tangible results from these policy dialogues have been scant (in one case, it was not possible to improve enforcement of the RCN export tax).

Sixth, concerning monitoring and evaluation, and the availability of transparent information in this regard, the publicly available reports of INCAJU on this matter (INCAJU 2008b; INCAJU s. a.) inform about outputs and activities – but not impacts. Public information on the performance of the guarantee fund backed by INCAJU is scarce or non-existent.

6.2 The promotion of linkages between FDI and local SMEs: the MOZAL case

As concluded in Section 3.5, one of the Mozambican economy's major problems is that there are hardly any businesses that succeed in supplying high-value (foreign) markets. Therefore, one conceivable industrial-development strategy would be to use FDI to attract the capital and know-how necessary to build competitive firms and to maximise knowledge spillovers, as well as job and income generation, through promoting linkages between foreign firms and local SMEs. In Chapter 5, the review of the major strategy documents showed that despite having investment promotion, SME policy and industrial policy

54 However, other interview partners assessed the work of INCAJU more positively.
55 On this topic see also Maculuve (2006).

strategy in place, none of these documents provides clear strategic guidance on how to use the mega projects to maximise the desirable development effects.

A member of the group of least-developed countries, Mozambique has become a major recipient of FDI in recent years (Robbins / Lebani / Rogan 2008, 20). FDI has mainly taken the form of large capital-intensive mega projects in the mining and energy sector, which limits the potential to create positive development effects on the local economy through linkages with SMEs. This section reviews and assesses the practical experience with linkage promotion around FDI projects in the mining and energy sector, based on a programme that promotes linkages between Mozambique's largest and oldest mega project, the MOZAL aluminium smelter located near Maputo, and local SMEs.

6.2.1 Specific challenges and promotional measures

In the context of linkage promotion around a huge FDI project like MOZAL, there are two consecutive steps to the challenges and promotion measures: first, the attraction of FDI itself, and second, the creation of linkages with local SMEs. Although this case study emphasises the second step, the first is also briefly addressed.

Attracting FDI

As pointed out in Section 3.2, the MOZAL aluminium smelter-investment project on the outskirts of Maputo, which was started in 1998, was the first massive FDI project after the civil war and can be considered the showcase that brought Mozambique back on the international investors' radar and *"led the Wall Street Journal to declare the country 'an African success story'"* (APRM 2009, 163). The smelter – which transforms alumina into aluminium ingots – was built in two phases: the core smelter, MOZAL I, was completed in 1998, and the MOZAL II expansion in 2001. It involved an investment of about USD 2.4 billion, of which the IFC provided USD 133 million. MOZAL generates 42 percent of Mozambique's export revenues, which have increased the country's GDP by between 3.2 and 5 percent. MOZAL is owned by: BHP-Billiton (66 percent), the South African Industrial Development Corporation (20 percent), Mitsubishi (12 percent) and the GOM (2 percent) (APRM 2009, 163–164; IFC 2004, 61). The investment project included not just the plant itself but also a substantial upgrading of infrastructure (roads, telecommunications, electricity, water and sewerage, and harbour; Thomas 2005, 7).

The biggest challenges to attracting such massive investment were the generally poor investment climate in Mozambique (see Section 3.3) and the low investor confidence in the mid-1990s, since there was no precedent for such a huge investment project. The Government strategy to deal with these challenges involved two main packages of measures:

- Huge fiscal benefits: MOZAL enjoys a series of extremely generous[56] tax benefits, including those codified in the Free Industrial Zone Legislation, approved in 1997 just before the start of the project. MOZAL has been granted tax exemptions for 50 years (!), including exemptions on paying duties on imports and value-added tax, as well as the limitation of corporate taxes to one percent of sales, which means that

56 "The most generous in Africa", according to a government official cited by APRM (2009, 163).

Government revenues from the project are very modest (APRM 2009, 164; see also Hartley / Otto 2008).

- Preferential treatment: In the Government agencies involved with the project, special task forces were created to coordinate the necessary permits and licenses, and additional bureaucratic acts and non-standard procedures were applied to provide these Government services to compensate for the weak capacity of the public administration and the cumbersome standard procedures.

Linkage promotion

Although, as pointed out above, with the attraction of mega projects like MOZAL the GOM did not follow a clear strategy that would promote FDI so as to maximise positive economic impacts on the local economy,[57] in 1997 the Government – with support from the World Bank Group – did conceive a plan to promote linkages between transnational corporations and local SMEs so as to increase the benefits from FDI projects (Robbins / Lebani / Rogan 2008, 22–23). MOZAL was the first, and continues to be by far the most important, case in which this concept was applied. The motivations for MOZAL to participate in a linkage-promotion project *"were largely the Public Relations benefits of engaging with the local economy and the potential for increased flexibility in terms of delivery times and sustainability gained from contracting locally"* (Robbins / Lebani / Rogan 2008, 25). The linkage-promotion project designed and implemented by the Mozambican investment promotion agency, CPI, and the IFC in partnership with MOZAL, was started in 2001 at the time of constructing the smelter expansion, MOZAL II.

The facilitation of supply relations and other linkages between MOZAL and local SMEs encountered numerous challenges. This was evidenced by the fact that in 1998, during the construction phase of MOZAL I, participation by Mozambican firms was minimal. As described in Section 3.3, Mozambique's economy is characterised by a low level of intra- and inter-firm linkages and a low level of technological development of businesses, including low quality management (República de Moçambique 2007b). In particular, the domestic metalworking market was and still is marked by a very thin and dispersed industrial base of formal enterprises, which makes generation of industrial linkage extremely difficult. Moreover, the poor business environment, including difficult access to finance, as well as the strong competition from informal businesses and foreign imports leaves room for only a very few, competitive, formal SMEs to qualify as business partners for MOZAL (Warren-Rodriguez 2008, 20). A CPI study in preparation for the linkage promotional activities that screened 370 firms to analyse if they could upgrade to meet MOZAL standards showed that *"99% had serious problems with product quality; 95% did not have the required profile, experience and portfolio of projects; 92% operated with old, worn-out and outdated equipment and technology; 90% suffered from serious management deficiencies and inadequate financial structure and capabilities; and 85% had serious deficiencies with respect to marketing capabilities and business attitude"* (Castel-Branco and Goldin 2003, 24). A further challenge was that the standard contracts that MOZAL offered were far too large to be carried out by Mozambican SMEs (Robbins / Lebani / Rogan 2008, 28).

57 E.g., by encouraging particularly labour-intensive FDI projects or FDI projects with marked local backward and forward linkages.

The linkage programme involved three phases: SMEELP (SME Empowerment Linkages Program), initiated in 2001; Mozlink I, initiated in 2003; and Mozlink II, initiated in 2007 (Robbins / Lebani / Rogan 2008, 22–25; USAID 2009, 4; IFC 2004, 61; Jaspers / Mehta 2007, 8–11):

- SMEELP was sponsored and implemented by MOZAL, the CPI and the IFC. Its main objective was to help local firms win contracts for the construction phase of the MOZAL plant expansion. The measures involved the redesign and unbundling of large contracts into smaller ones; reformulation of procurement standards in order to allow local firms to comply with standards; creation of a firm database and screening of firms regarding their potential to do business with MOZAL; facilitation of access to, and exchange of, information; training of high-potential SMEs prior to bidding; and mentoring SMEs who won contracts. Capacity-building measures were mainly delivered through matching grants.
- Mozlink I was set up to replicate the results achieved through SMEELP and to expand linkages between MOZAL and local SMEs to the smelter's operational phase. Beyond the activities included in SMEELP, the measures encompassed the promotion of additional businessdevelopment and financial services: local consultants were trained in the technical areas in which SMEs needed capacity building in order to do business with MOZAL, and specific financing products for SMEs were developed by banks and financial institutions.
- Mozlink II was the continuation of Mozlink I. The programme was expanded to include further transnational companies: Coca-Cola, Sasol (gas) and Cervejas de Moçambique (the country's largest beer brewery).

The linkage programme was complemented in 2005 with the opening of the 660-hectare Beluluane Industrial Park adjacent to the MOZAL smelter. The park, which is a CPI initiative and enjoys 'Industrial Free Zone' status, was created to support an industrial cluster around MOZAL (Robbins / Lebani / Rogan 2008, 22). It is a rare – and perhaps the only – example in Mozambique, where both land and infrastructure were prepared in order to offer firms particularly attractive investment conditions.

6.2.2 Assessment of promotional measures and industrial policy management

Promotional measures

Our assessment of the linkage promotion programme (SMEELP and Mozlink I phases)[58] concludes that measures for upgrading the technological and business skills of the participating Mozambican SMEs and in establishing business relations between them and MOZAL have been successful, but that these effects have been quite limited in number and scope, as well as in structure. The results are limited to the creation of a small market niche for local firms that depend almost completely on MOZAL and have not contributed to the development of an industrial cluster of innovative SMEs.[59] This argument is developed in more detail below.

58 To date, only assessments of the first two programme phases are available.

59 Cf. also Castel-Branco (2004); Castel-Branco / Goldin (2003); APRM (2009, 163–65); Warren-Rodriguez (2008, 20–21); Robbins / Lebani / Rogan (2008); IFC (2006, 4).

Under SMEELP, 16 SMEs were trained and awarded 28 contracts worth a total of over USD 5 million (USAID 2009, 4). Mozlink I built up the capacities of 45 SMEs, all of which were awarded contracts, and contributed to increasing MOZAL's contracts with local firms: *"Annual local purchasing from MozLink-affiliated companies increased from US$ 5 million in 2001 to US $13 million in 2005"* (Jaspers / Mehta 2007, 11; it must be noted that MOZAL's total annual purchasing from Mozambican firms including non-Mozlink-affiliated and big companies is far greater, amounting to some USD 180 million, of which alone USD 96 million correspond to electricity and water; Macamo 2009). The SME's that were trained have improved their skills in important areas such as quality, management, maintenance and safety, and a small network of 15 SMEs has been built to foster the exchange of information and mutual learning (Robbins / Lebani / Rogan 2008, 25).

Given the challenges to contracting with local SMEs described above, the results are noteworthy, but still limited. This assessment is corroborated by an evaluation of the SMEELP and Mozlink I phases summarised in IFC (2006, 4): *"The small number of participants and the fact that in some cases the same firm provided an increasing variety of goods and services suggests that the program focused on helping a small number of favoured suppliers rather than developing the capacity of more local SMEs to supply large firms"*. Furthermore, as reported in Section 5.4, the impact of Beluluane Industrial Park also appears to have been limited since no industrial cluster has developed and only a modest number of firms have been attracted.

Another limitation of the programme is that basically only backward linkages were established – and no significant forward linkages. This has to do with the fact that Mozambican firms have not yet acquired the technical capacity to manufacture goods from aluminium ingots (Robbins / Lebani / Rogan 2008, 28). The SMEs with supply opportunities that are participating in the programme mainly belong to the following sectors: metallurgical services and products, transportation and auto mechanical services, construction, electrical products and services, and laundry (Jaspers / Mehta 2007, 63) – as well as catering, security, and other services.

Warren-Rodriguez (2008, 11–19) takes a closer look at the linkages built between local firms from the metalworking (metallurgical) sector and MOZAL. The author confirms the improvement of the skill and technological base of the SMEs subcontracting with MOZAL, thanks to the quite intense training courses, which included a quality-assurance module based on a simplified, adapted version of ISO-9000 that was developed in partnership between MOZAL and the Mozambican Institute for Quality and Standards. Moreover, the close interaction between the suppliers and MOZAL's engineers to ensure the required standards of products and services contributed to technological learning. In addition, several Mozambican firms established joint ventures with foreign specialised suppliers in order to qualify to do business with MOZAL, a factor that in some cases further contributed to technological learning and even opened access to new markets, such as the cases of COMETAL, Agro-Alfa and METECH described by Warren-Rodriguez (2008, 16–18). Nevertheless, the author emphasises that these results cannot be attributed to the promotional measures of the linkage programme alone. Since the screening process held prior to the promotional activities ensured that only firms with high businessdevelopment potential participated in the training and further measures, arguably a good portion of the

results is attributable to the skill and development level already acquired by the firms before the programme began. Overall, Warren-Rodriguez (2008, 21) concludes that the effects of the linkages between MOZAL and SMEs on the technological development of local firms in the metalworking sector have been positive but limited and that *"beyond this very specific experience, the general institutional setting for industrial (technology) development in place in Mozambique remains weak, with poor coordination mechanisms between the different institutions working in this area, as well as between these and other relevant government agencies"*.

Beyond the specific promotional programme, the overall local development effects through linkages of the MOZAL mega project must be assessed as modest, particularly when judged in relation to the huge investment of USD 2.4 billion. According to Robbins / Lebani / Rogan (2008, 27) MOZAL directly created only slightly more than 1,100 full-time jobs (the capital cost of a direct MOZAL job is 26 times higher than elsewhere in the manufacturing sector; Castel-Branco 2004, 27). An additional estimated 2,500 jobs were created through linkages. During the construction and expansion phases, 15,000 temporary jobs were created. These figures make very clear that it is not mega projects like MOZAL that will generate the much-needed jobs for the Mozambican economy. Indeed, MOZAL's positive net contribution to Mozambique's balance of payment amounts to USD 100 million per year (Castel-Branco 2004, 28). Nevertheless, in its assessment, APRM (2009, 164) underlines that only 10 percent of MOZAL's revenues remain in the Mozambican economy, that tax revenues are minimal[60] due to the extraordinary tax benefits granted by the GOM, and concludes that *"while MOZAL's contribution to Mozambique's economy as a whole is important and it makes an important contribution to Mozambique's GDP, its impact is limited. The result is an isolated economic enclave that uses large quantities of scarce resources without returning revenue or jobs to the economy"*.[61]

Industrialpolicy management

In the context of a mega-FDI investment like MOZAL, which has a powerful and resourceful group of investors, it is most relevant to analyse the strategic capability of the GOM's industrialpolicy management.[62] To structure the analysis, it is useful to conceive of the relation between the group of investors and the GOM as a bilateral negotiation, where the materialisation of the project and thus of the expected gains for the country (jobs, linkages, balance-of-payments contribution, tax receipts, etc.) depend on the package of investment incentives and obligations offered by the GOM.

At first glance, it seems that the GOM's bargaining position was very weak: There had been no precedent to such a big investment since the end of the civil war and the GOM had little to offer besides generous tax exemptions.[63] As far as the Government's stra-

60 According to Thomas (2005, 7), around the year 2004 MOZAL generated an estimated government revenue of USD 4.1 million per annum in tax revenues and USD 5 million per annum in dividends.

61 See also Section 3.2 and Castel-Branco (2004).

62 See Chapter 2 for a definition.

63 Not even cheap electricity – which is the most important production factor besides capital for alumu nium production. Although with the Cahora Bassa dam on the Zambezi River Mozambique possesses a huge elecricity generation capacity from hydropower (around 2,000 MW), the dam is not intercom nected with Southern Mozambique and sells almost all of the electricity generated to South Africa. The

tegic competences are concerned, these must be judged particularly low in the mid-1990s: at that time there were almost no industrialpolicy strategies in place that could have provided a conceptual framework for the Government to deal with the project (as discussed in Chapter 5, the relevant strategies are all quite recent and a linkage concept only began to be developed in 1997). Therefore it is plausible to explain the outcome by the fact that the GOM overstated the development effects due to a lack of analytical capability and judged the reputational effect of the project as very high (an increase in investor confidence, future FDI projects, etc.) which caused it to offer an extremely generous tax incentive package without any major obligations (such as localcontent clauses).

Nevertheless Castel-Branco (2004, 26–35) shows that by offering fewer tax exemptions Mozambique probably could still have closed the deal. Apparently the investors had a high preference for building the aluminium smelter near Maputo – not because of any comparative advantages or tax incentives that Mozambique had to offer, but rather due to the South African mineral-energy-complex's strategic interests: first, BHP-Billiton wanted to avoid having a competitor – Kaiser had first approached the GOM with plans to build an aluminium smelter – succeed in expanding its production, so BHP-Billiton pursued an aggressive investment strategy; second, the South African electricity utility, Eskom, was very keen to provide the energy for the smelter and, by interlinking its grid with the Mozambican grid, to establish itself as a player in the Mozambican electricity market. The Government of South Africa supported this strategy by offering an attractive incentive package to MOZAL that included cheap electricity tariffs through Eskom, which is Government-owned. This analysis suggests that – given the project's high priority for South African investors – the GOM could have made a better deal for the country by offering less generous incentives.

This Case Study shows that the GOM lacked the vision and the negotiating capacity to take greater advantage of the FDI project so as to have a greater development impact on the local economy or to generate much-needed tax revenues. However, it also illustrates the enormous imbalance in capacity and bargaining power when an alliance of leading multinationals backed by the Government of South Africa negotiates with one of the poorest governments of the world.

However, there appears to be another factor besides lack of capacity that explains the relatively low profile of the Government's linkage-promotion activities. According to Nuvunga (2009, 29) the political elite is not interested in an orderly and transparent approach that promotes business opportunities for local SMEs. Instead, according to a manager interviewed by Nuvunga, several politicians prefer to keep discretion over upcoming business opportunities and to use them for their private profit (by channelling them to their own firms or by earning commissions, etc.).

---

electricity for the smelters – which consume more electricity than the rest of the country combined – is imported from South Africa (Castel-Branco 2004, 14).

7 Conclusions

This study has analysed the quality of Mozambique's industrial policy and industrial policy management capability as one case in the context of a larger research project that aims at building evidence on the actual state of selective industrial policy in low and lower-middle-income countries and the conditions for its success.[64] In what follows the main conclusions from the Mozambican case are presented.

Mozambique needs policies that foster broad-based sustainable economic development and generate income and jobs for its population. Despite the stable and remarkable macroeconomic growth rates over the last 15 years – that are in great part explained by huge capital-intense FDI projects as well as ODA inflows and by the very low initial GDP level – the vast majority of Mozambicans are disconnected from the few profitable and high value-creating economic enclaves, and work in subsistence farming or in mostly informal or non-competitive SMEs. Therefore, well-designed and coordinated industrial policy along the terms outlined in Chapter 2 could serve as a crucial instrument to foster the much-needed, broad-based economic growth, in addition to policies in areas such as education, training and health care. Nevertheless, in Mozambique's case there is a huge gap between the need for welfare-enhancing industrial policies and the ability of the Government and the private sector to design and implement them. The results of the two case studies on selective industrialpolicy approaches (the cashew industry in Section 6.1, and linkage promotion in Section 6.2) are mixed, and show that failures are partly due to weaknesses in industrialpolicy management.

Regarding the programmatic orientation of industrial policy it must be noted that both on paper and in practice, non-selective approaches are more elaborated and more prominent – for instance trade liberalisation and privatisation reforms; general FDI promotion; reforms to make regulations more business-friendly and to improve the general business climate, including access to finance. Selective industrial approaches are less palpable, and in practice, the GOM does not yet follow a clear strategy that would outline and guide targeted selective policies in order to foster the competitiveness of local enterprises, for example, by supporting technological learning or the creation of agglomeration economies and other spillovers, so that local enterprises would be able to take advantage of the market enhancement achieved through the non-selective policies. The partial successes found in the two case studies – for instance, the establishment of the AIA export-service company and the successful penetration of overseas consumer markets in the case of cashews, as well as the establishment of a number of backward linkages between MOZAL and local SMEs and the associated learning and upgrading of these SMEs regarding linkage promotion – are fairly limited in scope, and are substantially due to the strategic advice and practical support of specific donors' projects.

We therefore conclude that the GOM's strategic capability for industrialpolicy management is characterized by a lack of means, vision and leadership regarding the definition of an appropriate mix between improvements in the investment climate to create the proper conditions for private investment and market competition, and targeted interventions to accelerate productivity growth and enhance the competitiveness of Mozambican firms.

64 See Altenburg (2011) for an overview of, and lessons learned from, this research project.

The donors cannot compensate for these weaknesses in the GOM's strategic capability because they are not a homogeneous group that would advocate for one main strategic line of action. Moreover, many of them have followed an approach inspired by the 'Washington Consensus' that disregarded selective measures; for them, industrial policy is not a priority field of intervention. In most cases in which donors support selective measures in particular projects, these are limited in scale, scope and time, and often do not incorporate government planning and learning cycles.

In 1999, Cramer described the GOM's position on industrial policy as follows: *"In Mozambique, all the evidence suggests that the state is in disarray, confused by a half-hearted ideological transformation and by being pulled constantly in different directions by donor interests (…), and lacks the capacity or will to produce a coherent and emphatic analysis and policy package for industrial sectors …"* (Cramer 1999, 1263). Although there has been some progress since then, we still assess the GOM's overall attitude towards industrial policy as being reactive to the interests of big investors and donors, rather than proactive or strategic. We base this assessment on our observation that the policy measures and projects that are enacted and implemented are those backed by investors' coherent and clearly articulated interests (an investment-promotion law and mega projects in the energy and mining sector) or donors (liberalisation, privatisation, and Doing-Business-style reforms which were supported by a coalition of influential donor organisations).[65] In contrast, more complex industrial policy approaches – such as in the field of SME promotion – that demand that the Government play an active role in providing strategic direction; building coalitions with enterprises, financial institutions, local governments and donors; and facilitating or building coordination platforms mainly exist on paper and lack the drive needed to get implemented on a relevant scale. This pattern can be explained in part by the low technical capacity and institutional development of the State administration, by the weak formal organisation of the local private sector – in particular in what refers to small enterprises – and by the high aid-dependency. Moreover, high aid-dependency creates incentives for the Government to primarily focus on keeping high levels of aid flows, to secure political legitimacy by high spending levels in social sectors (Castel-Branco 2008, 14) and, hence to neglect, in relative terms, engaging in an active industrial policy.

Although some projects pursue monitoring and evaluation approaches (mostly donor-driven), there is no consistent system of feedback cycles and checks and balances to improve overall industrialpolicy learning. First of all, it would be difficult to create such a culture of learning through trial and error because there is not yet a coherent and coordinated industrial policy that deserves the name (see Chapter 5). Secondly, the GOM avoids accountability and tries to escape from transparent public evaluations of its policies. One exception is the annual Joint Review with the Program Aid Partners (PAP). However this review does not include industrial policy, since this is a cross-cutting issue that is not a high priority for most donors (see Chapter 4.3).

Other governance features also weaken the GOM's capabilities in industrialpolicy management capability, for instance the capability to establish clear rules of the game for market-based competition, the capability to deliver services effectively, and the capability to avoid political capture. Widespread corruption results in the poor enforcement of measures meant to foster local industry (like the tax on raw cashewnut exports), in the opaque

65 See Castel-Branco (2008) for similar argumentation.

awarding of contracts based on favours, and in the intentional distortion of the implementation of business regulations to the advantage of inspectors and at the expense of businesses. FRELIMOparty dominance and weak checks and balances allow for selective interventions and service providers to be misused to transfer resources to constituencies before elections in order to secure votes (as was reported by some interviewees in the case of the INCAJU). Finally, the fact that prominent FRELIMO cadres (including President Guebuza) simultaneously hold public office and direct powerful business groups they acquired during the privatisation process, creates considerable conflicts of interest.[66] This situation renders industrial policy, and economic policy in general, vulnerable to misuse for the particularistic benefit of enterprises owned by FRELIMO or party cadres.[67]

Despite this rather pessimistic assessment of Mozambique's industrial policy management capability, it is important to acknowledge that some progress and learning have taken place during the last years. For instance capacities in the state administration (particularly at the central government level), in business associations and in think tanks are slowly improving and thus also the conditions for establishing coordination platforms for selective industrial policies. Moreover the government has corrected some deficiencies in the policy framework like e.g. the extremely generous tax exemptions for mega projects or the state-centred top-down approach to SME promotion. Finally, as highlighted above, the case studies have also gathered evidence for some positive experiences with selective approaches that could be replicated. Therefore prospects for a welfare-enhancing industrial policy in Mozambique that combines improvements to the investment climate and market-enhancing measures with targeted interventions to stimulate competitiveness and productivity growth of enterprises seem to improve. Nevertheless, for such an approach to be put in practice effectively the government and donors would have to radically revise their strategies and priorities and the governance would have to improve in terms of control of corruption and checks and balances.

66 See, e.g., the case of the concession for non-intrusive inspection services at the port of Maptuo (Mosse / Munguambe 2007).

67 Hanlon / Mosse (2009) even see a certain opportunity in this situation. They argue that the more development-oriented FRELIMO factions could use their combined political and economic power to engage in an industrialpolicy approach that would build on their own business empires (see Section 4.3).

Bibliography

Andersson, P. (2002): Impacto dos megaprojectos na economia Moçambicana, in: Gabinete de Estudos (ed.), A economia Moçambicana contemporânea, Maputo: Imprensa UEM, 531–558

Altenburg, T. (2009): Industrial policy for low- and lower-middle-income countries, Bonn: DIE, mimeo

– (2011): Industrial policy in developing countries: overview and lessons from seven country cases, Bonn: DIE (Discussion Paper 4/2011)

Altenburg, T. / U. Eckhardt (2006): Productivity enhancement and equitable development: challenges for SME development, Vienna: UNIDO

APRM (African Peer Review Mechanism) (2009): Country review report: Republic of Mozambique, Midrand, South Africa: African Peer Review Secretariat (Country Review Report 11/2009)

Benfica, R. / D. Tschirley / L. Sambo (2002): Agro-industry and smallholder agriculture: institutional arrangements and rural poverty reduction in Mozambique, East Lansing, Mich.: Michigan State University, Department of Agricultural Economics (International Development Collaborative Policy Brief MZ-MINAG-FL-33e); online: http://www.aec.msu.edu/fs2/mozambique/flash/flash33e.pdf (accessed 24 Jul. 2011)

Bertelsmann Foundation (2008): Bertelsmann transformations index: Mozambique country report, Gütersloh

Beula, E. (2009): Moçambique continua com imprensa "parcialmente livre", in: *Savana* 8 May 2009, 32

Borgarello, A. et al. (2004): What hinders small and medium entrepreneurs in Mozambique?, Maputo: Ambasciata d'Italia (Quaderni della Cooperazione Italiana 7/2004)

Borowczak, W. (2008/2009): Projecto "Ambiente propício para o sector privado – Moçambique": estabelecimento de um sistema de monitoragem para a "Estratégia para a melhoria do ambiente de negócios": internal documents on behalf of GTZ APSP, Maputo, mimeo

Borowczak, W. / F. Kaufmann (2009): Encourage entrepreneurs, in: *Development + Cooperation D+C 50 (6)*, 237–239

Cahen, M. (1993): Check on socialism in Mozambique: what check? what socialism?, in: *Review of African Political Economy* 20 (57), 46–59

Castel-Branco, C. N. (2002): An investigation into the political economy of industrial policy: the case of Mozambique, London: University of London, School of Oriental and African Studies, Department of Economics (Doctoral thesis)

– (2003): Indústria e industrialização em Moçambique: análise da situação actual e linhas estratégicas de desenvolvimento, Maputo: Cooperação Italiana

– (2004): What is the experience and impact of South African trade and investment on growth and development of host economies?: a view from Mozambique: paper presented at the "Conference on stability, poverty reduction and South African trade and investment in southern Africa", organised by SARPN / HSRC, Pretoria, 29/30 Mar. 2004; online: http://www.open.ac.uk/technology/mozambique/pics/d97816.pdf (accessed 24 Jul. 2011)

– (2005): Implicações do protocolo comercial da SADC para a família camponesa de Moçambique: Estudo Realizado na Província de Manica para a União Nacional de Camponeses, Maputo: UNAC

– (2008): Aid dependency and development: a question of ownership?: a critical view, Maputo: IESE (Working Paper 01/2008)

Castel-Branco, C. N. / N. Goldin (2003): Impacts of the MOZAL aluminum smelter on the Mozambican economy: final report, 21 Sep., Maputo; online: http://www.iese.ac.mz/lib/cncb/MOZAL_and_economic_development.pdf (accessed 24 Jul. 2011)

Castel-Branco, C. N. / E. Cavadias (2009): O papel dos mega projectos na estabilidade da carteira fiscal em Moçambique: paper presented at: Autoridade tributária de Moçambique II: Seminário nacional sobre execução da política fiscal e aduaneira, 06/07 Mar. 2009, Maputo; online: http://www.iese.ac.mz/lib/noticias/2009/MegaFiscalidade_ATM_Final.pdf (accessed 24 Jul. 2011)

CIP (Centro de Integridade Publica) (2008): Avaliação da corrupção no sector florestal em Moçambique, Maputo (Documento de Discussão 7/2008)

Chakravarti, A. (2005): Aid, institutions and development, Cheltenham: Edward Elgar Publications

Clément, J. A. P. / S. A. Peiris (eds.) (2008): Sustaining growth takeoffs: lessons from Mozambique, in: A. P. Clément / S. A. Peiris (eds.), Post-stabilization economics in sub-saharan Africa: lessons from Mozambique, Washington, DC: International Monetary Fund, 11–56

Condon, N. / M. Stern (2009): Putting German aid for trade in perspective: Mozambique case study, Bonn: DIE, mimeo

Cramer, C. (1999): Can Africa industrialize by processing primary commodities? The case of Mozambican cashew nuts, in: *World Development* 27 (7), 1247–1266

CRN India (s. a.): Commodity: cashew; online: http://www.crnindia.com/commodity/cashew.html (accessed 22 Oct. 2009)

Davies, C. (2008): The role of districts, background-paper for GTZ APSP about the compatability of regulation, Beira, mimeo

De Barros, J. C. (2008): Study on how national public policies encourage or impede agribusiness innovation: cases of cassava, cashew and cattle in Mozambique; online: http://info.worldbank.org/etools/docs/library/243549/MozambiqueReport.pdf (accessed 24 Jul 2011)

De Tollenaere, M. (2006): Democracy assistance to post-conflict Mozambique: intentions and outcomes, The Hague: Netherlands Institute of International Relations Clingendael (Working Paper 37/2006)

DFID (Department for International Development) (2006): Pay and human resource management: issues and options, s. l.

DNEAP (Direcção Nacional de Estudos e Análise de Políticas) (2006): Job creation in Mozambique: is labour law reform the answer?, Maputo

Eberherr, T. / F. Kaufmann / C. Simons-Kaufmann (2009): The potential for sustainable tourism in a less developed country: policy recommendations from a case study in Inhambane province, Mozambique: Conference paper, 4th International Science Conference, 3–5 Apr. 2009, Rhodes, Greece: University of the Aegean (International Science Conference Paper)

EDE Consulting (2005): Fact finding and risk assessment: sustainability aspects in the Vietnamese cashew sector, prepared for Kraft Foods Deutschland GmbH & Co. KG., Vietnam: Hanoi

EIU (The Economist Intelligence Unit) (2007): Country report Mozambique, Dec. 2007, London

– (2008): Country profile Mozambique 2008, London

– (2009): Country report Mozambique, Feb. 2009, London

EU (European Union) (2010): Mozambique: EU bilateral trade and trade with the world: DG Trade; online: http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113422.pdf (accessed 24 Jul 2011)

Evans, P. (1996): Government action, social capital and development: reviewing the evidence on synergy, in: *World Development* 24 (6), 1119–1132

FIAS (Foreign Investment Advisory Facility) (2006): The tourism sector in Mozambique: a value chain analysis, Vol. 1, Washington, DC: World Bank

Fischer, F. et al. (2008): Government donor partnerships: Mozambique as a model of donor coordination, in: J. A. P. Clément / S. A. Peiris (eds.), Post-stabilization economics in sub-saharan Africa: lessons from Mozambique, Washington, DC: International Monetary Fund, 238–287

Fox, L. (2008): Beating the odds: sustaining inclusion in Mozambique's growing economy, Washington, DC: World Bank

Francisco, A. A. da Silva / E. Barrenho (2008): Iniciativa FJC-GAPI mais caju Moçambique: desafio e visão, Maputo: FJC, GAPI

Frey, A. (ed.) (2009): The investor, Maputo: Club of Mozambique

Gabinete de Estudos (2003): A economia Moçambicana, Maputo: Imprensa UEM

Groelsema, R. J. / J. M. Turner / C. Shenga (2009): Mozambique democracy and governance assessment, Burlington, Vt.: ARD Inc.; online: http://www.usaid.gov/mz//doc/misc/dg_assessment_2009.pdf (accessed 24 Jul. 2011)

Handley, G. (2008): Mutual accountability at the country level: Mozambique country case study, London: Overseas Development Institute, Centre for Aid and Public Expenditure

Hanlon, J. (2000): Power without responsibility: the World Bank and Mozambican cashew nuts, in: *Review of African Political Economy* 26 (83), 29–45

Hanlon, J. / T. Smart (2008): Do bicycles equal development in Mozambique?, Woodbridge, UK: James Currey

Hanlon, J. / M. Mosse (2009): Is Mozambique's elite moving from corruption to development?: UNU-WIDER conference on the role of elites in economic development, 12/13 Jun. 2009, Helsinki, Finland; online: http://oro.open.ac.uk/20888/1/Hanlon-Mosse_-_Mozambique_elite_capitalism_-_May09.pdf (accessed 24 Jul. 2011)

Hartley, J / J. Otto (2008): Managing mineral resources: from curse to blessing, in: J. A. P. Clément / S. A. Peiris (eds.), Post-stabilization economics in sub-saharan Africa: lessons from Mozambique, Washington, DC: International Monetary Fund, 288–322

Hodges, A. / R. J. Tibana (2004): Political economy of the budget in Mozambique, Oxford: Oxford Policy Management, mimeo (2005 published in Portuguese as "A economia política do orçamento em Moçambique: princípios", Maputo)

Hughes, G. (2005): An economic analysis of natural resources in Mozambique: rural land issues and policies: background paper for Country Economic Memorandum, Washington, DC: World Bank

Hyden, G. (2008): Institutions, power and policy outcomes in Africa, London: Overseas Development Institute (Discussion Paper 2/2008)

IFC (International Finance Corporation) (2004): 2004 report to the donor community: IFC-supported technical assistance programs, Washington, DC

– (2006): Linkage programs to develop small and medium enterprises, Washington, DC (Monitor 4/2006)

IMF (International Monetary Fund) (2007): Press statement at the conclusion of an IMF mission to Mozambique for the first review under the three-year policy support instrument, Washington, DC (Press Release 07/268)

– (2009): Republic of Mozambique: third review under the policy support instrument – staff report; stuff supplement; and press release, Washington, DC: IMF (IMF Country Report 09/49)

INCAJU (Instituto de Fomento do Caju) (2008a): Cashew in Mozambique: policy and strategy: presentation by R. Matule, ACA, 3rd annual conference, 17–19 Sep. 2008, Dar-Es-Salaam

– (2008b): O subsector do caju: 2000–2007, Maputo

– (s. a.): Balanço das actividades realizadas pelo sector do cajú de 1999 a 2005, Maputo

International Trade Centre (s. a.): List of products imported by Mozambique; online: http://www.trademap.org/tradestat/Product_SelCountry_TS.aspx (accessed 25 Nov. 2010)

Jaspers, F.-J. / Mehta, I. (2007): Developing SMEs through business linkages – the MozLink experience: a manual for companies, NGO's and government entities, Washington, DC: IFC

Jones, S. (2008): Sustaining growth in the long term, in: J. A. P Clément / S. A. Peris (eds.), Post-stabilization economics in sub-saharan Africa: lessons from Mozambique, Washington, DC: International Monetary Fund, 82–125

Jusob, R. (2006): Investment policy and opportunities in Mozambique: power point presentation, 28 Nov. 2006 in Bilene, Maputo: CPI; online: http://www.mcli.co.za/28nov06/CPI-Presentation%20by%20Dr.%20Rafique%20Jusob%20-%20Director.pdf (accessed 24 Jul. 2011)

Kaufmann, F. (2007): Unfavourable investment climate, in: *Development + Cooperation* 48 (10), 382–383

– (2008): Outsourcing em Sofala II 2006: a realidade e as potencialidades da cooperação entre grandes e as pequenas empresas, in: Ministério da Indústria e Comércio (ed.), Pequenas e médias empresas em Moçambique: Situação, perspectivas e desafios, Maputo, 173–178

Kaufmann, F. / B. Fungulane / S. Macamo (2008): Uma politica centrada nas PME: importância, prioridades e desafios, in: Ministério da Indústria e Comércio (ed.), Pequenas e médias empresas em Moçambique: Situação, perspectivas e desafios, Maputo, 5–16

Kaufmann, F. / M. Krause (2008): How to address regional and sector-specific regulatory issues?: case study on Mozambique, in: *Enterprise Development and Microfinance* 19 (3), 220–239

Kaufmann, F. / W. Parlmeyer (2000): The dilemma of small business in Mozambique: the reason to be is the reason not to prosper, Lisboa: CEsA (Documento de Trabalho 59)

Kaufmann, F. / C. Simons-Kaufmann (2008): Aufbruchstimmung in Mosambik, in: *Afrikawirtschaft* 4 (4), 39–41

Killick, T. et al. (2005): Perfect partners: the performance of program aid partners: report, Maputo; online: http://www.afrimap.org/english/images/documents/file42b16ae21a2b4.pdf (accessed 24 Jul. 2011)

KPMG (2008): Indice de Ambiente de Negócios em Moçambique, Maputo: CTA, KPMG

Krause, M. / F. Kaufmann (2010): Industrial policy in the cashew sector in Mozambique: paper prepared with the support of GTZ Mozambique, Bonn: mimeo

Krause, M. et al. (2010): Formalisation and business development in Mozambique: how important are regulations?, Bonn: DIE (Studies 53)

Kyle, S. / J. Chapman / P. Zucula (2002): Opportunities and constraints in the Mozambican smallholder sector, Bethesda, Md: Development Alternatives, Inc. (Concept Paper 12/2002)

Landau, L. (1998): Rebuilding the Mozambican economy, country assistance review, Washington, DC: World Bank

Lawson, A. et al. (2008): Assessment of public finance management in Mozambique 2004/05: based on PEFA methodology, Maputo, London: SAL, ODI (report)

Leite Pereira, J. (1999): A guerra do caju e as relações Moçambique–India na época pós-colonial, Lisboa: CEsA (Documento de Trabalho 57)

Levy, S. et al. (2002): The state of democracy and governance in Mozambique, Washington, DC: Management Systems International (for USAID)

Lledo, V. (2008): Strengthening Mozambique's business environment, in: J. A. P Clément / S. A. Peris (eds.), Post-stabilization economics in sub-saharan Africa: lessons from Mozambique, Washington, DC, 323–358

Macamo, A. L. (2007): Characteristics of the most successful supplier development and linkages programmes: the case of Mozambique: paper submitted at the expert meeting "Enhancing the participation of small and medium-sized enterprises in global value chains", organised by UNCTAD, 18/19 Oct. 2007, Geneva: UNCTAD, mimeo

– (2009): Oportunidades de ligação entre empresas nacionais e grandes projetos linkages: conceito de linkages, experiências, oportunidades e desafios em Moçambique: power point presentation, 11 Sep. 2009, Maputo, mimeo

Maculuve, C. (2006): Exportação da castanha em bruto: os sinuosos caminhos da corrupção, in: *Savana* 24 Mar. 2006, Maputo; online: http://macua.blogs.com/mocambique_para_todos/files/savana_24_mar_06.pdf

MASC (Mecanismo de Apoio à Sociedade Civil) (2008): Sumário de estudo de base: a monitoria de governação em Moçambique, Maputo

Matter, K. (2007): Literary review on international experiences of participatory PRS monitoring: background report for A. A. S. Francisco / K. Matter, Poverty observatory in Mozambique, commissioned by the Swiss Agency for Development and Cooperation and the social development department of the World Bank, Richterswil

McMillan, M. / D. Rodrik / K. H. Welch (2002): When economic reform goes wrong: cashew in Mozambique, Cambridge, Mass: National Bureau for Economic Research (NBER Working Paper 9117)

MIC (Ministério da Indústria e Comércio) (ed.) (2008a): Pequenas e médias empresas em Moçambique: Situação, perspectivas e desafios, Maputo

– (2008b): Estratégia para a melhoria do ambiente de negócios, Maputo

Mosse, M. (2006): A corrupção no sector da justiça em Moçambique, Maputo: Centro de Integridade Pública Moçambique (Documento de Discussão 3)

Mosse, M. / J. Munguambe (2007): Public procurement and transparency in Mozambique: the case of scanners for non intrusive inspection, Maputo: Centro de Integridade Pública Moçambique

Nair, H. (2008): Indian cashew industry market trends, presentation at the 3rd African Cashew Alliance Annual Conference, 17–19 Sep. 2008 in Dar es saalam

Nuvunga, M. (2009): Understanding state-society linkages for poverty reduction: the relationship between the state and domestic non-state actors in poverty reduction processes: paper submitted to conference "Dynamics of poverty and patterns of economic accumulation in Mozambique", organized by IESE, Maputo, 22/23 Apr. 2009

O País (2009): Estudo apela ao fim do secretismo nos contratos com grandes projectos, quinta-feira; in: *O País* 8 Oct. 2009, 16

Öhm, M. (2009): Kurzberichte aus der Entwicklungszusammenarbeit: Mosambik: Demokratie ohne Mehrwert?: Wachsende Distanz zwischen Regierung und Gesellschaft in einem Land ohne Opposition, Maputo: Friedrich-Ebert-Stiftung

Paul, B. (2008): Factories in the field: rural transformation and the organization of work in Mozambique's cashew triangle, Washington, DC: Technoserve Inc.

Renzio de, P. / Hanlon, J. (2007): Contested sovereignty in Mozambique: the dilemma of aid dependence, Oxford: University of Oxford (GEG Working Paper 25/2007)

República de Moçambique (2003): Investment law, 24. Jun., Maputo

– (2006a): Estratégia anti-corrupcao: 2006–2011, Maputo

– (2006b): Plano de acção para a redução da pobreza absoluta 2006–2009, Maputo

– (2007a): Industrial policy and strategy, Maputo (english version)

– (2007b): Estratégia para o desenvolvimento das pequenas e médias empresas em Moçambique, Maputo

– (2007c): Avaliação da sustentabilidade financeira do Instituto Empresarial de Moçambique, Maputo, mimeo

– (2008a): Revisão conjunta 2008: aide-Memoire: joint review, Maputo

– (2008b): Estrategia para o desenvolvimento do sector têxtil e de confecções, Maputo

– (2009): Code of fiscal benefits: Law 4/2009, 12 Jan. 2009, Maputo

Robbins, G. / L. Lebani / M. Rogan (2008): TNC FDI firms and domestic SME linkages: reflecting on three SADC case studies, Durban: School of Development Studies, University of KwaZulu-Natal (Working Paper Series 03/2008)

Robinson, J. A. (2009): Industrial policy and development: a political economy perspective: paper prepared for the World Bank ABCDE conference 22–24 Jun 2009 in Seoul, Cambridge, Mass.: Harvard University,

Rodrik, D. (2007): Normalizing industrial policy; online: http://www.ksg.harvard.edu/rodrik/ (accessed 10 Aug. 2009)

Saxegard, M. (2008): Export performance and competitiveness, in: J. A. P. Clément / S. A. Peiris (eds.), Post-stabilization economics in sub-Saharan Africa: lessons from Mozambique, Washington, DC: International Monetary Fund, 359–395

Simonetti, R. / M. Wuyts / A. Wuyts-Fivawo (2007): Banking on rural innovation for poverty reduction: a case study of value-chain lending in Mozambique, in: *The European Journal of Development Research* 19 (1), 136–155

Simons-Kaufmann, C. (2003): Der Transformationsprozess eines Entwicklungslandes: Das Beispiel Mosambik, Wiesbaden: Deutscher Universitätsverlag

Technoserve Inc. (2009): Relaunch of an industry: economic impacts caused by the redevelopment of the Mozambican cashew processing industry: power point presentation, Jan. 2009, s. l., mimeo

– (ed.) (s. a.): Enhancing the global competitiveness of Mozambique's cashew industry, Washington, DC; online: http://www.gmfus.org/doc/Technoserve_cashew.pdf

The Hindu Business Line (2009): India claims to be top cashew exporter; online: http://www.thehindu businessline.com/2009/02/28/stories/2009022851331600.htm (accessed 28 Feb. 2009)

Thomas, R. (2005): FDI & SME linkages: the case of MOZAL I and II: draft for discussion presented at IDRC private sector development task force conference, 7/8 Apr. 2005, Ottawa, mimeo

Transparency International (2008): Corruption perception index, Berlin

USAID (United States Agency for International Development) (2004): Removing obstacles to economic growth in Mozambique: a diagnostic trade integration study, Vol. I + II, Washington, DC

– (2005): Corruption assessment: Mozambique, Washington, DC

– (2009): Extracting value for enterprises: enterprise development in the mining industry in sub-Saharan Africa, Washington, DC (Technical note)

– (s. a.): Mozambique country strategic plan FY 2004–2010; online: http://www.usaid.gov/mz/doc/plan/csp_public _2010.pdf

Vaux, T. et al. (2006): Strategic conflict assessment Mozambique, London: DFID

Warren-Rodriguez, A. (2008): Linking technology development to enterprise growth: evidence from the Mozambican manufacturing sector, London: School of Oriental and African Studies, University of London (Department of Economics Working Papers 160)

Wells, L. T. / Buehrer, T. (2002): Reduzir a burocracia, in: Gabinete de estudos (2003), A economia Moçambicana, Maputo, 441–472

Wide, Y. (2010): Assessing the competitiveness in Mozambique, Lund: University of Lund (Minor Field Study Series 204)

World Bank (2003): Moçambique: análise da despesa pública: fase 2: despesas sectoriais, Washington, DC (Report 25969)

– (2008): Mozambique governance; online: http://siteresources.worldbank.org/intmozambique/Resources/MOZAMBIQUE_GOVERNANCE.pdf (accessed 17 Oct. 2008)

– (2009a): Investment climate assessment Mozambique: draft report, draft report May 2009, Washington, DC, mimeo

– (2009b): Doing business 2010: reforming through difficult times, Washington, DC

World Economic Forum (2008): The global competitiveness report 2008–2009, Basingstoke: Palgrave Macmillan

Annexes

Table A1: Distribution of SMEs by activity

Sector	Number of businesses			Business sales (Mt 10^6)		
	Small (a)	Medium (b)	Total SME (c)=(a)+(b) business units	Small (d)	Medium (e)	Total SME (f)=(d)+(e)
Agriculture, animal husbandry, hunting and forestry	485 (1.7%)	132 (0.5%)	617 (2.2%)	118.661 (0.4%)	224.395 (0.8%)	343.056 (1.2%)
Fishery	75 (0.3%)	57 (0.2%)	132 (0.5%)	55.162 (0.1%)	95.223 (0.3%)	150.385 (0.5%)
Extractive industries	12 (0.0%)	34 (0.1%)	46 (0.2%)	37.486 (0.1%)	150.883 (0.5%)	188.369 (0.7%)
Manufacturing	2.310 (8.1%)	518 (1.8%)	2.828 (9.9%)	7.535.574 (27.3%)	3.278.481 (11.9%)	10.814.055 (39.2%)
Production and distribution of electricity, gas and water	9 (0.0%)	17 (0.1%)	26 (0.1%)	974.099 (3.5%)	86.813 (0.3%)	1.060.912 (3.8%)
Construction	82 (0.3%)	150 (0.5%)	232 (0.8%)	406.065 (1.5%)	1.805.468 (6.5%)	2.211.533 (8.0%)
Wholesale and retail commerce; automobile and motorcycle repairs; other repairs	15.446 (54.2%)	911 (3.2%)	16.357 (57.4%)	3.434.044 (12.4%)	2.889.470 (10.5%)	6.323.514 (22.9%)
Accommodation and restaurants	5.398 (19.0%)	341 (1.2%)	5.739 (20.2%)	1.069.525 (3.9%)	616.379 (2.2%)	1.685.904 (6.1%)
Transport, warehousing and communication	196 (0.7%)	126 (0.4%)	322 (1.1%)	122.961 (0.4%)	1.050.661 (3.8%)	1.173.622 (4.3%)
Financial services	48 (0.2 %)	24 (0.1%)	72 (0.3%)	68.917 (0.2%)	304.919 (1.1%)	373.836 (1.4%)
Real estate, renting and service providers	440 (1.5%)	140 (0.5%)	580 (2.0%)	178.624 (0.6%)	663.434 (2.4%)	842.058 (3.1%)
Education	135 (0.5%)	98 (0.3%)	233 (0.8%)	19.988 (0.1%)	311.491 (1.1%)	331.479 (1.2%)
Health and social services	60 (0.2%)	26 (0.1%)	86 (0.3%)	74.192 (0.3%)	29.922 (0.1%)	104.114 (0.4%)
Other activities	1.157 (4.1%)	48 (0.2%)	1.205 (4.2%)	1.857.082 (6.7%)	141.882 (0.5%)	1.998.964 (7.2%)
Total	25.853 (90.8%)	2.622 (9.2%)	28.475 **(100%)**	15.952.381 (57.8%)	11.649.421 (42.2%)	27.601.801 **(100%)**

Source: MIC (2008)

Table A2: Fiscal Benefits according to Law 4/2009

	Import of goods, VAT	Investment tax credit	Accelerated depreciation	Moderni-zation and new technologies	Investment in professional training	Expenditure considered as fiscal costs	Tax Reductions
General	Exemption from import duty in VAT Class 'K'	5% Maputo, 10 % other provinces	Up to 50 %	Deduction equal up to 10 % of tax-able income	Deduction up to 10 % of taxable income	Maputo 110 %, Provinces 120 %	
Creation of basic infra-structure	Exemption from import duty in VAT Class 'K'						80 % reduction on income tax
Rural com-merce and rural industry	Exemption from import duty in VAT Class 'K' plus specific items						
Manufacturing and assembly industries	Exemption on duties on raw materials and other imports						
Agriculture and fishery	Exemption from import duty in VAT Class 'K'						80 % reduction on income tax till 2015; 50 % till 2025
Hostelry and tourism	Exemption from Import Duty in VAT Class 'K' plus specific items	Special conditions	Special conditions				
Science and technology parks							First 5 Years 100 % reduc-tion on income tax, next 5 years 50 %, following 5 years 25 %.
Large projects (ca. 500 Mio USD)	Exemption from import duties and VAT						
Rapid devel-opment zones (areas + activi-ties specified)	Exemption from import duties and VAT	20 %					
Free industrial zones	Exemption from import duties and VAT						10 Years 100 % reduction on income tax, next 5 years 50 %, following 5 years 25 %.
Special eco-nomic zones	Exemption from import duties and VAT						5 Years 100 % reduction on income tax, next 5 years 50 %, following 5 years 25 %.

Source: Law 4/2009, elaboration by the authors

Table A3: Raw cashewnut uses (volume in metric tonnes)

Harvest	Vol. Traded	Uses					
		Vol. Exported	%	V. Processed	%	Other use	%
2000/2001	52.608	27.845,96	53 %	6.275,00	12 %	17.967,44	34 %
2001/2002	52.088	25.592,20	49 %	-	0 %	24.584,50	47 %
2002/2003	50.177	36.288,54	72 %	3.000,00	6 %	24.529,46	49 %
2003/2004	63.818	20.216,82	32 %	3.200,00	5 %	18.867,68	30 %
2004/2005	104.335	63.346,31	61 %	13.870,00	13 %	27.120,69	26 %
2005/2006	62.821	26.343,82	42 %	21.943,00	35 %	14.529,18	23 %
2006/2007	74.397	24.335,48	33 %	20.280,00	27 %	29.781,52	40 %
2007/2008	96.540	31.606,67	33 %	24.000,00	25 %	21.549,1	22 %

Source: INCAJU (2008b, 12)

Table A4: Interviews

Name	Instituiton	Interview date
Thomas Eberherr	Consultant to the Provincial Director of Tourism, Inhambane, CIM	Nov 08
Jan Tillmans	MPD; CIM, Consultant for Local Development	28.04.09
Nikolas Männling	National Directorate of Industry, Ministry of Industry and Trade; Overseas Development Institute Consultant for Industrial Policy	28.04.09
Manfred Schug	Consultant to MPD	28.04.09
Gert Juntermanns	KfW, Sector Coordinator for Sustainable Economic Development	29.04.09
Ute Hainbuch	German Embassy Maputo, BMZ Head of Cooperation	29.04.09
Mario Sauder	German Embassy Maputo, Deputy Head of Delegation	29.04.09
Jim LaFleur	CTA Economic Advisor	29.04.09
Lutero Simango	Parliament, Co-Chair, Economic Committee	29.04.09
John Barnes	Consultant to MPD, UNDP	30.04.09
Dieter Orlowski	Consultant, Ximungo	30.04.09
Felix Cossa	InWent Local Representative	30.04.09
Peter Luhmann	Country Director, GTZ (German Technical Cooperation), Mozambique	02.05.09
Willy Parlmeyer	GFA, GTZ	02.05.09
Svenja Paulino	GTZ Project Coordinator for Sustainable Economic Development, Mozambique	02.05.09
Nuno Maposse	CPI Director Project Management	02.05.09
Odete Tsamba	MIC, Director Institute for Small and Medium-sized Enterprises (IPEME)	04.05.09
Eckehard Fricke	Deutscher Entwicklungsdienst (DED) Country Director	04.05.09
Dario Milano Rossario Marpusse	Italian Cooperation Head of Private-Sector Working Group	05.05.09
Sidomio	MIC National Director of Industry	06.05.09
Sergio Macamo	National Director Project Implementation UNIT World Bank Project	06.05.09
Adrian Frey	Director Solutions	06.05.09
Felix Fischer	IMF Director, Mozambique	06.05.09
Manfred Öhm	Friedrich-Ebert Foundation Resident Representative	08.05.09
Ilse Fuernkranz	GAPI	Jul 09
Svenja Paulino	GTZ Project Coordinator for Sustainable Economic Development, Mozambique	05.08.09
Álvaro Martins	Cashew Processor, Madecaju	05.08.09
Jake Walter	Technoserve, Inc.	06.08.09
Raimundo Matule	INCAJU	06.08.09
Carlos Costa	AGRIFUTURO/African Cashew Alliance	06.08.09
Antonio Souto	GAPI	07.08.09
Dipac Jaiantilal	Cruzeiro do Sul	07.08.09
Marcos Vaena	IFC	07.08.09
Mauricio dos Santos	Former cashew processor, Angoche	07.08.09
Rafik Ibrahim	Cashew processor, IPCCN	09.08.09
Martin Mason	CLUSA	09.08.09
Yunuss A. Gafar	Gani Comercial, Cashew processor, Cajú Ilha, AICAJU	10.08.09
Angelo de Souza	Cashew processor and trader, Ozivacaju	10.08.09
Sr. Jorge	Director Cashew Nursery, INCAJU	11.08.09
Various	Forum of Farmers' Associations, Naihava	11.08.09
Various	Condornuts processing factory, Nametil	11.08.09
Sr. Cardoso	Former cashew processor, Moma	12.08.09
Silvino Martins	Cashew processor, Condornuts Ltda	12.08.09
Moisés Raposo	Ikuru Ltda	12.08.09
Felipe Miranda	Cashew processor, Miranda Industrial Ltda	13.08.09
Martin Mason	CLUSA	13.08.09
Kathrin Seelige	GTZ	14.08.09
Ute Hainbuch	German Embassy, Head of Cooperation	14.08.09
Ilse Fuernkranz	GAPI	Oct 09