

The Republic of Mozambique

The Center for Global Development prepared this summary based solely on the publicly available proposal submitted by the Republic of Mozambique to the Millennium Challenge Corporation.

Overview

Mozambique has applied for \$148 million to finance a program that would help improve the business environment over five years by lowering the costs and risks of doing business in Mozambique; and by increasing the productivity of firms and their ability to capitalize on the improved business environment. This program would focus on policy reform, business development assistance, infrastructure, education, and health and sanitation. The MCA fund would help create 30,000 direct jobs, induce 1.7 percent of incremental GDP growth and reduce poverty from 54 to 45 percent in ten years.

Context

According to the compact proposal, 80 percent of Mozambique's workers are employed in rural areas, with the majority of jobs being in the informal sector. This situation makes it difficult to induce economic growth. Any effort to revitalize the economy would rely on agriculture. However, due to poor infrastructure, the cost of agricultural business development is high; and the agribusiness sector has limited access to capital and struggles with low savings rates. Capital shortage is a constraint to private sector development. Mozambique also experiences high transportation costs because of inadequate infrastructure. Labor productivity is low due in part to limited human capital development.

Elements of the Proposal

Mozambique's compact proposal consists of four priority areas:

1. Policy Reform

According to the compact proposal, policy reform will lower the cost of business. In addition to reforming laws, regulations and policies, this project would also help support day-to-day management of institutions that implement these reforms. Targeted areas are: natural resources management, access to land and land reform, labor law reform, financial system, procurement and international facilitation. The reform project would cost \$10 million.

2. Business Development Assistance

Poverty is more acute in the northern provinces of Cabo Delgado, Niassa, Nampula and northern Zambezia. According to the compact proposal, these areas show significant growth prospects. This initiative would increase firm competitiveness and boost exports. The project would offer technical assistance, training, business plan development and access to capital, focusing on sectors with potential long-term comparative advantage

such as tourism, agriculture/agribusiness, forestry and wood products. The government expects these sectors could grow at a faster rate than the national average. This portion of the project would cost \$30 million over five years.

3. Infrastructure Development

Investments in infrastructure in northern Mozambique would improve transportation capacity, increasing access to markets. Mozambique would rehabilitate roads, upgrade airports, develop port facilities and implement an environmental management program. By reducing the cost and risk of doing business in this region, better infrastructure would also increase tourist and investor access. The project would cost \$70 million.

4. Education, Health and Sanitation

This portion of the investment, valued at \$30 million, would support Mozambique's campaign to support human development as the basis of poverty reduction. The funds would be invested in a hospital rehabilitation, health services expansion in four provinces, water and sanitation projects, and upgrade of a technical school.

According to the compact proposal, a management team would be set up to monitor and evaluate the program. Working with national and regional entities, this team would be responsible for the program oversight. The compact proposal allocates \$8 million for this oversight body.

Proposed Outcomes

Mozambique would create 30,000 new jobs and reduce poverty from 54 percent to 45 percent in ten years as part of their national strategy. In five years, Mozambique would:

- Simplify and accelerate the process of obtaining the rights for use of land concessions.
- Reform labor law, making it more flexible and less costly for business and allow arbitration for labor disputes.
- Improve financial intermediation for micro, small, medium enterprises and households without bank accounts; and strengthen institutional capacity of the public registry.
- Create a transparent and effective procurement system.
- Reduce import duties from the current level of approximately 25 percent to 20 percent.

Consultative Process

From the compact proposal it appears that the private sector dominated the consultative process. The Confederation of Economic Association of Mozambique (CTA) is the driving force behind the proposal.