MOZAMBIQUE
SECTOR-SPECIFIC INVESTMENT STRATEGY AND ACTION PLAN

G20 Indicators for Measuring and Maximizing Economic Value Added and Job Creation from Private Investment in Specific Value Chains

Pilot Study Results

UNCTAD

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This Report forms part of the work undertaken by the Inter-Agency Working Group for the Private Investment and Job Creation Pillar of the G20 Multi-Year Action Plan on Development

Figure 1. Map of Mozambique

I. INTRODUCTION

This report is part of a series of six country pilot studies, carried out by UNCTAD in collaboration with other agencies of the inter-agency working group (IAWG) as phase two of the programme of work on "Indicators for measuring and maximizing economic value added and job creation from private investment in specific value chains."[1]

The objectives of this report are:

1. To provide value-added recommendations to policymakers in Mozambique on attracting and benefiting from private investment in the transport and logistics sector ("logistics value chain"), more specifically the Maputo Development Corridor (MDC).[2] These recommendations must be seen against the backdrop of recommendations on the overall policy framework for investment in the country.[3]

2. To help refine the indicator methodology developed by the IAWG for the G20 and to provide guidance for the meaningful use of development impact indicators in the formulation of policy recommendations in the area of investment.

The choice of the logistics value chain for this country pilot study, reflects both the importance of the value chain to the Mozambique economy and the usefulness of testing the indicator approach with a sector which differs in its raison d'être compared to value chains such as garments or tourism, which are examined in other country cases (section III). In a wider context, the transport and logistics sector is essential for economic development and international trade, not least intra-regional trade. In terms of the last, Africa as a whole lags far behind other regions with its level of intra-regional trade relative to total trade barely above 10%, while the equivalent ratio for Asia, Europe and North America ranges between 65 and 90%. This is partly because so many countries in Africa are land-locked, so transporting goods between them and international markets requires considerable investment in transport infrastructure, as well as other measures. In Southern Africa, Mozambique's long coastline means that it is well placed to transport goods to and from countries such as Botswana, Lesotho, Swaziland, Zambia, Zimbabwe, parts of South Africa, and regions within Mozambique itself (figure 1).

Within Mozambique itself, most initial focus from the early 2000s, with the creation in that year of the Maputo Corridor Logistics Initiative (MCLI) was on linking the Maputo Port with some of the most industrialized areas of South Africa by road and rail (SAIIA; 2012). The MDC is widely regarded as the most successful spatial development initiative within the Southern African

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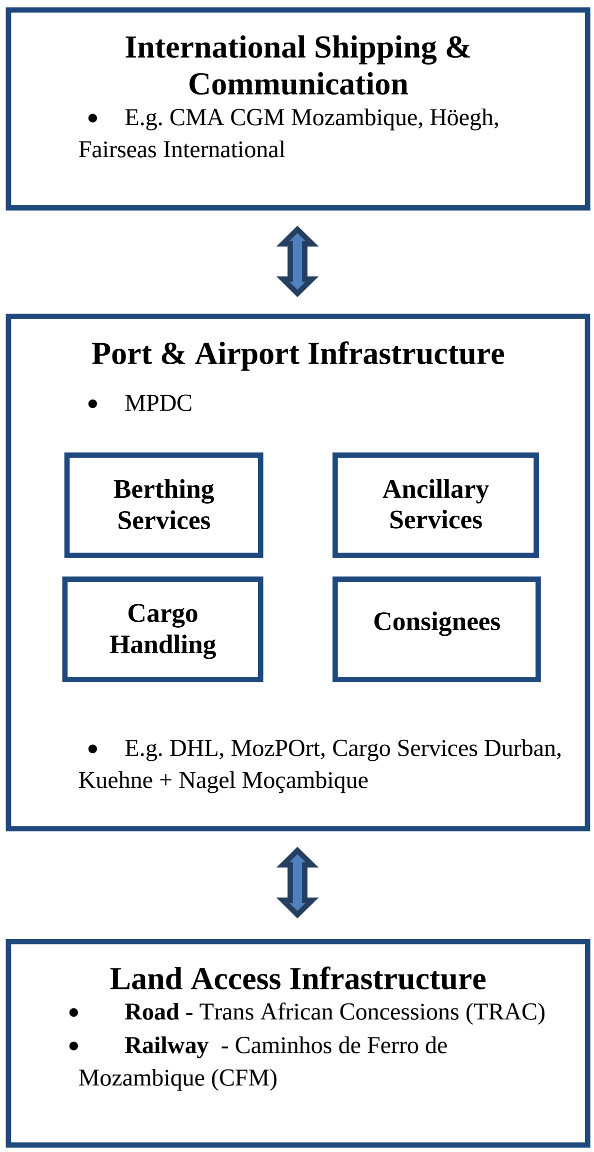
[1] Action item 2 of the Private Investment and Job Creation Pillar of the G20 Multi-Year Action Plan for Development agreed at the G20 Seoul Summit in November 2010. This report is to be considered an integral part of the Pillar's work. For further background and explanation of the applied methodology, see the interim report to the G20 Development Working Group (presented for the November 2011 G20 Cannes Summit): "Indicators for measuring and maximizing economic value added and job creation arising from private sector investment in value chains".

[2] The pre-selection of sectors is necessary to narrow the scope of the pilot studies, even though the ultimate aim of the development-impact indicators framework is also to help policymakers identify the most promising economic sectors for the attraction of investment. Integrating the indicator approach in the IPR process also implies that policymakers will indicate sector preferences and priorities.

[3] The country pilot projects have been designed as an integral part of "Investment Policy Reviews" (IPRs), as carried out by UNCTAD and other agencies of the IAWG (notably the OECD). The broader recommendations of the IPRs are not repeated in this document.

Development Community (SADC) in attracting private investment and supporting development.[4] The main immediate objectives of the project were to improve existing infrastructure and make it more efficient in the interest of attracting investment, contributing to regional integration, improving international competitiveness and broadening the ownership base of the local economies served by corridor, including in Mozambique and Maputo province itself (Campbell et al. 2012). The rest of this report examines whether the MDC, as a logistics value chain (figure I.1), has lived up to these objectives and how this can be tracked by the indicators, as well as what the findings imply for future initiatives and policy formulation.

Figure I.1: The logistics value chain as applied to the Maputo Development Corridor (MDC)



Source: UNCTAD

[4] At the western end of the corridor are Johannesburg and Pretoria, and moving east toward Mozambique, the corridor passes through, among others, key areas of aluminum production close to Maputo, including Mozal.

This report is primarily based on dedicated desk research carried out by UNCTAD, other studies undertaken by UNCTAD, including a recent Investment Policy Review (IPR) involving fieldwork, and analytical work and reports by other organisations. In addition, given the data limitations detected at the beginning of the study, an attempt was made to obtain company information through a survey. However, and despite the support received by the MCLI secretariat, data collection proved difficult due to a low response rate. Inasmuch as the company responses were insufficient, and are not a representative sample, the survey results are not used in this report. However, such surveys are essential to gather information on company, industry and value chain developments and the key lesson is to adopt a more robust methodological approach in the future, building rapport with company respondents, within a systematic long-term national statistical plan.

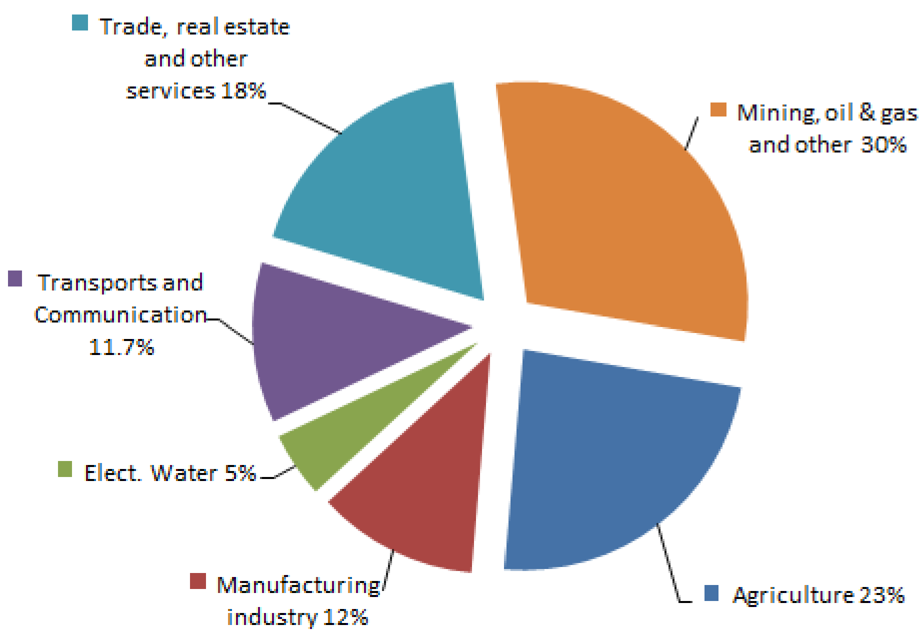
The structure of this report is as follows:

- Section II will provide a brief overview of the current profile of investments in Mozambique and in the logistics value chain in particular;
- Section III will look at the impact of investments in the target sectors through the lens of the indicator framework, adapted to the logistics value chain;
- Sections IV will develop the key findings based on the indicator approach; and
- Section V will draw final conclusions and formulate recommendations.

II. INVESTMENT PROFILE

Despite the adverse global economic environment, Mozambique has succeeded in sustaining a long-period of high economic growth. With a 7% average annual real GDP growth rate over the last seven years, it remains one of the fastest growing economies among Least Developed Countries (LDCs). In 2011 nominal GDP stood at US$12.6 billion and GDP per capita at US$571, up from US$4.1 billion and US$236 respectively in 2000. Agriculture, mining and, increasingly, the oil & gas industry are the mainstays of the economy, between them accounting for over 50% of the country's GDP. Much of this is exported; hence the significance of the transportation and communications sector (11.7%), as well as trade related services (around 18%) (figure II.1).

Figure II.1: Contribution of selected sectors to Mozambique's GDP, 2011

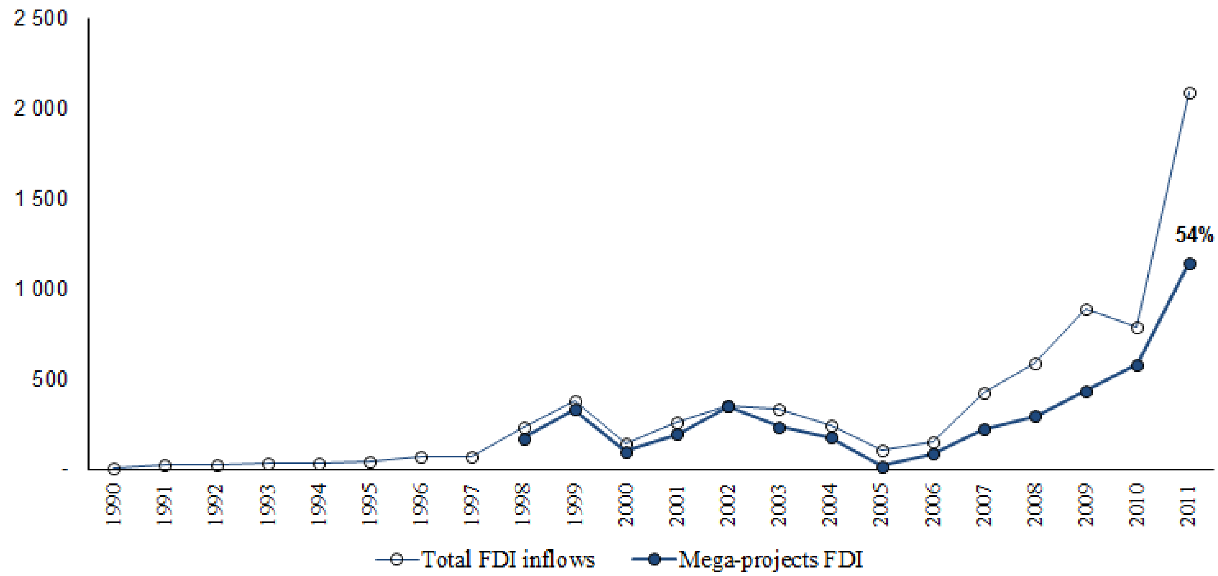


Source: Bank of Mozambique

Foreign direct investment (FDI), especially in extractive industries, related smelting activities (aluminum) and a number of large-scale mega-projects have been among the main drivers of Mozambique's growth. The scale of this investment has surged since 2005(figure II.2) , hitting $2.1 billion in 2011, though a very large share of this investment is in a small number of mega-projects. Over 2004-11, the largest investments in the country have been from Brazil, Mauritius and South Africa, though companies from Ireland, Switzerland and Portugal are also important (figure II.3).

Vale's US$170 million coal-processing project is the largest Brazilian investment in the country; and, additionally, the company has invested $US130 million on the Beira railroad and on the coal export terminal at Beira port. South African companies were among the pioneers in Mozambique and initiated the first mega-project. Most of their US$2 billion investments (on an approval basis until 2009 were in 2 mega-projects: the Mozal aluminium smelter plant and the Sasol natural gas extraction and pipeline project (UNCTAD, 2012). Tourism and other niche markets have also benefited from smaller South African investments.

Figure II.2: FDI inflows to Mozambique, 1990-2011
(Millions of dollars)



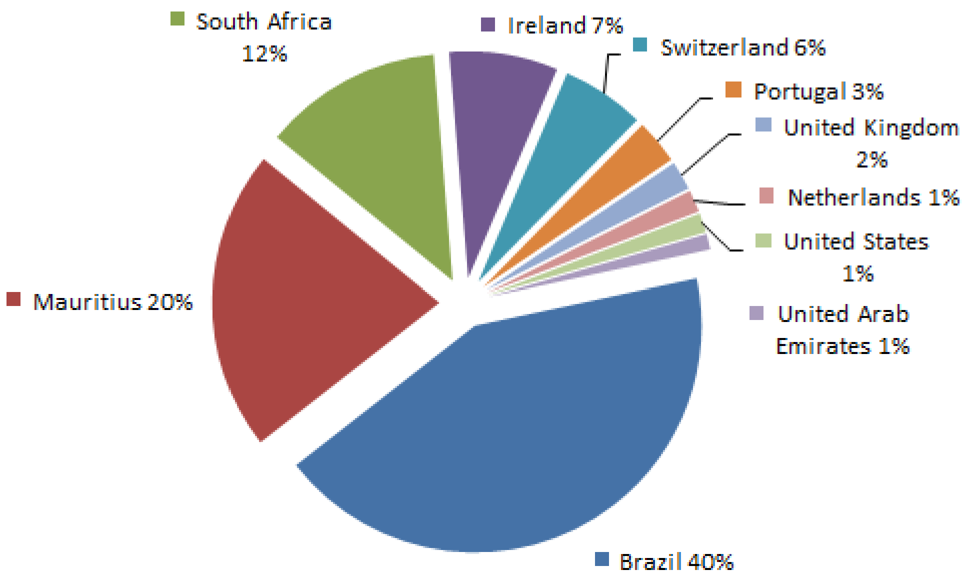
Source: UNCTAD FDI/TNC database and Bank of Mozambique

Apart from Irish and Swiss companies, those from the UAE are also significant new investors. In 2012 they received approval for 20 new projects, with a total value of US$309 million, spread across the industrial, tourism, transport and communications, and construction and services sectors. The CLIN-Linhas Ferroviárias project attracted the largest share of these investments – US$196.5 million – for the construction of a railway between Moatize and the port of Nacala.

As mentioned earlier, the main element of Mozambique's success in attracting FDI has been in the form of large-scale capital-intensive investments. Between 2001 and 2011 FDI was highly concentrated in one sector - the extractive industry - which attracted more than 63% of total FDI, followed by processing industries and the transports and communication sectors which received about 6% of FDI (figure 4).[5] Among mega-projects, one of the largest foreign investments in transportation was the CCFB Railway, which arose from the sale of lease by the Mozambique Ports and Railways (CFM) to the Indian company Rites. Excluding mega-projects, during the period 1992-2010 Mozambique approved 139 foreign projects on transportation and communications worth US$ 294.4 million; that is 7.3% of total FDI in non-mega-projects.

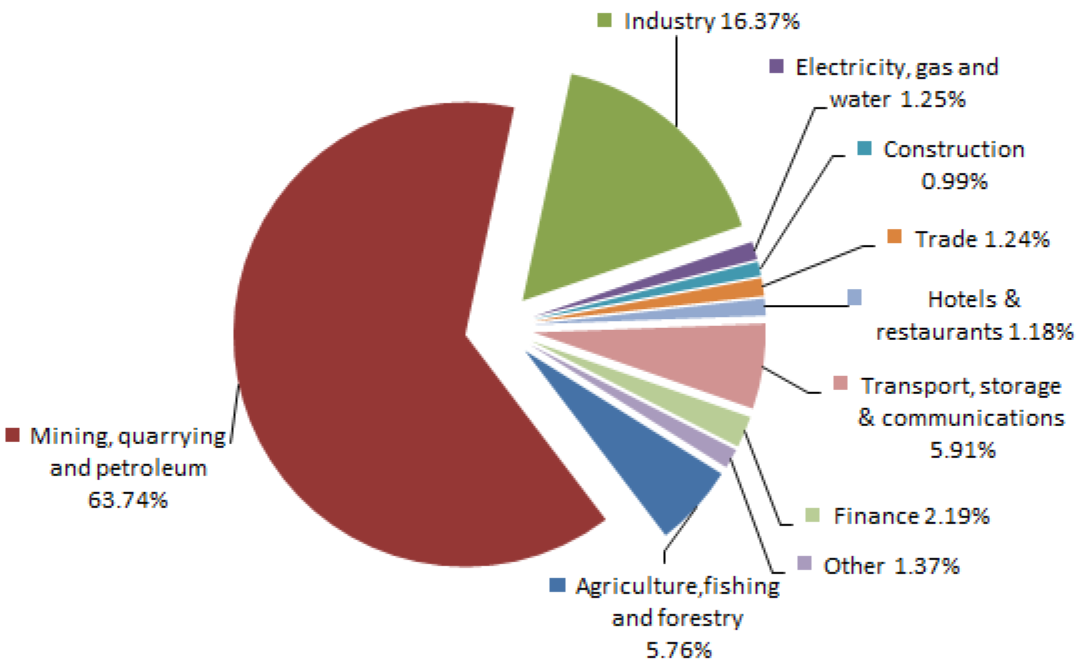
[5] Between 1997 and 2009, 4 of the 11 mega-projects registered by the Investment Promotion Centre (CPI)[5] were in mining for a total value of $US 5753.6 million, which represents 68% of the total amount of approved investment in mega-projects during that period.

Figure II.3: FDI flows by country of origin, cumulative 2004- 2011 (Percentage of total inflows for the period)



Source: UNCTAD FDI/TNC database

Figure II.4: FDI flows by sector, cumulative 2001- 2011 (percentage of total inflows for the period)



Source: UNCTAD FDI/TNC database

Investment in the logistics value chain

The limited amount of FDI in the transport and logistics sector in Mozambique as a whole, and in the MDC in particular, is because private investment in infrastructure has occurred mainly in the form of concessions under public-private partnerships. These are not recorded as FDI flows. From 1993 until 2011, 16 private infrastructure projects amounting to a total investment of US$ 2.9 billion were registered in Mozambique. Of the 16, 9 projects were in the logistics value chain (WB PPI database).

Attracting private investment for the rehabilitation and expansion of infrastructure has been one of the key priorities of the Mozambican government since the end of the civil war. However, the public sector and the donor community have been to date the main sources of financing. Since 2001, government expenditures on infrastructure have been around 10% of GDP annually; two-thirds of it being capital expenditures. In contrast to other infrastructure sectors (e.g. power and water), the majority of total capital expenditures in the logistics value chain come from private sources (AICD, 2011).

Within the logistics value chain, most public-private effort to date has been in the Maputo development corridor (MDC). Since launched in 1996, the private sector has committed US$5 billion on infrastructure and mega-projects in the Maputo Corridor. In order to further promote the development of the corridor, a group of infrastructure investors, service providers and users was created in 2004 as the Maputo Corridor Logistics Initiative (MCLI). The mission of the MCLI is to make the Corridor a sustainable and efficient route to facilitate investment, regional and international trade and sustainable development for the communities in the Corridor hinterland. One of the most recent private investments in the logistics value chain within the Corridor is the construction of a new cargo and domestic terminal at the Maputo Airport. This US$70 million airport modernization project has been undertaken by the Chinese company Anhui Foreign Economic Construction Group (AFECC).

The vast bulk of the investment and operations in the transport components - airport, rail and road - of the MDC are by public sector companies, in one case a partnership between the Mozambican and South African ones (table II.1). In the case of the port, however, private companies are to the fore, as concessionaires, and in most cases there is a foreign TNC involved, including Agrimol (South Africa), BHP Billiton (Australia), DP World (UAE), ED&F (UK), Hoegh Autoliners (Germany) and Wilmar International (Singapore). Between them they have made considerable capital expenditures, but it is worth bearing in mind that this type of investment is highly concentrated among a few actors.

Port Maputo: In 2003 a 20-year concession, renewable for further 10 years, to manage and develop the port was awarded to a joint venture which ultimately became the Maputo Port Development Company (MPDC) (table II.1). MPDC is a PPP, with the government holding a majority stake directly and through the Mozambican Railways; the rest of the ownership is currently held by two private investors, Grondrod (South Africa) and DP World (UAE). MPDC holds the rights to finance, rehabilitate, construct, operate, manage, maintain, develop and optimize the entire concession area. The company also holds the powers of a Port Authority, being responsible for maritime operations, piloting towing (tugboats), stevedoring, terminal and warehouse operations, as well as port's planning development. As part of a 20-year master plan, an investment of US$1,7 billion in port growth and development to service the demands of the region is projected until 2033. To date, just under US$300million has been invested in infrastructure, equipment and training. As part of the MDC, port Maputo has direct road and rail connections with Lesotho, South Africa, Swaziland and Zimbabwe.

Port terminals. Maputo port has 2 terminal areas, Maputo and Matola, each containing several terminals mostly operated by private foreign companies under subconcession agreements with MPDC. The majority of these terminals are dedicated to the export of outputs from megaprojects, such as aluminum and agricultural and mineral products (some as transshipments from neighbouring countries). A few terminals also cater for the export and import of a variety of products, and one is dedicated to cars.

Table II.1: Main actors operating the Maputo Corridor infrastructure

Infrastructure	Facility	Operator	Type of ownership and nationality of investor(s)	Status of operation
PORT	**Deepwater port and terminals**	Maputo Port Development Company	Private-Public partnership between the Mozambican Railway Company (CFM), Grindrod (South Africa) and DP World (UAE). The Government retains 49% share	PPP/concession
	1. Maputo terminals			
	(a) Container terminal	DP World Maputo	Private - UAE	Subconcession
	(b) Bulk liquids/Tank Storage	Maputo Liquids Storage Company, Lda	Subsidiary of Equatorial Trading Limited of Malaysia, part of Wilmar International Limited of Singapore.	Subconcession
	(c) Car terminal	Grindod / Höegh Autoliners	Private- South Africa (70%) and Germany (30%)	Subconcession
	(d) Bulk sugar terminal	Sociedade Terminal de Açucar de Maputo Lda (STAM)	Private. Managed by Manica (Namibia)	Subconcession
	(e) Bagged sugar terminal	ED&F Man Mocambique Lda	Private - U.K.	Subconcession
	(f) Molasses terminal	Agrimol (Pty) Ltd	Private - South Africa	Subconcession

	(g) Coastal terminal	Terminal de Cabotagem De Maputo Sarl - Grupo E.T.E	Private- Public. Main shareholder is Navique (Empresa Moçambicana de Navegação, privatised in 1997, shareholders include Transinsular - Portugal (49%), State of Mozambique (20%) and Focus 21, Lda. (31%).) and CFM	Subconcession
	2. Matola terminals			
	(a) Aluminium terminal	Mozal import/export	Private - Public joint venture between BHP Billiton (47.1%), Mitsubishi Corporation (25%), Industrial Development Corporation of South Africa Limited (24 %), and the Government of Mozambique (3.9%).	Subconcession
	(b) Coal terminal	Grindod/Vitol	Private. South African (65%) and Dutch (35%)	Subconcession
	(c) Grain terminal	STEMA – Matola Silos and Grain Terminal, SA	Private - Mozambique	Subconcession
ROAD	**Mozambique N4 Toll Road**	Trans African Concessions (TRAC)	Private-Public South African/Mozambique bilateral partnership	PPP

RAIL	**Mozambique Railway**	Caminhos de Ferro de Mozambique (CFM)	Public	Not applicable
AIRPORT	**Domestic terminal**	Mozambican Airports Company	Public	Not applicable
	International terminal	Mozambican Airports Company	Public	Not applicable
	Cargo terminal	Mozambican Airports Company	Public	Not applicable

Source: UNCTAD

III. INVESTMENT IMPACT

The logistics value chain, which is the focus of this pilot study, differs from others analysed in the remaining six country cases because its main focus or raison d'être is to *induce* physical linkages and productivity/cost reduction effects in other industries (table III.1). This section will therefore concentrate on indicators which reflect this aspect of investment in the chain, including (in the context of the MDC) the increase in trade and increase in investment. Most of the pertinent available data for the country are for Mozambique as a whole, which makes judgment of association between the MDC and key indicators a matter of judgment. However, inasmuch as the MDC has received the lion's share of investment in the logistics value chain to date (as well as other projects), though this will change with new Government initiatives, and handles 50% or more of container traffic (more by value) of the country's trade, means that the association is easier to make. In addition, the bulk of the country's largest 100 companies, which are referred to in this section, as well as their operations are in Maputo or Maputo province.

Table III.1: Development impact of investment by type of global value chains: summary of selected issues

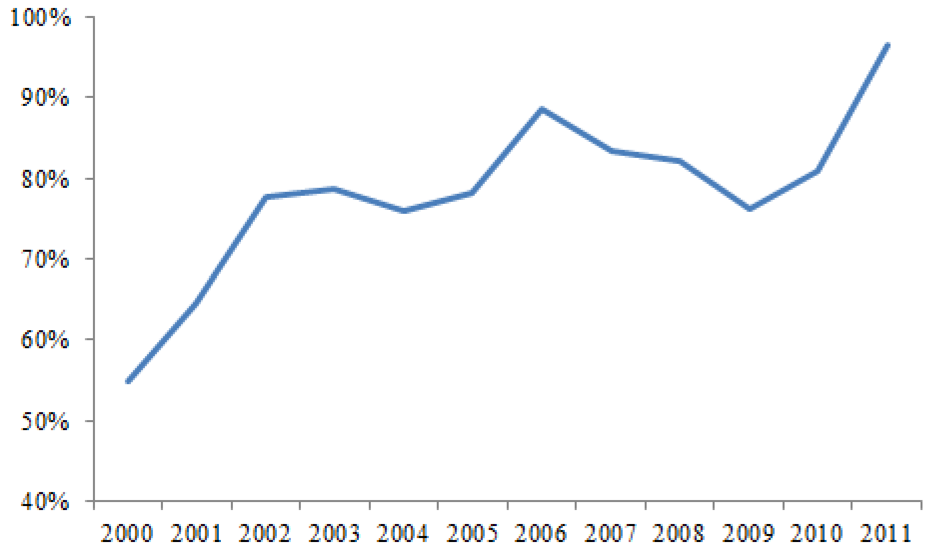
Issue	Type of value chain		
	Garments	Tourism	Logistics
Key nodes in chain	Lead buyers, key designers, textile production, garment assembly.	Travel and transport agencies, accommodation, restaurants, tours and shopping	Ports and road/rail operators, distributors, exporters and importers
Importance for low income countries	Extent to which LICs contribute to garment assembly, depending on competitiveness	Extent to which LICs capture tourism flows depending on locational assets and competitiveness	Efficiency gains in transportation and communication, supporting development in other sectors, locally, regionally and internationally
What are the most important type of effects on the local economy	Involve **direct effects** visible which are directly measurable (e.g. employment in garment assembly)	**Indirect effects** important but more difficult to trace (backward linkages, tourism spend in local economy)	**Induced effects** most important but hard to measure, e.g. forward linkages through productivity / cost-reduction effects elsewhere, in agriculture, mining and manufacturing
Where is the greatest scope for upgrading or improving the impact of the value chain	Upgrading within value chain segments important as a first step on the manufacturing ladder.	Effects on the local economy depending on 1) the volume of FDI; and 2) the extent to which there are local linkages.	Efficient logistics are key for upgrading in other value chains – e.g. in reducing constraints to growth and entry into value chains in LDCs and landlocked countries

Source: UNCTAD

Economic Value Added

Trade generation. Since 2000, the country's trade as a ratio of GDP has risen from a little over 50% to approaching a 100% (figure III.1). This indicator directly reflects the principle goal of the logistics value chain, that is to generate business activity and trade in the country, region and beyond. Such a high ratio also arises from MDCs goal of linking the African hinterland to international markets. The massive increase in trade volume following the establishment of the MDC and rising investment since the 2000s can also be seen in the 260% increase in cargo tonnage at the port between 2003 and 2010 (table III.1).

Figure III.1: Mozambique's trade (exports and imports) as a share of GDP.



Source: UNCTAD and IMF.

Table III.1: Maputo Port: Volume growth in cargo tonnages, 2003, 2010-2013.

Year	2003	2010	2011	2012	2013[e]
Mil. Tonnes	5	10	12	15	17

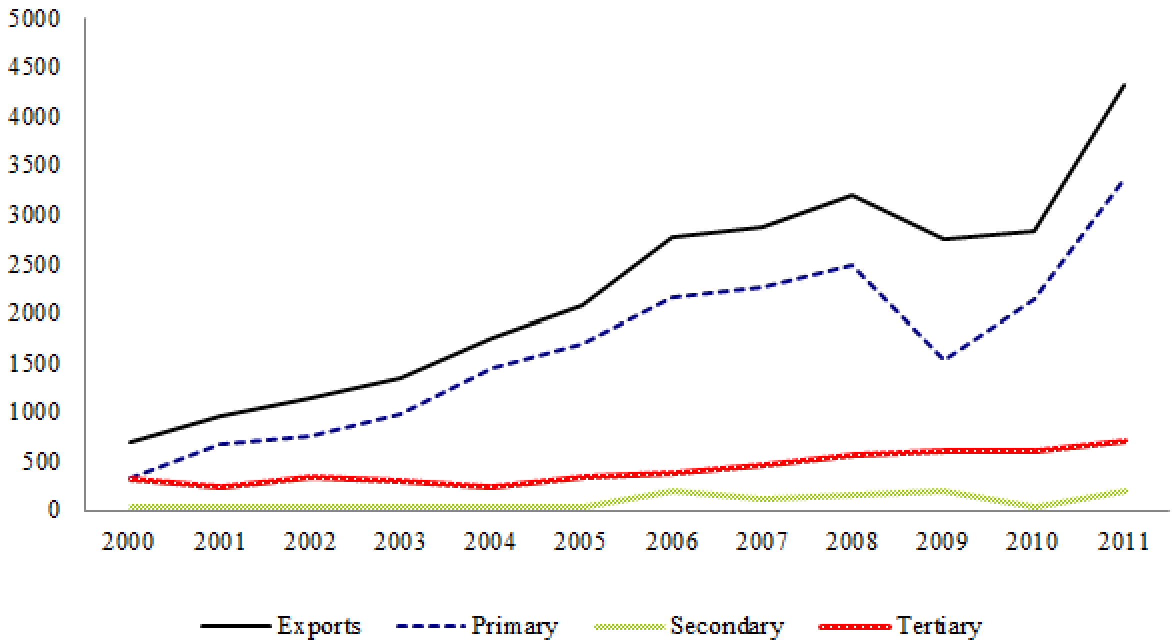
Compounded average growth of 21% between 2003-2013 or a 260% growth in 2003-2012.

e. estimate

Source: Maputo Port Authority

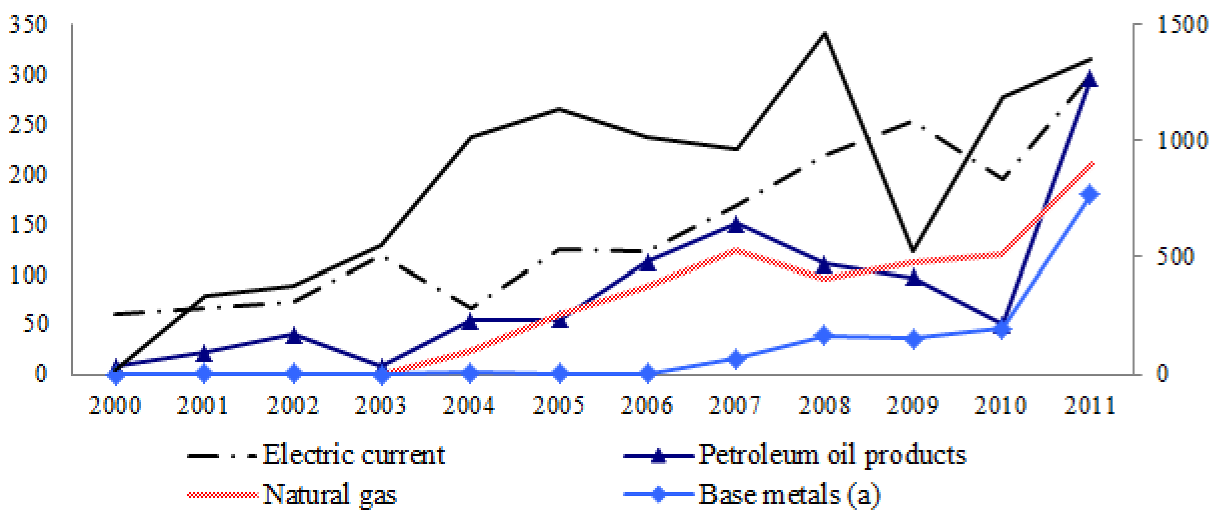
In line with the types of additional investments generated by the MDC, most of the exports from the country are in the primary sector associated products, and more specifically in aluminum, base metals and power (figures III.2 and III.3). The exports of base metals are mostly to international markets, but electricity exports and much of the aluminum output goes to regional markets, especially to South Africa, Inasmuch as MDC represents a west-east corridor with major terminuses in Johannesburg and Maputo, investment in logistics has served a primary function of boosting intra-regional activity.

Figure III.2: Mozambique exports, 2000-2011 (US$ million)



Source: UNCTAD

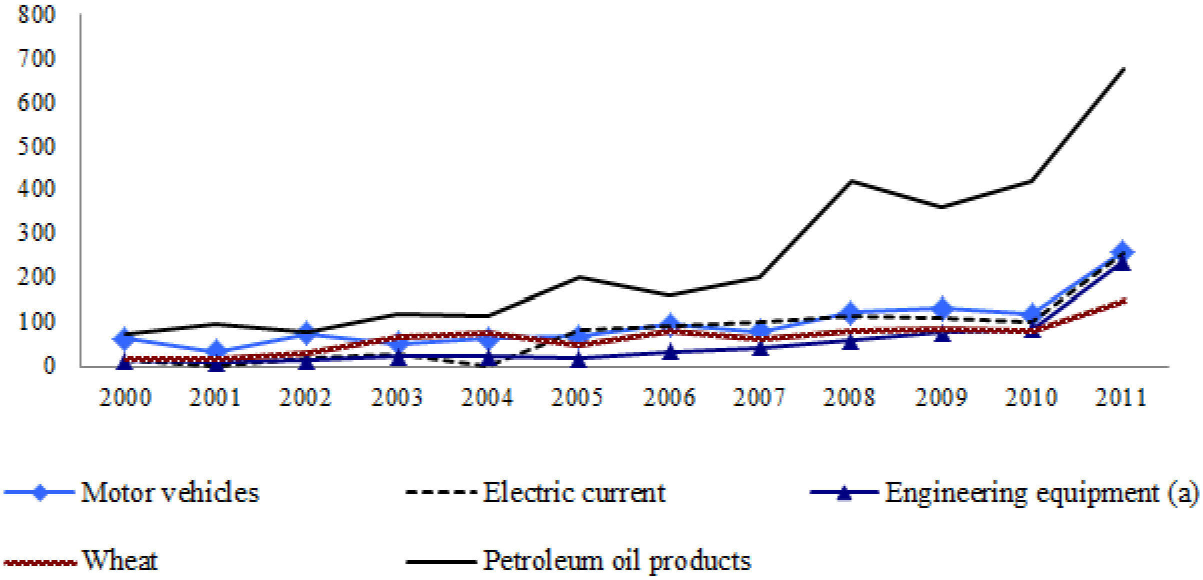
Figure III.3: Mozambique, main export products, 2000-2011 (US$ million)



Source: UNCTAD
Notes: Top five product categories based on three digit level SITC, Rev.3 commodity classification.
(a) Ores and concentrates of base metals

The rapid rise of imports into Mozambique also reflects investment associated with the MDC (figure III.4). Motor vehicles are now a significant import, hence the car terminal at Maputo port, both for Mozambique and the region. More interestingly, the port area is essential for the import of engineering equipment required for mega-projects in the country.

Figure III.4: Mozambique, main import products, 2000-2011 (US$ million)



Source: UNCTAD
Notes: Top five product categories based on three digit level SITC, Rev.3 commodity classification.
(a) Civil engineering & contractors' plant & equipment

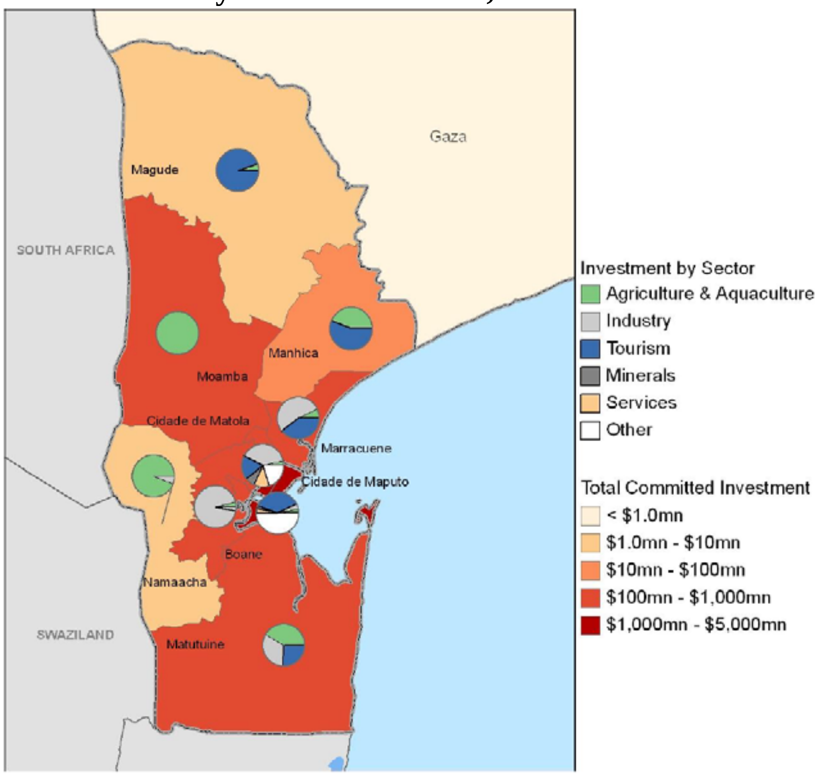
Investment generation. Since 2000 there has been a marked increase in investment in Maputo province (map III.1). The regions covered by the MDC in the Mozambique side of its international borders, that is Maputo itself and the main spurs to South Africa and Swaziland, have received the largest value of investments, with significantly lesser amounts in contiguous regions. In other words, better connections to the port, railroad and roads encourage investment. These regions are also where nearly all investments in industry (aluminium) and minerals are based, i.e. most of the mega-projects. Other regions within Maputo province have tended to receive investment in tourism and agriculture, which may be less reliant on the type of infrastructure being provided in MDC (as well as reflecting the location of the types of resources needed to attract such investment and activity).

The issue of how well the logistics value chain connects regions, communities and activities is important. The preponderance of mega-projects in the mix of inward investment in Mozambique implies that some regions and many communities are not well-served. One of the reasons for this is the MDC's cross-regional mandate in Southern Africa. This also affects larger-scale projects too. For instance, Vale (Brazil) and Rio Tinto (Australia) have significant coal mining operations in the country, but the lack of infrastructure capacity to cope with the expansion of coal mining operations has hampered transport of coal from pit to port. Investors complain of inadequate infrastructure support to the transport of coal from remote mines in Tete to the port of Beira.[6] To

[6] See "Mozambique's poor infrastructure slows coal exports", 18 March 2013 (http://www.theafricareport.com/Society-and-Culture/mozambiques-poor-infrastructure-slows-coal-

overcome logistical problems, investors such as Vale and Rio Tinto have announced plans to expand their production capacities at the mines, as well as investment to expand railway linkages to the port. Although this example is for Beira port, the same challenges apply to MDC and the logistic value chain as it is currently conceived in the country more generally.

Map III.1. Maputo Province CPI- authorized investment by district and sector, 2005–2009



Source: World Bank, 2011

The rapid rise of investment into Mozambique, very closely associated with the public-private sector development of the logistics value chain can be seen in the jump of FDI flows to Mozambique from an average of US$385 million in 2005-2007 to over US$2 billion in 2011 (table III.2). The discovery of oil and gas off the Mozambique coast partly boosts the numbers in recent years, but Mozambique's FDI performance is much better than Tanzania's, partly reflecting the better port, terminal and logistics facilities in the country (there is a need for quality infrastructure to support necessary imports for the industry, as well as bunkering and associated facilities for exports). Apart from South Africa, overall Mozambique has the best performance by FDI stock and FDI as a ratio of gross fixed capital formation and GDP in comparison to close comparator countries in the region, namely Madagascar and Tanzania.

exports.html) and "Analysis – Poor railways, ports put brake on Mozambique's coal rush", Reuters, 16 April 2013);http://uk.reuters.com/article/2013/04/16/uk-mozambique-infrastructure-idUKBRE93F0R020130416

Table III.2: FDI Flows to Mozambique and comparator countries: performance, selected years (millions of US$ and percent)

	FDI flows				as a percentage of gross fixed capital formation			
	Annual average 2005-2007	2009	2010	2011	Annual average 2005-2007	2009	2010	2011
Mozambique	**230**	**893**	**989**	**2093**	**18.2**	**44.1**	**36.8**	**67.4**
Madagascar	385	1 066	860	907	25.4	51.7	56.2	35.8
South Africa	3938	5365	1228	5807	8.0	8.4	1.5	7.5
Tanzania	640	953	1 023	1 095	15.3	15.3	15.5	15.0
Southern Africa					8.7	13.2	2.3	5.7
	FDI stock				**as a percentage of gross domestic product**			
	1995	2000	2010	2011	1995	2000	2010	2011
Mozambique	**356**	**1249**	**5311**	**7404**	**15.6**	**46.7**	**55.7**	**55.8**
Madagascar	172	141	4 452	5 359	5.5	46.2	50.9	53.6
South Africa	15005	43451	153133	129890	9.9	41.5	42.1	31.8
Tanzania	620	2 781	7 089	7 825	10.2	30.2	30.6	32.8
Southern Africa					14.1	37.2	37.2	28.3

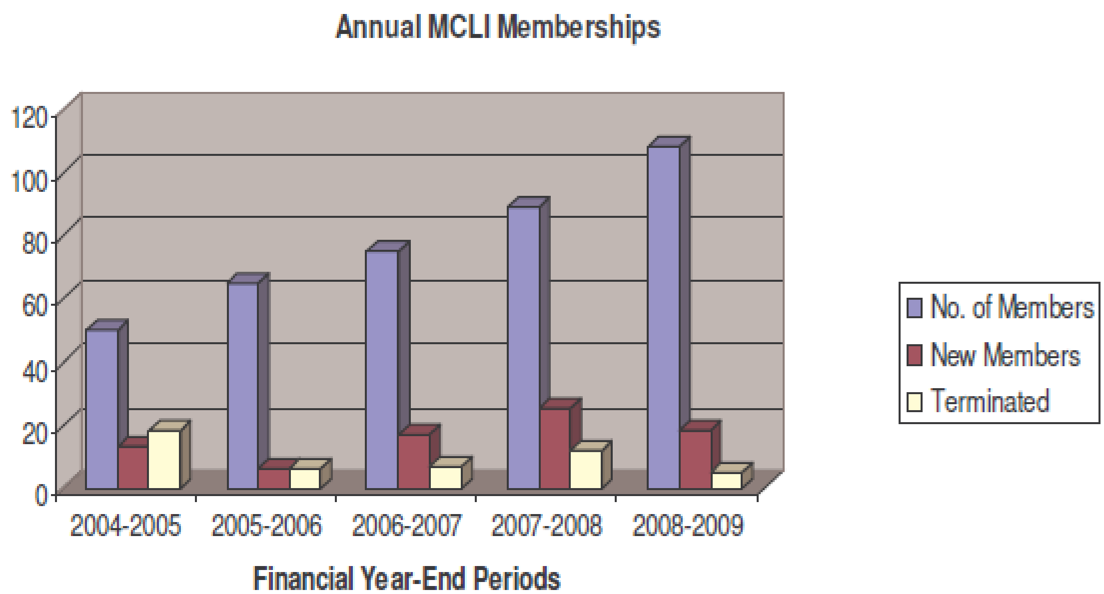
Source: WIR 2012, Country fact sheet: Mozambique (www.unctad.org/fdistatistics)

Induced impact on the economy

Number of business entities. The MDC as a whole has created only a limited number of entities within the logistics value chain, partly reflecting the nature of the value chain, but also the focus on mega-projects in the country and the structure of regional trade. As a whole, the MCLI - which includes all the significant private sector logistics firms in the MDC (and a few public sector companies and associations) currently has 117 members, with the membership swelling three-fold since 2004 (figure III.5). Though separate data are not available, from the foregoing analysis it is clear that as a whole these companies constitute (or play a major role in) a large share of Maputo and Mozambique's economy, trade and employment. As well as an induced impact on the economy through efficiency gains associated with logistics (below), they are also responsible for indirect effects such as linkages with suppliers and multiplier effects associated with their workforce.

Figure III.5: Membership of the MCLI

MCLI currently has 117 members operating in the following areas:	
Cargo Owners	Port Agents
Clearing & Forwarding Agents	Press and other
Developers	Rail Operators
Financial Institutions	Road Operators
General Interested Parties	Road Transport Operators
Inter-Modal Operators	Shipping Brokers
Logistics Companies	Shipping Lines
Multi-Purpose Agents	Security Services
Ports	Terminal Operators



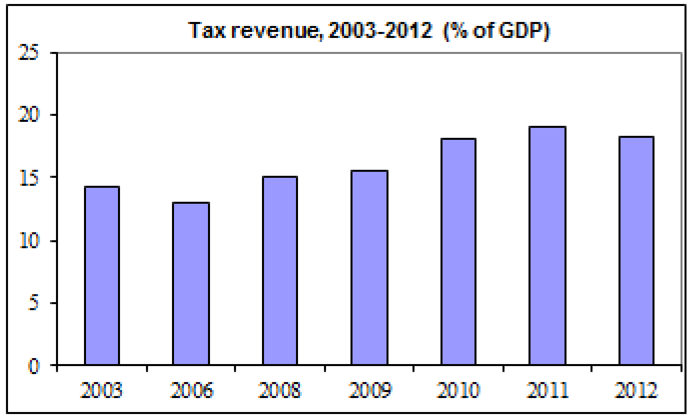
Source: MCLI and Campbel et al. (2011)

Economic indicators associated with major non-logistics companies in Maputo/Mozambique. Business activities in and around Maputo have grown in line with the development of the logistics value chain in the city and province, and play an important role in contributing to the economic growth, employment, export and revenues of the country (KPMG 2012). For instance, in 2011, the top 100 companies in Mozambique, most of which are headquartered in Maputo, generated a combined revenue of $8.04 billion or 64% of the country's GDP (figure III.6).

These companies are also responsible for some 35% of the country's tax revenues from income and profits and directly employed over 62,000 people, which represented about 0.55% of the country's working population. If indirect employments were added, these 100 companies would contribute more significantly to the country's employment generation (exceeding 1%). Companies operating in services and transport and storage, i.e. within the logistics value chain, contributed 48% of the total employment generated by these 100 companies.

Figure III.6: Selected macroeconomic indicators, 2010-2011

	2010	2011 (est)
GDP (US$ bn)	9.545	12.543
GDP growth (%)	7.1	7.3
GDP per capita (US$)	442	571
Total tax revenues (US$ bn)	1.71	2.46
of which tax revenues from income & profits ($ bn)	0.56	0.855
Tax revenue (% GDP)[1]	18.1	19.1
Export (fob) (US$ million)	2333	3118
(of which: mega-project exports)	1668	2015



Source: IMF (2013) and AfDB (2012)

Table III.3: Revenues and taxes of top 100 companies operating in and around Maputo, 2011

	MT (mil)	US$ (mil)
Revenues of the top 100 companies	**233,874**	**8,037**
Total employment	**62197**	**..**
Estimated taxes paid by the top 100 companies	**8634**	**296.73**
of which:		
Industry sector	4269	146.70
Commerce	869	29.86
Transport and storage	1095	37.63
Services	674	23.16
Financial activities and insurance	1689	58.04
Communications	-491	-16.87
Construction	458	15.74
Agriculture & fisheries	-4	-0.14
Accomodation, restaurants, etc.	76	2.61

Source: KPMG (2012)

The growth in private sector activities and investment in Mozambique contributed to the country's steady increase in tax revenue (as a percentage of GDP) (table III.3). In 2003 tax paid by the top companies was about 14.3% of GDP, but by 2011 this had risen to 19.1%; indeed in the latter year the top 100 contributed 35% of all taxes collected in the country. In general, the top Mozambican companies pay a significant rate of tax on their profits (23% in 2011), though this average is below the corporate tax rate (32%) (KPMG 2012). This is because a number of companies, including foreign ones, benefit from incentives on a number of their investments. Overall, the tax yield achieved by the Mozambican government compares well with other developing countries and represents a sizeable amount for government services and capital expenditure.

Social impact

Poverty rate. Although rapid, continued growth in Mozambique has resulted in a significant rise in GDP per capita to US$571 today, as well as a gradual decline in poverty, 54.7%[7] of the population still lives on much less than $1.25 a day. The economic and social benefits accruing from MDC investment, investments attracted by the development of the logistics value chain, and other induced business development has not spread widely. This is partly because a focus on the wider region has resulted in a neglect of local linkages (e.g. link roads and rail spurs to service domestic communities and business activity), which is then amplified by a lack of appropriate transport, logistics, and ancillary services. Another, related issue is that much of the FDI and other private sector investments attracted are mega-projects, which by their nature can take the form of enclaves with few linkages with local businesses and communities (or employment generated). The MDC, and perhaps Mozambique's development strategy more generally, has neglected local development in favour of regional development and concentrated areas of domestic development. The hinterland through which much of the MDC and other logistics value chains stretch remains neglected and unsupported; sustainable development necessitates a re-evaluation of this strategy in favour of ensuring that logistics value chains better serve the local economy and communities, as well as regional and international markets.

[7] The figure corresponds to 2008, last World Bank estimate.

IV. THE LOGISTICS VALUE CHAIN: POLICY CHALLENGES AND OPPORTUNITIES

Opportunities

- With an extremely privileged and strategic location, Mozambique is a natural exit to most of its landlocked neighbours. In this context, the Maputo Corridor has enormous opportunities for further growth as a crucial logistics value chain encouraging regional integration, as well as development within the country. The lessons of the MDC can be applied to other logistics value chains in the country.

- Rising two-way trade with Asia represents an opportunity for Mozambique to boost its role as a logistics hub in the region, which would include not only warehousing and inventory management but also a range of packaging, dispatching and processing services and activities.

- Despite, MDCs successes as a regional logistics hub, and driver for FDI and non-equity operations by foreign companies in Mozambique, further facilitation of trade is crucial for the corridor to maintain its strategic role. The imminent implementation of the Tripartite Free Trade Area in 2014 and the intention of the Continental Free Trade Area to be operational by 2017, have huge implications for trade facilitation systems and facilities and legislative amendments, and represent an opportunity which can be used for good effect.

Challenges

- Turning these opportunities into actual businesses, jobs and value-addition requires further investment in infrastructure – transport and other – that cannot be fully met by the financing capacity of the Government. The sound business fundamentals of Mozambique as a logistics hub, however, mean that it is possible to attract private investment under various forms of PPPs, as well as FDI. In order for PPPs to take off, a sound regulatory framework is fundamental (UNCTAD, 2012).

- A logistics hub, which creates overall economic value added for the region and Mozambique is insufficient if there are inadequate linkages to the local economy to boost activity by SMEs and other entrepreneurial actors, as well wider social impacts leading to poverty reduction and the uplifting of communities and individuals. As the analysis in section III indicated, this is an issue for local communities (the poverty rate remains stubbornly over 50%), local businesses and even major foreign firms which find that they are not well connected to the MDC (or indeed other similar logistics value chains). This

- MDC faces a number of operational constraints, e.g.
  (a) Complexity of aligning the legislation of the myriad of government agencies operating on both sides of the border, as each government has its particular approach to the process of trade facilitation and on security concerns (SAIIA, 2012);
  (b) High prices set by Transnet Freight Rail (South Africa rail company) for transporting goods on the Maputo line is a barrier to the flow of goods and to the continued extension of the export terminal port in Maputo (SAIIA; 2012);

(c) In terms of railway connections, there still are not enough railway linkages between South Africa and the port; the turnaround time of trains is very long, 20 to 40 days, there is no rail passenger service across the border, and there are few regularly operating trains. Maputo also suffers from a chronic shortage of water. (WB, 2011);
(d) The Maputo port still does not have an advanced computerized information system and is inadequate to handle large vessels (WB, 2011). Such a system would help alleviate deficiencies in customs administration: clearance times remain long. While the customs modernization programmes implemented by the South African Revenue Service and the implementation of the Single Electronic Window by the Mozambican customs authority, Alfandegas, have been fundamental to speeding customs clearing processes at the border post, the congestion and delays due to the lack of a 24-hour operation is a critical issue,
(e) The time and costs involved in shipping goods internationally remains a concern to export-oriented investors. The World Bank's Doing Business 2013 reports that 23 and 28 days are needed, respectively, to export and import a standardized cargo. Although this period compares well with other coastal countries in Africa, it exceeds by far the better performers in Latin America and Asia, or the top 25 countries in the world, where the time to import cargo is reported as 10 days or fewer.

V. CONCLUSIONS AND POLICY RECOMMENDATIONS

Attracting further private sector investment in the Maputo Corridor logistics value chain would have direct and induced positive impacts on the Mozambican economy, but appropriate policies are needed.

As shown in the impact section of the report, Mozambique has benefited from private investment in the Maputo Development Corridor, both directly and through induced effects arising from boosting transport and logistics in infrastructure and transportation. These benefits include overall economic value added, trade creation and regional integration, as well as fiscal revenues collected. In particular, the development of the private sector in the Corridor has contributed to increased levels of FDI, especially in mega-projects in mining and agriculture, as well as the expansion of related sectors such as business services, tourism, and financial institutions. Attracting additional FDI in the logistics value chain with the adequate expertise would further enhance these positive effects. However, positive economic and social impact on the wider community is minimal, primarily because the MDC has not placed any priority on linking the regional logistics chain with communities and businesses in Maputo province. Future policies and investments should directly address this issue.

The Maputo Corridor Development Initiative would benefit from private sector investment in several key areas of the logistics value chain.

There are a number of key operational concerns (section IV) which need to be addressed, and private sector investment can help in this respects. Areas the private sector could be further involved include:

- Infrastructure development and management (beyond the port)
- Trucking services
- Rail services

For the above, and in order to realize the full benefits of private sector investment in the corridor, some key policy actions are required.

Overall, the logistics value chain - and development impacts arising from it - would benefit from more proactive policies, greater commitment in carrying out the planned reforms, further cooperation between neighbouring authorities, and a closer consideration to widening the economic and social benefits to local businesses and communities in the interest of sustainable, inclusive development.

Several policy reforms and actions are recommended specifically for the expansion and development of the MDC:

- <u>Customs and trade facilitation reforms</u>: world class efficiency in customs procedures and trade facilitation is almost a sine qua non condition for the full potential of Mozambique's logistics hub potential to unfold. A number of areas should be underscored:
    - <u>Bonds for goods in transit</u> - an increase in backhaul cargo will significantly reduce the costs of transport in the region and will bring economic benefits. The adoption of a new legislation at the end of 2012 aimed at reducing and in some cases, eliminating, the need for bonds and guarantees on transit cargo was meant to pave the way for increased bidirectional cargo flow on the corridor. However,

in certain cases levies seem to have increased. Although the legislation is still very recent, the effects of its implementation on transit trade need to be monitored and further assessed.

Customs procedures - upgrading the computer information system and link with customs and border agencies; improving efficiency or streamlining scanning fee are areas for potential improvement (WB, 2011). The border post needs to extend its operating hours to bring in line with the Maputo port in order to minimize backlogs. The port requires sustained freight volumes to make it viable and users need a one-day turnaround time to make it worth their while (SAIIA; 2012). In 2007, the governments of South Africa and Mozambique have agreed to a 24h one-stop post, measure that expected to considerably increase freight movement. However, that has not been affected to date. Following the good results of the completion of the truck bypass road in 2011, streamlining operations in order to reduce the number of stops should be extended to passenger and business traffic-

- Reform to the PPP regulatory framework and proactive promotion of PPPs in infrastructure will be required in order to attract further necessary investment to address the current infrastructure needs, such as linking the Maputo corridor to the other corridors (Annex 2, AICD, 2011).

- Particular care will need to be paid to the trade and investment in services chapters of Mozambique's bilateral and multilateral agreements with its neighbours in order to ensure that there are no legal impediments to providing logistics services from Mozambique to South Africa, Zambia, Zimbabwe, Malawi, Botswana, Swaziland and the Democratic Republic of the Congo (UNCTAD, 2012).

- Institutional capacity building: While MCLI can act as the main forum for continuing consultation for the development of the Maputo corridor, setting up a new institutional private-public partnership that facilitates the decision-making process is vital, particularly in key issues such as funding arrangements and bringing the interests of local businesses and communities into the equation.

Annex 1

List of principal contacts

Organization	Contact Person	Title
Maputo Corridor Logistics Initiative	Ms. Barbara Mommen	Chief Executive Officer
Investment Promotion Centre (CPI)	Mr. Lourenço Sambo	Director General
KPMG, SA - Mozambique	Mr. Paulo Mole	Director, International Development Advisory Services (IDAS)
	Mr. Binit Varajidas	Project Manager, International Development Advisory Services (IDAS)

Annex 2

FDI Policy and PPP legal framework in Mozambique

❖ ***FDI Policy***

Mozambique adopted its first law on foreign direct investment in 1984. Recognizing the changes in the world economy and in the national policy context, Parliament passed a new Law on Investment (law 3/93) in 1993 in order to "favour greater participation, complementarity and equality of treatment of national and foreign investments". The law established an open and welcoming stance towards foreign investors. At the same time, the approach adopted by Mozambique was somewhat unusual in that the Law on Investment does not apply universally to all types of investments.

The provisions of the law in terms of rights and obligations apply equally to national and foreign investments[8] but only to the extent that investors actually seek to benefit from the guarantees and incentives established in the law. Foreign and national investors are not legally obliged to comply with the establishment procedures set by law 3/93, but the rights, protection and incentives defined therein are available only to those who do follow such procedures. In addition, the law specifically excludes investments in petroleum, natural gas and mining from its scope of application.

While the choice of being subject to law 3/93 or not is initially for the investors to make, the law also specifies eligibility conditions. Investments eligible to be approved under law 3/93 must, in principle, contribute to sustainable economic and social development, as defined by a set of 10 criteria that include: (1) development of infrastructure; (2) expansion of productive capacity; (3) job creation for nationals and skills transfers; (4) export creation; (5) import substitution; and (6) improving supply conditions on the local market. Until 2009, regulations required that 7 out of these 10 criteria be fulfilled for an investor to be eligible for an investment certificate. This requirement has now been eliminated.

In practice, the vast majority of foreign investors choose to follow the entry and establishment procedures set in law 3/93 because this is the only way for them to benefit from key provisions on treatment and protection as well as to access tax and other incentives.

Prior to establishing operations in Mozambique and complying with company start-up procedures (section C), investors that wish to benefit from the provisions of the Law on Investment must follow a formal registration and authorization procedure. This procedure is administered in the majority of cases by the CPI. Since 2007, the registration and authorization of investments in special economic zones (SEZs) and industrial free zones (IFZs) have been managed by the Special Economic Zones Office (GAZEDA).

Obtaining an investment certificate is not a legal obligation for foreign or national investors operating outside SEZs or IFZs. Yet, the certificate is required to benefit from the protection and benefits granted by the Law on Investment and to access the following benefits: (1) incentives on

[8] With the exception of provisions on transfer rights and international dispute resolution.

corporate income taxation; (2) duty-free import of certain goods; and (3) recruitment of expatriates beyond standard quotas.

❖ ***PPP and concessions legal framework***

Law 15/2011 of August 10 and Decree 16/2012 of June 4, regulate the process of contracting, implementing and monitoring undertakings of public-private partnerships (PPP), large-scale projects and business concessions

The law applies to: (1) all public-private partnerships aimed at the provision of public services or essential goods; (2) concessions involving the use of public goods or patrimony regardless of size and activity involved; and (3) mega-projects, defined as all those that involve investments above $500 million, irrespective of sector. As a result, a common set of rules will apply to projects of a strictly commercial and private nature (as long as they reach the threshold of $500 million), to investments involving the supply of services of a public nature (e.g. port or railway infrastructure or the supply of water and sewerage services), to projects leading to the exploitation of exhaustible natural resources (including mining projects from the prospection phase onwards) and to small-scale concessions at the municipal level.

All projects falling within areas pertaining to the public domain will have to go through a public tender procedure. Projects that are required to undergo a public tender process may obtain contracts of a maximum period of 15 years (management contracts) to 25 years (concessions). In all cases, contracts may be renewed at the end of the period, but only through a new public tender. A minimum of five agencies or government departments are involved in the procedure, including the CPI, the Ministry of Finance, the Ministry of Environment and the sectoral regulator.

Under the law, Mozambique seeks to adopt a forceful and regulations-based way to ensure a "fair distribution" of benefits to all stakeholders and the optimization of developmental impacts. As a general principle, "direct and indirect" benefits of projects falling within the scope of the law must be shared fairly between parties, including investors, the national economy and Mozambican society as a whole.

Direct benefits are defined to include the involvement of local entrepreneurs, tax revenues, foreign exchange earnings and the sharing of ordinary and extra-ordinary profits. Expected indirect benefits depend on the type of projects but include infrastructure development, job creation, transfers of skills and technology, and contribution to the development of local SMEs.

A number of requirements are imposed on investors, including local participation requirements. Regarding taxation, the law stipulated that investments falling under the scope of the law are subject to the standard corporate income tax regime. In addition, a number of taxes and measures are imposed on them:

- Companies are required to distribute profits earned at the end of each tax year. Exceptions may only be granted for exceptional and duly justified reasons of force majeure.

- Exceptional profits resulting from favourable price and market conditions must be distributed "*equitably*" among all shareholders. What constitutes exceptional profits and an equitable distribution is not defined.
- A number of specific taxes apply on projects attributed through public tender. Non-mining concessions are subject to a fixed tax of 5 to 10 per cent of expected average profit throughout the life of the concession, in addition to a variable tax of 5 to 10 per cent of gross revenue.

The law also stipulates that concession contracts must explicitly specify the indirect benefits that should be derived from the project. An institutional mechanism is to be set up to ensure compliance with the generation of indirect benefits. The draft implementation decree also imposes that all projects put in place concrete programmes to train Mozambican workers and to generate transfers of technology and know-how.

Source: UNCTAD IPR of Mozambique

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