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Thematic Focus:

Africa at a Turning Point? The Case of Mozambique

Exclusive interview with President Guebuza

Africa is on the move. This is reflected for instance in strong economic growth that remained at around 5 per cent in spite of the global economic slow down; but also in terms of gradual structural transformation, as recently documented by the IMF. This gives rise to a legitimate new sense of Afro-optimism, first and foremost among Africans, but increasingly among international investors, notably from emerging economies.

Yet, challenges are numerous. From South Africa to Nigeria and Egypt, the traditional African powerhouses have been confronted internally with diverse social, political, institutional and security turmoil. Poverty and inequalities remain high in most African countries, while basic principles of good governance are still too seldom pursued.

How can African countries, some of which remain among the poorest in the world, best tap new opportunities to pursue effective inclusive and sustainable growth? This has been an underlying theme in ECDPM's new GREAT Insights, ranging from African ambitions towards regional integration and trade linkages for development, to ways and means to mobilize domestic resources, to harness private sector forces for development, and to unleash the potential of natural resources like agriculture and the extractive sectors to stimulate balanced and sustainable development.

For this last issue in its first year of publication, GREAT Insights focuses on the case of Mozambique as an illustrative example of an African country that has recently experienced high economic growth and discovered vast extractive resources. How will the country tackle the challenge of structural transformation in the coming years? How can natural resources windfalls be turned into a blessing and will the curse be avoided? Will the benefits be captured by the ruling elites or will they effectively contribute to alleviating the endemic poverty and extreme inequality that characterize the Mozambican society today? In particular, how can the still mostly rural population share parts of the Mozambican



new dream and great economic potential? How will agriculture be developed? How many and what kind of jobs will be created? What is the vision of the government? And how can the international community best contribute to a positive transformation in Mozambique? Will donors still have a role, and if so what will it be?

While addressed in the context of Mozambique, these are issues that reflect some of the potential and existing challenges that all of Africa is confronted with.

To shed light on some of these questions, this issue of GREAT Insights features an exclusive ECDPM interview with the Mozambican President Armando Emilio Guebuza, who highlights some of his ambitions and priorities for his country. In addition, Mozambican and international experts and officials share some of their insights on the various dimensions of the development opportunities and challenges facing Mozambique.

We would like to take this opportunity to thank all the contributors to GREAT Insights this year for sharing their perspectives in a candid and insightful manner, as well as the institutions that have joined us to produce thematic issues of GREAT Insights. As always, we welcome your suggestions, comments and contributions, and thank you all for your interest in the issues raised in this magazine.

San Bilal

Interview with President Armando Emílio Guebuza of Mozambique

What does the recent discovery of important natural gas fields mean for development in Mozambique?

The revenue we gather from these resources will complement the ones we currently enjoy from natural resources. The government will benefit from these revenues, and as a result the people of Mozambique will also see the benefits in their daily lives. Secondly, it will create conditions for Mozambicans to have more jobs, and particularly skilled jobs. We will make sure training takes place to allow an increasing number of Mozambicans to work in this area. Thirdly, it will continue to create problems of development – sustainable and inclusive development that is. This is one of our concerns, and we have to take appropriate measures counter this. And finally, we are going to be on international markets, increasing our international exposure, raising the profile of Mozambique.

How do you plan to transfer this wealth to the broader population, and link it to job creation? What is the plan to develop value chains around these resources?

We have created a state owned company tasked with deal with developing upstream and downstream links. This company will encourage the private sector in Mozambique to develop around the gas sector, a sector that provides many business opportunities. We will also attract foreign investment, in conjunction with Mozambicans, to develop the industry. The government as such is engaging with different companies and also using its own resources to increase our capacity to train people in high-tech, high-skilled areas.

Our universities today are redirecting their curriculum in order to have more people qualified for these new demands. But at the same time, we are also sending people to do their Masters and Undergraduate degrees abroad. Education is central to the effort. Mozambique, at the time of independence, had only one university. Today we have 43 of them. Education has improved, but, of course, it is not enough. It is concentrated on social studies. We need to have a shift. Not necessarily reducing social areas in and of themselves, but increasing the focus on more technical topics.

Mozambique has traditionally been quite reliant on development assistance from donors. Now that you are discovering new wealth and new resources, how do you think your relationship with development partners should evolve, notably with the EU?

I believe the relationship has to continue. But the relationship will probably change in the sense that as time goes on, and as we have more resources in our budget, we are going

to need more business and commercially oriented relations with those countries that have traditionally provided development funding. It will shift as time passes; in about 10 years time we will not be relying on donations like we are today. We can expect a gradual shift in the focus of the relationship.

How do Brazil, China and other emerging players fit in that picture?

We connect with these countries. It is an experience we did not have before. We do nurture that relationship: they are investing in Mozambique, creating more jobs, giving us knowhow, and increasing trade.

And in terms of regional integration with other African countries Mozambique is involved in the Southern African Development Community, in the Tripartite Free Trade Agreement – what are your ambitions in the region? What do you try to achieve with the multi-approach to regional integration?

We try to take advantage of the capacities and abilities that our partners and neighbours offer, and at the same time provide them with what we have to offer ourselves. Increasing the trade relations between African countries is key. We easily trade with Europe, the Far East and America, which is good, but we need to trade with our neighbouring countries much more.

There were talks in the past of Mozambique joining SACU. Is that still on the agenda?

I do not know who talked about that! No, we do not envisage this. What we do is try to learn and see how the Customs Union model is working, and learn from that. Mozambique is one of the countries that do not belong to several Free Trade Areas or Customs Union at the same time. Overlapping membership can be counterproductive.

You are still negotiating Economic Partnership Agreements (EPA) in the SADC configuration. Do you expect a regional deal soon? What will it take?

We will reach an agreement by 2016; at least I hope so. We are pushing things so that we can address the issues are not resolved yet.

And should South Africa or other partners in the region decide not to conclude an Economic Partnership Agreement, would Mozambique still sign an EPA?

I do not know why I should doubt their intentions. We are discussing these issues together.

One of the key questions in Mozambique is how to improve governance. Mozambique is still troubled with corruption problems and lack of transparency. What is your plan to improve the situation in the



country so that your resources are better managed?

The thing is that I do not agree with that characterisation. This is just talk.

But Transparency International ranks Mozambique 120th on the corruption perception index. What is your government's position on this?

Whoever might be saying this, it is just talk. I am not saying we have perfect governance or that we have no corruption. We have institutions that address these exact issues. These institutions do have problems, but they are working on them, improving the way they tackle corruption. Our purpose is to work fast, but they don't work as fast as you would like. But they are getting more and more responsive, and have improved greatly. We will continue to invest more in this area. We now have trained judges in almost all districts, a thing we did not have in the past.

You have been re-elected as the head of Frelimo, the ruling party. In the past, and traditionally, the Head of the Party and the President were the same people, but you will not run for another term. Do you think this will have political consequences?

The Party is one thing, the Government has to keep on working whatever happens. The party, for its part, is able to analyse and respond to new situations without being part of the problem, and come up with constructive solutions to whatever the matter might be. I will not run again for elections, so in any case there will be a new head of state. But I am confident Frelimo will win the elections.

This interview was conducted in Brussels on December 16th. It has been edited and condensed.

EU support to Mozambique

Paul Malin

This is a fascinating time to be in Mozambique as the European Union (EU) plans its assistance for the years 2014-2020, under the 11th European Development Fund (EDF). The economy is on the move and one of the poorest countries in the world could graduate to middle income status within the next two decades. From being one of the most aid dependent countries, Mozambique should be able to support itself. The European Union can play a role in accompanying that transition.



There is little doubt that the Mozambican economy will grow on the back of natural resource discoveries. The question, however, is who will benefit? Will a resource curse of limited benefits, rent seeking by elites, high exchange rates and import dependency result? Or will revenue be shared and employment created in agriculture and small businesses?

Impressive progress

The experience of the past 20 years has been very positive. Since the conclusion of the General Peace Agreement and the ending of a civil war, Mozambique has been recovering and growing at a fast pace, albeit from a very low base. After 30 years of support to Mozambique, the European Union can share in the credit for the advances made and can help shape the future. With extensive external aid, poverty has been reduced and the basis for a take off of the economy has been laid. 69% of the population was considered poor in 1997 and 54% in 2003. Since then, however, poverty reduction in terms of consumption has stagnated even if access to health services and schooling has continued to improve dramatically. The Millennium Development Goals on child mortality and gender equality are likely to be met. Net enrolment in primary education has more than doubled to 92%. Yet, high rates of maternal mortality, chronic malnutrition among children and of HIV/AIDS as well as environmental vulnerability and exposure to climate change demonstrate the enormity of the development challenge that remains.

EU Budget Support to Mozambique

The EU has provided a large part of its aid to Mozambique in the form of budget support. We are currently reviewing its impact, but I would argue that the benefits are clear. When I first worked on Mozambique, soon after

peace was established, the Government budget was small and three quarters financed by donors who set priorities by their spending choices. Now, the government budget is prudently managed and increasingly well accounted for. It is an instrument for sound macro-economic management and potentially a powerful instrument for provision of social services and transfers to the poor. It is financed by growing domestic revenues and the donors' share has fallen rapidly, from half 5 years ago to 40% this year and a planned 33% next year. Volumes of aid have been high and largely stable despite economic crisis in Europe. This has been achieved through prioritising Mozambique over less poor and less well performing countries. The prospect is of substantial revenues from gas coming on-stream from the end of this decade and for Mozambique to graduate from aid dependence.

Limited progress on Governance

While the economy may be changing rapidly, the political system is resistant to change. A multi-party democracy exists in which many of the practices of the one-party era continue. Access to information is limited and accountability mechanisms weak. There is confusion between party and state and dominance of the executive in which the judiciary and legislature are weak and the space for opposition is circumscribed. This analysis is not just that of the European Union, but has been well identified by Mozambicans themselves as part of the African Peer Review Mechanism. The security apparatus is weak and this is conducive to cross-border crime and leads to human rights abuses.

The EU's approach to the 11th EDF

It is against this background of high expectations of rapid economic change, but

major constraints in terms of human capacity, limited infrastructure, over-regulation and endemic corruption that we are planning EU assistance for the 11th EDF. This is not a time for a premature withdrawal of aid, but rather to consolidate the gains made and help set the course for the next decade. Europe, the EU and its Member States, is not just the largest donor of aid to Mozambique, providing 80% of aid as President Barroso emphasised on his visit in July, but also a major trading partner and investor. There is common cause between the European Union, European Governments and European investors on the need for an appropriate

As donor influence inevitably declines, the case for macroeconomic stability, simpler rules and stronger legal protection will be made by the private sector

basis for development founded on good governance, democracy and respect for the rule of law. As donor influence inevitably declines, the case for macroeconomic stability, simpler rules and stronger legal protection will be made by the private sector. Donors like the European Union should work with Government to promote sound economic management, accountability mechanisms and the sharing of benefits through growth that creates employment and a budget that provides social services and a safety net for those who may be left out.

We are still discussing with Government how the 11th EDF will look. Government have a poverty reduction programme which identifies well the priorities. Based on the European Commission's "Agenda for Change", it is clear that we will concentrate on fewer sectors, focus on achieving results in poverty reduction and inclusive growth and mobilise as appropriate grants and loans to respond to needs. Where the European Union managed programme cannot respond to key priorities, European Member States will be present, as may be the case in areas such as education and health.

Towards better management

Europe has the weight as a donor and the knowledge as an agency to contribute to a Government budget that manages funds more effectively and can act as a mechanism for re-distribution of wealth. The challenge of inclusive growth means that increasing transparency and accountability have to be ensured. The political culture may not be conducive, but the Government's commitment to achieving compliance with the Extractive Industries Transparency Initiative (EITI), confirmed on 26 October, is a powerful sign that Mozambique intends to take the right path. Publication of contracts for natural resource development is part of the new minerals legislation and civil society takes a growing and informed interest in revenues from natural resources. Increased wealth brings increased incentives for rent seeking and opportunities for corruption, so Europe is supporting strengthening the legal basis for action against corruption and the capacity to implement it. While we are often impa-

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tient to see change in our partner countries, Mozambique is a case in which we advise caution to proceed with natural resource developments only when the best deals for the Mozambican people can be ensured. Preparing Mozambique to manage well increased wealth is a key objective.

Agriculture for inclusive growth

As part of our support to Government, Europe can also be a champion of agriculture. Our past experience in the sector is not encouraging, as overly ambitious and centralised initiatives dependent on Government had little impact on productivity, even as production increased through increased cultivation. However, with three quarters of the population dependent on agriculture for their livelihoods, inclusive growth is only possible with growth in agriculture. There are many signs of vitality in rural areas in Mozambique as communications improve, local infrastructure for storage and commercialisation is developed, finance is made available and the private sector expands. The potential for increased production is enormous. Only 15% of the arable land is cultivated. The growing range of higher value products being produced and traded is showing the way. The EU supports the Comprehensive African Agriculture Development Plan (CAADP) and will seek to bring public and private sectors together and focus on spreading the benefits and ensuring the participation of poorer farmers. Safety nets for the most vulnerable will be necessary. With agriculture greatly dependent on the work of women, a focus in this sector can also be a focus on increasing gender equality and giving economic reality to the equality of rights enshrined in Mozambican law.

Spreading the wealth

The good fortune of the North and Centre of the country to have minerals and gas may counter a tendency to development centred on the capital, Maputo, and the South of the country and actually lead to more balanced growth. However, if Mozambique is to avoid creating islands of development, infrastructure development has to promote not just natural resources, where the overwhelming pressure of private sector investment is making itself felt, but also access to markets and services for rural areas to increase agricultural production. Inclusive growth means employment creation for the many and this will be an aim of the European Union through increasing access to energy, addressing skills gaps and the provision of financial services.

Partners in development

For someone like me with experience in development going back 30 years it is invigorating to work in a country where the regional linkages that have been planned over decades are finally starting to function, where progress is visible and rapid. There remain parts of the country largely unchanged since peace was established 20 years ago, but they are shrinking as infrastructural links are completed and the market economy

spreads out from cities and towns. Mozambique is a place of constant debate about the future, a laboratory for pilot programmes and the focus of new initiatives. Most of all it is a testing ground for strategies to grow an impoverished economy and share the wealth equitably. Europe seeks to place itself among those who make a hard-headed analysis of

Most of all it is a testing ground for strategies to grow an impoverished economy and share the wealth equitably.

the risks, who understand the constraints of an economy with such limited domestic capacity, but who are also optimistic about the prospects for success. Mozambique offers the chance for Europe not just to contribute to the development of others, but as the economy continues to grow at nearly 8%, to take a stake in that growth through European investments generating revenue to bolster our own faltering economy. At a time when aid is being increasingly questioned and the pressure for value for money in all areas of public expenditure is intensified, the case for using of public funds to promote the development of Mozambique is stronger than ever.

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Mozambique: Between Stagnation and Growth

António A. da Silva Francisco

“Moçambique is maningue nice” has become an increasingly popular expression, especially within the urbanized Mozambican elite. However, the positive and promising image contrasts with another image, also true, but very different and not at all pleasant; the “Mozambique maningue nasty” concept, illustrated by the fact that about 60% of the population lives on less than \$ 1.25 per day, while only less than 20% has more than \$ 2 per day.



Mozambique: maningue nice or... maningue nasty?

Part of the expression's popular appeal comes from the fact that a rather brief sentence comprising four words mixes up three different languages relevant in everyday life. Besides the Portuguese word “Moçambique”, the official language, there is the word “maningue”, meaning “very” in one of several languages of the south of Mozambique, and the English word, “nice”, the dominating lingua franca in southern Africa.

No doubt. That Mozambique is “very nice” is not a mere nationalist imagination. It is real. Besides its idyllic landscapes, Mozambique is one of the richest Southern African countries due to its natural resources. Mozambique has also a privileged geo-strategic location, as it provides access to the Indian Ocean to its landlocked neighbours. Furthermore, at least in the past two decades, the formal economy has exhibited high rates of growth and is expected to sustain buoyant growth in the future.

The “Mozambique maningue nasty” concept refers to an entirely different reality. Rural Mozambique for example, which represents between 65 to 70 percent of the total population, is mostly in an incipient demographic transitional phase. While the mortality rate decrease began in the first half of the twentieth century throughout the whole country, the fertility transition is occurring only in some parts of the urban area. In fact, the total fertility rate remains above five children per woman of which; 6.6 children per woman in rural areas compared to 4.5 children per woman in urban areas.

The current slow demographic change is consistent with a virtually stagnant rural economy, predominantly dominated by a primitive and precarious subsistence production. A Malthusian regime still

dominates rural Mozambique: low level of productivity, lack of technology and consequently very low production and

“Sadly, [...] wishful thinking has become the dominant ideology in Mozambican policymaking, amongst political leaders, the Government, and donors alike.”

income. Throughout the first decade of this century, the daily average rural income was about 10 Meticaís (MT) per capita (circa 30 cents of an American dollar (USD), against a median income of only 4 MT (approximately 13 cents of an USD), suggesting that inequality is on the rise.

The contribution of the rural economy to the national income, estimated by the Gross National Income (GNI), might have only been a quarter of the total GNI or so. In other words, while the rural Mozambican produces an annual income of about US\$ 120 per capita, the urban or urbanizing Mozambican generates an annual wealth around ten times higher: about US\$1100 per capita.¹

Realism versus Wishful Thinking

The two contrasting images of Mozambique highlighted above inspire a multiplicity of analytical representations, opinions and interpretations leading to different perceptions and approaches. While some observers and analysts try to adapt their representations to reality, others choose to

take their desires, aspirations and interests as realities, and then take decisions or follow options based on these desires, instead of taking them on the basis of facts.

The first approach, whether optimistic or pessimistic, can be called realistic. Regarding the latter, one can only designate it as “wishful thinking”. In extreme forms it is a kind of self-illusion; in milder forms, an unwarranted optimism. In its most absurd form, the approach consists of trying to make things happen merely by wishing for them to happen. Sadly, this last form of wishful thinking has become the dominant ideology in Mozambican policymaking, amongst political leaders, the Government, and donors alike.

An illustrative example of the current Mozambican “wishful thinking”, converted into the official ideology of the regime, can be found in the recent speech held by Armando Guebuza, President of Mozambique, delivered in Brussels, on last October 16. Particularly revealing is the concept of “redistribution of wealth”, which Guebuza chose as an illustration of an experience “*Made in Mozambique*”.

“For us, in Mozambique”, said Guebuza, “this concept is translated into the empowerment of citizens for them to do their share in the fight against poverty, because wealth is produced through work and one can only distribute what one has”. To this, Guebuza added another very much cherished concept among donors, “*inclusive development*” by stating that, “... we identify the actions which lead to the integration of more citizens in the nation’s social and economic life, thus becoming active agents of their development and its primary beneficiaries”.²

To be even more convincing to the audience, the Mozambican President illustrated his views on Mozambican redistribution of

wealth and inclusive development referring to the “decentralized financial resources to the rural districts ... aimed at generating employment and food production, also known as the “7 million Fund”, approximately EUR 200.000”.

In reality, this has been a rather exceptional *ad hoc* financial funding, very much centralized and monitored by the President himself, allocated mainly to the districts linked to the Frelimo Party. In fact, these districts are still ruled on one party basis, as they continue to be administratively ruled by the State, without ever holding local democratic elections, contrary to what is prescribed by the Constitution of the Republic.

Even when people do not call the “wishful thinking” approach by its name, it is easily recognizable. One only has to pay attention to the words, actions and attitudes of protagonists. In relation to the previously mentioned speech, those who looked forward to seeing President Guebuza outline his plans to manage the revenues from the mining sector had plenty of reasons to leave the event disappointed. Citizens of Europe certainly did not find in the empowerment, employment and growth rhetoric provided by the Mozambican President, any inspiration for their own struggling economies, or any examples from the so-called Mozambican macroeconomic stability.

Unfortunately, when the International Monetary Fund (IMF) evaluates the performance of Mozambican economy, it often does so in a rather complacent and patronizing stance, as the following assertion illustrates: “Mozambique continues to weather the global economic turmoil remarkably well”.³ Without being totally incorrect, this assessment fails to point out the true vulnerability to which the external accounts of the Mozambican State is exposed, knowing that it has relied so much on relationships and support from donors.

A much more realistic view of the internal and external context was depicted by Standard & Poor last August, when it released its ‘B+/B’ long- and short-term foreign and local currency sovereign credit ratings for Mozambique. First, Mozambique enjoys a relatively stable outlook, but in a highly speculative market environment. Second, this “stable outlook”, is conditioned on the expectation that “donor support will continue to help fund fiscal and external deficits, strong economic growth will continue, and the political situation will remain broadly stable (...) We may lower the ratings if donor support wavers, fiscal or external deficits widen, inflation returns to double-digit rates, or social unrest or political tensions escalate”.⁴ Even those who currently live in luxury need to bear

in mind that in international financial jargon they are also living in a “junk” environment.

Mozambique at a Turning Point?

There are several reasons to believe that Mozambique is at a crucial turning point in several areas, but pointing in different directions. It is always possible to improve and distribute wealth and available resources better. What is more difficult, if not impossible, is to distribute the wealth we have failed to produce and do not have. Not totally impossible, because in the case of Mozambique, the State and its Executive have so far managed to distribute more than Mozambican society produces, thanks to donations provided by developed countries.

However, without a sound economic and financial framework, we will not be able to reduce poverty and promote the social and economic development that high growth rates have failed to do.

In a recent study, the author of this text has shown that the initiatives associated with the IMF’s *Poverty Reduction Strategy Paper* (PRSP and PARPAs in Mozambique) and with the UN (United Nations)’s *Millennium Development Goals* (MDGs) helped Mozambique to avoid the Failed State status, but will not free the country from the country’s three-decade long state of Quasi-bankruptcy.⁵

Now, a new initiative called the *Social Protection Floor* (SPF) is said to aim at replacing and continue the existing initiatives, namely the MDGs that go up to 2015. Its success will most probably depend on the extent to which they will take reality into account, particularly the characteristics and structuring nature of prevailing demography and economics dynamics.

When donors claim, as the European Commission (EC) did last August that “Social transfer programmes ... remain the dominant form of social protection with donors often playing an important role in their design and funding”,⁶ they are well-intentioned, but dead wrong. The reality in Mozambique of today is that for the time being having many children is still the main form of social protection in Mozambique. For all its shortcomings, old forms of social protection need to be the starting point of policymaking, rather than retracting to wishful thinking. Just because it would be nice if something were true will not make it happen.

Beyond that, recently the Mozambican Government and the IMF have opened a window of opportunity by accepting to widen the miniscule fiscal space for social protection in the State budget. The PRSPs being unfit to help Mozambique to free itself from

the quagmire of economic stagnation and financial bankruptcy, determining what other political and economic instruments can be used remains the question. This is in fact the big challenge that Mozambique is facing at this crucial time in its history.

Notes

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Mozambique, Aid and Foreign Investment Trapped between Scylla and Charybdis?

Isabelle Ramdoo

Mozambique is set to become a global player in minerals and gas production, paving the way for large autonomous revenues from its extractive sector. In 2011, the first large exports of coal, coupled with strong economic growth, propelled by high foreign direct investment inflows, large infrastructure projects and strong agricultural growth, contributed to the impressive 7.2% real growth rate. In the coming years, the potential windfall gains from coal and gas is expected to reshape Mozambique's economic and human development.¹



New opportunities, new players

The new economic outlook of Mozambique and the future availability of rents and revenues are expected to have wider political ramifications, not only at the national level, but also within the international community. Considered as a donor darling, today, Mozambique entertains one of the most elaborate budget support partnerships, with annual aid flows averaging almost a quarter of annual gross national income and direct budget support accounting for almost half the budget (51.4%) until 2010. Since then, with new revenues from its natural resources, budget support decreased significantly, to reach 39.6% in 2012 and that trend is likely to accelerate as of 2017 when revenues from hydrocarbon sector will start to flow in.

Substantial mineral findings have attracted significant foreign direct investment (FDI) flows, enough to dwarf aid flows in the short-to-medium term and ultimately wipe them out in the longer-term. Investments will certainly create opportunities that could potentially transform the Mozambican economy if the political factors and business climate are favourable to such transformations. They are expected to create jobs, augment the capital stock, boost infrastructure and generate revenues. But these are not without risks.

Past experience in Africa has shown that in the particular case of extractive sectors, investments by large multinationals have produced isolated economic sectors, have created little jobs and value addition and have managed to negotiate favourable contracts, and have ultimately contributed insufficiently to government revenues.

The Golden Triangle: Balancing partnerships for better development outcomes

Donors in Mozambique have so far engaged in budget support modalities with the objective of contributing to strengthening the core of state functions. But the new situation is likely to significantly reduce the leverage donors have to influence governance, resulting in the government gaining more autonomy in policy making. This potential swing between budget support and FDI brings about a fundamental question. Will investors then be a better trigger for Government to improve the delivery of public goods and services or will withering aid carry in its wake weathering support to institutional building and better governance structures?

The challenge for Mozambique will be to manage its partners: it will have to deal with increasing investors courting for the best possible deals to exploit resources and with development partners that will have to engage differently. And it will have to juggle with (new forms of) engagement with the private sector. Traditionally, the track record of engagement with large multinational extractive industries has not always been positive. Critics have emphasised the fact that extractive industries have often operated in isolation and have contributed little to job creation, to fiscal revenues and to industrialisation. Besides, their engagements with the local communities have sometimes been tense, hence the need to engage differently and constructively.

In parallel, Mozambique will need and will receive less aid. But does that mean that development partners will suddenly become irrelevant? So far, the extensive experiences within budget support partnerships in strengthening gradual institutional reforms

of state functions have shown some positive results. But adapting aid strategies to the changing economic and political incentives will be a major challenge both for Mozambique and for its partners. This will require fundamental paradigm shifts in their mindset and in their way of engagement.

The way forward

The new architecture that is setting in place calls for new forms of coalition between the Government, the extractive industries and the donor community. As much as it is an opportunity for donors to re-think and redefine their engagement with Mozambique, it calls for the Government to adopt an inclusive approach in order to generate synergies and complementarities with these actors that have so far played a crucial role or are expected to do so in the future.

On the operational side, there has been little coherence and alignment with what the industries attempt to do on their side to contribute to development, with what the donors and the government agree to achieve together at the national or sub-national level, in particular to promote transparency and domestic resource mobilisation. Mozambique will need to bring all its partners to the table to engage constructively on concrete development outcomes if it wants to tap onto the value added of each partner.

Note

- 1 See Mozambique: African Economic Outlook 2012

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The Recent Natural Resource Hype in Mozambique: Putting it into Context

Gregory De Paepe

During the past decade Mozambique posted one of the highest and most sustained economic growth performances in Africa. According to the African Economic Outlook average economic growth over the past decade was 7.2% and is set to increase to 7.5% and 7.9% for 2012 and 2013 respectively, driven by the continuation of high foreign direct investment (FDI) inflows, together with strong agricultural growth and infrastructure investment.



The country's recent high economic growth rates have largely been driven by a few, highly capital-intensive mega projects, particularly in extractive industries. Following the Central Bank's tight monetary policy inflation is projected to keep decreasing to 7.2% and 5.9% in 2012 and 2013 respectively. This good performance should result in an average annual increase of GDP per capita of over 5% for the coming two years.

Growth with a limited impact on poverty

Despite these high growth figures the impact on poverty reduction has been limited, as shown in the last household budget survey. In addition, it diverts away the attention to the country's longstanding dependency on foreign financial flows and its weak human capital. Although slightly decreasing, the share of ODA in the government's budget is still projected to be close to 40% in 2012. FDI has mainly served enclave industries such as mining and has not led to the development of a diversified productive base. The gradual increase of manufacturing as a share of GDP mainly reflects the impact of MOZAL's output, the largest aluminum producer in the country.

There is an increasing sense of urgency for the need to foster more inclusive economic growth that results in employment creation and a better redistribution of the economic wealth. Indeed, getting a formal job remains difficult for the estimated 300 000 annual new labour market entrants. Challenges in terms of vulnerability and urban unemployment are mounting. The strong social unrest in Maputo in September 2010, following a small increase in the bread prices and the, more recent, light unrest following the increase in the price of the "chapas" provide an indication of the little room for maneuver authorities have left.

The challenge: structural transformation

Providing a sustainable solution to both the unemployment issue and poverty calls for a transformation of Mozambique's economic model, from an "extractive economy" focusing on exporting raw commodities, towards an economic model that creates value locally and increases the overall economic productivity. This will require raising agricultural productivity in parallel with developing new, labour-intensive and more productive economic sectors, such as manufacturing and agro-business to absorb excess labour from agriculture.

So far Mozambique has failed to embark on this positive structural transformation. However, the exploitation of one of the world's largest unexplored coal reserves in Tete province since 2011 and, potentially much more important, the discovery of huge offshore natural gas reserves in the Rovuma Basin, North of Mozambique, in 2012 have the potential of initiating Mozambique's industrialization process, through judicial investment. Conservative estimates of future annual resource revenues are equivalent to current ODA levels; yet, more optimistic scenarios forecast a significant increase of the budget in the medium term.

Are authorities ready for the resource boom?

Up to which point these newly discovered natural resources will facilitate or rather delay Mozambique's structural transformation remains open. Authorities need to tackle several issues, including the need for natural resource management that is both environmentally and inter-generational sustainable, a diversification of the productive base and available skills of human capital, the development of a macro-analytical framework conducive to

this objective of economic diversification, the development of its internal market and, last but not least, a better capturing of natural resource rents by the authorities in order to finance these required changes over time and reduce their dependency on external financing.

Mozambique's government realizes the importance of updating the legal, regulatory and institutional framework before the actual exploitation of the resources starts. In addition, the promotion of transparency and accountability will need to be secured in order to avoid corruption and mismanagement of resources down the road. Very important, but often underestimated, is the need to ensure broad participation in decision making processes, in particular with regards to the needs of the local communities. The recent frictions between Vale and the resettled villagers from Cateme are a case in point that could have been avoided through better dialogue and managing local expectations.

In conclusion, Mozambique is greatly endowed with a wide variety of natural resources, most of which are still unexploited or in an exploration phase. All stakeholders acknowledge their potential to significantly speed up Mozambique's development process. Yet the quality of this spurred development, in terms of poverty reduction, employment creation and economic diversification will highly depend on the quality of the foundations that authorities will lay in the short term for the sustainable management of the resources in the long term.

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Mozambique at a Turning Point: from Aid Dependence to Development Effectiveness?

Francesca Bruschi

Mozambique is considered a success story of post war reconstruction and economic reform.

Since the end of the civil war in 1992 the country has benefited of several debt relief initiatives and of huge amounts of Official Development Assistance (ODA), hosting one of the largest donors' joint programmes in Africa, both in terms of volume and donor agencies involved.



Until very recently a “donors darling” heavily dependent on external aid, Mozambique is rapidly reducing its aid dependence, mainly due to increasing mining royalties on one side, and squeezed aid budgets on the other.¹ In 2011, foreign direct investment (FDI) has roughly equalled total ODA to Mozambique, doubling to US\$2 billion from US\$1 billion in the previous year. A sharp rise in FDI is expected for the years to come, mainly from South Africa, China, Brazil, India and Australia: Brazil's mining giant Vale has announced investments for US\$6 billions, while the World Bank estimates that, by the end of this decade, gas projects could bring as much as US\$70 billion.

In 2011, external finance of the State budget has dropped to 44.6% against 51.4% in 2010 and it is expected that foreign aid will contribute for 39.6 % of public expenditure in 2012 and 32,8% in 2013.² A substantial support to the State budget is provided Programmatic Aid Partners (PAPs), which in 2011 have channelled more or less US\$1,7 billions in grants and loans. Notwithstanding the efforts by traditional and new development partners, total ODA to Mozambique has stagnated at more or less US\$2 billion during the last three years and the Economist Intelligence Unit's projections indicate that, by 2017, mining revenue will have become substantially larger than donors support. The reduction of aid dependence and the geopolitical changes associated to the mining boom pose new challenges to the Government, as much as to Mozambique's development and commercial partners.

Programmatic aid and budget support in Mozambique

Since the 1990s, Mozambique has become a reference for the provision of programmatic aid, with increasing proportions of ODA channelled through the State budget. Development partners have substantially contributed to the budget of Mozambique,

particularly financing the expansion of social infrastructure. In an attempt to enhance national ownership and results-based management, PAPs have progressively harmonized their development support and aligned it to domestic planning, budgeting and monitoring frameworks.

After a banking crisis led to a suspension of budget support in 2001, Government and partners agreed on the need for a more transparent and structured approach to programmatic aid. In 2004, a Memorandum of Understanding (MoU) was signed between PAPs and the Government of Mozambique (GoM), setting out the principles, terms and operations for the provision of budget support. Thanks to encouraging results in poverty reduction, the number of partners adhering to the General Budget Support (GBS) programme gradually increased and a second MoU was signed in 2009, between the GoM, the group of 19 donors providing GBS – the G19 – and their associate members – the United Nations and the United States. Mutual accountability mechanisms were progressively created to track and report on performance, with indicators defined as to keep the contracting parties accountable on agreed commitments.³

Challenges in the provision of budget support

The rationale for channelling aid through budget support is to provide efficient and effective financial assistance to the implementation of national poverty reduction policies, while reducing the transaction costs linked to aid management. The GoM's international cooperation policy identifies GBS as the preferred aid modality, followed by Sector Budget Support (SBS) and project aid.⁴ GBS is generally seen as the “purest” way of achieving the goals of the Paris Declaration on aid effectiveness, but a strong focus on this aid modality has probably led to a narrowing of the debate on aid effectiveness

in Mozambique. In fact, PAPs' Performance Assessment Framework (PAF) only covers the G19 and associates, leaving aside Japan, vertical funds and non-traditional donors like Brazil, thus reducing the inclusiveness of the development partnership.

Within a complicated but not sufficiently inclusive aid architecture,⁵ over time the management of the GBS programme has resulted in increasing transaction costs. Political and technical dialogue mechanisms structured along several layers, high donors staff turnover and not always efficient information flows seem to have progressively diluted the effectiveness of PAPs' support. It is in fact widely recognised that the complexity of the partnership has led to an excessive focus on processes, weakening PAPs' capacity and engagement with collective action.

In addition, poverty monitoring is proving increasingly challenging due to data availability and quality. Progress in social indicators is considered fairly positive, but no standardised results monitoring frameworks are in place, for instance on public service delivery. The GoM's PAF is deemed too rigid and unable to measure real progress on long-term outcomes and impacts in poverty reduction, while results have recently been below the expectations. Notwithstanding growth rates above 7% in the last ten years, Mozambique's competitiveness, governance and human development are stalling or declining in relative terms,⁶ and according to the last household survey, poverty has been stagnating between 2005 and 2009, having gotten worse in some provinces.

Lack of progress on poverty reduction and governance, financial mismanagement occurrences and internal organisational inefficiencies have recently created a widespread feeling of “aid fatigue” among PAPs. Budget support is being heavily criticized by several Mozambican and international civil society organisations and think tanks,

for strengthening external at detriment of domestic accountability and for reinforcing the ruling party.

Revisiting budget support in Mozambique?

These factors as much as internal political decisions in donor countries have gradually undermined the predictability of external support. In the first quarter of 2010, increasing concerns over governance led to a suspension of GBS, when, through temporarily freezing of disbursement, the G19 secured specific commitments on governance reforms. The creation of a parallel assessment framework on key policy reforms following the first “donors strike” was perceived as an undue conditionality by the GoM. Dialogue has resumed thereafter, but several members of the G19 have decided to attach a variable tranche mechanism to their decisions on GBS disbursements.

Because of high fiduciary risk and the economic slowdown in several donor countries, GBS is becoming less attractive for several members of the G19. The Netherlands and Belgium have formalized their decision to abandon GBS starting from 2013, while due to budgetary constraints Spain will not be able to disburse already this year. For other members of the (former?) G19, such as Germany and Sweden, internal procedures for commitments on GBS are becoming increasingly complex and demanding.

With the exit of some members of the G19 and appearance of new donors and commercial partners of the GoM, the development partnership has come to a turning point in Mozambique. The progressive reduction of aid flows and current transition to a resource-based growth model pose several challenges to the GoM, as much as to development partners and the private sector. Mozambique's third poverty reduction strategy (PARP 2011-2014) focuses on enhancing agricultural production and productivity, fostering broad-based employment creation and supporting human and social development. These objectives will have to be prioritised by the GoM and PAPs, notwithstanding bilateral commercial interests and the emergence of mining and hydrocarbons as new dominant sectors.

The future role of donors: accompanying the resource boom

According to IMF estimates, over a five-year timeframe investment projects in the mining sector could contribute to 12-13% of GDP (against 3% in 2011), while the contribution of ODA would drop to between 2 and 1,5% of GDP. The development of the extractive sector poses serious challenges to the donor communities and to the Government.

Besides improving the infrastructure upon which the mining boom depends, the GoM needs to progressively shift its policy towards natural resource management. At the same time, the GoM will have to promote linkages between local companies and mining and hydrocarbon projects, and to improve the delivery of social services, reducing the existing skill gaps in order to create jobs.

Becoming heavily reliant on foreign investment for financing infrastructure and resource extraction, Mozambique will face risks similar to those associated with aid dependence. Over the medium term, it is expected that the fiscal deficit (6,7% of GDP in 2012) will reduce slowly, being mainly financed by non concessional borrowing abroad and domestic bond issues, thus any unexpected decline in donor support or a prolonged commodity price shock would put government finances under stress.

Notwithstanding the fast transition towards a mineral economy, analysts agree that ODA will remain relevant in Mozambique over the medium term. In a rapidly changing international and domestic context, the sustainability of PAPs support to poverty reduction goes hand in hand with their capacity to show continuity in their commitments, and change readiness at the same time.

Reforming budget support mechanisms through an increased focus on results is a necessary step towards a more effective development partnership in Mozambique. The PAPs should engage in an open debate on the future of aid and of a more inclusive development model in Mozambique, involving new donor countries, central and local representative institutions, domestic and international civil society organisation and private sector companies. The independent budget support evaluation planned for 2013 will bring about evidence and hopefully help bilateral and multilateral partners, to define a medium to long term individual and collective (dis)engagement strategy, also in view of the preparation of the next MoU.

As stated in the Busan Partnership for effective development cooperation, total transparency in the use of public funds should be promoted and accountability mechanisms reinforced at all territorial levels. Mozambique's recent full compliance with the Extractive Industries Transparency Initiative (EITI) has sent a positive signal to investors and donors, but the publication of payments will not in itself bring about good revenue management and distribution. Social and environmental impacts of mineral and hydrocarbon development projects should be continuously scrutinized, also enhancing citizens' participation in monitoring the

quality of public services. Infrastructural projects and the effects of trade liberalisation and regional integration should be analysed taking into consideration the transformative potential for the domestic economy, particularly in relation to job creation.

PAPs have a moral obligation to support Mozambique in the ongoing transition, towards their constituents as much as the people of Mozambique. Besides strengthening national capacity and institutions towards achieving inclusive and sustainable growth, in the near future PAPs will have to work with other donors, international institutions, and other actors at the country and global levels to ensure integrity in public administration, particularly in relation to natural resource use, contract arrangements and financial markets. Fostering international cooperation and collective action, and capitalizing on the knowledge and skills accumulated so far, in collaboration with new development and commercial partners PAPs could effectively contribute to a success story in phasing out from aid dependence.

Notes

- 1 Economist Intelligence Unit, *Country Report Mozambique*, October 2012: www.eiu.com (restricted access).
- 2 This decrease is also a consequence of the appreciation of the national currency, as the value of the national currency (Metical) has been rising over the last two years, meaning that foreign aid has dropped if relation to the national currency, even though it may have risen in foreign currencies.
- 3 GoM's performance is annually assessed against a set of indicators measuring progress in poverty reduction, while PAPs are assessed against the implementation of the aid effectiveness agenda.
- 4 Through GBS, US\$523 million have been directly channelled to Mozambique in 2011, US\$459 in 2010, US\$488 and in 2009, while SBS totalled US\$303 USD million in 2011, US\$331 in 2010 and US\$361 in 2009.
- 5 A larger dialogue group between the GoM and partners – “the Development Partners Group” – was created, working as an informationsharing group rather than a coordination mechanism.
- 6 See the Doing Business 2013 by the World Bank, the Global Competitiveness Index by the World Economic Forum, the 2012 Ibrahim Index of African Governance and UNDP's Human Development Index, where Mozambique ranked 184 out of the 187 countries considered

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Mozambique: Ready for a Rollercoaster Ride?

Marc De Tollenaere

The prevailing sentiment in Maputo these days is similar to being pulled up the track of a rollercoaster: a combination of excitement and insecurity about what is to come. One is easily carried away by the speedy succession of economic events. Announcements of new gas, coal and mineral deposits, announcements of large investments, the chain of trade missions of countries from five continents, it all induces a sense of excitement.



The country is rich, wealth is within reach and finally one can do away with the dependency on patronizing donors. But there is also insecurity and even fear. What is this all going to do with the country? Are we, Mozambicans, master of our destiny? Will I, Mozambican, be able to get a share of the wealth?

The track record

This rollercoaster stands in a country that has known consistent high economic growth since the mid-90's (7 to 8% GDP/annum) and that received sustained high levels of aid (ca. 1,5 billion US\$/annum). There are multiparty elections since 1994 and basic freedoms are fixed constitutionally. An impressive number of policies and strategies were formulated and approved, almost all as part of creating an enabling environment for the aid sector.

Yet, all these inputs and assets only partly delivered the anticipated outcomes. Poverty reduced between 1997/8 and 2002/3, but this can no doubt to a great extent be attributed to the "peace dividend" that allowed a return to normal economic life. Poverty reduction was not sustained as demonstrated in the 2008 assessment (improvements in some urban areas were balanced out by a fallback in some rural areas). Mozambique's Human Development Index improved since the mid-90's, but is still among the lowest worldwide and the country could not get closer to the Sub-Sahara average. The Worldwide Governance Indicators show pretty much steady lines for the period 1996 to 2011 for 5 of the 6 indicators.

Only political stability and absence of violence shows continued improvement over the interval. Clearly, the governance situation did not deteriorate, but neither

did it improve, despite multiple reforms and despite the fact that it was consistently on the top of the aid conditionality agenda. On the political front, the household institutions of democracy were all put in place, but the net result has been a gradual, and by now overwhelming, dominance of the ruling party. While the main opposition party Renamo put up a major challenge in the 1994 and 1999 elections, it shrank rapidly over the past decade because it failed to turn itself in a functional political party.

Trying to stay in power is a legitimate political objective. The issue is whether this is achieved through competition or through engineering.

Looking back

Why was there not more and better progress, considering the considerable growth, the external resources and the "right" policies? From a development logic there is no real explanation for this. So most agencies would say this is just a matter of time. The country is on the right track. Here and there some policy adjustments need to be made and results will eventually, unavoidably, be produced.

What is called here the development logic is the conviction that reducing poverty is the

overriding goal of the Frelimo government. The development rabbits are firmly stuck in the headlights of this overarching narrative, but it turns a blind eye to other, even stronger, motivations for political decision-making. For the past twenty years, two such incentives can clearly be identified.

On the political front, all objectives were made secondary to securing continued rule by Frelimo. For Frelimo this is nothing less than complying with a historical mission resulting from the fact that it liberated the country from colonial rule. Trying to stay in power is a legitimate political objective. The issue is whether this is achieved through competition or through engineering.

While there was a tendency to split party and state after the first multiparty elections in 1994, this trend was entirely reversed as from 2003, when Armando Guebuza was appointed as secretary general of the party. The split between party and state was seen as the cause of a near electoral loss in 1999 and had to be reversed. Guebuza revitalized the party structures from top to bottom and made it no secret that the state was the principal instrument to reproduce the power of the party.

Adherence to the ruling party became a necessity to get access to the public service, or to get access to loans, scholarships, housing etc. Membership increased from 1.6 million in 2003 to staggering 3.6 million in 2012. In 2009, Frelimo secured a qualified majority in the Parliament (giving it the freedom to change the constitution), won the Presidency with 3/4 of the votes, a majority in all provincial assemblies and it governs 41 out of 43 municipalities.

From a practical point of view, this process required time and resources, at the expense of fighting poverty effectively. From a principled point of view it has produced a state apparatus that is not geared towards the production of collective goods and securing equal rights and protection for all citizens. The state is turned in an executive branch of a party. This has detrimental effects. An example is the “open and inclusive presidential visits” Guebuza carries out since he was elected. Although it is objectively laudable that the president leaves his palace and visits towns and villages all over the country, there are serious side-effects: the visits consume budgets that are intended to stimulate local development and accountability tends to be concentrated on one single institution, the presidency. An increase of presidential authority comes at the cost of the credibility of lower and middle level institutions.

On the economic front, there was, certainly since the liberalization of the economy, a strong conviction that somehow Mozambican ownership or partnership had to be guaranteed. Discussions on the need for a national bourgeoisie to secure the Mozambican stake in the economy are still ongoing, but in the meantime it has already happened. The privatization of state property (houses, companies) and bureaucratic decision-making power laid the basis for the creation of a Mozambican elite (right out corruption not to be discarded). This produced an economic model that was increasingly driven by the need to control access to the national economy and the drive to seek rent.

One of the characteristics is the preference for large investments and for business that guarantees a quick return. Frelimo old-hands will argue that there was no other option. If not, by mere lack of cash when liberalization started, the economy would have been entirely in foreign hands. Rent seeking was also required to feed the ever-widening network of patronage. If not based on ideological conviction, loyalty and allegiance need to be bought.

The point made is not that Frelimo intentionally tries to keep a majority of the Mozambicans poor. The point is rather that there are stronger political incentives than poverty reduction that have shaped the political economy of Mozambique and an emergent property of that political economy is that it does not produce inclusive growth.

Looking forward

The overly summarized fundamentals of Mozambique’s political economy sketch the

It is possible that the absence of a political contender (low threat) and the prospect of a sharp increase in income gear the political incentives of the elite towards inclusiveness and redistribution. Possible, but not likely!

platform for the take off of a natural resource boom. It is possible that the absence of a political contender (low threat) and the prospect of a sharp increase in income gear the political incentives of the elite towards inclusiveness and redistribution. Possible, but not likely!

A main reason for this is that society and state are detached. A handful of intellectual activists do a great job in pointing out problems with the current political economy, but the silent majority has retracted, away from politics (only 30% of the voting age population actually voted in 2009) and is surviving in the informal sector. When tolerance levels are challenged, there has been a violent reaction (2008 and 2010), but the government contained it with repression and concrete measures (for example a currency inflation to keep food import costs under control and fuel subsidies to transporters). The riots were upsetting, but no threat to the system. The matter is that there is for the time being not enough organized pressure from society to do things differently. The legitimacy and representativity of critical voices is contested by the powers that be and there simply are no organized social forces that can voice alternatives and weigh on policy.

There are of course also other reasons. Literature abundantly demonstrates that a resource blessing is subject to transparency (upstream on licensing and contracts; downstream on different kind of income from the sector) and to capable and credible institutions before wealth arrives. None of this is sufficiently present.

In *Why Nations Fail*, Acemoglu and Robinson argue that the more concentrated political power is, the more a small group in society tries to extract wealth for itself to the detriment of the rest: this is a world of “extractive” institutions.¹ The argument

further states that in the presence of extractive political and economic institutions, all outsiders do is reinforce the plunder machine. In Mozambique, “the ownership and control over mineral and energy resources, as well as natural resources (land, water and forests) and infra-structure (roads, bridges, communications, energy, etc) associated with the mineral-energy complex are increasingly concentrated at the hands of large multinationals and a small group of domestic partners”, as says economist Carlos Nuno Castel-Branco in *Challenges for Mozambique – 2011*²

All this happens at a time of an international economic crisis that changes the incentives on the side of the development partners. Despite successive drops in the Ease of Doing Business Index and the Global Competitiveness Index, investors are literally lining up. The core activity of embassies is quickly shifting from aid to business. The good governance agenda has been put on hold, or transferred to the business sector. The assumption is that business needs good governance and will therefore enforce it.

Going back to the rollercoaster, all indicates that a few will thoroughly enjoy the new ride, while the crowds stand and watch, murmuring and hoping, but, at least in the short term, without the power to join.

Notes

- 1 Daren Acemoglu and James Robinson (2012), *Why Nations Fail. The Origins of Power, Prosperity and Wealth*, Crown Publishing Group.
- 2 Carlos Nuno Castel-Branco et al. (eds.) (2011), *Challenges for Mozambique – 2011*, IESE, Maputo.

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Has the Business Environment in Mozambique Improved During the Past 10 Years?

John Rand and Søren Schou

Private sector expansion remains one of the main key development objectives of the Mozambican government, while economic competitiveness is a stated concern of President Guebuza. As such, in 2007 a Presidential International Advisory Board was set up to advise the government on changes needed in the business environment in order to improve international competitiveness. So the question is: have Mozambican entrepreneurs experienced any changes/improvements in the conditions for doing business in the last 10 years?



Although efforts have been made to improve the Mozambican business environment it still has a relatively low ranking in international comparisons. Mozambique dropped 7 places in the latest Doing Business report of the World Bank and now holds a global 139th place, below the average for Sub-Saharan Africa. Moreover, early studies have shown that many inefficient firms are nonetheless able to survive in the manufacturing sector in Mozambique.¹ At the same time, data from the late 1990s showed that Mozambique also lagged behind in terms of absolute productivity, questioning the regional competitiveness of the Mozambican economy. Eifert, Gelb and Ramachandran (2005) confirm this result showing that Mozambican productive efficiency is among the lowest in Africa.²

However, several studies suggest that productivity has improved since the first post-war productivity studies. DNEAP (2006) suggests that capacity utilization improved significantly between 2003 and 2006 within manufacturing.³ The growth accounting exercise done by Jones (2006) also concludes that the annual average contribution of Total Factor Productivity (TFP) to economic growth has been significant and that these changes in TFP were largely driven by improvements in productive efficiency.⁴ Finally, a recent case study (Warren, 2010) reveals that important industries are producing relatively efficiently given the skill-level and technology at hand and are improving productivity, but the limited level of knowledge and simple production systems are insufficient to support a process of sustained technology and industrial development.⁵

These results highlight that late 1990s/early millennium productivity improvements are largely explained by changes in capacity utilization and not technological advancement. Concern has therefore been

raised about sustaining strong industrial productivity growth as Mozambique approaches its production frontier. Moreover, efficiency dispersion has recently been shown to be high emphasizing that a large set of relatively inefficient firms are still able to stay in business alongside highly efficient ones.⁶ This questions whether the current business environment provides an equal playing field for firms in the manufacturing sector and ensures that natural firm turnover mechanisms are allowed to take place.

The Research Project: early findings

To shed some light on these problems, the Confederation of Mozambican Business Associations (CTA) in collaboration with the National Directorate for Studies and Policy Analysis (DNEAP) in the Ministry of Planning and Development (MPD) and the National Statistical Office (INE) in 2012 conducted an industrial survey covering 800 manufacturing SMEs in 7 provinces, 220 of which were also interviewed in earlier surveys, creating the possibility of panel data analysis.⁷

To facilitate a discussion of how industrial policies may help improve firm level productivity, Tables 1 and 2 provide summary statistics on constraints to doing business available in previous surveys data.⁸ All constraint variables take values {0, 1, 2, 3, 4} where 0 = no obstacle, 1 = slight obstacle, 2 = moderate obstacle, 3 = major obstacle, 4 = serious obstacle. Table 1 shows the percentage of firms answering 3 or 4 to each constraint for each survey without considering whether we are following the same firms over time (unbalanced panel) whereas Table 2 shows the results of following the same firms over time (balanced panel).

The main conclusion from the tables is that *credit*, *access to land* and *corruption* are perceived to be the most serious constraints

to growth in Mozambican manufacturing.

Access to land has moved from not constraining businesses to being among the most pressing constraints. This result is driven by firms in Maputo, Matola and Beira, while the issue seems to be far less pressing in smaller cities. This is probably due to a combination of rapid urbanization, inadequate urban infrastructure and land speculation. Moreover, access to credit remains a very serious constraint to doing business, but comparing results in Tables 1 and 2 suggests that financing problems are more serious for younger and newly established firms. The Mozambican Central Bank has recently cut its interest rates quite significantly (falling from 15 % at the beginning of 2012 to less than 10 % in November), but this has failed to pass through to commercial lending. Corruption remains a serious obstacle to growth – tentative results from the survey indicate that some 50 % of manufacturing companies pay bribes and that bribes are often very high – to the tune of 10 % of revenue.

Limits to perceived business environment as an indication of productivity constraint

Although perceptions from business people regarding constraints to doing business are an important policy tool, Bila and Rand (2011) show that only a few of these perceived constraints are significantly associated with firm efficiency, when applying appropriate estimation techniques. Research therefore needs to go beyond traditional doing business indicators in order to understand what improves firm level productivity.⁹

In particular, the fact that skills and education of workers does not appear as an important constraint should be interpreted with caution. The average education level in Mozambique remains very low, meaning that firms that

Table 1: Developments in Constraints to doing Business (all)

	2003	2006	2012
Access to finance and cost of credit	83.6	72.4	55.9
Access to land	26.7	18.3	51.5
General corruption	64.4	45.3	47.3
Crime, theft and disorder	54.4	34.4	45.8
Macroeconomic instability (inflation, exch. rate)	63.0	63.0	43.7
Customs and trade regulation administration	49.4	37.8	43.5
Anti-competitive practices (e.g. monopoly)	60.4	32.4	41.4
Tax rates	54.9	49.7	32.9
Tax administration	47.3	35.3	31.6
Transportation	27.3	25.7	31.2
Skills and education of workers	33.9	35.7	28.6
Labor regulations	37.9	48.4	28.5
Electricity	64.7	46.2	21.8

Note: Factors problematic for the operation and growth of businesses (per cent having responded "major obstacle" or "serious obstacle"). 192 observations in 2003, 159 observations in 2006 and 827 observations in 2012.

Table 2: Developments in Constraints to doing Business

(Balanced panel)	2006	2012
Competition from illegal imports/contraband	53.5	56.6
Customs and trade regulation administration	38.5	49.1
Access to finance and cost of credit	69.2	48.6
General corruption	50.7	46.6
Access to land	21.4	43.4
Anti-competitive practices (e.g. monopoly)	30.0	41.2
Opening up to international markets (SADC etc.)	13.6	39.7
Transportation	25.3	37.2
Crime, theft and disorder	34.9	36.1
Skills and education of workers	34.9	32.9
Macroeconomic instability (inflation, exch. rate)	63.9	32.9
Tax rates	52.9	32.1
Electricity	44.2	31.4
Tax administration	35.3	24.4
Labor regulations	45.3	22.6

Note: Factors problematic for the operation and growth of businesses (per cent having responded "major obstacle" or "serious obstacle"). 86 observations

require highly skilled workers are less likely to set up business in Mozambique. A higher education level among Mozambican workers could attract highly productive firms that for good reasons cannot answer this survey, as they are not part of the population. One area that is currently receiving attention is the promotion and expansion of export-oriented agro-industrial and labor-intensive manufacturing activities, seen as having the greatest potential for enhancing overall industrial productivity and creating new jobs. However, the manufacturing sector is relatively small and production is highly concentrated in a few sectors. Most manufacturers source inputs from abroad, and the industrial sector in Mozambique is generally characterized by having a relatively low degree of sector linkages. Excluding megaproject exports, the contribution of the export sector to the Mozambican economy has been modest. The lack of diversity in manufacturing exports therefore raises concern about whether potential learning effects from exports (if present) have the necessary conditions for "spilling over" to the remaining economy.

A new drive for industrial policy?

What is the reason for the continued "underdevelopment" of the manufacturing sector in Mozambique twenty years after the end of the internal conflict? Arguing that a well-designed and well-coordinated industrial policy is one of the most crucial instruments to foster inclusive economic growth, Krause and Kaufmann (2011) conclude that past industrial policies have lacked the necessary vision and leadership.¹⁰ This has prevented the development of a policy mix aimed at both (i) improving the overall competitive level of the nation and the general investment climate and (ii) providing specific targeted interventions to accelerate productivity growth and enhance firms' competitiveness. However, the Government of Mozambique (GoM) may be taking past critiques seriously

in its new industrial strategy. This is fortunate, since a well-defined industrial policy may be even more important for Mozambican development in the next 10-20 years, since it will have a serious impact on how the giant coalmines in Tete and the gas off the shore of Cabo Delgado will transform the Mozambican economy. While mining projects most likely will bring a lot of money to the state coffers, history tells us that they are unlikely to create many jobs. Moreover, the potential Dutch Disease problem needs to be taken seriously, if the competitiveness of the manufacturing sector is not to suffer from the great natural resource adventure. It is thus as important as ever to get industrial policy right in Mozambique.

In our view, research is fundamental for getting these policies right. For example, behind current policies to improve firm level productivity by promoting and expanding export-oriented industries lies two implicit assumptions; (i) some kind of learning by exporting (LBE) actually takes place and (ii) there are significant productivity spillover effects from exporters to the local industry. Whether conditions for LBE are present or whether value chain conditions enable spillover effects from exporters to the local industry still needs to be explored in detail and is some of the work to be done using the new DNEAP (2012) database.

Notes

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The Maputo Corridor: Regional Integration that Works

Barbara Mommen

In 1996, the governments of Mozambique and South Africa, in a renewal of cooperation and in order to re-establish trade and investment ties and to rebuild their flailing economies launched the Spatial Development Initiative programme. The key objectives were to rehabilitate the key elements of the Maputo Corridor, to maximise investment in the potential of the corridor, to maximise social development and employment opportunities, and to ensure policy and strategy frameworks for sustainable development.



The Maputo Corridor is a transport corridor linking the east coast port of Maputo in Mozambique with the highly industrialised and productive regions of the Gauteng province in South Africa. The key elements of this transport corridor are the N4 toll road, the rail corridor, the Lebombo/Ressano Garcia border post and the port and terminal facilities at the Port of Maputo. Short by African corridor standards, the Maputo corridor is only 590kms by road from Johannesburg, and 581km by rail, but is increasingly strategic in that it presents the shortest route to a port for South African exporters on the corridor and moves a variety of commodities including coal, timber, agricultural produce, granite, chrome, cement, containers, steel, magnetite, sugar, maize, gasoline, pulp, fertiliser and citrus. The Port of Maputo provides the shortest access to the Indian and Far Eastern markets and complements the South African regional port hubs in a multipurpose port of 15 terminals. It is an extremely busy trade corridor, despite its short distance. Trade between South Africa and Mozambique totalled R25,1 billion in 2011 (approximately US\$2.96billion with 38% of that trading through the Lebombo/Ressano Garcia border post). Annually a total of 4.6 million people, 730 000 vehicles and 87 000 trucks cross the border into Mozambique at the Lebombo/Ressano Garcia border post. Trade is largely outward bound.

The need for an institutional setup: Maputo Corridor Logistics Initiative

In the absence of an institutional framework, the Maputo Corridor Logistics Initiative (MCLI) was established in 2004 by users, infrastructure investors, cargo owners and service providers looking for logistics solutions on the corridor. At the time,

negative perceptions about the Port of Maputo and the corridor were multifarious: there were few shipping lines calling the Port, the economies of scale for cargo to attract shipping lines was very limited, the lack of rail capacity and delays in the rehabilitation of the rail line between Ressano Garcia and Maputo, the limited border post operating hours resulted in severe congestion and delays and increased costs to cargo owners, operational inefficiencies on the corridor and a lack of an institutional framework on the corridor. All of these factors mitigated against a successful and efficient transport and logistics corridor. MCLI was established to address these issues and to unlock these barriers to the movement of cargo and to provide ease of access for cargo moving on the corridor. MCLI is a non-profit membership organisation and currently has 170 members from the three corridor countries of Mozambique, Swaziland and South Africa.

Effective PPPs and railway development

The Maputo Corridor boasts some of the continent's most effective public private partnerships (PPPs) in infrastructure delivery. The N4 Trans Africa Concession, one of the most successful bilateral road infrastructure PPPs on the continent, has invested R4billion in the first phase of a Build, Operate, and Transfer agreement and will invest another R3billion over the next 20 years. The privately concessioned Maputo Port Development Company has had its initial 15-year concession agreement extended after just 8 years, to 2033. This is indicative of the confidence in the port to bring the necessary returns on investment for investors. Its 20-year master plan will see US\$1,7 billion invested in port growth and development

to service the demands of the region and a throughput of 48million tons by 2033. To date, just under US\$300million has been invested in infrastructure, equipment and training and throughputs in the port have increased from 3 million tons in 2003 to a projected 16 million tons at the end of 2012; 2 billion tons over the initial projections of 12 million tons for 2012.

The rehabilitation of the rail line from Ressano Garcia to Maputo was completed at the end of 2008 with significant investments in excess of US\$80million in rail and rolling stock rehabilitation. As with most of Africa, the challenges of rail capacity and services remains a key challenge, but one which is being addressed jointly by the South African and Mozambican rail service providers, Transnet Freight Rail (TFR) and Portos e Caminhos de Ferro de Mozambique (CFM), in a programme which is geared towards ensuring that existing assets are maximised and investment prioritised to ensure that the rail services support port growth. Swaziland Railway has also entered into partnership with TFR to provide complementary services for commodities moving to the port of Maputo.

Lebombo/Ressano Garcia border post: remaining challenges

Commercial relations between the two governments are good at a number of levels. However, the disconnect between the excellent political will at executive level and the capacity for implementation at administrative level is no more evident than in the current status of the border post at Lebombo/Ressano Garcia. As early as 2007, the Heads of State of South Africa and Mozambique signed a bilateral agreement

giving a directive for the implementation of a 24-hour One Stop Border Post at Lebombo/Ressano Garcia. This agreement was ratified by the Mozambican parliament in 2008 and only this year passed through the Standing Committee on Finance in the Parliament of South Africa. This process is a precursor to the signing of the bilateral agreement and further delays are inevitable as we draw to the end of the parliamentary programme for 2012.

...the disconnect between the excellent political will at executive level and the capacity for implementation at administrative level is no more evident than in the current status of the border post at Lebombo/Ressano Garcia

This five-year delay remains unfathomable and points clearly to the lack of legitimate understanding of the challenges faced daily at the border post by truckers, cargo owners and business people and those in the corridors of decision-making. While the customs modernisation 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 now at crisis levels. With the port operating 24/7, the backlog of traffic backed up between midnight and 06h00 has far reaching implications for all users of the border post and the cost implications of the delays run into millions of Rands on a daily basis.

This is both inconceivable and unconscionable in a region with significantly high unemployment rates and poverty levels; more especially since there is excellent transport infrastructure in place. The current border facilities are drastically in need of upgrading and figures show that double (12000 people per day) the intended capacity (6000 people per day) are crossing through the border post on a daily basis. Between 300 and 400 trucks cleared through the border post on a daily basis. A one stop operation will require innovative

solutions to the infrastructure challenge required for the one stop operation and to the complexity of aligning the legislation of the myriad of government agencies operating at on both sides of the border.

Despite the bottlenecks which result from the 24h00 to 06h00 closure, certain commodities are moving by road on the corridor with very efficient turnaround times due to the completion of a truck bypass road in June 2011 which effectively allows a one stop operation for road cargo. This must be extended to passenger and business traffic.

Reviewing the MCLI's institutional status

The Maputo Corridor is one of Africa's key success stories in terms of regional integration between the regions of Swaziland, southern Mozambique and the Mpumalanga province. In this case, infrastructure investment has paid huge dividends in supporting the regional integration imperatives of the SADC region. The buoyancy of the regional economy throughout the onset of the economic crisis in 2008/9 is largely as a result of the ability of the corridor to provide access to trade and to the MCLI's ability to successfully create the interface between the government and the private sector on issues affecting trade and trade efficiencies. A key element of this is the enormous network of readers, which MCLI has accumulated over the years in providing key information to stakeholders on corridor related issues. MCLI's key functions of facilitation, coordination, integration and information have been crucial to providing users a platform for engagement with service providers and to ensuring that workable solutions are found to the challenges which affect this African logistics corridor.

The institutional structure of MCLI is, however, also currently under review. While the private sector nature of the organisation has been its greatest benefit until now, the lack of a formalised relationship with its government partners is problematic. The initial needs driven strategy must now be moved towards a more long-term approach, which is built around the development needs of the region. It is crucial that the organisation partners with the corridor governments in order to ensure the integration of long term planning and interventions on the corridor. A formalised PPP seems, at this stage, the most difficult option, but the option most likely to succeed in ensuring that the partners remain accountable at every level for the efficiencies on the corridor. The financial sustainability of the organisation has always been problematic, but a formalised PPP would

provide a workable platform for introducing a user pay principle on the corridor, which would provide sustainable funding in balance with ensuring the least possible costs on this corridor.

Future prospects at national, regional and continental levels

A significant development in the region is the imminent implementation of amended transit customs regulations in Mozambique. During 2011, MCLI worked closely with the Port of Maputo to address the bottlenecks to transit trade on the corridor. This legislation was gazetted last week and by reducing and in some cases, eliminating, the need for bonds and guarantees on transit cargo, paves the way for increased bidirectional cargo flow on the corridor. Not only is the port of Maputo excellently situated to service transit trade into the SADC region, but the sound infrastructure, on the back of fairly advanced trade facilitation systems and processes make it an attractive option for corridor stakeholders. An increase in backhaul cargo will significantly reduce the costs of transport in the region and will bring economic benefits. This will require significant effort on the part of MCLI to promote this benefit, but the environment is increasingly more favourable for servicing transit trade.

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 which facilitate ease of trade and create the enabling environment for trade, are crucial for this corridor to maintain its strategic corridor role.

The Maputo Corridor has enormous opportunities for growth and continues to be a vital catalyst for regional integration and in so doing, continues to contribute to increased trade and investment in the region.

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Mozambique's Agriculture and Brazil's Cerrado 'model': Miracle or Mirage?

Lídia Cabral, Alex Shankland,
Anna Locke and Jimena Duran

When it comes to agriculture, Mozambique's story is largely one of unfulfilled promises, uneven performance and untapped potential. Will Brazil, the latest arrival in Mozambique's crowded agricultural cooperation field, be able to turn the story around?



We address this question by considering what is currently Brazil's most ambitious agricultural cooperation initiative in Africa – ProSavana, a programme aiming to replicate Brazil's renowned 'cerrado transformation'. With such an ambitious agenda, it is no wonder that the programme has recently become a hot topic in development circles and is quickly grabbing the attention of the press, academia and civil society.

Snapshot of Mozambique's disappointing agriculture story

Unfulfilled promises. Mozambican agriculture has not become the driver of poverty reduction, as the various poverty reduction strategies put forward by the Mozambican government over the last 12 years have recurrently announced. Food insecurity and malnutrition continue to affect the Mozambican population and rural poverty has, at best, been marginally reduced, although increasing in central regions.¹

Uneven performance. Mozambique's crop output has remained stagnant over the last decade.² Sorghum and cassava, the main crops produced by the predominant smallholder sector, continue to have poorly developed value chains. Productivity remains low across the board and most growth recorded by the sector is explained by farmed land expansions rather than efficiency gains. There are some positive stories – production and yields for sugar, cashew nuts, tobacco and horticultures have been rising steadily – although calling them successes might be premature.

Untapped potential. Mozambique is still largely agriculture-based economy but agriculture continues to fail to meet its enormous potential. Although the sector contributed 31.5% to the country's GDP in 2009, only 20% of the total export value originated from agriculture³ About 69% of the country's population remain rural-based and largely dependent on agriculture for

employment and livelihoods. Yet, in 2010, less than 14% of the 36 million hectares of arable land were farmed, mainly by smallholders, and of these only 2% were irrigated. Domestic markets remained severely underdeveloped, with food production surpluses in many rural districts failing to reach urban consumers.

Why? The physical constraints hindering the development of the sector have been widely noted.⁴ These include inadequate technology and extension services, poor infrastructure and lack of markets for inputs, services and outputs. Such constraints in turn reflect a combination of factors, which include the legacy of civil war, a succession of inappropriate policies, weak governance institutions, mismanagement of aid and lack of private capital. Recent research on the political economy of agricultural policy suggests that politics is the key explanation for the sector's poor performance and for failure to address some of the persistent constraints in the sector, leading to policies which have generally "discriminated against the majority of agricultural producers, who continue to be poor, vulnerable and dependent from handouts from government, donors and NGOs".⁵

Enter ProSavana

ProSavana, Brazil's latest flagship South-South cooperation project in agriculture, promises to address some of Mozambique's persistent agricultural malaises. It aims to transform parts of the savannah spreading along the Nacala Corridor, in northern Mozambique, into highly productive agricultural land, while addressing food insecurity in a sustainable manner. The Nacala Corridor is currently receiving major investments in transport infrastructure, mainly from Brazilian mining giant Vale, which plans to use it to move the coal it is extracting in landlocked Tete Province to the deep-water port of Nacala.

ProSavana is inspired by Brazil's Cerrado Development Programme (PRODECER), a programme that received Japanese support from the late 1970s till the 1990s and is claimed to be responsible for turning the cerrado, Brazil's vast tropical savannah belt accounting for about 204 million hectares and 24% of the country's territory,⁶ into a breadbasket and a world-leading soybean producing region. ProSavana is being implemented through a triangular cooperation arrangement between Brazil, Japan and Mozambique.⁷

ProSavana has three main components: (i) improvement of research and extension capabilities for the agriculture development of the Nacala Corridor, focusing particularly on strengthening the institutional capacity of Mozambique's Agrarian Research Institute (IIAM); (ii) implementation of pilot productive projects for small and commercial growers; (iii) design of an integrated agro-industrial master plan for the development of the Nacala corridor, looking not only at agricultural production and productivity, but also at broader regional development issues, such as infrastructure and markets. The programme envisages support for both commercial large-scale production systems and smallholder subsistence agriculture, through adaptive technology (improved varieties of soya, maize, rice and other crops, suitable for Mozambican soils) as well as conservation agriculture techniques (e.g. no-till techniques). Implementation started in 2011 and about US\$13 million have been committed by Brazil, Japan and the Mozambican government, to support the first component for a period of about 5 years. Additional resources will be provided by Japan to Mozambique through a combination of grants and concessional loans to support developing complementary infrastructures across the Nacala Corridor. The overall timeframe for the programme is at least 20 years.

The 'master plan' component of ProSavana is likely to be used to identify opportunities for the deployment of Brazilian and Japanese capital in the region. The recently launched 'Nacala Fund' is expected to attract investment of US\$2 billion into the Corridor, mainly for agribusiness projects. Its promoters, the consulting wing of Brazilian business school Fundação Getúlio Vargas (FGV), claim that it will benefit 10 million Mozambicans by supporting family farming as well as medium-sized and large agricultural projects.⁸ Based on Brazilian experience, they argue that small-scale producers can be successfully integrated into export-oriented agriculture value chains via contract farming and the promotion of cooperatives.

Early impressions from the field

ProSavana is packaged in a compelling narrative of success. In less than three decades Brazil turned itself into a major food exporter and the world's largest producer of a variety of agricultural commodities, including soybeans from the cerrado. Technological innovation, and the work of Embrapa in particular, is argued to have played a key role in the 'miracle of the cerrado'. Embrapa is today a world leader on tropical agricultural science and technology.

From the Mozambican government's standpoint, expectations about ProSavana are high and there is much optimism about having Brazil as a development partner. Brazil's agricultural transformation and Embrapa are looked up to as role models, with the hope that Mozambique will be able to replicate them. The promise of foreign direct investment to complement technical cooperation, through the Nacala Fund for example, is seen as a more tangible alternative to typical donor initiatives aiming to create an 'enabling environment' for private sector development.

But a number of questions have started being raised by farmers' organisations and activists operating in the region targeted by ProSavana. The Mozambican National Farmers Union (UNAC), for instance, has condemned first of all the lack of transparency on the part of the governments of Mozambique, Brazil and Japan in the ProSavana process and the lack of involvement of civil society organisations and farmers in particular.⁹ It also has voiced concerns about land grabbing by large Brazilian agribusinesses, and the expected unequal distribution of benefits from the envisaged model of savannah transformation, seen as biased towards large-scale production of cash crops for exports. Concerns about food security, environmental sustainability and social inclusion of native

communities are also raised, drawing on the perceived failures of the Brazilian model.

What's in Brazil for Mozambique and the challenge of transferability

The trajectory of Mozambique's agriculture will continue to be shaped by a number of factors, not least domestic politics, but in looking at Brazil for inspiration it is important to bear in mind at least three issues.

1. *Brazil's contested cerrado model:* The extent of Brazil's agricultural success, and of the 'miracle of the cerrado' in particular, need to be fully understood. Despite its achievements, Brazil's agricultural development story is filled with disputes over natural resource access and over environmental sustainability and social inclusion, suggesting that UNAC's concerns are legitimate.¹⁰
2. *Brazilian agriculture is not just the cerrado!* Brazil's agricultural development is not only about large-scale agribusinesses, the cerrado and soybeans. There are also stories about wide-ranging public policies supporting family farming, about promoting linkages between family farms and agribusinesses, about land reform, about the rights of landless workers, and, underlying all of these, there are stories about social movements claiming space in the policy debate and pushing for policies catering for their needs.
3. *The drivers of agricultural change inside Brazil and implications for transferability:* Irrespective of what particular Brazilian model or models inspire Mozambique's farmers, policy-makers and investors, it is important that when attempting replication the issue of adaptation or transferability is not understood simply as a technical matter. It ought, first of all, to be about understanding all the factors and conditions that have driven a certain experience and have led to a certain outcome within Brazil. It should then also be about questioning the extent to which the same formula can be applied outside of Brazil. The cerrado's transformation into a highly productive agricultural zone is not only the result of innovative technology (which can no doubt be adapted to suit the Nacala Corridor's soils and climate), but also of a myriad of factors related to human agency, institutional capability and the alignment of interests across politicians, investors, farmers and researchers.¹¹

Can the political, social, institutional and human drivers of the cerrado story be packaged along with the technological

expertise of ProSavana? Probably not, as these drivers were quite specific to Brazil in a particular moment in time. Mozambique's agricultural governance, institutions and politics are all quite different to the context that hosted the cerrado transformation. And in any case, the social and environmental record of such transformation remains a matter of dispute. Looking out from the Mozambican savannah, the miracle of the cerrado looks increasingly like a mirage.

Notes

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Economic Growth and Ecological Demise? Questions from Mozambique for Africa's Marine Ecosystems

Alex Benkenstein



Mozambique in many respects exemplifies the new optimism about Africa's economic future. GDP growth, albeit from a low base, has averaged 7.2% during a decade in which the global economy experienced the worst financial crisis since the 1930s. In September 2012 Mozambique exported its first shipments of coal – within five years these exports are expected to increase to about 40 million tonnes annually, climbing to 100 million tonnes annually within a decade.

Some of the world's largest global energy companies are vying for a stake in Mozambique's gas reserves, estimated at 130 trillion cubic feet. The country's mineral and energy resources dominate reporting on the country, but significant public and private investments are also being made in the country's ports, roads, airports and other infrastructure, while investments by retail, manufacturing and trading companies are also growing rapidly.

Putting Mozambique's growth in the African context

Mozambique is one of the ten economies that have been growing fastest over the past decade, but the list also includes five other African countries. From 2000-2008 the continent's real GDP grew by 4.9 percent annually, more than twice the rate of the 1980s and 1990s. While mineral and energy resources have undoubtedly played a central role in this impressive growth, analysis by the McKinsey Global Institute indicates that resources accounted for only about a third of Africa's growth, while the remaining two-thirds resulted from investments in other sectors including retail, transportation, telecommunications and manufacturing. Africa's population is growing faster than any other region in the world. The continent's rapid population growth is bound to result in challenges relating to food security, urbanization and infrastructure, yet it is also likely to drive economic growth through rising domestic demand, as well as swelling the Africa's labour force. In 2009 Africa's population surpassed 1 billion, doubling since 1982. By 2050 Africa's population is projected to reach 2.1 billion, with a labour force of 1.2 billion – by which time one in four working age people in the world will be in Africa. Africa also has the highest rate of urbanization.

By 2020 Africa is expected to have 70 cities with populations over 1 million, including eleven mega-cities with populations of five million or more, while Lagos will be the continent's largest city with a population of 20 million inhabitants.

Is the boom environmentally sustainable?

Clearly Africa is likely to undergo significant transformation over the coming half century, yet as African economies, populations, and cities grow, it is essential to consider the implication of these trends for the continent's ecological systems, as well as the societies that rely on various services provided by these ecosystems. In Mozambique Rio Tinto has proposed using barges to transport coal from its mines in Tete Province to the coast on the Zambezi River. The scheme would require extensive dredging of the river, which may increase the risk of flooding and have significant implications for the mangrove forests of the Zambezi delta, the single largest stand of mangroves on Africa's Indian Ocean coastline. Mangrove habitats in Mozambique and elsewhere in Africa face numerous threats including unsustainable exploitation of timber for construction and the conversion of mangrove habitats for agriculture, urban expansion and aquaculture. Population growth, rising food demand and technological advances are also likely to place further strain on fish stocks, which in many cases are already being exploited at unsustainable levels. Mozambique, like most African states, faces significant resource constraints in implementing effective fisheries governance strategies, yet the country's lucrative shrimp fishery is relatively well managed. Increasingly, the government is able to address illegal, unreported and unregulated (IUU) fishing

activities in its waters. Small scale fisheries, however, continue to expand, and in the future fisheries officials will need to strike a fine balance between the need to limit pressure on the stocks targeted by small scale fishers and the important role that these fisheries play in providing employment, fuelling local economic activity and serving as a social safety net in times of socio-economic crises.

Africa's marine ecosystems are productive and resilient, providing a range of services to African populations over centuries. More recently these ecosystems have faced increasing demands, as reflected in dwindling fish stocks, deforestation of coastal forests and biodiversity loss. As optimism mounts regarding Africa's burgeoning economies, therefore, it will be essential to question the paradigms through which we view economic growth and ensure that the integrity of Africa's natural ecosystems are preserved through sustainable development paths.

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EPA Update

This section covers recent EPA developments in the African Union, West-Africa and SADC regions. Stay tuned for coverage of negotiations in other regions.

Quentin de Roquefeuil

All ACP

ACP-EU Joint Parliamentary Assembly meets in Paramaribo

The 24th ACP-EU Joint Parliamentary Assembly (JPA) took place in Paramaribo, Suriname, at the end of the month of November. On trade issues, Dr. Mohamed Ibn Chambas, Secretary General of the ACP Group, declared that the CARIFORUM-EU EPA could be used as “a model for other ACP regions”, but warned that “if there are too many difficulties in implementing the CARIFORUM EPA – well, it could either discourage or encourage the other regions”.

The JPA Co-Chair, Hon. Musikari Kombo from Kenya questioned if the “obsession” of EU negotiators on “a narrow liberalization agenda which focused only on trade aspects, including issues that definitely inimical to the development aspirations of ACP States”, was not one of the reasons why EPA negotiations have dragged on. Peter Thompson, Director of Trade and Development Policy at DG Trade, for his part reminded the audience that the institutions in charge of implementing and overseeing the agreement were in the process of being implemented, and that the EPAs were no “magic pill” for development.

Additionally, with the “Banana Dispute” coming to an end at the WTO, Rabin Parmessar, the Surinamese representative at the JPA, voiced concerns over the disbursement of funds under the “Banana Accompanying Measures”, an aid program designed to cushion the erosion of ACP preferences for banana exports.

African Union

African Union Trade Ministers Meeting Issue Declaration on EPAs

In a veiled reference to the amendment of MAR 1528 governing Market Access to the EU for Interim EPA countries, whose exact cut-off date for implementation and ratification of Interim EPAs is still under discussions in Brussels (see our previous EPA updates on the issue), the Trade Ministers of the African Union called during their meeting in Addis Ababa for EPA negotiations to be “substance-based and not time-based”. The declaration, issued on November 30th at the end of a four day long Joint Conference of the African Union Ministers of Agriculture and Trade, further stated that the aforementioned regulation needs to “remain unchanged” until development oriented EPAs were in sight, and that “high level political dialogue” was needed to “persuade the EU to take into account African concerns”.

West Africa

West Africa: EPA negotiations on hold, region conducts crucial talks on Common External Tariff

EU negotiators have not met their West African counterparts since last April. A meeting was foreseen in Accra in June, but it has still not

taken place. The most immediate hurdle in the negotiations appears to be in, inter alia, Market Access (MA) issues.

As far as we know, two specific issues appear particularly problematic in the MA discussions last April: the percentage of liberalization of the West African market that negotiations should aim at, and the level of detail in the statistical basis to be used during these negotiations. On the latter, the region continues to argue for negotiations to take place at the 10-digit level of the Harmonized Commodity Description (HS) and Coding System, while the EC argues that they should take place at the HS 6 level of aggregation. An HS 10 negotiation would guarantee consistency with the region's nascent Common External Tariff (CET), but the EC argues that the HS 6 level is the level usually used in international negotiations since it is harmonized internationally. The region is planning on holding consultations in February.

Meanwhile, the region is currently holding the 12th round of talks between the West African Economic and Monetary Union (WAEMU, more commonly known by its French acronym, UEMOA) and ECOWAS states on the region's Common External Tariff (CET). The CET is the precondition for achieving the region's planned customs union, and, ultimately, a common market. WAEMU states already have a CET implemented; the negotiations therefore take place between the WAEMU block and other ECOWAS states.

The CET is organized around five tariff bands (0, 5, 10, 20 and 35%) into which goods are classified. The challenge lies in determining what good goes into which band given that, the current country rates differ widely in some cases amongst countries in the region.

The CET, by now almost finalized for the exception of a few key goods, has been submitted to the WTO and the World Customs Organization (WCO). Problems with individual country commitments at the WTO are foreseen since, in some cases, the reclassification of goods into higher bands means that countries will have tariff levels above their bound WTO rates. Yet, in a recent article published by the International Center for Trade and Sustainable Development (ICTSD), El Hadji Abdourahmane Diouf, Director of Agence Africaine pour le commerce et le développement, argues that legal solutions to the problem are within reach under WTO law.

The outcome of this meeting, currently ongoing until Friday, December 14th, will feed into ECOWAS's decision making bodies, which will meet to review the matter in the first half of 2013.

SADC

SADC EPA negotiations: SADC tables additional agricultural goods

After having been delayed, the EU-SADC technical working group on Market Access and Senior Officials met from December 3rd to December 7th in Johannesburg. Readers will recall that this meeting was delayed in order for SADC to refine and consolidate its agricultural Market Access (MA) offer at the regional level, after the EU had judged its initial offer tabled in insufficient.

A number of agricultural tariff lines were added to SADC's proposal, after arduous regional consultations. It seems that both sides are confident that the latest SADC agricultural offer and the EU's earlier “minimum request” provide a solid basis for further negotiations. Indeed, some of the goods added by the region in its offer overlap with the EU's earlier request. Additionally, the region reportedly agreed to negotiate a deal on Geographical Indications (GIs), a longstanding EU demand.

Nevertheless, the region's offer does come with fine print. The exact nature of concessions to be made still has to be determined: neither the Tariff Rate Quotas nor the preference margins to be provided for these goods are explicitly spelled out. Furthermore, the offer is conditioned on several points: no export subsidies or refunds, seasonal access, exclusion from the standstill clause and the possibility of adding specific “comfort measures”. With this in mind, the SADC offer should be refined during regional internal meetings in February 2013, after which it will be negotiated with the EU in March and “finalized”.

With regards to Rules of Origin (RoOs), cumulation appears to remain problematic, despite some progress. Senior Officials came to an agreement that user-friendliness, the risk of circumvention and clear timeframe and targets for the reduction of goods in the exclusion list should guide future efforts. The addition of a clause in the agreement aiming to review the exclusion list after a number of years is an option. With regards to Rules of Origin in fisheries, the EU has yet to respond to the region's clarifications. It should do so before the end of the year.

Notes

- 1 <http://www.acp.int/content/all-eyes-cariforum-epa-benchmark>
- 2 <http://www.caribbean360.com/index.php/news/638506.html#axzz2EpZtdBlh>
- 3 See West Africa's new common external tariff and the individual WTO commitments of ECOWAS member states: No insurmountable incompatibilities, available at <http://ictsd.org/downloads/bridges-africa-review/1-5.pdf>
- 4 <http://appablog.wordpress.com/2012/12/10/vers-ladoption-du-tarif-exterieur-commun-de-la-cedeao/>

Monthly highlights from ECDPM's Talking Points

www.ecdpm-talkingpoints.org

African trade and agriculture ministers sow a seed for closer cooperation, Talking Points, Francesco Rampa, December 7th, 2012

Dan Lui co-authored this article. For the first time, African Union ministers of trade and agriculture gathered last week at a joint conference in Addis Ababa. Originally scheduled for late October, the conference had been postponed since not enough ministers from AU member states had confirmed their attendance. Also this time the conference did not manage to attract a full turnout of high-level representatives from all African states and Regional Economic Communities – yet it still represented a significant moment with officials and experts from the two traditionally separate sectors and from both regional and (...)

MDGs matter only minimally for development in Côte d'Ivoire, Talking Points, Bruce Byjers, November 30th, 2012

This article was published on 6 December and is available on the European Report on Development blog. ++ SERIES: BUILDING THE POST-2015 DEVELOPMENT FRAMEWORK++ Preparation of the European Report on Development 2013 is now well underway. It will focus on "Elements for a Post-2015 Agenda" and aims at feeding into the debate about what development framework should replace the Millennium Development Goals after their expiry date in 2015. As part of the background research work for this report, the ERD team is conducting four country case studies (in Nepal, Peru, Rwanda and Côte d'Ivoire) to ensure that the report reflects (...)

Facing up to realities: DG DEVCO introduces new organigram for 2013, Talking Points, Florian Kraetke, November 30th, 2012

Staffing issues are all the talk in Brussels at the moment amid heated discussions over the next EU budget. EU Member States want the European Commission (EC) to reduce its staff by more than 5 % over the next 5 years, more than Council President van Rompuy recently proposed. In particular, Member State officials have made critical observations about the size of the Directorate-General for Development and Cooperation – EuropeAid (DG DEVCO). Counting 6.5% of the EC's Brussels-based staff, it is the second largest of the EC's offices in Brussels. However, DEVCO staff manages relatively (...)

Employment – it's what we've always wanted!, Talking Points, Bruce Byjers, November 23rd, 2012

"Jobs" are the focus of the recently launched World Development Report 2013. This year's edition of the World Bank's annual flagship publication raises a host of interesting issues. Key points and take away messages I got from the London launch event earlier this month are: 1) Although labour market functioning is important, labour market policies in developing countries matter much less for employment than other policies because of implementation difficulties and the fact that most employment is informal. 2) Relatedly, although most people in developing countries are informally self-employed on farms and in micro-enterprises, it (...)

Monthly highlights from ECDPM's Weekly Compass Update

www.ecdpm.org/weeklycompass

How to achieve policy goals despite corruption, Weekly Compass, Issue 130, 30 November 2012

A new book from the World Bank looks at why corruption and a lack of good governance emerge and persist in many countries and which effect it has on achieving reform goals. The book provides the political economy tools necessary to understand and integrate the analysis of how political and social factors influence the success of policy goals. The publication also provides practical advice on how to organize and use these tools based on stakeholder mapping, which helps decide what reforms and projects are feasible given the circumstances.

EEAS: scepticism dissipates, but no full endorsement, Weekly Compass, Issue 129, 23 November 2012

There is general recognition that collective European foreign policy is preferable to individual member states "going it alone", especially in their relations with major powers, according to a new study by the Centre for European Policy Studies. The paper, which includes articles from 9 EU Member States shows, however that many still question the capacity of the EEAS to act effectively, diplomatically, and strategically, when required to do so. It cites a French observation: "the bureaucratic machinery obviates ambition and the development of strategic policies; and the right expertise is sometimes lacking."

Aid cuts on EU leaders' agenda next week, Weekly Compass, Issue 128, 16 November 2012

A leaked document reveals that European Council President Van Rompuy this week proposed huge cuts to EU development aid. Analysis by the advocacy group ONE shows an 11 percent decrease to the European Development Fund and a 9 percent cut to the external spending section of the budget. Both reductions are higher than those in all other areas of EU spending. Eloise Todd, Brussels Director of ONE said "Next week, [EU] leaders [attending the summit on the future EU budget] must be prepared to stand up and fight for these life-saving funds." According to Laura Mayer on ECDPM's Talking Points blog, cuts will also have implications for the current process of programming EU development instruments and differentiating levels and types of aid to partner countries.

ACP-EU Trade Calendar

December 2012

- 3-7 EU-SADC Technical Working Group on Market Access and Senior Officials
10-14 Pacific-EU Joint Technical Working Group, Brussels, Belgium
10-15 Meeting of the Joint ECOWAS-UEMOA Committee for the Management of the ECOWAS Common External Tariff, Abidjan, Ivory Coast

February 2013

- 11-15 ACP-EU JPA - Regional Meeting (Caribbean)
(TBC) PACP Trade Officials meeting
(TBC) West Africa regional consultations on EPA
(TBC) SADC EPA Working Group on Market Access

March 2013

- (TBC) Pacific EPA Joint Technical Working Group
11-16 EU-SADC Technical Working Group on Market Access and Senior Official

Resources

Trade Liberalisation and Fiscal Adjustments: The Case of EPAs in Africa, Sanoussi Bilal, Melissa Dalleau and Dan Lui, ECDPM Discussion Paper 137, November 2012

Monitoring The Effects Of The Common Agricultural Policy In Developing Countries. A Review Of The Institutional Options, Niels Keijzer and Michael King, Overseas Development Institute, November 2012

A review of stakeholders' views on CAP reform. What they say and what they have achieved, Henrike Klavert and Niels Keijzer, Overseas Development Institute, November 2012

Impact of EU Common Agricultural Policy reform on Uganda, Ole Boysen and Alan Matthews, Overseas Development Institute, November 2012

Impact of the Common Agricultural Policy on food price volatility for developing countries, Nicola Cantore, Overseas Development Institute, November 2012

Impact of EU Common Agricultural Policy reform on Uganda's food trade with EU, Othieno Lawrence and Musa Luwanga Mayanja, Overseas Development Institute, November 2012

The EU's Common Agricultural Policy and Development, Dirk Willem te Velde, Sheila Page, Nicola Cantore, Alan Matthews, Michael King, Ole Boysen and Niels Keijzer, Overseas Development Institute Project Briefings 79, November 2012

What Opportunities Do The New EU International Investment Agreements Offer For Developing

Countries?, Axel Berger and Julia Harten, DIE Briefing Paper, December 2012

The Impact of EU Bilateral Trade Agreements with Third Countries on the Caribbean Rum Sector, Nicola Cantore, Jane Kennan and Dirk Willem te Velde, Commonwealth Secretariat Trade Hot Topics 94, November 2012

2012 DAC Report On Predictability. Survey On Donors' Forward Spending Plans And Progress Made On Predictability Since the HLF-4 at Busan, OECD DAC, December 2012

On The Relevance Of Relative Poverty For Developing Countries, Christopher Garroway and Juan R. de Laiglesia, OECD Development Centre, November 2012

Avoiding Middle-Income Growth Traps, Pierre-Richard Agénor, Otaviano Canuto, and Michael Jelenic, World Bank Economic Premise 98, November 2012

The New Face of Poverty: How has the Composition of Poverty in Low Income and Lower Middle Income Countries (excluding China) Changed since the 1990s?, Andy Sumner, IDS Working Paper Volume 2012 No 408, November 2012

What Drives Tax Morale? Christian Daude, Hamlet Gutiérrez and Ángel Melguizo, OECD Development Centre Working Paper No. 315, November 2012

Unpacking the International Technology Transfer Debate, Padmashree Gehl Sampath, Pedro Roffe, ICTSD Issue Paper 36, November 2012

Models for Trade Related Private Sector Partnerships for Development, Shannon Kindornay and Kate Higgins with Michael Olender, North-South Institute, October 2012

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