Regional Integration in Southern Africa - Vol. 2

Deepening Integration in SADC

Rapid Changes in Mozambique to Meet SADC Targets

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Centro de Promoção de Investimentos
(Investment Promotion Centre)

FRIEDRICH EBERT STIFTUNG

A study conducted for the
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Preface

Regional integration can be a key force for sustainable development. It can promote economic growth, reduce poverty, foster social development or protect the environment. But it can also have negative economic and social impacts, notably when the domestic regulatory framework is inadequate or not implemented effectively.

The Southern African Development Community, SADC is committed to deepening the integration processes amongst its members and has adopted the Regional Indicative Strategic Development Plan (RISDP) in order to provide strategic direction in the design and formulation of SADC programmes, projects and activities in order to achieve development and economic growth, alleviate poverty, enhance the standard and quality of life of the people of Southern Africa and support the socially disadvantaged, through regional integration.

Amongst the various measures governments can implement to further such integration, ensuring sound macroeconomic management is vital. Given the commitment to deepening SADC integration through macroeconomic policies, it is important that policy makers in SADC and its Member States assess the impacts that such measures will have on the social well-being of its people, both in the short term and the long term.

In view of the above, the Friedrich Ebert Foundation through its office in Botswana and in close consultation with the Planning Unit of the SADC Secretariat initiated a regional research programme on "Deepening Integration in SADC – Macroeconomic Policies and their Impact".

From the very beginning the programme was designed as a collective effort of the leading economic research institutions of the region. A total of 14 institutes from 11 SADC member countries followed the call to join the programme. In two workshops held in December 2004 in Gaborone, Botswana and in April 2005 in Stellenbosch, South Africa the team developed detailed terms of reference for the research programme. Phase 1 was to begin at the country level with a comprehensive study on the present status of the economies, their congruence with SADC convergence targets, the respective policy frameworks as well as a social impact analysis. This more theoretical desk study was complemented by an empirical survey of the perceptions of Businesses and Non-State Actors vis-a-vis SADC. A study on

South Africa's international trade diplomacy and its implications for regional integration was to give a contextual perspective.

All members of the research team have spent a lot of time and energy and produced excellent reports. The ideas and recommendations contained therein have induced some lively as well as controversial discussion among the participating institutions as well as with other experts. The content of each study reflects of course solely the views of the authors. I commend all of them for their great commitment as well as their great team spirit in this endeavour. I also wish to acknowledge the substantial input we received from the SADC Secretariat, especially the Head of the Strategic Planning Unit, Dr. Angelo E. Mondlane, the then Technical Advisor on Finance, Dr. Moeketsi Senaoana as well as other SADC experts. Other external experts have also contributed to the final documents as part of the various reference group meetings in all the participating countries. I wish to extend my greatest thanks to all them.

In order to make the results of this research programme known to a broader public, especially among the relevant policy and decision makers of the SADC region, the Friedrich Ebert Foundation then decided to publish a series of volumes entitled "Regional Integration in Southern Africa".

The 2nd volume, presented here, contains the findings of the Country Study and Survey from Mozambique by the *Investment Promotion Centre, IPC* in Mozambique. My special thanks go to the authors, to Lourenço S. Sambo and Adriano Ubisse for writing and revising the document, to Patrick Ebewo for editing, Sara Wagner for proof reading as well as to Peter Maina Kamiti and MacDonald Gotora for the design and layout.

Gaborone, October 2006

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We thank the current SADC Executive Secretary, Dr. Tomás Salomão, the representative of Mozambique's metal industry, H.E. the Deputy Labour Minister as well as all respondents from Business and Non-State Actors for their interviews.

We would also like to thank our language editor, translator and interviewer Mr. Evaristo Cumbane for his relentless efforts and dedication without which this study would not have been concluded.

Our special thanks and appreciation go to the Friedrich Ebert Foundation for its unconditional support for this important study that aims to determine macroeconomic conditions and performance within SADC countries geared up for regional integration.

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List of Abbreviations

ACP	Africa Caribbean and Pacific
AGOA	Africa Growth Opportunity Act
APHIS	Animal Plant Health Inspection Services
AU	Africa Union
BIDPA	Botswana Institute for Development Policy Analysis
BOT	Build Operate and Transfer
BOM	Bank of Mozambique
CCBG	Committee of Central Bank Governors
CET	Common External Tariff
CFMP	Medium Term Fiscal Scenario
CFMP	Medium Term Fiscal Framework
CNCS	National Council for the Struggle Against AIDS
COMESA	Common Market for Eastern and Southern Africa
CPA	Cotonou Partnership Agreement
CPA	Cotonou Partnership Agreement
CPI	Consumer Price Index
CTA	Confederati on of Economic Associations
CU	Custom Union
DRC	Democratic Republic of Congo
DTIS	Diagnostic Trade Integration Study
EBA	Everything But Arms
EP1	First Grade Primary Education
EP2	Second Grade Primary Education
EU	European Union
FIP	Finance and Investment Protocol
FRELIMO	Mozambique Liberation Front
FTA	Free Trade Area
FTA	Free Trade Agreement
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GNI	Gross National Income
GNP	Gross National Product
GOM	Government of Mozambique
GSTP	Global System of Trade Preferences
HDI	Human Development Index

HIPC	Heavily Indebted Poor Countries
HS	Harmonised System
IAF	Inquérito de Agregados Familiares (Household Survey)
IMF	International Monetary Fund
INE	National Statistics Institute
IRPC	Corporate Income Tax
IRPS	Personal Income Tax
IT	Information Technologies
LDCs	Least Developed Countries
MDGs	Millennium Development Goals
MINED	Ministry of Education
MMTZ	Malawi, Mozambique, Tanzania and Zambia
MOU	Memorandum of Understanding
MPD	Ministry of Development & Planning
MSM	Mutual Stability Mechanism
MTR	Mid Term Review
NEPAD	New Economic Partnership for African Development
NPV	Net Present Value
NTBs	Non-Tariff Barriers
NUIT	Single Tax-Identification Number
OE	State Budget
OR	Origin Regime
PARPA	Poverty Reduction Strategy Paper
PES	Social Economic Plan
PFT	Protocol on Finance and Investment
PODE	Programa de Desenvolvimento Empresarial (Enterprise Development Programme)
PRE	Economic Recovery Programme
PTA	Preferential Trade Area
RENAMO	Mozambique National Resistance
RISDP	Regional Indicative Strategic Development Plan
ROW	Rest of the World
RSA	Republic of South Africa
SACU	Southern African Customs Union
SADCC	Southern African Development Coordination Conference
SADC	Southern African Development Community
SPS	Sanitary and Phytosanitary Measures

SQAM	Standards, Quality, Acreditation
SSA	Sub Saharan Africa
TBT	Technical Barriers to Trade
TD	Trade Diversification
TDM	Mozambique Telecommunications Company
TRAC	Trans African Concession
TVET	Technical Vocational Education and Training
UK	United Kingdom
UNCTAD	United Nation Conference on Trade and Development
UNDP	United Nations Development Programme
UNDP	United Nation Development Programme
UNICEF	United Nations Children's Fund
US	United States
USD	US Dollar
VAT	Value Added Tax
WTO	World Trade Organisation

Executive Summary

The consolidation of SADC regional integration involving all member states constitutes a part of its strategic plan of achieving economic growth and development, alleviate poverty and improve the quality of life of the entire population of SADC.

Among various government measures and policies that can be implemented, economic stability is vital. And to ensure its survival member states adopted in 2001 the essential to create regional levels of economic stability.

To measure the economic convergence, in numeric terms a number of targets were defined.

The study's objective is to examine the impact of macroeconomic policies and the country's capacity and potentialities in the process of regional integration in light of the SADC protocols on macroeconomic convergence trade finance and investments.

The study covers the following four general areas discussed in the following chapters:

1) The basic macroeconomic policy framework, policy framework, especially fiscal and monetary policies;
2) The trade policy framework;
3) The labour market policy framework; and
4) The social impacts that the various policy frameworks aimed at achieving macroeconomic convergence and deepening SADC integration have.

Basic Macroeconomic Framework

The main objective of Mozambique's economic policy is to reduce the high levels of poverty, which affects more than half the country's population. The planning systems in Mozambique are thus conceived towards the solution to this fundamental problem, which requires a macroeconomic stability and the creation of a climate favourable to private development initiatives.

The Government Programme, a plan produced every 5 years following an electoral cycle, sets the broad goals for the following five-year period. The Government Programme for 2005-2009 sets out the following fundamental goals:

- Reducing the levels of poverty, through the promotion of a rapid, sustainable and comprehensive economic growth;
- Ensuring the country's social and economic development, with focus on the rural areas in view to reducing regional imbalances;
- Maintaining economic stability and promoting a business enabling environment attractive to foreign investment;
- Keeping inflation at low and stable levels; and
- Keeping stable and competitive exchange rates to stimulate exports.

Annually, the Government of Mozambique is required to submit its Social and Economic Plan (PES) to Parliament for appreciation and approval.

The PARPA (2001-2005) - Poverty Reduction Strategy Paper, presents the Government's main economic and poverty reduction policy objectives. This document states that the Government's central objective is to substantially reduce poverty through measures to improve capacities and opportunities for all Mozambican citizens, and in particular the poor. The specific objective is to reduce the incidence of absolute poverty from 70% in 1997 to less than 60% in 2005, and less than 50% by the first decade of 2000."[1]

The fundamental assumption of economic growth strategy and poverty reduction under PARPA is that the entrepreneurial initiative will be the driving force of economic and social development, with the state being responsible for the creation of adequate conditions and infrastructure for private sector development.

The Government has identified key intervention areas, with greater impact on economic growth and absolute poverty reduction, namely:

- Education (primary, secondary and higher, technical and professional education);
- Health (basic health care, maternal and child care, endemic diseases, tuberculosis, malaria, and HIV/AIDS);
- Development of Infrastructures (roads, energy and water);
- Agriculture and Rural Development (rural extension, surveys and introduction of new technologies);
- Good Governance, Legality and Justice;
- Macroeconomic and Financial policies (macroeconomic stability).

Other important intervention areas, which have been identified for the success of the strategy, are:

- Employment and private sector development;
- Social welfare;
- Housing;
- Fisheries;
- Tourism;
- Agro-industry and food processing;
- Transport and communication;
- Science and technology;
- Environment and reduction of vulnerability to natural disasters.

The Government objective of reducing absolute poverty was realised, with the level of poverty incidence brought to 54% in 2002-03, according to official published figures. The success in poverty reduction was attained with a projected average GDP of 7.2% in 2001-2004, excluding mega-projects.

Qualitative Overview of the Domestic Economy

Mozambique has been showing impressive positive results in the last decade, from a war economy to a prosperous economy, with high growth rates, averaging 6.6 in the last 6 years (1999 - 2004). Excluding the effects of the 2000 floods, which resulted in growth declining to 1.9 %, the economy grew by about 8.5% in that period. A combination of several factors, including political stability, economic reforms, steady foreign investment flows, and the gradual integration in regional markets, without ignoring the role of international community support, had an important role in the high economic growth rates recorded in recent years (DTIS 2004).

Undoubtedly the country has been recording remarkable improvements in various areas, such as macroeconomic management, through which it achieved significant levels of macroeconomic stability. Inflation declined from about 53% in 1995 to sustainable levels in recent years, with a 12% average in the last five years, 9.1% in 2004 (Table 2.1).

Despite these substantial achievements, Mozambique is still one of the world's poorest countries. About 54.1% of its population is living below the poverty line. According to data of the II Household Survey of 2002-2003, against about 69.4% in 1997-1998, representing a 15% reduction in poverty levels only in five years. About 37.9% of the population lives on USD 1 per day, and 78.4% with less than USD 2 per day. GDP per capita stands at about USD 240 being therefore among the poorest, occupying the 171st place in the ranking of the Human Development Index, in a group of 177 countries (UNDP 2005).

Fiscal policy reforms aimed at increasing internal revenue were adopted in the last 10 years, through tax base enlargement, reduction of tax rates, introduction of value added tax, review of the code of fiscal benefits (2002), reforms in direct taxes, with the introduction of IRPS and IRPC. These reforms have been accompanied by the modernisation of the fiscal administration, which should culminate in the establishment of the Central Revenue Authority of Mozambique. In 2004, the Government introduced the single tax-identification number (NUIT), which allows better control of revenues from collective and singular persons.

Still in the context of fiscal policies, with regards to public finance, the reforms should contribute to:

- A gradual increase in the level of internal revenues;
- A simplification and consolidation of the tax system;
- An adoption of measures aimed at widening the tax base;
- A continuation of the modernisation of tax administration;
- An increase in transparency in the region and utilisation of public funds;
- A continuation of the implementation of the national debt strategy, aimed at a long term and sustainable indebtedness;
- A continued allocation of most resources to key selected areas in PARPA; and
- An adoption of a new public procurement regime.

Trade Policy Framework

Mozambique's external trade policies are designed to create an environment conducive to promoting its products in international markets, especially in the developed countries of Europe, America, and Asia without prejudice to the promotion of intra-African trade. Trade policies are formulated with a view to speeding up Mozambique's industrialisation process, and in such a way as to make access to foreign markets easier for Mozambican products. In pursuing these objectives, Mozambique has entered into multilateral, regional, bilateral and preferential trade agreements as mentioned below.

Mozambique is a member of the World Trade Organization, (WTO) World Bank, the International Monetary Fund (IMF), the Cotonou Agreement and the Southern Africa Development Community (SADC.)

Mozambique has signed bilateral trade agreements with Malawi and Zimbabwe, and a Trade and Investment Framework Agreement with the United States of America.

Trade Policy Reforms: The trade policy reforms in Mozambique include a progressive reduction of taxes on international trade, reduction of barriers to imports and exports of goods and services.

In 2002, a new customs tariff schedule was introduced. In 1997, Mozambique signed a contract with Crown Agents, which enabled the modernisation of the Mozambican customs services, Direccao-Geral das Alfândegas, with IT and highly qualified personnel. Alfândegas is in the process of harmonising documentation with the region and improving its infrastructures with a view to facilitating trade and reducing delays in the clearing process.

Foreign Trade: Rapid expansion of exports has been an important source of growth during the past 10 years in Mozambique. Since the early 1990s, exports have expanded at an average rate of 10% per year, substantially higher than world exports (6%). Mozambique is one of the few countries in Africa that managed to increase its share in world exports. This rapid export expansion was led by private initiative both national and foreign and largely due to the implantation of Mega projects MOZAL (aluminium) and SASOL (natural gas).

Labour Market Policy Framework

In view to rendering the labour market more flexible through simplified foreign labour employment mechanisms,[2] the Government of Mozambique introduced a programme that aims to improve the quality of labour, through general or specific training initiatives. On the other hand, the Government which was sworn in February 2005 intends to give much focus on technical and professional education. The two most complex issues in the labour law reform have to do with the pressure to change the law, making it easy to hire (expatriates) and fire workers. These reforms are aimed at the overall goal of improving the business environment in Mozambique, which has consistently been cited as one of the least friendly business environment.

Recent estimates from the World Bank show that Mozambique is lagging behind in many categories, even at regional standards. For instance, in Mozambique, it takes nearly 153 days to start a business against an average of 60 days in the region. The costs of firing a worker are twice higher than the region's average.

Achievements Towards Convergence

The SADC Memorandum of Understanding (MOU) on Macroeconomic Convergence, adopted by the Ministers of Finance and Investment of SADC, identifies the indicators for the macroeconomic convergence process follow-up, as well as the targets regarded adequate for each of the indicators, and also establishes the respective calendar.

Overall, the Mozambican Government long-term objectives (2005-2009) for those indicators are in line with the objectives of the SADC regional integration. Our analysis is limited by the fact that the country does not have clear and quantified targets beyond 2009, the end of the term of the Government currently in place. Most of the information for 2009 onwards is qualitative and without clear and quantified targets.

Commenting specifically on the target indicators of the MOU on macroeconomic convergence, we note that the targets set out need to be reanalysed taking into consideration the specific need of each

2 Decreto 57/2003, de 24 de Dezembro

country. For example, 7% growth rates in average by 2018 can be a realistic indicator for Mozambique considering that the annual average growth in the last years has been 6.8% against South Africa's growth rate which was less than 1% in the period of 1980-1990 (BIDPA 2005).

We will focus our analyses on the medium term period, up to 2008, where quantitative indicators are available. For 2012 and 2018, there will not be any quantitative data as the Medium Term Fiscal Scenario (CFMP) projections only cover the 2005-2010 period. The medium term macroeconomic objectives defined and approved by the Government, jointly with the Bretton Wood Institutions,[4] are:

- **Core Inflation.** In its 2005-2009 programme, the Government has commited itself to keeping inflation at low and stable levels, although without any specific figures. In 2004, inflation stood at 9.1% against the projected target of 11%. The CFMP assumes the propositions for inflation in 2008 in the region of 5.9%, within the requisites of the SADC convergence for this indicator. This becomes more realistic considering the fact that we are using an "imperfect" indicator (CPI), from which the food and energy have a high score in the consumer basket.
- **Budget Deficit as % of GDP.** In 2004 the deficit before grants was about 13%, a figure close to those registered for the indicator in the past years. Despite the ongoing reforms aimed at increasing internal revenues, Mozambique is not expected to meet the MOU target of (5%) for 2008 given the country's high external dependence. About 45% of the State Budget is covered by external funds. Under its compromise with the World Bank, IMF and other cooperation partners, the Government foresees a gradual increase of internal revenues in percentage of GDP of about 14.8% (2004) to 17% in 2009. The current internal state revenue remained stable in the last six years. Along this period, the percentage of fiscal revenue in relation to GDP stood at approximately 12%.
- **External Debt as % of GDP.** Mozambique's external debt has created a special scenario in recent years in light of various initiatives. Mozambique benefited from considerable relieves under HIPC: about USD 6.0 billion in 1998 (before HIPC) to about 4.4 billion in 2004.

4 Unless otherwise stated the information for this indicators is drawn from (IMF 2005 and IMF 2004)

This made it possible to bring down the burden of debt servicing in terms of exports of goods and services from 27% to 5% after 2000; and this is expected to remain below 10% by 2010. At present, the debt stock in %age of GDP stands at about 175-200%, a parameter considered "high". However, this scenario could change considerably, as a result of ongoing initiatives, such as the G8 initiative to pardon 100% of the multilateral debt of Africa's poorest countries. Unless drastic international decisions are taken on the debt situation of the poorest nations, Mozambique does not present a promising scenario towards meeting the SADC target (60%). The country is currently concluding a debt strategy for a more responsible indebtedness.

- **Current Account Deficit as % of GDP.** In 2003 this indicator stood at 6.2%, against 12.7% registered in 2002. Estimates for this indicator are promising as the entry into operation of large scale projects will contribute to an increase of exports of goods and services. Exports have grown considerably since 2000 due to the effect of mega projects. The export contribution of mega projects has been at 50%.
- **GDP Growth.** Mozambique had a significant economic growth rate in the 1998-2004 period. Real GDP growth - including mega projects - was above 10% throughout the period except 2000 with a 1.2 % growth due to the floods. In 2004 the economy grew by 7.2%. For the coming years the Government hopes to maintain the growth rate at between 7-8%, which is consistent with the MOU target for this variable. Estimates for 2005 point to a growth rate of about 7.7%.
- **External Reserves (months of imports).** The Bank of Mozambique has held net international reserves equivalent to more than 4 months of imports, on average. The Bank of Mozambique has registered progress in this area. Under its monetary policy and in line with its compromises with partners, the Bank of Mozambique has sought to maintain the volume of international reserves equivalent to 5-6 months of imports, a target attainable for Mozambique in 2006.
- **Central Bank Credit to Government.** Since 2002, the Government of Mozambique has been reducing budgetary deficit financing via Bank of Mozambique loans. An analysis and Bank of Mozambique

statistics have shown a decline in credit to the Government since 2002. The Government undertook to reduce deficit financing via Central Bank resources as one of the requisites for maintaining macroeconomic stability.

- **Domestic Saving Rates (%).** Preliminary data for 2004 indicate an economic saving rate of about 15.4%, with a projected increase to about 16.1% in 2005 (Mozambique 2005 c).

In general, the indicators defined in the MOU are almost consistent with the Government objectives. It is worth noting that in addition to these specific objectives, the GOM equally assumes compromises with the Bretton Woods institutions, with a broader set of objectives and targets, which are evaluated periodically.

From the data available it is clear that most of the problems of Mozambique regarding the matrix of convergence indicators, the budget deficit as % of GDP and domestic savings rates (%), are areas where the potential of achieving the compromises is very low. On the other hand, the target indicators for inflation, debt, external reserves, and central bank credit to government are likely to be achieved.

- **Budget Deficit (%GDP):** World Bank data states that Mozambique is one of the countries most dependent on external aid worldwide - about 50% of the budget is foreign financed. Some of the factors accruing to the persistence of the high level of the government budget are structural. From the revenue side, it is evident that the capacity for mobilisation of domestic revenues is very low.

  The level of revenues as percentage of the GDP has been barely unchanged at the 12%, which is still very low compared to optimum levels for this figure in developed countries. The expenditure side has been showing an erratic behaviour. For instance, the current expenditures have been unchanged at 13% of GDP, while the investment expenditure is declining gradually, from about 13% in 2000 to 9.4% in 2004. In this regard, the emphasis has been put on increasing the level of domestic revenues by more efficient tax administration on revenue collection, including an effort to reduce the level of off budgets (MPD 2005).

- **Domestic Savings (% of GDP):** This is related to difficulties with limited development of the financial sector - has a poor liquidity, poor level of competitiveness, poor domestic savings, and the existence of few effective instruments to influence macroeconomic indicators.
- **Other Risks:** The rapid spread of HIV/AIDS, and the high external dependence of the economy are other risks to take into account. About 15.6% of the population is infected with HIV/AIDS. More that 50% of the budget is foreign financed.

Social Impact of Various Policy Frameworks

The social impact analysis used in this study follows the standards of the methodology developed by the World Bank (2003), namely:

- What is being analysed?
- What is the welfare measure being assessed?
- Whose welfare is being assessed?
- How are the impacts being channelled?
- How the institutions affect the outcomes?
- When do impacts materialise?
- What are the risks of an unexpected outcome?

Concretely, this study intends to analyse the socio-economic impact resulting from the materialisation of the regional integration convergence targets defined by SADC. We shall use two measures to evaluate the impact. The impact will be evaluated by monitoring a social indicator (incidence of poverty) and an economic indicator (GDP growth rate) as per the policies adopted for convergence in the SADC region. The Government policies and programme designed specifically for the materialisation of these objectives - reduction of the high levels of poverty incidence and promotion of rapid economic growth, based on private sector development. We shall identify possible risks, which can contribute to the non-materialisation of the expected impacts.

The social impact analysis of Government policies is basically through information from the indicators below (Table 2.5). Wider focus has been given to the evolution of the per capita income (GDP per capita), employment growth, and life expectancy from birth, child mortality rates, and education indicators. Poverty incidence is at the centre of attention, being the Government's prime objective. We shall make a brief description of the country's current status based on the referred indicators, and in the next session evaluate the possible evolution of the same in light of variations in the macroeconomic scenario, either as a result of the SADC regional integration or even of Government internal policies.

- **GNP per capita/GNI per capita (in USD purchasing power parity):** In 2002, the GNI per capita stood at USD 215. Though the per capita income has followed a positive trend in recent years, it is still among the lowest in the world and even within the region, excluding Malawi.
- **Employment and Unemployment Trends:** Estimates on employment in Mozambique are very scarce. A survey is currently underway and should provide official data on this variable. However, the cross data from different sources allows us to estimate the unemployment rates at 21%, and according to the same sources, about 81% of the population works in agriculture, 6% in industry, and about 13% in services (Population Census 1997).
- **Human Development Index Trends:** Mozambique is ranked 168 position in the Human Development Index (2005), one of the world's lowest. However, the country has been showing considerable improvements, with the HDI evolving positively in recent years.
- **Life Expectancy:** Life expectancy, like other social indicators, remains very low and with a declining trend. Life expectancy from birth decreased from 41.1 years (1975) to about 38.1 (2000). The spread of HIV/AIDS is one of the main explanations for this negative trend.
- **Under-Five Mortality Rate:** Although still high, there is a reduction of under-five mortality rates. In 1997 Mozambique had an under-five mortality rate of 219 per 1,000 live births, which reduced to 178 in 2003.
- **HIV Prevalence in the Adult Population:** The HIV/AIDS pandemic is an extremely important issue given its high incidence levels. Recent data show an incidence rate of 15.6% among the adult population, with about 500 new infections every day.
- **Adult Literacy Rate:** Mozambique still presents very high illiteracy rates. About 54% of the adult population is illiterate.

- **Net Primary Enrolment Rate:** The levels of primary education remain very low (65.8 in 2003), furthermore only 38.7% (Mozambique and PNUD 2005) against 39% (2001) of the student universe concluded the primary cycle. The United Nations set as target a net enrolment rate of 100% by 2015, in order to guarantee universal education for all children.
- **Tertiary Education Attainment Rate:** Higher education conclusion rates remain very low, with levels below 1% in recent decades 2003 show a 3% rate, with most higher education students being men (0,5%); women (0.2%).
- **Incidence of Poverty** (percentage of the population living on less than USD 1 per day): Mozambique registered a positive change in terms of poverty incidence in the last five years. In 2003, about 37.9% of the population lived on USD 1 per day, against 64% in 1999. Among the determinant factors for poverty incidence reduction are; (i) household agricultural production, (ii) increased delivery of quality education and health services (due to strong government investment in these areas), (iii) improved infrastructures (roads, water and energy); (iv) strong international community support.
- **Poorest Fifth of Population's Share of National Consumption:** In 1995, the poorest population quintile had access to only 6.5% of the national income. The 2003 evaluation shows an unbalanced distribution of wealth, with GINI passing from 0.40 (1997) to 0.52 (2003).
- **Percentage of Population with Access to Safe Water:** About 43% of the population has no access to a safe potable water source in Mozambique. The MDG target for this variable requires a reduction by half, the number of people without access to potable water in 2005.
- **Poverty Eradication:** The SADC goal is to promote sustainable and equitable economic growth and socio-economic development that will ensure poverty alleviation, with the ultimate objective of its eradication. The target of halving the proportion of the population that lives on less than USD 1 per day between 1990 and 2015 as defined in the RISDP has been already achieved. Currently around 30% of the population lives with less than USD 1 a day in

Mozambique. The national poverty line states that more than half the population (54.1%) continue to live in absolute poverty. Projections indicate that the poverty incidence rate could be at about 28% (World Bank 2005) For both indicators, Mozambique could attain the objectives defined for SADC's convergence. However, some important challenges lie ahead for the materialisation of this objective, namely:

- Need to maintain the current high levels of economic growth the country has had in recent years;
- Improve the effectiveness of foreign aid;
- Rapid urban population growth without the necessary correspondence in terms of infrastructures and income opportunities;
- High vulnerability to external risks, including natural disasters (MPD and UNDP, 2005).

• **Combating the HIV/AIDS Pandemic:** SADC Targets the spread of HIV/AIDS to be reduced by 2007 and the prevalence of HIV, particularly among young men and women to be reduced by 25% in all Member States; the proportion of infants affected by HIV to be reduced by 60% by 2015 in all Members States.

The HIV/AIDS incidence rate among the adult population (15-49 years) has known a worrying increase. From about 8.2% (1998) to 13.6% (2002), and is currently at about 16.2% (2004). About 500 new infections occur in Mozambique daily (2004). The Government objective in this context is to reduce the number of new infections from the current 500 per day to 350 (2009), and 150 (2015) (MPD and PNUD 2005).

There are no reliable statistics on the incidence of AIDS among children. The only available figures refer to the evolution of the number of children orphaned by AIDS. In 2003 the number of orphans due to AIDS was estimated at 225,000, with projections indicating that by 2010 over 626,000 children will be orphaned as a result of AIDS. The issue is the fact that primary school attendance rate of orphan children is low compared to the other group of children. In 2003, the attendance rate of orphan children (10-14) was 62%, compared to 78.4% among non-orphan children (MPD and PNUD 2005).

- **Gender Equality and Development:** The overall goal is to facilitate the achievement of substantive equality between women and men in the SADC region, through mainstreaming gender into all national and regional policies, programmes and activities, and the adoption of positive measures to accelerate progress in this regard.

  Gender disparities are still a very strong reality in Mozambique in all areas. In recent years, the Government of Mozambique adopted various measures to reduce this type of disparities, as one of the ways of reducing the high levels of poverty incidence. Latest statistics show that women remain highly disadvantaged as far as access to education is concerned. At primary level, the disparities have gradually been reduced. The ratio of girls per boys has improved from 0.71 (1997) to 0.83 (2003). The scenario is slightly different at higher levels. For example, at the second grade primary level (EP2) and secondary level, the ratio has not registered changes since 1997 (about 0.67). This situation shows that the country is unlikely to eliminate the gender disparities at the primary and secondary levels even by 2015.

  Although the country has been registering improvements in literacy rates, the incidence of illiteracy remains much higher among women than men (68.8% versus 36.7%). This disparity is more significant and sharper in rural areas than in urban settings.

  In terms of access of women to empowerment and decision making, there have been significant improvements. Mozambique ranks second in Africa (after Rwanda) and is among the top 20 performers in the world in terms of women in parliament whose ratio has been improving positively in the last decades: 16% (1990), 25% (1997), 30% (2000), and currently there are 35% of women in the parliament following the recent elections of 2004. The new cabinet announced in February is lead by a woman (Ms Luisa Diogo), who also served as Minister of Planning and Finance in the last government. 6 of the ministries are headed by women and there are 4 women vice ministers. At the local government, there are 2 women governours. Mozambique has been successful in promoting women to decision positions at the central level, but has not been able to spread that trend to the local government, as can be seen from the very weak level of women at the municipal and district governing bodies.

Many challenges lie ahead towards the fulfilment of the goals in this area, and these include:

- Little attention paid to the education of girls;
- High incidence of HIV/AIDS infection among girls and women;
- Conflict between formal and traditional education;
- High education costs (despite the abolition of fees);
- Security issues due to long distances to school, sexual harassment and abuse by teachers and female colleagues, lack of female board-housing;
- Poor participation of girls and women in technical and professional education, particularly in high demand non-traditional employment areas; and
- Inadequate institutional support for gender promotion, particularly in the private sector, namely in policy promotion that prioritises gender.

Macroeconomic Challenges facing Mozambique

HIV/AIDS: The incidence of HIV/AIDS could undermine growth and poverty alleviation goals defined by the Government. A recent study estimates that the current HIV/AIDS incidence trends could contribute to GDP rate reduction by about 1 percentage point in the coming years (Arndt, 2003).

Poverty: In a five-year period (1997 to 2003), the poverty incidence level declined by about 15%. Projections suggest that by 2015 the incidence levels could be at about 44% (Mozambique and UNDP 2005). Despite this success, it is likely that there will still be hungry people in 2015.

Lack of Human Capital: The low level of human capital in Mozambique is consistently indicated as one of the constraints to the country's economic growth. Data point to a growth rate of about 0.3%, with the largest parts of higher school students made up of men (0.5); women (0.2).

Lack of Economic Diversification: Excluding mega projects, Mozambique's traditional exports are essentially primary products not manufactured, particularly fishing products and cash crops (cotton and cashew nuts). The exports from mega projects have accounted for about 50% of the total exports since 2003.

Lack of Economic Infrastructure: In the last 5 years, major inroads have been made in the road sector, resulting in the reduction of the extension of roads classified as bad. Although there have been improvements in the primary and secondary roads, the low quality of tertiary roads is still a severe problem. Tertiary and roads are crucial for the overall development of the country particularly rural areas, and this has a strong potential for poverty reduction.

Currently, only less than 10% of the houses has electricity nation-wade. Most of the population rely on other sources of energy (wood, coal and kerosene). From the private sector point of view, the poor rural electricity coverage hinders the expansion of business activities and pushes the cost of doing business higher.

Lack of Finance: The high level of interest rates are mentioned as one of the most serious constraints in access to credit. Although the rates have been declining in real terms in the last years more has still to be done in order to push the rates down and expand the volume of credit to the private sector. The high levels of interest rates are the result of a poor lending environment due to the lack of contract enforcement legislation on one hand, and poor collateral capacity to access credit on the other.

Environmental Degradation: Although we cannot classify it as severe, there are some signs of rapid deforestation, which can have effects on biodiversity, with direct impact on the poorest strata of the population. One area of concern has been small-scale mining activities carried out using rudimentary practices that lead to widespread pollution of river waters. These environmentally unfriendly activities are particularly rampant in the centre and north of the country.

Gender Discrimination: No doubt the high disparities in the access to services and income distribution for women is cited as one of the causes of poverty. The last report on MDGs for Mozambique shows that those disparities are still high, mainly in education, income and employment opportunities.

Governance Problem: Democracy is still a recent phenomenon but progress is promising. The country held its third general elections in December 2004. Corruption is a widespread phenomenon. Mozambique ranks among the most corrupt countries of the world, according to the Corruption Perception Index by Transparency International.

Conclusions and Recommendations

One of the biggest problems for Mozambique regarding the convergence matrix of indicators include the budget deficit (% GDP) and (%) of domestic savings rates areas where the likelihood of meeting the targets defined in the memorandum are very poor. However, the country is committed and is working towards the fulfilment of the requisites to a useful integration. The tariff rates applied to import have been cut down drastically, and according to a recent World Bank estimate, the average tariffs are around 9.4%.

The Mozambican financial system is still young, small, bank-based, foreign-owned and highly concentrated (IMF 2001). Although a great deal of reforms were conducted in the financial sector in recent years, a lot more remains to be done, namely in the areas of foreign currency management, greater Central Bank independence, payment systems, banking supervision, legal instruments to regulate credit concession, capital markets and insurance, and money laundering prevention mechanisms. Under the ongoing reforms, the country needs to satisfy the requisites in the financial system area in the perspective of regional integration. The reinforcement of the Bank of Mozambique payment system is underway.

Also underway are reforms in the legal sector in order to improve the credit concession environment. One of the biggest obstacles cited by Mozambican companies is high cost of credit and the difficulties for its access. The difficulties in recovering bad debt have been constantly pointed by the financial sector as a factor behind excessive conditionality for credit. The main reforms towards a safer credit market include: (i) developing out-of-court enforcement procedures or summary enforcement procedures; (ii) modernising and linking the Mozambican property registries electronically; and (iii) over the long term, increasing the category of property eligible as security (MPD 2005a).

The SADC ambitious goals and objectives, as captured in its Regional Indicative Strategic Development Plan (RISDP), are to complete a Free Trade Area (FTA) by 2008, become a Custom Union by 2010, create a regional common market by 2015 and a monetary union by 2016.

The weakness of tax SADC policy, as well as in other member states, affects also the macroeconomic performance and the process of SADC integration. If the SADC countries can find common ways of conducting trade with themselves and with all their trade partners, this will start to counter the advantage of developed countries, and will improve their (SADC) terms of trade with all partners.

For deepening integration in SADC, it is also required that the Mid Term Review Process be transformed into the formulation of a future vision for the region and examined how it will fit into global trade, and, of particular importance, how it will differentiate itself and compete with other regions.

If this region is to become a global player, then co-operation can and must lead to greater economies of scale and the harnessing of various comparative advantages must be done in order to make a far greater impact on the global market than any single member state could muster.

In making trade policy choices and identifying and pursuing alternatives, it is important for Mozambique to consider the following recommendations:

- Identify country interests and possible trade-off and participate actively in the multilateral, regional, and bilateral meetings or conferences, to ensure that products of interest to Mozambican producers are subject or not to high tariffs and export subsidies;
- Participate in tariff acceleration discussions within SADC;
- Continued efforts to liberalise SADC rules of origin;
- To meet SADC requirements and sell to South Africa, Mozambique must shift from cost-efficient sources of raw material to South Africa for plastics, and to the region for fabrics; and
- Continue bilateral negotiations to permit acceleration of duty reductions between reciprocating partners with SADC.

Sumário Executivo

Políticas Macroeconómicas

A consolidação da integração regional envolvendo os Estados membros da SADC é uma pare integrante do seu plano estratégico para se atingir o crescimento e desenvolvimento, aliviar a pobreza e melhorar a qualidade de vida de toda a população da SADC.

Entre várias medidas e políticas governamentais que podem ser implementadas, a estabilidade económica é vital e pode assegurar a criação de níveis regionais de estabilidade económica através da implementação do Memorando sobre a convergência macroeconómica dos Estados membros adoptado em 2001. Importa realçar que este Memorando constitui agora uma dos Anexos preponderantes do protocolo de Finanças e Investimentos recentemente adoptado pela Cimeira dos Estados e de Governo da SADC em Maseru -Lesotho.

Para medir a convergência macroeconómica, em termos numéricos, foram definidas seguintes metas para vários indicadores que de vem ser alcançadas por todos os Estados membros em 2008, 2012 e 2018.

O objectivo deste Estudo é examinar o impacto das políticas macroeconómicas, potencialidades e capacidade de Moçambique no processo de integração regional a luz da convergência macroeconómica, desenvolvimento do comércio, finanças e investimentos.

Como é sabido o objectivo principal da política económica em Moçambique é reduzir os níveis de pobreza absoluta que afectam mais de metade da sua população. Daí que o sistema de planificação económica em Moçambique tenha sido concebido para solucionar o seu problema fundamental, o qual requer uma estabilidade macroeconómica e criação de uma clima favorável para o desenvolvimento das iniciativas de desenvolvimento do sector privado.

O Programa do Governo - plano que é produzido de cinco em cinco anos - seguindo o ciclo eleitoral para o período 2005-2009 apresenta os seguintes objectivos fundamentais:

- Reduzir os níveis de pobreza, através da promoção de um crescimento económicos rápido e sustentável;

- Assegurar o desenvolvimento económico e social, focalizado para as zonas rurais tendo em vista a redução dos desequilíbrios regionais dentro do País;
- Manter a estabilidade económica e promover um ambiente acessível e atractivo de negócios para o investimento estrangeiro;
- Manter a inflação a níveis baixos e estáveis; e
- Manter estável e competitiva as taxas de câmbio para estimular as exportações.

Anualmente é requerido ao Governo Moçambicano a submissão do Plano Económico Social (PES) ao Parlamento para apreciação e aprovação e adicionalmente a estes dois instrumentos de planificação económica e social (Programa Quinquenal do Governo e PES) existe o Plano para a Redução da Pobreza (PARPA).

O PARPA I (2001-2005), por exemplo, tem como objectivo central a redução substancial da pobreza através de medidas que devem melhorar as capacidades e oportunidades para todos os cidadãos Moçambicanos e, em particular, para o pobre. O Objectivo específico do PARPA I era de reduzir a incidência da pobreza de 70 porcento em 1997 para menos de 60 porcento em 2005. O pressuposto fundamental da estratégia de crescimento económico no âmbito do PARPA I era de que as iniciativas empresariais seriam a força motriz e motor do desenvolvimento económico e social, sendo o Estado Moçambicano o responsável pela criação de condições adequadas e de infra-estruturas para o desenvolvimento do sector privado.

Neste período (2001-2005) o Governo Moçambicano identificou áreas de intervenção chaves, com impacto no crescimento económico e redução da pobreza absoluta, nomeadamente:
- Educação (primária, secundária, terciária e técnico - profissional);
- Saúde (básica, cuidados médicos e materno - infantis, endemias de malária HIV/SIDA e tuberculose);
- Desenvolvimento de infra-estruturas (estradas, energia e água));
- Agricultura e Desenvolvimento Rural (extensão rural, pesquisas e introdução de novas tecnologias);
- Boa Governação, Legalidade e Justiça; e
- Políticas Macroeconómicas e Financeiras (Estabilidade Macroeconómica).

Outras áreas de intervenção identificadas para o sucesso da estratégia de planificação económica em Moçambique compreendem:

- Emprego e Desenvolvimento do Sector Privado;
- Bem Estar Social:
- Habitação;
- Pescas;
- Turismo;
- Agro - indústria e processamento de alimentos;
- Transportes e Comunicações;
- Ciência e Tecnologia; e
- Ambiente e Redução da vulnerabilidade aos desastres naturais.

O objectivo de reduzir a pobreza absoluta foi realizado, tendo-se trazido o nível de incidência da pobreza para 54% em 2002-03, de acordo com as publicações oficiais. O sucesso na redução da pobreza foi alcançado ao conseguir-se a taxa de crescimento do PIB projectada em 7.2% para 2001-2004, excluindo os mega - projectos.

De facto Moçambique tem vindo a mostrar resultados de crescimento positivo impressionantes, na última década com uma economia próspera, com altas taxas de crescimento numa média de 6.6%. Nos últimos seis anos (1999 - 2004), excluindo os efeitos das cheias de 2000, que resultaram num declíneo de 1.9 porcento, a economia cresceu em 8.5 porcento nesse período. A combinação de diversos factores, incluindo a estabilidade política, reformas económicas, fluxo acentuado de investimento estrangeiro, e a gradual integração no Mercado regional, sem ignorar o papel da comunidade internacional que também jogou com o seu apoio contribuiu para as altas taxas de crescimento registadas, no mesmo período.

Sem sombra de dúvidas o País registou melhorias consideráveis em várias áreas, tais como a gestão macroeconómica através da qual se atingiu níveis significativos de estabilidade macroeconómica, com a inflação declinando de cerca de 53% em 1995 para níveis sustentáveis nos anos recentes, com uma média 12% nos últimos cinco anos e 9.1% em 2004.

Apesar desses substanciais níveis alcançados na última década, Moçambique é ainda um dos países mais pobres do mundo. De acordo com o inquérito dos agregados familiares (199...2000) 54.1% da sua população vivendo abaixo da linha de pobreza, contra cerca de 69.4% em 1997-1998, representando uma redução da pobreza de 15% nos últimos cinco anos. Cerca de 37.9% da população vive com mais ou menos $1.00 por dia, e 78.4% com menos de $2.00 por dia e o PIB per capita é de $240.0.

A nível de políticas fiscais, mais precisamente em termos de finanças públicas, as reformas em curso devem contribuir para:

- Um aumento gradual do nível de receitas internas;
- Uma simplificação e consolidação do sistema tributário;
- Uma adopção de medidas, visando o alargamento da base tributária;
- Uma continuação da modernização da administração fiscal;
- Um aumento da transparência na região e na utilização de fundos públicos;
- Uma continuação da implementação da estratégia da dívida nacional, visando um endividamento sustentável a longo prazo;
- Uma continuação da alocação de mais recursos para as áreas seleccionadas e ilustradas no PARPA I e II; e
- Uma adopção de um novo regime de procurement público.

Políticas Comerciais

No que concerne a política comercial em Moçambique, ela está virada para a criação de um ambiente conducente a promoção dos seus produtos nos mercados internacionais, especialmente para os países desenvolvidos da Europa, América e Ásia, sem prejudicar a promoção do comércio Africano intra-regional As políticas comerciais formuladas até ao momento em Moçambique são fundamentais, tendo em vista o processo de industrialização, e para que se alcance o acesso fácil aos mercados internacionais para a colocação dos produtos Moçambicanos

Na prossecução dos objectivos definidos nessas políticas comerciais, Moçambique entrou em acordos multilaterais, regionais, bilaterais e preferenciais, sendo por isso membro da Organização Mundial do Comércio (OMC), Banco Mundial, Fundo Monetário Internacional Acordo do Cotonou e SADC.

A de reforma da política comercial em Moçambique inclui uma redução progressiva de taxas sobre o comércio internacional e a redução de barreiras tarifárias sobre importações e exportações para bens e serviços.

Em assim que em 2002 foi introduzida uma nova pauta aduaneira. Em 1997 Moçambique assinou um contracto com a Crown Agents, que modernizou as Alfândegas de Moçambique e permitido um aumento substancial das receitas.

As exportações como principal fonte para o crescimento económico, foram expandias nos últimos dez anos. Desce a década 1990, as exportações registaram uma expansão numa media anual de 10 porcento, que é substancialmente uma taxa mais alta dessas exportações mundiais (6 porcento). Moçambique é um dos países Africanos que conseguiu um aumento da sua contribuição nas exportações mundiais Esta expansão rápida foi liderada pelas iniciativas do sector privado nacional e estrangeiro e largamente com a implantação do projecto de alumínio, a MOZAL e do gás natural, a SASOL.

Mercado e Política Laborais

Tendo em vista tornar o Mercado de trabalho mais flexível através da simplificação de mecanismos para o emprego de trabalhadores estrangeiros, o Governo de Moçambique introduziu, um programa visando a melhoria da qualidade de trabalho, através de diferentes iniciativas de treinos específicos. Por outro lado, o Governo proclamado em Fevereiro de 2005 pretende dar maior enfoque na educação técnico e profissional. No entanto, os dois aspectos mais complexos na reforma da Lei de Trabalho, é tornar a nova lei mais flexível ao emprego de trabalhadores estrangeiros e a melhoria do ambiente de trabalho em geral em Moçambique, o que é consistente com o facto de citar o País como um dos menos favoráveis ao desenvolvimento de negócios.

Desempenho de Moçambique para alcançar os indicadores de convergência

O Memorando da SADC sobre a Convergência Macroeconómica adoptado pelos Ministros responsáveis pelas e finanças e investimentos da SADC identifica claramente os indicadores de convergência

Observa-se com base neste Estudo que os objectivos, em geral, para 2005-2009 alguns dos seus indicadores estão em linha com os objectivos da integração regional da SADC. Todavia a análise feita no Estudo é limitada pelo facto de não existir em Moçambique indicadores quantificados para além de 2009, que será é o último ano do actual mandato do Governo Moçambicano. A maioria da informação para além de 2009 é qualitativa sem metas claras quantificadas.

Especificamente sobre as metas indicadas no Memorando (Anexo do Protocolo de Finanças e Investimentos da SADC) para a Convergência Macroeconómica, nota-se que é necessários uma reanálise das metas indicadas, tomando em conta aspectos específicos de cada Estado membro. Por exemplo, a taxa de crescimento de 7% até 2018 pode ser realística para Moçambique considerando que a taxa de crescimento médio anual foi de 6.8% contra as taxas de crescimento alcançados por outros países da SADC.

No Estudo de Moçambique o enfoque foi mais na análise em termos de um período médio até 2008, onde estão disponíveis indicadores quantitativos. Para 2012 e 2018, pelo facto de não existirem dados quantitativos, foram usados dados Cenário Fiscal de Médio Prazo (CFMP) projecções que cobrem apenas o período de 2005 a 2010. Os objectivos do CFMP definidos e aprovados conjuntamente pelo Governo e pelas instituições de Bretton Wood são:

- Inflação No Programa Quinquenal 2005-2009 o Governo assume o cometimento de manter a inflação a níveis baixos e estáveis, embora sem nenhum número específico. Em 2004 a inflação cifrou-se em 9.1%, contra a meta projectada de 11%. O CFMP assume a proposição para 2008 de uma inflação da região de 5.9%, dentro de requisitos da convergência na SADC para este indicador. Isto orna-se mais realístico considerando o facto de que Moçambique usa um indicador imperfeito, O Índice de Preço ao Consumidor (IPC/CPI), a partir do qual os produtos alimentares e a energia têm tido a cotação mais alta na cesta básica.
- Défice Orçamental como % do PIB. Em 2004 o défice antes de empréstimos era de cerca de 13%, uma cifra próxima doutras cifras registadas nos anos anteriores. Devido às reformas em curso que visam o aumento das receitas internas, Moçambique poderá não atingir a meta constante do Memorando, cujo indicador é de é de (5%) para 2008 dada ao alto grau de dependência externa. Cerca de 45% do Orçamento do Estado é coberto por fundos externos.

Com base no compromisso com o Banco Mundial, Fundo Monetário Internacional e outros parceiros de cooperação, o Governo Moçambicano prevê um aumento gradual de receitas internas de 14.8% em 2004 para 17% em 2009.

- Dívida Externa como % do PIB. A dívida externa de Moçambique é conhecida como um cenário especial nos últimos anos a luz de várias iniciativas. Moçambique beneficiou de consideráveis alívios no âmbito do HIPC, com cerca de $ 6.0 biliões em 1998 antes do HIPC para cerca 4.4 biliões em 2004, e através deste alívio foi possível trazer o peso do serviço da dívida, em termos de exportações de bens e serviços, de 27% para 5% depois de 2004, e espera-se que se mantenha abaixo de 10% até 2010. O stock actual da dívida em %agem do PIB é de cerca de175 -200%, um parâmetro considerado alto. Contudo, este cenário pode mudar consideravelmente, como resultado das iniciativas em curso, tais como a iniciativa do G8 para perdoar 100% da dívida multilateral dos países Africanos mais pobres. A não ser que decisões internacionais drásticas ocorram para as nações mais pobres, Moçambique não monstra um cenário promissor para alcançar a meta da SADC (60%). O País está presentemente a concluir uma estratégia para assumir maior responsabilidade sobre o seu endividamento.
- Défice da Conta Corrente como % do PIB. Em 2003 este indicador foi de 6.2%, contra 12.7% registados em 2002. Estimativas para este indicador são promissores como a entrada de grandes projectos contribuirão para o aumento de exportações de bens e serviços. As exportações cresceram consideravelmente em 50%. devido ao efeito dos mega projecto.
- Crescimento do PIB. Moçambique teve uma taxa de no período de 1998 a 2004. Em 2004 a economia cresceu em 7.2% e para os anos subsequentes, o Governo espera que se mantenha a taxa de crescimento entre 7-8%, que é consistente com a meta definida no Memorando sobre a Convergência Macroeconómica.
- Reservas Externas (meses de importações). O Banco de Moçambique assegurou em média reserves internacionais equivalentes a mais de 4 meses de importações, tendo-se registado progressos assinaláveis nesta área No âmbito desta política monetária, e em

linha com os compromissos assumidos com os seus parceiros, o Banco de Moçambique pensa que poderá manter o volume de reservas internacionais equivalentes a 5/6 meses de importações, em 2006.

" Crédito do Banco Central ao Governo. Desde 2002, o Governo de Moçambique tem vindo a reduzir o défice orçamental via financiamento do Banco Central. Uma análise das estatísticas do Banco de. Moçambique tem mostrado um declínio desde 2002. O Governo tomou esta redução do financiamento do Banco Central como um dos requisitos para manter a estabilidade macroeconómica.

" Taxa de Poupança Domestica (%). Os dados preliminares de 2004 indicavam uma taxa de poupança económica de 15.4%, com um aumento projectado para cerca de 16.1% em 2005.

Em geral os indicadores definidos no Memorando são quase consistentes com os objectivos do Governo Moçambicano. Porém, a existência de poucos instrumentos efectivos para influenciar os indicadores macroeconómicos e o limitado desenvolvimento do sector financeiro provoca, uma liquidez da economia relativamente pobre, um pobre nível de competitividade e uma pobre poupança doméstica..

Outros riscos considerados no Estudo com grande impacto sobre a economia compreendem a rápida propagação do HIV/SIDA e a alta dependência externa da economia Moçambicana. Acerca de 15.6% da população está infectada pelo HIV/SIDA e mais de 50% do Orçamento do Estado é financiado pelos fundos externos.

Impacto Social das Políticas Económicas

A análise do impacto social usado no Estudo segue os princípios da metodologia desenvolvida pelo Banco Mundial, nomeadamente:

- O que é que está sendo analisado?
- Qual é a medida do bem estar que está sendo acedido?
- De que bem estar está sendo acedido?
- Como os impactos estão sendo canalizados?
- Como as instituições afectam os resultados?
- Quando é que o impacto se materializa?

- Quais são os riscos de um resultado não esperado?

Concretamente, é intenção do Estudo fazer uma análise do impacto sócio-económico resultante da materialização da convergência macroeconómica no processo de consolidação da integração regional da SADC. Devemos usar duas medidas para avaliar esse impacto. Avaliar o impacto através da monitoria do indicador social (incidência da pobreza) e um indicador económico (taxa de crescimento do PIB) como políticas adoptadas para a convergência macroeconómica da SADC. As políticas e programas do Governo são designados especificamente para a materialização desses objectivos de integração regional - redução de latos níveis de incidência da pobreza e promoção do crescimento económico rápido, baseado no desenvolvimento do sector privado. O Estudo identifica possíveis riscos, que podem contribuir para a não materialização dos impactos esperados com a integração regional da SADC.

Moçambique ocupou a 168ª posição no Índice de Desenvolvimento Humano (2005), uma das mais baixa do mundo, embora o País esteja a registar algumas melhorias nos últimos dois anos (2004 e 2005).

A esperança de vida, tal como outros indicadores sociais, mantém-se muito pobre e com uma tendência para o declínio. A esperança de vida à nascença de cresceu de 41.1 anos em 1975 para cerca de 38.1 em 2000, sendo a disseminação do HIV/SIDA uma das explicações desta tendência negativa.

Embora esteja ainda alta, a taxa de mortalidade infantil abaixo dos cinco anos conheceu uma relativa redução. Em 1997 Moçambique teve uma taxa de mortalidade infantil abaixo dos cinco anos de 219 por 1000 nascimentos vivos que reduziu para 178 em 2003.

A prevalência da pandemia do HIV/SIDA é um assunto extremamente importante a considerar dado ao seu elevado nível de incidência. Dados recentes mostram uma taxa de incidência de 15,6% da diversa população adulta, com 500 novas infecções diariamente.

Cerca de 54% da população adulta é analfabeta. Os níveis de educação primária permanecem baixos ((65,8% em 2003), e posteriormente em 2004, apenas 38.7% contra 39% em 2001 são

1 Introduction

On 25 June 1975, Mozambique became an autonomous nation following the proclamation of independence from Portugal, after more than 500 years of colonial domination.

Mozambique is on the southeast coast of Africa with an area of 801,490 square kilometres. It borders South Africa, Swaziland, Zimbabwe, Malawi, Zambia and Tanzania. The country has a 2,600 km Indian Ocean coastline, and is served by 25 main rivers and several deep-water ports. About 80% of its 19.4 million inhabitants live in the rural areas. Most of its 10 provinces are sparsely populated. Nampula and Zambezia are the most populated with 40% of the country's total population.

Following independence, a one-party state based on a socialist model of economic orientation was established. Private enterprises were nationalised, collective farms created, and centralised planning adopted. As one of the consequences of those scenarios, a civil war broke out between the Mozambique Liberation Front (FRELIMO) Government and the dissident group, the Mozambican National Resistance (RENAMO) in 1976, causing rapid shocks on trade and industry through systematic sabotages of the country's infrastructure. In addition, the country plunged into extreme external dependence.

The Mozambican Government began dismantling the centralised planning system in the 1980s with the introduction of the Economic Recovery Programme (PRE) which envisaged market economy policies, including company privatisation, establishment of the exchange rate and prices by the market, rationalisation of public finance and fiscal balance. On 4th of October 1992, the two parties signed a General Peace Accord, and since then the Government of Mozambique has been achieving historic development milestones. These achievements are also associated with a prudent macroeconomic management - the economy has been growing at an average that is close to 10% per annum. The Government is committed to absolute poverty alleviation.

In 1984, Mozambique became a member of the World Bank, the International Monetary Fund (IMF), and of the Lome Convention. A new constitution was adopted in 1990 and the first multiparty elections in the country's history were held four years later.

In 1997, Mozambique embarked on structural measures towards a market economy and as a result the macroeconomic variables (inflation, exchange rate stability and budget equilibrium) gradually consolidated over the past decade.

From 1997 to 2004, economic activity was mainly driven by the strong performance of the extractive and manufacturing industries, dominated by the few large foreign ventures ("the mega-projects"), while little has been done to create broader-based growth and competitive productive capacities. Additionally, Mozambique must confront the serious and deteriorating problem of HIV-AIDS and the severe human resources deficit.

Real GDP growth reached 7.2% in 2004 mainly as a result of the two foreign-owned mega-projects, namely the natural gas pipeline led by South Africa's petrochemical giant, Sasol, and expansion of the aluminium smelter Mozal, which is in line with 8% growth target under Poverty Reduction Strategy Paper (PARPA). For 2005, GDP growth is expected to average 7.7% and to fall slightly to 6.7% in 2006 (IMF, 2005 and Africa Economic Outlook, 2004).

The objective of this study is to examine the impact of macroeconomic policies and the country's capacity and potentialities in the process of regional integration. According to the TOR, "the basic thrust of the country study is to provide a broad stock-taking of the status of the basic macroeconomic policy framework of Mozambique, with respect to recommendations set out in MOU on Macroeconomic Convergence, in order to provide policy advice to SADC and national policy makers".

2 RISDP Goals and Objectives

2.1 Poverty Reduction

Poverty in all its dimensions constitutes one of the main challenges the SADC region has to confront. The poverty situation in the region is reflected by the low levels of income and the high levels of human deprivation. According to RISDP, about 70% of the region's population live below the international poverty line of USD 2 per day, and 40% or 76 million inhabitants live below the international poverty line of USD 1 per day with Zambia and Mozambique being among the most notable examples. The largest human deprivation manifests, mainly, in the form of low access to potable water and child malnutrition.

In addition to the impact of HIV/AIDS, poverty in the SADC region is also exacerbated by drought, which is behind the current food crisis that is particularly acute among vulnerable groups, such as elderly or children headed households which is the consequence of economic, technical, environmental, social, political and exogenous factors.

The following objectives are part of the SADC[3] policies that can contribute to poverty reduction:

1. Promoting economic growth and sustainable and equitable socio-economic development that ensures the alleviation of poverty, and ultimately its eradication;
2. Enhancing the standard and quality of living for the people of Southern Africa, and support the socially disadvantaged through regional integration;
3. Promoting and optimising productive employment and a sustainable utilisation of natural resources and an effective environment protection;
4. Combating the HIV/AIDS and other fatal and infectious diseases; and
5. Ensuring that poverty eradication is included in all the programmed activities of SADC.

In the light of the SADC vision of a common future within a single regional community, and of its mission to promote economic growth

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[1] The most affected countries are Angola, Mozambique,Lesotho, Malawi, Zambia and Swaziland

[2] The most affected are Angola, Mozambique, Malawi, and Zambia (all with over 26 % of children under five years undernourished) and Namibia and Tanzania with higher rates of undernourished under five year old children.

and equitable socio-economic development, the ultimate goal under the regional Indicative Strategic Development Plan (RISDP) is to deepen the SADC integration agenda, with a view to accelerating the eradication of poverty and achieving the other economic and social development goals.

2.2 Economic and Social Development

SADC is currently made up of fourteen countries that are in different stages of development, but with predominantly underdeveloped economies, except South Africa. As a result, there are wide social and economic development asymmetries with some countries achieving high growth rates and others extremely low economic growth rates.

Accelerating economic growth and development is necessary throughout the SADC region. For example, on a GNP per capita basis, two SADC members are ranked as the lowest in the world. Even in areas where SADC countries have largely performed better than most other African countries, which are still lagging behind especially those without reasonable access to safe water, sanitation or health services.

The top priority is to ensure that the opportunities and benefits of economic growth are distributed more equitably, with the larger share given or allocated to the poor and especially women and children who are the majority.

Without economic growth, however, there will be few benefits to share. Without equity-led growth, poverty and the associated environmental degradation will increase. Equity-led growth strategies, which put and keep the focus of the development on the poor majority of people and countries, are needed to accelerate the pace towards sustainable development in the SADC region. By shifting the focus to people rather than projects, equity-led growth shares many of the goals and attributes of the sustainable human development approach pioneered by UNDP as development for the people and by the people.

The three overall goals for sustainable development in the SADC region are:

1. To accelerate economic growth with greater equity and self-reliance;
2. To improve the health, income and living conditions of the poor majority;

3. To ensure equitable and sustainable use of environment and natural resources for the benefit of present and future generations.

These three goals constitute one agenda for action. None is achievable without the other and they are not also achievable without significant changes in international trade and macroeconomic policies. Without more equitable international economic arrangements, most developing countries in and outside the SADC region have limited scope and little hope for achieving economic, social and environmental sustainability.

In 2002, SADC's combined GDP was 226.1 billion, and average per capita income was about USD 1000 per annum. South Africa accounts for approximately three quarters of total SADC's Gross Domestic Product (GDP) and approximately one third of the total SADC population. Most of SADC countries are small and endowed with natural resources, particularly mineral resources, agricultural, sea and marine resources and wildlife. Excluding Madagascar. Table 1 provides basic economic data for the SADC countries.

Table 1: SADC Countries Basic Data

Member State	Pop	DGP per	GDP per	Imports	Exports
1. Angola	14.0	9,757	700	3,07	5,96
2. Botswana	1.74	6,5	2,796	2,27	2,89
3. DRC	54.9	5,278	96	0,786	1,158
4. Lesotho	2.24	0,79	366	0,97	0,04
5. Malawi	11.2	2,277	198	0,596	0,371
6. Mauritius	1.2	4,831	3,933	3,064	3,165
7. Mozambique	18.1	3,492	193	1,374	0,845
8. Namibia	1.9	2,82	1,667	1,32	1,28
9. S. Africa	45.4	159,9	3,452	42,2	45,1
10. Swaziland	1.06	1,22	1,109	0,93	0,82
11. Tanzania	33.6	9,74	266	1,93	1,68
12. Zambia	10.4	4,34	392	1,6	1
13. Zimbabwe	11.6	22,0	1,891	2,32	2

Source: SADC Secretariat, 2002

2.3 Free Trade Area and Custom Union

SADC is implementing a Protocol on Trade Exchanges, which will lead to a Free Trade Area by 2008. To this effect, it is imperative that SADC rapidly develops a regulated, predictable and applausive trade and financial system. RISDP considers the liberalisation of trade as key to a deeper regional integration and eradication of poverty.

It is important to note the existence in the SADC region of the Southern African Customs Union (SACU[4]), which is benefiting from the Trade and Development Cooperation Agreement between South Africa and the European Union, and that some SADC member states are part of the Common Market of East and Southern Africa (COMESA[5]). The negotiations towards the creation of the SADC Customs Union are expected to be concluded by 2010.

To clear the way for a Customs Union within SADC, the issue of multiple affiliations of some member countries must be addressed. Multiple memberships to different economic integration organisations, and the proliferation of Free Trade Areas - the majority of which at bilateral or even more limited - are beginning to cause increasing concerns in different organisations, including the African Union.

2.4 Common Market and Monetary Union

From a population of about 60 million in 1980 when the organisation was formed as the Southern Africa Development Coordination Conference (SADCC), the market has now raised more than 200 million consumers. The sharp increase in population is attributed to natural growth, as well as new member states that have joined over the years increasing from 9 founding nations to the present 14 Member States.

The establishment of a free market area and of a customs union are some of the essential conditions for the SADC common market. Negotiations around these issues are expected to be concluded in 2015, which would mean a common external tariff and ultimately a common currency in 2016. However, all this will depend on the successful

4 SACU: - South Africa, Namibia, Lesotho, Swaziland and Botswhana

5 COMESA: Burundi, Comores, Djibuti, Egypt, Eritrea, Ethiopia, Quenia, Madagascar, Malawi, Mauritius, Ruanda, Seycheles, D. R. Congo, Sudan, Swaziland, Uganda, Zambia and Zimbabwe

implementation of the Trade Protocol, which started in 2000. The protocol provides for a gradual elimination of customs duties or tariffs and non-tariff barriers to trade. By 2008, all goods traded in SADC should be substantially duty-free.

Following the creation of SADC's Customs Union, the parties must move on to creating and consolidating the SADC Monetary Union. This process is closely related to a successful macroeconomic convergence, creation of stable and harmonised exchange rates systems, liberalisation of capital transactions and of current accounts, and the adoption of a market-oriented approach in the implementation of the monetary policy.

A monetary union is neither viable nor desirable for Southern African states. Technocrats in back rooms are laying the foundation for a monetary union that aims for the 14 SADC countries to adopt a single currency and central bank by 2016.

The economist Iraj Abedian, suggests that it will take several miracles for the SADC to achieve monetary union by 2016, saying: "It needs not only political will but also institutional and policy convergence."

3 Macroeconomic Convergence and SADC Policy

3.1 MOU on Macroeconomic Convergence

Recognising the need to accelerate economic growth, investment and employment in the region through increased cooperation and coordination, and in view to implementing economic inductive macroeconomic policies, member states have committed to sign a Memorandum of Understanding on Macroeconomic Convergence[6] .

The Committee of Ministers responsible for finance and investment, in adopting the MOU on Macroeconomic Convergence, identified a set of economic indicators for measuring macroeconomic convergence and the numeric targets they believed would be appropriate for the chosen indicators. These are reflected in the table below.

Table 2: Target Indicators for MOU on Macroeconomic Convergence

Target Indicators	2008	2012	2018
Core Inflation	9%	5%	3%
Budget Deficit as a %age of GDP	5%	3%	1%
External Debt as a %age of GDP	60%	60%	60%
Current Account Deficit as a %age GDP	9%	9%	3%
Growth rate	7%	7%	7%
External Reserves (Import Cover in months)	3	6	6
Central Bank Credit to Government	10%	5%	5%
Domestic Savings Rates	25%	30%	35%

Source: SADC Secretariat, 2004

Other macroeconomic targets covered by the Memorandum of Understanding include:

- Raising domestic investment levels to at least 30% of GDP by 2008;
- Interconnecting the payments and clearing system in SADC by 2008;
- Achieving currency convertibility by 2008;
- Finalising the legal and regulatory framework for dual and cross listing of shares on the regional stock exchanges by 2008; and

[6] One of the annexes of the Finance and Investment Protocol

- Liberalising exchange controls on current account transactions between Member states by 2006 and on the capital account by 2010 (Senaoana, 2004).

3.2 Finance and Investment Protocol (FIP)

Article 2 of the Finance and Investment Protocol (FIP)[7], defines as strategic objective: to facilitate regional integration, cooperation and coordination within the finance and investment sectors in order to diversify and expand productive sectors of the economy, and promote regional trade with the ultimate objective of addressing poverty through:

- Establishing an investment friendly climate in SADC;
- Achieving and keeping stability and macroeconomic convergence in the SADC region;
- Cooperation and coordination among Member States in the field of exchange control policies;
- Establishment of principles that facilitate the creation of coherence and convergence in the legal and operational structures of the countries' Central Banks;
- Establishment of a body to coordinate cooperation between the Central Banks in the payment systems, compensation and regulation;
- Coordination of activities responsible for the region's financial development, as well as stimulate larger cross border flows of financial capital for development;
- Establishment of the SADC Development Fund;
- Development of capital markets in the region; and
- Regulating financial markets in the region.

3.3 Trade Protocol

The SADC Trade Protocol came into effect in September 1, 2000. The overall objective is to have 85% of all intra-SADC trade at zero tariffs by 2008 and the remaining 15% to be liberalised by 2012, effectively establishing a free trade area (FTA). The main instrument of trade liberalisation is therefore the elimination of customs tariffs and

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[7] FIP was finally approved by the SADC Summit of 2006

non-tariff measures on substantial intra-SADC trade. The intention is also to extend trade liberalisation to services.

In addition, the protocol calls for other trade and investment facilitation measures, including harmonisation of customs rules and procedures, attainment of internationally acceptable standards, quality, accreditation and metrology (SQAM), and harmonisation of sanitary and phytosanitary (SPS) measures.

The reduction of tariffs is being carried out on the basis of four categories[8]:

- Category A, requires immediate reduction of duty to zero at the beginning of the implementation period, by 2000;
- Category B, deals with goods that constitute significant sources of customs revenue and whose tariffs are to be removed over 8 years;
- Category C, deals with sensitive products (imports sensitive to domestic industrial and agricultural activities) whose tariffs are to be eliminated between 2008 and 2012; and
- Category D, which deals with goods that can be exempted from preferential treatment under Articles 9 and 10 of the Trade Protocol, such as firearms and ammunitions, comprising of a small fraction of intra-SADC trade.

The implementation process of the trade protocol is designed in such a way that South Africa and therefore, SACU will spearhead the reduction of tariffs while other SADC Member States are proceeding on a slower two track with further "back loading" in terms of their imports from South Africa. Consequently, it is at this stage too early to aim at a comprehensive analysis which links intra-SADC tariff liberalisation to intra-SADC trade flows for the whole SADC.

According to the UNComTrade database, over the period of 1997-2002, SADC's total imports were dominated by South Africa with more than 60%. All other SADC members were around 4-5% except Swaziland and Malawi, which account for about 2%; and SADC exports were about USD 50 billion in 2002.

SADC Member States have agreed to cooperate in the area of trade through the implementation of the Trade Protocol so that by 2012 all

[8] Categories A and B should account for 85% of intra-SADC trade so that by 2008, SADC can be regarded as a FTA in compliance with article 24 of the General Agreement on Tariffs and Trade (GATT)

products will be duty-free tradable in the region. The dependence on tariff revenue has resulted in some countries intending to phase out their tariffs in the 2004-2008 period, in order to allow time for alternative sources of revenue to be explored, such as value added tax.

SADC Member States have followed the principle of asymmetry, which takes into account the different levels of development in the region. SACU countries comprising Botswana, Lesotho, Namibia, South Africa and Swaziland, have agreed to phase down their tariffs earlier (by 2006) than the rest of the Member States, followed by Mauritius and Zimbabwe as the intermediate group, and then the least developed countries of Malawi, Mozambique, Tanzania and Zambia (MMTZ) which in most cases start their phase down in the 5th or 6th year of implementation of the Trade Protocol.

3.4 Labour Market Policies

Out of a population of about 200 million people in the SADC region, less than 1 out of 10 has a job in the formal sector. The rest are unemployed or struggle to find means of survival in the informal sector or subsistence farming. At the same time, a large proportion of those within the formal sector labour market earns less than a poverty wages. Child labour, HIV, labour migration, low skills levels, tenant labour systems and poverty within the labour market, pose further political and economic challenges to the SADC countries and for regional integration (Liv Torres, 1998).

The introduction of national social security and the harmonisation of social security systems throughout the SADC region are important issues to be addressed. The region today is challenged by the lack of growth in the formal sector, huge wealth disparities and labour market segmentation reinforcing the social cleavages in society at large. SADC countries also inherited from colonial times, a low skilled workforce and extremely divided labour markets in which highly paid skills and resources had to be imported from outside. Furthermore, infrastructure in most cases had to be developed from scratch with very few resources. In Mozambique, for example, infrastructure had to some extent been developed, but it was largely destroyed when the Portuguese pulled out in the early seventies. The situation in Angola was very similar.

Southern African countries face many of the same issues in their increasingly globalised economies. They share similar characteristics in their labour markets and confront many of the same issues in their relations with the international trade regimes and financial institutions like the World Bank and the International Monetary Fund (IMF). While regional labour market issues are increasingly being set on the political agenda, and while regional co-operation has grown stronger during the last few years, there is still some way to go in developing co-ordinated regional strategies in the face of common and interlocked challenges (Liv Torres, 1998).

The level of existing statistics and up-dated information we have managed to get about Southern Africa, is however, very poor. This needs to be improved in order to be able to make policy decisions on national labour market policy and regional co-ordination.

4 Macroeconomic Stability Indicators

4.1 Inflation

As compared to the 1980s, most SADC countries have performed relatively well in stabilising inflation rates since the early 1990s. In 2002 the average inflation rate in SADC was about 25%. Sound macroeconomic policies and inflation targeting pursued by most SADC Member countries are the key factors behind the decline of inflation in the region.

Analysing the overall SADC trend in inflation, in the 1990s it is important to note that the average inflation rate was negatively influenced by high inflation rates experienced in those countries that were involved in prolonged political turmoil and/or civil wars and, therefore, running essentially war economies.

Despite improvements in overall macroeconomic management, which impacted positively on inflation in the last decade, as reflected in a significant decline in inflation rates, inflation remains one of the major challenges to national and regional efforts for regional co-operation and integration and poverty reduction (Table 3).

Table 3: Inflation in SADC Countries (1980-2003)

Member State	1980-89	1990-95	1996*	1997*	1998*	2000*	2001*	2002*	2003*
1. Angola	-	870.0	4146.0	221.5	107.4	344.0	169.0	110.0	130.0
2. Botswana	10.8	12.5	9.6	7.8	6.4	8.1	-	8.19	7.6
3. DRC	-	-	-	-	-	-	-	-	-
4. Lesotho	13.8	12.9	9.1	8.5	7.8	6.2	6.0	12.1	10.0
5. Malawi	16.82	30.8	37.7	9.1	29.8	29.5	27.4	14.8	10.1
6. Mauritius	11.2	8.2	6.6	6.6	6.8	4.2	5.4	6.4	6.2
7. Mozambique	45.1	47.5	44.6	6.4	0.6	12.7	9.1	17.2	15.0
8. Namibia	13.0	11.8	8.0	8.9	6.2	9.2	9.3	11.3	9.6
9. South Africa	14.6	11.8	7.4	8.5	7.0	5.5	5.7	10.0	9.2
10. Swaziland	14.2	12.7	6.5	7.2	8.0	10.8	7.4	11.9	10.5
11. Tanzania	30.1	28.9	21.0	16.1	12.6	5.9	5.2	4.6	4.7
12. Zambia	38.4	117.7	43.1	24.4	24.5	25.9	21.7	22.2	22.0
13. Zimbabwe	12.8	25.9	21.4	18.8	32.3	55.7	74.5	135.0	275.0

*Source: CIA (2000), *Standard Bank (2003)*

4.2 External Debt

Most SADC countries have experienced an increasing external debt burden over the last two decades. In some countries such as DRC, Mozambique and Zambia, the external debt has been high (Table 4).

Due to this debt positions, access to external funding sources, other than official sources on highly concessional terms, remains limited. Five of SADC Member states are eligible to the Highly Indebted Poor Countries Initiative (HIPC). Two of them, namely Mozambique and Tanzania have reached the completion point. Another two, Malawi and Zambia, have reached the decision points while the DRC is still under consideration.

The HIPIC initiative is expected to relieve considerable levels of resources, which may be applied directly in poverty reduction areas of development in the concerned SADC Member States.

Table 4: External Debt Situation (% of GDP)

Member state	Range of External Debt*
1. Angola	100-140
2. Botswana	20-25
3. DRC	200-225 (H)
4. Lesotho	75-100
5. Malawi	150-160 (H)
6. Mauritius	50-60
7.Mozambique	75-100
8. Namibia	-
9. South Africa	-
10. Swaziland	-
11. Tanzania	75-100
12. Zambia	175-200 (H)
11. Zimbabwe	50-75
SADC	100-125

Source: World Bank, 2002

* Based on discounting techniques

H = High

4.3 Current Account

The SADC overall annual average current account balance for the period of 1990-2000 is negative. However, an analysis of the underlying country trends during this period reveals three categories of countries:

- The first category represented by Botswana, Namibia, and to certain extent Mauritius, enjoyed rising current account surpluses throughout the period of analysis;
- The second category includes South Africa, Swaziland, and Zimbabwe. These countries have experienced a modest level of current account deficits, which do not exceed, on average, 5% of GDP during the period of analysis; and
- The third category of countries, with high and deteriorating current account deficits include Angola, Lesotho, Malawi, Mozambique, Tanzania, and Zambia.

4.4 Other indicators

Table 5 below, illustrates the significant improvements that have been achieved in the area of macroeconomic management and performance in most of SADC countries. Nevertheless, a lot still remains to be done if SADC is to make a dent in poverty in the next decades.

A successful restructuring of SADC Member States should lead to more diversified economies and significant reduction in the countries members over dependence on primary commodities. This would also contribute to increase in the volume of intra-regional trade.

SADC countries should accelerate efforts to bring their negative fiscal balances to sustainable levels. Most SADC Member States continue to experience relatively high budget deficits. There is also a need to improve the control of current and capital expenditures in the all SADC countries.

Real GDP growth rate: The average regional GDP growth rate during 2001-2004 was significantly positive, although the growth pattern fluctuated from year to year and reached 3.4% in 2004.

Fiscal balances: Despite efforts during 2001-2004 to bring negative fiscal balances to sustainable levels, most SADC countries continued to experience relatively high budget deficits.

Terms of trade: Foreign trade plays an important role in the economies of SADC Member States. Trade is relatively a more important component of GDP in small countries like Lesotho and Swaziland than in large countries like South Africa. The terms of trade (total merchandise trade) of SADC increased between 2001 and 2004 (Table 5).

Table 5: SADC Region Key Macroeconomic Indicators

Indicators	2001	2002	2003	2004
Real GDP Growth (%)	2.2	3.7	2.3	3.4
Real per capita GDP Growth1 (US$)	968.3	984.7	984	995.5
Growth in Real per capita GDP (%)	0.2	1.4	-0.1	1.2
Overall fiscal balance excluding grants (% of GDP)	-3.9	-3.2	-3.3	-4.2
Terms of Trade (1990=100)	96.7	101.1	102.3	107

Source: International Monetary Fund, 2005

1 - In USD at 1990 prices, using 1990 exchange rate

Domestic Savings Rates and Investment Rates: Table 6 below, illustrates the domestic and investment as a percentage of GDP in the period 1995-2001. Domestic savings and investment rates in Africa are low by developing country standards. For SADC as well as for the African continent, improved access to foreign capital during short, medium and long terms will be an important component (Thomas Lynne, 2003).

Table 6: Domestic Savings and Investment as % of GDP, 1995-2001

	Gross domestic savings	Cross fixed capital formation
Sub-Saharan Africa	16.3	17.3
East Asia & Pacific	36.5	31.9
Latin America & Caribbean	19.3	19.3
South Asia	20.2	21.3
Low & middle income		22.8

Source: World Development Indicators database, World Bank, 2003

As illustrated in Table 5.5, in 1999, SADC's average investment rate was only 16.25% of the GDP. This figure is below the recommended investment average of 25-30% of GDP that would stimulate the growth rate of 5-6% annually. Consequently the region is under pressure to find ways of attracting investment flows that would enable it to achieve the requisite rates of investment (Ramsamy Prega, 2003).

Table 7: GNS and GDI as % of GDP

Countries	Gross National Savings (% of GDP)			Gross Domestic Investment (% of GDP)		
	1990	**1998**	**1999**	**1990**	**1998**	**1999**
Angola	5.7	0.6	7.1	7.9	21.1	20.1
Botswana	41.2	43.4	31.2	36.8	29.7	32.7
DRC	0.4	3.6	2.8	9.0	7.2	8.1
Lesotho	24.9	11.0	9.4	52.4	36.3	36.9
Malawi	12.1	5.3	4.7	20.6	16.7	15.2
Mauritius	25.9	24.7	25.1	31.2	26.0	28.2
Mozambique	1.3	1.6	2.4	15.6	24.7	26.7
Namibia	26.6	27.5	25.8	31.2	26.0	28.2
South Africa	17.6	14.0	14.2	24.8	22.2	23.2
Swaziland	28.7	10.9	8.9	24.6	38.3	30.0
Tanzania	21.2	2.3	1.3	17.2	15.7	14.6
Zambia	14.8	6.4	5.9	20.7	25.6	24.2
Zimbabwe	14.2	13.2	14.5	26.1	16.5	17.2
SADC	16.25	12.24	12.60	17.39	16.69	16.25
Africa	19.7	15.6	15.4	22.0	20.5	20.6

Source: SADAC Statistics, 2000

5 Mozambique’s Macroeconomic Convergence Programme

5.1 Basic Elements and Targets

The main objective of Mozambique's economic policy is to reduce the high levels of poverty, which affects more than half the country's population. Thus planning systems in Mozambique are conceived towards the solution of this fundamental problem, which requires a macroeconomic stability and the creation of a climate favourable to private development initiatives.

Mozambique's long-term vision is envisaged in the 2025 Agenda, which draws all major objectives that should be attained by 2025. This agenda is a comprehensive document, which explores possible future scenarios and policy alternatives as well as the expected outcomes. It is a consensus document agreed upon by all social stakeholders, including political parties, as a result of a participatory and consultative process. From this document are guidelines for other lower level school planning instruments. The main pillars of the 2025 Agenda are:

1. Human capital - education and health;
2. Social capital - peace and political stability, ethnic diversity and national cohesion, social justice, regional asymmetries;
3. Economy and development; and
4. Good governance (Conselheiros 2003).

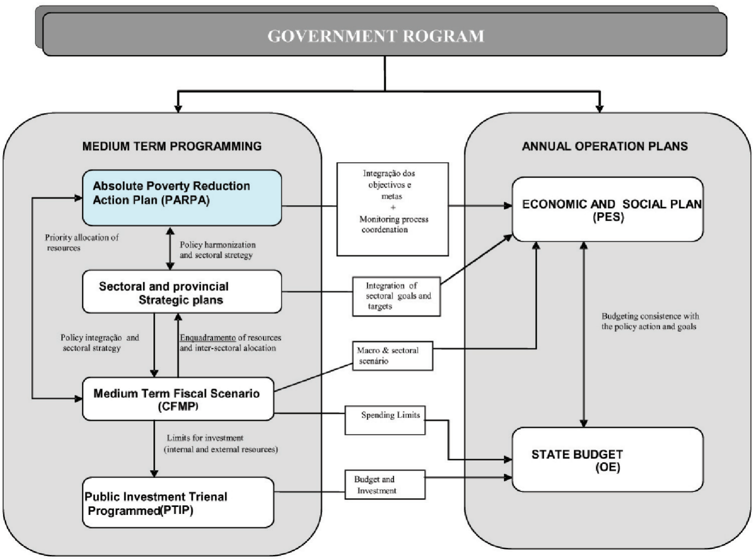
The Government Programme, a plan produced every 5 years following an electoral cycle, sets the broad goals for the following five-year period. The Government Programme for 2005-2009 sets out the following fundamental goals:

- Reducing the levels of poverty through the promotion of a rapid, sustainable, and comprehensive economic growth;
- Ensuring the country's social and economic development, with focus on the rural areas with a view to reducing regional imbalances;
- Maintaining economic stability and promoting a business enabling environment attractive to foreign investment;

- Keeping inflation at low and stable levels; and
- Keeping stable and competitive exchange rates to stimulate exports;

The materialisation of this vision will be possible with support of other planning instruments of medium (CFMP)[9] and of short term (PES and OE).[10] The Medium Term Fiscal Scenario defines a medium term macro-framework consistent with policy objectives. This document, which makes the prediction of resources and of spending priorities, also provides for a strong consistence to be gained with the execution instruments such as PES and OE. Annually, the Government of Mozambique is required to submit its Social and Economic Plan (PES) to Parliament for appreciation and approval (Figure 1).

Figure 1: Public Planning System in Mozambique



Source: MPD, 2005

The SADC Memorandum of Understanding (MOU) on Macroeconomic Convergence, adopted by the Ministers of Finance and Investment of SADC identifies the indicators for the macroeconomic convergence process follow up as well as the targets

9 CFMP – *Cenário Fiscal de Médio Prazo* (Medium Term Fiscal Framework)

10 PES – Plano Económico e Socil (Economic and Social Plan); OE – Orçamento do Estado (*Government Budget*);

regarded adequate for each of the indicators, and also establishes the respective calendar (Table 8).

Table 8: Numeric Values of Target Indicators for MOU on Macroeconomic Convergence

Indicator	2004	2008		2018	
	Moz	SADC	Moz	SADC	SADC
Core Inflation	9,0	9,0	5,9	5,0	3,0
Budget Deficit excl. Grants (% of GDP)	13.0	5,0		3,0	1,0
External Debt (% of GDP)	13.0	60,0		60,0	60,0
Current Account Deficit after Grants (% GDP)	25.0	9,0		9,0	3,0
GDP growth (%)	7,2	7,0	5,9	7,0	7,0
External Reserves (months of imports)	6,0	3,0		6,0	6,0
Central Bank Credit to Government (%)	..	10,0		5,0	5,0
Domestic Saving Rates (%)	15.4	25,0		30,0	35,0

Source: Country Study, 2005

Overall, the Mozambique Government long-term objectives (2005-2009) for those indicators are in line with the objectives of the SADC regional integration. Our analysis is limited by the fact that the country does not have clear and quantified targets beyond 2009, the end of the term of the Government that is currently in place. Most of the information for 2009 onwards is qualitative and without clear and quantified targets.

Commenting specifically on the target indicators of the MOU on Macroeconomic Convergence, we note that the targets set out need to be reanalysed taking into consideration the specific condition of each country. For example, 7% growth rates in average by 2018 can be a realistic indicator for Mozambique considering that the annual average growth in the last years has been 6.8% against South Africa's growth rate which was less than 1% in the period 1989 (BIDPA 2005).

We will focus our analyses on the medium term period, until 2008, from which quantitative indicators are available. For 2012 and 2018, there will be no quantitative data as the Medium Term Fiscal Scenario (CFMP) projections only cover the 2005-2010 period. The medium term macroeconomic objectives defined and approved by the government, jointly with the Bretton Wood Institution[11] are:

- **Core Inflation.** In its 2005-2009 Programme, the Government commits itself to keeping inflation at low and stable levels, although without any specific figures. In 2004 inflation stood at 9.1%, against the projected target of 11%. The CFMP assumes the propositions for 2008 inflation to be about of 5.9%, within the requisites of the SADC convergence for this indicator. This becomes more realistic considering the fact that we are using an "imperfect" indicator (CPI), from which the food and energy have a high score in the consumer basket.
- **Budget Deficit as % of GDP.** In 2004, the deficit before grants was about 13%, a figure close to those registered for the indicator in the past years. Despite the ongoing reforms aimed at increasing internal revenues, Mozambique is not expected to meet the MOU target of (5%) for 2008 given the country's high external dependence. About 45% of the State Budget is covered by external funds. Under its compromise with the World Bank, the IMF and other cooperation partners, the government foresees a gradual increase in internal revenues in percentage of GDP of about 14.8% (2004) to 17% in 2009. The current internal state revenue remained stable in the last six years. Along this period fiscal revenue in relation to GDP stood at approximately 12%.
- **External Debt as % of GDP.** Mozambique's external debt has created a special scenario in recent years in light of various initiatives. Mozambique benefited from considerable relieves under HIPC about USD 6.0 billion (1998) before HIPC to about USD 4.4 billion in 2004, through which it was possible to bring down the burden of debt servicing in terms of exports of goods and services from 27% to 5% after 2000, and is expected to remain below 10% by 2010. At present, the debt stock in % of GDP stands at about 175-200%, a

[11] Unless otherwise stated, the information for this indicadors is drawn from (IMF 2005 and IMF 2004)

parameter considered "high". However, this scenario could change considerably as a result of ongoing initiatives, such as the G8 initiative to pardon 100% of the multilateral debt of Africa's poorest countries. Unless drastic international decisions are taken on the debt situation of the poorest nations, Mozambique does not present a promising scenario towards meeting the SADC target (60%). The country is currently concluding a debt strategy for a more responsible indebtedness.

- **Current Account Deficit as % of GDP.** In 2003, this indicator stood at 6.2% against 12.7% registered in 2002. Estimates for this indicator are promising as the entry into operation of large scale projects will contribute to an increase of exports of goods and services. Exports have grown considerably since 2000 due to the effect of mega projects. The export contribution of mega projects has been placed at 50%.
- **GDP Growth.** Mozambique had a significant economic growth rate in the 1998-2004 period. Real GDP growth - including mega projects - was above 10% throughout the period, except 2000 with a 1.2 % growth due to the floods. In 2004, the economy grew by 7.2%. For the coming years the Government hopes to maintain the growth rate at between 7-8%, which is consistent with the MOU target for this variable. Estimates for 2005 point to a growth rate of about 7.7%.
- **External Reserves (months of imports).** In the average, the Bank of Mozambique has held net international reserves equivalent to more than 4 months of imports. The Bank of Mozambique has registered commendable progress in this area. Under its monetary policy, and in line with its compromises with partners, the Bank of Mozambique has sought to maintain the volume of international reserves equivalent to 5/6 months of imports, a target attainable for Mozambique in 2006.
- **Central Bank Credit to Government.** Since 2002, the Government of Mozambique has been reducing budgetary deficit financing via Bank of Mozambique loans. An analysis and Bank of Mozambique statistics has shown a decline in credit to the Government since 2002. The Government undertook to reduce deficit financing via

Central Bank resources as one of the requisites for maintaining macroeconomic stability.
- **Domestic Saving Rates (%).** Preliminary data for 2004 indicate an economic saving rate in the region of 15.4%, with a projected increase to about 16.1% in 2005 (Mozambique 2005 c).

In general, the indicators defined in the MOU are almost consistent with the government objectives. It is worth noting that in addition to these specific objectives, the GOM equally assumes compromises with the Bretton Woods institutions, with a broader set of objectives and targets which are evaluated periodically.

5.2 Mozambique's Basic Macroeconomic Policy Framework

The PARPA (2001-2005) - Poverty Reduction Strategy Paper, presents the government's main economic and poverty reduction policy objectives. This document states that the Government's central objective is to substantially reduce poverty through some measures in order to improve capacities and opportunities for all Mozambican citizens, and in particular for the poor. The specific objective is to reduce the incidence of absolute poverty from 70% in 1997 to less than 60 % in 2005, and less than 50% by the first decade of 2000[12].

The fundamental assumption of economic growth strategy and poverty reduction under PARPA is that the entrepreneurial initiative will be the driving force of economic and social development, with the state being responsible for the creation of adequate conditions and infrastructure for private sector development.

The Government has identified key intervention areas, with greater impact on economic growth and absolute poverty reduction, namely:
- Education (primary, secondary and higher, technical and professional education);
- Health (basic health care, maternal and child care, endemic diseases, tuberculosis, malaria, and HIV/AIDS);
- Development of Infrastructures (roads, energy and water);
- Agriculture and Rural Development (rural extension, surveys and introduction of new technologies);

[12] Mozambique - PARPA 2001-2005 – *Poverty Reduction Strategic Paper*

- Good Governance, Legality and Justice;
- Macroeconomic and Financial policies (macroeconomic stability).

Other important intervention areas, which have been identified for the success of the strategy, are:
- Employment and private sector development;
- Social welfare;
- Housing;
- Fisheries;
- Tourism;
- Agro-industry and food processing;
- Transport and communication;
- Science and technology;
- Environment and reduction of vulnerability to natural disasters.

The government objective of reducing absolute poverty was realised, with the level of poverty incidence brought to 54% in 2002-03, according to official published figures. The success in poverty reduction was attained with a projected average rate of GDP of 7.2% in 2001-2004, excluding mega-projects.

Table 9: Mozambique - Basic Macroeconomic Indicators

	1999	2000	2001	2002	2003	2004
Real GDP Growth - %	7.5	1.9	13.1	8.2	7.8	7.2
GNI per capita (USD)	243	216	209	226	258	321
Inflation - annual average - %	6.2	11.4	21.9	9.1	13.8	9.1
Exchange Rate (MZM/USD) - end of the period	13.300	17.140	23.320	23.854	23.857	18.899
Merchandise Exports (mil. USD)	207.9	236.8	262.6	211.3	363.0	403.4
Merchandise Imports (mil. USD)	575.6	869.6	726.1	853.7	1.368.2	1.474.2
Export/Import ratio - %	23.7	31.3	66.1	52.5	60.0	73.9
Current Account Deficit % of GDP (excl. grants)	-28.2	-27.2	-26.1	-23.1	-19.9	-13.8
Investment/GDP ratio - %	36.7	33.5	25.9	29.8	25.9	20.1
Savings/GDP ratio -%	13.7	11.6	8	11	10.8	11.8
Foreign Direct Investment (FDI) - mil. USD	119.8	302.4	961.4	578.4	120.1	124.2
Foreign Reserves (months of imports)	5.2	5.8	5.1	5.4	6.0	5.1
Govt. Domestic Revenue (% of GDP)	12	12.9	12.4	12.4	12.9	12.3
Total Govt. Expenditure (% of GDP)	24.7	26.6	32.1	30.0	26.5	23.7
Bank of Mozambique credit to Government, trillion MZM	5.6	5.1	4.3	3.6	3.5	4.3
Overall Fiscal Deficit (before grants) - % of GDP	-13.2	-13.7	-19.9	-17.3	-14.0	-11.7
Overall Fiscal Balance (after grants) - % of GDP	-1.0	-5.8	-6.0	-7.2	-4.5	-4.4
Growth of Money Supply (M2) - %	35.1	42.4	33.2	21.5	18.7	5.9
Average Lending rate - % (1 year maturity)	….	25.13	35.58	33.59	26.56	23.37
Average Deposit rate - % (1 year maturity)	….	12.9	20.0	17.58	11.42	8.85
NPV External Debt/Exports	212	177	110	92	102	84
Nominal GDP (USD mil.)	4.1	3.8	3.7	4.1	4.8	6.1

Source: INE (www.ine.gov.mz)

Mozambique has been showing impressive positive results in the last decade, from a war economy to a prosperous economy, with high growth rates averaging 6.6 in the last 6 years (1999 - 2004). Excluding the effects of the 2000 floods, which resulted in growth declining to 1.9 %, the economy grew by about 8.5% in that period. A combination of several factors, including political stability, economic reforms, steady foreign investment flows, and the gradual integration in regional markets, without ignoring the role of international community support, had an important role in the high economic growth rates recorded in recent years (DTIS 2004).

Undoubtedly the country has been recording remarkable improvements in various areas, such as macroeconomic management, through which it achieved significant levels of macroeconomic stability, with inflation declining from about 53% in 1995 to sustainable levels in recent years. (12% average in the last five years, 9.1% in 2004) (Table 9).

Despite these substantial achievements, Mozambique is still one of the world's poorest countries, with about 54.1% of its population living below the poverty line. About 37.9% of the population lives on USD 1 per day, and 78.4% with less than USD 2.00 per day. 2 GDP per capita stands at about USD 240 being therefore among the poorest, occupying the 171st place in a group of 177 countries in the ranking of the Human Development Index. (UNDP 2005).

Fiscal Policy: The policies aimed at increasing internal revenue were adopted in the last 10 years, through tax base enlargement, reduction of tax rates, introduction of value added tax, review of the code of fiscal benefits (2002), reforms in direct taxes, with the introduction of IRPS and IRPC. These reforms have been accompanied by the modernisation of the fiscal administration, which should culminate in the establishment of the Central Revenue Authority of Mozambique. In 2004, the Government introduced the single tax-identification number (NUIT), which allows better control of revenues from collective and singular persons.

Still in the context of fiscal policies, precisely in public finance, the reforms should contribute to:

- A gradual increase in the level of internal revenues;
- A simplification and consolidation of the tax system;
- An adoption of measures aimed at widening the tax base;
- A continuation of the modernisation of tax administration;
- An increase of transparency in the region and utilisation of public funds;
- A continuation of the implementation of the national debt strategy, aimed at a long term and sustainable indebtedness;
- A continued allocation of most resources to key selected areas in PARPA;
- An adoption of a new public procurement regime.

Trade Policy: Mozambique's external trade policies are designed to create an environment conducive to promoting its products in international markets, especially those of the developed countries of Europe, America, and Asia without prejudice to the promotion of intra-African trade. Trade policies are formulated with a view to speeding up Mozambique's industrialisation process, and in such a way as to make access to foreign markets easier for Mozambican products. In pursuing these objectives, Mozambique has entered into multilateral, regional, bilateral and preferential trade agreements as mentioned below.

Mozambique is a member of the World Trade Organization (WTO), World Bank, the International Monetary Fund (IMF), the Cotonou Agreement and Southern Africa Development Community (SADC).

Mozambique has signed bilateral trade agreements with Malawi and Zimbabwe, and a Trade and Investment Framework Agreement with the United States of America.

The trade policy reforms in Mozambique include a progressive reduction of taxes on international trade, reduction of barriers to imports and exports of goods and services.

In 2002, a new customs tariff schedule was introduced. In 1997, Mozambique signed a contract with Crown Agents, which enabled the modernisation of the Mozambican customs services, Direccao-Geral das Alfândegas, with IT and highly qualified personnel. Alfândegas is in the process of harmonising documentation with the region and improving its infrastructures with a view to facilitating trade and reducing delays in the clearing process.

Rapid expansion of exports has been an important source of growth during the past 10 years in Mozambique. Since the early 1990s, exports have expanded at an average rate of 10% per year, substantially higher than world exports (6%). Mozambique is one of the few countries in Africa that managed to increase its share in world exports. This rapid export expansion was led by private initiative both national and foreign and largely due to the implantation of Mega projects MOZAL (aluminium) and SASOL (natural gas).

Labour Market Policy: With a view to rendering the labour market more flexible through simplified foreign labour employment mechanisms[13], the Government of Mozambique introduced a programme that aims to improve the quality of labour, through general or specific training initiatives. On the other hand, the Government which was sworn in February 2005 intends to focus more on technical and professional education. The two most complex issues in the labour law reform have to do with the pressure to change the law, making it easy to hire (expatriates) and fire workers. These reforms are aimed at the overall goal of improving the business environment in Mozambique, which has consistently been cited as one of the business least friendly.

Recent estimates from the World Bank show that Mozambique is lagging behind in many categories, even at regional standards. For instance, in Mozambique, it takes nearly 153 days to start a business against an average of 60 days in the region. The costs of firing a worker are twice higher than the region's average[14].

Expectations for the Future: One of the major challenges Mozambique faces is undoubtedly whether it will continue to keep this substantial successes, for example in attracting foreign investment and international assistance. One way to maintain the attraction of foreign investment is to continue with the ongoing economic and institutional reforms, aiming at achieving greater transparency. Among the main areas that require accelerated reforms are the justice system and the labour market (IMF 2005).

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[13] Decreto 57/2003, de 24 de Dezembro

[14] www.worldbank.org (Doing Bussiness)

Additionally, among the variables that will count on the future performance of the Mozambican economy are the effects of the HIV/AIDS pandemic, as in most of the countries of the region. Year 2004 estimates point to a prevalence rate of about 14.9% of the adult population (14-49), already this has a serious economic and social implications (Mozambique and PNUD 2005). Projections show that GDP growth in 2010 could be in the region of 0.3% to 1.0% below a hypothetic scenario without AIDS, which are extremely high figures in a fragile economy like Mozambique (Arndt, 2003).

The successes achieved in the past and the maintenance of those very successes depends on the continuation of ongoing reforms and adoption of other necessary measures, mainly in the following areas: (i) fiscal and monetary policies; (ii) trade policy); and (iii) labour policy.

Time Frame for Implementation

Most of the ongoing reforms have a medium term implementation span (3-5 years), although some can have a more extended schedule (e.g., public sector reforms 2001-2011). Both the above mentioned reforms, namely the fiscal and labour policy reforms, are well underway. The fiscal reforms have seen various stages, including reforms in indirect taxes (with the introduction of VAT in 1999), and indirect taxes (with the introduction of IRPS, IRPC in 2000). Efforts are being made towards the establishment of a central revenue authority "Autoridade Tributaria de Moçambique", an independent body that will be in charge of collecting internal taxes and those on international trade.

5.3 Government Approach to Sequencing

From an analysis of policy documents agreed upon between the Government of Mozambique and cooperation partners, we note the prioritisation of a sequence-based reform introduction approach, as a way to minimise possible negative social impacts of an accelerated implementation. It is important to note that Mozambique is an economy in transition from central planned to a market based economy. The reforms towards a more flexible labour market are an example of such option as a way of reducing negative social impacts of a rapid liberalisation of the economy.

Table 10: Mozambique Towards Convergence Indicators

Indicator	Target and Timeframe
Real economic growth	Average 7-8% from 2005 to 2009
Real growth in manufacturing, incl. megaprojects	From 2.8% in 2005 to 4.1% in 2010
Real growth in agriculture, livestocks and forestry	From 6.5% in 2005 to 7.5% in 2010
Poverty incidence, national poverty line	From 54% in 2003 to 45% in 2009
Roads in good and acceptable conditions	From 49% in 2005 to 61% in 2009
Farmers who adopted improved technologies	From 13% in 2005 to 20% in 2009
Under weight prevalence	From 24% in 2005 to 18% in 2009
Population with access to clean water (urban)	From 39% in 2005 to 54% in 2009
Population with access to clean water (rural)	From 56% in 2005 to 55% in 2009
Population with improved sanitation (urban)	From 35% in 2005 to 37% in 2009
Population with improved sanitation (rural)	From 37% in 2005 to 40% in 2009
Adult illiteracy	From 54% in 2004 to 44% in 2009
Reduce child mortality (under five)	From 178 in 2003 to 108 in 2015
Reduce maternal mortality	From 480 in 2003 to 250 in 2015
Reduce number of HIV daily new infections	From 500 in 2004 to 350 in 2009
Improve social protection of orphans and other vulnerable groups	5.000 orphans with access to counseling
Electricity connections	80.000 new homes with electricity by 2009
Improve governance and accountability	Public Sector Reform Strategy by 2011

Source: World Bank (2005), Governo de Moçambique e UNDP (2005), Moçambique (2005 d)

5.4 Macroeconomic Convergence Problem Areas

From the Table 11 below, it is clear that most of the problems for Mozambique regarding the matrix of convergence indicators, the budget deficit as % of GDP, and domestic savings rates (%), are areas where the potential of achieving the compromises are very low. On the other hand, the target indicators for inflation, debt, external reserves, and central bank credit to Government are likely to be achieved.

Table 11: Macroeconomic Convergence Assessement - "On-Track"

Numeric Values of Target Indicators	2008	2012	2018	Mozambique performance assessment
Core inflation	9%	5%	3%	Inflation in 2004 was 9%. The Government committed to keep the indicator at one digit level (Government Plan 2005-2009)
External debt-% GDP				Within target stability. Post HIPIC debt ratios at sustainable levels
External reserves (months of imports)	3	6	6	In 2004 the external reserves covered 5 months of imports in average
Central bank credit to Government from	10%	5%	5%	The Government is limited to borrow the Central Bank, under the IMF agreements

Source: Country Study, 2005

World Bank data state that Mozambique is one of the countries most dependent on external aid worldwide - around 50% of the budget is foreign financed. Some of the factors accruing to the persistence of the high level of the government budget are structural. From the revenue side, it is evident that the capacity of mobilisation of domestic revenues is very low.

The level of revenues as % of the GDP has been barely unchanged at the 12%, which is still very low even comparing at optimum levels for this figure in developed countries. The expenditure side has been showing an erratic behaviour. For instance, the current expenditures have been unchanged at about 13% of GDP, while the investment expenditure is declining gradually, from about 13% in 2000 to 9.4% in 2004. In this regard, the emphasis has been put in increasing the level of domestic revenues by more efficiency of the tax administration on revenue collection, including an effort to reduce the level of off budgets (MPD 2005).

Table 12: Macroeconomic Convergence Assessement - "Off-Track"

Numeric Values of Target Indicators	2008	2012	2018	Mozambique performance assessment
Budget deficit as a %age of GDP	5%	3%	1%	The deficit before grants is very high (11%, 2004), and after grants at 4.4%.
Current account deficit as %age of GDP	9%	9%	3%	Very high deficit. In 2004 was 14%
GDP growth	7%	7%	7%	Target value of 7-8% in 2008. Very high uncertainty due external shocks
Domestic savings	25%	30%	35%	Below target indicators. 12% in 2004.
Domestic investment	30%			Below target indicators. 20% in 2004

Source: Country Study, 2005

Due to difficulties with the limited development of the financial sector, its poor liquidity and poor level of competitiveness and the existence of few effective instruments to influence macroeconomic indicators, domestic savings remain well below the SADC target.

The rapid spread of HIV/AIDS and the high external dependence of the economy are other risks to take into account. Around 15.6% of the population is infected with HIV/AIDS. More that 50% of the budget is foreign financed.

5.5 Social Impact of the Policy Framework

The Mozambican Government policies have shown some social and economic impact. A recent World Bank assessment argues that the high economic growth rates and the 15% reduction of the incidence of poverty in recent years, were, among others, the result of the Government policies, precisely in terms of the high public spending in social sectors (education and health) and in rural infrastructures (roads, bridges and water). Various surveys show that in fact families tend to increase ownership of long lasting goods (bicycles, radios, improved housing conditions, etc.), which are indicators associated with improvements in living conditions and the well being (DNPO et al 2003).

6 Detailed Assessment of Macroeconomic Convergence Programme in Mozambique

6.1 Main Linkages between Policy Framework and Socio-Economic Impact

Several recent assessments state that the policies of the Government of Mozambique have considerable social and economic impacts, reflected in a reduction in poverty incidence levels, high economic growth rates and an improvement of the socio-economic indicators in general.

The II National Household Survey of 2003 showed that the country registered a sharp reduction of poverty levels, from about 69.4 (1997) to 54.1% in 2003. On the other hand, the country saw an expansion of domestic production as a result of the expansion of the private sector. In spite of the successes, Mozambique remains one of the world's poorest countries. In 2004, GNI per capita was put at USD 315, with an AIDS incidence rate of 15.6% (for 14-59 years age group). Child mortality rates remain high (101 per 1,000 live births, a figure close to the SSA average). Only 27% of the rural population has access to an improved water source, against 37% at national level, according to latest estimates.

Behind the significant impact on the reduction of poverty levels had several factors in recent years, including a strong and broad based economic growth. The real GDP growth - including mega-projects - stood at above 7% in most years except 2000 when the economy plunged to 1.9%, due to the floods.

As a result of the adoption of policies oriented towards macroeconomic stability, the country experienced an impressive increase in both urban and rural commercial networks, as well as of national production. The inflation rates were stabilised at sustainable levels. The current government revenues remained relatively stable in the last six years. Throughout the period, the percentage of fiscal revenue of GDP was approximately 12% and the percentage of total revenue of total expenditure declined and went up again. Exports grew considerably, due to the effect of mega projects. From 2001, the contribution from mega projects accounted for 50% of the total exports (MPD 2005).

Despite this structure of the economy, and the successes recorded Mozambique's economic growth in recent years was a pro-poor economy. The high economic growth rates contributed to an average of 2-4% increase in the per capita consumption. Three factors were decisive in the specific relationship between growth and poverty reduction, namely:

- **Growth of Agricultural Production:** This was due in part to the expansion of area of production and in part to improved productivity, and had a direct impact in poverty reduction in the rural areas. This has led to the consumption increase observed at all levels as is supported by the increase of incomes.
- **Public Spending on PRSP Priority Areas:** State investment in each of these areas i.e. education, health, roads, bridges, water and agriculture contributed directly to the decline of the recorded poverty incidence levels:
  - The increase of spending in education scaled up the (gross) enrolment rate at first cycle primary education from 56% in 1995 to 110% in 2003.
  - The conclusion rate at EP1 level increase from nearly 20% in 1990 to 40 % in 2003. The number of adults who concluded primary education increase from 8% in 1996/7 to 11% in 2002/3.
- **Investment in Infrastructure:** This resulted in an increase in access roads classified as acceptable or good from 10% to 70% of the classified road network. The number of impassable access roads reduced from 50% to only 5%. These investments had a direct impact on poverty, through job creation during construction and maintenance, and also indirect impact through access to cheaper transport, lower margins, more trade, better prices for agricultural products and lower prices of goods for the consumer in the most remote areas.
  - Spending for the rehabilitation and expansion of water infrastructures increased access to improved water sources from 12% to 27% in the rural areas.
  - A greater impact of Government policies in the rural areas depend on the existence of infrastructures with direct impact on poverty through cheaper transport, lower margins, more trade, better prices for agricultural products and lower prices of goods for the consumer in the most remote areas.

6.2 Macroeconomic Conditions Prevailing within Mozambique

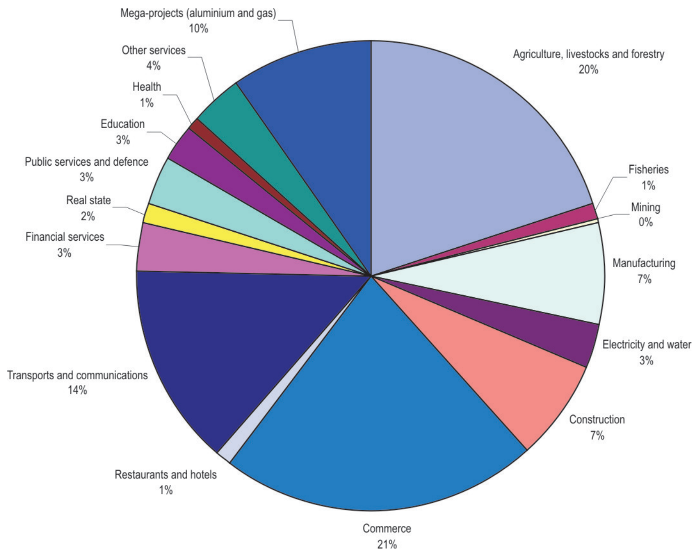
GDP Composition. The sectoral composition of GDP shows that agriculture remains the largest contributor to the economy followed by trade. As a result of economic restructuring, which led to increased flow of foreign investment, industry and services have known a gradual increase, with focus on industry, as a result of mega projects such as Mozal and Sasol (Table 13 and Figure 2).

Table 13: Sectoral Breakdown of GDP, 19987-2003

	1997	1998	1999	2000	2001	2002	2003
Agriculture	30	27.3	25.7	21.2	201	206	19.4
Fishing	3.9	3.0	2.5	2.4	1.9	1.5	1.4
Mining	0.3	0.3	0.1	0.3	0.3	0.3	0.3
Manufacturing	9.5	10.9	11.6	12.0	13.6	12.0	11.7
Electricity and water	0.8	2.0	2.8	3.0	3.2	3.7	3.9
Construction	6.6	8.3	7.8	8.8	8.1	7.9	11.7
Commerce	23.0	22.3	22.1	21.5	22.7	24.7	22.5
Restaurants and hotels	1.2	1.1	1.2	1.3	1.4	1.3	1.3
Finance and insurance	3.2	2.7	2.0	4.0	3.7	3.8	3.2
Real estate Public administration Defence	2.5	2.8	3.6	3.6	3.7	3.6	3.8
Transports Communications	1.5	1.8	2.5	2.8	2.5	2.4	2.5
Education services	4.2	4.1	4.4	4.9	4.8	4.1	3.5
Health services							
Other services							

Source: INE, 2004

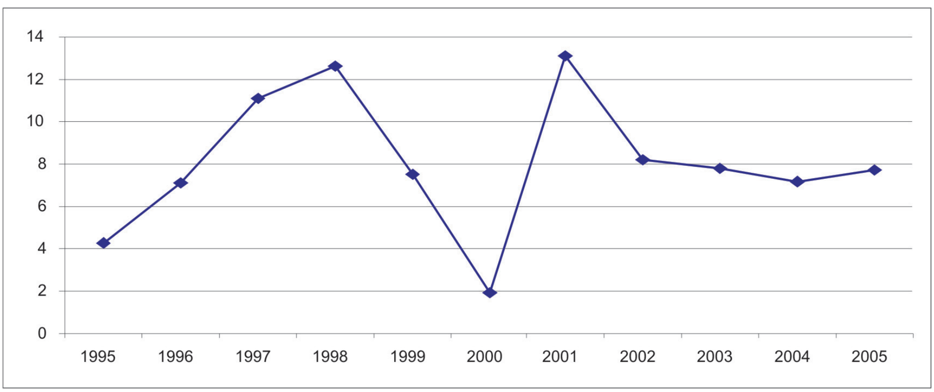
Figure 2: Composition of GDP (2004)



Agriculture has a strong potential for economic growth or for poverty reduction. About 79% of the population lives in the rural areas and 70% of that population depends on agriculture for its subsistence. Evidence shows a strong relationship between family sector agricultural production growth and poverty reduction in the last five years. Despite the high share of the agriculture in labour force, the contribution of the sector to the GDP does not reflect it due to the low levels of productivity.

6.3 GDP Growth

Figure 3: Mozambique: Real GDP Growth (1995-2004)



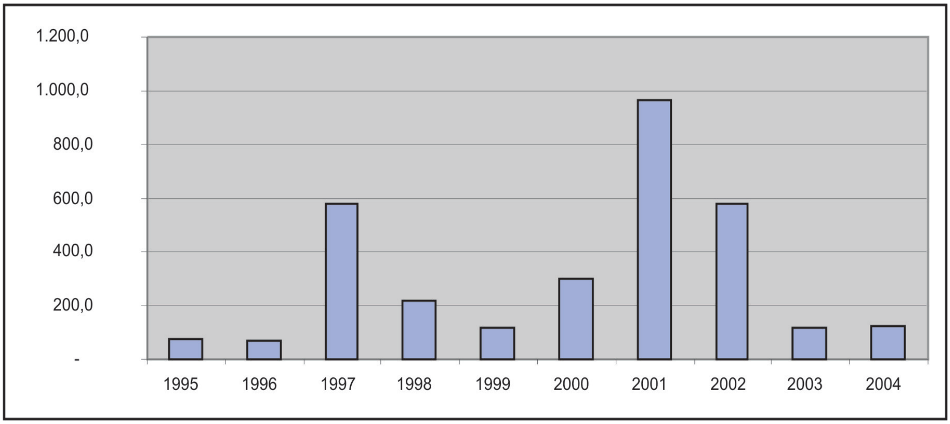
Source: Country Study, 2005

In the last 10 years, Mozambique recorded an annual average growth rate of about 6.7%, with the lowest registered in 2000 (1.5%), as a result of floods during that year, which destroyed a considerable part of food and cash crops. The Government of Mozambique is committed to moving forward with policies and programmes aimed at maintaining the economic growth rate at 7-8% levels within the next five years. Projections show this to be a realistic scenario given the country's relative macroeconomic stability in terms of attracting foreign investment, and also due to the entry into operation of Mozal II and other mega projects, including SASOL, Chibuto Heavy Sands (Figure 3).

- **Employment and Unemployment Rates:** Although without official figures, some researches indicate that the unemployment rates in Mozambique, either urban or rural remain very high. The only available statistics are from the 1997 Population Census, which showed that about 21% of the labour force was unemployed. From the labour force employed, about 81% was in agriculture, 6% in industry, and the remaining 13% in services. There is a current census underway which will bring additional figures.
- **Formal Employment:** Formal employment plays an important role in increased productivity and state revenue. However, its growth remains limited - indicated by the formal employment elasticity estimates to a 0.1% growth, which is below average in other African countries. Thus, further analysis of the causes and strategies/policies aimed at reversing this trend are required.
- **Investments Inflows and Outflows:** A combination of factors such as political and macroeconomic stability of recent years, the economic reforms which adopted a greater integration of the country in regional and international markets, and an aggressive marketing strategy, played a role in the high foreign investment flows.

  Although the bigger portion of these investments is channelled into mega projects, there are some positive aspects worth being highlighted, namely: (i) The strong growth of exports; (ii) Training of the labour force and (iii) Access to new and modern technologies, which stimulates improvements and investment in infrastructures. In terms of negative aspects, the mega projects do not generate many jobs as they establish only few linkages with the rest of the economy, and they provide little value added for the national economy (Figure 4).

Figure 4: Mozambique - FDI Inflows (1995-2004)



Source: Mozambique Investment Promotion Center, 2005

6.4 Basic Approaches used in Determining Budgetary Frameworks

Regarding the Government Budget, the fundamental challenge is to achieve a better relationship between the policies, the planning instruments and the allocation of resources. To date, the preparation of the annual cycle documents (Medium Term Fiscal Scenario designated CFMP, Economic and Social Plan or PES and the State Budget) has been sparse and are formed in different documents, with the use of disarticulated methodologies without a pragmatic framework. This results in the lack of consistency between the annual instruments and the poor linkage with the objectives and priorities defined in the medium and long term planning instruments, namely the Government's Five-Year Programme, PARPA and the sectoral and territorial strategic plans as previously referred.

There has been some effort to reinforce the medium term vision for budgetary programming through the Medium Term Fiscal Scenario. The harmonisation of planning and resource allocation instruments within a pragmatic framework, which requires a strong link between instrument preparation procedures, in particular during the annual cycle instrument preparation process, namely the Economic and Social Plan, the State Budget (annual financial vision which materialises the economic and social plans) and the CFMP (a document with a medium term vision that is annually updated).

The Medium Term Fiscal Scenario has the following objectives:

- Improving the budgetary discipline in order to promote the macroeconomic balance;
- Improving the inter-sectoral and territorial allocation of resources;
- Predicting resources for PARPA implementation;
- Promoting the effectiveness and efficiency in the utilisation of resources;
- Support the allocation and decision making on the prioritisation of the allocation of resources;
- Provide credibility and legitimacy to the planning and budget programming process.

For the projections from the sources of resources, the CFMP uses three basic macroeconomic assumptions: the inflation rate, GDP growth rate, and the exchange rate.

Table 14: Mozambique GDP Projections (2004-2008)

	2004	2005	2006	2007	2008
Gross Domestic Product	7.2%	7.7%	7.4%	6.4%	6.4%
Agriculture, Livestock and Silviculture	7.1%	7.5%	7.5%	7.5%	7.5%
Fishing	-3.8%	7.7%	7.0%	7.0%	7.0%
Extractive Industry	215.7%	41.6%	9.0%	8.0%	9.0%
Transforming Industry	9.6%	2.6%	7.0%	7.0%	7.0%
Electricity and Water	10.7%	18.3%	5.0%	5.0%	5.0%
Construction	-2.0%	8.2%	8.0%	7.0%	8.0%
Trade	-0.6%	7.4%	6.0%	6.0%	6.0%
Restaurants and Hotels	1.1%	0.8%	7.0%	7.0%	7.0%
Transport and Communications	16.4%	13.2%	9.0%	9.0%	9.0%
Financial Services	0.9%	1.1%	2.0%	2.0%	2.0%
Housing hire and Company Services	2.2%	2.6%	2.6%	2.6%	2.6%
Public Administration and Defence	9.0%	6.8%	6.0%	6.0%	6.0%
Education	10.4%	17.2%	7.0%	7.0%	7.0%
Health	7.6%	20.6%	7.0%	7.0%	7.0%
Other Services	8.4%	0.8%	2.5%	2.5%	2.5%
Import Duties	133.8%	137.0%	20.0%	0.5%	0.5%

Source: MPD, 2005

Table 14 presents GDP growth rates in general and of some key sectors such as agriculture, fisheries, health, education, transport and communications, the transforming and extractive, and others. Despite a slight slow down in the last two years, the real GDP growth on the economy is expected at an average of 7% up to 2008 if mega projects are included, and at about 6.5 if these are excluded.

These two approaches allow a more detailed analysis of the economy behaviour given the fact that large-scale undertakings have high growth rates at short term.

6.5 Fiscal Trends

Revenues: The fiscal revenue remained relatively stable in the last six years throughout the period, the percentage of fiscal revenue of GDP was approximately 12% and the percentage of total revenue of total expenditure declined but went up again. Fiscal revenues have experienced a considerable increase in Mozambique as a result of the introduced fiscal reforms, modernisation of the fiscal administration, reduction of tax evasion, rationalisation of the concession of fiscal benefits. Currently, the fiscal revenue stands at 14.9% of GDP (2004). A gradual increase towards the 16-17% target in 2009 is expected (Table 15).

Table 15: Mozambique Government Revenue in % (1999-2004)

	2000	2001	2002	2003	2004
Total revenues	29.9	31.7	31.0	26.5	24.8
Internal revenues	14.0	14.0	14.2	12.1	11.9
Current revenues	12.9	11.9	11.7	12.8	12.4
Capital revenues	0.2	0.4	0.0	0.0	0.2
External revenues	15.9	17.7	16.7	14.5	12.9
Donations	11.8	14.2	10.0	9.5	7.8
Grants	4.0	3.5	6.7	5.0	5.1

Source: INE, 2005

The tax system suffers from various weaknesses that are not only due to administrative difficulties but also to the tax framework itself. The challenge is to design a system capable of increasing state resources, and also capable of fostering economic growth in the informal sector and of preventing increases of tax evasion incidence.

The following paragraphs briefly present the main concerns in this area:

- **Revenues as % of GDP** - as noted in Table 15, and despite the various reforms already implemented, the domestic revenues have remained around 12% of GDP or 13% excluding the impact of mega projects.
- **High dependence upon revenues from external trade** - data from the last five years show an increasing relative importance of revenue collected at borders. This is another indication of the difficulties/ weaknesses in raising domestic collections.

For 2005 it is estimated that the volume of fiscal revenues collected will start to show improvements as a result of:

- Computerisation of the tax collection system;
- Revenue increase with IRPC taxes as a result of many fiscal incentives granted in recent years;
- Beginning of the tax payment by mega projects as a result of the end of the fiscal benefits conceded during the investment phase; and
- Gradual inclusion of off-budget in the budget (Mozambique 2005a).

This last activity is of particular importance taking into account the fact that the off budgets still constitute a problem in public finance management in Mozambique.

Government spending has been stuck at around 13.8% of GDP for the last five years. Investment expenditure has been showing an erratic trend. This is beyond government control since more than 90% of the expenditure is externally financed (Table 16).

Table 16: Government Expenditure

Current Expenditure	1999	2000	2001	2002	2003
Investment	12.1	13.1	13.5	13.9	13.8
Expenditure	3.5	13.0	14.4	11.2	9.4

Source: INE, 2004 (www.ine.gov.mz)

Monetary Policies and Exchange Rates (impact on stability): Mozambique remains an economy with a very low degree of monetary deepening, even when compared with the other Sub-Saharan African countries. The economy is still in a low stage of monetarisation. There is a high concentration, which contributes to high interest rates and low volume of credit. The difficulties are related to the limited development of the financial sector (Table 17, IMF 2001).

Table 17: The Mozambican Banking System in International Comparison

	Private Credit/GDP	Deposits/GDP	Concentration
Mozambique	14	23	96
Sub Sahara Africa	26	27	83

Source: MPD, 2005

Linking integrally with the previous points, the lack of credit or access problems are often cited. Excluding credit to the Government, the gravity of this situation is reflected by the relative decline of the value of credit to the economy as percentage of GDP, in nominal terms - from 19% in 2000 to 10% in 2004. There is no need to point out that such problems hinder investment and thus, the development of the formal sector. In addition, high interest rates, hinder credit expansion to consumers and the private sector, mainly small and medium scale enterprises, that do not have access to international capital markets.

The following factors contribute to the high interest rates.

- Weakness of the judicial system, for the recovery of bad loans;
- Weaknesses in banking supervision, by the Bank of Mozambique;
- Significant burden of bad loans; and
- Frequent Government recourse to the banking system to cover budget deficits - in recent years the gross value of internal credit to the State increased from 2.8% of GDP in 2000 to 6.4 in 2004. It noted that this

problem could become more worrisome due to the emissions of new Treasury Bonds in favour of the Bank of Mozambique (MPD 2005).

The difficulties are related to the limited development of the financial sector - has a poor liquidity, poor level of competitiveness, and the existence of few effective instruments to influence macroeconomic indicators. The Mozambican banking system is basically made up of private banks (since the State began its withdrawal in 1990) and there are no clear rules or obligations that force banks to prioritise certain sectors, and even the Government cannot intervene directly in the establishment of interest rates (IMF 2001).

6.6 Central Bank and Fiscal Policy

Macroeconomic role of the Central Bank: The Law 02/92, which creates the Bank of Mozambique (BOM) states that the fundamental role of the BOM is to preserve the value of the national currency (the Metical), and in line with that objective achieve the following:

- Promote a correct monetary policy;
- Orient the credit policy with a view to promoting the country's economic and social development;
- Manage external provisions in order to maintain adequate volume of payment instruments necessary to international trade; and
- Discipline banking activities.

The BOM is an autonomous financial institution, according to the law establishing it. The Governour and members of the management board are appointed by the President of the Republic and have a 4-year mandate.

The country has a flexible exchange rate regime without Central Bank intervention (IMF 2001). On the other hand, the Bank of Mozambique has not financed the State Budget in recent years.

In the meantime, reforms continue aiming at enhancing the BOM policy formulation capacity as well as its role as a watchdog of the banking system. Such reforms are also necessary to consolidate the Central Bank's independence and ensure that the objective of keeping inflation at one-digit levels is achieved. In recent years, the Bank of

Mozambique has made remarkable progress in the area of banking supervision.

The Bank of Mozambique is independent and autonomous in pursuing its role. As part of the policy for sound macroeconomic management, the Central Bank has not financed public expenditure over the last five years.

The Government of Mozambique recognises the need to continue with reforms aiming at improving the business environment for private sector development. In this context, the ongoing actions aimed at (i) reducing the cost of doing business; (ii) reducing the labour market rigidities, and (iii) improving the quality of infrastructures deserve a special attention. For the coming years, the Government of Mozambique hopes to continue reforming the public sector, the judiciary, and land management, so that land can be used as collateral, which could contribute to the development of the agricultural sector (Mozambique 2005b).

The reduction of the incidence of poverty has been the main priority, addressed with some success in the last years. But some important challenges lie ahead, including measures to expand the private sector; increase competitiveness of Mozambican enterprises and of the agriculture sector. The reform of the labour law has recently attracted heated debates involving representatives of trade unions, employers and government, given its potential impact on the private sector development and economic growth.

The labour market manifests other weaknesses, mainly a shortage of trained personnel as well as the concentration of skilled labour in the south of the country. The IAF of 2002/03 indicate, for example, that there are only about 230,000 people with higher education - university degrees or more - in the country, and about one million people who have concluded secondary education - representing 15% of the labour force. It is also evident from IAF 2002/03 that 28.6% of adults in the labour force with secondary or higher education - of whom, 36.8% have higher education - are based in Maputo despite the fact that the city can absorb only 12.1% of the total labour force (DNPO et al 2003).

The Labour Law is cited as an obstacle to the development of the private sector, including the agricultural sector, due to the high restructuring and workers' dismissal costs (World Bank 2005). There is a position defending that the law does not allow companies to respond in a flexible manner to the new changes that it represents an impediment to the entry or expansion of the formal sector. Clearly, and considering government commitment, a broader debate on the Law and its review would yield a positive understanding between the parties involved.

Agriculture is a major area in the national economy representing 20-25% of GDP. About 80% of the labour force is in agriculture and rural activities. The increase of productivity in production and commercialisation are necessary for a sustainable poverty reduction. Comparing agriculture with the rest of the economy, food commodities have an even more dominant position within the agriculture sector. Without increasing productivity in agricultural products, the increase of productivity in agriculture as a whole will hardly be achieved.

Mozambique is rich in natural resources, most of which - except fisheries - can be explored in a more productive manner. Being a low-income country, the efficient and sustainable utilisation of natural resources should represent an essential way to reduce poverty and boost economic growth. For example, Margulis (2005) estimates that the contribution for mineral exports could reach USD 700m per annum by 2015. Therefore, some relevant debates on the macroeconomic growth and stability theme include infrastructures - despite the substantial investment, adequate infrastructures remain limited. As a result, the costs and risks associated with new undertakings remain high.

6.7 Trade Policy that Affects Macroeconomic Performance and the Process of SADC Integration

Regional agreements are not independent of the macroeconomic context in which they unfold. Variables, such as are in particular variations in the real exchange rate alter and distort the composition and direction of trade flows. Such effects may undermine the commitments and the solidarity underpinning regional trade agreements.

Real exchange rates may change due to specific events or to structural or institutional variables. These variables affect, somewhat, the difference between the income elasticity of imports and exports. This reflects an inbalance that could alter real exchange rates and thus trade flows within regional agreements. This is why regional agreements must include amongst their principles, clauses that may lessen the impact of this type of fluctuations.

Broadly, there are two considerations that underlie macroeconomic stability. First, there is a need to do an assessment of the appropriate policy stance to adopt in a given set of circumstances (i.e., should fiscal and/or monetary policy be tightened or loosened?). Second, there is the choice of specific macroeconomic policy instruments that would be beneficial for a country to adopt (e.g., the use of a nominal anchor, a value-added tax (VAT), etc.). In practice, these two considerations are closely linked. Adjusting a policy stance is often done via the adoption of a new instrument (or the modification of an existing one). More importantly, both considerations are essential in the efforts to enhance an economy's stability.

The specific stance must fit each country's particular situation. These situations can be put into three broad classes: (1) instability/ disequilibrium; (2) stabilisation (e.g., transition from instability to stability); and (3) stability/steady economic growth. This section briefly discusses how macroeconomic policies can contribute to stability. For countries that enjoy stable macroeconomic conditions, there is somewhat greater flexibility in the choice of appropriate stance for macroeconomic policy. The central issue for these countries will be to ensure that the financing of their poverty reduction strategies does not jeopardise macroeconomic stability.

To enhance the macroeconomic enabling environment, understood in its broadest sense, encompasses the whole panoply of national and international policies, which implies often multilateral commitment measures and institutions in the economic, social, legal and political domains that have impact upon macroeconomic stability and therefore, influence or affect the economic growth and development prospects of a country. Fostering an enabling environment for development implies a concerted effort by governments at the national and international levels, in collaboration with other actors in development.

This will ensure that the interplay among policies, measures and institutions, and the sum total of their impact promotes not only sustained economic growth, but a development style that is sustainable and broad-based with benefits that are shared equitably by all members of society.

In terms of trade policy which affects macroeconomic performance and the process of SADC integration, Mozambique's tariff schedule was simplified in 1996. The import taxes levied on CIF basis vary from 2.5% to 30%, depending on goods classification.

The tax for consumption goods was recently reduced from 35% to 30%, and should decline to 20% in 2006, to fall in line with the SADC calendar while tariff negotiations are concluded (Table 18). Mozambique still uses the Brussels Value Definition to calculate the value of the imported merchandise, and uses the harmonised system (HS) of Tariff Classification and updated its PAUTA to HS of 2000 as it implemented the SADC Trade Protocol.

Table 18: Classification of Goods for Import Taxation

Product	Class	Tax (%)
Basic Product	E	0.0
Raw Materials	M	2.5
Fuels	N	5.0
Equipment	K	5.0
Intermediary Materials	I	7.5
Consumption Goods	C	30.0

Source: Direção Geral das Alfândegas, 2004

At present as well as in the future, if Mozambique wants to successfully market its products on the SACU market, it must meet the current rules of origin by purchasing from South African suppliers, while SACU firms competing in domestic markets can import from more efficient producers duty free. For that reason Mozambique has worked hard to liberalise SADC Rules of Origin. Indeed, completion of SADC agreement on Rules of Origin has been delayed at least in part because Mozambique and other members are trying to liberalise those rules. Because it is among the poorest countries in SADC, Mozambique was allowed a longer transition period to lower its tariffs to South Africa, assuming that during this period industries will become more competitive, infrastructure will improve, the workforce become more skilled, and industrialists acquire the knowledge and capacity to export competitively. At the same time, industries are still protected (DTIS, 2004).

Putting aside the complexities of Rules of Origin and other non-tariff measures, a poor country such as Mozambique participating in a regional trade arrangement must ensure that regional preferences agree with MFN-based tariffs. It must also promote domestic market reform (DTIS, 2004).

If Mozambique ignores current and future changes to regional or international trade arrangements, it may lose market access. To avoid this, there is a need to acquire substantial new resources for policy analysis and impact modelling.

Finally, but not least, the weakness of tax policy in Mozambique as well as in other member states affects also the macroeconomic performance and the process of SADC integration. If the SADC countries can find common ways of conducting trade with themselves and with all their trade partners, this will start to counter the advantage of developed countries, and will improve their terms of trade with all partners. Part of this will be creating good common data on trade as well as trade policy.

6.8 How Membership in SADC Influences Macroeconomic Polices

A general feature of the sequencing of trade liberalisation in Mozambique initiated in 1997 is that financial and other support measures to its few exporting companies were not introduced either before or during early stages of trade liberalisation.

Some trade economists (such as Rodrik, 1990 and Edward, (1997) argue that macroeconomic stabilisation should come before structural reforms. This is because macroeconomic instability is often one of the most important causes of policy reversal (Edward, 1992). In practice, however, the stabilisation process, usually overlap structural reforms. With regard to the design of trade liberalisation, which is part of the process of structural reforms, Edward (1977) has summarised the best sequencing on the basis of experience as follows:

- The Government should find an alternative source of revenue before the tariff cut is made;
- Import licenses and prohibitions should be eliminated during the early stages of the liberalisation scheme, and tariffs should replace them if necessary;
- A real-exchange-rate overvaluation should be avoided and nominal exchange-rate anchors should be introduced at the beginning of the reform; and
- A uniform tariff structure should be introduced for efficiency reasons.

The Membership in SADC could represent an important opportunity for Mozambique. Greater market access could spur economic activity. At the same time, the consequences of the Rules of Origin and extended transition times for protected industries must be considered. Negotiations to accelerate the achievement of the free trade area (FTA) and to relax the Rules of Origin have stalled. Regional trade arrangements often divert imports from low-cost worldwide sources to higher-cost regional ones. Such trade diversion is most likely to occur when regional preferential rates are significantly lower than MFN tariffs. For instance, to meet SADC requirements and sell to South Africa, Mozambique must shift from cost-efficient sources of raw materials to South Africa for plastics, and to the regions for fabrics. Although South Africa has the largest economy in the region, that country is not a low-cost producer by international standards. Furthermore, because South Africa has a large comparative advantage in the production of tradable items, the benefits of the regional trade arrangement may accrue mostly to it.

6.9 Progress Regarding the Implementation of the SADC Trade Protocol

Mozambique began implementation of the SADC protocol in August 2001. Nearly the last country to submit its offers, Mozambique was one of the first to deposit with the SADC Secretariat the legal instruments necessary to implement tariff reductions. Much of its implementation is "back loaded", with reductions on sensitive products only beginning this year (2005), and with improved import access for South Africa delayed until 2008.

The stated tasks, which are to underpin further work on the SADC Mid Term Review, are in general, well considered and should lead to a deeper understanding of the region and its impact on trade in all spheres. However, these tasks tend to be focused on the "here and now", and how to rectify ongoing problems related to trade liberalisation and barriers to trade. This work is vital, yet once it is all done, the region will still only be in the starting blocks in terms of global competitiveness.

What is still required in this Mid Term Review Process is the formulation of a future vision for the region, an examination of how it will fit into global trade, and, of particular importance, how it will differentiate itself and compete with other regions for a slice of the ever decreasing "pie" of world trade. The feeling of regional unity, or for want of better terminology, "team spirit", which would define SADC future interaction, and which would underpin decisions to source materials and inputs from the region rather than from elsewhere, is sadly missing. If this region is to become a global player, then co-operation can and must lead to greater economies of scale and the harnessing of various comparative advantages must be done in order to make a far greater impact on the global market than any single member state alone could muster. It is this lack of future vision which is hampering the total commitment of SADC members and which is thus, devaluing the Trade Protocol.

In terms of phasing down the tariffs, there is a concern that a "lack of widely available information regarding the status of implementation of other member states" exists. Determined and effective efforts must be made to improve dissemination of information as a matter of urgency.

Although it is realised that the tariff phase down offers of the non-SACU members of SADC is heavily back-loaded, it is of concern that, according to the MTR report, these members have achieved only 20% of the liberalisation scheduled for 2008 vis-à-vis South Africa. The SADC Secretariat should therefore encourage and assist specifically Malawi, Zambia and Zimbabwe to implement their commitments.

The problems relating to the dependence on tariff revenues in some Member States are a major problem. The fast tracking of tariff liberalisation/elimination is supported.

Regarding the Rules of Origin, there is generally a perception from business communities to support the concept of more flexible, simplified rules of origin. However, it is important to ensure that the capacity is in place to deal effectively with Rules of Origin, and that the verification process is quick and effective. Capacity of the various border posts to enforce legitimate trade based on preferential access by goods which qualify under more flexible Rules of Origin is a matter of great importance, and ought to be linked to any system of change to the Rules of Origin for SADC.

Rules of Origin, being a policy tool, need to be agreed upon through the development of a common industrial policy for the region. At this stage, business believes that the debate on a regional industrial policy has not been fully explored. This seems to indicate a lack of long term strategic planning for the region as a whole.

The suggestion that Rules of Origin ought to be used to encourage the use of intermediate inputs and raw materials from the region, is in direct contradiction to the stated intention to make Rules of Origin sufficiently flexible to enable global competitiveness of the region. In addition, the verification process would be further complicated in a system already overburdened with capacity constraints. If the predictability, and consequently the efficiency and cost of cross border business within the region could be effectively improved, then the natural competitiveness of sourcing products in the region would be more effective in achieving the stated aim than coercion by this method.

Of specific concern to the chemical sector is the administrative capacity of Member States to enforce the rules of origin at borders, especially when the envisaged common external tariff is introduced in 2010. The RSA chemical industry is the dominant player in this sector in SADC, and may suffer as a result of ineffective border control in Member States.

The textile sector endorses the continued use of the existing revised Rules of Origin and in particular the list of Rules of Origin related to chapters 50 to 63 of the Harmonised Tariff System that is totally opposed to any change to the list of rules, which are generally of a "two stage" transformation nature. Concern has also been expressed about the very low utilisation of quotas under the MMTZ arrangement.

In relation to Non-Tariff Barriers (NTBs), the MTR report noted that NTMs are a growing problem in the SADC region and this is of great concern. It would be most unfortunate if NTMs replace tariffs as a protection mechanism, because the non-transparent nature of NTMs render them more powerful trade inhibiters than import tariffs. Flexible and simple Rules of Origin will lead to nothing if the cost of doing business is increased through uncertainty, lack of transparency and a general lack of commitment to freeing up trade.

An active programme to address and eliminate NTBs and NTMs should be implemented. A thorough investigation of each border post within SADC should be undertaken, with clear goals as to the improvement of transparency, organisational skills, ethics, and professionalism being held up to each one. Then a formal report on the findings, recommended improvements and progress checks should be made. Business stands ready to assist; however, an urgent commitment by each Member State to doing the research and getting the resources in place must be made. The report statement that "While … little or no significant progress has been made towards the systematic eliminations of NTBs as agreed, many new NTBs have been implemented" does not go well for the credibility of the Trade Protocol - it is, in fact, a direct violation of Article 6.

It is the generation of an effective long-term strategy for the region that will elicit success and the boosting of business within the region and must be seen as an integral part of that vision. Political coercion to trade can only achieve so much - it is in the freeing of business to do business that this region will come alive - so much needs to be done in this region, and so many opportunities abound, that it is a sorry indictment of the effectiveness of the Trade Protocol that the region is not already something of an "African Tiger."[16]

[16] 29th Meeting of the SADC Trade Negotiation Forum, Mauitius, April, 2005

6.10 Trade Flow Analysis and their Impacts on the Regional Initiatives on Trade

More than 25%of Mozambique's trade-imports as well as exports are for or from SADC countries. South Africa accounts for the largest share namely 25% of Mozambique's imports and 20% of its exports. With South Africa dominating, SACU members have a complex common external tariff (CET) of 38 bands and 2,136 rates, and consequently, goods produced in Mozambique have benefited from this CET elimination. In addition, certain Mozambican products are no longer subject to the tariff-rate quotas under the former preferential South Africa and Mozambique trade agreement. These products include cashews, citrus fruit, coconut oil, fishery products, and wooden furniture. There are new opportunities to export products to South Africa, such as bananas, dried beans, footwear, mangoes, peas, pineapples, processed agricultural products, and standard-wire products. Processed or manufactured products from aluminium, natural gas pipeline, and titanium sands mega projects are now entering South Africa on a preferential basis vis-à-vis non-SADC suppliers.

The markets of Malawi, Mauritius, Tanzania, Zambia, and Zimbabwe have not opened to Mozambican exports as rapidly as South Africa's market, and some of the Mozambican products will have to wait until 2008 and in some cases 2012 to benefit from zero duties rates (Table 19).

Table 19: Partner Duty Base Rates and Staining on Selected Mozambican Products (Per Year)

Product	Malawi	Zambia	Zimbabwe	Tanzania
Vegetables	10% (8th Year)	25% (6 Years)	40% (7 Years)	30% (8 Years)
Cashews	10/30% (8th Year)	25% (6 Years)	25% (3 Years)	30% (8 Years)
Fruits	30% (12th Year)	25% (6h Year)	40% (7 Years)	30% (12 Years)
Tea	30% (12th Year)	25% (12 Years)	40% Immediate	30% (12 Years)
Maize	Free	Free	30% (7 Years)	30% (12 Years)
Flour (maize)	30% (12th Year)	15% (12 Years)	40% (7 Years)	30% (8 Years)
Vegetables Oils	30% (12th Year)	25% (6 Years)	40% (7 Years)	30% (8-12 Years)
Tobacco	30% (12th Year)	15% (6 Years)	100% (12 Years)	30% (8 Years)
Cement	Free (5th Year)	5% (12 Years)	20% (3 Years)	30% (12 Years)
Fabric	30% (6th Year)	15% (6 Years)	15/25% (3-5 Years)	30% (12 Years)
Clothing	30% (6th Year)	25% (12 Years)	40/60% (7 Years)	30% (8 Years)
Footwear	30% (7th Year)	25% (12 Years)	60% (7 Years)	30% (8 Years)
Tires	30% (6 Years)	25% (6 Years)	30% (5 Years)	30% (8 Years)
Plastic containers	30% (6-8 Years)	25% (6 Years)	25% (3 Years)	30% (8-12 Years)
Wood products	10/30% (6 Years)	25% (6 Years)	15/25% (3-5 Years)	30% (5-8 Years)

Source: SADC Secretariat, 2005

Mozambique itself is slow to give preference to SADC partners. So far, it has reduced duties on 1,600 raw materials from 2.5% to zero, responded positively to a few requests from trade partners, and made reductions on an MFN basis for all partners as required by the International Monetary Fund (IMF). Duty reductions that result in a margin of preference to SADC partners[17] will not occur, with few exceptions, until 2006.

To SADC partners other than South Africa, Mozambique made differential concessions. It immediately eliminated its 35% duties on 90 products (3% of its SADC trade) and its 7.5% duties on 300 products (8% of its SADC trade). It made other immediate reductions on raw materials (11% of SADC trade), and also it designated 14% of SADC trade as sensitive to SADC members other than South Africa. Tariffs on those products will be reduced over 12 years.

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17 a difference between theMFN and SADC rates

Table 20: Mozambique Offers to SADC (Excluding South Africa)

(Phased Reductions of Duties on Imports)

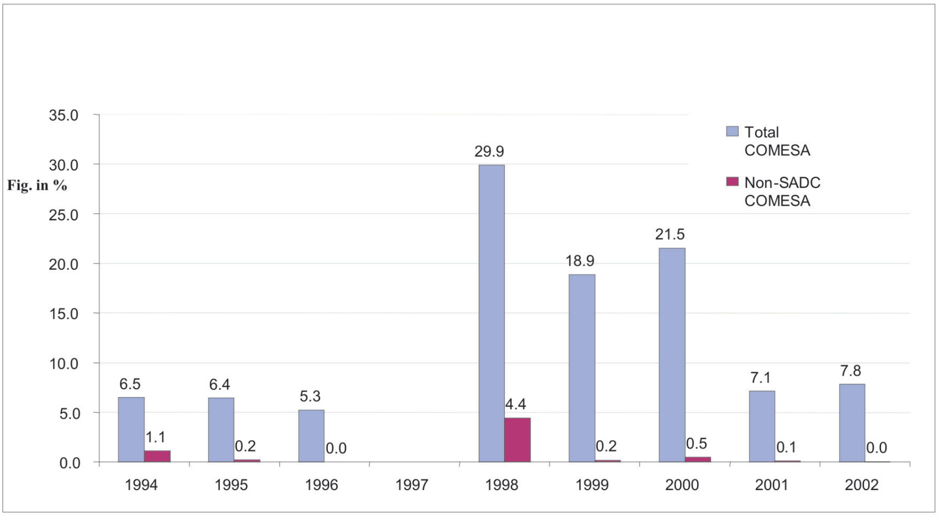
Time Frame	Duty level and % of Imports Covered			
Staging level	35%	5-7.5%	25%	Free
Immediate	3.2	7.8	11.2	3.0
Years 7-8	11.1	49.6		
Years 9-12	4.9	9.0		

Source: MIC, 2005

Preferential trade with the East and Southern African Preferential Trade Area (PTA) countries was a decisive factor for Mozambique's adherence to that organisation, which constituted one of the "building blocks" for the construction of the African Economic Community, according to the Lagos Plan of Action.

The historical import and export flows until 1996 reflect volumes that do not go beyond 5-6% of Mozambique's external trade, being trade with non-SADC[18] COMESA members having never reached even 1% of the total trade (Figure 5).

Figure 5: Mozambique Exports to COMESA



Source: IPEX, 2002.

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18 COMESA non-SADC – COMESA countries that are not members of SADC: Burundi, Comores, Djibuti, Egipt, Eritreia, Ethiopia, Kenya, Madagascar, Rwanda, Seycheles, Sudan and Uganda.

As for imports, the use by our importers of the PTA preferences was null during the four years in which they were effective. Due to the question of Rules of Origin, trade under the SADC Trade Protocol is not, for COMESA/SADC[19] Member States, an alternative to trade under the COMESA preferences.

The fact that one of the main obstacles to trade development is lack of supplying capacity does not count much before the conviction that, in regard to higher value added products, it is at the regional level where the first ground for competition is situated, the necessary graduation process before assaulting the world markets.

6.11 The Issue of Rules of Origin

Perhaps the most determinant aspect of market access is the Rules of Origin. The requisites for certification and other documentary demands, the Standards and the Sanitary and Phytosanitary, can also be a strong obstacle, particularly in more developed markets, although they do not have much prominence in developing countries, particularly in southern Africa. This situation reinforces the argument that the African market is the first step towards internationalisation.

In regard to the Rules of Origin, the SADC Trade Protocol rejected the original Rules of Origin system - similar to that of COMESA and typical of many other market integration systems involving developing countries - which were based on the following alternative criteria:

- Products produced with local raw material;
- Products containing a maximum of 65% of materials imported from outside the region;
- Products containing a minimum of 35% of valued added in the region;
- Products that went through a substantial transformation process in the region (normally defined as simple change of tariff position).

This system has been substituted by the system of specific Rules of Origin per product, an extremely complex system and difficult to implement but, above all, less flexible and extremely restrictive. This system was practically copied from the European Union (EU) system of origin being, in some chapters, even more restrictive.

19 SADC-COMESA – countries that are simultaneously members of the two organisations: Malawi, Mauritious, R. D. Congo, Swaziland, Zambia and Zimbabwe.

It is a system clearly hostile to a development process centred on production of commodities with a progressively higher added value. Its effects at SADC level have simply not been felt because South Africa (its main advocate) appears to have adopted a moratorium as for meeting the criteria of origin which will probably terminate immediately following the conclusion of the Mid Term Review (MTR) where the assessment of the rules of origin and their impact on trade; trade and development deviation of Member States, particularly the Least Developed Countries, is one of the key questions.

Restrictive Rules of Origin are not only a barrier to international competitiveness but also costly in terms of ensuring conformity. Traders will have to incur costs of complying with the certification requirements, which are often complex in the case of restrictive Rules of Origin. Customs authorities will have to satisfy themselves as to proof of origin of goods often requiring costly administrative systems. The value-added criterion can be difficult and costly to prove and the availability of alternative ways to prove origin may be a better option. The situation is likely to be worse in the case of membership to multiple and varied trade agreements, especially when such rules are not harmonised as is the case with many SADC Member States.

Clearly SADC Rules of Origin are likely to undermine the potential benefits of the Trade Protocol. They are based on those governing the EU preferences, which are product specific, complex and restrictive. Ironically SADC Member States are now highlighting problems with similar rules in the Cotonou Agreement, with the aim of revisiting them in their negotiations of Economic Partnership Agreements (EPAs) with the EU. This underscores the necessity of reforming the SADC Rules of Origin regime, not only to make them simple and less restrictive, but also to permit the use of alternative Rules of Origin (Kalanga, 2005).

6.12 Mozambique's External Trade

A terms of trade decline totalling about 10% between 1975 and 1980 affected Mozambique's balance of payments and real income negatively during the period. However, developments in subsequent years suggest that terms of trade were not the main driving force behind the build up of debt. The debt burden rose almost fourfold between 1982 and 1986 despite a 40% improvement in the terms of trade over the same period, equally split between higher export prices and lower import prices. Hence, the sharp decline of export values between 1981 and 1985 reflects the collapse of export volume rather than exogenous price shocks (Hall and Young, 1997).

Indeed, during this period, the collapse of foreign revenues deriving from tourism, transit trade, and border workers was in part, if not mainly, affected by the civil war and the external political factors that surrounded the local conflict. The sharp contraction in agricultural output, amply documented by CNP (1985) for both cash and subsistence crops, however, was related also to the lack of protection of property rights - brought about by land nationalisation immediately after independence - and the distortions of price incentives imposed by economic planning - formally endorsed in 1977 (Hall and Young, 1997).

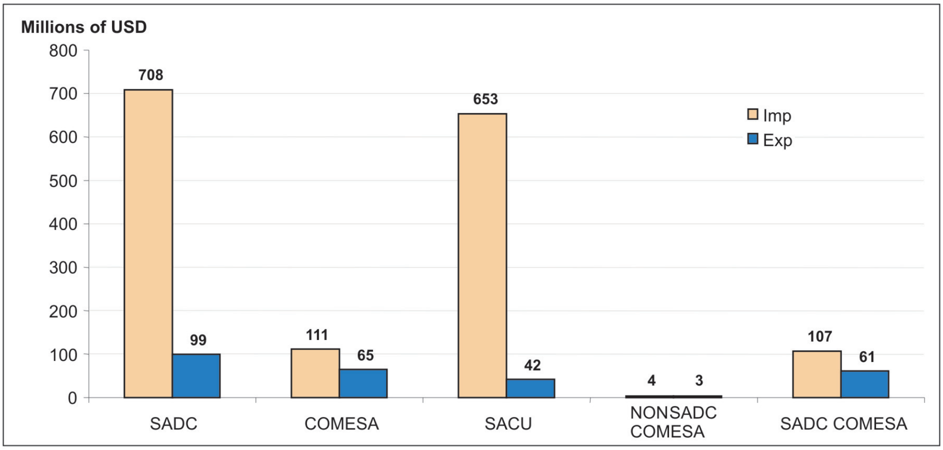
As a partial result of these natural shocks and other factors negatively affecting agricultural domestic supply, Mozambique's food balance soon went into structural deficit and did not recover until very recently, forcing the country to rely on food import to feed its people, and thereby continuing to add pressure to the balance of payments. It is estimated, for example, that imports of foodstuff averaged more than USD 100 million a year during the period 1980-84, as compared to imports of other consumer goods of about USD 60 million per year over the same period (Hall and Young, 1997).

Mozambique's external trade policies are designed to create an environment conducive to promoting its products in international markets, especially those in the developed countries of Europe, America, and Asia without prejudice to the promotion of intra-African trade. Trade policies are formulated with view to speeding up Mozambique's industrialisation process, and in such a way to make access to foreign markets easier for Mozambican products. In pursuing these objectives, Mozambique has entered into multilateral, regional bilateral and preferential trade agreements as mentioned in the next chapter below.

Out of aluminium from Mozal, gas from Pande and electricity from Cahora Bassa, Mozambique's export earnings, continue to be generated mainly from exports of primary agricultural products and seafood, including cashew nuts, prawns, cotton, sugar, timber, citrus and others. The major trading partners are South Africa, Portugal, Spain, the United States of America, and Japan. The main imports are intermediate goods and capital goods. As well as energy imports which include mainly electricity and petrol products (MIC, 2003).

Mozambique's total exports, including aluminium, reached US$883 million in 2002. Of these, about USD 62 million went to the group of SADC countries and only USD 3 million went to the group of countries of COMESA that do not belong to SADC (Non-SADC COMESA), as indicated in Figure 7 Mozambique imports with SADC origin reached 708 of a total of 1,419 (about 50%, including imports by mega projects) (MIC, 2003).

Figure 7: Trade Flows with some Partner Countries



Source: MIC, 2003

6.13 Summary of Trade Facilitation Initiatives

Mozambique is a signatory to the WTO - World Trade Organisation, World Bank, the IMF - International Monetary Fund, the Lomé Convention, the SADC - Southern Africa Development Community, IORARC Indian Ocean Rims Association For Regional Cooperation, AGOA African Growth and Opportunity Act, GSP - Generalized Systems of Preferences and a Preferential Trade Agreement with South Africa.

Mozambique has significant but under-exploited market access opportunities in developed countries that provide preferential access to products from least-developed countries. Apart from preferential access under the SADC Protocol, it can access the GSP in the United States and EU, ACP tariff preferences already replaced by EPAs under EU's Cotonou Partnership Agreement or EBA initiative, and the US AGOA.

Mozambique also benefits from preferential tariff treatment from Australia, Canada, Japan, and New Zealand under GSP, India grants preferential access under the Global System of Trade Preferences (GSTP). In 1986, Denmark, Finland, Norway, and Sweden signed the Nordic-SADC accord, which provides market opportunities for SADC-made products on highly favourable terms (MIC, 2005).

The EU's preferential market access programmes for Mozambique are regulated by two main trade arrangements. The EBA initiative and the Cotonou Partnership Agreement (CPA).

The EBA initiative took effect in 2001, providing duty and quota-free access to the EU market for all products originating in beneficiary LDCs. Exempted products include arms, ammunitions, and three sensitive products - bananas, rice, and sugar (MIC, 2005).

The CPA was signed in June 2000 and it provides unilateral preferential market access for ACP countries until 2008, after which it will be replaced by EPAs negotiated arrangements between the EU and the ACP countries. The agreement provides duty- and quota-free access to all industrial products, including oil and mineral products, fish products, and agricultural and processed products. It was granted a waiver from the WTO`s MFN provisions during the Doha Ministerial meeting in November 2001. To secure the waiver, the EU made the agreement more reciprocal. The agreement constitutes a 20-year partnership with 77 countries, including Mozambique and expresses a joint commitment to eradicating poverty, promoting sustainable development, and integrating LDCs into the multilateral trading system (MIC, 2005).

Mozambique was considered eligible to AGOA in October 2000. In mid-July 2004, US President George Bush signed legislation extending AGOA until 2015, thus extending the special rule allowing third country fabric inputs through September 2007. This new legislation (AGOA III) also provides the possibility of technical assistance for eco-tourism and funds assistance from the US Department of agriculture's Animal Plant Health Inspection Service (APHIS) in meeting agricultural products, sanitary and phytosanitary standards (MIC, 2005).

Mozambique exported USD 2.5 million worth of goods under AGOA in 2003. AGOA continues to provide a significant opportunity for Mozambican textile and apparel exporters (MIC, 2005).

6.14. Main Barriers to Mozambique's Trade with Other Countries in the Region

To enhance its export performance, Mozambique must make a number of choices in trade policy. It must strive to achieve more liberal access for its products multilaterally in the WTO, regionally in SADC through EPA, bilaterally with its neighbours, and unilaterally to enable supply responses to the expanding market access opportunities.

The Government of Mozambique must also consider and analyse alternatives in whatever choices it makes. The environment for trade policy is constantly changing and requires flexibility to readily re-evaluate and reprioritise goals. Access to foreign markets for Mozambican goods must be certain and transparent for Mozambique to attract the investment necessary to increase production of export-quality goods.

However, patterns of participation in the Southern African regional economy is characterised by great unevenness and by acute imbalances and disparities. Essentially, the principal pole of accumulation came to be located in South Africa, while the other territories are incorporated in subsidiary roles as labour reserve markets for South African commodities, suppliers of certain services (such as transport) or providers of cheap and convenient resources (like water, electricity and some raw materials). South Africa's visible exports to the rest of the region exceeded imports by a factor of about 4:1. This was a product not only of the stronger productive base of the South African economy, but also of protective tariffs and non-tariff barriers of various kinds, which kept goods produced in regional states out of the South African market. This constitutes one of the exogenous barrier for Mozambique's trade with and within the region.

The larger size and greater capacity of the South African economy compared to those of its neighbours; the weakened domestic productive and export capacity of neighbouring countries, partly as a result of conflict and destabilisation, and the "opening up" of markets of neighbouring countries to imports, partly as a result of liberalisation policies pursued under structural adjustment programmes, are all without doubt contributory factors. So too, it must be acknowledged, are tariff and non-tariff barriers restricting access to the South African market by products from neighbouring countries. (Kalanga, 2005).

It is important to note as one of the barriers that, discussions preceding the adoption of the trade protocol, and subsequent statements by officials from various countries, have made it clear that a major feature of the negotiations envisaged by the protocol is likely to be demands by SADC partners for improved access to the South African market, and that a significant element of asymmetry is envisaged favoring the smaller and more vulnerable SADC economies (Kalanga, 2005).

Generally, SADC countries displayed a cautious approach to intra-regional trade liberalisation in the construction of their tariff liberalisationoffers and schedules. This caution is largely driven by a pre-occupation with 'sensitivity' considerations arising from the desire to offer continued protection to existing domestic industries as well as fears of foregoing tariff revenues. Little consideration appears to have been given to countries' pattern of trade in evolving their tariff offers. Most tariff lines that are zero-rated at the commencement of the implementation process are not traded regionally, and have already very low MFN rates or are subject to rebates. Most countries adopted a formula that resulted in very low tariff being levied prior to reaching zero. When trade-weighted tariffs are below a certain threshold, it is likely that the cost of colleting such duties will be higher than the revenue raised from it. Tariffs below 2%, unless they are on readily observed high value imports, cost more to collect than the revenue they bring in. Yet such a situation is observed in many cases around the end of the official phase down period. These small and inefficient tariffs often extend to the full 12 year period and even up to 14 years in some cases (Kalanga, 2005).

An analysis of the tariff reduction offers[20] reveals the seriousness of the back-loading of tariff reductions. For example, by the end of the fourth year of liberalization, SACU would have only effected 47% of its liberalisationof SADC imports. Tanzania, Zimbabwe and Zambia would have offered 32%, 39% and 37%, respectively to other SADC partners' imports (excluding South Africa). The picture is even worse in the case of Malawi, Mauritius and Mozambique's commitments to other SADC partners' imports (excluding South Africa) ranging from only 12%, 7% and 9%, respectively. The above scenario depicts planned reduction, yet by 2004 some countries had not yet liberalised their Category B items (Kalanga, 2005).

The back-loading of tariff reductions as well as reports that some member states are lagging behind in implementing their commitments remain serious shortcomings that should be addressed, especially if a free trade area has to be realised by 2008 and the RISDP stated goal of the establishment of a Customs Union by 2010 is to be achieved. Experience elsewhere has shown the results of delaying tariff reductions and elimination towards the final years of the implementation period. The reason for such a delay was because of anticipated adjustment costs related to customs revenue and competitive pressures on domestic industries. Unless some measures are being taken to deal with such adjustment costs, spreading the costs of adjustment towards the final phase will not reduce the overall cost and is likely to create a severe adjustment burden. The result will be demand for continued protection and derailment of the integration process. It is advisable that, as part of the mid-term review, SADC Member States realise this risk and consider a fast-tracking of tariff reductions (Kalanga, 2005).

Both economic theory and empirical evidence suggest that the nature and application of Rules of Origin have profound implications on the competitiveness of domestic producers, on consumer welfare, trade and investment. It is now recognised that restrictive Rules of Origin limit the potential benefits of preferential market access. Rules of Origin are

[20] SADC Trade Protocol Project, 2001 If a country's trade weighted tariff rate is 20% at the beginning of the liberalisation process, and it falls to 10% after four years, it is concluded that it has achieved 50% of its planned tariff reductions by the end of four years ((20-10)/20 = 50%). This may not be true in practice since this will depend on the extent to which Member States are honoring their implementation commitments. It has been reported that some Member States are not on schedule in implementing their commitments.

regarded as the prime suspects for the low levels of utilisation of the preferential access to the EU by least developed countries (Kalanga, 2005).

Rules of Origin has also been found to be one of the fundamental causes of the under-utilisation of EU preferences under the Generalised System of Preferences (GSP), the Lome Convention and the Cotonou Agreement. The recent performance of some countries benefiting from US Africa Growth and Opportunity Act (AGOA), which offers them duty-free market access for some products, including clothing items points to the positive effects of less restrictive rules of origin. (Kalanga, 2005).

6.15 Memberships in Various Regional Integration Initiatives

Regional initiatives are specific product at the geopolitical market of Africa, and their proliferation is a sign of existing demand and necessity. They are backing the region in different frameworks searching for the most appropriate one. Most of them are temporary, post-conflict, bridging the political and economic gap in Africa.

Regional initiatives gave impetus to regional integration, creating positive momentum for trade liberalisation, foreign direct investment promotion and private sector sustainable development in Africa. To a certain extent, they compensate for the declining share of the region and individual countries in the global economy, being a vehicle to enlarge individual country's markets and constituting a path for achieving greater international competitiveness. Open regionalism in Africa could be a compensation of some deficiencies of the globalisation process providing ground for development of missing geographical and ethno-cultural dimension, although through differentiated configuration of each specific initiative.

Combining member states at different level of social and economic development, regional initiatives provide transfer of know-how, sharing of good practice, assistance in infrastructure and economic development, thereby creating environment for collective prosperity. They facilitate the development of trans-border projects and attraction of international financial resources, mediating between those who need assistance, and those who could provide or finance it.

However, Regional initiatives and forms of multilateral co-operation have not to date, really helped Mozambique and some other members states to ensure integration into the SADC or to change the political, economic or social environment in the region in a more essential manner. Other weaknesses of memberships in various regional initiatives are:

- Work programmes are similar and cover the same fields;
- Lack of clear goals and work plans;
- Insufficient influence of the member countries on the process of shaping various initiatives and planning projects;
- Dominant influence of administrative structures - "top-down" not a "bottom-up" nature;
- Orientation towards the holding of meetings instead of project activities;
- Vast and sometimes unclear mechanisms;
- Numerous structures that have not found optimal ways to co-operate in common areas (duplication and overlapping);
- No financial resources of its own;
- Administrative procedures of the international finance institutions that considerably slow down the process of final disbursement of funds for projects;
- Concrete results achieved are less visible than expected;
- Growing number of same countries have become participants of different initiatives;
- Initiatives have more or less the same partners in Southern Africa and international organisations; and
- Insufficient administrative experience of the member states, etc.

Mozambique is member of SADC and the Growth Triangle Initiative involving Zambia, Malawi and Mozambique. Recently, the country study was conducted to consider the costs and benefits of joining SACU, but unfortunately no results have been obtained yet. If it joins, it would no longer have its exports to South Africa circumscribed by SADC's stringent Rules of Origin.

6.16 Impact of WTO Rules

The open-ended results of the Uruguay Round negotiations reflect how low instruments can be framed to protect interests under a rule-based system, sometimes even at the cost of FTA. Reflections on such open-ended results are found in "WTO-rules". The term "WTO-rules" is generally used in the WTO parlance to signify certain agreements or provisions, for example, Agreement on the Application of Sanitary and Phytosanitary Measures (SPS), Technical Barriers to Trade (TBT), etc. vis-à-vis market access.

Taking into account that the Rules of Origin in SADC need to be harmonised with the objectives set out in article nine (Harmonisation of Rules of Origin) of the Legal Texts of WTO. Mozambique, because of its small size compared with South Africa in the region has very little to offer to trading partners and thus has virtually no influence in gaining market access under current WTO process. Furthermore, the mercantile fiction underlying WTO negotiations might actually divert and delay efforts to pursue domestic reforms. Special and differential status conferred on poor countries like Mozambique might provide a further excuse to delay domestic reforms. The main potential value of the WTO would be in:

- Improved market access to external markets, almost all of which will be achieved regardless of Mozambique's participation; and
- Any leverage the process confers on domestic liberalisation efforts.

As a WTO member, Mozambique benefits from the certainty and transparency governing the exchange of goods and services across national frontiers. The WTO creates rights and obligations between Mozambique and its trading partners, provides dispute settlement procedures for enforcing rights, provides a forum for negotiating market access, and ensures transparent policy through notification requirements and review procedures (DTIS, 2004).

The most important benefit Mozambique might gain from the WTO process would be to bind current tariff rates in order to remove the temptation and the ability to improve arbitrary tariff surcharges in response to domestic protectionist pressures. The binding of rates in this fashion might also gain some credit for Mozambique in bargaining for key market access concessions from others (Flatters Frank, 2002).

Multilateral rules should not impose obligations that are inconsistent with national poverty reduction strategies. These strategies should incorporate best international practices adapted for local conditions and shaped through democratic and participatory political process in particular the right of developing countries to protect agricultural producers against unfair competition from exports that are subsidised in rich countries should be respected in WTO rules (Human Development Report, 2005).

In some areas, WTO rules threaten to systematically reinforce the disadvantages faced by developing and less developed countries, such as Mozambique[21], and to further skew the benefits of regional and global integration toward developed countries. An example are the rules limiting the scope for poor countries to develop the active industrial and technology policies needed to raise productivity to succeed in world markets.

In the WTO negotiations on services, rich countries have sought to create investment opportunities for companies in banking and insurance while limiting opportunities for poor countries to export in an area of obvious advantage: temporary transfer of labour (Human Development Report, 2005).

The Doha Round of WTO negotiations provides an opportunity to start aligning multilateral trade rules with a commitment to MDGs. The unbalanced agenda pursued by rich countries and failure to tackle agricultural subsidies are the core of the problem, which Mozambique and other poor SADC countries are now facing.

Even the best trade rules will not remove some of the underlying causes of inequality in the world as well as in the SADC trade. Persistent problems such as weakness of the infrastructure and limited supply capacity need to be addressed. The emergence of new trading structures poses new threats to more equitable trade particularly in agriculture. Supermarket chains have become gatekeepers to agricultural markets in rich countries, linking producers in developing countries to consumers in rich countries. But smallholder farmers are pushed out of the "game".

[21] Mozambique is LDC country

Creating structures to facilitate the entry of small farmers into global marketing chains on more equitable terms would enable the private sector to play a crucial role in the global struggle against poverty in Mozambique.

Article 6 of the Trade Protocol provides for the elimination of all existing non-tariff barriers (NTBs) on intra-SADC trade and for refraining from introducing new ones. Article 7 calls for the phasing out of all existing quantitative restrictions (QRs) on imports and exports originating in and destined to the other Member States, and that no new restrictions are to be introduced. Article 9 allows for imposition of QRs on imports and exports for the protection of public morals, human, animal or plant life and health, maintenance of public order and protection of national treasures and cultural property. Article 16 deals with sanitary and phytosanitary (SPS) measures, which should be harmonised and based on international standards and in conformity with the WTO Agreement on SPS. Technical barriers to trade (TBT) should also be guided by the WTO TBT Agreement (Kalanga, 2005).

6.17 Labour Market Policy Framework

The study's employment index[22] shows that Mozambique has a more highly regulated labour market than all of the ten most regulated countries in the world (Table 21)

Two studies of Mozambique's Labour Law (Decree 8/98 of 20 July and other decrees) observe that the law offers unusually generous protection for workers (SAL, 2003 and Levy Sam, 2002). As one of the consequences this translates into unusually high costs for employment. Moreover, the high standards of protection only apply to very few workers (those in the formal sector), and discourage new formal hiring (DTIS, 2004). The Labour Law has been revised and seems that it is now more flexible and clear, and therefore, easier to obey and administer. The most important sectors in terms of formal employment in Mozambique include trade, hotel, restaurants, manufacturing, construction, services, agriculture and motor vehicle services.

The informal sector employs the largest share of workforce. Therefore, training is particularly needed to prepare young people for

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22 Composed of indices gauging flexibility of hiring, conditions of employment, and flexibility of firing

gainful employment including self-employment in the informal sector. Until 2010, 450,000 to 500,000 young people are expected to enter the labour market in Mozambique annually with different levels of educational attainment (World Bank, 2004).

The World Bank's Investment Climate Assessment found that overall, the private sector's attitude towards investing in training is rather ambivalent. Most employers saw no need for further training of their workforce. While large companies with state-of-the art technology indicated preparedness to set aside means for training of their workforce. This is not the case for many medium and small enterprises that have not been able to invest in new production equipment and are struggling to stay in the market. (World Bank, 2004)

Table 21: Investment Climate Indicators:
(Mozambique versus World's Most Regulated and Least Regulated Countries)

Countries	Hiring and Firing Workers	
	MOST REGULATED	
	Employment Law Index	Flexibility of Firing
1. Azerbaijan	.67	.30
2. Belarus	.79	.73
3. Bolivia	.64	.57
4. Burkina Fasso	.53	.23
5. Cameron	.50	.45
6. Ecuador	.60	.67
7. Madagascar	.65	.56
8. Mexico	.65	.71
9. Niger	.73	-
10. Philippines	.56	.57
11. Mozambique	.77	.71
	LESS REGULATED	
1. Jamaica	.39	.13
2. Denmark	.30	.12
3. UK	.34	.20

Source: World Bank Washington, DC 2003
"Doing Business in 2004"

6.18 Analysis of Labour Market Trends

It is estimated that Mozambique has a total work force of approximately 9.6 million persons, of which an estimated 56% corresponding to 520,000 are employed are in the formal sector. 95% of the total labour force depends on the informal sector for its subsistence, while an estimated, both public and private sectors. In the formal sector, large enterprises dominate in terms of employment, while small enterprises (1-9 employees) account for a great majority of registered enterprises (IMF Country Report, 2002).

Almost one quarter of all jobs in the formal sector are found in trade/commerce, while some 40% are engaged in government services such as education, health and general public administration. Agriculture dominates the informal sector. With the exception of large companies in partnership with foreign investors, employment tends to be stagnating in the private formal sector. However, some sub-sectors show signs of growth, for example, construction, tourism, processing of forestry products, and manufacturing of certain specialised items. Overall, the Mozambican workforce is very poorly educated and has limited skills. Half of the population has no education at all or only basic literacy skills, while slightly above 40% has primary education. Merely 7.5% has achieved secondary or tertiary education and only 0.5% of the population has a post secondary degree. Access to education system is highly unequal with significantly less chances for girls and people who dwell in the rural areas (IMF Country Report, 2002).

In term of demand characteristics, Table 22 indicates that the Mozambican economy of GDP has undergone quite substantial structural changes as a result of the rapid growth. Most remarkably is the relative decline of the agriculture sector, which continues to provide livelihood to two thirds of the population. Its share of GDP fell from 30 to less than 20% between the mid-nineties and 2001. The manufacturing sector is not very diversified with food/beverages accounting for 38% of the production, and aluminium production (especially Mozal) for another 23%. Other important manufacturing sub-sectors, such as textile/garment and footwear tend to be stagnating (IMF Country Report, 2002).

Table 22: Structure of the economy in % of GDP, 1996-2001

	1996	1997	1998	1999	2000	2001
Agriculture	30.5	30.2	27.2	25.4	20.2	18.8
Fishing	4.0	3.9	3.0	2.5	2.0	1.9
Industry	16.0	17.4	21.5	21.8	22.7	24.8
Mining	0.2	0.3	0.3	0.1	0.2	0.3
Manufacturing	8.7	9.6	11.0	11.0	11.3	10.7
Electricity/Water	0.5	0.8	1.9	3.0	2.4	2.1
Construction	6.6	6.7	8.3	7.7	8.7	11.7
Services	49.5	48.5	48.3	50.3	55.1	54.4
Commerce	23.2	22.5	21.5	21.1	20.3	17.2
Repair Services	0.6	0.6	0.8	0.8	0.9	0.7
Restaurants & Hotels	0.8	1.2	1.1	1.2	1.4	1.1
Transport/ Communication	8.6	8.9	9.2	10.2	12.6	16.0
Financial Services	3.7	3.2	2.6	2.1	4.0	4.3
Real State Services	2.7	2.6	2.4	2.2	1.9	4.6
Government Services	4.4	4.5	5.1	6.8	7.1	7.1
Other Services	4.1	3.7	4.3	5.1	6.0	5.6

Source: Mozambique, IMF Country Report No 02/139, 2002

Findings from the 2002 establishment census by the National Statistics Institute (INE) indicate that the formal business sector is comprised of 28,870 enterprises, providing employment to 301, 000 people of which 85% are individually owned companies.

Table 23: Companies by Size (Formal Sector)

	No Enterprises	%	No Employees	%	Capital (109 Mt)	%
SMALL						
0-1	10,648		10,579		3,218	4.8
2-4	12,426		31,984		6,548	9.9
5-9	2,779		17,586		6,186	9.3
Total	**25,856**	**89.5**	**60,149**	**20.0**	**15,952**	**24.0**
MEDIUM						
10-19	1,330		17,392		2,998	4.5
20-49	950		28,248		4,833	7.3
50-99	341		23,436		3,818	5.7
Total	**2,621**	**9.1**	**69,076**	**22.9**	**11,649**	**17.5**
LARGE						
100-199	202		27,403		5,541	8.3
200-499	120		36,244		4,876	7.3
500-999	43		29,015		20,815	31.3
1000 +	31		79,258		7,710	11.5
Total	396	1.4	171,920	57.1	38,842	58.5
Grand Total	28,870	100.0	301,145	100.0	66,444	100.0

Source: INE, Resultados Finais do Cempre, 2002

Note: The figures do not include public administration and non-profit organisations

Employment opportunities in the formal sector as well as salaries increase with the level of education. Therefore, appropriately skilled and qualified workers are highly needed in the Mozambican economy (World Bank, 2004).

Although the business-enabling environment has improved in recent years, cumbersome regulations and procedures still impose heavy costs on business. Small and medium-sized enterprises-producers with significant potential for export growth have been especially disadvantaged by Mozambique's burdensome system of approvals, licenses, and levies that impede market entry and raise the costs of doing business.

Mozambique's labour laws are not in accord with international norms and seriously impede job creation in the private sector. Mozambique has a more highly regulated labour market than nine of the ten most regulated countries in the world (DTIS, 2004).

6.19 Key Labour Market Policy Issues for Deepening SADC Integration

Improving labour market responsiveness to technical vocational education and training (TVET) is one of the relevant and key issues to deepening SADC integration. Comprehensive systems of national manpower forecasting and planning, which were put in place during the 1970s to inform education and training policies, failed to produce the desired results. Also less ambitious labour market monitoring and observatory systems have in many countries exceeded the implementation capacity of national authorities.

With exception of Mauritius, the World Bank study on skills development in Sub-Saharan Africa could not identify a single example of good practice for national labour market in Africa. More promising approaches of labour market assessment have been tried out at decentralised levels whereby training institutions developed flexible mechanisms and tools to:

(i) Understand the economic environment in and for which they operate;
(ii) Maintain permanent dialogue between the Government (or other institutions) and business community e.g. through business associations, such as the case of Mozambique; and
(iii) Create "panels" of local informants with good knowledge of local employment opportunities and skills need (World Bank, 2004).

The feasible options available in Mozambique to improve the labour market towards SADC integration include:

- Decentralisation of decision-making about training courses and contents to the level of training institutions, including capacity building;
- At the national level, introduction of expert and employer panels to discuss priority areas, complemented by selected sector and this is to be included in the planning process; and
- Systematic involvement of employers in all planning process and implementations tasks, preceded by capacity building activities of employers.

With the operationalisation of various SADC Protocols, it is clear that there could be many firms / sectors / regions / portions of the labour market (e.g. women) in the Mozambican economy that could experience severe difficulties in adjusting to the increased penetration of the Mozambique market by SADC products. Should this happen, substantial number of workers could lose their jobs. It would be patently unfair for workers should have to take the brunt of the effects of the regional integration. It has been proposed that Government immediately identifies those sectors of the economy that would be particularly vulnerable to the effects of this process of deepening SADC integration. This would enable strategies to be implemented in these vulnerable sectors to assist them to adapt, or soften the impact, etc.

Interrelationships Between Labour Market Policies and Other Macroeconomic Policies

According to the OECD definition, labour market policies operate directly in the labour market and are targeted to individuals with employment difficulties. They include: job search assistance (public employment services), provision of training (training programmes such as classroom training, on the job training, work experiences), subsidisation of job creation in the private sector (such as subsides to employers or financial incentives targeted to the unemployed for business start-ups), and temporary job creation in the public sector. These interventions may be aimed at people already in work who are adapting to changing work conditions, or at the unemployed, particularly specific target groups such as women, the long term unemployed, young people, disabled people, people who need to improve their employability. Development and promotion of Active Labour Market Policies (ALMP) in order to fight against and prevent unemployment, avoid the long-term unemployment, facilitate the re-entry of the long term unemployed in the labour market and sustain the participation in the labour market of young people and re-entrants.

The question of which institution is chairing the ongoing reform process in the labour market in Mozambique is important in order to avoid the creation of hierarchies and imbalances between the different provider institutions.

In order to harmonise the labour market policies and other macroeconomic policies, a phased work plan reflecting priorities and feasible macroeconomic policies should be elaborated.

While the overall policies framework are rather in the medium and long-term processes, immediate interventions are needed to improve the quality efficiency, and relevance of the current labour market policy.

In order to evaluate ex-ante the possible effects of ALMP, it is useful to consider:

- If and how the needs/problems to be addressed by the policy have been assessed (this implies an analysis of the labour market in which the policy will be operating);
- If, according to the available theoretical models, the planned interventions may answer the problems/needs of the (local) labour market;
- What are the expected direct and indirect, positive and negative effects of the policy and the expected costs?

Theoretical justifications for the provision of labour marker derive both from equity and efficiency reasons. Equity and redistributive reasons are at the basis of targeting these policies to the most disadvantaged in the labour market, as the lack of employment appears to be one of the major pathways to poverty in Europe. Efficiency arguments are based on the mobilisation of labour supply both in quantitative and qualitative terms that may improve the functioning of the labour market and increase productivity without increasing wage pressures.

According to economic theory, labour market policies may have other indirect effects:

(i) Inactive individuals may be induced to participate, so that increasing employment due to ALMP may not produce a decline in unemployment;

(ii) Job search may be reduced during participation in these programmes (especially in the case of training programmes, or temporary jobs in the public sector) and

(iii) Wage pressures may increase if these measures are perceived as reducing costs associated with unemployment.

Cost-benefit analysis could help the ex-ante definition of the likely welfare changes and externalities resulting from labour market programmes which may help in decision making and evaluation design. In addition, cost-benefit analysis provides a methodological tool when choosing from different policy alternatives.

At the aggregate (macro) level, the wider repercussions of an intervention, such as, those on suppliers of recipient firms, or the increased purchasing power of assisted individuals should be estimated when this is feasible. Interactions between labour markets and other types of markets (i.e. goods, services or financial markets) or markets outside the geographical area of intervention should also be taken into account. Furthermore, synergies should generated between labour policies and other macroeconomic policies.

7 Social Impact Analysis

The social impact analysis of Government policies is based mainly on information from the indicators below (Table 24). Wider focus has been given to the evolution of the per capita income (GDP per capita), employment growth, and life expectancy from birth, child mortality rates, and education indicators. Poverty incidence is at the centre of attention being the government's prime objective. We shall make a brief description of the country's current status per the referred indicators, and in the next session evaluate the possible evolution of the same in light of variations in the macroeconomic scenario, either as a result of the SADC regional integration or even of Government internal policies.

Table 24: Mozambique Social Indicators

Indicator	1997	2003
MDG Indicator		
Population living below the national poverty line (%)	69.4	54.1
Underweight children under five years of age (%)	26.0	23.7
Net Enrolment Rate in EP1 (%)	44	69.4
Ratio of girls to boys in EP1	0.71	0.63
Under-five mortality rate per 1,000 births	219	178
Maternal mortality rate (per 1,000 live births)	1500	408
HIV/AIDS prevalence among adults (15-49)	8.2	13.6
Other Indicators		
Population size (million)	16.1	18.5
GNI per capita ($USD) atlas method	220	210
Gini coefficient (income inequality)	0.44	0.52
Life expectancy at birth (average years)	42.3	37
Adult Literacy (%)	39.5	46.4
Unemployment (%)	21	_
Human Development Index	0.318	0.354
Tertiary Education Attainment Rate	0.4	0.5
Poorest 5th of the Population Share on National Income	6.5	
Population with Access to Safe Water	24	37

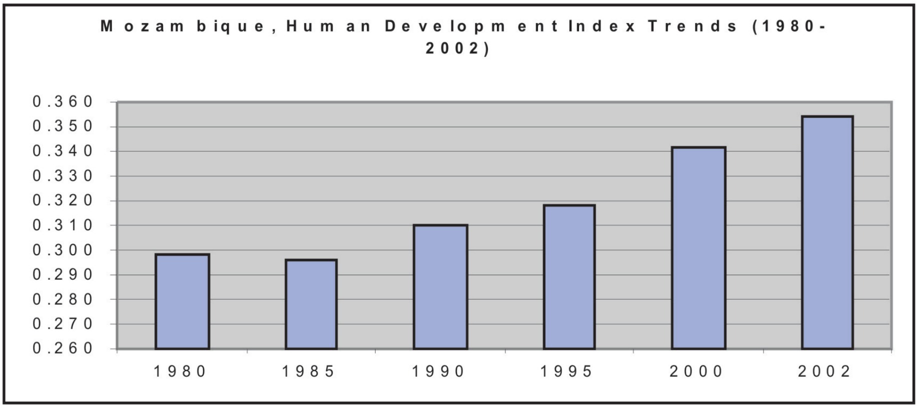
Source: Mozambique and UNDP (2004)

GNP per Capita/GNI per Capita (in USD Purchasing Power Parity): In 2002 the GNI per capita stood at USD 215, although the per capita income has known a positive behaviour in recent years, it is still among the lowest of the world and even of the region, excluding Malawi.

Employment and Unemployment Trends: Estimates on employment in Mozambique are very scarce. A survey is currently underway and should provide official data on this variable. However, the cross data from different sources allows us to estimate the unemployment rates at 21%, and according to the same sources, about 81% of the population works in agriculture, 6% in industry and about 13% in services (Population Census 1997).

Human Development Index Trends: Mozambique is ranked 168 position in the Human Development Index (2005), one of the world's lowest.[23] However, the country has been showing considerable improvements, with the HDI evolving positively in recent years (Figure 7).

Figure 7: Human Development Index



Source: HD Report, 2003

Life Expectancy: Life expectancy, like other social indicators, remain very low and with a declining trend. Life expectancy from birth decreased from 41.1 years (1975) to about 38.1 (2000). The spread of HIV/AIDS is one of the main explanations for this negative trend.

[23] Data from this table and this section is drawn from UNDP (2005) and Mozambique and UNDP (2005), unless otherwise stated.

Under-Five Mortality Rate: Although still high, there is a reduction of under-five mortality rates. In 1997 Mozambique had an under-five mortality rate of 219 per 1,000 live births, which reduced to 178 in 2003.

HIV Prevalence in the Adult Population: The HIV/AIDS pandemic is an extremely important issue given its high incidence levels. Recent data show an incidence rate of 15.6% among the adult population, with about 500 new infections every day.

Adult Literacy Rate: Mozambique still presents very high illiteracy rates. About 54% of the adult population is illiterate.

Net Primary Enrolment Rate: The levels of primary education remain very low (65.8 in 2003). Furthermore only 38.7% (Mozambique and PNUD 2005) against 39% (2001) of the student population conclude the primary cycle. The United Nations set as target a net enrolment rate of 100% by 2015, in order to guarantee universal education for all children:

Tertiary Education Attainment rate: Higher education completion rates remain very low, with levels below 1% in recent decades. Data for 2003 show a 3% rate, with most higher education students being men (0.5%) against women (0.2%).

Incidence of Poverty (Percentage of the Population Living on less than USD 1 per day): Mozambique registered a positive change in terms of poverty incidence in the last five years. In 2003, about 37, 9% of the population lived on USD 1 per day, against 64% of 1999. Among the determinant factors for poverty incidence reduction are; (i) household agricultural production, (ii) increased delivery quality of education and health services (due to strong government investment in these areas), (iii) improved infrastructures (roads, water and energy); (iv) strong international community support.

Poorest Fifth of Population's Share of National Consumption: In 1995 the poorest population quintile had access to only 6.5% of the national income. The 2003 evaluation shows an unbalanced distribution of wealth, with GINI passing from 0.40 (1997) to 0.52 (2003).

Percentage of Population with Access to Safe Water: About 43% of the population has no access to a safe potable water source in Mozambique. The MDG target for this variable requires a reduction by half the number of people without access to potable water in 2005.

7.1 Analytical Tools Used for Social Impact Assessments

The social impact analysis used in this study follows the standards of the methodology developed by the World Bank (2003), namely:

- What is being analysed?
- What is the welfare measure being assessed?
- Whose welfare is being assessed?
- How are the impacts being channelled?
- How the institutions affect the outcomes?
- When do impacts materialise?
- What are the risks of an unexpected outcome?

Concretely, this study intends to analyse the socio-economic impact resulting from the materialisation of the regional integration convergence targets defined by SADC. We shall use two measures to evaluate the impact. That impact will be evaluated by monitoring a social indicator (incidence of poverty) and an economic indicator (GDP growth rate) as of the policies adopted for convergence in the SADC region. The Government policies and programmes are designed specifically for the materialisation of these objectives - reduction of the high levels of poverty incidence and promotion of rapid economic growth, based on private sector development. We shall identify possible risks, which can contribute to the non-materialisation of the expected impacts.

7.2 Social Impact Assessment

The Social Impact Assessment follows the priority areas as defined in the SADC-RISDP.

Poverty Eradication

Overall Goal: The SADC goal is to promote sustainable and equitable economic growth and socio-economic development that will ensure poverty alleviation with the ultimate objective of its eradication. The target of halving the proportion of the population that lives on less than USD 1 per day between 1990 and 2015 as defined in the RISDP has been already achieved. Currently about 30% of the population lives with less than USD 1 a day in Mozambique. The national poverty line states that more than half the population (54.1%) continue living in absolute poverty. Projections indicate that the poverty incidence rate could be at about 28% (World Bank 2005)

For both indicators, Mozambique could attain the objectives defined for SADC's convergence. However, some important challenges lie ahead for the materialisation of this objective, namely:

- Need to maintain the current high levels of economic growth the country has had in recent years;
- Improve the effectiveness of foreign aid;
- Rapid urban population growth without the necessary correspondence in terms of infrastructures and income opportunities;
- High vulnerability to external risks, including natural disasters (MPD and UNDP, 2005).

Combating the HIV/AIDS Pandemic

SADC Targets: The spread of HIV/AIDS to be reduced by 2007 and the prevalence of HIV particularly among young men and women to be reduced by 25% in all Member States; The proportion of infants affected by HIV to be reduced by 60% by 2015 in all Member States.

The HIV/AIDS incidence rate among the adult population (15-49 years) has known a worrying increase. From about 8.2% (1998) to 13.6% (2002), and is currently at about 16.2% (2004). About 500 new infections occur in Mozambique daily (2004). The government objective in this context is to reduce the number of new infections from the current 500 per day to 350 (2009) and 150 (2015) (MPD and PNUD 2005).

There are no reliable statistics on the incidence of AIDS among children. The only available figures refer to the evolution of the number of children orphaned by AIDS. In 2003 the number of orphans due to AIDS was estimated at 225,000, with projections indicating that by 2010 over 626,000 children will be orphaned as a result of AIDS. The issue of concern is the fact that primary school attendance rate of orphan children is low compared with the other group of children. In 2003, the attendance rate of orphan children (10-14) was 62%, compared with 78.4% among non orphan children (MPD and PNUD 2005).

The main challenges in the fight against HIV/AIDS are highlighted:

Political leadership - that guarantees the implementation of the National Plan for the Struggle against AIDS, through an efficient coordination at all levels - national, provincial and district. The fight against AIDS is set as a national priority in Mozambique, which is manifested by the fact that the National Council for the Struggle against AIDS (CNCS) is headed by the Prime Minister;

Growing number of orphans and vulnerable children due to AIDS -the increase of this group of children is of major concern since they have less opportunities to access education and health;

Gender inequalities and inequities - the high incidence of poverty and low school attendance among women does not allow them to efficiently protect themselves or to have a wider access to care;

Need for improved funding mechanisms and greater harmonisation - between donors;

Lack of a coordinated multi sector response - the CNCS needs to coordinate and harmonise the sectoral efforts for the combat against AIDS. Although some sectors have already approved their respective strategic plans, there is a need to support the remaining sectors in this effort and integrate these strategies into the national programme for the fight against AIDS;

Insufficient prevention of vertical transmission from mother to child and treatment of AIDS - although there has been an increase in the number of centres providing support in vertical prevention from mother to child, the level of activity is still not proportional to the problem;

Limited civil society involvement - the interventions from various organisations have not been extended to the rural areas in an efficient manner, making it difficult to identify solutions at local level.

Gender Equality and Development

The overall goal is to facilitate the achievement of substantive equality between women and men in the SADC region, through mainstreaming gender into all national and regional policies, programmes and activities, and the adoption of positive measures to accelerate progress in this regard.

Gender disparities are still a very strong reality in Mozambique. In recent years, the Government of Mozambique adopted various measures to reduce these disparities, as one of the ways of reducing the high levels of poverty incidence. Latest statistics show that women remain highly disadvantaged, particularly in the area of access to education. At primary level, the disparities have gradually been reduced. The ratio of girls to boys has improved from 0.71 (1997) to 0.83 (2003). The scenario is slightly different at higher levels. For example at the second grade primary level (EP2) and secondary level, the ratio has not registered changes since 1997 (about 0.67). This situation shows that the country is unlikely to eliminate the gender disparities at the primary and secondary levels by 2015.

Although the country has been registering improvements in literacy rates, the incidence of illiteracy remains much higher among women than men (68.8% versus 36.7%). This disparity is more significant and sharper in rural areas than in urban settings.

In terms of access of women to empowerment and decision making, there are substantial improvements. Mozambique ranks second in Africa (after Rwanda), and is among the top twenty performers in the world in terms of women in parliament whose ratio has been improving positively in the last decades: 16% (1990), 25% (1997), and 30% (2000). Currently there are 35% of women in the parliament following the recent elections of 2004. The new cabinet that was announced in February is led by a woman (Ms Luisa Diogo), who also served as Ministry of Planning and Finance in the last government. Six of the ministries are headed by women and there are 4 women Vice Ministers. At the local government, there are two women governours. Mozambique has been successful in promoting women to decision making positions at the central level, but has not been able to spread that trend to the local government, as can be seen from the very weak level of women participation at the municipal and district governing bodies.

Many challenges lie ahead towards the fulfilment of the goals in this area, and these include:

- Little attention paid to the education of girls;
- High incidence of HIV/AIDS infection among girls and women;
- Conflict between formal and traditional education;

- High education costs (despite the abolition of fees);
- Security issues, due to long distances to school, sexual harassment and abuse by teachers and female colleagues, lack of female board-housing;
- Poor participation of girls and women in technical and professional education, particularly in high demand non-traditional employment areas; and
- Inadequate institutional support for gender promotion, particularly in the private sector, namely in policy promotion that prioritise gender.

Trade, Economic Liberalisation and Development

The overall goal of this intervention is to facilitate trade and financial liberalisation, competitive and diversified industrial development, and increased investment for deeper regional integration and poverty eradication through the establishment of a SADC Common Market.

We have indicated in section IV of the study that the biggest problem for Mozambique regarding the convergence matrix of indicators include the budget deficit (% GDP) and the percentage of domestic savings rates areas where the likelihood of meeting the targets defined in the memorandum are very poor.

Mozambique has signed almost all of the SADC Protocols under Trade, Finance and Investment, namely the protocols on mining, the Memorandum of Understanding on Cooperation, Standardisation, and Macroeconomic Convergence. The country is committed and is working towards the fulfilment of the requisites for a useful integration. The tariff rates applied to import have been cut down drastically, and according to a recent World Bank estimate, the average tariffs are around 9.4%.

The Mozambican financial system is still young, small, bank based, foreign owned and highly concentrated (IMF 2001). Although a great deal of reforms were conducted in the financial sector in recent years a lot more remains to be done, namely in the areas foreign currency management, greater Central Bank independence, payment systems, banking supervision, legal instruments to regulate credit concession, capital markets and insurance, and money laundering prevention mechanisms. Under the ongoing reforms, the country needs to satisfy the requisites in the financial system area in the perspective of regional integration. The reinforcement of the Bank of Mozambique payment system is underway.

Also underway are reforms in the legal sector in order to improve the credit concession environment. One of the biggest obstacles cited by Mozambican companies is high cost of credit and the difficulties for its access. The difficulties in recovering bad credit have been constantly pointed one by the financial sector as a factor behind excessive conditionality for credit. The main reforms towards a safer credit market include: (i) develop out-of-court enforcement procedures or summary enforcement procedures; (ii) modernising and linking the Mozambican property registries electronically; and (iii) over the long term, increase the category of property eligible as security (MPD 2005a).

Last year, a new law regarding microfinance issues was approved. Micro financial institutions in Mozambique are gradually increasing their share in terms of credit to the economy. Women have the relevant share in the credit portfolio of those institutions. Microfinance programmes in Mozambique have mainly targeted urban female groups, most of them are pursuing service activities (vending and other types of services) in the major urban areas.

Infrastructure Support for Regional Integration and Poverty Eradication

The overall goal of infrastructure support intervention is to ensure the availability of a sufficient, integrated, efficient and cost effective infrastructure system that will support and sustain regional economic development, trade, investment, and agriculture thus, contributing towards poverty eradication.

Energy: Mozambique is the second most important energy source in the region after South Africa, thanks to the Cahora-Bassa hydroelectric dam in Tete province and the Natural Gas Project in Inhambane. Mozambique is a stakeholder in the Southern Africa Power Pool (SAPP) aimed at providing energy to all SADC countries. Cahora-Bassa has a nominal capacity of 2.000 MW and its electricity is currently available for domestic and regional consumption.

Eskom and EDM (Mozambique Power Generation Utility) are partners in a project named NMPD (Northen Mozambique Power Development Initiative) with the goal of exploring opportunities for developing energy-related projects in the centre and north of Mozambique. One of the projects under consideration is the building of a new dam downstream the Zambezi river (Mphanda Ncua HidroPower with a nominal capacity of 1.200 MW).

Mozambique is currently reviewing the legislative framework in order to allow private participation in the energy sector. The Government is concerned with the promotion of private investment in energy, particularly in small scale projects aimed to improve households access to modern energy (including electricity, natural gas and liquidities petroleum gas). Since the potential of the public sector in terms of financial resources is very limited, increasing private participation in the energy sector is essential. Currently less than 10% of the homes have access to electricity.

Tourism: Mozambique has already signed and ratified the SADC Tourism Protocol. The tourism sector has been one of the most vibrant in recent years. New investments are taking place and the number of visitors is increasing. Mozambique, along with Swaziland, South Africa and Botswana are developing joint projects such as trans frontier parks.

Transport and Communications: The area of transport and communications in Mozambique is mostly liberalised, with private participation in many areas. The Government of Mozambique has signed concession and management contracts for the country's key railways and ports. There are private investors also in the airline industry. The N4 Maputo Witbank highway was the most important achievement in the public private partnership, where TRAC was granted a 25-year concession under the BOT arrangement.

On the other hand, many steps have been taken in order to remove barriers to cross- border movements. In early 2005, Mozambique signed agreements for visa abolition with South Africa, Botswana, and last August with Swaziland.

Other activities scheduled by the Mozambican authorities include (2005-2009): (i) the restructuring of the TDM (Mozambique Telecommunications) by selling government shares in the company; (ii) complete the telecommunications backbone in the country.

Water: Nearly 40% of the population does not have access to drinking water. The situation is more critical in the rural areas where only 24% have access to the precious liquid. In urban areas, the scenario is much better with an access ratio of about 76%. The Government is committed to increasing the national access to water to 60%.

The other side of the problem in this area has to do with the low storage capacity that has effect in the cyclical draughts and floods. There are only five dams, and their total storage capacity is still very low by international standards. Important reforms are underway in this sector, allowing participation of the private sector in water supply to both urban and rural areas. At institutional level, the country has been developing strategies aimed at increasing the national water storage capacity - e.g. building new dams, or improving dialogue and coordination with regional water authorities.

Food security and vulnerability

Food security and vulnerability continues to be a serious issue in Mozambique because of low levels of agriculture productivity. Although there has been an increase in the agricultural production in recent years, this is due more to extension of new areas instead of improvement in efficiency. More than 90% of the agriculture production comes from the families sector, while and the level of technology including the use of fertilizer is almost null. The government strategy includes the provision of technical assistance and improved management techniques at the household level and the promotion of drought tolerant crops.

The main causes of vulnerability in Mozambique were identified as drought, floods, cyclones, and combined effects of chronic poverty and HIV/AIDS. The country's food security strategy is affected by lack of financial resources.

Human Development Index

In Mozambique, the human development index has been improving. The country has climbed three steps according to the latest UNDP Report (2005), although it is still in the group of countries with the lowest HDI (0.379). This low level of HDI is as a result of the poor ratios in education and social indicators.

Labour Productivity: The low level of labour productivity in Mozambique is still one of the factors that hinders growth and can be a restriction to investment attraction. The new focus adopted by the Government Programme for 2005-2009 includes scaling up investment in technical and vocational education and other training alternatives (Mozambique 2005b).

Science and Technology: The low level of technology development is one of the factors explaining the higher rates of poverty. The country fully recognises the importance of a science and technology policy as an element to accelerate economic growth. The Government strategy for this sector is divided into four areas, (i) scientific innovation, (ii) technology transfer and innovation, (iii) information and (iv) communication technologies. The Science and Technology Plan of Action will be approved before the end of 2005. Despite the low level of technological development, some institutional frameworks have been put in place, e.g. the newly established Intellectual Property Institute.

Statistics: The National Institute of Statistics (INE) has been participating in the harmonisation of the statistical data, collection and processing. The institutional framework on statistics was established when the INE was created in 1997.

Private Sector Development: CTA, established in 1998, is the main voice of the private sector. CTA, with 43 business and economic associations affiliated to it, has held annual meetings with the Government as part of joint effort to make Mozambique business and investment friendly.

In spite of high economic growth, Mozambique is one of the world's most heavily indebted nations and its huge debt burden has been an obstacle to economic development as costs associated with debt servicing prevent the allocation of resources that could be used to improve economic capacity and competitiveness, and increase investment.

7.3 Impact of Trade Policy

Trade liberalisation and economic reform have shown significant signs of success in Mozambique since the late 1980s and accelerated after the end of the civil war in 1992, according to a new WTO report on Mozambique's trade policies. The country's GDP growth has been among the highest in the world since 1996.

Mozambique's economy is essentially dependent on agriculture (more than two fifths of GDP and the bulk of merchandise exports). The manufacturing sector is small, accounting (together with the mining sector) for about 19% of GDP, and the mining sector has a potential but remains underdeveloped.

In 1999, Mozambique introduced a 17% value-added tax (VAT). The government expects VAT to improve public revenue; this will facilitate a future reduction of the maximum tariff to 20%. Excise rates are levied on automobiles, luxury goods, alcoholic beverages, and tobacco products. Like other WTO members, Mozambique has bound customs duties on all agricultural products; the tariffs are bound at a ceiling rate of 100%. In addition, rates on 17 HS eight-digit tariff lines for non-agricultural products have been bound at either 5% or 15%.

Most export restrictions have been eliminated, as have foreign exchange controls. The government has shown a strong interest in expanding exports, particularly of agricultural and fisheries products, but limited export capacity has hindered significant export-led growth.

The commitment of WTO members at Doha to prioritise developing country needs and interests in the implementation of the Uruguay Round agreements and new trade negotiations is understandable in light of other recent international commitments and trends in development assistance. In particular, the Millennium Declaration, adopted by the U.N. General Assembly in September 2000, asserting that "the central challenge we face today is to ensure that globalisation becomes a positive force for all the world's people" (McGill, Eugenia, 2003).

Trade liberalisation is integral to the economic reform being implemented by Mozambique, which to date has shown significant signs of success. Nevertheless, Mozambique's commitments to the WTO fall short of its trade reforms. Indeed, ceiling bindings on agricultural products leave considerable margins for modifications of applied tariffs.

In theory, trade diversion is defined as a movement from a cheap source outside the economic grouping to a more expensive source within the integrating countries. Economic integration benefits are thus assessed on the basis of the degree to which 'trade creation' outweighs 'trade diversion'. Where trade creation is predominant, one of the members of the integration group at least must benefit, all of them may benefit, or the world at large benefits, though the outside world loses at least in the short run and can gain in the long run only as a result of the positive externalities of the increased prosperity of the Customs Union. If trade diversion predominates, at least one of the members is bound to be injured and all combined will suffer a net injury, and there will be injury to the outside world and to the world at large (Tekere Moses and Ndlela Daniel, 2003).

Theory states that when trade flows are matched by opposite monetary flows, unilateral trade liberalisation can result in a tendency towards payments deficit on the balance of payments. Trade liberalisation is believed to result in a deteriorating trade balance in the short-run as imports explode while exports grow modestly. In order to limit trade balance deterioration, trade liberalisation can be accompanied by devaluation. It is argued that devaluation enhances the competitiveness of exports by reducing the price in foreign currency terms or by removing implicit export taxes inherent in overvalued currencies. In addition to providing incentives to exporters, devaluation normally accompanies trade reforms to make import liberalisation macro compatible and safeguard external reserves. To be effective however, devaluation should be accompanied by monetary and fiscal measures. Contractionary monetary policies can squeeze domestic demand and free resources for the production of exports. Tight fiscal policy will also have the same effect on exports by reducing domestic demand. However, the effectiveness of devaluation depends on the price elasticity of exports, share of export inputs that are imported, and the existence of excess capacity (Tekere Moses and Ndlela Daniel, 2003).

The dynamic effects of trade liberalisation are theoretically very important to developing countries. Tariff reduction should result in increased competition and enhanced efficiency in production, made possible by increased specialisation in accordance with the law of comparative advantage. As tariffs and other impediments to trade are removed and the market expands, the number of potential competitors increase, monopolistic and oligopolistic market structures are exposed to outside pressures, and inefficient firms are forced to become efficient. These results may lead to research and development, and these in turn enhance economic growth. If there is reduction of production and marketing constraints, this will result in expanded total exports and a broadening of the export base (to include non-traditional exports) that will exert important linkages effect on other sectors of the economy e.g. the establishment of contacts could stimulate other co-operative ventures in areas such as finance, insurance and transport, and the resulting rapid industrialisation will be based on more efficient utilisation of resources (Tekere Moses and Ndlela Daniel, 2003).

It is often argued that the widening of markets, which follows from trade liberalisation, can result in increased opportunities for exploiting economies of scale, with larger output leading to reductions in unit cost. If such reductions are passed on to consumers (as they would be in competitive markets), then there would be 'second round' gains from consumption and production effects as prices fall. It can also be emphasised that the removal of tariffs have beneficial effects on incentives and output since it readily makes available imported inputs needed for production activities . This is normally the case if those imported inputs were previously subject to licensing (Tekere Moses and Ndlela Daniel, 2003).

The potential limitations to the positive effects of trade liberalisation include among others, the problem of distribution of gains, whether static or dynamic. More industrialised nations stand to benefit more from trade liberalisation. Secondly, as mentioned earlier, if actual or potential trade within the region is large, governments will forfeit a large part of revenue and this will make them reluctant to join in trade liberalisation. Another limitation is related to trade competitiveness arising from the lack of technological capabilities and other supply-side deficiencies, such as poor levels of skills, infrastructure (Tekere Moses and Ndlela Daniel, 2003).

7.4 Impact of Labour Policy

In Mozambique, the data framework for analysing trends in economic performance and the impact of trade as well as labour has serious gaps. The most serious is the absence of regular data on the labour force, employment, unemployment, and average earnings.

Data from the 1997 Mozambique census confirmed the widely held belief that women have significantly lower educational attainment than men (INE, 1997). This implies that gender inequalities in educational attainment and hence human capital are likely to persist for a considerable period of time (MINED, 2001). The 1997 census also picked up continued strong demographic effects of the civil war which ended in 1992 and work migration. Due to these effects, women represented 55% of the working age population[25] in the rural areas in 1997.

Arndt and Tarp (2003) used census data, national accounts data, labour force data, and education data to break the labour force in Mozambique into skill categories. Building on this work, they employed the same source, augmented by cross checks with the 2001 QUIBB survey (INE, 2001) to disaggregate these categories by gender. The Table 25 illustrates an economy with an extremely thin human capital base.

[25] Working age population defined as the population greater than 15 years old

Table 25: Employment by Gender, Sector, and Skill Class (in Thousand)

	Female		Male		Total	
Unskilled Ag Labour	3,173	59.0%	2,206	41.0%	5, 379	100.0%
Skilled Ag Labour	88	25.3%	258	74.7%	346	100.0%
Unskilled No-Ag Labour	256	30.1%	593	69.9%	848	100.0%
Skilled No-Ag Labour	65	25.2%	192	74.8%	257	100.0%
Highly Skilled Non-Ag Labour	15	25.3%	45	74.4%	60	100.0%
Total	3,596	52.2%	3,294	47.8%	6,890	100.0%

Source: Arndt and Tarp, 2003

The authors of these calculations concluded that due to the predominance of women in rural areas and their lack of educational attainment, women represent 59% of the unskilled agricultural labour force.

The same authors have also developed a simple model of trade and tariffs with missing revenues, which contains three goods: an importable that is not produced domestically (M), an exportable that is produced but is not consumed domestically (E), and a non-tradable that is produced and consumed domestically (D). They have considered h households with identical Cobb-Douglas preferences and each household has a labour endowment zh. Production technology is linear 1 labour unit, and the usual neoclassical assumption apply[26]. The mathematical form of the model, used by Arndt and Tarp, is as follows:

Consumer demand for M	MhPm = (1-?)Yh	(1)
Consumer demand for D	DhPd = ? Yh	(2)
Consumer budget constraint	Yh = zhW+Th	(3)
E production technology	E = aLE	(4)
D production technology	?hDh = bLD	(5)
E first order condition	W = apweR	(6)
D first order condition	W = bPd	(7)
Trade balance	PweE = PwmShDh	(8)
Price transmission	Pm = Pwm(1+t)R	(9)
Government balance	?hTh = t?hMhPwnR	(10)
Numeraire definition	R = 1	(11)
Factor market balance	LE+LD = Shzh+WAL	(12)

[26] 1-2-3 model of Devarajan, Lewis, and Robinson (1990)

Where L represents labour allocations, W the wage, P = prices (Pw indicates fixed world prices), R the exchange rate, t the tariff rate applied to imports, ? the share of household budget devoted good D, and T transfers. The variables are in uppercase while parameters are in lower case. The variable WAL effectively drops the factor market balance equation (12) in accordance with Warl's law.

The model was used by the authors to consider three separate situations, which are relevant for Mozambique, namely; (i) a completely ineffective tariff; (ii) a tariff with a legal exemption scheme under which some particular groups are allowed access to goods duty free; and (iii) Smuggling/corruption.

Situation (i) shows, if tariff is completely ineffective, then the operational tariff is zero. There is no revenue to distribute. And the model arrives at the free trade solution.

Situation (ii) recognises the existence of enclave entities that often receive special trade treatment. For example, expatriates and locals who travel frequently are able to avoid paying import tariffs. Government often exempt itself from import tariffs, and large investment projects negotiate special import treatment.

Situation (iii) captures the basic elements of smuggling under/or corruption where for example household j consumes at world prices and enjoys revenue by importing at world prices and selling at tariff laden domestic prices.

After simulations made by the two authors, they have reached the following results:

1. Growth in trade is led by increased imports of processed food, beverages and tobacco, and processed primary products, which are associated with the highest initial rates of protection.
2. Reductions in tariff rates applied to these products are large in all three scenarios.
3. In scenario one, the existing rate structure is reduced by nearly two thirds. Consequently, rates on these three commodities decline from 35% to about 12%.
4. In scenario two, duty free shares remain constant but tariffs are reset to a single flat rate of about 17%. For more commodities, this involves a tariff rate increase, which tends to reduce trade volumes; however, for the three highly taxed commodities, tariffs decline by

18%. The net effect is a very small increase in trade volumes in this scenario.

5. Finally, scenario three involves the elimination of exemptions and the application of a flat tariff rate. Under these conditions, revenue neutrality can be maintained with 7% tariff rate. This involves a substantial tariff rate cut for each of the commodity aggregates.

The expansion of imports induces a devaluation of the currency in order to stimulate import competing and exporting sectors. Due to the very large level of external financing received by Mozambique, the value of imports massively exceeds the value of exports. As a result, exports must grow proportionately much more for a given proportional change in imports in order to maintain external balance. Real GDP changes little in all scenarios; however, total absorption - a measure of economy wide welfare - increases mildly in the "Flat" and "Both" scenarios (Arndt and Tarp, 2003).

Table 26: Macroecomic Results for the Non-Gendered Model

	Base	All products pay (%)	Flat Tariff rates (%)	Both (%)
Exchange Rate	1.00	5.0	1.4	5.0
Real GDP	40,609	0.1	0.1	0.1
Total Absorption	48,357	0.0	0.4	0.3
Imports	11,831	1.7	0.0	1.4
Exports	4,083	4.9	0.1	4.2
Investment	8,173	3.9	-0.3	3.0
Tariff Rate Expansion Factor	1.00	0.35	0.17	0.07

Source Arndt and Tarp, 2003

Note: All metical figures are in billions

Table 26 provides information on the contribution of each sector to real GDP at factor cost in the base, the level of value added generated by each sector, and the percentage change generated by each producing sector for each scenario. Focusing on the third scenario ("Both"), some changes can be observed in the composition of value added though they are not dramatic. Small sectors that enjoyed substantial protection, such as beverages and tobacco, shrink when protection is removed.

Import penetration in this sector is fairly large at about 30% of the value of domestic consumption (Arndt and Tarp, 2003).

Table 27: Real Value Added by Sector

	Base Share (%)	Base level	All products pay (%)	Flat tariff rates (%)	Both (%)
Primary Ag. Crops	27.4	9,963	-0.4	0.8	0.0
Primary Ag. Livestock	2.2	795	-2.1	0.3	-1.6
Forestry and Firewood	3.2	1.156	0.2	0.2	0.3
Extraction	4.3	1,570	2.4	0.5	2.3
Food Processing	3.3	1,198	-1.6	-1.2	-1.9
Beverages and Tobacco	0.9	313	-5.3	-3.1	-5.9
Primary Product Processing	2.2	802	-3.0	-3.2	-4.0
Chemicals	0.6	231	-1.7	0.4	-1.3
Other Manufactures	1.1	410	0.3	0.6	0.4
Other Services	8.3	3,018	-0.9	-0.4	-1.0
Construction	6.5	2,375	3.3	-0.2	2.6
Commerce	20.1	7,337	-0.2	-0.3	-0.3
Transport and Communication	8.9	3,326	0.0	-0.2	-0.1
Insurance and Finance	4.6	1,682	3.1	0.1	2.6
Public Administration and Def.	2.8	1,007	0.0	0.0	0.0
Education	1.6	601	-0.7	-0.2	-0.7
Health	0.5	179	-.06	-0.1	-0.5
Labour Intensive Services	1.5	550	0.4	0.1	0.4

Source Arndt and Tarp, 2003

Table 27 provides information on factor prices. In all scenarios, all wages and rental rates increase relative to this base. The increase range from about 1.5% to 1.8% for all factors, and two broad effects dominate the increase in real wages. First, the figures reported in Table 12 are real factor prices with deflation being performed by the consumer price index. As a result, other prices, including factor prices, tend to rise relative to the CPI in order to achieve a relative decline in the prices of the basket of goods comprising the CPI (Arndt and Tarp, 2003).

Table 28: Real Wages (Deflated)

	Base	All products pay (%)	Flat Tariff rates (%)	Both (%)
Unskilled Ag Labour	1.63	0.6	2.1	1.6
Skilled Ag Labour	2.63	0.5	2.2	1.6
Unskilled No-Ag Labour	6.99	1.4	0.5	1.5
Skilled Non-Ag Labour	23.99	1.9	0.2	1.8
Highly Skilled Non-Ag Labour	57.03	1.9	0.2	1.8
Capital	0.15	1.5	0.9	1.8

Source Arndt and Tarp, 2003

The macroecomic impact on wages can best be perceived by considering a fundamental national accounting identity:

$$C + I + G + (X\text{-}M) = GDP = GDfc + IT$$

Where C is consumption, I is investment, G is government expenditures, X is exports, M is imports, GDP is gross domestic product, GDPpc is GDP at factor cost, and IT is total indirect taxes. The right hand side of the above expression can be rewritten as:

$$\sum Eiwi + TRo + TRr + ITo$$

Where Ei represents the quantity of each factor employed, wi represents the wage for each factor, TRo represents officials tariff revenue, TRr represents rents from resale of goods imported duty free, and ITo represents other sources of indirect tax revenue. The sum of employment of endowments (land/natural resources, labour, capital, human capital) multiplied by their respective wages yields GDP at factor cost. The sum of the three tax components gives total indirect taxes (Arndt and Tarp, 2003).

The effect on nominal wages often leads to the erroneous conclusion that trade liberalisation increases household and economy-wide welfare due to the wage effect.

Therefore, in order to conduct an acceptable welfare analysis using wages, we must account, not for the reduction in tariff revenue actually collected, but for the reduction in rents accrued to those with the ability to import duty free. A composite view of welfare effects on households can be obtained by examining household equivalent variations as shown in Table 29 where household welfare declines very substantially while rural household welfare increases substantially (Arndt and Tarp, 2003).

Table 29: Household Welfare (Measured by Equivalent Variation in the Non-Gendered Model)

	Base	All products pay (%)	Flat Tariff rates (%)	Both (%)
Urban	15,891	-3.6	-1.1	-3.8
Rural	20,102	1.6	1.1	1.9

Source Arndt and Tarp, 2003

The aim of Arndt and Tarp's papers was to conduct trade policy analysis with specific attention paid to disaggregating male and female labour. The results indicate that there are possibilities for increasing both efficiency and equity. Losers from trade reforms include those households who benefited from their ability to import duty free one way or the other. It is highly unlikely that these rent-creating households are particularly poor. In contrast, the welfare of poor rural families tends to increase.

8 Macroeconomic Challenges Facing Mozambique

HIV/AIDS: The incidence of HIV/AIDS could undermine growth and poverty alleviation goals defined by the government. A recent study estimates that the current HIV/AIDS incidence trends could contribute to GDP rate reduction by about one percentage point in the coming years (Arndt 2003).

Poverty: In a five-year period (1997 to 2003) the poverty incidence level declined by about 15%. Projections suggest that by 2015 the incidence levels could be at about 44% (Mozambique and UNDP 2005). Despite this success it's likely that there will still be hungry people in 2015.

Lack of Human Capital: The low level of human capital in Mozambique is consistently indicated as one of the constraints to the country's economic growth. Data point to a growth rate of about 0.3%, with the largest parts of higher school students made up of men (0.5) against women (0.2).

Lack of Economic Diversification: Excluding mega projects, Mozambique's traditional exports are essentially primary products e not manufactured, particularly fishing products and cash crops (cotton and cashew nuts). The exports from mega projects have accounted for about 50% of the total exports since 2003.

Lack of Economic Infrastructure: In the last five-years major inroads have been made in the road sector, resulting in the reduction of the extension of roads classified as bad. Although there have been improvements in the primary and secondary roads, the low level of quality of tertiary roads are still a severe problem. Tertiary roads are crucial for the overall development of the country particularly rural areas, and this has strong potential for poverty reduction.

Currently only less than 10% of the houses have electricity nation-wade. Most of the population relies on other sources of energy (wood, coal and kerosene). From the private sector point of view, the poor rural electricity coverage hinders the expansion of business activities and pushes the cost of doing business higher.

Lack of Finance: The high level of interest rates are mentioned as one of the most serious constraints on access to credit. Although the rates have been declining in real terms in the last years, a lot still need to be done in order to push the rates down and expand the volume of credit to the private sector. The high levels of interest rates are the result of a poor lending environment that is due to the lack of contract enforcement legislation on one hand, and poor collateral capacity to access credit on the other.

Environmental Degradation: Although we cannot classify it as severe, there are some signs of rapid deforestation, which can have effects on biodiversity, with direct impact on the poorest strata of the population. One area of concern has been small-scale mining activities carried out using rudimentary practices that lead to widespread pollution of river waters. These environmentally unfriendly activities are particularly rampant in the centre and north of the country.

Gender Discrimination: There is no doubt that the high disparities in the access to services and income distribution for women is cited as one of the causes of poverty. The last report on MDGs for Mozambique shows that these disparities are still high, mainly in education, income and employment opportunities.

Governance Problem: Though democracy is still a recent phenomenon its progress is promising. The country held its third general elections in December 2004. Corruption is a widespread phenomenon. Mozambique is among the most corrupt countries in the world, according to the Corruption Perception Index by Transparency International.

9 Special Issues and Future Research

9.1 Special Issues

Some of the specific issues regarding Mozambique include:

- The need to deepen knowledge on the determinants of poverty.
- The role of the natural resources in the future of the economy - forestry, energy, oil projects, mining and tourism.
- The role of mega-projects on growth and poverty reduction.
- The strategies aimed at increasing the productivity of agriculture - the high rates of growth of the last years can only be sustained if reforms introducing technology improvements take place.
- Modernisation and expansion of the financial sector, by expanding the level of monetary deepening and introduction of new services

Mozambique's effort should focus on domestic policy reform, aimed at improving the enabling environment for investment and promoting international competitiveness of production in Mozambique. There might be many things wrong with the global trading environment and the policies of some of the world's most important trading countries. Mozambique can do little about that. Mozambicans, however, are better equipped than outsiders to understand and deal with the domestic policy environment. International experience confirms that the benefits from these reforms will provide the largest benefits at the lowest cost to Mozambique (Flatters Frank, 2002).

Deepening integration in SADC is likely to be a long process. There are some objectives that can be achieved immediately and without the necessity of an accompanying macroeconomic and political process. Other objectives such as liberalisation, trade flows, labour and capital flows in the region, will require more time and negotiation.

The large size of the South African economy in comparison to those of other SADC countries could result in, for example, polarisation of trade, labour and capital flows. These issues need to be addressed before agreements can be reached. As with the free trade area, common market and monetary union areas, some asymmetry of progress and reforms might be necessary, depending on the individual circumstances of each member country.

The goal of deepening integration in SADC countries vis-à-vis macroeconomic policy frameworks needs to be considered in conjunction with the other objectives of SADC. A broad range of stakeholders will need to be involved in the process, including ministries of trade, industry, labour, finance, central banks and the private sector from each SADC country.

Greater macroeconomic integration and better trade, finance and labour policies will enable the region to attract private capital flows. Given the low level of domestic savings and investment, however, it seems that SADC countries will need to attract more private capital inflows to promote economic growth.

Institutions and policies should be put in place to ensure the efficient use of these flows, as well as to control their potentially destabilising effects. The banking system is the core institutional structure on which all other sectors and financial institutions depend. Priority should therefore, be given to developing sound economic, social and financial infrastructure in the SADC countries.

9.2 Future Research

In terms of further research topics, the study provides no discussion of trade and finance development in terms of policy analysis and impact modelling. It also does not consider insurances and labour markets, which are mostly underdeveloped in the SADC region and which form an important component of deepening integration in SADC vis-à-vis macroeconomic policy frameworks.

Other possible topics include looking at the connections of the financial and monetary integration. For example, what kind of financial arrangements need to be in place for monetary integration to take place?

SADC's objective of macroeconomic convergence cannot be achieved without some complementary financial sector policies. Finally, the possibility of creating a financial hub for the region somewhere within the SADC countries could be explored, as well as the complementary policies, which would be required to make this a politically acceptable, and economically viable strategy for all SADC countries.

10 Concluding Remarks and Recommendations

10.1 Changes Needed in Macroeconomic Policy Framework

Integration has the potential to promote growth and reduce poverty through the increase of exports of domestic goods. Donor countries therefore support efforts at regional integration. However, the gains are not evenly distributed between or within countries in SADC (McLeod Helena, 2003).

Donors can play a role in regional integration by supporting efforts towards facilitating regional trade through reduction of impediments at borders, and through the support for the development of complementary policies nationally. Donors may maximise the beneficial impact through support to access for likely winners and losers. While it is not the role of donors to compensate losers, they can assist in developing systems for such support. Donor governments should ensure their preferential trade agreements with regions that do not impose restrictions which undermine integration. Finally, donor governments need to liberalise their markets for developing country goods, particularly on agricultural produce, and make the next trade round of the WTO negotiations truly developmental (McLeod Helena, 2003).

Currently, SADC must address the critical issue that militates against the progressive movement towards the spirit and letter of Article 3 (c) of the SADC Protocol. This article allows member countries to protect their trade regime with safeguard measures if they feel that imports threaten their domestic industry. This provision, if used too freely can frustrate SADC's trade liberalisation as it goes against the spirit of trade liberalisation, in that the latter by its nature results in trade creation or trade diversion, thereby resulting in gains or losses for the trading partners. Within the static and dynamic context of a regional integration arrangement like SADC, gains and loses will obviously occur if the reduction or elimination of trade barriers causes the replacement of inefficient domestic industries in one member state with a relatively more efficient industry of another member country. Trade creation may also occur when there is displacement of a less efficient external supplier by a more efficient producer within SADC.

What SADC should be worrying about is a form of trade diversion that will result from a distorted or a relatively simple form of the 'rules of origin' which can be a cause for serious complications when attempts are made to implement the 'Rules of Origin'. This factor is likely to be made more complex when member countries face the impacts of entry into an EPA or from other FTAs, e.g. the impact of the EU-SA-FTA. For a smooth transformation of SADC towards market integration and entry into an EPA, the potential adjustments on trade and polices must take into account (a) the necessity to prevent the region from further marginalisation within the world economy; and (b) the fulfilment of the objective of fostering market integration and/or economic integration that is linear progression in degrees of integration from free trade area, customs union, and common market to an economic community.

As an FTA, SADC needs a certain level of macroeconomic convergence, policy harmonisation and stability. In SADC, there is currently an extremely large divergence in the macroeconomic policy stances pursued by different member countries. These factors undermine liberalisation initiatives and influence the different influences on countries' respective growth rates, given the variety of macroeconomic policy environments, political, cultural, historical and social characteristics.

The need for adjustment of trade and economic policies derives from the perceived current and persistent distortions in the policy environment of member countries. Despite the various attempts to liberalise their trade and foreign exchange regimes and removal of price controls, frequent policy reversals leading to large budget deficits, monetary policy pressures, high levels of domestic interests and crowding out of private sector initiative, are still prevalent in many of the region's economies. It is well known that a weak fiscal stance often undermines the goals of monetary, financial and meaningful trade liberalisation (although the latter is not an end in itself). Thus, although there is greater degree of market determination of official exchange rates, some countries regularly allow overvaluation to occur, a condition that causes problems for exporters and importers.

It is therefore, imperative that for the macroeconomic policies to be conducive to a regional FTA between Member States, and conducive for the region to conclude an EPA, there has to be targeted trade and economic policy adjustments among the member states. This will be a sine-qua-non given that one of the objectives of the proposed EPA is to stimulate greater supply-side response and investment in the SADC region. In the field of trade, the SADC Trade Development and Promotion Strategy lists the obstacles to the development of SADC trade as:

- An inadequate production base;
- Inadequate trade policies;
- Run down and inadequate infrastructure;
- Inadequate market information;
- Insufficient commercial skills;
- Inadequate involvement of the business community.

There is need to have adequate or consistent national macroeconomic policies and institutional environment, such as (i) harmonising external tariffs and moving to a common external tariff as quickly as possible, and (ii) lack of a national competition policy and appropriate legislation in place so that countervailing duties can be applied, within the WTO guidelines, to counteract dumping.

Identification of Costs and Benefits: A range of benefits can accrue to SADC member states on deepening regional integration over the short and long term and can be of an economic, political and institutional nature. The chances of these benefits accruing increase with the degree of liberalisation undertaken. Yet for some members, the costs may outweigh the benefits. The two most common forms of regional integration are free trade areas (FTAs) and customs unions (Cus), (McLeod Helena, 2003).

A customs union is a more advanced form of economic integration where internal barriers are fully removed and the regional integration (RI) has a single external trade policy including a common external tariff.

In economic terms, the main benefits and costs can be divided into:

- Static or immediate gains - Trade flow effects; and
- Dynamic gains over time - Competition and scale effects.

Static gains tend to focus on the idea of comparative advantage where one off gains from dismantling barriers to trade will induce countries to focus on production of goods based on their major factor endowments.The Heckscher-Ohlin theory argues that trade liberalisation will then lead to higher returns to owners of the abundant factor, whether it be land, low or high skilled labour or capital. If a country is abundant in unskilled labour, the increased opportunities to export low skill intensive goods can have poverty reducing impacts. Wood (2002), through empirical analysis shows that the theory tends to stand in practice with a country's relative endowment of human capital and land being a good predictor of the composition of exports. In Africa, the abundant factor is land and, in line with the theory, exports of primary products currently dominate (McLeod Helena, 2003).

Dynamic gains relate to changes that may occur over time after the initial trade policy liberalisation. A dismantling of barriers reduces the amount of domestic protection and subjects domestic firms to competition from other producers within the RIA, thereby increasing the efficiency of production in the regional integration and further reducing costs to consumers. In addition, the increased size of the market allows firms to take advantage of scale economies, where the costs of production fall as the size of production increases. This can make firms within the regional integration more competitive and enable them to compete more effectively outside the regional integration. The increased market within the regional integration can attract more foreign direct investment seeking to take advantage of scale economies and the reduction in costs of trading in the region (McLeod Helena, 2003).

Over time, countries can also influence their abundant factor and change their comparative advantage, revealing their dynamic comparative advantage. For instance, East Asian newly industrialised countries (e.g. South Korea and Taiwan) invested heavily in education during the 1960s and beyond and through this policy they accumulated human capital. There followed an increasing level of skill-based goods in their exports (McLeod Helena, 2003).

The focus of the RISDP is thus to provide strategic direction with respect to SADC programmes and activities, and to align the strategic objectives and priorities of SADC with the policies and strategies for achieving its long-term goals. The RISDP is indicative in nature, merely outlining the necessary conditions that should be realised towards achieving those goals.

In order to facilitate monitoring and measurement of progress, it sets targets and timeframes for goals in the various fields of co-operation and integration.

The purpose of the RISDP is to deepen regional integration in SADC. It provides SADC Member States with a consistent and comprehensive programme of long-term economic and social policies. It also provides the Secretariat and other SADC institutions with a clear view of SADC's approved economic and social policies and priorities.

Thus, some of the strategies changes to deepen regional integration include:

- Implementation of the SADC Protocols by spelling out concrete programmes of community-building through regional integration;
- Operationalisation of the two major development plans - the SADC RISDP and SADC SIPO, and building the necessary synergy with NEPAD;
- Rationalisation of the various committees, both technical and ministerial;
- Increasing the credibility of SADC vis-à-vis our international cooperating partners;
- Forging strong relationships with sub-regional, continental and multilateral organisations; and
- Encouraging SADC Member States to align their national policies to regional cooperation so that they stay on course in the globalisation process and also make a significant dent on poverty.

10.2 Changes Needed in Institutional Structures

The SADC Region has been undergoing major political changes since the beginning of the 1990s. These changes have a fundamental bearing on systems, institutions and processes of governance as well as the norms and values of the societies in the region. Specifically, the major thrust of the changes is to enhance the political competence of the citizens and to strengthen the capacity of civil society.

Constitution making, democratic elections, political party building are some of the challenging tasks that pose a variety of problems in a rather fragile and volatile transition. Good and prudent governance becomes vital in addressing these problems in the interest of the long-term consolidation of democracy and peace-building in the region. Therefore, the new organisational chart for SADC, in the political and social context, should also address all these problems

It becomes more and more obvious that a comprehensive peace-building approach is needed, including, inter alia, issue of governance, humanitarian aid, development co-operation and conflict resolution. The personal and social conditions as well as other circumstances at the roots of the conflicts, which could play a role in conflict de-escalation, have to be taken into account. Peace-building efforts have to empower regional and local actors and have to be implemented as early as possible in order to prevent violent conflict escalation, human suffering, and expensive military operations and post-war reconstruction. There is an increasing need for civilian experts who are well prepared to implement peace-building activities.

Regional integration will result in an open regional markets that in turn would provide more and better opportunities for producers and consumers. However, strong and effective governance and regulatory systems are the preconditions for balanced public and private sector led economic initiatives

The effective application of political, social and other measures that are necessary for SADC countries to build national consensus for EPAs (assuming that the EPAs encompass a strong developmental component and reflect the needs and aspirations of SADC countries) can be addressed in the wider development framework aimed at providing for:

- An efficient institutional framework to drive the integration process and measures for a development strategy that will benefit from the EPA. This will include the creation of clear links between trade and industrial development. For this to materialise, the Member States will have to consolidate or put in place confidence building measures that recognise various actors in political dialogue [state, non-state namely: private sector], economic and social partners and civil society organisations. Such measures will assist in propelling the investment profile of individual member countries, thereby raising the much needed "long-term investments" which will assist in strengthening the industrial base.

- SADC states to build institutional capacity to remain central actors in determining their development strategies, with civil society playing a role associated with dialogue and in the peace building processes. In this context, it is foreseen that both the Council of Ministers and the Joint Parliamentary Assembly should play the role of organising a dialogue with representatives of SADC economic and social partners, and with other actors of civil society in order to obtain their views on the attainment of the objectives of the ongoing process of regional integration. At the same level business representation and other economic actors such as labourers, farmers and commerce, will have to the norm in each of the participating member countries.
- The upholding of the basic principles of political governance including peace, security and conflict resolution, and rule of law-all of which serve to guarantee non-reversal of the business confidence that is needed for sustainable growth and investment in the regional economies. The creation of an institutional framework will help in ensuring maximum benefits to SADC countries from EPAs.
- New Economic Partnership for African Development (NEPAD).

10.3 Monitoring and Evaluation of Macroeconomic Convergence in SADC

The SADC ambitious goals and objectives, as captured in its Regional Indicative Strategic Development Plan (RISDP), are to complete a Free Trade Area (FTA) by 2008, become a Custom Union by 2010, create a regional common market by 2015 and a monetary union by 2016.

To realise these targets in the finance and investment sub-sector, member states commenced with the development of the Finance and Investment Protocol (FIP) development process in 1998 through a bottom-up approach in terms of a variety of financial sub-sector-specific Memoranda of Understanding. Various technical committees were set up to develop MOUs in defined sub-sectors in the areas of fiscal and monetary policies, financial markets, central banks, investment, taxation, development finance and non-banking regulators. These committees were also tasked with the implementation of the MOUs once they had been adopted. The MOUs capture SADC policy in each of their respective areas (Senaoana, 2005).

To achieve and maintain macroeconomic convergence, there is a need to monitor and evaluate the stability-oriented economic policies to be implemented by regional integration. Member States have agreed that stability-oriented policies include:

- Restricting inflation low and table;
- Maintaining a prudent fiscal stance that eschews large fiscal deficits, monetisation of deficits, high public debt, and large financial imbalances in the economy;
- Minimising market distortions, both internal and international[27].

Member States concur furthermore, that macroeconomic convergence in SADC, will be measured, evaluated and monitored by the following indicators:

- Rate of inflation;
- Ratio of the budget deficit to GDP;
- Ratio of the net present value (NPV) of public or public guaranteed debt to GDP;
- The balance and structure of the external account.

Convergence will support existing SADC policy and initiatives for regional economic integration and the sharing of the benefits of the SADC Free Trade Agreement. When economies diverge, trade and investment flows between them become thin and risky (Nathan - MSI Group, 2003).

Convergence is expected to be achieved through regional programme driven by a "dynamic, sustainable and credible regional economic unit," called mutual stability mechanism (MSM) (Nathan - MSI Group, 2003).

27 This does not mean that countries must have the some policies. Mozambique and Zambia differ with respect to the importance of agriculture and mining to their economies, and their policies therefore will differ.Countries may converge with respect to macroecomic performance yet diverge widely on national policies and convergence programs.

For Mozambican situation: The weakness of tax policy in Mozambique as well as in other Members States affects also the macroeconomic performance and the process of SADC integration. If the SADC countries can find common ways of conducting trade with themselves and with all their trade partners, this will start to counter the advantage of developed countries, and will improve their terms of trade with all partners.

For deepening integration in SADC, it is also required that the Mid Term Review Process be transformed into the formulation of a future vision for the region and examining how it will fit into global trade, and, of particular importance, how it will differentiate itself and compete with other regions

Regarding the Rules of Origin, there is generally a perception from Business Communities to support the concept of a more flexible and simplified Rules of Origin. However, it is important to ensure that the capacity is in place to deal effectively with Rules of Origin, and that the verification process is quick and effective.

Rules of Origin, being a policy tool, need to be agreed upon through the development of a common industrial policy for the region. At this stage, Business believes the debate on a regional industrial policy has not been fully explored. This seems to indicate a lack of long term strategic planning for the region as a whole.

If this region is to become a global player, then co-operation can, and must lead to greater economies of scale and the harnessing of various comparative advantages must be done in order to make a far greater impact on the global market than any single member state alone could muster.

In making trade policy choices and identifying and pursuing alternatives, it is important for Mozambique to consider the following recommendations:

- Identify country interests and possible trade-off and participate actively in the multilateral, regional, and bilateral meetings or conferences, to ensure that products of interest to Mozambican producers are not subjected to high tariffs and export subsidies;
- Participate in tariff acceleration discussions within SADC;
- Continue efforts to liberalise SADC Rules of Origin;

- To meet SADC requirements and sell to South Africa, Mozambique must shift from cost-efficient sources of plastic raw materials from South Africa to the region for fabrics; and
- Continue bilateral negotiations to permit acceleration of duty reductions between reciprocating partners with SADC. Mozambique has negotiated an FTA with Zimbabwe and nearly completed another with Malawi. Each provides for immediate elimination of duties.

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Deepening Integration in SADC

Rapid Changes in Mozambique to Meet
SADC Targets

Part: 2

Perception of Business and Non-State Actors in
Mozambique

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List of Abbreviations

BLNS	Botswana, Lesotho, Namibia and Swaziland
COMESA	Common Market for Eastern and Southern African States
CPI/ICP	Investment Promotion Centre
EAC	East African Community
EU	European Union
MZM	Meticais – Mozambique Currency
N	Number of Cases
NSA	Non-State Actor
SADC	Southern African Development Community
USA	United States of America
USD	United States Dollar

Executive Summary

The objective of this survey is to capture and analyse the perception of business people and Non-State Actors on regional integration in SADC, with the expectation to provide policy makers from relevant institutions in Government, including chambers of commerce, etc, with valuable information on the actions to take in order to make the regional integration a success. The same has as specific objectives:

- Perceptions on regional integration in SADC; and
- Political debate on regional integration of SADC.

To allow the analysis of this work, a sample was selected taking as a base the fact that the majority of economic activities is concentrated in the South and Centre of Mozambique, where the Maputo and Beira Development Corridors are located respectively.

The sample covered 32 companies, being 7 in Manica province, 4 in Sofala province and 21 in Maputo City. For Non-State Actors, the sample involved 6 actors from Maputo province and 4 from Manica province.

From business sample, 87% of respondents are from the private sector and employ more than 50 workers. The financial services and the manufacturing industry are the most predominant sectors.

The majority of firms, according to the survey, are fundamentally focussed to the domestic market and could encounter a strong competition, mainly South Africa, in the context of regional integration of SADC. The other activities such as the financial services, agriculture and manufacturing are more favourable for the domestic market.

In the commercial area, many respondents from firms do not know if they import or export from and /and for SADC and those that export, their main destinations in order of relevance are the European Union, South Africa, and Zimbabwe.

The correlation between the main activities of the companies and regional integration in general as well as within SADC in particular, shows that 21 respondents throughout the different sectors of activity are very favourable. The same does not occur in relation to regional integration within COMESA and EAC.

60% of Non-State Actors are from Civil Society. Both, the industrial associations as well as the professional associations represent 20% each, one operating for between two to five years and the other for more than 10 years, respectively.

As for involvement in the drafting of national policies that influence regional integration, 60% from Non-State Actors participate actively in the drafting of such policies. Concerning the debate on regional integration in SADC, in general the majority does not participate very often.

As for the benefits for the national economy, both firms and Non State Actors, agree that integration will bring about positive impacts.

The perception of firms and Non-State Actors on the possible and likely impacts of deeper regional integration of SADC has some substantial differences in many answers.

There have, however, been many similarities of the answers, regarding the relevance of barriers to business. Respondents from both sides the rules of origin are very relevant, customs procedures slow, a lot paper work and bureaucracy, corruption of officials, and a weak regional communication and transport infrastructure.

Regarding the impact of regional integration of SADC in terms of increased competition on the domestic market, 67.7% of the companies and 20.2% of NSA agree strongly, while 29.0% of the companies and 77.7% of NSA only agree that regional integration will have a significant impact on the domestic economies of SADC member countries.

In relation to the impact of regional integration for the reduction of consumer goods, all those enquired from companies and NSA responded positively, agreeing with the reduction, except 6.5% from companies and 11.1% from NSA who disagreed strongly.

Regarding the increase of efficiency in companies in order to become more competitive 16.1% of the companies enquired and 20% from NSA do not agree, while the same number of respondents from companies and from NSA, 48.4% and 50% respectively, agree.

As for the impact on turnovers both Business and NSA are positive. Regarding the impact on other domestic producers only answers from Business were available and more than 50% agreeing positively. As for the impact on other domestic products only answers from companies in which 46.7% agreed and 13.3% did not agree.

In general, both companies and NSA agree that regional integration in SADC will bring benefits to the Mozambican economy. However, it may bring negative impacts, notably the increase of emigrants and the reduction of the country's political sovereignty.

On the evaluation made by the companies and Non-State Actors, the interviewees have already experienced trade barriers on imports and exports according to the responses, highlighting the following relevant barriers in two samples:

- Tariffs and time consumed on tariffs and customs procedures;
- Substantial paper work and other forms of bureaucracy;
- Corruption by officials;
- Exchange rates;
- Poor regional communication infrastructures;
- High regional communication costs;
- High transport costs.

As for the increase or reduction of employment as a result of regional integration the two groups of respondents (Firms and Non-State Actors consider that:

- Employment will increase;
- Domestic production will increase;
- Investment outside Mozambique will occur;
- Production of national firms will probably close down;
- The constitution of partnerships between national and foreign firms will occur; and
- New activities will emerge.

The regional integration of SADC will bring wider opportunities to foreign trade for the Mozambican entrepreneurial sector. Both firms and Non-State Actors said there will be more imports from SADC and local firms are likely to export more to other SADC countries. They also think that local companies will probably have wider access to cheaper inputs and probably less access to cheaper foreign labour.

In general the survey allows an analysis of the impacts of regional integration in general and, in particular, within SADC, even considering the fact that certain costs that can emerge for the business sector in Mozambique, due to the need for increased investment and modernisation of the sector as a whole.

All companies, according to the survey, are fundamentally focussed on the domestic market and encounter a strong competition, mainly South Africa in case of a deeper regional integration.

According to the respondents from Non-State Actors, there is no regular public debate on regional integration.

Therefore, as for the benefits for the national economy, both sides agree that integration will bring about a positive impact.

Sumário Executivo

O objectivo desta pesquisa é de captar e analisar a percepção dos homens de negócios e dos actores não estatais sobre a integração regional dentro da SADC, com a expectativa de providenciar aos decisores de políticas das instituições relevantes do Governo, incluindo câmaras de comércio, etc., uma informação valiosa sobre as acções a tomar para tornar a integração regional um sucesso. A mesma tem como objectivos específicos:

- Percepções sobre a integração regional na SADC; e
- Debate político acerca da integração da SADC.

Para permitir a análise deste trabalho, fez-se uma selecção da amostra tomando como base o facto de grande parte de actividades económicas se concentrarem no Sul e Centro de Moçambique, onde se localizam os Corredores de Desenvolvimento de Maputo e Beira respectivamente.

A amostra abrangeu 32 empresas, sendo 7 da província de Manica, 4 da província de Sofala e 21 da Cidade de Maputo. Para os Actores Não-Estatais, a amostra envolveu 6 actores da província de Maputo e 4 da província de Manica.

No das empresas, 87.5% dos respondentes são do sector privado e empregam mais de 50 trabalhadores. Os serviços financeiros e a indústria manufactureira são os sectores mais predominantes.

A maioria das empresas de acordo com a pesquisa estão orientadas fundamentalmente para o Mercado doméstico e poderão enfrentar uma forte competição da África do Sul, no contexto da integração regional da SADC. As outras actividades tais como, os serviços financeiros, a agricultura e a manufacturação são mais favoráveis para o Mercado doméstico.

Na área comercial, muitos respondentes das empresas não sabem se importam ou exportam da e/ou para SADC e aquelas que exportam, os seus principais destinos em ordem de relevância são a União Europeia, a África do Sul, e o Zimbabwe.

A correlação entre as principais actividades das empresas e a integração regional em geral e internamente a SADC em particular, mostra que a maioria dos 21 respondentes dos diferentes sectores de actividade, são muito favoráveis. O mesmo não acontece com relação a integração na COMESA e EAC.

60% dos Actores Não-Estatais são da Sociedade Civil. Ambas, as associações industriais bem como as profissionais, representam 20% cada, uma operando entre 2 e 5 anos e a outra a mais de 10 anos, respectivamente.

No que concerne ao seu envolvimento na elaboração de políticas nacionais que influenciam a integração regional, 60% das Actores Não - Estatais participam activamente na elaboração destas. No concernente ao debate sobre a integração regional na SADC, em geral a maior parte discute poucas vezes.

Quanto aos benefícios para a economia nacional, tanto as empresas bem como os Actores Não-Estatais, concordam que a integração trará impactos positivos.

A percepção das empresas e dos Actores Não -Estatais sobre possíveis e prováveis impactos do fortalecimento da integração regional da SADC têm algumas diferenças substanciais em muitas respostas nomeadamente sobre as afirmações relativas a integração regional da SADC.

Registam-se porém, muitas semelhanças de respostas, com relação a relevância de barreiras aos negócios em que tanto os respondentes das empresas assim como os Actores Não Estatais acham que tem maior influência as regras de origem, os procedimentos aduaneiros morosos, muita papelada e burocracia, a corrupção dos oficiais e a fraca infra-estrutura regional de comunicação e de transporte.

Sobre o impacto da integração regional da SADC no aumento da competição no mercado doméstico, 67.7% das empresas e 20.2% de Actores Não Estatais concordam fortemente, enquanto 29% das empresas e 77.7% dos Actores Não Estatais somente concordam que a integração regional da SADC terá um impacto significativo nas economias domésticas dos países membros da SDC.

Sobre o impacto da integração regional na redução de preços de imputes responderam 29 empresas e 9 Actores Não Estatais, dos quais 20.7% das empresas e 44.4% do Actores Não Estatais concordam fortemente, enquanto 69% das empresas e 22.2% dos Actores Não Estatais penas concordam, sendo a proporção dos que não concordam de 6.9% e 11.1% nas empresas e Actores Não Estatais respectivamente.

No que concernente ao impacto da integração regional na redução de produtos para consumo, todos os respondentes das empresa e dos Actores Não Estatais responderam positivamente, concordando com a redução, exceptuando 6.5% das empresas e 11.1% dos Actores Não Estatais que fortemente não concordam.

Quanto ao aumento de eficiência nas empresas para que se tornem mais competitiva 16.1% das empresas e 20% dos Actores Não Estatais não concordam, enquanto do mesmo número de respondentes das empresas e dos Actores Não Estatais, 48.4% e 50% concordam. Com relação ao impacto sobre outros produtores domésticos foram registados apenas as respostas das empresas em que 46.7% concordam e 13.3% não concordam.

De um modo geral, tanto as empresas bem como os Actores Não Estatais concordam que a integração regional da SADC trará benefícios para a economia moçambicana. Todavia poderá trazer impactos negativos, destacando-se o aumento de emigrantes e a redução da soberania política do país.

Sobre a avaliação feita pelas empresas e pelos Actores Não Estatais, os entrevistados já experimentaram barreiras comerciais nas suas importações e exportações conforme as respostas, destacando-se as seguintes barreiras relevantes nas duas amostras:

- Tarifas e o tempo consumido nos procedimentos sobre as tarifas e procedimentos aduaneiros;
- Trabalho substancial com papeis e outras formas buorocráticas;
- Corrupção praticada por oficiais;
- Taxas de câmbio:
- Pobres infra-estruturas regionais de comunicações;
- Altos custos regionais de comunicações; e
- Altos custos de transportes.

Quanto ao aumento ou redução do emprego como resultado da integração regional os dois grupos de respondentes (Empresas e Actores Não Estatais) consideram que:

- O emprego vai aumentar;
- A produção doméstica vai aumentar;
- O investimento fora de Moçambique vai ocorrer;
- A produção de empresas nacionais provavelmente vai fechar;

- A constituição de parcerias entre empresas nacionais e estrangeiras vai acontecer; e
- Novas actividades vão emergir.

A integração regional da SADC trará maior abertura do comércio externo para o sector empresarial Moçambicano. Ambos Empresas e Actores Não Estatais afirmam que se vai importar mais da SADC e é provável que as empresas locais exportem mais para outros países da SADC, sendo também maior a probabilidade de acesso aos inputes mais baratos e menos provável o acesso a mão de obra estrangeira mais barata.

De um modo geral a pesquisa permite analisar os impactos da integração regional em geral e, em particular, dentro da SADC, mesmo considerando-se certos custos que poderão ocorrer para o sectorial empresarial em Moçambique, devido a necessidade de maior investimento e modernização do sector empresarial no seu todo.

Todas as empresas de acordo com a pesquisa, estão virados, fundamentalmente, para o mercado doméstico e encontram uma forte competição, principalmente, da África do Sul, no caso de a integração regional se aprofundar.

De acordo com os respondentes do Actores Não Estatais, não existe de forma regular um debate público acerca da integração regional.

Portanto, quanto aos benefícios para a economia nacional, os respondentes dos dois grupos seleccionados, concordam que a integração trará um impacto positivo.

1 Introduction

The survey to capture the perception of businessmen and Non-State Actors on regional integration within SADC is an initiative of the Friederich Ebert Foundation in Botswana, in direct coordination with the SADC Secretariat, and is an integral part of the study on the macroeconomic impact of SADC's regional integration.

The focus of this survey is on existing barriers, challenges and opportunities associated with a deeper regional integration, with the expectation of providing policy makers of relevant government institutions, including chambers of commerce, etc., with valuable information on the actions to take in order to make regional integration a success.

The study is structured as follows: Section II details the methodology used for the survey; Section III is an analysis of the data obtained from the two enquiries on the perception of businessmen and Non-State Actors (NSA); Section IV analyses the responses on the public debate, while section V provides the principal findings and conclusions.

Selection of Samples

The two questionnaires used, one for Business and the other for NSA were designed by the Namibian Economic Policy Research Unit (NEPRU), and according to the annexed terms of reference, two samples were selected on the basis of the database on businessmen and NSA available at the Investment Promotion Centre 40 companies were selected from Maputo city and province, 20 companies from Beira city and Sofala province, and 15 companies for Chimoio city and Manica province.

As for NSA, 10 Maputo-based organisations were selected, 5 based in Sofala and another 5 in Manica province.

The choice of the samples was based on the fact that the majority of economic activities are concentrated in Southern and Central Mozambique, where the Maputo and Beira Development Corridors are located, respectively.

Data Collections

To facilitate the distribution of the questionnaires the CPI (Centro de Promoção de Investimentos) offices in Maputo, Beira and Chimoio were used and data was collected via the e-mail system and face-to-face direct interviews.

From the companies 21 respondents were obtained in Maputo, 7 in Manica and 4 in Sofala. From NSA, 6 respondents were obtained in Maputo, 4 in Manica and none in Sofala.

From the package of received questionnaires, two responses received by post were rejected, due to insufficiency of information.

2 Characteristics of the Respondents

2.1 Business

Almost all the respondent companies are privately-owned (87.5%), except one which is public and two that are joint ventures between the State and the Private Sector (Figure 1 and Table 1). The manufacturing and financial services are the most predominant sectors (Figure 2 and Table 2). The majority of the companies employ more than 50 workers and 50% have been in operation for over ten years (Tables 3, 4 and 5). Table 6 illustrates the breakdown of companies by activities and period of operation, highlighting the manufacturing and financial services sectors. Seven companies were in operation for 2 to 5 years, 9 companies for 9 to 10 years and 16 companies for more than 10 years.

15.6% of companies with a turnover below USD 25,000, 12.5% import from within SADC and another 12.5% from outside SADC. Of the same group of companies, 9.4% export to other SADC countries and only 3.1% export to countries outside SADC. 12.5% of an annual turnover of USD 50,001 and USD 100,000, 9.4% import from within SADC and 12.5% from outside SADC. None of the companies export to other SADC countries but 3.1% export to outside SADC. Companies with 62.5 % of a turnover higher than USD 100,000, 35.5% import from within SADC, 25.0% import from outside SADC. In terms of exports, the same group of companies, 15.6% export to other SADC countries, 18.8% export to countries outside SADC. There is a substantial number of companies inquired which did not respond to questions regarding exports and imports (Table 7).

In relation to main relevance country of export, five companies export to EU, three to Zimbabwe and another three to South Africa, Swaziland and other markets. The first most relevant market represented a %age of sales of 45%, 27% and 9% respectively. As the second most relevant market, of the 5 respondent companies, 2 export to South Africa and the remaining 3 to Swaziland, Zimbabwe and USA. As the third most relevant Market only 3 companies export to Malawi, South Africa and other markets (Table 8).

62.5% of the companies inquired and with an annual turnover above USD 100,000 sold to the domestic market, and more than 65.6% of the companies have a percentage of sales on the local market of approximately 100% (Tables 9 and 10).

As for the competition by foreign companies on the domestic market, the following answers were given:

1. **Strong Competition:** 41.9% from South Africa, 19.4% from the European Union, 12.9% from Asia, 3.2% from United States of America and 3.2% from the rest of the World.
2. **Moderate Competition:** 12.9% from South Africa, 12.9% from Asia, 9. 7% from BLNS, 9.7% from other SADC countries excluding South Africa and BLNS, 3.2 % from the rest of Africa, 3.2% from the EU, and 3.2% from the USA.
3. **Weak Competition:** 16.1 from other SADC countries excluding South Africa and BLNS, 12.9% from South Africa, 12.9% from BLNS, 6.5% from rest of Africa, 6.5% from the EU, 3.2% from Asia, 3.2% from the rest of the world (Table 11).

The current business climate, according to 50% of the 30 respondents is favourable for the domestic market and less favourable for 36.7% of the same number of respondents, followed by South Africa (43.3% favourable), and very favourable (16.7%). Except the EU (31.2%) favourable and (21%) very favourable). The business climate is not substantially favourable for the rest of the countries (Table 12).

Financial services (80%), agriculture (66.7%), manufacturing (66.7%), transport and communications (50%), and other activities (50%), are sectors considered favourable in the Mozambique business climate. However, the construction sector although being the only one with a very favourable ratio of 33.3%, is also the only sector that joins fisheries (100%), wholesale (66.7%), as the least favourable for the establishment of business in Mozambique (Table 13).

In relation to South Africa, the sectors with very friendly and favourable environments are fisheries, financial services, transport, tourism and manufacturing (Table 14) while in BLNS, other SADC countries, the rest of Africa and of the world, the business environment, according to the respondents, tend to be less friendly and unsatisfactory (Tables 15, 16, 17 and 21).

In the case of the EU (Table 18), fisheries, transport and communications lead with a very favourable business climate. In the case of the USA, transport and communications lead with a very friendly climate, followed by financial services, fisheries and wholesale. And in relation to Asia, fisheries, financial services, transport and communications and wholesale distinguish themselves (Tables 19 and 20).

The correlation between the main activities of the companies and regional integration in general, as well as within SADC in particular, shows that 21 respondents throughout the different sectors of activity on Tables 22 and 23 are very much in favour. The same does not occur in relation to regional integration within COMESA and EAC (Tables 24 and 25).

On gains resulting from deeper regional integration in SADC, an annual average of between USD 529,500 and USD 4 million is estimated, while losses are estimated at an average of USD 45,000 up to a maximum of USD 200,000 (Table 26).

2.2 Non-State Actors (NSA)

60% of Non-State Actors are from civil society; one operating for two to five years, three operating for six to ten years, and two operating for over ten years. The two industrial associations, as well as two other professional associations represent 20%, each one operating for 2-5 years, and others for more than 10 years (Figure 3 and Table 27).

Regarding membership, 30% are members of the SADC National Committee and out of these, one is an industrial association, two are from professional association. 50% of the respondents are members of regional umbrella organisations one from an industrial association, two from professional association, and the other two from civil society (Table 28, 29 and 30).

As for involvement and drafting of national policies that influence regional integration, 60% from NSA participates actively in the elaboration of policies (Table 32). In relation to the involvement in policy making, two respondents from NSA strengthen strongly one from industry association, and the other from professional association, while four of those strengthen slightly (Table 32). Seven associations influence the domestic policies; three of them strongly, and the remaining four moderately (Table 33).

Concerning the debate on regional integration, 28.6% regularly discuss integration in general, while 25% regularly discuss regional integration in SADC. On the same aspect, 57.1% some times discuss regional integration in general while 25% and 62.5% also regularly and some times discuss regional integration within SADC respectively (Table 34).

On the organisation of public workshops and/seminars to discuss regional integration, no association does it regularly, but 33.3% do it some times in general, as well as within SADC. Also, sometimes 11.1% of nine NSA do it within COMESA integration (Tables 35). Concerning the publicity in the press, also no association do it regularly, but in general 22.2% do it sometimes, and within SADC integration as well as within COMESA (Table 36).

Regarding invitation and participation at SADC's National Committee meetings, only 11.1% are invited regularly while the rest have not been invited and do not participate. However, the respondents consider their participation in the National Committee of SADC pertinent, as it will increase capacity building for them on regional issues (Tables 37, 38, 39 and 40).

3 Perception on SADC Regional Integration

3.1 General Business and NSA Perception

The business and NSA perception on the possible and likely impacts of deepening regional integration of SADC has some similarities and substantial differences in many answers received, namely those related to the SADC regional integration.

There have, however, been many similarities of answers, regarding barriers to business. Both businesses and NSA think the rules of origin are very relevant, customs procedures slow, a lot of paper work and bureaucracy, corruption of officials, and a weak regional communication and transport infrastructure.

3.2 Impact of Regional Integration on the Mozambican Economy

Regarding the impact of regional integration of SADC in terms of increased competition on the domestic market, 67.7% from Business and 20.2% from NSA agree strongly, while 29.0% from Business and 77.7% from NSA only agree.

As for the impact of regional integration in the reduction of prices of inputs, 29 from Business and 9 from NSA responded. Of this number 20.7% from Business and 44.4% from NSA agree strongly, 69% from Business and 22.2% from NSA only agree, being the proportion of 6.9% and 22.2% of those who do not agree from the Business and NSA, respectively.

In relation to the impact of regional integration on the reduction of consumer goods, all those enquired from Business and NSA responded positively, except 6.5% from Business and 11.1% from NSA who disagree strongly.

Regarding the increase of efficiency in companies in order to become more competitive 16.1% from Business and 20% from NSA do not agree, while the same number of respondents from Business and 50% from NSA agree. As for the positive impacts on turnovers, both Business and NSA are positive. Regarding the impact on other domestic producers, only answers from Business were available with more than 50% agreeing positively.

In general, both Business and NSA agree that regional integration will bring benefits to the Mozambican economy. 60.7% from Business agree, and 50.0% from NSA agree strongly, highlighting:

- The increased inflow of emigrants; 27% on average from Business and 44.5% from NSA agree, with 55.6% from NSA agreeing strongly.
- Relationship to the enhancement of the human rights situation in the country: 30.0% from Business and 50% from NSA admit a positive impact in that regard. Likewise, on the reduction of the country's political sovereignty, 45% on average from Business and NSA agree (Table 41).
- The different perception between Business and NSA on the possibility of regional integration in COMESA or EAC, as 64.6% from Business would not have different answers, while 55.6% of the 9 respondents from NSA responded positively (Table 42).

Rating of Barriers

The majority of the companies and NSA interviewed have experienced trade barriers in their imports and exports in conformity with the answers on Table 43, highlighting the following relevant barriers in the two samples:

- Customs tariffs, with 42.9% from Business and 40% from NSA saying it is relevant;
- Time consuming customs procedures, 59.1% from Business and 60% from NSA both consider it very relevant;
- Substantial paper work, bureaucracy, 59.1% from Business and 77.8% from NSA answers consider it very relevant;
- Corruption of officials, with 38.1% very relevant and 33.3% relevant from Business, while from NSA (88.9%) very relevant;
- Exchange rate, with 47.6% from Business considering it very relevant and 62.5% relevant from NSA;
- Poor regional communication infrastructure, with 42.9% from Business answering relevant and 44.4% from NSA, very relevant;

- High regional communication costs, with 47.6% from Business answering relevant and 55.6% from NSA, very relevant;
- Week regional transport infrastructure, considered less relevant for Business (about 33%) while for NSA, is very relevant with 55.6%; and
- High transport costs, with 40.9% stating very relevant for Business and 50.0% stating very relevant for NSA (Table 43).

Therefore, the 18 respondents from Business and 9 from NSA considered corruption of officials, customs tariffs currently employed, poor regional communication infrastructure, sanitary and phyto-sanitary regulations as the most relevant barriers to trade in Mozambique.

The Business and NSA also considered as the second most relevant barriers to trade in Mozambique the time-consuming customs procedures and as the third most relevant barriers the substantial paper work, bureaucracy, high transport costs and corruption of officials (Table 44).

Impact of Regional Integration on Companies

Regarding the rise and decline of employment as a result of regional integration both Business and NSA consider them, on one hand likely and, on the other unlikely. Business and NSA consider that employment will decline by 25% and 44.4%, respectively.

48.4% from Business and 88.9% from NSA said regional integration will increase domestic production. As for investment abroad, 40% from Business said that was unlikely while 40% from NSA stated it was likely to occur. Referring to a high probability of closure of the country's production, 60% from NSA considered it likely to happen, while 35.5% from Business considered this unlikely. Foreseeing the formation of joint-ventures with companies from other countries, as well as of emergence of new activities, 61.3% from Business and 88.9% from NSA stated that these will, probably occur. 67.7% of Business and the totality of respondents from NSA think new activities will probably emerge as a result of regional integration.

The regional integration in SADC will bring wider opening of foreign trade to the Mozambican entrepreneurial sector. 58.1% of respondents from Business and 88.9% from NSA said there will be more imports from SADC; and 41.9% respondents from Business and 77.8% from NSA think the local companies will probably export more to other SADC countries. They also think that local companies will probably have wider access to cheaper inputs, and probably less access to cheaper foreign labour (Table 45).

On average and as a result of regional integration:

- 25.8% of 18 respondents from Business and only 10.4% of 8 respondents from NSA foresee a change in employment in Mozambique;
- 40.3% of 16 respondents from Business and 17.8% of 8 from NSA foresee an alteration in internal production;
- 32.1% of 14 respondents from Business and 15.2% of 8 from NSA think that there will be a change in terms of investment;
- 24.1% of 10 companies and 12.8% of 8 from NSA foresee changes in Mozambique exports to SADC countries;
- 38.5% of 17 respondents from Business and 21.9% of 8 from NSA foresee a change regarding imports from SADC countries;
- 20% of 15 respondents from companies foresee a change in the prices of imported goods; and
- 8.4% of 8 respondents from NSA foresee a variation of the price of inputs (Table 46).

4 Policy Debate on SADC

As stated above in section 3.2, 30% from NSA indicated that they are members of the SADC National Committee 23.3% respondents from Business, although they are not members of the SADC National Committee, 23.3% indicated that integration in general is a public debate topic. As for NSA, only 12.5 % said integration in general is not a public debate issue.

51.6% from Business are affirmative, but not very prominent, while NSA (66.7%) said that regional integration in SADC is a public debate issue in Mozambique, which does not happen in relation to COMESA and EAC, and both are strongly in favour of integration in general particularly in SADC (Table 47).

Both Business and NSA do not regularly participate in discussions on regional integration in general. However, Business (36.7%) and NSA (50.0%) do take part some times. With regard to integration within SADC, 41.4% of Business and 44.4% of NSA some times participate in workshops and seminars, contrary to what happens in relation to integration in COMESA and EAC (Table 48).

Overall, Business and NSA respondents are strongly in favour of regional integration in general, as well as within SADC as stated in Table 49, and both would like to see regional integration resulting in:

- Tariff reduction;
- Tariff removal, and the establishment of a common external tariff for all the other countries;
- Removal of trade restrictions;
- Removal of restrictions on the free movement of capital, labour and services;
- Implementation of the same level of charges;
- Elaboration of trade and competition policies for the region; and
- Creation of a single currency and political union with parliament and its executive organ (Table 50).

5 Concluding Remarks

The survey allows an analysis of the impacts of regional integration in general and, in particular, within SADC, considering the fact that certain costs could emerge for the entrepreneurial sector in Mozambique, due to the need for increased investment and modernisation of the business sector as a whole.

All companies, according to the survey, are fundamentally focussed on the domestic market and encounter a strong competition, in case of a deepening regional integration, from South Africa, having also considered the financial services, agriculture e manufacturing as activities that are more favourable on the domestic market.

In the commercial area, most respondents from business do not know whether they import or export from and to SADC and, for those that export, as for the relevance of the destination of those exports. The European Union, South Africa and Zimbabwe are singled out.

According to the respondents from NSA, there is no regular public debate on regional integration, even in the media, and there is therefore, a need for greater involvement, capacity building and debate on regional integration on the part of NSA, to allow increased sensitisation of the population in general, and associates in particular, given the fact that these NSAs are the most important vehicles for the dissemination of information.

As for the benefits to the national economy, both Business and NSA, agree that integration will bring about a positive impact.

Appendix

Figure 1-Type of Business

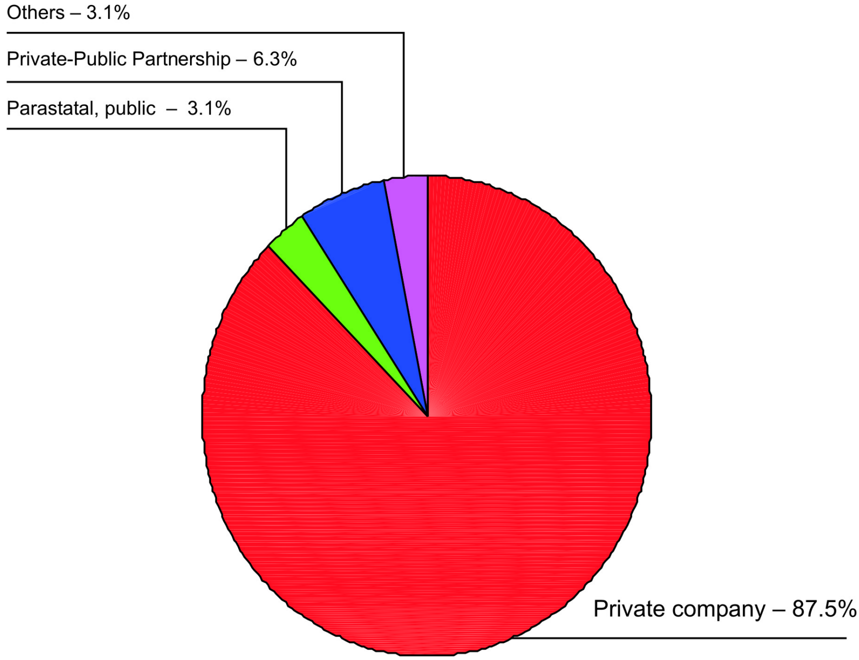

Figure 2-Main Activity of Company

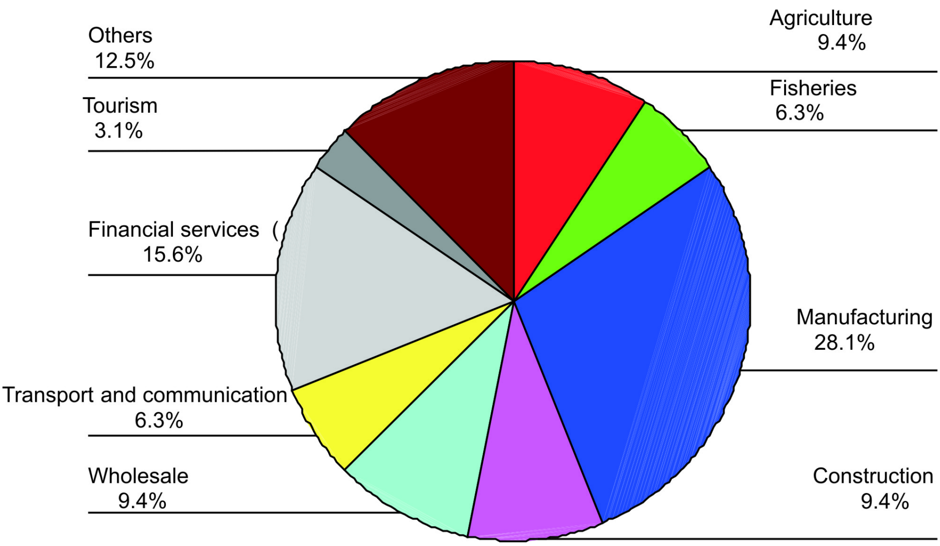

Figure 3 -Type of Organisation

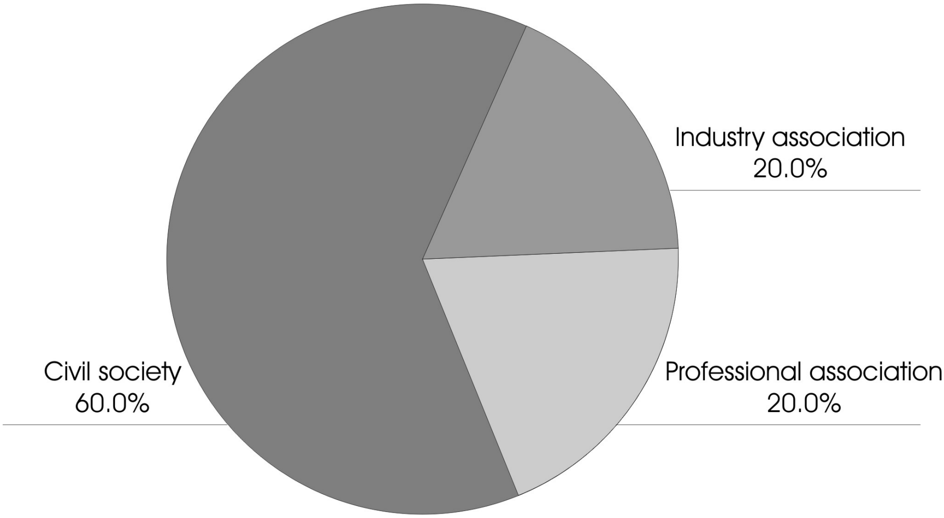

Table 1 -Type of Business of the Company

Type of Business	Frequency	%
Private company	28	87.5
Parastatal, public enterprise	1	3.1
Private-Public Partnership	2	6.3
Others	1	3.1
Total	**32**	**100.0**

Table 2 - Main Activity of Company

Activity	Frequency	%
Agriculture	3	9.4
Fisheries	2	6.3
Manufacturing	9	28.1
Construction	3	9.4
Wholesale	3	9.4
Transport and communication	2	6.3
Financial services	5	15.6
Tourism	1	3.1
Others	4	12.5
Total	**32**	**100.0**

Table 3 - Number of Employees of Company

No of Employees	Frequency	%
1-5	1	3.1
11-24	4	12.5
25-49	6	18.8
50-99	6	18.8
100+	15	46.9
Total	**32**	**100.0**

Table 4 - Period of Operation of Company

Period of Operation	Frequency	%
2-5 years	7	21.9
6-10 years	9	28.1
More than 10 years	16	50.0
Total	**32**	**100.0**

Table 5 -Type of Business and Period of Operation

Type of Business	Period of Operation			Total
	2-5 years	6-10 years	More than 10 years	
Private company	7	8	13	28
Parastatal, Public Enterprise	0	0	1	1
Private-Public Partnership	0	0	2	2
Others	0	1	0	1
Total	**7**	**9**	**16**	**32**

Table 6 - Main Activity of Company and Period of Operation

Activity	Period of Operation			Total
	2-5 years	6-10 years	More than 10 years	
Agriculture	1	0	2	3
Fisheries	0	0	2	2
Manufacturing	3	3	3	9
Construction	1	1	1	3
Wholesale	0	2	1	3
Transport and communication	1	0	1	2
Financial services	1	0	4	5
Tourism	0	1	0	1
Others	0	2	2	4
Total	**7**	**9**	**16**	**32**

Table 7 - Turnover and Value of Imports and Exports of Companies, in %

	<25,000	25,000 to	50,001 to 100,000	>100,000	No Answer	Total
Turnover	15.6	9.4	12.5	62.5	0.0	100.0
Imports from Within SADCC	12.5	9.4	9.4	34.4	34.4	100.0
Imports from Outside SADC	12.5	9.4	12.5	25.0	40.6	100.0
Exports to Other SADC Countries	9.4	6.3	0.0	15.6	68.8	100.0
Exports to Countries Outside SADC	3.1	3.1	3.1	18.8	71.9	100.0

Table 8 - Main Relevance Country of Export

First main relavance				Second main relavance				Third main relavance			
Country	Frequency	%	% Sales	Country	Frequency	%	% Sales	Country	Frequency	%	% Sales
EU	5	45	66.8	South Africa	2	40.0	10.0	Malawi	1	33.3	10.0
Zimabawe	3	27	15.3	Swaziland	1	20.0	14.0	South Africa	1	33.3	10.0
South Africa	1	9	50.0	Zimbabwe	1	20.0	10.0	Others	1	33.3	5.0
Swaziland	1	9	0.1	USA	1	20.0	20.0				
Others	1	9	0.1								
Total	**11**	**100.0**			**5**	**100.0**			**3**	**100.0**	

Table 9 - Share of Turnover from Domestic Market

Turnover	Frequency	Percent
<25,000	5	15 .6
25,000 to 50,000	3	9 .4
50,001 to 100,0003.0	4	12 .5
>100,000	20	62.5
Total	**32**	**100.0**

Table 10 - Share Turnover and % of Sales from Domestic Market

Frequency	%y	% of Sales
1	3.1	0.1
1	3.1	1.0
1	3.1	10.0
1	3.1	30.0
1	3.1	50.0
1	3.1	60.0
1	3.1	90.0
1	3.1	99.0
1	3.1	99.9
2	6.3	70.0
21	65.6	100.0
Total	**100.0**	

Table 11 - % of Competition on the Domestic Market from Foreign Companies

Country	Yes Strong	Yes, moderate	Yes, weak	No	Does not apply	No Answer
Republic of South Africa	41.9	12.9	12.9	9.7	6.5	16.1
Botswana, Lesotho, Namibia, Swaziland	0.0	9.7	12.9	22.6	25.8	29.0
Other SADC excluding above mentioned	0.0	9.7	16.1	25.8	25.8	22.6
Rest of Africa	0.0	3.2	6.5	35.5	32.3	22.6
EU	19.4	3.2	6.5	19.4	29.0	22.6
Asia		12.9	12.9	3.2	19.4	29.0
22.6						
USA	3.2	3.2	0.0	29.0	38.7	25.8
Rest of the World	3.2	0.0	3.2	25.8	35.5	32.3
Unknown Competitors	0.0	0.0	0.0	16.1	48.4	35.5

Table 12 -% of Rating of Current Business Climate in…?

Country	N	Very favourable	Favourable	Less favourable	Unsatisfactory	Don't know
Domestic Market	30	3.3	50.0	36.7	10.0	0.0
South Africa	30	16.7	43.3	10.0	3.3	26.7
Botswana, Lesotho, Namibia, Swaziland	29	3.4	20.7	27.6	3.4	44.8
Other SADC Excluding Above Mentioned	27	0.0	22.2	25.9	7.4	44.4
Rest of Africa	27	0.0	12.0	19.0	11.5	57.5
EU	29	21.0	31.2	10.5	0.0	37.5
USA	29	11.0	27.4	10.5	7.1	44.0
Asia	29	27.4	17.3	3.8	7.2	44.3
Rest of the world	29	0.0	24.1	7.3	7.3	61.3

Table 13 - % of Main Activity of Company and Rating of Current Business Climate in Domestic Market

Country	N	Very favourable	Favourable	Less favourable	Unsatisfactory	Don't know
Agriculture	3	0.0	66.7	33.3	0.0	0.0
Fisheries	2	0.0	0.0	100.0	0.0	0.0
Manufacturing	9	0.0	66.7	11.1	22.2	0.0
Construction	3	33.3	0.0	66.7	0.0	0.0
Wholesale	3	0.0	33.3	66.7	0.0	0.0
Transport and communication	2	0.0	50.0	50.0	0.0	0.0
Financial services	5	0.0	80.0	20.0	0.0	0.0
Tourism	1	0.0	0.0	100.0	0.0	0.0
Others	4	0.0	50.0	0.0	25.0	25.0

Table 14 - % of Main Activity of Company and Rating of Current Business Climate in RSA

Activity	N	Very favourable	Favourable	Less favourable	Unsatisfactory	Don't know
Agriculture	3	0.0	33.3	0.0	0.0	66.7
Fisheries	2	50.0	50.0	0.0	0.0	0.0
Manufacturing	9	11.1	33.3	22.2	0.0	33.3
Construction	3	0.0	66.7	0.0	0.0	33.3
Wholesale	3	33.3	33.3	0.0	33.3	0.0
Transport and Communication	2	0.0	100.0	0.0	0.0	0.0
Financial Services	5	40.0	40.0	0.0	0.0	20.0
Tourism	1	0.0	100.0	0.0	0.0	0.0
Others	4	0.0	0.0	50.0	0.0	50.0

Table 15- % of Main Activity of Company and Rating of Current Business Climate in BLNS

Activity	N	Very favourable	Favourable	Less favourable	Unsatisfactory	Don't know
Agriculture	3	0.0	33.3	0.0	0.0	66.7
Fisheries	2	50.0	0.0	0.0	0.0	50.0
Manufacturing	9	0.0	33.3	33.3	0.0	33.3
Construction	3	0.0	0.0	66.7	0.0	33.3
Wholesale	3	0.0	0.0	66.7	0.0	33.3
Transport and Communication	2	0.0	0.0	50.0	50.0	0.0
Financial Services	4	0.0	25.0	25.0	0.0	50.0
Tourism	1	0.0	0.0	100.0	0.0	0.0
Others	3	0.0	0.0	33.3	0.0	66.7

Table 16 - % Main Activity of Company and Rating of Current Business in Other SADC Excluding BLNS

Activity	N	Very favourable	Favourable	Less favourable	Unsatisfactory	Don't know
Agriculture	2	0.0	0.0	0.0	0.0	100.0
Fisheries	2	0.0	0.0	100.0	0.0	0.0
Manufacturing	9	0.0	44.4	11.1	11.1	33.3
Construction	3	0.0	0.0	66.7	0.0	33.3
Wholesale	2	0.0	50.0	0.0	0.0	50.0
Transport and Communication	2	0.0	0.0	50.0	50.0	0.0
Financial Services	4	0.0	25.0	25.0	0.0	50.0
Tourism	1	0.0	0.0	0.0	0.0	100.0
Others	3	0.0	33.3	0.0	0.0	66.7

Table 17 - % of Main Activity of Company and Rating of Current Business Climate in Rest of Africa

Activity	N	Very favourable	Favourable	Less favourable	Unsatisfactory	Don't know
Agriculture	3	0.0	33.3	0.0	0.0	66.7
Fisheries	2	0.0	0.0	50.0	0.0	50.0
Manufacturing	9	0.0	0.0	22.2	33.3	44.4
Construction	3	0.0	0.0	33.3	0.0	66.7
Wholesale	1	0.0	0.0	0.0	0.0	100.0
Transport and Communication	2	0.0	0.0	50.0	50.0	0.0
Financial Services	4	0.0	50.0	0.0	0.0	50.0
Tourism	1	0.0	0.0	0.0	0.0	100.0
Others	3	0.0	0.0	0.0	0.0	100.0

Table 18 - % of Main Activity of Company and Rating of Current Climate in EU

Activity	N	Very favourable	Favourable	Less favourable	Unsatisfactory	Don't know
Agriculture	3	0.0	33.3	0.0	0.0	66.7
Fisheries	2	100.0	0.0	0.0	0.0	0.0
Manufacturing	9	22.2	11.1	11.1	11.1	44.4
Construction	3	0.0	33.3	0.0	0.0	66.7
Wholesale	2	0.0	100.0	0.0	0.0	0.0
Transport and Communication	2	50.0	0.0	50.0	0.0	0.0
Financial Services	5	20.0	60.0	0.0	0.0	20.0
Tourism	1	0.0	100.0	0.0	0.0	0.0
Others	3	0.0	0.0	33.3	0.0	66.7

Table 19 - % of Main Activity of Company and Rating of Current Climate in USA

Activity	N	Very favourable	Favourable	Less favourable	Unsatisfactory	Don't know
Agriculture	3	0.0	3.3	0.0	0.0	66.7
Fisheries	2	0.0	50.0	50.0	0.0	0.0
Manufacturing	9	11.1	11.1	11.1	22.2	44.4
Construction	2	0.0	50.0	0.0	0.0	50.0
Wholesale	2	0.0	50.0	0.0	0.0	50.0
Transport and Communication	2	50.0	0.0	50.0	0.0	0.0
Financial Services	5	20.0	60.0	0.0	0.0	20.0
Tourism	1	0.0	0.0	0.0	100.0	0.0
Others	3	0.0	0.0	0.0	0.0	100.0

Table 20 - % of Main Activity of Company and Rating of Current Climate in Asia

Activity	N	Very favourable	Favourable	Less favourable	Unsatisfactory	Don't know
Agriculture	3	0.0	33.3	0.0	0.0	66.7
Fisheries	2	100.0	0.0	0.0	0.0	0.0
Manufacturing	9	11.1	22.2	11.1	11.1	44.4
Construction	3	0.0	33.3	0.0	0.0	66.7
Wholesale	2	50.0	0.0	0.0	0.0	50.0
Transport and communication	2	50.0	0.0	0.0	50.0	0.0
Financial services	5	60.0	20.0	0.0	0.0	20.0
Tourism	1	0.0	0.0	0.0	1.0	100.0
Others	3	0.0	0.0	0.0	0.0	100.0

Table 21 - % Main Activity of Company and Rating of Current Climate in ROW

Activity	N	Very favourable	Favourable	Less favourable	Unsatisfactory	Don't know
Agriculture	3	0.0	33.3	0.0	0.0	66.7
Fisheries	2	0.0	0.0	0.0	0.0	100.0
Manufacturing	9	0.0	11.1	11.1	11.1	66.6
Construction	3	0.0	33.3	0.0	0.0	66.7
Wholesale	2	0.0	0.0	0.0	0.0	100.0
Transport and communication	2	0.0	50.0	0.0	50.0	0.0
Financial services	5	0.0	60.0	20.0	0.0	20.0
Tourism	1	0.0	0.0	0.0	100.0	0.0
Others	3	0.0	0.0	0.0	0.0	100.0

Table 22 - % of Main Activity of Company and Rating of Current Climate in Asia

Activity	N	Very favourable	Favourable	Less favourable	Unsatisfactory	Don't know
Agriculture	3	0.0	33.3	0.0	0.0	66.7
Fisheries	2	100.0	0.0	0.0	0.0	0.0
Manufacturing	9	11.1	22.2	11.1	11.1	44.4
Construction	3	0.0	33.3	0.0	0.0	66.7
Wholesale	2	50.0	0.0	0.0	0.0	50.0
Transport and Communication	2	50.0	0.0	0.0	50.0	0.0
Financial Services	5	60.0	20.0	0.0	0.0	20.0
Tourism	1	0.0	0.0	0.0	1.0	100.0
Others	3	0.0	0.0	0.0	0.0	100.0

Table 23 - Main Activity of Company in Favour of Regional Integration

Activity	Yes, strongly	Yes, slightly	No	Don't know	Total
Agriculture	1	1			2
Fisheries	2				2
Manufacturing	4	2	1	1	8
Construction	2	1			3
Wholesale	3				3
Transport and Communication	1	1			2
Financial Services	5				5
Tourism	1				1
Others	2	1	1		4
Total	**21**	**6**	**2**	**1**	**30**

Table 24 - Main Activity of Company in Favour of RI within COMESA

Activity	Yes, strongly	Yes, slightly	No	Don't know	Total
Agriculture	1	1			2
Fisheries	1	1		1	3
Manufacturing	1	3	2	1	7
Construction		2	1		3
Wholesale	1	1	1		3
Transport and Communication		1	1		2
Financial Services	1		3		4
Tourism		1			1
Others	1		2	1	4
Total	**6**	**10**	**10**	**3**	**29**

Table 25 - Main Activity of Company in Favour of RI within EAC

Activity	Yes, strongly	Yes, slightly	No	Don't know	Total
Agriculture	1	1			2
Fisheries	1	1		1	3
Manufacturing		3	3	1	7
Construction			3		3
Wholesale	1		2		3
Transport and Communication			1	1	2
Financial Services	1		3		4
Tourism		1			1
Others			3	1	4
Total		**4**	**6**	**15**	**4 29**

Table 26 - Annual Gains and Losses from Deeper RI in SADC

Gains and Losses	N	Frequency	Mean	Std. Deviation	Minimum	Maximum
Annual Gains from Deeper RI in SADC	18	12	529.500,00	1.205.713,10	0,0	4.000.000
Annual Losses due to Deeper RI in SADC	16	7	45.142,86	71.952,37	0,0	200.000

Table 27 - Type of NSA and Period of Operation

Type of NSA	Frequency	%	Period of Operation		
			2-5 Y	6-10Y	> 10Y
Industry Association	2	20.0	1	0	1
Professional Association	2	20.0	1	0	1
Civil Society Organisation	6	60.0	1	3	2
Total	**10**	**100.0**	**3**	**3**	**4**

Table 28 - NSA Membership of ...

	SADC National Committee		Regional Umbrella Organisation	
	Frequency	Percent	Frequency	Percent
Yes	3	30.0	5	50.0
No	7	70.0	5	50.0
Total	**10**	**100.0**	**10**	**100.0**

Table 29 - Type of NSA and Membership in SADC National Committee

Type of NSA	Yes	No	Total
Industry Association	1	1	2
Professional Association	2	0	2
Civil Society Organisation	0	6	6
Total	**3**	**7**	**10**

Table 30 - Type of NSA and Membership in Rigional Umbrella Organisation

Type of NSA	Yes	No	Total
Industry Association	1	1	2
Professional Association	2	0	2
Civil Society Organisation	2	4	6
Total	**5**	**5**	**10**

Table 31 - Involvement in Design of Domestic Policies

	Frequency	Percent
Yes	6	60.0
No	4	40.0
Total	**10**	**100.0**

Table 32 - Type of NSA and Impact of RI on NSA Involvement in Policy Making

Type of NSA	Strengthen strongly	Strengthen slightly	Weaken slightly	Don't know	Total
Industry Association	1	1	0	0	2
Professional Association	1	0	1	0	2
Civil Society Organization	0	3	2	1	6
Total	**2**	**4**	**3**	**1**	**10**

Table 33 - Type of Organisation and Impact of RI on NSA's Influence on Domestic Policies.

Type of NSA	Strengthen strongly	Strengthen slightly	Weaken slightly	No changes expected	Don't know	Total
Industry Association	1	1	0	0	0	2
Professional association	1	0	1	0	0	2
Civil society Organization	1	3	0	1	1	6
Total	**3**	**4**	**1**	**1**	**1**	**10**

Table 34 - % Discussions in NSA of Regional Integration.

	N	Yes, regulary	Yes, some times	No	Don't know
In general	7	28.6	57.1	0.0	14.3
Within SADC Integration	8	25.0	62.5	0.0	12.5
Within Integration	7	14.3	71.4	0.0	14.3
Within EAC integration	7	0.0	0.0	85.7	14.3

Table 35 - % Organization of Public Workshops/Seminars on Regional Integration.

	N	Yes, regularly	Yes, sometimes	No	Don´t Know	Does not apply
In general	9	0.0	33.3	55.6	0.0	11.1
Within SADC Integration	9	0.0	33.3	55.6	0.0	11.1
Within Integration	9	0.0	11.1	77.8	0.0	11.1
Within EAC Integration	9	0.0	0.0	87.5	0.0	12.5

Table 36 - % Use of Press Releases to Raise Issues of Regional Integration.

	N	Yes, regularly	Yes, sometimes	No	Don´t Know	Does not apply
In general	9	0.0	22.2	66.7	0.0	11.1
Within SADC Integration	9	0.0	22.2	66.7	0.0	11.1
Within Integration	9	0.0	22.2	66.7	0.0	11.1
Within EAC Integration	9	0.0	0.0	88.9	0.0	11.1

Table 37 - Invitation to SADC National Committee Meetings.

	Frequency	Percent
Yes, regularly	1	11.1
Yes, sometimes	1	11.1
No	7	77.8
Total	**9**	**100.0**

Table 38 - Participation in SADC National Committee Meetings

	Frequency	%
Yes, regularly	1	11.1
Yes, sometimes	1	11.1
No, but was invited	1	11.1
No, was not invited	6	66.7
Total	**9**	**100.0**

Table 39 - Need to Increase Capacity Among NSA to Participate on Regional Issues

	Frequency	%
Valid Yes	9	100.0
Total	**9**	**100.0**

Table 40 - Type of NSA and Need to Increase Capacity among NSAs to Participate on Regional Issues.

	Frequency	%
Industry Association	1	11.1
Professional Association	2	22.2
Civil Society Organization	6	66.7

Table 41 - Perceptions of Regional Integration (Business and NSA in %)

	Business Response						NSA Response					
	N	Agree strongly	Agree	Disagree	Disagree strongly	Don't know	N	Agree strongly	Agree	Disagree	Disagree strongly	Don't know
… increase competition on the domestic market	31	67.7	29.0	3.2	0.0	0.0	9	20.2	77.7	0.0	0.0	0.0
… reduce prices of inputs	29	20.7	69.0	6.9	3.4	0.0	9	44.4	22.2	22.2	11.1	0.0
… reduce prices of consumer goods	31	12.9	74.2	6.5	6.5	0.0	9	33.3	44.4	11.1	11.1	0.0
… result in increased efficiency of own company in order to stay competitive	31	25.8	48.4	16.1	6.5	3.2	10	30.0	50.0	20.0	0.0	0.0
… have positive impacts on my company'sturnover	31	19.4	35.5	22.6	12.9	9.7	9	22.2	44.4	22.2	11.1	0.0
… have positive impacts on other domestic producers	30	16.7	46.7	13.3	10.0	13.3						
… benefit the economy in general	28	14.3	60.7	10.7	7.1	7.1	8	50.0	37.5	0.0	0.0	12.5
… provide new export opportunities	30	22.6	61.3	9.7	3.2	3.2	10	60.0	30.0	0.0	10.0	0.0
… provide new investment opportunities	31	35.5	51.6	9.7	3.2	0.0	10	50.0	40.0	0.0	10.0	0.0
… reduce unemployment rate	31	12.9	51.6	19.4	9.7	6.5	10	30.0	40.0	20.0	10.0	0.0
… lower costs of labour	31	0.0	19.4	58.1	12.9	9.7	9	11.1	55.6	33.3	0.0	0.0
… result in influx of immigrants	31	29.0	25.8	22.6	6.5	16.1	9	55.6	33.3	11.1	0.0	0.0
… enhance human rights situation in the country	30	6.7	30.0	30.0	13.3	20.0	10	30.0	50.0	20.0	0.0	0.0
… reduce political sovereignty of my country	31	6.5	45.2	25.8	16.1	6.5	9	0.0	44.4	22.2	22.2	11.1

Table 42 – % If RI was about COMESA or EAC would you have responded differently

	Business		Organization	
	Frequency	%	Frequency	%
Yes a lot	1	3.2		
Yes some	7	22.6	5	55.6
No hardly any	10	32.3		
No not at all	10	32.3	2	22.2
Don't know	2	9.6	2	22.2
Total	**30**	**100.0**	**9**	**100.0**

Table 43 - % Comparison If You Experience Barriers, How Relevant Are the Following Barriers?

	Business						NSA					
Barrier	Number of respondents	Very Relevant	Relevant	Hardly relevant	Not at all relevant	Does not apply	Number of respondents	Very relevant	Relevant	Hardly relevant	Not at all relevant	Does not apply
Customs tariffs currently employed	21	19.0	42.9	9.5	4.8	23.8	10	50.0	40.0	0.0	10.0	0,0
Import duties and taxes have to be paid in cash	20	35.0	15.0	20.0	10.0	20.0	9	11.1	33.3	22.2	33.3	0,0
Sanitary and phyto-sanitary regulations	21	28.6	14.3	9.5	14.3	33.3	9	33.3	22.2	33.3	11.1	0,0
Rules of origin	20	25.0	15.0	20.0	10.0	30.0	9	22.2	66.7	11.1	0.0	0,0
Export / import licenses and permits required	21	38.1	19.0	4.8	9.5	28.6	9	33.3	22.2	33.3	11.1	0,0
Lack of transparency of rules and regulations abroad	21	38.1	4.8	14.3	4.8	38.1	9	11.1	44.4	33.3	11.1	0,0
Time consuming customs procedures	22	59.1	22.7	0.0	0.0	18.2	10	60.0	30.0	10.0	0.0	0,0
Substantial paper works, bureaucracy	22	59.1	18.2	4.5	0.0	18.2	9	77.8	22.2	0.0	0.0	0,0
Corruption of officials	21	38.1	33.3	4.8	4.8	19.0	9	88.9	0.0	11.1	0.0	0,0
Lack of information about foreign markets	21	19.0	23.8	14.3	9.5	33.3	9	33.3	44.4	11.1	11.1	0,0
Visa requirements for travelling abroad	21	23.8	19.0	19.0	4.8	33.3	10	40.0	10.0	40.0	10.0	0,0
Exchange rate uncertainty Risk of non-payment of	21	47.6	4.8	4.8	14.3	28.6	8	12.5	62.5	0.0	25.0	0,0
customers abroad	20	15.0	20.0	10.0	10.0	29.0	9	11.1	11.1	33.3	44.4	0,0
No export insurance available to cover payment risks of exports	21	23.8	9.5	14.3	4.8	47.7	9	44.4	33.3	11.1	11.1	0,0
Poor regional communication infrastructure	21	23.8	42.9	14.3	4.8	14.3	9	44.4	33.3	11.1	11.1	0,0
High regional communication costs	21	23.8	47.6	14.3	14.3	14.3	9	55.6	33.3	0.0	11.1	0,0
Weak regional transport infrastructure	21	28.6	38.1	9.5	4.8	19.0	9	55.6	33.3	11.1	0.0	0,0
High transport costs	22	40.9	31.8	4.5	4.5	18.2	10	50.0	30.0	20.0	0.0	0,0
Weak law enforcement in export destination	20	10.0	20.0	25.0	5.0	40.0	8	12.5	37.5	12.5	25.0	12,5
Others (please indicate)	8	11.1	11.1	0.0	0.0	77.8	3	0.0	33.3	0.0	33.3	33,3

Table 44 - % Most Relevant Trade Barriers, Responses by Business and NSA

Business		NSA	
First most relevant barrier			
N	18	N	9
Customs tariffs currently employed	16.7	Corruption of officials	30.0
Import duties and taxes have to be paid in cash	16.7	Poor regional communication infrastructure	30.0
Time consuming customs procedures	16.7	Customs tariffs currently employed	20.0
Substantial paper works, bureaucracy	11.1	Sanitary and phyto-sanitary regulations	10.0
Corruptions of officials	11.1	Export / import licenses and permits	10.0
Sanitary and phyto-sanitary regulations	5.6		
Export/import licenses and permits required	5.6		
Poor regional communication infrastructure	5.6		
Lack of transparency of rules and regulations abroad	5.6		
Exchange rate uncertainty	5.6		
Second most relevant barrier			
N	17	N	9
Time consuming customs procedures	35.3	Corruption of officials	33.3
Export / import licenses and permits required	11.8	Poor regional communication infrastructure	22.2
Substantial paper works, bureaucracy	11.8	Rules of origin	11.1
Customs tariffs currently employed	3.2	Export / import licenses and permits required	11.1
Import duties and taxes have to be paid in cash	3.2	Time consuming customs procedures	11.1
Sanitary and phyto-sanitary regulations	3.2	High regional communication costs	11.1
Lack of information about foreign markets	3.2		
Exchange rate uncertainty	3.2		
Risk of non-payment of customers abroad	3.2		
High regional communication costs	3.2		
Weak regional transport infrastructure	3.2		
Others (please indicate)	3.2		
Third most relevant barrier			
N	17	N	9
Substantial paper works, bureaucracy	35.3	Substantial paper works, bureaucracy	33.3
Corruption of officials	11.8	High transport costs	22.2
High transport costs	11.8	Time consuming customs procedures	11.1
Export / import licenses and permits required	11.8	Corruption of officials	11.1
Time consuming customs procedures	5.9	Lack of information about foreign markets	11.1
Lack of information about foreign markets	5.9	Exchange rate uncertainty	11.1
Exchange rate uncertainty	5.9		
High regional communication costs	5.9		
Others (Please indicate)	5.9		

Table 45 - % Comparison Between Business and NSA Increasing Regional integration Could Result in ...

	Business					NSA				
Statement	N	Likely	Unlikely	Don't	Does	N	Likely	Unlikely	Don't	Does
… retrenching employees	32	25.0	50.0	3.1	21.9	9	44.4	33.3	22.2	0.0
… employing more workers	32	37.5	43.8	3.1	15.6	10	80.0	10.0	10.0	0.0
… increasing domestic production	32	48.4	19.4	3.2	29.0	9	88.9	11.1	0.0	0.0
… investing abroad	31	23.3	40.0	10.0	26.7	10	40.0	30.0	30.0	0.0
… closing down production in the country	32	12.9	35.5	9.7	41.9	10	60.0	30.0	10.0	0.0
… seeking joint-venture with companies in other SADC countries	32	61.3	16.1	9.7	87.1	10	88.9	11.1	0.0	0.0
… venturing into new business activities	32	67.7	16.1	6.5	9.7	9	100.0	0.0	0.0	0.0
… importing more from other SADC countries	32	58.1	16.1	6.5	19.4	9	88.9	11.1	0.0	0.0
… exporting more to other SADC countries	32	41.9	25.8	3.2	29.0	9	77.8	22.2	0.0	0.0
… having access to cheaper inputs	32	67.7	6.5	3.2	22.6	8	66.7	11.1	22.2	0.0
…having access to cheaper foreign labour	32	25.8	48.4	9.7	16.1	8	44.4	44.4	11.1	0.0

Table 46 -Comparison Between Business and NSA changes by increasing/decreasing in…

	Business					NSA					
	N	Mean	Std. Deviation	Minimum	Maximum	N	Mean	Std. Deviation	Minimum	Maximum	Don´t Know
Employment	18	25.8	23.6	0.0	80.0	8	10.4	14.1	0.0	35.0	30.0
Production	16	40.3	25.0	0.0	100.0	8	17.8	25.1	0.0	60.0	30.0
Investment	14	32.1	17.3	0.0	50.0	8	15.2	23.6	0.0	70.0	30.0
Exports to SADC countries	10	24.10	32.0	0.0	100.0	8	12.8	23.0	0.0	50.0	50.0
Imports from SADC countries	17	38.5	30.4	0.0	100.0	8	21.9	21.4	0.0	60.0	30.0
Import prices	15	20.0	12.1	0.0	40.0						
Input prices						8	8.38	10.9	0.0	67.0	30.0

Table 47 - % Is Regional Integration a Topic in the Public Debate in Your Country?

	Business					Organization				
	N	Yes, very much	Yes, but very prominent	No	Don't know	N	Yes, very much	Yes, but not very prominent	No	Don't know
Integration in general	30	23.3	43.3	20.0	13.3	8	50.0	37.5	12.5	0.0
SADC Integration	31	29.0	51.6	12.9	6.5	9	66.7	22.2	11.1	0.0
COMESA Integration	28	3.6	21.4	60.7	14.3	7	0.0	28.6	71.4	0.0
EAC integration	28	3.6	10.7	64.3	21.4	7	0.0	14.3	85.7	0.0

Note: COMESA Common Market for Eastern and Southern Africa
EAC East African Community

Table 48 - % Have You Attended Workshops and/or Seminars Discussing Regional Integration?

	Business respondents						NSA respondents						
	N	Yes, r egular	Yes, sometimes	No, because no workshops were offered	No, but workshops were offered	Does not apply	N	Yes, regularly	Yes, sometimes	No, because no workshops were offered	No, but works hops were offered	Don't know	Does not apply
In general	30	6.7	36.7	16.7	23.3	16.7	8	0.0	50.0	12.5	25.0	0.0	12.5
SADC Integration	29	6.9	41.4	17.2	17.2	17.2	9	11.1	44.4	22.2	11.1	0.0	11.1
COMESA Integration	30	0.0	10.0	40.0	20.0	30.0	8	0.0	12.5	37.5	12.5	12.5	25.0
EAC integration	30	0.0	6.7	43.3	20.0	30.0	8	0.0	0.0	37.5	12.5	12.5	37.5

Table 49 - % Are You Overall in Favour of Regional Integration?

	Business respondents					NSA respondents				
	N	Yes, strongly	Yes, slightly	No	Don’t know	N	Yes, strongly	Yes, slightly	No	Don’t know
In general	30	69.0	20.7	3.4	6.9	9	77.8	22.2	0.0	0.0
SADC integration	31	66.7	26.7	0.0	6.7	8	75.0	25.0	0.0	0.0
Comesa integration	30	20.7	34.5	34.5	10.3	8	37.5	25.0	12.5	25.0
EAC integration	30	13.8	20.7	51.7	13.8	8	25.0	0.0	37.5	37.5

Table 50 - % How Far Would You Like Regional Integration to Go?

	Business respondents				NSA respondents			
Degree of Regional Integration	N	Yes	No	Don't	N	Yes	No	Don't
Reduce tariffs within SADC	31	90.0	6.7	3.3	9	100.0	0.0	0.0
Remove tariffs within SADC, establish Common External Tariff to all other countries	31	86.7	6.7	6.7	10	80.0	10.0	10.0
Remove all trade restrictions within SADC	31	90.0	6.7	3.3	9	66.7	33.3	0.0
Remove restrictions on the free movement of capital within SADC	31	90.0	3.3	6.7	9	77.8	11.1	11.1
Remove restrictions on the free movement of labour within SADC	31	76.7	13.3	10.0	9	55.6	33.3	10.0
Remove restrictions to the free movement of services within SADC	31	90.0	3.3	6.7	9	100.0	0.0	0.0
Implement same level of taxes within SADC	30	69.0	27.6	3.4	9	66.7	22.2	11.1
Design competition and trade policies for SADC as a whole	29	86.2	6.9	6.9	9	88.9	0.0	11.1
Create single currency within SADC	30	83.3	6.7	10.0	10	80.0	0.0	20.0
Create political union with parliament and executive	30	60.0	26.7	13.3	9	66.7	22.2	11.1

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