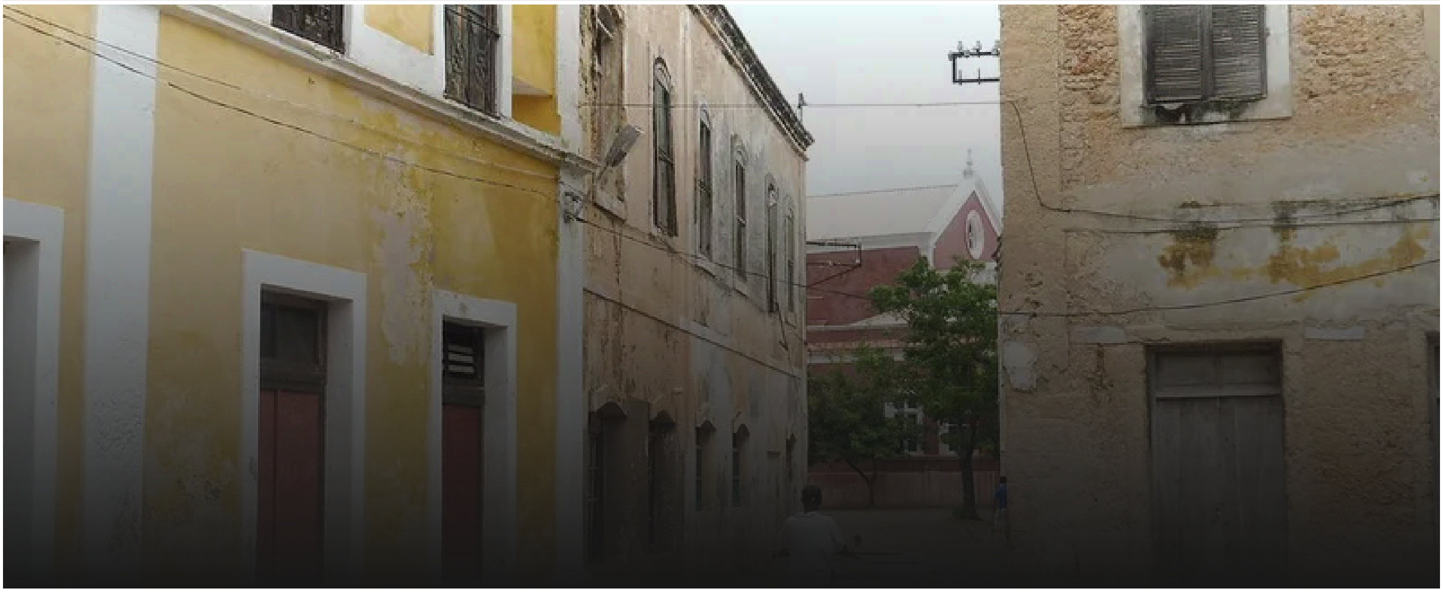

Andrea Correa-Jimenez Rahat Siddique Fernando Pino July 17th, 2024

Unlocking Mozambique's economic potential for sustainable growth

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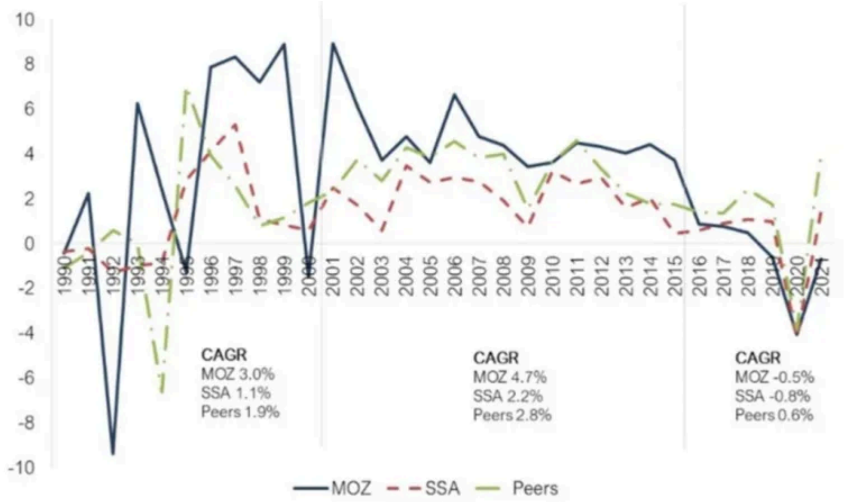
Mozambique has abundant natural resources, natural gas reserves, a young population, and a strategic position in Southern Africa. Yet it remains one of the world's poorest nations. To unlock the country's economic potential for sustainable growth the focus must be on infrastructure and government regulation, write Andrea Correa-Jimenez, Rahat Siddique, Fernando Pino.

Following the end of the civil war in 1992, Mozambique experienced strong economic growth, mainly due to reconstruction efforts, market-oriented reforms, and favourable global commodity prices. From 2000 to 2015, the extractive industries led economic dynamism, resulting in an average annual growth rate of 4.7 per cent per capita.

This growth trajectory was disrupted in the 2010s by falling export prices, a debt scandal, and then, in 2020, by the Covid-19 pandemic (Figure 1). These events led to an economic contraction and a significant increase in poverty levels, which reached over 60 per cent in 2020. Now, the country's GDP per capita stands at around £385, well behind other resource-based economies and the sub-Saharan African average.



Simple average of countries. SSA excludes Mozambique. The peer group is composed of South Africa (ZAF), Cameroon (CMR), Ghana (GHA), Uganda (UGA), Tanzania (TZA), Rwanda (RWA), Zambia (ZMB), and Chile (CHL). Source: WDI.

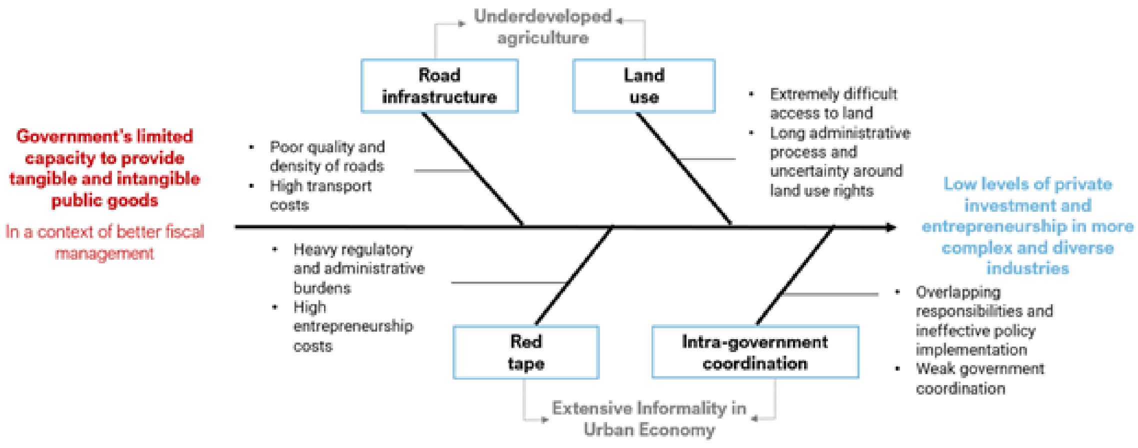
Identifying challenges

The first step is to diagnose the problem. The government's limited capacity to provide public goods is due to poor economic performance and low levels of private investment.

Although Mozambique has received significant domestic and foreign investment in recent years, most of these investments have been directed towards extractive industries. However, these industries have limited links to the rest of the country's economy, resulting in a lack of employment opportunities, low labour productivity, an underdeveloped economy, an extensive informal labour market and a reliance on agriculture.

To unlock Mozambique's economic potential, it is necessary to improve physical infrastructure and protect intellectual property while keeping fiscal policy stable. This will help increase private investment and create a diverse and complex economy (Figure 2). To achieve this, the government must tackle the three immediate challenges limiting its capacity: poor infrastructure, regulatory barriers, and weak government coordination.

Road infrastructure needs to be at the centre of these policies. A strategic, transparent, and accountable plan for road development is needed as well as engagement with the private sector through public-private partnerships.



Authors' elaboration based on the Growth Diagnostic of Mozambique (Arroyo, Canavan, and Enciso; 2024).

Inadequate infrastructure in Mozambique is preventing private investment and stifling economic growth, especially in the rural and agricultural sectors. The road system has remained in poor condition for many years, with 80 per cent of it unpaved and in dire need of maintenance. This has resulted in high transport costs, making it difficult for farmers, domestic companies, and large investors to access domestic and foreign markets.

The road network has limited connections between rural and urban areas. This has reduced the capacity of workers to move into higher value-added industries. Unfortunately, public road investment has been constrained due to a lack of resources and the state's inability to manage public infrastructure investment and maintenance programmes.

One reason for this lack of resources is its excessive bureaucratic procedures and regulations. These include restrictions on accessing land for productive sectors and demonstrate the government's inability to foster a business-friendly environment. These obstacles result in increased costs for new and existing firms, lead to a decline in medium-sized enterprises, and push people into the informal economy, with 96% of the workforce in the informal sector.

Accessing land is complicated, with lengthy procedures for registering and transferring user rights. These hurdles deter investment and sustain a feedback cycle of petty corruption, as companies circumvent regulatory obstacles to continue their operations and investments.

While the workforce is informal, the government is siloed. There is a need for greater coordination among government agencies. There are currently overlapping responsibilities and ineffective policy implementation, which ultimately hampers private firms' trust in the government's ability to create a favourable business environment and follow though with any promised investment or policy.

Bureaucratic processes to access land have shown to be burdensome, with the land access performance in Mozambique being very low compared to its peer countries. The country has scored just 53 out of 100 in the registering property score, and 7.5 out of 30 in the quality of land administration index. Poor regulatory quality and weak government coordination further hinder investment attraction, which is crucial for building a more productive economy.

Policy recommendations for inclusive growth

In terms of infrastructure, establishing a high-level board to oversee the long-term strategic plan for road infrastructure can ensure transparency and accountability. This should be accompanied by the creation of a delivery unit to implement the plan and monitor progress. PPPs need to improve their legal framework to support road infrastructure investment. Alongside this, there is the need to develop a prioritisation criterion for investment projects based on their impact on market access, agricultural growth, and regional connectivity.

The reforms to regulation and government coordination need to be simplified. Particularly, the business registration processes and the access, transfer, and use of land-use rights certificates. Implementing digital reforms for transparency and accountability, including digitising core public processes can improve connectivity among government entities. Similarly, adopting a business-friendly and risk-based approach to government inspections can foster cooperation with businesses while ensuring regulatory compliance. The Ministry of Industry and Trade needs to develop an effective, well-oriented action plan to integrate all these policies.

There are additional considerations such as strengthening public finance management and improving the revenue administration to generate fiscal space for the development of the infrastructure strategy. Effective implementation requires collaboration among government, private stakeholders, and technical experts. This decisive action is already being shown in the design of the country's National Development Strategy and can shape a path towards a resilient, diversified, and inclusive economy that fosters prosperity for all its citizens. But it needs to continue and is only just the start.

The Growth Co-Lab at LSE recently partnered with Mozambique's Ministry of Economy and Finance, the US Agency for International Development, the International Monetary Fund and the African Development Bank to identify the best ways to promote inclusive economic growth using the growth diagnostics framework. Read more about the research here.

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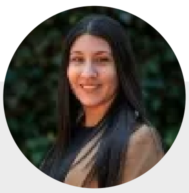
About the author



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Andrea is a research officer at the Growth Co-Lab. She has experience in monetary and fiscal policy, macroeconomic modelling, and climate change. She has previously consulted for the IDB evaluating policy

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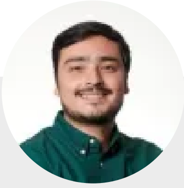
Rahat is the Policy Manager at the Growth Co-Lab and a Policy Fellow at HM Treasury. Her interests focus on UK economic policy and decarbonization. She previously worked at the CBI and the Centre for Economic Performance at LSE. Rahat holds a master's in public policy and a bachelor's in economics from LSE.



Fernando Pino

Fernando has worked at the Growth Co-Lab, LSE's economics department, and the IGC on economic growth and development policy in Tanzania, Mozambique, and Zambia. He also studied bankruptcy regulation and innovation in the US. Previously, he was a financial and economic analyst for Chile's Ministry of Labour and Central Bank, focusing on financial stability and pensions

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