Competition Scenario in Mozambique

Prepared by
Alberto T Bila[1]

Supported by
Consumer Unity & Trust Society
(CUTS International)

August 2006

[1] With support from Sajeev Nair, Regional Adviser, CUTS Africa.

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About the Report

This report/chapter provides an overview of the key sectors of the economy and an assessment of the state of competition in Mozambique, as part of the research carried out under the project "Capacity Building on Competition Policy and Law in Seven Countries of Southern and Eastern Africa" (7Up3 project) during 2005-2006.

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Chapter One**:** provides an overview of the Economy.

Chapter Two**:** Economic Policy Context **-**presents the development context and economic policies, such as macro economic policy, investment, industrial and trade policies, poverty reduction strategies, labour, licensing, etc. as well as their implications on the competitive functioning of the market in Mozambique.

Chapter Three**: a**nalysis of the Business Sector in Mozambique. This section focuses on the key sectors in manufacturing, agro-processing and services.

Chapter Four**:** reviews the legal and regulatory framework in selected sectors, such as electricity, telecommunications, and banking, transport, etc. considering the significant interface between sectoral policies and competition policy and law.

Chapter Five**:** looks at the market structure in the country

Chapter Six**:** analyses the major anti-competitive practices with examples of instances, special practices, cases and disputes, which were reported in Mozambique.

Chapter Seven**:** looks at perspectives on competition policy and law, drawn on the basis of a field survey undertaken within the framework of the 7Up3 project, are presented in this section.

Chapter Eight**:** analyses the recent developments with regard to the drafting of a competition policy and law in Mozambique.

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ii. Introduction

A well functioning economic system requires competition among the producers and providers of various goods and services in the market place. In order to ensure quality goods and services at reasonable prices to the consumers, there is need for a competitive business environment and an effective regulatory mechanism in the economy. Therefore, competition policy and law is a useful tool, which could be used carefully to achieve economic efficiency, competitive markets and public welfare.

While competition policy is a useful tool for setting the rules for the functioning of a liberal economic system, unregulated competition can lead to crowding out of small firms by large firms and welfare losses to consumers. Anti-competitive practices are inherent characteristics of any market oriented economic system, though the gravity and nature of the practices vary from sector to sector and country to country. Anti competitive practices are not only confined to the private sector entities but also emanates from public sector firms, trade associations, interest groups, etc. Many a times, even well intentioned public policies and regulations can become smoke screens for anti-competitive and monopolistic practices. For instance, welfare oriented public health initiative through fortification of household sugar with vitamin A in a Southern African country has recently been criticized by consumer bodies for discouraging import competition, which resulted in excessive prices for sugar and welfare losses to the consumers.

This study examines the state of competition in Mozambique by analysing the policy framework, behaviour of the market players in key business sectors of the economy, and through the help of a purposive survey and personal discussions with a cross section of the society. The project is in response to the need for capacity building and targeted policy advocacy in developing appropriate competition policy and law for enhancing economic development and consumer welfare. In the preparation of the study report, we have also benefited from a preliminary country paper, which was presented to the first National Reference Group and valued responses received from many stakeholders whom we approached for details.

Mozambique: Basic Facts

Mozambique became an independent republic in 1975 after a long period of colonial rule by Portugal. Since independence, Mozambique followed a communist/socialist pattern of political system and economic development model with centralized planning and predominance of public sector for about two decades. Immediately after the independence the new republic plunged into a civil war for 16 years, which caused severe damage to human life, social infrastructure as well as economic development.

In 1994, Mozambique adopted a multiparty democracy and civil war ended with a cease-fire agreement with the rebel movement in 1995. Consequently, political and socio-economic stability emerged in the country. The socio economic changes since the introduction of a multiparty political system and economic reforms have been and rapid in Mozambique.

Mozambique is situated on the southeastern coast of Africa and it shares land border with Zambia, Malawi, Tanzania, Zimbabwe, Swaziland and South Africa. The total land area of Mozambique is 799,390 sq. km. For Administrative purposes, Mozambique is divided into 11 provinces[2]. Savannah and secondary forests cover about 70 percent of the land area. Approximately 45 percent of the land is classified as domestic land, which includes crop and permanent pasturelands. The land is owned by the state. The total area of the exclusive economic zone (EEZ) is about 562 sq. km. Mozambique has a coastline of 2,700 km. in length and it provides large access to marine resources. Mozambique is also endowed with over 100 rivers including the Zambezi, which are sources for irrigation, power generation and other economic activities.

According to the government estimate of 2006, the population of Mozambique is 19.88 million[3]. It grows at an annual rate of 2.5 percent. About 45 percent of the population comprise of young people below 15 years old. The working or active population (between ages 15 and 65) constitutes about 50 percent of the total population. About two thirds of the population lives in the coastal zone, which has easy access to food and employment opportunities. Most of the towns, tourist attractions, infrastructure facilities, industry and commerce are also located in this area.

According to the 2004 Human Development Report (HDR) of the United Nations Development Programme (UNDP), Mozambique ranks 171st out of 177 countries on the human development index, falling below Ethiopia and only ahead of Guinea-Bissau, Burundi, Mali, Burkina Faso, Niger and Sierra Leone. Although levels of poverty remains high by several standards, some progress in poverty reduction has been achieved in recent years as a result of sustained economic growth coupled with public and private investment in infrastructure development, rehabilitation programme and social sectors. According to an estimate by the government on incidence of poverty suggests that the percentage of total population falling below the absolute poverty line has decreased from 69 percent in 1997 to 54 percent in 2003[4].

The economy of Mozambique is mainly dependent on agriculture. Agriculture constitutes about a quarter of the GDP and the bulk of merchandise exports. Traditional export items include shrimp and marine products, sugar cane, cashew nuts, copra, tobacco and cotton. The industrial and manufacturing sector together with the mining sector accounts for 35 per cent of the GDP; the major manufacturing sector includes food processing, tobacco, beverages, aluminium, textiles, and footwear. The mining sector has potential but remains underdeveloped. Mozambique is a net importer of services. Service sector contributes about 40 percent of the GDP. The key service sector businesses in Mozambique are construction, tourism, transport, energy, communication, banking, and consultancy.

Table ii.1: Basic Economic Indicators of Mozambique

[2] http://www.ine.gov.moz/Ingles (cited on 18/7/2006)
[3] Ibid
[4] FAO, (2005) Special Report: FAO/WFP Crop and Food Supply Assessment Mission to Mozambique, PDF copy, June, p.7.

Items/Indicator	**Value**	**Year**
Total area	801,590 sq. km	2004
Population	18.79 million	2003
GDP	US$5.5 billion	2005
Annual GDP growth rate	8.2%.	2004
Per capita gross national income (2004):	US$250	2004
Per capita gross domestic product	US$276	2004
Agriculture (cotton, cashew nuts, sugarcane, tea, cassava (tapioca), corn, coconuts, sisal, citrus and tropical fruits, potatoes, sunflowers, beef and poultry.	25.2% of GDP; (annual growth rate 7.9%)	2004
Industry: (food, beverages, chemicals (fertilizer, soap, paints), aluminium, petroleum products, textiles, cement, glass, asbestos, and tobacco)	35.1% of GDP; (annual growth rate 10%)	2004
Services	39.7% of GDP; annual growth rate 4.7%	2004
Total Imports	US$1.424 billion	2004
Main import items	Machinery and equipment, vehicles, fuel, chemicals, metal products, foodstuffs and textiles	2004
Total Exports	US$1.258 billion.	2004
Main export items	Aluminium, cashews, prawns, cotton, sugar, citrus, timber, bulk electricity, natural gas.	2004
Foreign direct investment (net):	US$317.7 million	2003
Major export partners:	Belgium 25.7%, South Africa 14.3%, Italy 9.6%, Spain 9.3%, Zimbabwe 4.7% Portugal	2003
Major import partners:	South Africa 20.6%, Australia 9.0%, US 3.8% Portugal, Japan	2003

Sources: USAID http://www.state.gov/r/pa/ei/bgn/7035.htm Cited on 19-7-06) & 2006 index of economic freedom, http://www.heritage.org/Research/features/index/country.cfm?id=Mozambique
Cited: 19-7-2006)

Mozal, an aluminium smelter which started production 2000 is a successful example of a foreign direct investment (FDI) based enterprise, which boosted the domestic and export sector of Mozambique. Having first invested in Mozambique in the late 1990s, the mining company made a $1bn expansion to the existing aluminium plant by constructing Mozal II around 2003. This investment made Mozambique among the major producers of aluminium in the world.

Mozambique's geographical location and natural resource base offers ample scope for investment and rapid social and economic development of the country. It is also endowed with a variety of natural resources, including forests with diverse wildlife, minerals, water resources with a large potential for hydroelectric power generation and marine resources. Located on the coast of Indian Ocean, Mozambique offers harbour and transportation facilities to land locked neighbouring countries.

However, Mozambique faced a huge challenge in achieving economic development. Nearly 70% of the population lives below the poverty level. Sixty per cent of adults are illiterate. About 15 per cent of Mozambican adults are considered to be HIV positive. Despite increased vaccination rates and improving access to basic health service, over 60 per cent of the population remain without access to health care.

In order to address the challenges of economic development, and to manage the mounting external and internal debt, Mozambique initiated the Structural Adjustment Programme (SAP) in 1987 in consultation with the International Financial Institutions. The SAP aimed at reducing the government control over the economy, promoting the agricultural production, improving the marketing of agricultural products, reducing internal and external trade imbalances, improving resource distribution, and expanding the private sector in economic activities. In the process, most of the industries and parastatal enterprises owned by the government were privatized and limits on public spending were introduced.

The liberal economic policies of the government, coupled with the political reconciliation, rendered positive economic results in a number of sectors. During 1986 to 1989 GDP growth increased from 0.9 percent to 5.3 percent, accompanied with an increase in consumption per capita. Inflation fell from 170 percent in 1987 to 40 percent in 1990. In spite of these economic achievements, the external debt remained high compared with the GDP and foreign exchange earnings.

In general, the change has been remarkable since early 1990s in some areas with the emergence of functioning national institutions, three general elections, and the evolution of a new political culture and liberalized economic regime, increased investment and growth rate. However, significant barriers to private sector initiative, investment and competitive market environment in the economy still remain. Economic policy making is still dominated by bureaucratic processes. Corruption, undue delay, weak legal system, numerous regulations and poor service delivery by public agencies are key challenges in improving private sector confidence in the economic governance.

Chapter 1

OVERVIEW OF THE ECONOMY

Mozambique still ranks among the least developed countries (LDC) with low socio-economic indicators. Per capita GDP in 2004 was estimated at US $ 276, a significant increase over the mid-1980s level of US $120.With a high foreign debt (originally $5.7 billion at 1998 net present value) and a track record on economic reform, Mozambique was the first African country to receive debt relief under the initial heavily indebted poor countries (HIPC) initiative in 1999. In April 2000, Mozambique qualified for the Enhanced HIPC programme as well and attained its completion point in September 2001.

HIPC completion point encouraged the Paris Club donor nations agreeing to substantially reduce the remaining bilateral debt in November 2001. This led to the complete forgiveness of a considerable volume of bilateral debt. During the summit in July 2005, the G-8 nations agreed to provide significant multilateral debt relief for the world's least developed nations. As a follow up, in December 2005, the International Monitory Fund (IMF) formalized the complete cancellation of all Mozambican debt contracted by the IMF.

Between 1994 and 2004 average annual GDP growth rate was 8.2%. Mozambique achieved this growth rate despite the devastating floods of 2000, which slowed down the GDP growth to 2.1%. The World Bank has predicted an average growth of 7% during 2004-2008 period, where as the Government projects between 7%-10% growth a year over the same period. However, to keep the momentum of growth requires economic reforms, enhanced FDI, development of the agriculture, transportation, telecommunication and tourism sectors. Enhancing economic growth in the agricultural sector is a major challenge. Although about 80% of the population engages in small-scale agriculture, the sector suffers from inadequate infrastructure, investment, marketing networks, high cost of production and low incentive among small farmers due to import competition. However, a large portion of Mozambique's arable land is still uncultivated, which offers room for growth opportunities in the sector.

Economic Reform

Economic reform has been extensive since the late 1980s. Since then more than 1,200 state owned small and medium enterprises have been privatized. Preparations for privatization in the telecommunications, electricity, ports, and railroads are still under consideration. When privatizing a parastatal enterprise the government usually selects a strategic foreign investor and concession agreement would be finalised thereafter. As part of the reform in the trade policy sector, Mozambique introduced a value-added tax system in 1999 as part of its efforts to increase domestic revenues. Further, customs duties have been reduced, and customs management has been streamlined and reformed. The new reforms under consideration include the age old Commercial Code reform; revision of the labor law; comprehensive judicial reform; strengthening of financial sector; civil service reform; and improved government budget making, audit, and inspection capability.

Monetary Policy

The government's tight control of spending and the money supply combined with the initial financial sector reform, reduced inflation from 70% in 1994 to about 5% in 1998-1999. In 2003 inflation reached 13.5% in 2004 it decreased slightly to 12.6% based on the consumer price index. As of late December 2005, the exchange rate was approximately 24,000 Meticais per US dollar, though it had been as low as 18,000 and as high as 29,000 at different times during 2005. The exchange rate of meticals in the first half of 2006 stands between 26000-27000 for a US dollar. Since the beginning of 2006, Mozambique introduced a new series of Meticais. One new metical worth 1,000 old meticais. This reform is an attempt to simplify the rather depreciated currency, where prices of basic goods often run into millions of Meticais.

Expanding International Trade

In 2004 Mozambique exported $ 1.26 billion worth of goods and imported $ 1.4 billion. The ratio of exports has increased significantly since the early 1990s, when it used to be about 1:4 ratio. Support programmes provided by donors, private and foreign direct investments have largely compensated for balance-of-payment shortfalls. A number of recent foreign investment projects have improved the external trade balance. Mozal, a large aluminium smelter that commenced production in 2000, greatly expanded Mozambique's trade volume. Further, the Sasol gas pipeline connection to South Africa enhanced exports revenue in recent years.

Traditional Mozambican exports include cashew, shrimp, fish, copra, sugar, cotton, tea, tobacco, citrus and exotic fruits. Most of these industries are being rehabilitated since the economic liberalisation, except for cashew and cotton, which faced unfavorable business environment. In addition, Mozambique is less dependent upon imports for basic food especially in the rural areas as a result of steady increases in local production. However, southwestern region of Mozambique still imports considerable volume of food items from South Africa and Swaziland. Imported food items found to be cheaper and they compete with local products. In the case of poultry, imported frozen chicken from Brazil has a visible price advantage as they sell at about half the prices of the locally produced chicken. The share of manufacturing especially consumer durables in the import remained high and most of the products come from South Africa, Portugal, China and South and South East Asia.

In 2005, despite a jump in the oil import bill, the trade balance improved slightly, largely due to aluminium exports. The construction of the Corridor Sands project and the Moma project are expected to boost imports of capital goods in 2006, but will also start to contribute to export growth towards the end of 2007.

Mozambique's principal export market is the Netherlands, to which 100 per cent of Mozal's aluminium is exported, reflecting the importance of trade links with Netherlands as a hub for the trans-shipment of aluminium. Other important destinations for Mozambique's exports include South Africa, Malawi and Portugal. The largest source of imports is South Africa, followed by the Netherlands, Portugal, Australia, India and the

USA. At present Mozambique's major share of export revenue comes from the Mozal and Sasol gas pipe line projects.

SADC, ACP-EU and WTO Trade Agreements

In December 1999, Mozambique approved the Southern African Development Community (SADC) Trade Protocol. The Protocol aims at creating a free trade zone among more than 200 million consumers in the SADC region. Implementation of the Protocol began in 2002 and has an overall zero-tariff target set for 2008, however Mozambique's country-specific zero-tariff goal is currently placed for 2015. Under the SADC arrangement, Mozambique will have to announce a schedule of tariff reductions on intra-regional imports beginning in 2008. Mozambique also plans to reduce the highest tariff rate from 25% to 20% on imports from all countries, including non-SADC countries, in 2006.

The Economic Partnership Agreement (EPA) negotiations for the European Union, which began in 2002, entered a new round in September 2005, and the present target is to complete it by the end of 2007. The objectives of the proposed EPAs include liberalised trade between SADC EPA group and the EU in the longer term, and EU support for trade capacity building in the medium term. At present, Mozambique benefits from duty-free access to the EU under the Everything But Arms EBA initiative and Cotonou arrangement[5]. Since SADC protocol has flexibility for Sugar, domestic Sugar sector gets high protection and the sugar prices are regulated in the market and imported sugars attracts 70% duty. Mozambique joined the WTO in 1995/1996 and it takes part the WTO deliberations and it is also an active member of the LDC and Africa group.

[5] AfDB/OECD 2005-2006 (2006) African Economic Outlook, Mozambique, p.4

Chapter 2

ECONOMIC POLICY CONTEXT

This section analyses the key economic policies such as fiscal, monetary, investment, industrial and trade policies, poverty reduction strategic, labour, licensing, etc. as well as their implications on the competitive functioning of the market and business environment in Mozambique.

Social and Economic policies affecting competition

Domestic policies are the key to effective economic participation in the global economy[6]. First and foremost are trade policies that are broadly neutral with respect to both imports and exports, and which in particular leave potential exports free of unnecessary regulatory burdens on investment, imports, employment, and production. However, in addition to 'open' trade policies, sound regulatory environment for telecommunications, transport infrastructure, education, law enforcement and other business related factors are necessary for providing an enabling environment to promote trade and investment. There are encouraging signs in a number of areas since the introduction of deregulation, and of trade and investment liberalisation in the form of increased exports and development of domestic industries in a variety of agro processing and manufacturing sectors.

Macroeconomic Policy Reforms

In order to address the poor economic performance, the government of Mozambique introduced a comprehensive "Economic Rehabilitation Programme" (ERP) in 1987, with the assistance of the International Monetary Fund (IMF) and the World Bank. Subsequently, the reform effort was renamed "Economic and Social Rehabilitation Programme" (ESRP) in 1989 with a view to focus on the social dimensions of the adjustment effort.

The objectives of the reforms were initially to raise production levels, reduce financial imbalances, eliminate parallel markets and create a basis for future economic growth. In particular, the plan was to increase market oriented agricultural production by the family sector by an average growth rate of 29 per cent per year between 1987 and 1990 and boost industrial output and transport sector by average annual growth rates of 12 per cent and 23 per cent, respectively[7].

The ERP interventions included a series of stabilization measures such as fiscal adjustments, monetary restraint and devaluation of the currency. In harmony with the market-oriented reform, price and trade liberalization efforts have also been pursued with a view to promote efficient allocation of resources. On the fiscal side, the government enforced strict limits on expenditures by many state owned companies and institutions since the adoption of the ERP.

The official exchange rate was brought to more realistic levels after the introduction of the ERP, and an official market for foreign exchange was introduced in 1990. The real interest rates on bank loans became positive in the late 1991 for the first time since

[6] Flatters, 2001b
[7] Economist Intelligence Unit, 1996.

independence in order to promote savings and make credit allocation more efficient. Financial sector reforms were speeded up in 1992 with the separation of commercial and central bank functions of the "Banco Comercial de Moçambique" (BCM). Private sector participation in the banking and financial sector has expanded since the introduction of financial reforms, and interest rates were fully deregulated in 1994.

As part of the reform in the agricultural sector, the government controlled only prices of few items such as sugar, bread, fuel, transport and medicines and subsidies were progressively lifted from food and other items. Consequently, consumer prices of imports and domestic goods and marketed crops rose considerably towards market rates during the early reform period.

Trade Policy Reform

Mozambique has carried out several domestic and external trade reforms, aimed at improving the enabling environment for investment and promoting competition. This is despite the unfavourable regional and global trading environment especially the agricultural subsidies of some of the world's richest trading countries adversely affect the farming sector of the country. However, domestic policy environment and lengthy procedures governing business and trade in Mozambique needs further improvement to give the business sector better opportunity to participate and compete not only in the domestic market but also in regional and global trade, and benefit from the liberalisation process.

In 1999, Mozambique adopted a formal Trade Policy Strategy (TPS) as part of its effort to modernize the economy. Mozambique, as a member of the SADC), signed a Trade Protocol that became effective in 2000, and whose main objective is the establishment of a SADC Free-Trade Area. Most-favoured nation (MFN) import duties range from 2.5% to 30% ad valorem, and the simple average applied MFN tariff rate is 13.8%, among the lowest in southern Africa[8].

Mozambique has reformed the tariff structure in recent years essentially complying with the SADC and WTO agreements. However, many people in the business sector felt that the adoption of a much more uniform tariff structure would provide a level playing filed for different sectors. Lower tariff rates would reduce corruption and smuggling. They would also reduce the anti-export bias of the current tariff structure. The argument is that the revenue effects would not be very significant in budget as the government depends on trade taxes for only about 15 percent of total revenue. Further, the country has the flexibility to introduce contingent protection measures under the 'antidumping' and 'safeguard' measures agreed by the WTO.

In terms of the effect of the present trade regime, a large cost of the barriers to international trade is borne by not only the export oriented sector but also by some domestic sector which depends on imported inputs. The freeing of exports from these hidden costs would require meaningful reform in import tariffs, customs and trade facilitation. Removal of unnecessary barriers that burden exporters with the costs of the

[8] Mozambique-EU country strategy paper and national indicative programme 2001-2007, (PDF copy) p. 8

domestic regulatory environment should be one of the highest priorities in trade policy reform in Mozambique.

Investment Policy

The Foreign Investment and Advisory Services (FIAS)[9] report of 2005 documented many of the basic problems in Mozambique's investment and business environment. While Mozambique has attracted several large capital-intensive investments in the natural resource based sector, it has had far less success in attracting investments that capitalize on abundant labour resources, and that would contribute in more direct way to employment creation and poverty reduction. Many investors feel that negative elements in labour laws which does not consider the inadequate skilled persons at national level as a handicap for the investors. Further, cumbersome land procedures, tax systems, the financial sector, company laws and regulations, telecommunications, transport, law enforcement, corruption, etc. are among the other suggested reform list. Removal of these administrative, legal and systemic barriers to business has been a slow process. And yet these reforms are a critical complementary factor to effective trade and business policies.

The privatisation programme, combined with attracting foreign investment has made some impact on the manufacturing, tourism, telecom and a few service sector business activities. The low cost electricity, abundant raw materials combined with abundant semi and unskilled labour at reasonable low cost should act as a major catalyst for industrialization and export-oriented business. To support these process investment incentives were given to investment in certain priority sectors. Further, legislation allowing the establishment of free zones (Export Processing Zones) for exports oriented investments has been introduced. Mozambique's preferential access to major markets such as the US and EU should induce many labor-intensive industries. With the opening of Mozal aluminium smelter Project phase 2, the contribution of the manufacturing sector has risen and this has also encouraged downstream industry such as cement, power, port, etc.

Industrial Policy

The existing industrial policy and strategies of Mozambique was adopted in 1997. According to the policy, the priority sectors are small and medium enterprises (SMEs), national entrepreneurship, and diversification of productive capabilities, output and exports. Only a few sections mention foreign direct investment (FDI) and the regional and international context of industrial development in Mozambique. This policy document, however has been criticized for not clearly indicating instruments that would allow the government to implement its policies and mobilise the private sector. In practice however, the policies and strategies have not improved the business climate context, which many feel, is not conducive due to so many administrative barriers and unnecessary licensing requirements.

Some estimates suggests that between 1998 and 2000 some 40 per cent of SMEs owned by national entrepreneurs closed down in the wake of competition and unsustainable business environment. The sectors included cashew, textiles and food processing. As a

[9] Foreign Investment Advisory Service (FIAS) Report, 2005

result, foreign owned or foreign-local partnership firms almost exclusively dominate investments in manufacturing and most services sectors. Production and exports have become significantly more narrowly specialised, and dynamic sectors of industry with rare exception, are found almost exclusively amongst large, FDI driven firms. Some feel that there is inadequate strategy to develop SMEs within the context of business linkages under FDI, while mega investments are given priority.

For example, only a handful of local owned firms have been able to take advantage of opportunities for industrial linkages with large FDI based projects. In very rare cases only Mozambican firms have managed to establish and benefit from such linkages, mostly because they either have associated themselves with the foreign partners, or they are only affiliates of foreign firms. The lack of information about business development and credit facilities often retard small companies from making use of the business opportunities. There is a public perception that companies, which have connections with politicians and bureaucrats have been able to find business opportunities. This situation provides undue competitive advantage to the large and FDI based firms against local firms, which also retards competition.

It may be noted in this context that SMEs often play an important role in enhancing economic efficiency, competition in the market place and consumer welfare. Moreover, as competitors are likely to enter as an SME first, this is an important aspect of entry barriers or contestability in the market.

Public Procurement Policy

Government procurement policy should ideally have a component of competition policy since government is the single largest buyer in the economy hence plays a significant role in the market place. In Mozambique, it is necessary for companies to be registered in the country if they aim to work as independent entities (i.e. not as part of another Mozambique-registered company or consortium). If a company is not registered in Mozambique, it is usually disqualified from working on its own at all in the country, and the government departments will not accept a tender from such a company.

The bulk of the tenders published are governed by two main systems of procurement, overseen by two different government departments. The two systems operate under completely separate legislation, and require registration on separate databases. In some of the departments, there are four different procurement policies, some of which were contradictory. But with support from external donors the Mozambique government has started a review of the procurement policies.

Apart from the legislated or practical procurement policies being implemented in the various government departments, there is a general tendering practice that is governed by law. This means that in a case of an unfairly adjudicated tender, an aggrieved ‘bidder’ would appeal directly to the law courts for redress, rather than to Central Tender Board.

In principle the government does not have any preferential procurement policies. In practice, however, government departments and agencies generally have a few local companies that tender successfully for all their contracts. Such practices often discourage competition from new entrants. Government tenders are published in the daily government newspaper, News, which comes out every day from Monday to Saturday. Some of the larger tenders are advertised in the South African and other international media as well.

As the Mozambique government is financially quite cash-strapped, many of the new contracts put out for tender, are mostly funded by the external donors. Such contracts are usually open to international competitive bidding, but sometimes these tenders favour companies from the funding agency's home country.

Poverty Reduction Action Plan (PARPA)

PARPA is the Poverty Reduction Strategy Paper (PRSP) of Mozambique. Mozambique is presently implementing the second generation PRSP. The overall objective of the PARPA is to reduce the number population living in poverty by 30 percent over thirteen years, from 70 percent in 1997 to below 60 percent in 2005 and 50 percent by 2010.

PARPA emphasizes economic growth, public sector investment in human capital and productive infrastructure, and institutional reform to improve the enabling environment for the private sector participation in the economy. PARPA underlines that economic growth must be both rapid and broad-based to benefit the poor, and the strategy is to achieve an average growth rate of 8 percent for the period 2001-2010.

The sources of growth include capital-intensive mega projects, enhanced productivity and value-added in agriculture and small manufacturing; and expansion in services. These processes would be complemented by public investment directed towards poverty-reduction objectives. The reforms must also focus on creating an enabling business environment for the business sector. PARPA, however, has not focused on the structural reforms needed to stimulate the private sector and ensure fair competition in the market place.

The overall growth target of Mozambique includes annual average growth of 8 % in agriculture, focussing on cash crops and increased production of food crops. The promotion of rural development through the provision of basic infrastructure, agricultural extension, and assistance with credit and marketing are important interventions in a country with such a large rural population. There is a need to develop an overall strategy for growth in the private business sector as an integral part of the PARPA. Further tackling delay, corruption and lengthy procedures, and to introduce a more SME-friendly industrial policy is important to achieve the goals[10].

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[10] NORAD, 2002, Study on Private Sector Development in Mozambique

Industrial and Commercial Code

Until recently all business enterprises in Mozambique needed licenses to operate irrespective of the size. There have been certain modifications to the code in the wake of recommendations from various business sources and development partners. New licensing regulations were introduced in 1998. They involve simplified procedures and no requirement for licensing of "Class 3" companies, which is defined as very small enterprises with a working manpower requirement up to three people.

The main concerns of the business sector are that licensing is still complicated and cumbersome if the company is involved in more than one activity. The licensing requirements are often lengthy and some of them are said to be illogical and expensive in a liberalised business environment. An industrial license will involve for example topographical map, full drawings of buildings, the number and gender of employees, the number of bathrooms, and environmental impact assessment etc. Preparation of the documents involves several departments of government and involved a very time consuming process.

Further, private sector firms consider the number of inspections carried out by the various departments of government every year as discouraging. It certain cases, inspectors from various ministries and local authorities arrive one after the other and check the same matters. Inspection visits are totally discretionary and often lead to decisions that are seemingly totally arbitrary. This is very much a problem of government culture and attitudes among civil servants[11]. There are a number of reform measures on the card in the wake of continuous advocacy and lobbying by the business sector and development partners and the expected changes include commercial code.

Investment Policy

Most sectors of Mozambique's economy are open to 100 percent foreign investment, and foreign investors generally receive the same treatment as domestic investors. Some restrictions remain in effect; such as private ownership of land, and mining and management contracts are subject to specific performance requirements. The investment policy does not limit foreign ownership or control of companies. Lengthy registration and approval procedures governed by various laws and regulations and in some instances lack of clear statutes because delays are affecting domestic and foreign investors. Mozambique allows 100 percent repatriation of profits and retention of earned foreign exchange in domestic accounts. The Investment Promotion Centre (CPI), which processes foreign investment, is yet to harmonize its activities for a 'one-stop shop' for investors, has not been materialised as investors are to move around in various departments in procuring the licenses. Payments and transfers are subject to maximum amounts, above which they must be approved by the central bank. Capital transactions, money market instruments, and derivatives are subject to controls[12].

[11] NORAD, 2002

[12] Index of economic freedom,2006 Cited: http://www.heritage.org/Research/features/index/country.cfm?id=Mozambique

Private investment in GDP doubled between 1997-2003, mostly reflecting the influx of foreign investment in the phase 2 of Mozal project, which was concluded in 2003. This ratio dropped in 2004-05, but is expected to increase substantially in 2006 and 2007, since there are a number of foreign investment in mining and mega-projects are in the pipe line. Public investment, notably donor-supported road building and other infrastructure development, increased in 2005 and is expected to grow further in the coming years. Increased overseas development assistance since the completion of HIPC and debt relief are also expected to boost public consumption.

Chapter 3
ANALYSIS OF THE BUSINESS SECTOR

Mineral/Manufacturing/processed sector

Major industries in Mozambique include aluminium, cement, oil refining, dairy, glass, textiles, pulp and paper products, wood processing, beer and soft drinks, sugar, salt and food processing. Some of these industry plants are old and use obsolete technology, where as some of the new plants have advanced means of production. The hasty exodus of Portuguese settlers, who left the country immediately after the independence created severe shortage of skilled manpower in the sector. The situation was exacerbated by the civil war. As a result there was a steep decline in manufacturing sector during post independent and civil war period, after which there has been a gradual recovery.

Since 1995, production in manufacturing has increased by an annual average of 10.6 per cent over 1995-2000. Growth has been particularly strong in construction materials, agricultural processing, beverages, tobacco and certain consumer goods. The growth is seen as a result of macroeconomic stabilisation, improved access to imported intermediate and capital goods, and the increase in demand resulting from foreign investment and high economic growth. Most of the manufacturing companies in Mozambique have concentrated in production for the home market.

Mozambique’s industrial sector mainly comprise of food processing, petroleum refinery, aluminium, and a few other minor goods for export. Most of these industries (about 80 percent) are located in the two major cities Maputo and Beira, the capital and the second largest city, respectively. Industry’s share of GDP has expanded sharply from 16 per cent in 1996 to 27 per cent in 2004. Other capital-intensive manufacturing industries, such as cement, beverages and tobacco-processing all recorded good performances, especially subsequent to the opening of a cement factory in Nampula and a tobacco factory in Tete province in 2005.

The biggest companies include the brewery Cervejas de Mozambique, which SAB Miller has majority (60%) share holdings, Coca Cola producer SABCO, cement producer, Cimento de Mozambique, a Portuguese investment and only cement company in the country, the soap manufacturer, FASOL. MOZAL, which accounts for half of manufacturing output, and has made Mozambique one of the world’s leading aluminium producers. The project is a joint venture between the minerals and metals group BNP-Billinton, Mitsubishi and the Industrial Development Cooperation of South Africa. Government of Mozambique also has a small share. The smelter is now being extended to a capacity of 500 000 tons. Electricity for the firm is supplied from the Cahora Bassa dam through the South African grid and alumina oxide is imported from Australia.

In 2003, the mineral industry of Mozambique produced aluminium, gold, tantalum, and such industrial minerals as bauxite, bentonite and other clays, gemstones, graphite, and salt. The country also produced coal, natural gas, cement, granite, gravel, limestone, marble, and sand.

Mozal now ranks among the most efficient aluminium plants in the world. There is a new specialised port and a major infrastructure development around the plant. The Mozal plant employs around 1000 local staff and 150 expatriates. It has received special treatment in a number of ways from the government, low priced electricity and very little red tap being two important elements. There is little doubt that the project is potentially very important to Mozambique to consider a national champion.

After expanding by 230 per cent the previous year, the mining sector grew by 40 per cent in 2005, following the completion of the Sasol gas pipeline from Inhambane province to South Africa and the consequent increase in gas production. Foreign investors have stepped up exploration activities in base metals and industrial minerals. Kenmare Resources of Ireland is the lead investor in a new $450 million titanium mine and smelter in Moma, which is expected to begin operations in late 2006. Australian and South African–based companies are also initiating the $500 million Corridor Sands Titanium Project in Mozambique[13].

Thus, Mozambique's manufacturing sector is small with production highly concentrated in a few sectors. It also exhibits a low degree of intra-sectoral linkages. Most producers, with the exception of agro-processors such as sugar, cashew, copra, beverages, source their raw materials from abroad mainly from South Africa rather than from the local economy. In addition, manufacturing firms are overwhelmingly inward-oriented. Very few firms export a substantial portion of their output. According to estimates, the industrial sector is working at about half of its capacity. The government is making efforts to develop the industrial sector to its full operational capacity, at the same time encouraging foreign investment in new and diverse industries.

In short, available indicators suggest that Mozambique has a small but growing manufacturing sector. What has changed significantly in recent years is the ownership structure of the manufacturing sector. The radical shift in ownership towards nationalization and state control, which dominated the economic paradigm in the early years of independence, has been reversed. Privatisation of more than 850 public owned entities has shifted ownership and control of most manufacturing enterprises into private hands, although the government continues to hold shares in some of them.

Agro-based business

Mozambique has large potential for agriculture development and exports. Only a quarter of 36 million hectares of arable lands is being used for cultivation. Mozambique's soil and climatic conditions are suitable for growing a wide variety of cash crops, including tobacco, maize, cotton, sugar cashew nuts, tea, copra, rice, citrus and tropical fruits. However, Mozambique still imports sizeable amounts of foodstuff from South Africa and Swaziland. Imported food items are commonly found in the towns and regions closer to South Africa and Swaziland. Imported food items have competitive edge due to price, packaging, etc over local products, which discourage local production. The agriculture development strategy focuses on raising productivity through increasing extension services and irrigation, improved access to credit, notably by fostering micro-finance

[13] AfDB/OECD African Economic Outlook, 2004-2005

institutions, and investment in rural and feeder roads. Agro based business view that here is inadequate incentive for the production of food crops due to high production cost and import competition. There is increased production of the main cash crops such as sugar, tobacco, cashew nuts and cotton in the recent years.

Commercial crop production in Mozambique has been presently expanding and diversifying. Investment in sugar and tobacco has boosted agricultural exports since 2003. At the same time, contributions from the traditional export commodities, such as cashews and cotton have fallen; the former due to the declining tree stock and the latter from market-driven production swings.

Sugar

Sugar cane is an important cash crop of Mozambique and it employs about 27000 people. The total installed capacity of sugar companies is 320,000 tons per annum. The estimated production target for 285,000 tons in 2006. The annual export value of sugar is about US$40 million. Sugar cane production in particular grew by an estimated 3 per cent in 2004/05 following the 130 per cent increase in 2002/03.

Nearly 30 000 hectares of industrial plantations of sugar cane are grown at four operational sites surrounding two sugar mills in Maputo and two in Sofala provinces. Sugar cane production has risen from 386 000 tons (1998) to 2.22 million tones (2004) due to improved organisation and production practices[14]. Sugar-cane production in the four estates with an area of 30 000 hectares in 2005 was around 2.29 million tons.

The recent boom in the sugar sector has been the result of the entry of large South African and Mauritian investments of about $300 million for the rehabilitation and partial privatisation of four sugar-processing plants in the Maputo and Sofala provinces, which allowed the country to become a net exporter of sugar. There are four companies involved in sugar production, including the Multinational firm Illovo. The domestic prices of sugar are regulated by the government in consultation with the sugar producers. The sugar marketing is being carried out under an arrangement called DNA marketing, which is controlled by sugar distributors.

The sugar export sector might be affected by the combined effects of the phasing out of the sugar protocol (2006-09) under EU’s Everything But Arms (EBA) and the overall reform of the EU sugar regime (2006-15). In order to face the effect of EU reform, sugar companies in Mozambique are working out strategies to switch over to ethanol production.

Tobacco

Another major cash crop grown within the peasant systems and out-grower scheme is tobacco, of which the production has expanded from 3500 tones in 1997 to 50 000 tons in 2004. Fresh investment by farmers migrated from Zimbabwe in Manica province has been responsible for the sudden growth of tobacco production by 20 per cent recently.

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[14] FAO, 2005

The crop estimate for 2005 was 63 000 tons from around 180 000 growers organized through eight companies of which the Tobacos de Mocambique and Mozambique Leaf Tobacco (MLT) are the most significant. This compares favourably with the 50 000 tonnes from 147 000 growers reported in 2004[15].

Mozambique's first tobacco processing plant was opened in Tete in 2005. Before this factory was built, Mozambican producers had to take their tobacco over the border into Zimbabwe or Malawi for processing. The factory is owned by MLT, a subsidiary of the US-based Universal Leaf Africa Company, and represents an investment of 55 million US dollars. The factory hopes to process and export 24,000 tonnes of tobacco in 2005, with an estimated value of 50 million dollars. The installed capacity of the plant is 50,000 tonnes of tobacco a year. The factory currently employs 1,600 workers, some on a permanent basis and some seasonal.

In the meanwhile, another major tobacco firm Alliance One indicated that it is pulling out of Mozambique in 2007. Alliance One was formed out of a merger between the two US-based companies Dimon and Stancom, both of whom held concessions in the Mozambican provinces of Niassa, Tete and Manica. They provided peasant tobacco growers with inputs, and purchased their crop under an out grower scheme. The reason for the Alliance One's decision to withdraw was said to be in response to a government tobacco concession, in Chifunde in the Tete district that was withdrawn from Dimon in 2005, and given instead to a competitor, MLT

According to a recent report, the government wants tobacco processing to happen in Mozambique, and so urged the concessionary companies to build processing plants. Only MLT responded, and has built the second largest processing plant in Africa in Tete City. In response, government rewarded it with Chifunde concession[16].

Cotton

Cotton is a major cash crop and its harvests fluctuating from 74 000 tonnes in 1997 and 35 000 tonnes in 1999 to 93 000 tonnes in 2004. Cotton along with oilseeds, tea, citrus and horticultural crops, particularly tomatoes, offers alternative sources of revenue to the small farmers in the interior districts, where coconuts and cashews are not grown[17]. Cotton area planted at around 183 000 hectares is planted by some 300 000 farmers. Average production is around 80 000 tonnes.

Cashew and Processed nuts

Cashew crop is an important source of income for about one million smallholders who remain the sole producers of raw cashews, but it is also an important source of foreign exchange for the country. Cashew production is still contributing substantially to farm

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[15] FAO, (2005) p.17

[16] All-Africa.com, 2006-05-19 & 2006.05.08, Author Agencia de Informacao de Mozambique, Maputo.

[17] FAO, 2005

incomes and food supply. Peasant holdings of tens of trees produce around 50 000 tonnes of nuts annually and the export forecast for 2005 was 80 000 tonnes.

Since the beginning of the privatisation process, several new private processing-factories have entered the industry. Between 1995 and 1997 the number of processing factories increased from 12, with an actual working production capacity of 30,500 tons, to 16 large-scale factories with a production capacity of 54,500 tons in the 1996/97 season. As part of the reform, the World Bank recommended that the government adopt a liberalisation policy in the cashew sector, gradually reducing the export tax on raw cashew nuts. This tax represented the only means of protection for the industry. Liberalisation caused the prices of raw cashew nuts to rise for the producer, and the cashew nut processing companies could not compete with exporters. This caused market failures and many of the domestic processing factories were closed down by 2001.

According to 2004 Data, Mozambique cashew sector recovered processing capacity with

Cashew and Sugar Concession: A Saga of Mozambique

In 1995 as part of the liberalisation drive the World Bank and IMF compelled Mozambique to allow unrestricted export of unprocessed cashew nuts, whose main market was India. The World Bank argued that peasant producers would gain higher prices from the free market. But it did not happen as a monopoly buyers in India pushed down the price; transfer pricing also lowered the price paid to cashew producers. The domestic trading cartel in Mozambique also collected larger margins. As a result the peasants producers lost out and nearly 8500 industrial workers in cashew processing units became unemployed. Liberalisation of the trade in cashews was one of the conditions imposed by the World Bank in 1995, in exchange for access to soft loans. The local cashew processing industry has been demanding a total ban on raw nut exports, arguing that the exporters compete unfairly with the industry, and deprive it of its raw materials. The export cartels had such as large influence in fixing the prices of the product.

In 1999, the government imposed a surcharge of 14-18% on the export of raw nuts after a study by the FAO. In the end of 2000 the International Financial Institutions allowed Mozambique to protect its two most important agro-industries Cashew and Sugar as a result of intense pressure from the Mozambican government, trade unions local business and civil society. In 2000 the IMF Executive Board agreed a policy under which some cashew factories will be closed, but the rest will be protected. The protection is two-fold, an 18 percent export duty on unprocessed cashew nuts, plus the local industry given the right of first refusal - to purchase nuts before they are exported. In 2001 Mozambique has banned the export of unprocessed cashew nuts. The failed export liberalisation policies on cashew proved useful to domestic sugar sector as IMF has allowed Mozambique to protect its expanding sugar industry.

(Source: Joseph Hanlon, Africa Policy E-journal, 19.02.2001) http://www.africaaction.org/

12 processing plants in operation. But these are clearly very small and they only employ

2,300 people, and process 8,600 tonnes of nuts. These are all labour intensive units, shelling the cashew nuts by hand. The mechanised cashew factories, which once dominated the sector and made Mozambique a major player in the world cashew trade, remain closed[18].

Edible oil

Mozambique has the raw materials to produce a wide-range of oleaginous seeds to supply the local edible and industrial oil factories. These include cotton, copra, sunflower, groundnuts and sesame. Coconuts play an equally important role in household food economies throughout the coastal belt for an estimated 20 percent of the peasant families. Farm families manage 100–200 trees, each tree producing 100 kg of nuts throughout the year, which may be sold as nuts at Mt 1 000 each or as copra.

Despite this potential, the Mozambican edible oil industry depends on imported raw materials. In 1998, Mozambique imported crude sunflower oil amounting to US$ 4.6 million to be refined locally at the four large oil factories. Besides the oil produced by large factories, there are several micro enterprises in the central and northern regions of the country that are manually pressing sunflower and sesame seeds to produce cooking oil. The oil produced in micro enterprises is marketed and sold in rural areas whereas that from large enterprises is marketed and sold in urban and peri-urban areas and villages.

Beverages (alcoholic and non-alcoholic)

This sub-sector is dominated by large-scale companies manufacturing lager beer and carbonated soft drinks, contributes to the government budget largely through the payment of consumption taxes. Their main raw ingredient, barley malt, is wholly imported whereas maize grits and brown sugar are added as cereal adjuncts come from local industry. Coca Cola is presently the principal manufacturer of carbonated soft drinks in Mozambique, bottling its products in two large factories, one in Maputo and other in Chimoio and also developed a third plant in Nampula. South African Braveries is the market leader in beverages production.

There are also two medium-scale soft drink plants in Xai-xai and Manica manufacturing their own brand for the southern and central region of the country, respectively. The factory in Manica is also bottling table water, beer which is being commercialized throughout the country. Schweppes started bottling soft drinks and tonic water in Maputo. Besides sugar and water, all the ingredients for the manufacture of soft drinks are imported. The small-scale non-alcoholic beverage industry in Mozambique is very small in terms of production volume. They manufacture non-carbonated soft drinks (a mix of sugar, water and flavours).

Maize

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[18] Mozambique News, 6th May, 2004

Maize is grown mainly by the family farming sector, which currently produces about 93% of the locally marketed maize (1996 data). The maize milling industry with an installed capacity of over 50,000 tons has the potential to process maize for local consumption. The majority of the mills located in the central and northern regions of Mozambique and those small-scale mills located in the southern region satisfy the demand for milling white maize produced locally.

Fisheries
This sector is characterised by catch, processing and conservation of fish products, including shrimp. In 1997, prawns contributed to 76% of the total fishery production value. This industry has been very important in terms of external trade where fish products, particularly shrimp, have been responsible for more than one third of export revenue. In 1997, shrimp exports amounted to US$ 82 million, representing 36% of total exports. Fishing activities are carried out by three industrial firms responsible for 80% of shrimp exports. Foreign investment in prawn farming also aided the fishing sector, which expanded by 7.7 per cent in 2005, thus reversing a declining trend[19].

3. Services sectors in Mozambique
Services sector is the largest contributor to the economy and its share is 40 % of the GDP. The major service sector industries in Mozambique are telecom, banking, construction, transport, retail, distribution, and consultancy. Among the service sector, transport and communications grew by 13.2 per cent in 2005. Growth in transport reflected investment in roads around the three corridors viz. Maputo to South Africa, Beira to Zimbabwe and Nacala to Malawi/Zambia.

Among the major service sector activities, air traffic decreased by 2.2 per cent in 2005 however, probably due to safety concerns about the national carrier, Linhas Aéreas de Moçambique (LAM). Prospects for air travel are improving as LAM is undertaking measures to improve safety and has signed a code-share agreement with Kenya airways to expand Mozambique's international connections. South African airways have dominance in connecting Mozambique with the region.

Telecommunication
Telecommunicacoes de Mozambique (TDM) is an independent state owned firm responsible for the provision of public telecommunications services. TDM was transformed into a publicly owned business firm by a government Decree in 1992, as part of the reform process. TDM was restructured to function as a commercial entity with financial autonomy, and it has responsibility for planning, installation and operation of the national and international network. TDM has established commercial linkages with foreign firms on the use of technology to enhance its core business.

TDM is also expanding its infrastructure anticipating competition in the wire-line market. Mozambique was one of the first African countries to reform its telecommunications sector, having partially liberalised the domestic long-distance (DLD) and international

[19] AfDB/OECD (2006) African Economic Outlook 2004-2005, p.4

long-distance (ILD) segments in 1999, but TDM still enjoys a de facto monopoly on the provision of local, DLD and ILD voice services. This arrangement was initially for five years after the incumbent is privatised, although the exact duration of its exclusivity remains at the discretion of the government. The sale of part or all of TDM was originally slated for 2004, but has yet to materialise. The sale of a majority stake in TDM to a strategic investor is in the pipeline, and a second fixed-line operator is to be licensed by 2007. The challenge now is for TDM to attract the appropriate strategic alliances with which it can successfully deal with the technological challenges of the future. This creates opportunities for international telecommunication firms to enter the market.

The mobile sub-sector has experienced good growth rates since 1997. In a bid to encourage competition, TDM was converted into a limited company in 2003, and its mobile subsidiary 'MCel' was spun off into a standalone company. Vodacom of South Africa entered the market as the second provider of mobile phone services in 2003.

Transport/port logistics

Road and Rail
Mozambique's strategic geographic location makes it a natural regional transport and service hub connecting several countries in Southern Africa viz. Botswana, South Africa, Swaziland, Malawi, Zambia and Zimbabwe. Mozambique has long experience in rendering transport and logistical services to the region. Railway and port charges used to make up a large share of the country's public revenue and rail, road and port handling were major service industries.

There are three main corridors of transport through Mozambique. The link between Maputo and Johannesburg served both by rail and road access. The road has recently been renovated as a private investment project and is therefore a toll road. The rail line has been commissioned to Spoornet of South Africa.

Port terminals and operation in Maputo has been gradually privatised and are slowly developing to more modern standards. The second corridor is in the middle of the country and starts at the port of Beira. The port has been extensively renovated in recent years and is among the more modern in the region. The main operation has been to serve Zimbabwean trade, which moves either by rail or road. The northern corridor from the port of Nacala is lined to southern Malawi and Zambia.

According to a 1999 estimate, Mozambique has a total of 30,400 km of roads of which 5,685 are paved and 24,715 km are unpaved. Rehabilitation of the internal transport system has been targeted as a priority for the transport sector through the Roads and Coastal Shipping (ROCS) Programme led by the World Bank.
The northern part of the country has poor road and transport network, while the west-east connections are generally better than the north-south connections.

The state-owned port and railway company, CFM, has been restructured into a holding company. Together with the Government, it decided to granting concession of the main port and railway systems, as well as to bringing all three-transport corridors under private sector operation despite the job loss of about 12.000 workers. The involvement of the private sector, with the associated increase in competition, is expected to have a beneficial effect on services and costs. The Government's declared objective is to extend the granting of concessions to other tertiary ports. Coastal shipping and air transport are to be liberalised gradually, so as to reduce the costs of domestic and international trade. Though the regulatory frameworks are being adapted, competition in the areas of coastal shipping and domestic air routes is still limited or non-existent[20].

Air Transport
Air traffic sector grew at a rate of 238.2 percent in 2004, in the wake of opening of new entry points to the country, the implementation of the new civil aviation policy, the streamlining of the licensing and aircraft entry procedures, the increase of tourism. Scheduled services on main routes are provided by the state owned airline Linhas Aéreas de Moçambique (LAM).

LAM developed financial problems during the early 1990s and managed to sail through with state support and returned to profitability in 1996. Its business success is mainly on based on its domestic monopoly position and consequent ability to charge high prices. An apparent attempt to privatize the airline in 1997 did not work when the privatization agency Unidade Técnica para a Reestruturaçäo de Empresas (UTRE) did not approve bids from foreign and local aviation companies. The Government subsequently tried other options for restructuring LAM, including making it as a limited liability company in preparation for a flotation on the stock market.

Scheduled services to internal destinations but not served by LAM are provided by several private charter airlines and a regular airline. It seems that the Government is not keen to have a fast track liberalisation of the air market and LAM is to retain its monopoly on the main domestic routes. There is a private domestic air service provider called Air corridor, which, many in the sector feel, faces undue competition from the state run monopoly. Air-corridor has been given licences to cover only five provinces of the country and its effort to expand to other provinces has not been permitted, where as LAM has been allowed to fly all the provinces. LAM has operations to neighbouring countries.

International services are provided from Maputo to Lisbon, Mauritius, Addis Ababa, Johannesburg, Durban, Richard's Bay, Harare, Manzini, Blantyre and Nairobi by various airlines. International flights from Beira go to Johannesburg, Harare and Blantyre. A large share of intercontinental travel to and from Mozambique is directed through Johannesburg. South African airlines and LAM are the main carriers connecting between South Africa and Mozambique. The five international airports and fourteen principal airports are managed by Airports de Moçambique (ADM)[21].

Shipping and Harbour Service

[20] EU-Mozambique country strategy paper, 2001-2007, p.17
[21] EU-Mozambique Country Strategy Paper 2001-2007 and national indicative programme, p.20

Shipping industry has improved since mid 1990s when the state shipping company, Navinter collapsed. The sector was opened to private sector in 1996 and four foreign-owned companies, including the privatised Navinter, now provide container services between Nacala, Quelimane, Beira, Pemba and Maputo, and on to Durban.

Mozambique's three main ports, at Maputo, Beira and Nacala, form the centre of the transport system. The port of Maputo serves South Africa, Swaziland and Zimbabwe, while the ports of Beira and Nacala handle cargo from Malawi, Zambia, Zimbabwe, and occasionally from Botswana and the Democratic Republic of Congo. All of the ports have container facilities. The port of Maputo has reorganized its management, turning several of its terminals, container, citrus, coal and sugar, over to private companies. The government has granted concession to the ports and railways company, Portos a Caminhos de Ferro de Moçambique, EP (CFM), Mozambique's largest public sector employer, to a consortium of companies[22].

Energy Sector

Mozambique is endowed with huge energy resources. The Cahora Bassa dam is the second largest hydropower installations in Africa with the capacity of 2,074 Mw. Moreover, reserves of natural gas are being exploited and gas is exported via a new pipeline to South Africa. There are explorations to locate oil which is normally a companion of gas. Mozambique also just started exploring reserves of coal, which are estimated at 10 billions tones. In its national strategy to combat poverty, the government has identified the energy sector as priority areas for investment.

The dam company, Hidroeléctrica de Cahora Bassa (HCB), is 82 % owned by the Portuguese Government and 18 % by Mozambique. There is a 1 400 km direct power line to South Africa and the production, at around 2 000 MW, represents more than 90 percent of all electricity produced in Mozambique. There are plans for three additional dams on the Zambezi river, namely the Northern Cahora Bassa dam, the Mpande Uncua dam and the Alto Malema dam, are planned.

Mozambique has liberalized the electricity market and opened up for private-sector generators in July 1997. Mozambique's consumption of energy is among the lowest in the region. Less than 3 % of the population has access to electricity and establishing economically viable systems for the transmission and distribution of electricity is an enormous challenge.

The state-owned electricity parastatal Electricidade de Mozambique (EDM) has initiated ways of attracting private investment to improve its operation and coverage. Potential investments that are thought to be viable include power transmission lines to the provincial capitals and rural and urban electrification in certain areas.

A pipeline for transporting methane to South Africa has been developed and the government has a contractual right to use 5 percent of the gas from 5 access points along

[22] Norad (2002) & SADC Review 10th Anniversary: 1997-2006
www.sadcreview. Updated on 1 May 2006.)

the pipe. There is also an agreement to attempt to establish a link from the pipeline to Maputo in order to use some of the gas in the Mozal aluminium smelter and market the rest in the industrial area. The government announced that the state owned oil and gas company HCB will be restructured.

The Energy Fund (FUNAE) supports energy project in rural areas, which are otherwise difficult to reach with investment. As part of the program FUNAE receives foreign assistance to support the EDM in its reorganization into a commercial and competitive firm.

Banking/insurance

The banking sector in Mozambique is comprised of eight commercial banks, all of which are majority owned by foreign firms, mainly from Portugal and South Africa. The sector is highly concentrated with the Portuguese owned Banco Internacional de Moçambique (BIM) holding over 50 per cent of all banking assets. The baking sectors reach is largely remains limited to large companies in the urban locations. Mozambique has implemented several reforms in the financial sector, including the creation of an independent Central Bank, Bank of Mozambique and liberalization of the financial sector. However, the financial system remains quite small and dominated by banking. Mozambique's financial system provides for the most common methods of payment, including open account, letter of credit, cash in advance, documentary collections, etc.

As part of the reform, liberalization of interest rates was approved in 1994. Between 1996 and 1997 the government began to sell financial institutions to private buyers. The merger of two banks, BIM and the Commercial Bank of Mozambique (BCM), was completed in 2001. The re-privatization of Banco Austral to ABSA of South Africa, the purchase of BNP Nedbank by African Banking Corporation, the closing of Credicorp, and more recently, the merger of Commercial Bank of Mozambique (BCI) and Banco de Fomento have created major changes for the banking sector.

Grupo BIM is the dominant player in the Mozambican banking system. Grupo BIM controls 48% of the loan market and 52% of the deposit market, and has as its majority shareholder the Portuguese Commercial Bank (BCP). The second major player is BCI-Fomento. The other minor players are Standard Bank, Banco Austral-ABSA, and the African Banking Corporation.

The Economist Intelligence Unit reports that the government owns 33 percent of the country's largest bank, BIM, which controls 45 percent of the banking market. The government has sold its minority stake in Banco Austral, the country's fourth largest bank in terms of assets[23].

Commercial banks in Mozambique are specialised in providing short-term loans, trade-related finance, and fee-based services. Medium-term loans are available, but stiff collateral requirements and high interest rates deter many in the commercial sector.

[23] 2006 index of economic freedom, cited: http://www.heritage.org/Research/features/index/country.cfm?id=Mozambique

Long-term finance other than mortgage-based lending is not generally available. Leasing is an area of growing commercial bank interest. The range of services offered by domestic banks is limited, and there is a little competition in the sector.

The year 2004 witnessed the entry of more operators in the financial system as well as the merger of BCI- Banco Comerciale de Investimentos and BF-Banco de Fomento, SARL, which was initiated in 2003. The merger between BCI-Banco Comerciale de Investimentos (Incorporating Society) and BF- Banco de Fomento SARL, was finalized in 2004. In 2004, some new institutions joined the banking sector, these being: SOCREMO (a micro finance bank) and twelve other institutions.

These institutions were given licenses for credit activities by Bank of Mozambique, some of these include Associação de Romão, Associação para o Desenvolvimento de Malhazine, Associação de Machava Industrial, Associação 3 de Fevereiro and others.

The microfinance industry in Mozambique is growing. Capital markets in Mozambique are very small and centered on the Bolsas de Valores de Moçambique (BVM), which opened in 1999. Trading, however, is limited to government bonds and a few corporate bonds. The International Finance Corporation (IFC), United States Agency for International Development (USAID) and FMO (Netherlands) have provided assistance in developing micro-finance institutions that extend lending service to rural areas (2003).
The insurance and pension sectors are also small. Despite recent privatization efforts, the insurance market remains dominated by the state-owned insurer[24].

[24] Ibid,

Chapter 4

LEGAL AND REGULATORY FRAMEWORK

This section covers the regulatory framework in key sectors, such as electricity, telecommunications, banking, etc. considering the significant interface between sectoral policies and competition policy and law. Ever since the introduction of economic reform and enhanced private sector participation, the government regarded legislative and regulatory reform, together with enhanced institutional capacity as a strategic goal. The government has prioritized the adoption of legislation that would foster private sector activity and development. In its efforts to simplify regulations and reduce red tapes an Inter-ministerial Commission for Removal of Administrative Barriers has been set up to oversee the implementation of priority measures of reform.

Interface between Competition and Economic Regulation

Telecom Sector

The telecommunication sector in Mozambique has undergone several reforms as part of the liberalisation process. Since 1992, the government began a strategy that actively encourages private sector participation in the production and delivery of goods and services. The Telecommunications law sets forth the following objectives:

- Promotion of the availability of high quality telecommunications services;
- Promotion of private investment in the telecommunications sector;
- Promotion of fair competition and consumer protection; and
- Increased telecommunication access and advanced information services nation-wide.

Article 18 of the Telecommunications Law of 1992 (Law 22/92) prescribes the following regulatory guidelines for the promotion of competition:

"…1. The public telecommunications operator must ensure that all telecommunications operators use the public telecommunications network under equal conditions of competition.
2. When the public telecommunications operator provides complementary telecommunications services or value added services, any unfair competition or abuse of its predominant position is forbidden.
3. The use of circuits rented from the public telecommunications operator is limited to the user himself or to the provision of complementary services and value added services. Their re-sale is forbidden…"

In addition to establishing TDM as an independent company, the Instituto Nacional das Comunicacoes de Mocambique (INCM) was established as an independent regulatory body under the umbrella of the Ministry of Transport and Communication (MTC). INCM is mandated to have responsibilities, including licensing, spectrum management, formulation and interpretation of sectoral policies, international relations, and defining and monitoring compliance.

Regulation of Banking and Financial services

The banking sector is regulated and supervised by Banco de Mozambique, the Central Bank. Although Mozambique has adopted a number of reforms in the banking and financial sector, including establishing an independent central bank, the financial system remains small and dominated by banking. There are eight commercial banks, all of which are majority foreign-owned. The banking system is recovering from the 2000–2001 banking crisis, during which two large banks were declared insolvent.

As part of its mandate, in 2004, the Central Bank implemented a restrictive monetary policy, which was to deal with the appreciation of the Metical against the US dollar (20.8%) caused by internal and external factors. This was in accordance with the government programme for 2004 which aimed at reducing the interest rates.

The Central Bank exercised its regulatory role in the financial sector and as a result new issuance and amendment of various legislations were made in 2004. The changes include legislation of the credit institutions and financial societies. It gives Bank of Mozambique Governor the powers to authorize orders of constitution, revocation of the authorizations, statutes changes, mergers, dissolutions and establishment of credit institutions and financial societies (ICSF's) branches in the country. Previously these functions were held by the Minister of Planning and Finance.

With regards to the financial sector legislations, the following were the major changes introduced in 2004: Laws for Credit Institutions and Financial Services, approval of the new Inter-bank Exchange Market Regulation, widening of the incidence base for the verification of obligatory reserve and the approval of the Decree Nr. 57 of 2004 on the micro-finance general regulator framework.

The ministry of finance regulates the insurance sector. The insurance and pension sectors are also small. Despite recent privatization efforts, the insurance market remains dominated by the state-owned insurer, which provides all types of insurance services.

In order to protect the interests of the financial sector service providers the Associação Moçambicana de Bancos (AMB)[25] was set up and the association shares information among the members and consults and lobby on issues of common interest. However, there is no indication that the association is engaged in cartel or restrictive business practices.

Energy Sector Regulation

In August 1997 a new Electricity Act was approved by the Parliament to define:

- general policy for the organisation of the electrical energy sector and the administration of the supply of electrical energy; and

[25] KPMG, 2004, Mozambican Banking Survey (English), Maputo

- general legal framework for electrical energy generation, transmission, distribution and sale within the country, as well as its exportation to and importation from outside of the national territory, and granting concessions for such activities.

New municipal legislation was enacted in 1997, giving municipalities certain functions in investment planning and the operation of electricity services in local authorities. The objectives were to follow up the intentions of the Electricity Act reforms through the granting of concessions, including proposals for tariff regulation.

The National Directorate of Energy (DNE) is a central organ of the Ministry of Minerals Resources & Energy, responsible for study, conception and development of energy policies. The organisational structure of DNE, was approved in April 1997 by a ministerial decree.

The main tasks of DNE are as follows:

- to study, propose and administer the energy policy in the country;
- to promote the diversification of energy use and optimise the use of various energy sources;
- based on the development of the economic perspectives of the country, to determine environmental issues, to provide the plans and the programmes for the development of the sector;
- to promote and to maximise the rational use of the national energy sources with relevance to the installed capacity, namely, through the encouragement of investors;
- to promote the co-operation with public and private institutions, national or foreign, in achieving the maximum potential in the technical development and sector regulation.

Water Sector

Under the National Water Policy (NWP) approved in 1995, the government has undertaken broad reform of water supply provision aimed at moving toward delegated management, and improving its regulation and financial planning. In December 1998, the legal framework for private sector participation, a regulatory board for water, and a water tariff policy were all approved. With respect to urban provision, the government completes the contracting out to full private sector management the water supply services in five major cities (Maputo, Beira, Quelimane, Nampula and Pemba) in 1999.

The government also introduced tariff adjustments to ensure the improvement and the sustainability of water provision. An integrated water sanitation and hygiene strategy is completed by 2002. With regard to rural water supply, the government has begun implementation of a Rural Water Transition Plan, which aims at transforming the planning and delivery of rural water and sanitation services from a supply-driven model to a sustained demand responsive approach, characterized by community management, cost recovery, and the involvement of the private sector.

Transport Sector Policy and Regulation

The transport policy, approved in 1996, identifies the involvement of the private sector in construction and rehabilitation of transport infrastructure, in the management by contract or concession of the ports, railways and airports, and in the companies involved in air services and shipping. Government retains the role of facilitator, responsible for defining policies and creating an environment conducive to investment. It is also responsible for the establishment of regulations, the licensing of transport activities, and supervision and control. The Ministry of Transport and Communications (MTC) is responsible for developing transport policies, as well as for monitoring the efficiency of the sector and the implementation of these policies by specialized institutions and by private operators.

The implementation of the transport policy and the increasing number of concessions of ports, railways, airports etc., has raised the need of economic regulation. The government policy is to establish an efficient system of economic regulation to protect the interests of the stakeholders, public and private. Coastal shipping and air transport are to be liberalised gradually, so as to reduce the costs of domestic and international trade. Maritime Law (lei do Mar) of 1997 have been completed and adopted to facilitate and increase the capacity of coastal shipping. A decree promulgated in 1998 lays the framework for competition in, and entry into, domestic air routes. While all other routes are now open to entry, LAM has exclusive rights to serve the national trunk route until 2003, after which the route will be open to competition. A strategic private partner is being sought for LAM, which was converted to a limited liability company in December 1998[26]. However, even in 2006, the most domestic airline destinations are not open for competition or private participation.

A key element indicated in Mozambique’s roads policy is the implementation of institutional reforms to ensure sound, sustainable and commercial management of road infrastructure. In this context, a new Road Management system was established in law, including the creation of an autonomous entity to manage the country’s roads, the National Roads Administration (ANE). Efforts were made to enhance private contributions to the road sector by involving the private sector in decision-making, initiating the privatisation of public works organizations, and strengthening local contractors and consultants.

[26] EU-Mozambique Country Strategy Paper 2001-2007, p.32

Chapter 5
MARKET STRUCTURE AND COMPETITION

According to 2004 data the share of the agriculture, industry and services are 25%, 35% and 40% respectively. Agriculture is that main economic activity of the people and about 80% of the population depend on it, although its contribution to the GDP is the lowest. The major non-farm economic activities are manufacturing, tourism and several service sector which are concentrated in the urban centres located mostly in the coastal regions of the country.

Mozambique is characterized by a small economy in terms of volume of economic activities and for most industries, domestic demand is relatively small. Thus, industry concentration in Mozambique is relatively high probably because a few firms in each sector of economic activity meet domestic demand. High concentration in the industry sector need not always imply market power as free entry of products into Mozambique through trade liberalisation ensures competition on price, choice and quality. In addition, a regulatory practice in the services and utility sectors ensures some amount of competition. Mozambique's legal system has not undergone much reforms and it functional reputation has been marred by undue delays and poor service delivery. According to our interaction during the field survey, the private sector does not always like to depend on the legal system and commercial justice due to delay, cumbersome procedures, etc.

Mozambique has a thriving informal sector, which is relatively free from the tax net and numerous regulations of the government in engaging a commercial/business activity in the country. Informal business sector also has a role in providing competitive prices in many goods and services. The informal sector has low barriers to entry and there are several micro business entities that serve the poor in the semi-urban localities and also rural areas. This sector also reduces the chances for the emergence of a successful pricing cartel in the urban and rural retail sector. In short, the informal sector thrives on the distortion effects of tariff and taxes as well as numerous regulations. Thus, curtailing the informal sector is one of the goals of the organised private business lobbies and the bureaucracy in Mozambique.

The Manufacturing Sector

The industrial sector comprising mining, manufacturing, and energy. The sub sectors are food and beverage production, chemical and petroleum industries, and non-metallic mineral products. A good portion of the value of industrial production comes from food processing by small-scale sector, though the share has decreased considerably over the past decade. Mozambique has only scant database on market shares. Information on enterprise turnover, sales, production volume or consumption of inputs is scarce and most are in Portuguese language. Major manufacturing industries are aluminium, cement, oil refining, dairy, glass, soap, textiles, pulp and paper products, wood processing, beer and soft drinks, sugar, cashew, cotton and tobacco. Some of these industry plants are old and use obsolete technology whereas new industries such as aluminium, carbonated soft drinks are modern.

Aluminium
Mozal, the aluminium smelting plant has added significantly to the country's industrial production. The first phase of the project had capacity 250 000 tones of raw aluminium per year and it extended to a capacity of 500 000 tons by 2003[27].

Bauxite
Mozambique is a producer of bauxite in the region. E.C. Meikles (Pty.) Ltd. of Zimbabwe is the producer of bauxite mine, which had an output of 11,793. All of Mozambique's bauxite output was exported in 2003 at a value of $849,000[28]

Cement
Cimentos de Portugal, SGPS, SA (Cimpor) held a 65.4% stake in Cimentos de Mozambique SARL, which is the country's only cement producer. In 2003, Cimpor increased the combined capacity of the Dondo, Matola, and Nacala plants to 760,000 t/yr. National consumption of cement was estimated to have increased to 675,000 in 2003 from 575,000 to in 2002 and 313,000 in 1998. Cimpor's share of the domestic market rose to 88% in 2003 compared with 85% in 2002[29]. The remaining domestic cement demand was met through imports.

Major firms in the Mining/Manufacturing Sector in Mozambique

Company/firm	Sector/Products	
Cervejas de Mozambique	Brewery	SAB Miller has majority stake in it
Coca Cola Sabco (Mozambique)	Carbonated soft drinks	Multinational it has sector monopoly
Sasol	Natural gas	South African investment
Cimento de Mozambique	Cement	Portuguese investment – monopoly
Mozal	Aluminium	SA/Australian investment
Mozambique Leaf Tobacco, Limitada	Tobacco	Subsidiary of US Leaf Tobacco It owns the only Tobacco processing plant in Mozambique and

[27] Mining Journal, 2003.

[28] Estevao T. Rafael Pale, National Directorate of Mines, March 15, 2004.

[29] Cited in Thomas, Ref. (Cimentos de Portugal, SGPS, SA, 2001, p. 78; 2004, p. 74).

		got special concessions
Illovo, a dominant global player and three other companies operate in Mozambique	Sugar	South African and Mauritian investment. The producers receive state protection

Natural Gas
In 2002, energy company Sasol of South Africa invested in the southern province of Inhambane to launch a natural gas project. The undertaking includes the building of an 865 km pipeline between the Mpande and Temane gas fields, in Inhambane, and the industrial complex of Secunda, in South Africa. The Natural Gas project is expected to add about 20 per cent to the Mozambique's GDP[30].

Major services sector business firms in Mozambique

Serial .no	Company	Sector
1	Maputo Port Development Company, SARL;	Port, logistics
2	M Cell and Vodacom	Mobile phone
3.	Total Mozambique, SARL; Shell Mozambique, Limitada;	Fuel distribution
4.	Banco Austral, SARL; Standard Bank; BIM União Comercial de Bancos, SARL BCM	Banking
5.	Southern Sun Mozambique; Hotel Holiday Inn	Hotel and recreation
6.	South African Airways -regional LAM- the national airlines –national and international Corridor-the private domestic airline	Air transport
7.	Price Waterhouse Coopers Crown Agents	Consultancy
8.	TDM –the public monopoly	Fixed telephony

[30] Mozambique news, 2002

Table 1. Market Structure of Some Manufacturing Industries in Mozambique

Industry	Types of Competition (Number of Enterprises)	Imports/year	Concentration
1. Alluminium	Single company and national champion		Concentrated
2. Sugar	Four producers Prices of domestic sugar is controlled by the govt. Strong domestic protection through punitive import tariff		Limited competition , as price is regulated in consultation with marketing companies
3. Tobacco	Eight companies including the large international companies have presence Only one manufacturer with a processing plant of tobacco – MLT and the rest are procurers		Relatively competitive market
4. Soft drinks	Coca cola and (major player) Schweppes and small firms (small market share)		Highly concentrated –as there is no domestic competition for Coco Cola
5. Beverages beer	SA Miller has 60% share in Cervejas de Mozambique (CdM)- dominant player Manica- is a minor player in the market		Highly Concentrated with the dominance of CdM
6. Cement	Cimento de Mozambique Single producer – and FDI from Portugal; about 50 % market share		Limited competition through imports

(Various sources)

Services and Utilities

Services contribute to just over 40% of the GDP in 2004. Services comprising transport and communication, commerce, banking, telecom and other services) are largely characterized by medium sized enterprises and the dominance of one or two activities. The level of market concentration in the services and utility sector tends to be significantly higher than that of the manufacturing sector. These enterprises are often granted monopoly rights that they sometimes auction off to private concessionaires through long term revenue-sharing concessions, as described earlier. Consequently, the market structure of most service industries can be described as monopolistic or oligopolistic.

Table 2. Market Structure of Various Service and Utility Sectors in Mozambique

Sector	Type of Competition (Number of Operators)	Market Share
Banking	Eight commercial banks-j all of them are majority foreign owned- Portuguese or South African stake. The main players Group BIM and BCI-Fomento. The other minor players are Standard Bank, Banco Austral-ABSA, and the African Banking Corporation.	It is concentrated. BIM has 45% of all banking asset. It controls (48% loan and 52% of interest market)
Insurance	Public sector monopoly	Majority share
Transport		
Road Transport	Private participation in passenger and freight transport is allowed. The passenger transport operators work like cartels through associations – although prices are regulated by government	Several small providers in the market
Aviation	Domestic: Two firms LAM and Air corridor State run monopoly LAM has unlimited access and Air corridor has only limited routes	Majority market share by LAM
	International: SAA and LAM	SAA has dominance
Telecommunications		
Public telephone network)	TDM – the state run company has monopoly	Monopoly
Cellular provider	Two companies Mcell- the state owned – major player New entrant Vodacom (2003) and minor share in the market	Latest sector data not available

Internet Services	Oligopoly	
Energy		
Electricity	State owned firm EDM has monopoly	Monopoly in both urban and rural areas
Petroleum supply and trading	The private participation but prices are regulated Total Mozambique, SARL; Shell Mozambique, Limitada;	Competitive market

(Various sources)

Hydroelectrica de Cabora Bassa of Portugal operated the Cabora Bassa dam, which had a capacity of 2,075 megawatts (MW). In 2003, production in the electricity sector fell by 14% because of rehabilitation and modernization at Cabora Bassa that reduced the number of generators available for production. Exports to Botswana, South Africa, and Zimbabwe fell and domestic consumption increased because of economic growth and rural electrification[31].

In August 2003, the Governments of Mozambique and South Africa signed a memorandum of understanding to build a hydroelectric plant at Mepanda Uncua in Tete Province with a capacity of 2,500 MW. The plant was expected to cost $1.3 billion.

Mozambique has about 30,400 km of roads, of which approximately 5,700 km was paved. In 2003, the Government rehabilitated 827 km of roads compared with 714 km in 2002 and 1,096 km in 2001[32]. Mozambique's rail network covered about 3,100 km, which included the 600km Sena rail line. The country has 865 km of natural gas pipelines, 306 km of crude petroleum pipelines, and 289 km of petroleum products pipelines[33].

[31] Agencia de Informacao de Mocambique, 2002

[32] Yager, Thomas, R, (2003), The Mineral Industry of Mozambique, PDF copy

[33] Thomas R. Yager, (2003)

Chapter 6

REFLECTIONS OF ANTI-COMPETITIVE PRACTICES

A liberal economic order, which provides easy entry and exit opportunities for the producers and various choices to consumers, is useful for achieving economic policy goals such as efficiency, growth, welfare, for all the participants in the market. However, in real life markets are not inherently fair, efficient or open although the ideal market situation which consumers want to achieve is competitive and not concentrated.

The most commonly referred anti-competitive practices that distort the developing country markets include; price-fixing, cartel arrangements, abuse of dominant position, monopolisation of market, mergers that limit competition and vertical agreements that blocks markets to new competitors and various entry and exit barriers to new firms.

Economic Transition

Similar to many newly independent countries in Southern Africa, Mozambique also had chosen an economic model where the public sector was the dominant actor for about two decades since independence. The public sector activities spread into all the key areas of the economy and bureaucrats run the business entities. The liberalisation and privatisation programme of the 1980s and 1990s had to not only spearhead transformation of public sector to private sector but also to change the mindset of the policy makers to unshackle the bureaucratic barriers put up against the private sector initiatives. In this process, most of the public sector enterprises, which acted, as state monopolies are either being transferred to the private sector or converted into limited liability public sector undertakings. Despite the liberalisation drive, one could find examples of several anti competitive aspects in the policies and laws governing the commercial/business sector and utility sector in Mozambique.

Public Policies and Barriers to Competition

Administrative and other policy-induced barriers often act as barriers to competition in the market. In certain cases domestic laws and regulations pose barriers to entry for the new players, both domestic and foreign investors. In many developing countries state owned service and utility firms often receive undue protection, which acts as a barrier to competition. Mozambique is not free from the practice and one could give several examples. An example referred by many is state patronage and exclusive flying right to operate from most domestic destinations granted to state subsidiary LAM, whereas the private airline Air corridor has not been allowed to do so. This allows LAM to overprice for domestic operations, a means to remain in the market despite being inefficient at the expense of consumer welfare.

A serious barrier for entry in the market identified by many in the private sector is the commercial code for the country, which in-effect has many hidden provisions of entry barrier. The commercial code has its colonial origin, which provided priority to settler communities in key business sector as against the local people. For instance, even now any investment and commercial activity would require prior approval from the government. This approval process would take months or years and there are no transparent rules on the decision making or approving a business. Hence this bureaucratic process on approval-which is not automatic at all is governed by the commercial code poses as a serious entry barrier for new players in many sectors.

Some of the trade instruments especially tariff and non-tariff barriers also limit competition in the market. Mozambique applies a variety of non-tariff measures, some of them have little effect on trade, while others intend to reduce imports and benefit local producers. In certain sector import of raw material or intermediary goods attracts more duty than import of finished products. The sectors where domestic protection is high include textiles, cashew, tobacco, sugar, etc.

In addition, government gives certain monopoly rights through concessions granted to existing monopolies in sectors such as tobacco, cotton and sugar. Our field interaction with the business sector suggests that when the government gives commercial monopoly rights to a few firms, it discourages the very concept of competition. For instance 70% import duty on sugar provides undue competitive advantage to the domestic sugar companies, irrespective of whether they are efficient or not. Similarly 18% export tax on raw cashew export does not encourage competition, though the intention of the government is to promote local processing. Further, government still fixes the prices of a number of goods and services sold in the market.

Barriers to Competition by Private Anti-competitive Behaviours

The perception survey conducted under the project revealed that various types of private anti-competitive practices do exist in Mozambique, including predatory pricing, price fixing, exclusive dealing, monopolisation of upstream markets, etc. Many people felt that certain industries/sectors have almost absolute monopoly of certain companies. For instance, carbonated soft drink is almost absolute monopoly of Coca Cola and it is difficult for a new entrant to compete the market segment.

Sectoral Regulation and Competition

Regulatory governance policies play an important role in creating a competitive business environment in the market. Although Mozambique does not have a competition policy and law it has sectoral regulators in many of the service sector business activities such as power, telecom, transport, banking, water, etc.

Transport

Some indicated that domestic airline industry has entry barrier as it is dominated by the public airlines, LAM and there is only one private sector airline-corridor so far allowed to operate and that too only in five provinces out of 10. The latter's effort to expand to other provinces and also regional flights have not succeeded. Despite liberalisation, domestic airlines sector is not open to foreign companies.

There are regulatory agencies in the electricity, water, banking, telecom, etc. though the effects of regulation is not very evident in the market.

Price-fixing and other Cartel Arrangements

Price fixing and market-sharing arrangements are prevalent in Mozambique and this has an effect on competition. Some people in the business sector felt that government has a policy of fixing prices in a number of products such as sugar, medicines, bread, petrol, gas, cotton, etc. This has an effect on the competition in the economy.

In some sectors such as the public transport sector, the operators use their collective bargaining power to fix prices.

Bid-rigging

This practice is common especially in the construction and public procurement sector, where contractors and suppliers decide the price of the contract in connivance with corrupt officials in the departments. There is inadequate rules and transparency in the system, which encourages the practice.

Abuse of Dominance

Monopoly or dominant enterprises in the market, whether public or private can engage in many anti-competitive practices. The retail sector in the urban centres are dominated by a few firms and chains, who discourage new entrants. The government controlled Mcell is the dominant player in the mobile phone sector and it has the ability to control the prices of products, despite the entry of Vodacom, the second serviced provider.

Many viewed that abuse of dominance was evident in the electricity distribution, sector where the state owned power distribution company EDM has monopoly. EDM has very poor service delivery records, due to irregular supply of power and inaccuracies in the billing system. EDM often violates consumer rights through it arbitrary pricing practices where consumers do not have a choice.

Table 1. Do state-owned monopolies indulge in anti-competitive practices?

Answer	No of Responses	%
Yes	38	35.8
No	21	19.8
Can't Say	42	39.6
No Response	5	4.7
Total	106	100

As per the field survey of 106 persons under the project, about 50 % of the respondents suggested that there is state owned monopolies in Mozambique; and only 15% perceive that there is none. Among the total respondents 36% believed that state owned monopoly firms engage in anti-competitive practices and 20% believe that they do not.

Chapter 7

PERSPECTIVES ON COMPETITION POLICY AND LAW

This section analyses the public perceptions on the state of competition in various sectors of the Mozambican economy and also the relevance of competition policy and law in promoting competition in the market place.

This analysis is drawn on the basis of responses and information gathered from about 100 persons through a structured field survey undertaken in early 2006 under the framework of the 7Up3 project. For the purpose of administering the questionnaire a total purposive sample of 250 persons were identified from various segments of the economy. They were approached with a request to fill in the questionnaire in Portuguese, mostly by direct visit in areas around Maputo and for other regions by mail. Out of the total request, 106 persons responded by filling up the questionnaire and also provided additional information. The following table provides the classification of respondents by the sectors, which they represent.

Table: 7.1 Classifications of Respondents

	Category	**Number of Respondents**	**%**
	Public Utilities	8	7.5
	Development organizations and Civil Society (Academia, media, civic society and consumer groups, etc)	27	25.4
	Services Sector including consultancy, hotel, etc.	25	23.6
	Government agencies/departments	19	18.0
	Manufacturing	11	10.3
	Banking	7	6.6
	Business Association and agriculture	5	4.7
	Construction	3	2.8
	Regulatory organization	1	0.9
	Total	**106**	**100**

Nearly half of the respondents (49%) belong to either development organisations, which include academia, non governmental organisations, media, etc or from the service sector business which includes consultancy, hotels, recreation, transport, etc. This is representative as about 40% of the GDP derives from the service sector activities. A quarter of the sample (25.5%) drawn from the government agencies/departments and public utilities. The remaining one quarter of the sample drawn from manufacturing, banking, construction, business association, and other related activities.

Public Perceptions on Anti competitive practices

According to the field survey result, 51% of the respondents indicated that anti-competitive practices (ACPs) are moderately prevalent in Mozambique, whereas 23% considers that it is significantly prevalent and a minority of 5% felt it is hugely prevalent. Among the respondents only 19% considers that ACPs are insignificant or not a serious matter at all in the economy.

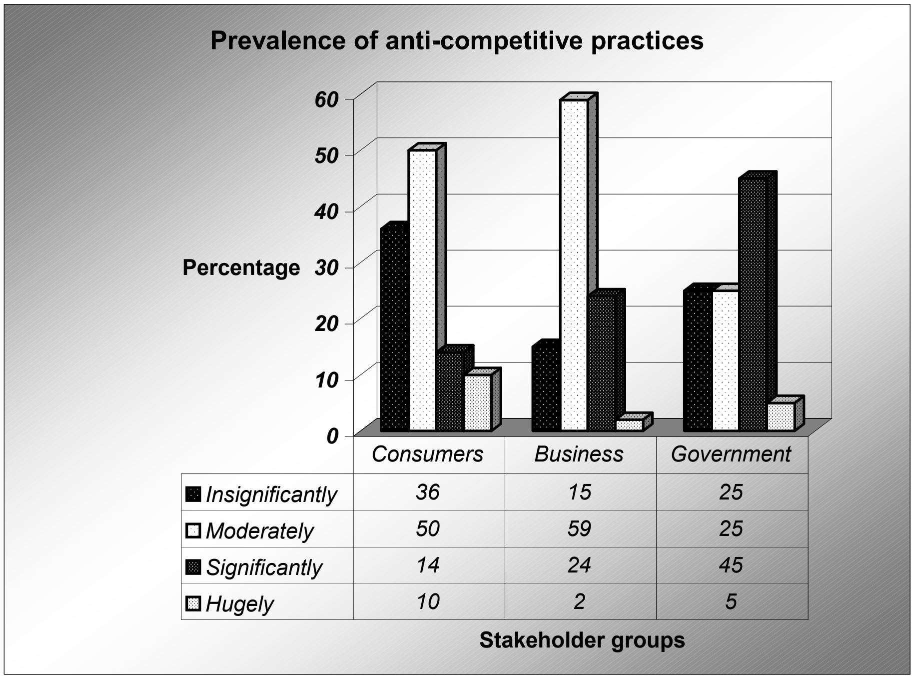
Table 7.2: Prevalence of Anti-competitive practices

Type of Responses	No of respondents	%	Comments
Insignificantly (or not at all)	20	18.8	
Moderately	54	50.9	
Significantly	25	23.5	
Hugely	5	4.7	
No Response	2	1.8	
Total	**106**	**100%**	

Here, these respondents shared their perceptions based on their experiences in a variety of sectors such as trading and distribution sector, services, agricultural marketing, Some respondents suggested that collective tendering and price fixing is common among wholesalers and retailers in the trading and distribution sector. Some of the local small scale firms indicated that they face unfair competition from imported products in the market, may be due to domestic policies and also the higher cost of production in the domestic market. Further, many participants in the small scale sector believed that large companies get undue protection and also various concessions from the government whereas small companies face several barriers are not able to compete in the market.

A stakeholder-wise break up of responses to prevalence of anti-competitive practices in the country revealed interesting results (Fig. 1). It was observed that in addition to a third (36%) of the consumers who felt ACPs were insignificant, a quarter (25%) of government officials felt likewise (see Fig below). This was in contrast to the observation in the business community, only 15% of who felt that ACPs were insignificant, with most of them (approx. 80%) feeling that the prevalence of ACPs was moderate to significant in the Mozambican market.

Fig 1: Stakeholder-wise break up of responses indicating prevalence of anti-competitive practices in Mozambique



About the economic and welfare effects of anti-competitive practices of firms on consumers in Mozambique, 43% said that consumers are significantly affected and 15% felt the effect is huge. As against the above, 23% felt the effects are moderate and 12% felt it is insignificant. It is quite evident that the participants are quite aware of the effect of various market practices of firms on consumer welfare.

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When asked to indicate the top three most prevalent anti-competitive practices prevalent in Mozambique, the perceptions of the participants vary considerably. The details are given in Table below. Among the major areas of concern identified by participants collective price fixing (34%), price discrimination (26%) market sharing, bid rigging, exclusive dealing, entry barrier (23%) each. The responses suggested that the above are the key areas of concern, though some indicated other areas such as resale price maintenance, refusal to deal and predatory pricing. However, those who suggested earlier that the effects of ACPs were minimal or negligent; they did not identify these as serious market distortion issues.

Table 7.3: Type of Anti-competitive practices prevalent in the market

Type of ACPs	**Total no= 105**	**% in all options**
Collective price fixing	36	34.2
Market sharing	25	23.8
Bid Rigging	24	23.0
Tied selling	13	12.3

Exclusive dealing	24	23.0
Concerted Refusal to deal	17	16.1
Resale Price Maintenance	20	19.0
Price discrimination	27	25.7
Entry Barrier	24	23.0
Predatory pricing	11	10.4
Any other	54	51.4

Further, in order to gather the perceptions respondents on the sectors most affected by ACPs, each respondent was asked to indicate three areas where they consider as important or priority areas. The tale 7.4 gives details of responses. According to the survey result, about 46% of the responses indicated that ACPs are very prevalent in public utility such as water supply, electricity, gas, etc and in the manufacturing sector.

Over one third of the respondents (34.2%) identified transport and about two fifths of responses (18%) identified agriculture and other services sectors, where one experiences market distorting practices. Incidentally people perceive that telecommunication and banking are relatively free from anti competitive practices although a public owned company is the dominant player in fixed and mobile services, and a handful of large firms dominate the banking sector.

Table 7.4: Sectors most affected by anti-competitive practices

Sectors	**No of Responses**	**% in all**
Financial	9	8.5
Transport	36	34.2
Telecommunication	8	8.4
Public utilities (water, energy, etc)	49	46.6
Manufacturing	48	45.7
Agriculture	19	18.0
Services	20	18.3
Retail	7	6.6
Whole sale	6	5.7
Number of Respondents = 105		

After considering the prevalence of anti-competitive practices by actors at local and national levels, the stakeholders considered that collective price fixing, and big rigging, predatory pricing, refusal to deal, market sharing, resale price maintenance are common practices at local level as about two fifth of the responses have identified these areas.

At the national level, two fifth of the respondents (39%) have identified predatory pricing as the single most important issue, 29% identified price discrimination as a the next serious barrier. Further about one fifth of the responses indicate collective price fixing, bid rigging and exclusive dealing are also prevalent at national level.

Table 7.5: Prevalence of anti-competitive practices by level

Options	Local	%	National	%
Collective price fixing	24	22.8	24	22.8
Market sharing	19	18.0	16	15.2
Bid Rigging	20	19.0	20	19.0
Tied selling	10	9.5	10	9.5
Exclusive dealing	16	15.2	20	19.0
Concerted Refusal to deal	22	20.9	12	11.4
Resale Price Maintenance	25	23.8	14	13.3
Price discrimination	24	23.8	31	29.2
Entry Barrier	18	17.1	14	13.3
Predatory pricing	21	20.0	41	39.0
Any other	36	34.2	14	13.0

There could be some bias or misunderstanding while commenting on the local and national level, because it suspected that the respondents considered local level and regional (in the case of Mozambique) North, Centre and South. The survey was carried out mainly in Maputo province in the south. This implies that the responses were not purely based in experience in their activities but in what is going on along the country and in how much this affect consumers. The other probable explanation on how respondents considered local and national markets is based on the source or origin and type of goods and services, which were considered while analyzing the relevant market.

Table 7.6: Effectiveness of existing regulations and laws to check anti-competitive practices?

Whether the existing laws effective	Number of Respondents	%
Yes	19	17.9
No	71	66.9
Can't say/don't know	14	13.2
No Response	2	1.2
Total	106	100

When we analyzed the perceptions on the effectiveness of existing laws and regulations, two third of the (66%) respondents mentioned that the existing rules, regulations and laws are not sufficient to check anti-competitive practices. This indicates the serious weakness in the existing regulatory framework for market in Mozambique. For example the respondents considered that sector regulators and other institutions do not take serious actions when there are undesirable practices by the dominant players in the market

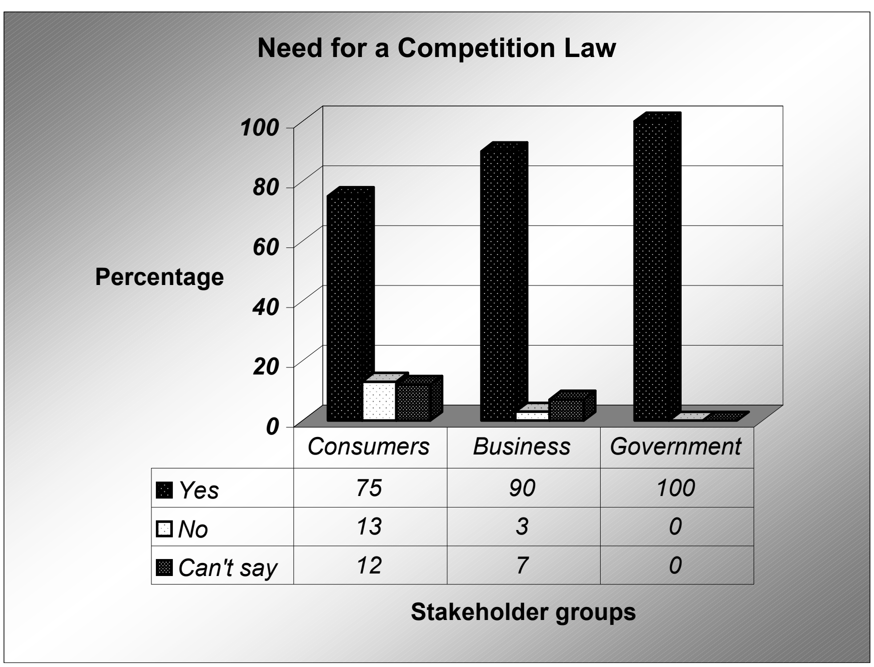
When asked to comment on the need for a competition law for Mozambique, 83% of respondents suggested that the country should adopt competition policy and law to check anti-competitive practices. A minority (5%) believed that a new law is not required as it will not be effective due to systemic issues hence not to increase public expenditure. Some respondents viewed that given the present economic governance structure and business environment a competition law and implementing institution can be a toothless body, which cannot achieve its objectives.

Table 7.7 Preference for the type and extent of the competition law

Whether a comprehensive law to check anti competitive practices required?	No. of Respondents	%
Yes, Required	88	83.0
No, Not Required	5	4.7
Can't say/don't know	8	7.5
No response	5	4.7
Total	106	100

A large majority of respondents (83%) viewed that Mozambique required a comprehensive competition policy and law, which should cover all type of economic activity without any exemption.

Fig 2: Stakeholder-wise break up of responses to 'Need for a Competition Law'

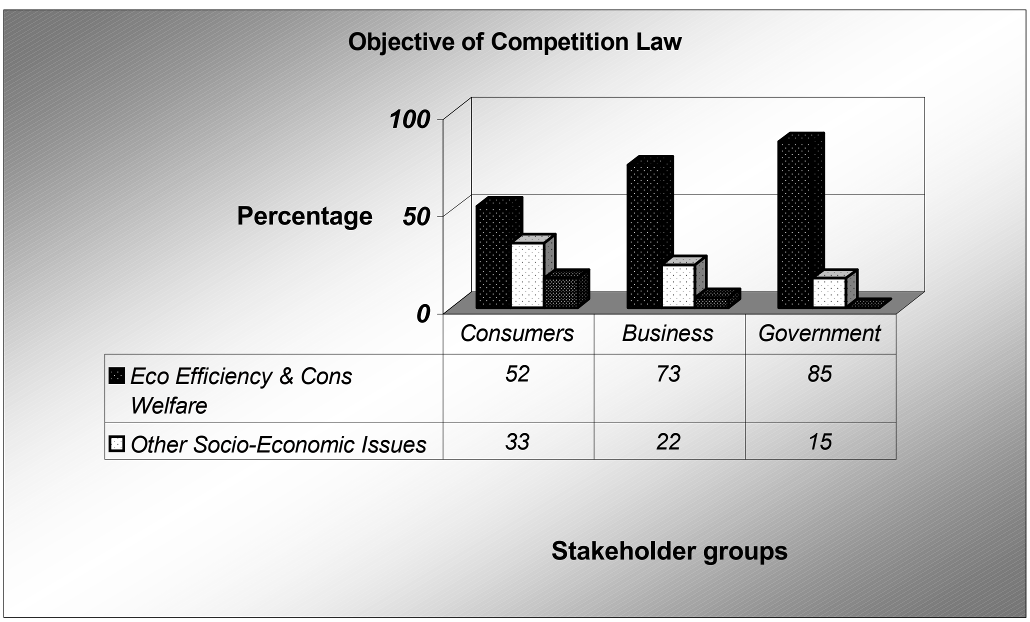


As is evident from the above figure (Fig. 2), there was consensus across stakeholder groups of the need for a competition law in Mozambique to deal with anti-competitive practices. The interesting fact was the overwhelming unanimity in the government circle for the enactment of a competition law. This is in line with the present situation as observed while discussions with various government officials in the country, that the government is committed to developing a competition legislation for the country.

The respondents had a pretty good understanding on the importance of market regulation in a liberalised policy environment. According to 69% of the responses, the key objective of a competition law should be economic efficiency and consumer welfare. Whereas 24% suggested that other socio economic and welfare issues are to be considered while developing the competition law.

When considered across stakeholder groups (Fig. 3), the results indicate that the government is quite clear that a new competition legislation would focus on economic efficiency and consumer welfare. The reaction from the business community was also inclined heavily in favour of a law with similar objectives. However, the views of consumers were a bit skewed, which could be attributed to the level of their understanding.

Fig 3: Stakeholder-wise break up of responses to 'Objectives of a Competition Law' of Mozambique



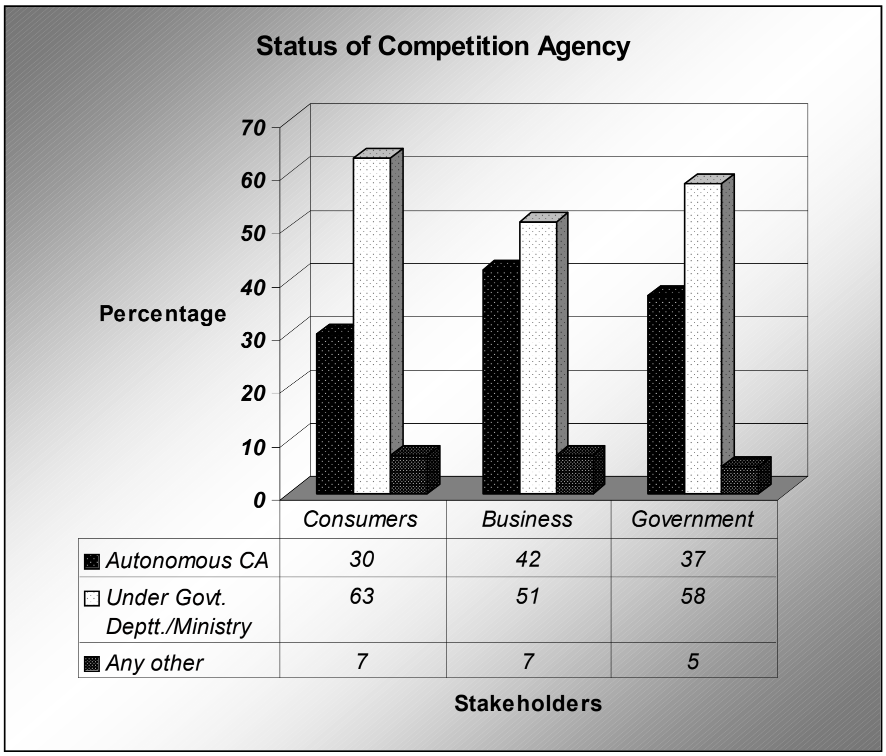
	Consumers	Business	Government
Eco Efficiency & Cons Welfare	52	73	85
Other Socio-Economic Issues	33	22	15

Perceptions on the coverage and implementation mechanism

As regards the suggestions for implementation mechanism of a competition authority for Mozambique, 53% suggested that the authority should be under the government department/Ministry where as 37% preferred to have an authority under an autonomous set up.

When responses were segregated into stakeholder groups (Fig. 4), it was observed that there was difference of opinion even within the groups – particularly, the government and the business community, with regards the status of the competition authority for Mozambique. While a majority of respondents from both these groups (business– 51% and government- 58%) were of the opinion that the authority should report to the Ministry/Department, a relatively high proportion of representatives of both the groups (business – 42% and government – 37%) felt that the competition authority should be autonomous. There was, however, a clear indication among consumers that the competition authority should be under the Ministry/Department concerned.

Fig 4: Stakeholder wise perception on status of a Competition Agency in Mozambique



When asked to suggest on the powers of the competition authority for Mozambique, 41% suggested that the authority should have both investigative and adjudicative tasks; where as 27% suggested that the authority should have investigative powers only and 19% preferred for court in adjudicative matters.

A large majority (70%) of the respondents suggested that competition law in Mozambique should cover all the enterprises, whereas 20% suggested having exemptions given to certain sector of the economy on account of public welfare. Those respondents who proposed exemptions in law for certain sectors clarified that these exemptions should be confined to public utilities, state owned firms, small and medium enterprises, rural enterprises and providers of welfare services such as education and health.

Coverage of the Law

As regards the specific coverage, 57% respondents in our survey suggested that the law should deal with both unfair trade and consumer protection as well. Whereas 25% preferred to have separate mechanism for competition matters and consumer protection to avoid overloading the institutions by mixing up both issues. When asked to mention specifically on which agency assists in redressing consumer grievances at present, about 35% of the respondents believe that ADECOM (a consumer protection organization)- offers justice to aggrieved consumers in cases of dispute where as a small number (10%) believe that ministry of commerce and industry offers justice to consumers.

Chapter 8

THE STATUS OF COMPETITION POLICY AND LAW

This section analyses the recent developments with regard to the drafting of a competition policy and law in Mozambique. The focus here is an assessment of the existing regulatory or competition framework that would complement the process. Further the effectiveness and acceptability of any policy and law depends on the extent to which these instruments have actually evolved in the country in the context of socio-economic developments.

The present market regulation in Mozambique comes about as a result of the liberalisation and structural adjustment programme in the early 1990s. The other factors which complemented the process are the policy interaction among government, development partners and international financial institutions, business, and consumers. The decade and a half long economic liberalisation and privatisation has unleashed the market forces in Mozambique, which prompted the government to think about a competition policy and law for creating an enabling environment for the business. The regional and multilateral initiatives at SADC, WTO and UNCTAD level also complemented the new thinking. This does not mean that there is any strong drive for any fast track implementation of competition policy and law in the country.

Efforts towards developing competition policy

The drive towards competition policy and setting up of regulatory institutions in many countries in Southern Africa has been the result of liberalisation process, external pressure such as that of international financial institutions, regional and multilateral trade agreements, and financial and technical support from development partners and intergovernmental bodies. The recent spread of competition and regulatory institutions in the Southern Africa region perhaps prompted Mozambique to have a national introspection, debate and consultation on the advantage and disadvantages of a domestic competition policy and law and to undertake an assessment of institutional capacity to implement the programme. In this context, Mozambique has taken a cautious and rather slow approach to develop a competition policy and through consultations, capacity building and debate on the subject since 2002.

Apart from the domestic policy context, SADC trade arrangements and UNCTAD and the WTO capacity building programmes also prompted the country to consider the need for evolving a competition policy regime for the country. For instance, SADC protocol on trade deals with competition policy as well and exhorts member states ‘to implement measures within the community and prohibit unfair business practices and promote competition’. In this regard, SADC and also the Southern African Customs Union (SACU) made some initiatives to go for developing a regional competition policy framework and also to harmonize national competition rules. WTO and UNCTAD have given technical training on competition policy to the countries in the region. The other SADC countries such as South Africa, Zimbabwe, Zambia, have fully grown competition regime, while others such as Malawi, Tanzania, Mauritius, Namibia and Botswana have progress recently in setting up institutional mechanisms on competition.

In 2004, a study supported by the United States Agency for International Development (USAID) recommended the adoption of a staged approach for developing a competition law in Mozambique. It further prescribed the law to focus exclusively on prohibiting price-fixing behavior, and suggested the proposed competition agency to take up competition advocacy as a priority activity.

Further, a 'working group' within the Ministry of Trade and Industry was required to be established to serve as the focal point for garnering support, funding, assistance, training, education, and constituency building.

The following tasks were recommended for this 'working group':

- Develop a competition law proscribing naked cartels, prohibiting price-fixing, and empowering a competition agency to review proposed bill or statute within the government.
- Begin developing a competition policy for the country
- Examine alternatives to competition law enforcement
- Plan for a Competition Agency (Authority), which is independent; gradually extends its scope of enforcement; embrace competition advocacy functions.

As a follow up, the ministry of industry and commerce (MIC) established a working group to deliberate on competition policy matters. The Ministry has appointed two officials of the designation of Directors to oversee all activities pertaining to competition policy and law in the country. The 'working group', comprising of various stakeholders (including civil society organisations) has also been constituted. This working group has been meeting regularly and discussing plans of action. The MIC has also engaged a lawyer-consultant working on trade and competition policy issues since 2004.

In 2005 UNCTAD organized a training programme in Mozambique, which was attended by working committee members and government officials. The 7Up3 project was launched in 2005 to do both research and advocacy work on competition policy. In early 2006 government of Finland supported to host training on competition policy in Mozambique.

Around the middle of 2006, due to some internal reshuffle at MIC, the charge on competition has been shifted to department of internal trade from the external trade department.

The MIC with the assistance of the consultant has started preparing the competition policy and the draft is expected by September 2006. According to the official sources, the policy formulation will be followed by developing the competition law for the country by the legal department of the government.

Though there is no divergence of views on the need for a competition policy, there is no consensus on the competition law and rules and institutional structure for the authority. There are business lobbies who advocate for adopting a toothless competition authority without investigative and adjudicative powers but as an advisory and reviewing agency due to the following:

They believe that little tradition in competition, limited jurisprudence in the subject, limited capacity to administer laws, little confidence in the legal system, budgetary reasons and many in the business feels that nothing much to gain.

At the same time the pro-competition lobby and consumer protection agencies are rather weak in the country. The government does not seem to be very keen on a fast track approach of developing a competition policy and law.

Chapter 9
CONCLUSIONS

This study examines the key public policy instruments as well as the structure of some of the sectors of the Mozambican economy, which have a bearing on competition and consumer welfare. It also analyses the perceptions of over 100 stakeholders from a cross section of the economy on the current state of economic regulation, competition and consumer protection. This research study was initiated at a time when there are some concerted efforts at the government level in developing a competition policy for the country. Further, the importance of the study derives from the fact that this is the pioneer effort to gather the views of the stakeholders on market behaviour of firms and suggestions on setting up a competition regime through a structured questionnaire. There have been some efforts in the past to analyse whether the country would require a competition policy and law.

The economic liberalisation and structural adjustment policies of 1990s provided the necessary impetus for enhancing private sector participation as well as competition and efficiency seeking market systems in Mozambique. The privatisation of most of the state owned firms, especially in the utility sector also necessitated the creation of regulatory institutions in the country. Despite this, still there are state owned and private monopolies as well as concentration of market power in certain business entities in the country.

In general, the various public policies as well as regulatory statutes aim at enhancing economic growth, investment, efficiency and encouraging private sector participation in the economy. However, there are still policies and statutes, which discourage competition and retard consumer welfare. The market structure of several firms in the consumer goods and services sectors are dominated by monopolies or oligopolies.

The investment promotion policies of the government focus on attracting mega or large-scale foreign direct investments into the country. In this process, government grants special incentives, concessions as well as protection from imports to companies, irrespective of whether it promotes competition and consumer welfare or not. The instances can be found in goods and services sector viz. sugar, tobacco, leasing of ports and infrastructure services. At the same time, various administrative barriers to entry due to the application of age-old statues and bureaucratic tendency to check private sector still affect the state of competition. Many in the business sector feel that in order to start a business right contacts with politicians and bureaucrats are required.

The findings of the field survey under the project indicate the prevalence of various types of anti competitive practices in the economy. There is pretty good awareness among the respondents about the negative effects of anti-competitive practices by firms. Most of the respondents viewed that country require a comprehensive competition policy and law to regulate market and enhance public welfare. However, still there are skeptics in the business who feel that a competition authority with investigative and adjudicative powers would not do much good corresponding to the cost, since there are other systemic issues in the economic governance arena, which need to be tackled first. There is however optimism among the advocates of competition that the country would adopt a policy and law soon.

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