

TECHNICAL REPORT

Mozambique—Business Environment Assessment, 2004

Acknowledgments

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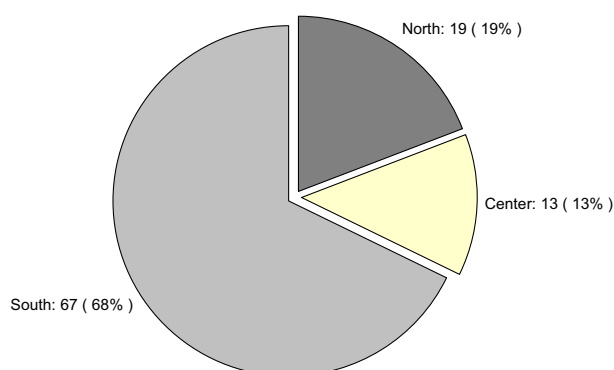
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Executive Summary

A national survey of Mozambique's business environment was undertaken between June 8 and August 27, 2004. The survey covered 99 companies in 7 of the country's 10 provinces—19 in the northern region, 13 in the center, and 67 in the south. Seventeen of the companies in the south were multiregional (Figure S-1).

Figure S-1
Geographical Distribution of Companies



The survey, which was anonymous and confidential, was preceded by a pilot phase in 15 companies to test the relevance and usefulness of survey questions. Once questions were adjusted, the full survey went ahead. A sample questionnaire is presented in Appendix A. The majority of responses were obtained through personal interviews by trained teams, but some were obtained by telephone.

Of the companies surveyed, 20 were engaged exclusively in commerce, 25 in industry, 26 in service provision, 6 in tourism, 1 in agriculture, and 4 in other activities. Fourteen were engaged in multisectoral activity, and 3 did not specify. Sixteen had equal to or more than 250 employees, 15 had more than 125, 44 (the majority) had equal to or more than 25, and 19 had less than 25 workers. Five companies did not indicate the number of employees. Companies systematically refused to declare their turnover rate.

Figure S-2
Classification of Companies by Business Area

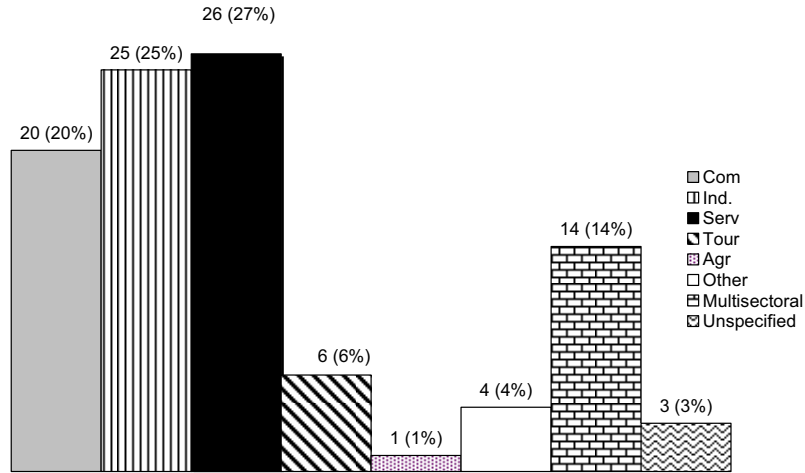
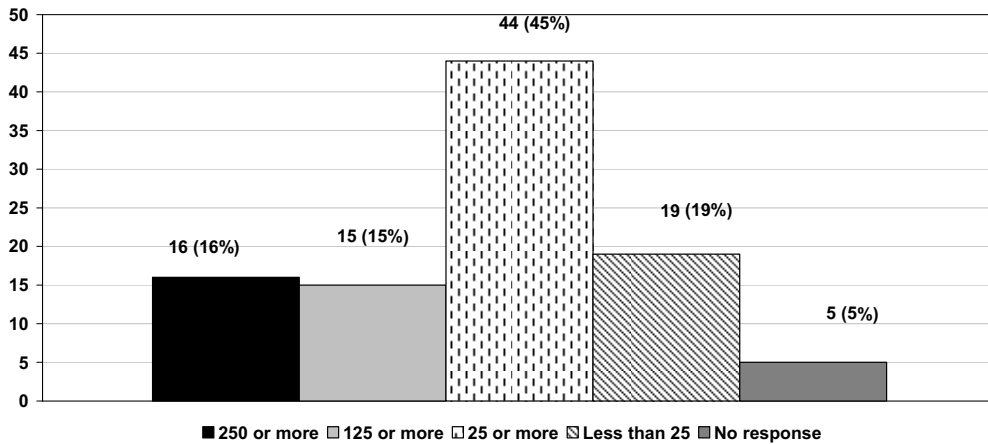


Figure S-3
Companies by Number of Workers



The survey covered 14 areas often considered to be problematic:

- Access to land
- Company registration
- Licensing
- State payment of debt
- Labor
- Dispute resolution
- Construction and works licensing
- Immigration
- Environmental licensing
- Import and export processes

- Taxes (personal income, company income, VAT)
- Distressed companies
- Access to credit
- General development of the business environment over the last 5 years.

Opinions on infrastructure, power, transport, and other matters affecting development were also gathered. At the time of the survey the consequences of recent alterations in commercial and industrial licensing, as well as changes in the tourism law, had not yet made themselves felt on the ground. It is hoped that these changes will simplify processes and facilitate business.

While most respondents agreed that significant improvements had taken place in Mozambique's business environment over the last five years—with the exception of some areas that became more problematic—expectations had not been met. Thus, perceptions of the quality of Mozambique's business environment lag far behind those of its international competitors, as well its most direct competitors in the region. Data collected for the World Bank's "Doing Business" survey clearly illustrates this feeling within the Mozambican business community.

Interviewees were reluctant to acknowledge in writing to making illicit payments despite the survey's anonymity and guaranteed confidentiality. While the majority admitted to making such payments to obtain advantage or information, they systematically requested "don't write that down, I didn't say anything." Most admitted fear of reprisals.

An overview of information obtained through the survey also reveals problems provoked by centralization. Opinions on quality, delays, and costs of service deteriorated in direct relation to the distance between the area where the service is provided and the Capital. One can conclude, therefore, that extraordinary increases in costs and delays are the result not only of complex and demanding regulations (e.g., elaborate processes, collections of documents, non-transparent decision-making), but also of having to convey documents from one place to another. This results in most cases from the lack of professional training of those involved as well as from a complete lack of understanding of what constitutes professional dignity and public service. Systematic and aggressive training will be vital to reversing this situation.

To show the legal complexity of business environment processes, summaries of the procedures, costs, and legislation associated with land access, company registration, licensing of commercial, industrial, hotel/tourism activities, work, INSS, migration, ambient and external commerce are presented in Appendixes B through K. These summaries reveal how lengthy, winding, and complex the procedures are and how much they cost. One can also conclude, however, that licensing processes constitute a significant barrier to investment. It is recommended that the private sector, through the CTA, its representative organization, concentrate on negotiating with the Government a revision of all existing licensing regulations to simplify, rationalize, and harmonize them. This would entail dedicating a public-private sector "task force," provided with the necessary technical support and guided by clear deadlines, to execute this task. Table S-1 summarizes process requirements; Table S-2 synthesizes observations about processes.

Table S-1*Process Time Periods and Legal Costs*

Procedure	Documents	Time	Costs (Mt)
A C C E S S T O L A N D (D U A T)			
1. Request addressed to responsible authority	Form accompanied by photocopy of BI/ DIRE/ Articles of association	90 days	10.000.00
2. Identify and survey (plan, written description, demarcation and consultation)	Not applicable (NA)	NA	200.000.00
3. Community consultation	NA	NA	<ul style="list-style-type: none"> • Community incentive- 300.000.00 • Survey and consultation^a <ul style="list-style-type: none"> Senior technician: 600.000.00 Intermediate technician 487.800.00 Basic technician: 397.500.00 Fuel: 5.000.00Mt/km
4. Finalize plan and written description and publish notice	NA	NA	NA
5. Submit required documents in triplicate (except for deposit slip, which is in 4 copies)	<ul style="list-style-type: none"> • Plan of land • Community consultation signed minute • Project plan approved by relevant authority or development plan • Copy of published notice • Deposit slip • Receipt for annual tax payment 	NA	600.000.00
6. Preparation of response	NA	NA	NA
7. Issuance of provisional authorization	NA	NA	600.000.00
8. Notification of decision	NA	NA	NA
9. Publication in government gazette	Dispatch giving authorization	NA	Value included in costs payable see Procedure 5
10. Request definitive authorization	Letter of request	NA	NA
11. Inspection	NA	NA	NA
12. Issuance of final authorization	NA	NA	300.000.00
C O M P A N Y R E G I S T R A T I O N			
1. Request negative certificate from commercial registry	Letter of request	2 to 3 days	76.100.00
2. Public deed of articles of association prepared by notary office	<ul style="list-style-type: none"> • Copies of BI or DIRE of partners • Negative certificate • Proof of deposit of social capital • Articles of association. 	4 to 5 days	<ul style="list-style-type: none"> • Notarial acts for companies with social capital up to 5 billion meticaís 2 per thousand of social capital. • For values over 5 billion 0.1 per thousand is covered.
3. Provisional registration at the commercial registry	Extract of public deed	30 days	As above plus, for each <ul style="list-style-type: none"> • Presentation notice: 50.000.00 • Registry of an individual trader:

Procedure	Documents	Time	Costs (M€)
			100.000.00 • Company registered: 50.000.00 • Enrollment: 200.000.00
4. Publication of Articles of association in Government Gazette	Extract of public deed	90 days	495.550.00 per 25 lines of text
5. Definitive registration at commercial registry	Request letter and copy of government gazette containing articles of association	7 days	See procedures 2 and 3
COMMERCIAL ACTIVITY LICENSING ^b			
NATIONAL COMMERCIAL ESTABLISHMENTS			
1. Submit request with documents required	Request letter with notarized signature and • For individual – ID document • For collective Public deed or government gazette Sketch plan of premises Proof of registration with the Ministry of Finance	Province – 15 days District – 8 days	Costs vary depending on type of activity and location (city town or rural):. Supplementary services such as reissue of license: 50% of value normally charged depending on type of activity
2. Decision	NA	NA	NA
3. Notification	NA	5 days from date of decision	NA
4. Inspection	NA	Within time periods for license issuance	100.000.00 – 2.500.000.00;
5. Issuance of license	NA	Within time periods mentioned in 1.	50.000.00 – 1.500.000.00;
FOREIGN COMMERCIAL REPRESENTATION			
Procedures as above except for agencies exempt from inspection.	As with step 1 for national commercial establishments, plus • Identification of commercial activity • Request for inspection • Authenticated copies of company constitution from home country • Power of attorney of representative • Authenticated copy of ID of mandate holder • Approval of body responsible for this area	10 days for complete process Notification of decision within 2 days of decision being taken	Operating license – 12.000.000.00 Licensing for national company – 5.000.000.00.
COMMERCIAL ACTIVITY IN INDIVIDUAL NAME - FOREIGNERS			
Same as for national commercial establishments	Documents required for national commercial establishments plus a business visa or relevant residence permission.	Same as for national commercial establishments	Same as for national commercial establishments
RURAL COMMERCIAL ACTIVITY IN TENDA, BARRACA OR BANCA, AMBULATORY COMMERCE AND AGRICULTURAL COMMERCIALIZATION AGENT			
1. Request with documents required	Form accompanied by • ID document, and relevant residence authorization in case of foreigners; • Business/trade visa if foreigner wishes to be involved in agricultural trade.	Applicant must be present	

Procedure	Documents	Time	Costs (Mt)
2. Decision and issuance of license.	NA	NA	NA
EXTERNAL TRADE OPERATOR			
1. Forms plus relevant documents	Form plus operating license and proof of registration with the tax authorities.	NA	Exporter registration – 250.000.00 Importer registration – 1.200.000.00.
2. Issuance of license	NA	7 days	
INDUSTRIAL ACTIVITY LICENSING			
1. Submission of documents required	Request letter with notarized signature plus: <ul style="list-style-type: none"> • Government gazette containing articles of association • Industrial project containing <ul style="list-style-type: none"> Topographical plan Industrialization plan Written description • Environmental impact study r exemption • Construction license if required • Ownership title or rental contract • Approval from municipal authority if required 	NA	<ul style="list-style-type: none"> • Large: 5 × min wage • Medium: 4 × min wage • Small: 2 × min wage • Micro: 1 × min. wage
2. Decision	NA	8 days from date of receipt of request	NA
3. Notification of decision	NA	3 days from date of decision	NA
4. Opinion of health safety and fire service and others	NA	15 days	NA
5. Analysis of project	NA	30 days from date of receipt	NA
6. Notification of decision	NA	3 days from date of approval	NA
7. Inspection	Request	Begins within 6 days of receipt of request Complete: 8 days.	Costs depends on size of industrial unit: <ul style="list-style-type: none"> • Large: 6 × min. wage • Medium: 4 × min. wage • Small: 2 × min. wage • Micro: inspection not required.
8. Issuance of license	NA	NA	See 1
LICENSING HOTELS, TOURISM, AND SIMILAR ACTIVITIES			
1. Request addressed to Minister of Tourism or Provincial Governor depending on type of activity	Request letter with notarized signature plus: <ul style="list-style-type: none"> • ID document for individuals or articles of association or government gazette for collectives; • Opinion from local authority; • Environmental certificate. • Construction project: <ul style="list-style-type: none"> – Topographical plan, – Implementation plan (scale 	Accommodation establishments – 60 days Restaurants, drinking establishments – 30 days	Costs vary by group. The most expensive: <ul style="list-style-type: none"> Group I – Hotels, including Lodges etc • Project analysis: 3.500.000.00; • Inspection: 8.000.000.00; • Issuance of license: 5.000.000.00; • Alteration of license: 3.000.000.00; • Name approval: 500.000.00;

Procedure	Documents	Time	Costs (M)
	1:1000), – Drainage and water plans. • Written description plus photos etc. Depending on if it is a new construction or not. • Health and safety declaration for restaurants and catering establishments. • Rent contract or property title.		• Management certificate: 3.500.000.00; • Management registration: 300.000.00; • Health & safety and fire brigade: 2.000.000.00
2. Opinion of local authority	NA	NA	NA
3. Decision	NA	Accommodation establishments – 8 days Restaurants and drinking establishments – 5 days	See 1
4. Inspection and approval of name and price schedules	NA	Inspection: 20 days, from submission of request Inspection report: 8 days Communication of outcome: 7 days	See 1
5. Issuance of license and registration of managers	Request letter	5 days from approval of inspection	See 1
6. Registration	NA	NA	NA
C O N T R A C T I N G F O R E I G N E R S			
WORK AUTHORIZATION			
1. Request letter plus documents	Request plus • Copy of passport or DIRE of person to be contracted • 3 copies of contract • Proof of qualifications or experience • Union approval	NA	Pay: 12% of monthly salary
2. Proof from INEFP that there are not, or not a sufficient number of national qualified people to fill the post	NA	NA	NA
3. Issuance	NA	NA.	See 1.
WORK PERMISSION			
1. Request letter and documents	Request plus • Proof of mandate • Copy of passport or DIRE • Authorization for company to operate	NA	Fixed amount 5 times minimum wage.
2. Issuance	NA.	NA	See 1.
W O R K S A N D C O N S T R U C T I O N L I C E N S E S ^c			
1. Pre-authorization (if required)	• Request letter • Written description • Map scale 1/1000 In the case of works also • Implementation plan scale 1/200	30 days from receipt of request	NA

Procedure	Documents	Time	Costs (Mt)
	<ul style="list-style-type: none"> • Volumetric size of construction 		
2. Licensing request and supporting documentation	Project approval requires <ul style="list-style-type: none"> • Request in duplicate • Authenticated copy of DUAT or proof of ownership • Plans and maps • Architectural plans • Letter of responsibility from architect • Description of common areas in case of flats or multi-storey dwelling. 	NA	Cost depends on location and size: Maputo and provincial capitals – 5.000.00/m ² to 10.000.00/m ² ; Other cities and towns – 3.000.00/ m ² to 6.000.00/ m ² ; Other villages – 1.000.00/ m ² to 3.000.00/ m ² .
3. Preliminary inspection by body responsible ^d	NA	NA	NA
4. Approval by licensing body	As above	60 days from date of receipt	NA
5. Approval of complementary projects	As above	NA	NA
6. Project approval	As above	From date of receipt Local – 30 days National – 60 days	NA
7. Construction licensing	Using contractor: <ul style="list-style-type: none"> • Request • Authorization of architectural project • Cost estimate • Declaration from contractor plus proof of legality Direct management <ul style="list-style-type: none"> • As above • As above • Declaration from technician or manager. 	30 days from receipt of request	See 1
8. Publication of license	NA	8 days from issuance (responsibility of license holder)	NA
9. Usage license and inspection	Request and construction license	Inspection – 30 days from request	Cost depending on size <ul style="list-style-type: none"> • Maputo and provincial capitals – 1.000.00/m² to 2.000.00/m² • Other cities and towns – 600.00/ m² to 1.200.00/ m²; • Other villages etc – 200.00/ m² to 400.00/ m²
ENVIRONMENTAL LICENSING			
1. Request to environmental licensing sent to the entity responsible, central and/or local level ^e	Request and <ul style="list-style-type: none"> • Activity invention description • Activity description • Justification of activity • Legal framing of the activity • Brief information on biophysics and socioeconomic aspects of the are; • Use of land in the area of activity 	NA	<ul style="list-style-type: none"> • Categories A and B – 0.1% of the activity investment value^f • Category C – 0.01% of the activity investment value. Costs of viability study borne by applicant.

Procedure	Documents	Time	Costs (M\$)
	<ul style="list-style-type: none"> • Information on environmental aspects of the are of activity; • Information on stages of evaluation process, elaboration and submission of the terms of reference (ToR), of viability study and definition of scope (EPDA), of study of environmental impact (EIA) and simplified environmental study (EAS); • Record of available preliminary environmental information in DNAIA and DPCA's duly filled. 		
2. Pre-evaluation of Environmental Impact	<p>Documents referred to in 1.</p> <p>Note: This will only be necessary to proceed with the categorization of the activity, to know which are the necessary studies to perform, to exempt EIA study and / or to reject the activity implementation.</p>	<p>According to authority</p> <ul style="list-style-type: none"> • Environmental Impact (AAIA): –5 days • Provincial Directorates for Environmental Action Coordination (DPCAA) – 8 days 	NA
3. Study of environmental pre-viability and definition of scope (Necessary for Category A activities and entirely the applicant's responsibility)	<p>Report of environmental pre-viability and definition of scope delivered to DNAIA with ToR (copies in paper and electronic format).. Report must contain:</p> <p>Non-technical summary of main issues addressed, conclusion and proposals;</p> <p>Identification and address of applicant and the multidisciplinary team responsible for the EIA</p> <p>Area of indirect limits of influence and standards of land use in direct and indirect areas of influence</p> <p>Description of activity and different actions to be taken in planning, construction and exploration (this last in case of temporary activities),</p> <p>Identification and description of the aspects to detail in EIA</p>	NA	NA
4. Revision of Study of environmental pre-viability and definition of scope	Revision based on the Report presented in 3.	30 days	NA
5. Terms of reference of the Environmental Impact Study (Category A) or Simplified Environmental Study (Category B) (Applicant's responsibility)	<p><u>Terms of Reference for EIA, with:</u></p> <p>Description of specialized studies identified as necessary by EPDA</p> <p>Viable alternatives for investigation</p> <p>Method of identifying and evaluating environmental impacts in construction, operation and closing</p> <p>Description of public participation process</p> <p>Applicant identification and detail</p> <p>Identification of EIA or EAS Team</p> <p>Additional information as necessary</p> <p><u>Terms of Reference for EAS, with</u></p> <p>Applicant identification and address</p> <p>Activity location in a scaled map, showing direct area of influence and standards of use of land in course</p>	<p>According to authority</p> <p>AAIA –30 days</p> <p>DPCAA – 15 days</p>	NA.

Procedure	Documents	Time	Costs (Mt)
	<p>Framing of activity in the existing plans of order of territory</p> <p>Description of activity and action for planning, construction, exploration and closing</p> <p>Description of public participation process</p> <p>Identification of environmental components that the study will detail</p> <p>Description of methodology of identification, classification and evaluation of the potential environmental impacts of the activity and respective alternatives</p> <p>Identification of EAS team</p>		
<p>6. Deliver Environmental Impact Study (category A) to DNAIA or report of the Simplified Environmental Study (category B) to DPCA.</p> <p>(in paper and electronic form; applicant's responsibility)</p>	<p>In accordance with ToR and specific requirements of authorities.</p> <p><i>EIA Report must contain</i></p> <p>Non-technical summary of main issues, conclusion and proposals</p> <p>Legal framing of activity and respective insertion on territory order plans of the direct area of influence</p> <p>Description of activity and actions to be developed, alternatives for planning, construction, exploration and closing (this last for temporary activities);</p> <p>Delimitation and geographical representation and environmental situation of reference of activity influence area</p> <p>Description and detailed comparison of alternatives and forecast of future environmental situation with and without attenuating measures</p> <p>Identification and evaluation of the measures and impacts the attenuation process</p> <p>Environmental management plan (impact monitoring, environmental educational program, contingency and emergency plans);</p> <p>Report of public participation</p> <p>Specialist's reports as annexes</p> <p><i>EAS Report must contain the following</i></p> <p>Non technical summary of issues, conclusions and proposals;</p> <p>Location and description of activity</p> <p>Legal framing of activity and respective insertion on territory order plans of direct area of influence</p> <p>Environmental diagnostic with brief description of environmental situation of reference</p> <p>Identification and evaluation of environmental impacts</p> <p>Environmental management plan (impact monitoring, environmental educational program, contingency and</p>	NA	NA

Procedure	Documents	Time	Costs (Mt)
	emergency plans); EAS Team identification; Report of public participation.		
7. Review of the environmental impact study or of the simplified environmental study.	Performed in accordance with the EIA or EAS report.	According to the category: EIA – 45 days EAS – 30 days	NA
8. Decision of the environmental viability of the activity Environmental license issue or total or partial rejection of request.	Performed in accordance with technical revision report of EIA or EAS revision committee, according to categories, the technical opinion and minutes issued by the committee.	According to category: Issuance of license – 8 days after payment of fees Notification of total or partial rejection of the activity – 5 days.	As detailed in 1.

^a Formula – $R=T \times \text{days} + (5.000.00 \times K) = X \text{ Mt}$; $C=T \times \text{days} + (5.000.00 \times K) = X \text{ Mt}$; Where R=survey, C=consultation, K=distance in kilometers from headquarters to site, T=Technician, X=value payable

^b The description of procedures takes into consideration the new licensing regulation that has not been published in BR n.º 46, I Series of 17 November 2004. The new regulation contains new classifications of groups, classes etc. It is also likely that new taxes and charges will be legislated. This being uncertain we have used the prices now in force.

^c Some types of works require preauthorization such as industry, hotels, and large commercial areas. Such activities are approved in effect twice, by the central state administration and specifically for the work. All licensing and inspections must include participation from central state administration as well as the relevant line ministry.

^d Study of drainage and foundations is undertaken. If necessary, improvements or alterations must be made within 30 days of rejection of the original.

^e Public participation is now ensured throughout the process. From conception to report submission, the EIA and EAS phase is the applicant's responsibility. From ToRs to licensing it is MICOA's responsibility.

^f Category A: EIA; Category B: EAS; Category C: specific regulations of best environmental management practice. Activities included each category can be found in Annexes I, II e III of Decree Law n.º 45/2004 of 29 September.

Table S-2
Perceptions of Costs, Time Periods, and Development by Process

Zones	Time Periods (days)				Costs (Meteicals)				Rating							
	Max	Min	Avg	Mzx	Min	Mzx	Avg		Better		Worse		Same		Other	
									No.	%	No.	%	No.	%	No.	%
A C C E S S T O L A N D																
National	748	50	259	242,500,000	2,000,000	57,980,000		8	8	6	6	20	20	65	66	
North	395	30	231	240,000,000	1,500,000	56,480,000		3	16	2	11	8	42	6	32	
Center	50	31	41	0	0	0		0	0	0	0	2	15	11	85	
South	1,800	90	504	2,500,000	500,000	1,500,000		5	7	4	6	10	15	48	72	
C O M P A N Y R E G I S T R A T I O N																
National	462	97	221	347,370,000	76,100,000	115,250,000		12	12	10	10	12	12	65	66	
North	855	7	283	240,000,000	100,000	30,570,000		2	11	6	32	6	32	5	26	
Center	270	270	270	72,000,000	72,000,000	72,000,000		0	0	2	15	1	8	10	77	
South	262	15	111	35,370,000	4,000,000	12,680,000		10	15	2	3	5	7	50	75	
L I C E N S I N G																
National	150	8	79	75,000,000	2,000,000	11,416,667		29	29	6	6	19	19	45	45	
North	300	20	103	30,000,000	2,000,000	16,100,000		3	16	2	11	9	47	5	26	
Center	0	0		5,000,000	5,000,000	5,000,000		0	0	1	8	2	15	10	77	
South	150	4	54	75,000,000	2,000,000	13,150,000		26	39	3	4	8	12	30	45	
P A Y M E N T O F D E B T S B Y T H E S T A T E ^a																
National	617	22	179	0	0	0		12	12	12	12	21	21	54	55	
North	500	30	166					1	5	3	16	4	21	11	58	
Center	180	30	105					1	8	2	15	3	23	7	54	
South	1,170	7	265					10	15	7	10	14	21	36	54	

Zones	Time Periods (days)				Costs (Metrics)				Rating							
	Max	Min	Avg	Mzx	Min	Avg	Mzx	Avg	Better		Worse		Same		Other	
									No.	%	No.	%	No.	%	No.	%
LABOR AND INSS																
National	617	14	120	0	0	0	0	0	20	20	14	14	14	36	29	29
North	360	1	120					3	16	6	32	6	32	4	21	
Center	110	30	68					1	8	1	8	3	23	8	62	
South	1,380	10	171					16	24	7	10	27	40	17	25	
DISPUTE RESOLUTION																
National	2,607	270	1,046	360,000,000	30,766,667	35,828,333	7	7	19	19	19	19	19	54	55	
North	1,460	45	486	40,000,000	12,000,000	27,300,000	2	11	6	32	2	11	9	47		
Center	2,160	720	1,440	80,000,000	80,000,000	80,000,000	1	8	0	0	1	8	11	85		
South	4,200	44	1,212	960,000,000	300,000	185,000	4	6	13	19	16	24	34	51		
CONSTRUCTION AND WORKS LICENSING																
National	2,450	13	170	9,666,667	1,866,667	5,197,000	9	9	9	9	12	12	69	70		
North	120	30	78	9,000,000	4,000,000	6,016,000	3	16	3	16	1	5	12	63		
Center	30	7	19	0	0	0	1	8	0	0	0	0	12	92		
South	7,200	3	414	20,000,000	1,600,000	9,575,000	5	7	6	9	11	16	45	67		
IMMIGRATION																
National	730	7	84	20,500,000	1,496,000	6,788,000	28	29	11	11	13	13	46	47		
North	360	5	129	3,500,000	350,000	1,780,000	4	21	8	42	1	5	6	32		
Center	30	10	18	5,000,000	846,000	2,923,000	0	0	0	0	2	15	11	85		
South	1,800	7	105	12,000,000	300,000	2,085,000	24	36	3	5	10	15	29	44		
ENVIRONMENTAL LICENSING																
National	232	51	140	13,000,000	7,600,000	10,300,000	5	5	1	1	2	2	91	92		
North	365	90	228	5,000,000	5,000,000	5,000,000	1	5	0	0	0	0	18	95		

Zones	Time Periods (days)			Costs (Meteicals)			Rating							
	Max	Min	Avg	Mzx	Min	Avg	Better		Worse		Same		Other	
							No.	%	No.	%	No.	%	No.	%
Center	90	2	52	2,000,000	1,000,000	1,500,000	0	0	1	8	0	0	12	92
South	240	60	140	6,000,000	1,600,000	3,800,000	4	6	0	0	2	3	61	91
I M P O R T S ^b														
National	77	4	32	12%	1%	2%	3		3		3		25	
North	177	7	77	2.0	1.0	1.6	0	0	5	26	0	0	14	74
Center	12	4	8	1.0	1.0	1.0	0	0	1	8	3	23	9	69
South	41	1	11	32.5	0.1	4.3	9	13	2	3	5	7	51	76
E X P O R T S ^b														
National	23	13	16	4%	1%	2%	3	9	3	8	3	8	25	75
North	23	13	16	4.0	1.0	2.0	0	0	5	26	0	0	14	74
Center	24	24	24	4.0	1.0	2.0	0	0	1	8	3	23	9	69
South	23	3	8	4.0	1.0	2.0	9	13	2	3	5	7	51	76

^a To facilitate payments between 3 and 8% of the value of the debt was mentioned

^b Costs are a percentage of the goods being imported or exported

Introduction

Mozambique's 8th Annual Private Sector Conference took place at the end of October 2004. In addition to deepening public-private dialogue on business environment and business development, the conference analyzed factors determining private sector-based economic growth in Mozambique and defined strategies to increase the sustainability, competitiveness, and productivity of Mozambican companies. Among impediments most frequently cited by the Mozambican business community are

- Administrative barriers caused by legal and regulatory deficiency;
- Application of existing legislation;
- Lack of institutional capacity;
- The related costs in frustration, discouragement, time and money; and
- Productivity costs.

During recent years CTA has been engaged in intense dialogue with the government to eliminate or reduce barriers to investment and economic development. This study was commissioned to help resolve stalemates occurring as a result of the differing perceptions of the private sector and the government. It is hoped that with access to a large base of opinion, credible and technically sustainable data will be available so the private sector can confirm or reinforce its position, and so the government can compare and correct its operations. This study was therefore undertaken based on these objectives and with a view to gathering the opinions of the business community. The conclusions of the study should permit a clearer definition of business constraints in Mozambique as discussed during the 8th Private Sector Conference.

1. Access to Land

Description

Of the companies interviewed only 23 percent responded to questions related to land. Twenty percent did not answer such questions; 57 percent stated that they had insufficient information on the issue not having made a land application recently. Of the 23 respondents, 7 percent had requested a land usage title (DUAT) in a rural area and 16 percent in an urban area. Of these 23, 9 percent requested land for industrial purposes, 2 for services, 1 for commerce, 5 for residential purposes, 1 for agriculture, and 2 for other activities. Two companies did not specify for what purpose they had applied for land and one applied for multiple usage.

- **Time Periods.** According to interviewees the average time required for provisional registration of a land usage title is 5 months with the maximum of up to 2 years. Three of the companies had processes pending. Passing from provisional to definitive registration took a minimum of 30 days and a maximum of 5 years. The maximum officially defined time period for land usage title processes is 90 days.
- **Costs.** Official costs for the registration of land usage title vary between a minimum of 300,000 MT to US\$10,000. Four interviewees responded that the only costs paid were official.
- **Illicit Payments.** Four of the 23 companies confirmed that they had made unofficial payments varying between 150,000MT and approximately US\$3,000. Three confirmed that payments facilitated the process, and that if they had not paid their application might still be outstanding today.

Issues

One company asserted that there was no problem with access to land. Others cited the following as problems:

- Lack of information on the requirements and processes necessary to obtain a title, especially for large projects;

- Using land as guarantee or collateral is complicated or impossible because it is not possible to own land;
- Land is held by people (single or collective persons) who are not using or developing it;
- Deliberate bureaucracy and generalized corruption;
- Lack of practical application of the land law;
- Centralized geography and mapping department.

Suggestions and Comments

Among other solutions, businesses interviewed suggested the following:

- Disseminate the land law, its applications and principal requirements, more widely, in particular as it relates to the approval of investment projects.
- Reform the land law allowing private ownership so land may be used as collateral for bank loans and other forms of credit.
- Simplify administrative processes by computerizing departments and front desks.
- Regular inspections by those responsible and elimination of the tradition of advanced “thanks” for work undertaken.
- Conduct mapping and zoning in advance of requests to identify which land is already allocated and which is not.
- Build institutional capacity building in the provinces and districts to counteract the centralization of the land registry in Maputo.

Perceptions of Development

Six percent of those interviewed considered that process for obtaining the DUAT worsened over the last 5 years, 8 percent thought that it had improved, and 20 percent that it had remained the same; 23 companies preferred not to respond to the question and 42 had insufficient information to enable them to answer. It is therefore the general perception of those interviewed that the situation has not altered, which should be a matter of concern (Table 1-1). However, the latest indicators published by the World Bank in “Doing Business” show that Mozambique, in terms of time and procedures, has a worse score than the regional average and is very far in all aspects from South Africa and obviously from the average for OECD (Table 1-2). The 33-day delay has a lethal effect on the establishment of business.

Table 1-1*Development of System for Obtaining DUAT in Last Five Years*

Rating	No. of Responses	%
Much worse	0	0
Worse	6	6
Same	20	20
Better	8	8
Much better	0	0
No comment	23	23
Not applicable	42	43

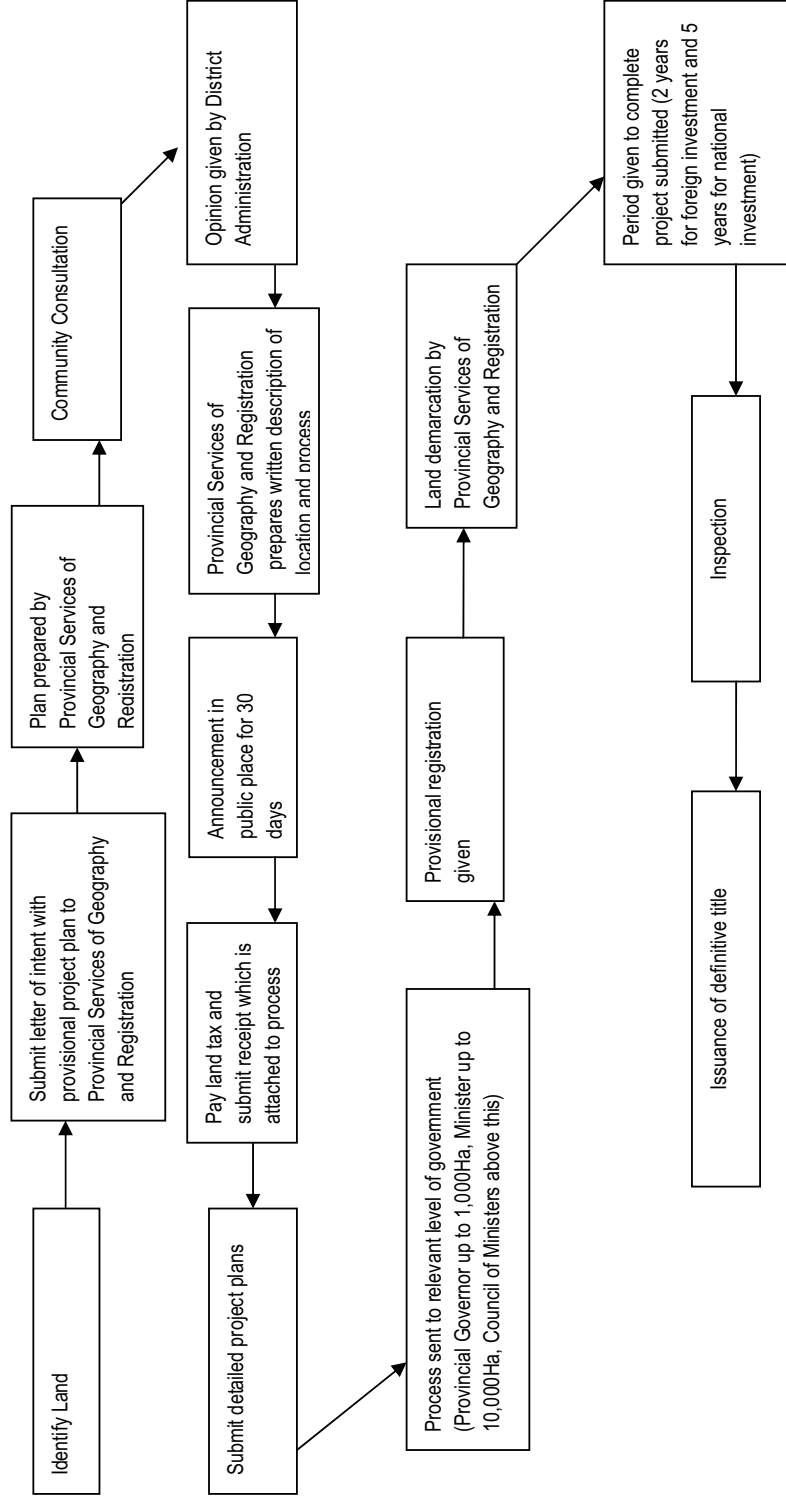
Table 1-2*World Bank Indicators on Property Registration, 2004*

Indicator	Mozambique	Regional Average	South Africa	OECD
Number of procedures	7	6	6	4
Time (in days)	33	114	20	34
Cost (% of per capita income)	11.9	13.2	11,3	4,9

Conclusions

Whether through analysis of opinions of economic operators, regional comparisons, or legal and regulatory requirements, one must conclude that access to land in Mozambique remains a major obstacle to business development. An aggressive modification of the current system is therefore necessary, one that simplifies legal procedures and results in intensive training of civil servants. Creating a legal framework that would allow land to be used as collateral is vital not only for the development of agriculture. Figure 1-1 shows the process for obtaining a DUAT; Appendix B describes procedures, time periods, costs and legislation for this process.

Figure 1-1
Processes for Obtaining DUAT



2. Registration of Companies

Description

Forty-one companies confirmed that they had undertaken company registration processes. Of these, 15 had used the services of third parties while 26 had undertaken the process directly. Seventeen preferred not to respond to the question while 41 did not have any information on the subject.

- **Time Periods.** From the information gathered it may be concluded that the process for registering a company may take a minimum of 10 days and a maximum of 18 months – or an average of 5 months. Obtaining a Negative Certificate can take up to 60 days for some and only 1 day for others. Provisional registration usually takes a maximum of 30 days while definitive registration can take more than a year. In this regard, great emphasis was placed on the law’s incomprehensible demand that all processes be published in the Government Gazette before the process can proceed. Official time periods for processes are as follows:
 - Negative certificates: 2 to 3 days
 - Certificate of public deed issued by notary: 4 to 5 days
 - Publication in Government Gazette: 90 days
 - Final registration: 7 days.
- **Costs.** The average cost of company registration processes is approximately 30 million Meticaís, while the maximum paid by those interviewed was US\$ 10,000. The perception is that it costs more than 10 million Meticaís to get a Negative Certificate. The costs of provisional registration can be as high as 2.5 million Meticaís while Definitive Registration can cost as much as 4 million Meticaís. Official notarial procedures cost up to 10 million Meticaís. Publication in the Government Gazette can cost around 6 million Meticaís in official payments and is likely to take an average of 72 days, though it may also take up to 6 months.
- **Illicit Payments.** Two companies interviewed acknowledged making unofficial payments that accelerated a process. Extra-official payments reached as much as 7 million Meticaís but reduced the delays. Unofficial payments for provisional registration reached as much as 4 million Meticaís. Unofficial payments for publication in the Government Gazette reached as much as 800,000 Meticaís. Forty-six percent of the companies interviewed, while recognizing

that the problem exists and affects them, preferred not to respond to questions related to non-official payments.

Issues

The most frequently raised issues were as follows:

- Delays in publication in the Government Gazette.
- Manual recording of articles, which complicates the reading of these documents in subsequent processes.
- Bureaucracy, corruption, and the monopoly of institutions on processes discourages informal business from joining the formal sector.
- Centralize publication process (e.g., the Government Gazette is published only in Maputo).
- Many departments need to be visited before the process is complete, suggesting the value of a “one-stop shop” where processes could begin and end.
- Lack of information on the registration process discourages foreign investment.

Suggestions and Comments

According interviewees, resolution of problems in this area depends on

- Creating one-stop shops;
- Simplifying processes;
- Training personnel in relevant departments;
- Decentralizing and computerizing norms and the system itself; and
- Conducting intense staff inspections to combat the culture of corruption rooted in almost all departments.

Perceptions of Development

There is certain equilibrium in perceptions about changes in registration processes. The number of those who thought that there were improvements are the same as those who thought that the situation had worsened (Figure 2-1). Therefore stagnation prevails. Promises by the executive that radical process and legislative improvements would occur by the end of 2004 created expectations in the business community.

Table 2-1*Development of the Company Registration Environment Over Last 5 Years*

Rating	No. of Responses	%
Much worse	0	0
Worse	10	10
Same	12	12
Better	10	10
Much better	3	3
No comment	23	23
Not applicable	35	36

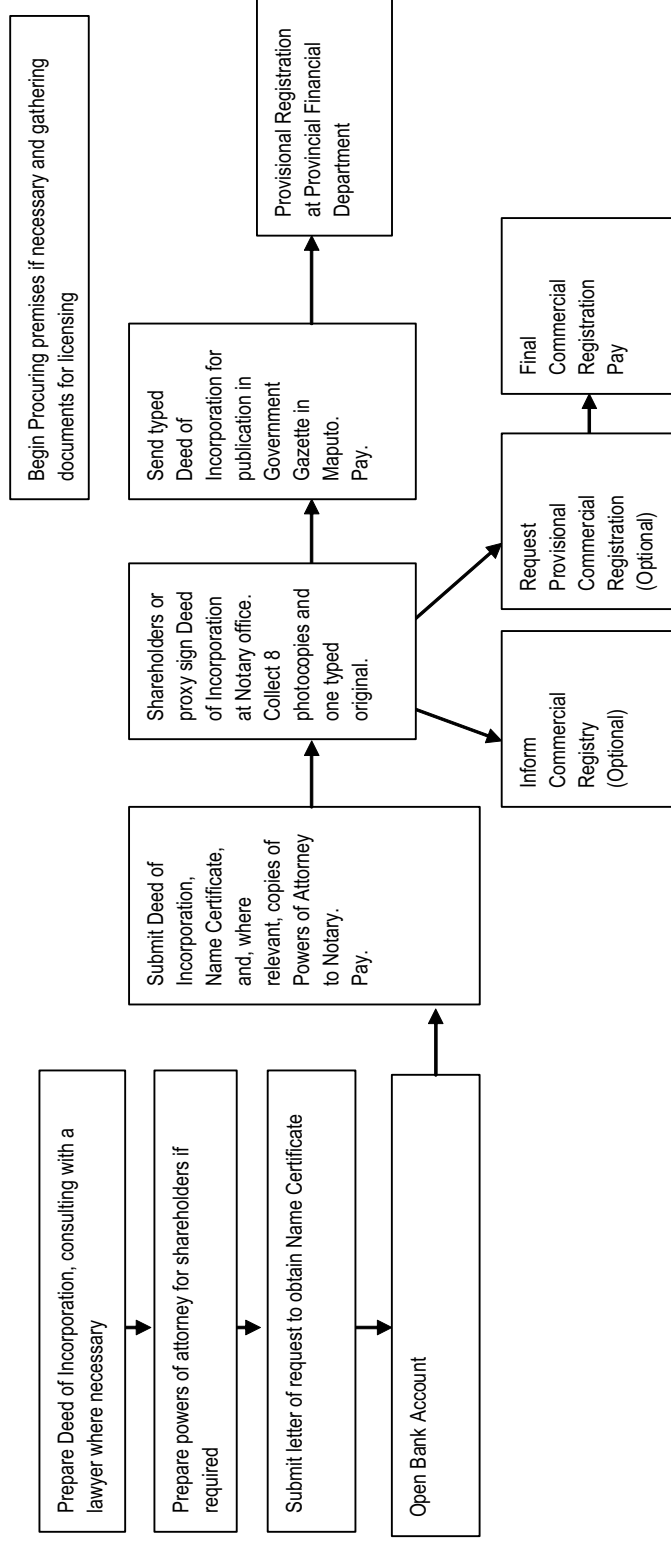
Conclusions

Figure 2-1 illustrates company processes required to register; Appendix C contains a description of the process including steps, costs, time periods, and applicable legislation. Excluding delays caused by publication in the Government Gazette, the greatest problems with company registration have more to do with process than regulation. For example, the manual writing of public deeds can be a major problem when handwriting or poor copy quality renders the certificates illegible. Publication in the gazette is required for a number of subsequent processes, and can take 2 or 3 months. This waiting period has no clear purpose, yet causes devastating delays in the start up of many companies.

In addition, the multiplicity of the licensing process is unnecessary and undesirable; the State needs to legislate a simplified and uniform basic process, omitting other requirements except when absolutely necessary.

The institutionalization of one-stop shops should also be considered as quickly as possible, assuming that such organizations are granted more autonomy than they now have. Once again, in this area lack of capacity and poor performance of functionaries worsens an already slow and costly regulatory process. The business community anxiously awaits fulfillment of the government's promise, made during the 8th Private sector Conference, to reduce the time taken to register companies to 2 to 3 days in line with neighboring countries.

Figure 2-1
Company Registration Processes



3. Licensing

Description

Ninety percent of those interviewed responded to questions on licensing, indicating the importance of licensing in the business community. As mentioned, new industrial and commercial licensing regulations had not yet had an impact when this survey was undertaken. In fact, the majority of those questioned did not know that the regulations had changed.

According to existing regulations, obtaining a license to open a restaurant consists of 7 distinct processes, and requires presentation of 92 documents (originals and copies), payment of 12 different sets of costs, and a legal linear time period of 421 days!

Licensing is one of the areas most often cited as a source of delays in business development, not only because of complex legislation but also because of sluggish processes. Even though parts of the process can take place concurrently, records from one-stop shops show that obtaining a license in the provinces takes on average 135 days, and never less than 25 days. In this regard, one of most efficient departments is the Governor's Office.

Of those interviewed, 23 percent had a commercial activity license, 15 percent an industrial activity license, 19 percent a service provision license, 4 percent a tourism license, 6 percent licenses for other activities, and 24 percent had licenses for multiple activities. For 9 percent, licensing questions did not apply or did not elicit a response.

Forty-one of the companies interviewed recently requested operating licenses. Of these, 13 percent had requested commercial licensing, 13 percent industrial, 20 percent service provision, 20 percent tourism, 7 percent other activities, and 27 percent multiple activities.

Great emphasis was place on the need for one-stop shops on the condition that they were more structured and had greater autonomy.

- **Time periods.** According to those interviewed the complete process could take between 4 days and 10 months.
- **Costs.** The issuance of an operating license varies between a minimum of 2 million and 75 million Meticais.

- *Illicit Payments.* Without specifically mentioning amounts, two companies confirmed that they had made unofficial payments to facilitate processes.

Issues

Among the issues raised were the following:

- Excessive bureaucracy makes the system vulnerable to bribes.
- Centralization of the process in the capital.
- Lack of coordination between various departments (e.g., between the fire and health departments in relation to inspections).

Suggestions and Comments

Resolving problems will require simplifying the processes by

- Creating uniform one-stop shops with greater power and autonomy,
- Training personnel in each institution,
- Decentralizing and computerizing norms and the system itself,
- Computerizing the main institutions,
- Training key staff, including inspectors, and
- Combating corruption among inspectors.

Perceptions of Development

Despite the problems mentioned, 27 percent of those interviewed felt that licensing had improved over the last 5 years; 19 percent that nothing had changed; 39 percent preferred not to respond to the question; and 7 percent felt that the situation had worsened (Table 3-1). Licensing was one area of the business environment where perceptions improved significantly. Only 6% of those asked felt that licensing did not improve and 29% of those asked felt that it had improved significantly. The differences in opinion between the Capital and the provinces, however, were clear.

The most recent World Bank indicators in the “Doing Business” survey attribute to Mozambique and the region the values presented in Table 3-2 (note that the World Bank analyzes registration together with licensing). Mozambique has a strong competitive disadvantage in the region. In South Africa 9 procedures are completed in 38 days without requiring the deposit of capital—a shocking contrast for those who operate or wish to operate in Mozambique.

Table 3-1*Development of the Licensing Environment*

Rating	South		Center		North		Overall	
	No.	%	No.	%	No.	%	No.	%
Worse	3	4	1	8	2	11	6	6
Same	8	12	2	15	9	47	19	19
Better	24	36	0	0	3	16	27	27
Much better	2	3	0	0	0	0	2	2
No comment	26	39	9	69	3	16	38	39
Not applicable	4	6	1	8	2	11	7	7

Table 3-2*World Bank Indicators on Start of Activity (Registration and Licensing), 2004*

Indicator	Mozambique	Regional Average	South Africa	OECD Average
Number of procedures	14	11	9	6
Time (days)	153	63	38	25
Cost (% of per capita income)	95,8	225,2	9,1	8
Minimum capital required (% per capita income)	14,5	254,1	0	44,1

Conclusion

Licensing regulations for industrial and commercial activities, two of the most important given the scale of their usage, have recently been revised, and associated processes simplified. Unfortunately, once again the opportunity to completely modify the system was lost, and both forms of licensing continue to require a number of subsequent bureaucratic processes. In addition, the effects of these revisions are not highly visible (e.g., the new commercial activity licensing regulation had not yet been published despite being approved by the Council of Ministers) and the implementation of the regulations is normally especially deficient in the provinces.

The business community has expressed much faith in the potential mitigative effects of one-stop shops though the shops have only helped a little, and their existence has not been accompanied by regulations establishing their institutionalization, autonomy, and coordination with bodies at national level. For this reason some shops have become yet another level of bureaucracy strangling the passage of processes with delays and costs.

Provisional authorization to operate should be institutionalized and the publication of articles in the Government Gazette as a prerequisite for licensing processes should be abolished. Figures 3-1 and 3-2 illustrate licensing processes for industrial and tourism activities. Appendixes D, E, and F contain a detailed list of costs and official time periods as well as the regulations and

applicable legislation for the most common types of licensing: commercial, industrial, and tourism.

Figure 3-1
Industrial Licensing Process

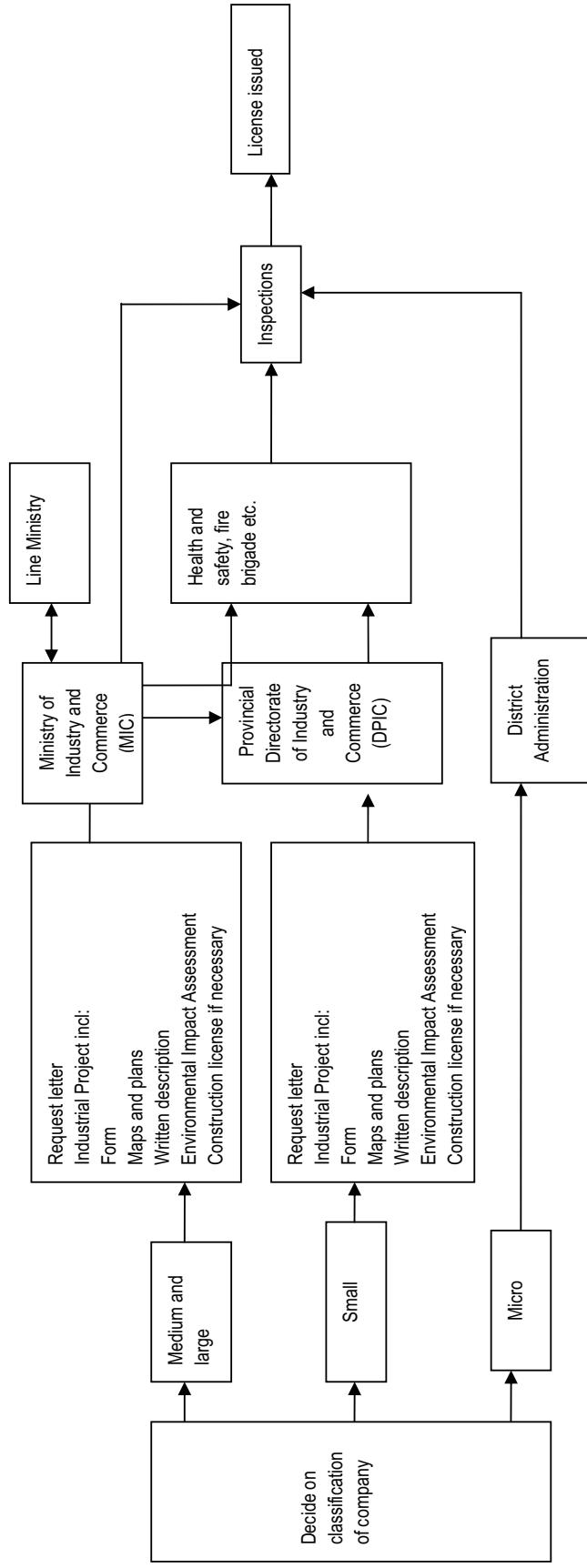
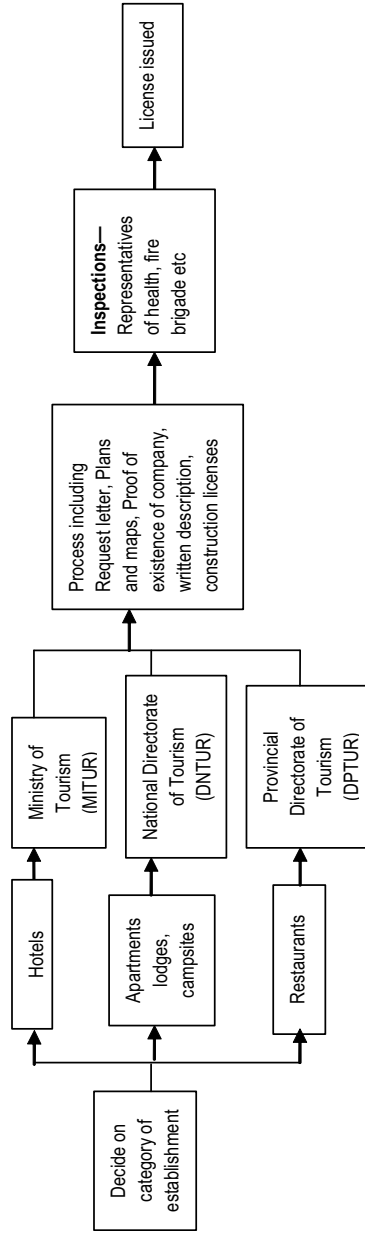


Figure 3-2
Tourism Licensing Processes



4. State Payment of Debts

Description

- *Time periods.* Thirty of the companies interviewed maintain commercial relations with the State. On average, the State pays its debts within 5 months, though the process can go on for more than 2 years. The minimum time for VAT reimbursement is 90 days and the maximum is around 3 years, with the average being 10 months.
- *Illicit payments.* As we have seen in other institutions illicit payments are requested from creditors of the State. In this case they are around 8 percent of the amount owed, which varies between 1.5 million and 30 billion Meticaís. These values were given by 3 of those interviewed while 58 refused to respond to this question and others had no information on the subject.

Issues

Key issues were as follows:

- Delays in sorting requests for refunds and other credit owed by the Government.
- Apparent lack of funds.
- Excessive bureaucracy allied with inspections carried out on companies requesting reimbursements.
- Lack of training of functionaries in relevant institutions (e.g., archiving, accounting finance).
- Requirement for advance payment of VAT for raw materials made into products which are exempt.
- Notifications take 6 months to be issued or received, meaning that large sums of money are frozen, often requiring companies to resort to bank credit to support current activities.

Business is more costly when limitations on the repayment of taxes by the Government exist, principally for companies that purchase the majority of their stock or raw materials outside the country.

Suggestions and Comments

- Simplify the Government's finance and accounting system.
- Institute a form of tax compensation; for example a company should not be required to pay taxes while waiting for reimbursement.
- Train functionaries in accounting, finance and archiving to reduce delays and loss of documents.

Perceptions of Development

Eight percent of those questioned considered that state payment of debt worsened in the last five years, 21 percent saw no change, 12 percent saw improvement, 30 percent did not respond, and 22 percent had no information on this question. The typical perception was that there had been neither positive nor negative change

Table 4-1

Development of State Payment of Debt

Rating	No. of Responses	%
Much worse	2	2
Worse	10	10
Same	21	21
Better	10	10
Much better	2	2
No comment	32	33
Not applicable	22	22

5. Labor and Social Security

Payment of Subsidies and Pensions

Businesses consider labor legislation very rigid and conducive to informality.

- *Time periods for reimbursement by INSS.* The pension for sickness or retirement can take more than a year to be repaid by the Social Security Institute (INSS), and on average according to those interviewed the process takes 75 days.
- *Illicit payments.* Only one interviewee admitted making a payment, of 2,500,000Mt, and as a result the process was not delayed. Seventy percent of those questioned did not respond to questions about unofficial payments to INSS and the others did not have workers who were eligible for retirement pensions and/or sickness benefit.

Issues

- Diversion of funds within INSS for non-regulated ends.
- Lack of transparency within the entire system covering payments and attribution of pensions and subsidies.
- Companies are often required to make advance payments of subsidies and because of INSS delays resulting from disorganization and manual recording.

Suggestions and Comments

- Computerize the system.
- Conduct behavioral audits.
- Make procedures and norms for accessing pensions and subsidies transparent.
- Revise labor and social security laws.
- Allow alternatives to INSS, allowing the company to debit and make subsidy payments according to a system defined within the company.

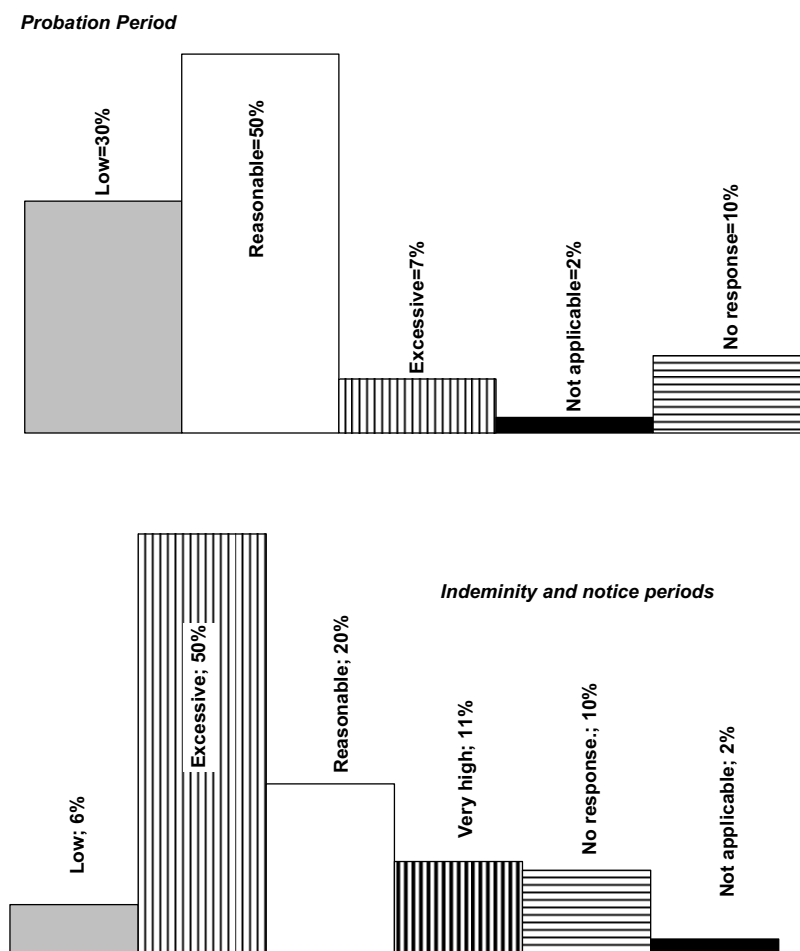
Minimum Wage, Indemnity, and Contracting of Foreign Workers

In addition to the cost of indemnity and excessive notice periods, interviewees cited workers' lack of professionalism and limitations on contracting foreign workers as weaknesses in the labor system.

- **Minimum wage.** Sixty-three percent of interviewees agree at the Government should set the minimum wage; 26 percent do not. Thirty-nine percent consider the wage low; 18 percent consider it high; 26 percent consider it reasonable as a function of productivity in the country; and 2 percent believe it should depend on each activity.
- **Probation and notice periods.** Figure 5-1 summarizes opinions regarding probation periods and indemnity and notice periods.

Figure 5-1

Opinions on Probation Period Duration and Indemnity Values and Notice Periods

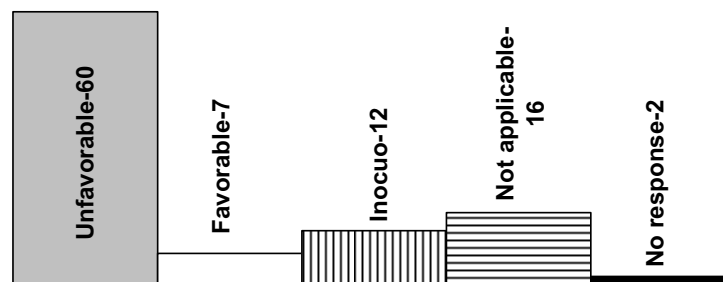


- *Labor legislation.* Opinions on the effect of labor legislation on discipline, productivity, and job creation are summarized in Figure 5-2.

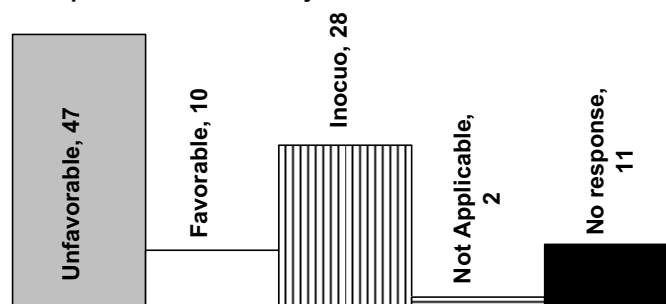
Figure 5-2

Contribution of Labor Legislation to Job Creation, Work Discipline, and Productivity

Job Creation



Discipline and Productivity



- *Contracting of Foreign Workers*

— *Time periods.* According to those interviewed the contracting of a foreign worker can take between 30 days to more than 2 years. During the survey it seems that the new regulation had not resulted in major effects on the ground. Since then, however, the process has improved.

— *Illicit payments.* Seven out of 8 of those interviewed who had made unofficial payments said that payment led to rapid approval of processes. Unofficial payments related to this process, according to the 8 interviewees who confirmed having made such payments, reached sums of more than US\$ 1,000 per worker contracted.

Issues

- Excessive bureaucracy and delays in dispatch of approval of contracting foreigners.

- Generalized corruption among labor inspectors.
- Investment in training national workforce by companies not recuperated when workers leave the company.
- Lack of dissemination and transparency of legal procedures.
- Punitive rather than educational tendencies of labor inspectorate.
- Limitations in contracting of qualified foreign workers force companies to employ nationals with insufficient specialization, meaning that the company does not move forward.
- Rigidity of the labor law in relation to rescission, dismissal, notice periods, probation periods and compensation.
- Workers and unions lack knowledge of the law.

Suggestions

The following solutions, among others, were proposed:

- Liberalize hiring and firing of national and foreign workers.
- Stimulation through changes on the legal framework that to increase salaries and productivity and reduction of indemnities and notice periods.
- Increase probation periods for certain activities such as industry, construction and qualified professional categories.
- Revise the labor law and disseminate it to companies as well as workers, unions, and functionaries in government departments dealing with labor issues.

Perceptions of Development

As per Table 5-1, 10 percent of respondents considered that over the last 5 years the situation had worsened, 37 percent that there had not been major changes, 20 percent that the situation had improved, 4 percent that it had worsened a lot, and 25 percent had no opinion. Once again, the majority of comments reflect a stagnation even though the number of those who thought that things had improved was greater than those who thought that things had worsened.

The most recent World Bank indicators in the “Doing Business” survey attribute to Mozambique and the region the values presented in Table 5-2. Mozambique’s indicators, when compared with regional and OECD averages, reveal a major disadvantage and explain why many labor-intensive industries have not yet invested in Mozambique. As long as this situation persists it is unlikely that they will do so.

Table 5-1*Development of the Labor Environment*

Rating	No. of Responses	%
Worse	10	10
Same	36	37
Better	20	20
Much better	4	4
No comment	25	25
Not applicable	3	3

Table 5-2*World Bank Indicators on Hiring and Firing of Workers, 2004*

Indicator	Mozambique	Regional Average	South Africa	OECD Average
Difficulty of admission	72	53.2	56	26,2
Hourly index	80	64.2	40	50
Difficulty of dismissal	40	50.6	60	26,8
Hourly index	64	56.0	52	34,4
Cost of dismissal (weeks wages)	141	59.5	38	40,4

Conclusions

The revision of the regulation governing employment of foreign workers was a partial success, but a significant number of businesses' concerns have yet to be addressed. The major battle has begun now with the revision of labor legislation started by the revision of the labor law itself. The terms of reference agreed between the partners are a reasonable point of departure but results will depend on the business community, in particular CTA, ensuring that the hoped-for goals are achieved.

Special attention must be paid to the existence, or absence, of a new social security law, which is allegedly already deposited with the Assembly of the Republic, but which has not been widely divulged, and has not been seen by CTA. This key piece of legislation cannot be passed clandestinely without the input of business when it deals with issues crucial to both business and labor. A fairer social security system that potentializes the values deducted and preferably allows for the existence of alternative systems remains an objective of the business community. Annexes G and H contain descriptions of processes as well as costs, time periods and applicable legislation.

6. Dispute Resolution

Description

- *Time periods.* The survey posed questions about delays in judicial processes in the courts and other judicial situations. According to 42 companies, the average time for resolution of legal disputes is between 2.5 years and more than 10 years. Nine companies interviewed still had processes ongoing. Sentencing in legal processes for the recuperation of costs takes on average 2 years and 3 months but can take up to 6 years.
- *Costs.* Judicial processes cost on average 150 million Meticaïs, with the maximum declared value being US\$ 40,000. For the only company that responded to the question about recuperating costs, the cost in official payments had been 33,600 million meticaïs.
- *Illicit payments.* While 59 percent of those interviewed preferred not to respond to questions about illicit payments, two acknowledged paying between 10 and 12 million Meticaïs to the registrar and the judge, respectively, to annul or expedite a case. With regard to cost recuperation, one of those interviewed acknowledged having paid 3 million Meticaïs (without specifying the level of the “beneficiary”) to speed up the process. Another respondent, who preferred not to specify an amount, acknowledged paying “large sums” but without good result because the other party had paid more.

Issues

Companies cited the following as causes of process delays:

- Court system overloaded with old processes;
- Lack of technical capacity of judges and judicial magistrates;
- Weakness in operation of the supreme court;
- Lack of qualified professionals, principally in the provinces and districts;
- High level of corruption and bureaucracy;
- Lack of means for investigations and production of proofs of guilt ;
- Deep-rooted lack of motivation of judicial magistrates encouraged by low wages and intent on obtaining illicit payments.

Issues in cost recuperation

- Delay in the execution of sentences resulting in loss of value of goods or assets awarded.
- The remuneration of judges according to cases, which leads to large cases being dealt with first. Change of this remuneration system could completely change the current situation of justice in Mozambique.

Suggestions and Comments

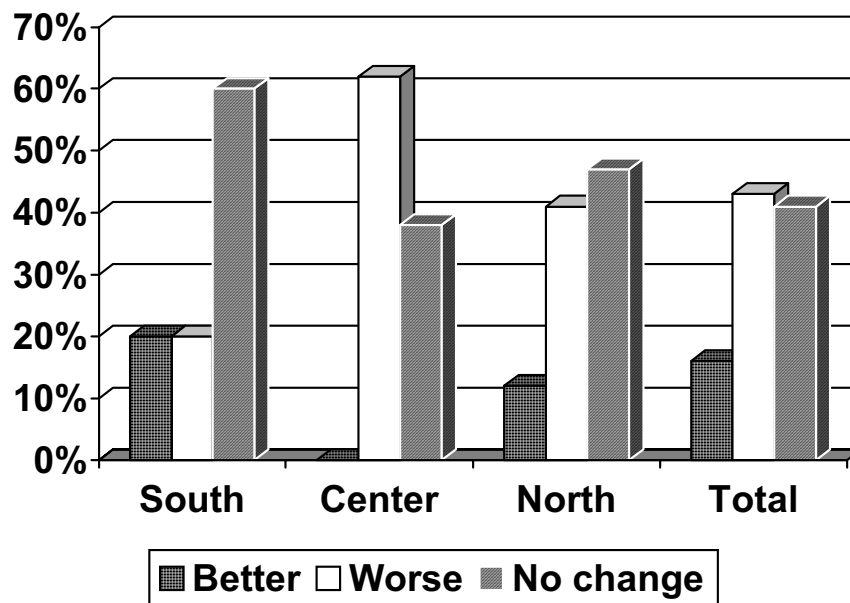
To resolve these problems businessmen suggested

- Combating of deep-rooted corruption in the institutions of justice by exonerating or dismissing corrupt judges and magistrates;
- Improving working conditions and personal safety of judges and magistrates;
- Making the person filing the claim responsible for the costs of processes;
- Creating mediation, arbitration and dispute resolution institutions such as CACM and disseminate their existence to companies that could benefit from such institutions;
- Contracting professional and recently trained judges with the capacity to manage and coordinate processes that have been awaiting judgment for many years;
- Total legal reform and creation of labor courts;
- Creating specific courts to deal with specific cases;
- Inspecting judges to reduce corruption and alter the accumulation of large numbers of processes in the same court, and to improve the efficiency of judges and judicial magistrates.

Perceptions of Development

The national average indicates that 43 percent of those interviewed consider that the dispute resolution system has worsened in the last five years, 41 percent that it has not changed, 16 percent that it has improved.

Dispute resolution is without a doubt one of the less well developed aspects of Mozambique's business environment and one of the most worrying for business. It is also one of the areas in which North, Center, and South are in agreement about the negative situation, the majority of those questioned agreeing that the system has worsened over the last 5 years. The latest World Bank indicators from the "Doing Business" survey attribute the values presented in Table 6-1 to Mozambique and the region on contract execution. The difference separating Mozambique from its most direct competitors is overwhelming. Even in comparison with sub-Saharan Africa the disadvantages are clear. The recent official announcement that about 13,000 cases are awaiting resolution in the court, of which 7,000 are labor cases, means that each of the 70 or so judges has about 1,800 cases—an alarming situation requiring exceptional and immediate measures to change.

Figure 6-1*Development of Dispute Resolution System by Geographical Zone***Table 6-1***World Bank Indicators on Contract Execution*

Indicator	Mozambique	Regional Average	South Africa	OECD Average
Number of procedures	38	35	26	19
Time (days)	580	434	277	229
Costs (% value of contract)	16.0	43.0	11,5	10,8

7. Licensing for Construction and Works

Description

- *Time periods and costs.* Obtaining licenses for construction or works takes on average 1 year, but can take up to 2 and can cost on average 8 million Meticaïs, though payments of up to 20 million Meticaïs are recorded.
- *Illicit payments.* Non-official payments – to various functionaries including technicians, inspectors, and even provincial directors – vary between 1.5 and 10 million Meticaïs. Two businessmen who admitted to making unofficial payments assured us that this resulted in the tender being awarded to their company, three processes were “accelerated” and the others had no result because the “beneficiary” lacked sufficient power.

Issues

- Public functionaries delay processes to elicit unofficial payments.
- The lack of municipal architects to inspect and approve works.
- Land law nourishes an atmosphere of bureaucracy and corruption.

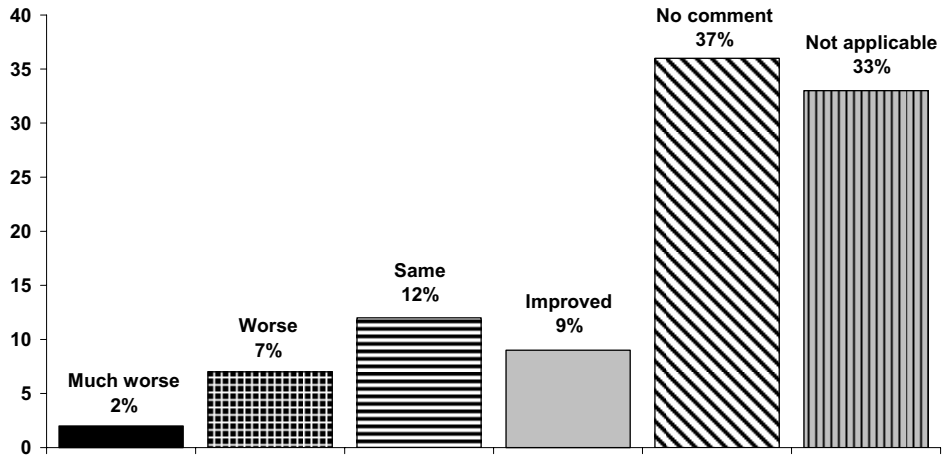
Suggestions

- More professionalism in public institutions.
- Automatic approval for license requests waiting for more than 3 months to be approved.

Perceptions of Development

Taking into consideration these constraints, the businesses interviewed thought that construction and works licensing had developed as shown in Figure 7-1:

Figure 7-1
Development of Works Licensing System



8. Immigration

Description

- *Time periods and costs.* The issuance of documents such as Foreigner’s Residence Document (DIRE), work visas, and passports have the following costs and time periods:

Table 8-1
Time Periods and Costs for Issuance of DIRE, Work Visa and Passport

Document	Time			Costs (10 ³ Mts)		
	Min	Average	Max	Min	Average	Max
DIRE	5 days	3 months	5 years	300	1.884	9.600
Work visa	4 days	44 days	4 months	960	1.680	2.400
Passport	7 days	33 days	2 months	Official	Official	Official

Appendix I contains a detailed list of the costs and official time periods, regulations and applicable legislation.

- *Illicit payments.* Four companies admitted making unofficial payments to directors and front-line functionaries, with values varying between 200,000 and 7 million Meticaís. Payments resulted in the progress of the process and the issuance of a DIRE in two of the cases.

Issues

The main issue was corruption to facilitate progress through excessive bureaucracy in the directorates of immigration, and demands for payment as a function of a percentage of the contract value, which has no basis in law.

Suggestions

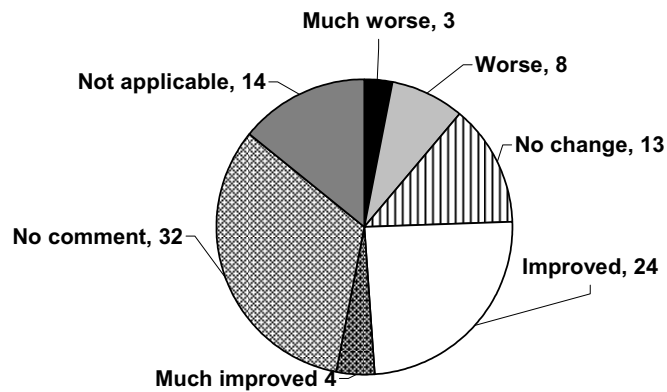
The situations mentioned could be improved by improving dissemination and public display of time periods and costs for issuance of documents dealt with by the immigration department; eradication of corruption and frequent inspection of immigration directorates to encourage flexibility, efficiency, and professionalism.

Perceptions of Development

Twenty-four percent of those interviewed considered that the immigration situation had improved over the last 5 years and 4 percent felt that improvement was significant; however, 13 percent felt that there had been no change, 8 percent that the situation had worsened, and 3 percent that it had worsened significantly.

Figure 8-1

Development of Immigration System



9. Environmental Licensing

Description

The question of environmental licensing was the least responded to. Of the 99 respondents only 10 percent answered this question with the others saying they had not yet had to deal with this issue.

- *Time periods.* Interviewees said that concession of an environmental license took on average 4 months and could take more than a year. Official licensing periods are as follows:
 - Pre-evaluation, 5 working days;
 - Revision of environmental impact study: up to 60 working days;
 - Issuance of license: up to 10 working days following revision of the study;
 - Communication of rejection of the proposal or need for changes: up to 10 working days following revision of the study.
- *Costs.* The costs reported vary between 1 and 6 million Meticaís and those interviewed considered that they had only paid the official price.
- *Illicit payments.* None of those interviewed mentioned making unofficial payments.

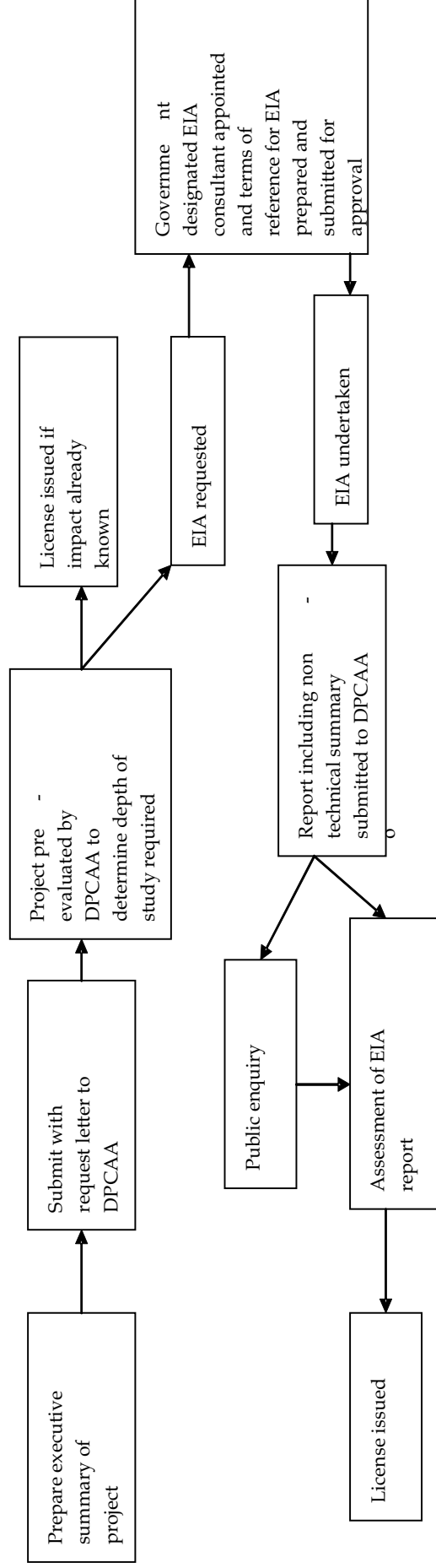
Issues

The companies considered that document preparation, being extremely complicated, takes the most time and causes considerable delay in issuance of licenses. Not all companies registered with MICOA are qualified to undertake studies in all areas but the fact that MICOA has licensed them enables them to do so anyway—resulting in possibly deficient studies. The businesses of Nacala and Manica considered this department to be the most efficient in local government though they felt it to be essential that decision-making powers for approval, currently centralized in Maputo, be decentralized. It was suggested that the provinces be given autonomy in this. Dissemination of environmental legislation is still considered deficient.

Perceptions of Development

Five of the 10 companies that responded to this question considered that the situation had improved in the last five years, 2 that it had remained the same, 1 that it had worsened, and 2 did not comment. Figure 9-1 depicts the process for obtaining an environmental license; Appendix J contains a description of the process along with costs, time periods, and applicable legislation.

Figure 9-1
Environmental Licensing Process



10. Import and Export

Description

Of the companies interviewed only 46 percent responded to questions related to import and export procedures. Of those that responded, 55 were importers and 14 were exporters. Only 15 percent of the importers were relatively recent (importing regularly in the last 5 years) while 44 percent had been importing for 6 to 10 years; 45.5 percent imported on a weekly basis, and 41.8 percent monthly. Practically half of the company managers had experience importing into other countries (i.e., South Africa, Portugal, and Zimbabwe). Among exporters, 33.3 percent had been exporting regularly for 6 to 10 years; 13.3 percent for only a year. Among exporters, 42.9 percent exported on a monthly basis while 28.6 percent did so on a weekly basis. Almost 60 percent of the managers of these companies had experience exporting from another country, namely South Africa.

- **Import Time Periods.** According to those questioned the issuance of a Single or Unique Customs Document¹ (*Documento Único*) by a clearing agent (*despachante*), following submission of the relevant documentation, takes in 70 percent of cases up to 3 days (24% - 1 day, 20% - 2 days e 26% - 3 days). If preshipment inspection is required, 34.6 percent said issuance of the DU could take up to 3 days, 19.2 percent up to 7 days, 34.5 percent between 10 and 30 days. Time for a customs clearance depends on the customs terminal used as follows:²

- TIAR—59.1% of processes are dispatched in 3 days while the rest may take up to 15 days;
- TIMAR—43.3% of processes are dispatched in 3 days, while the rest may take up to 2 weeks;
- TIRO—58.1% of processes are dispatched in 3 days, while the rest may take up to 15 days;
- TIAUTO—29.5% of processes are dispatched in 3 days, 23.6% in up to 7 days, and the rest can take up to 15 days.

The time needed to clear goods through a cargo terminal also depends on the terminal used:

¹ Means import/export license

² In the case of this section only companies using Maputo terminals were considered

- TIAR—22.3% of cases goods could be collected on the day or on the following day while in 38.9% could be collected within 3 days and the rest took up to 7 days;
 - TIMAR—only 5.9% of goods could be collected the following day while 35.3% took at least 3 days and the rest took between 9 and 15 days;
 - TIRO—18.9% of goods could be collected on the following day, 40.5% in 3 days and in the rest of the cases it took more than 8 days;
 - TIAUTO—50% of cases good were released in 2 days but in the other 50% of cases the process took up to 8 days.
- **Export Time Periods.** Issuance of an export license took 1 to 2 days in 27.3% of cases and between 2 and 3 days in 36.4% of cases, and could take up to 15 days. A Certificate of Origin could be obtained in 1 day in 50% of cases while in all other cases it took up to 3 days. A Phytosanitary Certificate took between 1 and 2 days in almost 70% of cases. A manifest could be obtained in 1 day in 22.2% of cases taking the rest 2 to 3 days. The customs process depended on the terminal and could take the following³:
 - TIAR, up to 3 days in 50% of cases or up to 5 days for the rest;
 - TIMAR, up to 3 days in 60% of cases or up to 5 days for the rest;
 - TIRO, up to 3 days in 57.2% of cases or up to 7 days for the;
 - At the other terminals the average was 3 to 4 days.
 - **Import Costs.** An official cost table is issued by the Chamber of Official Despachants (maximum fee 1.5% of the customs value of the dispatch, minimum US\$30 per dispatch) but only 12% of those interviewed paid according to this table. The majority paid between 0.1% and 1.5%. Costs related to terminal operators depend once the terminal, but are stipulated in the respective guidelines.
 - **Export Costs.** Payments for documents in the export process are made in accordance with the guidelines. In the remaining cases, prices vary between 0.7 and 2% or are subject to a fixed price (700,000 Mt for a Certificate of Origin and 2,100,000Mt for a phytosanitary certificate).
 - **Efficiency.** The clearing agents (*despachantes*) were considered efficient by 51%. However, the efficiency of terminal operators are only considered reasonable.
 - **Illicit payments – Import Process.** Though none of the companies questioned responded with exact amounts paid unofficially, many mentioned that such payments would facilitate a procedure and that a little of this type of payment was required at all levels.
 - **Illicit Payments – Export Process.** Only one company acknowledged having paid 20 percent of the value of goods to be exported to facilitate an export process. No further information was provided.

³ In the case of this section only companies using Maputo terminals were included.

Issues

- Very high inherent costs, such as warehousing in terminals, are charged according to value of goods and not space occupied
- Excessive bureaucracy at the customs terminals frequently cause delays, raising costs for the company and encouraging unofficial payments.
- Corruption above all in the middle and lower levels of the hierarchy.
- The tariff book needs to be revised as tariffs are considered to be very high.
- Lack of appropriate location for verifying goods often results in delays and damage to goods.
- Reduced operating hours at borders and terminals.

Suggestions and Comments

In relation to the import process, some comments and suggestions were made with a view to improving the situation:

- Revise the method for calculating warehousing prices (not on value of goods) and a much better client service provided by the private operators of the terminals (especially Frigo);
- Create alternative road and rail terminals.
- Have 24-hour operations at the border.
- Continue organizing and simplifying processes, and encouraging transparency, clarity and efficiency in the terminals (especially Frigo).
- Improve dissemination of new legislation, and further clarify dissemination of procedures.
- Improve the IT system, which is currently the excuse for delays.
- Expedite clearance for certain types of goods, such as perishables and raw materials needed for national industry.
- Review the capacity for pre-shipment inspection which often penalizes importers by causing excessive delays through inefficiency.

With reference to the export process the comments and suggestions were as follows:

- Revise costs applied.
- Improve functionaries' understanding of procedures.
- Speed up process and guarantee time required so companies can meet delivery deadlines for export products.

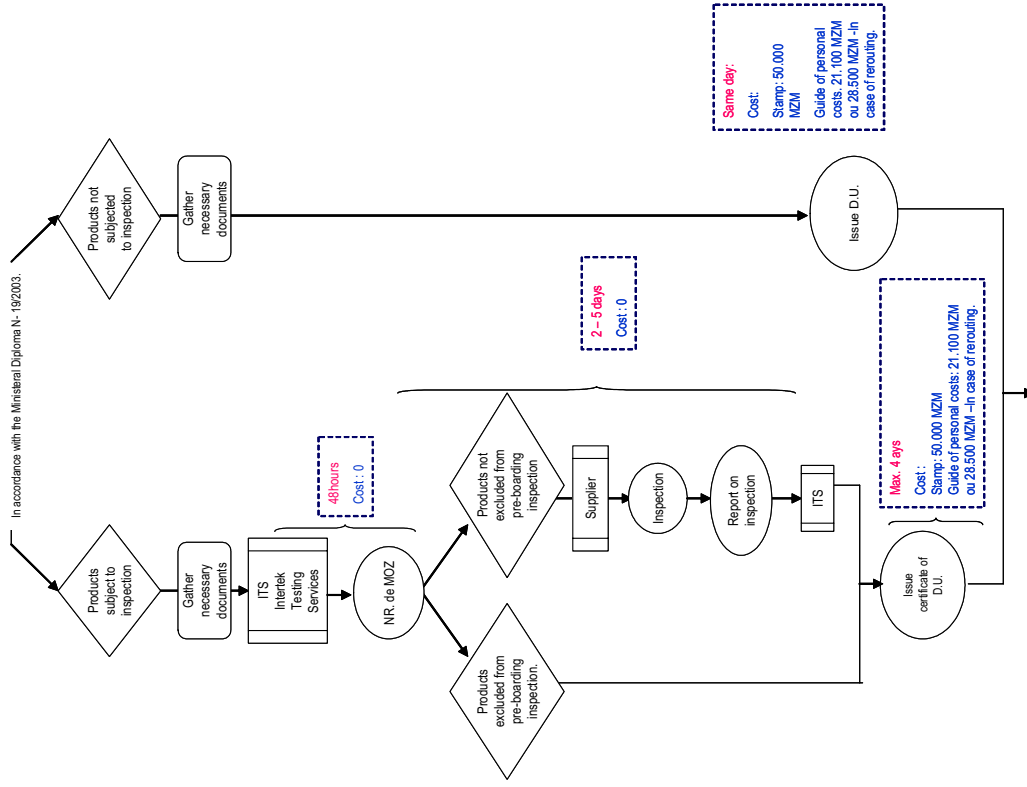
Perceptions of Development

According to 39.6 percent of those interviewed, import and export processes have improved over the last five years; 25 percent said that nothing had changed, 12.5 percent that the situation had deteriorated, and 14.6 percent that it had worsened a great deal. The perception that the situation has not improved much exists because so much remains to be done before processes can be completed in 1 to 2 days. The new Mahotas road-rail terminal, recently announced, could lead to much faster clearances and lower costs. Competition between operators can only improve the situation and benefit those involved in external trade. It is also possible that negotiations are taking place between CTA and TIRO to revise the formulae for fixing tariffs – this would benefit importers and exporters alike. Appendix K contains a description of the processes, time periods, costs and applicable legislation. Figures 10-1 and 10-2 depict import and export processes.

Figure 10-1
Import Process

Step One

Import License for industry-without the regulatory import card
In accordance with the Ministerial Diploma N°-19/2003.



Step Two

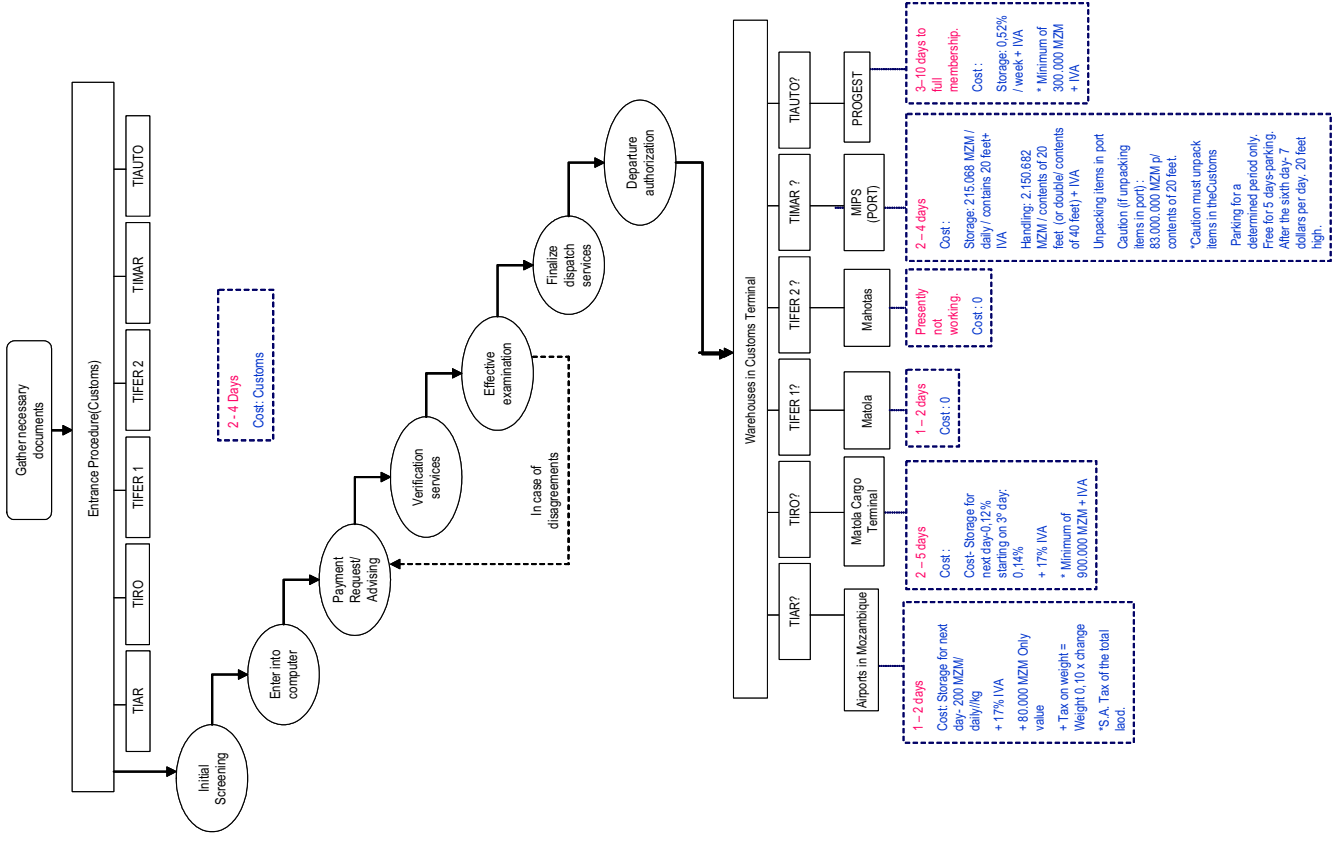
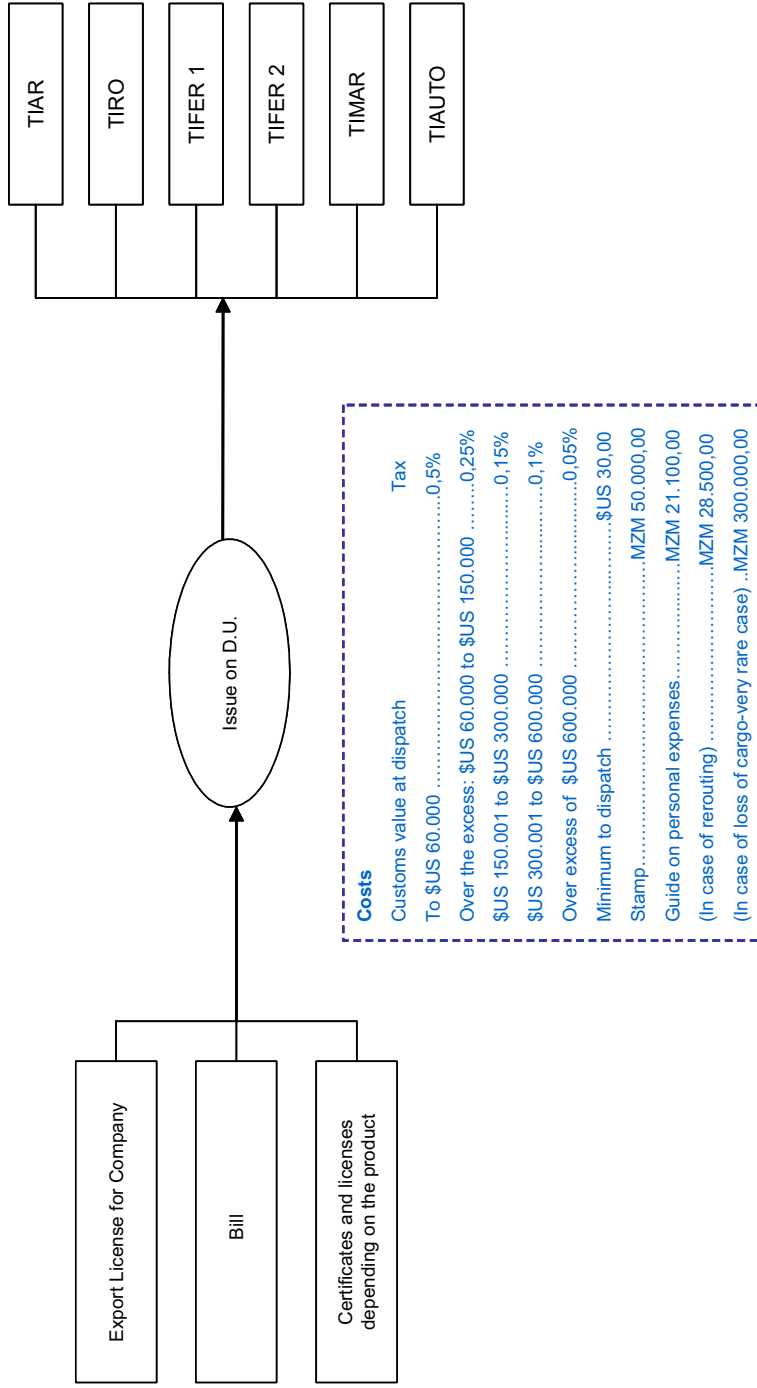


Figure 10-2
Export Process



11. Personal Income Tax (IRPS), Company Tax (IRPC), and VAT

Description

Business holds the general opinion that the new tax system has worsened direct and indirect costs, time, complexity, and fiscal justice (Table 11-1). For personal income, company, and value-added tax (VAT), most companies stated that 10 percent would be an ideal rate for each.

Issues

It is no surprise that companies believe that tax rates are too high and that they share an opinion on ideal rates. Commenting on the tax system, those interviewed consider that

- The government and its functionaries are not interested in applying laws to better manage the country, but to better collect fines.
- Those working in finance departments do not have a solid understanding of the legislation, and this includes finance inspectors, who often charge payments not stipulated in the legislation.
- The rates are excessive in comparison with the cost of living in Mozambique and in fact reduction could increase income for the government because the informal sector is a refuge from formal sector taxes. Lower rates and better application would increase significantly the number of those contributing.
- Lack of punctuality of functionaries causes long lines, especially in the last 4 or 5 days before payments are due.
- VAT results in an increase in production in relation to importation.

Table 11-1
Implications of Tax System for Companies

Factor	Better	Worse	Same	No Comment
Direct cost	23		18	22
Indirect cost	21		24	26
Time	25	28	16	
Complexity	20		15	29
Fiscal justice	23		18	28

Figure 11-1
Ideal IRPS Rate

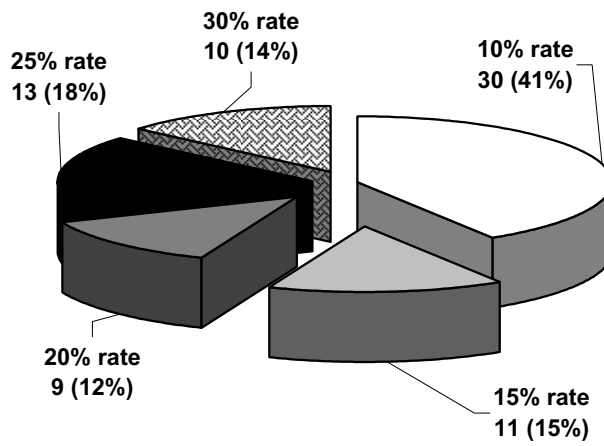


Figure 11-2
Ideal IRPC Rate

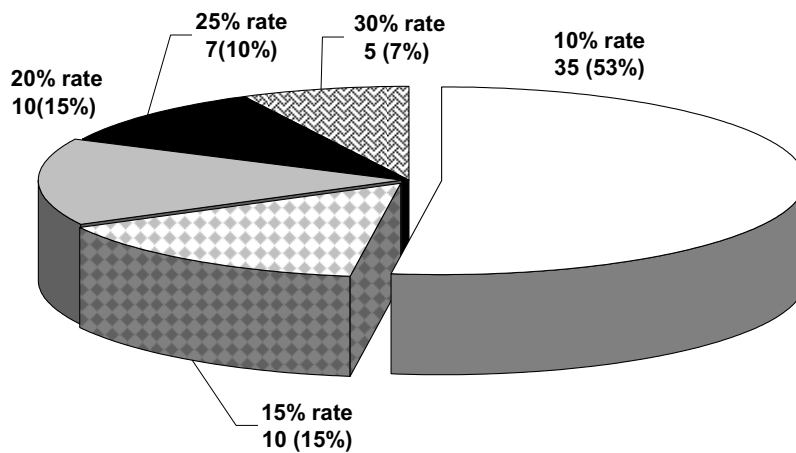


Figure 11-3
Ideal VAT Rate

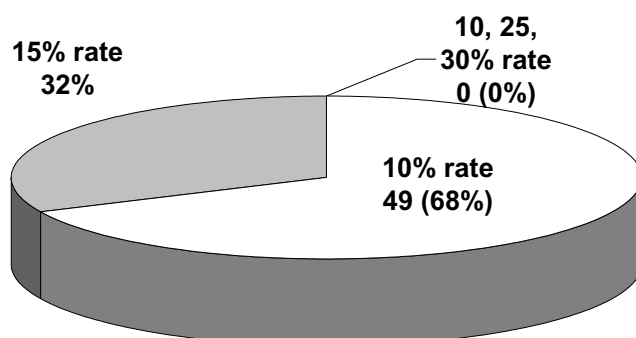


Table 11-2
Ideal Rates for Each Tax (no. of respondents)

Tax	10%	15%	20%	25%	30%
IRPS	30	11	9	13	10
IRPC	35	10	10	7	5
VAT	49	23	0	0	0

Suggestions and Comments

- Fiscal reform should be accompanied by incentives to modernize companies in accounting and financial management, as well as including the subjects of fiscal and labor law in accountancy as taught at technical schools.
- Disseminate laws.
- Reduce and differentiate VAT rates on certain products.
- Train those working in provincial finance departments.

Perceptions of Development

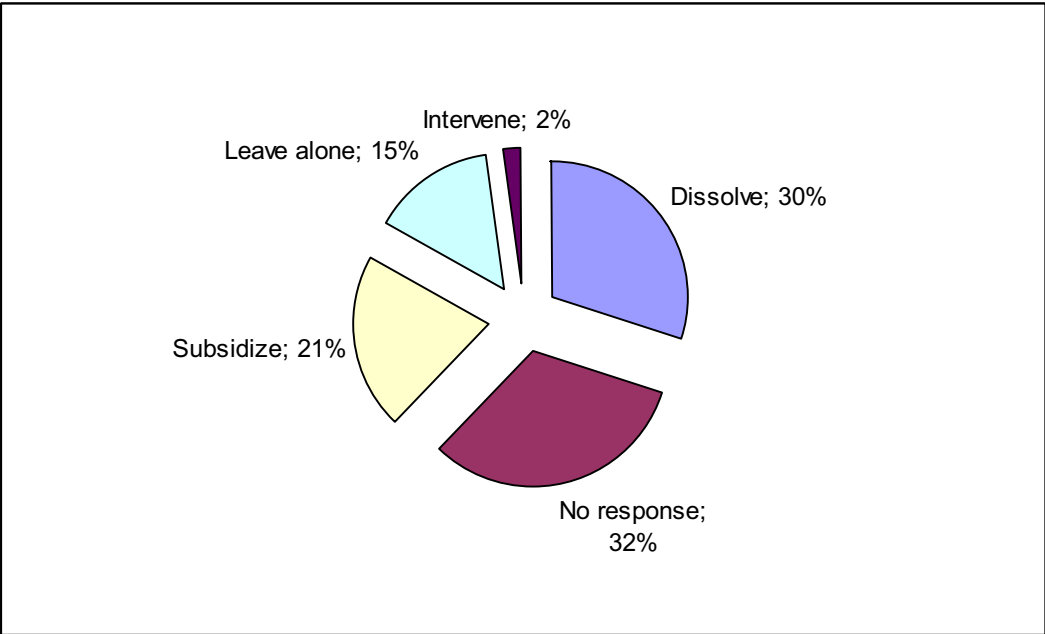
Of those interviewed, 14 percent thought that the tax system had worsened in the last five years, 14 percent that it had not changed significantly, 1 percent that it had worsened considerably, and 42 percent that the situation had improved. Twenty-seven percent did not respond.

12. Other Issues

Distressed Companies

30 percent of the companies interviewed thought that companies in financial difficulties should be dissolved, following determination of the situation; 21 percent that they should be subsidized by the government until the situation normalized; and 15 percent that they should be left to their own devices. A significant number of those interviewed cited the absence of adequate legislation and the necessity of rapidly filling this legislative gap as an issue.

Figure 12-1
Solutions for Distressed Companies



Twenty-two percent considered legislative reform on this issue to be very urgent, 31 percent urgent, and 3 percent not urgent; 31 percent did not respond to the question. For prioritization of interests in legislative reform on the issue of bankruptcy, the majority proposed that workers be given first priority, then creditors, then shareholders, then the state and any other party (Table 12-1).

Table 12-1
Priority of Interests in Case of Bankruptcy

Party	Priority				
	1	2	3	4	5
Workers	37	9	7	2	0
Debtors	13	28	14	0	0
Shareholders	4	9	14	12	13
State	4	8	15	15	10
Other	1	0	1	21	27

The World Bank's "Doing Business" figures for Mozambique and the region (Table 12-2) illustrate the penalty of the situation in Mozambique, especially in relation to the time taken to find a solution and the rate of recovery.

Table 12-2
World Bank Cessation of Activity / Bankruptcy Indicators

Indicator	Mozambique	Regional Average	South Africa	OECD Average
Time (years)	5	3.6	2	1,7
Cost (% assets)	8	20.5	18	6,8
Rate of recovery (US cents)	12.3	17.1	31,8	72,1

Solution for distressed companies should be analyzed case by case, taking into account the importance of the company to the national economy and the reasons for bankruptcy. In cases of technical bankruptcy or financial difficulties, government financing can lead to a vicious circle in which companies try to obtain this benefit. The state or courts should name a judicial manager for technically bankrupt companies. The situation should be regulated as soon as possible.

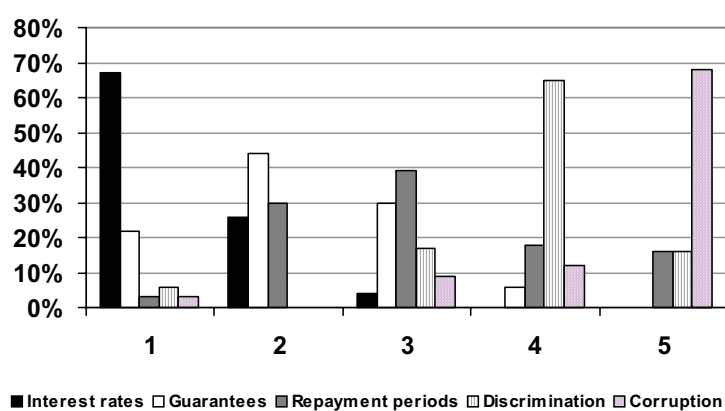
Credit

Sixty-one percent of those interviewed said that access to credit would help the development of their business and 16 percent that it would not help; 16 percent said they did not know if it would help or not; and 1 percent said it would depend on the period for which the credit was available. Of those interviewed, 42 companies had recently applied for credit—11 had applied in U.S. dollars, 13 in meticaís, 10 in both, and the rest did not specify currency. The average interest rate for credit in meticaís was 22 percent though it went as high as 40 percent. In relation to the dollar, the minimum rate was 3.5 percent, the average 7.8 percent, and the maximum 12 percent. Of all the companies that had applied only 3 were not asked for guarantees; the rest were asked for between 110 and 200 percent of the value of the credit applied for, in goods, equipment, and in some cases the actual company and even personal property. In the opinion of those interviewed the main difficulties in obtaining credit are (1) interest rate, (2) guarantees, (3) time periods for repayment, (4) a discrimination and (5) corruption.

Table 12-3
Difficulties Obtaining Credit

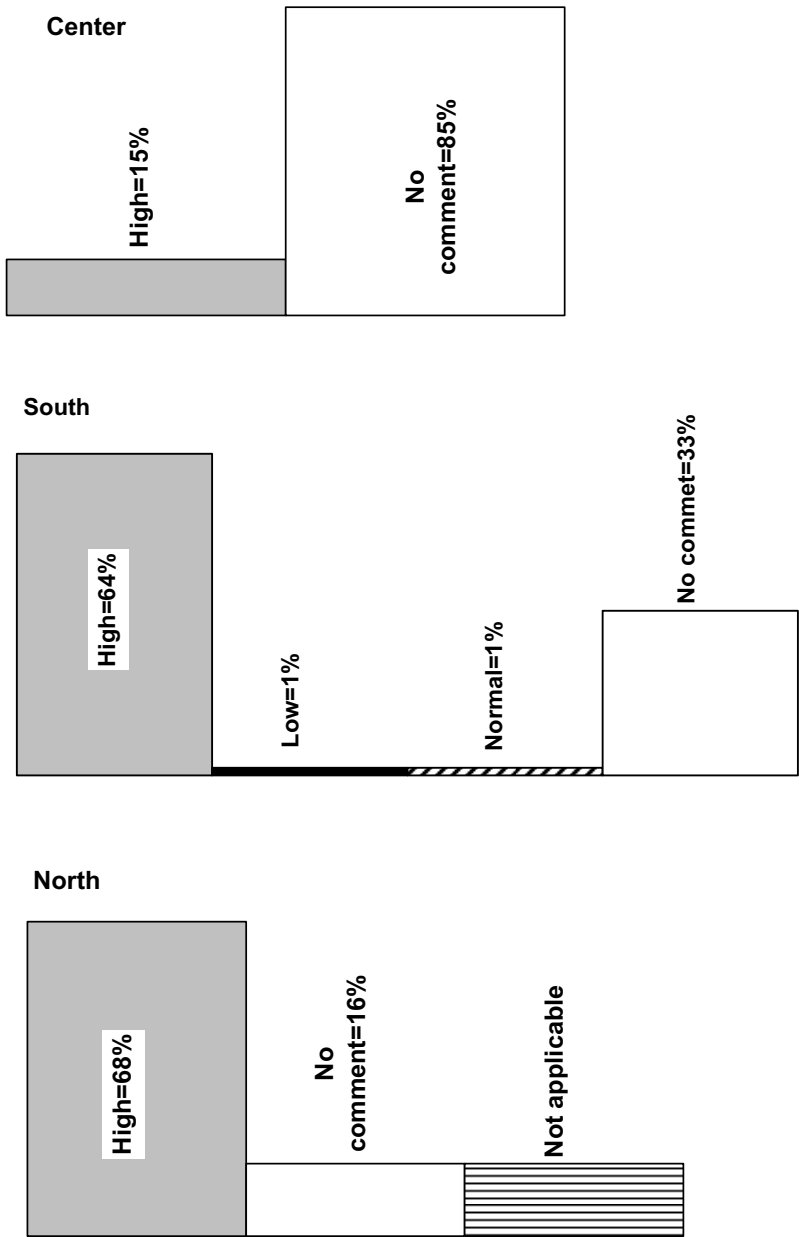
Indicator	1st	2nd	3rd	4th	5th
Interest		7	1	0	0
Guarantees	8		7	1	0
Time periods for repayment	1	8		3	3
Discrimination	2	0	4		3
Corruption	1	0	2	2	

Figure 12-1
Difficulties Obtaining Credit



Interest rates are considered high by 51 percent of the companies interviewed while 1 percent consider them low and 1 percent consider them normal. The remaining 35 percent did not respond to this question.

Figure 12-3
Opinions on Interest Rates by Region



Interest rates are seen as influenced by (1) the central bank, (2) bad loans, (3) supply and demand (4) treasury rates, and (5) the banking monopoly.

Credit is necessary but repayment periods must also be extended. Credit could reduce the time required to undertake many projects. More training is required in the construction, services, and marketing sectors. Power, water, and infrastructure are urgently required.

The World Bank's "Doing Business" survey presents the indicators presented in Table 12-4 for Mozambique and the region.

Table 12-4

World Bank Access to Credit Indicators, 2004

Indicator	Mozambique	Regional Average	South Africa	OECD Average
Cost (% per capita income)	5	?	2,3	41,8
Legal rights indicator	4	?	6	4,6
Information about credit indicator	4	?	5	2,1
Public credit register coverage (loans per 1.000 Adults)	5	?	0	1,1
Private department coverage (Loans per 1.000 Adults)	0	?	636	39,4

13. Other Aspects of the Business Environment

Interviewees also mentioned a vast array of other factors that they find relevant to the business environment, as follows:

- **Infrastructure.** Many areas of the country lack means of transport and the transport system is extremely expensive.
- **Public Works Awards.** The awarding of public works tenders should take into account quality as well as cost. Initial cost savings are undermined by poor quality work.
- **Electricity Supply.** Costs are very high. Cross-subsidization should be done away with because it is unacceptable that industry pays more for power than domestic users. In most cases the quality of supply was also prejudicial especially in the case of industry. Electricity suppliers refuse to assume responsibility for damage caused by bad power quality (e.g., short circuits and serious damage to domestic and industrial machinery and equipment).
- **Fuels Costs.** The cost of fuels and lubricants is extremely high and reduces competitiveness by increasing the cost of transport and national production. There should be regional harmonization.
- **Channeling of External Funding.** Contributions and donations from international partners should be directed through the private sector to ensure better execution of projects. Funds are often spent on studies and consultancies and not on practical application (i.e., most funds are spent on theoretical rather than practical matters and productivity).
- **Lack of Transparency.** Taxes and other charges levied by the government are completely lacking in transparency.
- **Agricultural Development.** Development of agriculture is important; a strong agribusiness sector can help reduce hunger and corruption and the impact of HIV/AIDS.
- **Industrial Property Rights.** There are problems related to industrial property rights in Mozambique.

14. General Business Environment

It was the opinion of 61 percent of interviewees that Mozambique's business environment has improved over the last 5 years; 21 percent felt that it had worsened and 18 percent felt that no significant change had occurred (Figure 14-1). The general opinion was that improvement could have and should have been much greater if only the government had been more committed to it and had exercised more political will. The disadvantages faced by businesses in Mozambique when compared regionally and internationally are still enormous. Should this continue, the already low capacity to compete is likely to worsen, turning Mozambique into a mere sideshow in terms of the potential in the region. According to those interviewed, the factors presented in Figure 14-2 contributed (positively or negatively) to the development of the economy to the point that it is at today

Figure 14-1

Evolution of Business Environment Over the Last 5 Years

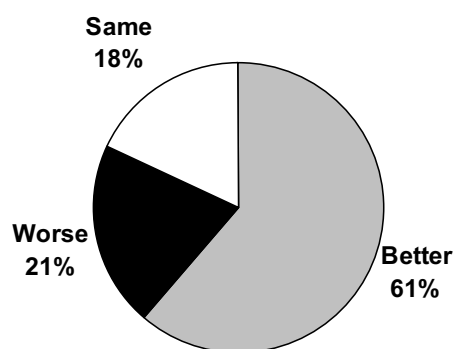
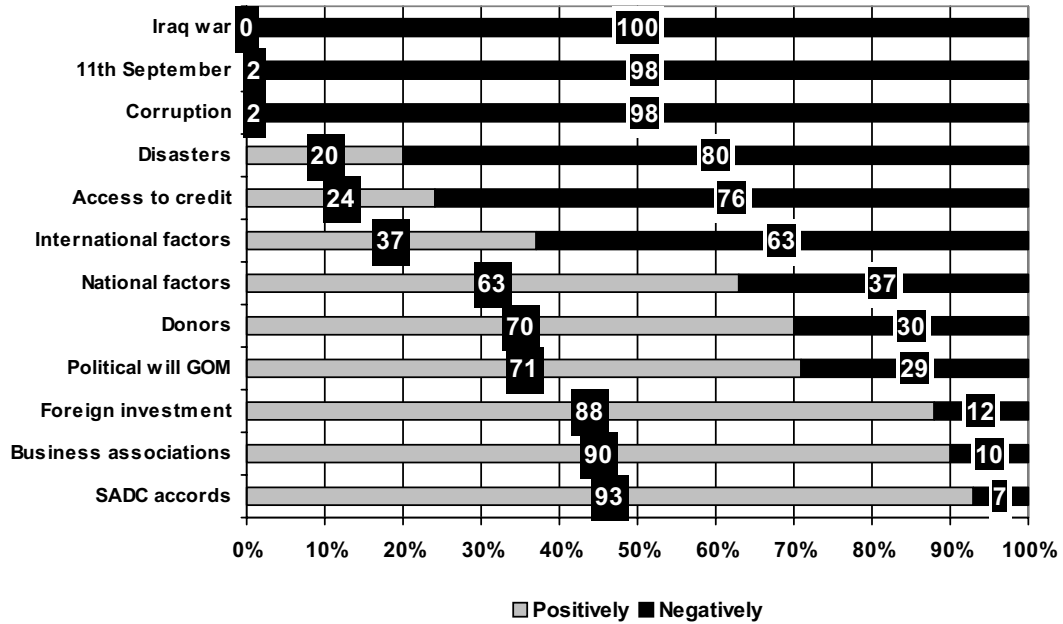


Figure 14-2
Factors Influencing Economic Development



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