

Economic transformation and job creation in Mozambique

Neil Balchin, Peter Coughlin, Phyllis Papadavid, Dirk Willem te Velde and Kasper Vrolijk

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Key messages

- Mozambique needs to develop a shared vision on economic transformation to address macroeconomic challenges and create much-needed jobs for the 420,000 young people who enter the labour market each year.
- It could combine an agro-processing-based transformation model, an Indonesia-style natural resources-cum-diversification transformation model and a Mauritius/Ethiopia model of diversification into export-oriented manufacturing.
- Mozambique needs to address general (weak regulatory framework, limited infrastructure, lack of quality dialogue) and sector specific constraints. This will require strengthening institutional capacities to analyse, assess and guide transformation, and to prioritise actions. Development partners can support this process.

The challenge

Mozambique's gross domestic product has grown annually by 5–7% in real terms over the past decade, but this has not been accompanied by structural change or sufficient job creation. The unemployment rate is currently 27%, and an estimated 420,000 young people enter the labour market each year. Mozambique requires a **different focus towards economic transformation** to address the very challenging short-term macroeconomic situation and create jobs in a sustainable way.

Large institutional challenges compromise further development in Mozambique. These range from inefficient use of funds to a lack of coordination and integration of development planning. This makes policy-making and implementation very difficult, even in the presence of good strategies.

Choosing a suitable development model

Mozambique could learn from and implement its own version of a range of different development models to promote economic transformation:

- **Agriculture and agro-processing-based economic transformation:** Mozambique could

use its comparative advantage in land and depend in part on raising agricultural productivity and agro-processing (with strong backward linkages and multiplier effects to agriculture) to promote economic transformation. This may help Mozambique to graduate to other sectors. Growth in agricultural productivity can also help reduce poverty in the short-to-medium term.

- **Diversification away from natural resource dependency:** Natural resources can be a blessing or a curse, but, if it manages them effectively, Mozambique could use the revenues from their exploitation to transform the economy in a similar way to how Indonesia managed to diversify its economy into manufacturing and services.
- **Manufacturing-led transformation:** Export-led manufacturing – harnessing trade and openness through diversification into manufacturing for industrialisation – is the only proven model for transformation and employment. Attracting FDI can help to kick-start export-oriented manufacturing (as evident in the recent growth in manufacturing in Ethiopia). Korea, Singapore, Viet Nam and Mauritius are notable examples of success in manufacturing-led transformation, and the manufacturing sectors in Rwanda and Ethiopia have also grown rapidly. Mozambique

will need to act fast to capitalise on opportunities in labour-intensive export-oriented manufacturing.

- **Services-led economic transformation:** Strategies for services-led economic transformation may focus on the role of services at *the service* of the economy as a whole, including manufacturing and agriculture. Alternatively, they may look to maximise service export revenues and capital inflows, with specific sectors contributing to overall growth (as growth ‘escalators’). In such cases, the links to the wider economy and transformation are more complex. It is necessary to move into high-productivity services or improve the productivity of services to avoid agglomeration in low skill, low-productivity urban and informal services as workers move out of agriculture, and from rural to urban areas.

The GoM could follow a combination of an agro-processing-based transformation model, an Indonesia-style natural resources-cum-diversification transformation model and a Mauritius/ Ethiopia model of diversification into manufacturing. These models are complementary. **A targeted push towards industrialisation lies at the heart of all these strategies.**

Tackling constraints

These models will need to be followed by **addressing general constraints** through: 1) improving the regulatory framework, including more consistent investment policy, more streamlined trade facilitation, financial sector reform and better land policy; 2) supporting transportation infrastructure and improving the availability and quality of processing facilities; and 3) improving dialogue with business. This should be complemented by a range of **sectoral policies**, supported by appropriate capacities. The GoM may opt to address some constraints directly, while in other cases it may be more efficient to facilitate interventions by the private sector or through donor support programmes.

Building on the presence of large investments in natural resources, the GoM could **support manufacturing by working better around megaprojects**. This will require improvements to the management of future negotiations with multinationals around local linkages, local content and job creation in megaprojects. This needs urgent attention.

A final way to industrialise would be to **target export-oriented manufacturing** such as garments, through the use of special economic zones (SEZs) and by attracting FDI. Mozambique has some way to go, but the experience of Ethiopia suggests fully serviced SEZs can transform manufacturing over a few years.

How to make it happen

Senior policy makers in close collaboration with the private sector need to develop a shared vision for Mozambique’s economic transformation. This vision needs to be built up in a nation-building project. It is also necessary to **build the required institutional capabilities to make this transformation vision a reality**. There are a range of possibilities to support this process. Interventions could focus on enhancing capacities in the Ministry of Economy and Finance – especially within the National Directorate for Economic and Financial Studies – to analyse, assess and guide transformation, and to prioritise actions. A new transformation vision could guide the activities of the Agency for Investment and Export Promotion. Further discussion of interventions is urgently needed to move the transformation process forward.

Donors such as DFID already have wide-ranging portfolios of projects, including those targeted at agribusiness, small and medium enterprises (SMEs) and the oil and gas sectors or at horizontal issues such as jobs, finance or infrastructure, with special attention to the position of rural, female and young groups. There are possible **gaps in support from Mozambique’s development partners to industrialisation and high-productivity services** (e.g. for infrastructure to support SME development, for policies promoting linkages and SEZs). There may also be opportunities for development partners to **engage in institutional support for key ministries and agencies tasked with designing and implementing a distinctly Mozambican transformation and job creation strategy**.

References available in full paper on which this briefing is based: Balchin et al. (2017) *Economic Transformation and Job Creation in Mozambique*. London: ODI.

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