

Economic transformation and job creation in Mozambique – summary

October 2017

Key messages

- Senior policy-makers in collaboration with the private sector need to **develop a shared vision for Mozambique with a new focus on economic transformation** to address macroeconomic challenges and create jobs for the **420,000 young people who enter the labour market each year**.
- Despite annual growth of 5–7% in real terms over the past decade, **Mozambique has not developed structurally or created sufficient quality jobs for inclusive growth**. The unemployment rate stands at 27%. Of those employed, 6% work in the formal sector and 3% are active in the private sector; 80% of the working population earns less than \$2 a day.
- The bulk of employment is in agriculture, which has low productivity compared to other sectors. Just 0.6% of the Mozambican labour force is employed in manufacturing, and the sector contributes less than 10% of gross value added.
- Mozambique needs to develop a shared vision for economic transformation around an appropriate development model. The country 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 manufacturing. **At the heart of all of these development models lies a targeted push to industrialisation**, involving an accelerated shift of labour and other resources out of low productivity agriculture or extractive activities and into higher productivity agro-industry or manufacturing activities.
- But policy-making and implementation will be difficult in the presence of **large institutional challenges**. These range from inefficient use of funds to a lack of coordination and integration of development planning. There are also economic (skills shortages, inadequate infrastructure, investment climate issues) and governance constraints (e.g. corruption).
- Mozambique should focus first on addressing **general constraints** through 1) improving the regulatory framework; 2) supporting transportation infrastructure and improving the availability and quality of agricultural processing facilities; and 3) improving dialogue with business. This needs to be complemented by **sectoral policies**.
- It is also necessary to **build the required institutional capabilities** to make Mozambique's transformation vision a reality. Possible 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 the most effective and urgent interventions is needed to move the transformation process forward.
- **Mozambique's development partners need to support this process**, including through more support for industrialisation and high-productivity services (e.g. for infrastructure around small and medium-sized enterprise development and supporting linkage policies). There may also be opportunities to engage in institutional support for key agencies tasked with designing and implementing a distinctly Mozambican transformation and job creation strategy.

INTRODUCTION¹

Mozambique's gross domestic product (GDP) 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 country requires a different focus towards economic transformation to address the very challenging short-term macroeconomic situation and create much-needed jobs in a sustainable way.

This summary note outlines the most pressing development challenges facing Mozambique and how they affect prospects for transformation and job creation; discusses the promising sectors for future transformation; and highlights the actions needed to accelerate transformation based on a review of 30 studies² in the recent literature on economic transformation. It then discusses next steps for the Government of Mozambique (GoM) and its partners, such as the UK Department for International Development (DFID), around the development models (the what) and institutional capabilities (the how) required to implement a distinctly Mozambican transformation and job creation strategy.

DEVELOPMENT CHALLENGES IN MOZAMBIQUE

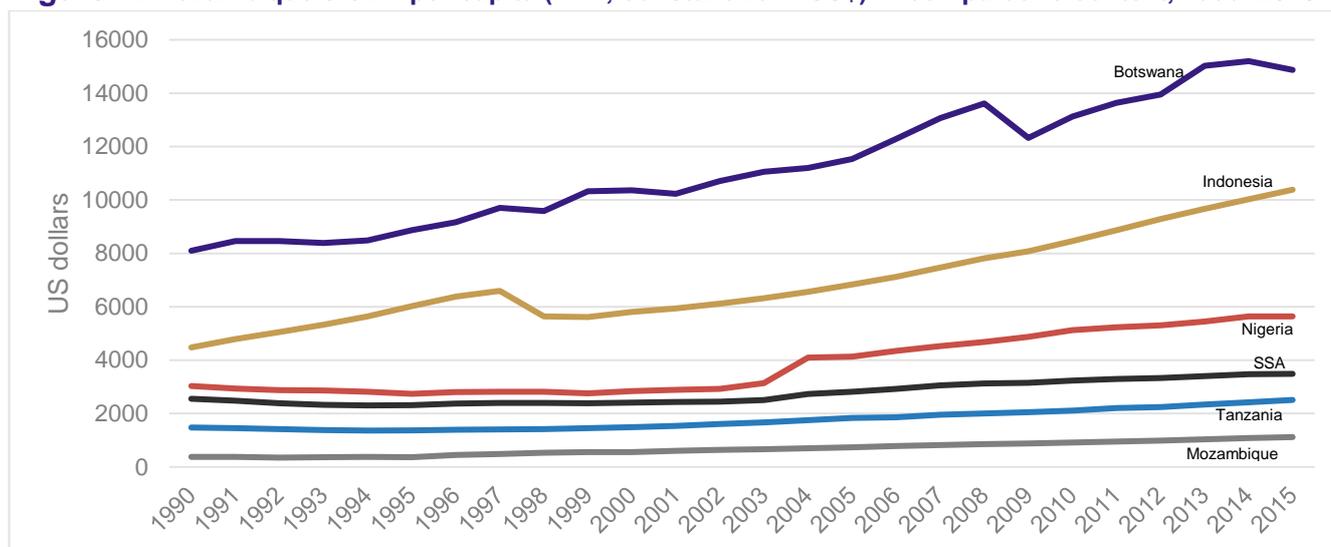
While the near-term future looked bright only a few years ago, a series of major economic shocks have recently affected Mozambique. Debt sustainability is a primary macroeconomic risk, particularly since previously undisclosed external debt guarantees have come to light. The GoM and current account deficits are both extremely high in comparison with similar countries. Debt-to-GDP ratios are also very high, and Mozambique is in partial default. The high external debt burden is likely to hinder prospects for broader-based economic growth as well as Mozambique's ability to access international finance at affordable terms and obtain the foreign investment it needs to promote economic transformation and diversification into non-extractive sectors. A sharp depreciation in the metical has triggered an inflation shock (owing to Mozambique's high import dependence) but has had little effect in terms of boosting the competitiveness of exports (despite historical evidence from across the world suggesting much of the adjustment in the form of rising exports from a currency depreciation typically occurs in the first year). Mozambique's medium-term prospects are more positive and are linked to its gas sector, with spillovers from the sector expected to provide a significant growth boost that could be catalytic for economic transformation. But this depends on how policy-makers employ the rents generated by the sector, and on the degree to which the real exchange rate is protected from undue appreciation.

Mozambique has not developed structurally or created sufficient jobs for inclusive growth. Steady economic growth has not been accompanied by structural change or sufficient job creation. GDP per capita is low, at around \$1,120 in 2015, and well below comparable natural resource-based economies as well as the average for Sub-Saharan Africa (SSA) (Figure 1). The informal economy absorbs more than 68% of the total labour force; and many of those employed in the formal sector are in low-productivity or low-income-earning activities. Mozambique needs to create more jobs to address the high level of unemployment (currently at 27%) and absorb the many new labour market entrants (estimated at 420,000 each year) into employment.

¹ This summary note, which is based on a larger synthesis paper, has been prepared by Neil Balchin, Phyllis Papadavid and Dirk Willem te Velde (all from ODI), Peter Coughlin (EconPolicy Research Group) and Kasper Vrolijk (SOAS).

² These studies are Baloyi and Zengeni (2015); BTI (2016); Castel-Branco (2002, 2014); Coughlin (2015); Cruz et al. (2014); Dutch Ministry of Economic Affairs (2014); Friedrich Ebert Stiftung (2013); GDS (2005); IGC (2012, 2015); ILO Lab (nd); IMF (2016); InfoDev (2013); Jones and Tarp (2016); Krause and Kaufmann (2011); Let's Work Partnership (2016, forthcoming); Nucifora and da Silva (2011); OECD (2013); Smart and Hanlon (2014); Technoserve (2016); UNCTAD (2012); USAID (2013, 2015, 2016); Wagstaff and Maennling (2011); World Bank (2016c, 2016d, 2016e). See the main paper for full references.

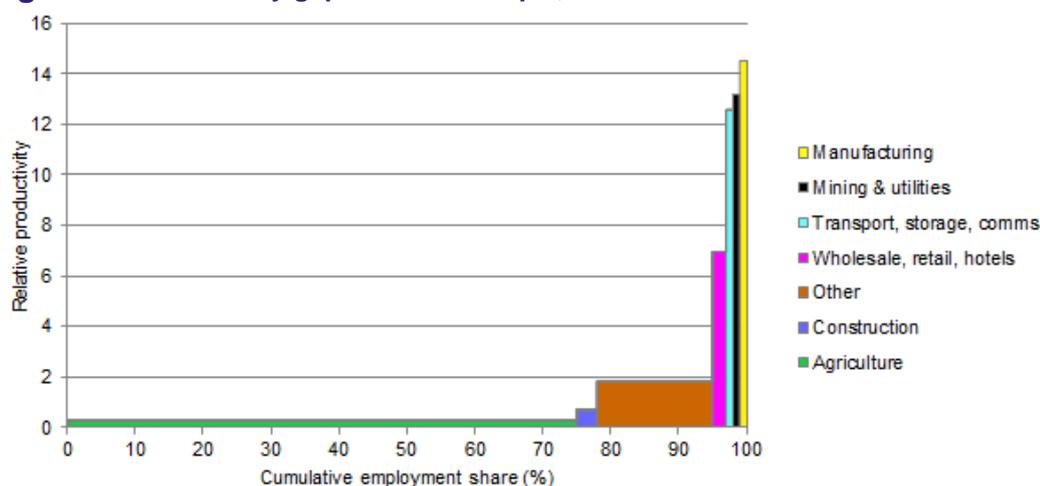
Figure 1. Mozambique's GDP per capita (PPP, constant 2011 US\$) in comparative context, 1990–2015



Note: SSA is the average across all SSA countries.
Source: WDI.

There has been little structural transformation of the economy from agriculture into industry. Agriculture accounts for around 24.6% of total gross value added (GVA), compared with manufacturing's share of just 9.8% (down from 29.7% in 1975). Around 75% of the labour force is employed in agriculture, mostly in low-productivity jobs with low earnings, compared with just 0.6% in manufacturing. This is a key aspect of the transformation challenge in Mozambique – with the bulk of employment in agriculture, which has low productivity and where the productivity differential with other sectors is very large (Figure 2).

Figure 2. Productivity gaps in Mozambique, 2015

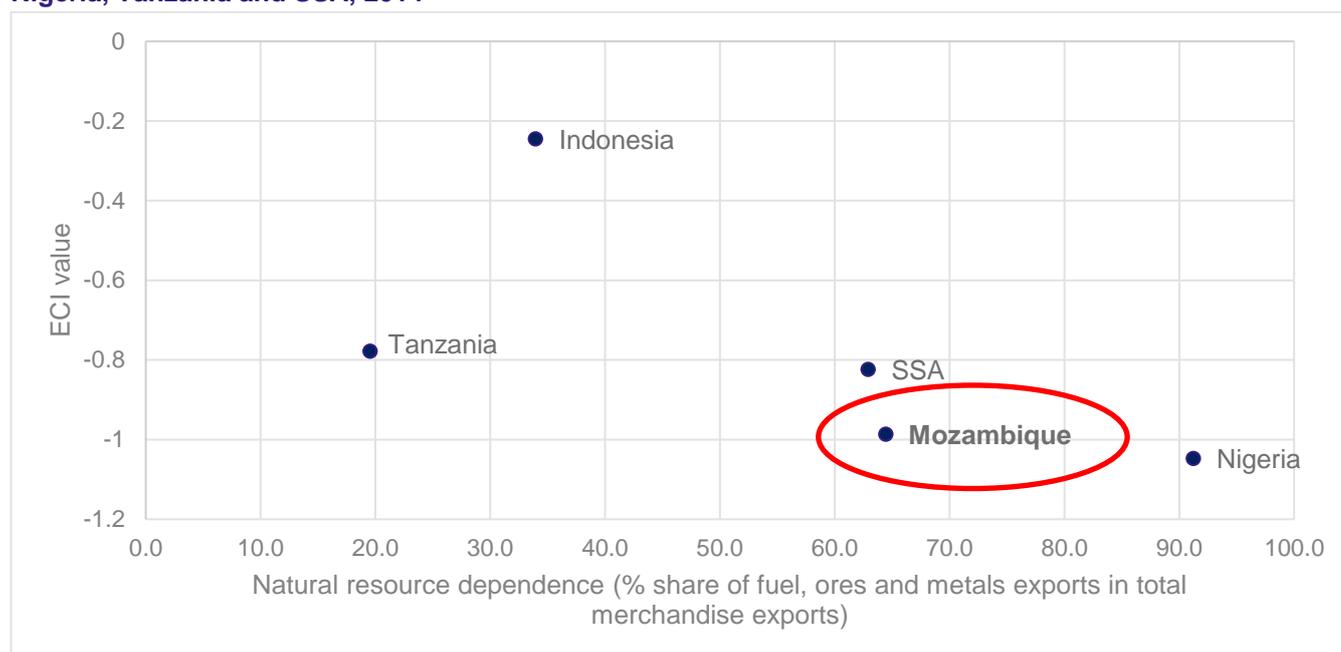


Notes: The relative productivity level is derived by calculating labour productivity levels (GVA at constant prices divided by number of persons employed per sector) and expressing the result as a ratio of total economy labour productivity.

Source: SET data (<http://set.odi.org/data-portal/>), calculations using UNSD National Accounts Main Aggregates data on 'gross value added by kind of economic activity' (<https://data.un.org/search.aspx?q=gross+value+added+datamart%5bsnaama%5d>) and ILO WESO – Trends 2015 supporting dataset 'employment by sector and sex' (<http://www.ilo.org/global/research/global-reports/weso/2015/lang--en/index.htm>).

Mozambique has been largely unable to diversify into higher-productivity industrial activities or manufacturing, and there is a lack of linkages from industry to agriculture, fisheries and other natural resource-based sectors. As a result, the country's level of economic complexity is low, even compared with other natural resource-based economies (Figure 3), and very little progress has been made in building new capabilities to shift production into more complex products with higher levels of sophistication.

Figure 3. Economic complexity and level of natural resource dependence in Mozambique, Indonesia, Nigeria, Tanzania and SSA, 2014



Note: The SSA average is calculated over all countries for which data are available across the whole 1991–2014 period (it excludes Benin, Botswana, Burkina Faso, Burundi, Cape Verde, Central African Republic, Chad, Comoros, Democratic Republic of Congo, Djibouti, Eritrea, Lesotho, Namibia, Niger, Réunion, Rwanda, São Tomé and Príncipe, Seychelles, Sierra Leone, Somalia, South Sudan, Swaziland, The Gambia, Togo and Western Sahara). Ores and metals comprise the commodities in SITC sections 27 (crude fertiliser, minerals nes); 28 (metalliferous ores, scrap); and 68 (non-ferrous metals).

Source: WDI and Atlas of Economic Complexity (<http://atlas.media.mit.edu/en/rankings/country/>).

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, with the latter often resulting in contradictory policies and undermining the work of different agencies. This makes policy-making and implementation very difficult, even in the presence of good strategies.

DEVELOPMENT MODELS TO PROMOTE ECONOMIC TRANSFORMATION IN MOZAMBIQUE

Mozambique is struggling to find the right long-term approach to development. Experiences in other countries suggest **Mozambique could look to a range of different development models to promote economic transformation going forward** (see Box 1).

Box 1. Development models to promote economic transformation, lessons from other countries and implications for Mozambique

- **Agriculture and agro-processing-based economic transformation:** Like fellow African countries such as Tanzania, Uganda and Zambia, Mozambique could use its comparative advantage in land and depend in part on raising agricultural productivity and agro-processing to promote economic transformation. Agro-processing has strong backward linkages and multiplier effects to agriculture, thus creating significant opportunities for value chain development. Growth in agricultural productivity can, itself, be a major short- to medium-term driver of poverty reduction in low-income countries. Continuing down the agricultural route may also help Mozambique graduate to other sectors.
- **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. Indonesia, for example, was dependent on oil but diversified its economy in the 1980s and 1990s by attracting manufacturing investment and employment, and more recently diversified into services. The complexity of such activities in Indonesia has increased markedly over time. Malaysia and Chile are other examples of developing countries with rich initial endowments of natural resources that have successfully diversified. Through substantial investment in technology and infrastructure, and targeted policies to reduce labour costs, upgrade skills and boost competitiveness, Malaysia managed to shift towards manufacturing and

exporting higher-technology products. Chile took a different route, placing emphasis on higher-value primary-based products in order to develop into a dynamic exporter of diversified commodities. The main difference between a natural resource curse and a natural resource blessing is the ability of policies and institutions to use revenues well and upgrade economic activities around the investment. This includes using rents for productive investments as well as exploiting the potential of local content and linkages to stimulate manufacturing activities.

- **Manufacturing-led transformation:** Export-led manufacturing is the only proven model for transformation and employment. Some countries have successfully harnessed trade and openness through diversification into manufacturing for industrialisation. Attracting foreign direct investment (FDI) has often been a key ingredient in helping to kick-start export-oriented manufacturing (as evident, for example, in the recent growth in manufacturing in Ethiopia) through creating jobs, providing access to capital, improving competitiveness, supporting innovation and facilitating access to foreign technology and skills. Korea and Singapore are good examples of the traditional Asian style of transformation from agriculture to manufacturing and services; Viet Nam is a more recent example of a country that has increased manufacturing activity. Mauritius is the only African country that has been successful in this type of transformation, although the manufacturing sectors in Rwanda and (especially) Ethiopia have also grown fast. China has created large numbers of manufacturing jobs through special economic zones (SEZs), although many of these jobs are expected to leave the country over time as it transforms, potentially offering opportunities for African countries. In addition, the prospect of integrating into global value chains and specialising in specific stages of production can provide a more rapid route to industrialisation for countries such as Mozambique, given this implies joining rather than building manufacturing supply chains. But Mozambique will need to act fast to capitalise on these opportunities: the window of opportunity for countries to follow a transformation model based on the development of capacity in labour-intensive manufacturing may be narrowing as manufacturing becomes increasingly capital- and technology-intensive and less employment-intensive, and developed countries begin to insource production.
- **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 services export revenues and capital inflows, with specific sectors regarded as escalator services. In such cases, the links to the wider economy and transformation are more complex. Services-led transformation may also result in the agglomeration of low-skill informal services around urban areas. As people move out of agriculture, and from rural to urban areas, the current type of industrialisation, especially in many African countries, creates insufficient jobs to absorb new labour market entrants (what Rodrik has referred to as 'premature deindustrialisation'). These people end up in low-productivity services or are engaged in services activities with few productivity increases. There appears to be some of this happening in Mozambique: a move away from agriculture into services that have low productivity and slow growth. Mozambique needs to determine how to move into high-productivity services or how to improve the productivity of services. Without more focus on within-sector productivity improvements in services (and manufacturing), the structural change-led growth path in which services contribute to labour productivity growth may peter out in Africa.

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 – involving the movement of labour and other resources out of low productivity agriculture or extractive activities and into higher productivity agro-industry or manufacturing activities – lies at the heart of all these strategies.** Agro-processing is a form of manufacturing with high backward multipliers. The megaprojects in natural resources could feature more and higher-quality linkages, especially to the local manufacturing sector.

PROMISING SECTORS AND VALUE CHAINS FOR ECONOMIC TRANSFORMATION AND JOB CREATION

There is reasonable consensus across more than 30 key studies about the sectors that can help economic transformation in Mozambique. Overall, the **agro-processing, construction and forestry** sectors are the most widely cited as providing promising avenues for future value addition and employment creation (Table 1). The literature generally gives less attention to **manufacturing**, outside of the agro-processing sub-sector and some emphasis on the potential to develop the garment industry.

Table 1. Summary of promising sectors identified in key studies in the literature

Identified sectors	Potential contributions to economic transformation and job creation
Agro-business	Job creation; opportunities for diversification into higher-value added processing activities (some of which are labour-intensive) and to develop value chains; inclusive growth
(A) <i>Pigeon pea, soy sesame</i>	Nutritional value, farmers income (and rural job creation for pigeon pea)
(B) <i>Fruit-processing, poultry, soybeans</i>	Opportunities for value chain development and processing; employment creation (smallholders); potential for rapid productivity growth (particularly soybeans)
(C) <i>Maize, horticulture, poultry</i>	Small-scale job creation, especially in rural areas
(D) <i>Cassava, cashew</i>	High level of farmer participation; good job creation potential (for smallholder farmers in rural areas, particularly women); opportunities for labour-intensive downstream processing
(E) <i>Fruits, vegetables, oilseed, nuts, rice, beans, dairy, livestock, honey</i>	Job creation in rural areas; opportunities for value added processing
Construction	Can drive transformation and economic growth; creates both direct and indirect jobs (temporary demand for unskilled workers, but also those with more technical skills); opportunities to develop on-the-job skills
Forestry	Job creation; opportunities for processing (e.g. artisan crafts, furniture, paper); potential steppingstone to develop capabilities for other sectors
Gas and coal	Economic growth (through extractive revenues coming in); job creation; multiplier effects
Garments	Potential steppingstone to develop capabilities for other sectors; employment generation (mainly in production, but also in more technical roles, e.g. line supervisors)

A large number of **promising agriculture-related value chains** are identified in the literature on Mozambique (Table 2). **Coal and gas are highlighted as the most promising avenues for pursuing natural resources-led economic transformation.** The potential for **manufacturing-led economic transformation is mostly focused on garments, although the agro-processing element of manufacturing is also emphasised**, and there are some references to promising manufacturing opportunities within the wood processing value chain (e.g. manufacture of furniture). None of the promising sectors and value chains highlighted in the literature review fits readily within a services-led transformation model, although the emphasis on construction as a viable job-creating sector may include some opportunities in construction-related services industries. Other services such as logistics, transport and tourism are given little attention.

Table 2. Linking promising value chains and sectors to major transformation models

Major transformation models	Relevant promising sectors and value chains
Agriculture and agro-processing-based economic transformation	Beans; cassava; cashew; dairy; fruits; fruit processing; honey; horticulture; livestock; maize; nuts; oilseed; pigeon pea; poultry; rice; soy; sesame; soybeans; vegetables
Natural resources-led economic transformation	Coal; gas
Manufacturing-led economic transformation	Agro-processing; garments; wood processing (manufacturing furniture, crafts)
Services-led economic transformation	(possibly) Construction-related services (Also potentially logistics and transport services and tourism)

The studies we reviewed tend to miss the potential for developing manufacturing linkages to future megaprojects in Mozambique. There may be upstream opportunities to develop capacity to supply manufactured equipment, parts and components for use in activities around megaprojects. But this will require improving Mozambique's ability to effectively negotiate deals for future megaprojects and ensure linkages and local content are placed on the negotiating agenda.

Given Mozambique's relatively large pool of labour, long coastline and significant ports, close proximity to regional markets, and duty- and quota-free access into the United States market through the African Growth and Opportunity Act, there may also be broader possibilities to develop export-oriented light manufacturing (e.g. in the cotton-to-textiles value chain, garments, footwear or light motor vehicle assembly). Making this a reality will require raising competitiveness and productivity levels, alongside improvements to trade facilitation and more generally to the business climate and supporting infrastructure. The development of SEZs and industrial parks can help overcome some of these challenges at the micro level. Locations where support services have developed around megaprojects could offer the necessary infrastructure, logistics and services to attract targeted investment into light manufacturing such as

garment assembly. Upgraded regional infrastructure along the Maputo Development Corridor, which connects Johannesburg and Maputo, creates opportunities for better access to both input materials and markets for manufactures. A greater focus on attracting FDI into export-oriented manufacturing can improve access to long-term capital and support the development of a viable manufacturing sector.

CONSTRAINTS TO ECONOMIC TRANSFORMATION AND JOB CREATION

There are a number of binding economic, governance and institutional constraints to economic transformation and job creation in Mozambique (Table 3). These include both horizontal and sector-specific constraints.

Table 3. Linking economic, governance and institutional constraints identified in the literature to the major transformation models they are most likely to affect

Horizontal (cross-sectoral) constraints affecting all transformation models	Sector-specific constraints relevant to particular transformation models
<ul style="list-style-type: none"> • Capacity and skills shortages • Unreliable power supply • Restrictive labour regulations • Poor tax administration • Difficulty accessing finance • Corruption • Limited government and institutional capacity 	<p><i>Agriculture and agro-processing-based economic transformation</i></p> <ul style="list-style-type: none"> • Poor transportation infrastructure • Difficulty accessing land • Inefficient corporate income tax regulations • Inefficient customs procedures • Lack of refrigeration facilities at ports • Lack of facilities to support processing activities (especially in rural areas) • Poor supply of packaging • Limited testing, certification and traceability hampers access to export markets
	<p><i>Natural resources-led economic transformation</i></p> <ul style="list-style-type: none"> • Poor transportation infrastructure • Inefficient customs procedures
	<p><i>Manufacturing-led economic transformation</i></p> <ul style="list-style-type: none"> • Poor transportation infrastructure • Difficulty accessing land • Inefficient corporate income tax regulations • Inefficient customs procedures • Large distances between forestry areas and processing mills (for wood processing-related manufacturing) • High tariffs on processed wood products in export destinations discourages local processing (for wood processing-related manufacturing)
	<p><i>Services-led economic transformation</i></p> <ul style="list-style-type: none"> • Inefficient corporate income tax regulations • Weak use of modern technology (potentially affecting construction-related services)

POLICIES FOR ECONOMIC TRANSFORMATION AND JOB CREATION IN MOZAMBIQUE

Our survey of more than 30 studies highlighted a range of proposed policies – both horizontal (cross-sectoral) policies to improve fundamentals and targeted (sector-specific) interventions – to create jobs and promote economic transformation in Mozambique (Table 4).

Table 4. Policy suggestions in the literature and the transformation models they are most likely to support

Horizontal interventions relevant for all transformation models	Sector-specific interventions to support particular transformation models
<p><i>Education and skills development interventions</i></p> <ul style="list-style-type: none"> • Improve the quality of public education • Upgrade the vocational training system (including technical and vocational education and training schemes, and managerial and technical training) • Expand capacity in institutions providing training • Encourage the transfer of management skills and technological knowledge from foreign multinationals to local firms <p><i>Macroeconomic policy reform</i></p> <ul style="list-style-type: none"> • Promote macroeconomic stability through sound fiscal, monetary and exchange rate policies <p><i>Innovation and technological advancement</i></p> <ul style="list-style-type: none"> • Improve access to specialised technology <p><i>Infrastructure development</i></p> <ul style="list-style-type: none"> • Coordinate infrastructure development to address firm needs across different sectors and develop enabling infrastructure, particularly in rural areas and at border crossings <p><i>Regulatory and business environment improvements</i></p> <ul style="list-style-type: none"> • Better tax administration (exemption thresholds for small businesses, reduce delays in VAT refunds, less onerous VAT reporting requirements) • Less restrictive labour regulations <p><i>Local content and procurement policies</i></p> <ul style="list-style-type: none"> • Reconsider the non-mandatory local participation clause in procurement policy <p><i>Trade rules and trade facilitation</i></p> <ul style="list-style-type: none"> • Improve efficiency of custom procedures and inspections <p><i>Investment promotion, facilitation and aftercare</i></p> <ul style="list-style-type: none"> • Offer a single investment incentive package and equal treatment of all foreign investors • Improve the inflow and efficiency of investments (streamline regulations and licensing requirements, review investment incentives to ensure greater transparency) • Improve government capacity to manage public investments (e.g. better processes for evaluating projects) • Establish mechanisms (e.g. inter-ministerial committees) to enhance collaboration among investment promotion agencies <p><i>Financing productive activity</i></p> <ul style="list-style-type: none"> • Reforms to the financial sector to improve access to finance (introduce credit guarantee system, leasing for SMEs, strengthen institutions providing rural and microcredit) • Enhance access to credit, particularly for domestic and rural SMEs 	<p><i>Agriculture and agro-processing-based economic transformation</i></p> <ul style="list-style-type: none"> • Improve processing facilities to support higher-value added activities (including by establishing cold storage and processing units) • Put in place certification for accessing international markets • Enable better integration within value chains (e.g. through contract farming and out-grower schemes to link farmers and processors) • Reconsider the effects of raw export bans/taxes on upstream producers (e.g. for pigeon peas) • Distribute market information about opportunities to farmers • Mitigate risks faced by farmers (e.g. through government-backed loans to increase production) <p><i>Natural resources-led economic transformation</i></p> <ul style="list-style-type: none"> • Tighten linkages between resource/non-resource sectors <p><i>Manufacturing-led economic transformation</i></p> <ul style="list-style-type: none"> • Ensure SEZs are integrated into the national planning process • Improve access to land for industrial development by establishing an electronic land registry (over and above the existing one for mining rights), simplify procedures for community consultation and improve investor access to land use rights • Invest in infrastructure and facilities to support wood processing • Establish an industrial cluster and/or supporting industries for wood processing (to include accessories manufacturers; pulp and paper producers; kiln-drying facilities; design and engineering capabilities and learning centres) • Vocational education and training in forestry (potentially to support the forestry to wood processing value chain) <p><i>Services-led economic transformation</i></p> <ul style="list-style-type: none"> • Reform government procurement – certification to aid large-scale procurement bids as well as SME participation in procurement • On-the-job training • Build local capabilities in construction (introduce SME finance programmes, upgrade curriculum for construction, create a formal mechanism to provide practical training) • Enhance access to credit for firms (e.g. through regional development financing)

Horizontal interventions relevant for all transformation models

Sector-specific interventions to support particular transformation models

Interventions to improve public sector efficiency, effectiveness and coordination

- Enhance coordination across government departments and agencies and between GoM and private sector bodies (e.g. by staging public–private forums on land reform, incentives, business needs)
- Improve monitoring of project implementation

CONCLUSIONS AND IMPLICATIONS

Economic transformation is crucial to address Mozambique’s macroeconomic challenges and create jobs in a sustainable way. Mozambique needs to think more carefully how to use its natural resources better *and* transform the economy. It also needs to do more to promote manufacturing linked to comparative advantages, such as location, availability of agricultural products and presence of megaprojects around which linkages can be improved.

There is currently no integrated agenda for development and economic transformation in Mozambique. A multitude of different sectoral strategies have been developed, many of which are not sufficiently informed by a deep knowledge of conditions on the ground. There appears to be an urgent need **to develop a shared vision for Mozambique’s economic transformation** and to put in place an effective, more cohesive and capable function within the GoM to ensure coordination, discipline and close collaboration with the private sector in the identification, planning and execution of this shared vision. Moreover, the development vision around Mozambique’s transformation path still needs to be built up in a nation-building project.

The government 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. At the heart of all of these development models lies a targeted push to industrialisation.

Choosing an appropriate model needs to be followed by efforts to **address 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. Public-private dialogue around industrialisation is key. Effective mechanisms need to be in place to facilitate this dialogue and, at the same time, build trust between the public and private sectors and allow the GoM to learn with the private sector to address initial and emerging constraints.

This general approach needs to be complemented by a range of **sectoral policies**. In agro-processing, the GoM could focus on improving the efficiency of downstream linkages to processing facilities; in construction, it can focus on building local capabilities, including through better and cheaper access to finance; and in forestry, it could focus on investing in infrastructure and facilities to support further processing, and additional skills development. It is also important to promote innovation and move into modern sectors such as manufacturing. In some instances, the GoM may opt to undertake certain horizontal or sector-specific interventions directly, while in others it may be more efficient to facilitate the design and implementation of interventions by the private sector or through donor-support programmes.

Building on the presence of natural resources, the GoM could **support manufacturing by working better around megaprojects**. There is potential for megaprojects to stimulate backward and forward linkages from multinational corporations to local small and medium enterprises (SMEs); but this will require improvements in the management of future negotiations with multinationals to enhance local linkages, local content and job creation in megaprojects.

A final way to industrialise would be to **target export-oriented manufacturing** such as garments, through the use of SEZs and by attracting FDI (together with local investment). By providing guaranteed reliability of essential infrastructure services, along with regulatory, financial and other incentives, SEZs can create competitive conditions for export-oriented manufacturing and help attract manufacturing FDI and skilled labour into priority manufacturing industries. They can also catalyse wider improvements in domestic manufacturing capabilities if domestic participation is encouraged together with forward and backward linkages to the domestic economy and technology transfers from SEZ investors to local firms. Moreover, the establishment of successful SEZs could have important demonstrational affects, for instance by showing that the government and private sector can work together effectively.

It is also necessary to **build the required institutional capabilities to make Mozambique's transformation vision a reality**. There are a range of possibilities to support this process. For instance, interventions could focus on enhancing capacities in the Ministry of Economy and Finance, especially within the National Directorate for Economic and Financial Studies (DEEF), to analyse, assess and guide transformation. With sufficient capacity, the DEEF can play an important role in the design and planning of implementation strategies for economic transformation. A new transformation vision could guide the activities of the Agency for Investment and Export Promotion – to be created by merging the Investment Promotion Centre, the Office for Economic Accelerated Development Zones and the Export Promotion Institute. This would enable a coordinated approach around an integrated agenda that promotes public and private investment to support economic transformation. Further discussion of the most effective and urgent interventions is needed to move the transformation process forward.

Donors such as DFID already have wide-ranging portfolios of projects, including those targeted at agribusiness, 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**, for example in relation to infrastructure around SME development and the need for linkage policy. There may also be opportunities for Mozambique's 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**.