

CR 5785-MZ

**REPÚBLICA DE MOÇAMBIQUE
MINISTÉRIO DA ECONOMIA E FINANÇAS
GABINETE DO MINISTRO**

Ofício 14/MEF/2016

Maputo, January 27th, 2016

Subject: *First Regional Development Policy Operation (DPO) to support the Accelerated Program for Economic Integration (APEI) in the amount of US\$ 10 million from the International Development Association (IDA)*

Dear Mr. Lundell,

- 1. I am writing on behalf of the Government of Mozambique to request the first regional DPO to support the Accelerated Program for Economic Integration (APEI) in the amount of US\$ 10 million from the International Development Association (IDA). The operation is supporting the joint reform program agreed with partner countries participating in the APEI to improve the policy environment for trade within the region. Support through the regional DPO will help meet the financing requirements to continue the reform agenda agreed among the five APEI countries in March 2013.*
- 2. We would like to commend your continued support to the Accelerated Program for Economic Integration that we are implementing together with Malawi, Mauritius, Seychelles and Zambia, and which aims at fostering regional integration and improving the policy environment for trade in the region.*
- 3. The objective of the regional operation is to support our participation in this regional initiative that addresses non-tariff barriers, facilitates the flow of goods across our borders, and reduces barriers to trade in services.*

To:
Mr. Mark Lundell
World Bank Office
Maputo – Mozambique

4. *The new Plano Quinquenal do Governo (PQG) for 2015-2019 aims to generate inclusive and sustainable growth and we expect that the reforms agreed under the APEI will help us to achieve the objectives of the PQG, especially in the areas of improving productivity, regional integration, and good governance.*

5. *The reforms directly contribute to our objective of regional integration and we expect they will also contribute to lower trade costs to increase competitiveness of Mozambican enterprises. This will allow new companies to grow and to reach new markets. We expect this to contribute to the creation of new employment opportunities that will help to further reduce poverty. At the same time, increasing transparency in trade transactions will reduce the opportunities for informal processes.*

6. *Mozambique's economy remains robust, with growth estimated at 7 percent in 2015, supported by growth in the financial sector, agriculture and trade. Extractive industries continue to be a very dynamic sector, but growth has slowed down as a result of low commodity prices and infrastructure constraints. We expect developments in the mining and petroleum sectors to transform Mozambique's economy in the medium term, resulting in strong growth in coal production and exports, the implementation of large infrastructure investments, including in LNG plants and greater dynamism in the construction and transport sectors.*

Development Strategy and Poverty Reduction

7. *We are committed to sustain our pursuit of more inclusive growth during and beyond the Action Plan for Poverty Reduction (PARP) through the 2015-2019 Development Strategy (Programa Quinquenal do Governo - PQG).*

8. *The PARP aimed to induce patterns of inclusive growth by increasing the allocation of funds for investment under the following pillars: (i) enhancing production and productivity in agriculture and fishing; (ii) creating employment; and (iii) enhancing social and human development. It focused on enhancing production and productivity in agriculture through an agricultural sector development strategy (PEDSA) and an agricultural investment plan (PNISA) for 2013-17. We also adopted a new strategy for the Improvement of the Business Environment 2013-17 (EMAN II) to strengthen the ability of the private sector to create productive employment. Some of these reforms are also part of our dialogue with the APEI. The PARP also focused on increasing primary school enrolment and the creation of an increasingly gender-equitable system, particularly in secondary schools.*

9. *Our Development Strategy for the next five years (the PQG) continues to aim at inducing patterns of inclusive and sustainable growth. It is built around five pillars that aim to i) consolidate national unity, peace, and independence; ii) develop the human and social capital, iii) promote employment and improve productivity and*

competitiveness, iv) develop economic and social infrastructure, and v) to ensure sustainable and transparent management of natural resources and of the environment. Three supporting pillars focus on consolidating democracy, good governance and decentralization, a stable macroeconomic environment, and reinforced regional cooperation and they will help us achieve our overall objectives.

10. The PQG aims to promote an inclusive, efficient, and effective education system, improve the access to more and better health and other key services, and to promote gender equality with the objective of further developing the human and social capital in Mozambique. It also aims to promote employment and improve productivity and competitiveness in all sectors, but particularly in agriculture where 78 percent of the economically active population are employed.

11. The PQG does also aim to encourage value addition to primary products and to diversify the export base by supporting SMEs, strengthening systems for standards and certification, and fully implement the SADC Free Trade Area to promote industrialization to modernize the economy. The PQG in addition aims to develop economic and social infrastructure through expanding and renewing trade infrastructure, such as rail, ports, and logistics, but also through investing in social infrastructures such as public administration, the legal system, and vocational training.

12. The regional operation we are requesting directly contributes to a number of elements of the PQG, especially the improvement of productivity and competitiveness, the implementation of the SADC FTA and stronger regional integration, and efforts aimed at increasing good governance. For example, increased transparency will contribute to our efforts to fight on corruption as predictable procedures increase transparency and accountability. The reduction of non-tariff barriers and the establishment of a national Quality System directly contributes to the objectives of improving competitiveness and promoting the modernization of the economy, while efforts to facilitate the movement of people and to facilitate the movement of goods along the corridors towards Malawi and Zambia will support our regional integration efforts.

Recent and planned reforms related to this operation

13. We have set up the Accelerated Program for Economic Integration as a mechanism to reduce trade costs, increase trade and investment flows, and diversify exports of goods and services and to ultimately raise incomes. The reform agenda has been formulated with technical assistance from the World Bank and other development partners, and also builds on recent analytical work stressing the benefits from strengthening regional integration in Africa.

14. *The initiative has been set up with the objective of jointly implementing commitments made at the SADC level and provide additional impetus to the implementation of reforms that at times has been slow. As five 'like-minded' countries, we see the benefits of stronger integration and aim to lead by example. Through the APEI, we collaborate and jointly accelerate implementation of such reforms. Our reform follows the concept of variable geometry that both COMESA and SADC have endorsed. They directly support and complement, rather than rival, our existing regional integration initiatives in the region, including the tripartite agenda.*

15. *As part of our commitments to our partners in the APEI, we have recently approved the Bill to establish a new National Quality Council with a view to improve the design of technical regulations. The National Quality Council (NQC) will be fully empowered to actively collect information on existing and new technical regulations from line ministries and thus be able to notify the WTO and SADC. The Ministry of Industry and Trade, to whom the National Institute for Standardization and Quality reports, will serve as the chair of the NQC.*

16. *The increased transparency resulting from collecting information on all existing technical regulations will be a critical first step toward removing or streamlining those technical regulations that function as NTBs. We are aiming to take stock of existing Non-Tariff Measures and Barriers, and to remove some of those that most strongly affect regional trade and which we will jointly identify with our partners.*

17. *Regarding the removal of barriers to trade in services, we have recently signed the SADC Protocol on Trade in Services and are currently preparing offers in the areas of communication, financial, transport, and tourism services that will be submitted to SADC. These offers will then be negotiated among SADC members before being agreed.*

18. *We are also working in parallel with partner APEI countries to improve access to professional services in our countries and aim to facilitate the movement of professionals across our borders by revising regulations related to business visas and work permits. To this end, we are working with our partner countries to facilitate the movement of service providers and have undertaken a study to better understand the regulatory and institutional rigidities that would have to be addressed.*

19. *To improve the flow of transit goods through Mozambique, the Government has also introduced the transit element into the Janela Única (single window). The Single Electronic Window was established in 2011 to improve the efficiency and transparency of border operations, by permitting customs brokers to electronically submit declarations to customs and other government ministries and agencies and to make electronic payments through commercial banks. In April 2013, the government introduced the transit element into the Single Electronic Window to start closing tax*

loopholes. To that end, we revised the Customs Transit Regulations in Ministerial Diploma no. 307/2012 in November 2012 and added the transit element to the Single Electronic Window on April 1, 2013. Since that date, the use of the single electronic window is obligatory for customs clearance of transit operations.

20. We expect that facilitating the movement of goods along the corridors towards our neighbors will also benefit Mozambican operators as an overall increase in the number of operations at our ports can reduce costs and increase the number of ships calling. This should allow companies located in the areas close to the ports of Beira and Nacala to reach overseas markets more easily and at lower costs. As part of that work, we revised the transit regulations, and a larger number of low-risk products that are particularly frequently transshipped are now exempt from having to pay customs bond guarantees. This facilitates their processing in transit.

21. The government is also working on increasing the transparency of trade transactions and the customs website has been transformed into a foreign trade portal that centralizes the information required by traders and provides electronic links to documentation and forms needed for imports and exports by product. You can access the website at <http://www.at.gov.mz/por/Comercio-Internacional>. It contains information that is needed by importers and exporters on a product basis and also contains links to other government agencies involved in trade and border operations. We aim to keep adding information to the trade portal and to ensure it remains up-to-date and a reliable source of information for the private sector.

22. With the support of this and the second operation, we intend to:

- submit an offer to SADC with regard to liberalizing sub-sectors under communications, transport, financial services and tourism, and amend legislation and regulations to reflect regional commitments on at least one of these subsectors*
- sign the MoU with all other APEI countries to facilitate the movement of different categories of service providers*
- work to improve the collaboration among border agencies based on a review of roles and responsibilities of these agencies*
- undertake a gap analysis for risk management procedures at borders compared to international best practice and start to address identified gaps as they particularly relate to the Revised Kyoto Convention*
- continue to work with Malawi and Zambia to facilitate regional transit trade along the Beira/Nacala-Malawi-Lusaka corridor by reducing key regulatory barriers and bring domestic regulations into conformity with regional commitments, and address issues related to road blocks*

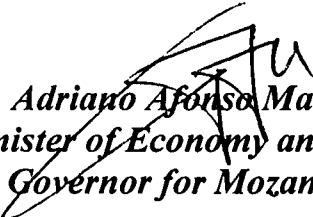
23. *We expect that as result of the reform efforts, border clearance times are going to decrease significantly as non-tariff barriers are removed and risk management permits faster clearance time. We also expect that professional service providers will be able to more easily move among the APEI countries, allowing professionals to work where they are needed and giving APEI-companies access to much needed services, allowing them to compete regionally and globally. As we continue to improve the business environment, we are confident that these changes will allow a larger number of private companies to benefit from the opportunities that integration into regional and global markets offers.*

24. *It is important to continue these efforts and to consolidate the reform efforts undertaken so far conjointly with our partners in the APEI. We hope that our collaborative efforts through the APEI can quickly lead to results that others in the region will want to replicate, thereby advancing the overall integration process that is so important in the globalizing economy. Without the reduction of barriers among our countries, our companies will find it challenging to reach economies of scale, and inward investments will remain limited as market size remains small if goods cannot easily be shipped within the region.*

25. *The government is therefore determined to continue the reform efforts under the APEI, and requests the World Bank to continue their support to the initiative going forward.*

With highest consideration

Yours Sincerely


Adriano Afonso Maleiane
Minister of Economy and Finance
Governor for Mozambique

cc.

H.E. Ernesto Max Elias Tonela
Minister of Industry and Commerce

H.E. Ernesto Gouveia Gove
Governor of Bank of Mozambique