

Foreign Direct Investment in Mozambique – a Government’s perspective

Land is the main production factor and one of the main sources of wealth in Mozambique. The land earmarked for agricultural investments amounts to nearly seven million hectares. The Government of Mozambique launched a series of laws to attract investors in land and moreover to safeguard the interests of the rural population.

Mozambique is predominantly an agriculture-based country with over two-thirds of its population living in rural areas and practising subsistence farming. Agricultural activity in Mozambique holds the agro-ecological potential for fast growth, but as yet remains scarcely exploited, and estimates show that approximately only 15 percent of the 36 million hectares of available land is being farmed.

Over recent years, Mozambique has embarked on a bold programme of macro-economic reforms and structural adjustment. This was possible under the political stability resulting from the peace established in the country in 1992. The ongoing reforms, strongly supported by the international community, had positive results. GDP real growth in the past years averaged an annual eight percent, inflation dropped to one-digit levels, the foreign debt was substantially reduced, monetary reserves increased and the number

of people living in absolute poverty could be significantly lowered.

■ Land laws as a basis for FDI

The Land Law of 1997 introduced various innovations that, in the context of the country’s agrarian structure, did not entail a reform in the sense of land redistribution, but rather constituted a juridical reform process based on the acknowledgement of the existing rights of the rural population, who are mostly poor and illiterate (see Box).

The ‘land issue’ also has its own dimension and plays a role in raising the national product, contributing in this way to economic growth. The government is placing high stakes on the process of national and foreign

investment in rural areas as one of its main strategies to guarantee food sovereignty, combat poverty, create new jobs and promote economic growth with the aim of continually reducing the absolute poverty level in rural areas (Valá, Salim Cripton. 2003).

The National Land Policy contains documents essentially geared to promoting a development model based on access to land, shared and negotiated between two groups of stakeholders: the local communities (rural population) and the private investors (national and foreign). If well implemented, this Law should facilitate investors’ access to land, while the original ‘owners’ – the communities – receive some benefit as payment for ceding their rights to the new investors. There is also an option for partnership between local

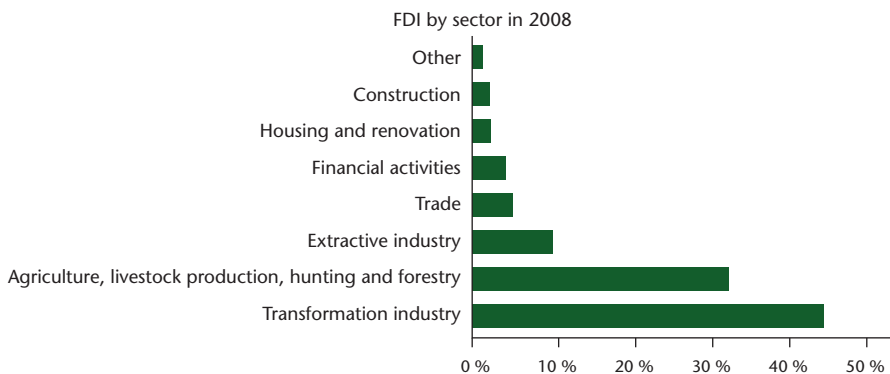
Land rights in Mozambique

The first Constitution of the Republic of Mozambique (CRM) of 1975 marked a break with the prevailing land order, characterised until then by a land classification according to use and exploitation types, namely the lands under private ownership, lands under public domain and the group of lands under customary normative orders. The Constitution of 1990 maintained the law stating that land was State property and could not be sold, mortgaged, pledged or alienated in any way. However, the land was no longer under the regime of public dominion as was the case with the remaining natural resources. This opened the doors to a more consistent and concise regime of private land rights, while preserving the old terminology of the right to use and benefit from the land (DUAT).

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communities and investors, which gives communities the possibility to directly participate in the profits of the new private projects.

The legal framework includes measures to protect the local communities, and, together with the other laws regulating access to and use of natural resources, conditions are in place to enable the local population to participate in the new economic activities promoted by private investment. The same legal framework also provides investors with the minimum conditions for their investment: the right to private and exclusive use for a period of 50 years, renewable for a further 50 years, which allows enough time to invest and earn profits.

Foreign Direct Investment – FDI

In spite of Mozambique being an eminently agriculture-based country, between 1990 and 2005 the greatest part of Foreign Direct Investment (FDI) was directed to the industrial sector (USD 1.7 billion), followed by the mineral resources and energy sectors with 636 million US dollars (USD). The agricultural and agribusiness sector (USD 322 million) ranked fourth (Matos, A.A., 2006).

FDI investors continue to place high stakes on the agricultural sector, which offers large opportunities, has equally strong needs for investment, and has

had a growing impact on exports. This positive trend is expected to continue with the advent of reforms and more simplified licensing processes, investment incentives and reductions in the cost of investment in Mozambique, all of which contribute to making the investment climate more attractive and favourable for foreign trade.

Trend of investments

In 2005, FDI registered a growth rate of 32.58 percent, compared to 3.46 percent in 2004, according to data of the Investment Promotion Centre (CPI). In 2005, South Africa consolidated its leadership in the ranking of countries with greatest direct investments in Mozambique, accounting for more than half of the total value, followed by the United Kingdom.

The African continent is the smallest recipient of foreign investment. Mozambique attracts part of the FDI inflows into Africa for the following reasons:

1. political stability and the trust of foreign investors in the country's governance system;
2. the presence not only of a national market but also of a regional (SADC) and international market (Mozambique is a member of the WTO and of other multilateral organisations and countries with which it trades);
3. the availability of resources, both natural and human, in addition to the relative abundance of the factor "land";
4. the clearly defined macroeconomic policies that have contributed to the promising economic growth of recent years.

The comparative advantages offered by Mozambique at regional level (SADC), such as the development corridors, the availability at low cost of an easily trainable labour force, the large potential of natural resources in key sectors such as agriculture, mining, tourism and fishery, and a favourable

In Mozambique, over two-thirds of the population live in rural areas and practice subsistence farming.



Photo: Iaf



Photo: laif

The Mozambican land law intends to give rural communities the possibility to directly participate in the profits of the new private investors' activity.

alienated. From the Government of Mozambique's perspective, it can only generate earnings insofar as, with time, all improvements of a given investment (capital, infrastructure, etc.) revert to the benefit of the State.

From the investors' point of view, FDI could – to a certain extent – generate some distrust in the sense that the land belongs to the State and for that reason cannot be used as a collateral/guarantee for funding agents. How-

ever, land can be ceded through the DUAT (*Direitode Usoe Aproveitamentoda Terra*; land use and exploitation rights) for a 50-year period.

climate for investment, opened the doors to an increase in national and foreign direct investment involving small, medium-sized and mega projects.

This is also favoured by an improvement in the management of public funds and fiscal consolidation, as well as the management of natural resources, particularly of land issues, and the implementation of the Rural Development Strategy (by promoting the labour-intensive sectors). The sectors with the greatest growth prospects for the coming years are agriculture, natural-resources-based industries (mining, food, forestry and textiles, garments), energy and tourism (Valá, Salim Cripton. 2009).

■ Advantages and disadvantages of FDI

FDI has numerous *advantages* for Mozambique, namely employment promotion (labour), capital (machinery, infrastructure, etc.), creation of added value products, growth promo-

tion and economic development, etc.

When analysing the *limitations* of investment in Mozambique it is important to mention the problem of the inconsistent implementation of the laws and regulations, a fact that has given rise to discrimination between the various foreign and local investors, and between the larger and smaller investors. Administrative barriers continue to top the list of restrictions to business in Mozambique. The excessive bureaucratic practices always pave the way for corruption. Nevertheless, the government and the private sector deserve all the credit for their courage and determination in insisting on the elimination of the administrative barriers to investors.

■ FDI-related risks

Access to land is a requirement for food security and, consequently, for reducing poverty in the country. In Mozambique, land belongs to the State and therefore cannot be sold or

■ What is relevant for a FDI contract?

- Safeguarding the interests of the community and the investor. With regard to land as State property, the *land law* intends to guarantee rural communities, the majority of which are poor, that they will not only continue to use the land to cover their daily needs, but through it, will generate income and combat poverty.
- Improvement of the business environment and development of the private sector through the following actions: i) reduction in the cost of doing business and the costs of investing in Mozambique; ii) making the labour market more flexible; iii) improving basic infrastructure; and iv) modernising the public sector procurement regulations.

- Streamlining the trade and industrial licensing regulations, as well as monitoring commercial and industrial activities, striving to create a more favourable investment climate.
- Flexibility in work permit authorisation for foreign workers (new Labour Law).
- Considering the situation in Mozambique, with cheap labour, access to the South African market, and other benefits resulting from the EBAS (Everything But Arms Initiative) and AGOA (African Growth and Opportunity Act), there are good prospects for developing the *textile and garment* sector. Mozambique produces reasonable qualities of cotton. In this sector, priority should be given to training workers, lowering the cost of investment, enhancing the import and export procedures, and most important of all, utilising the experience already acquired in the sector.

■ Final considerations

Mozambique has undergone profound social and economic reforms that had significant implications on the land law and policy, on the agricultural sector

and on rural development. The advent of a market economy generated new demands that forced a rethinking of the legal, policy and institutional framework. National and foreign economic forces pressed to make these changes happen. The State has recognised the timeliness of these demands for change and has embarked upon a reform process that is still underway, so that land and natural resources can be used as decisive levers for creating wealth.

An ongoing institutionalised and formal debate between the State, the private sector, the local communities and the NGOs – including the academic and research institutions and the international co-operation partners – aims at following up the implementation of the relevant land legislation, agricultural and rural development, and potential measures to make the “Strategy for establishing the District as a Development Pole” even more viable. The results achieved with the legal and institutional reforms, experiences with the community management of natural resources, preparing and implementing zoning, the measures to decentralise the management processes of land and other natural resources, the partnerships established between private entities and the communities, the “good practices” for the profitable and sustain-

able use of natural resources to generate wealth, capacity building on how to use the land and natural resources legislation to promote development, and the handing over to the communities of 20 percent of the taxes collected from the forestry operators, among other initiatives in this field (MPD. 2007), confirm that the state is on the right track and, therefore, has the responsibility in the future to extend the ongoing reforms to the entire national territory.

Development policies, laws and strategies are addressed first and foremost to the rural areas, to the districts in Mozambique where over 65 percent of the population live and work. Many of the rural workers depend on the land and natural resources for their food, survival and wellbeing.

In recognising the relevant role of FDI for the country’s development, creative and innovative instruments were conceived for allowing foreign investors to use the natural resources in the Districts, provided that the interests of the local communities are safeguarded. In this regard, the Government of Mozambique is permanently concerned with improving the business climate so that the private sector, particularly the private foreign sector, is attracted to invest in the country.

Zusammenfassung

Land ist in Mosambik der bedeutendste Produktionsfaktor und eine der wichtigsten Grundlagen für Wohlstand. Laut Schätzungen werden aber nur 15 Prozent der verfügbaren Flächen landwirtschaftlich genutzt. Knapp sieben Millionen Hektar sind für ausländische Direktinvestitionen vorgesehen. Die mosambikanische Regierung hat eine Reihe von Gesetzen erlassen, um ausländische Investoren ins Land zu holen und zugleich die Interessen der einheimischen ländlichen Bevölkerung zu wahren. Da das Land politisch stabil ist und den Zugang zu regionalen (Südafrikanische Entwicklungsgemeinschaft, SADC) und internationalen Märkten (Welthandelsorganisation, WTO) ermöglicht, ist es für ausländische Investoren attraktiv. Als Hemmschuh könnte die Tatsache wirken,

dass sämtliche Flächen dem Staat gehören und nur für einen Zeitraum von maximal 50 Jahren verpachtet werden. Zwar ist es oberstes Ziel aller Gesetze und Reformen, die ländliche Bevölkerung zu schützen; gleichzeitig möchte die Regierung aber das Investitions- und Unternehmensklima für den Privatsektor verbessern.

Resumen

La tierra es el principal factor de producción y una de las fuentes más importantes de riqueza en Mozambique. Las estimaciones muestran que sólo el 15 por ciento de las tierras disponibles es utilizado para fines agrícolas. Las tierras destinadas a inversiones agrícolas suman casi siete millones de hectáreas. El gobierno de Mozambique ha promulgado una serie de leyes dirigidas a atraer a inversores intere-

sados en estas tierras, así como también a proteger los intereses de la población rural. Mozambique resulta atractivo para inversores extranjeros directos, ya que el país goza de estabilidad política y ofrece acceso a mercados regionales (SADC – Comunidad para el Desarrollo del África Meridional) e internacionales (OMC – Organización Mundial del Comercio). Sin embargo, un factor limitante para la inversión extranjera directa reside en el hecho de que las tierras pertenecen al Estado y sólo pueden ser otorgadas en concesión durante un período de 50 años. Si bien la primera prioridad de todas las leyes y reformas es proteger a la población que vive en las áreas rurales, el gobierno también se esfuerza por mejorar el entorno de negocios para que el sector privado invierta en el país.