How to address regional and sector-specific regulatory issues? Case study on Mozambique

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Abstract

The present article discusses empirical results from a business climate survey (BCS) and from value chain analyses for Mozambique and draws conclusions for practical policy advice. The analysis of the data shows that the business and investment climate (BIC) differs markedly between regions and sectors. It is argued that tools relying on national approaches for assessing the BIC, such as the World Bank Doing Business Surveys, are not able to capture this heterogeneity and therefore have to be complemented by BCSs or value chain analyses in order to provide relevant and specific guidance for BIC reforms. Moreover, the article discusses the usefulness of BCSs as tools for creating ownership and leverage in policy advocacy.

1. Introduction

Within the international debate on private sector development (PSD), the most well-received approach in recent years has been the one promoted by the World Bank and the International Finance Corporation (IFC) through the Doing Business Report Series (cf. for instance the article of Altenburg and Drachenfels in the present issue). In a nutshell, the approach postulates that over-regulation, red tape and poor contract enforcement impose substantial transaction costs on private firms which push them into the informal economy and hinder their growth. It is asserted that these costs fall over-proportionally heavy on micro, small and medium enterprises (MSMEs).

One very appealing feature of the Doing Business Reports is the Ease-of-Doing-Business Index that is published annually. This index ranks 178 countries (2008 edition) based on the characteristics of the countries' laws and regulations, basically

with respect to the time and monetary costs implied with core activities of private businesses. Due to the straightforward message of the ranking (the higher the better) and the widespread availability and visibility of the Doing Business Reports, the index has become an important tool for practical policy advice to governments. For instance, in its actual business climate reform agenda the Government of Mozambique has set targets for improving its ranking with respect to a set of Doing Business Indicators (there exist 10 Doing Business indicators, among others 'starting a business', 'getting a license', 'employing workers', 'paying taxes' etc.).

The Doing Business Index has clear merits: First, it emphasizes the regulatory aspects of the business and investment climate (BIC) that according to several surveys constrain the development of MSMEs in many Sub-Saharan African countries. Examples for such regulatory flaws are non-transparent, time-consuming and costly bureaucratic procedures as well as outdated laws and regulations for business transactions (see e.g. MIC 2007; Kaufmann 2005). Second, it provides a useful benchmark for these regulatory aspects of the BIC across countries and has proved to be a strong catalyst for reforms.

However, the Doing Business Index also shows clear limitations which have to be taken into account when it comes to providing advice for reforming a country's business environment or setting priorities for PSD policies: First, it sets a narrow thematic focus on the regulatory environment for private sector activities, overlooking other flaws of the BIC which are relevant for the development of MSMEs in Sub-Saharan Africa, like training and skills of managers, infrastructure, access to business networks and finance, capacities of the local administration for implementing business regulations, corruption (cf. e.g. Krause et al. 2008). Second, in order to establish a benchmark for international comparison, the Doing Business Index describes the regulatory environment of a hypothetical and highly stylized company, building exclusively on national laws and regulations. It therefore fails to capture the sub-national and sectoral heterogeneity of the BIC which in practice often proves to be substantial.

Many governments and private sector representatives of Sub-Saharan countries – such as Mozambique – often with the advice of donor organisations, have decided to build on the Doing Business Surveys for reforming their business environments. Given the above-mentioned limitations of this tool, it is crucial to complement the Doing Business Index with further analytical tools in order to provide both more comprehensive and more country- and sector-specific guidance for BIC reforms.

This article presents two such tools, reports the available results for Mozambique and illustrates their relevance for practical policy advice. The tools are (i) Business Climate Surveys (BCSs) which capture a broader range of potential limitations for the development of MSMEs and are able to depict heterogeneity and (ii) value chain studies that analyse the specific costs and limitations of relevant industries from the sourcing of inputs up to the marketing of the final products. The emphasis is put on the former tool which has been used within the context of a project of the Government of Mozambique and the German Agency for Technical Cooperation (GTZ) for reforming the business environment.

The remainder of this paper is organised as follows. Section 2 explains the rationale for carrying out BCSs and value chain analyses. Section 3 presents the results of a BCS carried out in three Mozambican provinces and briefly summarises the results of value chain analyses of strategic industries for Mozambique. Finally, section 4 draws conclusions from the results and discusses lessons for practical policy advice.

2. The rationale for multi-level BCSs and value chain analyses

2.1 BCSs

The main rationale for BIC reform instruments is to provide information on the economic governance and/or other determinants of international competitiveness of the BIC. BCSs that encompass various regions of a country are able to identify in an easy-to-understand way the region-specific bottlenecks to PSD. Many instruments to assess the BIC rely exclusively on external experts without involving of the business community. Such assessments are often criticised or even rejected by the private sector. By contrast, BCSs directly capture the voices and perceptions of entrepreneurs and provide private sector organisations with a powerful policy advocacy tool to address even politically sensitive issues such as corruption.

Legal and regulatory reform experiences in several countries have shown that there are serious shortcomings to an exclusively national approach to the BIC. Clearly, in most decentralised government systems, both the national and local/regional government levels will engage in the design of policies, regulations and administrative procedures. Typically, many far reaching policies and regulations are set at the national level (e.g. labour law). However, subnational governments still play a crucial role in this context. First, they usually have the autonomy to design policies and regulations within their scope of responsibilities that will shape the local BIC (e.g. to introduce and collect local taxes and fees). Second, the implementation of any

rule, even of those set exclusively on the national level, will always involve the subnational levels of the government. In the end, investment decisions are always specific locational choices. We argue that in decentralised states, governments interacts with businesses predominantly at the local level. The experiences from South Africa and Ghana show that national rules and regulations are often of high quality while their implementation at the local or regional level often fails due to serious capacity constraints (Kaufmann et al. 2007).

Looking at a country's BIC in a holistic way, it is therefore clear that all levels of government have to be included in the reform efforts. The challenge is to support a system, where information on the BIC topics flows freely between the national, regional and local level. The improvement of information flows concerns local, regional and national private sector organisations just as inter-governmental communication. The rationale for benchmarking competing regions is rooted in organisational development, respectively change management. In order to bring systemic change along, the actors of a system (region) must be aware and eventually accept the local characteristics and the issues that inhibit performance.

Understanding the determinants of the BIC is an incremental learning process. The publication of BCS results and a related benchmarking process generally challenge local stakeholders by exposing them to new situations, ideas, opportunities and threats. This will trigger reactions, which, regardless if the decisions taken prove to be successful or not, generate experience and learning. A structured BIC process provides an institutional mechanism which allows for the constant production and sharing of learning, so that the activities, roles, and relationships of different actors and their overall effectiveness can be evaluated. This mechanism needs to cover three dimensions: the systematic collection of data via BCSs, the analysis of results and the drawing of conclusions via public-private dialogue and benchmarking, and the feedback and application of the lessons learned in intervention support programmes (cf. Ruecker; Trah 2007). Nevertheless all this, to be a successful exercise, needs political will and a minimum degree of openness of the system.

2.2 Value chain analyses

The main rationale for a value chain analysis is to provide in-depth information on sector-specific bottlenecks that hinder the development of an industry that is considered to be strategic. Depending on the production factors and technologies used, the location of the industry in question, market relations etc. these bottlenecks may vary radically between sectors (e.g. 'quality of roads and ports' in sector A

compared to 'lack of skilled labour' in sector B). The idea is to identify the binding constraints within a value chain and to trigger policy interventions that target these constraints.

The degree to what MSMEs will benefit when a certain industry becomes more dynamic, depends on the industry structure, especially on the linkages of the dynamic elements of the value chain (e.g. hotel operators) with local MSMEs (e.g. tour operators, transport service providers, food producers). In many cases, linking into dynamic (urban-market-oriented or export-oriented) value chains will require an up-grading of local MSMEs in terms of legal status (e.g. license, tax register) and quality of the product or service delivered. This fact can justify support measures for MSMEs in the area of legal or management training, quality certification and other business development services (so-called "linkage programmes").

An expert-centred value chain analysis encompasses the following main steps (FIAS 2007; cf. Altenburg 2007 for a discussion of different value chain approaches): (i) mapping of the value chain with its various segments in qualitative (graphical) and quantitative terms (computation of performance indicators like cost, time, productivity); (ii) establishing the most binding constraints by benchmarking performance indicators against international competition and best practices; (iii) understanding the policy and institutional factors that determine performance indicators. This last step allows identifying flaws in the BIC that are specific to the industry analysed and deducing a targeted reform agenda.

3. Regional and sectoral specificities of the Mozambican BIC

The following section presents the results of the Mozambique Business Climate Survey (MBCS) carried out by GTZ (3.1) as well as of value chain analyses of strategic industries for Mozambique in the tourism and agriculture sectors (3.2).

3.1 Results of the "Mozambique Business Climate Survey"

3.1.1 Context and structure of the "Mozambique Business Climate Survey"

The Mozambique Business Climate Survey (MBCS) was implemented taking advantage of the existence of a periodical survey conducted by KPMG and the national business association CTA (Confederação das Associações Económicas de Moçambique) in order to construct the Mozambican Business Confidence Index. The Mozambican Business Confidence Index is designed as a barometer to measure the

impact of socio-economic and political events in the business environment in Mozambique.

In order to up-grade the survey and to introduce company-size and regional aspects as well as regulatory issues, a specific survey was carried out on behalf of GTZ between September and October 2006 based on a questionnaire sent to a total of 307 companies in the provinces of Manica, Sofala and Inhambane in different sectors.

The MBCS is a quantitative tool, which assesses information concerning (i) the general business climate, (ii) corruption, (iii) bureaucracy and (vi) cooperation with the public sector.

In the first section of the survey is used to calculate the General Business Climate Index that measures the perceptions of a representative sample of companies operating in the national market. Factors ranked by these companies are those which, directly or indirectly, affect business confidence in Mozambique: infrastructure, financial markets, commerce and investment, labour, legislation, macro-economics, governance. Companies are also asked to predict whether or not they expect their own business to improve in the upcoming year.

The second section of the survey deals with corruption. Companies are asked to estimate the prevalence and amount of corruption experienced by their own business or that they would expect to be experienced by similar businesses. Companies are also asked to indicate the perceived probability of being involved in corruption (including bribery and favouritism).

In the third section, 'Bureaucracy', companies are asked to estimate (i) what percentage of time is spent by senior management on dealing with matters related to governmental regulations, (ii) whether regulations and legislations are presented in a consistent and easy to understand manner and (iii) the level of bureaucracy in their company's area of interest.

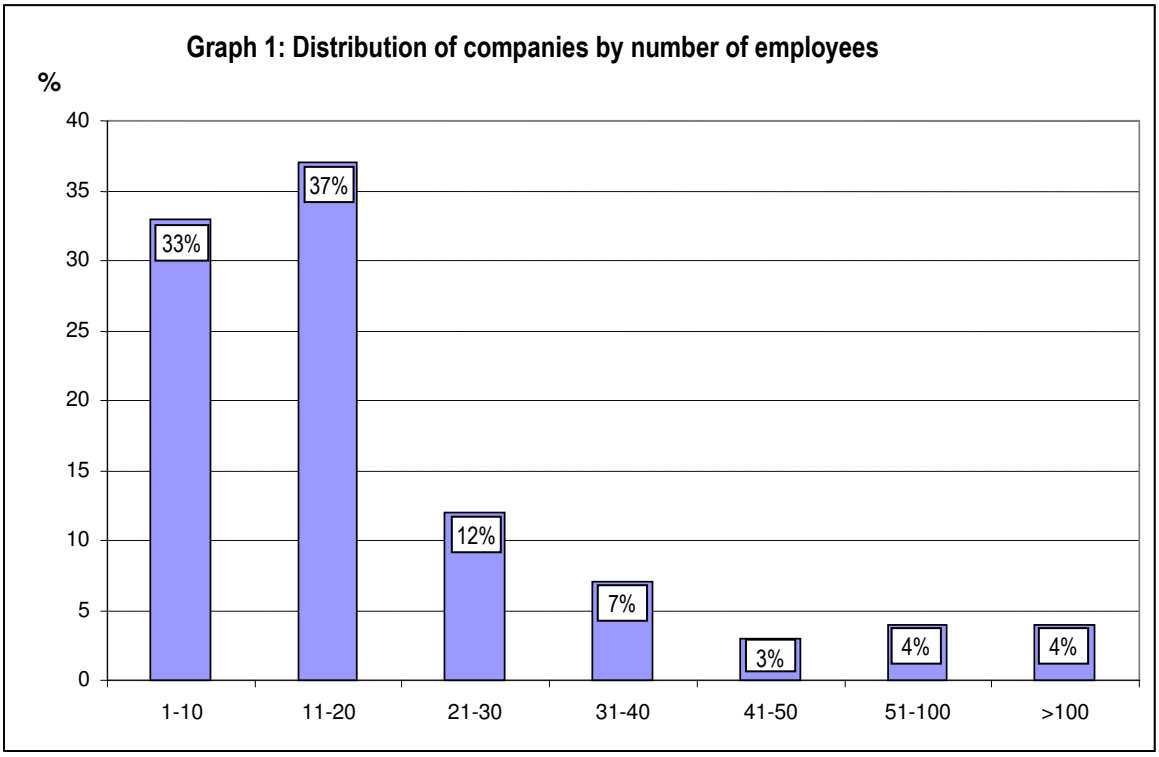
The fourth section, 'Cooperation with the public sector' seeks to gauge the general degree of satisfaction with public sector service provision and the level of competence of public officials.

3.1.2 Sample composition

The provinces of Inhambane, Manica and Sofala are equally represented within the sample.

Sectoral distribution is less uniform: 45% of respondents belong to the 'Commerce and Services' sector, 19% to 'Tourism and Hospitality', 8% to 'Agriculture and Fisheries' and 'Construction and Building Materials' each, 4% to 'Industry', 4% to 'Food and Beverages', 2% 'Banking ' and 'Energy' each, among others.

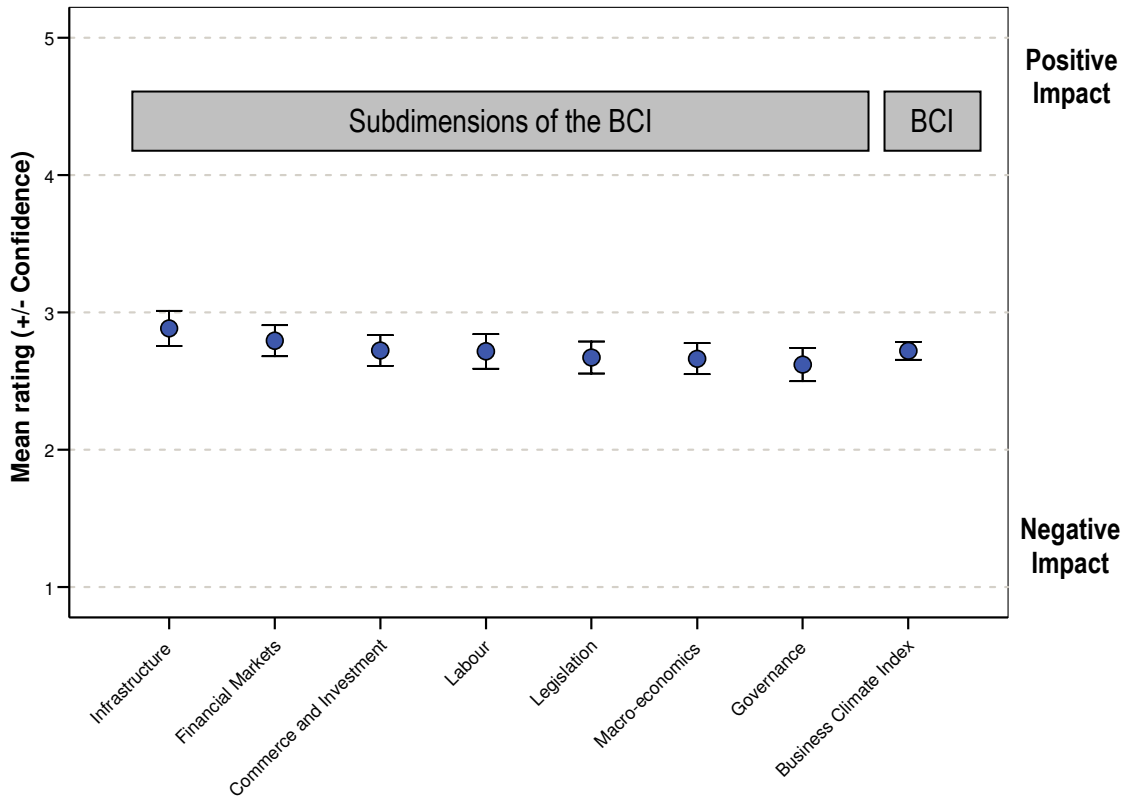
The distribution of participants by the number of employees shows that the sample is dominated by companies which can be considered as 'small businesses'. 92% of the companies that participated employ fewer than 50 workers. More than 50% of participating companies employ less than 15 workers. Companies with more than 100 employees constitute only about 4% of the study sample. The sample distribution of companies per number of employees is shown in graph 1.



3.1.3 Results for the General Business Climate

For the aggregated Business Climate Index (BCI) as well as for its seven subdimensions, the companies expect a moderately negative impact for their business in the next year (see graph 2). The most positive impact is rated for the availability and condition of infrastructure. Factors related to governance (e.g. political system, bureaucracy, corruption) are expected to have the strongest negative influence. Nevertheless, there is only minor variation of the mean absolute ratings between the seven BCI subdimensions.

Graph 2: Mean ratings for the Business Climate Index and its subdimensions



Number of non-responses: 3 to7

When comparing the three provinces, substantial differences arise for 'Infrastructure', 'Financial markets' and 'Labour' (see graph 3). Companies from the province 'Manica' rate a more negative impact of 'Infrastructure' and 'Financial markets'. But, especially in contrast to the province 'Sofala', factors related to labour (e.g. minimum salaries, cost and availability of qualified employees) seem to have a markedly more positive impact for companies in Manica. In 'Inhambane' 'Infrastructure' is expected to be a key factor that affects business development in a positive way.

Graph 3: Mean ratings for the Business Climate Index its subdimensions by provincial affiliation

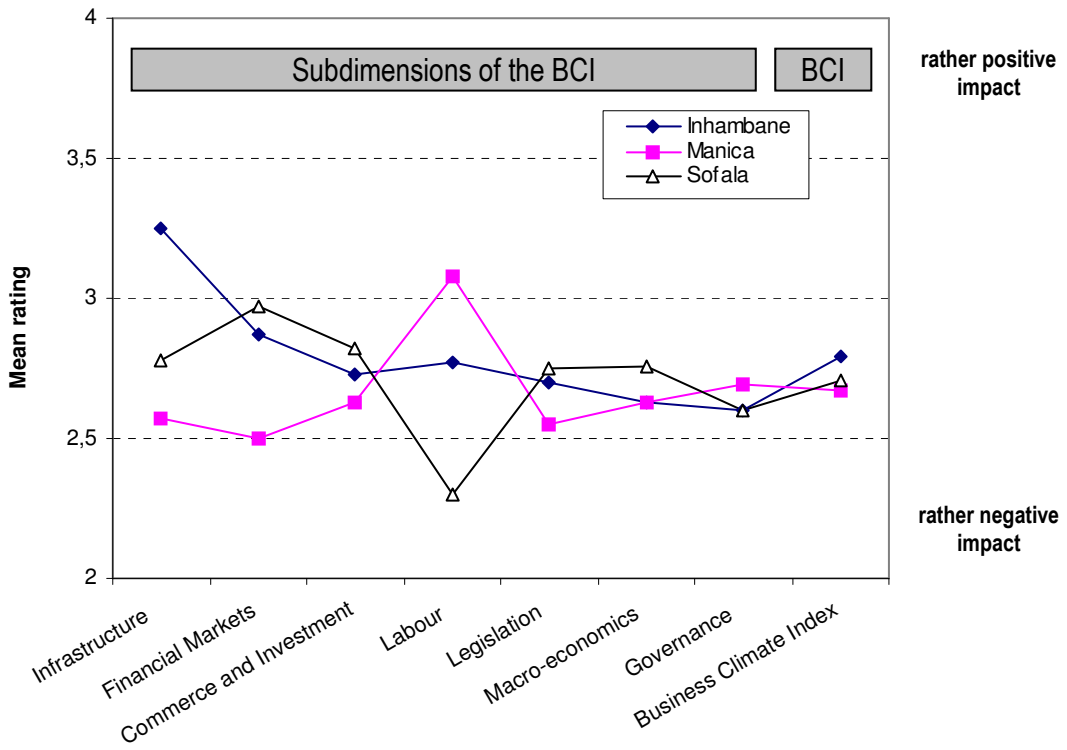


Table 1 shows the mean rating for the ten different business sectors and the according ranking of sectors. For the BCI only small differences between the sectors can be found, with 'Tourism and Hospitality' yielding the highest value (2.83) and only sectors that are represented by small sample sizes like 'Transports, Terminals an Related Services' (2.53) yielding values considerably below average. When taking a closer look at the subdimensions of the BCI, a much more differentiated picture arises. For example, the impact of 'Infrastructure' is predicted distinctly positive for 'Energy/Commercialization of fuel' and 'Tourism and Hospitality' (3.40 and 3.28 respectively). By contrast, businesses in 'Commerce and Services' forecast a pronounced more negative impact (2.61). Thus, in order to account appropriately for sector specific views of the general business climate, it seems to be important to consider the information concerning the subdimensions of the BCI, as displayed in table 1, separately.

Table 1: Ranking of Business Climate Index and its subdimensions per sectors

Sector	Number of Responders	Business Climate Index		Infra-Structure		Financial markets		Commerce and Investment	
		Mean	Rank	Mean	Rank	Mean	Rank	Mean	Rank
Agriculture and Fisheries	22-23	2.73	5	2.86	7	2.57	10	2.65	9
Food and Beverages	12	2.81	2	3.08	6	2.92	4	2.92	2
Banking. Leasing. Services	6	2.74	4	2.83	8	3.33	1	2.83	4
Commerce and Services	125-128	2.66	8	2.61	10	2.61	8	2.68	8
Communication, Information and IT	9	2.59	9	3.11	3	3.00	3	2.56	10
Construction/Building Materials	23	2.73	5	3.09	5	2.87	6	2.70	7
Energy/Commercial. of Fuels	5	2.77	3	3.40	1	2.60	9	2.80	5
Tourism and Hospitality	51-53	2.83	1	3.28	2	3.06	2	2.74	6
Industry	10	2.67	7	3.10	4	2.90	5	2.90	3
Transport, Terminals and Related Services	13-14	2.53	10	2.69	9	2.69	7	3.00	1
General	278-283	2.71		2.88		2.77		2.74	

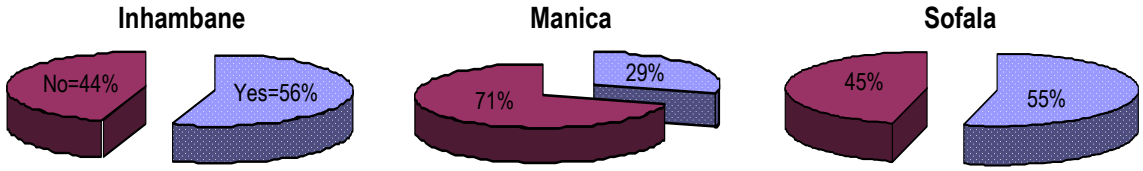
Sector	Labour		Legislation		Macro-economics		Governance	
	Mean	Rank	Mean	Rank	Mean	Rank	Mean	Rank
Agriculture and Fisheries	2.91	2	2.52	9	3.13	1	2.48	6
Food and Beverages	2.75	5	2.75	4	2.67	4	2.58	5
Banking, Leasing, Services	2.50	8	3.00	1	2.83	2	1.83	10
Commerce and Services	2.90	3	2.63	5	2.58	7	2.61	3
Communication, Information and IT	2.11	10	2.78	3	2.11	10	2.44	7
Construction/Building Materials	2.65	6	2.61	7	2.61	6	2.61	3
Energy/Commercial. of Fuels	3.20	1	2.60	8	2.80	3	2.00	9
Tourism and Hospitality	2.51	7	2.81	2	2.67	4	2.75	2
Industry	2.80	4	2.20	10	2.50	8	2.30	7
Transport, Terminals and Related Services	2.23	9	2.62	6	2.43	9	2.77	1
General	2.72		2.65		2.63		2.59	

3.1.4 Results for 'Corruption'

Subjection to Corruption

46% of the study sample responded that their company had been subjected to requests for financial bribes or other forms of corruption by public or political bodies in 2005. As shown in graph 4, there is a noticeable difference between the three provinces: While over half of the respondents in Inhambane and Sofala had been subjected to such requests (56% and 55%, respectively), a significant lower proportion of respondents had been so in Manica (29%).

Graph 4: Percentage of companies, who have been subjected to corruption



Number of non-responses = 22

Sector-specific analysis of companies subject to corruption shows only marginal differences. Just those sector groups with low response rates showed distinct deviations from the overall positive response rate of 46%, and thus these results should be interpreted with caution.

Percentage of gross income spent on bribes

Respondents were asked to estimate the percentage of gross income which would be spent on corruption by a hypothetical business comparable to their own. The highest percentage estimates were given on average in the province Inhambane (27%). In Manica and Sofala estimates were significantly lower on average (6% and 10%, respectively). Overall the study sample provides an average estimate of 16% of gross income being spent on bribes. However it is also worth noting that the number of respondents that did not answer this question is distinctly higher than for other questions (number of non-responses = 103).

Table 2 shows that for the 'Tourism and Hospitality' sector the estimated percentage is about 10% higher than the average values for the overall study sample. Taking into account the absolute number of respondents for other sectors only minor deviations arise.

Table 2: Ranking by percentage of gross income estimated to be spent upon bribes, per sector

Sector	Number of respondents	mean%	Deviation from overall mean %-yes-rate
Energy and Commercialization of Fuels	2	40	24
Tourism and Hospitality	42	26	10
Construction and Building Materials	12	25	9
Commerce and Services	93	12	-4
Agriculture and Fisheries	13	11	-5
Industry	8	9	-7
Transport, Terminals and Related Services	7	8	-8
Banking, Leasing, Services	3	7	-9
Communications, Information and IT	7	6	-10
Food and Beverages	9	6	-10
General	196	16	

3.1.5 Results for 'Bureaucracy'

Management use of time

For the whole study sample more than a quarter of time is spent by senior managers dealing with matters related to governmental regulations (i.e. taxes, duties, customs and excise, licences, registration). For Inhambane and Manica almost as much as a third of time is estimated to be spent for such tasks. In the province Sofala a markedly lower percentage (13%) is reported on average.

Furthermore, the analysis yields that for the 'Tourism and Hospitality' sector the estimated value of 33% is about 7% higher than the average values for the overall study sample (table 3). For 'Industry' and 'Transport, Terminals and Related Services' the lowest percentages are reported (19% and 17%, respectively). Taking into account the absolute number of respondents for other sectors only minor deviations arise.

Table 3: Ranking of percentage of time spent by senior managers dealing with regulations

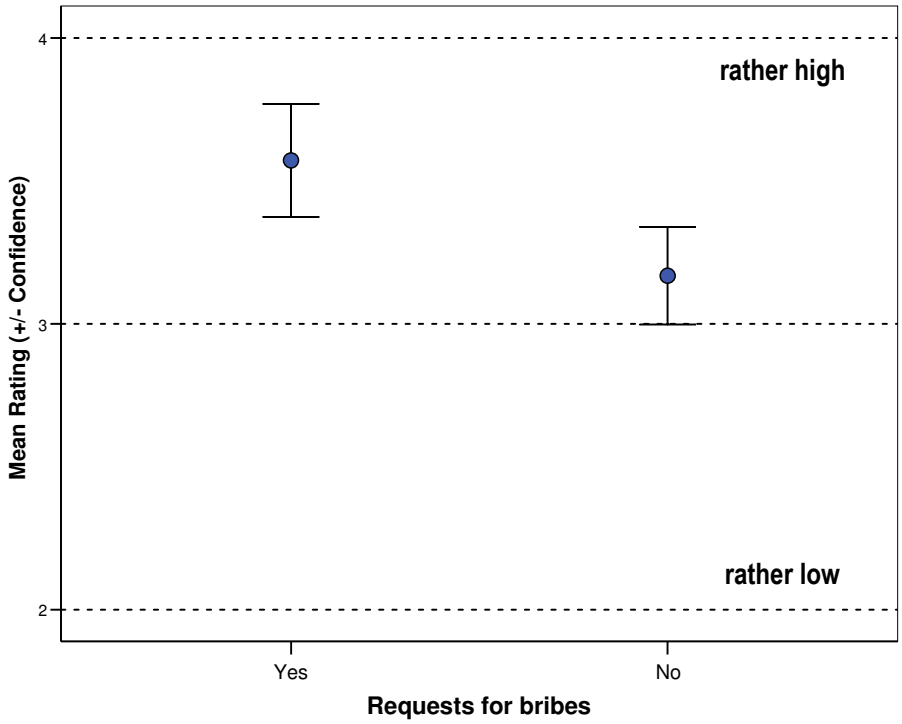
Sector	Number of respondents	mean%	Deviation from overall mean %-yes-rate
Communications, Information and IT	6	34	8
Tourism and Hospitality	44	33	7
Energy and Commercialization of Fuels	4	27	1
Commerce and Services	96	26	0
Construction and Building Materials	22	25	-1
Agriculture and Fisheries	21	23	-3
Banking, Leasing, Services	6	23	-3
Food and Beverages	11	21	-5
Industry	8	19	-7
Transport, Terminals and Related Services	12	17	-9
General	230	26	

Level of bureaucracy

On average for the whole sample, the level of bureaucracy in the businesses' area of interest is rated with the value of 3.2, which lies moderately above the level of indifference (3) between high (5) and low (1). In Inhambane, a slightly higher amount of bureaucracy is reported (3.5) than in the other provinces.

Graph 5 shows, that companies reporting that their business has been requested for financial bribes or any other form of corruption, rate the level of bureaucracy significantly higher. This result supports a finding reported in the empirical business environment literature that high levels of bureaucracy go hand in hand with high levels of corruption (e.g. Djankov et al. 2001).

Graph 5: Mean ratings for level of bureaucracy grouped by incidence of bribery



3.1.6 Results for 'Co-operation with the Public Sector'

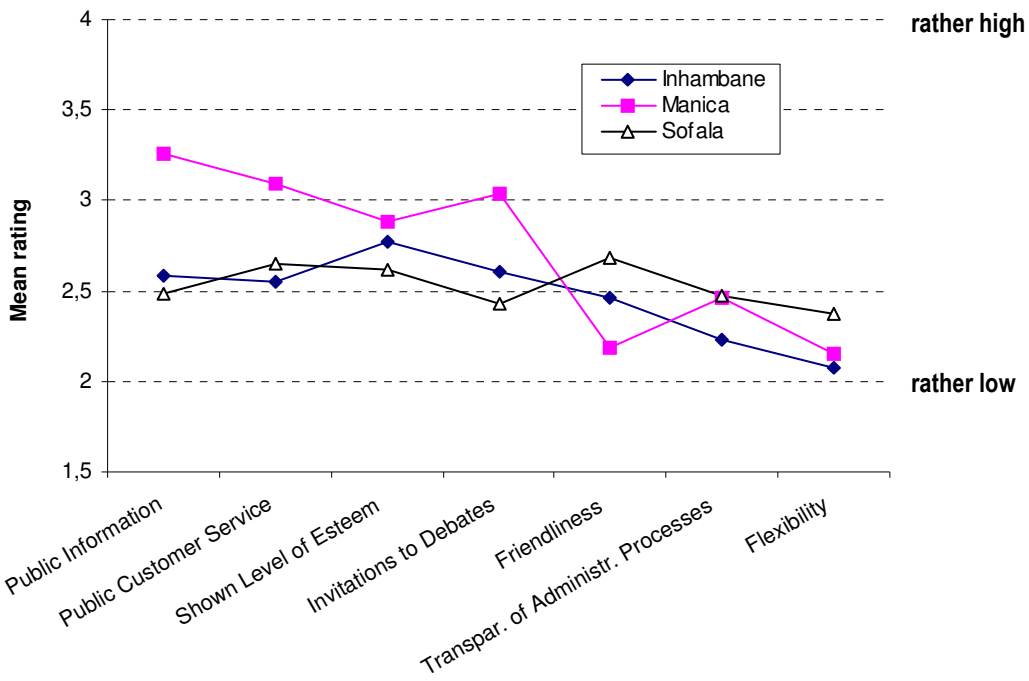
In this section results concerning the overall satisfaction with public sectors services as well as the perceived level of competence of public officials are summarised.

For the entire sample the satisfaction with public sector services is rated between 'rather low' and 'medium' on average (2.55). This rating varies only slightly between provinces and sectors.

As far as the competence of public officials is concerned, all aspects are perceived far from optimal. Especially 'Friendliness', 'Transparency of administrative processes' and 'Flexibility' of public officials are rated as rather low.

Breaking down this information for the three provinces (see graph 6) shows that for 'Public Information', 'Public Customer Service', 'Shown Level of Esteem' and 'Invitation to Debates' the highest levels of competence are rated in Manica. Actually, neutral to positive answers are found here on average. In the other provinces all aspects are rated 'rather low' to 'medium'.

Graph 6: Estimated competence of public sector officials per province



Looking separately at the data for companies which expect an improvement for the upcoming year versus companies which do not expect any improvement, allows to identify a major source of variation concerning the perceived level of competence. Businesses expecting an improvement in the next year, perceive public officials as more competent concerning 'Public Customer Service', 'Shown Level of Esteem', 'Invitations to Debates', 'Friendliness' and 'Transparency of Administrative Processes'. This result can be interpreted as evidence that insufficient support by public officials may be one important factor contributing to negative business perspectives.

3.1.7 Preliminary conclusions

The results of the MBCS reveal that for several aspects of the BIC, as perceived by the Mozambican entrepreneurs, there is a substantial variation between provinces. For instance, the analysis suggests that BIC reforms in the province of Manica should put emphasis on improving the infrastructure situation and on extending financial services, whereas in the provinces of Sofala and Inhambane special attention should be devoted to public sector reforms in order to reduce the high levels of corruption and to improve the competence of public officials.

Likewise, the results show that the BIC also varies between sectors. E.g. for the tourism sector, the management spends considerably more time for bureaucratic matters and companies bear considerably higher corruption costs than the average of the sample. The following section will elaborate more on the sector-specific features of the Mozambican BIC and thus complement the analysis made so far.

3.2 Results from value chain analyses

Several analyses of the Mozambican economy agree that agriculture and tourism are two sectors that bear a great growth potential and that a dynamic development of these sectors could render the growth pattern of the Mozambican economy more broad-based and more pro-poor. Still, the development of these sectors has lagged behind expectations in the past years (e.g. despite its strong tourism asset base and proximity to South Africa, Mozambique receives only 2 tourists per 100 inhabitants, which is half of the average for the whole continent). Apparently, Mozambique-based companies have difficulties in competing on the international market, a market that can be considered key for development, given the relatively low domestic demand for tourism services (IMF 2007, 54-61; FIAS 2006, ch. 1).

Value chain analyses are a useful tool to understand the specific barriers faced by the industries in question since they take into account characteristics like production technology, localisation, the structure of markets for inputs and final goods etc.

3.2.1 Tourism

In 2006, the Foreign Investment Advisory Service of the World Bank Group carried out a comprehensive value chain analysis of the Mozambican tourism sector (FIAS 2006). The approach chosen considered diverse source markets (South Africa, Europe), itineraries (air and road-based), destinations, products and customers. By benchmarking the performance of the respective value chains element by element against competing destinations and best practice, the study captured both sector-specific as well as economy-wide obstacles for development.

The analysis yielded a list of constraints that can be grouped into the following areas: ‘migration procedures’, ‘structure of air transport markets and quality of air transport services’, ‘licensing and access to land’, ‘marketing of products and quality of service operators’. Some of the constraints and the respective policy recommendations that were derived in the study are summarised in table 4. Beyond the flaws that fall into the realm of the regulatory aspects of the BIC (like slow and costly visa, business

start-up and licensing procedures; difficult property-rights situation with respect to land use) the study emphasises important further obstacles for the development of the tourism sector (e.g. unfavourable bilateral air service agreements, lack of investment in domestic airports, weak co-ordination among key stakeholders and weak effort for marketing Mozambique's image and destinations abroad, low quality of tour operators and ancillary service providers).

Table 4: Results of value chain analysis in the tourism sector

Constraints	**Policy recommendation**
Migration and import procedures	
• Visa procedures slower and more costly relative to competing destinations • Delays at border crossing and high transaction costs for importing necessary goods raise costs of hotel operators	• Remove visa requirements for major source markets • Streamline frontier formalities and establish one-stop border posts with South Africa
Structure of air transport markets/ quality of air transport services	
• Direct intercontinental air flights from destinations in Europe are limited • Bilateral air service agreements restrict air services and fares; Regional air fares to Maputo are less price-competitive when compared to air fares to South Africa • Domestic air services: Common problems with delays, cancellations and re-routing; International agents cannot issue domestic air tickets • Most domestic airports lack adequate navigational facility preventing night flying and requiring lay over in Maputo for northern destinations	• Revisit bilateral agreements with South Africa (remove restrictions on seat capacity) and establish bilateral agreements with key source markets in Europe; Liberalise agreements with other hubs in Africa • Establish systems to allow foreign agents to issue domestic air tickets • Establish monitoring systems at airports to measure performance; Carry out assessment of airport infrastructure
Licensing and access to land	
• Slow and complicate bureaucratic procedures for starting a business and obtaining licenses and permits increase the cost of providing services for tourists • Increasing competition for land-use rights compounded by difficult property rights issues	• Streamline administrative procedures for business start-up and licensing (especially tour operators, taxi services, etc.) • Establish a one-stop source of accurate information and processing of land-use rights for investors in hotels etc.
Marketing of products/ quality of service operators	
• Weak presence of Mozambican tour operators in international markets and limited cooperation with foreign tour operators • Limited co-ordination among key stakeholders to develop, manage and market Mozambique's image and destinations • Limited availability of ancillary services • Skill level within the tourism industry is generally poor	• Develop industry codes of practice and accreditation systems for tour operators etc. • Develop a tourism marketing strategy with the participation of key stakeholders • Introduce skills development programmes for the tourism industry
Own compilation based on FIAS (2006, 4-6)	

3.2.2 Cash crops

In 2005, a value chain analysis of cash crops and further strategic industries was carried out (GDS 2005). One interesting result of this study is that even cash crops that require similar natural and climatic conditions (like bananas, mangos and cashews) may differ substantially with respect to production factors needed and marketing characteristics, implying quite distinct requirements on the BIC.

Table 5: Farm to Market Value Chain for Bananas and Mangoes: Relative importance of costs by production steps

	Farming	Post Harvest Handling	Transport and Marketing
Bananas	36,2%	2,5%	61,3%
Mango	75,2%	3,9%	20,9%

GDS (2005, 85)

Table 5 shows the share of total production costs by value chain element for bananas and mangos. It becomes obvious, that for one product (mango) labour and capital costs and the respective regulations are utmost important. Labour and capital costs make up the main share of farming costs which in turn are responsible for three quarters of total production costs. Producers of bananas, however, are mainly concerned with transport and marketing issues since the respective cost accounts for almost two thirds of production costs. Moreover, requirements on the BIC can change dramatically if the product is exported, like for instance cashews in the case of Mozambique. The competitiveness of cashew producers depends to a good degree on the public administration (time and money for getting licenses and permits) and on import and export duties since they export the final product and import a substantial part of their inputs. Competitiveness depends also on the ability of Mozambican cashew producers and processors to meet the quality standards required by international markets which in turn depends on the technology used, the qualification of workers and managers, the availability of quality certification etc.

The various factors of the BIC discussed above apparently have very different importance and relevance depending on the specific industry looked at. As the examples show, there are even marked differences between products like bananas, mangos and cashews which are easily considered as quite homogeneous.

4. Conclusions and lessons for practical policy advice

4.1 Conclusions

The empirical results discussed in this article reveal regional and sectoral disparities for Mozambique that should be considered when defining and prioritising economic policy and reforms. Since Mozambique is no singular case in this context, the results suggest using generally more detailed and more specific analytical tools (such as business climate surveys and value chain analyses) when attempting to reform the BIC of a certain country and not to rely exclusively on a national approach (like e.g. the Doing Business Surveys).

This holds for various aspects of the BIC. Especially those factors of the BIC that fall into the realm of local governance justify more detailed BCS approaches. Local or regional governments have obviously different capacities and abilities to deal with certain aspects and problems of the business environment. The empirical results of the MBCS on corruption and on the competence of public officials show marked regional differences, which are rooted in the characteristics of the respective governments and not in the sectoral structure. By consequence, reform priorities should differ, depending on the province in question (e.g. public sector reform in Sofala and Inhambane versus investments in infrastructure and financial services in Manica). Moreover, strategic industries may present very specific constraints with potentially strong inhibiting effects that can be detected through value chain analyses (e.g. the analysis of the tourism sector identified as one high priority reform revisiting the unfavourable bilateral air service agreements that harm price-competitiveness of Mozambican destinations).

4.2 Lessons for practical policy advice

Beyond the results and insights derived from data analysis that were stressed in sections 3.1 and 4.1, there are more things to learn from the MBCS experience carried out by GTZ and its partners. The first lesson concerns the methodological challenges that have to be overcome when designing and implementing a BCS. The second lesson is on how to use this tool in order to create ownership among key stakeholders and to act as a catalyst for reforms.

4.2.1 Lessons learnt on methodological challenges

A high-quality BCS is crucial to initiate a successful BIC reform process (Kaufmann et al. 2007). On the one hand, the results of the survey are meant to be published

widely and therefore need to withstand public scrutiny and a wide variety of stakeholder interests. On the other hand, high-quality information is required because the results are likely to inform far-reaching policy decisions. A basic lesson from Mozambique is that a qualitatively sound BCS with a good public reputation is needed in order to put pressure on public administrators and inform the public.

However, many of the current BCSs do not use state-of-the-art methodology. This relates mainly to the coverage of the right target group (MSMEs), sectoral and regional coverage, statistical issues and the thematic focus.

Many existing BCSs tend to target only large enterprises in the major cities. Yet, it is the MSMEs and those at the threshold between the formal and the informal sector that suffer most from an unfavourable business environment. Therefore it is crucial that MSMEs are adequately represented in the sample used for the BCS. Moreover, the sample should cover different sectors and regions.

With regard to statistical issues, the validity of many BCSs is often compromised by samples that are not representative as well as poor data collection, processing and analysis. In order to guarantee a solid quality, the questionnaires need to be elaborated by an experienced statistician and pre-tested. All perceptions should be reported on a quantitative scale, checked for significance, and crossed with characteristics of the company, the sector and other criteria.

BCSs should incorporate economic governance and possibly other determinants of international competitiveness, concentrate on the right target group, and convey a clear message for reforms of the business environment. Appropriate surveys are costly and logistically not easy to do. But economising on this matter is the wrong approach. The higher cost can be justified by the many-fold uses of a good-quality survey, such as producing facts for the private-public dialogue and feeding them into the political process, identifying champion regions or monitoring the progress with respect to BIC improvements.

4.2.2 Ways to create ownership and leverage in policy advocacy

Many BCSs only collect dust in the bookshelves instead of being used effectively in policy advocacy. However, they should rather be seen as the starting point of a wider reform process. To create ownership for the BCS results and to sustain this momentum, it is important to involve public and private sector stakeholders from the very beginning of the reform process. In many settings, there is a deep mistrust and a lack of communication between the private sector and the government. On the one

hand, this can lead to a situation where the private sector cannot accept a survey which has been conducted by government institutions. On the other hand, most of the policy recommendations emanating from a BCS can only be implemented by the government. Initiating a BIC reform process in a setting where the public and private sectors do not communicate effectively will not generate any significant impacts (Herzberg; Wright 2006).

In Mozambique, GTZ has supported a BCS conducted by the national business association CTA and KPMG as the technical implementer. For the future, it is envisaged to bring more donors on board for financing the MBCS and include more provinces. Chances are good as many donors seem to be interested in strengthening the public-private dialogue and producing more facts to substantiate that dialogue. The vision is to work in the future more in line with the National Statistics Institute (INE) and to use the existing national enterprise survey as basis to construct a BCS sample that is representative with respect to provinces, sectors and enterprise sizes covered.

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