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***DELIVERING AID FOR TRADE EFFECTIVELY: ENHANCING THE
INTEGRATED FRAMEWORK MODEL***

MOZAMBIQUE CASE STUDY

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SPECIAL DAC MEETING ON AID FOR TRADE – MOZAMBIQUE CASE STUDY

SESSION I: Delivering Aid for Trade Effectively: Enhancing the Integrated Framework Model

This session will address issues related to delivering aid for trade effectively, with a specific focus on the role of an enhanced Integrated Framework. The following issues are highlighted:

1. What do donors need to do differently in implementing an enhanced IF?
2. How can donors align support around trade development strategies in PRSPs?
3. What can donors do when trade is not identified as a priority area in PRSPs?
4. Is it reasonable to expect that resources and requirements can be matched better with an enlarged IF financial window and expanded supply of ODA?

0. Country Profile in Brief

Mozambique proclaimed its political independence from Portugal in 1975, after 10 years of liberation struggle, enjoying a very short period of peace before the destabilization aggression from former Rhodesia minority regime during late 70's and the civil war supported by Apartheid regime until 1992, when the Rome Peace Agreement was signed between Government led by FRELIMO and rebel movement RENAMO, in 1992.

After a decade of central planed economy Mozambique introduced significant Economic, political and social reforms starting in the mid 80's. These reforms were supported by the International Monetary Fund and the Word Bank.

In 1990 a new political constitution was adopted paving way for a multi-party democracy in Mozambique. Following the new constitution and the Peace Agreement the first multi-party elections were successfully held in 1994, subsequently two others in 1999 and 2004.

Thank to the peace and political stability as well as the pursued economic reforms Mozambique has experienced an annual average growth of 8% in last ten years. Inflation has been kept to one single digit level and investment and exports are growing at encouraging rates.

Notwithstanding Mozambique still a country of about 18.5 million people, of which over 50 percent still live below the poverty line.

Mozambique and Trade

To lift our citizens from poverty, we must continue to grow rapidly over the next decade. We believe together with peace and macroeconomic stability growth will be dependent on openness to trade, which will, in turn, lead to export growth and poverty reduction.

It is because of this belief that we have made openness to international trade an integral part of our strategy to sustain rapid growth and reduce poverty.

But as many in countries emerging from central planed economies trade is a new subject both for the public institutions and for business. Thus efforts to build awareness on its importance as a tool to fight poverty and promote economic growth and development still are of great need.

"Aid for trade" has helped Mozambique to:

1. Raise the awareness of the importance trade and the business environment has on economic growth and poverty reduction;
2. Motivate the public and private sectors to address the many barriers to trade and investment in a comprehensive and collaborative manner;
3. Minimize supply-side obstacles to taking advantage of the many market access opportunities offered to Mozambique; and
4. More fully integrate into the world economy, as demonstrated by compliance with and participation in bilateral, regional and multilateral trade agreements.

Fully realizing the benefits of openness to trade and to resolving the many issues that effect our business environment implies a broad but essential agenda, one that can only be accomplished with full endorsement at high political levels, as well as effective intergovernmental coordination,

public-private partnership, and targeted donor-funded technical assistance. We realize that we are only at the beginning of this process and still have a long way to go.

What I would like to share with you today is how, through "aid for trade", Mozambique has become an economy more open to trade and how we will continue to attempt to make progress to reduce poverty. I will briefly focus on:

- 1. Our experience with the Southern Africa Development Community (SADC)**
- 2. The PRSP, or PARPA, as we call it in Mozambique and how trade is being integrated into it; and Donor Coordination**
- 3. The Integrated Framework**
- 4. Practical Examples of "Aid for Trade" and Bilateral Donor Support (Trade and Investment Project-TIP, EC Sectoral Budget Support, ODI Fellowship)**
- 5. Future Challenges for Aid for Trade**
- 6. Conclusion**

1. Our experience with the Southern Africa Development Community (SADC)

In 1996, we were faced with a decision to join the negotiations for the implementation of SADC Protocol on trade. Many individuals in government and even in the private sector were sceptical about SADC and the potential benefits of SADC. USAID launched a program to help us raise awareness in government and in the private sector about the importance of joining SADC. A year later, our government and private sector were convinced about SADC and we joined. Today we are an active participant in SADC. We have fully implemented our tariff phase down commitments and will continue to meet upcoming phase down commitments – this when many of other SADC Members are failing to do so. And we have even agreed to accelerate phase down of tariffs fewer than five percent based on impact assessment study conducted with the support of our partners.

But this experience has helped us understand the importance of openness to trade. We have drawn on this experience and are now negotiating and implementing bilateral free trade agreements with many of our neighbouring countries, such as Zimbabwe, Zambia, Malawi and Mauritius, with the aim at accelerating the attainment of benefits from regional trade liberalization. We are also actively involved in the EU Economic Partnership Agreements (EPA) and have recently signed a Trade and Investment Framework Agreement (TIFA) with the United States.

Following a suggestion by some SACU member counties for Mozambique to join the Customs Union we conducted a study to assess the possible impact of such a move in Mozambican economy. This study was important to provide us with the necessary information and technical recommendations for the decision making and it was supported by the TIP funding.

2. The Poverty Reduction Strategy Process (PRSP) and Donor Coordination

Our PRSP, or PARPA, as we call it in Mozambique is currently under revision for the period 2006 – 2010. Our previous PARPA (2000 – 2005) had virtually no mention of trade or private sector activity. It was predominantly focused on poverty reduction through expenditures on health, education and public security.

In 2002, USAID agreed to support an Integrated Framework-type Diagnostic Trade Integration Study. This study eventually formed the base of our recently completed DTIS in 2004, which was again supported fully by USAID. I will talk more about the IF and DTIS shortly. However, I

would like to point to the importance the Trade Integration Study played in mainstreaming trade into our PARPA well before we were IF beneficiary country.

The PARAPA as been made the management tool which guides the dialogue between Government and a group of 17 donors. It was under this framework that some of the key recommendations of the Trade Integration Study were taken into the Performance Assessment Framework (PAF) of the PARPA implementation.

We are currently in the process of re-drafting our PARPA. The Ministry of Industry and Trade has entrusted with the co-ordination of the private sector development and trade component. And see this as a golden opportunity to feature trade prominently in our revised PARPA. It will focus on trade issues at the border, behind the border and beyond the border.

A word of caution must be said here. Mainstreaming trade in our national development strategy will not be achieved simply by having it included in the PARPA paper. It requires a continuous political commitment and willingness towards implementation. And this remains to be tested and confirmed throughout the implementation.

3. The Integrated Framework

As I mentioned above, our IF experience has been supported largely by USAID as the Lead Donor/Donor Facilitator. It has been a process that began in 2002 and reached the implementation phase in October 2004. And we have spent much of this year putting all the necessary components together – like formalizing our National Steering Committee and Local Project Approval Committee (LPAC); writing project documents for Window II funding; hiring a IF Coordinator; sensitizing our new government administration and the private sector of the importance of the IF, etc.

The IF process has been an important instrument in helping Mozambique move towards a more open and liberalized trade environment, one in which the public and private sectors communicate to address trade issues. The IF has also been instrumental in identifying important issues for us to include in our PARPA.

However, we are at the very beginning of our IF process. We have yet to utilize one dollar from Window II Funds.

Many of the challenges associated with implementation of the IF have been discussed during the IF Simulation in Addis Ababa, which I attended, as well as our recent IF Familiarization tour in Geneva.

Yet, even though we haven't yet received and Window II funds to implement projects to improve our trade environment, I can personally tell you that the IF Action Matrix has been instrumental in coordinating donor assistance in the trade area. I will talk shortly about some specific bilateral trade programs that are helping Mozambique improve the business enabling environment and take advantage of market access opportunities. But I would like to finish this topic by reinforcing the positive implications the IF has had on – and I am sure will continue to have on Mozambique. We should all continue to find ways to make the IF more effective in delivering tangible results.

We are mindful that political guidance at highest level, political and financial empowerment of the leading institution, the identification of a trade champion supported by a strong core technical team are some of the key success factor in this Endeavour.

4. Practical Examples of "Aid for Trade" and Bilateral Donor Support

The Integrated Framework has been useful to some donors wishing to provide trade-related assistance to Mozambique. For instance, Switzerland has earmarked part of their contribution to the IF Trust Fund specifically for Mozambique. Other donors may wish to do this as a way of ensuring that their assistance is directed towards projects that have already been vetted by the public and private sectors in Mozambique.

In other instances, issues identified in Mozambique's IF Action Matrix have been supported through on-going bilateral donor assistance projects related to trade. One specific example is USAir's **Trade and Investment Project (TIP)**, which is implemented by a private company with wide experiences in trade and private sector development. This project enables us to quickly access financing to address urgent trade related issues. TIP has helped us with our IF DTIS process, with WTO and SADC compliance issues, with improvement of the business environment and with a host of other trade-related issues.

In Addition, USAID have been supporting projects like the **Floods Assistance Project**, a pilot project initiated after the floods in 2000 and 2001 in Mozambique. This project provided loans at low interest rates and provided loan guaranties to the flood victims. What was remarkable was that virtually all of the loans were repaid demonstrating a culture of repayment in Mozambique (as opposed to the culture of non-payment as many believe). The reflows from those loans are now being used to promote exports through projects aiming at minimizing supply-side constraints and improving the competitiveness of our producers. For example, those funds are being use to assist cashew producers to improve their competitiveness and to promote their brand name known as "Zambique Cashews", recently launched in the United States.

The European Commission also provides significant amounts of direct budget support to the Ministry of Industry and Trade for trade-related activities. Those funds are supporting the reforms within the Ministry of Industry and Trade as well as the Market Information Management Project. They continue to be an active participant on trade-related issues in Mozambique and have indicated a willingness to be the Lead Donor for the IF in Mozambique, following the agreed rotation principle of the lead donor role.

The Overseas Development Institute, supported by DfID, has also been providing us with substantial support for trade related activities. They have been providing us with young trade experts that have provided extremely useful in addressing trade-related issues in Mozambique.

Another Example where "aid for trade" has been particularly useful for Mozambique is in specific issues related to trade. For Example, on **Competition Policy** many people in Mozambique use to believe that this was not important for us – it was one of the Singapore Issues that would have little importance to developing countries at this point. However, USAID and UNCTAD through providing competition policy experts helped us to understand and tom identify our interest in competition policy. Today we are working towards establishing a competition policy and the required legal framework as well as building the necessary human capacity to implement the competition policy and competition legislation.

5. Future Challenges for Aid for Trade

Mozambique is still at the very beginning in opening its economy to trade and investment. Although we clearly understand the benefits and importance of "Aid for Trade" we believe there are still many challenges that "Aid for Trade" need to address for it to be effective.

To benefit from more increasingly globalized and interdependent world economy, developing countries need to address supply side constraints through building stronger supply capabilities and improving competitiveness. Becoming part of the global value chain of internationally traded goods and services represents the key channel for accessing markets, capital and technology. Issues range from physical infrastructures, customs, trade support services (logistics) and human capital and institutional capacity to technology requirements, the provision of public utilities and macroeconomic policy framework.

“Trade for Aid” will only be effective if it is directed to address all the issues mentioned above in an integrated and holistic manner through a more coordination between development assistance programs and trade related technical assistance.

6. Conclusion

In Mozambique, “aid for trade” has been helping us to enable domestic entrepreneurs and foreign investors to take full advantage of opportunities to increase exports and create jobs on a broad base, which is essential for continued poverty reduction.

We believe that our efforts to improve the climate for doing business in Mozambique will also help domestic firms improve efficiency and compete more effectively against import competition.

We continue to be extremely grateful to donors for the support they have given to Mozambique, for without it we would not be nearly as open to trade as we are now. And we are already seeing the positive effects openness to trade can bring – especially as was demonstrated in our last household survey, in which poverty was reduced by more than 50 percent in some provinces.

The results obtained in Mozambique on aid for trade show that there is plenty of room for improvement, and, most important, have show that mainstreaming trade in national development strategies and aligning donor support on trade issues are still pending subjects to be developed. Aid for Trade in Mozambique should be the opportunity for completing both challenges in the coming years.

We will continue to depend on aid for trade in the coming years. We must work to ensure that “trade for aid” is flexible enough to help us address new and upcoming challenges.

I hope that I have been able to share with you some examples of how aid for trade has been effective in Mozambique. I’d be pleased to take questions or to give additional examples later today or via email in the future.

Thank you,

Paris, 27 October 2005