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Encouraging Modern Governance and Transparency for Investment: Why and How?

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IMPROVING THE INVESTMENT CLIMATE THROUGH E-GOVERNMENT AND E-LAND REGISTRY IN MOZAMBIQUE

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1. Background

Mozambique is a large country with a land area of 799,380 square kilometres, population estimated on 19 million and per capita GDP is about US\$250 (INE, 2003). Agriculture sector employs about 80% of labour force, contributing in about 21% of the GDP. The recurrent droughts, floods, and poverty largely affect the availability and access to food in Mozambique. There is inadequate provision of basic needs in food, shelter, sanitation, water, health and education. About 69.4% percent of the population lives below poverty line. Life expectancy at birth in Mozambique is 43.5 years; adult literacy is estimated to be 39.5% while the gross school enrolment rate is 32.6% (INE, 2002). These indicators place Mozambique in the group of the poor countries.

Last October Mozambique celebrated the 11th anniversary of the General Peace Accord putting an end to 16 years of war that devastated our country and further impoverished Mozambican People. The stable political environment, coupled with macro-economic reforms, has made it possible to reduce inflation, stabilize the currency and maintain the economy in a continuous growth at an average of 8% per year between 1994 and 2002 with double-digit growth in 1997, 1998, and 2001. Exports of goods and services have been growing steadily.

Over the past 5 years Mozambique has positioned itself as one of the major front-runners in terms of attraction of Foreign Direct Investment. Example of a successful investment is the US\$2.3 billion aluminium smelter (MOZAL), which is in full operation including the second phase with a total output of 500,000 tons of aluminium. Other examples of ongoing large projects are:

1. SASOL investment, a venture to produce natural gas in Mozambique and supply it in Mozambique and South Africa through a 800 km long pipeline;
2. the Limpopo Corridor Sands, which is a venture to produce titanium and other by-products out of heavy sands;
3. the Spatial Development Initiatives, known as SDI's, such as the Libombo SDI which joins together areas of Mozambique, South Africa and Swaziland;
4. the Development Corridor of Maputo, between the Port of Maputo in Mozambique and the city of Witbank in South Africa;
5. the Development Corridor of Nacala from the Port of Nacala in the North of Mozambique and Chipata in Zambia, passing through Malawi;
6. the Beira Corridor from the Port of Beira in Mozambique into Zimbabwe;
7. the Zambezi Valley Integrated Development Plan; and
8. the Great Limpopo Transfrontier Game Park, joining together parks of South Africa, Mozambique and Zimbabwe.

2. The role of government and pre-requisites for sustainable development

2.1 The Role of Government in Promoting Sustainable Development

Mozambique had three different periods of economic development: the colonial period up to 1975, the period of centrally planned economy which went from 1975 to 1987, and the period of structural adjustment program (after 1987). In each of these periods, food, agriculture and natural resources policies

varied significantly. Successive wars eroded the productive capacity in Mozambique. From 1964 to 1974, Mozambique was under liberation struggle for independence; from 1976 up to 1980 the country was involved in war with Rhodesia for independence of Zimbabwe, and from 1980 to 1992 Mozambique was involved in a combined war against apartheid in South Africa and political/civil conflict in Mozambique. In 1992 the Peace Agreement was signed between the Government of Mozambique and RENAMO.

The Government of Mozambique introduced the Economic Rehabilitation Program (ERP) in 1986 to rehabilitate the national economy. The ERP in 1989 became the "Economic and Social Rehabilitation Program" (ESRP) to cover the relief program to the poor and social crisis created by the ERP. The major goal of the government was the restoration of the economic growth. The principal policy objectives included reduction in the size of the public sector and improvements in its management, elimination of price distortions in the sectors of the economy, promotion of trade liberalisation, and promotion of domestic savings in the public and private sectors.

However, trade is still an area, which needs improvement for acceleration of economic development. The major problems include inadequate physical infrastructure, low levels of training and education, insufficient emoluments of the staff, and lack of cooperation between customs administrations and between customs and trade. Commercial banks and insurance companies are not operating efficiently to facilitate trade. Credit arrangements are not honoured and more often they result in long delays for the payment of goods.

Sustainable development in Mozambique to be successful must consider four important development dimensions:

1. Human resources development;
2. Economic development;
3. Financial resources mobilization domestically and internationally;
4. Institutional development;

The role of the government should be the facilitation of sectoral development, creating the necessary legal framework for investment. As example the Government of Mozambique is formulating and implementing e-government including e-land registry to create the necessary investment climate to attract domestic and foreign direct investment. E-government is a tool devised by Mozambique to achieve good and transparent governance while offering potential solutions to leaders across the whole sectors of government facing administrative and governance problems. Leadership in the four development dimensions is required, especially those with broad responsibilities and a strategic vision of e-government.

2.2 *Pre-Requisites for Sustainable Investment*

Mozambique Government introduced administrative reforms intended to improve investment in Mozambique. The experience of Mozambique revealed that some pre-requisites are needed in order to increase domestic and direct foreign investment. The major pre-requisites are:

1. Good political, economic and corporate governance at central, provincial and local authorities;
2. Efficient banking system;
3. Efficient legal and judiciary system;

4. Macro-economic stability; and
5. Transparency and good business standards.

Investments are a response to legal and regulatory incentives, as such, the implementation of rules, procedures and regulations are vital to attract investment. Some incentives to attract investment include:

- Deductions of contributions from personal income or a personal tax credits;
- Deductions of contributions from corporate income or corporate tax credits;
- Tax exempt status for revenue raising activities undertaken by non-government organisations.

The Government of Mozambique established the Rapid Development Zones¹ as incentive to investment in agriculture and to promote rural development. The investment policy provides some incentives for rural enterprise development, especially for agriculture. There are three major benefits of the investment policy:

1. Benefits regarding the import of goods (exemption of import duties).
2. Fiscal benefits relative to revenues such as reduction of the rate of income tax; professional training and tax-deductible expenditure.
3. Tax exemption and reduction in the rate of real property transfer tax.

The banking system in rural areas is very weak because of the lack of electricity, poor infrastructure such as roads, railways and communication. This fact is worsening by the low population density in the rural areas, lower household incomes and high transaction costs for businesses in the rural areas.

Several solutions have been proposed by financial operators in Mozambique for the lack of financial services in rural areas. Some of the solutions were presented by the BCI which consisted of the creation of a *Guarantee Fund*, ORAM, a national NGO, proposed the *creation of a rural development bank* and Technoserve, an International NGO, is proposing the establishment of an *investment fund*.

For rural financial markets to be efficient property rights must be secure and transaction costs must be low relative to the price of the good being exchanged. High transaction costs could shift the potential buyer's offer to a point where it no longer exceeds the reservation price of the seller. A risk adverse buyer may discount his or her offer price below the seller's reservation price when property rights are insecure. In such cases, the market will be imperfect or missing altogether.

Rural financial market transactions involve contracts that must be defined and enforced. The costs of defining and enforcing contracts constitute transaction costs. These costs are important as they determine which type of contracts, if any, will be entered into. Transaction costs can be divided into *ex ante* and *ex post* costs. Williamson (1985:20) identifies *ex ante* costs as the costs of drafting, negotiating and safeguarding an agreement. However, people are not omniscient. Contracts are often incomplete because they do not cover all contingencies. If contracts were self enforcing and able to deal with all possibilities, *ex post* costs would not exist.

1. The following regions, namely the Zambezi Valley, Niassa province, Nacala district, Mozambique Island and Ibo Island are considered to be RDZ.

It is necessary to monitor and to police transactions because people are opportunistic and engage in rent seeking behaviour. Cheating, shirking and moral hazard are responsible for the *ex post* costs associated with contracts. These costs are manifest in formal legal action, renegotiation of contracts, monitoring and binding parties to the contract. Consequently, transaction costs are likely to increase when there are a large number of agents involved, when transactions take time to complete (*e.g.* credit and rental transactions), and when there is a disintegration of community traditions that reduce risk (*e.g.* honesty).

Transaction costs tend to decline when property rights are secure. They increase when property rights are not clearly defined and allocated owing to the high cost of discovering the owner and establishing one's own rights. A prospective tenant seeking exclusive rights to a parcel of land may find transaction costs prohibitive if the parcel has many legitimate users, each possessing inclusive rights to the land. Here, the high transaction costs faced by the tenant are caused by tenure insecurity (inadequate breadth of property rights) on the part of the users. Risks that undermine the assurance of property rights could also be viewed as raising transaction costs. Vague procedures to establish or defend contracts, uncertainty about laws that would be applied to disputes, and unpredictable judgements all serve to diminish the security of property rights. Alternatively, the premiums attracted by these risks could be interpreted as transaction costs.

Secure property rights are necessary for efficient markets, and efficient markets promote allocative efficiency by attaching an opportunity cost to resources that are not used profitably. For example, it is unlikely that farmland will be left idle if the owner could earn rental income by leasing it to someone more willing and able to farm it. Secure property rights are also expected to increase the demand for land improvements and complementary inputs because owners are able to internalise the benefits of their investment. Financing becomes important when inputs become available for rural people. Moreover, both the incentive and ability to invest are strongest when there are well-functioning rural financial markets.

3. Modern governance in Mozambique

3.1 *Establishment and Implementation of E-Government*

Strong leadership can speed the process of e-government implementation, promotion and co-ordination within and among agencies and help reinforce good governance. The initial phase of e-government implementation, senior officials with lack of training in computing tend to resist the introduction of e-government. However, if the *appropriate* e-government is established, most of the government functions are enhanced and efficiency is achieved through time rationalization and better integration of activities. The resistance of senior officials tends to disappear.

High-level leadership involvement in e-government is essential to ensure vertical integration of government functions, planning and organization of administrative activities to acquire the necessary resources, to motivate staff, to support dealings with external partners and stakeholders, and to ensure co-ordination across ministries and agencies. The e-government strategy must be clear, integrated into the priority sectors of development.

E-government in Mozambique is performing five major functions:

1. Reinforces good governance.
2. Ensures vertical government planning and efficient implementation of development projects
3. Ensures co-ordination across ministries and agencies

4. Facilitates synchronization and harmonization of government functions
5. Provides transparency

E-government provides transparency through provision of information to the public, access to digital material, access to institutions and it allows the establishment of participatory governance, especially at the local level.

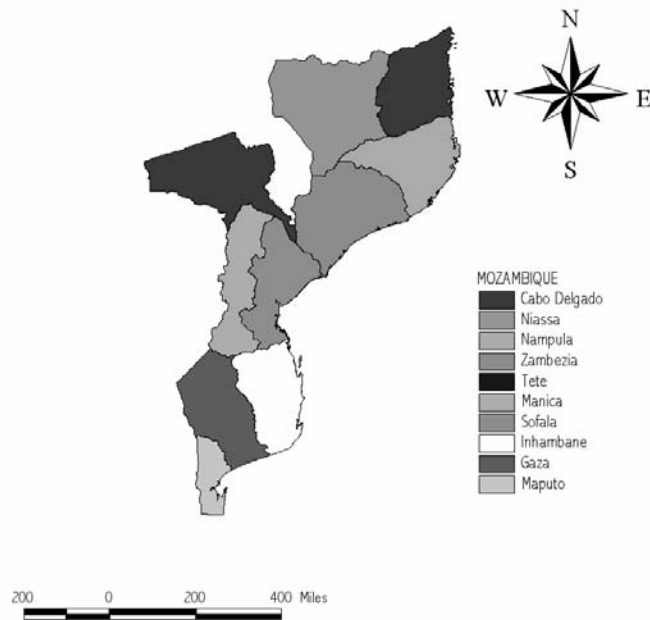
A successful strategy for rural financing using e-government should include the following key elements:

- A vision of the growth process in rural areas
- A mechanism for integrating existing financing programs
- Suggestions for new programmes if needed
- A defined locus of decision making
- A meaningful role for local government.
- Clarification of financial flows and channels
- Key performance indicators or a process for generating them internally to the strategy
- Procedures to monitor the financing indicators
- Sequencing of actions that should take place in the short, medium, and long term

3.2 E-land registry

E-land registry is a new initiative aimed at facilitating the acquisition of land titles and to speed up the process of land registry. The use of Arcview-GIS allows development of administrative maps associated with economic, social and demographic information as shown in Figure 3.1.

MOZAMBIQUE

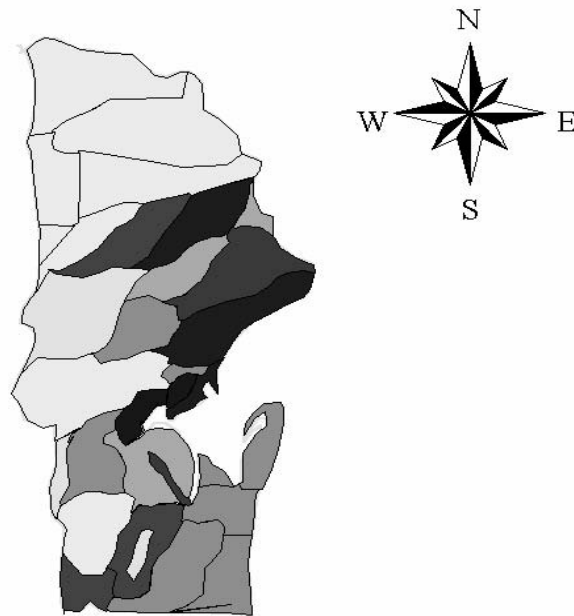


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Adapted from "ATLAS", 1998

Figure 3.1: Administrative Digital Map of Mozambique

E-Land registry improves efficiency of government services, it helps to achieve specific policy outcomes and contributes for the identification of problems associated to land development and use. Map 3.2 gives one example of land use in Maputo province.

Maputo



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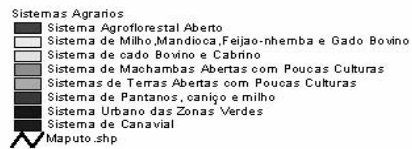


Figure 3.2: Land use systems in Maputo Province

Food security is of crucial importance in Mozambique and it is a necessary condition for peace and stability. Land ownership is a key asset to achieve food security for the majority of Mozambicans living in the rural areas. E-Land registry and respective natural resources development planning can help to establish economic policies for efficient use of resources aimed at food security strategies. Figure 3.3 shows one example of a map developed to define food security strategies in Mozambique.

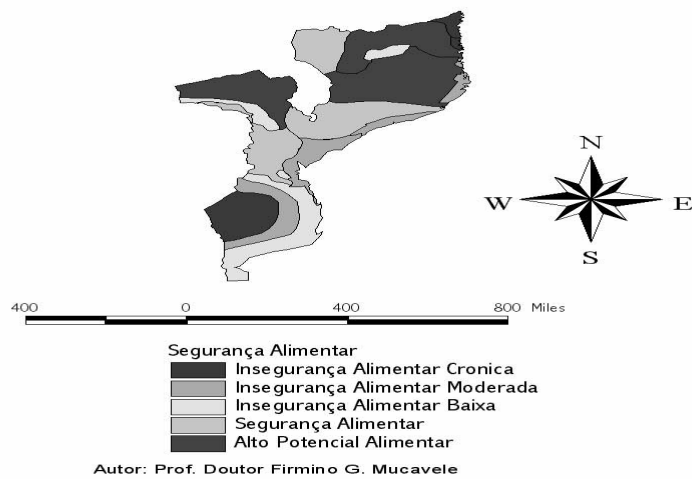


Figure 3.3 Food Security in Mozambique

To summarize, e-land registry in Mozambique performs three major functions:

1. Administration

- On-line registration / payments
- On-line statistics
- On-line land control and evaluation

2. Management

- On-line management information
- On-line access to rules, regulations and laws

3. Marketing/Promotion

- Information on Land Programmes, Research, Co-operation Agreements, etc.

4. The way forward

The problems we face for the establishment of e-government and e-registry include:

1. Low levels of training of the majority of the government employees at the provincial and district level.
2. High illiteracy rate (63%) in the country.
3. Low efficiency of educational institutions.
4. Low rate of human capacity building.

Training of government officials is crucial for the success of e-government. Given the wide potential impact of e-government, leaders should embrace e-government strategy to improve service delivery to the public and improve the state administration. The challenge ahead consists of integrating the administrative reform e processes in the state with the establishment of e-government.

Legislative and regulatory frameworks will have to be reviewed and improved to facilitate and promote e-government. Government leaders should create conditions that encourage co-ordination and collaboration within departments in the government. E-government leaders are responsible for the overall success of meeting e-government objectives. They are thus able to hold departments responsible for fulfilling their role of state.

For successful implementation of e-government and e-land registry, telecommunications, computers, and traditional media should be converged. The density should be doubled to two lines per 100 people by 2015, with adequate level of access for households.

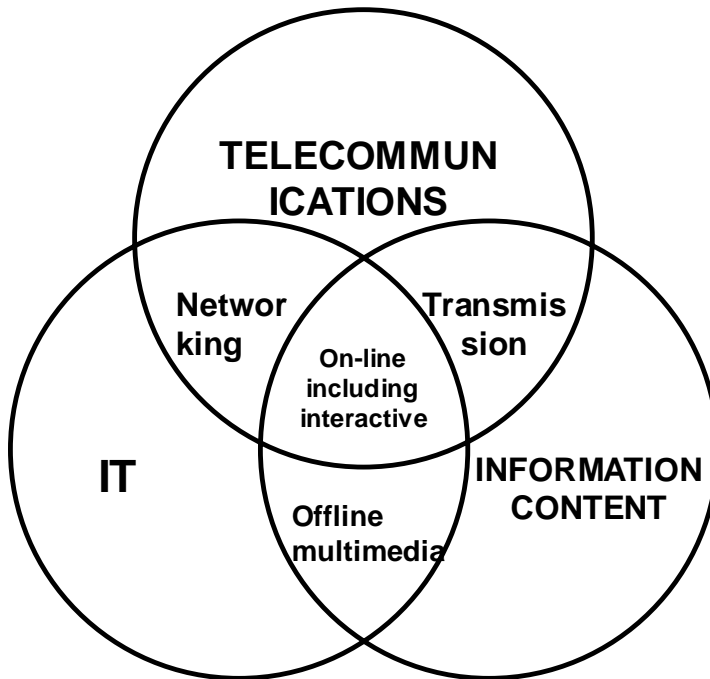


Figure 4.1 Convergence of telecommunications, computers and media

Leadership is the key for the whole process. The engagement of government departments and partnership with private organizations is crucial to lower the cost of e-government and achieve e-readiness in Mozambique. Mozambique needs to develop and produce a pool of information communication technology proficient (ICT-proficient) youth and students from which the country can draw ICT engineers, programmers and software developers. There is a need to develop local-content software, based especially on Mozambique needs

The Government of Mozambique recognized the importance to have better financial services in rural areas in order to promote rural development and to reduce poverty levels. Promoting financial services for small rural entrepreneurs is part of the Absolute Poverty Reduction Strategy Programme (PARPA). The transaction costs in rural areas are very high because of the lack of infrastructure such as railways, roads and trade hubs. Therefore, infrastructure development is crucial to attract investment to the rural areas, especially where agricultural comparative advantages exist. E-land registry facilitates the development of infrastructure.