

## The Cost of Doing Business in Mozambique Relative to Other SADC Countries

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*Econex was contracted by the CTA (Mozambique Chamber of Commerce) at the end of 2008 to conduct a review of transaction costs (and associated competitiveness) in the Mozambican economy - specifically the level of these costs relative to other countries in the SADC<sup>1</sup> region and South Africa in particular. The final document reviewed all possible sources of transaction costs including specifics of telecommunication, utility and transport costs; customs procedures as well as the steps required for investment and the setting up of a business in Mozambique.*

*The current research note provides a snapshot of Mozambique's relative attractiveness as a destination for investment and doing business and does not go into all the details of the final CTA report. To this end, predominantly commercially available World Bank indicators such as the "Doing Business" reports and the Logistics Performance Index (LPI) will be presented. The detailed report delivered by Econex to the CTA and presented at the annual CTA conference in Maputo is available for download from the Econex website.*

### 1. What are Transaction Costs?

Additional costs can arise at all stages of a transaction. Parties to a transaction have to find each other, agree on the terms of arrangement and negotiate the actual exchange of goods or services. These all involve some cost element. Even after exchange has been successfully negotiated, further

costs can be incurred when disputes arise between transacting parties. None of these costs actually add value to the given good or service and have been described as "the cost of running the economic system". Such costs are commonly referred to as transaction costs.

Rules and regulations governing an economy determine to a large extent

the reigning business environment. To this end, the actions of government can either add or subtract to the cost of doing business (i.e. transaction costs). Sources of transaction costs could be as diverse as the time it takes to clear goods at customs to the nature and implementation of labour regulations.

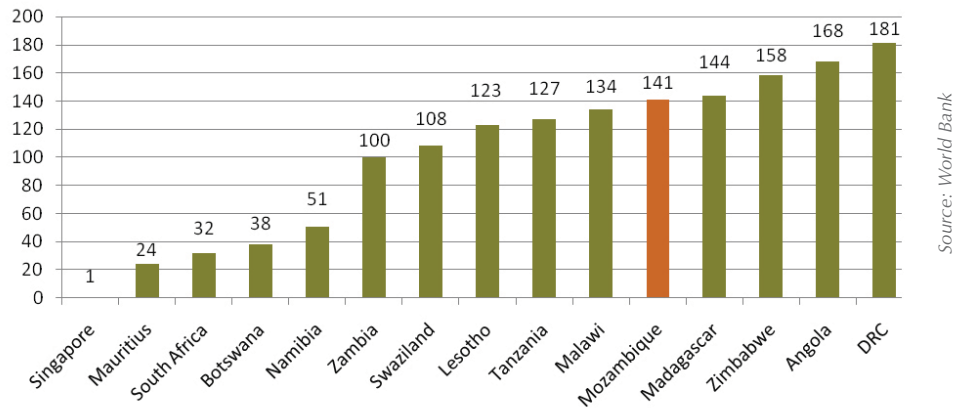
1 Southern African Development Community. SADC has 15 member states, namely Angola, Botswana, Democratic Republic of the Congo, Lesotho, Madagascar (currently suspended), Malawi, Mauritius, Mozambique, Namibia, Seychelles (rejoined in 2008 and not included in SADC Doing Business rankings), South Africa, Swaziland, Tanzania, Zambia and Zimbabwe.

## 2. Mozambique: Aggregate Performance

Figure 1, based on World Bank Doing Business reports, provides an initial indication of the relative attractiveness of Mozambique's business environment. In terms of aggregate performance, Mozambique is ranked 141st in the World, with only four other SADC countries (Madagascar, Zimbabwe, Angola and the DRC) ranked lower. The top three SADC countries (Mauritius, South Africa and Botswana) are ranked 24th, 32nd and 38th respectively.

Table 1, also based on World Bank data, is a disaggregated view of Mozambique's performance in the sub divisions used to construct the aggregate rankings of Figure 1. Mozambique's performance in the individual indicators is broadly in line

Figure 1: Mozambique: Aggregate Position in "Doing Business" Indicators



with their overall performance. Only the ranking obtained for protecting investors (38th) shows any kind of comparative advantage. However, the fact that important supporting indicators such as starting a business (144th), dealing with construction permits (153rd), employing workers (161st) and registering property (149th) are placed in such an uncompetitive position implies the comparatively

strong protection of investors in Mozambique cannot be fully utilised. It should also be of concern that the country's ranking in many of these areas deteriorated between 2008 and 2009.

Another measure used for comparisons between countries is the Logistics Performance Index (LPI)<sup>2</sup>, also from the World Bank. The scorecards

Table 1: Mozambique "Doing Business" Summary Indicators: 2008 & 2009

Topic	Mozambique Rank (2008)	Mozambique Rank (2009)
Starting a Business	125	144
Dealing with Construction Permits	147	153
Employing Workers	162	161
Registering Property	126	149
Getting Credit	97	123
Protecting Investors	33	38
Paying Taxes	72	88
Trading across Borders	140	140
Enforcing Contracts	138	124
Closing a Business	134	133

Source: World Bank

2 The LPI is the simple average of the country scores on seven key dimensions: (1) Efficiency and effectiveness of the clearance process by Customs and other border control agencies; (2) Quality of Transport and IT infrastructure for logistics; (3) Ease and affordability of arranging shipments; (4) Competence in the local logistics industry (e.g., transport operators, customs brokers); (5) Ability to track and trace shipments; (6) Domestic logistics costs (e.g., local transportation, terminal handling, warehousing); and (7) Timeliness of shipments in reaching destination.

Table 2: LPI: Mozambique Compared to Sub-Saharan Africa and South Africa

	Mozambique	Sub-Saharan Africa		South Africa	
	Score	Score	Difference	Score	Difference
Overall LPI	2.29	2.35	-0.05	3.53	-1.24
Customs	2.23	2.21	0.02	3.22	-0.99
Infrastructure	2.08	2.11	-0.04	3.42	-1.35
International Shipments	2.25	2.36	-0.11	3.56	-1.31
Logistics Competence	2.36	2.33	0.04	3.54	-1.18
Tracking & Tracing	2	2.31	-0.31	3.71	-1.71
Domestic Logistics Costs	2.83	2.98	-0.15	2.61	0.22
Timeliness	2.83	2.77	0.06	3.78	-0.95

Source: World Bank

demonstrate comparative performance - the dimensions shown on a scale from 1 to 5 (1 being the worst) and can be viewed relative to other countries. The results for Mozambique appear in Table 2. The differences in columns four and six represent Mozambique's position relative to Sub-Saharan Africa and South Africa, respectively. A negative difference equals a relative disadvantage while a positive value represents a comparative advantage. Based on the results of this analysis, Mozambique has only a marginal advantage with regards to customs procedures, logistics competence and timeliness relative to the Sub-Saharan Africa average and a slightly larger

advantage in domestic logistics costs compared to South Africa. For all other indicators Mozambique is at a disadvantage both to South Africa and Sub-Saharan Africa in general. This relative disadvantage is much more pronounced in the case of South Africa. Given the geographic proximity of South Africa to Mozambique and South Africa's position as the largest economy in the Southern African region, this should be of particular concern to policy makers.

### 3. Specific Transaction Cost Issues

Given the uncompetitive position of

Mozambique in areas related to the attraction of investment and starting a business it is useful to investigate these aspects in more detail. Tables 3 to 6 contain specific indicators on the cost of capital, starting a business, licensing and labour. In each case Mozambique's score or relative position is compared to that of South Africa and the top performer from SADC. The comparison to South Africa is important in that it is by far the biggest economy in the region and a likely alternative destination for investors and entrepreneurs. However, it is important to note that for many of the specific indicators listed, other SADC countries such as Mauritius

3 South Africa, 4 South Africa, 5 South Africa

## About ECONEX

ECONEX is an economic consultancy that offers in-depth economic analysis covering competition economics, international trade, strategic analysis and regulatory work. The company was co-founded by Dr. Nicola Theron and Prof. Rachel Jafta during 2005. Both these economists have a wealth of consulting experience in the fields of competition and trade economics and they also teach courses in competition economics and international trade at the University of Stellenbosch. Our newest director, Cobus Venter who joined the company during 2008 is also a consultant economist at the Bureau for Economic Research (BER) in Stellenbosch. For more information on our services, as well as the economists and academic associates working at and with Econex, visit our website at [www.econex.co.za](http://www.econex.co.za).

Table 3: Cost of Capital Indicators: Mozambique, South Africa and SADC (best)

Cost of Capital		Mozambique	South Africa	SADC (best)
Ranking (getting credit)	World (181)	123	2	2 <sup>3</sup>
Interest Rate Spread (ranking)	World (132)	97	45	45 <sup>4</sup>
Private Bureau Coverage	% of adults	0.0	64.8	64.8 <sup>5</sup>

Table 4: "Starting a Business" Indicators: Mozambique, South Africa and SADC (best)

Starting a business		Mozambique	South Africa	SADC (best)
Ranking	World (181)	144	47	6 <sup>6</sup>
Procedures	Number	10	6	5 <sup>7</sup>
Duration	Time (days)	26	22	6 <sup>8</sup>
Minimum Capital	% of gross national income per capita	122.5	0	0 <sup>9</sup>
Cost	% of gross national income per capita	22.9	6.0	2.3 <sup>10</sup>

Table 5: Licensing Indicators: Mozambique, South Africa and SADC (best)

Licenses		Mozambique	South Africa	SADC (best)
Building Permits	Ranking (World = 181)	153	48	21 <sup>11</sup>
	Costs (% of gross national income per capita)	747.8	27.5	27.5 <sup>12</sup>
	Number of Procedures	17	17	12 <sup>13</sup>
	Time (days)	381	174	93 <sup>14</sup>
Registering Property	Ranking (World = 181)	149	87	29 <sup>15</sup>
	Costs (% of property value)	12.9	8.8	3.3 <sup>16</sup>
	Number of Procedures	8	6	4 <sup>17</sup>
	Time (days)	42	24	11 <sup>18</sup>

All Tables - Source: World Bank

3 South Africa, 4 South Africa, 5 South Africa, 6 Mauritius, 7 Madagascar, 8 Mauritius, 9 South Africa, 10 Botswana, 11 Swaziland, 12 South Africa, 13 Angola, 14 Swaziland, 15 Botswana, 16 Malawi, 17 Botswana, 18 Botswana

## ECONEX Services: Tourism forecasting

ECONEX has developed an econometric forecasting model for the South African tourism industry. The ECONEX TOURISM TOOL provides a quarterly forecast for the next 24 months on expected arrivals from leading source markets Germany, the U.S.A. and the United Kingdom. The forecast provides in-depth arrival expectations from the leading source markets per quarter, as well as a full economic overview of the economic forces that influence these volumes. A detailed model on South African domestic business travel is being generated and will join the line-up from the 3rd quarter of 2009. For any queries related to the ECONEX TOURISM TOOL please contact ECONEX director, Cobus Venter (cobus@econex.co.za).

Table 6: Labour Indicators: Mozambique, South Africa and SADC (best)

Labour		Mozambique	South Africa	SADC (best)
Ranking	World (181)	161	102	34 <sup>19</sup>
Costs (Minimum wage)	\$ per month	80	250	
Rigidity of Employment Index	(0 - 100)	49	42	13 <sup>20</sup>
Firing Costs	Weeks of Salary	134 <sup>21</sup>	24	18 <sup>22</sup>

Source: World Bank

and Botswana are ranked higher than South Africa.

The disparity between Mozambique and South Africa is particularly pronounced with regards to the cost of securing capital. South Africa is ranked 2nd in the World for getting credit and holds the top ranking in SADC for both its interest rate spread and private bureau coverage. Mozambique is placed close to the bottom of the rankings for the corresponding indicators. For time and number of procedures required to start and run a business, Mozambique is ranked in an equally uncompetitive position relative to South Africa, with the added complication that other SADC countries such as Mauritius also outperform South Africa. Possibly the only indicator where Mozambique has a significant advantage relative to

South Africa is its relatively low cost of labour. However, this comparative advantage is to a large extent nullified by the country's extremely high firing costs and high rigidity of employment.

#### 4. Conclusions and Policy Implications

The indicators presented above show that the Mozambican economy currently finds itself in an uncompetitive position relative to other SADC countries, particularly Mauritius, South Africa and Botswana. Furthermore, Mozambique's relative position has deteriorated in recent times despite the implementation of various reforms. Areas that are of particular concern are (1) starting a business (2) registering of property and (3) obtaining credit – all important

inputs in the investment decision. Logistics costs were also shown to be problematic.

These indicators raise the important point that an absolute improvement in business environment is no longer sufficient - countries have to become favourable investment destinations relative to competing economies. Consequently, even though the Mozambican economy as is presents an improved business environment relative to its own trajectory, other countries have also been improving. If Mozambique intends to attract a larger share of future foreign direct investment, improvement relative to similar countries in the region and further afield will be required.

<sup>19</sup> Namibia, <sup>20</sup> Swaziland, <sup>21</sup> This is for an employee that works for a company for 20 years, <sup>22</sup> Tanzania

#### More Information

ECONEX regularly publishes Research Notes on various relevant issues in South African competition, trade and applied economics. For access to previous editions of Research Notes, or other research reports and published articles, go to: [www.econex.co.za](http://www.econex.co.za)

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