

Enterprise Benchmarking Program in Mozambique: Summary of Findings

Introduction

In recent years, the focus of many investment promotion intermediaries (IPIs) in developing countries has shifted from facilitating investments to proactively promoting specific location opportunities to targeted industries and prospective investors. The Multilateral Investment Guarantee Agency's (MIGA) Enterprise Benchmarking Program (EBP) recognizes that this changing IPI orientation brings commensurate requirements in terms of comparable information to help position and market locations as 'products'.

The participation of Mozambique in the EBP study covering eleven countries in Sub-Saharan Africa occurred because the government is open to attracting foreign investment and has solicited the support and advice of MIGA to chart a path forward.

Purpose and Methodology: Benchmarking as a Foundation for Strategic Planning

The analytical framework employed under the EBP follows the location benchmarking approach commonly used by foreign investors in evaluating alternative global sites. As an analytical tool, location benchmarking enables an investing company to reduce its options to a short-list of locations best suited to the requirements of a particular investment project. On the other hand, IPIs increasingly use benchmarking analysis to better understand their countries' competitiveness for FDI in the eyes of investors and to develop key marketing messages to attract inward investment (see Annex for methodology).

Thus, the ultimate objective of the EBP is to support the development of a near-term marketing strategy and messages by identifying: (1) current opportunities for increased investment; (2) future opportunities for investment, provided certain improvements in the operating environment are made to increase the location's competitiveness in the target sectors; and (3) those sectors that should not be a focus of targeted investment promotion efforts in the near future. In addition, the EBP findings should also help in framing a policy advocacy strategy that addresses improvements in infrastructure and policy important to investors.

Summary of Findings: Mozambique gaining competitive positioning in some sectors

The benchmarking of Mozambique against ten other African countries demonstrated that although the country faces many challenges, it also presents some opportunities for attracting investment. A number of cross-sector themes that allow Mozambique to be considered as a competitor for FDI are:

- Newly found political stability;
- Proximity to Sub-Saharan Africa's largest economy, South Africa;
- Relatively high-quality telecommunications and Internet connections, and continuing investments in the IT infrastructure by the government;
- Abundance of inexpensive unskilled labor;
- Improvement in macro-economic stability and lowering inflation; and
- Trade benefits under the Southern African Development Community (SADC) Trade Protocol and the U.S.-Mozambique Bilateral Investment Treaty.

The study indicates that these general strengths, coupled with some sector-specific advantages, are preferable to the promotion of horticulture. In the medium term, fully integrated horticulture and food and beverage production deserves attention, taking advantage of its proximity of export and import markets, competitive unskilled labor costs, and beneficial trade agreements with local and global economies. It is also worth noting the current government's efforts to improve IT and tourism infrastructure, which may pave the way to improve the attractiveness for call centers and tourism investments in the near future.

The abovementioned positive news of Mozambique's operating environment are countered by a number of negatives, such as:

- Weak road infrastructure outside the Southern corridor;.
- Unreliable energy and water supply;
- Expensive real estate;
- High cost of sea freight;
- Shortage and high cost of local skilled labor;
- Rigid labor laws;
- Some cumbersome administrative barriers, such as the number of days to start business, complex taxation procedures etc.;
- Perceived wide-spread corruption.

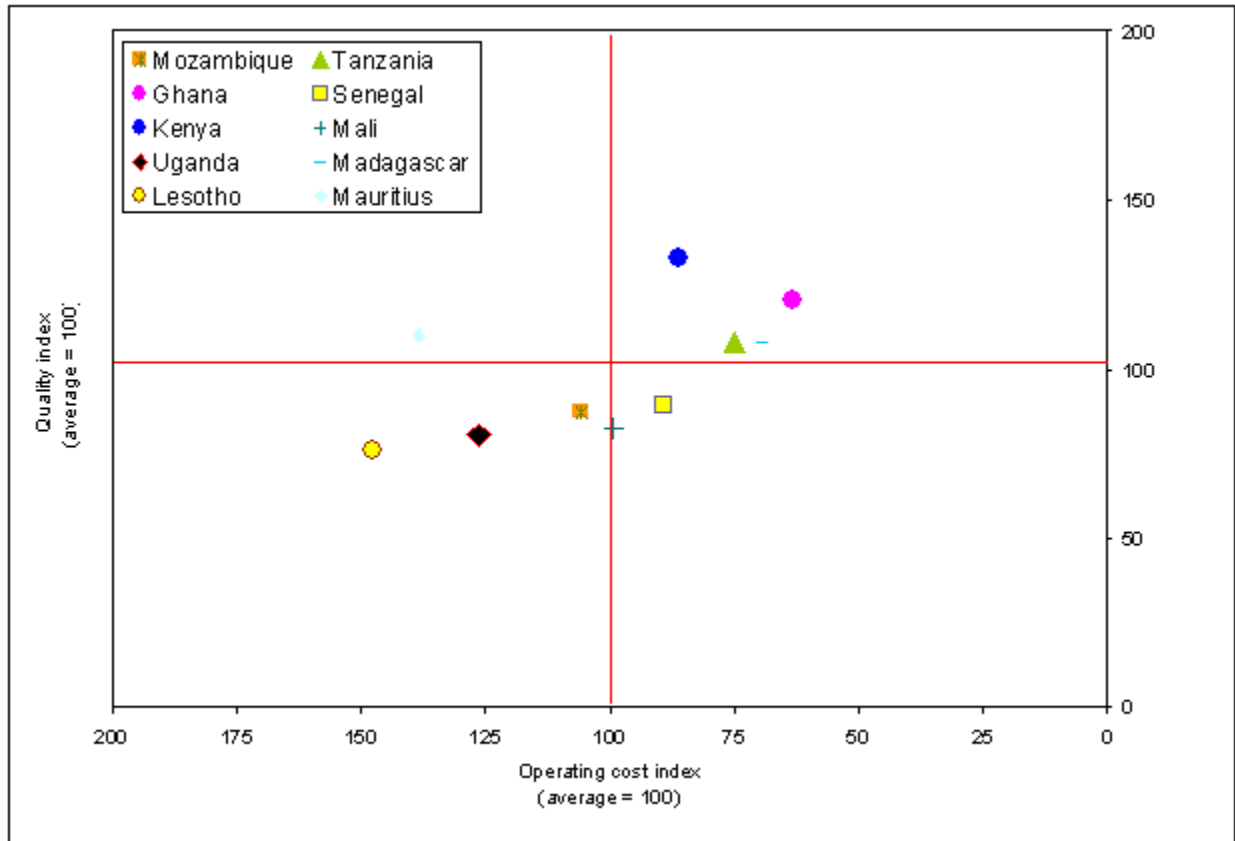
The following section provides a brief summary of findings for the five surveyed industries and includes recommendations for improving each sector's competitiveness.

Apparel/Textile

As has been commonly observed in other African countries, there has been a general decline of the apparel sector. Export-oriented apparel manufacturing is not a strong sector for promotion in Mozambique since low quality conditions are met with relatively high costs for Sub-Saharan Africa (See Figure 1). Despite a recent evidence of a recovery of the industry, caused in part by competitive labor costs and favorable access to markets, the lack of locally produced textiles, inflexible labor laws, customs bureaucracy, and distance from the U.S. market, impose limitations on a firms' ability to competitively operate.

Although it was intended to survey textile firms in Mozambique, the field research revealed the nonexistence of large-scale textile industries in Mozambique. Therefore the benchmarking in the textile analysis was done based on apparel interview data. As a result, the competitive positioning of Mozambique in the textile benchmarking, as depicted in the matrix like Figure 1, was very similar to that of the apparel.

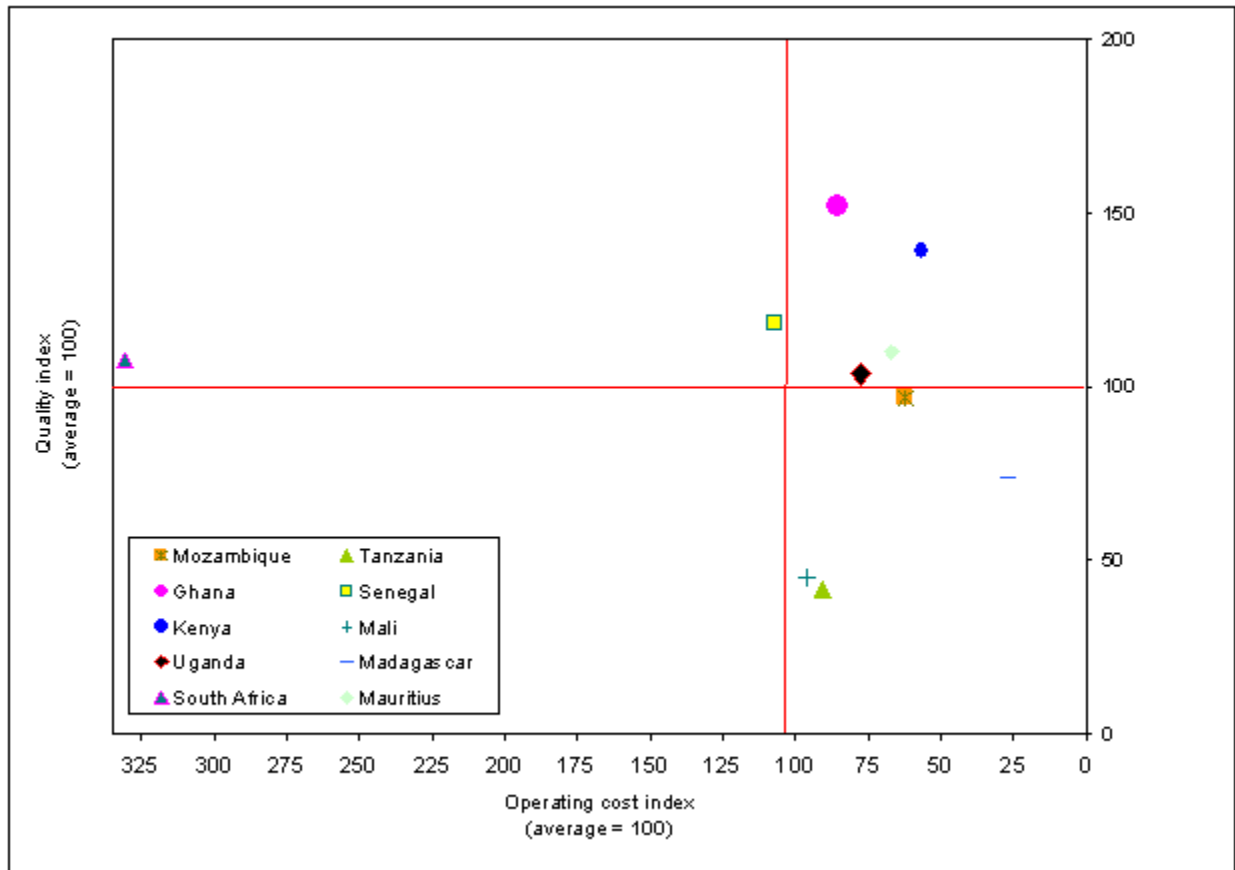
Figure 1: Mozambique's Cost vs. Quality Competitiveness Matrix, Apparel



Call Centers

The call centers sector in Mozambique is consisted of two groups: 1) A growing number of call centers and customer support services within existing companies, and 2) Small entrepreneurs attempting to serve markets outside the country. The relatively high quality telecommunications and internet connections, and on-going efforts to improve the IT infrastructure, coupled with competitive labor costs suited for call center operators may make Mozambique a contender for competing for investments in the shared services sector, especially given that there is only one country, Kenya, that outperforms Mozambique on both cost and quality (See Figure 2). Given the limited size of a Portuguese-speaking market, Mozambique will have to enter the Anglophone market if it were to seriously contemplate on building a call center sector. Mozambique's success in this sector will largely depends on the country's ability to ensure the supply of English speaking labor force at a rate competitive with its neighbors.

Figure 2: Mozambique's Cost vs. Quality Competitiveness Matrix, Call centers

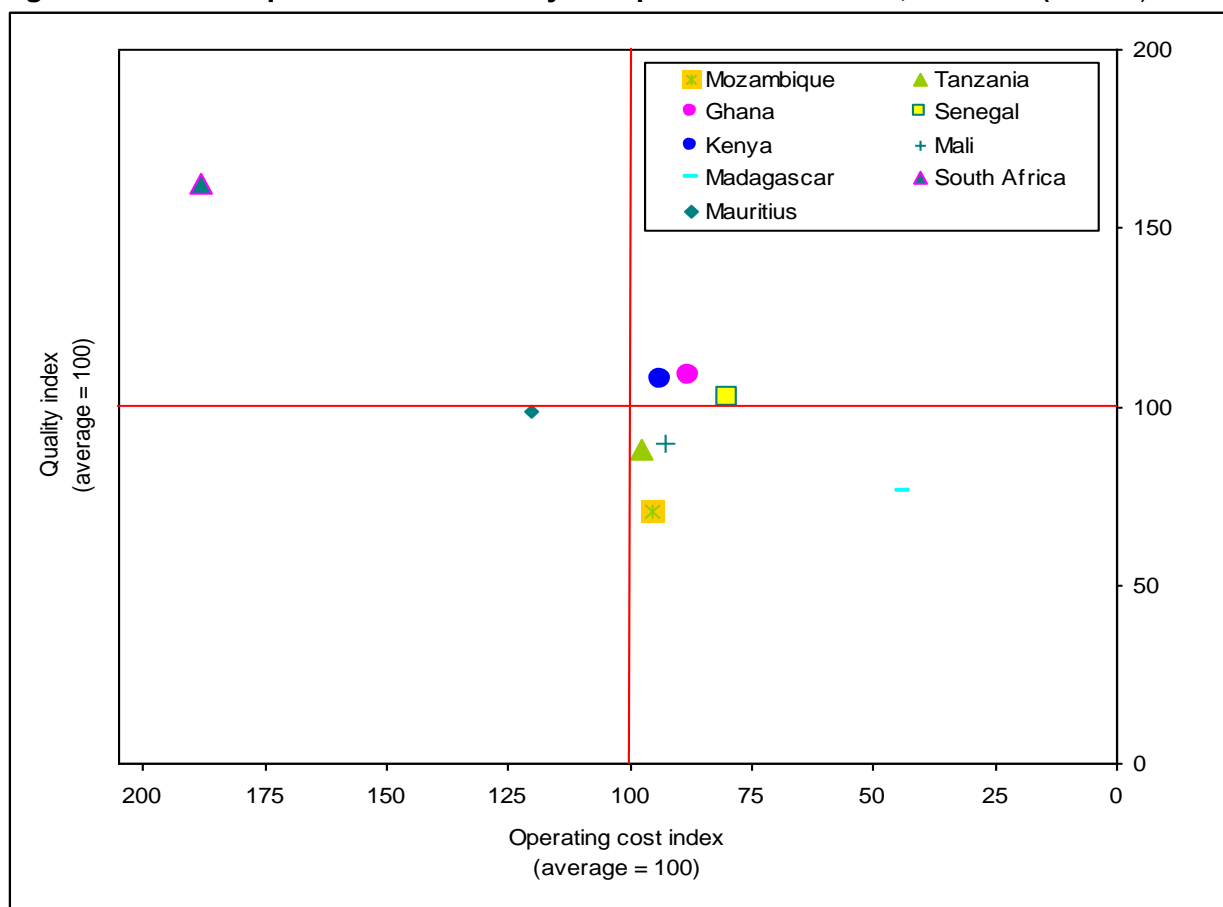


Tourism (Hotels)

Although Mozambique possesses exceptional natural and cultural attractions, and also has potential for developing large-scale recreational activities, its tourism sector is less developed relative to leading Sub-Saharan locations. Currently, Mozambique lacks in the presence of well-known international hotel chains, which to certain extent mirrors the positioning depicted in the matrix in which Mozambique seems to offer a low-quality average-cost operating environment for hotel investors (See Figure 3).

Mozambique offers some of the lowest prices for construction costs, only outdone by Madagascar, and regionally competitive utility costs. On the other hand, hotel investors in Mozambique are constrained by high costs and shortage of skilled labor, and lack of adequate infrastructure such as roads, water and electricity. This, together with the bottleneck on improving the number of improving tourism arrivals, as seen in the limited number of direct flights and relatively ineffective marketing and promotion efforts by the country's Tourism Board, is hindering the competitive positioning in the market today.

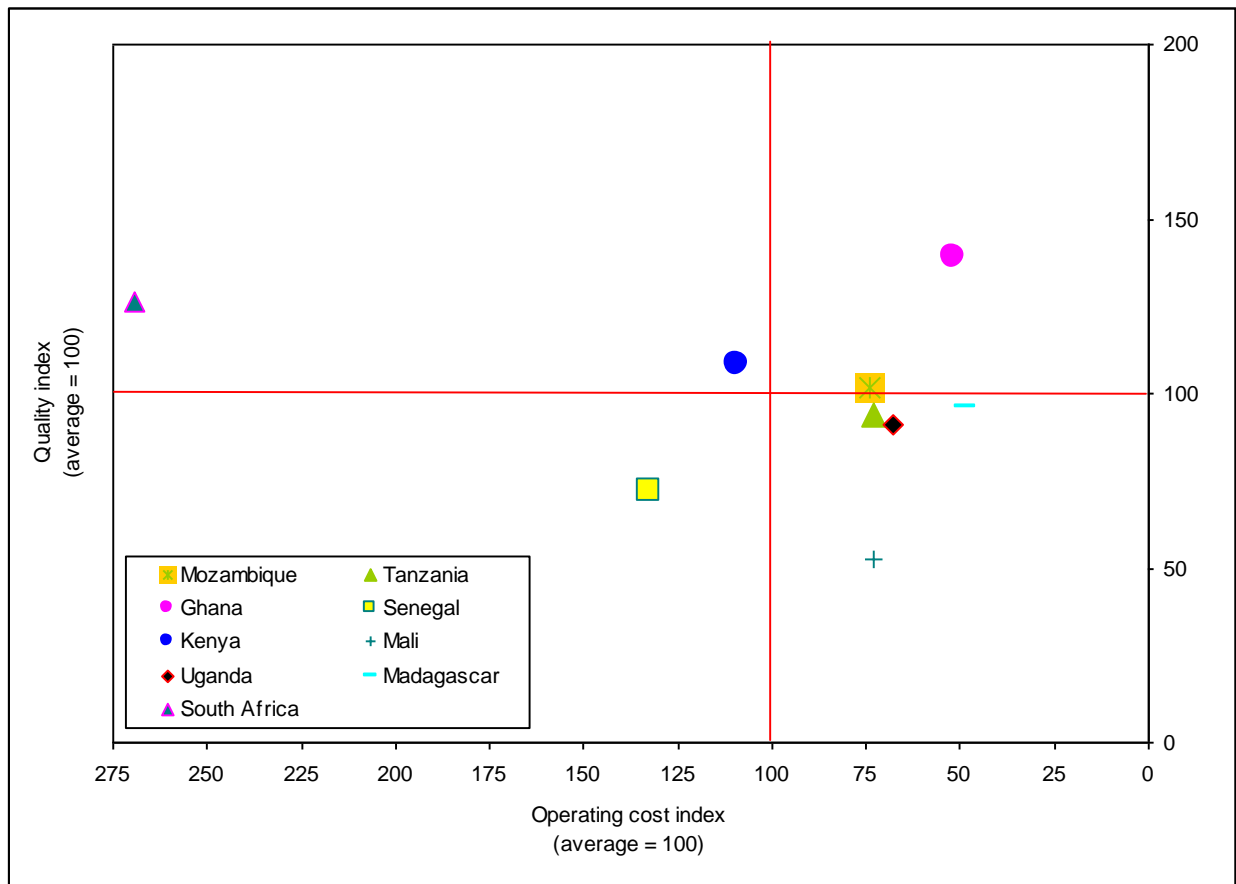
Figure 3: Mozambique's Cost vs. Quality Competitiveness Matrix, Tourism (Hotels)



Horticulture

Like elsewhere in Sub-Saharan Africa, horticulture investors in Mozambique benefit from a favorable climate and fertile land which provide for a year-round growing season. Although so far Mozambique has not been able to become one of the leaders in supplying international markets the way Kenya and South Africa have, and the competitiveness has been somewhat undermined by the recent natural disasters such as droughts and flooding, it nevertheless possesses a very favorable mix of average operating quality conditions and low costs and has already used this combination to achieve some success in several market segments, including fertile land, favorable climate conditions, abundance of unskilled labor, low unskilled labor costs, quick customs clearance and low air transportation costs to certain, but key, destinations (See Figure 4). On the other hand, the lack of stable electricity supply and sector specific skill pool are seen to be some of the critical bottlenecks to make Mozambique more attractive as a horticulture investment destination.

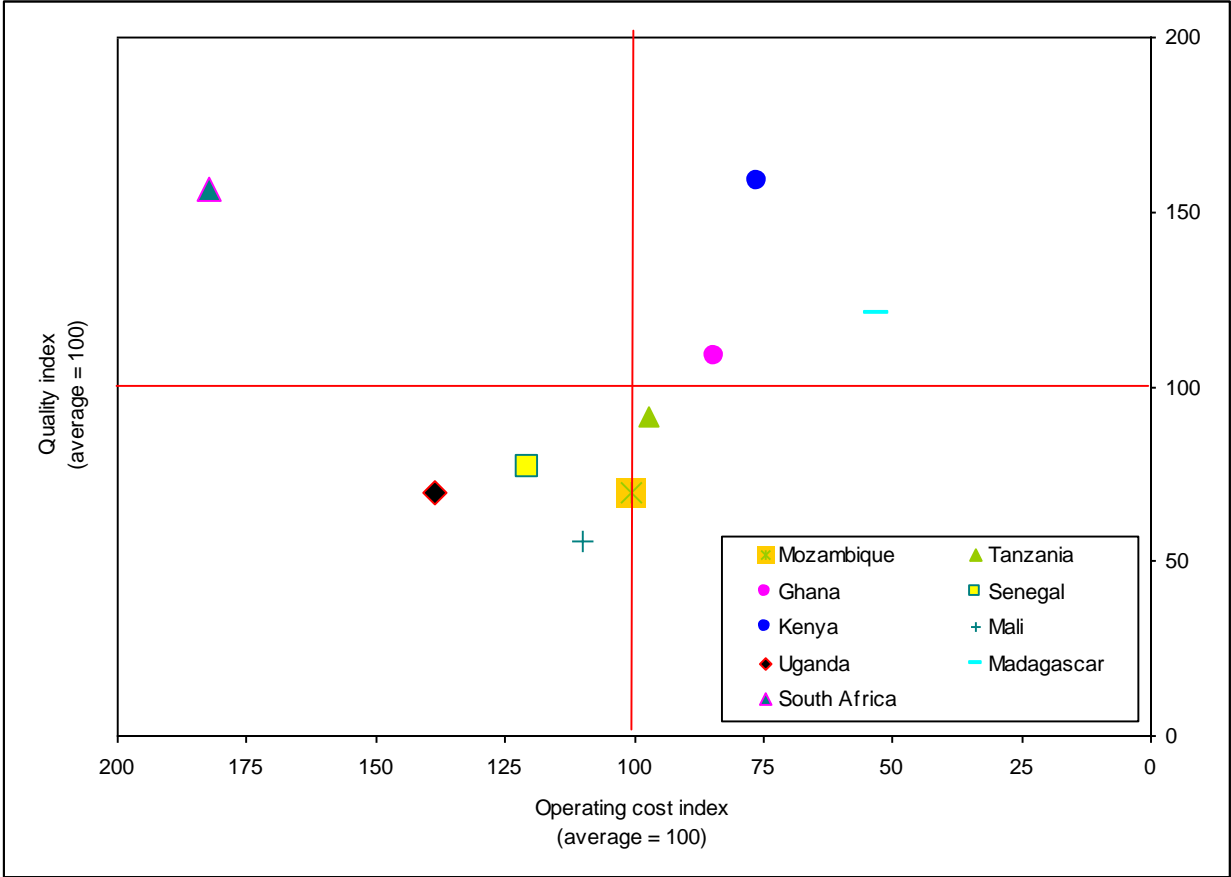
Figure 4: Mozambique's Cost vs. Quality Competitiveness Matrix, Horticulture



Food and Beverage Processing

Mozambique's presents an average-cost low-quality operating environment in the food and beverage processing industry (See Figure 5). Though still small, there is a gradual growth of the industry, normally serving domestic and regional market due to the access to South African market through the SADC agreement, the availability of cheap and relatively reliable transportation to certain, but key, destinations, high quality telecommunications and IT infrastructure and a rapid clearance of imports through customs. The political stability of Mozambique's government has attracted investors from Europe back into Mozambique, and has attracted the interest of investors from other African countries as well. Obstacles reported by companies in Mozambique include high water tariffs and frequent shortages, poor waste treatment facilities, a workforce with few skills applicable to this sector, and a lack of local inputs.

Figure 5: Mozambique's Cost vs. Quality Competitiveness Matrix, Food and Beverage



Annex: Methodology of the Enterprise Benchmarking Program in Sub-Saharan Africa

I. Introduction

The EBP methodology provides a framework for collecting and disseminating information regarding the attractiveness of certain sectors of an economy in the most comparable manner possible. One part of the analytical framework inputs is made up of objective, quantitative operating costs; another portion consists of operating conditions based on investor perceptions.

One should keep in mind that investor decisions are largely influenced by the facts that are known to them today: for example, a government may have plans to overhaul a nation's power grid, but if a site selection analysis takes place before the reforms are announced or implemented, the perception of unreliable electricity transmission will influence the investor's decision-making. This is a very important consideration in properly understanding the EBP framework as a "snapshot" of a particular situation at a static point in time.

II. Study Preparation

The EBP study processed a vast amount of information regarding cost and quality conditions. When it comes to understanding operating costs, the EBP is aimed at answering the following question: "How much would it cost to operate a company in Mozambique given certain specific operating parameters, and how would the answer differ if Mali is chosen instead"? In order to answer this question, the EBP study provides specific operating parameters for each surveyed sector, including the number of workers, the level of utility consumption, etc.

On the other hand, the challenge in understanding the quality of operating conditions is in knowing what information is required and what statistics provide relevant measures for any particular sector. Once the quality conditions to be studied are identified, one should keep in mind that each operating conditions factor is not necessarily given equal value by investors. The value and order of importance largely depend on the characteristics of a particular investor's operation. During the preparation phase of the global EBP study, MIGA purchased a weighting matrix from a site selection specialist whose analysis is based on the survey of over 1,700 firms that identified location factors that are considered important by investors. These characteristics, organized by sector, as well as data points that can be used as proxies to measure each condition and the weighting matrix are presented in Figure 6.

III. Data Collection

As a rule, firms conduct site selection data collection in two phases, desktop research and field research. Desktop research is used in order to collect data that are available through web-based services and publicly available published sources, while field research is conducted in order to collect firm specific information and other data that are not readily available elsewhere. In essence, the EBP study relies on three sources of information: international statistics, location-specific information that is not systematically available outside the surveyed country and thus requires field work to collect, and company interviews. These three sources have the following characteristics.

- International statistics provides a good basis for comparison, since the data are collected in a comparable manner by subject experts. However, data of this nature is normally used to characterize a country at a macro level and fails to provide more detailed information about the country.
- Locally available information complements the data that cannot be captured by international statistics.
- Company interviews fill the remaining information gaps, as well as provide a snapshot of investors' perception about a given country.

MIGA conducted twenty-two interviews between November 1, 2004 and March 23, 2005 in and around the Maputo area. The composition of interviewed firms is displayed in Figure 7 below. These interviews coincided with company interviews conducted in ten other African countries. It should be noted that the purpose of company interviews is not to draw a statistically sound sample, but rather to give potential investors a flavor of the current operating conditions as experienced by fellow investors.

Figure 7: Profile of the Interviewed Firms in Mozambique

Sectors Covered	Number of Firms	Ownership Structure of Interviewed Firms		
		100% Mozambiquan	Joint Venture	100% Foreign
Apparel	5	3	2	0
Textiles	0	0	0	0
Horticulture	4	1	2	1
Food and Beverage	4	2	1	1
Call centers	4	1	2	1
Tourism (Hotel)	5	0	3	2
TOTAL	22	7	10	5

IV. Analysis and Presentation of Findings

Once the data are compiled, they go through a process of weighting, aggregating and ranking to arrive at two composite scores for each country – one for costs and the other for quality of operating conditions. When charted on matrices, the composite scores indicate each location's relative competitiveness in each industry relative to the surveyed group of countries, as well as the trade-offs between cost and quality considerations (See Figure 8). Each composite score is charted on matrices, illustrating its relative position against the mean index score of 100 for costs (on the horizontal axis) and quality of operating conditions (on the vertical axis). Investors use this sort of diagram to digest the data set and obtain an overview of the trade-offs between costs and quality for any given location. Although prospective investors may value various

factors differently, in general they are most interested in those locations that fall in the upper right quadrant, reflecting high-quality operating conditions at a relatively lower cost.

Figure 8: Cost vs. Quality Competitiveness Matrix, an Example

