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Transforming the Instituto de Promoção de Exportação (IPEX)

Strategy Assessment and Design

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Summary

Mozambique's Instituto de Promoção de Exportação (IPEX) has been playing the role of a traditional trade promotion organization. But the limited number and actual needs of existing and potential exporters do not justify this role. The country's general business environment and the context for imports and exports are far from ideal, with red tape and corruption making it difficult if not impossible for Mozambican companies to compete internationally. Thus, an organization that intends to promote trade needs to be combating red tape and corruption and training its staff before further promoting exporters or even developing new ones. To be effective at that task—and to complement the size and experience of Mozambique's nascent private sector and ultimately to accelerate growth—IPEX must be guided by a broad, strategic vision of trade development, including the attraction of foreign investors. It should also have the agility of an agency, with strong private sector representation and the political support necessary to recommend changes in policy and to integrate and coordinate the activities of various ministries and entities. IPEX will have to undergo serious changes in vision and structure, and upgrade its staff competencies, if it wants to pursue this mission. Here, the experience of the new president as a private sector link in the government can be a strong point—if he has the political will and support to implement the necessary changes.

1. Assessment

A trade promotion organization provides demand-driven services to actual and potential exporters. Therefore, the assessment team first determined the situation and needs of exporters in Mozambique, then evaluated the effectiveness and capacity of IPEX in addressing exporters' needs according to specific scenarios. In addition to analyzing various documents and organizing three meetings with IPEX staff, the team interviewed exporters and other representatives of the private sector; organizations directly involved in trade, such as customs, "despachantes," and private banks; and donor organizations engaged in private sector development (names and organizations of contacts are in the appendix).

OBSERVATIONS

Client Base

Actual Exporters. Mozambique's exports are concentrated in commodities or other primary products, such as cashew nuts and kernel, fresh produce and fruits, and seafood. Prospecting for new markets in these industries through trade fairs is either ineffective or unnecessary, as individual companies are already well integrated into the market or have partners abroad, or both. The exporters interviewed have good to excellent knowledge of their markets and private sector representatives confirmed that these companies don't need support for international marketing.

Trade Fair Participants. According to information provided by IPEX, 50 companies were taken to 28 trade fairs in the 2003-2005, and many of these went to several events. In most trade shows at least some of the companies were "present" by means of product samples and were represented by IPEX personnel, but it was not clear to what extent this was so. According to IPEX, this form of participation was due to companies' lack interest and/or funds. IPEX was not able to provide information about concrete results of trade shows, beyond the fact that potentially interesting contacts were established at some shows. Two entrepreneurs in the wood/furniture industry that IPEX presented

Main Exports, 2005	US\$ million
Aluminum	1,020.5
Electric energy	141.8
Natural gas	100.2
Shrimp	70.9
Cotton	56.3
Tobacco	43.2
Sugar	37.7
Timber	32.4
Cashew nuts	17.6
Ship supplies – fuel	12.4
Cashew kernel	5.5
Others	1,227.3
TOTAL	2,745.3

*Note: Data are provisional.
Source : Instituto Nacional de Estatística (INE)*

as exporters and who had participated in a trade show in Portugal declared in interviews that they are not exporters, nor could they be any time soon. They considered themselves carpenters with no industrial capacity or scale to be competitive on the international market.

Potential Exporters—Mozambican Entrepreneurs. Industries with export potential are well known: agricultural products in general, besides traditional commodities, fresh produce and tropical fruits, wood products, and seafood. Apparel can also be considered as having export potential because of low labor costs and the relatively light investment necessary for setting up a factory. Yet, little or none of this potential will translate into sustainable trade growth if entrepreneurs continue to suffer a poor business environment. At the same time, too few entrepreneurs have the necessary structure, experience, and capital to have a significant impact on growth in these industries in the short or medium term. Motivating new entrepreneurs to venture into international markets won't have any significant result because the current environment can be considered an "access barrier" too high to "attack," while most of the local market still needs to be developed.

Potential Exporters—Foreign Investors. Mozambique needs to attract foreign investment to supplement the limited number of local entrepreneurs that are or could become export ready in the short or medium term, and to accelerate economic growth and much-needed job creation. Yet, by simple word of mouth, discouraged entrepreneurs are causing many potential investors to shy away, especially in agriculture, which has the best growth potential and in which displaced farmers from countries like Zimbabwe are seeking new opportunities.

The efforts of CPI (Centro de Promoção de Investimento) to attract foreign investors seem to be concentrated on companies that can integrate the supply chain of the MOZAL aluminum smelter mega-project. At least that is the profile of companies installed so far in the free zone managed by CPI. These companies cannot be considered exporters since they sell only to MOZAL under the free zone regime and, except for one company, have no plans to sell outside of the regime. To consider them indirect exporters is also questionable: MOZAL's product is aluminum ingots and the supplier's products are not components of a final product but a service in the chain of production. Certainly many of these companies might be internationally competitive, yet their current business focus is to supply to MOZAL.

Thus, one can conclude that CPI has attracted no true exporters and that the model of the "Zona Franca de Indústria" does not seem to be attracting foreign investors to use it as a platform for exporting to regional or global markets. A foreign investor who has an agricultural project for exporting fresh fruit to Europe in Manica province and sought CPI's support complained strongly about red tape and apparent lack of interest.

Constraints and Other Observations

In addition to complaints about general problems, most of them having to do with infrastructure, all interviewees cited red tape, corruption, and/or unprepared staff in public administration as constraints. This was especially so for exporters and private sector representatives.

While customs modernization is making operations more agile, especially in imports and in the capital, the pressure for tax revenue exerted by the Ministry of Finance is hindering traders' businesses, even though economists might consider this development an advance in efficiency. Indeed, there is anecdotal evidence that the pressure on customs units to meet revenue targets induces them to give priority to imports versus exports. At the same time, the charging of certain penalties on imports by overzealous officials ("excesso de zelo") might be a way of compensating for low tax income.

Some initiatives, however, have assisted Mozambican exporters learn how to access foreign markets and export from Mozambique. For instance, Technoserve's cashew project¹ and a foreign investor in the Manica region² have substantially assisted Mozambicans export products from Mozambique. Yet, they had to work hard to understand the system, build relationships, and educate the staff of custom and other entities about their products and processes.

A very experienced "despachantes" confirmed that some customs staff and many colleagues are unprepared and need serious and regular training and skills updating. Efforts to raise standards in the capital are significant, but the situation is admittedly much worse in the provinces. According to the despachante, the profession lacks a training program and regular exams of technical or practical knowledge to certify new despachantes or maintain their status.

All exporters interviewed have strong knowledge of their international market segment and strong relationships or even partnerships with buyers, so they do not need support with market information.

It became clear during the assessment that the government still has very little understanding of what companies need to grow and contribute to tax revenues. A strong focus on control and short-term tax income is turning out to be counterproductive. No training programs in international trade exist at public or private universities or other institutions.

IPEX

IPEX has a yearly budget of US\$600,000. Forty-five percent is allocated to salaries, 35 percent to trade show missions, and 20 percent to current expenses. The staff of 45 is distributed as follows:

- Administration and finance—16
- Market information and development—12
- Presidency and executive director—4
- Provincial delegations, Center and North—9
- Trade shows—4

¹ According to a senior customs officer, cashew exports also receive special attention because they generate an export tax, which corroborates the before mentioned information.

² The foreign investor is working in the agriculture sector (fruits) and is exporting fruit to Great Britain through Harare.

The institute's 2005 activity report shows a clear focus on trade show missions. (In 2006, IPEX is also involved in a value chain study of the wood industry.) IPEX does not have clear information on its client base—number, profile, potential, and needs—and has never conducted a market study. Unsurprisingly, no systematic and structured assessment of companies' export readiness is available to take to trade shows.

Organizing trade show missions is IPEX's core activity, but the department responsible is the smallest, with only four employees. Trade show results are not measured and interviews of participants indicate that results are poor.

Even though senior staff members seem aware of the many constraints on exports, they have not taken any action against these constraints—other than developing a manual for exporters. And even though IPEX's statutes cover a wide range of activities, including policy recommendations, and it reports directly to the Minister of Industry and Trade (“tutela”), IPEX doesn't seem to see itself as contributing to the removal of constraints.

CONCLUSION

A traditional trade promotion organization is not warranted given the current condition of Mozambique's economy, including the characteristics of its private sector, its competitiveness, and its business environment. First, the number of export-ready companies for which trade shows could be useful is insignificant. Second, the industries most active in exports and with the most potential for growth in the short term are based on commodities or other industries where trade fairs are either not used or are not the best market access strategy, at least not initially. Worse, seeking new markets for actual and potential exporters will raise expectations that will surely fall given the condition of Mozambique's business environment and SMEs' export readiness. Finding new markets could do more harm than good in exposing underprepared exporters. This, in turn, will harm individual companies and the reputation of the country as a whole, which will be seen as unfit for the international marketplace. Short-term opportunities may exist in some nearby regional markets, such as Malawi, where standards are considerably lower. These opportunities, however, need to be assessed before any promotional activity takes place.

The greatest opportunity for export growth lies in removing constraints that hinder active exporters' consolidation and growth and that make it difficult for new exporters to enter markets: red tape, corruption, and unprepared staff. Only after the business and trade environment has reached a minimally competitive level, will it make sense to invest in developing new exporters. Given the current situation and trends in southern Africa and Asia, Mozambique is a natural candidate for foreign investors. Creating a competitive business environment will have a significant impact on the country's ability to attract investment before even getting into prospecting missions.

2. Recommendations

What needs to be done to promote and develop exports and trade in Mozambique? The first step is to thoroughly assess constraints along the whole chain—supply, production, transport and logistics, import, export and payment procedures—for each type of product, taking into consideration eventual specificities in different provinces. On the basis of such an assessment, one will be able to address specific constraints at the strategic level. Strategically, to facilitate trade means to combat red tape, corruption, and similar constraints; to promote it is to prospect for new markets for exporters; and to develop it is to develop new exporters. Raising awareness of trade and building capacity should support these goals.

Promoting and developing exports will generate no sustainable results unless red tape and corruption are first reduced significantly. In the short term, the focus needs to be on facilitation. While promotion may continue, it should take a more customized and thorough approach for individual companies (see below). Development only makes sense once a minimally competitive environment is established. Improving the general business environment might be a medium or long-term challenge in countries like Mozambique, but creating better environments in special zones or tributary regimes for certain industries can be a very attractive alternative in the short term.

TRADE FACILITATION

Facilitation consists of (1) minimizing the impact of constraints in the current system in the short term and (2) optimizing procedures and removing constraints in the medium to long term. Much can be done to reduce the impact of red tape and corruption now, well before systems are approached holistically. Information and education are key. After the initial assessment, task forces should address specific constraints and recommend changes in procedures and policies. The task forces should have appropriate technical competence, a good mix of private and public representatives, and the political support necessary to influence change. The following recommendations for trade facilitation are for the short term or the medium to long term:

- Publish in print and on the internet, in clear language, customs and other procedures necessary for imports and exports for each type of product (short term).
- Publish a detailed step-by-step guide for each type of product, identifying the responsible organization, the documents necessary, the justification of each document, filled out samples and guides (short term).

- Publicize brief descriptions of how exporters succeeded in reducing the time it took to export their goods or services. This will help promote replication of good practices (short term).
- Train customs clearing agents (“despachantes”) on the importance of facilitating exports and provide them with regular updates on how to better clear exports (short term).
- Have IPEX representatives present or available in the provinces where exporters are present or investing. Train representatives in all procedures and have them be very familiar with the customs units, Ministry of Agriculture representatives, and other involved entities and officers so they can provide hands-on guidance and support (short term).
- Disseminate and distribute information on best practices, improvements in the export processes, success stories, market opportunities and other export-related information to the public (short term).
- Advocate and support the implementation of a capacity building and certification system for despachantes (medium to long term).
- Advocate and support the implementation of an agile information system for customs, especially for the provinces, to avoid discrepancies in treatment (medium to long term).

TRADE PROMOTION

Given that few Mozambican companies other than those in commodities and fresh fruit and produce have export potential, we recommend a customized approach at the company level to achieve tangible results. Company-level design of international marketing strategies usually follows this sequence:

1. Thoroughly assess product potential, company’s export readiness, and eventual environmental constraints.
2. Identify potential target markets and define priority markets.
3. Conduct market studies (secondary and primary).
4. Devise a market entry strategy.

This approach applies as much to potential as to existing exporters. Existing exporters will focus on consolidation and/or expansion. The sum of results for individual companies will be the basis for the design of a broad export promotion strategy and workplan, one that covers the gathering of market intelligence, the studying of target markets, and the identification of relevant trade fairs. Note that trade shows are only a part of market entry strategies; depending on the product and target markets, a direct search for buyers and/or distribution partners can also be very effective.

TRADE DEVELOPMENT

Development of exports depends on the general business and industry-specific environment. Because most export-oriented enterprises depend on imports at some point in their supply chains, a more open and agile trade environment is necessary to promote and develop exports on a

sustainable basis. This, of course, demands integrated policies and coordinated actions that not only remove constraints but also attract local and foreign investors. While this might be a medium term challenge under Mozambique's current circumstances, creating special zones or regimes for certain industries and/or geographical areas is a sound way to begin moving toward such an environment in the short term. Several developing countries have had much success with export processing zones. Special regimes, similar to bonded warehouses, for agricultural producers in certain provinces with agricultural potential may also be worth considering.

Of course, to attract investors, zones and regimes need be designed on the basis of a thorough assessment of the country's and provinces' needs and comparative advantages, global and regional market opportunities and tendencies, as well as international competition and best practice. Naturally, these projects need to take into account important characteristics such as availability and "trainability" of local labor, ease of international transport and logistics integration, and guaranteed general infrastructure (energy, water, telecom). Special regimes can be designed by a joint public-private task force, but should be managed by private enterprise in order to maintain international standards over time.

The tendency in attracting foreign investment is to focus on big companies and mega-projects, and possibly their supply chains, while neglecting SMEs. Mega projects can be important anchors for industry and regional development, but SMEs' potential to contribute to sustained growth can be even more important. SMEs can attract investment, create jobs, and develop entrepreneurs. In contrast to mega-projects that always find ways to create their own competitive conditions, SMEs usually do not and are directly affected and deterred by less friendly environments.

AWARENESS OF TRADE ENVIRONMENT

If public administrators and policymakers are to be receptive to necessary changes, they need to be aware of what is necessary for businesses to thrive and contribute to economic growth. Regular training programs for a wide range of groups involved in trade—those directly involved, the general business community, and the general public—can significantly improve perceptions of and attitudes about trade. Information, education, and capacity building campaigns are also important in curbing corruption. Even though such campaigns might only have impact in the medium or long term, it is crucial for the whole environment that awareness raising be pursued as soon as possible. Training programs can include, but should not be restricted to

- Short-term practical training on specific, operational aspects of trade (e.g., customs legislation, import and export procedures, logistics, currency exchange, INCOTERMS, Harmonized System, classification of merchandise);
- Undergraduate programs for business administration with emphasis on international trade; and
- Graduate programs on international trade and business.

These programs could be promoted through public-private partnerships and offered to private sector professionals, public administrators, and students in general.

INTEGRATED, STRATEGIC VISION OF TRADE DEVELOPMENT

Exports cannot be analyzed or treated in isolation. They are the concrete results of a complex chain of interdependent private and public actions and the whole of a business environment. They are, so to speak, a measure of the general competitive environment and the environments of specific industries. Many of the recommendations made so far obviously go far beyond the authority of a traditional trade promotion organization, underscoring the need for a fresh approach to the organization's vision and structure.

Any effort to promote and develop exports must be part of a broader, integrated, and strategic vision of trade development that addresses constraints and potential vectors for each industry. This vision must translate into concrete and pragmatic policies and activities that work at the level of the general business environment and of specific industries, while taking into account the characteristics of specific provinces. To be effective, implementation of policies and activities must have political support and be well coordinated between several ministries (e.g., Industry and Commerce, Finance, Planning and Development, Transport and Infrastructure).

INSTITUTIONAL STRATEGY

The following recommendations for institutional strategy take two approaches. The first represents the technically ideal; the second takes into consideration the apparent political context of IPEX, its new president, other organizations now involved in the abovementioned strategies, and government in general.

Trade Development Organization

To implement the strategy described above, an ideal trade development organization should combine private sector characteristics, such as objectivity and agility, while being demand-driven and result-oriented. It also needs direct access to policymakers and political support to be able to influence policy changes and coordinate activities. In addition to the attributes of a regular trade promotion organization, the trade development organization should also

- Regularly assess constraints on and potential vectors for trade development, comprising imports as well as exports;
- Study and regularly update international best practices on trade and investment issues;
- Recommend policies, including special trade and investment regimes;
- Be an active liaison between government and the private sector on trade issues;
- Attract foreign investment;
- Promote adequate and relevant capacity building programs in public administration; and
- Stimulate and support private sector training programs.

IPEX Strategic Repositioning

With the exception of investment attraction, IPEX's statutes already allow for all of the attributes just described. This means that as far as its statutes go IPEX is already able to change from a trade promotion into a trade development organization. Yet IPEX first needs a new strategic

vision and management focus and upgraded staff competencies. If it is effective enough in implementation it can, over time, evolve into a true trade developer as recommended. IPEX, therefore, needs to begin repositioning itself as follows:

- Focus initially on trade facilitation;
- Refine promotion capability;
- Activate and stimulate trade awareness programs;
- Reactivate the institutions board (private sector, customs, etc.) by presenting relevant issues;
- Recommend policies and concrete measures to promote trade; and
- Generate measurable results, create visibility, and gain political credibility.

Having gained political credibility, IPEX will be in the position to expand its activities.

INDUSTRY FOCUS

At present, countries like Mozambique need to stimulate and attract investment in labor-intensive low-tech industries, such as agriculture and apparel. Agriculture needs immediate attention, for several reasons. First, it is the country's natural vocation and production already exists. Second, it holds the greatest promise for creating jobs in the provinces and preventing rural exodus. Third, it has significant potential to respond rapidly to any consistent stimulation, as it is already growing in spite of a hindering environment. And finally, international investors are already interested in Mozambique, but many are still reluctant to actually invest. Apparel also deserves some special attention, even though it will need a special environment or regime to attract investors.

Appendix. Contacts

Name	Organization
Tim Born	USAID
Jack Walter, Juma Juma	Technoserve
Ramon Ynaraja	European Commission
Monty Hunter	Farmer, exporter
Fernando Souto	Wood manufacturer, carpenter
Roberto Ramarini	Wood manufacturer, carpenter
Fernando Lichucha	University E.M., Faculty of Economy
Taibo Mucobora	University E.M., Faculty of Law
Paulo Negrão	President of fruit farmer's association
Mariam Menezes	Sal & Caldeira Associados
Engo. Dombo	Centro de Promoção de Investimento (CPI)
Graeme White	Dalman, wood and furniture manufacturer
Danilo Nala	Alfândegas
Jerry Marquetos	Cimpogest
François Fourrie and Isabel Soares	Standard Bank
Mohamed and Peter Wong	Maputo Clothes (apparel)
Samual Langa	IFZ - Parque industrial de Beluluane
Gama Afonso	"Despachante"
Paulo Fumana and Jim LaFleur	CTA