



**USAID**  
DO POVO AMERICANO

**SPEED**  
Por Melhor Ambiente  
De Negócios

## Support Program for Economic and Enterprise Development (SPEED)

2 November 2011

# Challenges of the Mozambique's Economy: Private Sector Vehicle of Development and Sustainability

---

## Summary

The private sector is fundamental to the economies. It generates income, wealth and jobs. The development of the private sector depends on the business environment, challenges facing the economy and how governments react to those challenges.

The future in Mozambique has an excellent possibility of being bright and exemplary. The past shows important transformations existed in terms of annual growth reaching 6-8 percent and poverty being reduced from 69 percent in 1996-97 to 55 percent in 2007-08. The future however depends on how the challenges ahead will be addressed. The main challenges to Mozambique are:

- High economic growth but with no impact on poverty reduction since 2002-03.
- Three-quarters of the population only generates one-quarter of national income, and these are about 2/3 below the poverty line. This is the result of stagnating productivity in the main staple crops in the last 50 years.
- The private sector (formal) despite being about twice as large as the government or public administration faces serious impediments determined by a complicated, bureaucratic and impeding business environment. The economically-active population in Mozambique in 2007 was 10.6 million while formal jobs did not even reach 900 thousand.
- Mineral resources and gas and petroleum should provide for acceleration of growth and poverty reduction. These resources need to be properly used through efficient and effective public expenditure.
- The real appreciation trends of the exchange rate will certainly increase further in the future as revenues from mineral resources and gas and petroleum will grow. This trend will cause negative impacts on competitiveness and on the private sector development if policies are not put in place to enhance productivity and competitiveness of the economy.

The Note looks at the challenges facing Mozambique and makes considerations and proposals to address those challenges. The Note includes the following proposals:

- Increase agriculture productivity, especially of the main crops,
- Improve the business environment to stimulate private sector growth,
- Analytical work on the impacts of an appreciating real effective exchange rate over the medium and long-term and policy recommendations,
- Analytical work on the efficiency of tax policy and administration, possible reduction in rates, simplification and broadening the tax-base, and
- Maximization of revenues from mega-projects and non-renewable resources, and improving public expenditure efficiency, effectiveness and absorptive institutional capacities .

This Note was produced by SPEED. SPEED is a USAID-financed project. The Note reflects only the opinion of its authors.