European Commission

Mozambique

Private Sector Support Programme: Assessment of the use of EU External Investment Plan (EIP); Infrastructure, Agriculture Value Chains, SMEs Access to Finance.

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About the TPSD/E Facility

The TPSD/E Facility is an advisory service of the European Commission (EC) managed by the Unit C4 in charge of Trade and Private Sector Development and Engagement within the Directorate General for International Cooperation and Development (DEVCO).
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Disclaimer

This report was drawn up by Yves Speeckaert and Maria Nita Dengo, two experts deployed by the TPSD Facility at the request of the European Union Delegation in Mozambique. The contents of this publication do not necessarily reflect the official position or opinion of the European Commission. The European Commission, or any other person acting on behalf of the Commission, may not be held liable for the use which might be made of the information contained in this report.

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1. **Context within the External Investment Plan (EIP)** Erreur ! Signet non défini.

ACRONYMS AND ABBREVIATIONS –

ACIANA	Associaçao Comercial, Industrial e Agricula de Nampula
ACIS	Association of Commerce, Industry and Services
ADB	African Development Bank
ADRA	Action for Rural and Environmental Development
AICAJU	Association of Cashew Producers of Mozambique (Associação de Industriais de Caju de Moçambique)
AICEP	Agency for Investment and Foreign Trade of Portugal
AIPO	African Intellectual Property Organisation
ADB	African Development Bank
ADRA	Action for Rural and Environmental Development
AFD	French Development Agency
AIPEX	Agency of Private Investment and Export Promotion
AAM	Cotton Association of Mozambique (Associaçao Algodoeira de Moçambique)
AMA	Associaçao Moçambicana de Avicultores (Poultry Producers Association)
CBWAS	Central Bank of West African States
CTA	Confederation of Economic Associations of Mozambique
DEVCO	General Directorate for International Cooperation and Development
EBOWWN	European Business Organization Worldwide Network
EDC	Enterprise Development Centre
EC	European Commission
ECWAS	Economic Community of West African States
EDF	European Development Fund
EFSD	European Fund for Sustainable Development
EIP	External Investment Plan
ENDE	National Development Strategy
EPA	Economic Partnership Agreements
EPA	Export Promotion Agency
EU	European Union
EUBFE	European Business Forum to Ethiopia
EUBG	EU Business Groups
EUD	European Union Delegation
FPSAD	Framework Programme for the Support of Agricultural Diversification
GDP	Gross Domestic Product
GNP	Gross National Product
GTNIP	Technical Group for the Negotiation and Implementation of Commercial Exch. Of SADC
ICP	Industrial and Commercial Profit
ICT	Information and Communication Technologies
IDA	International Development Association
IANOQ	Instituto Angolano de Normalizacao e Qualildade
INCAJU	Instituto de Fomento do Caju
IFC	International Finance Company
LDC	Less Developed Country
MFE	Microfinance Establishment
MCA	Millennium Challenge Account
MCC	Millennium Challenge Corporation
MFSP	Meso-finance Support Project
MAF	Ministry of Agriculture and Forestry
MEF	Ministry of Economy and Finance
MIC	Ministry of Trade and Industry
MiT	Ministry of Tourism
MSME	Micro Small and Medium-Sized Enterprise
NICT	New Information and Communication Technologies

NPL	Non-Performing Loan Rate
OHADA	Organisation for the Harmonisation of Business Law in Africa
PPD	Public-Private Dialogue
PSDSP	Private Sector Development Support Programme
RES	Real Estate Securities
RIP	Regional Indicative Programme
SADC	Southern Africa Development Community
SB4A	Sustainable Business for Africa
SE4All	Sustainable Energy for All
SME	Small and Medium-Sized Enterprises
TPSD/E	Trade and Private Sector Development and Engagement
UNDP	United Nations Development Programme

EXECUTIVE SUMMARY - PRIVATE SECTOR SUPPORT

Background and justification

The EIP has been designed as an investment and Technical Assistance instrument to directly or indirectly support private sector growth and job creation in economically viable and sustainable industry, services and agricultural segments. This report aims at proposing a number of infrastructure related and also direct private sector support initiatives and opportunities for consideration under the EUR99M EIP facility.

The European Union (EU) considers the development of the private sector, trade and regional economic integration to be powerful levers with which to reduce poverty. Its strategy of engagement with the private sector aims to stimulate growth and investment, create jobs and generate tax receipts to finance public services. With the objective of boosting development of its commercial partnerships, the EU has set up the Trade and Private Sector Development & Engagement (TPSD/E) Facility within Unit C4 of DEVCO, as the unit in charge of trade and private sector development.

What initiatives could be taken in order to foster private sector job growth and innovation driven economic opportunities for the Millennium generation of Mozambicans and how to initiate the change of mindset and capacity building for a new generation of entrepreneurs. In our view, along with strengthening the Agriculture and small manufacturing value chains and sectors, this is the main challenge of Mozambique today and for the incoming years.

In 2017, the European Union adopted the External Investment Plan (EIP) to invest more in its partner countries in Africa and the Neighbourhood to support inclusive growth and combat (illegal) migration. The EIP is based on three pillars: the European Fund for Sustainable Development (EFSD), technical assistance and promoting an investment-friendly climate. The European Commission provides an envelope of EUR 4.1 bn to fund the EFSD, and aims to use it as a lever to mobilise more than EUR 44 bn of additional public and private funding. Below are a set of 8 Propositions (or EIP Windows) for implementing (and using) the EUR99M EIP facility in Mozambique.

Modalities for implementing the External Investment Plan in Mozambique

A. Infrastructure EIP Window – Pillar 1 and 2 investment opportunities

In our discussion with the African Development Bank and various bi-lateral Development banks (KfW/ GIZ and AFD/ Proparco), it became clear that capital investment into basic infrastructures, such as roads, water and electricity utilities, and logistical and regional corridors was still very much at the top of the development agenda. These are coherent also with the two large 11th EDF PROMOVE Agribiz and PROMOVE Energy, with respective budget of EUR68M and EUR94M.

Given that much of the Rural Development aid of the EUD focuses on the Provinces of Nampula and Zambezia, a parallel investment into the road and logistics infrastructure of the Nacala Corridor does make sense, and is also complementary to an existing project from the AFDB to complete the road infrastructure of the Corridor , from Nacala down to Lilongwe in Malawi (reinforcing also trade route in the context of the FTA of SADC). Through our various exchanges with KfW and AFD, several Energy related project opportunities arised also.

EIP (Pillar 1) Investment Windows N2: *(Private Sector Support/ Infrastructure EU) : analyse the opportunity of completing the* ***upgrading the stretch of road from Malema-Cuamba*** *(on the Nacala Corridor), estimated at USD24M which will complement the USD138M total project financed by ADB , jointly with JICA and Kexim. This road upgrading (in hard bitumen) will be connecting rural farmers and rural cities, with access to domestic and regional markets and become an enabler of agrobusiness and rural PSD. – Total EU contribution: USD24M; partner DFI: African Devt Bank..*

On the German bi-lateral level, KfW is also heavily involved in structuring and funding a series of renewable Energy projects throughout East Africa, as well as the rehabilitation of a number of medium size Hydro in Mozambique. These projects stems from a relatively long and sector specific expertise in structuring, funding and grid integration of > USD500 Million worth of RES projects in Uganda, through the "Get Fit" Uganda programme that has implemented 17 RES projects successfully, adding 158 MW of RE capacity to the grid. The additionality (EIP key criteria) is clear in these projects as the KfW Fet Fit subsidy was $104M which mobilised $439M of additional private and public sector financing for these projects (mainly private).

The innovative aspect of the KfW led GET FIT Renewable energy implementation programme is that it unlock and creates "fitted" local energy solutions that both increase access to energy at provincial/ secondary cities or rural level (outside of big cities) and does that in a smart way that distribute energy via small scale RE projects near the "load centers" which in turn alleviate the transmission constraints (and cuts) from the main (EDM) Electricity operator. As said, Get Fit has been successfully (and fully) implemented in Uganda – with more than 150MW installed and connected, and is now being implemented in Zambia, with over 200MW worth of solar PV and Small Hydro projects.

EIP Investment Windows N3: *(Private Sector Support/ Infrastructure EU) : analyse the opportunity to join KfW (or AFD on similar Proler Energy deals) as an partner DFI to* ***co-finance 1 or 2 "Get Fit" technical assistance and Gap Funding package*** *in order to facilitate the structuring, set up, and implementation of these useful "****complementary energy generation and distribution****" infrastructure in secondary cities, which in turn increase the Universal coverage of electricity and increase the reliability of energy provision for all Businesses and stakeholders in the sub-region.*

The details and committed/ needed budgets for these Get Fit energy projects are yet to be fully disclosed (or even determined) as KfW is still working on the feasibility study , along with GoM and EDM. But in term of additionality, there is a strong fit with EIP funding and TA philosophy.

B. Access to Finance for SMEs (Pillar 1 & 2) – Investing into the Entrepreneur value chain

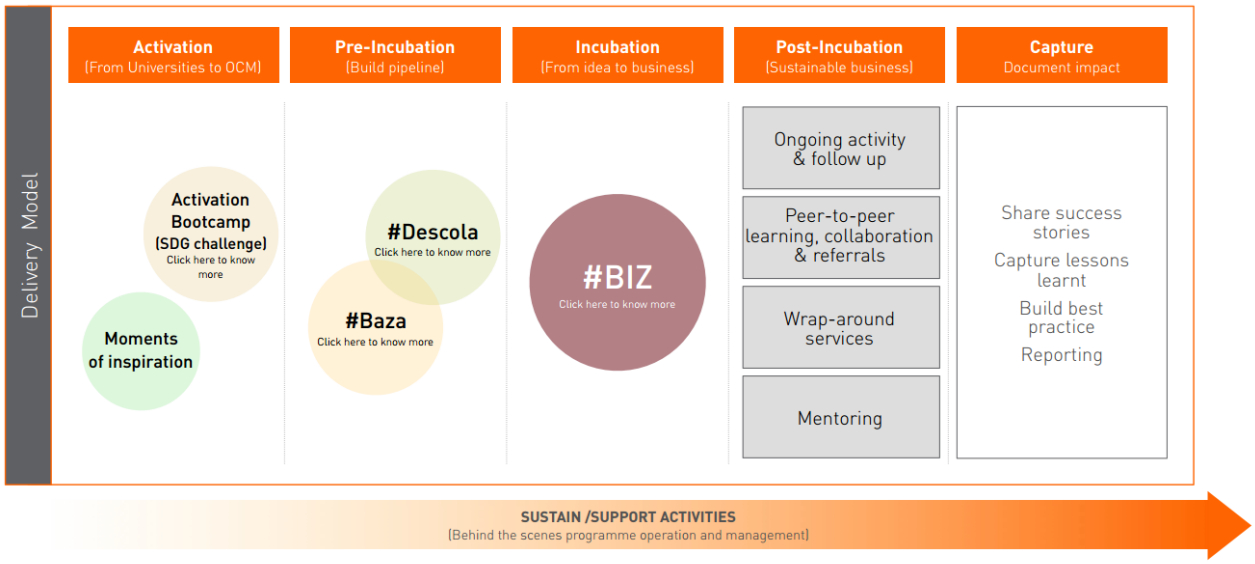
As we have seen other regions and countries of Africa developing successfully Ecosystems for identifying, incubating, developing and funding entrepreneurs, such as Rwanda and Kenya, we tested the assumption that Mozambique, like most other African countries, had a growing population of "promising but frustrated entrepreneurs and innovators" which have business ideas, but lack both capacity building and access to finance, to bring these ideas into the market.

Upon meeting and interviewing over 10 co-working companies, VC funds and incubators operating in Mozambique, we discover that a) Mozambique did have an kernel of an innovation ecosystem and b) that some of these incubators and VC funds were working hard to build up and finance a new generation of Millennium and job creating entrepreneurs.

In our view this "Sweet spot" is the essence of the EIP facility, in that it provides strong additionality, job creation, and leads to the creation of new industries into a relatively stagnant private sector.

As an example of a European "Innovation" support initiative, we interviewed ORANGE CORNERS MAPUTO (OCM), an initiative of the Embassy of the Netherland, in partnership with a couple of leading sponsors such as BancABC, Dutch Shell, Heineken, Vodacom, etc. OCM targets Mozambican young entrepreneurs that recently graduated from the University and that carry a business initiative or start up business plan. The purpose of OCM is captured in the following Activation and Incubation activity model below – and aims at identifying, build up a pipeline of skilled young Mozambican entrepreneurs through the entrepreneurial journey, from 1 day awareness programmes, 3 days Activation Bootcamp, down to 6 Months full business incubation programme on a short list of 35-40 Entrepreneurs selected through interviews and peer review.

Graphic N1: Incubation and Post Incubation services of Orange Corners (Dutch Embassy)



In short OCM is a European Initiative that provide a full business support programme for young entrepreneurs who aim to launch their business and validate their access to market strategy. In our view, co-funding their expansion programme throughout Mozambique provides a lot of additionality and fits very much the EIP Pillar 1 and 2 intervention philosophy.

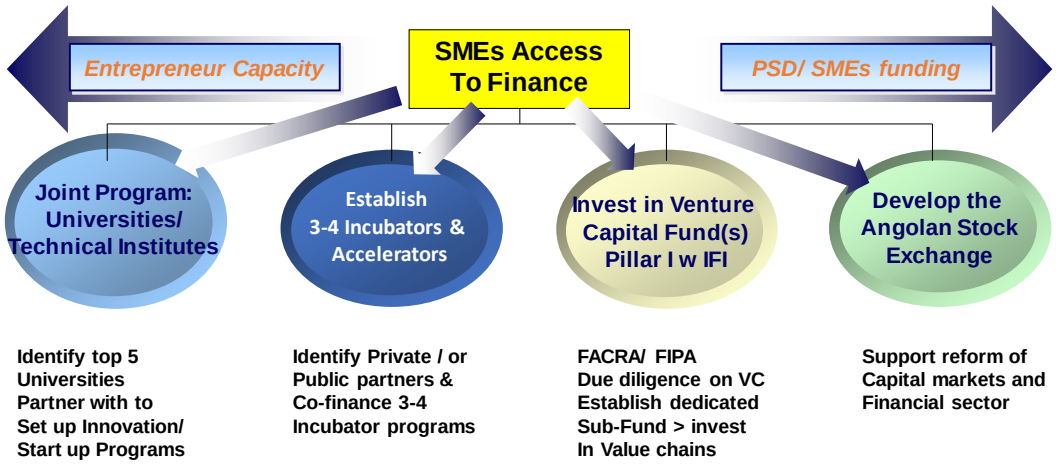
***EIP Investment Windows N4 - Private Sector Support Programme**: Use EIP Pillar I funding facility to finance and truly develop at least **2 privately run Enterprise incubators in Mozambique**, in order to provide to Mozambican entrepreneurs, a) a conduit through which they can develop their business, receive peer-to-peer and professional business coaching, and also lead to the initial equity funding of their business; and b) use the EIP Pillar II Technical Assistance facility to provide training of trainer and expert lead coaching of these Incubators and Accelerators – possibly through the **partnership with Europe's best run incubators** such as Portugal based Creative Hub of Beato[1], among others.*

*Our pick (based on 10 interviews and meeting with ecosystem players) would be to provide grant support to **Ideialabs** and **Orange Corners**, to finance their expansion plans beyond Maputo in the Maputo Province, Sofala, and Cabo Delgado. Additional grant support should be considered for Mozambique Business Angels Associations, as a Pillar III support to structured dialogue with a pivot SME support organisation.*

The Intervention clusters to the right (downstream in the Innovation life-cycle) of the following graphic (to Finance and Skills) focus on creating opportunities for companies, and going concern **to get access to equity capital through Business Angels, Venture Capital and Private Equity funds or entities**, which provides : a) selective investment into promising SMEs through a rigorous selection and due diligence process and b) 3-5 years hand holding, enterprise coaching, and re-investment services to the selected portfolio of companies. As the purpose of a Private Equity or VC funds is to make a multiple of the initial capital equity (or multiple of the EBITDA valuation of the enterprise) through a successful Exit strategy, VC/ PE Funds often provide several rounds of financing to their portfolio companies.

Graphic N2: Options for EU EIP Pillar I and II funding intervention: Access to Finance and Skills

[1]https://www.morningfuture.com/en/article/2017/10/20/incubator-hub-do-beato-startup-portugal-record/119/



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EIP Opportunity Window N.5 – VC Funds - *the another tangible private sector support opportunity for the EIP Pillar I and II is : a) making an* ***equity/ grant investment directly into Venture Capital fund****, and b)* ***provide Technical Assistance to the funds*** *to help coach the portfolio managers and also provide direct Management skills to the companies invested in.*

We have interviewed three VC Funds with contrasted profiles and track record, from greenfield funds such as ***Third Way Africa*** *and* ***Impacto Capital****, to the Private Equity extension of* ***GAPI*** *(Capital Management) which has a 30 year track record of identifying, working with and financing rural SMEs.*

Typical Equity (or Grant) investments in such funds amounts to no more than 15-20% of total AuM (Asset under Management) , which can be anything from ***EUR1 to 5M funding requirement****, depending on the level of capital at first or final closing (African VC funds are typically USD 20-30M in size as local market cannot "take" / provide much more quality small and medium size companies beyond this investment pool. This investment need to be oversighted by a DFI.*

Lastly, As part of our analysis of the Business climate (Pillar III of the EIP), some key gaps appear in the regulatory framework supporting the ecosystem of private sector development and funding, including and foremost the development of Capital Markets and Stock listing as an alternative to onerous bank credit, leading to our first opportunity for EIB funding, focusing on modernising the Securities market in Mozambique.

EIP Window/ Action Recommendation N1 *(Private Sector Support EU) : analyse with the GoM the priority and possibility of drafting (or modernising) the* ***Stock Exchange Act and Capital & Securities Market laws*** *of Mozambique, in order to create a viable alternative to capital formation and capitalisation in promising and innovative Mozambican companies and SMEs. Also study the possibility of setting up a* ***Junior (Equity) market*** *as part of the Maputo based Stock Exchange.*

This would be a typical intervention of the Pillar III (Business Climate) of the EIP.

Identification of Value Chain Opportunities in the Agricultural sector

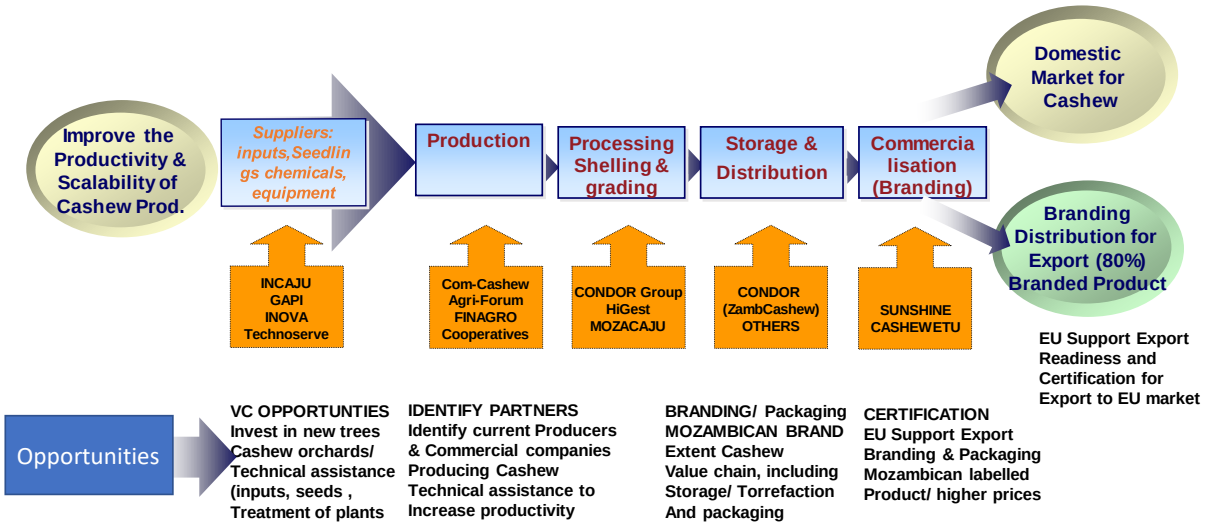
The Government of Mozambique has put in place the Strategy and Plan for Agricultural Development (*Plano Estrategico de Desevolvimento do Sector Agrario* (PEDSA, 2010-2020)) and the National Agricultural Investment Programme[2] – (PNISA, 2014-2018) to achieve its agricultural development objectives.

Upon our interview of the Ministry of Agriculture and further review of key documents, we cross referenced the priorities of the MinAgri, with the various EDF programmes (see summary of key EU Programmes in Business climate section) of support undertaken by the EU, including in developing rural infrastructure, reinforcement of seeds production and varieties, and strengthening the cashew nut value chain and transformation.

Much of the focus at the level of the Government has been on re-launching agricultural value chains that were well developed during the colonial times (such as Corn, Cashew, Cotton, Soybean, Rice, Sugar Cane, etc) and developing national production and transformation units, more evenly distributed throughout the country. Also increasing the production of chicken and eggs ("avicultura") was on top of their list, given the strong deficit in national production vis a vis the supply (6 Million chicken produced for 13 Million needed).

However, given the current focus of the 11th EDF focused on rural development programmes, we selected two Value Chain in particular, that is: a) strengthening the Cashew Value Chain; and b) supporting the production of quality Cotton seeds for the > 1 Million farmers depending on that key African cash crop.

Graphic N.3: Cashew Value Chain: Improving the productivity, scalability and marketing



(*) EMBRAPA Crop Value Chain Methogology, 2015, Analysis TPSDE, 2018

[2] Programa Nacional de Investimento do Sector Agrario, PNISA, 2010-2020

We identified the following two Value chain corresponding to the above mentioned criterias:

- **Cashew nut Value Chain: improving seedlings, inputs, productivity, scalability and Branding/ commercialisation of Mozambican Cashew as branded products;**
- **Reviving Cotton production and particularly quality seed selection and funding oil crushing of seeds ;**

EIP Window/ Recommendation N6 – Agricultural Value Chain Opportunity: *Provide grant and TA support at three levels that will* ***Improve the Scalability, Productivity and Commercialisation of Cashew Nut in Mozambique:*** *a) contribute to rebuilding new cashew orchard, supporting private sector led initiatives to scale up small holder production in organized cooperative plantations, particularly in Nampula and Zambézia. Invest in new trees Cashew orchards/ provide technical assistance, inputs, seeds and treatment of plants, b) support investments in cashew secondary processing and c) support investments in efficient supply chain management and branding in the Mozambican cashew industry, levering the better traceability of Mozambican cashew nut to promote Branded and Differentiated Cashew and assuring certifications, including food safety and organic, could contribute to reach premium markets.*

Cotton is the most important agricultural export crop in Mozambique and one of the major sources of income for 223 583 households (more than 1.3 million of inhabitants) in rural areas. With a few measures to improve the Seed stock, variety and supply, we can dramatically improve on Production yield, quality of cotton lint and also offer new revenue sources to farmers.

EIP Window – Agricultural Value Chain Opportunity N7.: *Provide grant and TA support at two levels that will Strengthen the Productivity of Cotton farming for small holder farmers, Increase the revenue stream (from cotton seed, oil crushing and production of animal feed) and increase the export potential for the country: a)* ***Contribute to the research, varieties and revamping of the Cotton seed production in Mozambique*** *– increasing the yield, and the quality of the cotton lint; b) grant support* ***to finance small to medium size Cotton seed crushing facilities IN Mozambique,*** *and close to the main cotton cultivation centers (Nampula, Zambeze, Inhabane, Cabo Delgado) – allowing for farmers or cotton cooperative to increase their revenue stream and hence the attractiveness of the Cotton, as a cash crop.*

EIP Pillar III (Business climate and structured dialogue) Opportunity

Finally, we interviewed various European Companies, and also the current head of the European Business Club, which does a lot with very little resources and a "sub-developed" organisational platform. It deserves better support. Hence we are suggesting a Pillar III EIP intervention below.

EIP (Pillar III structure dialogue) Opportunity Window N.8: *Given the relative lack of resources, critical mass of the current EBC, and on the other hand the strong interest from the part of the GoM (MIC as interface) to have one Ombudsman as a mediator on behalf of the European companies and interest, we would like to propose as a Pillar III Window of opportunity, budget support (Structured Dialogue) for formalising, providing SD resources (from other best practice EUCC in Africa) and giving initial support toward the creation of a* ***EU-Mozambique Chamber of Commerce****.*

The purpose of the European Chamber of Commerce would be to strengthen the bilateral liaison of European investors in African countries and interested African actors to export and do business in Europe (two way). In this context it would be to encourage and foster bi-lateral trade and investment between the EU and Mozambique.

1. BACKGROUND, OBJECTIVES AND BUSINESS CLIMATE

1.1. Justification of the assignment

After more than a decade of strong GDP growth from 2005 to 2015, where the country has experienced 7% average real GDP growth, the economy has almost stalled due mostly to political and macroeconomic management reasons, as well as some external factors. The discovery of sizeable sovereign guaranteed commercial debt in 2016, shook the confidence of both the multilateral bank community and also the foreign investor community, leading to the withdrawal of most budget support facilities to the public treasury and fall in the country credit rating to almost default status. After many years of high growth and high level of FDI, mostly in capital intensive mega-projects, such as Mozal aluminium plant, coal extraction by Vale in Tete Province and medium size hydro powered plant, the investment in Mozambique has stalled, mostly on the perception of country risk and also real and remaining Business climate constraints.

On the other hand, with the discovery of large gas deposits in the Northern Province of Cabo Delgado, linked to the deep-sea port of Nacala and its inland corridor, Mozambique has the potential to renew with economic growth and also see large inflows of foreign direct investment, led by the Major Oil companies and their suppliers. Hence much of the growth outlook is hinging on developments in the extractive sector and also agricultural commodity sector. In that sense the commodity price fluctuations will continue to pose large risks to the economy. Both inflation (at above 18% in 2017) and also interest rates (XX at the Central bank level, and >25% for commercial banks) has direct implications for Mozambican households and for monetary policy, which should seek to ensure a stable price environment. Mozambique reference lending rate is now the highest in Sub-Saharan Africa, impacting negatively both access to finance (principally credit) for Small and Medium size companies.

The focus of much of the multilateral donors has been on budget support to the Mozambican treasury and on improving basic infrastructure (roads, utilities, ports, and communications corridors) which has been important on unlocking the potential of a number of regions. However little attention has been given to one of the most relevant statistics of the country: Mozambique labour force (and demographic base of working age young adults) will be growing very fast, at a rate of almost 500,000 a year over the next decades – that is the entire population of the GD of Luxembourg – double the growth experienced in the last decade. The public sector can absorb at most 20,000 a year. The Private Sector, the development of economically viable and sustainable agricultural value chain, new and innovative urban service and product companies, among other, becomes crucial for the absorption of the labour force. The Gap between supply of jobs and demand in jobs is increasing at a worrying rate. Hence direct and indirect support to the private sector, education and capacity building for the new generation of entrepreneurs, and access to finance for SMEs becomes the new battleground for both the GoM and developing partners.

The EIP has been designed as an investment and Technical Assistance instrument to directly or indirectly support private sector growth and job creation in economically viable and sustainable industry, services and agricultural segments. This report aims at proposing a number of infrastructure related and also direct private sector support initiatives and opportunities for consideration under the EUR99M EIP facility.

What initiatives could be taken in order to foster private sector job growth and innovation driven economic opportunities for the Millennial generation of Mozambicans and how to initiate the change of mindset for a new generation of entrepreneurs. In our view, along with strenghtening the Agriculture and small manufacturing value chains and sectors, this is the main challenge of Mozambique today and for the incoming years.

The European Union (EU) considers the development of the private sector, trade and regional economic integration to be powerful levers with which to reduce poverty. Its strategy of engagement with the private sector aims to stimulate growth and investment, create jobs and generate tax

receipts to finance public services. With the objective of boosting development of its commercial partnerships, the EU has set up the Trade and Private Sector Development & Engagement (TPSD/E) Facility within Unit C4 of DEVCO, as the unit in charge of trade and private sector development.

In parallel, the EU's External Investment Plan (EIP) adopted in 2017 has the objectives of increasing investment in partner countries in Africa and the Neighbourhood, thus contributing to inclusive growth, decent job creation and sustainable development whilst curbing the causes of irregular immigration to Europe. Implementation of the EIP in Mozambique, with structured support from the main International Finance Institutions (IFI) present in Maputo, mainly the African Bank of Development and bi-lateral development banks, would enable the EU to follow its objectives of developing the private sector through the three pillars, namely the European Fund for Sustainable Development (EFSD), technical assistance (TA) and the promotion of a favourable investment climate.

This report is divided into 5 chapters:

- Chapter 1 presents the **socio-economic situation of Mozambique** as well as the strategies of development of the Government (main axis of the "*Estrategia Nacional de Desenvolvimento*[3]" 2015-2035) , the EU and the other stakeholders in terms of strengthening the private sector. It also contains an analysis of the main priorities in terms of **Business Climate improvement**.
- Chapter 2 describes proposals for implementing the EIP in Mozambique and assessment in particular of the potential to use the EFSD (EIP) guarantee facility, on the basis of the EIP investment windows. This will focus on two axis of interventions: a) **infrastructure related financing** (in the Energy an Road sectors mainly) and b) on **strengthening the Access to Finance for SMEs** – through the existing eco-system of business angels and VC Funds - and also reinforcing the Management skills of Mozambican entrepreneurs through incubators and accelerators.
- Chapter 3 focuses on the **Value Chain opportunities** identified during the assignment in Mozambique, and in particular the agricultural value chains that will revive a selected number of specific crops – such as the **Cashew nut and the Cotton** – which have been (or are being) supported by the 10th and 11th EDF and can have an impact on both job creation and anchoring as well as export potential; We looked at intervention areas that are complementary to the EUR68M strong 11th EDF programme on rural development (Cashew, rural infrastructure and seeds).
- Chapter 4 will develop on the **structured dialogue opportunities** with the Government of Mozambique (GoA) and outline Options proposed for the strengthening of the existing EU Business Club in Mozambique (and option to evolved into a broader service **EU Chamber of Commerce**), whilst taking into consideration the need for its sustainability and integration of best practices in line with the Sustainable Business for Africa (SB4A) platform.
- Chapter 5 provides a set of conclusions and recommendations.

Objectives and expected results of this report[4]:

Objective of the assignment: The main objective of this assignment is to 1) conduct an extensive analysis of the meso-level actors, as well as 2) identify investment opportunities within the framework of the EIP.

[3] « Estrategia Nacional de Desenvolvimento"/National Strategy of Development, Governement of Mozambique (Ministry of economy and planning), 2014

[4] Cf. Appendix 1 Terms of Reference, Mission of the EU TPSDE facility to support the EU Delegation to the Republic of Mozambique.

- Expected outputs: The final output of the assignment will be an analytical report covering the following aspects:

1. An analysis of the meso-level actors active in Mozambique (national and international) investing in Mozambique.

- Meso-level actors include business associations/chambers of commerce (both those representing Mozambican and foreign companies), incubators, researchers, TA providers, investor networks, hedge funds, private equity funds.
- The aims shall be to identify the main meso-level actors, objectives, interests and areas of intervention which could potentially link/contribute to the EIP.

2. An analysis and identification of the presence of European Union companies in Mozambique, and analysis of main interests in terms of sectors, investments, trade and so on:

3. An analysis of potential investment opportunities within the framework of the EIP. Identify potential EIP projects, in this sense, key areas of support should include energy, agriculture and water supply

During the kick off meeting, the Head of the EU Delegation also insisted on looking closely at opportunities related to Pillar III (Structured dialogue and Business climate). We agreed to add the following analysis to the scope of work: Structured Dialogue Mechanisms: a) to analyse the options for setting up an EBO in Mozambique – and benchmark these against other African EBOs and EUCC experiences, as well as b) support to civil societies and business associations (Chapter IV will address this issue).

The EUD senior Directors also insisted strongly on focusing and including an analysis of infrastructure related partnership that can be developed with the main Multilateral and bi-lateral banks – particularly on funding (or co-funding/ complementing) alternative energy projects (solar, wind, Hydro), water utilities projects and roads infrastructure. So did we.

1.2.Socio-economic context and impact on Private Sector Development

Mozambique has been a fast-growing economy, averaging 7% GDP growth between 2011 and 2015, and >8% of growth in the decade earlier. Since 2016 however, the country shifted to a more modest pace of growth, barely above its population growth, after the disclosure of the 2016 hidden debt crisis. In 2016, the discovery of undisclosed government loans worth up to $2bn precipitated a hasty reverse of Mozambique's economic success. Real gross domestic product (GDP) growth decelerated to 3.7% in 2017, down from 3.8% in 2016. Small and medium enterprises have fallen back and their capacity to generate jobs has been restricted even further. According to IMF[5] estimates, growth is expected to remain relatively flat at around 3% in the medium-term. Government estimates although slightly higher, tells similar story (See respective IMF and GoM Tables below)

A	2015	2016	2017	2018	2019
GDP (billions USD)	14.8	10.9	12.6	14.6	15.6
GDP (constant prices, annual % change)	6.6	3.8	3.7	3.5	4.0
GDP per capita (USD)	528.9	379.0	426.1	481.2	500.8

[5] *Source: IMF - International Monetary Fund, World Economic Outlook Database, October 2018*

Public Gross Debt (in % of GDP)	88.1	121.6	102.1	112.9	118.7
Inflation Rate (%)	2.4	19.2	15.3	6.0	5.7

Source: IMF - International Monetary Fund, World Economic Outlook Database, October 2018

Table N. XX: Economic projections, Ministry of Economy and Finance, Mozambique.

	2014	2015	2016	2017	2018	2019
GDP (billions USD)	17.3	15.5	11.0	12.6	14.5	16.1
GDP per capita	690	601	411	466	503	557
GDP (constant prices, annual % change)	7.4	6.6	3.8	3.7	4.1	4.7
Inflation Rate (%)	2.6	3.6	19.9	15.5	6.8	6.5

Source: Ministério da Economia e Finanças (Orçamento Geral do Estado 2017 e 2018), INE 2018 Anuário Estatístico 2017

Higher debt service is placing the economy under severe strain. Mozambique is working towards restoring macroeconomic stability, but reestablishing confidence in the economy is a major challenge. This requires improving economic governance and increased transparency. Furthermore, the country's need to implement reforms that could support the currently struggling private sector

The impact on private sector has been huge, particularly for medium and small enterprises (SMEs), already repressed by depressed public and private consumption and facing high credit rates (on average above 25 percent for a one-year commercial loan) and tough credit terms. SMEs capacity to generate jobs, has been restricted by the economic downturn in the post-hidden. The real economy is contracting, except for the primary sector and some services.

[to insert: Pic 1: 2017 GDP composition by sectors, PIC 2: Job creation by sector]

Foreign Direct Investment (FDI inflows) has been and is expected to continue a main growth driver. FDI has been declining after the debt crisis and the country's international credit ratings downgrading. Although, there are expectations of FDI influx positive reversal, as a result of the ongoing initial development stage of the first offshore natural gas extraction project is expected to be followed by exploration projects in other offshore areas, potentially bringing FDI to over 40% of GDP, in line with 2013 levels, previous hidden debt crisis.

The Mozambican economy relies heavily on primary sectors – agriculture, mining, forestry, fisheries, hydropower and gas. In 2016, the main economic sectors contributing to growth were: agriculture 20% (declining contribution), industry 18% (increasing trend, 9% manufactures and 6% extractives), and services 39% (stable out of which 12% from commerce). Investment has been mainly geared towards exploiting opportunities in primary industries, mostly by large multi-nationals. In 2016, 56% of the FDI took place in the extractive industries sector, followed by 17% in the transport and communication sector and 4% in the manufacturing industry (food, drinks, tobacco, textiles, others).

In terms of longer term prospects, considering the expected FDI inflows following the discovery of large gas deposits and related megaprojects, Mozambique has the potential to become a Middle Income Country in the course of the next 15 years.

The table below reflects accumulated FDI inflows per country (2005-2016), with the EU Member States as a group being the third largest origin of FDI into Mozambique..

Country of origin	Mozambique Accumulated FDI inflows 2005-2016 (USD)
United Arab Emirates	6,840,524,583
USA	4,942,007,188
EU Member States	4,091,866,833
Brasil	3,459,276,246
Mauritius	2,909,925,586
South Africa	1,578,607,280
India	1,528,437,197
Australia	1,363,208,126
Other countries	4,857,358,684
China	294,573,025
Grand Total	**31,865,784,748**
Source: Adapted from Central Bank of Mozambique Data	

The largest new programme of investment in Mozambique will be in the Oil & Gas, with the discovery of large deposits of Gas. From 2017 onwards the two main mega investments in gas projects will surpass all other investments. So far one of the two mega investment projects has reached the final investment decision in 2017. Related overall investment in the floating liquefied natural gas platform off the coast of north Mozambique is expected to reach some USD 8 billion, with contracts worth USD 6.33 billion already signed in 2017. The main investors are: the consortium led by Italy's ENI (with 25% stake in the investment) and American Exxon (25% share), includes National Petroleum Corporation of China (CNPC) (20% stake), Portuguese oil company Galp (with 10% stake), South Korea Gas (Kogas) (10% stake) and Mozambican Empresa Nacional de Hidrocarbonetos (10% stake). The second major gas investment is expected to reach final investment decision in 2019 and is led by the American Anadarko.

Based on a recent mission in Angola – the Government of Mozambique will need to carefully manage the medium term influx of USD export earnings and hard currency inflows, in order to avoid the so called "**Dutch Disease**" which in Angola resulted in a) sur-valuating the local Kwanza currency for many years, leading to progressive desctruction of local manufacturing and transformation initiatives (non competitive with lower cost producers in the sub region and internationally); b) with a larger pot of hard currency earnings, PeP corruption and special interest may flourish, and c) longer trend to privilege imports over SMEs development and exports, as seen in Angola where at some points, 90% of all basic cereals and food were imported, leading also to the sub-development of local agriculture.

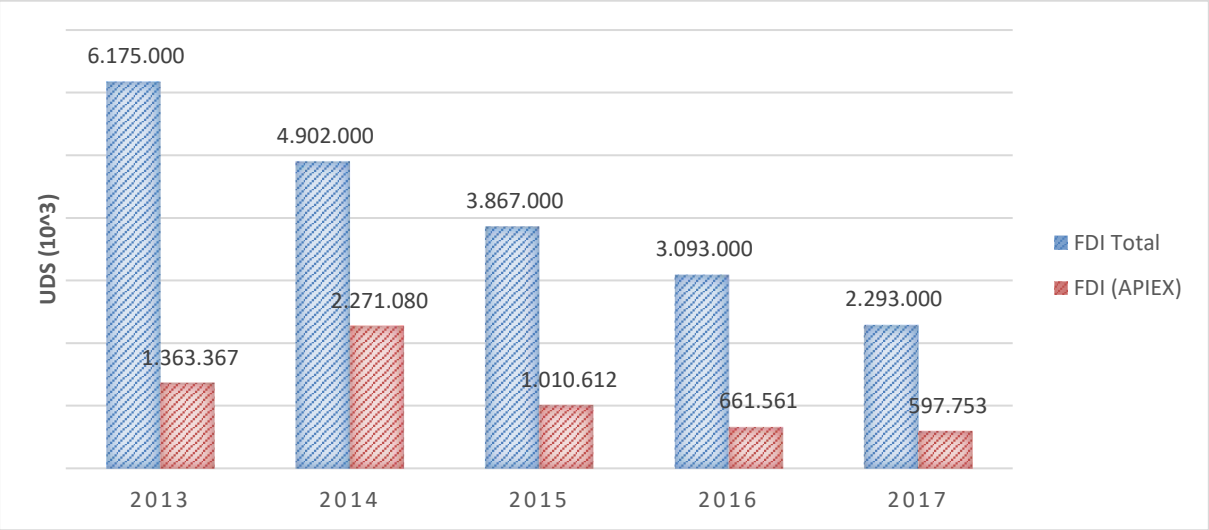
APIEX (Agencia de Promocao dos Investimentos e Exportacao), which is the state organisation in charge of promoting investment / export (CPI/ GAZEGA (Special economic Zones) / IPEX (Promotion of the Exports). More than 75% of FDI infloux does not request special Investment treatment (thus do not go through APIEX) which does facilitate registration on one hand, but also leaves an administration and registration void. In terms of investment related to SMEs, APIEX mentioned the following challenges:

- Doing Business – reforms to help the Investment, including a) access to Land/ geio-referencing of the agrarian land; b) streamlining customs acises and taxes; b) implementing the various key Laws (PPP, Competition law, etc)
- Development of Special Economic Zones/ Zone franche – 4-5 EIZ/ have been planned and some already implemented – like the Zona franqa Beluane (Mozal) and Mucuba/ (Zambeze)– these zones need to be better promoted and supported to produce for export –

- Industrial Poles infrastructure – besides a couple of successfull Industrial cluster, much needs to be done, especially in the Northern and more populous provinces (Nampula, Zambeze)
- Licensing / autorisation/ project which is now approved. However, the licensing is still slow/ already improved a lot – APIEX has approved the projects, but then they still need a licensing from the relevant Ministry – we are not yet at the "Single desk policy" level.

Graphic NX : FDI influx in Mozambique – proportion that need APIEX approval (and not)

Figure 1: Mozambique FDI influx



Source: UNCTAD, INE (APIEX)

In conclusion, the current economic slow down of the country, coupled with weak Public Finance, and a still weak legal and regulatory environment, makes the eco-system for Private sector development still a challenging one. Much improvement and growth has already been recorded, and some Private sector lead Meso-organisation (such as GAPI) are working very hard at saving some SMEs from Bankrupcy and improving their access to finance and medium term planning.

As the next section will show (Doing Business for Mozambique) much remains to be done to provide an optimum ecosystem for spurring Private sector growth and investment. Our suggestion is that the EU should support both current and "Access to Finance" and "Capacity building" ecosystem actors through grant, equity and TA support – which will be developed in Chapter II.

1.3.Political Context and Donor Actions on Development

1.3.1. National Development Plan 2018-2022

Mozambique has approved several development policies and strategies that should guide the country's economic direction, the challenge fall in their effective implementation. The team presents a summary of policy objectives for selected policy documents, as they may directly impact/influence on the EIP proposal.

National Development Strategy (ENDE 2015-2035), is the overarching policy document which should guide the country's development over a period of 20 years. The policy is aligned with global and regional policies, such as the United Nations Sustainable Development Goals, the Strategic Indicative Plan of the Southern African Development Community (SADC), and Mozambique's own 2025 Agenda.

ENDE focuses on four pillars, namely:

A. Human capital development (market-oriented training; expanding vocational education and improving health and safety standards and social protection).

B. Development of production-based infrastructures (investment and of infrastructures: industrial parks; EEZ, aquaparks; thermal power stations; roads, ports and railways; definition of housing areas and State reserves).

C. Research, innovation and technological development (establishment of specialized research and development (R & D) in the following areas: agriculture, livestock and fisheries; energy; mineral resources; management of water resources and ICTs.)

D. Articulation, and institutional coordination (improvement of public institutions, coordination and inter-sectoral coordination, reform of legislation and creation of institutions that serve the industrialization strategy)

To reach intended objectives, ENDE identifies two instruments:

1. Private sector development, where the emphasis is placed on the mobilization of resources for investment in development of small and medium-sized enterprises (SMEs); and
2. Mechanisms for financing public investment

The EIP principles are fully consistent with ENDE as they promote private sector led initiatives in investment, and Technical Assistance.

Industrial Policy and Strategy 2016-2025[6] , with the overall objective of making the industry the main vehicle for achieving the prosperity and well-being of the country through the generation of most jobs, production and value addition on country's natural resources. Similar to ENDE 2015 - 2035, the industrial policy is organized in several pillars:

A. Development of infrastructure

B. Development of Human Capital

C. Entrepreneurship capacity building and development and Protection of the National Industry

D. Access to Finance

E. Promotion of Business Links

F. Incentives for Investment in the Industrial Sector

G. Innovation, Access to Technology, Research and Development

H. Definition of an Appropriate Institutional Model for the Promotion of Industrial Development Promotion of Business Linkages

It is important to note the policy does include focus in areas representing major private sector, particularly SMEs' challenges, such as access to finance, entrepreneurship development, human capacity (to manage, to know how) and infrastructure. These EIP proposal intends to contribute in relaxing some of the current challenges, adding value, creating jobs and capacitating institutions and actors of development. The agri-business sector ranks number one in the priorities defined in the current Industrial Policy and Strategy (See table below).

In terms of Export, the ***National Export Strategy***, under the lead of the Ministry of Industry and Trade, identifies the following products with value-chain potential: cashew, coconuts and piri-piri chilli, groundnuts, soya and sunflowers seeds, sugar, fish, cotton, fruits (fruit-pulp and processed-juice). Timber, cotton (textiles), aluminum, copper cathodes, unrefined copper, rubies, sapphires, emeralds and other semi-precious and precious stones are other products with potential according to this strategy.

Table N XXF: Industrial policy and strategy: priority segments

[6] Política e Estratégia Industrial 2016-2025

#	Ramo	Prioridade Nacional	Potencial para Criação de Ligações Económicas a Montante e a Jusante	Proveniência da Matéria Prima	Geração do Emprego	Potencial para Substituição de Importações	Nível de Produção Actual	Facilidade de Implementação/ implatação	Potencial de Exportação	Total da Pontuação
		100	100	100	100	100	100	100	100	800
1	Alimentar e Agro- Indústria	100	100	90	100	90	100	100	40	720
2	Quimica, Borracha e Plásticos	80	80	90	90	70	50	90	50	600
3	Processamento de Madeira e Mobiliário	50	80	60	50	80	40	45	40	445
4	Minerais não Metalicos	80	80	90	80	70	70	80	80	630
5	Metalurgia e Fabricação de Produtos Metálicos	80	85	90	40	90	30	40	40	495
6	Vestuaário, Textil e Calçado	60	70	90	40	70	80	40	40	490
7	Papel e Impressão	40	50	40	40	50	40	60	40	360
8	Bebidas	30	30	40	40	25	40	40	30	275
9	Tabaco	30	25	40	30	30	40	40	30	265

Source: Politica e Estratégia Industrial

Clearly the implementation of these policies in the current macroeconomic slow down context of Mozambique and the budgetary constraints of the GoM, is going to be a tall order and one where priorities will need to be established, as well as reaching out for private capital and PPP solutions for substituting scarce public financing.

The two most relevant interviews were done with respectively the Ministry of Agriculture and the Ministry of Industry and Trade (MIC), which provided further details on a) the conditions and feasibility of implementing the ENDE and b) the priorities in terms of value chain development.

The Strategic Plan for agricultural development 2010-2019 (Plano Estratégico de Desenvolvimento Agrário – PEDSA) led by the Ministry of Agriculture differentiates between strategic crops for exports and food security/food crops to be supported through priority programmes financed by the public sector. The strategic crops identified are sugar, cotton, cashew, sugar, oilseeds, coffee/tea/tobacco, horticulture and fruits. Crops for food security are cereals, roots and tubers and legumes.

T**he Operational Plan for Agricultural Development (PODA) 2015-2019** confirms these crops and further distinguishes groups of priority crops for food production (Rice, Beans, Vegetables, Cassava, Sweet potatoes, Poultry and Cattle), value chain revitalization (Tea, Citrus, Coffee, Coper, Sisal) and exports (Cashew, Macadamia, Banana, Sugar, Paprika, Cotton).

The Ministry of Agriculture pointed out to the following challenges facing agriculture in Mozambique, and four bottlenecks in particular:

1. **Bottleneck N1**: Quality of Products of Agriculture & loss of production. Most of the agriculture in Mozambique is Subsistence farming, that is informal and lacking quality input to produce quality and productive outputs/ the only real farming entrepreneurs are to be found in subsistence, family farming "*os Camponeses*" – who never stopped farming, and are resilient; Strengthening family / small scale farmers in specific value chain is key;
2. **Bottleneck N2**: Access to Finance – Working capital for farmers (financing of next year inputs, fertilisers, diesel, seeds, etc) – to be repaid with proceeds of crops. This is done for Cashew and Cotton through commercial aggregator – but is still a challenge for most farmers;
3. **Bottleneck N3**: Rural infrastructure - Infrastructure, roads, logistics , dry ports; Stockage points, as the issues is upstream in the production organisation and the right conditioning of the products (and organisation of coooperatives);
4. **Bottleneck N4**: Land re-allocation & Land registry and reliability of the agricultural land concession system – a geo-referencing of the Lands has been partially done in 2012 – but full Sattelite referencing system is still laking. there is a need for a National land re-allocation strategy, seizing and re-distributing "non productive lands" which are not being put to use and wasting valuable agricultural assets & creating the conditions for larger scale commercial farming, conditions for creating economies of scale and also more competitive agricultural supply market.

On the basis of the above priorities, the European Union, who is already supporting the sustainable agriculture of Mozambique with a EUR68M rural development facility (promoting sustainable increase in farmers productivity and support to MSMEs to improving their business competitiveness (adoption of quality processes and business practices), as part of the NIP[7]) should further select out a number of agricultural value chains (leveraging on the current focus on Cashew Nut and Seed programme) , that have the greatest impact in terms of import substitution and a good potential also for transformation, and in some cases, export through certification of the end products.

1.3.2. National Indicative Programme (NIP) 2014-2020 – Republic of Mozambique / European Union

The strategy of the European Union (EU) in Mozambique, encapsulated in the National Indicative Programme (NIP), and reiterated in the Job and Growth Compact, has the following priorities: a) General Budget Support: Within the first priority sector of the 11th EDF NIP "Good Governance and Development", the bulk of the EU support was foreseen through a GGDC as general budget support programme (probably to a lesser extend, given current issues related to Public Finance management) ; b) Support to Trade and Development programme (EUR 6M NIP + possible EUR 6M RIP) - PROMOVE Comercio; and c) EPA Implementation Plan: The Government of Mozambique and the EU, represented by DG Trade and the EU Delegation, launched officially the National EPA Implementation Plan (NEIP) in April 2018. The EPA Implementation Plan and outreach activities include highlighting the opportunities for value chain development. The details of the 11th EDF Plan are detailed below.

1.3.3. Current EU Funded Private Sector Development Programmes

In congruence with the National Indicative Programmes and the 10th and 11th EDF facilities, several EU-funded support programmes are under ways and contributing to the development of specific value chains, infrastructure and strategic sectors for job creation and economic activity in Mozambique:

- ✓ **Focal Sector 1: Good governance and Development**
- ✓ **Support to Trade and Development programme** (EUR 6M NIP + possible EUR 6M RIP) - PROMOVE Comercio - The programme aims to support trade facilitation issues (customs, trade safeguards, quality infrastructure) and aspects of the improving the business environment agenda, with a focus on accompanying the smooth implementation of the SADC EPA and of the World Trade Organization´s Trade Facilitation Agreement. It also aims to reinforce capacities of business associations related to promotion and monitoring of EPA implementation and business environment issues.
- ✓ **Other business environment constraints** (Doing Business and day to day constraints) are foreseen to be addressed through policy dialogue (political dialogue, Private Sector Working Group, public-private dialogue forums). The present action would contribute more directly to the Industrial Policy and Strategy´ pillars related to quality infrastructure and certification, as well as to the simplification of customs. Capacity building is also foreseen through the present programme and regional programmes for specific topics such as: rules of origin, market intelligence and identification and promotion of EPA opportunities in the priority sectors.
- ✓ **EPA Implementation Plan:** The Government of Mozambique and the EU, represented by DG Trade and the EU Delegation, launched officially the National EPA Implementation Plan (NEIP) in April 2018. The Plan identifies EPA Compliance Measures, EPA related business environment actions and trade facilitation reforms, and details technical assistance gaps and recommendations to improve business environment and facilitate trade.

[7] National Indicative Programme 2014-2020, of the European Union with the Republic of Mozambique,

- ✓ **Trade Related Facility regional project** (EUR 2.6 M): two Financing Agreements for Mozambique were signed in mid-2017. Two sectors were selected by the Government of Mozambique to receive assistance to develop strategies for national and regional value chain linkages: **cotton-textile sector and forestry-wood sector**. Implementation is currently on-going, with implementation through the SADC Secretariat and the Ministry of Industry and Trade of Mozambique.
- ✓ **Support to fight corruption in Mozambique** (EUR 10 M): a programme is proposed for formulation in 2018/2019, within the 11th EDF NIP first priority sector "Good Governance and Development". The programme aims to reinforce Rule of Law and Good Governance in Mozambique and in particular to reduce corruption in Mozambique..

- ✓ **Focal Sector 2: Rural Development**
- ✓ Within the "Rural Development" focal sector, a series of programmes are under formulation and focus on two provinces (Nampula and Zambézia). The EU support will target these two provinces as part of an integrated and geographically focused approach to rural development.
- ✓ In order to achieve the two specific objectives under the "rural development" focal sector, the EU is currently in the formulation phase of programmes in the following areas: **rural competitiveness (indicatively EUR 68M),** including components on sustainable agriculture development and rural markets and value chains competitiveness; **access to renewable energy** (indicatively EUR 94M); **protection of biodiversity** and sustainable management of natural resources (indicatively EUR 13M); and, **rural transport** (indicatively EUR 94M).
- ✓ **The rural competitiveness programme - PROMOVE Agribiz** (indicatively EUR 68M) includes two interrelated intervention lines: (1) promoting sustainable increases of smallholders' agriculture productivity and marketable surplus through more appropriate rural extension services and access to more efficient agro-inputs value chains (2) developing inclusive rural markets by helping MSMEs to improve their business competitiveness, including to develop business models that integrate smallholders in their supply chains or to adopt quality processes and standards and improved business management practices.
- ✓ The reinforcement of value chains at local level sits at the heart of the Programme. **Two value chains are targeted: (1) Cashew and (2) Quality seeds**. These value chains are of key socio and economic relevance in the targeted locations, have potential for growth and have sufficient private sector initiative for leverage. Additional value chains might be identified during formulation and inception. The programme will aim to support rural enterprises and commercial partnerships, expected to impact on market development and availability of value chain support services. Such services are likely to benefit also other value chains besides the targeted two value chains.
- ✓ **The 11th EDF PROMOVE Agribiz programme** will promote the adoption of market-driven sustainable agriculture on farm level, including the efficient use of resources while reducing the degradation of natural resources such as loss of soil fertility, moisture absorption capacity, among others. A variety of organic production technologies (such as organic fertilizer production or pest management practises) . Secured land use is expected to have a positive contribution towards sustainable natural resource, soil- and water management, fostering investments into soil fertility improvement or agro-forestry.
- ✓ Through the **SMEs support component**, upgraded or new introduced technologies shall be eco-friendly considering aspects of eco-efficiency (water and energy etc.) and low emissions, as much as possible. Organic product certification is expected to play a role for cash crops in the access of niche markets, as for example in the Cashew value chain to be promoted within the programme (see JGC annex 4).
- ✓ Improve the livelihoods of rural communities through sustainable management of natural resources and protection of biodiversity - **PROMOVE Biodiversidade** (indicatively EUR 13M). Given the country's economic dependency on natural resources, their sustainable management is key to contribute to sustainable, inclusive and broad-based economic growth, to reduce poverty and vulnerability against climate change. The action will complement rural development activities in Nampula and Zambézia.

- ✓ Access to renewable energy within the framework of rural development - **PROMOVE Energia: The National Indicative Programme (NIP) EU-Mozambique 2014-2020** considers access to affordable, clean and sustainable energy services as a key driver for inclusive economic growth. A two phase strategy approach for the energy sector has been developed. A first phase will be dedicated to the implementation of the Energy Project Preparation Facility (PPF); The second phase of the energy programme, the Mozambique Energy Services Access Programme (indicatively EUR 83.5M), currently under preparation, aims to support direct investment on projects supported by the first phase, but not limited to it, with a clear objective of increasing rural electrification. Participation of the private sector through innovative financial instruments such as ElectriFi, the former Africa Investment Facility (AfIF), now the Africa Investment Platform (AIP) under the EIP, will be key for the implementation..
- ✓ **Rural development through improved rural transport in Mozambique - PROMOVE Estradas** (indicatively EUR 94M): through this programme works will be implemented on low traffic rural roads in order to provide climate adapted all weather access to areas of economic growth, particularly in the agriculture and fisheries sectors. The works will include a mix of routine and periodic maintenance, and upgrading of selected gravel roads to paved standard.

Both the Economic Governance (revised NIP) actions , along with the above Infrastructure, Agriculture and Private Sector support programmes are coherent with the ENDE Country Agenda and its top priorities (i) to help strengthening Mozambique's long term stability by enhancing the capacity of the State to deliver good governance, democracy and rule of law including developing anti-corruption policies and encouraging planning and mobilisation of domestic resources; (ii) to support job creation, encouraging regional economic integration and enhanced trade and investment relations with Europe, striving for a level playing field for European businesses and engaging in economic diplomacy (Pillar III); (iii) to support the steps forward taken by Mozambique in its transformation to a resilient and diversified economy able to overcome its dependency on large industrial and FDI projects and develop its SMEs.

As part of this specific EIP Private Sector support programme, with an earmarked budget of EUR99M, the challenge is to : a) identify appropriate Infrastructure projects (in the Energy, Water and/ or Transport segment) that can be committed in 2019; b) identify a few and specific value chains that can be partially or entirely supported by a specific PSD programme; c) that does create a lasting effect on the agricultural or manufacturing production of the country and translating into sustainable job creation; and d) that supports value chains that are complementary to those already funded by other donor initiatives.

*We propose three specific workstreams to be analysed further as part of this Private Sector Support Programme: a) In the context of the European Investment Plan (EIP) facility, grant and TA support be given to selected PPP or public infrastructure in the Energy and road sectors; b) Pillar 1 and 2 support to strengthen the "**SMEs and Entrepreneurship" value chain**" – through targeted support to existing Venture Capital funds and also the creation/ strengthening of two Incubator & Accelerator of enterprise; c) and further analysing of targeted support to the following agricultural value chain and agro-industry transformation VC: **Cashew nut and Cotton Seed and inputs**, each having a strong export and certification potential for the world market (and involvement of European companies and investors) and c) as part of the support given to **civil society and business organisation**, (structured dialogue) analysing the opportunity to provide budgetary support to efficient non-profit organisation that could represent the interest of the Private Sector vis a vis the GoA, and also reinforce the private sector at local level, especially in rural or small urban settings.*

1.4. Business Environment in Mozambique regulatory framework and improvement opportunities

1.4.1. Business Climate in Mozambique

A strong and diverse private sector is facilitated by a supportive business environment. Despite significant efforts over the last 15 years of economic growth and much talk to improve the Mozambican business environment, the country still ranks at a relatively low ranking in international benchmarks. For the last ten years, Mozambique has been falling under the bottom 20%. Similar trend holds for Global Competitiveness Index (GCI).



The challenge is associated with the timid pace of undertaking economic reforms to make a change in the current business environment, characterized by persistent constrains:

- Companies continue to report being negatively affected by **uncertainty** in the business environment, **unpredictable** application of legislation, and **other barriers to investment**, such as access to land, access to finance, excessive burocracy and discretionary power (particularly at local middle – lower levers of administration) and corruption.

- Despite approval of business environment reform strategies, policies, and legislation, there is an overwhelming perception/complain that policy reforms that were expected to dramatically improve the business environment, and which would logically be reflected in increasing business confidence and higher Doing Business rankings, have simply not been effectively well implemented, and some gains have been reversed, such as starting business.

Table 1 : What have been Mozambique DB reform direction?

DB Indicators	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Starting a Business												
Construction Permits												
Getting Electricity												
Registering Property												
Getting Credit												
Protecting Minority Investors												

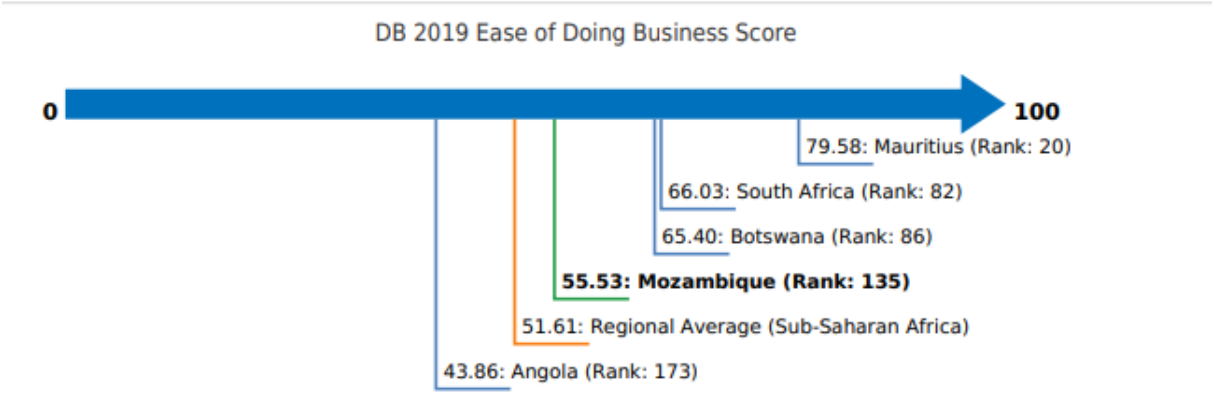
DB Indicators	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Paying Taxes												
Trading across Borders												
Enforcing Contracts												
Resolving Insolvency												

Source: Data from World Bank Doing Business reports

Positive change
Negative change

Business environment recent performance

Mozambique dropped 3 places in the latest Doing Business (2018) report of the World Bank and now holds a global rank of 135th out of 190 countries, slightly above the average for Sub-Sahara Africa.



Source: WB, Doing Business Report 2019

Mozambique dropped 3 places in the latest Doing Business report of the World Bank and now holds a global 135th DB 2019 Rank, slightly above the average for Sub-Sahara Africa, but far below the two top performers in SADC region, namely Mauritius (20th) and Botswana (86th). The diagrams (radar) below show how Mozambique performed in different areas that informed the DB 2019 ranking and how the country's compares with the two top performer countries in the SADC region.

The team interviews with different stakeholders echoed challenges faced on access to finance and the need to have instruments that could facilitate small medium enterprises to access finance for investments; taxes on income being excessively high (32%). On international trade private sector complains continue to be on the fares charged when using (or not using) scanner (non-intrusive

inspection) services. The Figures 2 and 3 below are illustrative.

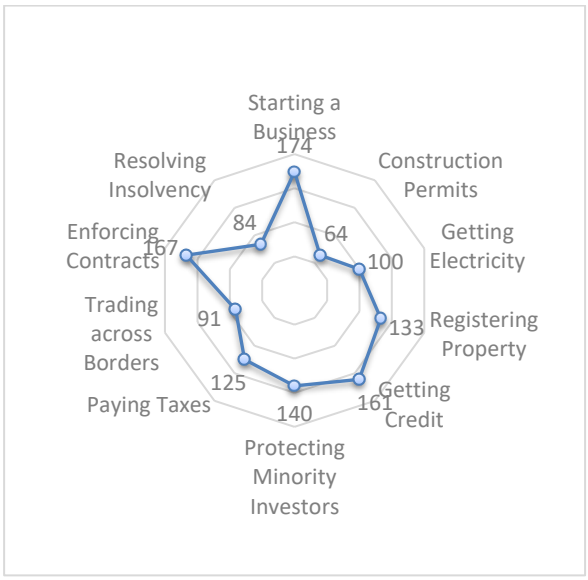


Figure 4: Mozambique DB 2019 Rank by reform area

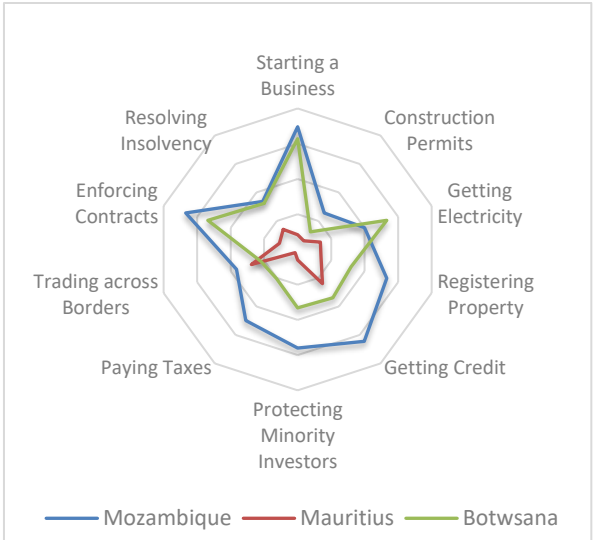


Figure 2: Comparing DB 2019 Rank Mozambique, Botswana and Mauritius

The government made efforts to address some constrains which have been hampering business environment for some years, however some changes on administrative procedures introduced, such as increase the cost of mandatory publication of a company deed taxed the DB rating. These contributed to change the DB 2019 score of selected indicators. Follow some highlights of major DB 2019 score changes as compared with previous year:

Getting electricity score moved up 16.96 % points, perhaps is the key contributor for Mozambique's DB 2019 positive change. Mozambique made substantive progress on access to electricity, imposing new deadlines for connection procedures and streamlining processes reduced the time to get electricity connection by companies. In addition, Mozambique improved the monitoring and regulation of power outages by beginning to record data for the annual system average interruption duration index (SAIDI) and system average interruption frequency index (SAIFI). This is providing information necessary to deal with the quality of electricity. Private sector have been complaining about the low quality of energy, and many companies have to acquire alternative source of electricity such as generators and transformation stations, incurring to additional costs. Getting electricity with quality, reliable and acceptable price is very important for operation and new establishment of agro processing industries.

Starting a Business score dropped 3.4 % points compared with previous year. Contributing to this decline is the increase on the cost to publish the company's deed, making starting business more expensive. On the other hand, the process was simplified and less costly by replacing the business license with a notification of activity.

Paying Taxes score increased 2.2 % points, accounting to Government decision to reduce the mandatory carry-forward period before taxpayers can request a value added tax cash refund to four months (from 12 months previously).

Trading across Borders improved score by 3.2% points. Mozambique made trading across borders easier by streamlining the submission of documents for imports, improving infrastructure at the Ressano Garcia border crossing and simplifying export documentary compliance. However, there is room for further improvements associated with efficiency rates of terminals. Exporting from Mozambique take 78 days and in neighbouring Swaziland does it takes only three days. Mozambican

imports take 14 days, but in Botswana the delay is only four days.

The Figure 5 below illustrates the DB 2019 score changes as compared to the previous year.

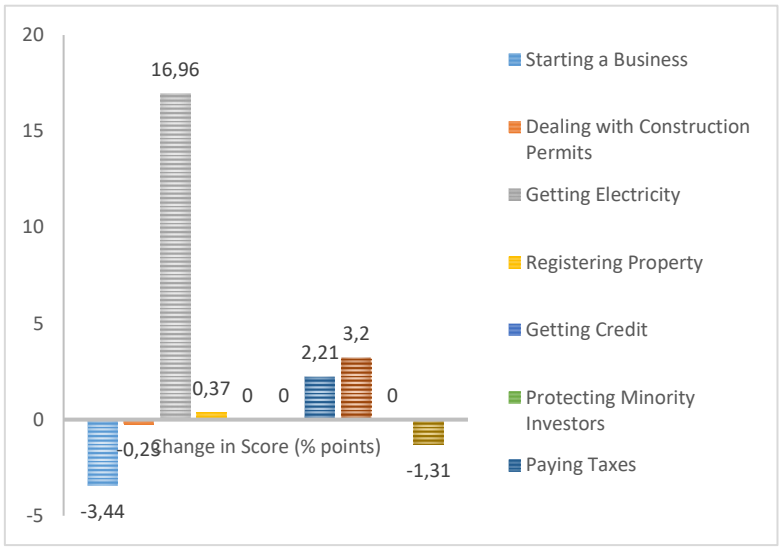


Figure 5: Mozambique DB 2018 score change from previous year

Mozambique have still a long way to go to become a competitive business environment in the region. The country's rank fall on the bottom five, only above Zimbabwe, Madagascar, Angola and Democratic Republic of Congo. Comparing the number of reforms made in the last two years, Malawi have done better than all SADC countries. Mauritius is the top performer in SADC region continues undertaking reforms (5 new reforms) to improve its business environment.

The poor business environment in Mozambique reflects the difficult conditions faced by investors willing to invest, as well as the ones already established. Despite Mozambique's investment potential, the business environment poses distinct challenges, which may be the underlying (contributing factors) causes of poor business environment, which include:

- **Macroeconomic environment**, recovering from the 2016 hidden debt crisis, the Central Bank (*Banco de Moçambique*), has been pursuing monetary policies towards re-establishment of a stable, albeit weak, macroeconomic environment.

- **Bureaucracy** remains largely indifferent to the needs of the private sector, especially small-to-medium-sized enterprises. The slow pace of conducting business is one of the main challenges in Mozambique. This may reflect weak institutions and human capacity (thus across the board low productivity), but may also signal corruption practice. Mozambique is the 153 least corrupt nation out of 175 countries, according to the 2017 Corruption Perceptions Index reported by Transparency International. Corruption Rank in Mozambique averaged 110.59 from 1999 until 2017, reaching an all-time high of 153 in 2017 and a record low of 56 in 1999 (TI). Mozambique requires 40 days and six separate procedures to transfer the ownership of a building, when Rwanda only needs three procedures and 12 days. Why Mozambique needs 950 days to solve a commercial dispute, whereas in Sudan it only takes 298 days?- this have been questioned by the President in a meeting discussing business environment in Mozambique with the private sector.

- **Labor force rigidity** in a context of scarce qualified labor. The labor law enforces quotas to limit the hiring of foreign employees, this affect mainly SMEs. Bigger investors and investors operating in free economic zones have some relative flexibility. Mettings held with

representatives of chamber of commerce indicate this constrain.

- **Access to land** is among the top constraints to business. The land law has provisions that provide access to land for investment by investors for renewable 50-year periods, but land cannot be used as collateral for financing. In addition, the administrative (bureaucratic) process of acquiring rights to use land can be lengthy and complicated, thus challenging the reliability, certainty and timeliness required by investors to invest. These bureaucratic process and their associated challenges also apply to construction permits and other mandatory registration requirements.

- **Poor basic infrastructures**, inadequate roads, unreliable power supply, limited communications networks, all affect business environment. The government is making efforts to improve road infrastructure, but still a lot of investment to be made to connect markets.

- **Lack of access to credit** is one of the top constraints to business. Commercial banks charge high interest rates, regardless of the Central Bank's standing lending facility, making it difficult for SMEs to find affordable financing.

1.4.2. Analysis of Legal and Regulatory framework of Mozambique and main recommendations for improvement areas

We also made a survey, among the ministries and also the private sector to gauge the current Regulatory framework of Mozambique, as related to Private sector "*would be*" legal ecosystem and also conditions needed to encouraging a more liquid capital and securities market in the country. The result is almost a "Business Climate reform" agenda in itself, which would deserve further attention from both the EU and also other donors (World Bank and AFBD).

In recent years, (since the mid 2000s) Mozambique has enacted a whole body of Business related laws and regulations. These include basic Laws related to the "***enterprise life-cycle***" , such as an Investment Law, Competition law, and laws related to SMEs, which Mozambique has already enacted and partially implemented. Nonetheless, there was a consensus among the Meso-organisation, business associations to pinpoint the fact that "One thing is to draft and publish a law, another is to have an effective and capacitated regulatory agency to implement it (such as a strong Competition Regulatory agency). In order to foster private sector growth and the conditions for its financing, the Regulatory framework should include also more advanced acts and regulations on setting up a well-functioning ***capital and securities markets*** (see Table on Private Equity / Capital market scorecard below).

As will be analysed in the "Access to Finance"/ EIP implementation chapter, another way to provide financing to promising SMEs is to encourage the creation of Venture Capital, and Private Equity funds who could provide both Equity capital and also subordinated debt financing to SMEs, and accompany them from start up stage to maturity and IPO. In spite of the odd of doing business in Mozambique, there are a few Private Equity and VC funds already in operations in the country, which should retain all the attention of the European Union and donors.

However, based on the interviews with the various VC Fund, we quickly realise that one their biggest challenge was a) a limited choice of SMEs and performing Medium size company to choose from; and b) their limited option for exit of their Portfolio of company investment. This is largely due to a largely deficient "Private Equity/Capital market Ecosystem" and regulatory framework.

Please find below a more detailed Benchmarking of Mozambique's legal and regulatory framework, based on the LAVCA (Latin American Private Equity and Venture Capital Associations) annual Scorecard of VC eco-system in 30+ countries of Latin and Central America and the Caribbean.

Table N XY: Capital Markets/ Private Equity Business and Legal Scorecard.

Benchmarking of Mozambique vs Other countries	*Scoring on a scale from 1 (Lowest) to 4 (Highest*			
Private Equity/ Capital Markets/ Business Climate Scorecard	**Brazil**	**Moz. (*)**	**Jamaica**	**UK**
1. Laws on PE/VC fund formation and operation	4	1	2	4
2. Tax treatment of PE/VC funds and investments	3	2	2	4
3. Protection of minority shareholder rights	3	2	2	4
4. Restrictions on local institutional investors investing in PE/VC	2	2	2	4
5. Protection of intellectual property rights	2	2	2	4
6. Bankruptcy regulation (encompassing bankruptcy procedures/creditor rights/partner)	3	1	2	3
7. Capital market development and feasibility of local exits	3	1	2	4
8. Registration/reserve requirements on inward investments	3	2	3	3
9. Corporate governance requirements	3	2	2	4
10. Strength of the judicial system	2	1	2	4
11. Perceived corruption	1	1	1	4
12. Quality of local accounting/use of international standards	4	2	3	4
13. Entrepreneurship	3	1	2	3
(*) Benchmarking of Mozambican Business and Entrepreneurship Framework based on Interviews with Ministries and Private sec				
(**) LAVCA 2017/2018 Scorecard - The Private Equity and Venture Capital in Latin America. https://lavca.org/scorecard/				

This private equity scorecards provide an eagle view on the distance that still separate Mozambique from a well-functioning capital and securities market such as Brazil and/ or a fast developing stock market environment such as Jamaica, which has increased by 20x the size of its local Stock Exchange and has successfully launched a Junior market for allowing capitalisation and listing of SMEs. This is feasible in emerging markets and liquid stock markets and junior markets, provides a welcome alternative to : a) bank based lending ; b) a fresh source of capital/ equity investment into SMEs and larger companies and c) an viable exit for Funds of investors into SMEs in the form of IPOs (Initial Public Offering) or listing.

Clearly the set up and implementation of a well-functioning securities market and Private Equity market is an incremental process, which requires both legal reform, the set up of Financial Services regulatory agencies, and capacitating all these institutions with well trained civil servants. However, given the huge development potential and capital investment needs of Mozambique, we believe that modernising the Stock Market and the Financial service regulations institutional set up is also an important priority.

EIP Window/ Action Recommendation N1 *(Private Sector Support EU) : analyse with the GoM the priority and possibility of drafting (or modernising) the* ***Stock Exchange Act and Capital & Securities Market laws*** *of Mozambique, in order to create a viable alternative to capital formation and capitalisation in promising and innovative Mozambican companies and SMEs. Also study the possibility of setting up a* ***Junior (Equity) market*** *as part of the Maputo based Stock Exchange.*

This would be a typical intervention of the Pillar III (Business Climate) of the EIP.

2. POTENTIAL USE OF EU'S EXTERNAL INVESTMENT PLAN AND EFSD GUARANTEE IN MOZAMBIQUE

2.1. The EU's External Investment Plan (EIP)

In 2017, the European Union adopted the External Investment Plan (EIP) to invest more in its partner countries in Africa and the Neighbourhood to support inclusive growth and combat (illegal) migration. The EIP is based on three pillars: the European Fund for Sustainable Development (EFSD), technical assistance and promoting an investment-friendly climate. The European Commission provides an envelope of EUR 4.1 bn to fund the EFSD and aims to use it as a lever to mobilise more than EUR 44 bn of additional public and private funding. Some details of these three pillars are set out below[8]:

A- *EFSD*: consists of two components, existing investment facilities (EUR 2.6 bn) and the **EFSD guarantee instrument** (EUR 1.5 bn). This guarantee instrument is new and will be used to provide partial guarantees to issue- or area-based investment packages covering public or private investors' risks. These guarantees can cover a wide range of financial instruments: loans (including in local currencies), guarantees and counter-guarantees, acquiring holdings and other financial instruments (quasi-equity, fund of fund equity, etc.)[9]. The EFSD aims to be a one-stop shop for applications from development financial institutions and other public or private investors.

B- *Technical assistance:* this must serve first to improve the quantity and bankability of projects proposed in partner countries to facilitate more finance at local and international level and second to strengthen the abilities of players in the private sector (particularly Meso-organisations, private sector associations and chambers of commerce) to improve the regulatory and political framework for business. This second pillar should therefore reinforce pillars one (EFSD) and 3 (promoting an investment-favourable climate)

C- *Promoting an investment-favourable climate:* particularly via the EU Delegations in partner countries. This pillar is about supporting structured dialogue with businesses (at local, strategic, civil society and sector level), political dialogues with partner Governments and supporting adopting reforms to improve the business climate, allowing for a match between the EU's policies and those of the partner countries.

Operationally speaking, EFSD guarantee instruments may be applied for by eligible counterparties (multilateral development banks like BEI, BERD; bilateral development banks like KfW or AFD; European financial development institutions like BIO, Proparco and FMO; other regional or international development banks like the African Development Bank (ABD))[10] via investment windows. To be eligible for EFSD guarantees, counterparties must submit investment proposals based on investment windows and comply with criteria like the additionality principle (no competition with the local private sector, for example), neutrality (no competition or distorting the market), measurable impact and complying with social, environmental and tax standards.

Although, up to now, in Mozambique, the EIP facility has not been implemented yet or connected to specific thematic development schemes (as it is very recent still), in this initial identification mission, we found several windows that could clearly match the EFSD Guarantee facility and the Technical Assistance pillars, among these: a) infrastructure related projects in energy and roads; b) access to finance and funding of SMEs; c)sustainable agriculture, rural entrepreneurs and agribusiness, in particular in the Cashew value chain and the cotton seeds improvement programmes.

[8] European Union, EU External Investment Plan (Factsheet), https://ec.europa.eu/commission/sites/beta-political/files/factsheet_on_the_eu_external_investment_plan_fr.pdf

[9] It should be noted that guarantees to Seed Capital, VC and Private Equity funds are eligible for the EIP.

[10] European Commission, Your Guide to the External Investment Plan, Release No 1, November 2017, p. 15

As part of the PSD Support programme (beyond the infrastructure investment which will be addressed in the next section), TPSDE consultant is recommending delving into two PSD support windows for the EIP facility: Access to Finance for SMEs through VC/PE funds and incubators, and investing into sustainable agriculture value chains (which will be developed in the VC chapter).

2.2. Modalities for implementing the External Investment Plan in Mozambique

This part of the report presents recommendations for implementing the EIP in Mozambique based on the first and second pillars (EFSD and technical assistance) in the context of the initial 2 investment windows above mentioned (Infrastructure, Access to Finance for SMEs).

2.2.1. Infrastructure related projects – Investing into Energy and Roads and the Nacala Corridor jointly with other IFI development banks

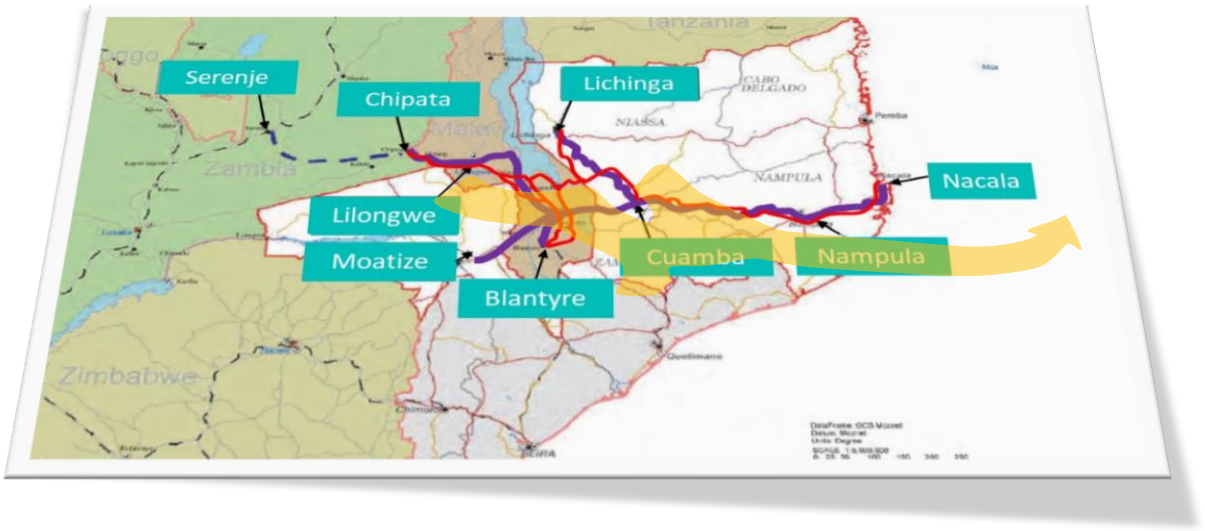
In our discussion with the African Development Bank and various bi-lateral Development banks (GIZ/ KfW and AFD/ Proparco), it became clear that capital investment into basic infrastructures, such as roads, water and electricity utilities, and logistical and regional corridors was still very much at the top of the development agenda. These are coherent also with the two large 11th EDF PROMOVE Agribiz and PROMOVE Energy, with respective budget of EUR68M and EUR94M. Given that much of the Rural Development aid of the EUD focuses on the Provinces of Nampula and Zambezia, a parallel investment into the road and logistics infrastructure of the Nacala Corridor does make sense, and is also complementary to an existing project from the AFDB to complete the road infrastructure of the Corridor , from Nacala down to Lilongwe in Malawi (reinforcing also trade route in the context of the FTA of SADC).

A. Co-funding Opportunity with the African Bank of Development – Road (Nacala Corridor)

The proposed Nacala Corridor Regional Trade Project, whose focus will initially be on Malawi and Mozambique (and may include Zambia in a subsequent phase11), is the most advanced operation under the forthcoming APEI Regional Business Plan and provides an opportunity to put into practice an "infrastructure-plus" corridor approach to regional integration in Southern Africa. The Nacala Corridor is a trading route whose point of entry and exit is the port of Nacala in Mozambique, which is East Africa's deepest natural port and is currently the third largest port in Mozambique in terms of volume of cargo handled. The corridor connects the central part of Mozambique with landlocked Malawi and Zambia (see Figure 6). Revitalizing and modernizing the Nacala Corridor would be a strategic tool for improving trade connectivity, enhancing the competitiveness of sectors and increasing value-added through private sector investment. The proposed interventions will complement a list of recent and ongoing interventions in infrastructure and agriculture development along the Nacala Corridor.

Figure 6: The Nacala Corridor

[11] Discussions with other development partners to support specific activities in Zambia in line with a previous version of the Project Concept Note are also ongoing.



1. 2. Rail Network
3. 4. Trunk and Feeder Roads
5. 6. Corridor System

Source: World Bank Group

While significant gaps remain, substantial private and public investments have been made along the Nacala Corridor to improve its operation. As such, some of the most protracted and costly constraints to develop the corridor are already covered: $3.2 billion private investment has flowed into rail infrastructure that has helped rehabilitate most of the Nacala railway line. With the support of the WBG, the EU, EIB, AFDB and JICA, a further $1 billion has been invested in the primary road transport infrastructure along the corridor from Nacala to Lusaka (Figure 2). Additionally, over $600 million in public investments has also been mobilized for rehabilitating Nacala port. Additional investments are not only expected in the rail sector but also in establishing multi-modal facilities at the key offtake points in Blantyre and Lilongwe (and Chipata, Zambia). However, other trade logistics gaps remain including poor border infrastructure, underdeveloped mechanized handling infrastructure at Nacala port and elsewhere inland, and generally lack of modern logistics services.

Based on our interview with Mrs Yolanda Arcelina and the Director of the African Development Bank in Maputo, we understood that the ADB was involved in funding over twenty projects of which 90% were public infrastructure, (of which 60% on building roads, 23% in Agriculture, Energy and social projects, etc). Upon asking them where the EU could possibly complement some infrastructure related projects of the ADB Bank, the team pointed out to a **specific "missing funding link" for a 114 km stretch of the Nampula to Cuamba stretch of the Nacala corridor** (specifically the Lot C from Malema to Cuamba), which needs an additional USD24M to complete the financing of this major communication/ transport link from the seaport of Nacala to the hinterland of the Niassa Province and Tete Province.

As the Northern region of Mozambique gears up to becoming a major natural gas producing hub, ADB if investsing in the upgrading of the road from Moytepuez to Ruaça and Luchinga to Litunde, including 5 bridges. This will allow for integrated development corridors in Mozambique's Northern provinces (Nacala, Pemba-Lichinga) connecting the most remote and isolated areas and providing rural farmers with access to domestic and regional markets to become a major enabler of agribusiness and economic activity. These corridors will drive regional development once the natural gas projects come on stream and also contribute to improve access to social services for rural communities in these remote regions.

EIP Investment Windows N2: *(Private Sector Support/ Infrastructure EU) : analyse the opportunity of completing the upgrading the stretch of road from Malema-Cuamba (on the Nacala Corridor), estimated at USD24M which will complement the USD138M total project financed by ADB , jointly with JICA and Kexim. This road upgrading (in hard bitumen) will be connecting rural farmers and rural cities, with access to domestic and regional markets and become an enabler of agrobusiness and rural PSD. – Total EU contribution: USD24M; partner DFI: African Devt Bank..*

B. Co-funding Opportunity in the Energy Sector – Promove Energy and bi-lateral projects

The European Union has already an ambitious Energy programme - of Access to renewable energy within the framework of rural development called - **PROMOVE Energia: The National Indicative Programme (NIP) EU-Mozambique 2014-2020** considers access to affordable, clean and sustainable energy services as a key driver for inclusive economic growth.

It is a two phase strategy approach for the energy sector that has been developed. A first phase will be dedicated to the implementation of the Energy Project Preparation Facility (PPF); The second phase of the energy programme, the Mozambique Energy Services Access Programme (indicatively EUR 83.5M), currently under preparation, aims to support direct investment on projects supported by the first phase, but not limited to it, with a clear objective of increasing rural electrification. Participation of the private sector through innovative financial instruments such as ElectriFi, the former Africa Investment Facility (AfIF), now the Africa Investment Platform (AIP) under the EIP, will be key for the implementation.

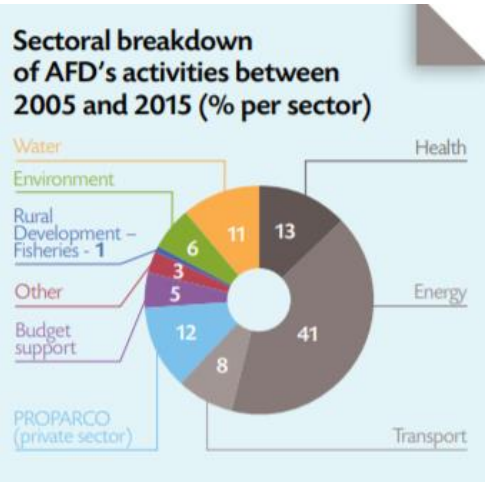
Within the latter, the use of the Guarantee Fund by Development Finance Institutions could significantly boost the leverage of private funds and reduce the investors´ perception of high risk. Improved access to energy services through the development of the significant renewable energy potential in Mozambique could contribute to both national and regional industrialization and to the creation of sustainable economic growth. This second phase could start as of 2019.

Clearly the Renewable Energy project support opportunity, described below, needs to be coordinated and complement the Promove Energia programme – through also allocation of budget from this programme on the partnership programme with AFD and KfW for instance.

The TPSDE team had a meeting with Mr Julien Darpoux, Director of the **Agence Francaise de Developpement (AFD)**. AFD, along with their subsidiary PROPARCO is involved in a wide range of infrastructure and development projects, from environmental protection (National Park sustainable development), Health care , and above all, investment or loans to fund Energy projects.

Graphic N XX: Breakdown of AFD financing activities , per Sector ((2005-2015)[12]

[12] https://www.afd.fr/sites/afd/files/2017-09/Mozambique-brochure.pdf



AFD, in spite of the adverse public finance environment and the Junk rating status of Mozambique, has continued to structure and finance a number of medium to large size energy and utilities (Water, transmission lines, Telecoms etc) projects , working through the public utility enterprises, such as EDM, and HCB (Hydro Cahora Bassa). One of the most promising opportunity to join forces with AFD relates to the PROLER (Programa de Licitacao de Energia)[13] which facilitate the open procurement (to private sector operators), funding and off take guarantee schemes of a number of Renewable Energy Sources (RES) projects, such as solar and wind farms projects.

The way it works is as follows:

- Procurement steps and procedure: a) EDM plans/ dimensions the needs of each sub-region; b) private sector respond with proposals; c) PPA / EDM and engineers analyse the proposal – Technical Assistance over 4 years (4M) – AFD finance the first three (Artelia) studies;
- *Public Procurement 2:* private Sponsors are invited and propose their project (through EDM) – concession contract and PPA agreement and pricing – first two solar projects were done that way and successfully tendered;
- EIP use of Pilar 1 facility: Guarantee the Off take agreement (between the independent energy operator and EDM, the state owned electricity company. The main risk is on the Off take (guarantee on the off take agreement) – a) Guarantees for the off take agreement (end of November) b) Proler: to allow EDM to finance the minority stake in each of the private projects – 15-25% of the capital of the independent energy producers/ PPP project.
- EDM does not have the capital to finance their participation to the : the idea is to Create a Fund/ to finance the various participations of EDM/ Create a Fund: which will be a revolving fund – 20-30M EUR – finance the equity with a clause for exit.

C. Co-funding Opportunity with KfW on the Get Fit Energy programme for Mozambique

On the German bi-lateral level, KfW is also heavily involved in structuring and funding a series of renewable Energy projects throughout East Africa, as well as the rehabilitation of a number of medium size Hydro in Mozambique. These projects stems from a relatively long and sector specific expertise in structuring, funding and grid integration of > USD500 Million worth of RES projects in Uganda, through the "Get Fit" Uganda programme that has implemented 17 RES projects successfully, adding 158 MW of RE capacity to the grid. The additionality (EIP key criteria) is clear in these projects as the KfW Fet Fit subsidy was $104M which mobilised $439M of additional private and public sector financing for these projects (mainly private).

[13] https://clubofmozambique.com/news/european-union-investing-in-renewable-energies-in-mozambique/

The "Get Fit" is a structured package of support to unlock sustainable investment in renewable Energy projects throughout Africa. It is composed of four components:

Graphic N.XY: Get Fit RE structuring four modules: from Funding to Grid Integration



1) **Viability Gap Funding**: Get Fit offers performance-based tariff support for a limited portfolio of qualifying projects, which facilitates the entry of early movers from the private sector;
2) **Technical Assistance Facility**: TA includes three different elements: a) the developed of an harmonised set of legal documents; b) procurement programme for Get Fit qualification; and c) strealmine procedures and clear potential hurdles for implementation of projects;
3) **Risk Mitigation Facility**, in close collaboration ith African trade Insurance (ATI) as an option for developers and financiers (ATI's Termination guarantee insurance and short term liquidity products (Regional Liquidity Support facility) – jointly with KfW and ATI;
4) **Grid Integration facility**: Get Fit provides advisory support to EDM regarding grid integration of projects into the national grid AND provides financing for grid integration for selected technologies, such as Hydro, or solar.

The innovative aspect of the KfW led GET FIT Renewable energy implementation programme is that it unlock and creates "fitted" local energy solutions that both increase access to energy at provincial/ secondary cities or rural level (outside of big cities) and does that in a smart way that distribute energy via small scale RE projects near the "load centers" which in turn alleviate the transmission constraints (and cuts) from the main (EDM) Electricity operator. As said, Get Fit has been successfully (and fully) implemented in Uganda – with more than 150MW installed and connected, and is now being implemented in Zambia, with over 200MW worth of solar PV and Small Hydro projects.

KfW shared a number of RE projects that are being planned for Mozambique (both within traditionally grant support and Get Fit programmes), among these:

- Hydro Energy - rehabilitation of the Mabusi (new generator) and Chicamba Hydro energy projects, producing respectively 52MW and 38 Mw. Work: rehabilitation of the Dams and rehabilitation of sub-station – on these there is still some financing needed.
- Retrofit of two small Hydro power projects – in the Nyassa Province (EDM) –
- 8 Million GET FIT RE investment programme which is structured in Three Rounds, starting with the funding of 60MW of solar (and storage) projects and round 2 of 40-60MW of small Hydro power projects. KfW is working with GoM and EDM to identify key grid constraints areas and prepare procurements to address these constraints;
- Working with ATI –to provide Risk Mitigation facility and regional liquidity support facility – to the would be Independent Energy producers and sponsors + Funding and tariff support package – that makes these smaller energy projects attractive for private investors.

EIP Investment Windows N3: *(Private Sector Support/ Infrastructure EU) : analyse the opportunity to join KfW as an partner DFI to co-finance 1 or 2 "Get Fit" technical assistance and Gap Funding package in order to facilitate the structuring, set up, and implementation of these most useful "complementary energy generation and distribution" infrastructure in secondary cities, which in turn increase the Universal coverage of electricity and increase the reliability of energy provision for all Businesses and stakeholders in the sub-region.*

The details and committed/ needed budgets for these Get Fit energy projects are yet to be fully disclosed (or even determined) as KfW is still working on the feasibility study , along with GoM and EDM. But in term of additionality, there is a strong fit with EIP funding and TA philosophy.

2.2.2. Access to Finance for SMEs – Investing into the Entrepreneur value chain

As we have seen other regions and countries of Africa developing successfully Ecosystems for identifying, incubating, developing and funding entrepreneurs, such as Rwanda and Kenya, we tested the assumption that Mozambique , like most other African countries, had a growing population of "promising but frustrated entrepreneurs and innovators" which have business ideas, but lack both capacity building and access to finance, to bring these ideas into the market.

Upon meeting and interviewing over 10 co-working companies, VC funds and incubators operating in Mozambique, we discover that a) Mozambique did have an embryo of an innovation ecosystem and b) that some of these incubators and VC funds were working hard to build up and finance a new generation of Millenium and job creating entrepreneurs.

A. EIP Grant Funding of Mozambique based Incubators of start ups

In our view this "Sweet spot" is the essence of the EIP facility, in that it provides strong additionality, job creation, and leads to the creation of new industries into a relatively stagnant private sector.

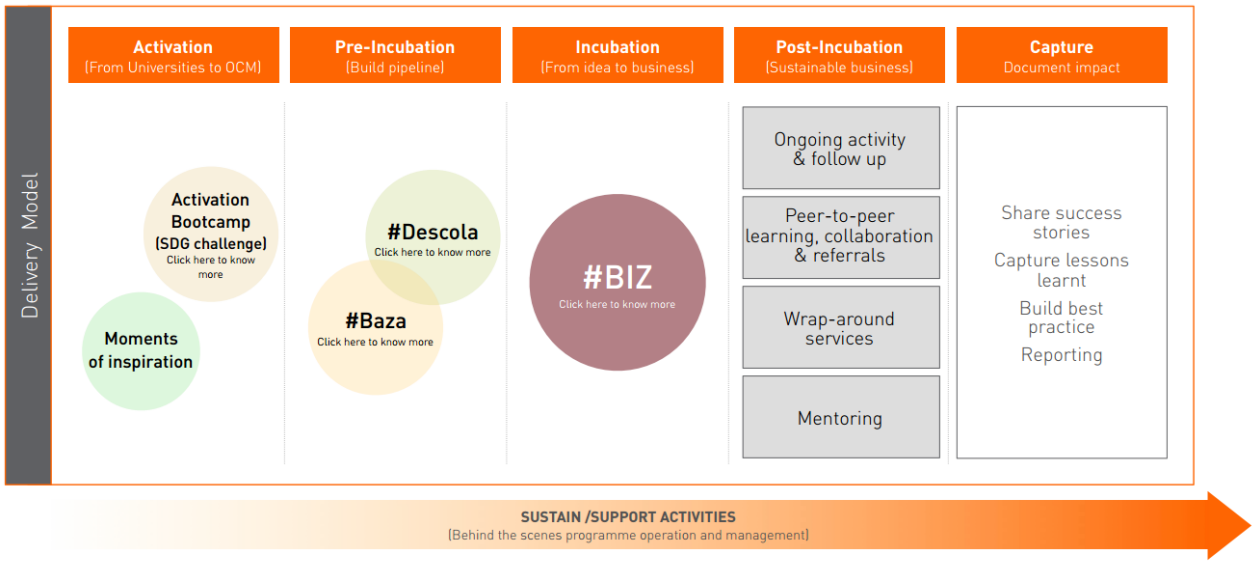
Our point of entry for the whole Eco-system was IDEIALABS, founded and dynamically led by Mrs Sara fakir and Tatiana Pereira. This activation, start-up mentoring and advisory service acts almost as a "Training of Trainer" house for other incubators and accelerators entering into the market – by coaching new players and co-working spaces companies on how to create innovative spaces and strategies and service development programmes for incubators and accelerators. The target markets and clients of Idealabs (on a B2B delivery) are as follows:

Graphic N X4: Target segment of Ideialabs in Maputo:



In a similar fashion, we interviewed a European Incubation initiative called ORANGE CORNERS MAPUTO (OCM), an initiative of the Embassy of the Netherland, in partnership with a couple of leading sponsors such as BancABC, Dutch Shell, Heineken, Vodacom, etc. OCM targets Mozambican young entrepreneurs that recently graduated from the University and that carry a business initiative or start up business plan. The purpose of OCM is captured in the following Activation and Incubation activity model below – and aims at identifying , build up a pipeline of skilled young Mozambican entrepreneurs through the entrepreneurial journey, from 1 day awareness programmes, 3 days Activation Bootcamp, down to 6 Months full business incubation programme on a short list of 35-40 Entrepreneurs selected through interviews and peer review.

Graphic N X5: Incubation and Post Incubation services of Orange Corners (Dutch Embassy)



In short OCM is a European Initiative that provide a full business support programme for young entrepreneurs who aim to launch their business and validate their access to market strategy. In our view, co-funding their expansion programme throughout Mozambique provides a lot of additionality and fits very much the EIP Pillar 1 and 2 intervention philosophy.

***EIP Investment Windows N4 in the context of the Private Sector Support Programme**: Use EIP Pillar I funding facility to finance and truly develop at least **2 privately or Donor run Enterprise incubators in Mozambique**, possibly linked (but then made independent) to IPEME, in order to provide to Mozambican entrepreneurs, a) a conduit through which they can develop their business, receive peer-to-peer and professional business coaching, and also lead to the initial equity funding of their business; and b) use the EIP Pillar II Technical Assistance facility to provide training of trainer and expert lead coaching of these Incubators and Accelerators – possibly through the **partnership with Europe's best run incubators** such as the Estonia based Mektory, the Business and Innovation Centre of Tallinn University of Technology (TTÜ)[14], Netherland based incubators (in the context of Orange Corners, or Portugal based Creative Hub of Beato[15], among others.*

[14] See Estonia Incubators and business angels Hub: https://singularityhub.com/2018/04/04/an-innovators-city-guide-to-tallinn-estonia/#sm.00014notzpvh7eenxa01g5sy072kw

[15] https://www.morningfuture.com/en/article/2017/10/20/incubator-hub-do-beato-startup-portugal-record/119/

*Our pick (based on 10 interviews and meeting with ecosystem players) would be to provide grant support to **Ideialabs** and **Orange Corners**, to finance their expansion plans beyond Maputo in the Maputo Province, Sofala, and Cabo Delgado. Total grant funding sought by this excellent European initiative would be between 750K-1 Million, taking into account the reinforcement of Ideailabs Training of trainer component (and staff). Additional grant support should be considered for Mozambique Business Angels Associations, as a Pillar III support to structured dialogue with a pivot SME support organisation.*

Other Sub-Saharan countries[16], have also successfully launched and nurtured home-grown Incubators and business angels networks such as Kenya[17]'s Chandaria Incubation and Innovation Centre (CIIC) and NAILAB, both based in Nairobi. CIIC for instance was launched on 2011 to support innovations from students and Graduate from Keynatta University and accommodates seventy percent Kenyatta University students and thirty percent of students from other universities. It aims at fully supporting one twenty start-ups per year, with a remarkable success and conversion rate.

In the same line of reasoning, and through several brain-storming sessions with DEVCO[18] in Brussels we also pinpointed two distinct potential perimeters of interventions , upstream and downstream with regards to supporting SMEs and Innovative entreprises in Mozambique. In the model shown further down in this section (Graphic N5, Options for the EU EIP), the Intervention clusters to the left (**upstream in the Innovation life-cycle**) focus on identifying, revealing, coaching and nurturing the existing and future entrepreneurs of the country, through joint partnership with Universities, and through the set up and Technical Assistance of 2 to 4 Incubators and accelerators of enterprises. The services that the Incubators can provide to entrepreneurs and company sponsor are numerous and described in detail in the "Incubator service model" below.

Among the services that can be provided by the Incubator & Accelerator, please find below an extended version, created by Mr Vasily Ryshoukov, from the World Business Incubation forum[19]. For the purpose of the Private Sector Support, technical Assistance should focus on the core services i.e. Infrastructure and co-working space, Business services, and Access to Finance, as well as Services cluster number 5 – Business education and access to knowledge.

B. EIP Equity or Grant Funding of Venture Capital and PE Funds

As part of our field mission, we surveyed also the limited but existing **Venture Capital funds** and interviewed their respective Directors, to test their stage of maturity, their pipeline of investment deals, and their capitalisation. Most VC Funds were still at the launch or post launch stage and were actively looking for seed investment to start VC investment activities. But first a bit of context on the role and relative importance of Venture Capital funds and PE (Private Equity) funds in Africa and in general.

[16] For Kenyan Incubators and accelerator, see https://nailab.co.ke/our-programs/

[17] https://thefounder.co.ke/top-5-business-incubators-kenya/

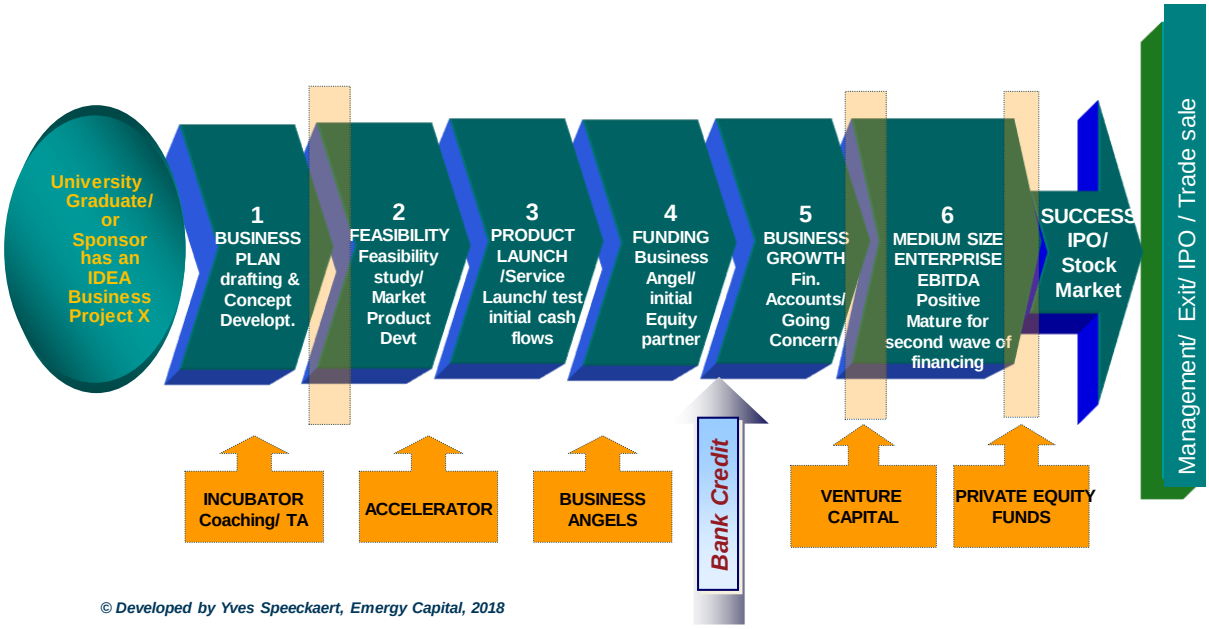
[18] TPSDE one-week Workshop on External Investment Plan and presentation of case study on the Innovation value chain and access to finance for SMEs (joint presentation DAI & Y. Speeckaert), Brussels, October 2018

[19] https://worldbusinessincubation.wordpress.com/2013/04/14/key-services-of-business-incubation-program-part-2-of-3/

Very much as seen in South Africa for instance where (about 80) VC/ PE funds have taken the relay on commercial debt and reduced the burden of redeeming conventional debt with commercial banks, the EIP should encourage creating and operating Investment Capital Funds (Private Equity and VC Funds), via which investors buy some of unlisted company's shares for a fixed term. In return for the risks they take and for tying up their capital, investors expect to make higher returns than what the stock markets offer. The same applies to grooming entrepreneurs, earlier on the SME life-cycle.

Earlier this year, and through intensive work with VC Funds in the Caribbean and in Mozambique, we elaborated an "**SMEs and Innovation Financing Life cycle" model**, as a way to identify the intervention nodes (we called them "Shiatsu points") where the EIP grant, TA or equity money could make a difference. Please find below the Model and following this the options/ opportunities for the EU EIP Pillar I and Pillar II intervention in Mozambique.

Graphic N3: SMEs and Innovation Financing (and coaching) Life cycle (*)[20]

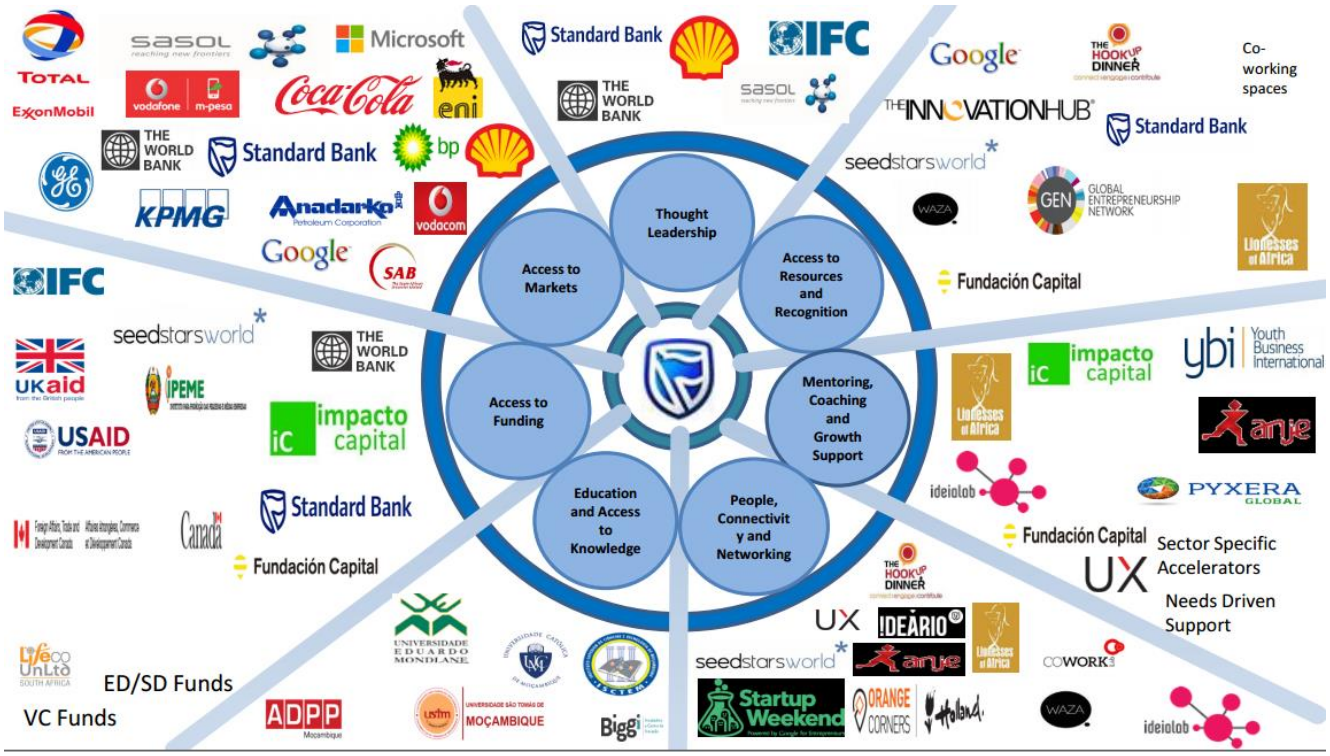


The above SMEs & Start up financing cycle is universal in all economies as young (or more mature) entrepreneurs all need to find initial supports for implementing their business plans. It is usually found first in "friends and family" circles, which fund the initial Business case and feasibility (or prototyping of the business product or service). But quickly other, relay sources of funding needs to be sought and put at the disposition of promising entrepreneurs. This is where having a network of Incubators and accelerators (linked or not to the best public and private universities, or simply privately owned co-working spaces and incubators) is a key element helping to host, coach, and bring promising entrepreneurs to become 'market ready" and in many cases "management ready".

As described earlier, Mozambique does have an interesting and growing Ecosystem focusing on the earlier SMEs/ Start up support system, embodied by the Standard Bank Entrepreneur ecosystem model:

Graphic N. XXY: Standard Bank Incubator: Mozambique's entrepreneurship ecosystem

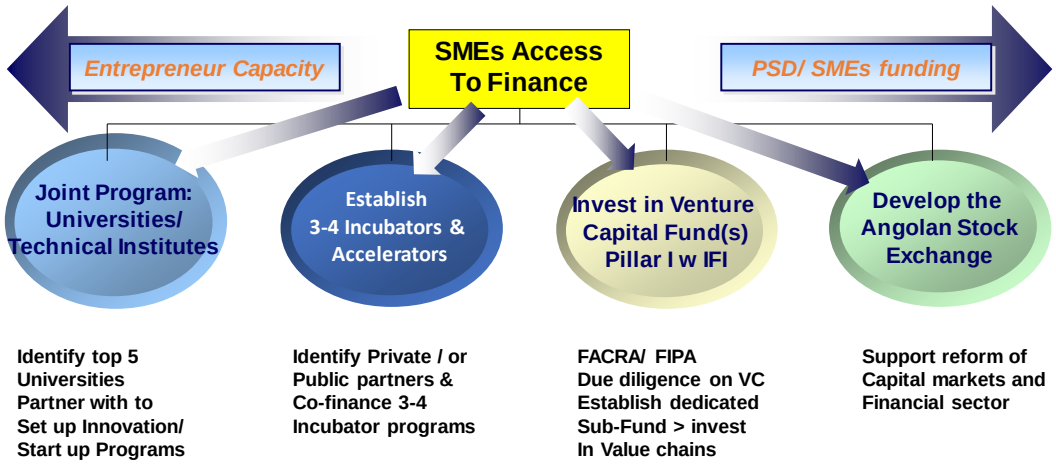
[20] © SMEs & Innovation Financing Life-Cycle, Emergy Capital Markets & Y. Speeckaert, 2018



Throughout its challenging history and planned economy, Mozambique has hardly build a healthy private sector. >70% of the entreprises are in the informal sector which generate only replicative, self employed jobs in both rural and urban environment. High interest rates of credit and the weak public support for grooming a new generation of MSMEs makes it very challenging for new entrepreneurs to build up momentum and secure financing for their businesses. This is were the Entrepreneurship ecosystem (an alternative access to finance system) intervenes, as captured in the "Intervention Cluster graphic below.

The Intervention clusters to the right (downstream in the Innovation life-cycle) of the following graphic (to Finance and Skills) focus on creating opportunities for companies, and going concern **to get access to equity capital through Business Angels, Venture Capital and Private Equity funds or entities**, which provides : a) selective investment into promising SMEs through a rigorous selection and due diligence process and b) 3-5 years hand holding, enterprise coaching, and re-investment services to the selected portfolio of companies. As the purpose of a Private Equity or VC funds is to make a multiple of the initial capital equity (or multiple of the EBITDA valuation of the enterprise) through a successful Exit strategy, VC/ PE Funds often provide several rounds of financing to their portfolio companies.

Graphic N5: Options for EU EIP Pillar I and II funding intervention: Access to Finance and Skills



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***EIP Opportunity Window N.5**: the another tangible private sector support opportunity for the EIP Pillar I and II is : a) making an **equity/ grant investment directly into Venture Capital fund**, managed by a partner International Finance Institution (IFI) such as the African Development Bank, or a bi-lateral Devt bank (KfW or AFD for instance), who are both active in Mozambique, and b) **provide Technical Assistance to the funds** to help coach the portfolio managers and also provide direct Management skills to the companies invested in.*

*We have interviewed three VC Funds with contrasted profiles and trackrecord, from greenfield funds such as **Third Way Africa** and **Impacto Capital**, to the Private Equity extension of **GAPI** (Capital Management) which has a 30 year track record of identifying, working with and financing rural SMEs.*

*Typical Equity (or Grant) investments in such funds amounts to no more than 15-20% of total AuM (Asset under Management) , which can be anything from **EUR1 to 5M funding requirement**, depending on the level of capital at first or final closing (African VC funds are typically USD 20-30M in size as local market cannot "take" / provide much more quality small and medium size companies beyond this investment pool.*

B.1 GAPI Capital Management Holding: Pillar 1 (Equity) and Technical Assistance

We held several meeting with the Management team of GAPI in Maputo and Nampula, including a frank and productive exchange with the Managing Director and co-founder of GAPI, Mr Antonio Sousa, and his key officer , Aurora Malene and Rui Amaral, as well as a four day field work in the Nampula Province which was organised by GAPI Nampula Branch (thanks to Dr Joao Maunze).

GAPI SI is a development finance institution registered with the Mozambican Central Bank as an investment company (Sociedade de Investimento) having as its main mission to contribute to the economic development of Mozambique by: a) capacitating and adding value to Mozambican businesses and b) building a more inclusive financial system. Throughout its 30 years of existence , GAPI has been making a real difference in the private sector of Mozambique, offering an alternative to the Banking industry in providing development finance for mostly rural SMEs and companies in need of both technical assistance and CAPEX and working capital funding. GAPI has 14 Provincial Branch Offices throughout Mozambique and hence has a geographic and cultural proximity through partnership with local companies in the whole country.

As of November 2017, Gapi, entered into an agreement with the Danish International Development Agency (DANIDA) for the extension and expansion of institutional support. This agreement has strengthened Gapi's financial structure as a DFI and will allow Gapi in attracting further financial support and investment from third parties as well as creating the legal and financial conditions to incorporate an Investment Company providing equity capital to SMEs in Mozambique. This strengthen the earlier (2015) Project of constituting GAPI CAPITAL MANAGEMENT S. A., whose purpose is to take Equity and quasi-equity participation into small and mostly mid-sized agri-business (and other segment) companies with high potential of growth, development and job-creation.

Gapi Capital Management SA ("Gapi-CM") will be a sister company to Gapi-SI, which began its activities in 1990. In 2015, the Board of Directors of Gapi-SI approved a new strategy plan for the next five years, which included the creation of a Sister Company in the shape of an equity management unit to better respond to a demand from the ''missing middle'' segment of a growing SME market. The rationale being that increasingly, SMEs face challenges and are unable to expand due to a lack of own capital, financial fragility, lack of medium to long term financing and very high interest rates on bank loans

Gapi-CM will provide mainly quasi-equity capital in the local currency to promoters of private sector enterprises, normally in the range of USD 100K to USD 500K, with the purpose of financing capex and working capital in expansion projects. Furthermore, Gapi-CM may offer technical assistance to enterprises which it considers financing or is already financing.

The main features of the GAPI CM VC Fund are summarised below.

- **GAPI CM - Mozambique SMEs and Agri Venture Capital Fund – USD10M**
- GAPI CM Fund size: USD10M (initially)
- Average equity investment: US$ 250.000 per project
- Disbursements It is assumed that disbursements take place in the year of approval
- Repayment: The average investment period will be 4 years. (1) 25% of investees will repay in one bullet at the end of the investment period. (2) 50% of investees will repay in two instalments, half at the end of year 3 and half in year 4. (3) 25% of investees will repay in three instalments, a third at the end of year 2, a third in year 3 and a third in year 4
- Yield: Annual fees, year 1-2: 3% p.a.
- Annual fees, year 3-4: 5% p.a.
- Exit flat fee: 5%
- Interest cash deposit 3% p.a.
- TA provided by investors: 20% of the grants to Gapi-CM will be allocated to a TA facility for project support and 10% to a TA facility to cover operational expenses in Gapi-CM
- TA project support 15% of equity will be spent on TA during 1st year, 5% of equity during 2nd year. 20% of the TA will be reimbursed with final repayment of the equity
- Deal Flow:

	2019	*2020*	*2021*	*2022*	*2023*	*Total 5 years*
No. of transactions	*4*	*6*	*7*	*8*	*9*	34
Total investment USD	1.000.000	1.500.000	1.750.000	2.000.000	2.250.000	8.500.000
Funding provided by Sponsors USD	4.000.000	2.000.000		2.000.000		8.000.000

In Annex NX, you will find the current portfolio of companies in which GAPI has already invested and which will be transferred as in kind investment to GAPI CM. This shows a kernel of a portfolio with companies mostly involved in agri-business, forestry and agri-transformation and also agricultural supplies (such as iKURU which we visited in Nampula, who provides seeds and fertilizers to local small farmers) – all economic segment that contribute to economic growth and job creation at local levels. However, from the due diligence point of view, GAPI CM needs to show a larger pipeline of potential investable companies – before any DFI could consider Equity or Grant investment into the Fund. We assume that they are working on it, through their regional representative office.

In terms of the modality of (potential) equity investment or technical assistance involvement with the GAPI CM Fund, the following elements needs to be taken into consideration, in line with the eligibility procedure for EFSD guarantees: counterparties must submit investment proposals based on investment windows and comply with criteria like the additionality principle (no competition with the local private sector, for example), neutrality (no competition or distorting the market), measurable impact and complying with social, environmental and tax standards.

In summary, and at a high level of analysis, the EIP related GAPI CM investment or TA would take the following form:

Table N XZ: Conditions & terms of EIP Investment or TA in VC Fund

Investment in VC Fund (any)	EIP PSD Invest conditions
Modality of participation	**Conditions/IFI partnership**
• Equity Investment vs Grant or Guarantee • Creation of separate sub-fund • Participation to Board • Access to all Portfolio and • Pipeline of project Info • Value Chain driven investments • No more than 15% Equity Participation in Fund capital	• Partnership needed with IFI • African Development Bank, Proparco/ EIB, others? • Need to go tru EU EIP Eligibility Crit. • Agreed Financial Partners • EFSD Guarantee agreement • Due diligence led by IFI/ or advisor • VC Fund / Equity participation or TA • Managed also by IFI partner • Fund must be aware of long Process

B.2 Third Way Africa Venture Capital Fund - EIP (Pillar I) Investment

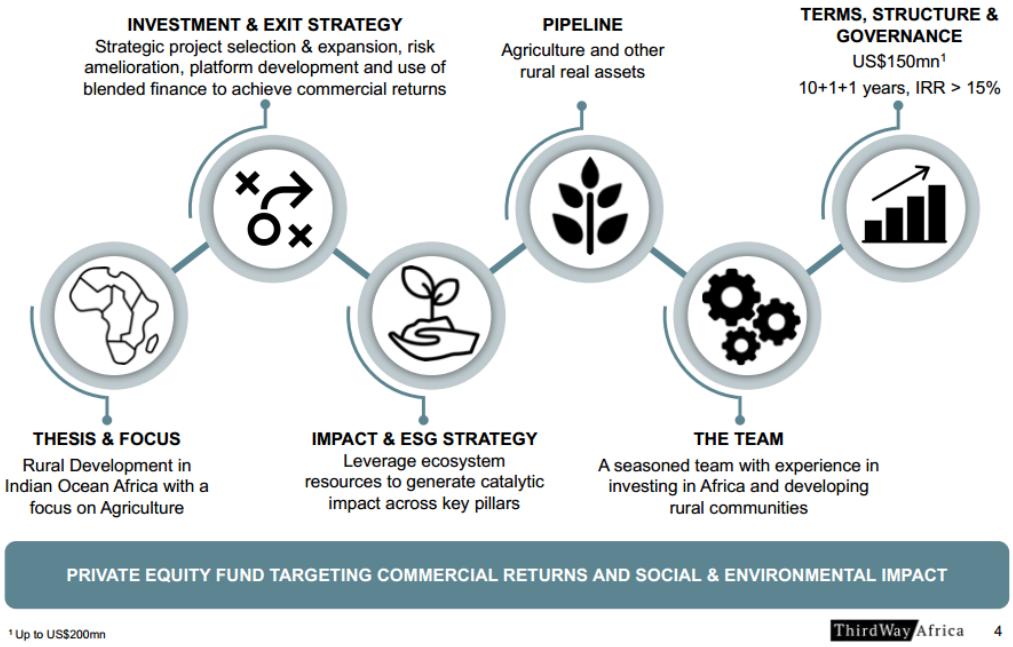
In the last day of our field work in Maputo, we met with Mr Goncalo Neves-Correia, the CEO of Third Way Africa, , one of the few Private equity fund operating in Mozambique and the SADC sub-region. The Focus of Third way Africa is both similar and very different than GAPI CM; Third Way Africa (TWA) is a pure Private Equity and VC fund, using Blended Finance in order to make selected investment in medium to larger size Commercial Agricultural companies, and that not only in Mozambique, but also in Tanzania, Zambia, and other countries of the SADC region. It is meant to be an Indian Ocean regional fund.

TWA has, as a sponsor and General partner , **Third Way Africa Corporate Finance advisory**, a team of >15 Investment bankers, financiers and executives from the Agri-business (London, Johannesburg, and Lisbon based) who have successfully launched a Corporate finance and Investment banking practice in Maputo, that is strongly leveraging the network of contacts of their founders (ex- Goldman Sachs, JP Morgan, Rift Valley Corp, and Machangulo). Hence the team is perfectly prepared to launch and manage a Private equity fund. Nonetheless **Third Way Africa Impact Fund is a greenfield VC fund**, that is yet to make its first investment – albeit the fact that they want to mobilise both private investor capital, Family offices and blended finance from DFI, does fit very much with the additionality of EIP.

Below please find the descriptoini of the Investment strategy of TWA Impact Fund and also their summary term sheet

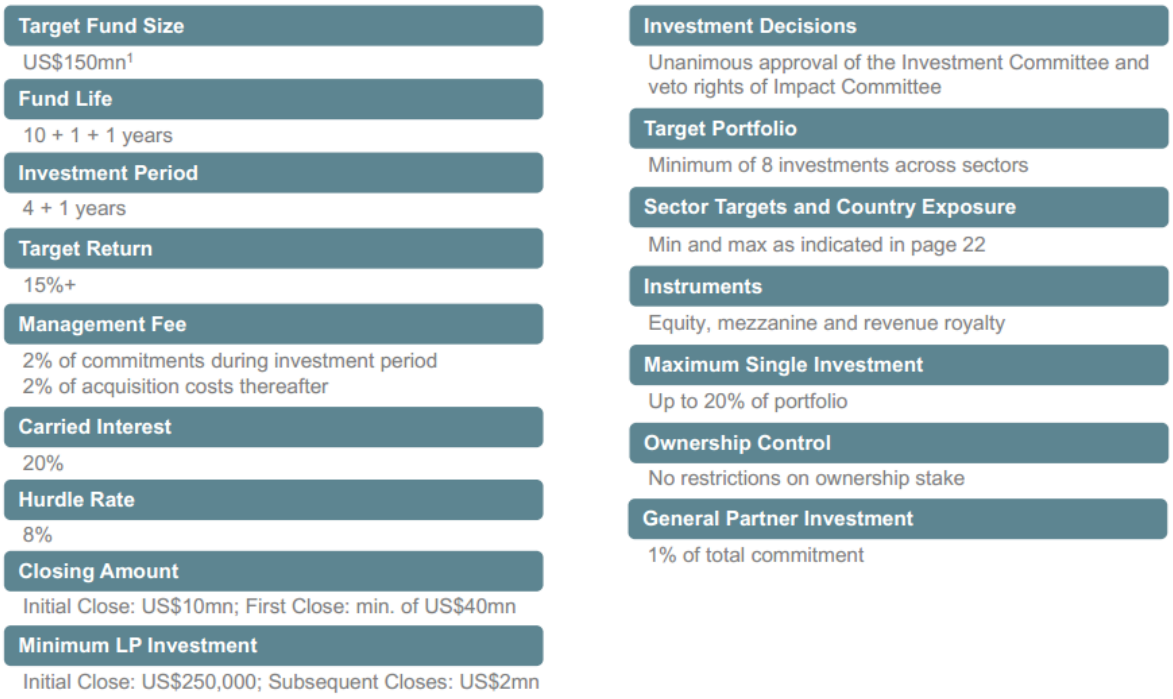
TWA is a member of the Global Impact Investing Network, and have strong and established network in the City of London, in New York and other world centres for Private Equity. TWA Investment team recognises both the High cost of doing business in Mozambique and also the liquidity and exit risk for private investments. It intends to mitigate these risks through upstream project selection and expansion on agricultural and PE projects that have a proven growth potential and a proven management team (securing a strong management delivery team is the biggest challenge in Mozambique). Hence it will put strong emphasis on closely coaching (TA Pillar II) and grooming the companies and also strong governance applied on both Portfolio management as well as monitoring of investee companies. The TWA fund aims to raise US$150M and offer an IRR of 15%+ (which is aggressive but not unrealistic on well-run commercial farming projects, with strong underlying demand for commodity products and sustained prices).

Graphic NW. TWA Impact Fund Investment strategy and Terms - summary



Below is the summary terms and conditions

Graphic NW2. Terms and conditions of the Third Way Africa Impact Fund



Third way Africa provides an interesting Private Equity investment alternative for mid size and commercial agricultural aggregators, which are looking for risk capital in Mozambique. It operates in a very different segment than GAPI CM, as it will invest more in the Medium size and commercial farming segment, with synergies and export market exploited at the regional level (SADC, Asia and the European Union).

In terms of the potential intervention angle of the EIP facility in TWA, this can be done in the following way: a) TWA Executive Director was very much open to attract institutional investors into the Fund (that is the Pillar I EIP investment, on a Fund of Fund basis, and monitored by either the EIB or a bi-lateral development bank (who would need to perform a thorough due diligence on the fund) and b) providing further Technical Assistance to the Fund , in complement to the existing team of agricultural expert and which could possibly delve on providing focused TA assistance to the Agricultural companies, utilities (infrastructure) and other companies, in line with the priority sector of the NIP/ GoA.

This level of intervention and mobilisation clearly need to be done with DEVCO and the team running the EIP in Brussels to test these options against the eligibility criteria and also checking on whether both the AFDB and Proparco may qualify also as potential IFI partners, in addition to the EIB.

2.2.3. Reinforcing the ICT industries and Agriculture through the Incubators

Through discussion with the GoM and also with Innovation eco-system stakeholders and investee companies of GAPI (such as IKURU), we perceived a strong interest and need in developing new ICTs (information and communications technology) to reach many of the sustainable development aims in Mozambique such as agricultural development, light manufacturing the service segment. In recent years, there are an increasing number of new ICT applications in agriculture.

We believe the support to ICT Applications in agriculture could also be supported or inserted into the 11th EDF facility on rural competitiveness (EUR 68M), which components on sustainable agriculture development and rural markets and value chains competitiveness, could make use of ICT processes and capacity building.

There are 4 clear levels of new ICT applications in agriculture (ICT4Ag)[21]: i) services for popularising and advising on agricultural production, such as agronomic consultancies (Farmerline in Ghana and m-Shamba in Kenya), livestock traceability (Daral Technologies in Senegal), tractor hire (Hello Tractor in Nigeria); ii) marketing and sales support services, such as via information about agricultural markets and online sales platforms for agricultural products (M-Farm in Kenya); iii) financial services to producers: mobile payments (M-Pesa in Kenya), micro-agricultural insurance (Kilimo Salama, Kenya); and iv) consumer services: still currently backward in Africa, we could cite Chowberry in Nigeria which is about recycling food for disadvantaged groups and combating food waste.

As previously pointed out, in our analysis of the Enterprise Life Cycle, the EIP should consider support such applications, whose channel to bridge ICT with agriculture would pass through creating SME incubators in ICTs in the medium to long term. SME incubators offer four functions:

A- Infrastructure: most incubators offer hosting and may charge beneficiaries rent in return. Beneficiaries then have a work space and access to telephones, photocopiers, meeting rooms and physical addresses. Some incubators can also provide industrial equipment such as agricultural food processors.

B- Services: the services SME incubators offer include: legal, accounts, marketing and sales support; export support services; help writing business plans; business creation support services (building a business model); company registration services (to know and support the regulatory processes involved in setting up a business; ITC training (to develop a website, for example); specific technical training for the sector; coaching and mentoring; training in business management, strategy and leadership; identifying technology and equipment and specific technical expertise.

C- Access to finance (which is more provided by Accelerators and Business Angels) : SME incubators and Accelerators help project developers access different funding sources. Depending on how mature a business is, an incubator can try to help its beneficiary entrepreneurs access funding from commercial banks, development banks and lenders and private equity and venture capital funds. The financial instruments available also vary and include capital finance, loans, guarantees, grants, seed capital, seed loans and grants).

D- Networking: incubators are good places to develop business networks: they enable project developers to meet customers and potential technical or commercial partners., potential investors, international experts to acquire experience and share best practices, share their problems and find solutions together with other beneficiaries. Being in a shared space with other entrepreneurs encourages emulation, motivation and pushes beneficiaries to excellence.

This growing link between ICT and Mobile telephony applications and smart and efficient agriculture and agro=forestry, strengthen the case for the creation of 2 to 3 capacitated incubators and accelerators in Mozambique. As in Estonia and Tel Aviv, incubators should be differentiated and specialise often in one or several vertical or industrial segments , such as ICT, Mobile telephony, agritech, or manufacturing.

[21] Analysis on ICT applications in Agriculture, courtesy of Mr Kacenelenbogen

One major initiative to capitalise on as far as incubators are concerned is the Boost Africa investment programme. Boost Africa is a project in the form of a partnership between the African Development Bank and the European Investment Bank which aims to support business and innovation in Africa through a mixed funding mechanism with the European Commission. The Boost Africa Investment Programme represents a joint investment agreement between the African Development Bank and the European Investment Bank worth an initial EUR 150 m, which aims to invest in start-up funds, Business Angel funds (providential investment funds), accelerator tracking funds and private equity (venture capital) funds which finance innovative start-ups and high-growth SMEs. It is important to mention that SME incubators are also eligible for Boost Africa funding to set up mechanisms to fund the businesses they house[22]. Boost Africa's three pillars are facilitating finance via financial intermediaries, reinforcing capacities and technical assistance for financial intermediaries and beneficiary start-ups, sharing information and promoting best practices[23].

The author of this report has lead the Technical Assistance for the preparation of the proposal on Access to Finance for MSMEs for Boost Caribbean, the offshoot from Boost Africa, which lead to the identification of 16 Private Equity and Venture Capital funds and the short listing of 5 VC Funds in different countries fo the Caribbean, ready for the initial EIB screening (initial due diligence) for Equity investment and TA through the Boost Blending finance facility. The Technical assistance leg of the same facility (lead by the EU) is considering supporting 6 incubators in Haiti, Dominican Republic , Trinidad & Tobago and Jamaica. The specific TA goes into setting up or capacity building of University related Incubators in the top technical and Management Universities of the Caribbean, as well as providing peer to peer coaching from best in class incubators and/ or Management schools in Europe and the USA (such as the Berkeley School of entrepreneurship, iNSEAD or Tel Aviv based incubators).

As a conclusion on the "Access to Finance" Axis, we believe that the three areas where the EIP Pillar I, II, and III can make the most difference is on (i) funding enterprise incubators (Pillar II) , (ii) funding and TA Venture Capital funds (Pillar I and II) after a thorough due diligence, and finally (iii) support a number of regulatory reforms (or Business Law creation) such as reforming and modernising the Stock Exchange and Securities market for Mozambique (Pillar III).

[22] African Development Bank, Boost Africa Initiative: frequently asked questions, p. 1

[23] www.eib.org/infocentre/press/releases/all/2016/2016-299-launch-of-boost-africa-initiative-a-new-integrated-approach-to-boost-young-innovative-entrepreneurs-across-africa.htm

3. IDENTIFICATION OF POTENTIAL VALUE CHAINS TO BE SUPPORTED

3.1. Agricultural Value chains

3.1.1. Introduction – Agricultural segments and Donor support

Agriculture is one of the key priorities of the Mozambican government. It is the national strategy focused on production of staple foods, replacing imports of food crops, and expanding cash crops for export. The Strategic Plan for Agricultural Development[24] (2010 – 2020) has defined some guiding principles for investments in the agricultural sector which include focus on performance of value chains following the agro-industry model, and strengthening public – private partnership to improve efficiency and reduce costs.

Mozambique diverse agro-ecologic space is suitable for growing different agriculture crops. The country has a strategic geographic positioning, an advantage to access to both international and regional markets, being a natural gateway to the Middle East, Mediterranean, and Asia, bordering regional markets like South Africa, Zimbabwe, and Malawi. The on-going investments to upgrade the Nacala, Beira and Maputo ports will further agriculture trade opportunities. Notwithstanding this, opportunity exists to improve agricultural productivity agriculture and expand agriculture value chains.

Investments in agriculture value chain development have been growing, driven both by private companies and development partners. A study done by the Monitor Group has proposed priority value chains to invest selected through the following filters:

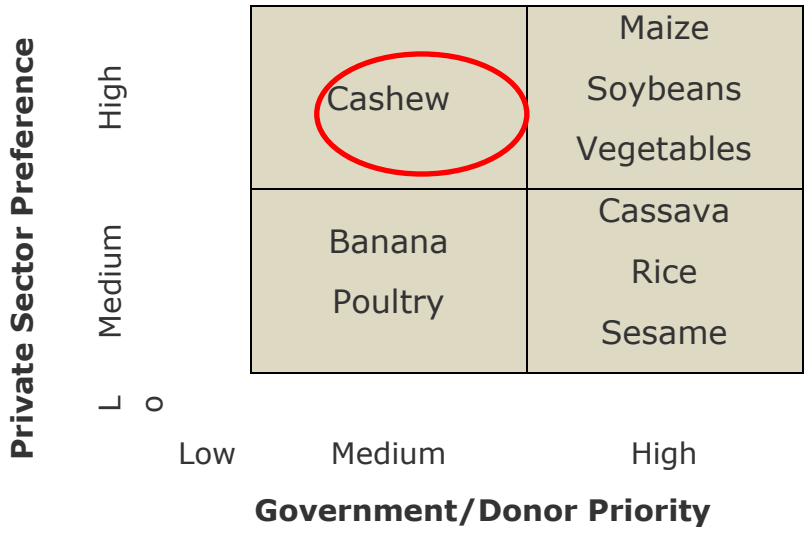
a) Investment priority - Identifies relevant value chains based on private sector interest;

b) Government and Donor Priorities - Matches government and donor priorities with private sector interest on value chains

c) Economic and Social Attractiveness and Feasibility - Matches government and donor priorities with private sector interest on value chains.

The selection is shown in the matrix bellow:

Table XX: Selected agriculture value chains in line with private investors, government and donors choice/preference[25]



[24] Plano Estratégico de Desenvolvimento Agrário 2010 -2020

[25] Source: The Monitor Group, 2015

Development partners and private investors have been investing in different agriculture value chains, which indicate strong potential for private and social returns, these include:

Cashew

- Demand in the international market is increasing in both value and quantity
- Most exports are of raw cashew nut, providing investment opportunity in cashew processing for export markets to capture greater value
- Current challenges within market are seen as having relatively attainable solutions

Cotton

- Mozambique's cotton has a long history as a significant export crop, traditionally to Europe as well as more recently to Asia
- Opportunities exist for more ginning of cotton for export of high quality cotton lint and processing of cotton seed into oil and cake
- Industry has proven to have a successful concession model in Mozambique and provide significant employment potential

Banana

- Most attractive of exporting value chains
- Most of the economic value is captured within Mozambique
- Mozambique is very cost competitive in production year round (up to shipping)
- Additional scale could allow shipping efficiencies to be realized

Soybeans

- Critical supply to poultry industry, with high protein content that is unlikely to be substituted with other inputs; still a marginal cereal production crop;
- Significant import substitution potential, which could help in making domestic poultry industry more competitive
- Oil processing potential, which can add to financial attractiveness of value chain

Tomato

- Staple food and substance food

  Some players have invested in industrial tomatoes productions for canning and retail

Maize

- Fundamental Staple food for humans and animal feed
- Several Donor programmes have been focusing on boosting both acreage, scale and also productivity of corn production
- Challenges are in the corn crushing and transformation links of the chain

The meetings with the Ministry of Agriculture and Food Security (MASA) and the *Instituto Nacional do Caju* (INCAJU) indicated deficits in agriculture value chains, particularly regarding levels of agro processing, storage, transport and logistics. To improve productivity and scale, there is need to invest both down and upstream value chain. Rebuilding the cashew orchard is of paramount importance.

MASA's flagship value chains are: maize, soybeans both critical for feed production; poultry farming, cashew and red meat. Another important priority for MASA is associated with certification of products to better access export markets. . Therefore, there is room for Mozambique to better exploit the opportunities that full value-chains could present, both locally and regionally.

Development partners have been supporting agriculture for long time. The Table below shows a number of key donor's projects supporting agriculture in Mozambique. It is evident the strong concentration of support in Nampula and Zambezia. These are the most populated provinces, have good agro ecologic conditions and may hold higher on index of poverty.

Table 2: Selected Donors supporting agriculture initiatives in Mozambique

DP	Project name	Time frame	Budget (Million USD)	Geographic Location
IFAD	Pro-Poor Value Chain Development in the Maputo and Limpopo Corridors	2012-2019	44.95	Maputo, Gaza
IFAD	Artisanal Fisheries Promotion Project	2010-2018	43.54	Maputo, Gaza, Inhambane, Sofala, Zambezia, Nampula, C. Delgado
IFAD	Rural Markets Promotion Programme	2008-2018	65.56	Niassa, C. Delgado, Nampula, Zambezia
WB	Smallholder Irrigated Agriculture and Market Access Project- IRRIGA 1	2018-2024	55.00	
WB	Moz Agriculture and Natural Resources Landscape Management Project	2016	40.00	
WB	Mozambique Conservation Areas for Biodiversity and Development - Phase 2	2018 - 2023	45	
ADF	Drought Recovery and Agriculture Resilience Project	2018	14.85	Gaza, Inhambane
ADF	COFAMOSA Irrigation Project - PPF.	2016	1.20	Maputo
ADF	Massingir Dam Emergency Rehabilitation Project	2010	28.94	Gaza
ADF	Massingir DAM Emergency Rehabilitation Project Supplementary	2014	29.71	Gaza
ADF	BAIXO Limpopo Irrigation & Climate Resilience Project	2013	38.15	Gaza
EU	Various Rural development and small farmers Projects (see NIP)	2012-2017	373.45	Nampula, Zambezia, Inhabane
USAID	INOVA	2017-2022		
USAID	SPEED PLUS	2016-2020		

Source:

Since 2012 EU country program amounts to EURO 422 million invested in projects in Mozambique, supporting different agricultural value chains including cashew, and policy dialogue. Projects with regional dimension focus improving regional trade related. Table shows the list of projects supported by EU.

The second criteria was to choose to support agricultural segments that would contribute to food self-sufficiency and nutrition safety (such as the regional production of wheat, rice, corn, etc) and finally reduce the Import-Export large imbalances. The third criteria (practicing Economic Diplomacy) is to promote "Filières"/ Value Chain, in which European suppliers and also leading European agronomy institute could contribute to the set up of the value chain (clearly as in the case of Cashew, wheat, soybean, cotton (such as the JPS Group), on varieties and transformation, and also Banana and tropical fruits, in terms of branding and product differentiation, as well as Export promotion).

Hence please find below our proposition to support two agricultural value chains: Cashew and Cotton.

3.1.2. Value Chain Opportunity N1: Strengthening the Cashew Value Chain

The team identified the cashew value chain to benefit from EIP support, based on the following criteria:

a. Potential growth, value addition and job creation,

b. Sufficient private sector initiative for leverage[26]

c. Complementing on-going EU support

Cashew industry in Mozambique – an overview

- Once the world largest cashew nuts' producer in the 1970s, Mozambique reached its peak production in 1972, with 216,000 tons. Over the last two decades, the cashew market in Mozambique has been characterized by an aging tree stock (average age is 50 years), low RCN quality, and flat to declining Raw Cashew Nut (RCN) production. In 2017, production (marketed production) stood at about 140,000 tons[27]. There have been certain level of investment in planting new cashew trees; the production and distribution of seedlings and the spraying of cashew trees. There is a substantial need to increase the quantity and quality of RCN production.

- Production is dominated by smallholder producers with very low productivity. The average yield in Mozambique is between 2 to 4 kg RCN per cashew tree. This is very low taking into consideration that young cashew trees between 10 and 25 years old have the potential to produce between 10 and 15 kg per tree, some well managed trees can even produce up to 60 kg per year

- Cashew production attracts about 1,4 million farmers, about 40% of Mozambique smallholder farmers. Cashew is produced in all provinces and Nampula and Zambézia production account for more than 50% of total production.

- According to recent data from the Food and Agriculture Organization (FAO), the world produced a total of 4.4 million metric tons of cashew nuts in 2013. Vietnam was the world's largest individual producer, with 1.1 million tons, followed by Nigeria's nearly 1 million, India with some 753,000 tons, and Côte d'Ivoire with nearly 500,000 tons. In this context, Mozambique ranked 12th, though seventh in Africa.

- Cashew is still an important foreign exchange earner for the Mozambican economy. In 2017, contributed with 10% country's agriculture exports[28]. RCN represented the bulk of total value of exports, 74%.

[26] Mozambique Growth and Job compact 2017

[27] INE, 2018. Anuário Estatistico 2017

[28] INE, 2018. Anuário Estatistico 2017

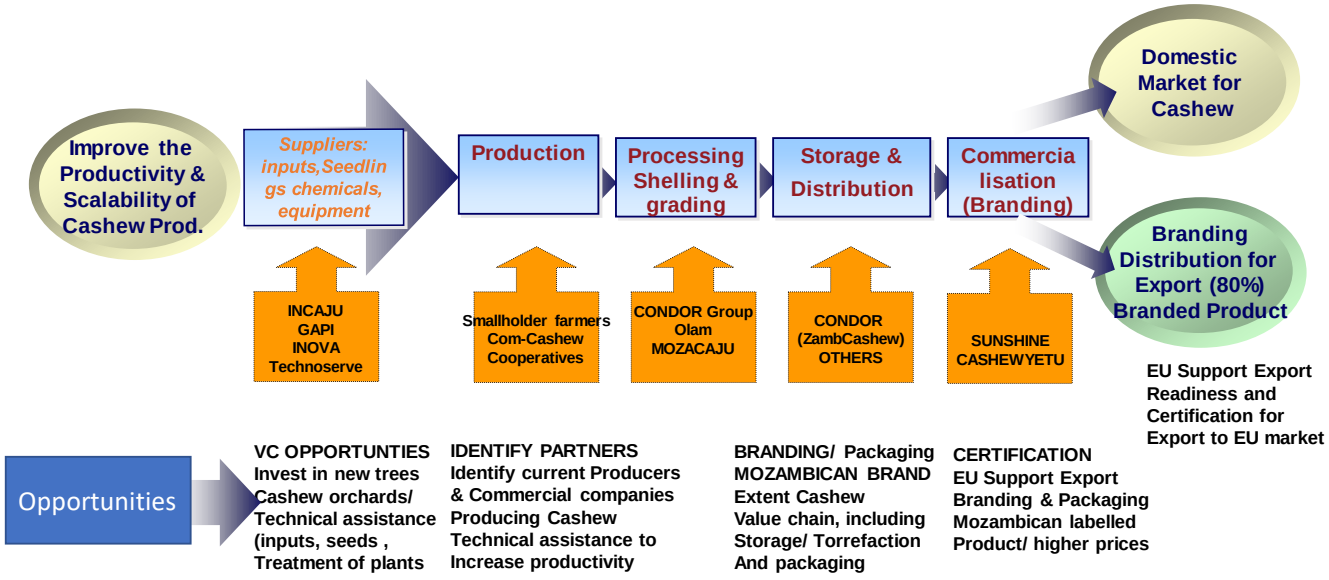
- Small and medium 25 scale processing units are located in rural cashew production areas relocated to rural areas, but the two factories doing secondary processing are located in Maputo (ref Annex ….). According to INCAJU processing factories only use 40% of installed capacity, and provide about 15,000 jobs.

1. Current Constraints on the Cashew nut productivity and revenue capture

There are several bottleneck points and deficiencies in the Cashew value chain in Mozambique today – the biggest of which is the fact that most Cashew orchard are very old , with tall trees producing less that 3-4 kg of cashew nut by tree, as compared to 11 to up to 25 kg per tree in Ghana or India. This means that the Cashew value chain needs to be invested and strongly financed (in CAPEX/ grant money) upstream, for the creation of new orchards, seed and seedling nurseries, and also improvement (R&D) on the varieties to renew the production base (progressively of course).

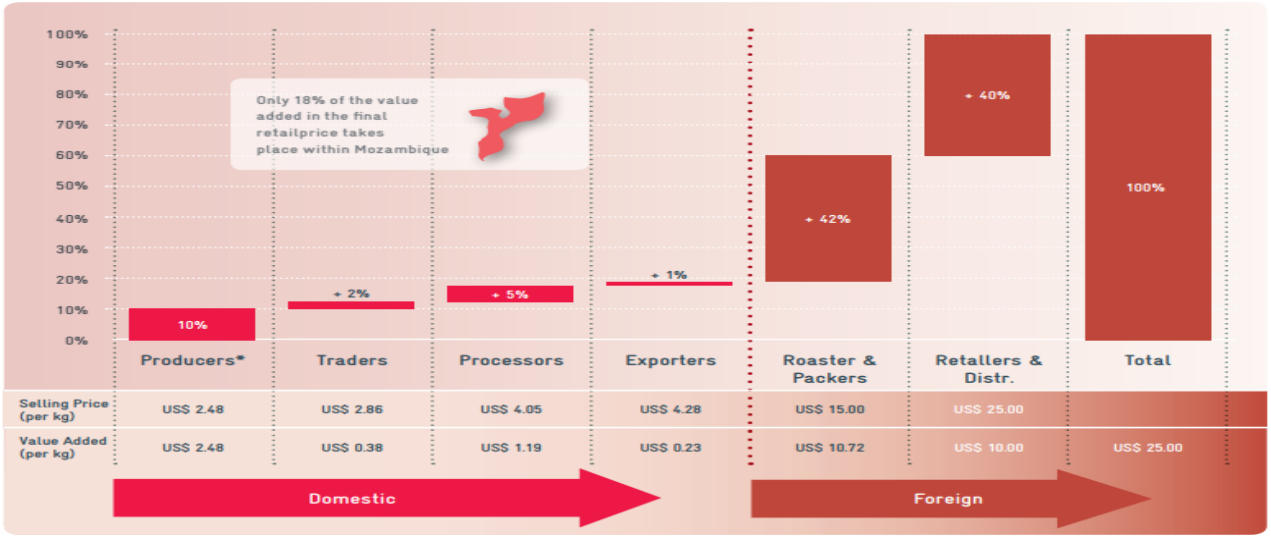
See a schematic representation of the Cashew Value Chain, with the various opportunities for improvement:

Graphic NXxV: EMBRAPA Crop Value Chain Methogology, 2015, Analysis TPSDE, 2018



More importantly, from the most revealing graphic below, we can see that Mozambique Cashew stakeholders only capture 10% of the total value and revenue stream of the Cashew nut commerce. This is what needs to be evolving and that needs support: moving up the value chain.

Graphic N XY: Revenue and value added sharing in the Cashew nut business



Hence there are specific EIP intervention that could make a strong difference in strengthening the above Value Chain of the Cashew nut production, both at upstream and downstream (branding, adding value and packaging) levels.

EIP Window/ Recommendation N6 – Agricultural Value Chain Opportunity: *Provide grant and TA support at three levels that will* ***Improve the Scalability, Productivity and Commercialisation of Cashew Nut in Mozambique:*** *a) contribute to rebuilding new cashew orchard, supporting private sector led initiatives to scale up small holder production in organized cooperative plantations, particularly in Nampula and Zambézia. Invest in new trees Cashew orchards/ provide technical assistance, inputs, seeds and treatment of plants, b) support investments in cashew secondary processing and c) support investments in efficient supply chain management and branding in the Mozambican cashew industry, levering the better traceability of Mozambican cashew nut to promote Branded and Differentiated Cashew (to know where cashews come from and how they are handled during their journey from farm to table) and assuring certifications, including food safety and organic, could contribute to reach premium markets.*

3.1.3. Value Chain Opportunity N2: Improving Cotton productivity: seeds and cotton seed oil crushing.

The second Value chain opportunity that we would like to recommend to the attention of DEVCO is the support to be given in the Cotton Value Chain – and in particular strengthening the Seed quality and production (and inputs to the small cotton producers) and also the seed crushing and oil / animal feed production – as a revenue enhancement for the farmers and also aggregators. This will capture more value and economic return for the small cotton farmers, and also improve Mozambique Balance of payement – through higher cotton exports, whose prices have been raising steadfastingly in the last few years.

A few pointer on the important and relevance of Cotton in Mozambique[29]:

- Cotton is the most important agricultural export crop in Mozambique and one of the major sources of income for 223 583 households (more than 1.3 million of inhabitants) in rural areas.
- On average, cotton contributes close to 17 percent of total agricultural exports and almost 2 percent of total exports;
- Production has been relatively volatile over the period of analysis, reaching its maximum of 131 000 tonnes in 2009/2010 compared to 71 000 tonnes in 2000/2001.
- Production is entirely dependent on household farming, accounting for almost 99 percent in 2010/2011;
- The cotton sector operates in a monopsony system (demand side), where ginning companies are granted concession rights as exclusive buyers of cottonseed in their respective areas of concession;
- Mozambique exports both cotton lint and seed and the main export destination is the South Asia.

As shown in Figure 1, cotton production was relatively volatile over the period of analysis, reaching its maximum of 131 000 tonnes in 2009/2010, which is however still below the maximum historic production of 144 061 tonnes achieved in the colonial period. Yields followed the same pattern of volatility and reached a maximum of 183 kg/ha between 2005/2006 – 2006/20007 (compared to 149 kg/ha in 2010/2011).

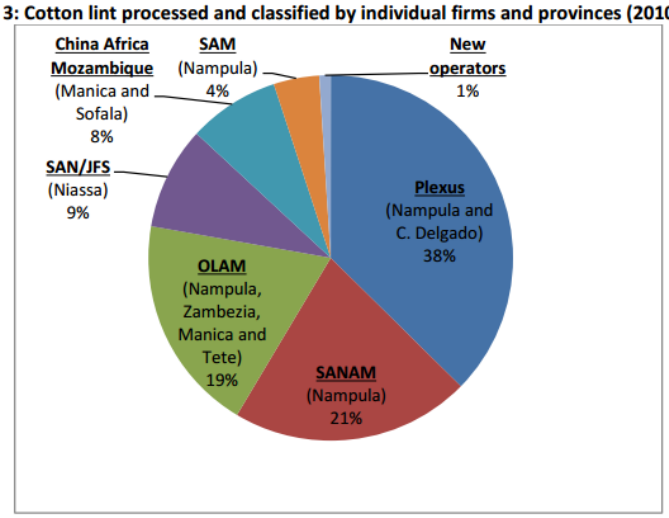
[29] MAFAP and FAO, Analysis of Incentives and Disincentives for Cotton in Mozambique, 2012

As mentioned before, cotton is entirely dependent on household farming (Table 1); its production is based on intercrop and crop rotation systems of production which are dominated by staple crops (such as maize, cassava and sorghum). In 2011/2012, almost 223 538 households were engaged in cultivation of cotton (almost 2.2 percent of total farmers) - the average size of cultivated area by farmers is around 1.5 ha, with many farms operating on one hectare or less 5. Crop portfolio diversification (intercrop production) is an effective on-farm strategy adopted by farmers for coping with production risks. Under this system, farmers mostly grow cotton together with other staple crops, using the inputs received from the concession company and from the government to grow cotton in the production of such staples.

As far as ginning is concerned, three firms manage to process over 75 percent of total production (Figure 3). Plexus (located in the Cabo Delgado province) emerges as the biggest processing firm, accounting for 38 percent of total cotton lint processed and classified in 2010/2011, followed by SANAN (21 percent), OLAM (19 percent), SAN/JFS and African China Mozambique (8 percent). The relatively low number of processing companies operating in the cotton sector evidences the level of concentration of the market power in a restricted group of companies - one of the cited sources of unbalanced market power between farmers and processing companies (ginners) in the sector. Additionally, technologies and economies of scale are probably key determinants of the number of companies that are able to operate effectively on the domestic market.

Over recent years production has increased again (production forecast for 2017/ 2018 is > 160,000 tons) , partly due to higher prices of cotton lint. See below the main Cotton lint processors by individual firms and provinces.

Figure 3: Cotton lint processed and classified by individual firms and provinces (2010/2011)



Source IAM, 2012

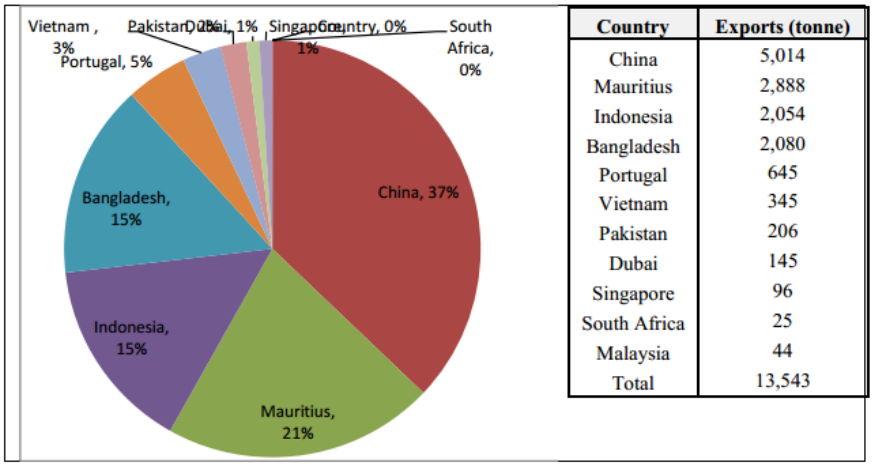
About 10 percent of seed is retained by farmers after harvest to be used in the next season. The remaining 90 percent is sold to ginners at the minimum price fixed by the government authorities, the IAM (see below). After processing, almost 100 percent of the lint cotton is exported to the international market, mostly Asia. This is due to the inexistence of textile industry in Mozambique, which disappeared after the reforms of the agricultural sector in the 90's. In the past, the textile companies were State-owned, operating in a system of monopoly and taking advantage of the nonmarket orientation economic system prevailing at the time.

Regarding cotton seed, reports from the IAM indicate that significant parts of the seed obtained after processing is exported – however this cannot be verified due to lack of data. The capacity of the processing industry in Mozambique is poorly developed – and this could explain the export of the cotton seed to the international market.

The major buyers of Mozambican lint cotton are all Asian today. China emerges as the largest buyer, accounting for 37 per cent of total sales in 2010/2011, followed by Mauritius (21 percent), Indonesia (15 percent) and Bangladesh (15 percent). In contrast, during the colonial period, cotton produced in Mozambique was exported to Europe (notably Portugal), because the majority of textile industries were geographical located in Europe in this period.

Graphic N. XXC: Buyers of Mozambican Lint Cotton – by country of origin

Figure 4: Main trade partners of Mozambique for cotton lint in 2010/2011



Country	Exports (tonne)
China	5,014
Mauritius	2,888
Indonesia	2,054
Bangladesh	2,080
Portugal	645
Vietnam	345
Pakistan	206
Dubai	145
Singapore	96
South Africa	25
Malaysia	44
Total	13,543

Source: IAM

In short , Cotton is a very important crop for Mozambique, employing > 1 Million farmers, and also , given the growing world wide demand for the product, an attractive export market. Analysis shows also that Cotton is one of the crops that gives the highest direct return to the farmer, given that they manage to produce decent quality cotton lint and also that they re-capture the earnings from the Cotton seeds (which crushed, produce edible oil and also animal feed).

2. Current Constraints on the Cotton production and value capture

The first set of constraints and inefficiencies are at the level of Government policies [30]

- Overall our analysis shows that some policies and regulation have created disincentives to producers throughout the period analysed suggesting that the government policy of fixing the minimum price for cotton did not adequately create incentives for cotton growers;
- Disincentives at farm gate have largely been due to: i) levies and taxation; ii) market structure and lack of competition due to monopsony (ginners) in cotton sector; iii) low level of farm gate price; vi) excessive ginning cost; and v) low level of ginning outturn ratio of the Mozambican ginning sector further penalizing farmers;
- Actions to be taken to reduce disincentives could include: i) liberalization of the cotton sector, which will eliminate the monopsony; ii) investments in modernization of the ginning infrastructure in order to increase the ginning outturn ratio and the quality of cotton exported to the international market; and iii) carrying out a review of existing taxes, duties and levies.

The second set of constraints[31] has to do with the level of productivity and the huge void of quality and productive cotton seeds that could make the farmers renew with "normal" cotton productivity per Ha (150 kg / Ha vs > 900 kg to 1.5 Tons per Ha in Brazil or the USA).

[30] MAFAP and FAO, Analysis of Incentives and Disincentives for Cotton in Mozambique, 2012

[31] SENSE advisory, (EU sponsored study, August 2016, Proposal for value chain development programes on cotton and forestry in Mozambique.

The Key issues leading to low production and low quality of cotton in Mozambique are:

1. Low price paid to farmers and high input cost makes other crops more attractive
2. Price paid to farmers as a percentage of sales price is the lowest in Africa (as compared to relatively decent and steady prices in Burkina faso for instance)
3. Bad quality of seeds that is rapidly degrading and also lack of adequate fertiliser and defensive chemicals – generating low yields and lower quality lint.

B – Suggested measures to re-vamp the Cotton value chain

The Cotton national production and export potential remain one of the main agricultural opportunity for Mozambique.

EIP Window - Value Chain Opportunity/ Recommendation N7.: *Provide grant and TA support at two levels that will Strengthen the Productivity of Cotton farming for small holder farmers, Increase the revenue stream (from cotton seed, oil crushing and production of animal feed) and increase the export potential for the country: a)* ***Contribute to the research, varieties and revamping of the Cotton seed production in Mozambique*** *– increasing the yield, and the quality of the cotton lint; b) grant support* ***to finance small to medium size Cotton seed crushing facilities IN Mozambique,*** *and close to the main cotton cultivation centers (Nampula, Zambeze, Inhabane, Cabo Delgado) – allowing for farmers or cotton cooperative to increase their revenue stream and hence the attractiveness of the Cotton, as a cash crop.*

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4. OPTIONS FOR THE SET UP OF A EUROPEAN BUSINESS ORGANISATION IN MOZAMBIQUE (CHAMBER OR COMMERCE OR FEDERATION OF CC)

4.1. The Context of Mozambique and Africa

4.1.1. Introduction and Benchmarking of EU CC in Africa

Over the past 10 years, the EU and Africa have built a stronger and more political partnership based on shared values and interests, enshrined in the Joint Africa-EU Strategy (JAES). The strategy sets out both sides' intention to move beyond a donor/recipient relationship towards long-term cooperation on jointly identified, mutual and complementary interests. It is based on principles of ownership, partnership and solidarity and its adoption marked a new phase in Africa-EU relations.

In many developing countries, the expansion of the private sector, notably micro, small and medium-sized enterprises (MSMEs), is a powerful engine of economic growth and the main source of job creation. The private sector provides some 90 percent of jobs in developing countries, making it an essential partner in the fight against poverty.

Yet, the private sector in Africa faces a formidable range of obstacles compared to its rival in other emerging markets: widespread and rising informality, a "missing middle" in the size of enterprises and little upward mobility, weak inter-firm linkages, lack of export competitiveness, lack of innovation capabilities, complexity of registering business and taxation, infrastructure shortages, unreliable electricity supply, limited access to finance and corruption.

In the communication "A stronger role of the private sector in achieving inclusive and sustainable growth in developing countries" one of the "tools" proposed to implement and mainstream its approach to private sector development, and to harness the potential of the private sector as a partner in development cooperation, is a " framework for structured dialogue and joint action with the private sector". The communication proposed that EU Delegations, in coordination with the Member States, facilitate and support inclusive public-private policy dialogue in partner countries to identify key challenges and opportunities.

EU development cooperation in Africa covers a wide range of areas in the private sector, such as support in creating an enabling business environment and investment climate. A better investment climate helps to promote efficient domestic investment, attract foreign direct investment and increase productivity, thereby raising income and employment opportunities.

EU projects and programmes also involve support for professional institutions ("meso-organisations"), such as chambers of commerce, industrial federations or SME associations, as well as the promotion of reliable local financial institutions. Other areas of support include technical and vocational training, the promotion of investment and co-operation activities among businesses, and the facilitation of access to financial markets. An important focus is also put on support for microfinance and financial inclusion.

A key tool in implementing this new partnership with Africa will be the new European External Investment Plan (EIP). The EIP aims to encourage investment in the EU's partner countries in Africa and the EU Neighbourhood region, to support social and economic infrastructure and SMEs, to strengthen the EU's partnerships and contribute to achieve the Sustainable Development Goals, helping to address some of the root causes of migration.

In the context of the implementation of the EIP in Africa, DEVCO is developing the Sustainable Business for Africa (SB4A) platform, proposed as an overarching concept – as a building block of the third pillar of the EIP – and which consists of structured dialogues operating at country, sectoral and strategic levels. The SB4A platform aims at reinforcing and coordinating structured dialogue with the private sector undertaken by EU Delegations and HQ, to increase private investments in order to enhance developmental impact.

One of the tools to facilitate structured dialogue with the local private sector in partner countries via the EU Delegations is the **EU Business Platforms initiative or CCEAs**.

A recent survey (at the level of EU Delegations in Sub-Saharan African and North African countries) was made of all the existing and planned EU Chamber of Commerce in the region. The survey revealed that 12 partner countries in sub Saharan Africa have CCEAs . According to the responses to the questionnaire, 7 more partner countries are actively planning to create an CCEA sometime in the near future , and according to DG Grow, 9 more countries would be as well planning to create one. This would bring to 19 the number of partner countries with a CCEA within a near future, according to the surveys, and 26 including the information received from DG Grow.

The emergence of this large number of new CCEAs has come about as the result of intensive collaborative efforts by the EU Delegations, Member States diplomatic missions and the European business community in partner countries. EU Delegations have been the prime drivers in creating this momentum.

As an example of the purpose of such EUCC, here are the two objectives pursued by the EUCC in Benin. At a joint meeting with the members of the ECCB, it was observed that its members consider it useful and that its existence is justified on the one hand for **establishing business relations with other European companies active** in Benin and on the other hand to **join forces in order to influence the taking of political and regulatory decisions** which might have an impact on their commercial activities. Indeed, at a meeting organised by the EU Delegation in which eight 8 members took part, major difficulties were presented by European companies. The EUCC is perceived to be a conduit through which all European Companies, experiencing the same difficulties or challenges could speak with one Voice. Such a function would be quite pertinent in the context of Mozambique, where the business climate is quite challenging as well.

Few CCEAs participate in European Business Support Organisations. 4 CCEAs are members of EBO World Wide Network (WWN) (Tanzania, Uganda, Ivory Coast and Ghana). A further 3 CCEAs (Ethiopia, Nigeria and Zambia) are in the process of joining the EBO WWN network. Benin CCEA is member of Eurochambres.

The survey revealed that CCEAs have proved to be a useful tool in facilitating EUDs engagement with the local private sector in partner countries. CCEAs enable EUDs to have a wider access to relationships with the local private sector and can also help EUDs fill the gap between trade policy and trade implementation by taking into account the views of a representative group of EU MS business interests in the partner country.

4.1.2. EBO in the Context of Mozambique and existing National CC

A couple of years ago, a **European Business Club (EBC)** has been constituted as a non-profit association, with the aim at being a Confederation of the Chambers of Commerce already in existence in Maputo. We interviewed its President, Dr Kauffmann, who is a respected University Professor, an active advisor to GIZ and KfW and long standing observer of Mozambique over the last 20+ years.

Through an earlier research, we found that several European countries had already constituted bi-lateral chambers of commerce, with the most active being the Portuguese, Italian, Swiss, Dutch and British (the later two being organised through the economic attaché of their respective embassy). Please find below the list of the European chamber of Commerce active in Mozambique.

The EBC is hence a very modest association with a rotating President, , the German development organisations, and with a Secretary who is French. The EBC currently has no budget or intrinsic resources, and hence depends thoroughly on the "sweat equity" of volunteer, which may have its limit, as the community of European companies do grow and also in the perspective of the massive Capital Investment (between USD8 to 30 Billion) in the context of the imminent development of Cabo Delgado 's gas fields.

Table N XY: List of bi-lateral Chambers of Commerce active in Mozambique

Meso-Organisations and Chamber of Commerce	Representante or key contact
Camara de Comércio de Moçambique	Julião Dimande
CÂMARA DE COMÉRCIO E INDÚSTRIA MOÇAMBIQUE - RSA	Lucas Chachine
CCMP - Câmara de Comércio Moçambique-Portugal	João Figueiredo / O Zimba
CCMS - Câmara de Comércio Moçambique-Suiça	Adrian Frey
CCMI - Câmara de Comércio Moçambique-Itália	Simoni Santi
CCIFM - Câmara de Comércio e Indústria-Moçambique	Ilda Mathombe
Associação Empresarial Itália-Moçambique - AEIM	Paolo Iacoangeli
CCM- Câmara de Comércio Moçambique-Austria	Marianne Hrdlicka
CCME- Câmara de Comércio Moçambique-Espanha	Felisberto Manuel
CCM-Alemanha	Friedrich Kaufmann
CCM-Finlandia	
CCM-UK – Câmara de Comércio Moçambique- Inglaterra	Inayah Sultan
Clube de Franca	
Câmara de COMÉRCIO E INDÚSTRIA Árabe - MOÇAMBIQUE - CCAM	Sérgio Matos
CCMC – Câmara de Comércio Moç.-China	Hui Xi
CCMUSA - Câmara de Comércio Moçambique-EUA	Evaristo Madime
CCMOBRA - Câmara de Comércio Moçambique-Brasil	Fernando Nhassengo

Based on the Interview with Dr Kaufmann and also based on the feedback from several European companies active in Mozambique (JPS Group (Port), Groupe Bolloré (F), Grupo Condor (Port-Moz) and also meso organisations such as ACIS, there is an interest for having a "stronger" European Ombudsman which can act as a Mediator and lobbying force vis a vis the Government of Mozambique and other entities. Some of the Business climate issues that were mentioned were:

- Work permits for expatriate personnel/ towards higher flexibility
- Customs procedures and tariffs – which are often randomly implemented/ imposed
- VAT implementation and re-imbursement – lack of financial infrastructure
- Pricing of utilities and services: fair treatment for all (pari-passu)
- Public procurement for PPP or large infrastructure – corruption issues/ access for EU companies/ tender based on quality and not only on pricing + tips…
- EPA implementation.

With regards to the existing EBC, here is the SWOT of the current, embryonic association:

- Lack of budget, resources and organisational firepower
- Current holding the EBC offices at the project office of GIZ
- There is some momentum now with membership of about 30 German Companies and similar amount of French companies – but clearly critical mass is still lacking
- There is a steering committee (France, Swiss (duly European), Germany, and Italy) to discuss key issues and ways to best push forward on key business environment issues
- Task force established with the MIC/ GoM to tackle business climate issues – and from this standpoint, the EBC is earmarked as being the ideal MEDIATOR between EU Companies and GoM.

EIP (Pillar III structure dialogue) Opportunity Window N.8: *Given the relative lack of resources, critical mass of the current EBC, and on the other hand the strong interest from the part of the GoM (MIC as interface) to have one Ombudsman as a mediator on behalf of the European companies and interest, we would like to propose as a Pillar III Window of opportunity, budget support (Structured Dialogue) for formalising, providing SD resources (from other best practice EUCC in Africa) and giving initial support toward the creation of a* ***EU-Mozambique Chamber of Commerce****.*

The purpose of the European Chamber of Commerce would be to strengthen the bilateral liaison of European investors in African countries and interested African actors to export and do business in Europe (two way). In this context it would be to encourage and foster bi-lateral trade and investment between the EU and Mozambique.

In addition, the objectives pursued by EUCC are diverse:

a) Establish a more formal and regular dialogue between members and actors of the Private Sector; and particularly European investors and local companies;

b) Create a link / conduit also of dialogue with the Public Sector of the host countries of the Business Chambers. The Development Programs are being developed in close cooperation with the governments and private sector of each country;

c) At times (for example in Ethiopia) the EUCC Business Forum, together with the EU Delegation, set up Technical Committee for proper solutions to improve the business environment faced by European (and other) companies; Coordination with the Investment Commissions (or Ministries) of the countries

d) Strengthen links with local business associations and establish networks of contacts and meetings between European and national associations;

e) And because of the diversity of European countries and national chambers, establish a national Federation of Chambers of Commerce, in order to represent, with more force and a voice, the interests of European companies, in the national (country) context.

During the debriefing with the EUD in Maputo, the head of the European Delegation and several staff members were in strong support of strengthening Structured Dialogue with the Private Sector, including through CC and Business Associations, as a key component of this dialogue, including to improve Business Climate.

This **EU-Mozambique Chamber of Commerce** could take various forms and institutional structuring, to be further developed at a later time. These institutional options include:

a) a new **EU-Moz Chamber of Commerce**, based in Maputo, which would have a formal office and a separate legal form (as an Association) and would be financed by European and Mozambican corporate members (with a possibility of an initial EUD funding as well as in other African countries), and/ or

(b) form a "**Confederation" of national business chambers** (see list above of existing Bi-lateral CC and some "Business clubs" (France), which would also add all European actors and nations still without representation, as well as create a "Unified EU Voice" and mediation vis a vis the GoM.

4.2. Potential Strategy for the EU CC in Mozambique and SB4A

4.2.1. Sustainable Business for Africa (SB4A)

Before proposing a strategy and a working plan for the EUCC (which is too soon in the context of Mozambique, as it needs to be decided first and see if there is sufficient momentum for it), it is worth reiterating the aims of the Sustainable Business for Africa (SB4A) platform. SB4A provides EU Delegations and the European Commission with a reference framework for the establishment of a structured dialogue with the local and European private sector in partner countries, to identify the constraints weighing on the development of the private sector and to seek to improve the business climate. SB4A aims to accelerate investments in EU partner countries in order to support sustainable and inclusive growth, more specifically by supporting a structured dialogue on the business climate. As a consequence, SB4A is an important lever for implementation of the EIP and constitutes the cornerstone of its third pillar (improvement of the business climate). Structured dialogue under SB4A may be led at three levels:

- *Country level*: dialogue facilitated by EU Delegations and **EU Business Groups** (EUBGs) involving the local and European private sector and relating to specific constraints weighing on the business climate. This dialogue aims at the identification and raising of barriers to investment as well as the increase of investments by taking advantage of Economic Partnership Agreements (EPA).
- *Sector level*: dialogue aiming at the identification of constraints to investment specific to the sector and regional harmonisation / consistency.
- *Strategic level:* dialogue facilitated at European Commission level with the aim of dealing with the challenges weighing on investments in a more global manner, particularly by the promotion of innovative financial instruments (and guarantee mechanisms), increased collaboration with European Financial Development Institutions (EFDI).

As part of the future detailed work on the EBO in Mozambique, the purpose would be to be identifying the ways in which the EUCC in Mozambique might be able to serve as an instrument for implementation of the EIP through the SB4A approach at a country level in Mozambique. It should be stressed that the financing of SB4A dialogue at a country level will be through the National Indicative Programme (NIP), the Regional Indicative Programme (RIP), technical assistance facilities (TPSD type) or CSO envelopes. Twelve EUBGs have been formally established in partner countries and are fully operational, particularly by virtue of the support of EU Delegations, for example in Ethiopia, Zambia, Ghana, Senegal and Tanzania.

4.2.2. Examples of success in introducing a structured dialogue within the framework of SB4A

Below we present some best practices of EUBGs in Africa in order to illustrate how these may constitute a platform for structured dialogue, and contribute to attracting investments and improving the business climate. To that end, we have selected the cases of Tanzania and Ethiopia.

A- EUBG Tanzania: this European Chamber of Commerce in Tanzania is considered to be an example of success in establishing partnerships and constituting a platform for dialogue between the private sector and the government of an EU partner country. The EUBG Tanzania was created as a result of the joint efforts of the EU Delegation, the Member States and certain European companies active in Tanzania in 2015. It has more than 100 European company members and advocates by participating in platforms for public-private dialogue of different types like the budget review working group with the Ministry of Finance or workshops with the Ministry of Commerce and Industry. Partnerships established include organisations in the local private sector (Tanzania National Business Council, Tanzania Private Sector Foundation) or regional private sector (East African Business Council) and sector associations like the association of shippers and horticulturalists. At a public-private dialogue level, the EUBG Tanzania has structured its work around working sessions on taxation, investments, transport and work permits (themed actions). These working sessions bring together company members of the EUBG Tanzania, the EU Delegation and Member States. The EUBG Tanzania also produces briefing notes on specific points like VAT between Zanzibar and Tanzania.

In terms of financial sustainability, the success of the EUBG Tanzania rests in the differentiation of subscriptions from members: subscriptions are progressive depending on the number of employees, as presented below:

Figure 2: Scale of subscriptions to the EUGB Tanzania

Number of employees	Subscription amount (in USD)
From 1 to 10	200
From 10 to 50	750
From 50 to 150	1250
More than 150	2500

The EUBG in Tanzania has benefited from financial support from the European Union through the NIP TCF for **two technical supports which proved crucial to its development**:

- **Recruitment of an executive secretary** (European consultant) for the first six months: contract for EUR 20,000. His role consisted of developing a strategy, consolidating the budget and increasing the number of members (from 0 to 40 between April and December 2015, then 105 in December 2016, **then 130 in July 2017**
- **Study of European investments in Tanzania and policy briefs**: contract for EUR 200,000 proposed by the EU Delegation in Tanzania in 2015. The study of European investments in Tanzania contained an economic diagnosis (market study and cartography) of European companies active in Tanzania, their investments, their impact on the economy, society (jobs, training, etc.) and taxation (contribution in terms of taxes collected). This study enabled the EUBG Tanzania to increase its dialogue with the Tanzanian authorities for improvement of the business climate and to give more weight to its advocacy. Moreover, the consultant responsible for the study also produced **policy briefs** aimed at presenting the priority improvements demanded by European companies Europeans on three problems: harbour operations, taxes and administration and work and residence permits. In addition to these two deliverables (market study and policy briefs), the **contract also included the production of communication material for the EUBG Tanzania**: development of a web site, design of the logo and production of pens, USB sticks, advertising banners, brochures and finally the organisation of a major event (more than 150 participants) aimed at presenting this market study and the policy briefs, and two work seminars for gathering information and awareness work.

B- European Business Forum to Ethiopia (EUBFE): the EUBFE was created in 2012 and is a good example of the implementation of a platform for dialogue with the local private sector. The EUBFE is a dynamic organisation bringing together some one hundred European companies active in Ethiopia (out of the 300 European companies present in Ethiopia in total). It provides its members with a forum for discussion and intervenes with the Ethiopian Government.

The EUBFE benefited from the technical support of the BizClim Facility for the Business Climate. In fact BizClim financed the EUBFE project (2014-2015), including a study of the business climate in Ethiopia, a cartography of European investments in Ethiopia, a survey of the main legal and bureaucratic constraints on European companies in Ethiopia and eight case studies of the real problems encountered by European operators. The consultant responsible for implementing this project then established a road map for the creation of a structured dialogue between European companies (and other investors) and the Ethiopian Government.

As a result of that, the EUBF Ethiopia and the EUD established a **Technical Committee** formed of the EUBFE, the EU Delegation and the Government of Ethiopia to deal with the problems associated with the business specific to companies from the EU. The EUBFE collaborated with other associations of foreign companies (United States, India, Turkey, China) to improve dialogue in 2017 in a new platform also run by the Ethiopian Investment Commission.

In conclusion, based on the benchmark and experience of EU CC and EBO in other similar countries (in terms of size and/ or GDP size, such as Tanzania), we believe that the set up of a European Business Organisation (or EBO) in Maputo could be a useful and essential instrument of structured dialogue between the European Business lobby (speaking in one voice), the Private Sector and business associations in Mozambique, and the Government of Mozambique. We encourage to delve that idea and possibly make a quick, specific mission that would establish the charter, purpose and objectives as well as the organization and financial structure of such EBO in Mozambique.

4.2.3. Support to other Business Association in Mozambique

Last but not least we believe that another focus for the Private Sector Support programme should take into consideration the courageous and relentless work performed by the actor fo the Civil Society, many of which are the only conduit through which the Mozambican MSMEs and private sector stakeholders can make their voice heard at the level of GoM.

Such private Meso-Organisation as **ACIS and the Mozambican Cotton Associations** for instance would merit to have institutional support from the EUD, under EIP or through other budget facilities.

Also Entrepreneur support organisations such as IDEALabs and Business Angels Associations of Mozambique do deserve support.

The universe of Civil Society and Industry association is much larger, and we do not pretend to have made a thorough assessment of it (in a just two week field trip). However, there is a parallel Mapping of the Private sector and of the Civil Society organisation which has been completed and should serve as a reference for supporting such segment, as part of the Pillar III of EIP, or the 11th EDF.

5. CONCLUSIONS AND RECOMMENDATIONS

Todays major challenge for Mozambique is not only to keep the economic growth momentum of the last 15 years, but preparing its economy for regional integration, moving up the all of its embryonic industries onto the value chain, and creating the "Business Climate" conditions to foster Private sector growth and entrepreneurship

The major issue in Angola is to rebuild and revamp the private sector and the productive value chain following the descruction caused by the Civil War and flight of much of the Manageral cadre. Job creation will only ensue from a concerted effort from the part of both the GoM and Multilateral donors (providing support for Business climate reform to create a more conducive business environment and eco-system for Private Sector investment and growth.

Mozambique possesses immense natural, mining, and agricultural assets and wealth and a large consumption market (of 28 M) which is waiting to be developed and unfolded. But currently, the business climate and the lack of access to finance currently severely hamper the development of the private sector. With the EIP facility, the European Union has a powerful tool with which to contribute to facilitating funding to Mozambique private sector, to encourage the authorities to make the necessary regulatory reforms by supporting the public-private dialogue and to attract European investments, among others.

We have sought to identify projects which will foster the operation of the EIP in eight investment windows, namely Infrastructure, Incubators, Venture Capital funds, Cashew nut, Cotton value chains, as well as a Pillar III investment that could be made to support a EU Chamber of Commerce and Civil Society and associations in Mozambique.

Although the current constraints to Doing Business in Mozambique are considerable, particularly in terms of land registry, access to credit, taxation, capital markets, restriction of foreign exchange and the application of laws, we believe that the value chain selected in this study have all a strong potential in terms of diversifying the economy and the PS players, and also creating the conditions for sustainable job growth and sustainable companies – away from the long lasting dependency (and curse) on large FDI commodity projects (including the incoming Gas Boom) .

We think also that other Agricultural value chain – such as sustainable forestry, Soybean revival, tropical fruits (Banana) and other cash crop (and local compsumption production could also contribute to the pursuit of Sustainable Development Objectives in view of their social and environmental impact, as well as making Mozambique a more self sufficient country and lesser dependent on costly imports.

On the methodological side, the "**Entrepreneurship Life Cycle" model**, in which the blending finance facility can intervene either upstream (Incubators & business angels) or downstream (Venture capital funds and Capital markets) is also a useful tool for gauging the EIP intervention not only in Mozambique, but any African partner countries, as the cycle of business and private investment is the same in all countries. We happily present it as a legacy to this current and all future TPSDE Missions and country assessment.

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6. ANNEXES

Annex 1: Terms of reference

Draft Terms of Reference
Mission of the EC TPSDE Facility to EUD Angola
September/2018

Terms of reference

Mission of the EU TPSDE (Trade, Private Sector Development and Engagement) Facility to support the EU Delegation to the Republic of Mozambique

September 2018[32]

1. Background

External Investment Plan

The assignment will take place within the context of the EU External Investment Plan (EIP), which main objective is to support partner's countries to support their effort to meet the Sustainable Development Goals (SDGs) of 2030 Agenda and to create decent and sustainable jobs by boosting investments. The EIP is based on three interlinked pillars: 1) Mobilise investment through the European Fund for Sustainable Development (EFSD), 2) Technical assistance to develop bankable projects and to support the improvement of investment climate in partner countries and 3) to improve the investment climate and business environment through the establishment of structured dialogue with the private sector and improved policy dialogue.

The Sustainable Business for Africa (SB4A) platform[33] has been established in this framework, to enable and strengthening structured dialogue at country, sector and strategic levels as an essential building block of the third pillar of the EIP. Structured dialogue will ensure the right level of private sector perspective,

[32] Indicative date
[33] Established within the framework of the joint EU-Africa Initiative and launched at the EU-Africa Business Forum in November 2017

ownership and engagement in EIP implementation. It should also help establish a link between investment support under pillar 1 of the EIP and necessary investment climate reform agenda under pillar 3.

These terms of reference seek the services of the TPSD Facility to conduct a comprehensive analysis of the meso-level actors such as business associations/chambers of commerce, incubators, researchers, TA providers, investor networks, hedge funds, private equity funds. Moreover, to identify potential EIP projects, in this sense, key areas of support should include energy and agriculture.

The private sector in Mozambique and investment opportunities

The Mozambican economy relies heavily on primary sectors – agriculture, mining, forestry, fisheries, hydropower and gas. In 2016, the main economic sectors contributing to growth were: agriculture 20% (declining contribution), industry 18% (increasing trend, 9% manufactures and 6% extractives), and services 39% (stable out of which 12% from commerce). Investment has been mainly geared towards exploiting opportunities in primary industries, mostly by large multi-nationals. In 2016, 56% of the FDI took place in the extractive industries sector, followed by 17% in the transport and communication sector and 4% in the manufacturing industry (food, drinks, tobacco, textiles, others).

In the short to medium term the overall economic outlook is challenging. Growth has been decelerating since 2016 linked to external and internal shocks, such as politico-military tension, uncertain outlook for commodity prices (coal and gas), compounded by a debt crisis following the discovery of significant undisclosed state-guaranteed debts in 2016. GDP growth fell to 3.7% in 2017 (down from 3.8 % in 2016), the growth rate in extractives, largely driven by higher coal exports, accounts for 2.3 % of the 2017 growth.

Between 2009 and 2012 major reserves of coal and natural gas were discovered in the country, placing Mozambique in the spotlight of foreign investment. From 2011 to 2013, FDI in the country nearly doubled and grew more than tenfold in relation to 2008. However, since 2015 FDI slowed down reaching less than a third of the investments of 2013. This can be related to decreasing gas and oil prices on the international market which impacted on the pace of investments realized in Mozambique. In 2014, 82 % of the FDI took place in the extractive industries sector, followed by 9.3 % in the transport and communication sector and 3% in the manufacturing industry. In terms of prospects, considering the expected FDI inflows following the discovery of large gas deposits, Mozambique will likely become a middle income country in the course of the next 15 years.

The economic crisis in Europe has simultaneously accelerated the relocation of many small businesses from Southern Europe, some of which are perceived as competing with Mozambican businesses when these companies could, in fact, transfer knowledge and technology and promote economic transformation. Furthermore, dependence on imports from South Africa and illegal trade and business activities by nationals of neighbouring countries are some of the economic diversification challenges facing the country in addition to ensuring inclusive growth. In the meantime, potential for industrial transformation and value added creation is not utilised.

The Mozambican authorities are attracting European companies to invest in agriculture because of the need to become less dependent on coal and gas production. Furthermore, opportunities, including for European SMEs, for significantly increased trade and business activities could open up in the context of the envisaged investments in the gas sector, since local law stipulates that 25% of the LNG production will have to go to the domestic market. Local energy providers and industrial production, notably in agribusiness and related sectors, could likely benefit from increased and secure energy supply.

In terms of trade flows, the EU is a major trade partner of Mozambique, being its main export destination because of the preponderance of aluminium (36% of exports in 2015) and the 4th import partner (11% of imports), after South Africa (27%), India and China.

The private sector is led by few medium and large enterprises. A strong link between the political elite of the ruling party and access to economic opportunities still persists. Moreover, the political class tends to prioritise large investments, the so-called mega-projects. The enabling environment for MSME (micro, small and medium-sized enterprises) to flourish and for a middle-class to grow is lagging behind and do not seem to be among the top priorities.
In line with the informal economy levels in the Sub-Saharan region, the estimated informal economy for Mozambique (2010-2014) is at approximately 38% of GDP, representing a labour force of 13-14 million people out of a population of 28 million. Between 70-80% of the Mozambican labour force is active in the informal economy[34].

Despite some government efforts, business environment did not improve noticeably in the last years even if certain reforms were adopted. The pace of reforms is slow and their implementation has been challenging.

[34] International Monetary Fund, Regional Economic Outlook for Sub-Saharan Africa, May 2017.

Government policies have not been sufficiently successful in reversing the declining business environment. Mozambique's international ranking indicators are weak and decreasing:

- ✓ Ease-of-doing-business ranking 137 out of 190 countries;
- ✓ Competitiveness ranking at 133 out of 138 countries;

1. Limitations to doing business vary from prohibitive cost of borrowing (28% interest rates), rampant corruption and nepotism; weak business associations; lack of skilled labour force; restrictive legislation regarding the hiring of foreign workers; cumbersome customs processes; Weak interinstitutional approach to business environment amongst others.
2.
3. In terms of public-private sector dialogue, there is a formal framework organised around the Confederation of Trade Associations (CTA), for the private sector, and the National Directorate of Support for Private Sector Development (DASP) within the Ministry of Industry and Commerce (MIC) for the public sector. The largest Confederation of Economic Associations of Mozambique (CTA) is long established and is systematically involved in public private dialogue, but it does not represent all private sector; specifically micro, small and medium enterprises, youth business associations and women entrepreneur associations are underrepresented in dialogue forums, which limits their impact on policy. A European Business Club is active since three years and includes business associations from 8 EU Member States[35], however, its recent creation and limited resources are real challenges, in order to expand its sphere of influence and capacity to actively promote potential investment opportunities.
4.
5. Mozambique's participation in the External Investment Plan is not straightforward. The unsustainable high level of debt does not allow the Government to borrow further and the very high lending interest rate (equivalent to 25 %) makes it also very difficult for the private sector stakeholders to access financing. If Mozambique wants to benefit from the first pillar, the government will need to show commitment on the reform side (pillar 3). At a first stage technical assistance could be provided under pillar 2 to pave the way benefiting from the guarantee facility and blending operations. Shifting a significant amount of funds for Mozambique to the EIP could help trigger Government reforms' towards a competitive private sector and an improved business climate environment. Support

[35] Business associations from EU Member States participate in the European Business Club, namely associations from France, Germany, Netherlands, Austria, Portugal, Spain, UK, and Italy. Swiss association is also a founding member.

through the EIP could also contribute to improving access to financing for private sector operations in the agriculture value chains, the energy sector and private sector development.

The 11th European Development Fund projects in the pipeline include a comprehensive package under the rural development focal sector each addressing different priority areas (transport, energy, agricultural competitiveness, nutrition and biodiversity) working in close coordination as an integrated rural development approach. A complementary trade facilitation project is also foreseen following Mozambique´s ratification of the Economic Partnership Agreement and the ratification of the World Trade Organisation´s Trade Facilitation Agreement.

2. Objectives and expected outputs of the mission of the EU TPSDE Facility

- Objectives of the assignment:

The main objective of this assignment is to 1) conduct an extensive analysis of the meso-level actors, as well as 2) identify investment opportunities within the framework of the EIP.

-Expected outputs:

The final output of the assignment will be an analytical report covering the following aspects:

1. An analysis of the meso-level actors active in Mozambique but also international ones potentially investing in Mozambique (e.g. investor networks, hedge funds, private equity funds). Meso-level actors include business associations/chambers of commerce (both those representing Mozambican and foreign companies), incubators, researchers, TA providers, investor networks, hedge funds, private equity funds. The aims shall be to identify the main meso-level actors, objectives, interests and areas of intervention which could potentially link/contribute to the EIP.
2. An analysis and identification of the presence of European Union companies in Mozambique, and analysis of main interests in terms of sectors, investments, trade and so on.

3. An analysis of potential investment opportunities within the framework of the EIP. Identify potential EIP projects, in this sense, key areas of support should include energy, agriculture and water supply.

3. Activities

Undertake two missions to Mozambique (covering Maputo capital city, and Zambezia and Nampula provinces).

During the first mission the consultants shall collect the required documents, meet the relevant interlocutors, and collect the required information to meet the expected outputs. A draft report shall be submitted at the latest two week after the end of the first mission. At least one week of the first mission should take place in the provinces of Zambezia and Nampula.

During the second mission the consultants shall address the comments received on the draft report, meet any required interlocutors and collect any remaining required information to complete the expected outputs. At least one week of the first mission should take place in the provinces of Zambezia and Nampula.

The draft and final reports should be submitted in electronic format, and shall include a table of contents, an executive summary (3 pages maximum), and an analysis which shall form the main body of the report, as well as conclusions and recommendations. Bullet points shall be used to summarise the main conclusions and recommendations. The report should be clear and concise and not exceed 50 pages, annexes can be added to the 50 pages but the main analysis/conclusions/recommendations should be within the main body of the report.

The following annexes to the report should be provided: list of persons met (name, institution, e-mail and phone number), list of documents consulted, list of European Union companies in Mozambique with contact details e-mail and phone number, and other annexes deemed relevant by the consultants.

Requested Consultants' Profile

The mission will be composed of three senior consultants and one junior consultant. The following eligibility requirements are required:

Expert 1: Lead Expert (Investment specialist)

- Relevant professional qualifications at least Masters Degree or, in its absence equivalent professional experience of at least 12 years in economics, finance, business administration or other relevant topic

- At least 8 years international expertise in finance, business, and investment in developing countries
- Experience as Team Leader
- Demonstrable research and analytical skills
- Experience from similar assignments
- Good communicator, experienced leader and moderator
- Excellent English writing skills, knowledge of Portuguese is also preferred but not required

Expert 2: Economist (local expert)

- Relevant professional qualifications at least Masters Degree or, in its absence equivalent professional experience of at least 8 years in economics, finance, business administration or other relevant topic
- At least 5 years of in-depth experience of working with private sector and projects for private sector development
- Experience in Sub-Saharan Africa would be an advantage
- Demonstrable research and analytical experience and capacity
- Effective communication and reporting skills
- Excellent English writing skills and fluent knowledge of Portuguese are required

All experts must be independent and free from conflicts of interest in the responsibilities they take on.

4. Location, dates and duration

Two missions shall take place to Maputo, Nampula and Zambezia, in Mozambique.

The first mission shall consist of 15 working days in Maputo, and 5 working days in the provinces of Nampula and Zambezia, and 5 working days at the place of employment for drafting purposes. The first mission could be foreseen to take place in September 2018.

The second mission shall consist of 10 working days in Maputo, and 5 working days in the provinces of Nampula and Zambezia, and 5 working days at the place of employment, the start of the second mission take place in the second half of October 2018.

5. Focal points within the TPSDE Facility and the EUD/Service

EU Delegation: Kaluwa Vergamota and Geert Anckaert

DEVCO HQ: Laura Atienza and Monica Peiró

6. Provisional agenda

The consultants shall work independently and scope potential interlocutors to meet in order to meet the requirements of the terms of reference, and shall arrange the required meetings directly.

The EU Delegation can provide contacts for the following interlocutors: EU Member States Economic and Trade Counsellors, European Business Club, Ministry of Industry and Trade, Ministry of Energy and Natural Resources, Ministry of Agriculture and Rural Development, the National Institute for Standardization and Quality (INNOQ), and Mozambican business associations, and key providers to discuss the business climate (World Bank, IMF, etc), CSOs and other relevant actors.

A minimum of a briefing and debriefing meeting shall be foreseen with the EU Delegation in Mozambique. Additional meetings with the EU Delegation in Mozambique to discuss specific sectors shall also be foreseen.

Annex N2: Meeting Planning and Government, Meso organisation, Multilateral and bi-lateral donors met during the Field trip 15-29 October

MISSION EC TPSDE Facility - program visit 15.10.18 - 26.10.18 -- version V.01

	Monday 15	Tuesday 16	Wednesday 17	Thursday 18	Friday 19	Saturday 20	Sunday 21
08:00	Flight Lux - JoBurg **arrival 08:30**	CC Comercio N1	MIC (Inudstry / Com)	CC Comercio N1	ORANGE CORNERS		
09:00		EUD Infrastructure	Dr Calado Silva	Nita To organise	Van Niekerk		
		Meeting Gilles					
10:00				**Multilateral DFI**			
		Planning with EUD	Debriefing on ToR	**Af Devt Bank**	Bus Angel apital		
11:00		Gov of Moz meetings	Head of Delegation	**Yolanda Arcelina**	YS to organise		WRITE UP
			Areas of Priorities	Private Sector Co2			Interview Consolidation
12:00					ACIEP - Portugal		**Key Findings**
		lunch	***lunch***	***lunch***	***Lunch - Ana Maria Rosa***	***lunch***	
13:00							
14:00	Flight JoBurg - Maputo **arrival 15:30**		Min Econ & Fin	**Multilateral DFI**	IMPACTO CAPITAL		
		Ministry Agriculture	Orlando Penicela	**KfW**	Diogo Cunha Lucas		
15:00		Massinga/ Wilson		**Jens Dorn**			
			APIEX	ACIS			
16:00			Lourenco Sambo	Muis Magaço Jr	Debriefing on W1		
					Meeting EUD		***Preparation Week 22/ 10***
17:00				European Bus Club			***Nampula & Zambezia***
	Mission Planning			Dr Kauffmann			***14:40***
18:00	Maria Nita - PSD		TBC	Dr Sara Fakir			
				IDEIALABS			
19:00	***Evening meeting Dinner***	***Evening meeting Dinner***	***Dinner***	***Dinner***	***Dinner***	***Dinner***	

HOTEL → **MAPUTO** **MAPUTO** **Maputo**

MISSION EC TPSDE Facility - program visit 10.09.18 - 22.09.18 -- version V.01 IGNORE WORK IN PROGRESS

	Monday 22	Tuesday 23	Wednesday 24	Thursday 25	Friday 26	Saturday 27	Sunday 28	Monday 29
08:00	**Joao Ferreira DS**			TO BE COMPLETED	TO BE COMPLETED			**GAPI CM**
	Francisco Ferreira			Mariscos do Indico	Conference call			Dr Antonio Souto
09:00				Miguel Costa, CEO	Tiago Laranjeiro			
	Standard Bank Incub			Moagens de	**GAPI VC FUND**			
10:00	Sasha Vieira		GAPI					
			local Representative					
11:00	Meeting EUD			Plantation of			AZER	Meeting EUD
	EIP Facility/ Jesus			Caju	TB filled		NT 854	EIP Facility/ debrief
12:00					Director -		**11:35 - 12:25**	
	lunch	***lunch***	***lunch***	***lunch***	***lunch***	***lunch***		***lunch***
13:00								
14:00	Meeting with AFD		GRUPO CONDOR	Lunch with Mr	Debreifing meeting with			BCI
	Julien Darpoux		mr Silvino Martins	Agri-business -	GAPI Nampula			Better Cotton Org
15:00	**Multilateral DFI**			Company NX				**Djiba Kaba**
	AFD - Energy Infra		GRUPO CONDOR					
16:00	**Benoit Fars**	Meeting w Antonio	mr Silvino Martins	**Techno Serve**	**Group Bolloré**			**Fernando dos Santos**
	Nodalis - Energy	Saraiva - Agronomist		Ideslon Anselmo	**Bertrand Fleury, CEO**		***Arrival Luxembourg***	**DG ARIPO**
17:00	Consultants	Founder Huambo AI					***Sunday 23***	Intellectual Prop Rights
						departure Lisbon	***16:30***	
18:00						***TAP 23:35***		
			Visit to Swiss Milk product					
19:00	***Evening meeting***							***Evening meeting***
	Dinner	***Dinner***	***Dinner***	***Dinner***	***Dinner***	***Dinner***		***Dinner***
	Maputo - Flight	**NAMPULA**		**NAMPULA**		**Maputo**	**Maputo - Flight**	

Annex N3: Government, DFI, Meso-organisations and businesses Interviewed in Mozambique – as part of the TPSDE Mission

Institutions/Company	Contact	job title	address	email
European Commission -Mozambique Delegation	Antonio Sanchez-Benedito Gaspar	Ambassador - Head of Delegation	Av Julius Nyer	Antonio.SANCHEZ-BENEDITO@eeas.europa.eu
European Commission -Mozambique Delegation	Isabel Faria de Almeida	Minister Counselor - Unit Head - Head of Cooperation	Av Julius Nyer	Isabel.Faria-DE-ALMEIDA@eeas.europa.eu
European Commission -Mozambique Delegation	Kaluwa Vergamota	Adida Private Sector and Trade	Av Julius Nyer	Kaluwa.VERGAMOTA@eeas.europa.eu
European Commission -DEVCO	Gilles Rebattet	Administrateur	Comission eu	gilles.rebattet@ec.europa.eu
European Commission -DEVCO	Nicolas Gonçalves	Int. Aid/Cooperation Officer Southern Africa , Indian Ocean	European Cor	nicolas.goncalves@ec.europa.eu
European Commission -DEVCO	Isaura Lopes Ramos	In.l Aid/Cooperation Officer Southern Africa , Indian Ocean	European Cor	isaura.lopes-ramos@ec.europa.eu
European Commission -Directorate-General for International Cooperation and Develo	Laura Atienza-Urcelay	Devco C4		Laura.ATIENZA-URCELAY@ec.europa.eu
Government				
Republic of Mozambique - Ministry of Economy and Finance _ Dir; of Cooperation	Natércia da Natividade Tivane	Deputy National Director	Av. Ahmed Se	natercia.d.tivane@gmail.com
Republic of Mozambique - Ministry of Economy and Finance _ Dir. of Cooperation	Orlando Penicela Jr	Senior Planning, Monitoring and Evaluation Officer	Av. Ahmed Sekou Touré, 22	
Republic of Mozambique - Ministry of Economy and Finance _ Directorate of Coopera	Hanifa Ibrahimo	Senior Policy Analyst	Av. Ahmed Sekou Touré, 23	
Republic of Mozambique - Ministry of Economy and Finance _ Directorate of Coopera	Candido Jeque	Spokesperson	Av. Ahmed Se	candidojeque2017@gmail.com
Republic of Mozambique - Ministry of Industry and Trade	Amilcar Carlos Arone	National Director of External Trade	PO Box 1831 -	aarone84@gmail.com ; aarone@mic.gov.mz
Republic of Mozambique - Ministry of Industry and Trade	Calado Silva	Ex-Head of Department	PO Box 1831 -	caladosilva57@gmail.com
Republic of Mozambique - Ministry of Agriculture				
Republic of Mozambique - Ministry of Agriculture				
Associations				
Chamber of Commerce of Mozambique	Julião Dimande	President	Cimento"A", Maputo, Moçambique	
ACIS- Association of Commerce, Industry and Services	Luis Magaço Junior	President	Av off Margin	lmj@mzcc.co.mz
ACIS- Association of Commerce, Industry and Services	Fernanda Fazenda	Executive Director	Av off Margin	acisdirec@acismoz.com
Development Finance Institutions				
African Development Bank	Yolanda Arcelina	Head of Programm Officer	Av da Margina	y.arcelina@afdb.org
African Development Bank	César Tique	Senior Agriculture & Rural Development Specialist	Av da Margina	c.tique@afdb.org
African Development Bank	Joao Mabombo	Senior Transport Engineer	Av da Margina	j.mabombo@af
Southern African-German Chamber of Commerce and Industry	Dr Friedrich Kaufmann	Representative	Rua Antonio S	maputo@germanchamber.co.za
French Development Agency	Julien Darpoux	Director	Av 24 de Julho	darpouxj@afd.fr
Agency for Investment and Foreign Trade of Portugal -AICEP Portugal Global	Ana Maria Rosas	Delegate - Economic and Commercial Counselor Embassy of Po	Av Julius Nyer	ana.rosas@portugalglobal.pt
African Intellectual Property Organisation	Fernando dos Santos	General director	11 Natal Roac	fsantos@aripo.org
INCUBATORS				
Standard Bank	Sasha Anne Vieira	Head of Incubator	Rua dos Desp	sasha.vieira@standardbank.co.mz
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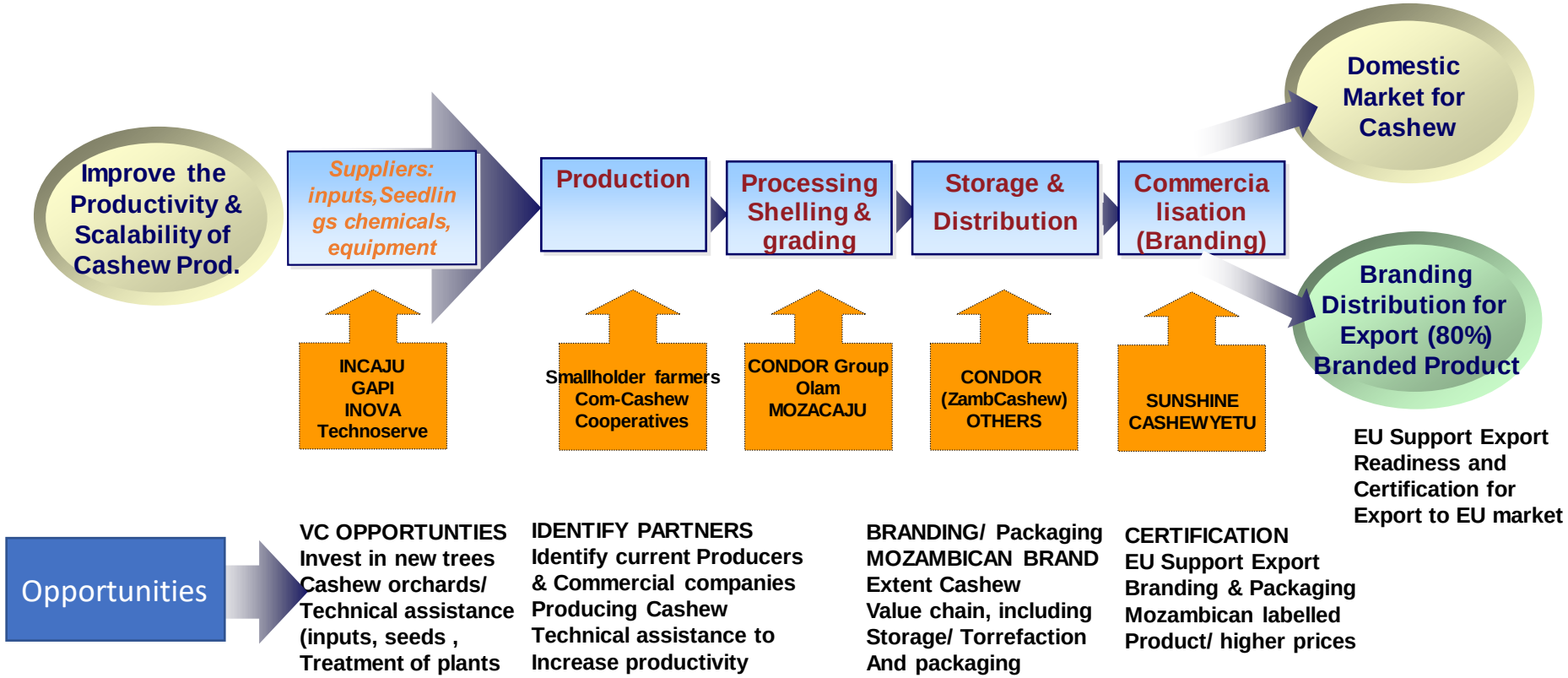
Annex N4: Cashew Nut Value Chain – Model - EMBRAPA



(*) EMBRAPA Crop Value Chain Methogology, 2015, Analysis TPSDE, 2018

Annex N5: Cashew Nut Incremental Revenue model

