

Local Economic Development and Financing in Nampula– Nacala Development Corridor in Mozambique

United Nations Human Settlements Programme (UN-Habitat)

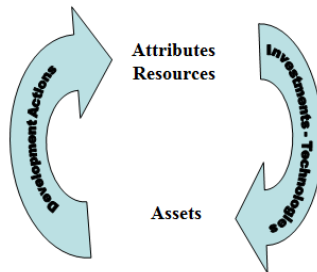
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1. The Conceptual Base of Local Economic Development

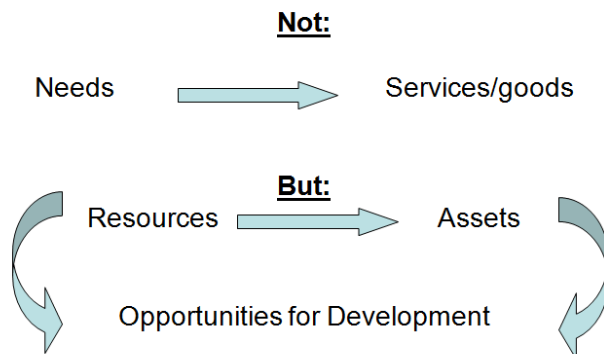
The underlying strategy of LED being recommended here is based upon **identifying local resources**, human, social, and natural that can be **leveraged into economic assets**.

Transforming Resources into Assets



It is furthermore predicated upon the recognition that inclusive political and economic institutions create the opportunities that enable development ventures to come to fruition. The **assets based strategy** of development is well documented both on the conceptual and on the practical level. It is a strategy that stands in stark contrast to a needs-based strategy that leads to an endless cycle of demand for more and more services (to meet ever growing needs).

Promoting Development

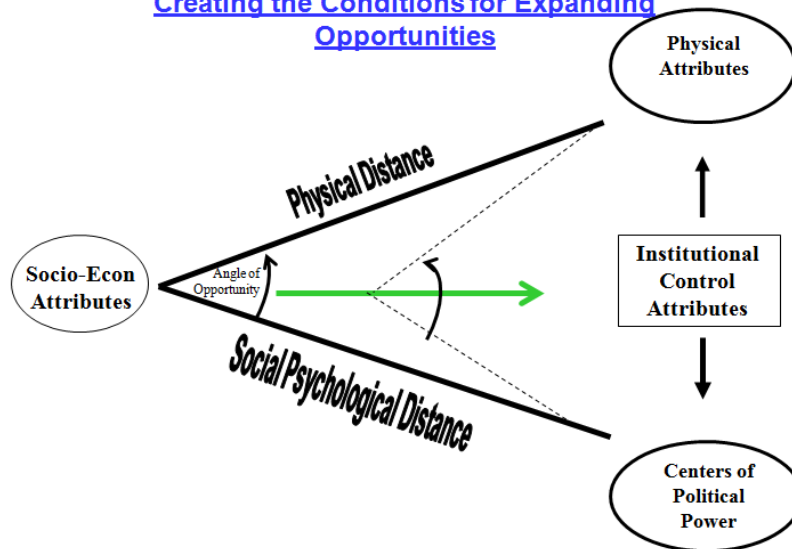


It is also a strategy that does not rely upon the "trickle down" of macroeconomic development, but rather promotes action that is essentially **bottom up and proactive**. This grows out of a recognition that all too often macroeconomic development tends to be extractive at least in relation to local economies (local here can be either/or community or national depending upon the scale of the macroeconomic venture). Thus **LED needs to be entrepreneurial and opportunity oriented rather than problem solving and aid oriented**.

Likewise this approach focuses not only on human capital, skills and competencies, but also on the **political-economic context** and the **institutional arrangements** that structure peoples' access to resources. It also addresses the **socially constructed "economic reality"** that a priori sets the "rules of the game" by which people assume their economic roles.

This leads to an analysis of the local context and addresses some of the "hidden" assumptions that often inhibit LED. As such recommendations for action and projects combine both specific local economic ventures and an adaptation of those social-economic and political (control over resources) institutional structuring of economic activity.

Creating the Conditions for Expanding Opportunities



We can see how increased physical access to resources and social-psychological access to center of power (socially constructed economic reality) combine to expand the opportunities for development (the angle of opportunity). In parallel the opening up institutional control of resources (financing, land rights, mineral extraction rights, etc.) also contributes to increased opportunities for development.

It is important to emphasize here that LED is not divorced from national/centralized institutions such as constitutional "rules". These "rules" are needed for stability and to ensure "rights". It is the degree to which "rights of access" are guaranteed and made available to broad populations (or limited to elites) that enables or limits economic development opportunities. This type of access can be seen, for example, in the regulation of resource utilization, availability of financing, and in the allocation of budgets for quality education/training.

In northern Mozambique the primary line of action that is receiving great attention is the development of the transportation infrastructure that will enable the movement of natural resources out of the country. It will also enable local transport of goods and services which can be leveraged into local development or reinforce the dynamics of extraction economies through the export of other local resources. **A successful LED strategy thus requires crafting of institutions that can increase local populations' awareness of opportunities and provide the organizational platforms necessary to promote local ventures.** The legal underpinnings of such institutions already exist in Mozambique. There is also a significant degree of local political awareness. Both of which are key components for success.

The LED strategy that grows out of the assessment in Northern Mozambique thus has three main components:

1. Project/venture promotion that grows out of analysis of the value chain and identification of development opportunities in different economic sectors

- logistical service centers around the transportation industry
- demonstration and training farms for the promotion of agriculture
- increased tax collection from land in cooperation with different communities

- housing upgrade and economic development

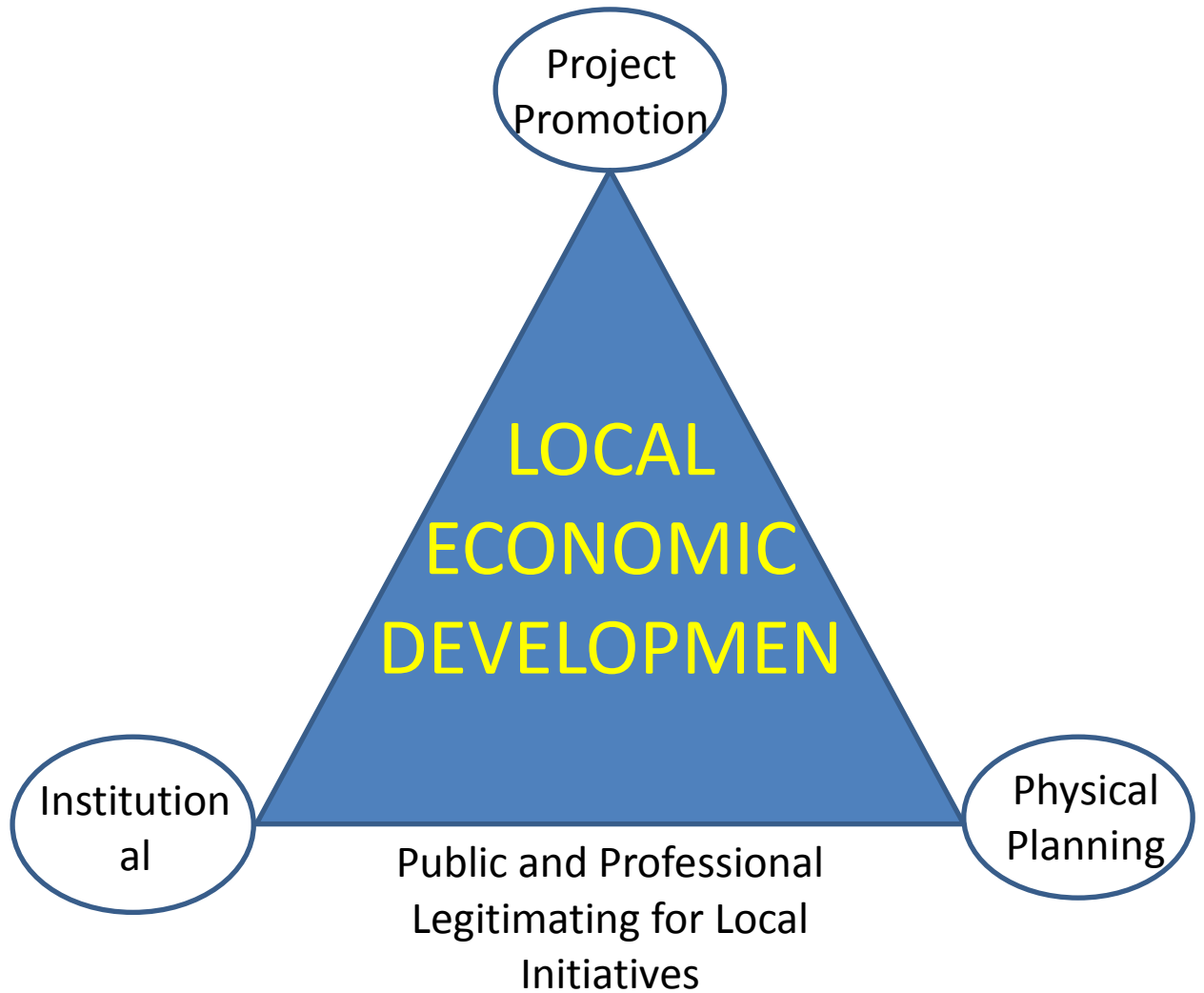
2. Institutional adaptation, primarily on the level of local governments' role in becoming a leader of local economic development

- creation of local government development corporations
- creation of a provincial level support service for local government economic development
- better utilization of local government statutory authority
- leveraging national regulations for compensation to land owners for housing development
- initiation of professional support service to SME's and job training programs

3. Integration of LED into planning

- Identification of strategic location of economic anchors and land use/allocation policy
- better linkage of national policy and local planning initiatives aimed at LED
- planning as tool for leveraging land values for LED.

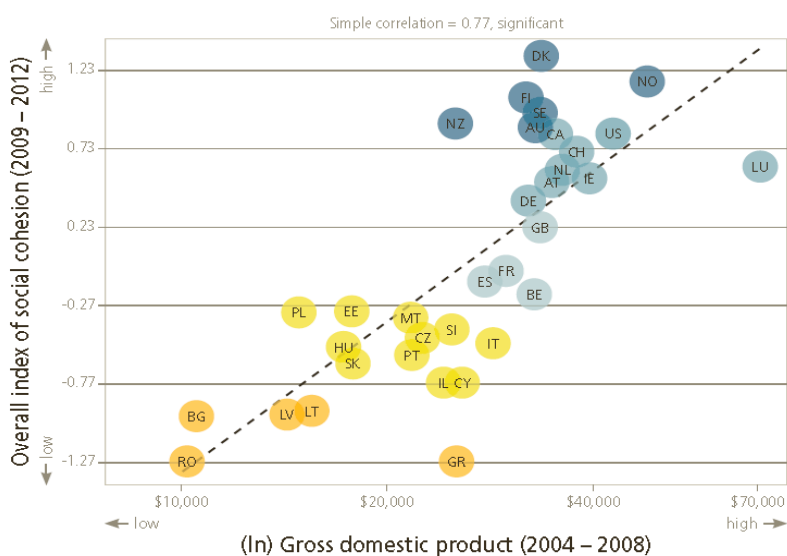
Integrated LED Approach



2. The Social and Political Context of Local Economic Development

The relation between social-political institutions and economic institutions that either lead to development or inhibit development, has been given considerable attention over the last years. A recent study of the relation between social cohesion and GDP clearly illustrates the almost linear correlation.

Figure 10 Overall index of social cohesion relative to gross domestic product

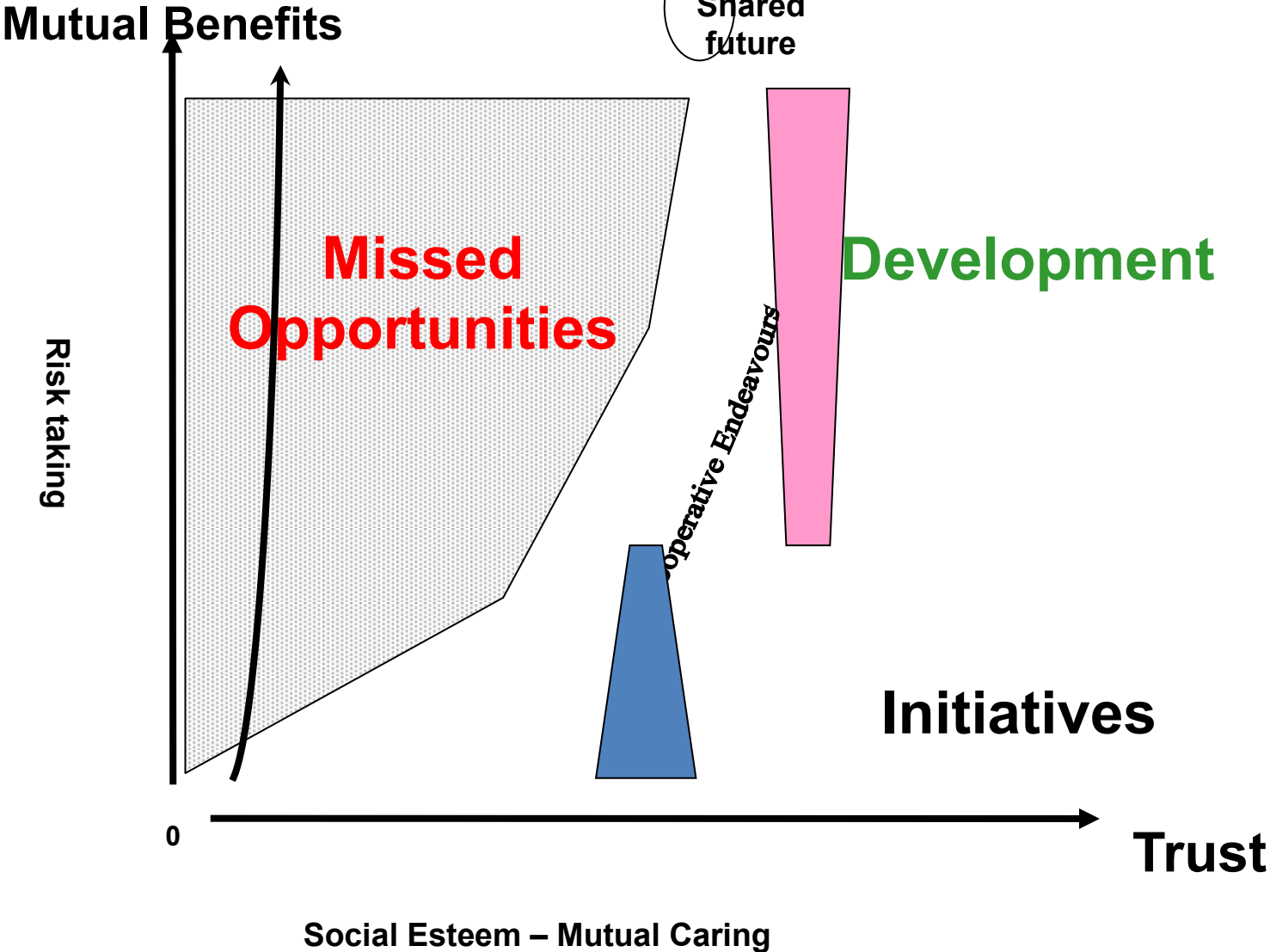


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In this emerging field the conceptualization of social capital, developed by Robert Putnam, has received wide attention and is particularly helpful in understanding the relationship between economic and social dynamics. Along similar lines, the work by Elinor Ostrom (recipient of the Nobel Prize) focuses on the institutional arrangements for managing common pool resources and explores how the crafting of local institutions can lead to the management of sustainable local economies.

One central issue that comes to light in their work is the importance of **how social relations can foster trust and structure the benefits from joint societal activities**. They shed light on the **connection between social institutions and the ability to take risks needed for economic development** that can promote individual and collective well being. Putnam's insightful notion of "generalized reciprocity" shows how the level of trust that grows out of social relations is a critical factor in enabling successful economic exchange relations. By combining the dynamics of social esteem-mutual caring with shared instrumental benefits that can grow out of risk taking (inherent in economic ventures), we can see how the structuring of factors enables or inhibits those collective endeavors needed for local development. In the diagram below we can see that as trust and mutual instrumental benefits (as institutionally structured) increase so do the opportunities for development. But when there are low levels of trust and low mutual benefits, (e.g. limited to a narrow strata of elites), there is an increase in the missed opportunities and thus a lower level of local development.

The Community Development



A second major issue that has a critical impact upon local economic development is the balance between the concentration of wealth in the hands of a limited group with privileged interests or particular population groups and the distribution of general community wellbeing as expressed in the level of equal receipt of services and access to resources. This is especially true in situations such as that of northern Mozambique where there is the need to ensure that the access to natural resources for extraction by foreign investors is balanced by better access and ensuring the rights of the local population to resources and to services. The essential factor is how society structures the social and political control over its resources that are needed for economic development.

Anthony Giddens identifies two types of institutional control over resources – Allocative and Authoritative. (Giddens, 1986) The first refers to those resources related to the material environment, the means of material reproduction, and the artifacts produced. The second refers to the organization of temporal-spatial constitutions of interactions, the reproduction of the organization relation of people in mutual association, and organization of life chances. The coordination of any social system requires the combination of both types of resources.

This challenge of ensuring equitable access to and management of collective resources, allocative and authoritative (Giddens, 1986) can be seen on three levels:

1. The need to give legitimate recognition to the diversity of the different communities and even to the different populations within the communities.
2. The need to provide formal guarantees and continuity of resource allocation in a manner that fosters trust and the willingness to forgo immediate benefits for the achievement of long term goals that reflect a fair distribution over time and space.
3. The need to crystallize shared goals and a vision of a collective future for the region as the basis for focusing efforts and resource allocation.

One of the ways of dealing with this challenge has been the undertaking of inclusive public planning processes that set forth a new collective vision based upon crystallizing shared goals on the local or regional level. This involves a change of identification with the region. It is no longer being viewed only a geographic commonality but one that involves collective functions, management of joint resources, and recognition of de facto interdependence of well being among the different communities and interests. Here "transparency" of government has often become standard procedure in policy setting processes.

A second way of dealing with equity has been the effort to balance between statutory obligations and voluntary community obligations. Historically in many locations local regional government was the pipeline for funds from the national government to a given community. As the role of local government has become more central to local development processes new more formal municipal regulations are required. Often these "rules and regulations" are culturally implicit. Thus, there needs to be a systematic process of clarification and shared interpretation for their implementation in a very complex municipal, communal, and economic constellation.

Other efforts include establishing systematic annual planning and management procedures that promote mutual agreements regarding the sustainable development on the regional level in a manner that supports community development in a differential "fair" manner. This may also include professional support services to help communities strengthen their internal social cohesion and maintain an ongoing dialogue with the different functional departments within the local government. In addition some local authorities have instituted "mixed service packages" that allow them to formalize and at the same tailor the provision of services to the given social, economic, and organizational make up of different communities.

Finally, as we are emphasizing here, promoting local economic development necessitates a change in the role of local government both towards national government and towards the population which it serves. Traditionally local government has had 3 primary functions. First and foremost has been that of service provider as local government and as an arm of national government. Second is its role as the regulatory body with regard to land use, sanitation, and others. Third it is the legislation of local by-laws for city or town management. As the leader of local development local authorities have had to take on additional functions:

1. Identifying key issues, putting them on the public agenda, and initiating action
2. Leading coalitions of partners to promote collective action on agreed upon issues
3. Conflict resolution between competing interest and access/control over resources
4. Creating new organizational frameworks to meet changing needs and leverage opportunities for development
5. Evaluating and learning from collective action as a basis for adapting policies and programs
6. Generating income locally, to reduce dependency, initiate activities and build partnerships

Understanding and creating the institutional frameworks needed for taking on this new role by local government is a critical factor in the success of local economic endeavors. It is the recommendation of this assessment that this element of institutional adaptation be explicitly incorporated into the program in the Nampula – Nacala corridor and that the resources needed for its implementation be an integral part of the program. The focus needs to be not only on the tools and action items for LED, but, equally so, on the enabling institutional context.

The role of political leadership needed for this transition is very significant. The mayors have the critical position of being able to voice a public commitment to equity then translate that commitment into clear regulations and division of responsibilities that can be depended upon.

Government Institutions



Presented here is one scheme that illustrates the interplay between governmental institutions and economic institutions that together can foster local economic development.

3. The Challenge of Promoting LED in Nampula – Nacala Corridor

3.1. Key Development Issues

- Population growth leading to suburbanization and urban sprawl in Nampula
- Population growth and industrialization in Nacala leading to Urban sprawl
- Mega Development Projects
- Major infrastructure development (but no sewage)
- Land demands preempt detailed planning
- Windows of opportunity close before local business and workforce can leverage them
- Local Economies are fundamentally consumer led
- Local Government has authority and awareness, but has very limited institutional and financial resources needed to jump start LED

3.2. Resources that are not being leveraged for LED

- Committed well qualified professionals in place
- Significant awareness of need to leverage development for LED
- Many legal tools for LED
- Significant political/public leadership with awareness of LED need and potential
- Availability of land
- Local business potential for leveraging external investments
- Demand for housing and businesses due to population growth
- Initial base of institutional anchors and experience
- Many natural resources – minerals, arable land, water, harbor, beaches, coastal fishing
- Large scale investments and development projects already being established
- Significant strategic development planning in place
- Projects being funded and planned by international aid agencies
- Social support for economic development – Micro credit unions

3.3. Current Development Strategy is still primarily national government (top-down) oriented

<p><u>Tourism Industry</u></p> <ul style="list-style-type: none">• The government will promote tourism development in the Ibo Island and other islands in its vicinity in Cabo Delgado Province according to the Arco Norte master plan and take initiative in preparing a tourism development master plan for Tete Province. <p><u>Logistics Industry</u></p> <ul style="list-style-type: none">• The government will improve the efficiency of the border crossing by promoting one-stop service at Mandimba in Nya-Uene Province in association with the border facility reconstruction project supported by AfDB. <p><u>Urban Development</u></p> <ul style="list-style-type: none">• The government will work with the JICA Study Team for PEDEC-Nacala in preparing a land use plan for Nacala SEZ and strengthen cooperation with Nacala Municipality and Nacala Velha District in establishing a legal and regulatory framework to enforce the land use plan. The government will prepare urban development plans for three cities of Nampula, Cuamba and Tete with the assistance of the JICA Study Team for PEDEC-Nacala. <p><u>Water Resources</u></p> <ul style="list-style-type: none">• The government will identify the areas where water demand is expected to grow fast and take measures required for water resources development. The urban areas with increasing water demand are Nacala, Nampula, Cuamba and Tete. <p><u>Power</u></p> <ul style="list-style-type: none">• The government (EDM) will ensure the stable power supply to Nampula and Nacala by
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Source: a snapshot from PEDEC-NACALA PROGRESS REPORT Executive Summary, October 2012

3.4. Macroeconomic Development is skipping over the local economies

- The food chain remains primarily a consumer economy in which farmers are the greatest producers of added value and often benefit minimally
- Much of the added value in the development chain is not incorporated into the local economy – transportation and agro-processing are usually not locally supplied or owned
- Land resources are vastly allocated to external actors without linking it to local benefits
- Much of the employment potential is channeled to foreign human capital

4. The Proposed LED Strategy

The current development strategy employed in the Nacala Corridor is based primarily upon an extract mode of economic activities. **The proposed strategy is aiming at leveraging the macro-economic development for local development that benefits primarily local communities and local institutions. This would be achieved through focusing on the creation of job and income opportunities and "leveraging" interventions along the value chain, as detailed below.**

4.1. LED and Job Creation

Improving employment especially for youth and women is of course a primary target of local economic development. It is a complex issue that relates to costs of labor, skills of the labor force, employment policy (both public and private, especially international firms), as well as a significant overlay of cultural restraints/opportunities. Job creation is inherent in the process of local economic development as opposed to macro-economic development which in northern Mozambique is based primarily upon an extract mode of economic activities (although the avowed program is one of economic inclusiveness).

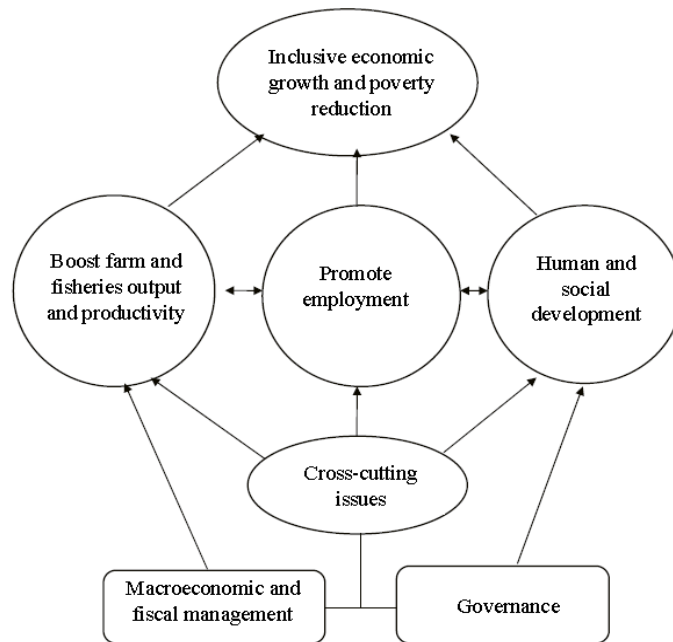


Figure 2.1.3 Primary Objective and General Objectives of PARP 2011-2014

The strategy related to job creation and employment being proposed here has five primary components:

- **The first** component is based upon the understanding that macro-economic development on its own will not trickle down to the local population. Unless appropriate supporting policies, institutional platforms and programs are in place the opportunities will skip over the local population and in some cases increase relative poverty (in comparison to those "imported" skilled workers in highly paid positions). Thus there needs to be a link between policies for attracting investors and developers who receive land, development concessions, and tax incentives with programs for job training and employment incentives.
- **The second** component is the proactive employ opportunities that can grow out of the development initiatives (infrastructure and others) that are publicly funded. Here there also needs to be a linkage between those contractors (local and international) who have "won" bids and employment practices.
- **The third** part of the employment strategy is the active encouragement of small entrepreneurial businesses. This is a critical factor in changing the economic base for secure employment. The range here is very wide including mechanisms for micro – finance combined with professional and social support activities to upgrading medium size businesses who can subcontract to larger international companies (many of whom are receiving national government benefits to "kick start" macro development).
- **Fourth** there needs to be a clearer use of existing educational and training institutions that are linked to development initiatives. This will require a more in depth employment policy analysis (something similar to what was undertaken in Israel for the Bedouin Community in the Northern Negev).
- **Finally** there needs to be a specific program ("one stop shop") for youth employment. In our opinion such a program would need to be a combination a) networking service (linking youth with specific employment and/or training programs), b) a counseling service to help youth define potential directions and overcome technical and financial

obstacles, and c) peer support groups (learning from successes). Such a program would need to receive support from the business community (Corporate Social Responsibility - such as Vale) both for its funding and for linking with specific job opportunities and pre-employment on the job training.

4.2. Leveraging The Value Chain

The issue of value chain and local economic development is at the heart of the assessment and strategy being presented here. As stated earlier the macroeconomic process in the Nampula – Nacala corridor is an extract economic mode – mineral extraction provides the economic basis for transportation and infrastructure improvement.

*However, the potential seems to be large in the Study Area: the trunk road development projects, the railway and port development projects, investments in Nacala Area (SEZ, IFZ, etc.), large-scale coal exploitation in Tete Province and natural gas exploitation off the northern coast in Cabo Delgado Province. **There is no doubt that large-scale resource oriented industries will ignite the development of the Nacala Corridor and the Study Area.** (Emphasis added).*

Source: PEDEC-NACALA PROGRESS REPORT Executive Summary, October 2012

This is double edged sword. It can become a lever for development, but it also can be a potentially disempowering and exploitative process.

On the other hand, the linkage between large-scale resource oriented industries and local manufacturers and service companies is empirically small, although large industries will contribute to the growth of GDP/GRDP, employ a large number of workers and attract various types of supporting industries. In other words, mining and refined petroleum & gas industries will function as suppliers of raw materials or services to the entire production system, but will not function as purchasers of raw material or services from the entire production sectors, with the latter function called backward linkage.

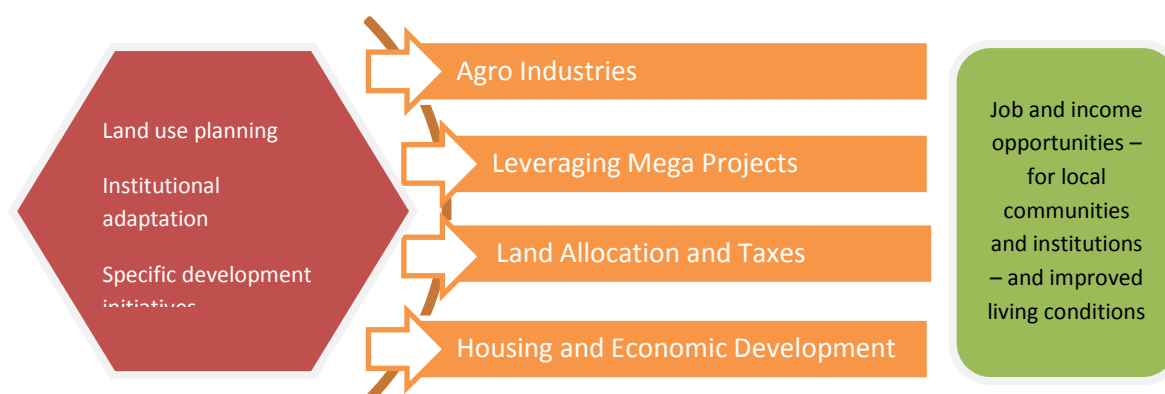
Source: PEDEC-NACALA PROGRESS REPORT Executive Summary, October 2012

Transforming macro-economic activity into an engine for local economic development requires four types of simultaneous intervention:

- Planning of land use
- Institutional adaptation (social, political, organizational and financial)
- Specific local programmatic develop programs
- Housing and economic development

This approach has the potential not only for expanding people's access to resources in their region and communities but also for transforming these resources into locally owned and controlled economic assets – both public and private. It is a process of changing who benefits from and who can further leverage opportunities. The creation of opportunities through planning and investment incentives (especially foreign) without institutional realignment runs the risk of increasing economic polarization rather than creating the conditions for more inclusive economic activity. The "trickle down" process frequently lags behind the extracted benefits of macro-economic development, leaving the local population economically disempowered.

In the assessment we have identified three value chains that can be institutionally reoriented to achieve better local access to resources and better harnessing of local capacities that can leverage resources into economic assets for increased local benefit.



4.2.1. Agro Industries

As pointed out in the PEDEC-NACALA PROGRESS REPORT agriculture remains the leading economic sector in Mozambique. As such it has great potential for enabling the local population to upgrade their income and transform family subsistence farming into a small business and link

Table 2.1.1 Gross Domestic Product of Mozambique by Economic Activity

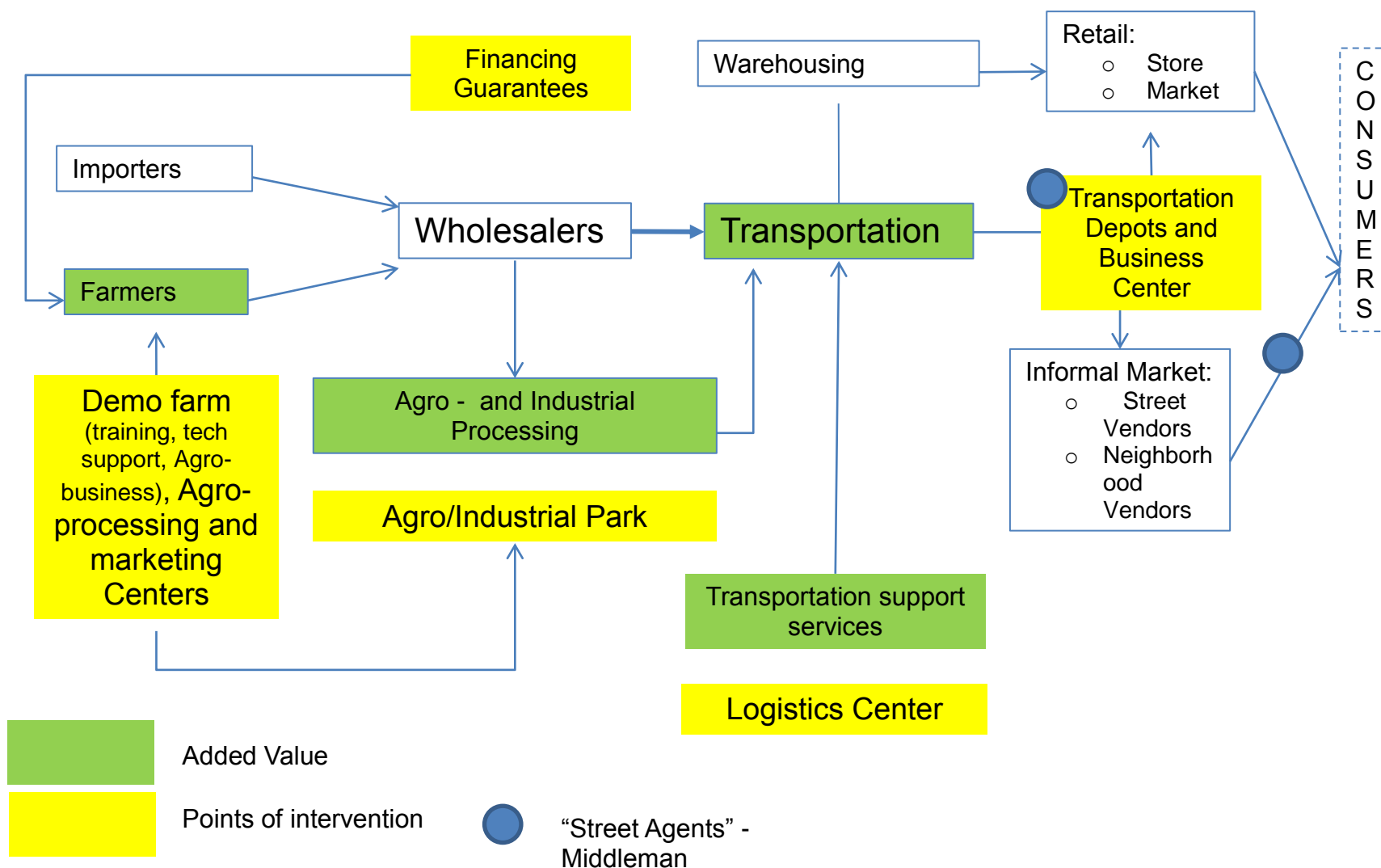
GROSS DOMESTIC PRODUCT at Factor Prices; Constant Prices (Base year: 2003)						Unit: Million MT
Economic Activity	1991	1995	2000	2005	2010	2011*
Agriculture, livestock, hunting, forestry	14,229	16,522	19,946	29,227	43,503	46,909
Fishery, aquaculture and related service activities	2,021	1,876	1,924	2,150	2,622	2,781
Mining and quarrying	205	227	397	1,135	2,151	2,553
Manufacturing	4,659	4,100	9,703	19,235	22,886	24,203
Electricity and water supply	355	377	3,798	6,911	8,895	9,491
Construction	807	1,366	2,952	4,029	6,238	6,525
Commerce	6,882	6,465	7,981	12,745	19,952	20,147
Repair of motor vehicles, motorcycles and personal/household items	0	0	438	487	659	728
Hotels and restaurants	457	795	1,400	1,898	2,902	3,182
Transportation, storage and communication	2,951	5,773	8,742	12,334	21,306	23,705
Financial activities	1,509	1,739	2,387	6,929	9,960	10,605
Real estate, renting and business services	6,903	8,161	9,925	11,386	12,026	12,233
Public administration, defense and social security	3,103	2,493	3,004	4,623	6,786	7,402
Education	1,623	1,779	2,710	4,573	7,345	7,803
Health and social work	453	662	1,089	1,527	2,575	2,758
Other professional services for community, social and personal services	1,031	1,233	2,107	2,495	2,810	2,877
Total value added at basic prices	47,189	53,569	78,504	121,684	172,617	183,902
FISIM	-264	-620	-779	-3,512	-5,809	-6,194
Taxes on products	1,499	1,226	7,265	11,591	17,242	19,817
VAT	0	0	4,977	6,084	8,757	10,720
Import duties	1,499	1,226	1,509	2,362	4,513	5,064
Other taxes on products	0	0	779	3,146	3,972	4,034
Gross Domestic product	48,425	54,174	84,989	129,764	184,050	197,526

PEDEC-NACALA PROGRESS REPORT

In keeping with this finding there are a large number of programs from various donor agencies being implemented. What remains unclear and even controversial is the strategy of ProSAVANA program. (See for example **Analysis of the Discourse and Background of the ProSAVANA Programme in Mozambique - focusing on Japan's role Dr. Sayaka Funada Classen Associate Professor, Tokyo University of Foreign Studies**). Although ProSAVANA clearly aims at increasing agricultural production it may undermine local development by substituting large commercially owned agricultural ventures. The issue at hand is not only one on planning land use and agricultural specialization, but it is also an issue of who will benefit and have access to funding for agro-industry development.

The entire value chain of agro industries needs to be looked at also from the bottom up. Currently not only do the farmers "live off the land" but also the street vendors in the markets. There is a full chain of small "entrepreneurs" who depend upon this local economy. The direction being suggested here is not by any means a rationale for maintaining the status quo, but a strategy that changes the orientation, from a strategy that is primarily top down with incentives for external investment to a more balanced strategy that includes the creation of a more sophisticated local economy in keeping with the governments avowed goals of inclusive economic development.

Upgrading Local Consumer Economy: Project Promotion/ Ventures



This type of strategy would have three primary points of intervention some of which already fit into the government's agriculture development program:

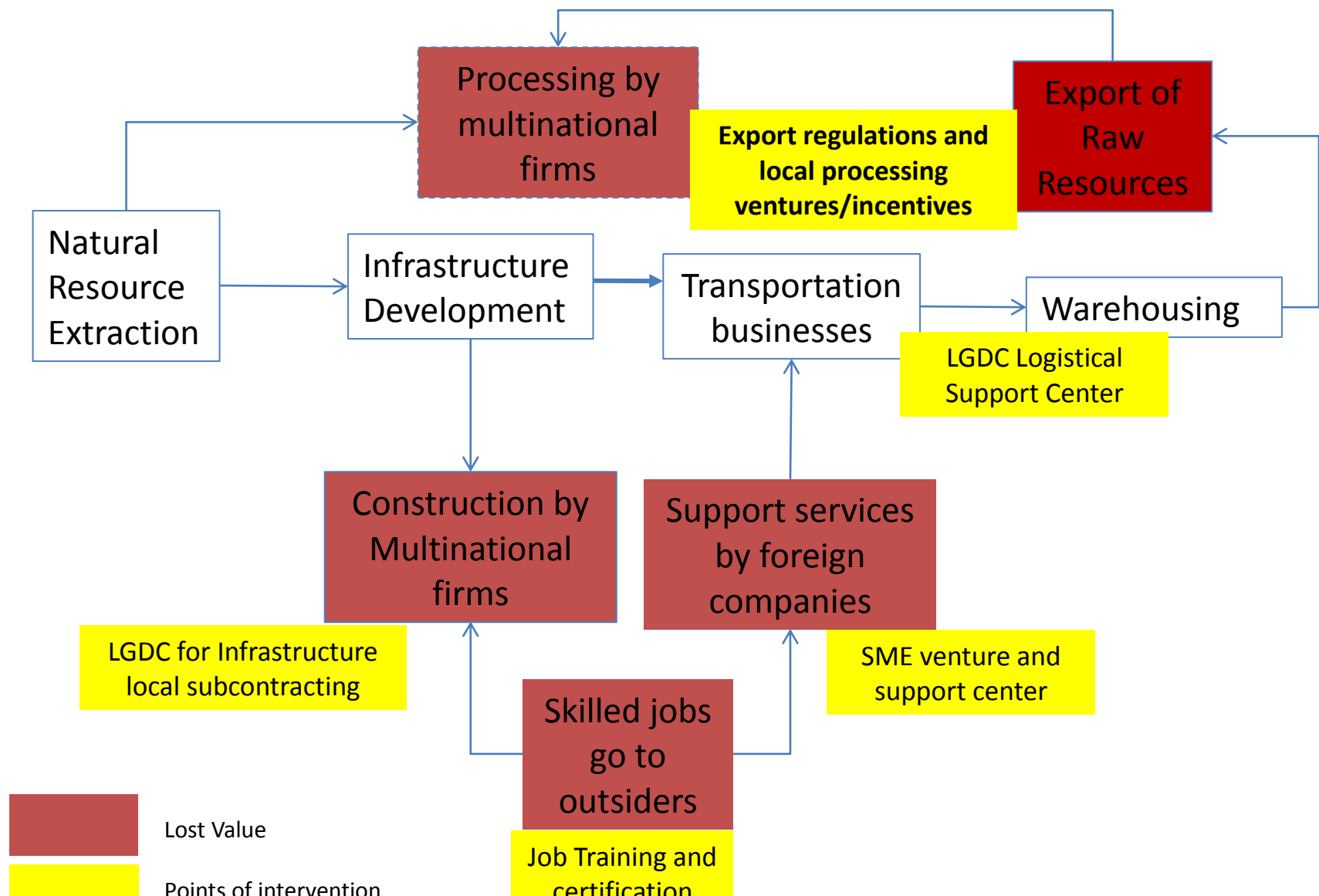
- Establishing local/regional Agricultural training and demonstration farms that are structured as public private partnerships between local government, national government and local farmers. These enterprises will combine local knowledge and practices with new technologies including access to financing and special incentives for adaptation of farming practices that have proven themselves locally. They are to be structured as ventures that provide services to the farmers on behalf of the government, but also produce income from the introduction of new technologies and from linking farmers to markets using innovative technological platforms, market intelligence, and transportation solutions for small holders. Similarly these centers can serve as platforms for other types of local organizing e.g. joint marketing, joint purchasing, or shared use of equipment. They will need to evolve taking the best of individual initiative and cooperation when it optimizes opportunities.
- Setting up Agro-processing based industrial parks. This is a critical element in going from subsistence farming to farming as a business. Such agro-industrial parks also need to be under local control (when possible joint community-local government corporations). These parks will act as regional points for added value processing of agricultural produce. They will provide the necessary infrastructure (transportation access, waste treatment, communication, etc), access to financial institutions and professional consulting services to agro-businesses. They too will be income producing based upon fees for land use, development costs (some of which could be subsidized when located in special development zones), and finally from taxes. The size of businesses could range from international corporations to small locally owned business (some of which could be based upon subcontracting to larger businesses).
- The third component of this program involves linking to transportation and distribution centers in the larger cities. Such logistical centers (which will be spelled out more in the next section) need to have not only transportation functions but also will act as a transfer point between agro production and distribution to markets. It is at this juncture that the change from individual street vendors to a more developed distribution consumer economy can take place. It does not require a dismissal of street vendors, but a gradual transition that can grow out of more opportunities for establishing marketing/distribution businesses. This change can come through access to financing and business support services that need to be built into the logistic center's services to the community.

The process of implementing this agro value added chain requires choosing of the sites appropriate for these different functions i.e. land use planning for their location. It requires a policy shift in implementation (avowed policy already supports this approach). Primarily it requires exercising local government authority for establishing mechanisms for promoting local economic ventures along with professional guidance in implementing this strategy. And finally it requires the shifting of incentive funds from primarily foreign investment to also include local public-private initiatives.

4.2.2. Leveraging macro-economic development / promoting local business spinoffs

Here too the primary goal is to capture the opportunities that macro-economic development provides. It involves leveraging the wealth from mineral/resource extraction, infrastructure development projects, construction projects, transportation businesses, support services, and exporting into local development.

Leveraging Mega Economic Development for LED: Institutional Adaptation



In this value chain there are six points of intervention.

- Establishing logistical support centers by local government will enable optimal geographic location of these important components of infrastructure that can become transportation, warehousing, maintenance, and marketing centers. These centers will provide the facilities needed to support the transportation industry and at the same time create the physical and management opportunity to link international transport companies with local support services. The strategy being suggested here would be based upon local government identifying appropriate locations for logistics centers, purchasing the land (at its dual value), developing the facilities, charging fees for service of publically owned facilities, and charging rents from private concerns for locating their businesses in the logistics centers. This would also require the appropriate statutory planning to ensure the proper location of the logistics centers and avoid "pirate" centers in non-approved areas.
- Establish local government corporations for infrastructure development would enable leveraging public funds to strengthen local businesses by subcontracting portions of construction and infrastructure projects to them. This would also have the advantage of creating competition to international firms as well as keeping some of the "profits" within the local communities.
- SME support centers aimed at helping local business provide support services for large commercial businesses are a critical element in creating an upgraded local economy. There are a variety of different models for such services. Three factors contribute to those which are successful. First is identifying those entrepreneurs with the drive and talent to succeed. Second is the ability to properly match the professional guidance with the proposed business. Third is linking these first two components with access to financing (which at least in part needs to have some public or governmental guarantees that can keep interest rates at a relatively low level).
- Attracting investments through incentives is widely practiced. What is less often the case is linking the provision of such incentives with job training and placement programs as a precondition. This requires the development of a comprehensive assessment of projected expansion of the labor market. An assessment of those economic development ventures that will create job opportunities and are thus prioritized for receipt of incentives. Finally this will require crafting an optimal mechanism for such training and placement services. In all cases they will need to be rooted at the local level and oriented towards the job seekers more than the employers.
- One of the key challenges facing the process of local economic development is how to promote a transition from the export of raw goods to export of processed goods. Keeping significant benefits for local economic development requires not only a change in export policy and limiting export of raw resources (which in itself is a complex undertaking dealing with deeply vested interests), but requires the support for locally based process oriented businesses (even if some ownership is external).
- Working with local authorities and institutions to integrate parameters of local employment, training locals, purchasing of inputs from local businesses etc. into tenders and to assess bids accordingly.

The six points form a strategy this is fundamentally bottom up. It is designed to supplement and compliment national macroeconomic initiatives. This does however challenge some de facto development practices that are based upon the creation of wealth that is for the most part centrally controlled. A program that is based upon this 5 point strategy will need to focus on creating local development mechanisms that are rooted in local government and community partnerships and involve public (local and provincial government) private (business community) joint ventures along with publicly funded local economic development support services – SME business support, access to financing, training programs and others.

4.2.3. Land Allocations and Taxes

Land and tax incentives are the main assets local government can bring into public-private ventures. This element of the LED strategy is aimed primarily at providing local government with more resources need to both lead economic development and provide services to the population, but also to sustain a community that is also attractive to investors. It is designed to capture the lost value that comes from the current practice of land concessions and the resultant displacement of local populations. There are four components:

- The current low cost of land (even if economic value is high) can be used to capture and channel development by initiating development ventures by local government in critical areas needed for the provision of economic development services. Land is one of the most important resources for any economic development. Therefore securing land in critical locations is a primary aim of both private and public interests. The allocation of land to private concerns whose profits leave the local economic arena is a de facto promotion of extract oriented economies that leave the local population without control over this critical resources – their land rights are economically being exported. In order to balance and link external development with internal development easy access to land needs to be leveraged locally and transformed into a local development asset. One critical component of local economic development is thus the acquisition of land by local municipal development mechanisms in critical locations that can be leveraged through joint ventures with private developers (local and foreign). This will enable the development of key economic anchors by local government with the capacity to ensure reinvestment into the local communities.
- Business development can be leveraged for private funding of infrastructure that can complement the use of public incentives that often release the business community from paying the real costs of development. The proposal here is to identify those parts of infrastructure development that are needed both by the business community and by the local population whose costs can be covered together by the government and private economic firms that otherwise would skip over the local community. This would include such payments as sewage systems in new residential neighborhoods along with new roads or costs of improved water purification along with new industrial zones. This could be done through updated development taxes by local authorities or agreed upon development fees as part of land allocation regulation.
- Planning relocation and proactively by initiating the process in a multiyear structured program is a critical element for improving housing for the local population. This requires a change in both the planning and allocation procedure (though not a change in the legal basis). Land concessions are granted to developers in prime locations often occupied by local population. Local land rights are often "purchased" as compensation by developers, but the payments reflect neither actual land values nor the real costs of

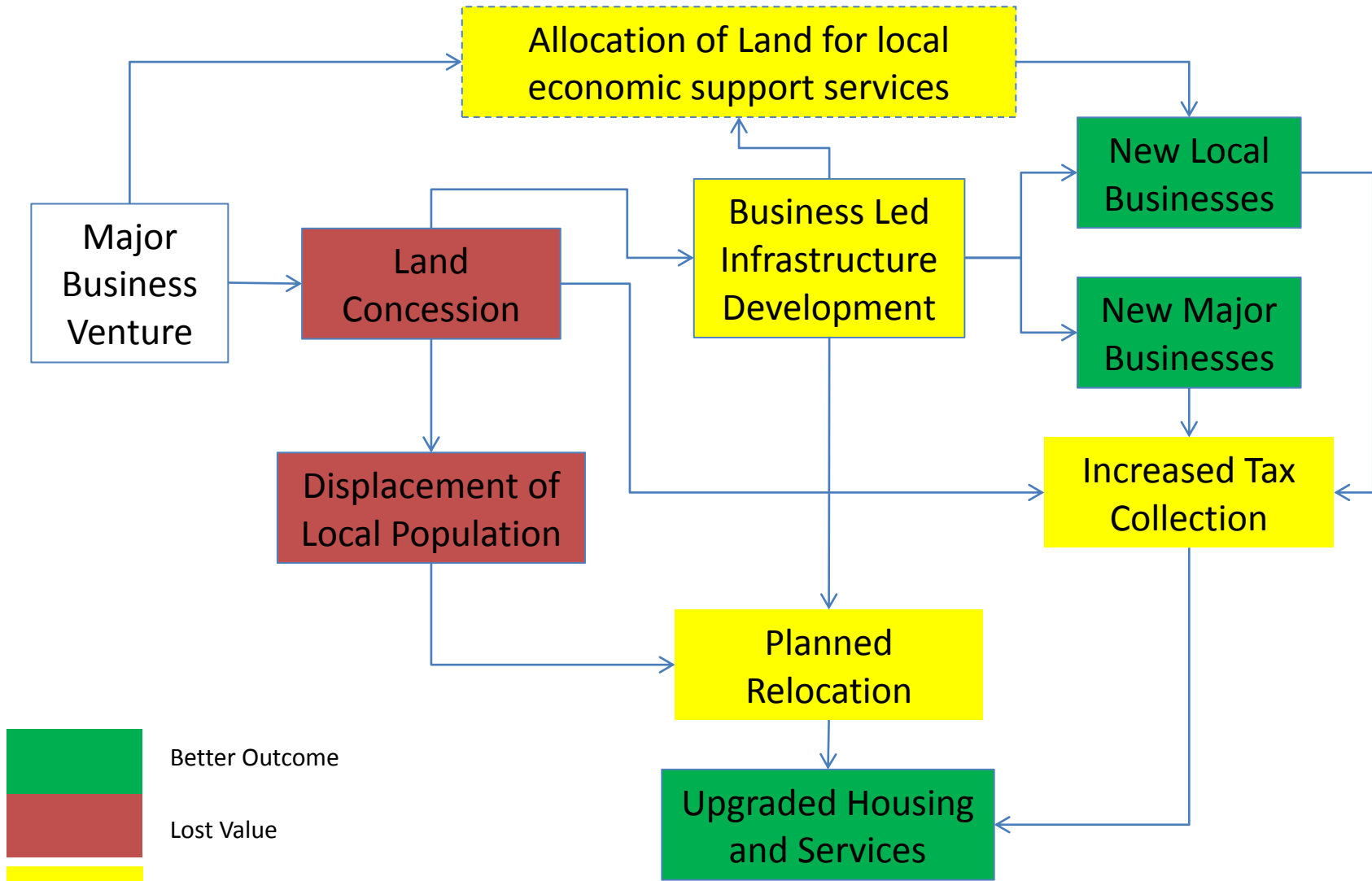
relocation. Furthermore land for industrial development along road ways been allocated to private firms in a manner most costly to local economies (and could very well lead to maintenance costs far beyond the capacity of local economies to support them). Long stretches of land which have been developed parallel to roads need to be planned and allocated to intersect (at 90 degrees). This would

1. give depth to development
2. reduce long term maintenance costs
3. reduce the scope of relocation
4. enable allocation to local business creating (low land use) support and commercial "centers"

In many instances the land value along road ways (e.g. the road leading into Nacala) could be captured and leveraged for relocation improving the residents housing conditions through a four way partnership between local government, national government (that allocates land), private business, and the communities. Payment of relocation fees if done proactively instead of reactively (when residents have already "sold" their land rights individually to developers) could enable the use of existing legal tools for creating new residential neighborhoods linked to the development process.

- One of the major, though self-evident, points in the assessment that has been emphasized in previous work is the almost complete underutilizing of local government authority for land taxes that could be returned to communities and businesses in the form of upgraded services and infrastructure maintenance.

Leveraging Mega Economic Development for LED: Land Allocation and Taxes



Changing this situation requires a program that involves 1) the use of improved technologies for tax collection (computerization and information management), 2) political awareness together with mobilization of a public mandate, and 3) a clear plan of action (to be formulated with the communities) for reinvestment of funds into the communities (residential and business) of the bulk of new taxes collected.

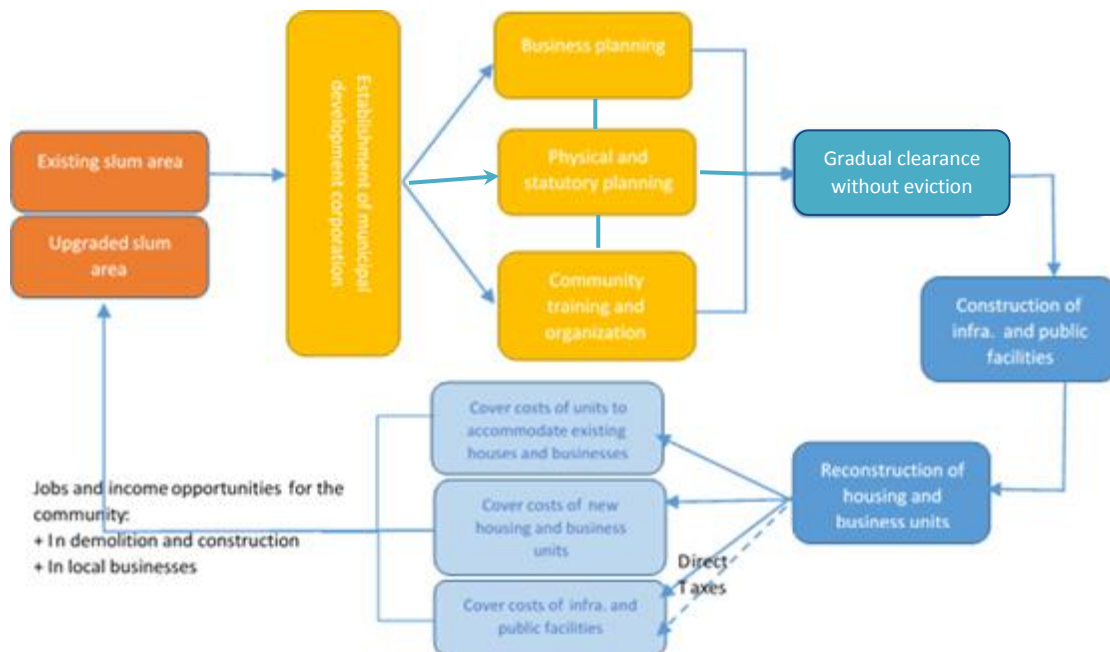
4.2.4. Housing and Economic Development

Within the demographic and socio-economic framework of Mozambique, the demand for urban housing is constantly growing – specifically in the Nampula – Nacala corridor. This demand also provides opportunities for employment and income generation for households and for local authorities as well:

- **For households**, mainly in poor communities, the challenge is not just to keep the job and income opportunities as much as possible within the community; but to enable poor households to leverage these opportunities to financially access improved housing.
- **For local authorities**, the challenge is to generate income (from the project and from taxes) in such a way that the construction and maintenance of buildings, infrastructure and facilities; would be feasible.

As in the above described development mechanisms, here too it is essential to combine adequate organizational structure, planning tools and support systems; for two types of housing and economic development ventures: slum upgrading and new residential areas in the outskirts of cities.

a. **Economic development opportunities in Slum upgrading:**



Slums, by definition are not planned but evolve "naturally" providing poor living conditions. Yet, the demand for housing and related businesses is high due to the nature of urbanization processes. This means that **land and property in slum areas have value**. This value can be leveraged for improved housing without eviction and for generating income and job

opportunities. The enabling factor is intensification of land use and development that generates the financial resources for the entire process. This requires work in three integrated avenues:

- The planning process – intensification of development along well planned streets and alleys with adequate infrastructure
- The organizational and financial mechanism – ensuring that the income generated from the redevelopment will enable covering [a] the costs of construction of housing and business units to accommodate the existing dwellers, [b] the cost of construction of housing and business units for new dwellers and [c] the cost of construction of infrastructures and public facilities. This would be generated from selling and renting out the extra units (for new dwellers in various rates for various groups) and the extra taxes to be collected. This should be structured as a dedicated municipal development corporation
- The community development mechanism – organizing the community for [a] participation in the planning process, [b] participation in the housing and business units allocation, [c] construction oriented vocational training integrated with business training **to be able to be integrated into the construction and [d] business and marketing training** and capacity building for business unit owners

The nature of development and the density are derived from a combination of the financial needs (e.g. how many extra units are required to cover the costs of clearance and construction and the community development activities) and the community preferences (for example – would households be willing to reside in high rise buildings).

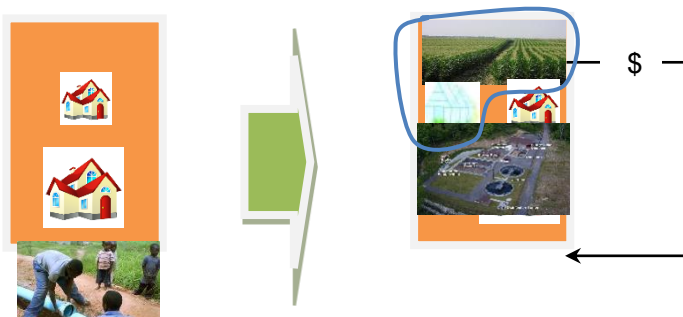
The slum upgrading process is structured as a PPP through a dedicated municipal development corporation. Such a framework allows partnerships also with local small scale developers, it directs most of the income generated back into the community and it enables the local community benefiting from the jobs and income opportunities.

The project is to be developed in phases. Financial public resources are required for an interim period to jumpstart the first phase. Income generated through the development corporation in each phase would enable the next one.

b. New residential areas in the outskirts of cities:

Semi-suburban low density areas are developed in major cities in the corridor for middle and low-middle income households. These are relatively large plots that provide the household an opportunity to generate income. Such a development pattern is very costly both for the household and to the public sector. These two are of course related: the low density = less payers per meter of infrastructure. Thus, the participation of the household in the cost of infrastructure is high and/or only basic infrastructure is developed (for example – no sewage).

For the household there are other relatively high costs derived from the distance from the city center (costs of transportation for work and services) and from the high development and maintenance costs of large plots and property taxes.



The challenge and the opportunity here lie in the relatively large size of the plots that enables **integration of income generating activities** into these residential plots. The income generated – to the specific HH and to the municipality (through extra property taxes) will enable better infrastructure and services in the area. Here too, it is a combination of planning tools, organizational frameworks and support systems as follows:

- The statutory and physical planning should allow the integration of specific economic activities (such as small scale agriculture and commerce), considering of course access to the business activity, pollution, potential for another housing unit on the plot, interface between business and housing etc.
- The organizational framework should be designed to:
 - Increase the businesses income through collaboration and capacity building: business support services, purchasing inputs and services together, sharing marketing platforms, technical and business trainings etc.
 - Ensure that part of the income generated would be allocated to cover the costs of the improved infrastructure and to the business support systems

5. Specific Programs for promoting LED, while keeping benefits locally

Along these main avenues of the development strategy, we have identified an initial basket of programs and projects:

Project	Proposed location	Leading partners
Provincial Development Authority (A Support Center for Local Government Economic Development)	Nampula province	UCODIN
Logistical Center	Nampula	CDN, Nampula Municipality
Train station commercial and business center	Nampula	CDN, Nampula Municipality
Training and port support services (certification of local businesses), skill training	Nacala Porto	CDN, Nacala Porto municipality
Industrial Park Management (municipal corporation)	Nacala Velha	Nacala Velha municipality, UCODIN, ANAMM
Local Government Development Corporation (LGDC) for tax collection and service upgrade	Nampula	Nampula Municipality, UCODIN, ANAMM
LGDC for infrastructure (water, roads) construction	Nacala Velha	Nacala Velha district, UCODIN, ANAMM
LGDC for Slum upgrading and municipal income - demo project	Nampula	Nampula Municipality, UCODIN, ANAMM
Integrating economic activities into residential development for improved infrastructure	Nampula	Nampula Municipality, UCODIN, ANAMM
Agriculture demonstration farm and agro-processing center	Nacala Velha	Nacala Velha municipality, private sector
Relocation model based upon compensation law – community negotiation rather than each person alone	Nacala District	Nacala District, private sector
SME support center	Nampula	Nampula Municipality, ADELNA

The above programs and projects represents part of many actions that can be developed along the main strategic avenues identified and more actions can be developed down the line. These proposed projects are discussed and assessed below.

5.1. Tax collection

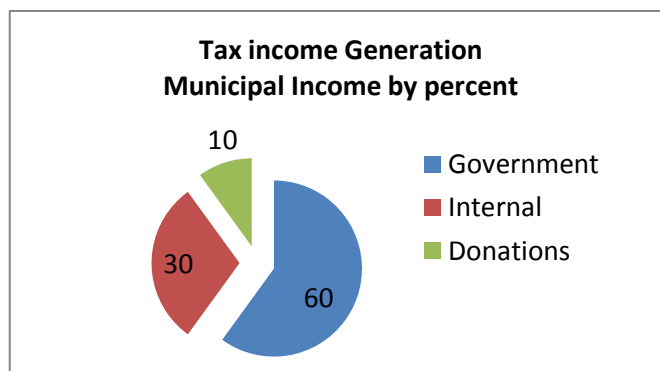
As described above the potential for tax collection under already existing legislation is greatly underutilized. This is primarily a land tax, that is aimed both at residential and business uses. The program for improving tax collection being proposed here addresses the challenge on 3 levels:

- The need for cooperation between the local communities and the local government is critical to the success. This will need to take the form of a shared understanding that additional revenues are needed to improve services and infrastructure and that the major portion of taxes will be returned to the community to provide agreed upon priorities. Such a program will include not only reaching an agreement between the community and the municipalities, but an ongoing mechanism for monitoring both the collections and service improvement.
- A data base for collection and analysis of information regarding the properties and the actual collections needs to be put in place. This will be based upon easy to use configuration of available tools and programs that can combine cellphone apps with open source GIS tools. This type of technical infrastructure is an important part of the program not only for the for the purpose of collections, but also for planning and service provision purposes. It is a tool that can be used both by the city and the communities.
- The third component of the program is a municipal development finance strategy base upon the anticipated generation of additional income. This element would involve the changes needed in the tax collection procedures (adjustment of rates etc.) and the creation of mechanisms for leveraging additional funds for the purpose of development as well as budgets for expenditures related to service provision.

Objectives:

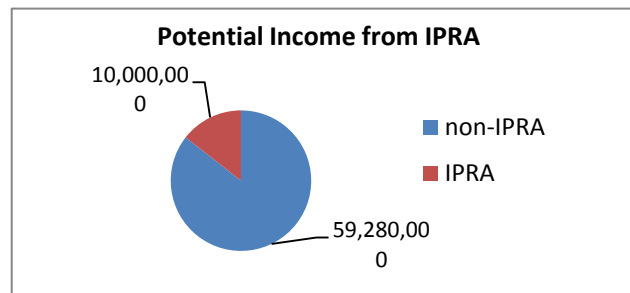
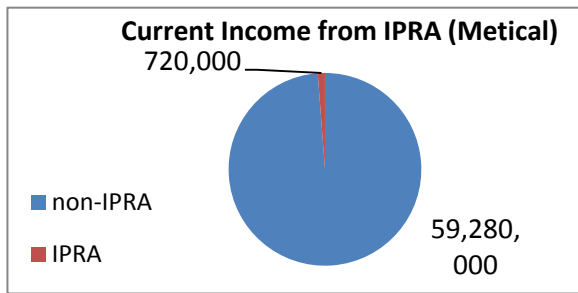
- To improve people’s living environment and access to community services
- To effectively utilize the tax regulations of land (residential and business) to increase income to local government while directly improving the services and infrastructure, specifically in the residential and business communities the tax was collected

The pilot project is proposed for Nampula municipality.



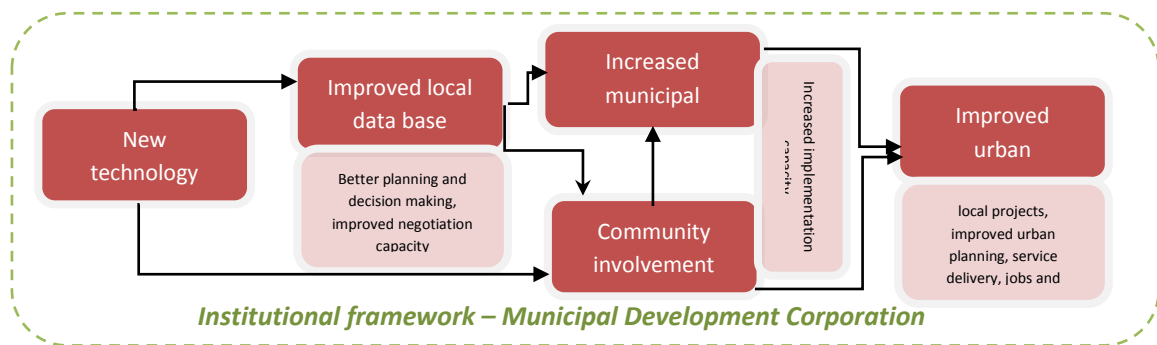
Current situation:

Self-generated income in Nampula municipality is 30% of the municipal budget. The IPRA (a property tax) is very poorly collected – less than 10% of the potential.



The concept:

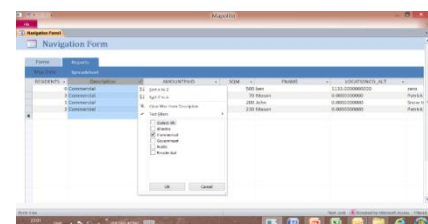
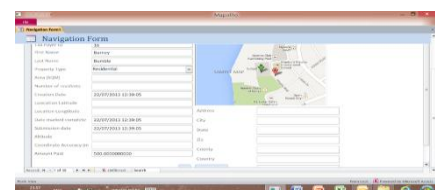
Within the projects framework, the collection of this tax (and possibly others) can be dramatically increased – to enable the municipality (in partnership with the community and other stakeholders) to deliver improved services and to create better living conditions for the community. This requires a combination of technology, institutional framework and community participation

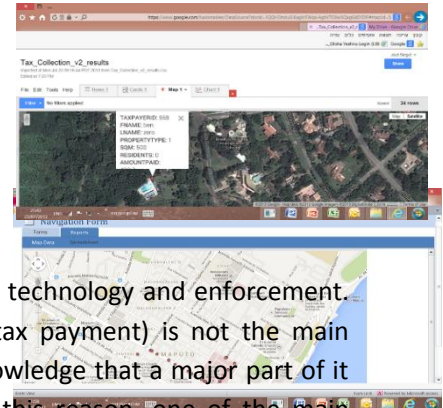


The model is based upon the:

- Need to link increased income with better services
- Need for simple technology (GIS based)
- Need to utilize existing legal and organizational institutions
- Need to link and improve existing technical and organizational capacities

The technology:





Community involvement:

The basic assumption is that tax collection is not just a matter of technology and enforcement. Fear (from administrative and legal consequences of avoiding tax payment) is not the main driving force for tax payment by communities. It is rather the knowledge that a major part of it returns to the community (in services, infrastructure etc.). For this reason, one of the main components of the project is the community involvement, to be guided by an experienced community worker.

The institutional framework:

Establishing a dedicated LGDC is required to enable the municipality to divert an agreed share of the revenues collected to improve and upgrade services, infrastructures and facilities in the area/community collected – which is essential for the community’s cooperation. The LGDC is a powerful and efficient tool to manage the collection and development activities and to integrate the various aspects.

Financial feasibility:

A preliminary financial assessment shows that only a relatively small pilot areas with some 1,500 households (HH), is required to recover the costs of establishment and operation of the entire system (technology, institutional framework and community involvement) within one year .

Potential income calculation:

- Pilot site 1,500 families/100 business and consultation
- Standardize home/business value by meter sq
- Collect data
- Collect tax
- Improve serve (in consultation) 25% remains in community

Basic data:

- Average home value: $40 \text{ m}^2 \times 15,000 = 600,000 \text{ MT}$
- Annual IPRA income/home: $600,000 \times 0.4\% = 2,400 \text{ MT}$
- Monthly payment by family 200 MT
- Annual income to municipality from 1,500 families is $3,600,000 \times 75\% = 2,700,000 \text{ MT}$ or 90,000 USD
- Money for direct service improvement in the community is 675,000 MT or 23,000 USD
- Startup investment is one to two years of taxes from 1,500 homes. Ongoing costs are minimal 1-2%

Expected costs of technical and support system (preliminary draft assessment):

		<u>Items</u>	<u>cost per item USD</u>	<u># of items</u>	<u>cost USD</u>
Establishment of system	Hardware	Handsets	500	5	2500
		Laptop	1000	1	1000
		Office furniture and equipment (based on existing municipal office)			1000
		Sub total			4500
	Applications and software development, training and installation	Application development			10000
		Flights - for 2 experts	2000	2	4000
		Accommodations (nights) for 2 experts	120	10	1200
		Fees (per day per 2 experts)	400	10	4000
		Workshop space and organization			2000
		Sub total			21200
	Working with the community	Flight 1 expert	2000	1	2000
		Accommodations (nights) for 1 experts	120	10	1200
		Fees (per day per experts)	400	10	4000
		Workshop space and organization			3000
		Sub total			10200
	TOTAL			34900	
annual operation (Year 1)	HR	Inspectors (per year)	3600	4	14400
		Project manager (per year)	6000	1	6000
		Administrative support	2400	1	2400
		Sub total			22800
	Operational costs	Communications, electricity, rent etc.	6000		6000
	Technical and professional support	Distant support (per year)	6000	1	6000
		Technical maintenance and system upgrade			3000
	Experts visit on the ground: trouble shooting and support (twice)	Flight	2000	2	4000
		Accommodations (1 expert 5 days)	120	10	1200
		Fees	400	10	4000
		Sub total			18200
	TOTAL			47000	

The total cost of establishment and operation on the 1st year is ~USD 83,000.

Tax collection from 1,500 HH = USD 90,000 per annum.

Establishment and operational costs would be covered within the first year.

The **extra costs of establishing the LGDC** are:

- 2 experts for 2-3 sessions of training, guiding the preparation of a business plan and ongoing support (est. at USD30,000)
- Office rent for year one (est. at USD300 per month) and purchase of office furniture and equipment (est. at USD5,000)
- Staff for year one - director and administrative assistance (est. at USD 2,000 per month)

- **TOTAL = ~USD 63,000**
- Investment in projects in the paying communities in first year – USD 25,000 per community

The total added cost (establishing and operating the LGDC + investment in the communities where taxes were collected) is roughly USD 90,000 – equal to the tax collection from another community of 1,500 HH

As the no. of HHs in Nampula is roughly 100,000 – full operation of the tax collection can generate a huge internal investment in various areas of the city (without considering the external resources that could be attracted based on the internal resources)

Draft cost – benefit (to be assessed within a detailed planning process)

		USD
Costs	system's establishment	35,000
	system's operational costs for first year	47,000
	LGDC establishment and operation for first year	63,000
	reinvestment in 2 communities	50,000
Total cost for first year		195,000
Revenues (from 2 communities of 1500 HH each)	collection of IPRA per community	90,000
	collection of IPRA per community	90,000
	Total revenue	180,000

Assuming the pilot will cover 2 communities and collect from 1,500 HH in each community, the project almost cover the costs in the first year (including operational costs).

Collecting from more than 1,500 HH in each community, and/or collecting from more than 2 communities will push the financial recovery deeply into the first year.

The above initial calculation is based on "soft" data provided by local professionals in Nampula. The above calculation does not replace a full cost – benefit analysis that should be done within the framework of a detailed business plan.



Kick-starting the project:

This program would need to start with training and learning both by political leadership and senior staff – to better understand the potential and the risks, in order to create a supportive political environment.

The second step will be focused on a detailed business analysis. Technical trainings and the actual establishment and support to the system will follow

5.2. Industrial park and logistic parks development

These are two related elements of creating the physical and organizational infrastructure for promoting local economic development. They are both predicated upon the establishment of a local government development company (possibility in cooperation with a private developer or with a community based organization or even both). For all intents and purposes a logistical support center is one type of industrial park, but given its particular nature and strategic positioning (spatial and organizational) it will receive specific attentions here.

- Industrial park creation is based upon the statutory authority of local government to regulate planning and to legislate local bylaws that can proactively lead local economic development process. It also rests upon the authority of local government to access/purchase land for the purpose of local development. The process of creating

industrial parks in northern Mozambique is very much needed to direct the rapid development of various industries that are being located along transportation routes. The proposed program is to create municipal industrial authorities (as LGDCs) that would coordinate the allocation of land (often done by national agencies e.g. GAZEDA) with the development of infrastructure including that needed for relocation. It would also focus as the hub for linking local entrepreneurs/business as subcontractor or providers of supplementary business services. Furthermore the industrial authority would integrate job training and placement with major industrial growth. The Municipal Industrial Authority would also act as the body responsible for land taxes from business much of which would be reinvested in the maintenance of the infrastructure needed for industrial enterprises and businesses to function.

The development strategy for establishing the industrial parks could be one of two alternatives or a combination of them:

- a. The LGDC will develop the infrastructure and put out bids for the plots. Development of infrastructure that will be funded from development fees (allotment fees, identification fees, deposit on land premium, development fees as part of the building permit, etc.) and future income from land rates as the land value continue to appreciate. All the different costs of roads sewer lines, street lights etc. will be charged as development fees.
 - b. The LGDC will purchase or lease the land, develop tailored made buildings to suit the businesses and charge rents or possible sell certain plots or buildings. The LGDC would also develop the infrastructure as outlined above. This could be done in cooperation with a private investor.
- The specific program for creating logistical support centers as industrial parks grows out of recognition of the growing scope of the transportation industry and its importance as a potential lever for LED. Deciding upon location and then promoting the development of logistics centers requires going beyond market forces alone. It also requires a very proactive role on the part of local government that also goes beyond planning and regulation. This endeavor requires the purchase or long term leasing of land located in intersections that link different types of transportation e.g. road and railway and transportation with local markets (purchasing and exporting).

It is recommended to set up a dedicated LGDC as a Municipal Industrial Authority to carry out the infrastructure development of the park and manage its ongoing municipal service provision and maintenance. The target area of action should include not only the future sites for development but also the existing industrial areas that extend primarily along major transportation routes. This Authority will undertake the development of the Park (according to the chosen development strategy outlined above).

The services to be provided by the Municipal Industrial Authority include:

❖ Maintenance

- ◆ Road and drainage maintenance
- ◆ Solid waste management
- ◆ Underground piping and sewage management

- ◆ Maintenance of green areas /open spaces
- ◆ Monitoring of environmental protection standards
- ◆ Maintenance and rental supervision of buildings
- ❖ Business promotion and employment opportunities – one stop business center
 - ◆ Linkage of industrial park activities with other investors – collaboration with other actors related to economic development in the region
 - ◆ Develop training programs to enable people to meet job requirements of incoming businesses
 - ◆ Information and referral to potential employers/businesses – assistance in recruitment including working with existing training and placement programs (Youth training centers, secretarial colleges, and academic institutions)
 - ◆ Work for promoting small businesses as subcontractors
 - ◆ Networking with other business interests and convening people with potential common interests – creating new business opportunities
 - ◆ Creating awareness and marketing of the opportunities through information dissemination
- ❖ Development of the industrial park – stages
 - ◆ Develop a full business plan: Land costs, infrastructure costs, construction costs, income from land sales/lease, income from development fees/taxes, income from annual land taxes, income from rents, costs of financing
 - ◆ Complete detailed structural plan
 - ◆ Raise funds (Grants, Loans, Investments) for infrastructure development
 - ◆ Undertake construction of infrastructure
 - ◆ Possible spinoff could include construction of tailor made buildings for rental against long term leases
- ❖ Sources of Revenue
 - ◆ Revenues from taxes and rents will be used for return on investment for the construction of industrial buildings for rental, building maintenance and ongoing industrial and economic development including small business support, and employment programs
 - ◆ Land taxes will be revenue for local government minus the costs for maintenance of infrastructure and the provision of other municipal services which will be set as a fixed percent of income from the land rates (reviewed every 3-4 years)

5.3. Regional Employment and training center

In mixed urban-rural regions, there is the expectation that jobs will be created by attracting primarily non-local investment. However, municipal and regional agencies which aim to combat unemployment often only target a particular 'slice' of the labor market. Moreover, most initiatives focus more on the needs of employers and investors than on potential employees; as a result, new businesses are sometimes wholly unsuited to the region's employment potential. The influx of industries and other businesses affords an opportunity for changing the employment and business reality in the Nampula - Nacala region. There is a critical window of opportunity that has now opened. The region is attracting great interest on the part of large businesses.

However the local population has not yet prepared itself in terms of training, and identifying new local business opportunities.

In order to create a coordinated response to these needs, local government can lead the establishment of a one stop regional employment and business support center as part of the creation of industrial parks, though not dependent upon them.

This center will work with both individuals and local municipal councils and government ministries, in order to pool resources and create an orchestrated effort to expand local employment opportunities. The centers will aim to:

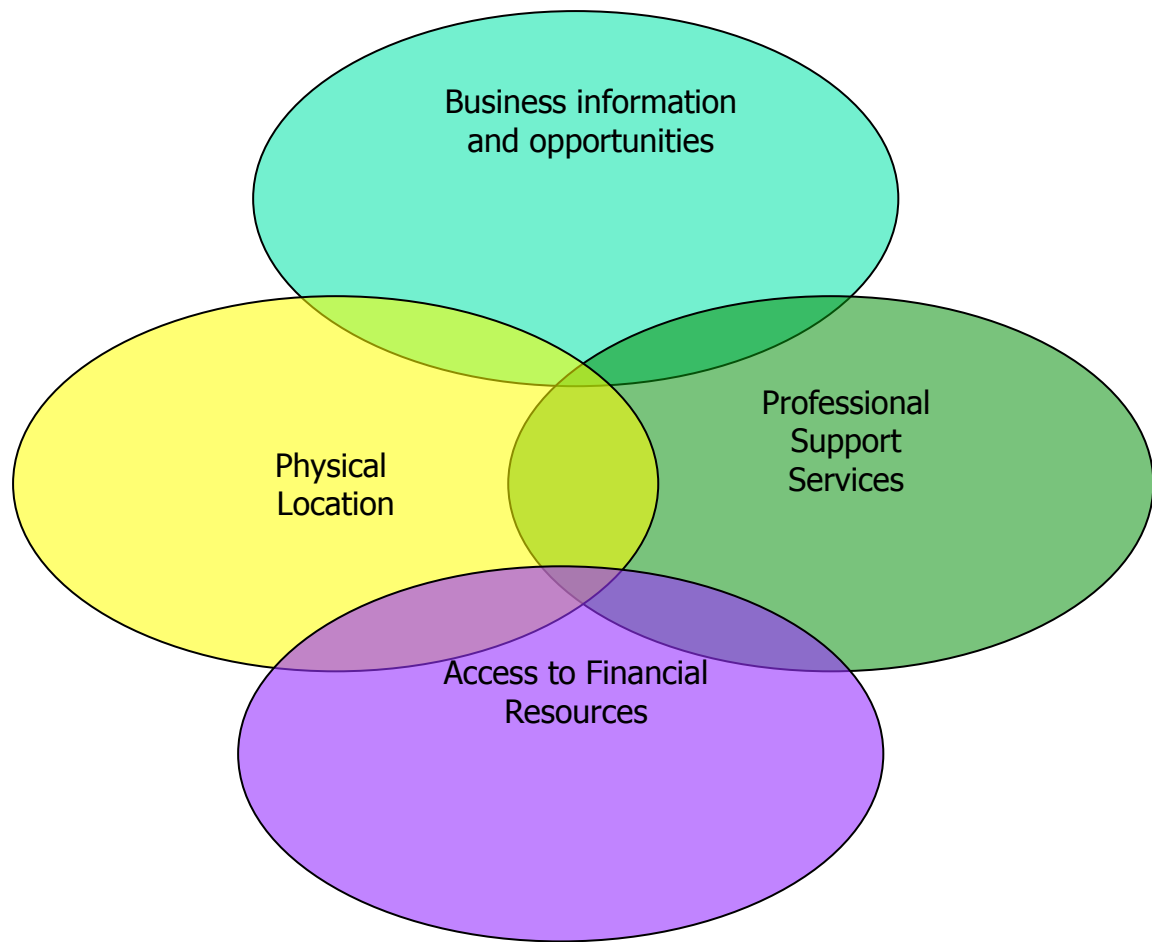
1. Develop a focused regional employment policy and coordinate its implementation.
2. Conduct and disseminate research on the region's employment patterns.
3. Help the communities utilize their workforce as efficiently as possible, either by developing locally-based businesses or directing members to the new opportunities that will be created.
4. Give locals the tools and the flexibility to compete in the local job market and maximize their employment potential, by offering workshops, employment counseling and job placement, and directing people to professional training.
5. Design training programs in cooperation with the appropriate government ministries to better enable matching people's skills with employers' needs.

This center, though part of LED, is to be structured as a public service not as an income generating venture. It may charge some fees for service, but is essentially aimed at populations that cannot afford to cover the costs of training and placement. However in macroeconomic terms clearly this service will be an economic growth generating component for better utilizing local human resources. The center could also possibly act in part as a classic manpower recruitment service to private employers for a fee and or become a center for on the job training for businesses.

5.4. SME support service and incubator

The proposed business support center would contain four elements:

1. Providing information about business opportunities and promoting networking and collaborations between businesses to increase competitive capacities,
2. Providing professional and business guidance at the individual level and in training courses.
3. Providing access to affordable sites for their businesses,
4. Increasing people's accessibility to financial resources to establish and operate their business.



This will necessitate establishing the appropriate professional and organizational framework for the implementation that is based upon cooperation with the community, professional/business associations, local government, and provincial government. The center will be based on a small core professional staff and a number of outside consultants and volunteers (lawyers, accountants, business people etc.) It will develop strong ties to local and national frameworks and resources.

The services to be provided by the business support center will include:

- a. Professional training and support to micro businesses:
This will include a combination of individual counseling/mentoring and follow up of 50-80 hours per business together with structured courses in different areas of business management such as financial planning, marketing, taxes and legal issues. It would help potential entrepreneurs to develop a business plan and help determine the feasibility of the business venture. The intention is to promote cooperation between the business community and the emerging micro businesses. It will act to focus efforts and development programs for effective community responsibility actions by business. The center will also serve as a proactive business network. It will serve as a forum of relevant existing business and startup businesses to deal with common issues facing the micro business community. Similarly, it will serve as a meeting point for exploring cooperative ventures including the operation of an information bank of business opportunities.
- b. Accessing loan funds and investment resources:

- The business support center will develop working relations with financial institutions to improve the access of start up business to sources of credit and potential investors.
- c. Low cost "rental of premises" for 10-15 developing businesses:
This would be the establishment of a business incubator that could "house" start up businesses in their first phase of operation that could provide reduced costs for rent and shared office services.
 - d. Marketing services
The business support center will not only provide training and information regarding marketing, but consider acting as a mechanism for joint marketing. This would include doing market analyses as well as assisting in the establishment frameworks for collective marketing of services and goods.
 - e. Career counseling and job placement:
This aspect of the business support center is aimed at helping people who considered the establishment of a business, but in the final analysis did not do so. The service here is to help them find jobs suited to their talents and skills. As such it will include a job placement service.
 - f. Networking between small businesses for peers support, to increase purchasing between local SMEs, to join forces for increased competitiveness and to organized promotion activities (fairs, festivals, tailoring "packages" etc.)
 - g. Research and Monitoring : The business support center will act as an important source of information related to the establishment and operation of micro businesses
 - Analysis of regional business trends
 - Identifying economic areas with good potential for micro business development
 - Assessing social and structural obstacles to initiating and sustaining business venture – especially for the handicapped. Assessing the impact of structural changes of employment practices

5.5. Finance mechanism

An integral part of LED is improving access to financing for local development and specifically helping small startup or expanding businesses. This element of the development strategy is closely related to the SME business support center, but also needs to stand on its own. The specific mechanism being suggested here is the creation of a government guarantee program for small businesses that meet appropriate criteria. There will need to be a balance between taking enough risk to help potential businesses that otherwise would not have access to financing with setting entry level standards to avoid frequent failures. This type of financial support mechanism requires government collateral, but in fact actual funds are only needed for defaults. Based upon international experience this is usually less than 10%. The program would involve establishing a working relation with banks and other financial institutions as well as a professional assessment staff capable of reviewing applications in a timely manner. Government guarantees also serve to lower interest rates given the reduced risk of loss. Such mechanisms have been a success force both in helping link local businesses with development opportunities and subsequently in the creation of new jobs that further increase the circulation of monies in the local economy.

5.6. A Support Center for Local Government Economic Development

As presented earlier the success of programs for LED is directly linked with the institutional arrangements that enable local populations and business to access natural, social, political, and economic resources. The mechanisms and specific projects being proposed are for the most part

supportive in nature, providing the necessary physical infrastructures, professional supports, and access to financing. The organizational form being suggested here rests heavily upon the role of local government. This underpinning is not without risks and obstacles, not the least is lack of experience and organizational adaptation.

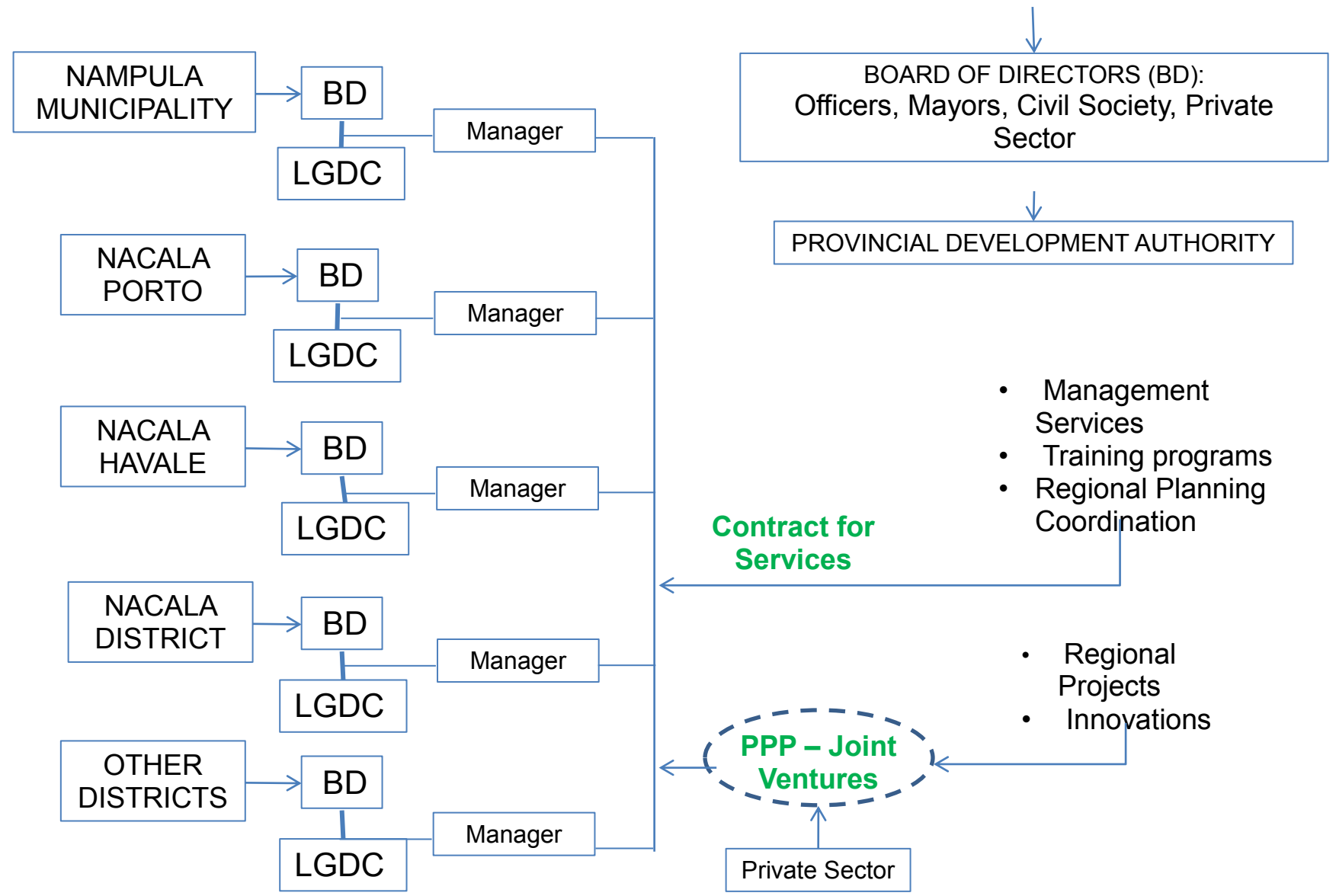
In order to advance and succeed in this program of LED it is being proposed not only to set up individual LGDC's but to also provide a regional/national support service to local government in the creation and management of LGDC's. This service would be a joint local government-national government partnership that would provide professional support services to the different LGDC's including the following:

1. Startup service in establishing the organizational and legal format for each LGDC: understanding the statutory basis for such a local government development platform, preparation of by-laws and other regulations, creating a local public board, defining the different professional positions and staff hiring, preparing an initial business plan for startup and ongoing operations, crystallizing the LGDC's focus and scope of activities in relation to the local authority.
2. Working on the interface between local government and national government on policy issues and procedures for promoting LED.
3. Providing ongoing professional training to LGDC's which would be both on the basis of individual supervision/support and seminars around cross cutting issues facing the staff promoting LED. This type of support could be extended to provision of management services where by the "Support Center" would provide the managers of the LGDC'S and be responsible for their ongoing training and professional standards.
4. The support center would also serve as forum for the LGDC's for peer learning and joint projects. It would be both the network for sharing information and opportunities and also the joint platform for undertaking regional ventures for LED when they go beyond the scope of any specific LGDC.
5. Finally the support center would initiate pilot programs and test them out appropriated sights evaluating and learning to create effective models and programs of LED.

Schematic Diagram of Provincial development authority

LOCAL GOVERNMENT
DEVELOPMENT COMPANIES - LGDC

PROVINCIAL GOV'T



This Support Center for Local Government Economic Development would also make use of external expertise, but build in local capacity building to ensure the entry of local professionals, supporting their enrichment and growing expertise. The operational recommendation is create this center under the auspice of UCODIN making it a Provincial Development Authority whose board of directors would include Provincial Officers, Mayors, Civil Society, and the Business Community.

5.7. Waste Management

Given that waste management is a public responsibility the terms and standards can be set by the local governing agencies (municipal, regional or other) and leveraged for local employment. However, despite some potential for economic returns from recycling in general this is still a public expenditure, even if subcontracted to private businesses. It does of course have economic spill over in terms of income generation for those employed in the collection and handling. The underlying question is who will be budgeting this area of public service.

Although it may be possible to identify some specific aspects of waste management that are economically sustainable in their right (and appropriate for true PPP), this could, however, detract from a more comprehensive view of waste management. If some significant public funds are available then this should be a priority for developing a program and identifying the business (formal and informal) opportunities along with the concomitant job creation.

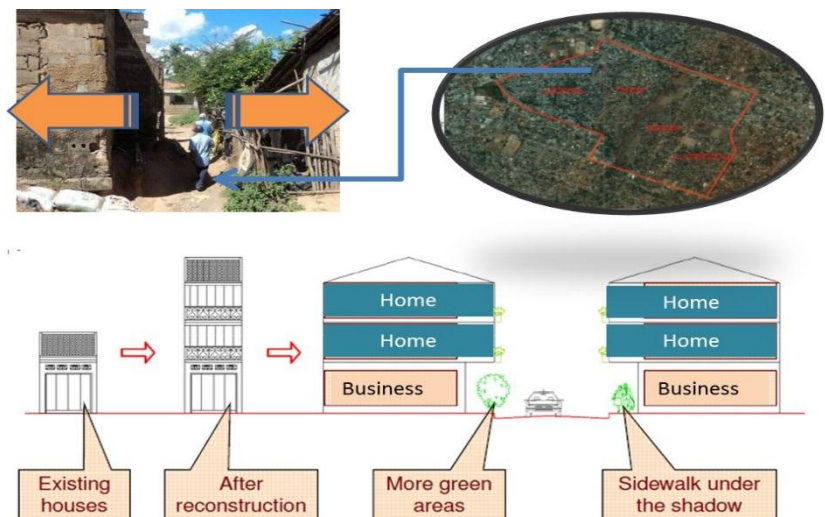
5.8. Slum Upgrading

The potential for LED in slum upgrading is derived from the demand generated by demographic growth and urbanization. The key for realizing the potential lies as mentioned earlier, in the institutional framework and community's participation in the process.

The slum-upgrading project addresses in an integrated manner three issues:



- The need to improve people’s living conditions and livelihoods
- The need to accommodate population growth due to natural growth and rural – urban migration
- The need to intensify urban development to address financial challenges due to urban sprawl (less potential tax payers per area of service delivery)

The physical concept is to demolish and re-construct and intensify slum areas in phases, while creating better streets and alleys with improved infrastructure. The concept is demonstrated in the illustration to the right. This requires a detailed planning process



The financial model is based upon partnership between public and private sector but with social consideration as detailed below. There are two possible models – through private enterprise and through dedicated LGDC. Both models share the following principles:

- All existing households and businesses will receive for free a new and improved unit. The specific mechanism, including dealing with the issue of who is entitled (the owner or the resident), will be developed with local stakeholders during the detailed planning process
- Some of the units will be allocated for weak population in subsidized costs
- The income generated from the re and new construction - directly and through taxes - should cover all costs of reconstruction, new construction, improved infrastructure and facilities

Model 1 – private enterprise	Model 2 – dedicated LGDC
 <p>How it works?</p> <ul style="list-style-type: none"> • A private developer (could be the resident) constructs the new building according to the plan and the increased building rights • Resident household receive for free the improved housing unit and/or business unit for no cost. The developer enjoys the benefits of the extra units • Income from rent/sale covers construction + temp housing for residents + taxes and fees for municipality to cover part of infrastructure/public facilities' development Cost <p>The upside of this model is in the reduced public investment and the fact there's no municipal risk. The weakness of this model: Insecurity for residents and lack of municipal capacity to guarantee residents' rights</p>	 <p>How it works?</p> <ul style="list-style-type: none"> • LGDC constructs a few new buildings + infrastructure and some public facilities. This interim investment is done with external support (Gov., WB, Donor...) to jumpstart and sustain the project. • Resident households and businesses from a previously identified "cell" of land move to new intensified construction. • This "cell" is the next to be intensified and developed and so on and so forth • The mix of existing/new residents will ne decided within the detailed planning process • LGDC can rent-out at free market price and as public housing (subsidized rent + maintenance) or sell. Mix will be decided with the framework of the detailed planning process • Income from rent/sales covers construction + LGDC relevant operation costs + part of services + business/occupational trainings and projects (also as a means to secure rent payment) <p>The upside of this model – upgrading is more secured so is residents' rights and income for municipality. Also working in "cells" is more efficient. The weakness is mainly in the public investment required for the interim investment and establishment of LGDC</p>

Preliminary cost-benefit analysis of the LGDC model:

Basic data for calculation:

Value of existing units – USD100 per m²

Average size of existing apartment – 30 m²

Value of average slum house – USD3,000

Cost of new construction – USD300 per m²



Average size of apartment – 45 m²

Average size of new business – 25 m²

Cost of a new building with one business and two apartments (left illustration) –

USD34,500 (\$300 * 25 = 7,500 + 300*45=13,500 + 300*45=13,500)

Cost of construction of 1,000 buildings = USD 34,500,000

Annual income from renting:

	Annual income (USD)	10 years (USD)
Market price for 45 m ² appt. = USD 200	2,400	24,000
Subsidized price for 45 m ² appt. = USD 50	500	6,000
Market price for 25 m ² business = USD 250	3,000	30,000

Income calculation for 10 years

	For existing HHS	Sales to new HHS	Rent (market price)	Rent (subsidized)	Income (10 years)				
					For existing HHS	Sales to new HHS	Rent (market price)	Rent (subsidized)	Total
1,000 buildings					0				
2,000 apartments	400	700	700	200	0	15,750,000	16,800,000	1,280,000	33,750,000
1,000 business units	300		700		0		21,000,000		21,000,000
Total									54,750,000

The income from construction of 1,000 buildings = USD 54,750,000 in 10 years

The cost of constructing 1,000 buildings = USD 34,500,000 in 10 years

This is a revenue of USD 20,000,000 in 10 years (or USD 2,000,000 per year from construction of 100 buildings). Extra taxes of around USD 60,000 per annum should be added

Cost of infrastructure

The length of a plot's front (for 1 building) = 22 m

For 1,000 buildings (500 from each side of the street) = 11,000 m (500*22)

Cost of 1m of infrastructure = USD 750

Total cost of infrastructure for 1,000 buildings = 8,250,000

The "profit" is around USD 11,000,000 in 10 years (1,100,000 per annum) from 1,000 buildings. This should cover the operational costs of the LGDC (including return of the interim financial support from external sources for the initiation phase), costs of infrastructure and public facilities, training the community etc.

The above initial calculation is based on "soft" data provided by local professionals in Nampula. The above calculation does not replace a full cost – benefit analysis that should be done within the framework of a detailed business plan.



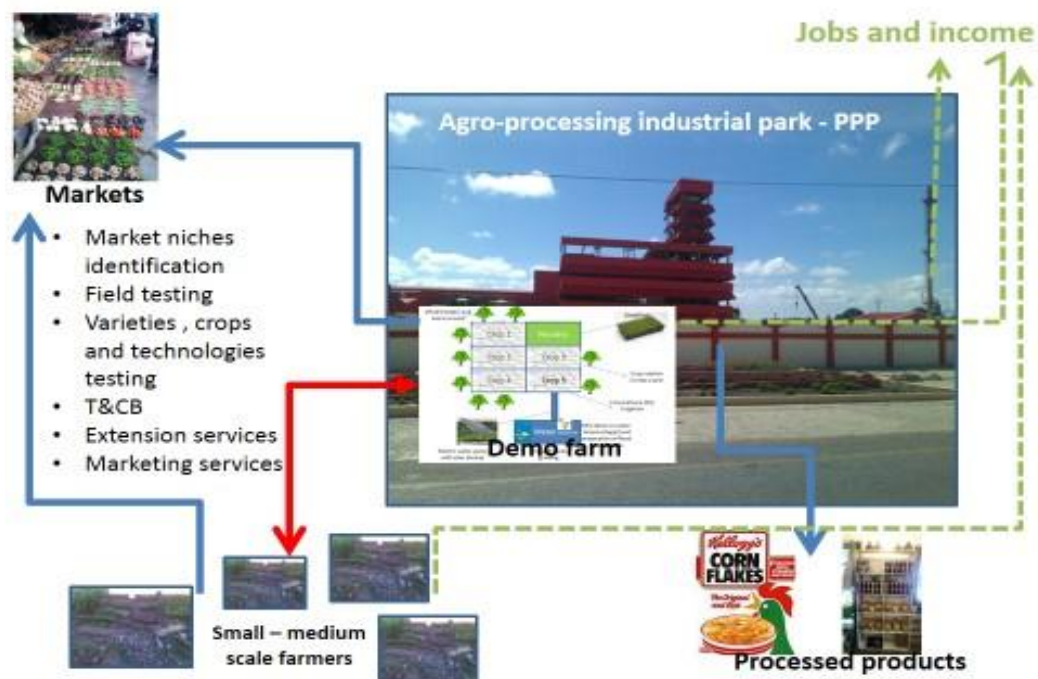
5.9. Agriculture demonstration farm and agro-processing center

The integrated agro-processing and demonstration farm aims at harnessing existing and future demands for food to increase income locally through the introduction of new technologies, varieties and farming methodologies into the local area; adding value **locally** and supporting and sustaining the enterprises. It targets to improve people's livelihoods and level of income and to capture the economic and social value of the food production and distribution chain.

The Nacala corridor in general, and Nampula and Nacala specifically, are constantly growing and so does the local demand for food. This, in combination with the improved transportation infrastructure creates **promising local and external markets** for the food industry.

For locals to benefit from the opportunity; a combination of a market driven approach and a local support system to increase productivity of small and medium size farmers and to support partnerships between small and large scale enterprises; is required.

The basic concept (see illustration below) is to narrow the physical, institutional and production gap between farmers and "processors". This would be achieved through the development of an agro-processing and packaging park (to be developed and managed like other industrial parks mentioned above, as a LGDC in partnership with large businesses and agricultural SME representatives). A training and demonstration farm will be operated within the park's framework.



The farm is linking between the farmers and the markets (the fresh products markets and the processing market with the following functions:

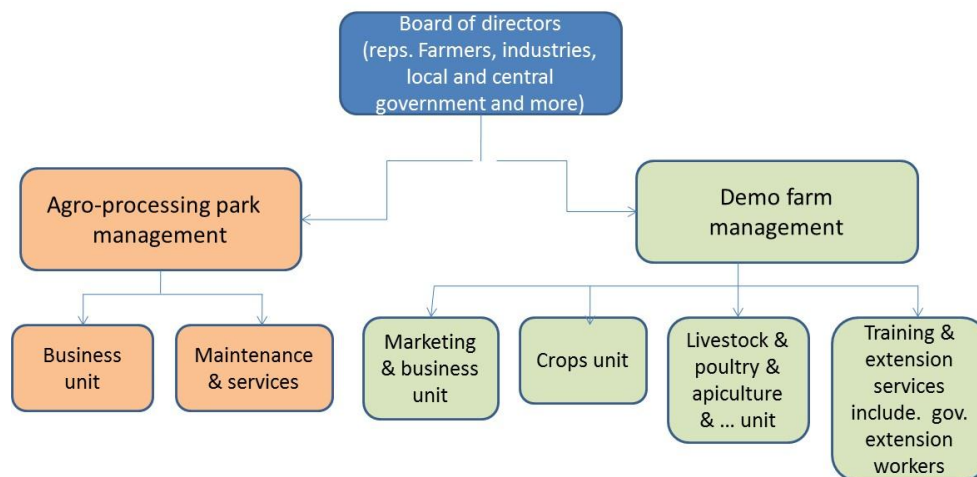
- Identification of market niches for fresh products

- Identification of processing industry needs
- Introduction of technologies, methods, crops etc. based on the demand identified. i.e. testing it in the field and transferring the knowledge to farmers
- Technical and business trainings to farmers – in the farm and in the field
- Organizing small and medium scale farmers
- Marketing inputs and products

The farm as mentioned above is a physical and a business entity.

- The physical components of the farm may include for example different crop areas (demonstrating crop rotation, various crops growing methods, irrigation technologies etc.); sidings' nursery; livestock/fish farming/beekeeping/poultry growing/etc. sites; technology exhibition center; training facilities and more
- The business entity will generate income from selling technologies and inputs to farmers, from selling the farm's products, from marketing farmers' product, from selling training services and more
- A detailed physical and business plan is required

The organizational framework reflects the various functions and the multi-partners reality:



6. Summary

The Nacala corridor experiences macro development and investments, mainly by external actors, that currently skips the local economies along the corridor. Yet, these processes provides many opportunities for LED – job and income generation for communities; upgrading living conditions and generation of income, taxes, and land revenues for local government.

The strategic framework required for harnessing these opportunities is anchored in institutional innovations and adaptations to promote LED, and linking physical planning and LED promotion.

At this stage we have identified a wide variety of actions to promote the LED strategy – only the most feasible and promising ones are presented in the report. These actions are mainly innovative institutional frameworks and innovative pilot projects that are designed to leverage

the opportunities from the macro development for jobs and income generation for local communities and institutions.

Establishment of these institutional frameworks is key for supporting the implementation of the pilot projects, for generating "quick wins" for local communities and institutions and for expanding the pilot projects in the future.

The next stage of beginning implementation should focus on selecting and promoting a few key actions (a mix of institutional frameworks and development projects) together with local stakeholders.

We are confident that these actions will result in positive results that will build the stakeholders' trust in the process. We are also confident that as the process develops and closer work with local stakeholders is undertaken, we'll be able to expand the implementation of the pilot projects and to identify and develop further actions