

## [SALUTATIONS TO BE ADDED]

I am very grateful to be invited to speak on this prestigious panel discuss the role of the state in private sector development and the challenges in improving the business environment and the investment climate for Mozambique.

My first set of consideration will be on the relationship between the state and the private sector. As we all know Mozambique is undergoing a difficult macroeconomic and fiscal juncture, although efforts of the authorities to stabilize the currency and bringing inflation under control. However, we know that the private sector is inevitably taking a hit – both because of high interest rates, and because of the tight fiscal position is hindering payment of public contracts. Accumulation of arrears from the state with private contractors is affecting the vital cash flow of private companies, hitting their working capital let alone their ability to invest and expand.

This is a well-known scenario in times of fiscal consolidation in many countries undergoing fiscal turbulence across the African continent today. But the first thought I would like to put forward is that the reason why this is particularly hitting the Mozambican economy is because the private sector is disproportionally dependent on the Government as a costumer. In order to build stronger resilience to economic shocks, it is important to invest, from a policy and a financial point of view, in enhancing value creation and strengthening value chains across the private sector, in order to increase the economic complexity of the Mozambican economy. This this path towards industrialization starts with the sectors where Mozambique has a natural competitive advantage – mostly agriculture, with its significant land endowment. As the African Development Bank, we are strongly engaged with the Government in increasing value creation in agriculture and adding to the emphasis on production a renewed effort on processing and marketing of agricultural products and increasing the competitiveness of the sector.

The natural resource sector deserved a mention of its own, given the richness of opportunities to use them as a platform for private sector development. But again, connecting natural resource projects with the domestic economy has been a challenge across the world, not just in Africa, and the few successes we know of point to the importance of comprehensive policy planning in implementing a national vision of what the country wants to achieve out of its resources, as well

as astute regulatory interventions that can enhance participation of local firms into natural resource projects and technology transfers, without excessively increasing costs or compromising standards. Gas obviously presents the richest opportunities, and the complexity and diversity of gas' value chain means that there are significant downstream industrial opportunities for transformation and value addition. If supported by an integrated policy planning and conducive regulation, Mozambique can attract the quantum of investment to become a regional hub for gas based fuel production, fertilizer and gas based power generation. But this is not a given, and the role of the state in enabling this vision remains crucial.

So if on the one hand the challenge is to ensure that the private sector is less dependent on the state, it is clear that the role of the state in promoting competitiveness and an enabling environment remains prominent. My colleagues in this illustrious panel have discussed the regulatory issues and the importance of measuring progress through comprehensive indicators such as the Doing Business surveys. The second dimension is the public investment in infrastructures and connectivity. Our own index of progress in infrastructure investment shows that the Government of Mozambique has invested steadily in infrastructure development over the past decade. But the remaining, yawning infrastructure gaps shows the enormous challenge of connecting businesses with markets in this vast and relatively sparsely populated country, which is undergoing significant demographic change, as we know from the recent census figures.

Clearly the public budget, nor the balance sheet of development finance institutions like the African Development Bank or the World Bank will be sufficient. So the role of the state, and of institutions like ours, is to create the conditions to attract private sector investment into infrastructure development. This means enhancing regulation and pricing policies, to ensure that infrastructure projects are financially viable on their own; and to develop innovative project structures and financial products to shift and diversify risk. Crowding in new investment to power infrastructure development across the continent is an undertaking that the African Development Bank is taking with its member countries across the African continent, and I am very pleased that the first edition of the African Investment Forum, a platform connecting investors with bankable projects and risk sharing financial products will have a special emphasis on the Southern Africa region, taking place in Johannesburg in November this year. We are looking forward to working

with the Government of Mozambique, the CTA and its members to prepare a robust pipeline of projects to ensure that the AIF is a success for Mozambique.