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Mozambique's Natural Resource Boom

What Potential Impacts on Tourism Competitiveness?

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A Transitioning Industry

The future of tourism is linked to the natural resource boom but quality and productivity of the average worker is an issue.

The boom in oil and gas has shifted government priorities and tourism, which used to be on top, is now a second tier priority.

The corporate market has saved the tourism sector given the inability of the government to deal with critical issues affecting the industry.

Although I have traditionally marketed my property to the South African beach market, I am currently investing in expanding my meeting rooms to target the corporate segment in Maputo. This is the future.



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This Study Provides

- Broad understanding of the competitiveness of two key tourism value chains: business and leisure travel
- A quantification of competitiveness constraints on the profitability of the private sector
- Perspective on the potential impact of Dutch Disease on the competitiveness of the identified value chains
- A tool to identify policy reform priorities that would improve business competitiveness
- A basis for expanding and continuing this study as a resource to improve the sector's competitiveness



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Food For Thought

- Tourism sector is affected by low productivity of the workforce and opportunity costs imposed by weak enabling environment (2% profit after taxes)
- In the absence of substantial sector reform, tourism investment is gradually migrating towards areas serving the oil and gas industry
- Onset of Dutch Disease would reduce even further the sector's competitiveness and result in an industry-wide loss of 156 million MNZ per year.
- An effective response to improving the sector's current and future competitiveness includes a combination of productivity improvements and policy reform.



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Presentation Outline

1. Background on the natural resource boom and potential impacts on the tourism sector
2. Tourism and competitiveness: where are we now?
3. Study methodology: an analytical framework for quantifying competitiveness constraints
4. Main findings and prioritization of constraints to competitiveness with CTA
5. Recommendations for ways forward
6. Questions for discussion



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Dutch Disease: Potential Impacts on Tourism

An appreciation in the value of the metical, as demand for meticais rises sharply (exchange rate effect);

Increased domestic spending, facilitated by increased revenues (spending effect);

A shift up in the prices of domestic, non-tradable goods and services (e.g., land, labor, construction, housing,...), relative to the prices of tradables (real exchange rate effect):

Reduced profitability of tradables sectors and increased profitability of non-tradables sectors of the economy; and thus

Increased incentives to shift resources *into* non-tradables sectors of the economy and *away from* traditional tradables sectors.



Tourism & Competitiveness: Theoretical Approach

“The ability of a destination to optimize its attractiveness for residents and non-residents, to deliver quality, innovative, and attractive tourism services to consumers and to gain market access in the domestic and global market places, ensuring businesses are profitable.”

Dup

Measuring industry’s performance

Delivering quality and competitive services

Monitoring the attractiveness of a destination

Describing policy responses and economic opportunities

Ranked 125th out of 140 countries surveyed last year!

Travel & Tourism Competitiveness Ranking, Mozambique (2013)

	Rank (Out of 140)
Framework	121
Business Regulations	90
Sustainability	49
...	125
...	136
Travel & Tourism	87
... Infrastructure	120
... Infrastructure	114
... Infrastructure	134
... Infrastructure	106
... Infrastructure	133
Competitiveness	30
Cultural, and Natural Resources	130
1. Human Resources	138
2. Affinity for Travel & Tourism	116
3. Natural Resources	64
4. Cultural Resources	120



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Study Methodology: Main Phases of Work

Selection & validation of the value chains, working with stakeholders through CTA

**Characterization of priority value chains:
==> Identification of key constraints to competitiveness through interviews with private sector and GoM**

**Preparation of data capturing for the study,
==> Design of indicators of competitiveness at the firm level
==> Design survey instrument and plan for interviews with business owners**

**Data capture, field interviews
==> Desk review and identification of existing data, reports, studies on priority value chains
==> Interviews with business owners and managers in Inhambane, Maputo, Pemba and Ponta de Ouro**

**Prepare cost structures for each value chain
==> Calculating profitability for each value chain
==> Identifying impacts of competitiveness constraints
==> Building the model to gauge the impact of Dutch Disease and areas for improved competitiveness**



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Study Methodology: The Impact of Constraints

**Additional
operational costs
reducing firms'
profitability**

- Costs of imports, tariffs and taxes
- Stringency of environmental regulations
- Cost of adequate waste management
- Provision of clean water
- Cost of crime and violence
- Investment in training and capacity building
- Quality of roads

**Opportunity costs
limiting firms'
ability to generate
more revenue**

- Visa requirements
- Reliability of police services
- Business cost of internal conflict
- Lack of market intelligence
- Reliability of air transport
- Prices of air transport
- Ease of hiring foreign labor

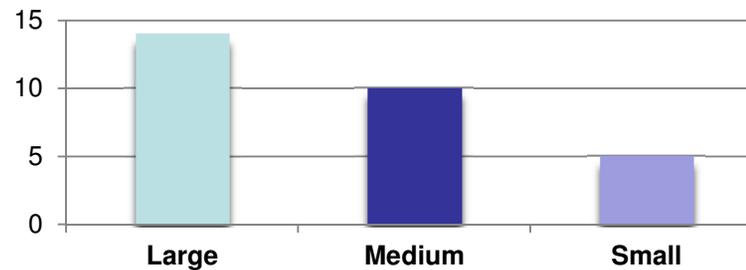


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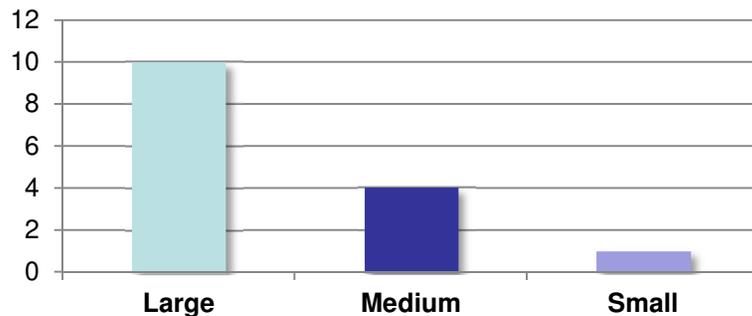
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Study Methodology: Our Survey Population

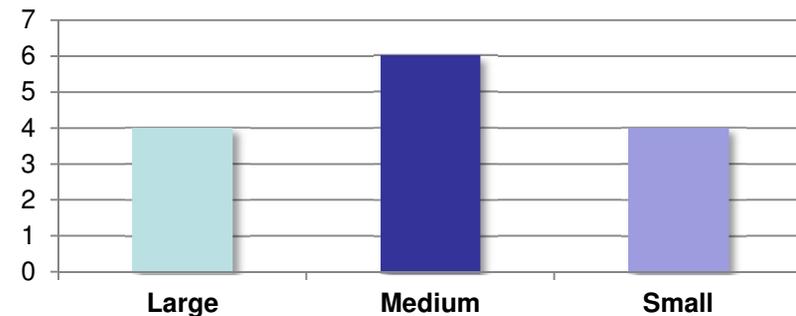
**Firms Surveyed by Size
Full Sample**



**Firms Surveyed by Size
Business Value Chain**



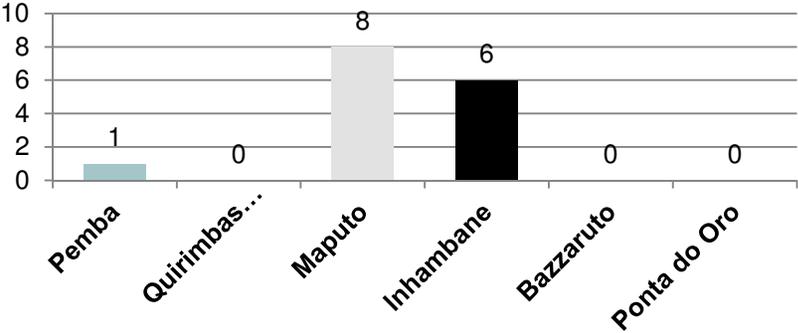
**Firm Surveyed by Size
Leisure Value Chain**



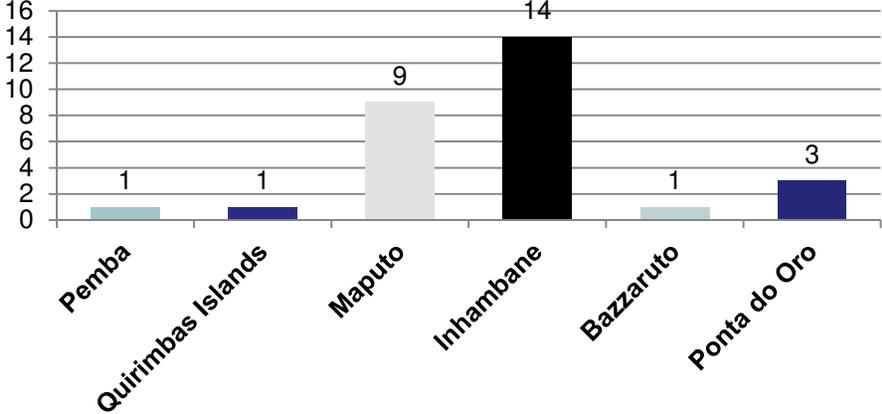


Study Methodology: Our Survey Population

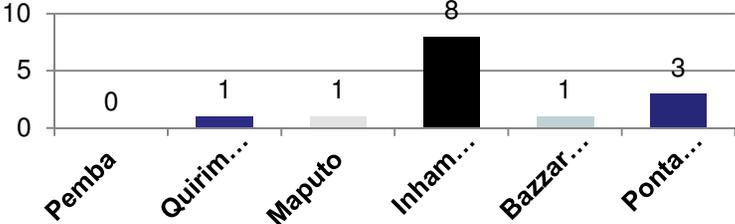
Firms Surveyed by Location Business Value Chain



Firms Surveyed by Location Full Sample



Firms Surveyed by Location Leisure Value Chain





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Study Methodology: Baseline 2013 (in MZN)

	Full Sample	Leisure Value Chain	Business Value Chain
Revenue	1,687,939,164	297,373,921	1,390,565,243
Operating Costs	1,183,304,695	320,778,690	862,526,005
Taxes	470,525,979	59,025,052	421,930,642
Profit Net of Costs and Taxes	33,760,490	-82,777,821	105,760,596
Opportunity Costs	83,370,431	12,905,476	67,933,876



Study Methodology: Modeling Dutch Disease

STEP 1
 SET THE COMPETITIVENESS
 CONSTRAINT PARAMETERS

- COMPETITIVENESS CONSTRAINTS**
- Conducting market intelligence
 - Air Transport Unreliability
 - Price of airfare
 - Police corruption and inaction
 - Internal conflict
 - Current Visa Policy
 - Restrictions on hiring of foreign workers
 - Interest payments on loans
 - Training workforce
 - Hiring and firing
 - High Credit Card, Wire, and Bank fees
 - Marketing and sales activities
 - Quality of roads
 - Imports and tariffs
 - Waste management services
 - Provide clean water
 - Complying with environmental regulations
 - CSR activities
 - Adapting to changes in national policies
 - Settling environmental conflicts with the government
 - Security for visitors
 - Taxes as % of Revenue



STEP 2
 SIMULATE DUTCH DISEASE BY
 SETTING THE RATE OF
 CURRENCY'S REAL
 APPRECIATION

**Rate of Appreciation of Metical's
 RER**

**Increase in Labor Costs due to RER
 Appreciation**



STEP 3
 ASSESS AND ANALYZE EFFECTS ON INDUSTRY
 INCOME STATEMENT

INDUSTRY INCOME STATEMENT (MZN)

Total Revenue	1,687,939,164
Total Operating Costs	1,183,304,695
Labor costs	409,858,013
Sales and Marketing Expenses	62,765,089
Food and beverage	202,864,612
Supplies	28,361,679
Rent	36,725,236
Utilities	101,515,903
Repairs and maintenance	64,619,044
Induced corporate social responsibility costs	14,503,522
Other expenses	262,091,597
Taxes - National	502,625,421
IRPC (34% of profit)	171,575,720
INNS (4% of all salaries)	16,394,321
VAT (17% on revenue)	286,949,658
Tourism Tax (1% on each guest - municipal)	16,879,392
Building Tax (outside Municipal Area)	3,320,970
Duat/Land Tax (Inside municipal area)	6,476,621
Provisional Tax	870,000
Taxes - Municipal (FIXED)	158,740
REVENUE NET OF COSTS AND TAXES	1,850,308

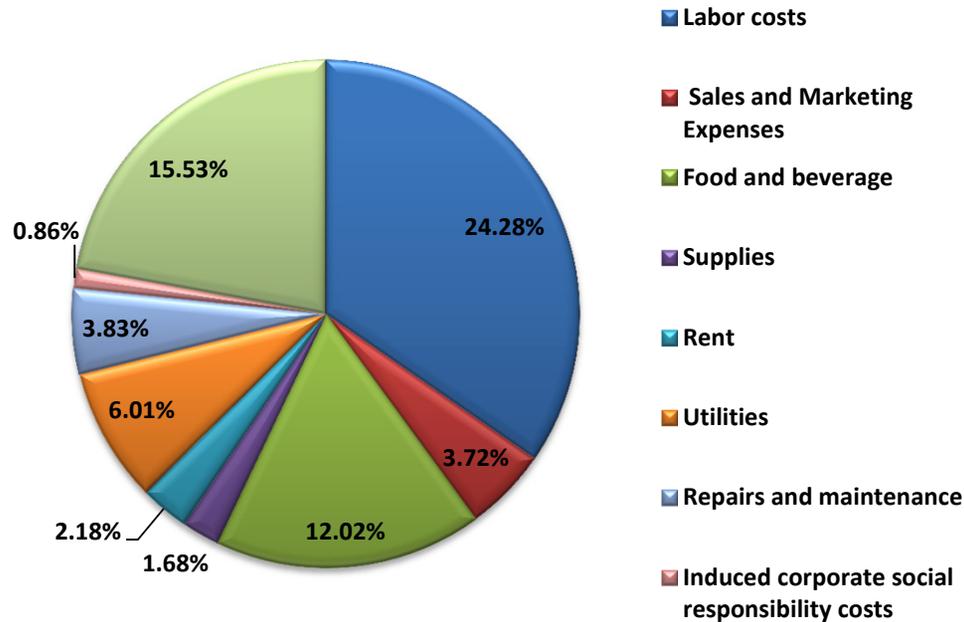


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Main Findings: The Real Cost of Labor

**Firms' Operating Costs as Percentage of Total Revenue
Full Sample**



Labor Costs

- Represent almost 25% of total costs due to low productivity
- It represents almost 36% for the leisure value chain
- It represents 22% in South Africa
- It represents 18.4% in India

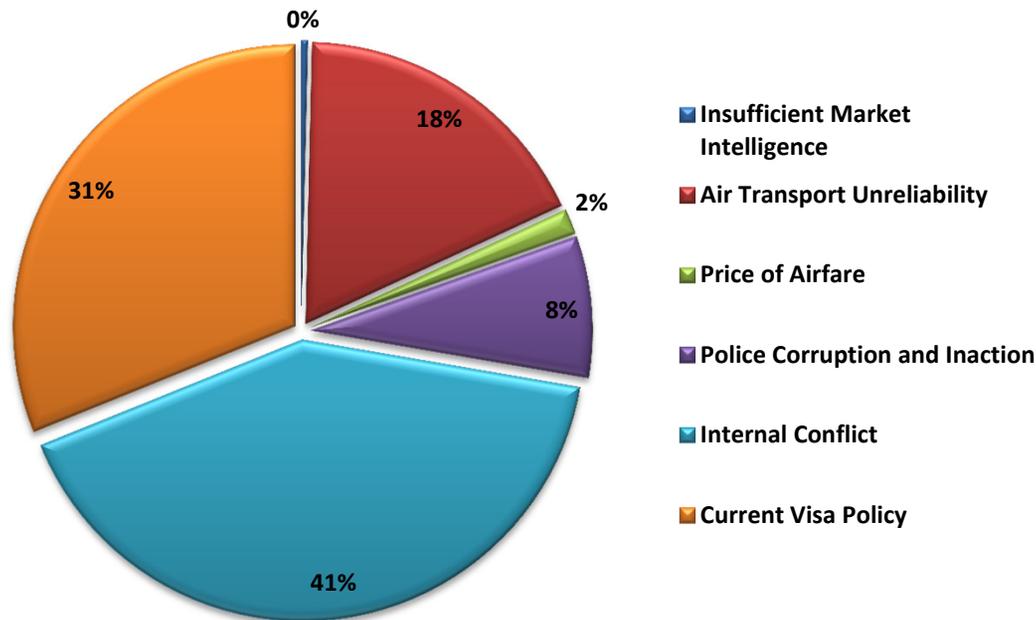


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Main Findings: The Costs of Violence and Corruption

Opportunity Costs to Firms, Full Sample



Violence & Insecurity

- **Businesses did not realize over 41 million MZN in profit due to internal conflict and police corruption**
- **Together they represented almost 50% of all opportunity costs**
- **It affected disproportionately the leisure value chain**

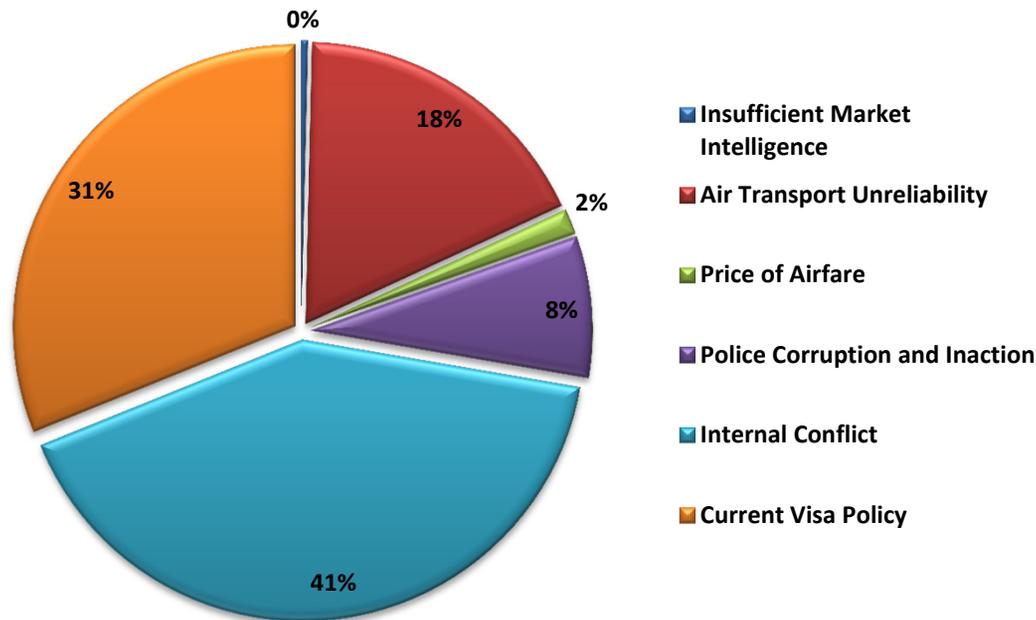


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Main Findings: The Costs of Air Transport Monopoly

Opportunity Costs to Firms, Full Sample



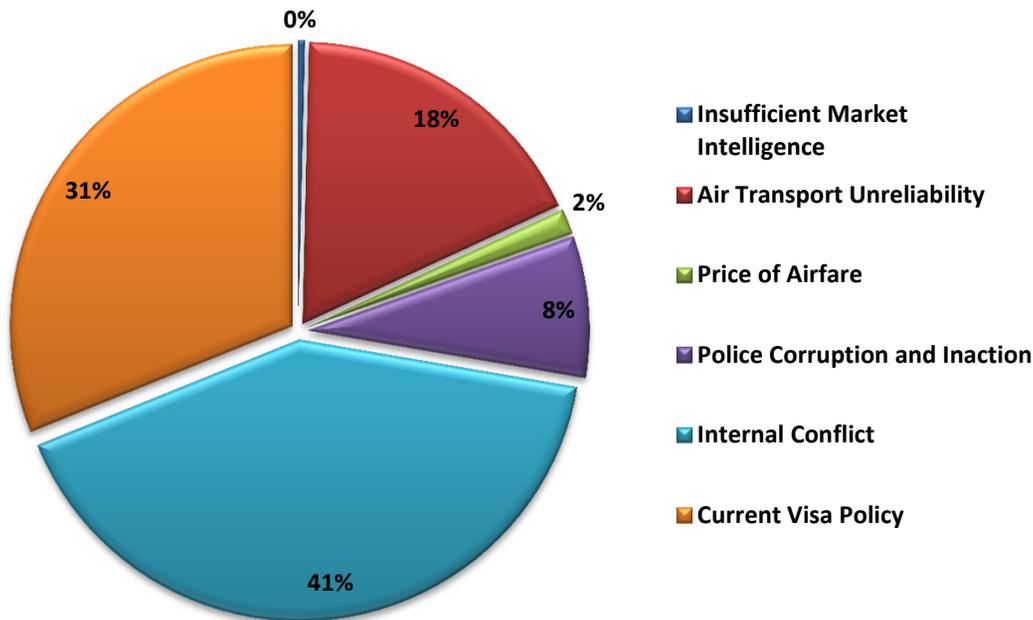
Air Transport Monopoly

- **Businesses did not realize over 16 million MZN in profit due to the cost of air flights and the unreliability of air transport**
- **Together they represented almost 20% of all opportunity costs**
- **It prevents an effective linkage between the business value chain and the leisure value chain**



Main Findings: The Costs of Current Visa Policies

Opportunity Costs to Firms, Full Sample



Restrictive Visa Policy

- **Businesses did not realize almost 26 million MZN in profit due to the cost and difficulty of obtaining tourist visas.**
- **It represented almost 31% of all opportunity costs**
- **It could be easily fixed with e-visas or a visa on arrival policy.**



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Main Findings: Modeling for Dutch Disease

	BASELINE (MZN)	BASELINE + 9.6% ER Appreciation (MZN)	BASELINE + 50% ER Appreciation (MZN)
Revenue	1,687,939,164	1,660,391,997	1,544,464,335
Operating Costs	1,183,304,695	1,188,221,969	1,264,391,660
Taxes	470,525,979	455,730,449	377,414,687
Profit Net of Costs and Taxes	33,760,490	16,091,579	-97,690,013

Outcomes of Scenarios

- **At 10% appreciation: sample sees profitability reduced by 50%**
- **At 50% appreciation: sample loses almost 100 million MZN / year**



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Main Findings: Modeling for Dutch Disease

Extrapolation of Results to the Entire Industry

Baseline 2013 and Identical Dutch Disease Scenarios

	BASELINE (MZN)	BASELINE + 9.6% ER Appreciation (MZN)	BASELINE + 50% ER Appreciation (MZN)
Revenue	2,722,938,000	2,678,499,652	2,491,488,270
Operating Costs	1,908,875,265	1,916,807,679	2,039,682,574
Taxes	757,795,096	733,927,345	607,590,468
Profit Net of Costs and Taxes	56,267,639	27,764,628	-155,784,772
Profit Foregone	134,490,934	No Change	No Change



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Main Findings: Prioritizing Policy Constraints - CTA

Improved Profitability from Selected Policy Reforms

Select Policy Reforms	Profit in Baseline (MZN)	Baseline + Policy Reform	Baseline + Policy Reform + 9.6% ER Appreciation	Baseline + Policy Reform + 50% ER Appreciation
1) Labor Issues Improved	33,760,490	179.6%	125.4%	-217.4%
2) Unreliability of Airlines Halved		179%	123%	-226%
3) Security Costs Decreased by 1% of Firms' Operating Costs		24%	-28%	-365%



Main Findings: Improving Labor Issues

Hotel Employee Productivity

Ratio of Employee / Room	Average	Five Star	Four Star	Three Star
WTO Recommended Standard	1 : 1	2 : 1	1.2 : 1	0.8 : 1
Mozambique (Sample)	2.2 : 1	2.7 : 1	2.2 : 1	1.7 : 1
<i>Leisure Value Chain</i>	3.2 : 1	4.2 : 1	3 : 1	2.2 : 1
<i>Business Value Chain</i>	1.2 : 1	1.1 : 1	1.3 : 1	1.2 : 1
India	1.8 : 1	2.7 : 1	1.8 : 1	1.6 : 1
South Africa	0.7 : 1	1.3 : 1	0.6 : 1	0.3 : 1
Eastern Europe	0.5 : 1	0.8 : 1	0.5 : 1	0.2 : 1

Investment in Training

Country	Average Expenditure per Employee per Year
Mozambique (Sample)	\$125
<i>Leisure Value Chain</i>	\$143
<i>Business Value Chain</i>	\$113
Rwanda	\$200
Australia	\$514
United States	\$955

Improvements in Labor Policy

Alternative Scheduling in the Hotel Industry	Flexible Work Hours or Flextime. Allows for more efficient allocation of workers in different departments
	Compressed Work Schedule. Allows for longer shifts during peak seasons.
	Job Sharing. Reduces the need for full-time staff during low seasons.



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Main Findings: Improved Performance by Reform

Increased Profitability Resulting from Selected Interventions in Labor Reform

Select Policy Reforms	Profit in Baseline (MZN)	Baseline + Policy Reform	Baseline + Policy Reform + 9.6% ER Appreciation	Baseline + Policy Reform + 50% ER Appreciation
1) Labor Issues Improved	33,760,490	179.6%	125.4%	-217.4%
1.1) Firms Increase Training Expenditures by 1% of Total Operating Costs		1.6%	-50.3%	-385.7%
1.2) Restrictions Removed on Hiring of Foreign Workers		87.9%	31.9%	-327.1%
1.3) Labor Force Reduced by 10% due to Improved Labor Policy		87.7%	36.8%	-286.0%



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Recommendations for Ways Forward

- Expand the sample size to include other types of tourism business and geographic locations.
- Focus interventions on **labor constraints**. Productivity is the best mechanism to improve competitiveness and profitability.
- Use the tool to prioritize policy issues that could improve firms' performance and be ready for the onset of Dutch Disease.
- Continue tracking industry's financial performance to foster an honest dialogue and collaboration with the public sector.



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For Discussion: Using the Model

In addition to the policy constraints identified by CTA, which others is worth looking at?

- We will use the model to identify which ones have the highest impact on profitability



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Thank you