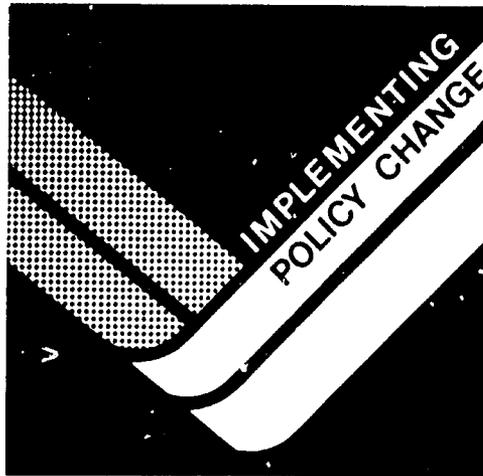

IPC RECONNAISSANCE VISIT TO REVIEW MOZAMBIQUE REGIONAL RAILWAY SYSTEMS SUPPORT

May 1992

Presented to:
USAID/Mozambique



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(lead contractor)

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EXECUTIVE SUMMARY

Historically, Mozambique's railways have played a critical role in the country's economy and served as the shortest route to port for ocean shipping of exports and imports from/to Mozambique's neighbors. In pre-independence Mozambique, income from transit traffic financed the structural deficit in the country's balance of trade. In 1973, this financing was the equivalent of about US\$110 million. Most of this was from the operations of the Maputo corridor (CFM/S). Since then, the Maputo corridor's transit traffic has declined from about 14 million tons to about 2 million tons in 1990 and its net foreign exchange contribution to the economy is negative.

Since the mid-1980s, the Government of Mozambique, with the assistance of donors, has invested or committed over US\$400 million to turn around the performance of the three main rail transit corridors (the Beira, Nacala and Maputo corridors) and restore their prominence in the economy. Although the Beira corridor has seen significant improvement, the Maputo corridor, whose hinterland service area is greatest and has the greatest recovery potential, has continued to decline. The reasons for this stem from disruptions caused by the war and operational and management problems.

The Government and the donors, led by the World Bank, have formulated a strategy, focussing on the Maputo corridor to reverse the decline. This strategy includes leasing or contracting the management of the Maputo corridor facilities to a private firm or firms, and divesting unneeded assets and redeploying excess employees. USAID, which has been assisting CFM through its Regional Rail Systems Support (RRSS) project, is considering amending RRSS to assist with the redeployment of railway employees and the release of excess capital assets by sale to the private sector or consignment to other public use.

At USAID/Maputo's request, the Implementing Policy Change Project (IPC) provided a reconnaissance team to visit Maputo during the period March 1-13, 1992 to conduct an initial assessment of the issues to be addressed in carrying out the proposed redeployment and divestment of excess capital assets. The IPC team reviewed the labor situation in Mozambique, examined the nature of the job market and the skills most needed by potential employers. It met with key CFM officials and personnel, officials in the Ministry of Labor, Ministry of Transportation, and Ministry of Industry. It interviewed a variety of persons involved in reemployment of displaced persons and demobilized soldiers, stimulation of micro and small businesses, provision of credit, and roads projects. Through these meetings the team gained a sense of the range of opportunities and limitations in Mozambican society for employing excess rail workers.

During the Team's visit, World Bank representatives were negotiating with the Mozambique Government and CFM about how CFM/S would be restructured. Agreement had not yet been reached on whether in the near future CFM/S --the Maputo Corridor line-- would be leased to a private firm or its management contracted to a single private firm or several private firms. Also, agreement had not been reached on whether all CFM/S employees would be

released, with some being rehired by the leasing/contracting firm(s), or whether CFM would itself carry out a reduction in personnel before turning over operations to a lessee/contractor.

Despite the uncertainty about the outcome of the negotiations on the above issues, the Team proceeded on the basis of CFM's estimates that at least 15,000 of CFM's 34,000 employees would be redeployed regardless of what management arrangements result from the negotiations. Most of the employees will come from CFM/S, although CFM managers also indicate that personnel reductions will occur in the other lines and all (about 16,000) employees of three short railway lines--Xai Xai, Inhambane, and Quelimane--which are to be discontinued will be redeployed. The capital assets of these lines will also be disposed of or converted to other uses.

Redeployment of approximately 15,000 workers will pose a major challenge. The ongoing civil war has seriously constrained economic growth and reduced employment opportunities, particularly in the interior. A surplus of unskilled employees already gluts the labor market. During the past two years, 1600 Mozambicans who had been working in East Germany returned home and entered the labor market. Significant numbers of Mozambican miners who lost jobs in South African mines and demobilized military personnel are also looking for work. CFM staff asserted that most employees to be declared redundant are poorly qualified for other than unskilled labor in construction or road building unless their skills are upgraded.

On the positive side, the peace process is now underway. Progress is being made in the peace talks and there is reason to believe that hostilities will end soon. Peace should bring a renewal of economic activity. People will be able to return to farms abandoned because of the war, road and bridge construction should expand, and destroyed towns, schools, and public buildings will need to be rebuilt. All of the foregoing should expand employment opportunities.

The team was told that although a surplus of unskilled labor exists, there are shortages of general mechanics, auto mechanics, carpenters, masons, electricians and persons with skills such as technicians, accountants, and statisticians. Given these realities, it may be necessary for the redeployment project to include technical and vocational training opportunities, encourage railway employees to open small businesses and industries, and seek to identify job opportunities for unskilled labor.

A priority in planning redeployment should be given to working closely with Government and CFM officials to decide who will manage implementation of the redeployment strategy. The links between this management unit and other parts of the Government as well as the nature of its authority and required technical assistance need to be established. Provisions also need to be made for the management unit to work closely with the team of donors, particularly the World Bank, to plan the restructuring of CFM and insure that redeployment is properly sequenced. This management unit's major tasks will include surveying the skills of the CFM's work force, reviewing staffing, and assisting in identifying areas of greatest excess. It will also need to research, cost out and compare various options for employing redundant workers. Finally, the

management unit must have authority and be structured to implement the strategies that are selected.

While the above work concerning employees is proceeding, planning should begin concerning disposal of unneeded capital assets. While other capital assets may also be declared in excess, this effort must include reviewing the assets of the three short lines and exploring other potential uses for them.

As a next step, the Team recommends that a five-person team be sent to Maputo for a seven-week period to design an amendment to the current RRSS project. Experience in sub-Saharan Africa is essential and Portuguese language capability is highly desirable. The five areas of expertise that are desirable for this follow-on exercise are described in the body of this report.

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I. INTRODUCTION

To provide initial analysis for the future orientation of AID's Regional Rail Systems Support (RRSS) Project, AID/W RD/EID's Implementing Policy Change Project (IPC) was asked to send a reconnaissance team to Maputo, Mozambique. IPC sent John D. Blacken, former U.S. Ambassador to Guinea-Bissau and Dr. Louise White, Chair of the Department of Public Affairs at George Mason University in Virginia to Maputo for the reconnaissance visit.

Before leaving Washington, the team consulted with Jeanne North, AID's R&D/EID office, and World Bank RRSS project officers Yusupha Crookes and Philip Moeller. During its March 1-13 visit to Maputo the team worked closely with Tim Borne and Peter Argo of AID's RRSS office. It also met with other AID officials and the American Ambassador to Mozambique. Its primary Mozambican involvement was with officials of the Mozambique Railway Company (CFM), including its Director General, Mario A. Dimande. Various meetings with representatives of donor, NGO and Mozambican Government agencies were held to explore options for reemployment and training of redeployed employees.(see Appendix 1 for list of meetings.) The team met again with Mr. Crookes and Nadji Nokwi of the World Bank on the last day of the visit.

Parts I through IV of this report outline recommended areas for follow on analysis for the RRSS project and the circumstances that make it necessary. These sections also provide input and analysis for the use of the follow-on design team. Appendix 1 lists the persons interviewed by the team. Appendix 2 describes the economic/political environment in Mozambique in which the redeployment of railway employees will occur. Finally, Appendix 3 identifies agencies and organizations that have potential for assisting with the redeployment. Among those identified were the National Institute for the Development of Local Industry (IDIL), and the Fund for the Formation of Small Industry (FFPI). Appendix 3 also sets forth a number of alternatives that might be explored to place excess railway employees in new jobs. These include vocational training, assistance in establishing micro and small businesses, resettling in agricultural enterprises and employment in road construction projects.

The team appreciates very much the support and assistance of Messrs. Tim Borne and Peter Argo of AID's RRSS office and also of CFM's management staff. CFM officials were generous of their time and provided in a timely manner data needed for the team's work.

II. OBJECTIVE OF PROPOSED AMENDMENT

The purpose of the proposed amendment to AID's Regional Rail Systems Support (RRSS) Project is to assist a restructured CFM develop and implement a strategy to 1) redeploy up to an estimated 20,000 redundant Mozambique Railway (CFM) employees, and 2) sell or convert to other uses the capital assets that are not needed once CFM restructures its operations and services.

III. BACKGROUND

The RRSS Project is a regional umbrella project that encompasses three country-specific and complementary activities in Mozambique, Swaziland and Malawi. Its goal is to improve the region's rail system so that it can contribute to economic growth in Southern Africa. The Mozambique component is administered by CFM and consists of three lines: the Maputo Corridor (CFM/S), the Beira Corridor (CFM/C), and the Nacala Corridor (CFM/N). In pre-independence years, the revenues of CFM financed most of the structural deficit in Mozambique's balance of trade. In 1973, foreign exchange revenues from the railways were the equivalent of US\$110 million. Most of this was from the operations of the Maputo Corridor, which historically carried about 75 percent of the total international traffic (in net tons) transiting Mozambique. In 1973, it hauled 14 million tons of freight, but since then its performance has deteriorated. In 1990 it hauled only 2.2 million tons of freight. The decline was due to a combination of poor management and security problems resulting from the ongoing war.

Revitalization of Mozambique's railway system is vital to the health of the country's economy. It is also important to the other countries of the region. High transport costs reduce the competitiveness of the region's exports in world markets and increase the cost of imports. This is especially serious in view of the drought that currently plagues the region, making needed increased imports of food grains more costly.

The Government and donors have recognized the importance to Mozambique and the region of improving the efficiency and reducing the costs of rail transportation. During recent years donors have made large investments in the rail system (a total of about \$400 million), including the Regional Rail Systems Support Project by USAID. The original USAID Project Paper for railway lines in Mozambique focused on problems of inadequately maintained locomotives and wagons, poorly equipped and structurally inadequate maintenance workshops, and inadequate management systems in CFM, particularly in managing finances. Based on this analysis, a Project Paper, signed in 1988, set aside \$34 million primarily for three functions: 1) locomotive maintenance; 2) improvements in the railway workshops; and 3) technical assistance and training to improve the financial capacity of CFM.

In 1990, the Project Paper was amended based on further analysis. Projected traffic levels indicated a need for additional locomotives. Also needed was a broader approach to the organizational problems of CFM. The amendment, signed in 1990, added \$21 million to procure new locomotives and to carry out an institutional analysis of CFM.

Late 1991 donor studies documented that Maputo Corridor rail lines (CFM/S) were continuing to lose traffic and income despite donor investments and technical assistance. The analysis also found that CFM/S' linkage to Swaziland, Zimbabwe and South Africa offers potential for expanding its services and generating badly needed foreign currency for Mozambique. The line, however, also can expect significant competition, including possible South African expansion of alternative rail line and port facilities at Richards Bay. As a result, donors believe urgent decisions and action are necessary to ensure CFM/S competitiveness. They

argue that Mozambique cannot delay management improvements on the CFM/S line. Currently donors are exploring with the Government various plans for restructuring the Maputo line and contracting or leasing management of CFM to a private firm.

Donors and managers of CFM/S agree that, whatever formula for restructuring is agreed on, plans to redeploy redundant personnel and capital assets must be made. CFM management estimates that at least 15,000 of its 34,000 employees must be declared excess throughout the three corridors. Most of these would come from CFM/S and the closing of the Xai Xai (300 employees), Inhambane (500) and Quelimane (880) short lines. CFM management also states that any restructuring of CFM/S is contingent on developing an acceptable redeployment plan. In light of these developments, USAID/Maputo is proposing an amendment to the Regional Rail Systems Support Project to provide CFM assistance in developing and implementing such a redeployment plan.

This amended project also will assist CFM in finding alternative uses for unnecessary capital assets. There is general agreement within CFM to rid itself of such assets as the three branch lines--Xai-Xai, Inhambane and Quelimane--which have been perpetual financial burdens. If the leasing arrangement for CFM/S proceeds, some CFM/S assets will likely be found to be unnecessary and will need to be divested also.

The matrix table on the following page summarizes some options for redeployment that the team identified. A detailed discussion of these appears in Appendix 3.

MATRIX OF OPTIONS FOR REDEPLOYING LABOR

GENERAL STRATEGY	COST/COST EFFECTIVE	TRAINING NEEDED	RELATED ACTIVITY	ADMINISTRATION	POLITICAL IMPLICATIONS
Severance Monthly payments or lump sum or as vouchers	Determine effective benefits now, what need to pay	Could give on completion of training	Fit with contractual obligations	Convene groups, present options	Positive, quick return, concrete
Agricultural Resettlement As individuals or in newly formed associations	Access to land? Severance as equity for investment	Assistance through extension services	Priority Districts; Need land use permits	Work with Provincial leaders	Ensure it is voluntary; depends on war/peace
Small Business Loans, training, assistance	Cost of training and assistance, and processing loans	Yes, in business skills	GPE IDIL FFPI GRM centers	Need unit to process loans; Bank can administer	Only for small number; fits economic goals
Auxiliary Enterprise Form Associations to pool resources	Start up costs, training equipment	Yes, in business or technical skills	Trucking cos. to replace redundant rail lines	Organize employees, Coordinate with other needs	Positive, Retains group identity
Vocational training Individuals on severance pay while attend training	Cost of instruction, processing trainees, facilities	Job related technical skills	Existing training capacity is inadequate	Unit to survey market, provide training place trainees	Only for small number; payoff depends on link to jobs
Labor on roads Hire workers to construct roads	Cost of planning roads project, organizing labor pools	Technical training needed for primary road construction	W Bank, ILO UNDP projects, especially labor intensive	Coordinate with other plans, including replacing some rail lines	Positive, quick return, concrete action
Public Works	Cost of design, forming labor pools	Probably not	Priority Districts infrastructure plans	Unit to plan and administer	Positive, concrete action

VI. RECOMMENDATIONS FOR NEXT STEPS

A. General

The team recommends that assistance be provided the Government of Mozambique and the parastatal Mozambique Railways (CFM) in developing a strategic plan for redeploying excess railway staff and unneeded capital assets. The assistance should also help CFM management in determining the technical assistance and training needed to follow through on leasing or contracting out operations on the Maputo Corridor.

B. Specific

Specific tasks recommended to be performed include but are not limited to the following:

- Staying in close touch with the World Bank and CFM team that is discussing plans to restructure CFM.
- Meeting with CFM and other government officials to decide who/which entity will be responsible for managing the redeployment of redundant staff. Preliminary work with CFM staff to consider several management alternatives will also be necessary.
- Designing the specifications for this management entity, including its links to other units in the Government and the nature of its authority. Identify the kinds of technical assistance that will be needed.
- Specifying the preliminary tasks that will need to be performed. These will include: collecting necessary information about the current employees, their status, training, education and preferences; analyzing railway operations to identify redundant labor; designing a strategy for communicating with employees in a timely manner.
- Examining the existing legal structure for railway personnel--contractual obligations, pension arrangements and so forth. Meet with CFM Human Resource officials.
- Working closely with the proposed investment advisory firm that will be hired to prepare a plan for leasing out certain CFM functions. The draft terms of reference for these services include identifying pension regulations and their status, identifying manpower requirements and degree of redundancy, and identifying available training resources.

- Making preliminary cost estimates on administratively simple strategies that would rely primarily on severance pay.
- Determining if there is rationale for listing and comparing options beyond severance pay for absorbing redundant labor. Donors and relevant Mozambique institutions should be consulted for ideas on how best to build on and use existing activities and institutions.
- Assisting CFM/staff in identifying redundant physical assets and developing a plan for divesting them. This involves at a minimum travel to the three short lines-- Xai-Xai, Inhambane, and Quelimane lines in order to gather data from which suggestions for possible alternative uses can be made, as well as assessments of their value, the costs of converting them, and ways of advertising them for sale abroad (i.e., steam locomotives to museums, amusement parks etc.).
- Developing a financial plan and economic analysis for implementing redeployment and asset divestment.
- Monitoring progress of talks with donors on the leasing proposal and the ongoing technical assistance to CFM. Determine if any additional technical assistance or training will be needed during the project to assist a restructured CFM fulfil new management roles.

C. **Recommended Expertise and Level of Effort for the Follow-on Analysis**

It is recommended that further analysis on the redeployment of excess CFM staff and divestment of excess capital assets be conducted that would feed into the project amendment. Experience in sub-Saharan Africa is essential, and Portuguese language capability is highly desirable. This team should include at least five sets of expertise:

1. *Generalist* with skills in applying strategic management principles to the process of developing a project, in this case, shifting surplus railway employees and assets to other useful work. This team member should be familiar with organizational design and process consultation and be able to relate well with the CFM staff and coordinate with World Bank other donors. Ability to speak Portuguese is important for this person.
2. *Railway labor specialist* who can assist in analyzing the staffing patterns and labor needs on railways. This person should be familiar with railway redeployment schemes elsewhere, with the organization of personnel systems and contractual obligations, such as pension plans.
3. A person with experience in *alternative employment options*. This would include experience identifying employment alternatives for unskilled labor, as well as employment generation schemes such as credit plans, and micro and small businesses. This person would

ideally be knowledgeable about the variety of strategies currently being developed in-country such as donor-funded roads projects, agricultural resettlement plans and business training projects.

4. *Engineer* with expertise in alternative uses for excess capital assets, including rail lines, stations, and workshop equipment. Emphasis should be on someone knowledgeable in estimating the potential value of such diverse assets, who can be creative in considering alternative uses for the equipment, and who can help CFM develop a plan for their divestment.

5. *Financial expert* who can work with the engineer and labor specialist to translate divestment plans into financial plans and economic analysis. This person should be able to cost out different severance pay plans and provide financial and economic analyses of various employment generation options.

6. Additional local or expatriate individual(s) to provide additional technical expertise may be necessary. It is expected that due to the open-ended nature of this work, and its close linkage to ongoing discussions with the World Bank, assistance requiring other skills will become apparent during the preliminary phase. For example, depending on how the role of a restructured CFM is defined, additional assistance in designing technical assistance or training may be needed. As another example, if the team focuses on a particular redeployment strategy that requires additional expertise or training experience, someone with these skills may be needed.

D. Coordination of Effort

It will be critical for the follow-on team and USAID/Mozambique to maintain close contact with three clusters of individuals within Mozambique as follows:

1. World Bank, other donors and Government officials who are currently negotiating plans to restructure CFM/S staff.
2. Mozambican agencies that are promoting activities that could serve as resources and provide support to CFM during the redeployment/divestment process.
3. Other donors who support projects that could provide employment and/or training for excess railway personnel.

E. Suggested Analytical Process and Sequencing

1. Within one week after arrival in Mozambique, the follow-on team should present to USAID/Mozambique an outline of its activities and schedule for completion of the study, including itineraries for field visits and preliminary list of contacts.
2. Review Project Paper and First Amendment to see what changes have to be made in those documents to fit the new reality.

3. **Prior to departure from Mozambique, the team should submit to USAID and the GRM, ten copies of a complete Project Paper Amendment, including findings, recommendations, time frames, and other elements as described in its Scope of Work. The Amendment should include: Project Rationale and Description, Cost Estimate and Financial Plan, Implementation Plan, Monitoring Plan, Evaluation Plan, and the following Project analyses: Technical analysis, Financial analysis, Economic analysis, Social soundness analysis, Administrative analysis.**
4. **Also prior to departure from Mozambique, the team should orally present to USAID and the GRM the principal findings of the study.**
5. **Within two weeks of receiving USAID and GRM comments on the draft report (to be consolidated and transmitted by USAID), the team should provide USAID with 12 copies of the complete final report in English, for transmission to the GRM. At the same time, the Contractor should provide USAID with 25 copies of a Portuguese translation of the final report's Executive Summary.**

APPENDIX 1

MEETINGS IN MAPUTO

Embassy/USAID/MAPUTO

Ambassador Friedman
Julio Schlotthauer, Director, AID Maputo
Peter Argo, RRSS
Tim Borne, RRSS
Julie Borne, Deputy Agricultural Officer
Charles North, Deputy Program Officer

Mozambique Ports and Railways (CFM)

Mario Dimande, Director General, Mozambique Ports and Railways (CFM)
Mauricio Fernandes, Assistant Manager, Mozambique Ports and Railways (CFM).
Orlando Jaime, Director of Human Resources, Mozambique Ports and Railways (CFM)
Simao Lourino Muhai, Director of Informatic Services, CFM.

Mozambique Government and Donors

Andrea Cravinho, Technical Assistant, Ministry of Labor; Centre for Study of African Economies.
Luiz Carlos Fabbri, Advisor, IDIL.
Jurg Frieden, Coordinator, Swiss Development Corporation (SDC). Coordinates employment for demobilized military.
Rosemary Galli, Department of Economic Studies, Ministry of Labor.
M. C. Gupta, Chief Technical Adviser, ILO Roads Project, UNDP.
Florencio Ifande, Economic Advisor, Office of the President.
Fulgencia Magaia, Executive Director, National Institute for Development of Local Industry (IDIL).
Pablo-Jose Mandeville, Assistant Resident Representative, UNDP.
Dinis Efraime Francisco Nhamgumbe, Secretary General, Sindicato Nacional dos Portos E. C. de Ferro (SINPOCAF).
Tom Pardel, Swiss Development Corporation.
Maria Helena Paulo, Director, International Relations, Ministry of Transport and Communications.
Anthony de la Rue, Managing Director, Coopers & Lybrand Associates.
Jeanne L. Stephens, Director General/General Manager, Austral Consutoria e Projectos, Lda.
Fion de Vletter, Gestao para a Promocao da Impresa (GPE), Ministry of Labor (program supported by World Bank).

APPENDIX 2

The Current Setting in Mozambique

Redeployment of excess railway employees will be undertaken in a changing and challenging environment in Mozambique. The process must be handled decisively but also with sensitivity and creativity. In so doing, several important aspects of the current situation in Mozambique should be kept in mind:

1. The political and economic environment in Mozambique is changing rapidly. The Government is liberalizing economic policies. New opportunities for private sector activities are opening. The war between RENAMO and the Government forces, which has constrained economic activity and destroyed much infrastructure, including some railway assets, is in the process of ending. Progress is being made in the peace talks and there is reason to believe that hostilities could end soon. If so, conditions in the countryside should improve significantly, enabling an expansion of farming and lumbering activities, which would generate employment. Current and planned donor projects should also open up opportunities for employment.
2. Mozambique's Government and CFM management appear to understand the critical importance of radical reform to improve railway efficiency and convert the railways into revenue earners rather than allowing them to continue to drain the country's finances. Government, CFM officials and other informed observers all agree that the railway system has far too many employees and that vigorous action to eliminate the excess is necessary if the railways are to be once again revenue earners. From all indications, if the Government and CFM take decisive positive action to improve the railway's efficiency, continuing large-scale donor assistance will be available to assist in the restructuring. Donors do not, however, appear ready to continue supporting railways that continue to lose money.
3. Release of about 15,000 redundant railway employees will not be politically easy. They will be released at a time when other sizeable groups are already in or are entering the labor market. Military demobilization has already reduced military manpower from an estimated 125,000 to 90,000, and if the peace holds, demobilization will continue adding to the existing pool of job-seekers. About 1600 workers returned from the GDR during the past two years, many of whom are reportedly still seeking employment. In addition, many Mozambicans who were working in South African mines have been sent home. The state airline, Linhas Aérias de Mocambique (LAM), also plans to prune 1700 workers from its rolls.

A recent USAID study (K. Peter Dzvimbo et. al. "Mozambique Education Sector Assessment", Feb. 21, 1992) indicates that Mozambique has a potentially active workforce of 6.1 million. Estimates are that only 50 percent of these are economically active and of these only 10 percent are wage earners. The other 90 percent are in agriculture, the informal sector or unemployed.

Of about 300,000 wage earners, the formal private sector employs about 200,000 and public administration accounts for approximately 100,000 jobs. Employment in the formal private sector is broken down as follows:

- manufacturing 30%
- commerce 22
- agriculture 14
- construction 11
- other unspecified 23

Within the manufacturing sector, the main employers are in the areas of food processing, beverages, textiles, metal working and machinery. The formal private sector is composed mainly of very small enterprises. About 75 percent of formal private sector firms employ less than ten workers, and 92 percent employ less than 50 employees. However, the few large firms provide most of the formal private sector employment opportunities. 51 percent of the people employed in this sector work in firms that have more than 1000 workers, and 67 percent work in firms that employ more than 500 workers. Women represent only 13 percent of employment in the formal private sector.

While firm data concerning regional distribution of employment are not available, all evidence points to considerable differences among regions, with Maputo city and province offering the most employment. In Maputo City and its suburbs, 52 percent of the working age population is active in the labor force and unemployment is estimated at 23 percent. Two-thirds of workers are in tertiary activities and 25 percent are in the secondary sector. The formal sector provides 56 percent of all employment and two thirds of these are in public administration.

Available data indicate a work force concentrated in low skilled and informal jobs. Breakdown of formal private sector employment by occupational categories shows the following pattern:

- managers 5.5%
- technicians 2.5
- administrative and service workers 34.2
- production workers 55

Unemployment is high. The AID study (referred to above) indicates that in 1989 there were 64,000 registered job seekers, mostly office workers and metal workers, and only 5000 registered vacancies. Thus the ratio of persons seeking jobs to vacancies is nearly 13:1. The percentage of workers in technical jobs is low. Analysis of requests from Government agencies indicate a high demand for technicians, especially those skilled as general mechanics, auto mechanics, industrial economists, statisticians and accountants. The demand for mid-level technicians is 75 percent above supply. If vocational training were provided, some railway employees could qualify for employment as technicians.

The formal private sector workforce is not equally distributed. Maputo city and province together account for 58% of formal private sector employment, while the two most populous provinces, Zambezia and Nampula have 7 and 8% each. This pattern is undoubtedly due in part to the war, as security is better in the Maputo region. A majority of the railway workers who will become redundant--those from CFM/S--are also in the Maputo area. For security reasons, CFM officials would like for the redundant employees to find employment away from the railway infra-structure.

APPENDIX 3

Strategic Planning for Redeployment of Rail Workers

Current thinking in CFM is that the work force of all parts of CFM will be reduced in size, with the initial reduction and probably largest reduction occurring in CFM/S and the three short lines. In addition to the large-scale reduction of CFM/S and the employees of the three short lines, some employees of CFM/C and CFM/N will also lose their jobs. CFM managers estimate that a total of at least 15,000 of a total of 34,000 employees will be declared excess. World Bank and donor representatives have recommended that all employees of CFM/S be released and that the firm that takes over management of CFM/S would rehire employees it deems best qualified. CFM managers, however, would prefer to make personnel reductions prior to turning over management of CFM/S to a private firm or firms. Either way, the large number of excess employees makes careful strategic planning of the redeployment imperative.

Any plan for redeployment should identify or create a unit for managing the process. This unit could be linked to CFM or perhaps to the Ministry of Labor. Second, the plan should identify the tasks that should be included in the strategic plan. The context for developing such a strategic plan and some possible strategies for redeploying workers are described herein.

We note that CFM and the donors have not yet agreed on how to carry out a reduction in the CFM workforce. Some CFM officials would prefer that their organization carry out the screening and redeployment and then turn a reduced workforce over to the private lessee or contractor. World Bank specialists, however, may propose that CFM release all employees of the Maputo Corridor line and then let the leasing or contracting firm hire back those employees they need. If the prospective leasing/management firm is not allowed this freedom of choice in selecting the number and qualifications of its employees, based upon operating needs, it will be difficult to reach agreement on the terms for the firm's participation. A leasing or management firm will be much more willing to risk its own capital and/or work for a lower fee if it has full freedom to make personnel and operating decisions.

The strategic plan will need to identify ways to collect needed information about the present workforce. What are their educational and skill levels and what are their preferences? It will also need to research the contractual obligations of the government, and cost out the options for people at various levels. Since compensation includes other items besides salary, it is necessary to know what benefits workers receive from their employment with the rail line, and how they value these.

CFM has conducted some preliminary research on its personnel and has identified which general skill and age categories will probably be most affected by redeployment. Of three age groups--18-30, 31-45, and 46-60--CFM only anticipates retaining a high percentage of employees in the 18-30 and 46-60 age categories. This is because most in the younger group are recent hires who were selected for their technical competence. Similarly, the older 46-60 age group has a relatively high proportion of experienced and efficient railway personnel, many of whom were

with the railway prior to Independence. The 31-45 age group, however, which constitutes about 42% of the work force, is considered to have the highest proportion of unqualified workers, and will therefore be most affected by the planned deployment.

Unemployment is already a political and social problem in Mozambique. Although the 16,000 Mozambican workers who were sent home from East Germany after German unification two years ago cannot blame the Government for the loss of their jobs, the shortage of jobs for them has resulted in some political pressure, partly because no plan was developed for helping them find work. A recent belated effort to carry out a survey of their qualifications resulted in riots when the survey created unrealistic expectations of assistance. The excess railway workers pose a potential political problem inasmuch as they have been public employees and will expect assistance. The problems experienced with the returnees from East Germany underlines the importance of having an action plan and of communicating clearly with discharged employees. Officials are aware of the potential for political problems or even sabotage of railway infrastructure if the discharge of railway employees is not handled carefully.

Lessons learned by those involved in assisting the East German returnees, the ex-miners who lost their jobs in South Africa due to economic sanctions, and demobilized military personnel could be helpful in developing a plan for dealing with redundant railway employees. First, false expectations should not be created. This will require clear and firm communication concerning what assistance the Government/CFM can and cannot provide. Care must also be taken to ensure that assistance in the employees' transition to alternative employment is effective and that artificial bottlenecks are not allowed to develop.

The Government and some non-governmental agencies already provide assistance to unemployed workers. For example, assistance programs designed to provide credit to help ex-miners and military become entrepreneurs already exist. Officials involved in these efforts have gained experience that will be helpful in structuring and implementing a redeployment program for railway employees. For example, the team was told that the existing programs have not been as effective as they might have been due to the slowness of loan processing procedures used by banks. Persons associated with current efforts to help establish small enterprises have stated that special streamlined procedures and a willingness to waive normal banking procedures in considering loans will be necessary. The redeployment program should make maximum use of existing government and NGO agencies in providing assistance. Consideration might be given to strengthening the capacities of some of these existing entities.

The redeployment plan should seek to identify alternative employment opportunities in sectors where donors are already providing large-scale assistance, such as the World Bank's "First Roads and Coastal Shipping Project," the ILO's "Feeder Road Project" and the "Priority District" program of the Government of Mozambique.

The Project Design Team and those implementing the redeployment project will need to consult frequently with other donors as well as the Government and look for opportunities to coordinate their efforts and serve their mutual development objectives. The strategic plan will

need to identify a redeployment strategy that fits the following criteria: fairness, political sensitivity, consistency with the Government's overall development objectives, including economic liberalization, administrative simplicity, and support for decentralization. Since no single option is likely to be appropriate for all displaced rail workers, the strategic plan should identify a package of several options. The reconnaissance team offers the following options as strategies to be considered in assisting redundant railway workers make the transition to new employment (these are summarized in the matrix that appears on page 4 of this report).

A. Severance Pay

Several ways of handling severance payments could be used. The management unit will need to research the relevant labor law, and cost out various strategies for providing payments. One choice is to simply pay discharged workers a monthly salary for a certain period, perhaps two years, and place the responsibility on them to find alternative work. This strategy would be the simplest to administer and would not create undue expectations about what the government could do. On the other hand, it would move large numbers of people into the labor market all at once, which could be destabilizing. It also would not fit with the culture of CFM, which emphasizes the need for the firm to provide for and assist the workers.

A second way to handle severance pay could be to give workers their pay in a lump sum. They could use it as equity in connection with a credit program enabling them to invest in equipment or start a small business or farming enterprise. This choice would be more complex administratively than relying on severance pay alone. Those managing the system would need to determine eligibility for a lump sum payment. Options include satisfying requirements to get a loan, completing some specified training in business practices, or demonstrating how they would invest the money.

A third approach to severance pay would be to convert at least part of the money to vouchers, which recipients could then use to purchase technical training, assistance in getting a small loan, or as an investment in some income-earning opportunity. Such a system could be management intensive and would have administrative costs.

B. Agricultural Resettlement

Some of the persons interviewed suggested that some of the redundant workers would welcome the opportunity to become farmers. Successful application of this option will depend in part on whether the Government and RENAMO succeed in restoring peace in rural areas. Employment of excess railway workers in agriculture would be consistent with the development and decentralization objectives of the government. Any resettlement would have to be voluntary. Some ex-railway workers would not welcome or be suited for farming. Others may still have links with the countryside and would find it very appealing, particularly if the Government could offer a land use grant as enticement to go into farming. Severance pay in the form of vouchers could be used to invest in farming equipment. The managing unit should review CFM's land

holdings throughout the country to see if restructuring of the rail system would make some land redundant and available for lease to workers.

This option might be coordinated with the Government's Priority Districts Program, which aims at developing infrastructure, such as schools and health facilities, in rural areas to attract resettlement and expansion of agriculture. In assessing the feasibility of this option, the redeployment project might draw on the experience of existing programs. A NORAD-ILO-funded project is developing irrigation associations to help ex-miners establish farms in the area of Moatze. (This program is administered by the GPE under the Ministry of Labor.) Another program, also administered by GPE, encourages individuals to form agricultural associations, and preliminary reports are very positive. One suggestion was that the Government revive and privatize some sisal plantations that were previously nationalized and converted to state farms, but which have since been abandoned. This option would also have to be closely coordinated with the USAID-funded work on land tenure and ownership presently being undertaken by the University of Wisconsin's Land Tenure Center.

Some useful warnings are provided by a recent study by the Center for African Studies, 1991, concerning demobilization of resistance fighters after independence. Many returning soldiers were channelled to specially created Production Centers in rural areas. Lack of planning and technical assistance meant that not everyone who went there could be absorbed and many of these people had to remain on the government payroll. This same program provided some credit to returning soldiers, but because the credit scheme was poorly run and communication with the soldiers was inadequate, the available credit tended to go to those with influence who lived in urban areas.

C. Loans for Micro/Small Enterprises

A third strategy would encourage and enable workers to become entrepreneurs in micro or small enterprises. While this strategy is appealing in terms of its development goals, it would also be difficult to administer and probably would be appropriate for only a small percentage of redundant workers. Severance pay could be used as equity for obtaining loans. However, this option would also require preliminary training in business practices as few rail workers now have any knowledge of how to start and operate a business. Reportedly, the capacity for offering business training is currently saturated and additional trainers would have to be brought in.

With reference to special credit programs to enable ex-railway employees to establish enterprises, individually or in association with others, most observers concurred that while applicants should pay the real rate of interest, credit applications should be handled expeditiously (banks routinely take 4 to 5 months at present) and, in view of the social/political objectives of this program, credit should be readily granted. The amount of equity capital required should be reduced from its present level of 30% to about 10%. This would enable employees to use lump sum severance pay as the basis for getting started in a small business or farming enterprise. Also, persons with experience assisting micro and small businesses said that most applicants would need assistance in understanding the application forms and such matters as interest rates and

inflation. They also suggested that traditional bank criteria to determine eligibility for loans were either not suitable or relevant. More emphasis should be put on the character, energy and industry of the applicant than upon previous credit records (most applicants have none). One official commented that his organization's experience was that wealthier, more sophisticated clients, were frequently the slowest payers (partly because they understand how inflation works).

Existing programs that help micro and small businesses could provide assistance. Examples are the Urban Micro-Enterprise Support Program run by the Office of Employment Promotion (GPE -- Gabinete de Promocao de Emprego) in the Ministry of Labor and funded by the World Bank's "Urban Rehabilitation and Employment Generation Project." An evaluation of this project indicates some important lessons learned. Since the normal procedures for getting loans are complex, the GPE has acted as an intermediary, helping clients apply for loans, and relying on the Bank to complete the processing and administration of loans. GPE officials recommended that if one were starting fresh, that a separate unit be established to process loans because banks do not have the interest or capacity to deal with micro-investors. GPE also recommends that repayments go into a revolving fund to support local cost needs of the small enterprises and loans to new applicants rather than back to the Treasury as is now required.

A program for demobilized army personnel has been experimenting with training courses and helping people qualify for loans. Funded by the Swiss, it offers a sequence of three courses on running small businesses. Those who complete all of them can qualify for a \$5000 loan based on a business plan they develop.

A Government unit designed specifically to assist micro and small businesses is the National Institute for the Development of Local Industry (IDIL) in the Ministry of Industry and Energy. IDIL currently receives some donor support. A recent evaluation found that it has not been able to realize its full potential for stimulating small businesses because it receives no financial support for administrative costs from the Government. As a result, staff spend much time earning fees by doing feasibility studies for potential clients. This causes IDIL staff to gravitate toward medium-size businesses rather than small or micro-entrepreneurs. IDIL, however, has a positive record in offering an ILO training programme called "Improving Your Business," and will soon introduce a second course called, "Starting Your Business." IDIL, with some strengthening, probably has the potential to assist rail workers in developing small businesses.

Alternatively, CFM could develop a list of several organizations capable of conducting feasibility studies for rail workers who want to open a small business. CFM could stipulate that it would pay a certain fee for carrying out a feasibility study and encourage rail workers to contract with any one of the units on the list.

D. Road labor

A fourth strategy directs railway workers to road projects, an option that is appropriate for the skill level of many current railway employees. The ILO Feeder Road building project, run by UNDP is labor intensive and is a potential source of employment. Mozambique has 30,000

km of classified roads, of which 80 percent need reconditioning and in some cases, reconstruction. The ILO project is forming district brigades of 200-220 workers each to do this work. About 10 brigades have already been formed and another 12 will be formed within the next year. Their long-range plan is to rehabilitate 2,400 km of roads over the next five years. The project will also contract with local residents to maintain the roads, providing them with hoes, rakes and other conventional hand tools. World Food Program assistance is part of this project. Workers receive food at subsidized prices, saving them time that would otherwise be spent looking for food.

The World Bank also has a large roads project called "First Roads and Coastal Shipping Project." USAID has been requested to participate by providing funds to pay for a person to be in charge of the project. Possibly an arrangement could be made for excess railway employees to shift to roadbuilding work. This project, however, needs people with specific skills such as mechanics, heavy equipment operators, carpenters and masons and is less appropriate for ex-rail way workers. Therefore, to qualify some training might be necessary.

E. Auxiliary Enterprises

A fifth strategy develops new enterprises that would hire qualified rail workers. This strategy could be combined with other CFM actions. For example, when the Xai-Xai, Quelimane and Inhambane lines are discontinued, it may be appropriate to work with provincial officials to assist local entrepreneurs or the state to develop trucking firms to handle traffic now carried by rail. Similar companies could be established to upgrade or build roads to replace the railways. Also such enterprises could be organized by groups or associations of rail employees who pool their severance pay and use it to leverage a loan to purchase equipment.

F. Vocational Training

Another strategy encourages workers to seek vocational training. Severance payments could be used partly to provide them living expenses while they attend training courses. Nearly all of those interviewed stressed the country's need for people with skills that could be used in construction and repair work. Mechanics, carpenters, electricians, masons are all in extremely short supply.

There are some limits to this option, however. CFM estimates that a small percentage would qualify for such training. In addition, the opportunities for such training are limited and available training is poorly linked to the job market. A USAID study of the Education Sector (1992) describes a loose network of vocational training centers (CPFs) run by Ministries, parastatals, private firms and NGOs. They are coordinated by the National Directory of Vocational Training (DIFAP) formally under the Ministry of Labor, but still linked to the Ministry of Education. DIFAP's role is very minimal, however, and it has little capacity for disbursing or monitoring funds to develop these centers. The CPFs tend to focus on industrial trades such as mechanics although a few have begun to focus on commercial and agricultural skills. The study concludes that the CPFs provide uneven training. One observer noted that more

openings existed in technical schools located in the central and northern sections of the country than in the south. Another suggested that CFM could perhaps use facilities on discontinued lines to establish special vocational schools for railway workers.

G. Public Works Projects

An alternative strategy would involve the Government launching public works projects that would employ ex-railway workers, demobilized military personnel and other unemployed persons. Thousands of schools, public buildings and other infrastructure destroyed during the war could be rebuilt through this program. This activity would be coordinated with the Priority Districts program. This option would require additional donor project funding.