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SPEED PROJECT QUARTERLY REPORT #2

JANUARY – MARCH 2011

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Background

The SPEED project is a four-year USAID-funded trade and investment project. SPEED supports and expands ongoing efforts to strengthen Mozambique's economic, legal, and governance systems in order to improve the environment for doing business. SPEED's goal is to have more companies doing more business, resulting in increased trade and investment and a stronger competitive position for Mozambican firms, thus creating local opportunities for job and income growth.

The project focuses not only on reform of trade and investment policies, but attention also is directed to the policy implementation process and on monitoring implementation of reforms. The SPEED team delivers training and technical assistance that builds the capacity of business associations and corresponding government institutions and catalyzes trade and investment in Mozambique. SPEED operates a grants fund to complement the training and technical assistance activities with associations and government.

The SPEED approach places a high premium on the use of Mozambican expertise to achieve sustainable results. The project is being implemented by DAI and Nathan Associates with the assistance of local contractors Cimpogest and SAL & Caldeira.

Technical Activities - Completed or Active Phase

Doing Business – Quick Wins: The aim of this work was to draw up a list of policy reform recommendations with a high chance of being implemented by the Government of Mozambique (GoM) in the short and medium terms, which will enable Mozambique to quickly improve its business environment and improve its Doing Business (DB) ranking in the next DB report. The main partner was the Ministry of Industry and Commerce (MIC) whose Minister, H.E. Armando Inroga, directly approached the SPEED project to provide technical support to the GoM in developing a strategy to improve Mozambique's Doing Business Ranking in the short term.

SPEED undertook an exhaustive bibliography review to capture the indicators with potential for improving in short term, the overall framework of the reforms already proposed and not implemented, the ongoing reforms with potential to impact on the DB rankings and the identification of key players in designing and implementing reforms. In addition, various national and international stakeholders were consulted such as: MIC (C. Cuambe) Sal e Caldeira (J. Caldeira), Intertek (A. da Silva), World Bank (M. Bouri and K. Jansen), USAID (N. Guilaze), DAI (L. Goldmark), SPEED (A. Franco), H. Uetele, and the Private Sector Working Group (PSWG). Finally, simulation of the impact on DR rank was performed using the latest simulator

available in <http://www.doingbusiness.org/reforms/reform-simulator> DB 2011. The simulator estimated the impact(s) of reform(s) on partial and overall rankings, individually and combined.

The report identifies potential reforms in the areas of "starting a business", "obtaining building permits", "trading across borders" and "closing a business". Fourteen reforms and four requests for correction to Mozambique's DB evaluation were proposed. If fully implemented, their impact on the country's DB ranking will be an improvement of 54 positions, rising from the current 126th position to 72nd position, a variation of 42.9%. The most significant contribution to improvement is the impact from implementation of reforms in the areas of "obtaining building permits" and "closing a business".

Doing Business – Blueprint for Success: In addition to the above work, SPEED updated the report entitled "Doing Business and Mozambique - a Blueprint for Success", a paper originally requested by MIC and USAID in late 2009 and completed in March 2010. The aim of this work is to assist Mozambique with the formidable task of moving up significantly in the Doing Business rankings. It identifies a suite of reforms that could be implemented by the Mozambican government, with the assistance of municipal authorities, the private sector and donors over the next five years.

The update is essentially based on: (i) findings of the "Quick Wins" work mentioned above; (ii) verification of the validity of recent policy reforms with respect to the business environment; (iii) and results of the 2011 DB report. The updated paper re-simulated the impact of proposed policy reforms using the current version (2011). As a result, the updated report highlights key reforms that can have a considerable impact in the Mozambique DB ranking in medium term.

Forex surrender: Work on Foreign Exchange during this quarter concentrated on implementation issues related to the regulation ("*Regulamento*") of the 2009 Exchange Law. A Policy Note was prepared following up discussions with the central bank, Banco de Moçambique, commercial banks and companies – this Note was published on 1 April 2011. Implementation issues are going to concentrate on enforcing and monitoring mainly two determinants of the regulation: (i) 50 percent convertibility of export earnings; (ii) within 90 days. No major implementation issues are expected and most of the burden will be following up with the commercial banks which will have to adjust their IT systems to ensure efficient and timely control of the law and its regulation. The regulation should be soon published and its enforcement is expected to begin during the second semester of 2011. Work on exchange policy is considered done but the SPEED project will continue monitoring developments and will respond to demands if they arise.

Resource mobilization and tax policy: SPEED participated in discussions on resource mobilization and tax policy. These included the African Economic Research Consortium Maputo Workshop as well a workshop provided by the Ministry of Planning and Development. With Mozambique's growing mineral and petroleum sectors as well as the need to correct budget deficits, current policy discussions are increasingly emphasizing reduction of fiscal/tax incentives, higher levels of resource mobilization - in particular from non-renewable sectors and mega-projects - and these sectors' contributions to growth and poverty reduction. New petroleum and mineral resources tax laws were passed in 2007 as well as the revision of the

Code of Tax Benefits. The regulations to the petroleum and mineral resources tax laws are still pending. SPEED will explore possible support to the regulations preparation and implementation.

SPEED is also assisting on growth discussions and sharing information on sovereign and stability funds, possible application to Mozambique, and experiences from other countries. This is a critical policy decision that the government and other stakeholders are having now in Mozambique and possibly demands will be made for SPEED support. The Project will follow developments.

Mozaico de Indigo – Strategic Review: SPEED conducted a Strategic Review of Mozaico de Indigo (Mdi) during the quarter, a public company formed to mobilize government land resources for tourism sector development and to promote establishment of tourism development companies in Mozambique's tourism development zones. SPEED originally was approached to assist Mdi prepare its business plan, but due to many conceptual questions surrounding Mdi, SPEED's SOW for this activity focused first on addressing issues of Mdi's mandate, governance and funding.

The review concluded that Mdi lacked clarity of its core function and specific mission, owing in part to the company's overly broad statutes. It advised government, shareholders, the board and management to start with a narrower focus and to address:

- Clarifying the mission and governance structure of Mdi;
- Introducing into the Board, real private sector entrepreneurs who possess requisite subject matter knowledge and access to resources that can contribute to Mdi's mission.
- Proper capitalization of the Company;
- Assuring clear, clean rights of use to land and clear guidelines on processes for investing in tourism zones and to conduct pilots to get an integrated and catalytic tourism development project off the ground;
- Building expertise, capacity and the systems to execute the primary core functions of Mdi.

Mdi could then expand, as appropriate, from a solid base into ancillary functions, but Mdi must first show some results if it is ever to gain stakeholder and market confidence.

CTA grant reconciliation: The Confederation of Business Associations of Mozambique (CTA) has been one of USAID's key private sector counterparts in improving the environment for doing business in Mozambique. Working closely with CTA is mentioned explicitly in SPEED's SOW and would be extremely important for accomplishing the SPEED project's objectives. However, arising from un-corrected accounting errors made years earlier and subsequent poor responsiveness and mis-communications in addressing these errors, CTA had been issued a bill of collection for funds from a previous USAID grant. SPEED would not be able to conduct activities with CTA until the bill of collection was resolved.

To assist in the resolution, SPEED collected historical documentation on the matter which were reviewed by the project's home office-based Operations Specialist who then met several times

with CTA. With input, too, from DAI's Director of Internal Audit and Director of Contracts, recommendations were prepared for reconciling the previous USAID-CTA grants. SPEED's Administration and Finance Director then worked with CTA's Finance Director in preparing accounting submissions to USAID. These led to resolution of the bill of collection permitting SPEED to begin planning activities with CTA.

Programming association support: Component 3 in the original SPEED contract focused on improving policy advocacy through support to private sector associations. When funding for the SPEED project was reduced, Component 3 was scaled back and staggered to start later during project implementation. During the quarter, SPEED engaged an expert in Organizational Management with extensive experience with Mozambican private sector associations to advise the project in programming association support.

After compiling an inventory of relevant private sector associations, using criteria of institutional viability, a short list of associations for prospective support was developed and types of support were identified. Next, institutional needs will be assessed and programs of assistance developed for select associations.

SPEED will also award grants to associations for policy relevant activities through competitive grants program. The Grants Manual for this program was drafted during the quarter and will be finalized and submitted to USAID shortly.

Inventory of TIP Policy Recommendations: Prior to the SPEED project, USAID funded the Trade and Investment Project (TIP) which also focused on improving trade and investment policies in Mozambique. A number of analytical studies were conducted under TIP, each concluding with a set of policy recommendations for improving the country's policy environment. A number of these recommendations resulted in policy reforms, but many were not implemented and are still relevant for Mozambique today. During the quarter SPEED began preparing an inventory of these TIP policy recommendations. Once complete, SPEED will review and prioritize the recommendations and together with private sector partners identify those to pursue actively under the SPEED project.

PSWG coordination: SPEED is supporting coordination of the Private Sector Working Group, which is comprised of donors active in private sector issues, the Ministry of Industry and Trade and CTA. The main coordination activities during the quarter were:

- Preparation of the February meeting;
- Preparation of a meeting with Minister of the Industry and Commerce previously scheduled for March 21st;
- Contribution to the donor project mapping on business environment, as a member of the task force.
- Comments on establishment of an Integrated Framework National Implementation Unit.

Business environment summary for the G19: SPEED prepared a business environment summary for the G19, the group of direct budget support donors to which the U.S. Government is an observer. The business environment survey is part of the annual revision process as

specified in the G19 MOU with the Government of Mozambique. The business environment survey included a:

- Literature review to identify reforms implemented in 2010 with an impact on the business environment; assessment of their impact in the Doing Business rankings; assessment of implementation of the Governance Action Plan (GAP) on business environment related indicators; and identification of other relevant reforms.
- Assessment of GoM performance on the Performance Assessment Framework (PAF) indicators on “ease of trading across borders” and “ease of getting business licenses.
- Assessment of GoM performance on the GAP indicators on “implementation of the Business Environment Strategy, including the consolidation of the One Stop Shops,” “introduction of the e-tax system” and the “implementation of the matrixes agreed with the private sector associations.”

SPEED PMP and USAID/ATB PMP: SPEED’s draft PMP, which was prepared during the first quarter was finalized and submitted to USAID during this quarter. Once the PMP is approved, SPEED will prepare detailed PMP indicator sheets and begin gathering data. SPEED also provided input in preparation of the PMP for USAID’s Agriculture, Trade and Business Office with the objective of making the two consistent and of using USAID/Mozambique’s M&E Resources effectively across the portfolio. It was recommended that each project build a causal model around a common theme for the ATB office. Specific comments were also provided on selected agricultural and tourism indicators.

SPEED Workplan: SPEED’s Workplan, which was submitted to USAID during the first quarter, was approved. An updated workplan was prepared and is included as an attachment to this report.

Technical Activities - Planning Phase

Estimating benefits of policy reform: The objective of this assignment is to develop an analytical tool for estimating the benefits in monetary terms of policy reforms that the SPEED project catalyzes and facilitates to reduce, eliminate, or prevent obstacles to trade and investment in the Mozambique economy. The tool will then be used by the SPEED field team or by stakeholders involved with reforms that are supported by SPEED to assess the monetized benefits of such reforms. The results can then be compared to project costs to obtain a value for dollars of benefit per dollar of project expenditures.

Review of business environment strategy: SPEED prepared Terms of Reference and identified consultants to work on reviewing and updating Mozambique’s strategy for improving the business enabling environment. In a meeting early in the quarter, the minister of Ministry of Industry and Trade and requested that the SPEED project include this review in its upcoming activities. SPEED intends to bring experts from Georgia and Rwanda, two countries which have made enormous business environment improvements, to share their experiences with Mozambique and recommend changes to Mozambique’s strategy. The work will include

evaluating impact of the strategy, updating the matrix of future activities, reviewing monitoring and evaluation systems and providing recommendations on inter-ministerial coordination.

Review of insolvency law: The work mentioned above on Doing Business – Quick Wins, identified the Closing a Business indicator as one Mozambique could improve on quickly. Improvement would require passage of the proposed insolvency law which was drafted in 2007/8 but is still before Parliament. Given the time that has gone by SPEED proposes to evaluate the merits of the law independently and revive interest in the law via an awareness building workshop held directly with Parliament members. A consultant was identified to conduct an independent review of the merits of the proposed law, based on international standards, best practice, and experience. A scope of work was drafted, and the proposed assignment was submitted to USAID for approval.

Participatory process for legislation: The policy process in Mozambique is anything but clear to most stakeholders. Policies and regulations are developed by the responsible ministries and often (though not always) circulated for review by other ministries or public agencies that may have an interest in the matter. Often times, many associations and citizens in Mozambique do not know how to become involved in the policy development process. SPEED is developing a TOR to build an understanding of the policy process in Mozambique help associations and citizens engage more fully in the policy reform process.

In a second TOR, SPEED will work on creating a more transparent and participatory system for policy development. SPEED will work with local partners and government to introduce a formal mandate for public notice and public comment. This will assist in fostering an active dialogue on the policy process and provide technical inputs to our partner organizations.

Partner Support - Completed or Active Phase

IPEX - Conselho Consultive: Mozambique's Export Promotion Institute, part of the Ministry of Industry and Commerce requested SPEED support for conducting a Consultative Council, an annual event to identify priorities for the institution and plan IPEX activities for the year. SPEED assistance consisted of meeting expenses for facility at which the event was held, in Bilene, to the amount of [REDACTED]

Graduate student travel support – MIC: The Ministry of Science and Technology had obtained a scholarship in Brazil for advanced study towards a Masters degree for a staff member of the Ministry of Industry and Trade. Given the last minute timing of award of the scholarship, the ministry did not have travel funds immediately available for the student to begin his studies and requested support from the SPEED project. SPEED assistance for travel amounted to [REDACTED]

Partner Support – Planning Phase

Institute of Directors - Code of Corporate Governance: The Mozambican Institute of Directors (IOD) is in the process developing a Code of Corporate Governance (CCG) for companies in

Mozambique. The Code will be adopted by all IOD members and in the future, all prospective members will have to adopt the Code before joining IOD. Currently, IOD has developed a draft CCG based largely on Brazil and South Africa experiences and it has initiated a consultation process of members in Maputo. IOD requested SPEED to provide comments on the Code and to provide financial support for a consultation process outside Maputo.

IOD is also conducting policy discussions on current economic issues through working breakfasts. These discussions include some 30-40 company CEOs and technical experts on the discussion issue. SPEED has participated in one of these working breakfasts and will be the technical presenter during the April meeting.

AGOA seminar with CEMO: The African Growth and Opportunities Act has been in existence since 2000 and an AGOA summit is planned for early June in Lusaka, Zambia. The Center for Mozambican and International Studies (CEMO) proposed to hold a seminar prior to the AGOA summit examining Mozambique's AGOA experiences and the constraints facing Mozambican exporters hoping to export under AGOA. CEMO requested SPEED support for the seminar and SPEED is working with CEMO and the Southern Africa Trade Hub AGOA advisor in planning the seminar which will be held next quarter.

Promotion of business associations conference – CTA: The Central Region Antenna of CTA is planning a conference for promoting business associations that will be held in Dondo, Sofala province. The conference will cover the role of associations in mobilizing and organizing the private sector, in representing the members' interests in public-private dialogues that address business environment issues, and in providing services to members. The Central Region Antenna requested SPEED to co-fund the conference along with GIZ. The conference will be held next quarter and will provide a good venue to publicize SPEED activities and competitive grant fund.

SPEED Project Administration

Office opening: Construction was completed in configuring SPEED offices in early January and soon thereafter the offices passed inspection by the local authorities and opened. SPEED IT equipment was purchased in the U.S. and will be shipped to Mozambique when the SPEED registration is complete.

Registration: SPEED finally completed registration in February 2011, a process that ended up taking four months. SPEED next proceeded with tax registration and filing for initiation activities, steps which are supposed to take a matter of days but which in fact took almost two months. Now, what remains is obtaining a Work Permit for SPEED's COP, followed by a Work Visa and then application for a Resident Permit.

Amendment: SPEED is still awaiting a contract amendment reflecting the reduced funding for the project. A revised SOW and budget for the amendment were submitted to USAID in November 2010.