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SPEED PROJECT QUARTERLY REPORT #5

JANUARY – MARCH 2012

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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 SAL & Caldeira.

SPEED is a four year \$19.4 million project which started in September 2010. Funding obligations for the project totaled \$ 5.1 million in March 2012.

TECHNICAL ACTIVITIES

Business Environment, Trade and Investment

Public/Private Partnership regulations: In compliance with Article 40 of the PPP Law (*Lei 15/2011 de 15 de Agosto – Lei das PPPs, Projectos de Grande Dimensão e Concessões Empresariais*), in January 2012 the Ministry of Finance drafted and submitted to the private sector (among other stakeholders) for comment the regulations for the abovementioned law. After the comment period the regulations will be submitted to the Council of Ministers for approval. SPEED prepared a Policy Note on the regulations and funded the services of SAL & Caldeira to carry on a consultation with private sector and draft a counter-proposal.

SPEED Policy Note 2012/001: Overall, SPEED found that the regulation contributes to harmonization of the current regulatory framework and address the some existing gaps. However, some ambiguities, inaccuracies, misrepresentations and omissions were

identified. For example, the role of PPP Unit was weak and diluted, public projects were emphasized and private projects ignored, the promotion and launch stage of investments were omitted and the process for terminations was vague. Recommendations for revision included the need to: (i) to differentiate the treatment of enterprises according to their nature (PPP, CEO and CE), (ii) simplify the proposed institutional framework, and (iii) assign clear responsibilities for the institutions involved.

Counter-proposed Regulation: Taking into account the complexity of the draft regulation, the urgency to have it approved, and the nonconsensual aspects contained in the approved PPP law, CTA requested SPEED to fund a consultancy to help the private sector come up with a counter proposal. Working with SAL & Caldeira, a counter proposal was developed and negotiated with the Ministry of Finance. Feedback is still being awaited from the ministry.

Africa Regional Doing Business conference: SPEED joined the Mozambican participants attending the conference on “Doing Business Reform in Africa – A Peer to Peer Learning Experience”. The event, organized by the Botswana Ministry of Trade and Industry, World Bank Group and RMCE, took place in Gaborone, Botswana, from 28 to 30 March 2012 with the aim to enable Eastern and Southern African region’s leading and willing reforming countries to share their experience and learn ‘how to do it’ from peers on improving the business climate in their respective countries.

The Mozambican team had participants from five organizations: CTA, IFC, MIC, GIZ and SPEED. Four Doing Business indicators were identified as the most challenging in the region: closing a business, enforcing contracts, getting credit and registering property and the conference enabled peer to peer learning on these indicators between Mozambique and other countries.

The Conference in Botswana was the 3rd on this subject but the first that Mozambique attended. Despite this the Mozambican delegation was awarded as the most active and energetic delegation. Mozambique is considering a candidature for the 5th conference to be held in 2015.

Performance Assessment Framework (PAF): SPEED provides ongoing assistance to the Performance Assessment Framework of the Programmatic Aid Partners (G-19). During the quarter, SPEED helped draft an aide memoire chapter on the implementation of reforms for improving the business environment. The Aid Memoire is the final evaluation report conducted jointly by the Government of Mozambique and the Programmatic Aid Partners (G-19) under the annual review process. The chapter highlighted that: (i) improving the business climate to stimulate job creation continues to be critical as evidenced by the results of Doing Business; (ii) a quick implementation of reforms with relevance and high impact is an urgent issue; (iii) a strong commitment and follow-up to the highest political level and administration of the state is important to ensure that any success is achieved; (iv) a leadership and revitalization of the Interministerial Group Removing Barriers (GIRB) Economic Council is fundamental; (v) defining annual priorities for reforms (like the Emergency Plan for Improvement of Business Environment) will accelerate implementation of reforms. Further, it was noted that the challenges to improving the implementation of the Land Law, with respect to obtaining the Certificate of Land Use (DUAT), are still too bureaucratic and slow. The overall PAF

assessment indicates that for the employment creation component only one out of three targets was achieved.

CTA - Policy Analyst and Executive Director: SPEED is providing capacity support to CTA in the form of recruiting two staff members for the organization - a Policy Analyst and the Executive Director. With this additional staff, CTA will be more effective in engaging government in policy dialogue on behalf of the private sector.

The Policy Analyst, Hipólito Hamela, will be in charge of: (i) conducting analysis or studies to assess the real impact of some problems identified under the public and private dialogue framework on the private sector, before the proposed solutions are implemented; (ii) conducting studies to identify the impacts of those solutions on the economy before they are implemented; (iii) designing the TOR's for such studies and identify the suitable consultants; (iv) undertaking the dialogue and pushing for the reforms included on the matrixes; (v) developing the arguments that sustain the need for change and to deal with the counterparts from the public sector.

The Executive Director, Gabriel Machado, was selected in a competitive process by an evaluation team comprised of CTA, SPEED and USAID. The Executive Director's main tasks include: (i) to ensure organizational development programs and policies for improving the business environment; (ii) to assist the Board and to disseminate and implement the decisions of their organs; (iii) to ensure the sustainable management of human resources, material and financial organization; (iv) to develop partnerships and fundraising activities; (v) to ensure and project the good image of the organization; (vi) to develop actions to attract new members.

TPM - capacity building assistance in human resources: SPEED developed the human resources management system for the Maputo public transport system as a follow up of the analytical work conducted, in 2011 on government policy-measures. The measures, known as "*medidas*", included a subsidy on transport for workers, students and the elderly. The work comprised: (i) diagnosis of the current situation of human resource management to identify the main strengths and weaknesses, constraints and opportunities; (ii) development of a new career model that includes a staff development strategy; (iii) definition, by regulation, of basic rules for the high level staff; (iv) and the salary matrix under the formulation of the new salary policy. The final report was submit to and approved by the board of TPM. It is available at the SPEED website.

Public finance management and macro programming: The Ministry of Finance has the responsibility to prepare quarterly budget execution reports. Every department in Finance is quite good in producing their individual performance reports, however, skills to aggregate the different reports are lacking. SPEED support targeted preparation of the aggregate January-September 2011 and the January-December 2011 reports. The January-December 2011 budget performance report was used by the government in their discussions with the IMF, international partners and parliament.

During preparation of these reports some lessons were learned. First, the Ministry of Finance needs to establish a technical group composed of 3-4 experts to be in charge of gathering the data produced by different departments and aggregating them into a comprehensive performance

report. This group could possibly be part of the research department/directorate of the ministry, or could also be part of the Treasury. This technical group would have as main objective:

- Gather quarterly performance data from the different directorates/departments.
- Build an Excel file and a databank which will incorporate and demonstrate the budget performance reports.
- Find inconsistencies among the data and ensure that these are all addressed before the reports are finalized and presented.
- Prepare quarterly budget performance reports.
- Prepare findings and recommendations on budget performance and reporting. These recommendations should be two-pronged:
 - Improving quality of data and information and resolving data inconsistencies in order to ensure good quality of the data and reports.
 - Recommendations towards improving budget performance where there are risks of under and over-spending (transfers of funds among accounts, for example, both to ensure the budget is executed as the law determines but also to improve increased efficiency, effectiveness, transparency and accountability.

The second issue is the need to increase the frequency of budget reports. Currently budget reports are quarterly prepared. The Ministry of Finance needs to have monthly budget reports to ensure a current and effective response to budget execution. Quarterly reports are prepared at least 3-4 weeks after the end of the quarter which implies that corrective measures could be outdated or not as effective because of timing and problems might have grown out of proportion.

The third important issue is macro programming- the needed connection of budget reports with macroeconomics. Budget reports cover only government spending, which while important - representing about a third of total expenditure in the country – is only part of the picture. Having the macro picture is quite important for policy design and decision. A technical group to run a simple model covering the equality $Y = C + I + X - M$ is quite critical. This group would have to be multi-sectorial (with at least Finance, Statistics, Planning, and Central Bank). To improve the efficiency and efficacy of the budget policy and recommendations it is quite critical that an overview of the macro conditions exists.

SPEED, responding to a request from Finance, is working towards supporting the above activities. The budget-related activities will entail intensive technical and capacity building support for 2-3 months followed by a few hours a month to ensure that budget reporting is prepared on a timely manner and flawless. Macro programming will entail establishing a macro technical group, enhancing their macro capabilities and building an Excel model. This activity also would require intensive support in the first 2-3 months and with a follow up on a monthly basis.

Support to Tiri Pamodzi: Tiri Pamodzi is a recently created foundation targeting private sector development, women empowerment in business, youth entrepreneurship and the HIV/AIDS impact on business. SPEED support to Tiri Pamodzi is in two components. The first component is in the form of technical assistance aimed at helping Tiri Pamodzi prepare its business plan as well as a resources mobilization plan. The business plan will take into account the foundation objectives, the resources that could be mobilized in the next few years and specific results to

achieve in the near future (2-3 years). The second component of SPEED support is in the form of a SPEED grant to acquire basic office equipment, thus building capability of the foundation to implement its business plan and objectives.

Formalize public participation in the policy process: SPEED is working with the law firm, SAL & Caldeira to create a more transparent and participatory system for policy development, and improve the formulation of laws and regulations affecting the business environment. This is a one year activity which involves forming a stakeholder group, analyzing the policy process, conducting consultations and drafting legislation. The initial steps have been completed and S&C made a presentation to USAID during the quarter on the status of their work. The next step is to disseminate information with the public and private sector start concrete consultations on the subject.

Streamlining the construction license process: The process for issuing construction licenses has been identified by the private sector as an important obstacle impeding the easing of doing of business in Mozambique. In Maputo, the construction licensing is under the responsibility of Maputo municipality. The first phase of this work was conducted in the previous quarter and finished with a seminar where a report and recommendations were presented to the Mayor David Simango, officials of the Ministry of Public Works and many other participants. During this quarter the report and recommendations were revised based on communications between the municipality and the SPEED consultant. The next step is to present the revised report to the Assembly of Municipality for approval and implementation. SPEED is also working with the municipality to review and revise the legislation connected with simplification of construction licenses.

Universal Service Fund: SPEED has been working with the Mozambique National Institute of Communications (INCM) the telecommunication sector regulatory authority to help with planning an utilization of the Universal Services Fund. The USF was created in 2007 by decree in order to develop telecommunication services in rural zones and other areas of low income. During the quarter, SPEED and INCM have been identifying needs in the sector and then drafting scopes of work to undertake consultancies. The first are likely to be consultancies to monitor quality of service delivery of telecommunications licensees, to work on pricing and to a study on spectrum management.

Partnership for Trade Facilitation: The SPEED project worked with Mozambique's Customs Service to develop a proposal for funding from USAID's Partnership for Trade Facilitation. The proposal focuses on three areas: Internet publication of customs regulations and documents; Pre arrival processing of import documentation; and Pre shipment inspections for exports. Activities, indicators and budgets were developed for each area in the proposal. During the quarter SPEED was notified that the proposal was successful and \$500,000 in PTF funds would be available for implementing the customs activities.

US/Mozambique Business Conference: SPEED is supporting the U.S. Embassy in Mozambique in organizing a U.S./Mozambique Business Conference now scheduled for April 2012. The conference, first planned for March, will bring together American companies, as well as companies in the region, to learn about investment opportunities in Mozambique and meet

with local firms and government officials. SPEED is handling finances and a website for the conference, including opening bank account, accepting local and international payments, supplier quotations and evaluations, conference procurement and payments.

IPEX Conselho Consultivo: SPEED provided funding for the Export Promotion Institute (IPEX) to conduct their annual consultation meetings at an off-site location in Bilene.

Tourism and Biodiversity

Tourism concessions in conservation areas: In the past decade, the Government of Mozambique (GoM) has produced a number of policies, laws and regulations fostering the development of the tourism sector, but the country lacks clear guidelines to assist development of sustainable tourism operations and concessions, in protected areas. SPEED engaged a team of consultants to examine alternative models for concessions in conservation areas, review the institutional and regulatory environment in Mozambique, meet with public and private sector stakeholders and provide recommendations for the country. In consultation with government officials, the consultants developed a manual for concessions in conservation areas including guidelines for investors and sample concession documents. To wrap up the activity, SPEED together with the International Union for the Conservation of Nature (IUCN) , organized a Regional Conference on Concessions for sharing experiences among countries in the Southern Africa region.

Review of INGC strategy: The National Institute for Disaster Management approached the SPEED project to conduct a review of a study done on a strategy for engaging the private sector in building climate change resilience in Mozambique. The study was long, complex and poorly organized and a specialist was needed to assure the content meet INGC's needs. A SPEED consultant undertook a desk review and wrote a summary of the report and recommends for revisions.

Tourism levy: Resulting from previous SPEED analysis of a proposed government levy on tourism revenue in Mozambique, a public/private working group was established to negotiate revised legislation on the subject. SPEED continued to stay engaged with these negotiations during the quarter.

Inhambane tourism association membership survey: The Inhambane tourism association AHTPI- Associação de Hotelaria e Turismo da Provincia de Inhambane requested SPEED to support research on its members' needs and on the environment for tourism business in the province. SPEED is working with AHTPI in developing Terms of Reference and a budget for the activity which will be conducted shortly.

Agriculture

Review of the application of VAT in agriculture: Working with CTA, this study entailed consultation with from farmers, traders, agroprocessors, associations, government donor

agencies and civil society to conduct a diagnostics of the Value Added Tax in agriculture. A report was prepared in presented at a workshop of some 60 participants. Government approved a VAT exemption for agricultural products in Mozambique due to the importance of the agricultural sector and to stimulate growth in the sector. However the report revealed that the private sector does not understand well how the tax system works in this sector including the VAT exemption. Moreover, the Mozambican Parliament recently approved a bill altering the Value Added Tax (VAT) code and extending VAT exemptions to imported maize and soybean, a move intended to support the animal feed industry but which is criticized by some segments of the private sector because the potential negative effect on domestically produced maize and soybeans.

The study reports details of VAT regime for agricultural products and how it works in practice for small, medium and large enterprises. The study also examines the impact of waiving the VAT on imported maize and soybean on animal feed and food-processing industries and on commodity producers. The study concludes that VAT exemptions cannot be effective in an environment where most of the domestic farmers are not registered companies and have no taxpayer number (NUIT)—the informal sector cannot produce legal documents that could be used by companies on VAT returns. The subsistence family sector produces 82 percent of total maize and soybean consumed in the country, but since this sector is largely without NUITs, there is no deduction of VAT paid on inputs. As a result VAT effects the sector clearly as a cost.

The study also shows that the VAT refund process is difficult and time consuming, often taking between 1 to 2 years. With higher financial costs existing in the country, VAT is most of the times a cost for farmers and for the food-processing and animal-feed industries. SPEED will follow this initial VAT study with additional work to revise and reform VAT in agriculture. SPEED will also work to address the large list of non-VAT barriers to agriculture growth.

Legal framework series – land: SPEED’s work on updating the ACIS legal framework manual on land was completed during the quarter. ACIS is a Mozambican association representing over 300 companies throughout the country. The members are from diverse sectors of the Mozambican economy, including mining, hydrocarbons, agriculture, transport and logistics, telecom and forestry. The land manual is a tool to for companies to understand the legal and regulatory system concerning land and a guide for obtaining land.

Democracy and Governance

Anti-corruption Business Breakfast: Previously SPEED conducted a review of Mozambique’s package of new anticorruption legislation. This quarter SPEED supported the Institute of Directors conduct a business breakfast on the legislation which looks into what is corruption in the public and private sector, conflicts of interest in the civil service and public institutions, and codes of ethics for the civil service and all agencies of the public administration. The business breakfast explored the realm of corruption and anti-corruption action, and its relationship with the private sector and, most importantly, with senior officials in the corporate sector in Mozambique. Among its 35 participants, the business breakfast had as participants some of the CEOs and CFOs of the largest corporations currently in Mozambique.

Corporate Code of Ethics: SPEED is also working with the Institute of Directors to develop Mozambique's corporate code of ethics. This is a follow on to SPEED's work with IOD last year in developing Mozambique's Code of Corporate Governance. The Governance Code was approved officially in an event with the President of the Republic. For the Ethics Code, IOD is working with the South African Institute of Corporate Ethics, EthicSA. EthicSA has helped develop Ethics Codes in a number of countries throughout Africa.

Support to EITI-Mozambique: SPEED has worked with Mozambique's secretariat for the Extractive Industries Transparency Initiative in order to help the country be successfully accepted for membership in the international EITI. Mozambique's first EITI report was for the year 2008 and resulted in a number of recommendations being provided to Mozambique for implementation. These were incorporated into the 2009 report which was finalized during the quarter. To receive its membership status, Mozambique needs to publish its 2009 report and also move forward on its dissemination and discussion with the civil society and other stakeholders. SPEED assisted with the preparation, printing and distribution of a reduced-format leaflet of the 2009 report to be used in dedicated workshops and road-shows.

Management and Administration

IPEME Local Currency funds: Mozambique's SME promotion institute, IPEME, received \$1.5 million from USAID in local currency funds which were generated from various USAID activities in the past. The funds were to support a multi-year program of IPEME activities with SMEs in the country, however IPEME was apprehensive about government management of the funds and asked the SPEED project to manage the fund on their behalf. SPEED first drafted and signed an MOU with IPEME to outline objectives, roles and responsibilities and is now developing a parallel contract to receive and manage these funds.

Grant funding: USAID is planning on giving the SPEED project \$2.1 million in local currency in order to fund the SPEED Grants program. SPEED has its Grants Manual approved and Grants account opened with the bank and is awaiting disbursement of the local currency funds.

SPEED PROJECT ACTIVITIES - FY '12

Quarter	SPEED Analyses	Capacity Building Activities					
		Private sector			Government		
		Activity	Participants		Activity	Participants	
			M	F		M	F
Q1	Challenges to growth study	CCMUSA - accreditation	-	-	IPEME retreat - Bilene	15	15
	Investment and business environment	CTA - Metical appreciation seminar	55	15	MIC - Guide to district ag commercialization associations	-	-
	Metical appreciation study	IoD - Investment and business environment - working breakfast	8	7	Manica governor - Manica investors conference	137	27
	Construction license simplification analysis	CTA - Quelimane - VAT workshop	22	8	MOA - Grow Africa conference presentation	-	-
	Doing Business seminar/training in Bilene	MISA - Economic training of journalists	14	1	MOA - Agricultural policy advisor	-	-
	Formalizing participatory policy process	CTA - Audit response	-	-	INAE - HR management report	-	-
	Soverign wealth fund study	AMECON - Challenges to growth semainar	52	13	Maputo municipality - constuction legislation seminar	74	16
	PAF exercise	Journalists - Q&A on challenges to growth	3	-	DASP/CTA - Doing Business seminar/training in Bilene	30	8
	US/Mozambique Business Conference	CACM - Grant	-	-			
	VAT in agriculture study	ACIS - Update tax guides	-	-			
	World Food Price Conference	ACIS - Commercial code translation	-	-			
	Grow Africa presentation	ACIS - Update of land legal framework guide	-	-			
	Tourism levy negotiations						
	Concessions in protected areas						
	Journalist training in economics						
	Anti corruption legislation analysis						
	SPEED Grants Manual						
Total Q1	17	12	154	44	8	256	66