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# PERFORMANCE ASSESSMENT FRAMEWORK

## TECHNICAL INPUTS FOR THE UPCOMING EXERCISES

AUGUST 2011

This publication was produced for review by the United States Agency for International Development. It was prepared by DAI and Nathan Associates.



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## TECHNICAL INPUTS FOR THE UPCOMING EXERCISES

SPEED/NOTES/2011/009

**Program Title:** SPEED - Mozambique Support Program for Economic and Enterprise Development.

**Sponsoring USAID Office:** USAID/Mozambique

**Contract Number:** EDH-I-00-05-00004-00/13

**Contractor:** DAI and Nathan Associates Inc.

**Date of Publication:** August 20<sup>th</sup>, 2011

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The authors' views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

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## 1. SUMMARY OF THE TECHNICAL INPUTS FOR THE UPCOMING EXERCISES

In the context of the Mozambican Budget Support Program financed by 19 donors (hereinafter referred to as G19 or PAPs), the PSWG was requested to prepare a proposal of indicators on the "Employment Promotion" component under the "Performance Assessment Framework" (PAF). The proposal should include a set of indicators that would serve as reference for monitoring of the Government of Mozambique performance in fiscal year of 2012.

Indeed, SPEED has provided technical support to this process, which is summarized in this note. It includes: a summary of the proposed indicators, a technical note for the outcome indicator, the proposed product indicator and its technical note. Since the target ranking is for 2014, the note also suggests for the fiscal years of 2013 and 2014, taking into account the current activities within GOM.

Performance Assessment Framework										
Sector	Objective in the PQG 2010-2014	CFMP Program	Result Indicator (Source)	Baseline 2010	Target 2014	Product Indicators (Source)	Baseline 2010-2011	Target 2012	Target 2013	Target 2014
Objective: Employment promotion										
SME's promotion	Improve the business environment	Private Sector Development	Mozambique Doing Business ranking [DB annual reports]	126	113 <sup>1</sup>	Implementation of key police reforms with direct impact on SMEs promotion and DB rankings [DB annual reports]	No reform implemented	Procedures for "starting a business" and for "dealing with construction permits" are reduced by 50%	Taxes and Social Security Payments Automated	The new Bankruptcy Law passed and Implemented
									Customs Single Window project implemented	Property Registry database expanded to cover all major urban centers.

<sup>1</sup> Defined in the PARP 2010-2014



## 2. PROPOSED TECHNICAL NOTE FOR THE RESULT INDICATOR

Document	Technical Note – Private Sector Working Group
Result Indicator [source]	<b>Mozambique Doing Business ranking</b> [DB annual reports]
Draft	2011

### 2.1. Description of the indicator

Mozambique Doing Business ranking.

### 2.2. Type of indicator

Result indicator.

### 2.3. Objectives of the indicator

The objective is to create conducive business environment for SMEs toward boosting the employment generation.

### 2.4. Detailed definition of the indicator

The Mozambican government has firmed up its commitment to improve the overall enabling environment for private sector growth focusing on SMEs and job creation. A strategy has been adopted to coordinate the implementation of reforms within the Government. MIC has been leading the process.

To further complement the strategy, the Government developed a strategy for SME development. The SME strategy is supposed to complement that overall business environment strategy and focuses on specific areas of support, through promoting access to finance, improving SME management and technical capacity, and ensuring that reforms are supportive of SME development. *Doing Business* was also taken as a monitoring reference tool of the reforms, with the objective of bringing Mozambique up to the top of the regional ranking by 2015.

As a result, there have been legislative and administrative improvements that have made it easier for businesses to start-up and operate in the country. Notwithstanding this, in *Doing*

Business 2011, reflecting the business enabling environment in early 2010, Mozambique ranked just 126 out of 183 countries. Though an improvement of four rankings over Doing Business 2010, Mozambique remains well below SADC's top performers, Mauritius and South Africa (ranked 20 and 34, respectively) and is ranked 8 out of 15 countries in the Southern Africa Development Community (SADC). Thus, the Government needs to continue adopt and implement ambitious reforms with strong potential to result in a fundamental shift in the business environment. Every additional procedure creates an extra level of red tape for those trying to do business in Mozambique and increases avenues for corruption. It is always recommended the reduction of the number of times private sector entities interact with public sector officials.

### **2.5. Source of the information**

Annual DB reports.

### **2.6. Target**

Baseline 2010: 126<sup>a</sup> [Source – Doing Business 2011].

Target 2014: 51 [Source – Doing Business 2015].<sup>2</sup>

### **2.7. Evaluation Guidelines**

The evaluation will be a result of the combination of two different approaches: qualitative and quantitative approach. The table 2 summarizes the evaluation guideline for this indicator.

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<sup>2</sup> Rwandan performance in the last 4 years has shown that a less developed country like Mozambique can dramatically improve its business environment without costly reforms, but with a high level commitment of the Government and strong advocacy from the private sector. Rwanda improved 100 positions in 4 years, from 2007 to 2010, an average of 25 positions per year. Thus, this average can be taken as a reference bearing in mind the ambitious objective set by the Mozambican Government to bring Mozambique up to the top of the regional ranking by 2015.



**Table 2: Evaluation guidelines**

	<b>Quantitative assessment</b>	<b>Qualitative assessment</b>
Achieved	Mozambique is ranked in the 51 position or above.	
Achieved with delay	Mozambique is ranked in the 70 <sup>th</sup> position or above (at least 75% of the target is achieved)	All agreed reforms in the PAF matrix are implemented by 2014 and other reforms with high potential to bring Mozambique up to the target are implemented between January and beginning of the Annual Review. <sup>3</sup>
Not achieved, but with progress	Mozambique is ranked in the 90 <sup>th</sup> position or above (at least 50% of the target is achieved)	Some of the agreed reforms in the annual PAF matrixes are implemented.
Not achieved	Mozambique is ranked below the 90 <sup>th</sup> position.	All agreed reforms in the annual PAF matrixes are not implemented.

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<sup>3</sup> It is recommended the use of the latest version of the DB simulator available at [www.doingbusiness.org](http://www.doingbusiness.org) to simulate the impact of the reforms that might be implemented between January and the beginning of the annual review. Notice that it assumes that no other country will be reforming.

### 3. PROPOSED PRODUCT INDICATOR AND TECHNICAL NOTE

Document	Technical Note – Private Sector Working Group
Product Indicator [source]	<b>Implementation of key police reforms with direct impact on SMEs promotion and DB rankings</b> [DB annual reports]
Target for 2012	Procedures for “starting a business” and for “dealing with construction permits” streamlined
Draft	2011

#### 3.1. Description of the indicator

Implementation of key police reforms with direct impact on SMEs promotion and DB rankings.

#### 3.2. Type of the indicator

Product indicator.

#### 3.3. Objectives of the indicator

The objective is to create conducive business environment for SMEs toward boosting the employment generation and economic growth.

#### 3.4. Detailed definition of the indicator

The Mozambican government has firmed up its commitment to improve the overall enabling environment for private sector growth focusing on SMEs and job creation. A strategy has been adopted to coordinate the implementation of reforms within the Government. MIC has been leading the process.

To further complement the strategy, the Government developed a strategy for SME development. The SME strategy is supposed to complement that overall business environment strategy and focuses on specific areas of support, through promoting access to finance, improving SME management and technical capacity, and ensuring that reforms are supportive of SME development. Doing Business was also taken as a monitoring reference tool of the reforms, with the objective of bringing Mozambique up to the top of the regional ranking by 2015.

As a result, there have been legislative and administrative improvements that have made it easier for businesses to start-up and operate in the country. Notwithstanding this, in Doing Business 2011, reflecting the business enabling environment in early 2010, Mozambique ranked just 126 out of 183 countries. Though an improvement of four rankings over Doing Business 2010, Mozambique remains well below SADC's top performers, Mauritius and South Africa (ranked 20 and 34, respectively) and is ranked 8 out of 15 countries in the Southern Africa Development Community (SADC). Thus, the Government needs to continue adopt and implement ambitious reforms with strong potential to result in a fundamental shift in the business environment. Every additional procedure creates an extra level of red tape for those trying to do business in Mozambique and increases avenues for corruption. It is always recommended the reduction of the number of times private sector entities interact with public sector officials.

Some of these reforms could ease the starting a business, getting contraction permits, paying taxes, trading across borders, employing workers and closing a business.

#### **3.4.1. Starting a Business**

**Combine Procedures:** The 2011 Doing Business report lists nine separate procedures required for an entrepreneur to start a business. These procedures include “declaring the beginning of activity at the tax department”, “registering for VAT”, and “registering workers with the social security system”. Though the purpose of all three procedures is to inform the government that a new company exists that is required to pay taxes and other contributions, in the shorter run, combining the first two (for example in the BAU's, under the development of the one-stop-shop concept) are more feasible as they both concern the Ministry of Finance, whereas the latter concerns INSS. Ideally, in the longer run, registration should take place through e-Tributação and MRA would disseminate the information to INSS. Also, one other procedure, “declaring the beginning of activity” and “registering job candidates at the provincial Employment Center”, could be cut if INSS would provide the relevant information to the local employment centers. Passing these reforms would reduce the number of procedures needed to start a business from 17 to 14 and elevate Mozambique by three places in the overall Doing Business rankings.

**Simplify licensing regulations:** In the past few years, Mozambique has taken big strides by passing important legislation to simplify licensing and improve one-stop-shops. On one hand, it was approved a decree to reduce the number of licenses that require a review. Thus, since the investor submits all the necessary documents at the one-stop-shop, the license can be granted on the spot. This measure covers a range of almost 200 licenses. The process could be even faster if the Director of the BAU delegates his authority to sign the simplified licenses. On the other hand, the GoM approved a decree that gives more licensing power to the one-stop-shop and tries to coordinate the different ministries to actually make the one stop shop function. Nevertheless, it is essential that DASP continues to push for further improvements in one-stop-shop and ensures that new legislation is implemented effectively and monitored to ensure that it continues to do so in the future. The impact of continued reforms on the Doing Business rankings is unclear, but should be significant.

**Eliminate Procedure:** In 2009 Mozambique eliminated the minimum capital and bank deposit requirements. This reform has had an impact on two subindicators simultaneously: (i) minimum capital required to be paid in to a bank account, as a percentage of income per capita – which was eliminated, (ii) and reduction of the number of procedures required to start a business – elimination of the bank deposit requirement. However, the impact of the elimination of the bank deposit requirement in the number of procedures has not been considered as the DB 2011 still counts nine procedures to open a business including the bank deposit requirement.

### **3.4.2. Dealing with construction permits**

The 2011 Doing Business report lists seventeen separate procedures required for an entrepreneur in the construction industry to build a warehouse. At present, companies must, among other procedures, (1) request and obtain the right to the use and enjoyment of the land (commonly referred to as the DUAT) and (2) request and obtain a topographic map. These two procedures that take almost 12 percent of the total time required to deal with licenses. Both documents are requested from the Urban Planning and Environment (UPE) office within the Department of Construction and Urbanization (DCU) at the Municipality and are required in order to apply for the building permit. Although these procedures are conducted simultaneously

they are currently separate procedures. Combining them into one single procedure could even impact on the time to build a warehouse in Maputo.

Additionally, once the warehouse has been built, Doing Business reports that companies must (1) request final inspection and (2) receive final inspection and (3) request and obtain the occupancy permit. Interviewees indicated that obtaining the occupancy permit in fact requires far less than the 95 days reported by Doing Business. National legislation under Decree nº 2/2004, mandates a maximum of 50 days for this procedure.

Although there has already been some progress at the Municipality of Maputo toward the design of streamlined and simplified procedures for dealing with construction permits, DASP could work with Municipality of Maputo to push for simplified procedures, explaining the reasons why these reforms are important.

Once the streamlined procedures have been approved, the regulations at the municipal level will need to be modified. This is a short-term reform which DASP should start working on immediately. An educational plan outlining the new procedures should be developed for staff and users. A comprehensive monitoring system should then be designed to track the changes and ensure that even if new regulations have been approved, the new regulations are being implemented satisfactorily.

Combining the procedures to request and obtain the right to the use and enjoyment of the land and to request and obtain a topographic map will reduce the number of procedures by 1 and the number of days needed to complete the procedures by 1. Combining the procedures for requesting and obtaining the final inspection and obtaining the occupancy permit, and validating that obtaining the occupancy permit only takes 50 days to complete will reduce the number of procedures by a further 2 to 14 and the number of days by 47 to 333.

### **3.5. Source of the information**

Annual DB reports.

### **3.6. Target**

Baseline 2010: No reform adopted and implemented.

Target for 2012: Procedures for “starting a business” and for “dealing with construction permits” streamlined.