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# Monetizing the Benefits of SPEED

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August 25, 2011



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## **Estimating The Monetary Benefits of SPEED Business Environment Reforms**

- Pragmatic and systematic framework
  - Does not impose a standard model or methodology
  - Determined on an case-by-case basis appropriate to nature of benefits, data availability, and project resources
- Can be applied to:
  - Policy changes
  - Regulatory measures
  - Strengthening implementation of reforms
  - Preventative interventions



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## Four Basic Steps

- Establish a pragmatic evaluation plan
- Conduct the analysis
- Prepare the benefits report and document finding
- Verify results and finalize documentation



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## Step 1 : Establish an Evaluation Plan

- Must think systematically *before* a reform is implemented
- An Evaluation Plan is a short memo covering:
  - What is the purpose of the reform?
  - What are the major benefits to Mozambique, economic or social costs, and main stakeholders?
  - What is the role of the SPEED project?
  - Can benefits be measured and monetized?
  - What methodology is to be used?
  - What are the data requirements and plan for obtaining the data?
  - How will attribution to SPEED project be assessed?
  - At what point should the evaluation be carried out:  
*ex ante* versus *ex post*



## Step 2 : Conduct the Analysis

- Methodology and data requirements determined on a case-by-case basis
- In every case, however, the key question is, “What difference does this reform make?”
- What was the value of a key outcome after a reform was implemented?
  - The *actual* outcome (after reform)
- What would the value have been if the reform was not implemented?
  - The *counterfactual* outcome
- This comparison must control for factors affecting the actual outcome not related to the reform
  - The counterfactual outcome must take these factors into account



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## Basic Types of Quantifiable Impacts

- Reduction in business costs:
  - Reduced administrative compliance costs
  - Reduced financial costs: fees, levies, fines
  - Reduced delays
  - Reduced training or equipment cost
  - Reduced administrative cost to the government
- Increase in business revenues:
  - Reduced transactions cost to consumers (ie visa fee)
- Increase in economic costs:
  - If reform brings about significant cost as well as benefits
  - We want to measure the *net* impact of a reform



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## Data Sources

- Primary data reports
  - Official statistics
  - Unpublished data from official sources
- Special purpose surveys
- Secondary sources (IMF, World Bank, etc)
- Structured interviews
- Focus groups
- Business associations



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## The Counterfactual Scenario

- “Gold standard”: randomized control trial
  - Usually too difficult and/or costly to implement
- In rare cases: baseline outcomes would remain unchanged without the reform
- In most cases: recent trends in key indicators are extrapolated to establish a baseline
  - These trends should adjust for significant changes in economic conditions that affect the trend





## Benefits Over Time

- BE reforms produce benefits that are enjoyed over more than one year
- Future benefits must be converted into base-year “present values” using an appropriate discount rate: 10-15% (World Bank typically uses 10-12%)
- If the project accelerated implementation of a reform: only monetize benefits for years in which they would not have been enjoyed without the reform



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## Monetary Benefits vs. Full Economic Analysis

- Full economic analysis would estimate how much Mozambique national income changes after a reform
- We will quantify only monetary benefits, which will sometimes equal change in national income, but sometimes not
- Example: reform that increases exports by \$50m
  - This is not a \$50m increase in economic welfare
  - How much does income increase after a \$50m increase in exports?
- Quantifying changes in income would often require significant extra work and sophisticated modeling tools



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## Attribution

- To calculate effectiveness of USAID's investment:  
To what extent can measured benefits be credibly attributed to USAID involvement?
- This raises a new counterfactual question: would the reform have taken place in the absence of SPEED activities and influence?
- Full attribution: SPEED must have played a pivotal role
- Acceleration: SPEED cause reform to be adopted sooner (commonly encountered)
- Probabilistic approach: what is the probability that reform would have been enacted without SPEED support
- Shared attribution: multiple partners contributed
  - Apportion share of credit based on expert opinion
  - Apportion share of credit based on funding shares (DFID practice)



## To Get Credible Results, Make Conservative Assumptions

- If a benefit estimate would have to use unsupportable suppositions, it should be classified as unquantifiable
- Benefit monetization almost always involves a high degree of uncertainty, particularly with respect to:
  - The counterfactual scenario
  - Attribution to USAID involvement
- Uncertainty can be resolved by consistently adopting conservative parameter values and assumptions
  - If a range of values for a key parameter is available, use the most conservative value
- This results in a “low-ball” estimate of benefits, but one that will be very defensible
- Alternative approach: estimate a range of benefits based on ranges of parameter values



## Step 3 : Present the Results

- Technical details should be summarized in an Excel spreadsheet
- Results of the analysis should be summarized in a Benefits Report (maximum 3 pages) that:
  - Explains the issue;
  - Outlines the role of the SPEED project intervention;
  - Summarizes the basis for the calculations, including how the counterfactual scenario was determined;
  - Reports the monetized benefit of the reform (if available);
  - Reports the monetized benefit attributable to USAID (if available);
  - Explains any major benefits or costs that cannot reasonably be monetized, including spillover effects
- The project should maintain a Benefits Summary Matrix: cumulative tabulation of monetized benefits across project activities



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## Step 4 : Verify the Analysis

- Conduct an internal quality-control review on an initial draft
- After revision, solicit an external review to validate methodology, data, and assumptions, and confirm credibility of results
- Written statement to the COP by a local consultant with expertise in economic analysis and familiarity with business environment issues
- Also share draft with USAID and selected stakeholders requesting comments on analysis
- For especially important reform issues: organize a seminar or validation workshop



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## What we did under the TIP Project

- Estimation of benefits limited to activities that satisfy three criteria:
  - Activities have *already occurred*
  - Activities have *quantifiable benefits*
  - Benefits are largely or partly *attributable to USAID assistance*
- Analysis based on conservative assumptions to ensure that results can stand up to criticism
- Numerous other program benefits are excluded from the calculation



## Some practical examples from the TIP project

5 activities that met our criteria for analysis

- Reduced time to register a business
- Reduced scanner fees
- Improvement in VAT refund processing
- Suspension of Aviso 2 implementation
- Elimination of visa requirement and associated fees for SADC nationals





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## Reduced scanner fees

- 2006: Government authorized a private operator to use scanners to inspect shipments through Maputo Port and to recover costs through fees.
- TIP economic analysis instrumental in convincing the government to reduce the fees
- Attribution of benefits to USAID support: 75 percent



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## Elimination of visa for SADC nationals

- Prior to April 2005: SADC nationals required to obtain entry visas for Mozambique.
- With USAID's support, CTA lobbied the government to waive this requirement
- Attribution of benefits to USAID support: 75 percent, with respect to accelerating the reform



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## Potential Candidates for Monetization

- ANTDC-TDC
- Construction license simplification
- Protected area concessions
- Air liberalization
- INAE-HR Management
- Insolvency law
- New medidas work?
- Competition law?



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# Any Questions?