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The Impact on Mozambique's Private Sector of USAID-Funded PSD Programs

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May 2, 2008 - revised

Mozambique Trade and
Investment Project

Objective

- To estimate the net present value of economic benefits to Mozambique's private sector from USAID's Private Sector programs since 2003:
 - Technical Assistance to the Confederation of Mozambican Business Associations (CTA) and the Ministry of Industry and Commerce (MIC) (2003-2005)
 - Mozambique Trade and Investment Project (2005-2010)
- Origin – OMB request to EGAT, October 2007

Selection Criteria

- 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

Scope of the calculations

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

Many non-quantifiable benefits excluded

Examples:

- Supported the Annual Private Sector Conference and the President's Leadership and Development Workshop
- Helped build trade capacity
- Helped Mozambique join the Integrated Framework
- Supported streamlined licensing regulations
- Supported reform of the labor law
- Assisted with telecom reform
- Supported lobbying to maintain competitive urban transport

Potential economy-wide effects also excluded

Evidence from the literature

- Djankov et al, 2006
 - “Improving from the worst quartile of business regulations to the best implies a 2.3 percentage point increase in annual growth”
 - We re-tested this analysis with more recent data and obtained a similar result
- Implication
 - If Mozambique implements Doing Business reforms identified by USAID and the World Bank, the improved business climate could generate \$15 million in economic benefits per year
 - What portion would be attributable to USAID support?

Methodology

To calculate NPV of the private sector benefits:

1. Estimate additional income to private sector (“gross benefits”).
 - Quantifiable direct effects only
 - Must assume counterfactual (outcomes without assistance)
 - Year by year, through 2012, present discounted value (PDV) of gross benefits (from 2003)
2. Tabulate USAID program costs
 - Year by year, through 2007, PDV of program costs (from 2003)
3. Net Present Value (NPV) = $PDV(\text{Benefits}) - PDV(\text{Costs})$
4. Benefit/Cost ratio = $PDV(\text{Benefits}) / PDV(\text{Costs})$

Discount rate

To calculate the present value for each time stream of benefit and cost values, we used two discount rates:

- 4.0 percent
 - = OMB's recommended discount rate for 8-year projects in 2003
- 13.2 percent
 - = estimated real cost of capital in Mozambique in 2003
 - = average lending rate on bank loans, adjusted for inflation

Caveats

- Authors work for same firm that implemented project
 - Results should be verified by an independent party
- Attribution to USAID based on judgments of TIP COP and USAID CTO
 - Their estimates should be compared to stakeholders'
- We estimate benefits to Mozambique's private sector
 - NOT estimated change in welfare throughout the economy
- Estimates rely on assumptions and approximations

Benefit 1 - Reduced time to register a business

- 2003 to 2007: number of days to register a business fell from 153 to 29
- USAID was a leading donor in this area
 - Technical assistance to CTA
 - Analyses and reform recommendations
 - Support for Private Sector Conference
- Share of benefits attributable to USAID support: 50 percent

Benefit 2 - 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

Benefit 3 - Faster VAT refunds

- Between FY 2004/05 and 2005/06 VAT refund times were improved by 40 percent
- USAID produced two influential reports offering recommendations for improving tax administration, and supported CTA lobbying efforts
- Attribution to USAID support: 75 percent, with respect to accelerating the reform

Benefit 4 - Postponed implementation of Aviso 2

- Aviso 2 would have required firms to use (costly) letters of credit for virtually all international trade transactions
- CTA used a TIP analysis to lobby against implementation
- Aviso 2's implementation suspended indefinitely
- Attribution to USAID: 75 percent

Benefit 5 - 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

Quantifiable Net Benefit @ discount rate of 4.0 percent

Discount Rate	4.0%
Total costs, TIP+CTA	(\$11,400,000)
NPV benefits	\$81,506,995
NPV costs (abs value)	\$10,468,497
NPV of the Interventions	\$71,038,498
Benefit to Cost Ratio	7.8

	Discounted Benefit
Reduced Time to Register a Business	\$1,569,989
Reduced Scanner Fees	\$8,517,334
Faster VAT Refunds	\$651,300
Postponed Aviso 2	\$60,893,415
Eliminate Visa Requirements	\$9,874,957

Quantifiable Net Benefit @ discount rate of 13.2 percent

Discount Rate	13.2%
Total costs, TIP+CTA	(\$11,400,000)
NPV benefits	\$52,316,877
NPV costs (abs value)	\$8,794,884
NPV of the Interventions	\$43,521,993
Benefit to Cost Ratio	5.9

	Discounted Benefit
Reduced Time to Register a Business	\$1,071,392
Reduced Scanner Fees	\$5,029,958
Faster VAT Refunds	\$428,268
Postponed Aviso 2	\$38,155,149
Eliminate Visa Requirements	\$7,632,110

Conclusions

- Business environment reform programs can have a powerful impact, relative to interventions at the firm or industry level
- But the benefits are very difficult to measure
- Strive to include interventions that can generate quantifiable effects, among the portfolio of programmatic activities

Questions and Discussion ?