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RECOMMENDATIONS ON THE 2011 DOING BUSINESS REPORT

MOZAMBIQUE

JULY 2011

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1. Introduction

1.1 Objective

The goal is to improve the business environment in Mozambique using Doing Business as a relevant tool to monitor the implementation of related policy reforms. The objective of this Memo is to discuss corrections to the methodology used to capture relevant data on procedures, time and cost inherent to the ease of doing business. The discussion is made in three parts: the first is the introduction which sets the objectives and the background; the second and the third summarize the discussion and give some recommendations on easy of starting a business and dealing with constructions permits, respectively.

1.2 Background

Private Sector Working Group (PSWG) is a forum for dialogue among development partners, government, private sector operators and civil society. It meets to analyze and discusses policy related issues pertaining to private sector activities in Mozambique. Doing Business (DB) was identified as a tool to monitor the implementation of business environment reforms in the country. Currently, Mozambique is ranked in the 126th position out of 183 countries.

PSWG has undertaken various studies aimed at improving the business environment in Mozambique. They are mostly available at <http://www.speed-program.com/DoingBusiness>. In 2009, a memo was drafted and submitted to the DB team clarifying the application of the simplified license regime by the Municipality of Maputo. The inclusion of the simplified license resulted in the reduction of the number of days tracked for starting a business from 26 days in DB 2010 to 13 days in DB 2011. In March 2011, a new study entitled “How to improve the Mozambican DB Rankings – A Short Term Perspective” was released. It makes policy reform recommendations to the Government of Mozambique, as well as methodological recommendations to the DB team.

Analysis of the methodology applied in the DB survey highlighted some potential “inconsistencies” in the compilation and formulation of certain procedures, both in the cost and in the time required. This Memo summarizes PSWG concern with the Methodology applied in the compilation of the DB 2011 and provides recommendations on the “Starting a Business” and “Dealing with Construction Permits” indicators.

2. Ease of Starting a Business in Mozambique

2.1 A snapshot

This indicator captures the bureaucratic and legal hurdles that an entrepreneur must overcome to incorporate and register a new firm. It examines the procedures, time and cost involved in launching a commercial or industrial firm with up to 50 employees and start-up capital of 10 times the economy's per-capita gross national income (GNI).

Mozambique is ranked in the 65th position in the Ease of Starting a Business, with 9 procedures, 13 days and a cost of 13.9% of GDP per capita. Procedure 3 from the DB report is shown in the following box.

Box 1: Procedure 3 – Starting a Business in Mozambique.

Procedure 3	Register with the Legal Entities Registrar of Maputo (Conservatória do Registo das Entidades Legais); request a commercial registry certificate; publish company statutes in the official gazette (Bolhetim da República)
Time to complete(days):	5
Cost to complete:	MZM 1,475
Comment:	<p>To register a company with the Commercial Registrar Office of Maputo, the following costs apply:</p> <ul style="list-style-type: none">- A nominal fixed fee is charged for company matriculation.- The registration fees vary according to share capital: amounts up to MZN 5 million are taxable at a 2% rate, and amounts over MZN 5 million are taxable at a 1% rate.- A variable fee is payable for administrative costs up to a maximum of MZN 1,000. <p>This registration is final because the Commercial Registrar coordinates the publication of the company statutes in the Official Gazette. The fixed fee for online publication is MZN 475 per year for a 25-line page. Publication can take 3 days to 1 week.</p>

Source: World Bank, 2011

2.2 Comments on the “Procedure 3”

The final step above is publication of the company statutes in the official gazette (*Boletim da República*)” and that publication can take 3 days to 1 week. In practice,

companies may apply for provisional registration (*registo provisório*)¹, after getting the certificate of the *estatutos* from a Notary.

Issuance of a provisional registration certificate takes only two days, and the provisional registration allows a company to proceed with other procedures required for starting a business, while waiting for the publishing of its statutes.

2.3 Recommendations on the “Procedure 3”

The PSWG recommends that for Procedure 3 of Starting a Business, the 2012 DB report recognizes current practices and uses the provisional registration (*registo provisório*) for starting a business rather than publication in the official gazette. Using the provisional registration reduces the time to complete Procedure 3 to two days. The following box shows the recommended Procedure 3:

Box 2: Procedure 3 considering the application of the provisional registration

Procedure	Register with the Legal Entities Registrar of Maputo (Conservatória do Registo das Entidades Legais); request a commercial registry certificate
Time to complete(days):	2
Cost to complete:	MZM 1,475
Comment:	<p>To register a company with the Commercial Registrar Office of Maputo, the following costs apply:</p> <ul style="list-style-type: none"> - A nominal fixed fee is charged for company matriculation. - The registration fees vary according to share capital: amounts up to MZN 5 million are taxable at a 2% rate, and amounts over MZN 5 million are taxable at a 1% rate. - A variable fee is payable for administrative costs up to a maximum of MZN 1,000. <p>This registration is final because the Commercial Registrar coordinates the publication of the company statutes in the Official Gazette. The fixed fee for online publication is MZN 475 per year for a 25-line page. Publication can take 3 days to 1 week. But a simple proof of the provisional registration allows a company to proceed with other procedures required for starting a business, while waiting for the publishing of its statutes</p>

¹ The provisional registration was approved by Decree nº 42-654 of 14 November 1959, Articles 32 and 33, and revised by Decree-Law no. 1/2006 of 03 May. It was introduced because of delays in the publication of the in the official gazette.

2.4 Upcoming reforms on the company registration system

1. Introduction of simple and uniform registration procedures;
2. Creation of a central recording system;
3. Introduction of a one-stop shop for registration;
4. Assignment of a unique identification number for entities subject to registration;
5. Strengthen the institutional framework.

3. Ease of Dealing with Construction Permits

Mozambique is ranked in the 155th position in the “Dealing with Construction Permits” indicator, with 17 procedures, including requirements for obtaining necessary licenses and permits, completing required notifications and inspections and obtaining utility connections.² This section discusses some aspects identified in the list of procedures set forth in DB 2011 that might not reflect the real picture of the business environment in Mozambique.

3.1 Inclusion of procedures not required to the Investor but to the competent authorities

Example: Procedure 4: Receive inspection by the municipality – I

Procedure 5: Receive inspection by the municipality – II

According to the law, two to three inspections may be carried out by the municipality and by the labor inspectorate during the construction. These are counted as procedure 4 and 5 in the DB 2011 report. However, these inspections are under the responsibility of the competent authorities and do not imply the realization of a task by the investor. They occur rarely and sporadically. So, it does not make sense to include them as procedures.

3.2 Lack of clarity on the formulation criteria used in the wording of certain procedures

Some of the 17 procedures that make up the construction indicator are overly specific (eg. procedure 7 and 10), and should be combined with other procedures. Combining such procedures is the approach that is used for other procedures (eg. procedure 13 and 16) and for many other countries in their Doing Business surveys. For example, the request for an inspection in Mozambique is counted as a single procedure, and the receipt of the inspection as an additional procedure. However, in Georgia, Denmark, New Zealand, Hong Kong, Vanuatu, Sweden and other countries they are treated differently, with the request for inspection and receipt of inspection recorded in as a single combined procedure.

² These procedures take 381 days and costs 530% of GDP per capita.

Table 3: Comparison between Mozambique and Other Economies

Mozambique		Other Countries	
Procedure	Description of the procedure	Country	Description of the procedure
Procedure 7	Request power connection from Electricity of Mozambique	Georgia	Request and receive an inspection to confirm electricity connection
Procedure 8	Receive inspection and obtain approval of electrical plan from the electricity department		
Procedure 10	Request water and sewage connection	Georgia	Request and receive an inspection to confirm water connection
Procedure 11	Receive inspection and obtain approval of plumbing plan from the water department		
Procedure	Request electricity connection approval from the National Directorate of Energy	New Zealand	Obtain power connection
Procedure	Request power connection from Electricity of Mozambique		
Procedure	Receive inspection and obtain approval of electrical plan from the electricity department		
Procedure	Connect to electricity services of Electricity of Mozambique		
Procedure 14	Request final inspection	Denmark	Receive final inspection and obtain occupancy permit
Procedure 15	Receive final inspection		
Procedure 16	Request and obtain an occupancy permit		

Source: DB 2011

3.3 Exclusion of Certain Business Practices

The procedure nr. 13 ("request and obtain telephone connection") ignores the possibility of obtaining a telephone mobile connection. With technological development and the increasingly widespread use of information and communication technologies, the use of mobile telephony has been a recurring practice by small, medium and large companies around the world. The level of telephone penetration has grown considerably, especially over the last decade. ⁽³⁾

³ In Mozambique, the degree of penetration and the territorial coverage of the mobile network have grown dramatically, reaching 29.1 e 90% in 2009, respectively. (annex 1)

The territorial expansion of the mobile network has led to a reduction on the time and the cost required to get a telephone connection. For example, in Mozambique, a company can get a mobile connection in a single day without any direct cost.

3.4 Recommendations

Given the inconsistencies mentioned above, it is recommended to the following changes to the Mozambique's Construction Permit indicator:

- (i) Elimination of procedures 4 and 5;
- (ii) Combination of procedures 7 and 8;
- (iii) Combination of procedures 10 and 11;
- (iv) Combination of procedures 14 and 15;
- (v) Revision of the procedure 13 to include the possibility of a mobile telephone connection.

Table 4: Summary of the recommendations

Procedures		Recommendation	New proposed indicator
4	Receive inspection by the municipality – I	Elimination of both procedures 4 and 5	None
5	Receive inspection by the municipality – II		
7	Request power connection from Electricity of Mozambique	Combination of the procedures 7 and 8	“Request power connection, receive inspection from Electricity of Mozambique” or
8	Receive inspection and obtain approval of electrical plan from the electricity department		“Request power connection, receive inspection and obtain approval of electrical plan from Electricity of Mozambique”
10	Request water and sewage connection	Combination of the procedures 10 and 11	“Request water and sewage connection and Receive inspection from the water department” or
11	Receive inspection and obtain approval of plumbing plan from the water department		Request water and sewage connection and Receive inspection and obtain approval of plumbing plan from the water department
14	Request final inspection	Combination of the procedures 14 and 15	Request and receive the final inspection
15	Receive final inspection		

Source: DB 2011

If accepted, the recommendation above would reduce the number of procedures required to build a warehouse in the City of Maputo from the current 17 to 12, a reduction of 30%. The new list of procedures is summarized in the table 5, below:

Table 5: Revised list of procedures to build a warehouse in Mozambique

Nr.	Procedure	Time to complete	Cost to complete
1	Request and obtain the right to the use and enjoyment of the land	45 days	MZN 300
2 *	Request and obtain the topographic plan	120 days	MZN 325
3	Request and obtain a building permit from Department of Construction and Urbanization	60 days	MZN 6,503
4	Request electricity connection approval from the National Directorate of Energy	7 days	no charge
5 *	Request power connection from Electricity of Mozambique, receive inspection from the electricity department	1 day	MZN 6,837
6 *	Connect to electricity services of Electricity of Mozambique	53 days	MZN 37,416
7 *	Request water and sewage connection, receive inspection from the water department	1 day	MZN 4,700
8 *	Connect to water and sewage services	43 days	no charge
9 *	Request and obtain mobile telephone connection	1 days	no charge
10	Request and receive final inspection	1 day	No charge
11	Request and obtain an occupancy permit	95 days	MZN 2,000
12	Register the new building at the property registration agency	45 days	MZN 410

(*)Takes place simultaneously with another procedure.

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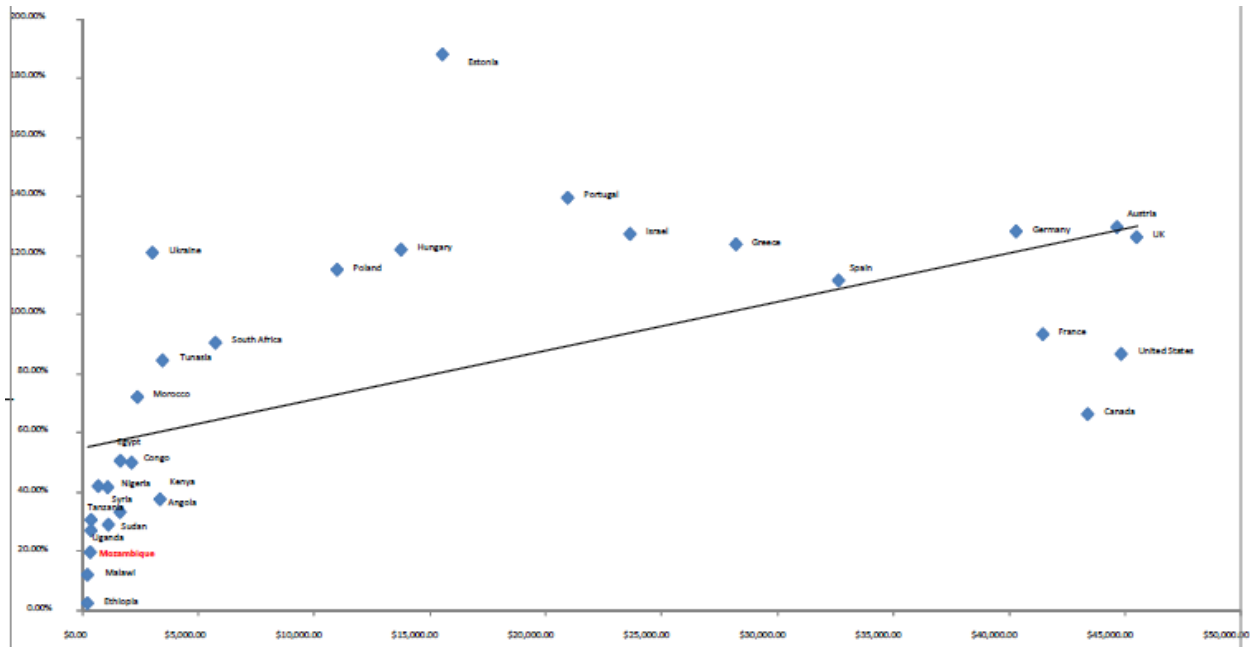
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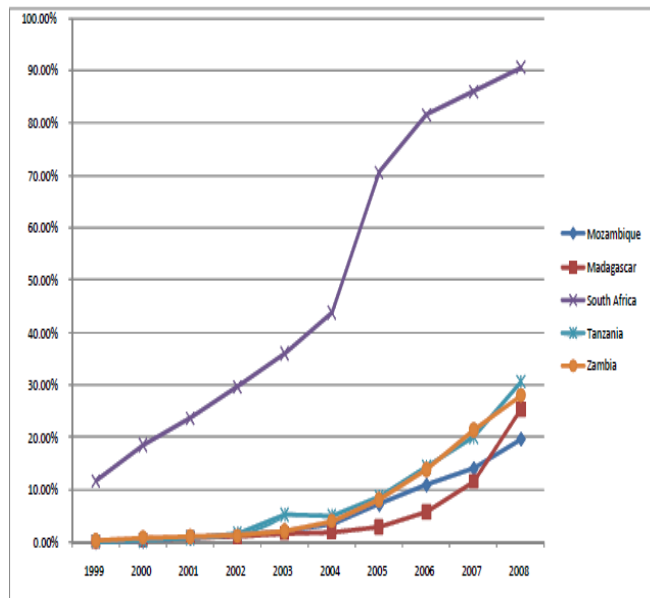
5. Annex

Figure1: Mobile Telephony Penetration versus GDP Per Capita (2008)



Source: Muchanga, A. 2009

Figure 2: Mobile Telephony Penetration in the SADC region



Source: Muchanga, A. 2009

Figure 3: Mobile Telephony Penetration in Mozambique

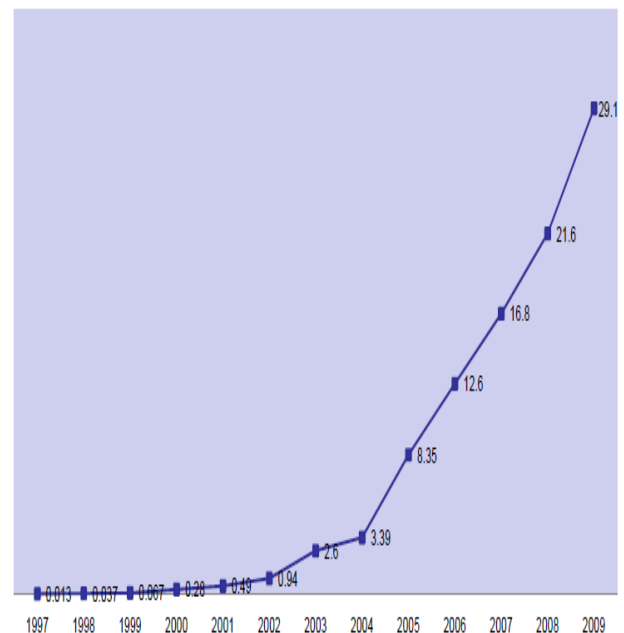
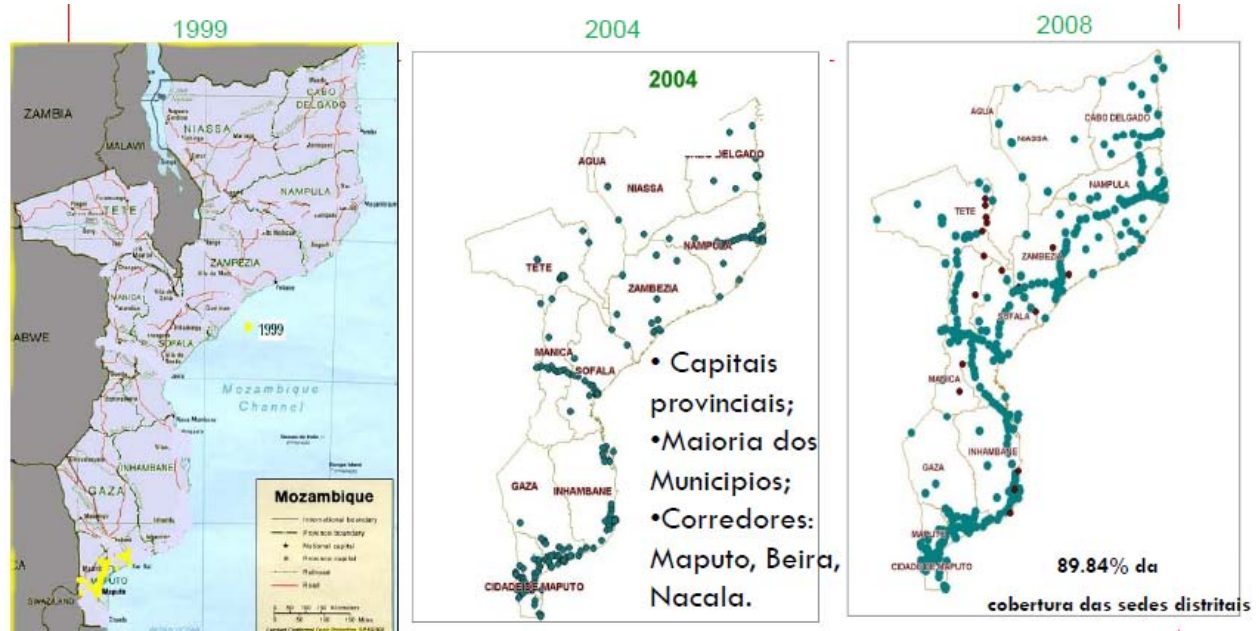


Figure 4: Growth of the Mobile Network Coverage



Muchanga, A. 2009