



BUSINESS CLIMATE IN MOZAMBIQUE

THOUGHTS FOR MOVING FORWARD AND MAKING A DIFFERENCE

JULY 2011

SPEED/REPORTS/2011/003

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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Program Title:	Mozambique Support Program for Economic and Enterprise Development (SPEED)
Sponsoring USAID Office:	USAID/Mozambique
Contract Number:	EDH-I-00-05-00004-00/13
Contractor:	DAI and Nathan Associates
Date of Publication:	8 July 2011
Authors:	Alexi Aleksishvili, Tushabe Karim and Antonio S. Franco
Publication Number:	SPEED/REPORTS/2011/003

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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EXECUTIVE SUMMARY

The purpose of this Report is to provide the findings on the business environment in Mozambique of two experts that visited Maputo from the end of April to the beginning of May 2011. These experts are from the two best Doing Business country reformers, Georgia and Rwanda. They also shared their country experiences in reforming the business environment. The experts are: Mr. Aleksi Aleksishvili, a former minister of finance and economy of Georgia; and Mr. Tushabe Karim, a specialist from the Doing Business Unit of Rwanda.

The Report includes recommendations aiming at improving the business environment in Mozambique.

The Reports emphasizes:

- Leadership and political will—these are fundamental and imperative for success of any reforms to facilitate and improve business environment. These reforms often are multi-sector and leadership and will are crucial to keep the reform agenda focused and moving forward rapidly.
- Accountability and deadlines—accountability and deadlines are paramount to the success of reforms. Institutions and officials have to be accountable to progress of reforms under established deadlines. It is also important that institutions and officials benefit from assistance but these reforms do not in general require financial resources, which makes them attractive but more demanding for faster action.
- Establishing a coordination unit—a unit should be set to coordinate and ensure a focused reform agenda, institutions deliver their promises, and deadlines are determined and followed up. This unit needs to be in the President’s Office or the Prime Minister’s Office and its head has to have deputy prime minister powers for success.
- Open-mind setting—open-mind setting is critical for reforms. The bureaucracy will be the strongest obstacle to reform trying to protect its powers (hidden or not) as well revenues (legal or illegal, corruption). Reform will have to be pursued on what is really needed and not on what are the current procedures and simplify them. Most of reforms can be easily taken and do not often consume financial resources.

Specific recommendations made by the two experts can be found in their reports, included in the Annex.

I. INTRODUCTION

1. Experience shows that private sector is key for sustained growth and job creation in any economy. The government is a fundamental engine for growth through policy-decision and resource allocation in those sectors and areas pivotal to stimulate development as well as in ensuring and strengthening individual liberties, human capital and infrastructure development, transparency and accountability, and law and order. The private sector in any economy is always the largest share engaging the large majority of the active labor while governments possibly representing 30 percent or more of income only employ 10 percent or less of the active labor.

2. Sustained growth can only be achieved through strong private sector development and economic diversification. Development of the private sector is intrinsically dependent on the business environment. The simpler the system is, the faster companies can be created, expanded, enter into new sectors and businesses, and move into new activities. The more companies are formed and sustained, the more employment will be created over time. Most of these companies will be micro, small and medium-sized and their creation and possibility of survival is very dependent on the business environment and competitiveness. Large and mega projects are capital-intensive; do not create many job opportunities and often do not face the same business environment as the other companies.

3. Then, simplifying and modernizing the business environment has to be at the center of the agenda of governments. However, simplifying and easing the business climate can only be achieved with strong, consistent and comprehensive government will and determination. The most fortunate reality, in particular in poor countries, is that it is always the case that reforming business environment does not often require financial resources but leadership and a dedicated, open-minded body to design, implement and follow up the reform agenda.

4. Open-mind setting is paramount to the process of improving the business environment. Reform should be done not through revising the current, outdated systems but by defining what really is important to start, sustain and develop a business. Revising existing systems and procedures will be mostly blocked by the bureaucracy on power and financial losses that will not be ever mentioned but are the real reason for not moving forward.

Currently in Mozambique it is estimated that there are well over 100 different licenses needed to establish businesses.

5. Two reports were commissioned to analyze the business environment in Mozambique and share the experience of business environment reforms in Georgia and Rwanda, two of the best world reformers. Mr. Aleksi Aleksishvili, former minister of economy and finance of Georgia, and Mr. Tushabe Karim, member of the Doing Business Unit of Rwanda, were recruited by SPEED to prepare such reports. Both were in Mozambique from the end of April to the beginning of May and prepared separate reports – these reports are included in the Annex.

6. The purpose of this Report is to set a new reform process to rapidly improve the business environment in Mozambique, based on the reports by the two specialists. After the introduction, the Report makes remarks on leadership and institutional framework for business environment reform in Mozambique. The following section proposes areas for immediate action and specific reforms that should be pursued in the short-run. Medium-term reforms are included in section IV. The last section is dedicated to the conclusion. The reports of the two specialists are included in the Annex of this Report.

II. LEADERSHIP AND INSTITUTIONAL FRAMEWORK FOR REFORM

7. Leadership and political will are paramount for business environment reforms to succeed as experience across the world shows. In Mozambique, the leadership has to show stronger determination towards private sector development where little action is happening.

8. The institutional framework in Mozambique for business environment reform is weak and not well defined. Currently, the Ministry of Industry and Commerce (MIC) is the coordinating body for business environment reform. This ministry has a huge unfair responsibility. Most of reforms needed are somewhat identified but most escape the MIC's functions and tutelage. Most, if not all of the reforms, are under the responsibility of other line ministries, implying that, because MIC has not enough power and clout to impose targets and deadlines to other ministries, reforms do not move ahead.

9. Until a *business environment reform unit* (unidade para melhor ambiente de negócios – e.g., “*MAisNegócios*”) is created and located at the President’s Office (PO), few chances exist for success in reforming. This Unit could also be located, as a second best option, at the Prime Minister’s Office (PMO). The PMO has power to determine targets, deadlines and get ministries accountable for each and individual reform. Without individual responsibility and accountability for reform actions, little success will be achieved.

10. Open-mind setting is critical to reform. Reforms to be identified and implemented rapidly should be based on an open-mind setting. Business environment reforms often target simplifying extremely cumbersome processes and procedures, protected by the bureaucracy either for hidden or not powers or revenue collection—often also based on corruptive process. In Mozambique it is currently estimated that well over 100 licenses and possibly some 500-600 procedures may exist to opening a business in all different sectors together. An attempt to find out the reasons for their existence will face unimaginable obstacles which will deter any progress towards reform. The way forward should involve gathering a few of the best practitioners¹ and ask them to define one-single license that serves all sectors,² having only 2-3 pages with all required information for the property registration and tax payer number. In addition, having the license application done over the internet would ease tremendously the process for those with access to the internet.³

11. The Unit should be lead by a senior official with a status comparable to a deputy prime minister. The unit would report directly to the President or Prime-Minister on a regular basis. The Unit would define a matrix of reforms with individual ministries/institutions responsibilities, accountabilities and deadlines. A monthly report should be prepared and presented to the President or PM for a meeting with involved ministers. This report should include performance during the past month, targets for the following month, and overall

¹ A mix of expatriate experts from best reforming countries such as Georgia, Rwanda, Singapore, and Mozambican experts.

² The financial, banking and non-banking institutions, sector follows a separate and dedicated legislation and licensing process. The petroleum and mineral resources sectors also have specialized regulations. These together with monopoly or quasi-monopoly sectors should be the only exceptions accepted.

³ BAUs (Balcão de Atendimento Único, or one-stop license shop) should have computer terminals for companies without internet to apply for licenses.

analysis towards the global objective of simplifying and easing the business environment in the country.

12. This Unit should include professional staff⁴ with ample experience on business environment and reform as well as representatives from the private sector – possibly from CTA, Mozambique’s Confederation of Economic Associations.

III. REFORMING THE BUSINESS ENVIRONMENT

13. In this section, the Report targets the main reforming action that should take place in the short-term. The very first action should be the creation of the dedicated unit (“*MAisNegócios*”) above described.

14. Once “*MAisNegócios*” is operational and empowered, an immediate action plan and matrix should be prepared. Reforms should immediately target the areas of:

- Business licensing;
- Construction permits;
- Property registry; and
- Trade across borders.

BUSINESS LICENSING

15. Business licensing should go through a major and fast reform. Licenses should have a different concept, be a single procedure, and cover all and every sector of the economy, with the exception of sectors included in footnote 2 above. It is proposed that a company to operate should only get registered at the company’s Registrar. Licenses should not exist at all and, in particular, by sector of activity, implying that one company might need multiple licenses. Companies should be able to establish/register itself in no longer than one-day and independently of sector or sectors in which might intend to exercise activity.

16. The registry should only include⁵:

⁴ Some staff could be recruited from Finance, Industry and Commerce, Public Works, Transports and Communication, Justice, Banco de Moçambique, and Maputo-City Municipality.

⁵ The taxpayer number should be issued right after registration/incorporation of the company.

- the company's name;
- name and ID of shareholders and their proportions in capital formation; and
- nature/legal status of the company.

17. The registry should be obtained in one-single place (possibly at the company's Registrar or BAUs and electronically) where personnel with authority can immediately confirm and issue:

- The company's name
- The nature and legal status of the company
- The taxpayer number, and
- The company's incorporation/registration.

18. Companies should only need to incorporate to begin activities, right away. Nothing else needs or makes sense to be required. It is not important which area or activity the company is going to get involved with. What is important is that the company establishes itself, creates employment and pays taxes, and produces goods and/or services that will contribute to increased company and economy income.

19. The following current requirements should:

- The list of employees and registry with the social security system should be done *ex-post* the company begins operations. This should not be part of the requirements for starting a business, and should be done electronically (possibly at BAUs for companies without internet access);
- The declaration of activity with Finance should be terminated. Companies should submit their tax liabilities on time as per the tax legislation. The first tax submission should then identify the beginning of activity;
- With the concept that companies should only get incorporated at the Registrar as the single requirement/procedure for starting a business, there is no longer the need for formal approval from provincial governors or heads of municipalities. Therefore, these approvals should be terminated; and
- Statutes of company's incorporation should not be published in the official gazette. This could be done through any daily newspaper if it is the company's interest. The Registrar keeps a database of all registered companies and can be used by anybody – this database could be turned electronically for ease of use.

20. Legislation should then only include the establishment of a company as described in paragraph 16. All existing licenses would therefore be terminated. Specialized regulatory frameworks should be prepared outside of business registration and operation. Companies operating in these areas would have to follow the dedicated regulations. The areas are:

- Health security: pharmaceuticals, hospital equipment and materials, food safety standards, construction standards, doctors and nurses code of ethics, rights and responsibilities of medical staff and costumers.
- State security: weapons and ammunition production, imports and exports, and sales, and security companies.
- Property security: banking and non-banking financial institutions, rights of using limited resources (e.g., communication frequency, airspace management, etc).

21. The revision of these specialized licenses is important. However, simplification and redundancy should also apply to this process. The basic philosophy should be to ensure that these licenses do not impede starting and operating a business but should only regulate the sector's specificities and possibly lack of competition.

22. What a specialized license should not be is the now existing wide numbers of “*Alvarás*”.⁶ It is not well conceived that a transportation company needs to obtain a different license for each truck it holds/operates. Legislation should clearly establish the rules and procedures for companies to operate and not licenses. This reduces dramatically the possibility of discretionary decision of a license-by-license basis. Licenses should be automatically issued to companies that meet criteria defined by the legislation.

CONSTRUCTION PERMITS

23. Obtaining a construction permit is the worst performance indicator in the Doing Business ranking – Mozambique ranks 155 out of 183 countries. 381 days are, in average, needed to obtain a construction permit. As an immediate action, the current 17 procedures

⁶ “*Alvará*” is a license to operate in a particular sector or sub-sector of activity. There is estimated that there are some over 100 different licenses/”*Alvarás*” in Mozambique. E.g., a road construction company needs to get a specialized “*Alvará*” for roads”, and a different one if decides too also build buildings.

should be reduced to no more than 7-8.⁷ It makes not much sense that the first 5 steps cannot be concentrated in one or 2 steps taking no longer than 45-60 days against the current 125 days. It is also difficult to understand why getting electricity and water connections have to take respectively 53 and 43 days. Finally, the days to obtain an occupancy permit should be dramatically reduced from the current 95 days.

PROPERTY REGISTRY

24. This is the second worst indicator in the DB – Mozambique ranks in the 144th position. The following recommendations are to significantly reduce the number of procedures and days—they mostly require “stroke-of-pen” action through revision of legislation:

- Eliminate the need for a lawyer to prepare the draft sale and purchase agreement. This should be replaced by a standard sale and purchase agreement, which should be obtained from the office of property registration at any time or downloaded from their website.
- The payment of transfer tax (SISA) at the municipalities should be streamlined to a flat tax. A percentage tax normally leads people to under-price their properties. The time for payment should be reduced to strictly one-day through a simple form.
- The requirement to publicly notarize the sale and purchase agreement should be automatic as it is done in presence of a Registrar’s official.
- Registration fees paid as a percentage of the property value should be converted into a flat tax. This avoids under-valuing of property and under-registration.
- Eliminate the need for a company to have to submit the notary deed to the municipality. A mechanism should be set to get the property transfer office to send this information automatically to the municipality.

TRADE ACROSS BORDERS

25. An export in Mozambique involves 7 documents while imports have 9. It is proposed that these be both reduced to only 3 documents. These are:

⁷ Rosário Marapusse prepared a report entitled “Improving Mozambique’s Doing Business Ranking: Recommendations”. This report can be downloaded from the SPEED’s webpage through the link: <http://www.speed-program.com/library/resources/documents/improvingmozdbrankings-final.pdf>

- For exports only the bill of lading, commercial invoice and packing list should be requested. The remaining documents should be dropped as only Customs' related documents should be needed—e.g. the scanner inspection report is redundant as the packing list already details the content of the container.
- The same documents are the only ones needed for imports—bill of lading/airway bill, commercial invoice and packing list. All other documents should be eliminated as they are mostly redundant—e.g. the certificate of origin is only important to the importer as it may allow her/him to pay less taxes due to existing tax agreements. Therefore, it is only on the importers interest to make prove of this certificate and not of Customs.

IV. MEDIUM-TERM REFORMS

26. The business environment is affected by medium to long-term issues. These are land use, access to credit and collaterals, and enforcing contracts, in particular. The Report advances the following recommendations:

- Land use. The possibility of land right users to trade their land rights (DUAT⁸) would enable micro and small companies to have access to an asset that they could use as collateral. This could enhance access to credit.
- Access to credit and collaterals. A law on movable assets (cars, animals, etc.) should be prepared aiming at allowing people to use these assets as collaterals or guarantees to access credit.
- Enforcing contracts. Mozambique already has an Arbitration Unit up and running. Strengthening and providing resources to this unit will accelerate business conflict resolution and arbitration while commercial courts should be strengthened.

V. CONCLUSION

27. Improving the business environment will create an unimaginable space for development of the private sector. This will not only affect the possibilities for creation of

⁸ DUAT = Direito de Uso e Aproveitamento da Terra, or land-use-right.

multiples of new Mozambican companies but mostly important that these might be formal companies, creating jobs and incomes, and contributing to higher tax mobilization.

28. Private sector and business environment in its nature is a multi-sector objective. Therefore leadership and determination to pursue such key objective is paramount. It is imperative that a specialized unit for improving business environment is formed and inserted in the highest echelons of the decision making-process—it is proposed that such unit is placed primordially at the President’s Office or at the Prime Minister’s Office. This unit should be led by a senior official with powers equivalent to a deputy prime minister, enabling her/him with convening and decision powers to keep the reform agenda focused and moving forward rapidly, and ensuring accountabilities for performance.

29. A reform matrix should be drafted by such unit concentrating on the 4 short-term proposed areas—business licensing, construction permits, property registry, and trade across borders. Once action has begun and reform implemented in these areas, the unit should then target reforms for the medium-term.

ANNEX

SOME THOUGHTS AND COMMENTS ABOUT MOZAMBIQUE'S BUSINESS ENVIRONMENT AND POLICY CHALLENGES

Aleksi Aleksishvili⁹

General Findings and Comments

I had meetings mostly with mid- level government officials and international organizations. We were not able to meet with high level political leadership to get their view about the business environment and their approach for further reforms. During the two weeks assignment, I met the Vice Minister of Finance and the Vice Minister of Industry and Commerce. I also met the Head of the Tax Authority, the Director of Special Economic Zones (Ministry of Planning and Development), some international organizations' representatives and business community leaders.

1. **Lack of leadership.** Based on these meetings, there is obvious lack of the leadership, vision and a policy strategy view. On one hand, there is no responsible political leader for the overall reform planning and implementation process (officially Minister of Industry and Commerce (MIC) is responsible for the coordination of the process but most of reforms are outside of his scope. MIC has neither enough power, nor political instruments to facilitate the process of reforms). On the other, there are not well-identified champions. The only person, who is doing something in terms of improvement in business environment and is proud of it, is the chairman of Tax Authority at the MoF.

There is no real and strong political commitment from the top political leadership to deal with business environment reform. Based on this, there can be two broad approaches which can be done separately or simultaneously, parallel to each other:

a) Find and convince a top political leader to champion the process. This process should be managed by the Prime Minister or by a Deputy Prime Minister (one of the ministers could be assigned and receive the powers of a Deputy Prime Minister).

b) Select some ministers and/or heads of agencies who with support will prepare the needed policy strategy documents. We met government officials (for example, the head of the Tax Authority), who are making important steps towards improving the business environment. It is important to further encourage them with technical assistance -- this assistance could be through "micro" policy strategy papers for their agencies. These documents should be officially adopted by them as an official vision for these agencies. This document should be brief but reflecting all major goals to achieve in the next 3 years. It should include clear goals, sequence of development steps, and results. This document should be used by all stakeholders, beginning with the top level officials clearly defining the best messages of what they want to achieve, how, and when.

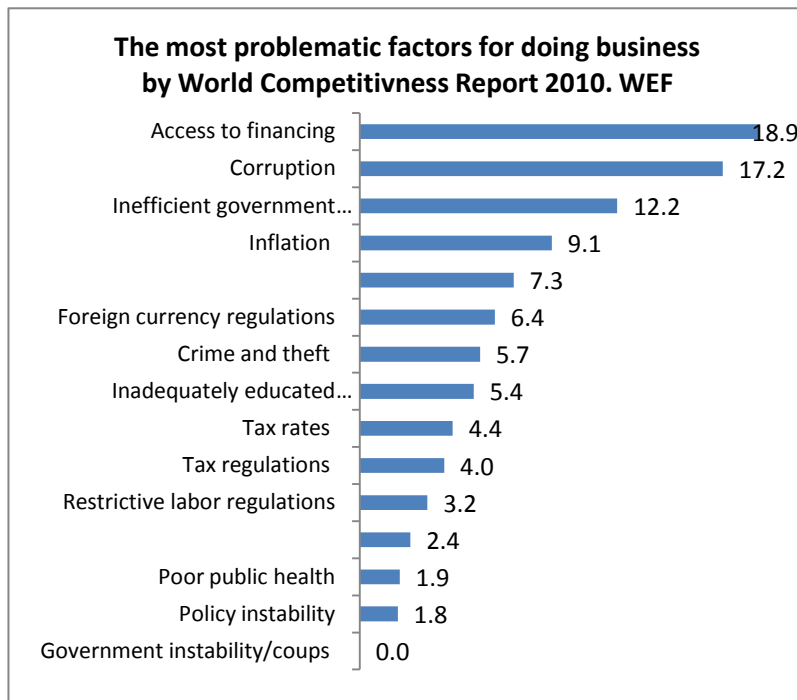
⁹ Aleksi Aleksishvili is the manager of the Policy and Management Consulting Group (PMCG), a Georgian consultancy company providing technical advisory services to countries around the world. Mr. Aleksishvili is a former minister of economy and finance of Georgia.

Following each or both of these approaches, there should be a common understanding of the philosophy and concept of the reform. The government (e.g., economic block ministers) should agree on common principles and general decisions. All ministers have to have clear messages and assignments, and they should deliver these messages down to their agencies. The messages should be:

- a. Everybody are liberalizing their sectors and eliminating ministries' regulatory functions to reduce the bureaucratic burden: no licenses, no permits, no any type of pressure on businesses; no relationship and links should exist between businesses and the state institutions.
- b. All international and foreign aid and technical assistance should adhere to these principles and each minister should decide how to use them in their strategy and day-to-day activities.
- c. None of the international technical assistance programs (except humanitarian or civil society programs and projects) should be started and implemented without the endorsement and approval of the government.
- d. Coordination of reforms should be done by the PM or DPM.

2. **The -philosophy and concept of the ROLE of Government and SIZE of Government** should be discussed often and during every decision-making process of the government. There is a lack of understanding and vision of the role of government in the economy and its size in the economy.

Ease of Doing Business in the Region										
Doing Business Report 2010, The World Bank										
Economy	<u>Ease of Doing Business Rank</u>	<u>Starting a Business</u>	<u>Dealing with Construction Permits</u>	<u>Registering Property</u>	<u>Getting Credit</u>	<u>Protecting Investors</u>	<u>Paying Taxes</u>	<u>Trading Across Border</u>	<u>Enforcing Contracts</u>	<u>Closing a Business</u>
South Africa	34	75	52	91	2	10	24	149	85	74
Botswana	52	90	127	44	46	44	21	151	70	27
Rwanda	58	9	82	41	32	28	43	159	39	183
Namibia	69	124	36	136	15	74	99	153	41	53
Zambia	76	57	158	83	6	74	37	150	86	97
Kenya	98	125	35	129	6	93	162	144	125	85
Uganda	122	137	133	150	46	132	62	148	113	56
Mozambique	126	65	155	144	128	44	101	133	132	129
Tanzania	128	122	179	151	89	93	120	109	32	113
Zimbabwe	157	143	172	82	128	120	131	168	110	156
Angola	163	164	128	174	116	59	142	166	181	147
Congo, Dem. Rep.	175	146	81	118	168	154	163	172	172	155



Looking at both indicators from the Doing Business Index and World Competitiveness Index, we see that the most obvious and problematic issue businesses and overall society are related to the heavy bureaucratic burden. Corruption usually is also a matter of bureaucracy and a result of meaningless functions and authority, e.g., licensing, permits, authorizations, and other procedural and paper-demanding requirements.

The government should clearly identify those areas where it has to create regulatory frameworks. These should only be:

- a) Health security: pharmaceuticals, hospitals, doctors, food safety standards, construction standards, etc
- b) State Security: production and/or trade by weapons, security companies, etc
- c) Property Security: banking system, right of using limited resources (ex. communication frequency, etc)

Licenses in all other areas should be immediately eliminated. A license is not a measure for preventing any problems. This is a preliminary screening procedure on the stage of entering the business. If these procedures and/or documents are unnecessary, they should be immediately abolished.

3. **Shadow (informal, black, etc) economy.** There are four main reasons why the shadow-economy exists. An entrepreneur keeps the business illegal if:

- a) Starting and registering the business legally is too difficult. It needs special knowledge, help from lawyers, and/or is related to additional expenses. Then, the solution is to make “the process of starting a business” as easy and cheap as possible (if not completely free).
- b) Difficulties in dealing with taxes and other bureaucratic procedures during the business operation. The solution is the simplification of tax procedures with self-

compliance and payment mechanisms; reduction of licenses, permits and other bureaucratic obstacles.

- c) Unfair Competition possibly caused by tax administration:
 - i. Corruption - increase and improve anticorruption measures (another large issue, which needs to be separately discussed from the tax system reform); and
 - ii. Tax exemptions (privileges) – reduce tax exemptions as much as possible.
- d) Dishonest entrepreneurs have the perception that they will not be punished and by paying bribes, they can overcome every problem. There should be clear evidence from the government that they are not tolerant with **big hidden** businesses and tax evasion. The government has to have a fair and just approach with every business and this should be really demonstrated with specific cases.

4. **Donor's involvement.** Sometimes the international donor community can become a barrier for changes and reforms. The main reasons are:

- a) They have a different vision or lack of it. Economic systems vary from country to country. There are consultants with very conservative and socialist viewpoints. There are other with opposite views. This creates a serious misconception. Then, the main actor should be the government and who takes decisions.
- b) They have already spent large amounts of money on useless government institutions, “strategic papers”, “capacity building projects”, etc., and now, making any changes, could contradict previous activities and create a painful process to these donors. As a solution, there should be strong government views and positions regarding policy implementation.
- c) In some cases, foreign experts know how good systems work, but they have lack of knowledge how to build a new system or transform a soviet-type system into a new one and make it functional.
- d) Lack of continuity and coordination of reforms is another problem that could make the donor community restrictive on changes and reforms.
- e) Rivalry among donors and “hunting” for ideas could make them closed and non-shareful.

Then, government leadership is vitally important to ensure proper use of international assistance. Based on our recommendations, the institution with reform management responsibility (Prime Minister or Deputy Prime Minister) should coordinate and lead the donors' assistance programs. The government should identify priorities and lead the internationals to follow these priorities.

5. **Too much effort on (Strategy) Paper development.** Strategic vision and strategic papers are important, but there is always the temptation to prepare too many strategic plans and very detailed action plans for the whole reform and economic development process. This might be a waste of time and money. We should focus on business development, in general, and make the business environment reliable. In most cases, there are obvious problems (licenses, permits, cross boarder procedures, property registration procedures, etc) that create obstacles to businesses. The best action is to abolish them, rather than rewrite this action from one paper into another.

6. **Bureaucracy very often justifies their burden** (licenses, permits, standards, etc) on the businesses by requirements from EU, UN, WTO, WCO, ILO, IMF, WB, or others. Usually,

the bureaucracy even uses these organizations as the mentor-institutions for the country's definition of procedures. In most cases, this is not even true. They either make up, or exaggerate some rules, or do not understand them properly, or just copy them blindly. But to double check or review the topics in detail one needs highly qualified experts and, in most cases, there is not enough expertise to verify whether this or any other requirement is really in place or not, and what would that mean in practical terms.

The only solution should be that governments should not take decisions on following any requirements in terms of business regulation, unless they are completely sure that the decision is clear and harmless for business development.

7. **Involvement of Academia and Universities** in the reform process. There is a need for public support. The government and projects (like SPEED) should find NEW professionals: professors, lecturers, researchers, etc. Together with locals, there might be professors, lecturers, researchers, etc, working in foreign universities. Their involvement in the project events, discussions, reform preparation process will create group of new people supporting the reform agenda. There is no need to institutionalize this relationship (like, creating experts boards or councils). The opposite should be better served; the less they are associated with these projects and more active they are supporting, the better will be for the reforms.

8. **Political dimension of the reform.** For proper implementation of reforms one of the most important issues are:

- a) Sequence of actions – in some cases, one should lead to another. Otherwise, the whole process of reforms can be discredited and fail. For example, in Public Finance Management Reform the sequence of actions and micro-changes should be very clear.
- b) Language – it is important to use proper language for public use and popularization of the reform. It should be as easy and as positive as possible. From my point of view, calling “guillotine” to the reform process is a mistake. This terminology can be used for academic use, but not for political use.
- c) Political messages and symbols – there are some signs that show the mindset and culture of the society, which should be changed; and there are some important political messages and symbols that should contribute to the reform and popularization of free-market economy. For example, celebration of nationalization of the economy and assets in the economy is a “bad” sign.

Comments on Strategy for the Improvement of the Business Environment in Mozambique 2008-2012

My overall evaluation of the strategy is “weak”. Of course, there are some good ideas, but as a document that should deal with policy vision towards the free business environment, this is “weak”. The Strategy is a mix of very broad and general issues, and very narrow technical issues, which should not be a matter for a strategy. Also, there are some conceptually improper recommendations as well.

Some comments:

1. (Pg 1) From the starting point, in the INTRODUCTION there is a list of government priorities. One of them (#4) is the “adoption and adaptation of ISO and regional norms, in accordance with the needs of the private sector”. This should not be a priority. The reality is that the government should not have anything to do with ISO (as a management standard)

certification of business entities. This should not be the government's role and function. This should be left to businesses to decide, whether they need them or not.

2. Some statements are not completely clear and understandable: "In fact, without financial support, it will not be possible to realize Government policies and strategies favoring the private sector" (Pg. 3). Does this statement support the government's intervention in business activities? If YES, than this is completely a wrong statement. The Strategy's MAIN IDEA should be less intervention on the economy and businesses, less subsidies, less distortions, less regulations, etc.

3. The Strategy does not clearly state ELIMINATION OF UNNECESSARY PROCEDURES. For example, it says that previous requirements for business registration – publishing of statutes of companies in a printing form had been changed by electronic publishing (pg 6). Thus, the registration time being reduced from 29 to 5 days. But instead of saying, that this requirement - publishing of statute is nonsense and should be completely eliminated, it says: "*it is necessary to continue with the survey of superfluous proceedings and demands in order to reduce the bureaucracy still involved in this process*".

4. Never is said in the Strategy that there are too many licenses, permits and other types of regulations that should just be eliminated and abolished. It indicates as a major problem the inadequate legislation, Poor Coordination and poor dissemination (pg 6-9). To solve this issue, the Strategy recommends creating inter-ministerial or inter-sectoral committees, etc. This is NOT a solution. This is a serious error of the strategy. There is no need to teach the government how to find the most ineffective ways – by creating committees.

And another wrong recommendation is: "*... it is urgent to approve the Decree on Simplified Licensing... new investments, especially of micro, small and medium enterprises*" (pg 12). This is a completely wrong recommendation and initially contradicts the CONCEPT OF LICENSING. Either these licenses are not necessary at all and they have to be abolished, or they should only have a unified procedure for everybody (large and small businesses).

It also includes unclear recommendations about licensing at the municipal level (pg 13). It should be very clearly stated that all issues related to business environment have to be decided at the central level. All rules and procedures should be elaborated at the central level. Municipalities must only implement these rules and procedures or otherwise the country will have different rules and procedures from municipality to municipality.

As the first and urgent step for improvement of registration and starting businesses, should be the elimination of the so called "Commercial Licensing - alvará". "Alvará" has exactly the same purpose as state registration. This is a duplication of registration and commercial licensing and it should be abolished.

5. Labor environment is a very important and crucial issue. The Strategy's part on the labor environment is the WEAKEST part of the strategy (pgs 13 - 15). It is even worthless to discuss it. The recommendations are conceptually wrong. For some extent, they are very naive and funny. For example, "One of the objectives of the Government's Five-Year Plan is to value and promote the work ethic, zeal, honesty and accountability. To achieve this objective it will be necessary for employers to improve working conditions as an incentive, in order to increase production and productivity rates" (pg 15). The main point is that this is not the government's job, it has nothing to do with the employer-employee relationships, and

these regulations should be abolished. Labor inspections should also be abolished. Labor permits or licensing should be eliminated, etc.

6. Inspection of Economic Activities is also a very important factor in the business environment. But the strategy still emphasizes that there should be inspection on labor relationships and consumer rights (pg 17), which is a wrong concept to improve the business environment. These are not government's inspection functions.

7. In import-export operations, the Strategy's recommendations are also very general and WEAK. For example, "reduction of the storage time of merchandise at FRIGO" (pg 19). This requirement for storing merchandise at FRIGO (one of the monopolistic private storage facilities) should be abolished at all and there should be different options for importers to deal with customs clearance (introduce new open and closed customs warehouses, etc).

8. While the causes of informal sector development are stated properly, the recommendations (strategy actions) for the resolution of these problems are very general, wrong and ineffective (pg 20). For example: "integration of the informal sector in forums for dialogue between the public and private sector". This is just funny. I expressed my thoughts about informal sector above in this document. The ONLY solution to fight against the informal economy is to liberalize (make doing business easier and cheaper) and punish "big dishonest fishes" in both, government and businesses.

9. Fiscal reform is a complex issue that cannot be completely covered in this strategy (pgs 21-24). The Strategy should rather focus on broader points and push them forward. For example, for a "good" tax system there are three major requirements:

- a) Simplified procedures for every tax operations: registration, accounting, filing, paying, closing, self-compliance, etc
- b) Non-corrupted and non-discretionary administration: less communication with taxpayer, automatic administrative measures, clear and public anti-corruption activities against dishonest taxpayers and tax officers.
- c) Clear tax appeal system: there should be some type of separate, independent and well managed tax appeal institution either under MoF or Prime Minister, which should review particular appeals from tax payers.

10. Access to financing. In this part as well, the Strategy mentions problems of collateral and guarantees as an impediment for businesses accessing finance (pg 25). But in the recommendations there is nothing about it.

Moreover, the recommendations are full of very general and unclear statements. For example: "stimulate issuing of bonds, obligations, shares and other financial products that may serve as long-term debt instruments, outside the commercial banking sector"(pg 27). It is unclear what type of bonds and obligations are recommended. Are these government Bonds and Obligations? If YES, then this is a wrong direction. Government bonds will reduce (suck out) financial resources further. If these are PRIVATE business bonds, then this is a very complicated and almost unrealistic target, at this stage.

At this stage of development, capital market is far behind from performing well. There is a very small stock exchange and capital market infrastructure. Any issue of bonds, obligations, and/or shares will face serious problem to be circulated and traded. Therefore and in this case, it would be much better to concentrate on Mozambique's capital market integration

with other markets – e.g., South African. The target should be: How to make Mozambique’s registered company shares, tradable at Johannesburg stock exchange. The government should contribute through making enough structural infrastructures (legislation, financial supervision institutes, etc) to ease these types of transactions.

But even in the case of all above mentioned is done properly and the capital market integration and development goes forward, this is not a final and proper solution to the problem of access to financing. The most problematic group of companies and people suffering by lack of financing are small and medium sized companies. For these (in agriculture, tourism, trade, or other services), getting credit is the most important problem and they cannot deal with that because of lack of collateral.

Another issue addressing the financing problem for micro, small and medium size businesses, is the development of Micro Financing. There is only one paragraph about this and it is not addressing the problem. It is absolutely unclear what it means - “continue the consolidation and expansion of micro-financing.” Consolidation of micro financing is not and should not be a target. Why do we need consolidation? In the contrary, the main target should be to formulate micro-financing environment and regulation for these institutions to emerge more and more. Please, keep in mind, that the micro-financial institution is NOT a bank or depositary financial institution. Then their regulation should be soft and stimulating their creation.

An important issue is loan agreement enforcement (in case of non-performing loan operations) by an alternative arbitration system. If the loan contract enforcement (claim on collateral or other assets) is very complicated and depends only on the judiciary, banks will not expand their portfolio with small industry projects where risk could be much higher than possible gains. That’s why they would focus on financing instead on large industrial or trade transactions.

11. Infrastructure is a very important ingredient for business environment and development. But the Strategy only covers ENERGY and even those recommendations are improper. Some recommendations are supporting the idea of tax exemptions, preferences and price differentials. For example: “... reduction of taxes on fuel for farmers” (how do you distinguish taxes on fuel that goes to farmers or non-farmers. It’s impossible); or “Differentiate energy and fuel tariffs according to productive and non-productive purposes” (this is also absolutely nonsense. Who decides what is productive or non-productive? And how?) (pgs 28-29).

Firstly, this is not a solution and secondly, these policies will create additional distortions to the energy market. The Energy sector must be deregulated to stimulate investment. For example, is it possible to have at least small (up to 20 MW) or medium size (up to 100 MW) private HPP? Is it possible to have direct contracts between the HPP supplier and the consumer (industrial company)? Does the current monopoly allow private investors to create this relationship? These are questions which are critical in the energy sector and the strategy should address these issues with policy measures.

On the other hand, there are other important areas in public infrastructure that should contribute to business environment and overall development: roads, transport, water supply, sanitation, sewage system and management, etc.

The strategy should emphasize general models and views about the government policies to support public infrastructure development. In some cases, it should include complete deregulation and de-monopolization. For example in transport: In air transport – abolish national carrier status and introduce “open-sky policy”. In maritime transport – abolish any licensing or permits (not technical, but on economic activities). In land transport – abolish regulations for cargo transporting companies.

12. Chapter 4.2. On the protection of the Investor, once more it shows the author’s very unprofessional approach towards the DB indicators. The author of the Strategy completely misuses this issue. Hopefully, this is because of her/his unprofessionalism and is not purposefully.

The Strategy emphasizes that “Protection of the Investor” is a question of transparency, “... openness to offer investors information on the situation of enterprises from the point of view of their practice, be it financial or ethical, in doing business. These data are extremely relevant for the investor who is not acquainted with the country, and intends to establish a partnership with Mozambican enterprises...”. And because of this, the recommendation is that “The actual Business Information Center could include in its tasks the establishment of a data base on enterprises, so that it could provide this service” and this center should be equipped with “sophisticated information technology and qualified staff”. This is “new brilliant idea” for creating additional bureaucratic institutions, creating new administrative burden for providing the information, for new inspection instruments against businesses (someone has to check whether they are providing information or not, and if not whether it is correct) and for creating additional donors assistance for capacity building.

In reality, the DB Indicator “Protecting the Investor” does not have anything related to new investors. It “measures the strength of minority shareholder protections against directors’ misuse of corporate assets for personal gain”. The indicators distinguish 3 dimensions of investor protection: transparency of related-party transactions (extent of the disclosure index), liability for self-dealing (extent of the director liability index) and shareholders’ ability to sue officers and directors for misconduct (ease of the shareholder suits index). ” For more details you may see: <http://doingbusiness.org/methodology/protecting-investors>.

Therefore and in summary for this issue, this is a matter of corporate law which should consider protecting measures for minority shareholders. This is purely a legal issue and has nothing to do with bureaucratic intervention in it.

13. **Property registry** issue is crucially important for business development: for collateral, for asset transactions, and for tax administration. Property registration should be easy, simple, clear, automated, etc. The government has to take this issue as the most important priority of the reform agenda. This is not a matter of comfort for someone. This is the instrument to transfer assets from ineffective users to effective ones. It should encourage people to make transactions.

Comments on report: Improving Business Registration, Licensing and One-Stop Shop Delivery in Mozambique, Prepared by the World Bank Technical Assistance Mission. May 2011

1. The Report is well prepared and properly states all challenging issues related to business registration and the operation of BAUs.

2. The Report properly advises on “combining incorporation and commercial licensing – effectively abolishing the alvará” (pg. 3, pg. 17).
3. Using single registration number is feasible (pg. 17, pg. 21)
4. Abolishing Founding/Statutory Capital requirement is very important and feasible (pg. 23).

As a conclusion, if the government wants to simplify and improve processes in terms of business registration, they can use this report as a tool-kit and very effective instrument.

Conclusions

There are some areas of business environment, in which immediate intervention and reform can take place. For instance:

- Abolishing the ALVARÁ as an additional burden for business registration.
- Elimination of the requirement for statutory capital.
- Elimination of the requirement for publishing the statutes of the newly established company.
- Making BAUs as a real OSS or move this function to the tax authority, using one-single account for company registration and identification.
- De-monopolize the economy, infrastructure, and especially the transport and communication sector.
- Elimination of inspections. Only fiscal institutions (tax authority or financial police) should have an inspection function.

There are some more complicated areas, where more detailed and intensive work is required:

- Tax policy and administration
- Customs administration and border management
- Land use and property registry issues
- State property management and privatization
- Construction permits
- Public Finance Management and Transparency

The Prime-Minister or Deputy PM should deal with the whole process of reforms. There should be intensive work (weekly meetings and reporting) to the leadership from different ministries and agencies. All decisions should be supported politically from the president and political leadership (FRELIMO).

The whole process should be managed by the government and international support must be properly utilized. All international projects should be driven on a coordinated way.

Particular Areas for Further Support in Reform Implementation

These are areas in which Policy and Management Consulting Group (PMCG) experts and expertise might be further used. In these areas, Georgia has had an outstanding experience among post-soviet countries. Thus, PMCG can provide further services in the following process of reform implementation:

1. **Tax Policy and Administration**
 - 1.1. Precise review of tax policy, legislation and administration.

- 1.2. Simplification of tax procedures (compliance, filing, declarations, payment, etc).
2. **Customs Reform and Boarder management**
 - 2.1. Review of Concept documents about boarder management coordination.
 - Border crossing process should be really simple and well organized: using risk management systems.
 - Eliminate, or at least, unify some fees as much as possible. For example, if there are several different fees for Phytosanitary and veterinary check purposes, unify them into one
 - Equip Border Check Points (and other areas) with web cams and create monitory center at the Headquarter of Revenue Service. Some cameras might be seen online and live via internet. It will increase a transparency and communication to the public (Georgia did that in Geo-Turkey BCP: <http://www.livegeorgia.ge/en/sarpi-live/georgia-turkey-border.html>). In Georgia it has 2 main purposes: 1. client can see whether there is a traffic jam at the border and 2. It increases visual transparency of Customs Department in the public.
3. **Public Finance Management Reform and Procurement systems**
 - 3.1. Budgeting and financial management needs to be more transparent.
 - 3.2. Doing business and any particular reforms is very closely linked to budget expenditure side. So, proper planning for short-term and mid-term budget allocations is crucially important.
 - 3.3. Proper use of funds and cash management is also the problematic issue.
 - 3.4. State procurement system is also very important. It should provide more transparency for proper public spending and fair competition.
4. **Construction permits and construction standards.** Based on soviet inheritance in technical standardization, Georgia's experience to reshape construction permit and standardization system is really outstanding.

DOING BUSINESS REFORMS IN MOZAMBIQUE: COUNTRY ASSESSMENT REPORT AND RECOMMENDATIONS

Tushabe Karim¹⁰

INTRODUCTION

The main target of any country in its doing business reform agenda is to ensure efficient, effective and accountable reforms as a basis for the encouraging a competitive business environment that can be translated into private sector development.

The Government of Mozambique launched a strategy for improvement of the business environment during 2008-2012. This strategy focuses on building human resource capacity, putting in place easy and efficient systems and procedures for effective doing business reforms and strengthening institutions in form of creating linkages (inter ministerial committees).

However, after a careful study of the strategy as well as numerous meetings held on one on one basis with both the members of private sector federation and members of public service, in a period of two weeks, and through the public hearing that was led by the head of Economic Associations and the donor meeting ,

It has come to our understanding that, whereas the need to reform is enormous from both parties mentioned above, whereas it is clearly seen in the strategy that is in force that, the will to reform does exist, there leaves much confusion as there is no proper mechanism of reform agenda in the country.

The assessment made in the two weeks period in comparison with the World Bank doing business report 2011, clearly indicates that, a lot of efforts from both private sector and government is needed. And to be specific, the government has to go an extra mile if doing business in Mozambique is to be realized.

The role of private sector community in the reform process is basically on advisory basis. They are the people who should help the government identify the reforms as they are the people facing direct hindrance in their day-to-day work.

The role of government, which is very fundamental, is to avail political support of the highest order to implement the reforms efficiently and on a timely manner. With the experience of the countries which have been very successful in doing business reforms, political support from top government echelon has been a key factor. In most cases, Heads of States have been the overall champions of the reforms whereas the Prime Ministers roles have been to oversee the implementation process and reporting to the president.¹¹ There is NO doubt that, with the

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¹¹ This applies to countries with presidential democracies where prime-ministers do not lead the executive but have in general a coordination role of key policy issues.

involvement of the top leadership, reforms will take place and Mozambique has the potential of reforming.

The other factor that has been seen in reforming countries is that reforms do not require much funding. Normally this has been a main obstacle to development processes but with reforms, all that is needed, is shared commitment amongst the top leadership in the country.

Mozambique ranked 126th on the World Bank's Doing Business 2011 Survey of 183 economies on ease of doing business. The top position in SADC countries is targeted for the next year's survey according to the Mozambique's Strategy for improvement of the Business Environment 2008-2012. This assessment analyzes different indicators of the Doing Business Mozambique and suggests quick-win reforms that can be implemented in the short-term, and reforms that can be implemented in the longer-term (1-3 years). Both types of reforms will significantly improve the overall and in particular the indicators' ranks. Below are the recommended reforms as per Indicator.

ACKNOWLEDGEMENT

This report was compiled by TUSHABE Karim, a private consultant. He was hired by Nathan Associates Inc under the supervision of Ashok Menon. During the consultancy period, the consultant was facilitated by the SPEED PROJECT, a USAID-financed project, based in Maputo under the guidance of Scott Simons.

Many thanks go to Scott Simons and the team. Antonio Franco and Rosario Marapusse assisted in coordinating the meetings between private sector community and government institutions as well as rend translation services from Portuguese to English. We appreciate also Sheila Amaro who was responsible for all the logistics.

The role of all the people interviewed was enormous. Without their contributions, we would not have been able to gather all the important information regarding the business environment in Mozambique. Their input contributed to our formulation of the reforms highlighted above. The details of those who contributed are hereunder elaborated.

REFORM PROPOSALS AND RECOMMENDATIONS

I. Starting a Business Indicator

The current status/DB ranking is 65 out of 183 countries, with 9 Procedures, 13 days, and 13.91% GNI per capita as cost.

Recommendations

1. The preparation of the articles and memorandum of association should be made optional and not mandatory. They should be replaced by a standardized application form that should only have key information needed for the articles of association. For instance:

- Company name
- Particulars of share holders
- Nature/legal status of the company
- Share of capital
- Number of shares per share holder, etc.

For the case of the memorandum of association, the law should be having standard provisions that show how companies are managed. For instance, it should be indicating corporate management of companies, separating roles of directors, introducing roles of company secretary, director's liability, immediate disclosure, etc.

The implementation of this reform shall drastically reduce the time spent during preparation of articles and memorandum of association, as well as money spent given the fact that they are prepared by lawyers to whom the government cannot set rates.

2. The requirement of opening a bank account and obtain a verification of deposit with a local bank should be abolished. This does not serve any benefit to government (unless if there is a strong argument). Otherwise, it is only in the interest of the businessperson to open a bank account. After all, the account is supposed to be opened in the name of the company and yet, at this stage, the certificate of incorporation is yet to be issued, which legally does not permit a bank account to be open in the company's name.

3. The requirement of a businessperson to register for taxes and obtain NUIT from finance should be abolished. This can be replaced by making a separate page on the consolidated form mentioned in 1 above. This page should include information that the business person should have presented at the finance department. To do this, the finance department shall designate an officer WITH AUTHORITY who will sit at the office of the Registrar General of companies to verify information and issue out the NUIT.

The implementation of this reform shall reduce time that was spent when looking for a NUIT at Ministry of Finance as well as cut on procedures for any movement from one office to the other, no matter how near or fast the other office is. Moving from one place to the other is counted as another procedure according to the World Bank doing business criteria.

Further, the fewer the businessman's involvement with government agents, the quicker the services.

4. The requirement for simplified operational license from the president of Conselho Municipal is not necessary. It should be abolished. If there are strong reasons to this effect, then the Conselho Municipal should liaise with the office of the Registrar General of companies to find ways of sharing information.

5. The requirement of declaring beginning of activity at the tax department should be abolished. It does not make sense simply because at times it is very difficult to know the day one will exactly start business. It is easy for one to register the company for purposes of looking for finance. And normally, the process of loan mobilization takes some time, implying that one cannot predict the day the bank will give him/her the loan to do business. And, many other factors might lead to a businessman not knowing the exact date of beginning his proposed activity. Besides that, the reason for such declaration to tax authority is not clear since the businessman will have been given a NUIT.

6. The requirement of a businessman to register with the social security system as a separate procedure should be abolished. This can be replaced by adding a separate page to the consolidated form mentioned in 1 above so that the page can include all the information that the businessman was supposed to submit at the social security system. Basically, the social security system shall designate an officer **WITH FULL AUTHORITY** to the office of the Registrar General to verify the information and if found okay should issue out the social security number which the businessman should get immediately he receives the certificate of incorporation.

7. The requirement of declaring the beginning of activity and registering job candidates at the provincial employment center should also be abolished. The provincial employment center can liaise with the officer of the social security system at the office of the Registrar General to get the information that the businessman was supposed to submit.

NOTE: The above reforms shall reduce the 9 procedures as per World Bank report 2011 to **ONLY TWO** procedures. However, there is a need to verify with the company law and if there are amendments necessary, then, it should be given priority such that, by the end of May 2012, the reforms are in place.

ALSO, all designated officers mentioned above **SHOULD** be given full authority to issue out permissions and avoid going back to their respective offices for permission. The purpose is to reduce procedures involved when moving from office to office as well as reducing time taken.

Another **IMPORTANT** point to note is the need to reduce the businessman direct contact with the said officers which, at times, results in unnecessary delays as well as elements of corruption.

In this case, the businessman shall **ONLY** deal with **one person**, the registrar of companies, when submitting his application. He will be given time to correct his certificate which should not take more than 24 hours. These designated officers shall be working in the back office of the Registrar General.

The use of designated officers should be treated as reforms of a short-term period. For long-term reforms, there should be a unique number that shall be used as one for purposes of tax, company code as well as social security system. **HOWEVER**, this shall be reached after the office of the Registrar General is fully automated. This will also lead to online registration.

WHAT SHOULD BE DONE?

There should be a high level political support to the above reform proposals so that, a meeting between all the stakeholders in the process of company registration can take place with ease. All the stakeholders should be given a timeline for designating their officers, and any failure or delay to do that should have an answer or penalty. (Stakeholders mean all the institutions that the businessman was supposed to register with before he can get his certificate of incorporation.)

Observation: Apparently, small businesses which do not require Environmental Impact Assessments are registered in what is called BAU (one-stop business registration office) and the larger businesses are registered by the provincial governor.

Recommendation to this observation is to have all businesses registered in **one place**. The BAU has in place a good idea of serving the business people but the designated officers still need to get authorization from their respective offices. This does not serve the purpose. The BAU needs to be re-enforced and given broader mandate to register all businesses in one place.

II. Dealing with Construction Permits

The current DB ranking is 155 out of 183, with 17 procedures, 381 days, 530.34 GNI per capita to build a warehouse

Recommendations

There is a need to establish a one stop center (OSC) in the municipality for dealing with construction permits. This center shall house all the urban construction and planning officers, engineers, architects who normally handle the construction dossiers before the issuance of construction permits.

On the issue of utilities (telephone, water, electricity and sanitation) there should be a merger of all applications into a consolidated application such that, if a businessperson applies for a construction permit, information provided should be circulated to the utilities by the One Stop Center, and the utilities should be in position to provide services upon finding that they are okay.

The OSC should make a check list of all required documents and make them public (on website, official gazette, newspapers, etc.) such that, a businessperson intending to build a warehouse shall make an application based on the checklist. This will reduce time taken to get information regarding what is needed as well as avoiding the circumstances where one can be told to go back and bring more documents.

Further on this indicator, the OSC should look into reducing the time taken to issue out permits and also look into reducing the fees required. This should be done boldly and the time line given to issue out permits should be published for public knowledge. Also there should be administrative measures established for purposes of sanctioning the officers at OSC who will fail to deliver in time without valid reasons.

NOTE: To avoid congestion of building permits request, the OSC should be established purposely to handle dossiers with commercial purpose ONLY. Dossiers for residential can be handled where they were handled.

III. Registering Property

Current DB ranking 144 out of 183, with 8 procedures, 42 days, 9.9 Cost (percentage of property value)

Recommendations

1- The requirement for a lawyer to prepare the draft sale and purchase agreement should be abolished and replaced by a standard sale and purchase agreement which one can pick from the office of property registration at any time or download it from their website. Since the standard draft sale and purchase agreement will be online, then it should be free of charge for there will be no more papers or staff to be paid for issuing/handling that work.

2- The payment of transfer tax (SISA) at the municipality tax office should be streamlined through paying a flat tax. Normally the payment in a percentage leads to people under pricing their properties for the fear of paying much in terms of taxes. The only solution is to apply a flat fee that should be reasonable. Further, the time for payment should be reduced to strictly one day rather than three days.

3- The requirement for submission of sale and purchase agreement to a public notary to notarize the deed should be made optional. In other words, if the seller and purchaser can sign their sale and purchase agreement in the presence of the registrar of lands, then that transfer should be made and regarded as authentic and legal.

4. Requirement of registration of building at the real estate registration office by paying registration fees in accordance to a percentage should also be streamlined and replaced by a flat fee. Otherwise, this method, as it is, discourages investors higher payments will be due to purchases of high value property. Finally, it looks as if one is penalized for having bought a high value property. This practice of charging a percentage on property registration has led to many people in Maputo to stay away from registering their property. And as result, people have ended up having no access to loans as they do not have registered property for mortgaging in banks.

5. The requirement of a businessperson submitting the notary deed to the municipality should be abolished. The municipality should have a mechanism of getting this information from the property transfer office. This is only a submission of a document. There is no need why it should take 3-14 days with 8 procedures. It should be abolished as a requirement and this reform shall have removed the 14 days counted by World Bank together with 8 procedures also counted in this indicator.

The reform in this indicator shall lead to ease of property registration and people in Mozambique shall have legal documents regarding property ownership. This will create a better environment towards loan acquisition from the financial institutions.

IV. Getting credit (long-term reform)

Land in Mozambique is fully owned by the state. According to the banking regulation, one needs to have collateral as a guarantee to access loans. Further, the strategy indicates that there should be a mechanism of finding more means of collateral for people to access credit.

It is along this line, that, there should be a Law on movable security interests whereby people with movable assets can use them as guarantee to access credit. This reform shall bridge the gap that is created by not using land as collateral. By this law, people with cars, domestic animals, crops in plantations or stores, etc., shall have access to credit.

This reform can be categorized in the long-term reforms for there is a need to draft and pass the law. However, it should be given priority, for it is the only means of making people access loans in a way that is convenient and legal. As of today, means to access loans are limited and yet the country has the potential of getting loans using movable assets.

V. Private Credit reference bureau (long-term reform)

For the country to get a better rank in this indicator there must be a private credit reference bureau. However, there must be a law first that will create its legal basis. The public credit bureau which is always housed in Central bank is not enough. The creation of a private credit reference bureau will not only make the country attain good rank in DB assessment but also encourage private investments in financial institutions. The investors will be having a credit report that will guide them when making financial due-diligence before issuing out loans.

The other advantage to the bureau is that, businesspeople with credible credit reports shall have higher access to credit than those whose credibility is questionable.

VI. Protecting Investors (long-term reform)

The company law should be amended to reflect the following:

The disclosure index, extent of liability index and the ease of shareholders suits index should see strengthened the disclosure of a conflict of interest between the members of the board and the shareholders is clearly defined and well elaborated in the law.

The extent of director liability due to his damage towards the company should also be clearly defined and well elaborated in the law. This means that, if necessary, the fines or compensation to be met by the director due to the damage caused to the company should be articulated in the law. As a matter of emphasis, the law should indicate that, should the court find that, the director caused damage intentionally, then the court could nullify the transaction.

Also the law should specify clearly on the ease of shareholder suits such that, even a shareholder of less than 10 percent should have the right to inspect books of accounts/ transaction documents before he decides on filing a suit or he can request an inspector to investigate the transaction.

THERE IS A NEED TO HAVE AN EXPERT IN COMPANY LAW TO AMEND THE EXISTING LAW

VII. Paying Taxes

Current ranking: 101, 34 total tax rate (%profit), 37 payments per year and 230 time (hour per year)

Recommendations

In order to reduce the number of time spent on payment of taxes in particular the preparation of filing returns, the tax authority should introduce the payment of VAT on a quarterly basis. This might not be possible to all companies but at least for small and medium companies registered with VAT. What is to be noted here is that, the World Bank DB team start to count on this reform after a year of implementation. They consider the number of companies that have been paying on a quarterly basis. The evidence must be documented.

Over the long-term, the tax authority should think of having electronic filing of taxes. This is the best and most efficient way of reducing time spent on paying taxes.

VIII. Trade across Borders

Current ranking: 133 out of 183.

The current documents for **Export** are 7. These can be streamlined to only three: The bill of Lading, commercial invoice, and packing list. The rest of the documents should not be mandatory. For instance, it does not make sense to request an exporter an inspection report from the scanner when there is a packing list that shows what he is exporting. Also, another example of irrelevant documentation is the terminal handling receipts. This document has nothing to do with customs. It is a matter between the exporter and the terminal handling officials. The same applies to the cargo release order and customs declaration documents, which relevance is not clear. Many countries have left them out of the mandatory list of customs' documents.

The above reform would reduce the 7 mandatory documents to only three, which most of the countries regarded as top reformers have got.

There are 9 documents for **Import** and they should also be streamlined by making only three documents mandatory, namely the commercial invoice, packing list and bill of lading/air way bill. The other documents are not important to be mandatory. For instance, the certificate of origin is of interest of the importer only and not of customs. There is no reason as to why the customs department should request this document. If the importer does not submit it then he will have to pay higher taxes.

Inspection report from the scanner. The customs department should put there a mechanism of sharing information such that, the customs clearing department should get the scanner report without burdening the importer to submit a document that he got from the same institution. Other documents like the release order, delivery order, pre-shipment inspection clean report of findings, terminal receipts are not relevant and should not be mandatory.

IX. Enforcing Contracts

The days indicated in the World Bank doing business report 2011 are too many. They include filing and service 90 days, trial and judgment 120 days, enforcement of judgment 180 days. The days indicated are too much and there should be room for reducing them. Many countries of similar circumstances have reduced their days. This gives an impression that Mozambique can also reduce them. It is a matter of Judiciary owning the reform process like any other organs of government and they reform the way they are handling judicial matters.

Mozambique has an arbitration center that is up and running. This settlement of dispute resolution has been seen as the only alternative that can reduce the costs of legal fees paid to legal practitioners. Giving facilitation to this center in terms of resource mobilization as well as public sensitization shall make the center be fully functioning and the result is that, costs spent in commercial courts shall be reduced by business people using the center as an alternative to commercial courts. The government should make sure that, this center is facilitated in manner that should not see the center close its doors.

X. Conclusion

The experience from top global reformers has shown that, in order to have doing business reforms implemented as per schedule, there must be a permanent doing business office housed in an influential office. In the case of Mozambique, it would be better if this office was placed in the office of the Prime Minister. The reason we suggest this office is the political weight it commands, which would assist in coordinating the several reforms that would be implemented by different ministries.

Normally, this office is mandated to coordinate and monitor DB reforms. It acts as a bridge between the private sector federation and government institutions. It does identify the required reforms as well as acting as a mouth piece of the doing business reforms in the country.

The other important organ, that is recommended, is the committee of ministers including other high ranking government official. The selection of the members would be based on indicators of doing business. The purpose of this committee is to bring together all the high decision making people together so that they can approve the proposed reforms. Their decision would make the work of their staff easier while implementing. The simple example is when the Minister of Finance attends and approves the reduction of fees charged on government services. His approval gives encouragement to the person who will implement reform as he will do it with the blessings of the Minister of Finance.

List of people interviewed and whose contributions led to the formulation of the proposed reforms mentioned above:

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|-----|-----------------------|---|
| 1- | Mr. João Macaringue | CEO Export Promotion Center (IPEX) |
| 2- | Lourenço Sambo | Director General, Investment Promotion Center |
| 3- | Belmiro Rodolfo | Economic Advisor, Prime Minister's Office |
| 4- | Regina F. J. Conselho | Senior technician, MIC, DASP |
| 5- | Armindo Braz Barradas | Director, Maputo BAU (One-Stop Center) |
| 6- | Mario Ussene | President of Maputo Arbitration Center |
| 7- | Alima Hussein | Executive Director, CTA-Private Sector Federation |
| 8- | Eduardo Macuacua | Senior Economist, CTA |
| 9- | Eduardo Caru | Senior Partner, Sal & Caldeira |
| 10- | Xiluva Nogueira | Junior Consultant, Sal & Caldeira |
| 11- | Eng. José | Director, Urban Construction, Maputo Municipality |
| 12- | Marcelo Mosse | Director, CIP |