

Mozambique: Report on the Investment Climate Workshop

The Ministry of Industry and Commerce and the World Bank Group sponsored a workshop on investment climate priorities in Maputo on 21 February, 2006, for business leaders, representatives of the Mozambique authorities and donors. The workshop surveyed key areas of the investment climate, using 'Doing Business' results for 2006 as a starting point. The main focus of the discussion was on business startup, labor, and cross-boarder trading issues, and this note summarizes the main issues discussed.

We have also added recommendations from the World Bank Group on specific ways in which we could increase our involvement in helping the Government address these issues, if requested to do so.

1. General issues

There is an inconsistency between the Government of Mozambique's desire to advance significantly in the 'Doing Business' country rankings and the current pace and scope of investment climate reforms.

The workshop highlighted this problem, especially in the discussions of the time it has taken to pass the Commercial Code – initiated in 1999 – and to implement business registration streamlining, with participants expressing concern that the reform of the labor code could still face the same delays. The key message coming out of the workshop, from both public and private sector participants, is that while there are some reforms underway, the authorities need to significantly accelerate the pace of reform.

There is a menu of investment climate issues that the government and the private sector identify as urgent, but there appears to be insufficient prioritization amongst them, as the basis of an actionable workplan.

This lack of structured workplan has resulted in reform which most agree has been too slow and too piecemeal, which has not yielded significant improvements in the investment climate, and has not given the authorities 'quick wins' to reinforce the credibility of the process. Furthermore, given the time it has taken to design and implement reforms, the fact that some have not fully addressed the constraints serves to undermine the final results which have been achieved, as in land and contract enforcement. The workshop agreed that Mozambique should aim to have an investment climate which equals the best in SADC by 2015. This will mean moving from Mozambique's current ranking of #110 in 'Doing Business' to #29.

But Mozambique can only achieve #29 in the Ease of Doing Business rankings by **doubling** its performance on all topics over the next 10 years. This calculation assumes the performance of other countries remains the same, which is a most unlikely

assumption. If performance on some topics does not double, others will to experience a still higher improvement.

The scale of the challenge is immense, but achievable.

Continuing the past incremental progress across a relatively limited agenda will not achieve the desired results. As examples of the scale of the challenge to be at least #29, Mozambique will need to reduce time to import and export from 41 to 20 days. It will need to enforce contracts through the courts in less than 1 year at half of current costs. Administrative procedures to build a warehouse will need to be completed within 3 months, instead of the current 7 months. These are the magnitudes of change that will be needed to achieve the objective, requiring focused reform efforts across all areas of the investment climate. This will require a clear 10 year action-focused strategy, with interim targets along the way that are effectively monitored. The strategy will need to be shared and understood by all stakeholders, who will all need to play active roles in ensuring that the pace of reform is both accelerated and maintained. Achieving these results will also require the allocation of adequate financial, material and human resources.

How to get there?

International experience suggests the best strategy will be to aim to improve one or two topics at defined milestones over the next 10-years. The following four point timeline is an example of the approach that could be taken.

1. By 2007, reap the benefits of the ongoing reforms in business registration and labor law. By 2007, starting a business should take at most one month and involve only four procedures. This is possible with the enactment of the new commercial code and the development of electronic databases at the commercial registry. The elimination of the requirement to publish in the official gazette can decrease cost by almost half. By 2007, the new labor law should be enacted and therefore the labor market should be more flexible: longer duration of term contracts and less restrictions on the use of term contracts; less restrictions on the number of hours worked per day, and work on holidays; reduction in severance payment.
2. By 2010, simplify the tax system and the trading across border process. By this date Mozambique should be as efficient at its borders as South Africa. That will require reducing the number of documents required by almost half. By 2010, electronic filing of taxes should be provided and forms should be simplified to reduce the time of tax preparation. Reducing VAT and profit tax rates can decrease the tax burden for tax complying firms and can increase the number of tax paying firms, minimizing the decrease in revenue.
3. By 2012, simplify and reduce time to register property and to obtain construction permits. The property registration process can be made more efficient by improving communication among different government agencies and developing an electronic database for the real estate registry.
4. By 2015, make courts more efficient by developing electronic records of all cases and impose case management. Improve the starting a business process further by

simplifying the license system. This can reduce the whole process to just one week.

These global indicators of the investment climate can be added to three more specific challenges faced by Mozambique in the following chart:

Ranking improvement by topic and overall

	<i>2005</i>	<i>2007</i>	<i>2010</i>	<i>2012</i>	<i>2015</i>
Ease of Doing Business	<i>110</i>	<i>81</i>	<i>54</i>	<i>38</i>	<i>26</i>
Starting a Business	139	126	114	103	84
Dealing with licenses	54	28	18	14	11
Hiring and Firing Workers	113	110	79	70	48
Registering Property	94	65	45	30	23
Paying Taxes	88	45	36	26	14
Trading Across Borders	105	70	62	46	32
Enforcing Contracts	115	79	50	35	18
Cost and quality of electricity	--	--	--	--	--
Cost in Kwh (US Cents)		4	3	2	2
Number of power outages/month	60	50	40	28	12
Transportation cost (US \$)	--	--	--	--	--
Beira/Maputo 20 foot container (by land)	770	700	450	425	400
Beira/Maputo 20 foot container (by sea)	810	800	600	500	450
Value added per worker (US\$)	1000	1500	2000	2500	3000

2. Specific Issues Over The Next 12 Months

2. 1. Business startup

The authorities have passed but not yet implemented a startup simplification program, which could fasten the process, but have only tackled one half of the problem; still untouched is the proliferation and expense (time and financial) of licenses needed. This continues to severely hamper entrepreneurs' ability to do business in Mozambique. In addition, the most time-consuming step in business registration, publication in the official gazette, has not yet been addressed.

The licensing issue is complicated because it has both control and fiscal aspects. On the control issue, licenses are effectively a means of limiting firm entry (and hence competition). The workshop heard how virtually all economic activity in Mozambique is licensed, generally by sectoral ministries, with multiple licenses often required, for example for manufacturing and retailing one product. A further layer of licensing also emanates from local government. In addition, some licenses are in effect used to raise

revenue—especially for municipalities. In contrast, international best practice recommends licensing only where there is a specific policy objective, i.e. protecting consumer health in restaurants, ensuring standards as in medical services, or where sector regulation is common, as in financial services. Most countries, including most African countries, have abandoned licensing industrial and commercial activity, and instead rely on general regulations covering worker health and safety, environmental protection, etc. rather than controlling entry through licensing. The revenue generation objective is then met with other instruments, chiefly taxation, or incorporated into the registration process if necessary.

The requirement to publish the company statutes in the official gazette (Bolhetim da República) can simply be eliminated. The legal requirement to publish can be met by posting this company information on-line on an official website, or can be obtained through the commercial registry database, which satisfies the same objective of making the information publicly available. This would save approximately 90 days in the process and address a major constraint. It could be done without amending the law as it constitutes official publication, only via electronic means.

Recommendations

1. The technical assistance underway to fasten the registration process, including computerization of the process, needs to be concluded according to the agreed schedule of August 2006.
2. The authorities and private sector need to agree on the role of licenses. This process should involve all concerned ministries, as well as the municipal level of government.
3. An inventory of licenses and fees should be made
4. Each license should be reviewed and judged against agreed criteria, and all superfluous licenses should be eliminated
5. Guidelines should be developed to ensure that any new license be judged against these agreed criteria before being adopted by any level of government
6. The current requirement to publish company statutes in the official gazette (Bolhetim da República) should be eliminated.

Possible intervention by the World Bank Group to support reform: If requested, FIAS could undertake the triage of licensing, and PEP Africa could provide technical assistance for implementation.

2.2 Labor Code

After almost four years in preparation, this process is well advanced, with a draft Labor Code due to be presented for official comment and consultation in March. Workshop participants stressed that the important point is to adhere to the agreed timeframe to complete the full process this calendar year, with passage through the consultation process, Cabinet, Parliament, the Presidency, etc. and passage of any implementing regulations that may be required for full effectiveness. The parties have so far

successfully agreed on the substantive content, which reportedly will incorporate much of the flexibility needed to support more job creation. It will be important to ensure that this is not watered down in the process of finalizing the legislation or implementing regulations.

Recommendation: The workshop's primary concern was to ensure that the proposed law is published with a tight consultative timeline, and that this timeline is maintained, ensuring adoption before the end of the calendar year.

Intervention by the World Bank Group to support reform: The World Bank has agreed to undertake an impact assessment of the proposed legislation upon its formal presentation in March. Additionally, a simulation of the change to the Doing Business indicator for labor market flexibility can be done if requested, to show how Mozambique's ranking would change if the draft law is approved and effectively enforced.

2.3. Cross-Border Trade

The workshop consensus was that the process of importing and exporting from Mozambique is expensive in terms of both money and time. This raises the cost of doing business in Mozambique and jeopardizes competitiveness. This issue is not new, as many studies have been done to analyze the barriers, but insufficient progress has been made in resolving infrastructure issues or streamlining and modernizing import-export procedures.

Recommendations: A 'literature review' is needed to determine the key barriers that have been identified to importing and exporting and to pull together the assessments and any recommendations.

1. On the basis of this review, any areas missed should be studied
2. A detailed action plan should be established and then agreed by the relevant institutions, with private sector input and monitoring.
3. Along with the policy/procedures review, the physical infrastructure constraints at key border crossings also need to be addressed.

Possible intervention by the World Bank Group to support reform: The infrastructure component for the Ressano Garcia border crossing will be financed under the World Bank funded Second Roads and Bridge Project. If requested, FIAS could undertake the 'literature review' and develop the simplification action plan. We recommend that the financial assistance for infrastructure improvement be coupled with this review and simplification of all import and export procedures, since only a two prong approach combining an infrastructure solution with procedural simplicity would result in a meaningful reduction of the time for importing and exporting.

2.4. Public-private partnership

Mozambique has developed an extensive public-private dialogue process over the last ten years, which has served the country well and built a consensus on the diagnosis and on components of the reform agenda. However, the objective today has changed, away from awareness raising and consensus-building, towards speedy implementation. The current program of an annual conference, fed by interim working groups led by the CTA, has not proven as effective in prioritizing reform and ensuring private sector participation / oversight on implementation. Several private sector participants in the workshop spoke of the time they devote, on a voluntary basis, to participate in these processes, without the results they would have wanted. CTA itself has identified the need to reinvigorate or supplement existing consultative mechanisms that can better accelerate reform implementation.

Recommendations:

1. Assess all current consultative structures and associated procedures related to investment climate reform against international best practice and determine whether they can be streamlined to meet the changed objective of speedy implementation, in addition to consensus building around the diagnosis.
2. The CTA could usefully become systematically more proactive, not just reacting to proposed changes but helping make up some of the acknowledged public sector capacity deficit by proactively drafting detailed possible solutions to put on the table for debate. As one CTA member expressed it: “Go for it instead of waiting for it”. This will require a deepening of CTA current analytical and technical capacity in the key areas on their agenda, not just the provision of occasional technical consultants.

Possible intervention by the World Bank Group to support reform: If requested, PEP Africa, a technical assistance unit of the IFC, could undertake the review and redesign of the consultative process, and further support the needs for technical depth with a program of extended technical assistance to the CTA in priority areas.

2.5. The Business Tax Regime

The tax issue was discussed only peripherally at the workshop, but emerged clearly in follow-up discussions and a chief concern of the private sector. The perception on the business side is that the tax regime is a deterrent to business, rendering Mozambique firms uncompetitive. This is a problem for domestic firms to compete in the region and to attract foreign investment. In addition, the tax system does not differentiate between small and large firms, and the compliance cost for small firms appears to be so high as to be a primary contributor to informality.

Recommendations

1. An analysis needs to be done on the effect of tax on business by sector, benchmarked against competitor countries.
2. This analysis should incorporate an assessment of the impact of tax on small business and informality. This is needed to recommend an appropriate regime for small business which promotes compliance and broadens the tax base, while being low cost for the tax authorities in terms of resources expended.

Possible intervention by the World Bank Group to support reform: If requested, FIAS could undertake the analysis in Mozambique, comparing the burden of tax on business to that in a range of other African countries. In addition, FIAS could provide international best practice for taxation of small businesses to assist the Ministry of Finance in creating a small tax regime.

3. Conclusion

An implicit issue throughout the workshop and subsequent discussions was the corruption enabled by many of the current regulatory practices – this was cited in particular with respect to licensing, tax, and trade/customs. Addressing these constraints by simplifying procedures to meet clear regulatory objectives will go a long way towards relieving pressure from both sides to use bribes and unofficial payments as the only way to make it through the maze of complex procedures, long delays, uncertainties, and high costs of current business regulation.

There appears to be strong consensus that the key challenge in improving the investment climate in Mozambique is to move from diagnostics and some design into far more rapid implementation. Why did the commercial code take six years to get approved? Why has the labor law taken from 2002 until now and still not been published for consultation? A newspaper headline from Noticias on the 21st February workshop summarized the priority: “Desafio é Melhorar”. The World Bank Group stands ready to assist the government and private sector in this effort. The issues and recommendations outlined above represent the immediate outcomes of the workshop and ensuing discussions, and constitute a set of priorities that can be acted on immediately; other issues will need to be addressed, within the framework of a sequenced strategy, such as land, collateral, and other factors affecting access to finance; bankruptcy and liquidation, if Mozambique is to achieve its ambition of equaling the best performers in SADC.