

## **SHORT AND LONG TERM TECHNICAL ASSISTANCE UNDER THE TRADE AND INVESTMENT PROGRAM IN MOZAMBIQUE.**

### **I. SECTION I - STATEMENT OF WORK**

The purpose of this activity is to provide long and short term technical assistance to selected institutions within the private and public sectors of Mozambique.

The Trade and Investment Program is planned to be implemented through September 30, 2010, which exceeds the planned period of the task order. Therefore, this task order will have an option for extension to the end of the Trade and Investment strategy period. If the strategy is extended to a later date, the extension option will coincide with the date of the extension of the strategy period.

#### **1. Background**

Much of Mozambique's solid growth performance, an average of eight percent over the last six years, is ascribed to a combination of donor financing, two enclave mega-projects (Mozal, an aluminum refinery, and a natural gas pipeline), sheltered industries (drinks and construction), and, importantly for poverty reduction, considerable increases in productivity in the peasant agricultural sector. Sporadic efforts to establish export industries have foundered on an anachronistic system of control that raises costs and nourishes corruption at all levels of government. Mozambique's micro-environment chokes off labor-intensive growth and sharply discourages the establishment of legal small and medium enterprises; high cost of doing business in Mozambique keep the formal sector small and unproductive.

The development problem is to maintain a high rate of growth while shifting resources from enclave industries, semi- and non-tradable sectors, the informal sector, and donor assistance to competitive labor-intensive production of both goods and services. Mozambique has achieved political and macro-economic stability; if key structural changes can be made, it can become an attractive destination for investors in sectors from tourism to horticulture to garments.

#### **2. The Trade and Investment Program.**

The purpose of the program is twofold: a) to increase international market access for Mozambican products; and b) to enhance Mozambique's competitiveness by reducing the costs of doing business. The purpose will be achieved through better trade policy, a more supportive enabling environment; as well as through targeted interventions in specific sectors (see Section 5.b. below).

The objective under Intermediate Result 1, "increased market access" is to improve trade policy and its implementation through a program that combines education in trade matters, specialized assistance to overcome barriers to entry to particular markets (e.g. the Animal and Plant Health Inspection Service, APHIS, for the US, complicated rules of origin for Europe), and more general development of policies that maximize the growth and poverty reduction impact of trade policy. By the end of the project, trade should be a cornerstone of the government's poverty reduction strategy, and awareness of the benefits of an open regime should be widespread.

Under Intermediate Result 2, "improved enabling environment", USAID will continue its support to the private sector, civil society and government to reduce red tape and accelerate micro-economic reform. Current priorities include areas related to the basic factors of production, including tax and tax administration; labor law and regulation; financial markets; and property rights. The program is a continuation of a Special Objective under USAID's previous strategy (1998-2003) and will build directly on an existing institutional structure, based on private sector associations and a few key government institutions. It is expected that by the end of the project, the costs and uncertainties of doing business in Mozambique will have been considerably reduced.

Under IR 1, the key intervention will be a technical assistance and training package aimed at improving understanding of trade issues and capacity to negotiate and implement complex trade agreements. TA will assist the GRM in specialized trade analysis, data collection, and the preparation of policy and negotiation briefs. Short-term training will be directed mainly but not exclusively at government officials involved in trade decision-making.

Under IR 2, the key interventions will be a grant to the Confederaçao das Associacoes Economicas de Mozambique (CTA), a non governmental organization, to continue its policy work, and a technical assistance package. The TA will identify, analyze issues and prepare CTA positions on policy and regulatory issues of importance to the private sector.

### 3. The Public Sector

Mozambican current institutional arrangements for organizing trade policy are inadequate to even the basic tasks of preparing consistent and coordinated negotiating positions with sound technical input from appropriate ministries. The current structure is:

- a. At the top is the Council of Economic Ministers, which has agreed in principle to coordinate trade matters requiring high level multi-ministerial attention.
- b. The Ministry of Industry and Commerce (MIC), International Relations Directorate (DRI, *Direcção de Relações Internacionais*), has primary responsibility for negotiating trade agreements and coordinating technical trade issues not requiring Ministerial-level attention.
- c. The Technical Unit for Multilateral and Regional Trade Protocols (UTCOTM), which was established with USAID assistance in 1997 to support Mozambique's entry into the SADC FTA, is in principle the secretariat for the MIC. In practice, however, UTCOTM's remit is limited to SADC, the U.S. African Growth and Opportunity Act (AGOA), and the Economic Partnership Agreement (EPA), while DRI works on other multilateral and bilateral agreements. A further layer is added by the National Directorate of Trade (*Direcção Nacional de Comércio*), which is responsible for internal trade issues and possibly, sometimes, for trade policy more generally.
- d. The Ministry of Plan and Finance is responsible for tariffs and the customs agency.

It is planned that the Council of Economic Ministers acting as a steering committee will assume responsibility for coordinating trade matters within the government, including everything from establishing negotiating parameters to enforcing compliance with agreements to proposing to the full Council of Ministers (or Parliament) changes to laws, regulations, or practices that hinder exports.

Under the Economic Council of Ministers will be an **Inter-ministerial Technical Trade Committee**, chaired by MIC and made up of National Directors and Directors (the highest level of the civil service). This group is expected to resolve most issues referring only those that cannot be handled upwards to the ministers.

Within MIC, DRI will be responsible for carrying out trade negotiations on behalf of the government.

UTCOTM – possibly will be renamed by the GOM, and will provide secretariat services to all three of the above.

Within MIC is GASP – (*Gabinete de Apoio ao Sector Privado*, Private Sector Support Office) – responsible for MIC's role as the defender of private sector interests within government. GASP promotes the structural reforms needed to make companies based in Mozambique more competitive, and serves as the main liaison with CTA for pushing the broader competitiveness agenda in support of trade. GASP may, directly or through the Technical Unit for Legal Reform (UTREL) under the Prime Minister, prepare legal documentation necessary to change the business environment.

Under this activity, USAID's main objective is to make these government structures work together to promote greater trade openness, identify and eliminate non-tariff barriers (thereby reducing customs clearance times, for example), negotiate and implement trade agreements, and, reduce the structural constraints that make it difficult or impossible for Mozambican companies to compete in world markets.

#### **4. The Private Sector**

CTA is an advocacy organization. The environment is created by government, and government action is essential to improve it. Thus, CTA's policy discoveries, analyses and positions must, to be successful, be taken up and acted upon by government.

The current structure of CTA is as follows:

The membership bodies are:

- General Assembly, the "supreme" governing body, made up of one person from each of the 53 member associations, meets annually;
- Board (*Conselho Directivo*), consisting of five members, including the President, elected;
- General Council, of 17, which provides support to and oversight of the Board, meets quarterly;
- Audit Committee.

The Executive Body or Secretariat, consists of five professional staff, and has retainer contracts with consulting companies to organize each of the consultative commission meetings.

The Consultative Mechanisms consist of:

- The Annual Private Sector Conference, which reviews an agenda for each sector, assesses progress, and comes up with the next year's agenda, attended by the president and all economic ministries, donors, businesses – jointly hosted by CTA and the Government;
- The Commissions, which bring together different ministries (in principle, loosely coordinated by GASP) to work on private sector agendas;
- Semi-annual meetings with the prime minister to assess progress
- Monthly meetings with each of the nine commissions, attended by CTA, the relevant Minister, and staff.

There are two specialized subordinate institutions under CTA's financial and administrative umbrella but independent in their functioning:

- Mozambique Arbitration and Conciliation Commission; and
- Businesses Against AIDS

In addition to its work through the formal and semi-formal structures listed above, CTA maintains an active media program, including a web site, monthly sponsorship of a theme on the "Economics Weekly" program on national television, and newspaper articles. It also initiates and oversees considerable research work, often in collaboration with relevant government agencies. Within the last three to four months, for example, together with MIC, it has co-sponsored a study of options for a competition law, and, alone, examined the economics of the minimum wage, and prepared a research piece on the impact on domestic employment of a more liberal regime for foreign work permits.

CTA is about to audit the time and cost involved in: (a) imports and exports; (b) VAT reimbursements; (c) obtaining land for commercial use; (d) business licensing and registration; and more. The results obtained will provide a baseline to measure progress on the enabling environment (see results section below).

## **5. Expertise needed for the Technical Assistance Package:**

Both long and short term consultants, as defined below, ideally should have proficiency in Portuguese at the R3, S3 level (fluency in Spanish may serve as an alternative), and excellent skills in rapid production of written reports and graphic presentations. All consultants must be familiar with the Southern Africa region and have thorough understanding of the Mozambican context. All consultants will work under the technical direction of the Strategic Objective Team Leader who will also serve as Cognizant Technical Officer (CTO) for the task order. All consultants will be authorized a 40 hour work week.

For the long-term advisors: The contractor will submit the names and CVs of at least three candidates for each position (see Section 5.a. below). The mission will review the CVs and will select the advisor. The long term advisor must be committed to work in Mozambique for a minimum uninterrupted period of two years. The long-term advisor may be extended for an additional two years subject to agreement of all parties involved. Assignment of advisors falls under the Federal Travel Regulation.

For short-term technical assistance: As needs arise for STTA, and prior to assignment of advisor(s), the contractor will recommend the name(s) of consultant(s) for mission review and approval, and will coordinate with the CTO the timing and length of the consultancy. Short-term consultancies ordinarily will not be shorter than ten working days, and should not be longer than 85 working days.

The contractor under the Trade and Investment Program will be expected to provide the following technical assistance:

### **a. Long Term Technical Assistance:**

The contractor will provide two long-term advisors as follows:

One Level 2 Economist will be assigned to work with the office of DRI/UTCOM and GASP at the Ministry of Industry and Commerce. The advisor will be a trade specialist with qualifications in international trade, trade protocols, macroeconomic analysis, business and investment, and business environment.

One Level 2 Economist with qualifications in public finance and business regulation. This advisor will work with CTA.

### **b. Short-Term Technical Assistance.**

The contractor will be expected to provide, on short notice, up to 20 person/months per year of technical expertise throughout the period of the task order. This short term technical assistance will meet both the private and public sector needs. The contractor will provide the mission with assurances that short-term technical assistance will be deployed to Mozambique in a timely fashion.

The following themes are illustrative to give the contractor an idea of the types of expertise that will be required on short notice:

- Monitoring and evaluation of the Trade and Investment Program. The mission is required to report to Washington on progress achieved under the program through an Annual Report. Reporting on performance, indicators, and planning for the out-years must be completed in November of each year, or at such other date as the CTO requires from the contractor.
- Formal labor market participation doubles over the life of the program;

- Mozambique's ratings on the World Economic Forum (WEF), Doing Business, and Heritage Foundation indexes improve significantly;
- Mozambique substantially increases its exports in key labor –intensive areas (either services such as tourism, agribusiness, or light manufacturing such as garments)
- Mozambique will complete the tariff reductions required by the SADC FTA and reduce the top Most Favored Nation (MFN) tariff band from 25% to 20%, at least;
- Average import times (excluding shipping) will fall from one to two weeks to less than a day; variability will also fall, paperwork for both imports and exports will be reduced,
- Urban land will be privatized, perhaps in all but name, by regulations permitting the buying and selling of titles without GRM approvals;
- Commercial rural land will also be privatized, at least in pilot areas;
- The concession system for forestry and tourism will be quicker and more transparent;
- In tourism, there will be an easing of restrictions on foreign ownership of assets, such as houses and buildings, currently owned by the government;
- Reduce CPI (Private Investment Council) approval time from two months to two weeks;
- Access to other rural commercial land will be granted within a month, rather than the current three months (in principle a maximum, but in fact a minimum);
- Review the labor law and regulations and consider to: (a) introduce simple, transparent and quick procedures for the hiring of expatriates, with automatic approval up to a certain level – reducing the time required to obtain papers from three months or more to a day; (b) make Mozambique more attractive to labor-intensive industry and services (c) reduce the extremely generous severance pay for laying off employees.
- Provide alternatives to the dysfunctional and corrupt *Instituto Nacional de Segurança Social* (INSS) for pensions and disability pay.
- Introduce a new commercial code, compatible with those of other SADC countries, that simplifies procedures and presentation (the current law is a palimpsest dating back to the late 1800s);
- Simplify and, where possible, eliminate, rules related to commercial and industrial licensing;
- Reform the *notariado* system, which now requires multiple notarized paper copies of innumerable documents;
- Simplify the steps for construction permits, and for registering property and contracts;
- Reduce VAT reimbursement times from several months to 45 days;
- Following analysis of the incidence of the current tax system on business: reduce the Value Added Tax and eliminate exemptions; simplify the tariff system; reduce personal income tax (now over 20% and collected from only a small minority); reduce or eliminate corporate tax (a fraction of government's revenue and a huge incentive to creative bookkeeping);

- Overhaul the current system of inspections, fines, which lead to corruption; a huge burden on all but the biggest businesses;
- Introduce a simple and effective competition law;
- Introduce a simple and effective bankruptcy law so creative destruction is allowed to work in Mozambique;
- Introduce within CTA an “umbrella” ombudsman system to help associations help their members navigate bureaucracy and appeal corruption or arbitrary treatment by government agents;
- Greatly expand CTA’s outreach program by: (a) increasing from 150 to at least 500 the companies on their e-mail lists; (b) sponsoring at least 50 newspaper articles and TV programs; (c) issuing 50 issues of *CTA Noticias*; (d) improving the website;
- Strengthen CTA’s capacity and self-financing to increase prospects of sustainability.

**c. Other Assistance.**

In addition to the technical assistance described in paragraphs a. and b. above, the contractor will be required to hire two local staff: A secretary/office manager who will supervise a locally hired office driver. In addition, the secretary/office manager will serve as contact point for other local subcontracts that the contractor may need throughout the period of the task order for services such as events coordination and logistics, legal services, and local research.

The contractor will not establish an office in Maputo. Both the secretary/office manager and the driver will be housed either with CTA or the MIC at no cost to the contractor.

Based on experience with technical assistance institutional contractors in the past, the contractor may purchase two sedan vehicles for use of the long term advisors and to mobilize short term technical staff in lieu of car rental.