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THE STATE'S ENGAGEMENT IN BUSINESS IN MOZAMBIQUE

AUGUST 2014

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:	**August 2014**
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ACKNOWLEDGMENTS

This report was prepared for USAID/Mozambique's SPEED (Support Program for Economic and Enterprise Development) project and the *Confederação das Associações Económicas de Moçambique* (CTA). The work is based upon a review of the literature and interviews with stakeholders. The interviews were carried out during field work in Maputo in June-July 2014. The authors would like to thank all representatives of the Mozambican government, private sector, research institutions, think tanks and international organizations who took the time to share their expertise with us in regard to the state's engagement in business in Mozambique. A complete list of interviews held can be found in Annex B.

ABBREVIATIONS AND ACCRONYMS

ANP- National Petroleum Agency (Brazil)
CFM – *Portos e Caminhos de Ferro de Moçambique*
CMG – *Companhia Moçambicana de Gasoduto* (Mozambique Pipeline Company)
CMH – *Companhia Moçambicana de Hidrocarbonetos* (Mozambique Hydrocarbons Company)
CPO – *Comissão do Plano e Orçamento* (Parliamentary Commission of Planning and Budget)
EDM – *Electricidade de Moçambique* (Mozambique Electricity Company)
EEs – *Empresas Estatais* (State Company)
EMATUM – *Empresa Moçambicana do Atum* (Mozambique Tuna Company)
EMEM – Mozambique Company of Mining Exploration
ENACOMO – *Empresa Nacional de Comércio* (National Trade Company)
ENH – National Hydrocarbons Company
EPs – *Empresa Pública* (Parastatal companies)
FRELIMO – *Frente de Libertação de Moçambique*
GDP – Gross Domestic Product
GIPS – *Gestão de Investimentos, Participações e Serviços; Management of Investments*, (Holdings and Services)
GoM – Government of Mozambique
IGEPE- Institute for the Management of State Holdings
IMF – International Monetary Fund
MEDIMOC – *Medicamentos de Moçambique* (Mozambique Medicines Company)
MIREM –*Ministério dos Recursos Minerais* (Ministry of Mineral Resources)
MoF – Ministry of Finance
MPD – Ministry of Planning and Development
MPF – *Ministério do Plano e Finanças*
OECD- Organization for Economic Co-operation and Development
PESCOM – *Empresa Nacional de Comercialização de Produtos Pesqueiros*
SAs – *Sociedades Anónimas*
SISE – *Serviços de Informação e Segurança do Estado*
SMEs – Small and Medium Enterprises
SOE – State Owned Enterprise
STEMA- *Silos e Terminal Graneleiro da Matola S.A*
UTRE – *Unidade Técnica de Restruturação de Empresas (*Technical Unit for Enterprise Restructuring)
WB – World Bank

EXECUTIVE SUMMARY

The discovery of substantial natural resource reserves in Mozambique, is propelling economic and socio-political transformation in the country.. As the natural resource sector will continue to be the driving force of economic growth, the Mozambican state's engagement in business appears to be changing. On the one hand, the number of state owned enterprises (SOE) managed by IGEPE (Institute for the Management of State Holdings) is being reduced but the state is expanding its engagement in business activities in new areas, notably in the oil, mining and gas sectors. Within this context, there is a need for greater clarity and a public discussion on the role of the state in shaping and engaging in the business environment. Against this background, this study contributes to the discourse and generates a basis from which further studies can follow on the state's engagement in business.

The state engages in the business environment as a policy maker, regulator, promoter and facilitator as well as an owner of state owned enterprises. The focus of this report is the state's engagement in business activities, the regulatory and institutional framework and political realities underpinning the state's engagement in business. We are also capturing the private sector's view on how the state's involvement in business in effecting the business environment for the private sector. . This study provides an analytical framework of the state's engagement in business; investigates the historical, regulatory and institutional framework and the trends of state ownership in Mozambique; and it provides a comparative perspective on state owned enterprises in resource rich countries. Throughout the report, a number of key areas for state ownership are discussed, including the importance of clear objectives, transparency and a sound regulatory and institutional structure for the state to manage its interests well, and to establish a predictable business environment for the private sector.

This study is surveying the broader considerations and issues of state engagement in business. Nevertheless, considering the natural resource boom examples are drawn from the extractives industry in Mozambique and to a more limited extent the agricultural sector. A comparative international perspective on state owned enterprises is also focused on the extractive sector. . Hence, in view of the broad objectives in this assignment's scope of work, this report lays the foundation for further research into specific sectors and topics concerning the state's engagement in business.

All over the world, SOEs providing goods or services in competition with the private sector or in areas where the private sector potentially could compete. SOEs are typically formed to provide public services, promote industrialization and development objectives or to safeguard public revenues. However, SOEs can have a competitive advantage over the private sector in terms of corporate structure, cost structures, tax and regulatory advantages, access to finance, and public procurement practices. To create a level playing field for private sector participation, it is important to analyze these potential constraints in the economy as a whole as well as in specific sectors.

If the state clearly spells out its objectives of state ownership, the government – as the state's manager - can delineate roles and responsibilities between the state's role as policy maker, regulator and shareholder, the state can exercise greater accountability and greater predictability is created for the private sector's engagement in the business environment. To this end, a number of countries have adopted government ownership policies. South Africa has recently completed an extensive review of its objectives, ownership and management of SOEs and concluded that the state should develop a state ownership policy to clearly define and communicate a consistent strategy for SOEs, including the definition of SOEs, their purpose, role, function and objectives. We recommend that CTA develop a proposal of a state ownership policy to present to the government. The experience of selected countries, notably South Africa, and the consultation of stakeholders in different regions of the country will help inform the development of such a proposal.

During the transition from centrally-planned economy to market-oriented economy, era in the 1990s, the Government of Mozambique (GoM) privatized about 1,400 SOEs with the assistance of the World Bank. IGEPE was created in 2001 with the mandate to restructure unprofitable SOEs and maintain and manage profitable SOEs. In 2001, IGEPE had a portfolio of 279 companies; it is currently a shareholder in 118 companies and is planning to reduce its portfolio to a maximum of 40 profitable firms across economic activities. However, IGEPE has found that a number of factors, including unpaid liabilities and delay tactics by other shareholders constrain and create delays in IGEPE's plan to dispose of unprofitable companies.

With the natural resource boom in Mozambique, the state is, as in many other countries, attentive in capturing significant stakes of business in the minerals, oil and gas industry. The government of Mozambique is expanding its presence in business activities in the oil and gas sector through the parastatal company ENH and its subsidiaries: ENH Logistics, CMH, CMG and others to come. ENH has described their strategy as "a strategy to expand endlessly". ENH's strategy to create subsidiaries to intervene in various subsectors of the oil and gas industry is questioned by the business community in the country. The lack of transparency in relation to public procurement and the lack of clarity sorounding ENH's expansion strategy is one of the most common concern from the private sector. A significant issue is that ENH and its subsidiaries expansion is not supported by a public strategy. A strategy outlining the state's engagement in the extractive sector would stimulate public debate and provide the private sector and other interest groups with an opportunity to comment on the proposed strategy. In addition, a clear strategy would provide greater transparency for the private sector and the general public at large. Also importantly, a strategy would be a tool for ENH to ensure that the SOE is pursuing and staying focused on the goals set out in the strategy, and be an important mechanism to facilitate accountability and corporate governance.

Recent evidences, notably the EMATUM affair, have propelled the debate on how the state elite have gained an increasing appetite for using their position to further their own business interests. In some cases, the elite may pursue developmental (productive) private agendas using the easy access to state's resources (e. g; licenses, business opportunities). In other cases, elite members may undertake unproductive (non-developmental) activities with the money and facilities gained through political connections. In recent years, the elite have accumulated land and mining concessions /licenses for speculation or participation in extractive projects. The fact that political elite members have business interests appear to interfere and distort institutional and policy arrangements in the country, resulting in unequal business opportunities and unfair competitiveness. Stakeholders interviewed during the fieldwork for this report voiced concern around lack of transparency in Mozambique's business environment, particularly in the profitable minerals and hydrocarbons sectors.

Considering the discoveries of considerable natural resource reserves in Mozambique, this report explores a couple of models for state owned enterprises in other natural resource rich countries, namely Statoil in Norway, Sonangol in Angola and Petrobras in Brazil. These overviews between different models review the assignments of roles and responsibilities between the SOE and other branches of government, as well as the level of transparency and accountability. Considering the extremely large amounts of money involved in the extractive industry and the many opportunities for corrupt practices coupled with the potential environmental harms that mismanagement can bring about, it is of great importance that the SOE has a clear goal and mandate for what activities it engages in, there is a sound institutional structure, with checks and balances and clear roles and responsibilities in place to ensure that the extractive industry creates value for the nation as a whole. Given the complexity of oil and gas governance a more profound review and analysis of the division of roles and responsibilities between the policy maker (MIREM), the regulator (MIREM's National Petroleum Institute) and the commercial entity (ENH) is needed in Mozambique. Further studies of these comparative models are recommended to further understand how a particular model works and to what extent it is applicable to the Mozambican context.

This report concludes by recommending more detailed research into specific sectors and topics concerning the state's engagement in business. Specifically, we recommend the development of a proposal to establish a state ownership policy, a study of the role and responsibilities of the state actors in the natural resource sector, an assessment to investigate the government's engagement in agri-business and an assessment to investigate public procurement practices in the natural resource sector.

CHAPTER ONE: INTRODUCTION

The discovery of substantial coal, mineral sands and natural gas reserves in Mozambique, is propelling economic and socio-political transformation in the country. The make-up of the state's budget is changing where a greater proportion is made up of internal revenues and there will be less dependence on international development support. As the energy-minerals sector will continue to be the driving force of economic growth, the Mozambican state's engagement in business appears to be changing. On the one hand, the number of state owned enterprises (SOE) managed by IGEPE is being reduced (as further discussed in chapter 4) but the state is expanding their engagement in business activities in new areas, notably the natural resource sector. Within this context, there is a need for greater clarity and a public discussion on the role of the state in shaping and engaging in the business environment. Against this background, the SPEED project in partnership with CTA commissioned this study to contribute to the current discourse by studying the state's engagement in business.

A number of private sector representatives our team talked to expressed concern that there appears to be more government interventions in the market in recent years. There was agreement that the state's key role in the economy is to regulate the market, create a business enabling environment for private entrepreneurship, and create a level playing field for all actors in the market. At the same time, the private sector recognizes that the state does have a role as owner of enterprises in certain sectors, notably in public service areas. There are naturally different views on what areas the state should do business in, and as one participant pointed out, "*What sector's the state should be involved in should be guided by the state of development of our country. Could water and power be done privately? No, not at this stage*." A recurring comment was the concern that there is a lack of transparency and lack of communication from the government or SOEs with the private sector. One private sector participant explained his views: "*The government can complement the private sector [in business], but the issue is that the government doesn't see the private sector as an engine for economic development" and he continued, [the issue is that it is] "not clear what the strategy is for the future: what is for the government to do, what is for the private sector. Maybe the government is quite because they don't want to flag that the government is moving in*." Yet another recurring comment was the issue of the state being both the regulator and a business operator without strong and clear separations of the roles. One business man said: "*I can compete with a SOE, I can be more efficient, but I'm concerned about the government being the regulator and doing business. They can change the rules."* Hence, there is a concern from the private sector that the state is moving in to new areas of business without a serious dialogue with the private sector and that there is a lack of transparency and vision for what the role of the state should be in business and a clear separation of the state's different roles in business.

The question of the state's role in the economy and how the state engages in business is an expansive topic. The state engages in the business environment as a policy maker, regulator, promoter and facilitator as well as an owner of state owned enterprises. The focus of this report is the state's role as an owner of enterprises and some of the regulatory, institutional and political considerations that need to be taken into account. For the purpose of this study, SOEs are understood as enterprises the state is the owner of or holds shares in. In Mozambique, there are three main legal modalities of state ownership, which are further explored in Chapter 4. This report is an initial study of the state's engagement in business in Mozambique, and generates a framework from which further studies can follow from. This study provides an overview of the issues and analysis a number of key areas for state ownership, including the importance of clear objectives, transparency and a sound regulatory and institutional structure for the state to manage its interests well, and to establish a predictable business environment for the private sector. This study is not focused on any particular sector, although some examples are drawn from the extractive industry and agriculture. Hence, in view of the broad objectives in this assignment's statement of work (See Appendix A), this report lays the foundation and is a spring board for further, more detailed research into specific sectors and topics concerning the state's engagement in business. Considering Mozambique's stage of development as a resource rich economy, it is an important time to invest in further studies in this area to support the country to develop a conscious strategy of the state's role and engagement in business.

To situate the debate, this report provides an analytical framework of the state's engagement in business; investigates the history, regulatory and institutional framework and trends of state ownership in Mozambique; and provides a comparative perspective on state owned enterprises in resource rich countries. The report is structured as follows:

Chapter 2 provides an overview of the social, political and economic transformation that is taking place in Mozambique to contextualize the state's engagement in business activities.

Chapter 3 offers a theoretical framework based upon a literature review on the rationales for the state to engage in business activities. It outlines considerations for creating a level playing field between privately and publicly owned enterprises and the need for the state to establish clear objectives in their ownership to create greater transparency and predictability of the state's engagement in business.

Chapter 4 is a study of state owned enterprises in Mozambique. The chapter outlines the development of SOEs in the country and the regulatory and institutional structure for SOEs. A selected number of examples of SOEs are highlighted to show the different objectives and roles SOEs play in the economy. To assess changes over time, a section provides a trend analysis of the state's engagement in business. IGEPE is reducing its portfolio of state owned enterprises in view to only hold profitable companies. ENH on the other hand is expanding its portfolio of subsidiaries, but there is no public strategy on ENH's expansion plans and objectives. However there is lack of comprehensive data and further research is needed to get a full picture of the trends in the state's engagement in business. The chapter concludes by a discussion on the state elite's use of their influence to conduct their own private business.

Chapter 5 offers three comparative examples of state owned enterprises, Statoil in Norway Sonangol in Angola and Petrobras in Brazil, to explore different models for state owned enterprises in the natural resource sector. The different examples provide an overview of different models for assigning roles and responsibilities between the SOEs and other branches of government. This initial review of different models could stimulate further discussions and research for Mozambique to develop a conscious strategy on the assignment of roles and responsibilities in the resource sector.

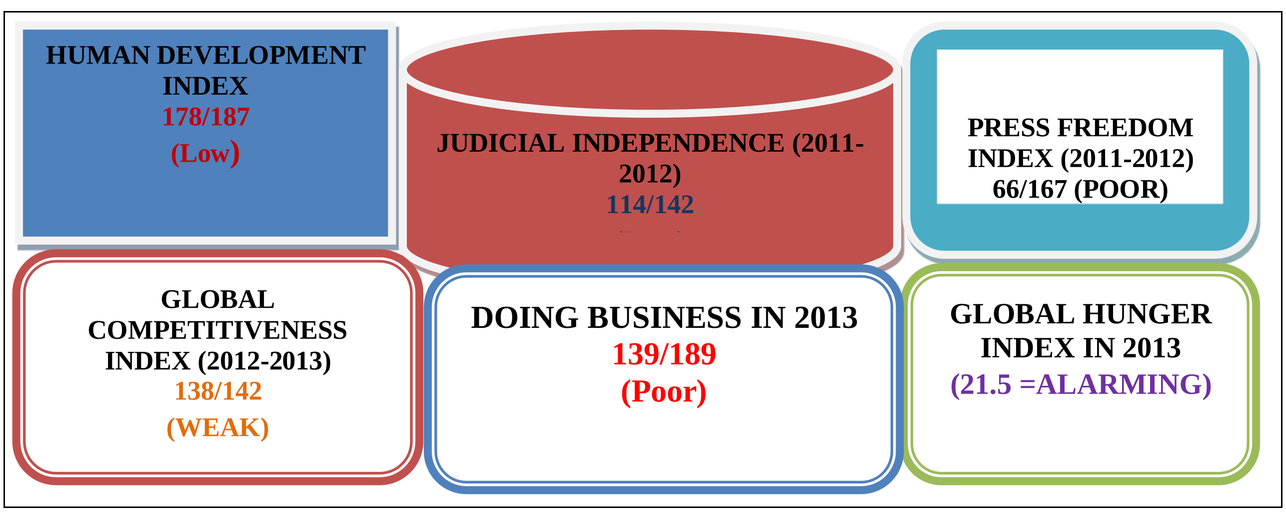
Chapter 6 contains concluding remarks and recommendations for ways forward.

CHAPTER TWO: BACKGROUND ON THE SOCIAL, POLITICAL AND ECONOMIC TRANSFORMATION IN MOZAMBIQUE

When Mozambique became independent from Portugal in 1975, the government followed a Marxist-Leninist orientation for nearly two decades. Then it jettisoned its Marxist political system and transitioned in the 1990s to capitalism. At the time the country enjoyed a "donor darling" position as it was referred to as post-conflict success story in Africa with about half of the its gross national income (GNI) coming from foreign aid.

Following a period of 25 years (1975-1990) under an authoritarian single-party regime, at the time when the world was undergoing socio-economic and political transformations catalyzed by the fall of the Berlin Wall, Mozambique approved a new constitution (in 1990) which introduced a multiparty system with universal suffrage. However, as noted by various authors (e. g; Hanlon & Mosse, 2010; Lloyd, 2011) the country's democratic process has been marred by flawed elections and enduring single-party rule. The 1990 constitution provides for the separation of the executive, legislative, and judicial branches, but the system of institutional checks and balances is weak as shown by the poor performance the country has in regional and international governance and development indexes. However, several stakeholders our team talked to, noted that weaknesses in the business enabling environment captured by the doing business indicators are primarily encountered by the small and medium size enterprise sector (SME), while the mega-projects have more leverage to find tailored solutions to their needs. The figure below shows the country's scores on governance and development indicators.

Figure 1: ***Summary of Mozambique's scores on Governance and Development Indicators***

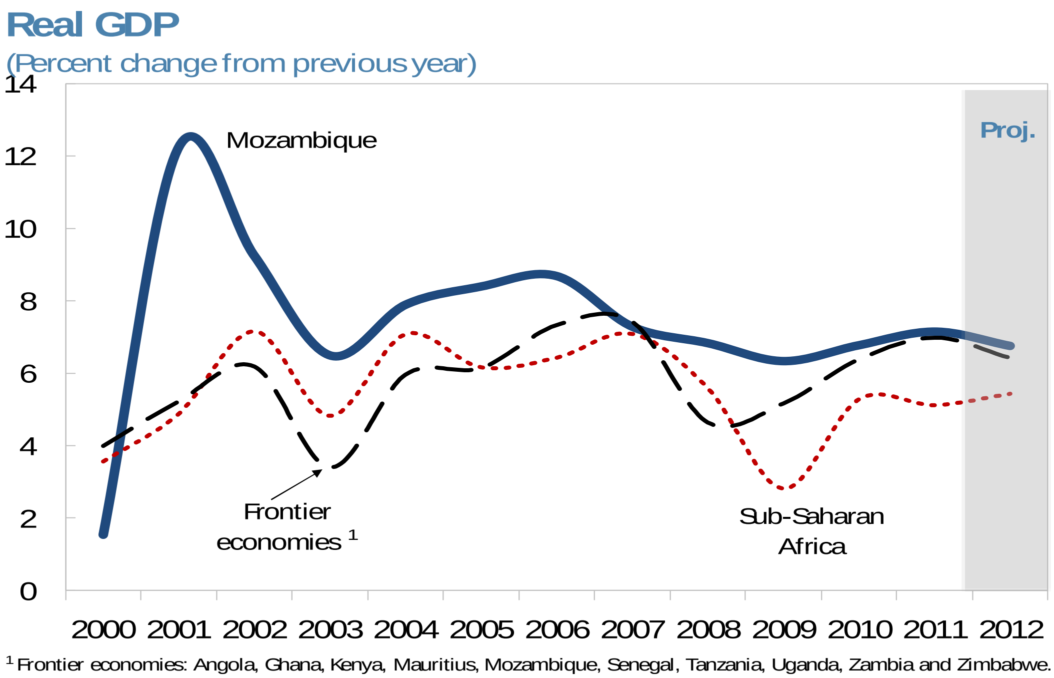


Source: Own construction based on various sources

The 1990 Constitution formed the basis for the historic 1994 nationalelections that marked the first multiparty democratic vote in Mozambique‘s history. The country subsequently held presidential and legislative elections in 1994, 1999, 2004, and 2009, as prescribed by law. In 2009, elections were also held for newly created and directly elected provincial assemblies developed as part of a general decentralization reform plan (Lloyd, 2011). In October 2014, the country will undergo its fifth presidential and legislative election which will also elect provincial assemblies.

Despite its poor development performance, Mozambique’s economyin the last fifteen years has been caracterised by high gross domestic product (GDP) growth rates which have compared favourably with other Sub Saharan African economies including the ‘frontier economies’ in the region, as illustrated in the figure 2 below.

Figure 2: ***Real GDP for Mozambique in comparison with other ‘frontier economies’***



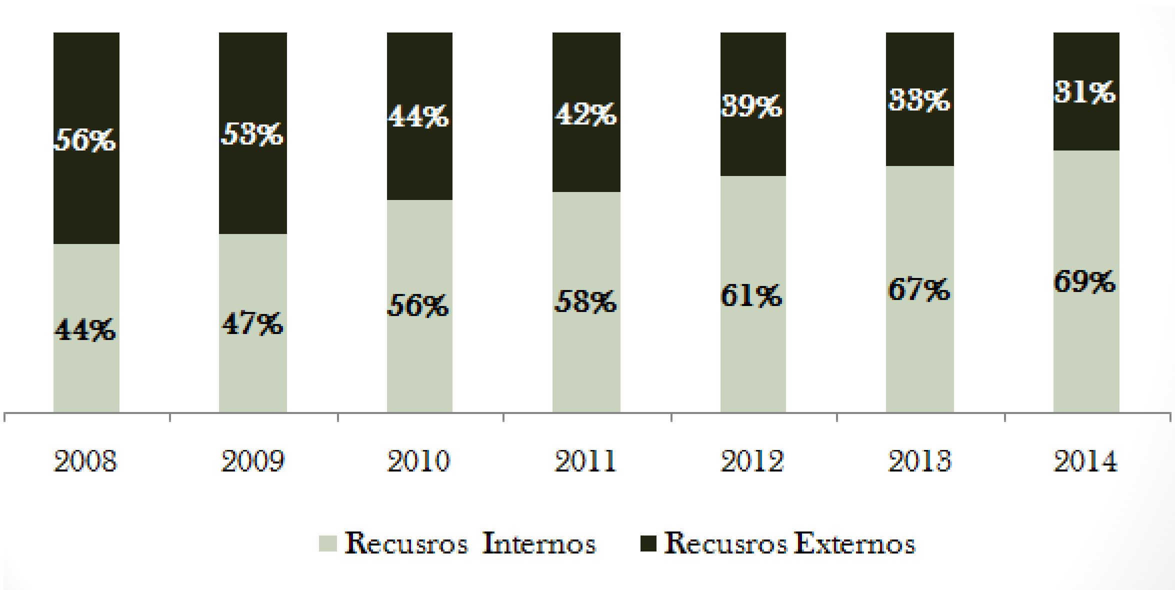
Source: IMF Country Report No. 12/148, June 2012 as cited in Lawson et al 2014

As observed by Selemane (2013), Mozambique is more likely to move from an aid dependent country to energy-minerals dependent given the mining boom happening thanks to the discoveries of huge reserves of coal, mineral sands and natural gas combined with the declining proportions of foreign aid to the national budget. In fact, the mining boom has the potential to raise per capita income levels dramatically and to provide a major new source of domestic revenue. Between 1993 and 2010, total external grants (including from NGOs and IFIs) averaged 21.7% of GDP, reflecting large grants but also Mozambique‘s small GDP. With more than 100 billion tons of coal reserves, 70% of which is high-value coking coal, and ―growing demand projected for Asian steel manufacturers, particularly India, Mozambique has the

—potential to provide 20% of the world‘s sea-borne coking coal by 2025 (Coughlin, et al., 2013).

The state's budget composition is changing with internal resources making up the bigger proportion of the budget contrary to what it was some years ago. The graph on figure 3 below illustrates the evolution of internal resources (domestic revenue) along with the decreasing amounts of foreign aid (darker portions) in the national budget from 2008 to 2014.

Figure 3*: **Evolution of Mozambique's domestic revenue in the national budget's structure 2008-2014***



Source: MPD 2014

Note: Recursos Internos = internal resources (domestic revenues***); Recursos Externos*** = Foreign aid

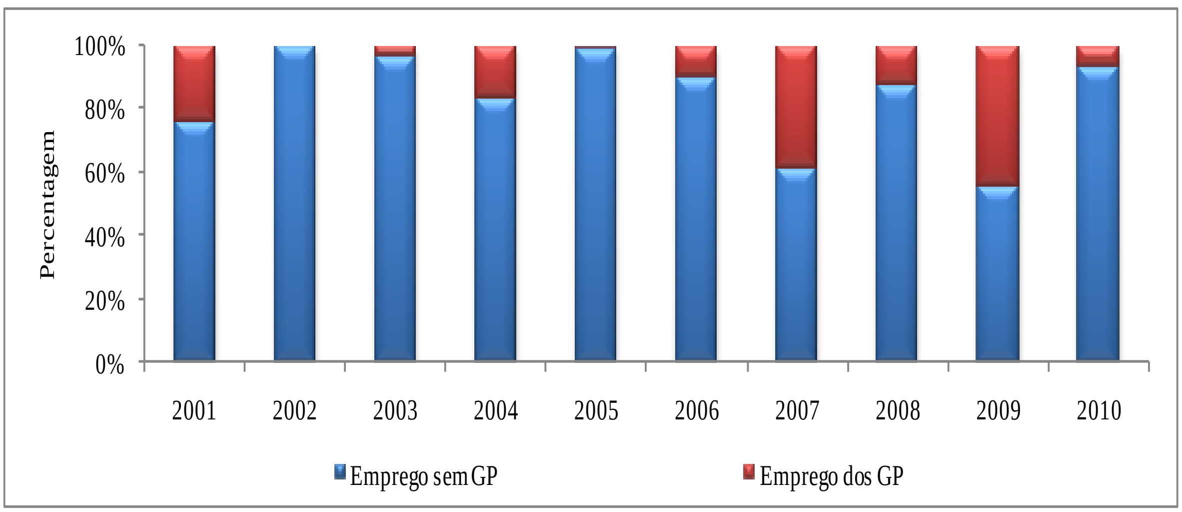
The energy-minerals sector will continue to be the driving force of economic growth. However government's medium and long term strategic plans (e. g; PARP 2011-2014[1]) emphasize the role of agricultural production. There is an ongoing debate about the disconnection between the political discourse and the reality on the ground with regard to the importance of the agricultural sector in Mozambique's economy (See for example, Cramer, 1997; Mosca, 2001; Mosca & Selemane, 2011; Mosca 2010; 2012; 2013; Coughlin, et al., 2013). As noted by Mosca & Selemane 2012, PARP only mentions vaguely the improvement of natural resources management in order to increase the utilization for the national economy and local communities. Official documents including the Constitution refer to agriculture as "the base of development in Mozambique" whereas all of the indicators, economic trends as well as policy evaluations show that agriculture is neither favoured in policy formulation/implementation nor is the driver of the country's economic growth although more than half of the population depend on it. As summarized by the African Economic Outlook:

[1] This is the latest Mozambique's mid-term development strategy. There is a forthcoming 20 years strategy – ENDE (*Estratégia Nacional de Desenvolvimento*) – which has not been launched yet.

"In spite of economic growth generated by mega-projects and added competitiveness provided by infrastructure development, the impact on poverty reduction has been minimal. The new PARP 2011‑14 focuses particularly on increasing agricultural production. The sector, which represented 30.9% of GDP in 2011, is expected to grow by 9.9% in 2012 [data for 2014 point to 8% growth]. *However, cashew nut production, Mozambique's traditional cash crop, is forecasted to flatten at 112 800 tonnes, up from 105 000 tonnes in 2010. An ambitious Cashew Master Plan, targeting an 80% increase in the next decade, was approved by the Ministry of Agriculture. The Ministry also anticipates an increase of 23.4% in sugar cane production. Expected production increases of 12.5% and 13.8% for wheat and rice respectively, will not be sufficient to meet domestic demand. Despite the decrease of 5.1% in fisheries production in 2011, the sector should expand by 18.4% in 2012. However, the government has capped commercial prawn fishing at 5 650 tonnes per year due to evidence of overfishing[2]."*

The minerals and energy sector is driving Mozambique's economic growth in terms of exports and imports but not in jobs creation. Mega-projects are responsible for 70% of the country's exports and 78% of imports whereas they were responsible for less than 10% of jobs created in the economy in 2010 as illustrated in the graph below. Mega-projects are capital intensive thus cannot create many jobs.

Figure 4*: **Jobs created by mega-projects and the rest of the economy in 2001-2010***



Source: Mosca (2013)

Note: **Emprego sem GP** = Jobs without mega-projects; **Emprego dos GP** = Jobs created by mega-projects

With this reality of foreign aid decrease, domestic revenue increase along with the energy-minerals sector gaining more and more relevance in Mozambique's economy the question is more on how must the state engage in business activities to foster socio-economic development. This question needs to be addressed at a policy level through the development strategy to show the country's future direction.

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[2] African Economic Outlook
http://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/Mozambique%20Full%20PDF%20Country%20Note.pdf

CHAPTER THREE: A FRAMEWORK FOR THE STATE'S ENGAGEMENT IN BUSINESS

The state engages in the business environment as a policy maker, regulator, promoter and facilitator as well as an owner of state owned enterprises (SOE). Globally, the state is an owner or shareholder of enterprises, but the level of ownership in the business sector varies in different political systems and over time. This chapter reviews the main rationales and motivations for why the state creates SOEs in a market economy. SOEs providing goods or services in competition with the private sector (or in areas where the private sector potentially could compete) can have a competitive advantage over the private sector. We examine therefore the different building blocks for creating a level playing field, or "competitive neutrality" between SOE and the private sector. Finally, to level the playing field and create greater clarity and transparency in the government's objectives in direct engagement in business activities, this chapter reviews how some countries have a government ownership policy.

BACKGROUND AND MOTIVATIONS FOR THE CREATION OF SOEs

The proportion of SOEs in the market place varies between countries, over time and is guided by political decisions. In many OECD countries, the value creation in SOEs accounts for between 5 and 25 % of the country's gross national product (GNP) and up to 10 per cent of employment.[3] China has substantial State shareholdings and most listed companies have the State as a shareholder. Chinese central government aims to retain significant ownership control over key SOEs and, by extension, over a major part of the domestic economy (Mattlin, 2007).

Upon independence, many African governments were extensively involved in the economy. Many African leaders, including Mozambique's, aligned their newly independent countries with a socialist ideology. In addition, there were practical concerns motivating the state's intervention in the economy; there was limited private capital and there was a dominance of a "non-African" local private sector (World Bank, 2005). However, the technical and financial performance of many SOEs was disappointing. Although there were African SOEs that performed well, such as Ethiopian Airlines and the Kenyan Tea Development Authority, a majority of SOEs did not. The political interference in the operation of the SOEs coupled with the conflicting objectives the SOEs had to respond to constitute a central explanation to the poor performance of many SOEs after independence. While these SOEs were supposed to be commercially viable, they also had to provide goods and services at a below production cost level, generate employment, subcontract from certain state-sanctioned suppliers etc. which undercut the management's autonomy to make financially sound decisions. In addition, the SOEs were plagued by poor initial investment decisions, inadequate capitalization, deficient board of directors and poor reporting systems. Hence, exceptional management competence and the strength of character to go against the

[3] Norwegian Ministry of Trade and Industry, White Paper: Active ownership – Norwegian State ownership in a global economy, 2011.

steam was required to overcome the many political and policy obstacles to manage a well-run operation. The poor financial performance of the SOEs became burdensome for the state budget in many Sub-Saharan countries and with the political shift that swept through the continent in the late 1980s early 1990s, ownership change, privatization, liquidation or closure of unviable SOEs was initiated and supported by the World Bank and the IMF. However, rehabilitation and restructuring efforts of SOEs were often quite disappointing, mainly due to a lack of political commitment to the process. Considering the weak results, international financial institutions shifted their focus to privatization. While many African leaders were not persuaded about the emphasis on privatization, the dire financial realities left them with little choice but to go along with the privatization and public private partnership policies advanced by the donor community and the World Bank. A more detailed description about the Mozambican experience and development of state owned enterprises is provided in the following chapter.

Despite the bleak history of SOE in many developing countries, globally there are state owned enterprises operating in competition with the private sector. A review of the literature highlights four main motivations for why the state creates SOEs in a market economy. Commercial and non-commercial objectives are sometimes merged and an SOE can for example perform both a public service obligation and an industrialization and development objective. One such example is the provision of electricity where it is a public service obligation to electrify the whole country at the same time as electrification and the provision of sufficient and reliable electricity is a key component to stimulate business activities and increase economic development. Chapter 4 in this report provides examples of Mozambican SOEs that maintain public service obligations, are established to advance industrial or development policies or to safeguard fiscal revenues.

A. *SOE to maintain public service obligations*: Governments are often maintaining ownership of enterprises providing network services connecting the population to electricity, utilities, telecommunication and postal services (OECD, 2012). This allows the government to provide services to more remote areas at the same affordable price as in more populated areas of the country. From a planning perspective, the government finds it often easier to maintain control of the service, in part as fees from more lucrative service areas can cover the cost of providing services in more remote and therefore more costly areas. However, the government can also privatize some of these services, and provide targeted subsidies to private operators to serve more remote or otherwise more costly areas.
B. *SOE as an agent for industrialization and development policies*: Countries in primarily emerging markets and developing economies use SOE to develop certain economic activities for which from the outset there is no private sector capacity to undertake. The purpose is to develop specific knowledge, capacities or expertise which is of interest for the national economy (OECD, 2012).
C. *SOE to safeguard fiscal revenue:* Some SOEs provide large profits or revenues which the government depends on, this is particularly the case for extractive industries, but it is also seen in other sectors such as utilities. In the extractive industries, the government has also an interest in controlling the timeframe and the rate of exploration. As the SOE may generate significant fiscal revenue, the government has a strong incentive to protect the public enterprise from competition and the high revenue stream might in part be a function of the government having a monopoly on the market.

D. *The Political economy of SOEs:* There can be social pressures or political reasons for the state to maintain and shield SOEs from competition. SOEs may be a major employer and provide business opportunities for private enterprises to be a supplier to the SOE (OECD, 2012). In Mozambique, up until 2010, of the around 130 companies in which the State owned a stake just 41 percent were fully operational, 32 percent were operating at a reduced level, whilst the remainder were practically at a standstill. IGEPE have sold off or is planning to sell some of the unprofitable companies that are not perceived to be strategic, including companies in the cotton, textile, rubber and construction sector.[4] However, IGEPE's plan has been met with some resistance from other shareholders and employees of the companies.

CREATING A LEVEL PLAYING FIELD: COMPETITIVE NEUTRALITY

Globally, SOE provide goods and services in competition with the private sector, or in areas where the private sector potentially could compete. To strive for a healthy business environment where entrepreneurship can prosper, it is important that SOEs and the private sector are operating on a level playing field in terms of policies or practices effecting businesses. However, international experience demonstrates that competitive advantages can arise, either intentionally or unintentionally, for commercially oriented state owned enterprises by virtue of the state owning the company. To mitigate this advantage and level the playing field, the concept of competitive neutrality has been developed. Hence, competitive neutrality occurs when "no entity operating in an economic market is subject to undue competitive advantages or disadvantages" (OECD, 2012). It is also generally recognized that when public interest objectives are at stake, a deviation from competitive neutrality can be justified which put SOEs at an advantage (or disadvantage) in the interest of achieving a wider public policy goal. However, there is no common understanding of what constitutes a valid public policy goal, but it varies between different national contexts and political orientations. Nevertheless, it is important that the state can justify the rationale for state intervention in the market, and anchor the decision in the broader political discussion and development agenda in a transparent manner.

The Organization for Economic Co-operation and Development (OECD) conducted recently an extensive research study about existing competitive neutrality practices and challenges to create a level playing field between public and private businesses (OECD, 2012). The report identifies several themes which are important to consider for a country to level the playing field and create greater competitive neutrality in the business environment. Considering that Mozambique is a developing economy and there is a national interest to develop certain industries or attaining certain public policy objectives benefiting the society as a whole, such as improve physical infrastructure, the departure from some of these measures can arguably be justified. However, if such a deviation is deemed reasonable for a SOE, it should be done in a transparent way, justifiable in accordance with an overarching development goal, and there should be a reasonable timeframe or benchmark for when the SOE should be brought into fold with the norms other enterprises are playing by.

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[4] Macauhub, Mozambican state plans to sell stakes in 10 companies soon, 2011-04-08, available at: http://clubofmozambique.com/solutions1/sectionnews.php?secao=business&id=21422&tipo=one

- The government should **set clear ownership objectives**, which should be reviewed periodically to ensure transparency and accountability in the government's policy orientation and engagement in business activities. This exercise enables the government to clarify its role in the economy on an on-going basis. In Mozambique, SOEs are established to provide public services, promote industrialization or a particular development strategy, or yet to safeguard the state's revenue stream. While these are all justifiable objectives, a comprehensive approach outlining the state's objectives in engaging in business would be very beneficial to clarify the government's orientation and priorities. Not having a uniformed and integrated strategy can be interpreted as a strategy itself (Mosca, 2010).
- The **structure and corporate form of SOE** should be clarified. SOEs operating on a competitive and commercial basis can be incorporated to the extent possible in accordance with the regular company law. SOEs engaged in both competitive and non-competitive activities (such as the provision of utilities to remote areas as well as urban centers) can be structured separately or maintain separate accounting to enable SOE engaging in competitive activities to act in a market oriented way. As discussed later in this report, there are three forms of ownership structures for SOEs in Mozambique: one ownership structure under IGEPE using the Commercial Code and two ownership forms under the Ministry of Finance (Treasure) and line ministries.
- Clear and transparency standards and disclosure around **state-owned entities cost structures** ensure that compensation provided for fulfilling public service obligations is not used to cross-subsidize commercial activities. This will ensure that commercial activities are priced at a competitive level reflecting the actual cost of the goods or service. In addition, it will also enable the SOE to be adequately compensated by the government for non-commercial public service activities it carries out.
- To the largest extent possible, SOEs should operate according to the **same tax and regulatory regulations** as private enterprises. When SOEs are incorporated according to the general company law, tax and other regulatory treatments are often similar to the private sector. In Mozambique, companies that are incorporated like STEMA S.A described later in this report, pay taxes like private enterprises and appear to not obtain other regulatory treatments. However, the difference in treatment is not always regulatory, but can be an issue of differential implementation or enforcement. For instance, IGEPE, the Mozambican agency for the management of state owned enterprises, noted in a conversation with our team that the state is minority holder (about 7, 5-10 %) in about ten companies that are not profitable and IGEPE would like to sell the state's shares in these companies. However, IGEPE's plan to withdraw from these companies has been met with resistance from the private shareholders, among other things because they have been able to delay or evade tax payments and have been perceived as more credible companies with the state as a shareholder.
- Access to finance and the **source of financing** might be more advantageous for SOEs than for private companies. In developing countries certain state owned enterprises vital the country's economy or serving a particular development objective, receive donor funding. In Mozambique, the state owned enterprise generating, transporting, distributing and commercializing electricity EDM receive considerable donor funding. The funding is allocated for infrastructure construction, some of which are not commercially viable but driven by social objectives of electrifying the whole country and some large

infrastructure projects to ensure sufficient and reliable electricity for the growing business sector. Other SOEs like STEMA, a grain silos and terminal company, was originally finance with donor funding as a mean to improve food security, but it has since grown to become a profitable SOE. SOE might get preferential access to finance due to perceived or explicit government backing. Access to finance is a major issue in the business enabling environment in Mozambique. While some commercially oriented SOEs access financing at market rates from commercial banks, others obtain state guarantees. One such example of a state guarantee is the Chokwe Agri-Processing Complex, where the government held that the development of the processing complex was motivated by agricultural development objectives. However, as described in chapter 4 of this report, private enterprises were already providing some of the same services in the area as the planned processing complex, and it is unclear how the new SOE is better positioned to advance the agricultural development objectives.

- **Public procurement** policies should be competitive, non-discriminatory and ensure an appropriate standard of transparency. Some countries discourage the participation of the state sector in the public procurement processes. In others, public participation is allowable under specific rules governing managed competitions. A new procurement regulation was introduced in Mozambique in 2010[5], which is comparable with international standards. Nevertheless, there is concern from the private sector that the procurement process is not transparent, particularly in the emerging extractive industry. One stakeholder this team talked to pointed out that public procurement takes time, and sometimes, when procurement is time sensitive it needs to be fast tracked. However, he was questioning whether there were enough checks and balances in place for the fast track procedures. The private sector would like to see more of a dialogue, particularly with ENH, the state owned hydrocarbons company, on future plans for public procurements to enable the private sector to build local capacity and position itself to bid on tenders. It appears like there is need to further investigate this issue and ensure that a satisfactory information dissemination and dialogue takes place. Several private sector participants the team talked to voiced concern that about the inadequate transparency in public procurement. This is an issue that deserves further attention.

The OECD survey found that the most member states did not have a separate regulatory framework or law detailing the principles of competitive neutrality. Instead, it was most commonly expressed through the competition policy and a myriad of other sector specific laws. In addition the survey found that the oversight and enforcement of aspects of competitive neutrality often corresponded to the agency overseeing competition. The one notable exception is Australia, which has a specific competitive neutrality complaint office. Mozambique adopted in 2013 a new competition law (Law 10 of 2013), modelled after Portugal's and other EU countries competition law. The new law has a wide scope and is applicable to private companies and SOEs. The law provides for the creation of the Competition Regulatory Authority (ARC), which will be an independent authority, endowed with administrative and financial autonomy, with

[5] Decree 15/2010 of 24 May regulating the contracting of public works, supply of goods and provision of services to the State.

broad supervisory, regulatory, investigatory and sanctioning powers. However, it appears like the ARC has yet to be established.[6]

STATE OWNERSHIP POLICY

Clear objectives of state ownership clarify the Government's objectives in owning enterprises, delineate roles and responsibilities between the state's role as policy maker, regulator and shareholder, and improve accountability in corporate governance in SOEs. A number of OECD countries[7] have adopted government ownership policies to review and clarify its own objective and provide the private sector and the general public a clear understanding of the government's objectives in business. South Africa has recently completed an extensive review of the country's state ownership. The South African Presidential Review Committee on State Owned Entities concluded that the country should adopt a state ownership policy. The final report was presented in 2012 and the review committee recommended that a state ownership strategy should be implemented within 3 years.

In Norway, the Parliament has approved a Government ownership policy in view to contribute towards greater transparency about state ownership. The government's political platform stresses the importance of a diverse ownership base for the Norwegian economy: "*Diversified ownership is a strength for Norwegian business and industry in terms of access to capital and expertise. Diversified ownership is necessary, both private and public ownership and national and international ownership. Norwegian ownership is an important means of ensuring that companies have their head offices and research activities in Norway. Foreign ownership, on the other hand, helps to ensure development and build competence*."[8] The ownership policy outlines the government's objectives for state ownership, the state's expectations on SOEs, commercial requirements for SOEs, specific objectives for each individual SOEs, remuneration of personnel and corporate governance in SOEs, as well as the legal framework and the division of roles in the government's administration of SOEs.

The Norwegian government has three main objectives for state ownership: First, to ensure that the head offices of important key companies for the Norwegian society are based in Norway. In Norway, it is a political priority to retain the head office of strategically important enterprises to secure and develop specialized industrial, financial and management expertise. Second, to ensure government control of and revenues from the country's natural resources. The state wishes to ensure national ownership and control of the country's extensive natural resources, particularly in the energy sector, to ensure that the revenues generated by natural resources benefit the society as a whole. Third, to secure other political objectives, including national infrastructure in regard to roads, railways, airports and the national transmission grid for electric power; cultural

6 Sofia Ranchordas, Almost Nine Months Later….and still no Signs of the Mozambique Competition Authority, December 2013. Available at http://africanantitrust.com/category/mozambique/

7 See for instance, Sweden, Norway, Finland, Canada, Australia and New Zealand detailed in: OECD, Accountability and transparency: A guide for State Ownership, 2010.

8 Government of Norway, The Soria Moria Declaration.

institutions such as theaters and the Norwegian broad casting corporation; and regional health authorities and the organization of the specialist health service.[9]

The Norwegian state owns 52 SOEs. Two thirds of these SOEs are fully owned by the state. About 45% of the SOEs are affiliated with or report to the Ministry of Trade and Industry.[10] The state's direct ownership ranges from holdings in Norway's biggest listed companies to small wholly owned companies with purely sectorial policy objectives. The state is planning to maintain its shareholdings in currently owned companies and maintain the overall state ownership at the same level, although assessments of the appropriate level of the State's shareholdings in each company must be carried out regularly. The establishment of new state ownership should be carried out on the basis of commercial grounds, ideally in cooperation with private investors. Ownership that is not based on commercial grounds with the cooperation with private investors should be based on specified objectives primarily relating to sectorial policies.

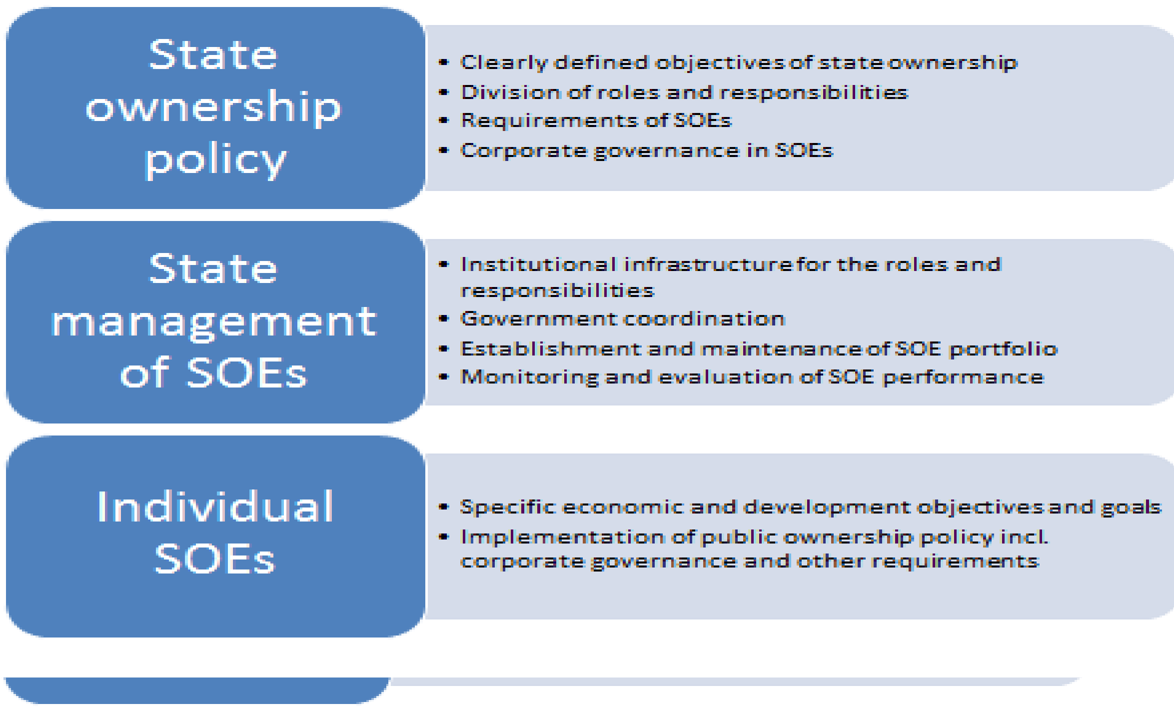
In South Africa, a Presidential Review Committee on State Owned Entities was appointed to review all state entities and recommend how these entities efficiently and effectively could accelerate the development objectives and economic growth in South Africa. The committee estimated that there were approximately 300 SOEs in the country, but after including provincial and municipal SOEs the number rose to about 715.[11] Considering the large number of entities, the review committee studied a sample of the SOEs and developed a set of recommendations. After two years of work, the review committee's key recommendation was that the state should clearly define and communicate a consistent strategy for SOEs, including the definition of SOEs, their purpose, role, function and objectives. The review committee found that South Africa did not have a statutory framework "*to determine the strategic purpose or whether state ownership of particular commercial enterprise is necessary or desirable*."[12] The review effort found that there was no comprehensive repository or source of how many SOE exists and that without that knowledge it is challenging for the state to exercise its role as an owner in a strategic way. As a result, it was recommended that a database with the SOEs should be created and maintained. The report found that there is a blurred or non-existent distinction between the Government's role as policy maker, regulator, shareholder or owner and the custodian of national revenues. Therefore, the review committee highlighted also the need to delineate the separate roles of government as owner, policymaker, regulator and implementer. The review committee established a detailed list of specific recommendations including the need to identify strategic sectors and standardize monitoring and evaluations of SOEs. It would be very useful and interesting for Mozambique to take a closer look at the South African review process and its findings.

As summarized the figure below, the establishment of a state ownership framework takes place at several levels: A state ownership policy defines the objectives of state ownership, establishes the roles and responsibilities for the government as policy maker, regulator and owner, and defines a number of other requirements (such as environmental and social) and the corporate governance structures in SOEs. The government's structure for governing and managing SOEs

[9] Norwegian Ministry of Trade and Industry, Government Ownership Policy, 2011.
[10] Norwegian Ministry of Trade and Industry, Government Ownership Policy, 2011.
[11] Presidential Review Committee on State Owned Entities, Growing the economy Bridging the Gaps, main report, 2012 (South Africa).
[1212] Presidential SOE Review Committee, G &O Position Paper: Ownership, 5 March 2012.

need to reviewed and forms for coordination within the government established. For the state to be able to make informed decisions about its SOE portfolio, it needs to have a clear overview of what SOE the government has. Each SOE should have specific economic objectives and goals to enable the SOE and the Government agency the SOE report to to monitor the SOEs performance vis-à-vis the set forth objectives and the goals.

Figure 5: ***Institutional framework for a public ownership policy***



Source: Authors' own construction

CHAPTER FOUR: STATE OWNED ENTERPRISES IN MOZAMBIQUE

Building on the theoretical framework presented in chapter three, this chapter discusses Mozambique's SOEs. It starts by portraying a historical trajectory of the development of SOEs, it analyses the regulatory and institutional framework for SOEs, governance and oversight. Further, the chapter describes the different types of ownership structures for state owned enterprises with examples of the different categories. There is a trend analysis of the state's engagement in business. To close the chapter, a discussion of the conflicting practice of using state facilities and political connections to do business thus hampering the development of the private sector by jeopardizing the doing business environment with unfair competition.

THE DEVELOPMENT OF SOEs

The initial formation of State Owned Enterprises (SOE) in Mozambique must be contextualized in the nationalization process. After gaining independence from Portugal on June 25, 1975, the Government of Mozambique (GoM) declared the nationalization of the health, education and justice sectors on July 24, 1975[13]. The Catholic Church was one of the most affected by the nationalizations as it owned many schools and hospitals in the country.

In 1976 all of the houses to let were also nationalized. As a result, many Portuguese citizens who owned most of the houses at the time left the country leaving behind their properties which included various small and medium enterprises (SMEs). Thus the GoM had to take over the management of many SMEs. In part this resulted in effective nationalization of companies which gave birth to state companies (*Empresas Estatais)*. But also, in other cases, the state simply continued intervening in the companies' management and structures and not necessarily nationalizing them. This is what was known as "defensive nationalization" (*nacionalização defensiva*) as opposed to "offensive nationalization" (*nacionalização ofensiva*) which consisted of taking over companies seen as vital for the country's economic subsistence as observed by Castel-Branco (1994) and Castel-Branco, et al. (2001). Initially, the companies' management teams were organized for smaller units, a system of self-management in which committees of workers (*Comités dos Trabalhadores*[14]), usually organized by FRELIMO[15] cells (*células*), in some cases, and in others it was "Group Facilitators" (*Grupos Dinamizadores*) who assumed the management thereof.

The transformation of *Empresas Estatais* into *Empresas Públicas* started in 1991 when the Law of Public Enterprises, Law 17/91[16] of 3rd of August came into force. This process took place

[13] One of the biggest avenues in Maputo (*Avenida 24 de Julho*) is named after that date.
[14] This management unit still exists in a variety of companies like LAM, MEDIMOC, ADM, etc. with a slightly different name *Gestores Técnicos e Trabalhadores* (Technical Managers and Workers).
[15] *Frente de Libertação de Moçambique*
[16] Known in Portuguese as *Lei das Empresas Públicas*

within the wide framework of privatizations started in late 1980s when Mozambique set off relationships with Bretton Woods Institutions (World Bank and International Monetary Fund, IMF) and amid the implementation of the "economic rehabilitation program" (*Programa de Reabilitação Económica*, PRE) started in 1987. The 1991 Law was revoked in 2012 by the Law 6/2012, of 8th of February. Mozambican lawyer Tomás Timbane summarizes the goal of this new law as follows:

> "*The goal of this law is to bring the legal rules on public companies up to date and into line with the demands and priorities facing the State in terms of management of the business sector. For example, recent developments in the natural resources, energy and infrastructure sectors mean that, when the State has a stake in the capital of companies that exploit these resources; it needs to be represented by companies governed by rules that do not restrict the flexibility they need to operate effectively*" (Timbane, 2013; p. 1)

This point is discussed further in detail in the next subsection 4.2 below under the subtitle "Regulatory and Institutional Framework of the SOEs."

In general, the history of privatizations in Mozambique has never been well/fully told. As noted by political economist Christopher Cramer (1997; p.2):

> *"Privatization in Mozambique has been claimed as one of the most successful programmes in Africa. But there has been little debate about the programme's dimensions and impact; and there is widespread anecdotal complaint. There has been some sector specific criticism: for example, managers of privatised cashew processing firms have argued that post-privatization policy changes have undermined their prospects as a site of development of the Mozambican private sector. The trade union movement, in particular the Organização dos Trabalhadores de Moçambique (OTM), has consistently expressed fears about the impact on the formal sector labour market. There are also two general criticisms floated in Mozambique, including in government circles at times. The first is the charge that many enterprises have been sold off too cheaply. The second is that the process of privatization has frequently not been sufficiently transparent."*

With regard to the privatization of SOEs, the general objective was to privatize all of the state's shares in SMEs and set up public-private corporations in big industrial complexes. The rationale here was not that of freeing the state of "excess charge" but rather that of freeing the market of the state's control (Castel-Branco, 1994).

The main criteria for selling off SOE were the size and strategic significance of the firm in the market: the smaller and non-strategic firms were listed for privatization. Strategic firms were those operating in profitable business and export sectors. Examples include Emplama, EE (the major producer of plastic and plastic products), Cometal-Mometal, EE (the only producer of freight cars) and Fasol-Saborel, EE (the only producer of cooking oils and soap). Some large firms remained under private ownership or retained their 'intervened' status. These included Tudor (batteries), Mabor (tyres), Metal Box (the largest iron foundry) and various sugar estates.

The privatizations were managed by the former Ministry of Planning and Finance (MPF)[17] through its Technical Unit for Enterprise Restructuring (UTRE, *Unidade Técnica para a Restruturação das Empresas*), according to which the GoM privatized about 1,400 companies in the decade of 1990 with the World Bank's assistance (UTRE, 1997). As observed by Hanlon & Mosse (2010), this period [the period between 1990-2002] was the era of 'savage capitalism' with the state forced to withdraw from the economy. There was widespread privatization – small firms went to members of the Frelimo elite and larger firms went to foreign companies – and rapidly growing corruption.

Examples of the most known former EEs which became either an EP or an SA include: Ports and Railways Company (*Caminhos de Ferro de Moçambique*, CFM); Electricity of Mozambique (*Electricidade de Moçambique,* EDM), PESCOM which secured the importation and distribution of jack makrel, a well-known fish in Mozambique, locally called as *carapau* fish, the more readily available protein base and later export shrimp and other seafood; ENACOMO, an importer/exporter of agricultural products; and MEDIMOC, which still exists as a semi-private company (the State owns 65% of the shares and the reminder 35% are owned by the workers).

Currently Mozambique's state engages in business activities through three main modalities as summarized by Bila (2010):

i. *Public Enterprises* which are collective persons and only operate in public utility sectors with their own legal status and autonomy over and asset management issues, in which the State holds 100 percent of the capital stock (e.g; Electricity of Mozambique – EDM; Correios de Moçambique). Public enterprises are regulated by the Law of Public Enterprises (Law 6/2012 of 08 February).

ii. *Publicly-owned enterprises* those in which the State, sometimes in conjunction with a public enterprise, is the sole or major owner of the capital. These enterprises are present in various sectors such as telecommunications (i.e.: Telecommunication of Mozambique - TDM); medicines (e. g; MEDIMOC); and fuel (e. g; Petromoc). The operation of publicly owned enterprises is regulated by the Commercial Code, hence in the same manner as private companies.

iii. *State Shareholding enterprises* (participated companies) are those enterprises in which the State holds a major shareholding in private enterprises, sometimes as a result of reverting to the State ownership enterprises that were involved in unsuccessful privatization process, or as a result of the State's intention of having a presence in strategic sectors. Examples of these companies include the Mozambique Aluminum (Mozal) and the cell phones company MCel. State sharing companies are like publicly owned enterprises governed by the Commercial Code.

[17] This ministry was split into two in 2005 when President Guebuza came to power. Its duties are now undertaken by two ministries: Ministry of Planning (MPD) and Ministry of Finance (MoF).

IGEPE (Institute for the Management of State Holdings) was created in 2001[18]. IGEPE's predecessor, the Office of Management of State Holdings" (*Gabinete de Gestão das Participações do Estado, GAGEPE*) assumed the responsibility of managing state participations during the period of 1997-2001.IGEPE's mandate is driven by profit-making and the creation of IGEPE indicates a clear intention of GoM to rid off the non-profitable state owned firms. At the time of its creation in December 2001, IGEPE had a portfolio of 279 companies. With the restructuring process which consists of three forms: i) dissolution; ii) disposals and iii) liquidations, IGEPE currently deals with 118 participated companies and the plan is to reduce the stake to a maximum of 40 profitable firms[19].

The disposal of participated firms pursues three fundamental objectives as follows:

i. Unlocking the portfolio of non-strategic shareholdings;
ii. Broaden the base of participation of Mozambicans in the management of companies and the sharing of benefits arising therefore;
iii. Increase revenue to the Treasury on the basis of proceeds from the sale of the shares resulting from sale[20].

According to a recent IGEPE report (IGEPE, 2014) a number of factors constrain the implementation of the state's strategy to rid off non-strategic companies. Such factors include the abandonment by the other shareholders of the companies, leaving them with high unpaid liabilities, including unpaid wages and compensation; private shareholders postpone decisions, dragging processes because they do not want to see their names associated with bankruptcies, combined with financial inability to meet their responsibilities, and problematic financial situation of the companies that makes them unattractive to other investors.

REGULATORY AND INSTITUTIONAL FRAMEWORK FOR SOEs

SOEs in Mozambique are classified in three categories. Only the first category, Public Enterprises, is regulated by the Law of Public Enterprises (Law 6/2012 of 08 February) whereas the other two categories, Publicly owned enterprises and Shareholding Enterprises or Participated, operate just like private companies in compliance with the Commercial Code.

Mozambique's state engages in business activities through three main modalities as summarized by Bila (2010):

iv. *Public Enterprises* which are collective persons and only operate in public utility sectors with their own legal status and autonomy over and asset management issues, in which the State holds 100 percent of the capital stock (e.g; Electricity of Mozambique – EDM; Correios de Moçambique). Public enterprises are regulated by the Law of Public Enterprises (Law 6/2012 of 08 February).

[18] Some authors (e. g; Bila 2010) indicate 2006 as the year of creation of IGEPE. But the institution's website says 2001 which we think is the correct date http://www.igepe.org.mz/index.php?option=com_content&view=article&id=2&Itemid=13&lang=pt
[19] According to IGEPE's Chairman in an interview with the Team of Consultants on 30th June 2014.
[20] IGEPE's 2013 annual report announces two objectives on page15 but then lists three objectives, the report is available at http://www.igepe.org.mz/images/stories/Relatorio_e_Contas_2013.pdf

v. *Publicly-owned enterprises* those in which the State, sometimes in conjunction with a public enterprise, is the sole or major owner of the capital. These enterprises are present in various sectors such as telecommunications (i.e.: Telecommunication of Mozambique - TDM); medicines (e. g; MEDIMOC); and fuel (e. g; Petromoc). The operation of publicly owned enterprises is regulated by the Commercial Code, hence in the same manner as private companies.

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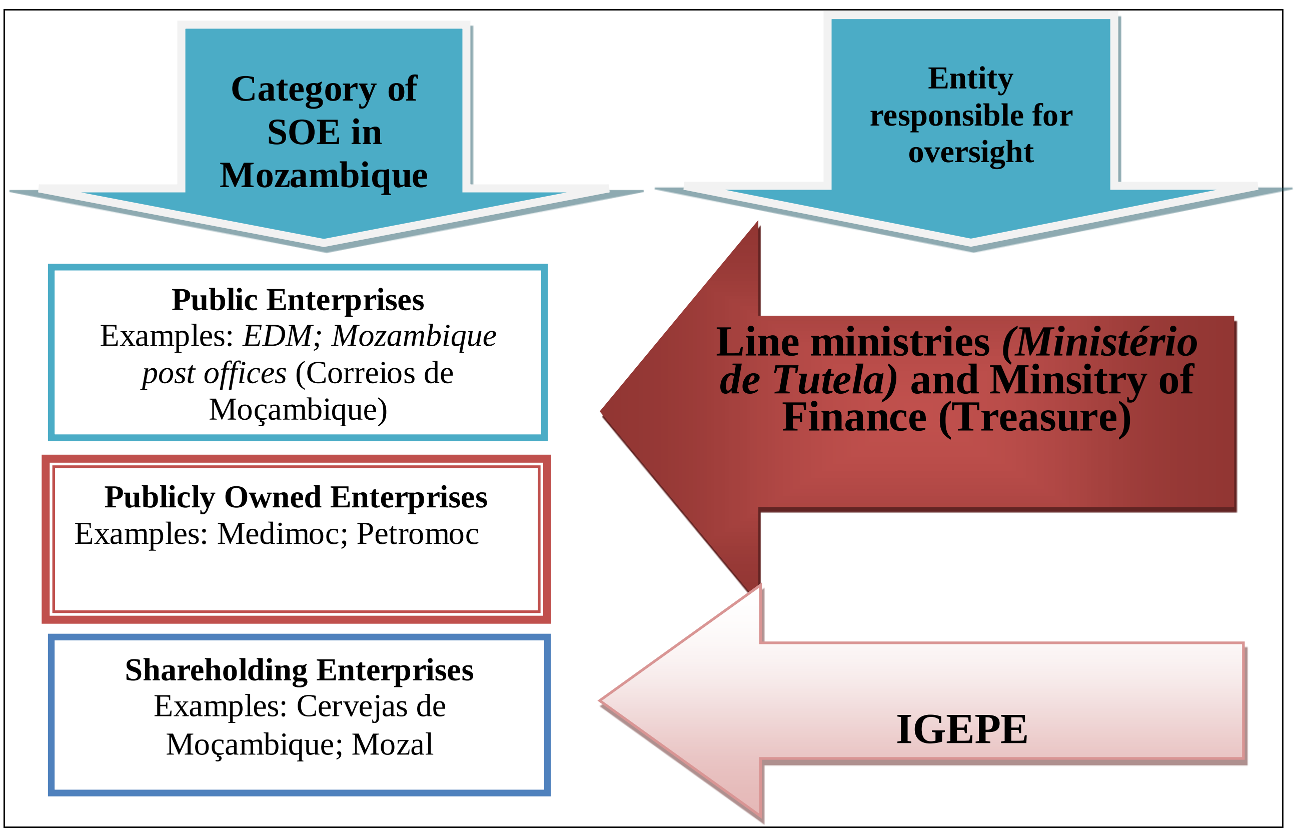
In General, Public Enterprises (PEs), also known as parastatals, are created, managed and report to the line ministries. For financial matters, they report to, and are financially supervised by the Ministry of Finance (The Treasury). For example, CFM reports to the Ministry of Transports and Communications for operational and strategic aspects, and to the Ministry of Finance (Treasury) for financial matters. State participated enterprises (which can be either publicly owned enterprises or shareholdings enterprises) are controlled by IGEPE.

Figure 6*: Governance and oversight of SOEs in Mozambique*



Source: Authors 'own construction based on Bila (2010); IGEPE (2014) and Ministry of Finance

PUBLIC ENTERPRISES (*EMPRESAS PÚBLICAS*): LAW 6/2012 OF 8TH OF FEBRUARY

The operation and management of Public Enterprises (PE) is governed by the Law 6/2012 of 08 February (Law of Public Enterprises).[21] This law sets out the rules for the creation, organization, and operation of SOE and their relations with line ministries. The law set out several governmental means of control over SOE and to assure their effective and adequate management. In public enterprises the state is the sole owner. In general, a PE is created by Decree of the Council of Ministers based on financial and social viability assessed by studies for such. Some of the bigger public enterprises include EDM, BNI, CFM, Mozambique Postal Office and ENH. Public Enterprises have the right to set up subsidiaries, which become publicly owned enterprises. For example, ENH has created ENH logistics, CMH and CMG. Public enterprises have also the right to be shareholders in private enterprises. For example, ENH is a shareholder in Anadarko, ENI and Sasol projects.

In terms of institutional framework, PE is managed by the appropriate line Ministry (*Ministério de Tutela*) based on its purpose and the financial supervision is exercised by the Ministry of Finance (MF). There is joint responsibility of these institutions on considering and deciding about plans and governing body. Each PE should have its own statutory rules (by-laws) approved by the Council of Ministers.

According to the Law of public enterprises (Law 6/2012 of 8th of February), PEs has administrative, financial and patrimonial autonomy and the internal rules must be approved by the relevant ministry taking into consideration the opinion (no-objection) given by the Ministry of Finance.

A public enterprise is composed by the Board of Directors which represent the managing body of the company and an Audit Committee. The Chairman is appointed by the Council of Ministers and the Directors by the Ministry/Institution that holds the custody. For the Audit Committee, the members are appointed by MF taking into consideration the opinion of relevant line Ministry (*Ministério de Tutela*).

The Board of directors is responsible of preparing, submitting and implementing plans, policies and objectives of PE, reporting of activities and accounts, among others. It also must ensure that external audit is done annually. And the Audit Committee is responsible for the accounting activities of the PE, performance, degree of fulfillment of the stipulated *Contrato-Programa*[22] (Contract-Program) which contains the description of corporate development policies, the quantification of objectives, as well as investment policies and its funding criteria, among others.

According to article 36 of *Public Enterprises Law*, these enterprises shall adopt internal control audit procedures that are deemed adequate to assure reliability of its accounting and other

[21] The law is operationalized by the Decree No.84/2013 of 31 December.

[22] *Contrato Programa* **-** contract valid for a period of 4 years and is a tool for planning, execution and control of the sectoral policy of the Government in the enterprise… (Article 32 of Law 6/2012 of 8 February).

financial information. Systems and control procedures should have as one of its objectives the prevention of fiscal risk. Therefore, the new law of public enterprises has a strong concern with the control of the economic and financial management of SOE and the prevention of tax risks. However, it is not clear whether SOE like EDM which engage in both competitive and non-competitive activities such as the provision of public utilities are required to maintain separate accounting.

Box 1: EDM (Electricidade de Moçambique) : An SOE providing Public Services

EDM is fully owned by the State, and has the responsibility to generate, transport, distribute and commercialize electricity throughout the whole country. EDM reports to the Ministry of Energy and is also interacting with the Ministry of Finance to request injections into their budget. The objective of EDM is to generate social and economic development. In 1990, only 15 of Mozambique's 128 districts were electrified. To date, 120 districts have been electrified and EDM is planning to complete the electrification of the remaining 8 districts by the end of 2014. Still, the proportion of residents who have access to electricity in Mozambique remains low with around 14-15 per cent of households connected to the national grid. With continued financial support from the donor community EDM will expand the access to electricity to households throughout the country to promote social development. Following the large oil and gas discoveries in Mozambique the demand for electricity will increase and a reliable and steady supply of electricity is crucial for economic development. The electricity consumption in Mozambique is higher than what the counthas access to (due in part to a power purchasing agreement between Portugal and South Africa originating from the colonial time, guarantees South Africa 80-85% of the electricity from Cahora Bassa at a favorable price). To compensate for the difference during peaks, EDM is importing electricity from South Africa for ten times the price of what electricity produced in the country costs. The price customers pay for electricity is regulated by the government, but the tariff has for political and business enabling reasons only been slightly adjusted twice in the last ten years. Although the tariffs are advantageous for businesses, it is unsustainable and EDM is close to financial collapse. EDM has repeatedly raised the concern with the government over the last two years, but the government has not taken actions to increase the fees, possibly in part because the general perception is that Cahora Bassa is Mozambican and there is plenty of available energy. EDM is in a joint venture with SASOL completing a new power station which will help alleviate the need to import electricity. There are several other private companies or public –private companies that will be producing energy from gas or coal,[1] but the distribution of energy remains so far with EDM. Nevertheless, the fee structure will still not match the cost to produce and distribute electricity. This issue point to the dilemma that EDM is faced with, that one the one hand it's expected to be run like a commercial company, but it's also a public service company. EDM would like to see an adjustment where larger users of electricity are paying fees that are closer to the actual price, while the fees for individual households would still be reduced.

PARTICIPATED COMPANIES (*SOCIEDADES ANÓNIMAS*) UNDER IGEPE

The Commercial Code (*Código Comercial*) approved by *Decree-law No.2/2005 of 27th December* regulates Government linked companies with state participation. Mozal, CDM, , ENH Logistics, CMH are examples of participated companies. The code also provides a regulatory framework for creation and operation of private enterprises as well as commercial societies. In other words, participated companies are created and operated according to the same framework as private enterprises.

In terms of institutional framework, state holdings are managed by the IGEPE and National Treasury (Ministry of Finance). The main objective of this institution is to enforce the intervention capacity in the management of state enterprises, aiming to capture incomes resulting from dividends of participating societies.

Specifically, IGEPE has the mandate of:

i. Managing State Shares in business partnerships;
ii. Rendering support services to companies and ensure adequate management instruments and planning;
iii. Defining and managing the Directors carrier path, and;
iv. Ensuring preparedness and training for those involved in SOEs management;
v.

In addition to the above listed mandates, in practice IGEPE also facilitates the establishment of new SOEs as in the case of Chokwe rice plant described in box 3 below.

In 2009, inspired in the OECD Corporate Governance principles, IGEPE developed a Corporate Governance Best Practices Guide containing, among other elements, the role of State as owner and partner, sshareholders rights and duties and board structure.

Some stakeholders our team talked to raised the issue that IGEPE's main purpose appears to focused on collecting revenues for the state, but there is limited strategic forward thinking. Stakeholders pointed out that it's important for IGEPE to provide more of a direction of the natures and goals of state ownership of businesses. However, IGEPE is currently working with the World Bank with funds from DFID to develop a new strategic plan for 2015-2018. The consultant team was not able to review the strategic plan as it is not yet finalized and made public.[23] The strategic plan is expected to be released this year (2014).

In Box 2 below is an example of an SOE, STEMA managed by IGEPE and the Ministry of Finance. STEMA was originally established with donor support to strengthen the country's infrastructure for food security. It has since grown to become one of the more profitable SOEs in the country.

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[23] Interview with IGEPE's Chairman with the team of consultants on 30th June 2014.

Box 2: Matola Grain Silo and Terminal (STEMA)

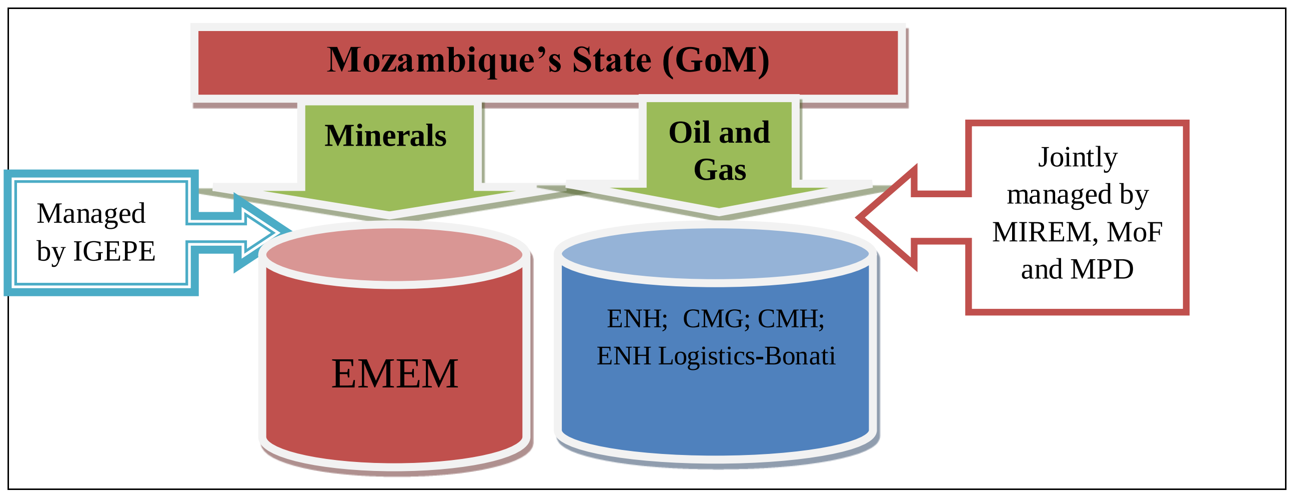
STEMA (Silos e Terminal Graneleiro da Matola S.A) was established in 1996 with the support of the German government. Following the big floods and the shortage of grain storage, STEMA was created as a measure to increase food security in the country. STEMA is fully state owned; 56% of the shares are held by IGEPE and the remaining 44% are owned by the National Directory of Finance. STEMA report to IGEPE and the Ministry of Finance (MoF), but the company act pretty independently and does not have much interaction with IGEPE or the MoF. STEMA is located in the port of Matola and provide ship, train and truck loading and unloading of grains into the silo storage as well as fumigation. STEMA's main clients include the state owned company ICM, 2-3 larger national mills and loads destined for the Southern Africa regional market. There is no other company providing similar services around Maputo, although the Port of Maputo can handle some grains. One private sector representative this assessment team talked to said that STEMA is primarily handling imported grains, but that the company he represented is interested and has started to explore the establishment of grain silos and terminals in Mancala and Beira that would cater to both the domestic and international clients. Although STEMA sets the prices for their services, the government is interested in keeping the cost for flour low to avoid new food riots. Hence, STEMA has not changed the price for handling flour since 2009, while the price for other services has changed. STEMA's lower price is pushing prices for handling flour for a private company in Beira as well. The STEMA management team has a background in the private sector and maintains that the company is run with a private sector mentality. Although STEMA was first conceived as a facility to ensure food security, it has come to be one of the more profitable SOE in Mozambique. As such, STEMA is planning to expand to be able to receive more vessels. Although STEMA would like to see some shares of the company sold to the employees (the company is heavily mechanized and there are therefore not more than 66 employees), it is such a profitable company for the government that IGEPE do not have any plans to sell shares.

TREND ANALYSIS OF THE STATE'S ENGAGEMENT IN BUSINESS ACTIVITIES

Is the state's engagement in business activities reducing or increasing in Mozambique? This subsection explores this issue and raises a number of questions that need to be further studied. We find that the number of SOEs managed by IGEPE has decreased, as IGEPE is reducing its portfolio of unprofitable SOEs. IGEPE has currently a portfolio of 118 SOEs, and is planning to continue to reduce its portfolio in view to only maintain state ownership of profitable companies. However, there is also a new wave of enterprises being formed that is linked to ENH. . During our team's conversation with stakeholders, the expansion of ENH subsidiaries was a commonly raised issue. Several participants voiced concern about the lack of transparency in ENH and its subsidiaries and that it was not clear what the role of ENH and ENH logistics are and what the role of the government is. Considering these concerns and the importance of natural resources in the economy, this report takes a closer look at ENH as an indicator of the trend of the state's engagement in business. As there is no central repository listing all SOEs in the country, but they are managed by IGEPE and a number of different ministries, further research is needed to get a complete picture of the trends of the number of SOEs in the country. While the focus of this trend analysis is on IGEPE and ENH, this section concludes with a text box about the Chokwe rice processing plant. This examples illustrates how the state is also wishing to engage in agricultural processing and marketing in direct competition with the private sector. Based upon input from stakeholders, the state is showing a growing interest in direct engagement in agri-business. To fully explore this issue, we propose that further work is conducted in this area.

With the natural resource boom in Mozambique, the state is, as in many other countries attentive in capturing significant stakes of business in the minerals, oil, gas industry. However, the state does not have a clear strategy on who is regulating these profit-making SOEs. In a sense, the state is pursuing a dual modality, where the state sometimes regulates and manages profitable SOEs through IGEPE and now more increasingly with the resource boom through the ministries of mineral resources (MIREM), the ministry of finance (MoF) and ministry of planning and development (MPD) as illustrated in the figure below.

Figure 7: ***Diagrammatic illustration of the state's engagement in the minerals, oil and gas sectors***

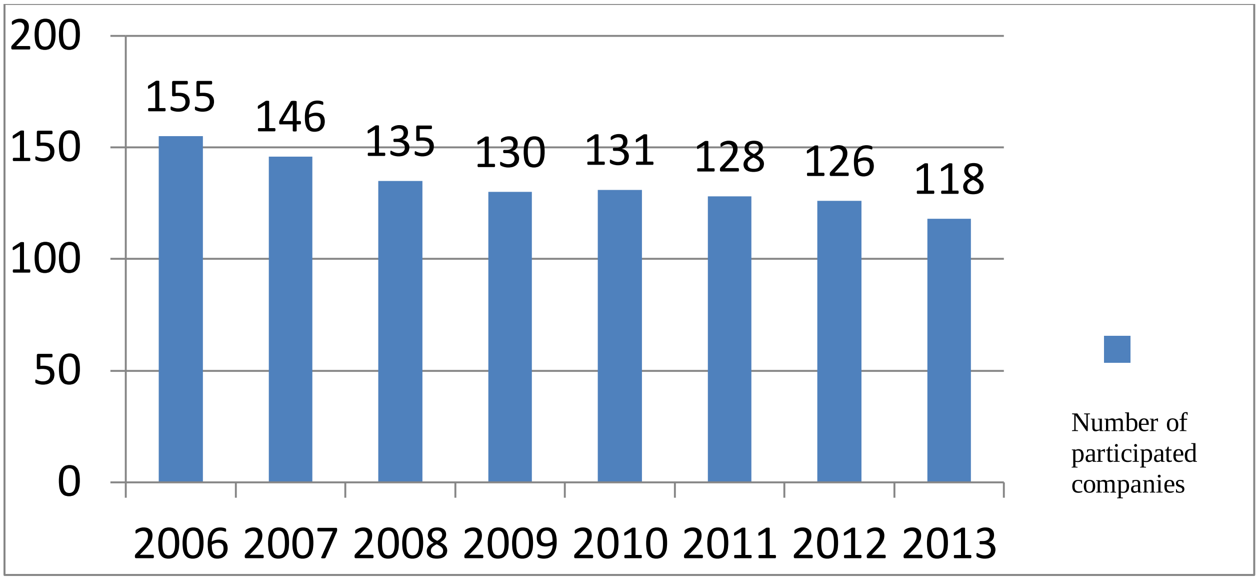


Source: Own construction based on information from ENH and IGEPE

TRENDS IN IGEPE'S PORTFOLIO

A weakness in the state ownership structure is that there is no clear overview of what the state owns, as different SOEs are reporting to different ministries or to IGEPE. As a comparison and as described in chapter 3, the South African Presidential Review Committee on State Owned Entities found that there was no comprehensive repository or source of how many SOEs exist in South Africa and that without that knowledge it is challenging for the state to exercise its role as an owner in a strategic way. Based upon our team's review of IGEPE's annual reports from 2006-2013(there is only available data during this period) , we can conclude that the number of participated companies have reduced as shown in Table 2 below. In addition, as mentioned above, in 2001, when IGEPE was created, it had a portfolio of 279 companies. However, the annual reports present aggregated data, and does not list the individual SOEs and the state's share in each company. It would be advisable for IGEPE to make their detailed portfolio public. Further research is needed to map out the overall picture of SOEs in the country, or in a specific sector.

Figure 8 Reduction of IGEPE's participations from 2006-2013



Source: Own construction based on IGEPE's annual reports 2006-2013

IGIPE's strategy is to limit the state's ownership of businesses to profitable firms and is not focused on a specific business sector. As shown in the table below, IGEPE's top 10 participations in terms of value are in a variety of sectors such as banking, aluminum smelter and telecoms.

Table 1: IGEPE's Top 10 Holdings since 2012

Nº	COMPANY	CAPITAL	VALUE	Proportion of State Shares
1	HCB- HIDROELETRICA DE CAHORA BASSA, SA	23 558 108,58	20 024 392,29	85,00%
2	BNI- BANCO NACIONAL DE INVESTIMENTO , SA	17 145 000,00	17 145 000,00	100,00%
3	TDM- TELECOMUNICACOES DE MOCAMBIQUE, SA	2 800 000,00	2 800 000,00	100,00%
4	PETROMOC, SA	1 800 000,00	1 440 000,00	80,00%
5	MILLENNIUM BIM	4 500 000,00	769 500,00	17,10%
6	MOZAL,SA	10 253 585,00	394 763,02	3,85%
7	MCEL- MOCAMBIQUE CELULAR, SA	1 500 000,00	390 000,00	26,00%
8	ACUCAREIRA DE XINAVANE, SA	3 204 500,00	384 540,00	12,00%
9	LAM- LINHAS AERIAS DE MOCAMBIQUE	352 600,00	321 400,00	91,15%
10	STEMA- SILOS E TERMINAL GRANELEIRO DA MATOLA,SA	245 935,00	245 935,00	100,00%

Source: IGEPE 2014

TRENDS IN ENH'S CREATION OF SUBSIDIARIES

ENH is fully owned by the State and it was established in 1981. ENH is the commercial entity which reports directly to the Ministry of Mineral Resources. The Ministry of Mineral Resources is the policy maker, but the sector's direction and the ENH's expansion into new business areas have not been publicly discussed. The Petroleum Law (3/2001) made ENH the commercial representative of the state in all hydrocarbons concessions, with shares in the projects as described in the table below. The Ministry of Mineral Resources' National Petroleum Institute (INP) is the regulator. INP grants hydrocarbon licenses, which are obtained through public tender, simultaneous negotiation or direct negotiations (Revenue Watch Institute –Mozambique 2013). The Public Tender law provides a mechanism for appeal of decisions, but the INP has a broad discretion in licensing decisions. The INP regulates the hydrocarbon sector and collects payments from oil companies for social and capacity-building funds. However, given INPs role as the petroleum sector's regulator, it would make more sense for the INP to be an independent agency and exercise its regulatory power independently of the Ministry of Mineral Resources or another government body. The General Tax Directorate of the Finance Ministry collects royalties, taxes, and profit shares from companies.

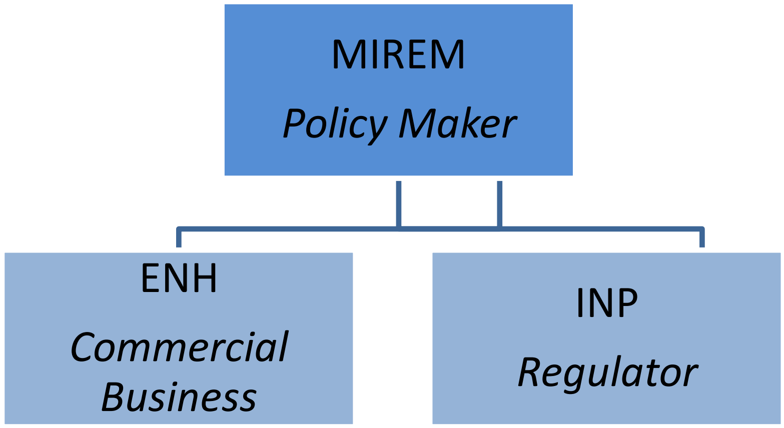
Table 2: ENH's participation in oil and gas projects

Location/name of the Project	% of shares
ROVUMA BASIN	
Area Onshore	15%
Area 1	15%
Area 4	10%
Area 2 & 5	10%
Area 3 & 6	10%
MOZAMBIQUE BASIN	
Pande/Temane (PPA)	25%
16 & 19	15%
M-10	15%
Buzi	30%

Source: Own construction based on various publication

Mozambique receives a "failing score" of 46 of 58 on the international Resource Governance Index due to the lack of information on the licensing process, contract terms and limited data. The Mineral Resources Ministry publishes very basic data provided by companies, and the NPI lists information on exploration activities, but little else (Revenue Watch Institute –Mozambique 2013). The Resource Governance Index finds also that the government provides insufficient monitoring and auditing of the sector. The legislative branch does not review contracts and provides little oversight of the extractive industries. All public entities are audited and the reports are presented to the legislature, but lawmakers do not always follow recommendations from national auditors and not all audit reports (Revenue Watch Institute –Mozambique 2013). The division of roles and responsibilities between the Ministries, the INP and ENH need to be further studied to be able to pinpoint where there are gaps and where improvements can be done to strengthen the institutional structure, transparency and accountability.

Figure 9: Oil and Gas Institutional Structure in Mozambique



ENH's history can be divided into three main phases as follows:

1. 1982/1990 corresponds to the period of the company incorporation, as well as the implementation of the national oil policy.
2. 1991/2000 corresponds to the consolidation of the company and establishment of hydrocarbons development infrastructure.
3. 2001/2011 corresponds to the period of production and commercialization and new discoveries of natural gas. This is the period when three subsidiaries were formed: Mozambique Hydrocarbons Company (CMH) and Mozambique Pipeline Company (CMG) were formed in early 2000[24], and ENH logistics.
4. Going forward, as described in more details below, ENH is planning on expanding their subsidiaries "endlessly" into new projects.

The State is pushing a dual strategy in its engagement in business activities. On the one hand, it uses IGEPE which is reducing the number of participated companies, ridding off the unprofitable ones; on the hand the GoM is expanding its presence in business activities in the oil and gas sector through the parastatal company ENH and its subsidiaries: ENH Logistics, CMH, CMG and others to come. ENH Chairman, Nelson Ocuane, described their strategy to our team as being "a strategy to expand endlessly"[25]. And in a recent interview to *SAVANA*[26] newspaper conducted by journalist Marcelo Mosse, Ocuane says "we [Mozambique and ENH] must be pragmatic and aggressive" (Mosse, 2014).

ENH's strategy of creating subsidiaries to intervene in every subsector of the oil and gas industry is being questioned by the business community in the country. One of the most common concern from the private sector is the to lack of transparency in relation to public procurement and ENH's expansion strategy. Businessmen interviewed by the consultants complain about the fact that

[24] Details are available at http://www.enh.co.mz/Quem-Somos/Historia-da-ENH
[25] Meeting with ENH Chairman and ENH Logistics CEO on July 2, 2014
[26] See interview by Marcelo Mosse in *SAVANA* weekly newspaper of 11th of July 2014; pages 14-15: "*Temos de ser pragmáticos e agressivos*" (We need to be pragmatic and aggressive).

ENH Logistics is operating in a sort of monopoly in Cabo-Delgado's gas business. The consultants asked this question at the meeting with ENH Chairman, Nelson Ocuane, and his team. They did not agree with such concern and suggested that the problem might be related to a lack of coordination and unity among businessmen affiliated to CTA. In the SAVANA's interview cited above, journalist Marcelo Mosse asked ENH Chairman the question about ENH's practice of setting up partnerships without public tender. Ocuane's response was:

> "*What happens is this: Anadarko and ENI are operators. They should launch tenders for the purchase of necessary services. ENH does not have contracted work. It must create partnerships to bid for some business opportunities."*
> Then the journalist insists: *"But shouldn't it be through public tender?" And ENH* Chairman explains as follows*: "There are two models: the first consists of looking at the international level and seeing who are the best. ENH's model of partnership is strategic and in any consortium there will be possibility of national companies to participate. We are now creating a database of national companies. At this stage, the partnerships done by ENH are related to the know-how presented by the companies at bidding, but there are no adjudicated concrete projects and they are going to bid for one of the needed services"* (Mosse, 2014).

Hence, as IGEPE is determined reduce its portfolio and limit its ownership to profitable firms, ENH and its subsidiaries wish to expand its presence endlessly. A significant issue is that ENH and its subsidiaries expansion is not supported by a public strategy. A strategy outlining the state's engagement in the extractive sector would stimulate public debate and provide the private sector and other interest groups with an opportunity to comment on the proposed strategy. In addition, a clear strategy would provide greater transparency for the private sector and the general public at large. Also importantly, a strategy would be a tool for ENH to ensure that the SOE is pursuing and staying focused on the goals set out in the strategy, and be an important mechanism to facilitate accountability and corporate governance.

BOX 3: The Rice Processing Plant in Chokwe

Mozfoods is a Mozambican registered agri-business, which invested 20 million $ to establish a rice processing plant in Chokwe in Limpopo valley. The company invested in rebuilding and refurbishing an existing facility, bought new machinery and imported 8 large new silos to establish a rice factory, a drying plant and storage facilities with a capacity of 20,000 ton of paddy rice. The company estimated that 5000-6000 ha of cultivated rice would produce enough input for the plant to operate at full capacity. However, Mozfoods was faced with several challenges to meet its need for input. The existing rice production in the area was low and there was far from enough paddy rice on the market to satisfy Mozfoods needs, and Mozfoods knew that it had to get involved in the production side. However, good quality basic seeds for rice were not available in the country as a result of poor management of the seed sector. The company brought in a seed specialist from abroad, imported seed varieties and started to multiply seeds. Mozfoods was the first company to produce certified rice seeds in the country. In 2009/2010, Mozfoods contracted with 3000 local farmers operating within the government's irrigation perimeters to multiply the certified seeds. Mozfoods provided certified seeds on credit and provided technical extension services to the farmers. However, the farmers did not have access to finance to purchase fertilizers and pesticides and Mozfoods had not planned on acting as a financial institution. Mozfoods tried also to get access to land to cultivate rice, but was unsuccessful in securing the land from the government. Following the riots over increasing food prices in Maputo in 2010, the government abolished the import tariffs on rice and rice became available in Mozambique at a lower price. However, the rice farmers in Chokwe were still at an early development stage and were not competitive in comparison with the imported rice. In 2013, the irrigation perimeters of Chokwe were hit by a big flood. The flooding protection system was weak and almost all the rice under cultivation (5000-6000 ha) was destroyed and a significant portion of the rice and grains in storage. Although the insurance covered the loss of the rice in stock, the flood resulted in significant financial losses. The government started to repair the irrigation perimeters but considering the damages, it was clear that the repair would take some time. In light of the multifaceted challenges of accessing input, Mozfoods could only get 7000 tons of paddy rice in its best production year. Another privately owned rice processing plant in the area with the same production capacity as Mozfoods was faced with similar problems, and both plants were running at one quarter to one third of its capacity. In July 2012, the Mozambican government signed a 60 million $ loan agreement with state guarantees with a Chinese bank to develop the Chokwe Agri-Processing Complex to process, conserve and store agricultural products. The plans include the establishment of a new rice processing plant as well as rehabilitating the irrigation system. Although there was a clear need for the government to support the agricultural development in the area, there was a lack of involvement and discussion with the private sector already operating in the area as to what type of support and involvement the government could engage in to support agricultural development in the region. With two rice processing plants operating well below capacity in the area due to the difficulty in securing input, it appears there was a great need for the government to support the improvement and the maintenance of the irrigation scheme, improve extension services to farmers, support of the research and development of seed varieties and create a conducive environment for agricultural finance, rather than establishing another plant. Following the challenges in securing input for the rice processing plant, and the difficulties in competing with imported rice, Mozfoods decided to pull out of Chokwe.

Continuation from the previous page: **The Rice Processing Plant in Chokwe**

The case of the state moving in to establish a rice processing plant in Chokwe, is illustrative of the state expanding in to an area where there was already an established private sector presence. Mozfoods think that they could have competed with the state owned plant, if the production of input had been well-managed and stable. However, as that was not the case, when Mozfoods learnt about the government's plans to establish the plant, Mozfoods proposed that the funds should be used to strengthen and build agricultural production instead. However, as consultation with the private sector had not been held, the state was already in contract with the Chinese bank financing the project. IGEPE told our team that they facilitated the deal with the Chinese bank based upon the request of the MoA. While our team was constrained by time and did not have the opportunity to talk to the MoA about the reason for initiating the project, IGEPE mentioned that the state will pursue a new model for securing agricultural production by bringing in a new partner from Dubai. IGEPE pointed out that some international partners are only comfortable to do business in the country if the state is a partner and that this partner from Dubai only wanted to come to do businesses in the country in partnership with the state. IGEPE concluded by saying that maybe, the existing private companies did not get the production side right and that was why they could not secure their supply. The state found this new model with the partner from Dubai was promising and it was therefore justifying the state's engagement in this new venture. However, if the goal is to strengthen the agricultural sector, the state should have focused on strengthening the production system, which was the weak link and needed support, rather than engaging in processing where there was already well established capacity. Consultation with the existing processing plants could have supported the production in a variety of ways including improving the physical infrastructure, strengthening the out-grower system, or allocating more land to new or already existing commercial farms.

THE USE OF STATE ELITE INFLUENCE TO DO BUSINESS

Recent evidences, notably the EMATUM affair, have propelled the debate on how the state elite are using their position to further their own business interests. Our team heard from private sector representatives that government officials' official mandate was blurred by their own business interests. One private sector representative recounted: *If you go to the government to talk about and get support for a new business idea, they can just turn around and take it*." At the validation workshop of this report, a private sector participant recounted how he failed to launch a business because a government official did not want to approve the business without him personally getting shares in the business. As the entrepreneur decided not give the official shares in his company for free, the entrepreneur did not get the necessary approval for his business and he was not able to start it.

The use of state by the elite can take different forms. In some cases, the elite may pursue developmental (productive) private agendas using the easy access to state's resources (e. g; licenses, business opportunities). In other cases, elite members may undertake unproductive (non-developmental) activities with the money and facilities gained through political connections. The former is known in the literature as "productive elite capitalism" whereas the latter is termed as predatory elite or kleptocracy which happens to assume a variety of forms. There is a wide body of literature in political economy, political science and development studies on this subject (see for example, Booth, 1995; Chang & Rowthorne, 1995; Khan, 2000; Leftwich, 2000; Amsden, et al., 2008; Hanlon & Mosse, 2010; Nuvunga, 2014).

Since the decade of 2000, Mozambique's elite has learnt that a better and easier way of capital accumulation consists of getting land and mining concessions/licenses in order to either speculate them or use them as a valuable asset to participate in extractive mega-projects. Hanlon & Mosse (2010) characterise this period (2002-to present.) as that of "productive elite capitalism" and argue that [in this period] "Mozambican elite began to direct state resources into productive investment" (Hanlon & Mosse, 2010; p. 4). These authors' argument is sustained by the case of President Guebuza's business empire which is immense and ranges from telecoms to electricity to oil & gas and banking.

The idea of Mozambican elite being productive is a widely contested one. Many authors do not think that Mozambican political elite is engaging in productive business activities. Various authors (e. g; Nhachote, 2010; Mosca & Selemane, 2011; Machel, 2012; Nuvunga, 2014) consider that although there are some "productive" economic projects run by the elite in Mozambique, the big picture shows that the majority of them consist of simple association with foreign capital in different modes hence becoming shareholders without necessarily having to pay any capital.

The fact that political elite members have business interests appear to interfere and distort institutional and policy arrangements in the country, resulting in unequal business opportunities and unfair competitiveness[27]. Various stakeholders interviewed during the production of this report mentioned the concerns around lack of transparency in Mozambique's business environment, particularly in the most profitable ones involving minerals and hydrocarbons.

In recent times, Mozambican elite's business apetite shifted from treasury credits, fishing and forestry to mining (Selemane, 2009; Nhachote, 2010; Machel, 2012). A wide range of influent people, from the current President Guebuza and his family to former ministers and former liberation war combatants and their relatives accumulated a lot mining licenses even without any evidence of exploring them (Machel, 2012). Most recent episodes indicate that the hoarding of mining licenses has been used as an admission ticket to profitable extractive projects. By now, some of these alliances appear to have gone well (e.g.; Pachinuapa's Mwiriti Project and his British allies of Gemfields for ruby exploration in Cabo-Delgado)[28] but others went bad and even reached in international media and courts (e. g.; Jacinto Veloso's *Companhia Mineira de Naburi* and his British allies of Pathfinder Minerals Plc – in a project of heavy sands exploration in

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[27] For details on this discussion see Nhachote's article published in the South African newspaper Mail & Guardian on January 6, 2012: "Mozambique's Mr. Guebuziness" http://mg.co.za/article/2012-01-06-mozambiques-mr-guebusiness

[28] Raimundo Pachinuapa is a Mozambican war veteran one of the most influential people within Frelimo (see Canalmoz 1 March 2012 http://www.canalmoz.co.mz/hoje/21411-empresa-mineira-britanica-assume-posicao-maioritaria-no-projecto-mwiritempresa-mineira-britanica-assume-posicao-maioritaria-no-projecto-mwirit-.html)

Zambézia), as reported by the Financial Times (2011) on December 1 and by The Telegraph on December 2, 2011[29].

As noted by Castel-Branco (2012), for capitalism, the problem arises when government officials [or former government officials] become, themselves, resource-thirsty and resource-seekers, in which case policy may actually accelerate expropriation in such a way as to threaten long-term reproduction and accumulation of capital.

In September 2013 various Mozambique government institutions were surprised to learn that the state had set up (in the previous month – 2nd of August 2013[30]) a Mozambican Tuna Company (EMATUM, *Empresa Moçambicana de Atum*) which only came to the public knowledge after an $850 million bond issue was sold in semi-secret. These are government-guaranteed seven year bonds (average life 4.5 years) at a high 8.5% interest rate. Zambia recently sold bonds at 6.7% and Ghana at 6.1%. Because of the high interest rate the $500 million offer was oversubscribed, and Mozambique unexpectedly accepted $850 million (Hanlon, 2013).EMATUM is 33% owned by GIPS (*Gestão de Investimentos, Participações e Serviços;* Management of Investments, Holdings and Services) which is owned by the State Security Agency SISE, 33% by the state fishing company Emopesca, and 34% by IGEPE. This composition raises confusion with some people referring to EMATUM as a “private company” (AllAfrica, 2013) and others seeing it as a “state company” (Hanlon, 2013).

The initial company’s assets bought with the money from the Eurobonds consist of 30 vessels: 24 tuna fishing vessels (a mixture of trawlers and longliners) and six patrol vessels. A number of questions are raised around EMATUM. First and foremost, there is no clarity on the company’s nature: Is it a public company? Is it parastatal? Is it a private company participated by the state through IGEPE? Second, its initial funding was done in such an obscure way with political and diplomatic implications. Various donors withheld budget support disbursements because of EMATUM’s deal and they are now demanding an "action plan on fiscal transparency, which contains the commitments for the current year and the next. (Hanlon, 2014; O País, 201331; Lusa, 2013; and confirmed during interviews with donors). Third, the company’s formation as well as its funding was done without relevant government financial and oversight entities knowing. For instance, the Central Bank’s spokesperson and the Parilament’s Commission of Budget and Planning (CPO, Comissão do Plano e Orçamento) did not know about it until it appeared in national and international media (Hanlon, 2014). EMATUM is located in such a grey area as it is not clear whether it is a state owned enterprise or a participated enterprise and the whole deal is surrounded by a lack of information, clarity and transparency.

[29] Jacinto Veloso is a Mozambique general, former minister of state security during Samora Machel’s era. Details of his strife with his British allies can be seen at www.ft.com/cms/s/0/de263c38-1c2d-11e1-af09-00144feabdc0.html# (Times, 2011)axzz1fO2yXDiN); and The Telegraph (2 December 2011 http://www.telegraph.co.uk/finance/newsbysector/ind (Telegraph, 2012)ustry/mining/8932511/Pathfinder-Minerals-in-dispute-with-Mozambique-general.html); Savana 19 http://www.telegraph.co.uk/finance/comment/citydiary/9053025/Generals-complaint-against-Pathfinder-Minerals-just-got-serious.html

[30] According to GoM official gazzette (*Boletim da República),* EMATUM was registered in Maputo on the 2th of August of 2013 with a capital of $15 million.

[31] Details are on O País newspaper at http://opais.sapo.mz/index.php/economia/38-economia/27277-de-quem-e-a-ematum-e-o-que-faz.html

CHAPTER FIVE: COMPARATIVE EXAMPLES OF STATE OWNED ENTERPRISES

Considering the discoveries of considerable natural resource reserves in Mozambique, this chapter explores a couple of models for state owned enterprises in the natural resource sector in other resource rich countries. These overviews between different models of SOEs review the assignments of roles and responsibilities between the SOE and other branches of government, as well as the level of transparency and accountability. This chapter reviews the case of Statoil in Norway, Sonangol in Angola and Petrobras in Brazil. Norway has three distinct government institutions administering petroleum resources, separating the roles and responsibilities between commercial, policy, and regulatory bodies. The separation of function limits conflicts of interests ensures checks and balances and enables a level playing field. The success of this system is underpinned by a strong institutional capacity and a long tradition of democratic governance and transparency. The Angolan SOE Sonangol is often describes as a "state in the state" as the company is the sector's manager, regulator, concessionaire, collector of profits and operator. The government has limited power; there is no independent regulatory or policy institution. According to the Resource Governance Index, Sonangol provides inadequate reporting and the state's checks and balances are weak. In a sense, Sonangol could be describes as a state within a weak state as Sonangol has prospered in a country with an overall poor business enabling environment. Finally, Petrobras in Brazil has developed from a fully state owned subsidized company protected by a monopoly to a partially state owned company in a deregulated sector. As the market was deregulated, Brazil put in place policy and regulatory agencies, separating the commercial, policy and regulatory bodies. Petrobras has discovered vast oil reserves and the company is technologically sophisticated and highly profitable.

Globally, national oil companies are typically the leading SOE and often the largest domestic company, public or private, in the domestic economy. National oil companies usually produce enormous amounts of revenue for the state, unlike some other SOEs. However, the governance of the natural resource sector is very complex. The structure of a state owned enterprise and the regulatory and policy framework it operates in needs to be understood within the broader political economy of the country it is based in. Hence, this section provides an overview of three different models in terms of the roles and responsibilities between the SOE and the government, the level of transparency and accountability. A more profound review and analysis of these models or a selected model is recommended to further understand how a particular model works and to what extent it is applicable to the Mozambican context.

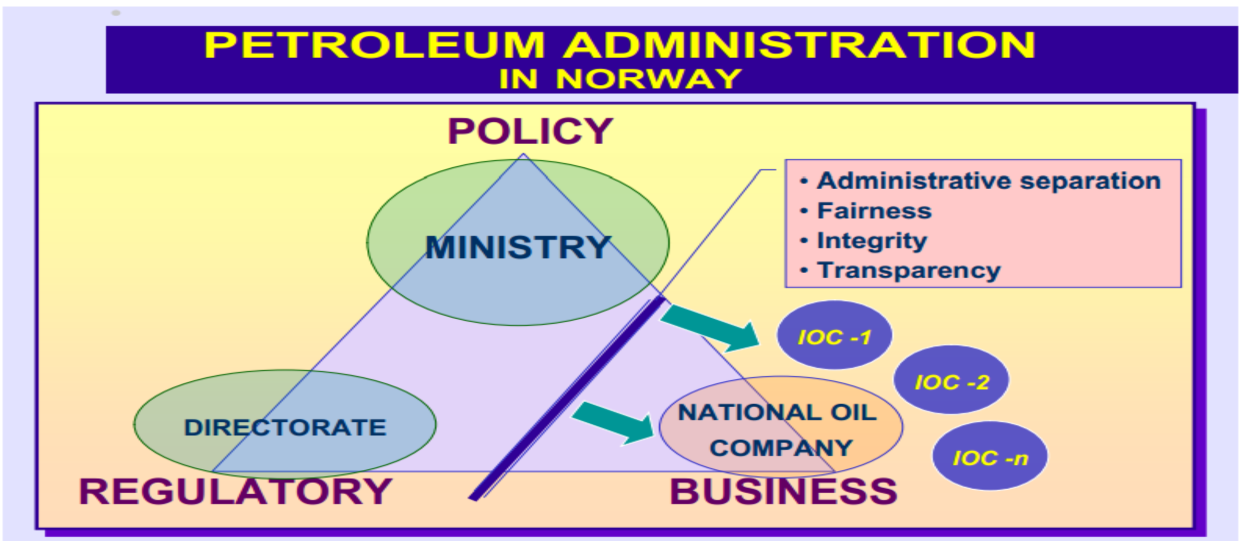
NORWAY: STATOIL

Norway is one of the world's major oil and gas exporters; the extractive industries accounted for 74 percent of exports and 30 percent of government revenues in 2011.[32] Norway has since the formation of Statoil in 1972 administered its petroleum resources using three distinct government institutions, separating the roles and responsibilities between commercial, policy, and regulatory

[32] Revenue Watch Institute, Norway: Resource Governance Index, 2013.

bodies. The national oil company, Statoil engages in commercial hydrocarbon operations in Norway and abroad. The State owns 67% of the shares in Statoil, while the remaining shares are held by private and institutional investors, primarily in Norway, the rest of Europe and the USA.[33] The Ministry of Petroleum and Energy works and guides the political leadership in setting policies and goals for the sector, and oversees the licensing process. Thirdly, the Norwegian Petroleum Directorate is the government's regulatory and technical advisory agency which advises the Ministry of Petroleum and Energy on technical matters, compiles data on all hydrocarbon activities on the Norwegian Continental Shelf, collects fees from oil operators and sets hydrocarbon regulations within its areas of responsibility (Thurber, Hults & Heller, 2010). In part, as a result of these institutional arrangements, Statoil was freed up from other obligations and was able to focus on developing its commercial capabilities to a greater extent than many other SOE (Thurber, Hults & Heller, 2010).

Figure 10: ***Petroleum Administration in Norway***



Source: Al-Kasim, Farouk (2006b). The Relevance of the Norwegian Model To Developing Countries.[34]

Both the government and Statoil perform well in international indexes measuring transparency, and Norway has been a leader in global transparency initiatives. In Transparency International's study on transparency of corporate reporting on a range of anticorruption measures among the 105 largest publicly listed multinational companies, Statoil scored as the highest ranking company (Transparency International, 2012). Statoil discloses significant information about its anti-corruption programs, its subsidiaries, tax payments and profits across its 37 countries of operations. The Resource Governance Index measures the quality of governance in the oil, gas and mining sector of 58 natural resource rich countries. Norway scores first out of the 58 countries. Norway has a sound legal and institutional framework which clearly defines the separate roles of the Ministry of Petroleum and Energy, the Petroleum Directorate and Statoil and the government has clear rules for managing the petroleum income. The Ministry of Finance

[33] http://www.statoil.com/en/InvestorCentre/Share/Shareholders/Pages/default.aspx

[34] Al-Kasim, Farouk (2006b). The Relevance of the Norwegian Model To Developing Countries. Presentation at Norad Seminar, Jan, 26, available at http://siteresources.worldbank.org/EXTNTFPSI/Resources/606764-1150299531473/FaroukAl-Kasim.pdf

makes sure that the government receives all tax and concession payments from oil companies, and the payments are transferred to a natural resource fund. Environmental and social impact assessments are required before extraction can begin. Comprehensive information about licenses, statistics on revenue collection, and other financial, production and technical statistics is made public in a timely manner. The fiscal terms are standardized according to law in Norway, which leaves no room for discretion or negotiations with the Ministry of Petroleum and Energy. Officials at the Ministry of Petroleum and Energy are not allowed to deviate from licensing policies established by law, and there is a process to appeal licensing decisions.

To ensure checks and balances, the board of directors is elected by the shareholders and the employees, based on that there is no conflict of interests conflict of interests between shareholders, the board of directors and the company's management.[35] Like much other information, the board of director's rules and procedures are posted on Statoil's website. The Ministry of Petroleum and Energy oversees the licensing process, while the Parliament has the overall responsibility to oversee the industry. Independent state auditors review national revenues and the results are reported annually to parliament. Several parliamentary committees are specifically charged with reviewing resource revenues. Civil servants are required to disclose potential conflicts of interest.

Norway's success stemmed from many factors, but the separation of roles and responsibilities, the robust frameworks for transparency and accountability has been an important element in the country's positive experience. Moreover, the administrative system for managing, governing and regulating petroleum resources is embedded in a broader governance structure where the political and administrative system is robust and governed by a strong rule of law tradition. Norway's success in managing its hydrocarbon resources has lead other countries, development institutions and researchers to look to the "Norwegian model" of institutional separation of government's roles and responsibilities as a potential model for other countries to adopt.

ANGOLA: SONANGOL

Angola is the second-largest oil producer in sub-Saharan Africa and the oil and gas revenues accounted for 79% of the total government revenues in 2011.[36] Sonangol, the fully state owned oil company founded in 1976, is the dominant institution in Angola's petroleum sector and the Angolan society. Sonangol is often described as a "state within the state" (Heller, 2010) as it is providing services that would typically be performed by the government. Although the Ministry of Petroleum has certain oversight powers, the Ministry has limited political power and there is no independent regulatory institution (Soares de Oliveira, 2007). In practice Sonangol is the sector's manager, oil concessionaire, regulator, collector of petroleum profits and operator.

While Sonangol's structure has been shaped by the country's political context and its civil war, it was also protected from the country's political orientation during the Marxist era during the 1970s and 1980s. Hence, during the communist period, Sonangol acquired technical and managerial experience, often in partnership with Western oil and consulting firms. After the fall

[35] http://www.statoil.com/en/about/corporategovernance/statementofcorporategovernance/pages/default.aspx
[36] Revenue Watch Institute, Angola: Resource Governance Index, 2013

of communism in the early 1990s, Sonangol was the dominant, competent and thriving economic actor in a country where most other state institutions had crumbled.[37]

Sonangol's leadership has been closely tied and loyal to the party and the government, and has served as an essential instrument in cementing the ruling party's interests. As Sonangol has much greater financial and human resource power than any other branch of the public administration, the company plays a significant, but unorthodox role in managing the country:

"*As the most well-respected and best-organized unit in a war-torn country best known for violence, communist policies, and corruption, Sonangol has frequently stepped in at the state's behest. It is the agent for Angola (or its ruling elite) on issues extending far beyond the management of the oil industry, including sovereign debt negotiation and servicing, international relations, wealth management/ investment, and various forms of extra-budgetary expenditure that advanced the war effort and the development agenda of President dos Santos and his inner circle*." (Heller, 2010, at p. 866)

Foreign oil companies perform most of the work of oil extraction, but Sonangol has been able to build up Angolan know-how, both in tough regulation and negotiation with foreign companies and in oil operations and related activities. Sonangol has over the years expanded and contains several major subsidiaries in upstream and downstream activities, as well as professional training, air transportation for the oil industry, telecommunication, shipping, insurance and pension fund management. It has also established major ventures with foreign companies with stakes in offshore oil blocks. In addition, Sonangol has branched out to investments outside of the oil sector to investments in for example hotels and luxury housing (Soares de Oliveira, 2007).

Angola receives a weak score on the Resource Governance Index, and scores 42 out of 58 countries. Since 2010, the Angolan government has improved revenue and expenditure transparency, including the publication of budgets. However, the reforms have been incomplete and there is a lack of transparency in the country's extractive industry. Sonangol's finances are not specifically included in the public sector balance, and Angola has not adopted any rules requiring disclosure of information in the extractive sector.[38] Although Sonangol publishes some information, the reporting is inadequate and there is limited information on for example contract terms and incomplete data on revenue streams and production.[39] The checks and balances on the oil sector are very weak, as multiple responsibilities are concentrated in Sonangol's regime. While national auditors have the authority to audit petroleum revenues, they have considerable capacity constraints and there is little legislative oversight of the petroleum sector.40

Sonangol has managed to build a highly productive petroleum sector. However, the country is plagued by corruption, state funds have been misappropriated and the population at large remains

[37] For further description about the historical context and the rise of Sonangol, see Ricardo Soares de Oliveira, Business Success, Angola-style: postcolonial politics and the rise and rise of Sonangol, Journal of Modern African Studies, 45, 4, 2007; and Patrick Heller, Angola's Sonangol: A Focused Agent of State Intentions. In *Oil and Governance: State Enterprises and the World Energy Supply*, Cambridge University Press, 2010.
[38] Revenue Watch Institute, Angola: Resource Governance Index, 2013.
[39] Revenue Watch Institute, Angola: Resource Governance Index, 2013.

[40] Revenue Watch Institute, Angola: Resource Governance Index, 2013.

in poverty. Angola's historical lack of political competition helps explain the fundamentally different dynamics of its oil sector. Hence, the Angolan government has over a sustained period of time given coherent, long-run direction to Sonangol, whose leaders were closely tied to those of the country. In a sense, Angola has succeeded in building a productive petroleum sector despite the absence of the checks and balances between the commercial, regulatory, and policy institutions build in to the Norwegian model. However, Sonangol's ability to control and invest in the oil sector, as well as other related or unrelated sectors, makes it very difficult for a private sector to flourish as competitors, can't match the terms of access to capital, skilled personnel and political connections to compete in the market place (Soares de Oliveira, 2007). Moreover, the amassed wealth is of limited benefit to the general population as public services are still weak and Angola ranked 148th on the 2013 Human Development Index (UNDP, 2013).

BRAZIL: PETROBRAS

In 2011, Brazil was the world's 12th-largest oil producer and the second-largest in Latin America. Vast offshore pre-salt oil reserves discovered in 2006 have the potential to make Brazil the 5th largest producer in the world by 2020.[41] The state owned oil company Petrobas was created in 1954, and unlike most other national oil companies it was created prior to the discovery of any significant oil reserve in the country. The government's goal was that Petrobras would save scares hard currency and develop and provide a competitive, secure oil supply for the industrialization of Brazil (de Oliveira, 2010). During the 1960s, Petrobras began its offshore activities, and over the years, Petrobras built up its capacity and became eventually one of a few companies in the world to master deep water drilling technology. The fully state owned enterprise enjoyed a monopoly and relied on fiscal subsidies for the first 20 years. As part of broader, market oriented reforms, the government ended Petrobras monopoly over hydrocarbon resources in 1997. Petrobras was partially privatized in 2000, and after an additional large share sale in 2010, the government owns 64%.

In the late 1990s, as part of the national reforms, the government created the National Council of Energy Policies, with the responsibility to development energy policies and the National Petroleum Agency (ANP). ANP is a public agency with administrative autonomy, linked to the Ministry of Mines and Energy. ANP is responsible for the execution of the national policy for the oil, gas and biofuels industries, as well as the regulating upstream and downstream activities across the oil sector. ANP is also managing the auctioning of blocks for exploration, and manages the contracting process with concessionaires as well as supervising the activities related to petroleum and natural gas refining, processing, transportation, imports and exports (OSEC 2011). Hence, the regulatory agency ANP was created many years after Petrobras started operating. The creation of ANP created a more level playing field and instituted formal checks and balances into the field (Thurber, Hults & Heller, 2010).

The level of transparency in the extractive industry is satisfactory and Brazil has instituted a sound system for checks and balances. Brazil receives a "satisfactory" score on the Resource Governance Index ranking 5th out of 58 countries.[42] The level of transparency is "satisfactory" as

[41] Revenue Watch Institute, Brazil: Resource Governance Index, 2013.
[42] Revenue Watch Institute, Brazil: Resource Governance Index, 2013.

Brazil provides data on many important aspects of the extractive industry, including details on the licensing process and the non-confidential portion of concession contracts are available upon request from ANP for a fee. The ANP is the source of the most detailed information on resource revenue, while the Ministry of Finance publishes limited information. Brazil has instituted comprehensive reporting and auditing system, where Congress can review ANP's decisions and all resource revenues are subject to controls by a national audit office, which produces an annual report scrutinized by the legislature. Government officials with an oversight role in the hydrocarbon sector are required to disclose their financial interests in any extractive project. . In Transparency International's study on transparency of corporate reporting on a range of anticorruption measures, Petrobras scored 92% (100% being the highest) for the companies transparency in anticorruption program.[43]

Following the pre-salt discoveries, the government established a new fully state owned enterprise called Petrosal, to administer the newly introduced production sharing agreements and commercialize the state's portion of the profit oil earned from the pre-salt discoveries. Onshore concessions are awarded through an open and competitive bidding process, but Petrobras will be the operator of any of the exploration consortia with a minimum investment share of 30 percent (de Oliveira, 2010). Oloveira argues that the creation of the Petrosal was a sign that the government was concerned about Petrobras strong hold in the economy and their concern that with the new vast discoveries, the SOE would become a "state within the state" as Sonangol in Angola. The creation of Petrosal is seen as a way for the government to gain information needed to regulate Petrobras more effectively (de Oliveira, 2010).[44]. Petrosal is a fairly new entity and further research on the relationship between Petrosal and Petrobras is beyond the scope of this overview. Nevertheless, it the creation of Petrosal can be seen the government taking further steps to divide up roles and responsibilities in the oil sector to strive for a more competitive business environment.

CONCLUSION

The establishment of SOEs to commercially engage in the natural resource sector is a common practice in resource rich countries. As highlighted by the Natural Resource Charter,[45] the creation of SOE can be a key component in a country's strategy to capture revenues, influence the operational decision-making, the transfer of technology and business practices and other objectives identified by the government. However, considering the extremely large amounts of money involved in the extractive industry and the many opportunities for corrupt practices coupled with the potential environmental harms that mismanagement can bring about,[46] it is of

[43] Transparency International, Transparency in Corporate Reporting: Assessing the World's Largest Companies, 2012.

[44] Oliveira sees Petrosal as "a government-appointed administration (not an oil company!)".

[45] The Natural Resource Charter is a global initiative designed to help governments and societies effectively harness the opportunities created by natural resources. It is led by a group of well-respected academics and practitioners. See, http://naturalresourcecharter.org/

46 See SPEED-Mozambique's study: Tyler Biggs, Mozambique's coming Natural Resource Boom, Expectations, Vulnerabilities and Policies for Successful Management, 2012. The study reviews the resource curse in developing countries, what types of adverse effects the resource boom in Mozambique could generate and outlines some policy options for managing windfall revenues and other specific adverse effects of a resource boom.

great importance that the SOE has a clear goal and mandate for what activities it engages in, there is a sound institutional structure, with checks and balances and clear roles and responsibilities in place to ensure that the extractive industry create value for the nation as a whole.

Statoil has developed a high level of corporate governance. The roles and responsibilities between Statoil and the state's policy and regulatory institutions are clear and there are mechanisms for accountability and checks and balances built into the system. The government and Statoil provides transparent information along the entire chain including decisions about the exploration and licensing allocation process, public procurement, tax collections and concession fees and the management of revenues. The company is involved in core activities related to exploration. Statoil's board members are politically autonomous and are appointed through an open process based upon their technical expertise. Statoil's partial private ownership brings about a high level of external control and accountability to the shareholders. Finally, the oversight agencies and the national legislature provide high-level oversight of the SOE's performance, ensuring that the activities are commercially efficient and in line with the set forth policies and goals. The Norwegian model is regarded as a "best practice", but the separation of functions approach is most useful and feasible when there is a stable democratic system in place and the government's institutional capacity is relatively strong (Thurber, Hults & Heller, 2010).

Hence, to avoid a conflict of interest and create an infrastructure for a level playing field, it is advisable that the policy and regulatory role of the government is held by a separate entity than a SOE with a significant operational role. However, when there is limited government capacity, it has been asserted that for a limited period of time the second-best option is to concentrate resources in one institution to build capacity, rather than spreading limited human and financial resources thin (Thurber, Hults & Heller, 2010). Petrobras first build human and technical capacity and became a strong performer in the oil sector. Following market reforms and as the state's institutional capacity evolved and matured, Brazil successfully implemented a separation-of-functions model to provide independent regulations and oversight (Thurber, Hults & Heller, 2010).

In the Angolan case, the country lacked a well-functioning civil service at the onset of oil development, and the policy, regulatory and commercial functions were consolidated in the hands of Sonangol. On the one hand, this enabled Sonangol to develop its capacity, focus resources, strengthen its bargaining power with foreign operators, and capture a significant share of the revenues. On the other hand, by contributing about $4/5^{th}$ of the government's revenues, Sonangol has such leverage over the state, that drastic reforms to separate function or establish greater transparency, would politically be very difficult to implement. Sonangol has developed unmatched technical and management skills, amassed significant capital resources and political connections, which the company is applying in both its core business and extending to engage in non-core business areas. The expansion into other areas outside of Sonangol's core activities is detrimental to private sector development, as other enterprises can't complete with the competence and influence which Sonangol has.

For Mozambique, it will be important to define the roles and responsibilities for the different institutions involved in the extractive industry. Moreover, clearly defining what the goal and the mandate are for SOEs to engage in a given sector is equally important. In a meeting with this team, the ENH leadership asserted that there are endless possibilities for ENH to expand. However, ENH's engagement in a myriad of activities that are not deemed strategically important and decided upon in a transparent manner put the private sector at a disadvantage. Hence, a state ownership policy, defining the purpose and areas of state engagement in business, would create greater predictability for the private sector, and establish a framework for accountability. It is advisable that a targeted assessment investigating the roles and responsibilities in the extractive industry in Mozambique, and assess the regulatory framework regulating the sector and its institutions. This would allow the assessment to pinpoint where there are regulatory or institutional gaps and based upon international experiences, assess what potential reforms are feasible for the Mozambican context.

CHAPTER SIX: CONCLUDING REMARKS

There is a general consensus in Mozambique about the need of the State's engagement in business. However, there is a concern from the private sector that there is no clear vision of what that engagement should look like. The emergence of a new form of state engagement in business, where it is not clear whether the state is setting up a new public enterprise or publicly owned enterprise or whether it is participating in a private company, as reflected in the case of EMATUM is a concern stressed by various stakeholders. The level of state engagement in business is ultimately a political decision, but to create a conducive business environment, it is important to engage the private sector, civil society and other stakeholders in the debate to establish a clear and participatory vision for the state's and the private sector's role in the economy.

The State is pursuing a dual strategy in terms of size and magnitude of its engagement in business. The number of SOEs managed by IGEPE has decreased, as IGEPE is reducing its portfolio of unprofitable SOEs from 279 SOEs in 2001 to 118 in 2013. IGEPE is planning to continue to reduce its portfolio in view to only maintain state ownership of profitable companies. IGEPE is developing a new strategy to be published soon. Currently, IGEPE's strategy is to manage profitable businesses, while there is no clear strategy for what reasons or in what sectors the state should participate in. However, there is also a new wave of enterprises being formed that are linked to ENH. Through ENH the State is expanding its participation and will continue to do so "endlessly" as stated by ENH's chairman to our team. Public procurement is also a concern that needs to be dealt with where the State has business interests and compete with private sector as the case of ENH and its subsidiaries: ENH Logistics, CMH and CMG. As the natural resource sector is expanding in Mozambique, it is of great importance that the state creates greater clarity and transparency of its objectives in engaging in the extractive business sector.

The focus of this report is the role of the state as an owner of businesses. However, the state's key function to stimulate the economy is to regulate and implement regulations and policies that support a business enabling environment. The state provides also services, such as the Center for Investment Promotion in Mozambique to facilitate and promote investments in the country. However, there appears to be a conflict in the Mozambican government's view of what role the state should play to promote economic development. As described in the case of the Chokwe rice processing plant, the government intervened to establish a state owned rice processing company in an area where there were already two private processing plants that both were struggling to access paddy rice, and both were running well below capacity. For example, in Ethiopia, the Agricultural Transformation Agency (ATA)[47], has developed investment aftercare, where the government should facilitate investors' continued development and re-investment in the country. The ATA has for instance facilitated the establishment of out grower schemes, to an already existing malt plant. Similar to the situation in Chokwe, it was very demanding on the malt plant's

[47] The Agricultural Transformation Agency is a public agency with the mandate to address systemic bottlenecks in the agriculture sector by supporting and enhancing the capability of the Ministry of Agriculture and other public, private and non-governmental implementing partners. See: http://www.ata.gov.et/about/our-mandate/

capacity to establish a functioning out-grower scheme, but ATA facilitated this difficulty by organizing the farmers, connecting them to financial institutions for input loans and boosted the extension services to meet the needs of the malt plant.[48] Hence, the state need to strike a balance as to when a direct intervention in the economy by establishing a SOE is motivated by national interest objectives, and when the state can promote and facilitate private sector investment in the economy.

This study has shown that a strategic plan guiding the State's engagement in business would create greater clarity, transparency and accountability. In addition it's important that the national development strategy reflects the state's long-term vision for which sectors are driving economic development, and what the role of the state and the role of the private sector is in propelling economic growth and development. Moreover, a weakness in the state ownership structure is that there is no clear overview of what the state owns, as different SOEs are reporting to different ministries or to IGEPE. Without this knowledge it is challenging for the state to get an overview of its portfolio and exercise its role as an owner in a strategic way. Therefore, this study proposes that models for state ownership policies are further studied in order for CTA to develop a proposal to be presented to the government.

RECOMMENDATIONS FOR WAYS FORWARD

This report is an initial study of the state's engagement in business in Mozambique, which lays the foundation and provides a framework for further, more detailed research into specific sectors and topics concerning the state's engagement in business. In particular, we are recommending that the following areas should be further investigated.

1. **Develop a Proposal to Establish a State Ownership Policy**

If the state clearly spells out its objectives of state ownership, the government – as the state's manager - can delineate roles and responsibilities between the state's role as policy maker, regulator and owner the state can exercise greater accountability and greater predictability is created for the private sector's engagement in the business environment. A number of countries have adopted government ownership policies and South Africa has recently completed an extensive review of the country's state ownership. Drawing upon these experiences, it is recommended that a proposal is developed to get buy-in from the government to create a review committee to draft a state ownership policy for Mozambique.

- o Develop a concept note on state ownership policies in selected countries and how those examples inform the development of a state ownership policy in Mozambique. Considering the recent, extensive work carried out in South Africa by the Presidential Review Committee on State Owned Entities, the preparation of the concept note should include a field visit and consultation with representatives of the South African Committee.

[48] Agricultural Growth Program- Agribusiness and Market Development Project (AGP-AMDe), Business Enabling Environment Assessment, Ethiopia 2012.

- Based upon the concept note, hold consultations with stakeholders in different regions of Mozambique, to inform the development of a proposal to be presented to the government.

2. **Conduct an assessment to review the government's engagement in agri-business**.
   From the interviews with stakeholders and as illustrated from the case of the Chokwe rice plant described in this report, a closer look at the government's engagement in business in the agricultural sector is advisable. Against the background of this assessment, the proposed assessment would review relevant policy documents for the agricultural sector and through interviews with stakeholders in the government and the private sector assess:
   - If the role of the state and the role of the private sector in agri-business is clearly defined and coherently articulated across policy documents;
   - The division of roles and responsibilities across the government to promote/engage in agri-business is clear, and how these institutions coordinate their work;
   - How the stated roles of the state is implemented in practice to promote agri-business
   - Based upon the findings of policy, institutional or implementation gaps, propose actionable agenda to advocate for reform.

3. **Study the roles and responsibilities of actors in the natural resource sector**

There is concern among private sector representatives and experts that the ENH is expanding its activities rapidly without much public consultation, policy directives or transparency on what role the ENH should play in the market place. The overview of the comparative examples of SOEs in the oil and gas sector from Norway, Angola and Brazil in this report show different models for assignments of roles and responsibilities between the SOEs, other branches of government and the private sector. It is advisable that a targeted assessment investigating the roles and responsibilities in the extractive industry in Mozambique in view to:

- Provide more details on what institution does what, if the division of responsibilities is clear and if the institutions are faced with constraints affecting their abilities to carry out their mandate.
- Create greater clarity on the state's objective in engaging in the extractive industry;
- Assess how transparency and accountability practices can be improved.

4. **Conduct an assessment to investigate public procurement practices in the natural resource sector**
   Considering the early stage of the extractive industry in Mozambique, more business opportunities are in the provision of goods and services to the extractive companies. But as stated by several stakeholders, the issue is that there is lack of transparency in public procurement. Therefore it is advisable to conduct an assessment to investigate public procurement practices and the private sector's understanding of the regulations of public procurement in the natural resources sector. Considering the continuing growth of the natural resources sector, it is foreseeable that public procurement issues will continue to be a concern.

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ANNEX A: SPEED PROJECT SCOPE OF WORK

The Role of State in Business

Objectives

This study will contribute towards a better understanding of- and shaping the *new* role the Mozambican state plays in the country's business environment. By bringing together theoretical and practical experiences on the role of the state in business, the study will enrich the knowledge of different players, and bridge existing gaps and concerns on the apparent growing role the state has in business in the country. It will also provide a menu of advisory options to the private sector on doing business in a natural resource rich environment, with an ever growing role of the state.

A detailed study of the role of the state in business will be produced that will survey the literature; including peer country comparisons and characteristics of the Mozambican state's intervention in the business environment. The study will be widely shared and discussed with stakeholders in Mozambique. A key objective of the work is to provide a sound basis for discussion amongst public and private stakeholders.

Background

Mozambique's two-decade economic growth and socio-political transformations have been accompanied by growing dynamism in business sector. Similarly, the Government of Mozambique (GoM) has through various ways intervened in the business environment with an aim of unlocking constraints and improving the business environment. GoM's interest / involvement in the private sector has in recent years been growing, including through major acquisitions, setting strong firms with private sector orientation, doing *de facto* business such as logistics, telecoms, agricultural production, etc; raising fears that the state's overwhelmingly competing in unfair grounds with private sector entities.

State economic interventionism is an economic orientation that advocates for government intervention in the market process to correct market failures in the interests of the public. While on one hand, state intervention can be linked to a variety of political or economic objectives, such as promoting economic growth, increasing employment, raising wages, raising or reducing prices, promoting income equality, managing the money supply and interest rates, increasing profits, or addressing market failures; advocates of free market economics generally view government interventions as harmful, due to the belief in government's inability to effectively manage economic concerns, and other considerations. Government officials tend to be naturally disposed to seek more power and authority, and the money that usually goes with those things, and this quest often takes the form of economic interventionism which they then seek to justify.

Recent resource boom dynamics in Mozambique have seen the state rallying with the private sector, through various mechanisms, to establish firms that in addition to the sovereign privileges; do compete in the industries as merely private entities. GoM's pursuance of an oil industry State Owned Enterprise (SOE) *a la Angola's Sonangol*, sheds light to state's interventionism in the country. The Mozambique Hydrocarbon Company (ENH), a public entity established by Decree 39/97 is a *de facto* GoM business arm in the oil industry. A curious glance at ENH allows one to learn about a number of companies representing the state's interest by field: Hydrocarbons (CMH) and Pipeline (CMG) companies are just a few examples of the state's tentacles in the industry. The Mozambican Tuna Company (EMATUM) is yet another example of an apparently private company, whose three shareholders are all state bodies: The Institute for the Management of State Holdings (IGEPE), with 34 per cent; the state fishing company (Emopesca); and the Management of Investments, Holdings and Services (GIPS), with 33 per cent each. GIPS's main shareholder is the social services of the State Intelligence and Security Service (SISE). EMATUM has recently financed the purchase of 30 ships from France by issuing bonds on the Eurobond market with GoM's guarantees.

With growing concerns from various circles, including from Parliament, the government has had to justify recent EMATUM's purchases through the Prime Minister as part of "a development strategy based on the integrated and balanced exploitation of natural resources. Another example is the creation of the Mozambique Mining Exploration Company (EMEM, SA), whose principal objective is to prospect, explore, produce and trade mining products. These moves have fueled the business environment's fears that GoM is in fact, going beyond being a regulator. The state is also taking part in the research, production and trade of mining resources. These government moves into the private sector domain, have since raised mixed signals in a country that is emerging from conflict with underdeveloped productive capacities and overall challenges to doing business.

While on one hand, government rightfully claims that is doing its part in a quest to represent national interest; others, especially the business think government's interference may crowd out private business potential by being the policy maker, legal and regulatory entity, and undertaking *de facto business* operations, which could be left to the private sector. It is under this endeavor that SPEED Mozambique in partnership with CTA; seek to contribute to the current discourse by studying the role of the state in business and its impact on the development of private sector in the country.

Tasks

Stage 1: Preliminary tasks

1. Undertake a desk review of relevant documents covering Mozambique's economy, business environment, and state intervention in its various forms.
2. In coordination with SPEED, USAID and CTA, prepare a research agenda, including
    a. Information requirements
    b. Analytical frameworks
    c. Examples of state run enterprises
    d. Identify success cases of state run enterprise that can be replicated,
    e. List of stakeholders to contact; see Annex 1.

3. Inventory available state run enterprises, laws and regulations.
4. Build a structured set of interview questions to collect data, and calendar.

Stage 2: Field interviews

5. Interview stakeholders, e.g., government employees' in key ministries, central bank, and university/research organizations; other development donors that work in the private sector development field in Mozambique; others, to be determined with SPEED, USAID, and CTA.

Stage 3: Report drafting

6. Describe and, where possible, quantify the degree of state intervention the business environment in Mozambique (for overall sectors and where possible for disaggregated segments, by provinces;
7. Compare/contrast expected impacts of state intervention in Mozambique against similar experiences in comparator countries;
8. Describe likely scenarios of the role of the state in business in response to the resource boom and the impacts on the key sectors under analysis;
9. Unpack to the extent possible the nature and rationale for state interests in business in Mozambique with a view of highlighting possible risks and mitigating strategies;
10. Outline policy options to ensure that state intervention does not harm prospects of a rule based free market system.

Stage 4: Return visit to present findings & recommendations

11. Prepare presentation slides and present research findings and recommendations at discussion forums in Maputo, during a return visit by the international economist.

Stage 5: Report finalization

12. Finalize report based on comments received from stakeholders; submit to SPEED, and CTA.

ANNEX B: INTERVIEWS HELD

Government Institutions

Fausto Mafambissa, Head of Macro Economic Policies, National Directorate for Studies and Policy Analysis (DNEAP) Ministry of Planning and Development
Apolinario Panguene, Executive Chairman, IGEPE Institute for the Management of State Holdings
Hermogenes Canote Mario, Portfolio manager, IGEPE Institute for the Management of State Holdings
Adriano Chamusso, Adjunct Director General, IPEME Institute for Promotion of Small and Medium Sized Enterprises

State Owned Enterprises

Silvino AugustoJosé Moreno, Cheif executive officer, STEMA - Silos e Terminal Graneleiro da Matola
Nurmahomed Sacoor, Deputy commercial manager, STEMA - Silos e Terminal Graneleiro da Matola
Marcos Carinhane Chiluvane, Operation manager, STEMA - Silos e Terminal Graneleiro da Matola
Ilidio Matola, Director, CFM – Portes e Caminhos de Ferro de Moçambique
Joao Vieira, Strategic planning and development (assessor), CFM – Portes e Caminhos de Ferro de Moçambique
David Gomes, Advisor to the board of CFM, CFM – Portes e Caminhos de Ferro de Moçambique
Adriano Jonas, EDM - Electricidade de Moçambique, transmission, telecm and market operation
Nelson Ocuane, CEO ENH Group
Joaquim Caronga, Executive Board Member, ENH
Eduardo Naiene, Executive Board, ENH
Tomas Rodrigues Matola, Executive board member, BNI Banco Nacional de Investimento
Abdul Jivane, Director, BNI Banco Nacional de Investimento

Research Institutions and Think Tanks

Prof. João Mosca, Observatório sobre o Meio Rural (OMR)
Nelsa Massingue & Salvador Forquilha, Director of planning, resources and administration, Institute for Economic and Social Research (IESE)
Adriano Nuvunga, Director, Center for Public Integrity (CIP)

Business Organizations and Private sector
Eduardo Sengo, Economic Advisor, CTA
Hipolito Hamela, Economic Advisor, CTA
Kekbad Patel, Chairman for the fiscal, custom and international trade policy committee, CTA
Denise Cortes Keysar, Executive director, ACIS- Associação de Comércio, Indústria e Serviços
Hugo Basto, Gestor de productos e desenvolvimento de negocios, Vodaphone
Gareth Clifton, Country director, Kenmare
Salimo Abdula, PCA, Intelec Holdings
Arnaldo Ribeiro, Expert on investment in agriculture
Sergio Chitara, General Manager External Affairs, Vale

International Organizations
Sonia Cumbi, DANIDA

Carlos Rafe Mate, Advisor, Embassy of Norway
Timothy Born, Head of Agriculture, commerce and investment, USAID
Andre Ameida Santos, Principal country economist, African Development Bank
Jaime Comiche, Head of UNIDO operation in Mozambique, United Nations Industrial Development Organization UNIDO
Emili Carolina Perez, Program officer Private sector development, Embassy of Sweden