REPUBLIC OF MOZAMBIQUE

ASSESSING FISCAL RISKS FROM THE PUBLIC CORPORATION SECTOR

August 11, 2016

THE WORLD BANK
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Macroeconomics and Fiscal Management

World Bank Technical Assistance Report

Republic of Mozambique

Assessing Fiscal Risks from the Public Corporation Sector

Currency Equivalents

(Exchange Rate Effective as of August 11, 2016)

Currency Unit	=	New Mozambican Metical (MZN)
US$1.00	=	MZN 69

Abbreviations and Acronyms

ADM	Mozambique Airports *(Aeroportos de Moçambique)*
CGE	Annual Audited State Accounts *(Conta Geral do Estado)*
DSA	Debt Sustainability Analysis
EBITDA	Earnings Before Interest, Taxes and Amortization
EDM	Mozambique Electricity *(Electricidade de Moçambique)*
EMATUM	Mozambican Tuna Company (*Empresa Moçambicana de Atum*)
EMEM	Mozambican Mining Exploration Company *(Empresa Moçambicana de Exploração Mineira)*
EVA	Economic Value Added
FIPAG	Water Assets and Investment Fund *(Fundo de Investimento e Património de Abastecimento de Água)*
FTE	Fiscal Transparency Evaluation
IPSAS	International Public Sector Accounting Standards
IGEPE	State-owned Equity Holdings Management Institute *(Instituto de Gestão das Participações do Estado)*
LAM	Mozambique Airlines (*Linhas Aéreas de Moçambique)*
LNG	Liquefied Natural Gas
MAM	Mozambique Asset Management
MCel	Mozambique Cell Company *(Moçambique Celular)*
MEF	Ministry of Economy and Finance
MIREME	Ministry of Natural Resources and Energy
MITADER	Ministry of Land, Environment and Development *(Ministério da Terra, Ambiente e Desenvolvimento Rural)*
MITESS	Ministry of Employment and Social Security *(Ministério do Trabalho, Emprego e Segurança Social)*

PETROMOC	Mozambique Petroleum *(Petróleos de Moçambique)*
PPPs	Public Private Partnerships
PQG	Government Five-Year Program (*Plano Quinquenal do Governo)*
QFA	Quasi-Fiscal Activity
TA	Administrative Court (*Tribunal Administrativo*)
TDM	Mozambique Telecommunications *(Telecomunicações de Moçambique)*

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Preface

In response to a request from the Prime Minister, Mr. Carlos Agostinho do Rosário, for a technical assistance mission to advise on fiscal risks related to the public corporation sector, a mission comprising Ms. Shireen Mahdi (Senior Economist, GMFDR, TTL), Ms. Natasha Sharma (Consultant, GMFDR), Mr. David Shand (Consultant, GMFDR), Ms. Lilia Razlog (Senior Debt Specialist, GMFDR), and Ms. Anna Carlotta Allen Massingue (Consultant, GMFDR) visited Maputo during May 16-27, 2016.

At the Ministry of Economy and Finance (MEF) the mission held meetings with Mr. Adriano Maleiane, Finance Minister; Mr. Adriano Ubisse, the National Director of Treasury (DNT); Mr. Vasco Nhabinde, Director of Economic and Financial Studies (DEEF); Mr. Tomás Dimande, Director of the National Public Accounts Directorate (DNCP); Ms. Esther Santos, the Deputy Director of Public Debt; Mr. Mastalino Mastala, Deputy Director of Treasury; and Mr. Luís Matsinhe, Head of the PPP Unit.

At Instituto de Gestão das Participações do Estado (IGEPE) the mission met with Ms. Ana Isabel Senda Coanai, Chair Person; Mr. Mário Sitoe, Director of Internal Audit; Mr. Samuel Adival Massinga, Technical Director; Mr. Hermógenes Mário, Director of Control of Participating Companies; Ms. Madalena Atanásio, Director of Corporate Governance; Mr. Jacinto Uqueio, Director of Investments; Mr. Abilio Inguane, Director of Institutional Development; Ms. Helena Andela, Director of Administration and Finance.

The mission also met with, among others Mr. Joaquim Zucole, Executive Director at CFM; Mr. Carlos Macamo, Finance Director of CFM; Mr. Eugenio Simbine, Director of Studies at the Ministry of Mineral Resources and Energy; Mr. Omar Mithá, Chairman, ENH; and Mr. Adriano Nuvunga, Director of Center of Public Integrity. Meetings were also held with representatives of the donor community (IMF, DFID, EU, Swedish Cooperation, Swiss Cooperation, and Portuguese Embassy).

The mission would like to express its gratitude for the close cooperation, assistance and fruitful collaboration provided by the authorities, especially Mr. Adriano Ubisse, who guided the work of the mission. The mission would also like to thank all the participants for their active participation during the workshop for presenting the mission's findings. Overall guidance was provided by Mark Roland Thomas (Practice Manager, GMFDR) and Mark Lundell (Country Director, AFCS2).

Executive Summary and Recommendations

1. **Mozambique's public corporation sector has been underperforming and, given current economic conditions, is posing an increasing level of fiscal risk to the economy.** In scaling-up its investment program, Mozambique increasingly used public corporations to contract non-concessional debt, state guarantees, and public-private partnerships (PPPs) for financing investments. These investments are largely being undertaken by public corporations with a weak financial track record, and in the absence of a unified framework for monitoring performance and overseeing risk. These developments, and the fragile economic outlook, underscore the importance for Mozambique to prioritize efforts to strengthen fiscal risk management, with a particular focus on the activities of the public corporation sector.

2. **Reforms to strengthen oversight and manage fiscal risk from public corporations are urgent; this report presents analysis and recommendations in support of this objective.** The objectives of this report are to assess the nature of fiscal risks arising from the public corporation sector and to suggest an appropriate reform strategy. It identifies six key areas of focus: (i) scope and ownership; (ii) financing public corporations; (iii) oversight arrangements; (iv) reporting and transparency; (v); corporate governance and (vi) legal and regulatory framework. The main recommendations of the report, which are summarized below, could provide the basis for a program of reform to strengthen Mozambique's management of the sector and its impact on the economy.

Scope and Ownership of the Public Corporation Sector | Pages 15-21

3. **Mozambique's public corporation sector has been growing in size and complexity, and is characterized by a weak financial position.** The portfolio consists of 13 public enterprises and 109 companies in which the state has shareholding. Available data indicates that the state holds a further stake in at least 116 private companies through indirect shareholding or subsidiary arrangements. The state's investments are spread across numerous sectors without a specific strategy guiding investment decisions. In some cases public enterprises are also exercising a regulatory function, presenting a conflict of interest. A large share of the sector suffers from a weak financial position and under-reporting. At present, the portfolio is dispersed and a clear mapping of the entities and their relationships is not available, making it difficult to assess the state's exposure to fiscal risk.

4. **An important first step to managing fiscal risks would be to assess and rationalize the scope of the public corporation sector.** A comprehensive mapping exercise should be undertaken, which details public enterprises and private companies with state shareholdings, as well as their subsidiary companies and inter-company shareholdings. The role of autonomous agencies such as funds and agencies should also be included. The current practice of public enterprises and private companies holding equity in other entities creates a complex web of government and corporate ownership, which would benefit from being simplified. Further rationalization of the role of public corporations in the economy would be useful, so that there is a clear criteria for state engagement in the corporate sector.

Scope and Ownership Reforms	*Priority*
Short term	
Undertake a mapping exercise of the public corporation sector	High
Medium term	
Rationalize the complex system of inter-company shareholdings	Medium
Develop a policy statement on the role of public corporations in the economy	Medium
Remove public corporations' regulatory role to create a level playing field	Medium

Financing Public Corporations | Pages 21-30

5. **Borrowing is the main source of financing for public corporations and a leading contributor to fiscal risk.** Information on the stock of public enterprise debt is not systematically monitored and consolidated or made publically available. On-lending and guarantees have been typically issued to entities that are poorly performing, indicating a lack of assessment and due diligence procedures. In recent years, guarantees have far surpassed the annual guarantee limit, published in the Budget Law. It is of concern that in this context, the controls applicable to public corporation borrowing are thin, and that the framework for governing guarantees is lacking.

6. **Conditions for the approval of guarantees and public corporation lending should be guided by the financial performance of an entity, and should be based on a clear legal and regulatory framework.** Such efforts can help to curb the practice of awarding guarantees to companies with declining financial performance or newly established companies with no financial track record. To improve decision making the Fiscal Risk Statement needs to be strengthened, to include comprehensive information on the stock of guarantees and public corporation debt to domestic and external parties. Furthermore, the link between the annual guarantee limit in the Budget Law and the medium term debt strategy needs to be clearly presented. The authorities may also consider establishing a contingency fund for financing the potential cost of guarantees based on a risk analysis. These corporate sector reforms need to be accompanied by strengthening of government's broader debt management practices and legal framework for issuance of guarantees.

Financing Reforms	*Priority*
Short term	
Tighten the conditions for the approval of external borrowing and guarantees based on financial viability of the public corporation	High
Adopt a strengthened legal framework for managing guarantees (see boxes 1 & 2)	High
Update the annual guarantee limit and establish a link to the medium term debt management strategy	High
Medium term	
Establish a contingency fund for financing guarantees	Medium

Oversight Arrangements | Pages 31-35

7. **Current oversight arrangements are fragmented and need to be strengthened in order to manage the complexities of an under-performing public corporation sector.** A unit based in the National Treasury Directorate in MEF is responsible for overseeing the 13 public enterprises, but only to a limited extent. More concerning is that currently no entity has oversight responsibilities for managing fiscal risks in the 109 shareholding companies or the 116 companies in which the state holds indirect shareholding. The role of IGEPE (the agency for managing the state's shareholdings) is focused on representing the interests of the state in its capacity as Shareholder, rather than holding the mandate to manage fiscal risks. This fragmentation and the gaps in oversight disable the state's capacity to govern the sector.

8. **The establishment of a single oversight unit, covering both public enterprises and shareholding companies, is a critical reform measure.** Establishing the unit would bring Mozambique in line with good practices followed in the region. The degree of oversight and control exercised by the unit should be guided by the financial viability of an entity and potential exposure to fiscal risk. Given the substantial heterogeneity in the public corporation sector, a categorization of entities based on the level of fiscal risk they pose is recommended, which could be periodically reviewed and reassessed. Enhanced oversight arrangements would be applied to entities that are experiencing financial vulnerabilities, while greater autonomy could be awarded to entities that are well-performing. Other important responsibilities of the oversight unit would be to undertake regular mapping of the sector, quarterly monitoring of underperforming corporations against performance targets, developing guidelines for project feasibility assessment (in collaboration with the Public Investment Unit), estimating liabilities from non-performing entities earmarked for divestment or dissolution, and to identify and cost existing quasi-fiscal activities. The unit would report to the Minister of Economy and Finance and lead the preparation of consolidated reporting and fiscal risk statements for the sector.

Oversight Reforms	***Priority***
Short term	
Establish a single public corporation oversight unit mandated to manage fiscal risks with direct reporting to the Minister of Economy and Finance (see box 4)	High
Estimate liabilities and state exposure to fiscal risk from the high risk/ non-performing, including guaranteed corporations	High
Medium term	
Broaden oversight of individual public corporations according to the level of fiscal risk they pose	High
Undertake quarterly monitoring against performance targets	Medium
Develop guidelines for project feasibility assessment	Medium

Reporting and Transparency | Pages 36-39

9. **For the majority of public corporations, there is currently a lack of basic information to inform decision-making on fiscal risks.** Despite existing legal requirements explicitly stating that financial reports should be publicly disclosed this practice is not adhered to by a large number of public enterprises and shareholding companies. When available, it is not common practice amongst the corporations to include a financial risk assessment in their reports. This, coupled with the fragmented oversight arrangements, impedes the authorities' capacity to analyze and disclose the consolidated financial position of the sector, including the position in terms of public corporation debt. Given Mozambique's current debt position, the lack of information about public corporation debt is of particular concern.

10. **Reporting and disclosure of public corporations' financial information needs to be strengthened to provide an informed basis for decision-making, fiscal risk evaluation and accountability of government assets and liabilities.** Individual entities need to improve the disclosure of financial statements, which can be used by the central government (specifically an oversight unit) to assess financial viability. This would allow the authorities to deepen transparency and improve the quality of published information relating to the financial position of public corporations. A key step in this regard is the preparation of a memorandum statement that presents consolidated information on the government's investment in public corporations and their financial position, to be included in the annual state accounts. Most importantly, there is a need for a full statement of public corporation debt, including debt arising from indirect government shareholdings and subsidiaries. Information on the expected revenues of public corporations and how this is linked to a dividend target would also be desirable. However, the lack of a dividend policy makes it difficult to plan and budget for these resources. Additional measures include strengthening analysis of public corporation in the Fiscal Risk Statement and ensuring that company accounts are accessible on-line.

Reporting and Transparency Reforms	***Priority***
Short term	
Develop a memorandum statement of public corporations' revenues, expenses, assets and liabilities, both consolidated and for individual corporations (see annex 5)	High
Strengthen the Fiscal Risk Statement to include the stock of guarantees and statement of public corporation debt to external parties	High
Improve the disclosure of financial statements by individual public corporations	High
Medium term	
Develop a dividend policy to guide expected revenues from public corporations	High
Include a discussion of financial risk assessment and management practices in public corporation financial reports, to be reviewed by the audit committee	Medium

Corporate Governance | Page 40

11. Corporate governance procedures are relatively ad-hoc and informal, which could compromise the quality of the Board and the performance of a public corporation. At present, public corporation Board appointments are made informally through a network of well-connected individuals. Experience in other countries stresses the importance of having a well-qualified Board to ensure good performance of the corporation. Indeed, having well-performing public corporations is the most effective way of reducing exposure to fiscal risks, since the likelihood of needing state support is reduced. To ensure the selection of a well-qualified Board, an open and transparent selection process should be adopted, including advertising vacancies, specifying selection criteria, maintaining a list of suitable candidates, and some professional assessment of each candidate's qualifications.

Corporate Governance Reforms	*Priority*
Short term	
Establish a transparent and competitive merit based system for making Board appointments	High

Legal and Regulatory Framework | Page 40-43

12. The ongoing revision of the legal framework governing public corporations presents an important opportunity to strengthen fiscal risk management and to implement some of the above mentioned reforms. Currently, public enterprises are governed by the public enterprise law no. 6/2012, whereas private companies with state shareholdings are governed by the Commercial Code. In practice, both public enterprises and shareholding companies may implement commercial and social objectives and may be state controlled, making the rationale for the split in legal arrangements unclear. Moreover, both the public enterprise law and the Commercial Code provide limited attention to state's oversight role and fiscal risk management. Hence, the ongoing preparation of a new public corporation law covering the whole sector is an important opportunity. It is recommended that the coverage of the public enterprise law be clearly defined encompass all entities that are owned or controlled by the state, including subsidiaries and indirect shareholdings. It would be important that mechanisms for fiscal risk management are incorporated in the law, specifically: (i) establishing the state's role in overseeing all public corporations through a dedicated unit reporting to the Minister of Economy and Finance; (ii) setting adequate controls to govern borrowing and guarantees; (iii) provisions for improved transparency and reporting; and (iv) a requirement to develop financial and operational performance targets. Finally, clarification of procurement practices for different entities is required, with sufficient emphasis on promoting value for money and efficiency.

Considerations for the draft public corporation law:

Ensure that the law extends to all government owned or controlled companies

Clarify the purpose and scope of government investment in public corporations

Establish the state's role in overseeing fiscal risk from all public corporations, its reporting requirements, and the institutional responsibility of a public corporation oversight unit under the Minister of Economy and Finance

Present guidelines for governing public corporation debt and guarantees using a rule based approach

Require that government controlled companies follow competitive/ value for money procurement practices

Require that government controlled companies develop financial and operational performance targets and indicators

Establish timely reporting and public disclosure requirement for government controlled companies

Establish a transparent and competitive merit based system for making Board appointments

1. Evolving Country Context

13. Mozambique's economic performance had started to decelerate prior to the debt crisis. A continued decline in global commodity prices, weak growth amongst trading partners and the effects of a regional drought contributed to a reduction in GDP growth from 7.4 in 2014 to 6.6 percent in 2015. Export prices for aluminum and coal decreased by 18 percent and 12 percent respectively in 2015, reducing the value of production of these key industries. Lower levels of foreign direct investment further accentuated the declining trend in the extractive, manufacturing and services sectors. Agricultural production, which employs most of the country's labor force, remained robust in 2015, but the onset of El Niño related climatic conditions caused a regional drought in late 2015 and is increasing food insecurity amongst the most vulnerable households.

14. Details have emerged in early 2016 of a previously undisclosed sum of US$1.4 billion in non-concessional debt borrowed between 2009 and 2014, and covered by state guarantees. The debt was only disclosed by the authorities in April and May 2016. This debt includes two guarantees for loans amounting to US$1.16 billion, which were contracted by commercial companies, Proindicus and Mozambique Asset Management (MAM).[1] These companies are government owned and formed with state equity participation. In addition to these guarantees, the recently disclosed debt includes US$223 million in direct loans borrowed by the Ministry of Interior from bilateral lenders between 2009 and 2014. The debt is additional to a bond of US$850 million issued by another government owned company, EMATUM in September 2013 backed by a state guarantee, which was later restructured as a sovereign bond in March 2016.[2] The undisclosed debt is equivalent to an estimated 10.5 percent of GDP.

15. The recently disclosed debt is expected to contribute to a material deterioration of the macroeconomic framework. GDP growth in 2016 was projected by the World Bank to decelerate further to 5.8 percent in 2016. With the new debt situation, the growth outlook is expected to deteriorate further in the medium term. Preliminary projections from the IMF put 2016 growth at 4.5 percent, subject to a reduction, whilst the private sector foresees growth at a mere 2-3 percent. While the authorities had embarked on a fiscal consolidation program in 2015, the required fiscal adjustment in 2016 will be sharper than planned, with cuts to both investment and current expenditures. The revelation of the undisclosed debt has resulted in an interruption of the IMF's Policy Support Instrument and Stand-by Credit Facility programs, of the World Bank's pipeline development policy operations, as well as budget support disbursements from development partners. A combination of budget support cuts and higher debt service are estimated to add 4.5 percent of GDP to the fiscal and balance of payments financing gaps.

16. Mozambique has been rapidly expanding its investment program with investments increasingly being undertaken by public corporations. Many of these projects are financed through non-concessional borrowing from bilateral lenders, also contributing to the debt burden and higher debt servicing. The discovery of substantial LNG reserves has enabled Mozambique to

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[1] Proindicus was established in 2013 and contracted a loan of US$622 million through Credit Suisse and VTB to purchase military grade patrol boats. MAM was formed in 2014 and contracted a loan of US$535 million through VTB to finance the construction of a port logistics base in Pemba, including for the new patrol boats.

[2] EMATUM was established in 2013 to develop a tuna exporting industry. The loan was used to finance a fishing fleet, enhance piracy protection, and secure future investments in the oil and gas sector.

access increasingly sophisticated financing instruments, such as commercial loans backed by state guarantees and public-private partnership (PPP) arrangements. This financing is largely assumed by commercial companies which are government owned or controlled to implement investment projects. However, this increased financing has also accelerated risks to public finances. The possibility of government guarantees being called is appearing increasingly likely as the investments are related to developments in the LNG industry which have been significantly delayed, meaning that debts may not be repaid according to schedule. In the case of PPPs there may be indirect contingent liabilities based on the assumption that the state will come to the rescue if a project underperforms, particularly if a company with state equity holdings is involved.

17. The recently disclosed loans have increased Mozambique's risk of debt distress. The joint WB-IMF Debt Sustainability Analysis (DSA) for Mozambique undertaken in April 2014 increased the country's debt distress risk rating from low to moderate. Subsequently, the most recent DSA maintained the moderate risk of debt distress assessment, with the indicators being close to the thresholds for high risk. The inclusion of the newly disclosed debt increases the debt-to-GDP ratio from 40 percent in 2012 to an estimated 86 percent of GDP at the end of 2015, and a possible 110 percent in 2016 given continued exchange rate depreciation. The next joint DSA will reflect Mozambique's debt sustainability status after incorporating the recently disclosed debt. Since Mozambique was already a borderline case under the most recent DSA, the forthcoming DSA will downgrade the assessment to high risk.

18. Therefore, liabilities are accumulating at a rapid pace while the development of due diligence mechanisms to govern these risks has lagged behind. Recent developments highlight the need to improve monitoring, disclosure and management of debt and fiscal risks. In particular, closer attention needs to be paid to private companies that are state owned or controlled that are not currently subject to the state's oversight mechanisms, but whose financial performance can pose significant fiscal risks. The increasingly complex mechanisms through which these companies operate indicate that serious efforts are required to enhance the government's control and oversight procedures, particularly regarding the approval of borrowing and guarantees, while also strengthening transparency and disclosure of fiscal risks to enable effective decision making and improve accountability.

2. Introduction

19. The objectives of this report are to assess the nature of fiscal risks arising from the public corporation section and suggest an appropriate reform strategy. Mozambique's economy is increasingly vulnerable to fiscal risks as plans to scale-up investment (largely related to the emerging LNG industry) are implemented through public corporations. These entities are increasingly financed through more complex mechanisms, such as commercial loans backed by state guarantees, while oversight procedures are at a relatively nascent stage. This report provides a detailed assessment of fiscal risks associated with the public corporation sector. The scope of the assessment is focused on the central government, where public corporations are most active. While municipalities are permitted to establish public corporations, the strict controls on borrowing limits exposure to fiscal risks at the subnational level.[3] The report reviews six areas: : (i) scope and ownership; (ii) financing public corporations; (iii) oversight arrangements; (iv) reporting and transparency; (v); corporate governance and (vi) legal and regulatory framework. Suggestions for reform based on existing institutional procedures are also provided.

3. Scope of the Public Corporation Sector

Defining public corporations

20. Public corporations are defined as: government owned or government controlled entities whose assets are held in corporate form and which generate the bulk of revenues from the sale of goods and services. In this regard, public corporations are viewed as being a source of profit or financial gain (OECD, 2005 and GFS, 2001). Public corporations may be used to address the government's strategic economic and social objectives and / or its commercial objectives to contribute to budget revenues.

21. In Mozambique there are two main types of public corporations: [4] (i) *empresas públicas* or strategic public enterprises which are 100 percent owned by the government and can have both social and commercial objectives; (ii) *empresas participadas* or shareholding companies, where the prime objective is to generate commercial returns to the budget. The umbrella term 'public corporations' will be used to refer to the sector as a whole.

22. In practice, there are many similarities between public enterprises and shareholding companies. Public enterprises can hold shares in commercial companies. Public enterprises can also create subsidiary companies to pursue commercial objectives, once approved by the Minister of Economy and Finance. These inter-company holdings and subsidiaries highlight the mixed

[3] As provinces and districts are part of a deconcentrated system they are not legally permitted to borrow. Municipal borrowing is limited to short-term loans capped at three months of the recurrent transfer from the central government, and any borrowing beyond this requires approval from the Minister of Economy and Finance.
[4] A third group called *empresas estatais* or parastatals have also been defined which are 100 percent owned by the government and can be both socially or commercially oriented. Separate analysis on parastatals is not included since they are largely non-existent and the term is expected to be phased out by the government.

commercial and social objectives of both public enterprises and shareholding companies that are owned or controlled by the state. The implication is that a common governance framework should be applied to both types of entities, which is discussed in further detail in the sections on the legal framework and oversight procedures.

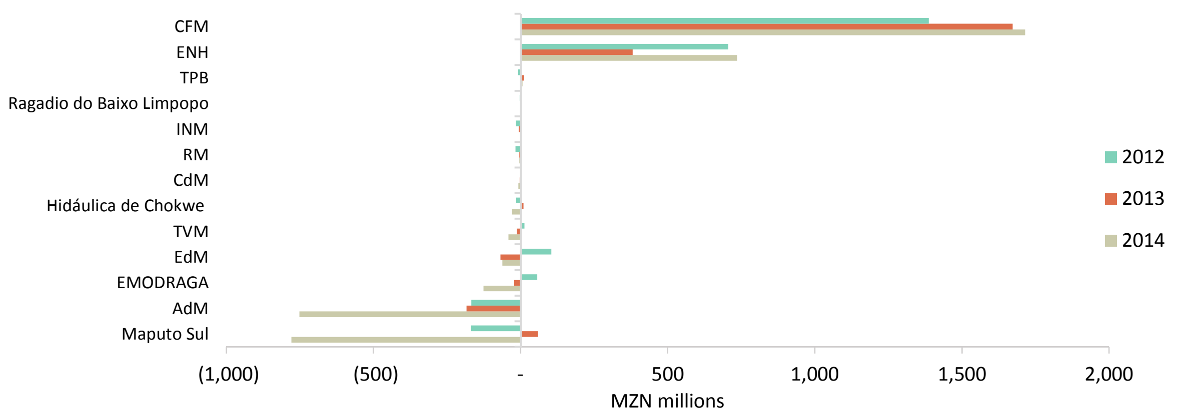
23. There are also a number of corporations and funds with state involvement which are not currently subject to the state's oversight procedures. These include companies active in the security sector which are indirectly owned by, or are subsidiaries of, other shareholding companies, such as Proindicus. There are also a number of separate funds which are part of sector ministries but operate autonomously such as the Road Fund and FIPAG (Fundo de Investimento e Património de Abastecimento de Água – the Water Assets and Investment Fund). Further, the Bank of Mozambique does not fall under any category or oversight mechanisms but generates revenues for the budget through the payment of dividends.

Activities of public corporations

- **Public enterprises**

24. The majority of Mozambique's 13 public enterprises, which are fully owned by the government, suffer from a weak financial position. Entities that are engaged in pursuing the state's commercial interests include AdM (Aeroportos de Moçambique - Mozambique Airports), CFM (Caminhos de Ferro de Moçambique – Ports and Railways of Mozambique), and ENH (Empresa Nacional de Hidrocarbonetos – National Oil Company). Public enterprises providing some type of public service obligation include EdM (Electricidade de Moçambique – Mozambique Electricity) and Correios de Moçambique (Mozambique Post) as well as the passenger rail operations of CFM. Public enterprises are engaged in state media through television, radio and the printing press. Public enterprises are also involved in irrigation, dredging, agricultural products, hydraulic energy, science and technology, and infrastructure in the capital city, Maputo. Overall, public enterprise have a weak financial position, with the exception of CFM and ENH which are profit making (Figure 1).

Figure 1: The majority of public enterprises are underperforming[5]



Source: CGE, various years

25. **Several public enterprises have a significant number of subsidiary companies and minority shareholdings in various associated companies.** Notably, ENH has a number of subsidiary companies, which is part of its strategy for expansion. Other public enterprises such as CFM and EdM, as well as ENH, have shareholdings in several other companies, which are reported as financial investments. Moreover, these entities often represent the state in large consortium projects which require substantial capital commitment (ENH's participation in Area 1, for which it owns 15 percent, requires investment of US$1.2 billion).

26. **In some cases public enterprises are also exercising a regulatory function, presenting a conflict of interest.** In the absence of a specific body dedicated to regulatory activities, public enterprises operating in a monopoly such as EdM and CFM are also undertaking regulatory responsibilities. As another example INP (Instituto Nacional de Petróleo – National Petroleum Institute) is a regulator which, rather than being a full independent body, operates under the Ministry of Minerals and Energy (MIREME). Since MIREME also oversees public corporations operating in that sector, there is a risk that INP may give preferential treatment to public corporations compared to private sector competitors.

27. **Such practices suggest that a "level playing field" needs to be promoted between public corporations and any private sector competitors.** Indeed, OECD Guidelines note the desirability of a clear separation between the state's ownership function and other functions, such as legal enforcement and regulation. Accordingly, regulatory functions should be undertaken by a separate independent authority where this is feasible.

- **Shareholding Companies**

[5] Figure does not include Parque Nacional de Maluana as it only began operating in 2014. TPB (*Transportes Públicos da Beira* - Beria Public Transports) is no longer included as it operates under the municipal government.

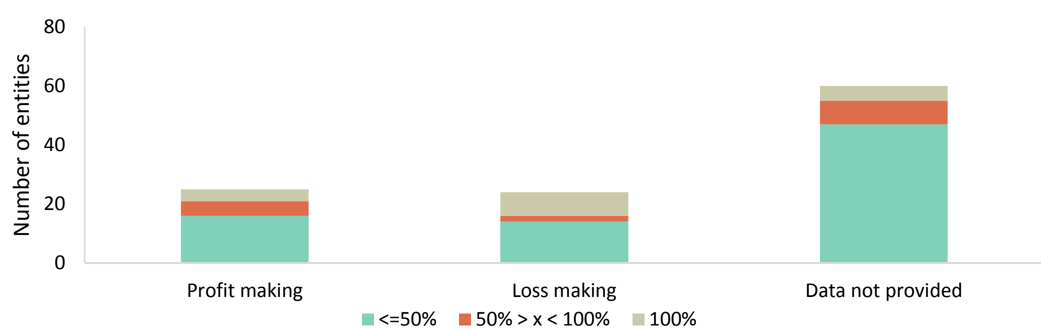
28. Mozambique holds direct shareholdings 109 companies, with approximately half of the reported companies being loss-making. Of these companies 48 are considered as strategic, 20 are proposed for divestment, and 34 are proposed for dissolution and liquidation by IGEPE because they are non-operational or non-performing. The distribution of the state's shareholdings by type of entity is presented below (Table 1). Available data[6] indicates that the split between profit making and loss making entities is almost even (Figure 2).

Table 1: Number and types of direct state shareholdings

Percentage of State Participation	**Strategic**	**For Divestment**	**For Dissolution and Liquidation**	**State-managed on behalf of employees**	**Total**
Fully state *100 %*	8	0	9	0	17
Majority state *50% > x < 100%*	12	0	3	0	15
Minority *<=50%*	28	20	22	7	77
Total	48	20	34	7	109

Source: IGEPE

Figure 2: Reported shareholding data shows an even split between profit and loss making companies



Source: IGEPE

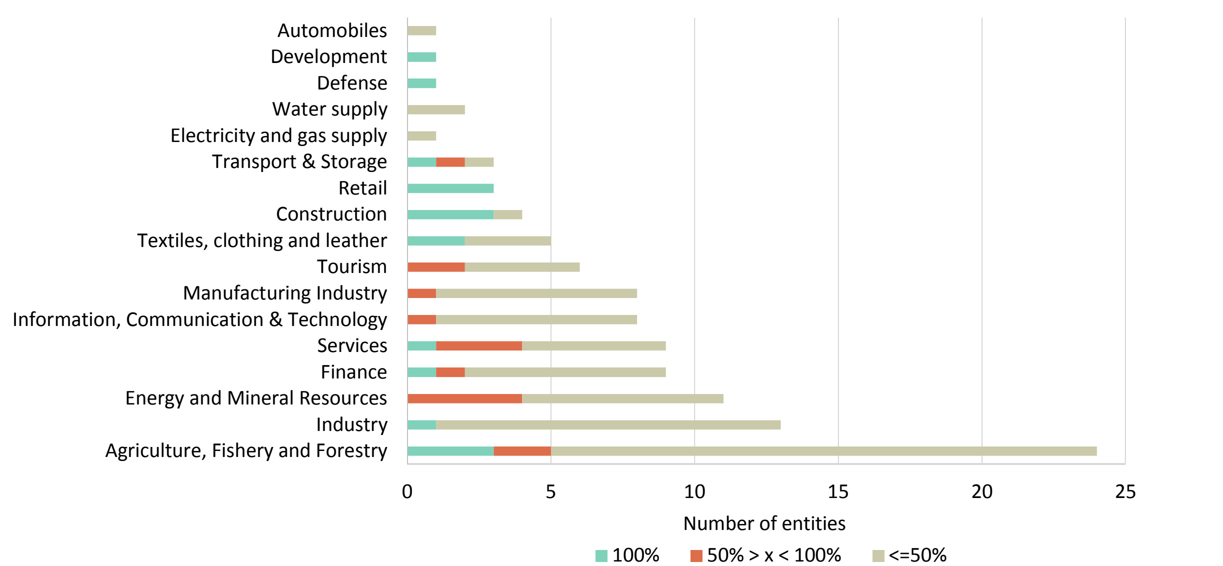
29. The large number of shareholdings in companies that are non-operating or deficient should be dealt with urgently to avoid the accumulation of further liabilities. Approximately 50 percent of shareholding entities that come under IGEPE's portfolio (Instituto de Gestão das Participações do Estado – State-owned Equity Holdings Management Institute) have been earmarked for "divestment" or "liquidation." These non-performing enterprises are largely dormant. IGEPE's lack of expertise in bankruptcy and liquidation, the regulatory gaps governing

[6] Data provided by IGEPE as of April 2016. Financial position data was not available for 60 companies Annexes two and three present additional information and a list of the shareholding companies.

bankruptcy, and unavailability of funding to pay these enterprise's creditors have limited IGEPE's ability to liquidate these companies. While IGEPE has details of the social capital of these companies and the percentage of the state's shareholdings, an estimate of total liabilities could not be provided. Given that these companies are partly privately owned, in some cases these shareholders should also be required to support the divestment process and address outstanding liabilities such as existing remuneration procedures. These companies are a source of increasing liabilities to the government and a diversion of IGEPE's activity from its core business. Their divestiture should therefore be treated as a priority with sufficient funding being provided to IGEPE to achieve this.

30. Shareholding companies are engaged in a number of sectors in the economy but there is no specific strategy guiding their investment. Shareholding companies cover a large number of sectors notably agriculture, industry, and energy and mineral resources (Figure 3). The government's five year plan (Plano Quinquenal de Governo - PQG) which provides a broad overview of priorities is the only strategic document available. There is no specific document that sets out in what sectors and in what role the state should invest, or where strictly private sector participation without any state involvement except possibly regulation, should be facilitated.

Figure 3: State participation is prominent in agriculture, industry and energy sectors



Source: IGEPE

31. It would be useful to develop a policy statement clarifying the role of public corporations in the economy and the areas of activity where their involvement is considered desirable. Such an approach would be consistent with the OECD Guidelines on the Corporate Governance of State Enterprises (2015), which stress the importance of the state carefully evaluating and disclosing the objectives that justify state ownership and subjecting these to regular review. It further recommends that an ownership policy be developed, which sets out the rationale for state ownership and clearly defines public policy objectives that individual public corporations or groups of public corporations are required to achieve. Given the breadth of the state's activities in the corporate sector, such an exercise could enable Mozambique to prioritize sectors and activities that are of particular strategic interest.

32. Further, public corporations' investment activities must be economically and financially viable, which will limit exposure to fiscal risks. If investments are undertaken in projects that lack financial viability, a public corporation may come under financial distress and underperform. While IGEPE has an Investment Directorate that is responsible for undertaking feasibility studies of projects proposed by companies under its portfolio, this is not done systematically. For example, the investment activities undertaken by companies such as EMATUM have not been subject to any type of project appraisal. There appears to be a similar lack of review by sector ministries and MEF of projects proposed by public enterprises. The lack of clear criteria means that investment and divestment decisions may be taken on an ad hoc basis without reference to any strategy on state involvement.

33. State-owned shareholding companies may also hold shares in other companies. Available data indicates that shareholding companies hold minority shareholdings in 116 private companies. In some cases one or more companies with majority government shareholdings can hold shares in another private company (where for example Linhas Aéreas de Moçambique (LAM) and Empresa Moçambicana de Seguros (EMOSE) both hold shares in *Sociedade de Desenvolvimento do Corredor de Maputo*). The table below shows the shareholding companies that have shares in other companies. Details are available on the number of shareholdings and the percentage equity held in other firms, but not the value of equity, or the associated assets and liabilities. Further, data on inter-company holdings is only available for companies considered to be 'strategic,' highlighting potential information gaps. Inter-company holdings are most prominent in finance, and energy and mineral resources sectors.

Table 2: Strategic shareholding companies – and shares held in other companies

Shareholding company	No. of companies with participation	Shareholding company Sector[7]
Monte Binga	5	Defense
Telecomunicações de Moçambique - TDM	5	ICT
Moçambique Celular - Mcel	4	ICT
Cimentos de Moçambique	5	Manufacturing Industry
Petróleos de Moçambique - PETROMOC	20	Energy and Mineral
GAPI - Sociedade para Apoio a Pequenos proj.de investimento	17	Finance
Millennium BIM	3	Finance
Linhas Aéreas de Moçambique - LAM	13	Transport & Storage
Empresa Moçambicana de Pesca - EMOPESCA	6	Agric., Fishery and Forestry
Companhia Moçambicana de Gasoduto-CMG	1	Energy and Mineral

[7] The sector is presented for the 'mother company'

Empresa Moçambicana de Seguros - EMOSE	23	Energy and Mineral
Empresa Moçambicana de Exploração Mineira - EMEM	5	Finance
Mozaíco do Índico	6	Tourism
Banco Nacional de Investimentos - BNI -	2	Finance
Empresa Moçambicana de Atum - EMATUM -	1	Agric., Fishery and Forestry

Source: IGEPE

34. Determining the full scope of the government's involvement in corporate activities is unduly complex, rendering it impossible to assess exposure to fiscal risk. The practice of extensive inter-company shareholdings and investment in subsidiaries makes it challenging to determine the full scope of the government's involvement in the corporate sector. At present, these activities are not available in consolidated form, which means it is not possible to assess exposure to fiscal risk. There also appears to be no sound rationale for the extensive practice of shareholdings between government-owned or controlled companies. For example, the government owned and controlled company, MCel owes debts to the state and to state owned shareholding companies, creating a complex web of corporate and government ownership (Centro de Integridade Pública). A mapping exercise of the public corporation sector needs to be undertaken with urgent priority to determine the financial position of the sector (including inter-state and indebtedness to third parties) in order to identify which public corporations present a higher exposure to fiscal risk.

4. Financing Public Corporations

Sources of state financing

- **Public enterprises**

35. Subsidies to public enterprises are limited; on-lending and guarantees are the largest source of state financing. Firstly, subsidies are provided to some enterprises but the volume has been relatively limited. Subsidies have represented 0.2 percent of GDP on average since 2012. A large share of total subsidies has gone to public enterprises in the communication and transport sectors (Figure 4). Secondly, loans may be 'on-lent' to public enterprises, which peaked in 2014 following a MZN 13 billion disbursement to Maputo Sul (Figure 5). Typically, disbursements have exceed reimbursements between 2012 and 2015 (Figure 6). Public enterprises that are profitable may be expected to pay dividends to the state (Figure 7), but this is done on an ad-hoc basis where payments are sometimes waived to support internal investment activities, as has been the case with ENH. Fourthly, debt may be directly raised to finance investment activities, but no information is provided on the consolidated debt position of public enterprises in government reporting, which is of significant concern given the potential fiscal risks. Fifth, government guarantees may be used to secure loans for public enterprises. And lastly, investment activities that public enterprises are engaged in may be financed through PPP arrangements (see Annex 1 – List Public-Private Partnership Agreements).[8]

- **Shareholding Companies**

36. Shareholding companies should be predominantly financed through their commercial activities, but many are poorly performing, leading to a build-up of liabilities[9]. Shareholding companies should be profitable, in order to generate dividend income for the budget and provide funds for investment in other companies. However, as seen in Table 1 nearly half of all shareholding companies have been earmarked for divestment or dissolution. In particular, major strategic companies such as LAM, MCel and TDM are operating at a loss. Shareholding companies receive equity from the state. Total state equity levels vary according to the number of entities in which the state has shareholdings (Figure 9), whilst equity in individual entities remains largely unchanged[10]. A notable exception is BNI where the state reduced its equity in 2014. Profitable shareholding companies are also required to pay dividends to shareholders (Figure 8), of which eight did so in 2015.[11] Similar to the practice with public enterprises, in some cases dividend payments are waived to finance investment activities although there is no policy guiding this. Shareholding companies can also raise direct debt, and benefit from state guarantees.

37. Borrowing is the main source of financing for public corporations and a leading contributor to fiscal risk exposure. Increasing public corporation debt, particularly undertaken by shareholding companies backed by state guarantees is having an immediate impact on fiscal risks, discussed in further depth in the section below. Public corporations that are poorly performing financially, as demonstrated by lack of profitability and high levels of liabilities may also increase fiscal risk exposure and lower the return to investments made by the state. Further, the practice of not compensating public enterprises for undertaking quasi-fiscal activities even though services are provided at below cost for social reasons may contribute to financial vulnerabilities of these entities, and potential liabilities for the state in the future, such as the case of EdM's electricity tariff setting and CFM's passenger rail services. Financing flows and exposure to fiscal risks is summarized in Table 3 below.

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[8] Only one PPP is formally guaranteed by the government, a thermal electricity generation project in Ressano Garcia. Public entities such as CFM, ENH and EdM are involved in several PPP agreements.

[9] See Annex 2 – Shareholding companies Assets and Liabilities for partial information of selected shareholding companies' assets and liabilities based on data provided by IGEPE in May 2016.

[10] In 2014 notable changes in the state's equity levels were made in: BNI (Banco Nacional de Investimentos – National Investment Bank), Companhia de Sena – Sena Company, DOMUS, EMEM and TdM.

[11] In 2015 notable dividend payments were made by CMH (Companhia Moçambicana de Hidrocarbonetos - Mozambique Hydrocarbon Company), IGEPE, Mozambique Cement (Cimentos de Mocambique - CM) and Mozal. In addition, non-shareholding companies such as the Bank of Mozambique and INP (Instituto Nacional de Petróleos – National Petroleum Institute) also paid the state dividends, which were at the top end of the scale (Figure 8Figure 8).

Figure 4: The communications sector has dominated subsidies to public enterprises…

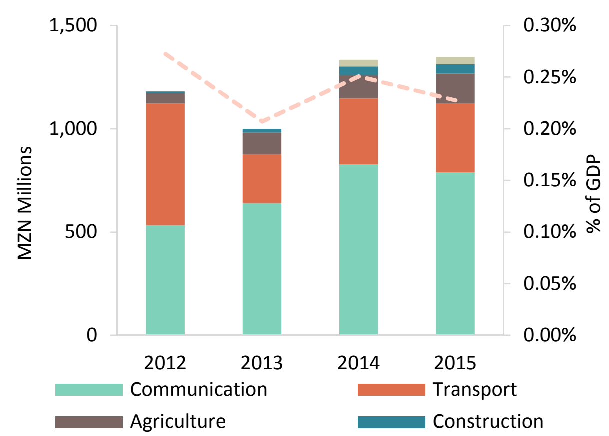


Figure 5: …whilst on-lending disbursements has focused on the construction sector

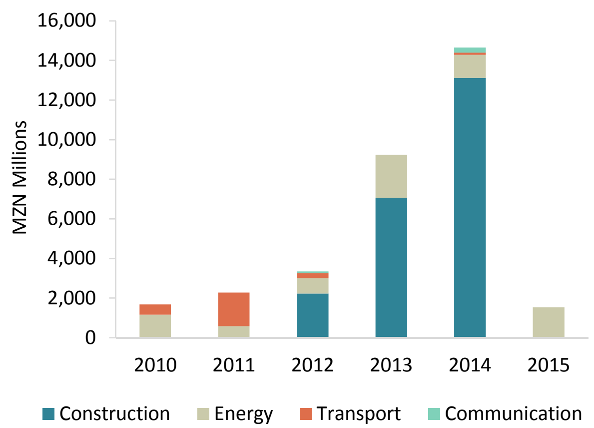


Figure 6: Disbursements are typically higher than reimbursements

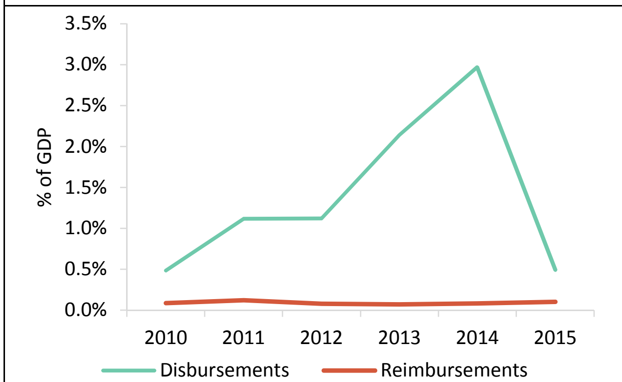


Figure 7: Only a few public enterprises pay dividends to the state…

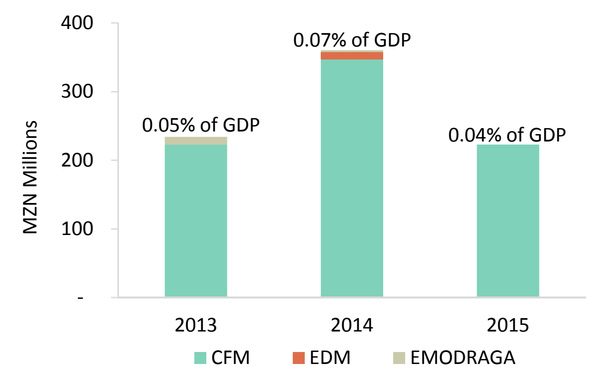


Figure 8: …and dividends from the central bank and shareholding companies has fallen [12]

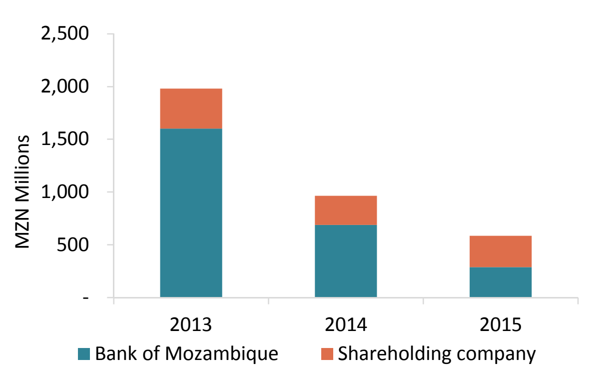
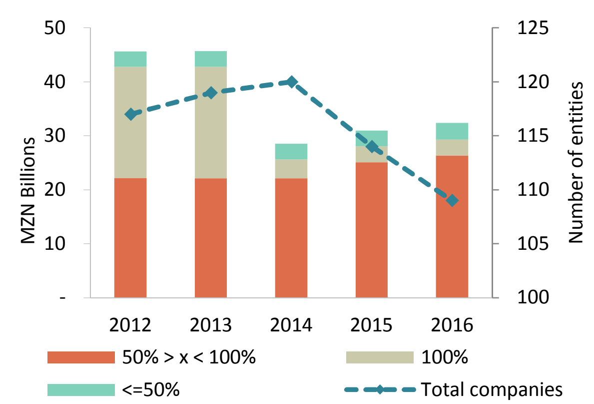


Figure 9: The stock of state equity in shareholding companies fell sharply in 2014



Source: Conta Geral do Estado, 2010 – 2015; MEF

[12] Shareholding companies: Millenium BIM, BNI, CM, CMH, DOMUS, HCM, Hotel Cardoso, MCNet, Mcel, Mextur, Mozal and STEMA - Silos e Terminal Graneleiro da Matola, Matola Silos and Grains Terminal.

Table 3: Public Corporations' Financing Flows and Exposure to Fiscal Risks

Financing flows	Exposure to fiscal risks
Subsidies – financed through the budget	Subsidies contribute to public enterprises' direct operating costs rather than compensate for quasi-fiscal activities, which could lead to financial difficulties.
Loans 'on-lent' – channeled through the budget and forms part of public sector debt	Loans 'on-lent' are rising but there is no published information on planned vs. actual reimbursements, limiting analysis on potential exposure to fiscal risk.
Direct debt – needs to be monitored but not current practice	If direct debt cannot be repaid this liability may fall on the state, even without a formal guarantee, depending on the extent of government ownership and control.
Government guarantees – limit issued in Budget Law	In the event that a loan cannot be repaid, a guarantee may be called, in which case the liability will fall on the state.
PPP arrangements – state participation is usually through a public corporation	The state may be expected to intervene if a PPP agreement that a public enterprise is involved in does not perform even in the absence of a formal guarantee
Profits from user charges / service fees – retained by the entity although a portion may be paid as dividends	Only two public enterprises are profit making (ENH and CFM). Nearly half of shareholding companies are loss-making and earmarked for divestment / dissolution, raising the risk of arrears build-up and liabilities falling on the state.
Dividends – source of revenue for the budget	The lack of dividend policy makes it challenging to plan for this revenue stream. Rather, dividends are a residual of the profit determined after the previous year's profit is known.
Equity –from the budget to shareholding companies	The state may have to increase equity contributions for shareholding companies that are not well-performing.

Source: World Bank staff

Borrowing and guarantees

- **Direct borrowing**

38. Under the current legal framework, some government controls on public enterprises borrowing are in place, which is not the case for shareholding companies. Loans contracted by public enterprises are subject to approval by the Minister of Economy and Finance, except for short term liquidity loans that are repayable in two years. A public enterprise is required by the public enterprise law no. 6/2012 and regulations to present investment and borrowing plans accompanied by an economic and financial feasibility study, as well as analysis of the ability to service the debt which are subject to approval by the line ministry and the Minister of Economy and Finance. Shareholding companies can borrow subject to approval from the Board or the General Assembly of the company**.** Company articles give freedom to Boards to borrow, which can be directly from commercial banks. In some cases borrowing decisions may require approval from the General Assembly.

39. Information on the stock of public enterprise debt is not systematically monitored and consolidated or made publically available, limiting the analysis of this dimension in the report and the extent of exposure to fiscal risk. Monitoring of public corporation debt, and the establishment of controls to prevent over-exposure to fiscal risk through implicit liabilities is an essential part of sound risk management.

- **On-lending**

40. A number of public corporations and funds benefit from on-lending to finance specific projects. On-lending of borrowed funds refers to central government borrowing from a creditor, and then on-lending proceeds to a third entity such as a public enterprise. On-lending is pursued as the central government may be able to borrow on more favorable terms than the public enterprise or because the borrowing powers of the public enterprise are constrained (IMF, 2013). Debt servicing to the creditor is carried out by the government, whilst public corporations' reimbursements are made to the government. Monitoring and disclosure of planned / expected reimbursements of on-lending transactions is limited.

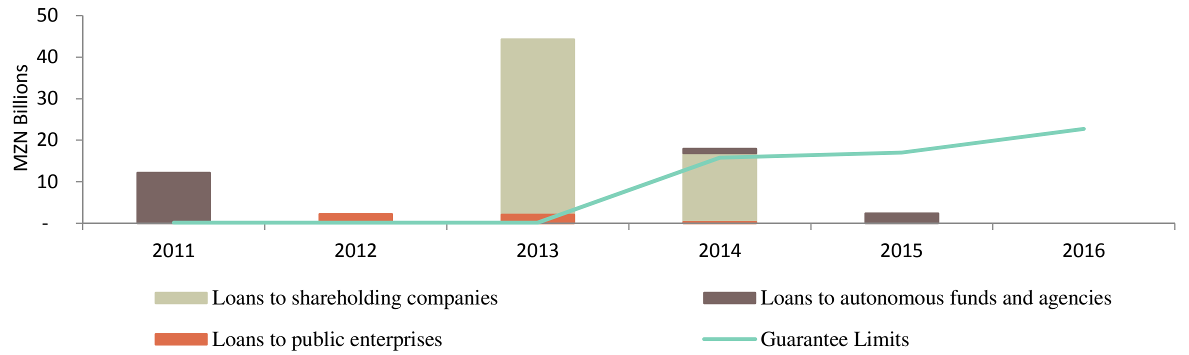
41. On-lending flows to public corporations increased significantly in 2013 and 2014, representing 1.9 and 2.8 percent of GDP in respective years. A total of MZN 32.7 billion was on-lent to public corporations during the period of 2010 to 2015. Typically funds are earmarked for specific infrastructure projects, with Maputo Sul, EdM and AdM being the main beneficiaries in recent years. An assessment of the project to be financed is carried out, however it is not clear whether an assessment is made on the entities' overall financial performance. Historically, on-lending to non performing public corporations has been common (Figure 1).

- **Guarantees**

42. Financing through government guarantees has been on the rise and is one of the main sources of fiscal risk in recent years. Public enterprises such as Mozambique Airports (AdM) and Mozambique Electricity (EdM) have contracted non concessional loans with government guarantees (Table 4). Shareholding companies may also contract loans to finance investment activities, subject to approval from the shareholders in the general assembly, where the state may be represented by IGEPE and sector ministries, as government shareholders. Shareholding companies have benefited more from state guarantees than public enterprises, as guarantees are provided for loans of higher values (Table 5). Overall, the volume of recorded guarantees has seen a sharp spike with the disclosure of large guarantees to Proindicus and MAM, two indirect state shareholding companies.

43. The level of guarantees issued has far surpassed the annual guarantee limit, published in the Budget Law. The 2013 guarantee limit was exceeded by MZN 43.2 billion[13] following loans to shareholding companies such as EMATUM, Proindicus and MAM. In 2014 the guarantee limit increased, but was still surpassed by approximately MZN 2.5 billion (Figure 10). These practices show that the Budget Law was not upheld at a time when there was no source of financing identified (such as a contingency fund) in case the guarantees were called. Moreover, there is no system in place for managing or governing guarantees, such as eligibility requirements, limits on non-concessional borrowing, and linking the award of a guarantee to a financial viability of an entity.

Figure 10: Guarantees to public corporations exceeded the legislated limit in 2013 and 2014[14]



Source: MEF

44. Under the current legal framework, public enterprises that wish to borrow externally and benefit from a guarantee must seek approval from the Minister of Economy and Finance. The law has a provision for guarantees to be issued for loans to public enterprises by the state or the Central Bank, but there are no details on the requirement for securing this agreement beyond securing approval from the Minister of Economy and Finance and an overall budget limit for state guarantees to public corporations. Beyond this, the regulatory framework governing guarantees is non-existent. Key elements of a sound guarantee management framework such as thoroughly assessing risks, having a centralized institution responsible for approving guarantees, applying guarantee fees, establishing contingency funds and institutionalizing transparency and disclosure mechanisms are missing. Box 1 presents selected international experience in managing guarantees and Box 2 presents recommendations for strengthening guarantee management in Mozambique.

45. Guarantees have been typically issued to entities that are poorly performing, indicating a lack of assessment and due diligence procedures. Government guarantees have been awarded to entities undertaking infrastructure related projects, including construction of

[13] Loans considered are the US$ 850 million to EMATUM, US$ 622 million to Proindicus, US$ 45 million to ADM, US$ 31 million to PETROMOC and EUR 18m to EDM. The 2013 exchange rates of MZN 30.1/US$ and MZN 40/EUR has been applied.

[14] Value of loans with guarantees has been converted to metical for comparison sake. Most loans with government guarantees are denominated in USD.

airports, LNG infrastructure, and rehabilitation of thermal power plants. These have tended to be companies with poor financial performance such as AdM, EdM, EMATUM and Petromoc. All of these companies had negative net earnings for consecutive years (Figure 11). Likewise, the companies have a current ratio under 1[15]. In the case of AdM and EdM the current ratio is declining (Figure 12). Similarly, companies that have benefited from government guarantees tend to have a debt-to-asset ratio greater than 0.5[16], with notably high ratios for Petromoc in 2012 and 2013 (Figure 13). Awarding guarantees to companies that are poorly performing inevitably increases the government's exposure to fiscal risk.

Table 4: Public enterprises with government guaranteed loans (2012 – 2014)

Beneficiary	**Currency**	**Period**	**Amount (million)**	**Loan type**	**Financial position of company**
AdM	USD	2012-14	125	Non-concessional	Loss making since 2012
EdM	EUR	2013	18	Non-concessional	Loss making since 2013

Source: MEF

Table 5: Shareholding companies with government guaranteed loans

Beneficiary	**Currency**	**Period**	**Amount (million)**	**Loan type**	**Financial position of company**
Proindicus	USD	2013	622	Non-concessional	Not operational, no financial reporting.
EMATUM[17]	USD	2013	850	Non-concessional	Loss making since 2013
Petromoc SARL	USD	2013	31	Non-concessional	Small profit in 2014
Mozambique Asset Management	USD	2014	535	Non-concessional	Not operational, no financial reporting.

Source: MEF

[15] The current ratio is a liquidity indicator that measures the ability to meet short term liabilities as they are due, where a ratio above 1 indicates sound liquidity.

[16] The *debt-to-asset ratio*, a measure of solvency, provides a good indication of dependency on external funds to finance activities. A high debt-to-asset ratio indicates that a company has been aggressive in financing its growth with debt, which is associated with higher risk levels. A debt-to-asset ratio of 0.5 or under is considered to be a good solvency indicator.

[17] The loan to EMATUM has since been restructured to a single bullet payment - a new US dollar denominated bond maturing in January 2023, priced at 80 percent and holding a coupon of 10.5 percent. The table aims to present the non-favorable terms of loans the government has provided guarantees for.

Figure 11: Beneficiaries of state guarantees are entities with poor financial performance[18]

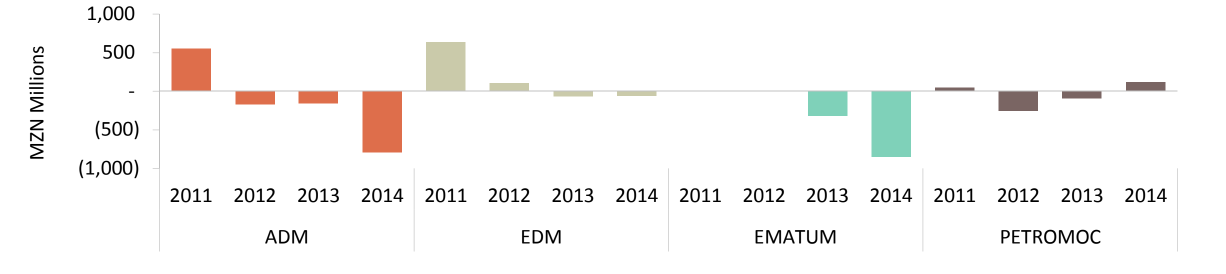


Figure 12: Guaranteed entities' ability to meet short term liabilities is questionable…

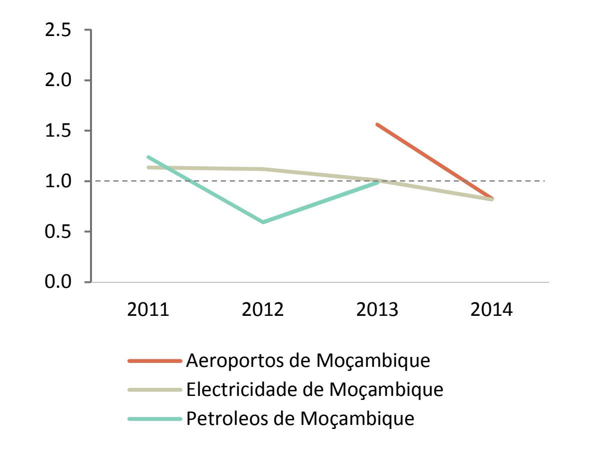
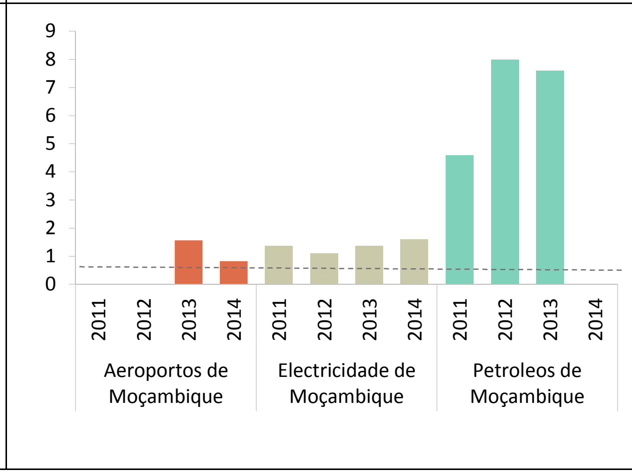


Figure 13: …and use of debt to finance growth is recurrent



Source: World Bank staff estimates based on Company Financial Statements, IGEPE and MEF

46. Looking ahead, it is crucial that the government carries out a thorough evaluation of an entity's financial performance and ability to service the loan in order to mitigate fiscal risks. Guarantees are a legitimate form of government support for infrastructure investment when the government is best placed to anticipate risk, control risk exposure, and thereby minimize the cost of risk (IMF, 2005). However, in Mozambique there is a lack of clarity on how entities requesting guarantees are assessed. Therefore, setting criteria to be satisfied before government provides a guarantee allows for informed decision making. Countries like South Africa and Columbia have published guidelines on the allocation of risks in privately financed infrastructure to facilitate informed decision making (World Bank, 2007). Sweden's Guarantee Ordinance and India's Government Guarantee Policy are examples of these (Swedish Ministry of Finance, 2011; Indian Ministry of Finance, 2010). See Box 2 for suggested reforms to the process of assessing and approving guarantees in Mozambique.

[18] Figure does not include Proindicus and MAM as financial statements for these entities have not been made publicly available. Public statements made by government indicate that these companies are not operational as yet.

Box 1: International experience on awarding guarantees

Frameworks for governing the issuance of guarantees have been developed in countries such as Colombia, India, and Turkey to mitigate potential fiscal risks and strengthen management capacity. Common practices are summarized below:

Thorough assessment of risks is crucial when awarding guarantees. In India, guarantees are examined in the same manner as loans through examining creditworthiness, the amount of risk to be covered and the terms and conditions. In Colombia, the government's risk quantification is based on assessments by external agencies, where the sum of foreseen and unexpected losses are used to estimate contingent liabilities. Turkey's long history of issuing guarantees allowed it to collect data on entities' financial information, where a statistical model is used to estimate default probabilities. Guarantees are not extended to domestic market borrowing in Turkey.

A centralized institution is responsible for approval of guarantees. Colombia's Directorate General for Public Credit and National Treasury has wide ranging authority with respect to government guarantees. In India, the Budget Division within the Ministry of Finance is responsible for approving guarantees, monitoring of guaranteed loans is carried out by the Line ministry. In Turkey the Minister of Finance is responsible for guarantee approval, whilst the Under-secretariat of Treasury is mandated to manage risks from guarantees and on-lending.

Guarantee fees are applied to mitigate risk. Fees may be collected to reflect the expected net present value of guarantees' lifetime costs. In Colombia, guarantee fees depend on the borrower's credit rating. A higher credit rating will result in a lower default probability, thus attracting a lower guarantee fee. Alternatively, a fixed percentage fee can be applied on the outstanding amount of principal plus interest. In India, a uniform guarantee fee of 1.2 percent is applied on external borrowing, whilst Turkey's guarantee fees are capped at 1 percent.

Contingency funds are established for potential future losses. Funds are kept in an isolated account and managed by a separate institution. Additional financing is often required to bolster resources received from guarantee fees. India's Guarantee Redemption Fund is supplemented by budgetary appropriations, where annual contributions are 3 to 5 percent of outstanding guarantees. Colombia's Contingent Reserve account, aimed at reducing volatility of budget expenditures in case guarantees materialize, is complemented through budget appropriations and collections on undertaken guarantees. Turkey's Contingency Reserve account, managed by the Central bank, is funded by investment returns, budget appropriations as well as fees, where funds may not be diverted for other purposes.

Transparency and disclosure of guarantees is institutionalized. India's Fiscal Responsibility and Budget Management Rule (2004) requires government to publish a statement on guarantees, which includes the number of guarantees, amounts, invocations, and guarantee fees payable. Colombia's Responsibility and Transparency Law (2003) requires risks from guarantees to be monitored and reported, including projection of guaranteed amounts by rating, based on disbursement and amortization schedule of guaranteed borrowing. In Turkey the annual Public Debt Management report provides information on guarantee including total stocks, utilization of the reserve account and an assessment of credit risk management.

Source: Bachmair (2016), Cebotari *et al* (2008), R. of India (2010), R. of Turkey (2002), Salazar (2014)

Box 8: The path to reforming Mozambique's guarantee policy

Drawing on international best practice experiences, it is important that the Mozambican government establish a clear framework governing the use of guarantees. Suggested reform actions, including risk mitigation, regulatory reforms and approval processes, are detailed below:

Strengthening the legal and regulatory framework for guarantees. A robust legal framework guiding guarantees, which includes assessment criteria, limits, guarantee fees, as well as transparency and disclosure, needs be established. Typically, other countries' legislation on guarantees is included in Public Finance Management Acts or Budget Acts. In Mozambique, the government can build on existing PFM legislation by revisiting the SISTAFE Law. Alternatively, specific legislation covering the main principles for charging fees, agreement conditions, reservations, monitoring, and risk management can developed as part of debt management of fiscal responsibility law.

Approval of guarantees cannot be limited to one individual and needs to be linked to debt limits as part of a medium term fiscal framework. It is recommended that the Council of Ministers have final say on approval of guarantees, based on recommendation of the Minister of Economy and Finance. Any guarantees that exceed the limit set in the budget require further approval from the Assembly of the Republic. The approval process for guarantees should be included in legislation as mentioned above. The guarantee limit set in the budget should be derived from a medium term debt strategy and fiscal framework.

Establishing clear guidelines for guarantee risk assessment. Technical project evaluation, company financial performance indicators, good corporate governance and a sound track record should form the basis of risk assessments. Over time, ongoing data collection can contribute to the development of a database used to develop stress test models to support the assessment. The risk assessment can be carried out by a public corporation oversight unit or a fiscal risk unit in coordination with the debt management directorate in the MEF.

Risk sharing, through payment of guarantee fees and the establishment of a Contingency Fund. A fee may be charged to the borrowing entity for the provision of a government guarantee. In addition, a Contingency Fund specifically for guarantees should be established in order to reduce future burden on the state's finances. Clear rules for draw down procedures would need to be set in place. The fund could be managed by the Central Bank or the Ministry of Finance.

Transparency and disclosure of guarantees is institutionalized. The MEF should systemize the collection and disclosure of information on guarantees. A template could be developed, which should be completed on an annual basis and used to inform the Government and Parliament on the country's guarantee status (see Annex 4 – Disclosure of government guarantee – India for a template used in India). Furthermore, Mozambique's annual Fiscal Risks Statement (FRS) should include greater detail on government guarantees awarded including terms of repayment and outstanding amounts on the loan. An indication of the likelihood of guarantees being called, based on a risk assessment, should also be included. The FRS should also provide clear information on the use of the Contingency Fund and amounts collected in the form of guarantee fees.

Source: World Bank staff

5. Oversight Arrangements

- **Public enterprises**

47. Oversight arrangements for public enterprises are relatively underdeveloped. A unit based in the National Treasury Directorate in MEF is responsible for overseeing the 13 public enterprises and the implementation of the PPP Law. Public enterprises are required by Law No. 6/2012 to have multi-annual economic and financial activity reports presumably based on strategic plans (although these do not appear to be mandated) and annual plans and budgets (Article 5) which are submitted by the Board to MEF and the relevant sector ministry. However, budget, plans and financial statements submitted by public enterprises to the government appear not to be closely reviewed by MEF or the sector ministry, and there is limited or no meaningful feedback. Regulation Decree 84/2013 provides for MEF and line ministers to meet twice a year with each public enterprise but the nature and results of these reviews are unclear.

48. While the law provides for a performance contract with public enterprises *(contrato programa)*, implementation has been limited. A performance contract can be established between the sector ministry, the finance ministry, and the Board of a public enterprise covering a four-year period. The performance contract should state the activities, development policy, investment policy and financing mechanisms, human resource policy, dividends policy and criteria for creating reserves, criteria for any state subsidies, and mechanisms to prevent fiscal risks. However, in practice such performance contracts appear to have fallen into disuse and are only occasionally applied, for public enterprises or specific activities that are deemed to be particularly poorly performing. Therefore, there are no operational and service quality targets that can be used to monitor the performance of public enterprises.

49. For PPP agreements the law states that both sector ministries and MEF are involved in overseeing projects. The sector ministry and MEF develop a terms of reference for a project which goes to public tender. The proposals are analyzed by a steering committee which consists of members from MITESS (Ministério do Trabalho, Emprego e Segurança Social – Ministry of Employment and Social Security), MITADER (Ministério da Terra, Ambiente e Desenvolvimento Rural – Ministry of Land, Environment and Development) and BdM. The winning proposal is selected and the drafting of the contract commences, with MEF being responsible for reviewing the contract. The Minister of Economy and Finance and the Sector Minister provide final approval for a project. The sector specific regulating agency is responsible for ensuring all parties involved adhere to their roles as well as supervision and monitoring of the project.

50. Public enterprises are required to produce financial statements which should be audited by the TA (Tribunal Administrativo – Administrative Court) and private sector firms. Article 42 of the Decree requires the annual report to include consolidated financial statements for the group, including subsidiaries. The law has a provision for an audit committee, *conselho fiscal,* (Article 15) comprised solely of external members which is a sound provision, nominated by MEF. The TA's mandate extends to auditing public enterprises and shareholding companies. Financial statements should be received by March 31, which is a relatively tight timeframe compared with international practice. In practice, due to limited resources the TA only audits a select number of entities that are of particular risk, significance or public concern, such as ENH. Specific topics such as procurement or investment are also audited. Most public enterprises are audited by private sector audit firms which rotate after two years, also a short time frame compared with other countries.

- **Shareholding Companies**

51. Currently no entity has oversight responsibilities for managing fiscal risks in shareholding companies. IGEPE was created in December 2001, by Decree of the Government with the primary objective of managing the investments of the state, acquired through the process of past corporate restructuring.[19] The state's shareholdings may be both in the name of the 'state' and in the name of 'IGEPE,' where the interests behind equity participation are the same. IGEPE reports to the Minister of Economy and Finance. As a shareholder in private companies, IGEPE does not play an independent oversight / monitoring role for the state participation's in the public corporation sector. Rather, an oversight function may be exercised as part of IGEPE's shareholder role in the General Assembly, with the objective of managing the state's investments and not explicitly fiscal risks.

52. IGEPE has recently introduced a system of performance targets. A new software tool, SIMAP has been developed to support performance monitoring, but as monitoring reports are not yet available, it is not possible to assess adequacy. IGEPE indicates that they undertake financial ratio analysis (rates of return based on earnings before interest, taxes and amortization (EBITDA) and economic value added (EVA)). In the future, it is envisaged that financial targets will be established under the SIMAP monitoring system, which will also incorporate operational performance and use local and international benchmarking. However, the performance management system will not cover all entities which are owned or controlled by the state, including for example those which fall under the state's security services and have benefitted from state-guaranteed loans, which is a big gap for fiscal risk management.

53. All shareholding companies are required to submit audited financial statements to their General Assembly. All shareholders can access financial statements, including IGEPE, sector ministries, and other shareholders depending on the ownership structure. In practice, IGEPE states that it generally receives only a discussion of results during the year, frequently without any interim, unaudited financial statements. Further, IGEPE's staff is not in sufficiently frequent contact with shareholding companies' financial/accounting staff to be able to understand risks and identify areas of concern.

[19] IGEPE has been mandated to manage the state's ownership in commercial enterprises in a number of key sectors of the economy, and to participate in new investment opportunities, including PPPs. Its overall goal is to increase the state's revenue and enhance its own sustainability.

54. The TA audits IGEPEs own financial statements on an annual basis. Specific shareholding companies may be audited based on the TA's interest areas, such as the extractives sector, or a topic like remuneration or procurement. Due to limited resources, not all shareholding companies are audited by the TA. Private auditors are used under the Commercial Code.

A proposed single oversight unit

55. Establishing a single oversight unit could increase the state's capacity to develop a holistic assessment of fiscal risks from the public corporation sector. Such an approach would enable the state to assess the financial performance of all entities that are government owned or controlled, providing a comprehensive picture of possible sources of fiscal risk. Establishing a single oversight unit would also bring Mozambique in line with good practices followed in the region, where notable examples include South Africa (Box 3), Ethiopia, Rwanda, Malawi, and Tanzania.

Box 3: South Africa's oversight function of public companies

In South Africa the Department of Public Enterprises is the shareholder representative of the South African government and concentrates oversight responsibility for eight major and most problematic public companies, viewed as key to the economic and social policy agenda. Fiscal risk assessment and management is the responsibility of the National Treasury.

The Public Financial Management Act (PFMA) and Treasury Regulations require corporate plans to be submitted by public corporations, which covers assets and liabilities management. The PFMA states that all borrowing requires approval of the Minister, and in the case of a guarantee, the Cabinet member who is the executive authority responsible for that entity must also give approval. Authorization must be provided in the national *Government Gazette* by the Minister. Entities that have received permission to borrow must submit an annual borrowing program to the Treasury, and may not borrow foreign currency over a prescribed limit.

If any payment is required under a guarantee, the PFMA states that in the first instance funds must be sourced from the department that is concerned with the issuance of the guarantee, and a charge is also made against the concerned public entity. The responsible Cabinet member must report at least annually on the circumstances related to any payments under a guarantee.

Source: Public Financial Management Act, South Africa; IMF, 2016

56. Different public corporations have varying financial risks, and oversight mechanisms should be applied accordingly. A framework could be adopted for classifying public corporations according to their financial and operating performance. Companies with a proven profitability record could be granted greater operating autonomy, whereas financially distressed or newly created companies could be subject to stricter oversight procedures. A financial track record should be established before being able to access borrowing and guarantees. Each group would then be subject to different requirements in terms of budget documentation and approval, in-year reporting, control of borrowing, external review of projects, and procurement rules. Such an approach of 'earned autonomy' was adopted in Iceland to limit fiscal risks related to activities of municipalities, and could be adapted to account for the complexities of Mozambique's public corporation sector.

57. The suggested functions of a combined oversight unit are outlined below with a proposed sequencing order (Box 4). The recommendations are based on good practices in other countries and incrementally build on existing institutions and processes. The tasks to be undertaken by this suggested unit are extensive, cannot all be done immediately and will require significant capacity development both in the unit itself and in public corporations. IGEPE currently has some 37 staff with professional qualifications in law, accounting or economics, which along with the staff in the Treasury's monitoring unit forms a reasonable basis for developing this new unit. However, it would be crucial to clarify that the objectives of the oversight unit are to assess and manage fiscal risks arising from the public corporation sector, which may not always be in conformity with realizing long-term investment objectives, where an element of risk taking may be implied. To promote institutionalized responsibility for the management of fiscal risks, the objectives of the proposed oversight unit should be clearly mandated (for example in the proposed new law), and there should be direct reporting to the Minister of Economy and Finance on a periodic basis.

Box 4: Responsibilities of a Proposed Single Oversight Unit

Mapping the public corporation sector: The exercise should detail all public corporations, including subsidiaries, and direct and indirect shareholdings. Information should be maintained on boards, structure, plans and budgets and operational and financial performance including all assets and liabilities. Following this, further mapping could be undertaken of autonomous agencies, funds and regulatory agencies. A database should be developed, which may be able to build on the IGEPE SIMAP system and is periodically reviewed and updated.

Assessing fiscal risks arising from public corporations: Using updated financial information, government owned or controlled public corporations could be classified into different groups based on their financial viability, which would inform oversight procedures and levels of autonomy. The data would be used to elaborate the Fiscal Risk Statement and the recommended Memorandum Statement in the CGE. The oversight unit could work closely with the Fiscal Risk Unit.

Performance monitoring and review: The unit could develop templates for annual and medium-term plans and budgets in consultation with public corporations to be considered by MEF, and the sector ministry. Appropriate performance targets and indicators should be developed, including strategies to reduce operating costs. Performance monitoring could occur on a quarterly basis, with Ministerial attention drawn to any major problems or issues. Higher risk public corporations would be subject to more intensive monitoring efforts.

Project feasibility and financial sustainability: The unit could also work in coordination with the Public Investment Management unit and the individual public corporations to review major projects and provide Ministerial advice. Guidelines could be issued for project development and appraisal to ensure rigorous analysis and evaluation of project proposals by the public corporation itself, so that the unit is not "second guessing" the corporation.

Oversight of non-performing corporations: The unit should identify individual corporations which are, or may become, financially non-performing or stressed and thus create fiscal risk. This would form a basis for the unit to work with the Board of the particular corporation, developing proposals for restructuring and performance improvement.

Strengthening Boards: A transparent and competitive system should be developed for the appointment of board directors based on maintaining a pool of interested and suitable applicants. Data would be maintained on specification of skills, professional assessment against these skills, and publicly advertising vacancies, given that the appointment decision remains the prerogative of the government. A statement of "Owners Expectations" could also be developed to guide Board performance, based on IGEPE's corporate governance guidelines.

Policy-making for quasi-fiscal activities (QFAs): QFA analysis may be undertaken jointly with the budget department. Services that are delivered below market cost should be identified to inform a possible subsidy policy and remove cross-subsidization from other users. Given current fiscal pressures, this could be considered by the government for the medium term.

Source: World Bank staff

6. Reporting and Transparency

Public corporations' reporting

58. For the majority of public corporations, financial statements are not publically disclosed, which is of considerable concern. Despite Law No. 6/2012, which currently governs the 13 public enterprises, explicitly stating that financial reports should be publicly disclosed this practice is not adhered to by a number of public enterprises.[20] Similarly, the lack of disclosure of reports of shareholding companies, including companies in which the state has indirect shares is also of significant concern. Of all the companies in which the government has majority ownership only one (BNI) has its 2015 financial statements publicly available. For two companies, EMATUM and EMOSE the most recent publicly available statements are 2014[21]. For two companies, Petromoc and TdM the most recently published statements are from 2013. For the majority of the companies there is no functioning website, four have websites which do not include the financial statements, and two have websites which are not working. Improving transparency through disclosure of financial statements should be a priority, which could be made available in a centralized repository of information.

59. Where available, audited financial statements of public enterprises and shareholding companies generally show transparency of financial operations and are of good quality. The financial statements of public enterprises that were available for review are prepared in line with international accounting standards. The financial statement of public enterprises consolidates the operations of subsidiary companies and investment in associated or minority owned companies. Similarly, the financial statements of shareholding companies which are prepared under the Commercial Code adhere to international accounting standards and also appear to be of good quality. However, some of the financial statements provided are only in summary form. The quality of the available financial statements suggest that Mozambique would be in a good position to develop a consolidated financial statement of public corporations, providing that all entities make their audited reports available in a timely manner.

60. There is also scope to further improve the quality of public corporations' financial reporting through disclosing financial risk assessment and management practices. Good financial risk management by individual companies is important for financial performance and is a key responsibility of the Board. The financial statements of ENH for example contain detailed analysis of foreign exchange and liquidity risk. Understanding the factors that determine financial performance of any individual corporation is important for assessing fiscal risk to the state. In addition, financial statements of individual companies should also comment on the performance of subsidiary companies and significant associated companies. The responsibility of the Board for good financial risk management can be reinforced by having the Board's risk management assessment and practices reviewed by the independent audit committee, taking on an expanded

[20] Only six of the 13 public enterprises had financial statements available in the public domain as at June 2016.
[21] The 2014 Annual Report for HCB – *Hidroeléctrica de Cahora Bassa* – is available online on a third party site.

role of an audit and risk committee. Further, more detailed guidance could be provided on the financial information to be provided in the Board report of shareholding companies, such as a template for reporting on key financial and operating performance targets.

Government's aggregate reporting

61. There is currently a lack of basic information to inform decision-making on fiscal risks at the time the budget is being deliberated and passed by Parliament. While Mozambique made an important step by publishing its first Fiscal Risk Statement in November 2015, important aspects related to the public corporation sector need to be expanded. Most importantly, there is a need for a full statement of public corporation debt owed to external parties, including debt arising from indirect government shareholdings and subsidiaries. Technically, total public sector debt should include debt of the general government sector, financial public corporations and non-financial public corporations (IMF, 2013). There should also be information on the expected revenues of public corporations and how this is linked to a dividend target. The lack of a dividend policy makes it difficult to plan and budget for these resources, as well as use a dividend target to monitor financial performance. A summary of information that is disclosed on the public corporation sector in the budget and the annual audited state accounts is presented in Table 6.

62. In particular, partial information on guarantees means that a meaningful assessment of fiscal risks is not undertaken when the budget is passed. Firstly, there is no information on how the guarantee limit is derived and its relationship with fiscal risk, with no policy providing guidance on how guarantees should be awarded. Secondly, there is no data on the stock of state guarantees for loans contracted by public corporations or the financial performance of these entities, meaning that asymmetric information is provided to Parliamentarians expected to approve a guarantee limit as part of the Budget Law. Thirdly, there are no details on the capacity of the public corporation to meet repayments. Likewise, there is no information on the source and amount of any contingency funds if the guarantee is called. In some countries it is a requirement for the sector ministry to contribute to the estimated cost of a guarantee through establishing a special fund to meet payments should the guarantee be called (World Bank, 2007).

Table 6: Disclosure of Public Corporations' Financial Information

Financing source	**Disclosure in the budget (Orçamento do Estado)**	**Disclosure in the annual state accounts (Conta Geral do Estado)**
Subsidies	Aggregate subsidy value in the budget.	Recipients of subsidies are included.
Direct debt	Estimate of public enterprise debt provided for the first time in the 2015 Fiscal Risk Statement. Nothing on shareholding companies' debt.	Not reported.
Government guarantees	Guarantee limit included.	Annual execution of government guarantees but nothing on the stock of guarantees or loan conditions.
Loans 'on-lent'	Annual planned on-lending by entity is recorded in the budget.	Annual balance, disbursements and reimbursements recorded.
Financial positon of public corporations	Not included.	Annual profits and losses of public enterprises, but nothing on their assets and liabilities. No information on revenues of shareholding companies.
Dividends	Not included.	Expected and actual dividends is reported.
PPP arrangements	Not reported. The 2015 Fiscal Risk Statement has a list of PPP contracts, but there is no information on the public corporations engaged in PPPs.	Information on the economic and financial performance of a select number of PPPs is provided. Analysis is limited.

Source: National Budget and Conta Geral do Estado

63. Although the law requires the publication of a consolidated financial statement by MEF covering the financial results and position of the 13 public enterprises, this is not current practice. MEF publishes each year a summary report, *Situação Financeira das Empresas Públicas,* which includes information on the financial results and position of each public enterprise, subsidies received and investment plans. However, this report is not a consolidated financial statement of the public enterprises and does not include information on shareholdings in subsidiary and associated companies.

64. Similarly, the annual review published by IGEPE is not a consolidated statement of the net position of all shareholding companies in its portfolio. IGEPE published an annual review *Relatorio e Contas,* which reports on IGEPE's own operations and provides summary information on a selection of major shareholding companies[22]. Information is included on IGEPE's assets and liabilities, sources of revenues to the state and to IGEPE, as well as general expenses to the state. This report contains the assets and liabilities of IGEPE's shareholdings. However, as a consolidated statement of the net position of all shareholding companies is not included the information is only partial. Further, the report does not include a list of shareholdings held by the companies in IGEPE's portfolio nor subsidiaries, which are mostly unknown.

65. To improve the quality of reporting and transparency of public corporations' operations a "memorandum" statement should be published of their financial assets and liabilities, individual and total. Given Mozambique's capacity levels and reform priorities, an appropriate strategy would be to publish a memorandum statement in conformity with cash-based International Public Sector Accounting Standards (IPSAS). This statement would include consolidated information on the government's investment in public corporations, based on accounting for its share of the equity, and would be included in the CGE. Given that financial data for public enterprises and shareholding companies is relatively complete, if not all publicly accessible, it is possible for Mozambique to prepare a useful consolidated statement of the public corporation sector. A relevant example to consider is New Zealand's consolidated financial report (Box 5).

Box 5: New Zealand's memorandum statement

In New Zealand a consolidated financial report on the public corporation sector is published as a separate schedule in the government's annual consolidated financial statements. The consolidated report includes for each entity its revenue, expenses and net balance; assets, liabilities (with debt separately disclosed) and net equity. In Mozambique, adjustments would need to be made for any inter-corporation debts and other inter-corporation transactions. Such a statement would show the extent of Mozambique's public corporation sector, its overall financial performance and position, including the total level of debt. As stated earlier "knowing what you have" is a pre-condition for being able to assess and manage fiscal risk. See Annex 5 – New Zealand's Memorandum Statement on State-Owned Entities and Crown Entities.

Source: World Bank staff

66. As Mozambique's reform efforts progress, consolidated financial statements could be prepared for the whole public sector including public corporations. This practice is followed by countries that have adopted accrual-based IPSAS. This approach would involve consolidating all revenues and expenses of public corporations into the government's operating statement, and all public corporations' assets and liabilities into its balance sheet. However, given current capacity levels and reform priorities the government is sensibly moving cautiously on accrual accounting.

[22] Whilst the public availability of shareholding companies' financial statements is limited, reports should be shared with IGEPE, as it is a shareholder. Annex 3 – Summary of financial statements available by Shareholding Companydetails the public availability of financial statements by Shareholding Company.

7. Corporate Governance

67. **In public enterprises Boards comprise 3-5 executive directors.** The President of the Board is nominated by Cabinet based on a proposal by the sector ministry and MEF. Article 12 provides for two non-executive directors on each board, where one is nominated by MEF and the other by employees. The nature of this MEF oversight and the information flow to MEF from the non-executive director is unclear. There is no formal system for making board appointments such as a list of potential appointees or a competitive selection process.

68. **For shareholding companies the Commercial Code is used to guide the appointment and activities of the Board.** Board members are appointed by the shareholders through the General Assembly or Annual Meeting of the company. IGEPE participates in these annual meetings as shareholders. Similar to public enterprises, the system for making board appointments is informal. There is no list of available candidates and appointments tend to be ad hoc.

69. **Mozambique's informal system of making Board appointments may compromise the quality of the Board, and therefore the performance of the public corporation.** Various International best practice statements on the governance of public corporations stress the importance of a well-qualified Board in ensuring good performance of the corporation. They stress the desirability of an open and transparent selection process including the advertising of vacancies, specification of selection criteria, maintaining a list of suitable candidates to be considered for appointment and some professional assessment being undertaken of each candidate's qualifications.

70. **Adopting a formal process for the appointment process would be consistent with the OECD guidelines on corporate governance.** In some countries such as New Zealand the appointments process is managed by the central oversight unit, although the decision on appointments remains with the government. Thailand and South Africa also have more formal arrangements for the appointment of directors. This approach is consistent with OECD Guidelines which provide for "establishing well structured, merit based Board nomination processes, actively contributing as owner in the selection of Board members and contributing to Board diversity." Such an approach should allow for the exercise of objective and independent judgment with all members being selected based on qualifications and having equivalent legal responsibilities.

8. Legal and Regulatory Framework

71. **At present, public enterprises are governed by Law no. 6/2012.** The law explicitly states the need for public enterprises to avoid creating fiscal risks, which are defined as the possibility of negative impacts on the budget through the collection of lower revenues than budgeted or the expansion of expenditures or debt above approved amounts. This law provides for the disclosure of the annual Board report, the annual financial statements including the report of the audit committee and external audit reports in the government's gazette (the *Boletim da República*), a newspaper and on the internet. The law is supplemented by the Regulation Decree 84/2013, which

elaborates conditions for creating public enterprises, the legal framework, responsibilities of sector ministries, budget and accountability, the performance contract, and external audit. There are plans to revise Law no. 6/2012, where the scope and coverage of are still under discussion.

72. **For public enterprises that are involved in PPP agreements Law no. 15/2011 applies.** The law guides the creation of PPPs, Concessions and Large Scale Projects. The law is supplemented by the Regulation Decree 16/2012, which elaborates conditions for procurement, implementation and monitoring of PPPs, concessions and large scale projects. Implementation of the PPP law is overseen by MEF, the sector ministry and a regulating agency. In the absence of a formal regulating agency, in some cases the public enterprise which is party to the PPP agreement may also act as a regulator. PPPs, concessions and large scale projects are eligible for guarantees and investment incentives, which are disclosed in the state accounts.

73. **Shareholding companies are governed by the Commercial Code.** Companies are created under private law with the government as a shareholder. The Commercial Code applies even if an entity is fully owned by the state, for example BNI (Banco Nacional de Investimentos – National Investment Bank) and EMATUM. The Commercial Code provides for the role of the General Assembly, the Board of Directors and an Audit / Supervisory Committee. The government's role as shareholder is exercised through the company's General Assembly by IGEPE. The General Assembly is responsible for appointing the board of directors, reviewing the annual financial statements and the report of the Audit Committee, any amendment of the company's articles or statutes, any changes to the capital stock, the division or transformation of a company, the dissolution of the company, and matters that other bodies of the company do not cover.

74. **The Commercial Code insufficiently addresses fiscal risks in shareholding companies; ongoing efforts to revise Law no. 6/2012 could address these shortcomings.** While shareholding companies are expected to operate commercially, the Commercial Code does not provide for public sector governance issues, which is important given the large degree of state participation. Recognizing this challenge, OECD guidelines recommend that while public corporations are subject to ordinary company law, there needs to also be a separate "umbrella" act which provides for additional transparency and accountability measures. Such an act should cover statements on ownership policy, owner's expectations of Boards, performance agreements and government wages policy. In Mozambique the proposed revision of law no. 6/2012 could extend its coverage to include all public corporations that are owned or controlled by the government. At a minimum, the law would cover state controlled companies in which the state has direct or indirect shareholdings.

75. **Under the current legal framework the state's oversight arrangements are fragmented and relatively under-prioritized.** Shareholding companies are not subject to any specific state oversight mechanism. IGEPE may represent the interests of the state in its capacity as Shareholder, but this function is not exercised with the objective of managing fiscal risk. And for companies where the state has indirect shareholdings, but where IGEPE is not a shareholder

(such as the companies that come under the state's security services) the law does not provide for any oversight mechanism.[23] Arrangements are further fragmented by having a separate unit based in the Treasury which oversees public enterprises (see section on oversight arrangements). To address this situation, the law should make a provision for a single oversight unit to be responsible for all monitoring of public corporations that are government owned or controlled and reporting directly to the Minister of Economy and Finance. Core to the mandate of a proposed single oversight unit should be assessing and managing fiscal risks, requiring independent and robust analysis of the financial performance of public corporations that are state owned or controlled.

76. The current legal framework lacks sufficient control mechanisms for the approval of loans and issuance of guarantees. The law does not mention how the financial and operational performance of an entity should be considered in the approval of external loans and guarantees, particularly in the case of shareholding companies. To strengthen control measures it is suggested that the number of actors involved in decision-making is extended to include the corporation Board, a central monitoring unit, and the Council of Ministers when loans exceed a pre-specified threshold based on a recommendation of the Minister of Economy and Finance. The law should stipulate minimal financial performance conditions to guide the approval of loans and guarantees, based on compliance with financial and operational targets.

77. The current legal framework does not sufficiently prioritize the importance of promoting sound financial performance of public corporations, which is critical for avoiding exposure to fiscal risks. Public corporations with strong financial performance pose less fiscal risk, as the possibility of requiring state involvement is minimal. To promote financial performance, the law could include provisions for performance management arrangements, such as developing performance targets and indicators in annual plans and budgets. International experience suggests that they should focus on key issues rather than be too detailed or complex. Further, the law should require the Board of each public corporation to develop financial risk assessment and management practices and to report on them in its annual report. These risk assessments should also be reviewed by the corporation's audit committee (with its role expanded to an audit and risk committee).

78. The legal framework has limited provisions on the transparency and disclosure of the public corporation sector. In particular, the law could be strengthened by including provisions for the government's aggregate financial reporting on public corporations, particularly in the annual Fiscal Risk Statement and the CGE. In addition, it should be mandated for all public corporations to publish their annual reports including financial statements in the Official Bulletin, on their own websites and in the media. Moreover a centralized repository for all financial statements should be created and made publicly available by the single oversight unit.

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[23] Disclosed shareholders of Proindicus are Monte Binga, a defense orientated entity fully government owned which owns 50 percent of the shares, and the State's Security and Intelligence Services' (SISE) investment arm of the Management of Investment, Participation and Services (GIPS), which owns 50 percent of the shares. In the case of MAM, 98 percent of the shares are owned by GIPS, 1 percent is owned by EMATUM and 1 percent is owned by Proindicus.

79. Under the current legal framework there is considerable ambiguity over governance of procurement procedures. The applicability of the public procurement decree to public enterprises is unclear. Public enterprises that met with the mission team commented that efficient project implementation is compromised by the government's procurement procedures which cause significant delay in project implementation. However the *Tribunal Administrativo*, which conducts pre-audit and continuous audit of procurement agreements, advises that public enterprises are not subject to the public procurement decree (05/16). The Commercial Code has no procurement procedures guiding the award of different contracts. Current practice is for the private sector to use commercial procedures to place orders with known suppliers and in most cases direct contracting is used. The use of competitive procurement procedures is rare (World Bank, 2002).

80. Procurement provisions need to be clarified in the law. All public corporations that are majority government owned or controlled should be subject to the public procurement decree, following reasonable modifications which may be needed to reflect their commercial environment. Procurement procedures should assist in obtaining value for money, in avoiding undue delay in project implementation, in transparency through open bidding, e-procurement and other mechanisms, and for dealing with any complaints about contract awards in a timely way. It would be appropriate to review the current procurement code to address any legitimate concerns raised by public corporations. This could include greater delegation of authority to public corporations, possibly on a selective basis, reducing the need for ex ante approvals from the sector ministry of MEF, subject to improved ex post transparency on contracts available and awarded. If external approval of certain contracts is still considered necessary timelines for response by sector ministries or MEF could be specified.

9. Concluding Remarks

81. This report provides an assessment of fiscal risks arising from the public corporation sector with suggested recommendations to accelerate reform efforts. As the government prepares for the development of the LNG industry, financing decisions that facilitated the development of infrastructure and security provisions by public corporations have unduly exposed the economy to fiscal risks. In particular, the lack of clear institutional processes and oversight arrangements to guide the approval of borrowing and guarantees have put the economy at risk. As a result, Mozambique's strong economic growth record has been compromised as well as opportunities for realizing inclusive growth and reducing poverty over the short to medium term. These developments emphasize the importance of Mozambique engaging in substantial reform efforts to manage fiscal risks from the public corporation sector. Implementing these reforms will require strong political commitment and leadership from MEF, working closely with public corporations, including those in the security sector, which have until now been subject to minimal oversight procedures.

82. By strategically focusing on a number of key areas the authorities could make substantial progress in managing fiscal risks, where a mapping exercise should be

prioritized. A mapping exercise should help to determine the government's involvement in the corporate sector to assess exposure to fiscal risks. This exercise could help to rationalize the complex system of inter-company shareholdings, including inter-state indebtedness and obligations to third parties. The mapping exercise could also form the basis of estimating liabilities from non-performing entities (some of which have already been earmarked for divestment), which must be dealt with as a priority to avoid the accumulation of further obligations that may accrue to the state. Further, the mapping exercise could enable the government to classify public corporations according to their financial and operating performance, in order to prioritize oversight efforts based on the level of fiscal risk posed. Companies which are financially distressed or newly created companies could be subject to stricter oversight procedures, while well-performing entities would be granted greater autonomy.

83. **Another key area is to develop processes for approving loans and guarantees, with improved transparency and disclosure mechanisms.** Conditions should be stipulated for the approval of loans and guarantees for companies with state involvement, which considers the financial viability of the entity and the capacity to repay. Preferably, the existing SISTAFE law could be revisited, or alternatively, specific legislation could be adopted. Further, the approval process for loans and guarantees should be institutionalized with the number of decision makers extended to include the Council of Ministers. In order to carry out an informed assessment, decision makers must be presented with complete information on the financing of public corporations, and the implications for fiscal risks. Improved government reporting through an enhanced Fiscal Risk Statement and Memorandum Statement in the CGE which covers public corporations' financial position and stock of debt will aid decision making. Enhancing the quality of reporting will only be possible if financial statements are disclosed and available, in which public corporations present an assessment of their financial risk profile and management practices.

84. **Strengthening institutional processes, including a comprehensive legal and regulatory framework with clearly established oversight procedures needs to be prioritized.** Ongoing revisions to the public enterprise law no. 6/2012 provides an opportunity to establish a comprehensive legal framework for the public corporation sector, including all companies that are government owned or controlled. Fiscal risk management could be incorporated in the law by requiring the establishment of a single oversight unit to manage the state's involvement in the corporate sector, improving transparency and disclosure of financial practices, and setting conditions for approving loans and guarantees based on financial viability. The creation of a single oversight unit would reduce fragmentation and enable the government to develop a comprehensive assessment of fiscal risks.

85. **By focusing on these reforms the government would set a good foundation for assessing and managing fiscal risks arising from the public corporation sector.** Other reforms could be implemented over the medium term, such as developing a policy statement on the role of public corporations in the economy, public corporations' developing financial and operational performance targets and indicators that are monitored quarterly, reviewing procurement procedures applicable to public corporations, developing guidelines for project feasibility

assessment, and establishing a transparent and competitive system for appointing Board Directors. The World Bank is committed to supporting the implementation of these reforms through developing appropriate guidelines and tools, and providing other technical assistance support.

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Annex 1 – List Public-Private Partnership Agreements

A detailed list of PPP agreements is provided below. All projects included in this list are Design, Build, Operate, Own and/or Transfer (DBOOT or DBOO) agreements, with the exception of the Águas da Região de Maputo projects which is a management agreement.

PPP Agreements prior to enactment of Law 15/2011 (10 of August)						
Description	**Objective**	**Investment**	**Financial Participation**	**Guarantee**	**Duration**	**Signature year**
Telecommunications						
Concessão do Porto de Maputo	Exploration and management of cargo and container terminals in the port of Maputo	USD 1,782,564,700	Private: 51% (Portus Indico - 48.5%; Grindrod Limited - 48.5%; Mozambique Gestores - 3%); State (CFM) - 49%;	NA	15 years	2003
Concessão do Porto da Beira	Exploration and management of cargo and container terminals in the port of Beira	MZN 1,527,035,013	Private (Cornelder Corporation Moçambique BV) - 67%; State (CFM) - 33%	NA	25 years	1998
Concessão do Porto de Nacala	Exploration and management of the Porto f Nacala	USD 1,200,000,000	Private (SDCN) - 51%; State (CFM) - 49%	NA	15 years	2005
Concessão da Linha Férrea de Nacala	Exploration and management of the North railway line	USD 1,200,000,000	Private (SDCN) - 51%; State (CFM) - 49%	NA	15 years	2005
Concessão do Porto de Quelimane	Develop, explore and manage the port of Quelimane	USD 16,704,800.00	Private (Cornelder de Moçambique, SA) – 51%; State (CFM) - 49%	NA	25 years	2005
Energy						
Hidroeléctrica de Cahora Bassa	Production and sale of electric energy		State – 92,5%; Private (Redes Energéticas Nacionais - REN, Portuguese company) – 7,5%	NA	25 years	2007
Gigawatt	Production and sale of electric energy with LNG	USD 157,000,000	100% Private: Gigajoule - 49%; National Entities (Electrotec, Eagleholding and others) - 51%	NA	25 years	2010
Roads						
Estrada Nacional N4	Design, Construction, Financing, Operation and maintenance of a portion of	ZAR 6,300,000,000	State - SDCM (TDM, Mcel, CFM, Petromoc) - 10%;	NA	30 years	1997

	the N4 in RSA and EN4 in Mozambique		Private - Macuari (Australian Bank) - 76%; Old Mutual (South African insurance company); AIIM (African Infrastructure Investment Management)			
Estardas do Zambeze	Design, Construction, Financing, Operation and maintenance of the Kassuende bridge, Samora Machel bridge and roads (EN7 e EN8- EN9- EN304)	EUR 105,263,762	Mota-Engil Engenharia e Construção África, S.A. – 40% Ascendi Group, SGPS, S.A – 40% Infra Engineering Mozambique, S.A.R.L – 20%	NA	30 years	2010
Water						
Águas da Região de Maputo	Supply of water to the cities of Maputo, Matola and Boane	NA	FIPAG (Fundo de Investimento de Património de Agua) -73%; FLOTUR (Florestas e Turismo) - 6.74%; CSI (Sociedade de Controlo e Gestão de Participações Financeiras, SA) - 6.74%; MG (Mozambique Gestores, SA) - 6.74%; Norte Investimentos, SA - 6.74%; Individuals - 0.05%	NA	14 years	1999

PPP Agreements after enactment of Law 15/2011 (10 of August)						
Telecommunications						
Concessão do Corredor Logístico Integrado de Nacala (CLIN)*	Construction, operation and management of the port terminal at Nacala Velha	USD 774,000,000	Private (VALE) - 80% ; State (CFM) - 20%	NA	30 years	2012
	Construction, operation and management of the Moatize - Nacala Velha railway line	USD 819,000,000				
Concessão de infra-estruturas Portuárias de Macuse*	Construction, operation and management of the port in Macuse	USD 1,700,000,000	Private (Italian Thai Development Company Limited) - 60%; State (CFM) - 20%; Codiza - 20%	NA	30 years	2013
Concessão da Linha Ferroviária de Moatize a Macuse *	Construction, operation and management of the Moatize - Macuse railway line.	USD 3,600,000,000	Private (Italian Thai Development Company Limited) - 60%; State (CFM) - 20%; Codiza - 20%	NA	30 years	2013
Concessão da New Coal Terminal Beira	Construction and exploration of a port terminal in the expansion zone of the Porto f Beira	USD 495,000,000	Private (Essar Ports Africa FZE) - 65%; State (CFM) - 30%; Individuals -5%	NA	20 years	2014
Concessão dos Terminais Portuários e Logísticos Pemba e Palma *	Construction, financing, management, operation and development of port terminals in Pemba and Palma.	USD 818,000,000	State (Portos de Cabo Delgado): CFM - 50%; ENH - 50%.	NA	30 years	2014
Energy						
Central Termoeléctrica de Ressano Garcia	Production, sale and exportation of electric energy	USD 241,000,000	Private (Sasol new Energy) - 44%; State (EDM) - 51%; Individuals - 5%	Partial risk guarantee	25 years	2012
Central Termoeléctrica de Chokwé	Production and sale of electric energy	USD 97,000,000	Private (Kuvaninga Energia, SA) - 85%; State (EDM) -10%; Individuals - 5%	NA	16 years	2013
Central Térmica de Moatize *	Production, sale and exportation of electric energy	USD 913,000,000	Private(Vale) - 95%; Individuals - 5%	NA	25 years	2014
Hidroeléctrica de Boroma*	Production, sale and exportation of electric energy	USD 572,000,000	Private (ATP Engenharia, Lda, Enagol, Sonipal, Lda) - 85%;	NA	30 years	2014

			State (EDM) - 10%; Individuals - 5%			
Hidroelétrica de Lupata *	Production, sale and exportation of electric energy	USD 1,072,000,000	Private (ATP Engenharia, Lda, Enagol, Sonipal, Lda) - 85%; State (EDM) - 10%; Individuals - 5%	NA	30 years	2014
Hidroeléctrica de Chemba I*	Production, sale and exportation of electric energy, with 600 MW capacity.	USD 1,352,000,000	Private (Sociedade Hidroeléctrica de Moçambique -SHEZA) - 82.5%; State (EDM) - 12,5%; Individuals - 5%	NA	30 years	2014
Hidroeléctrica de Chemba II*	Production, sale and exportation of electric energy, with 400 MW capacity.	USD 1,200,000,000	Private (Sociedade Hidroeléctrica de Moçambique -SHEZA) - 82.5%; State (EDM) - 12,5%; Individuals - 5%	NA	30 years	2014

Source: MEF

Annex 2 – Shareholding companies Assets and Liabilities

Assets and liabilities data for 38 strategic shareholding companies, in 2014, is provided below[24]. The data set, which represents a third of the total entities with state participation, covers 86 percent of all entities considered to be strategic.

MZN thousands

Shareholding company	Capital	Participation[25]	Assets	Liabilities
Açucareira de Moçambique, SA	1,506,471.41	15.00%	3,218,446,515.00	2,316,337,314.00
Açucareira de Xinavane, SA	3,204,500.00	12.00%	11,687,031,998.00	6,788,823,810.00
Banco Nacional de Investimentos – BNI, SA	2,240,000.00	100.00%	5,843,484.30	3,459,173.00
Carteira Móvel, SA	37,500.00	30.00%	138,678.30	289,634.60
Cervejas de Moçambique, SA	224,178.03	1.78%	9,303,809.58	3,712,838.13
Companhia Industrial da Matola – CIM, SA	168,000.00	7.01%	2,128,461.50	1,610,451.10
Cimentos de Moçambique, SA	1,010,050.00	11.77%	7,691,599.00	4,718,276.00
Companhia Moçambicana de Hidrocarbonetos – CMH, SA	593,411.50	20.00%	18,835,620.00	9,714,694.00
Coca - Cola SABCO (Moçambique), SA	223,500.00	28.78%	5,443,369.00	3,025,765.00
Companhia de Sena, ZA	3,134,177.50	4.98%	1,336,317,640.00	7,164,561,284.00
DOMUS - Sociedade De Gestão Imobiliária, SA	1,270.00	94.00%	172,302.30	100,751.14
Empresa Moçambicana de Atum – EMATUM, SA	15,000.00	100.00%	40,198,888.40	41,235,542.00
Empresa Moçambicana de Exploração Mineira – EMEM, SA	1,500,000.00	85.00%	2,226,634.67	805,895.86
Empresa Moçambicana de Pesca – EMOPESCA, SA	29,500.00	80.00%	N/A	N/A
Empresa Moçambicana de Seguros – EMOSE, SA	157,000.00	70.00%	7,410,342.10	5,079,272.60
Eta star	1,250.00	20.00%	503,555.90	500,692.20
GAPI	120,000.00	30.00%	1,449,649.67	1,012,659.73
Hotel Cardoso, SA	9,363.20	25.76%	330,891.00	23,770.00
Ifloma	39,062.50	20.00%	168,891.10	857,764.30
Linhas Aéreas de Moçambique – LAM, SA	708,175.96	96.00%	7,063,512.09	6,216,777.08
Mozambique Celular - Mcel	1,500,000.00	26.00%	15,096,356.40	10,643,034.70
Medicamentos de Moçambique – Medimoc, SA	59,262.00	17.28%	192,901,555.00	130,403,866.00
Mextur, Lda	60.00	25.00%	61,797.00	42,313.00
Millennium BIM	4,500,000.00	17.12%	104,217,434.00	86,191,463.00

[24] Entity type for one shareholding companies (ETA Star) has not been provided. Entity type is based on data shared by IGEPE in April 2016.
[25] State participation as in 2014, which may differ to current participation.

Moçambique Previdente	24,000.00	20.00%	36,014.30	11,572.80
Sociedade Moçambicana de Gases Comprimidos -MOGÁS, SA	40,000.00	33.75%	306,605,325.44	261,364,860.94
Monte Binga	250.00	100.00%	35,259,833.00	29,843,676.00
Mozaico do Índico, SA	60,000.00	49.00%	39,882.00	11,288.00
Mozal	10,253,585.00	3.85%	1,612,133.00	1,277,757.00
Mozambique Resseguros – MOZRE, SA	33,000.00	20.00%	255,452.00	180,876.00
NORSAD		3.14%	9,191,494.40	314,075.50
Patrimonio Internacional, SA	100.00	80.00%	1,103.00	21,468.00
Petróleos de Moçambique - Petromoc	1,800,000.00	80.00%	20,852,513.60	19,206,725.40
SEMOC	34,611.00	100.00%	N/A	N/A
Sociedade Moçambicana de Medicamentos - SMM, SA	750.00	20.00%	187,277,249.04	309,093,701.73
Sociedade do Notícias, SA	10,000.00	35.07%	230,882.00	229,654.00
Silos e Terminal Graneleiro da Matola – STEMA, SA	245,935.00	100.00%	339,268.00	58,349.50
Telecomunicações de Moçambique – TDM, SA	2,800,000.00	90.00%	20,852,513.60	19,206,725.40
Transmaritima	120,000.00	100.00%	567,381.30	639,583.30

Annex 3 – Summary of financial statements available by Shareholding Company

A list of financial statements made available to IGEPE is provided below. Of the 109 companies with state participation, 7 have provided financial statements for 2015, 41 for 2014 and 1 for 2013. Data was not provided for 60 entities.

Data shows that only 25 shareholding companies were profit making at the time of publishing their latest financial statement – 22 strategic entities and 3 entities considered for divestment. Of the 25 profitable companies, 16 have participation below 50 percent, 5 are have state participation between 51 percent and 99 percent, and 4 are 100 percent state owned.

MZN thousands

Shareholding Company	Capital	Participation[26]	Entity type	Latest financial statement[27]	Latest financial position[28]
Aberfoyle Tea States Moçambique, SA	1,700.00	20%	Dissolution and Liquidation	Data not provided	Data not provided
Abc - Alc Leasing, SA	97,539.21	5%	Dissolution and Liquidation	Data not provided	Data not provided
Açucareira de Moçambique, SA	1,506,471.41	15%	Strategic	2014	Loss making
Açucareira de Xinavane, SA	3,204,500.00	12%	Strategic	2014	Profit making
Agro-Alfa - Fundação, SA	5,658.00	20%	GTT	Data not provided	Data not provided
Autovisa - Serviços Auto, SA	12,000.00	20%	GTT	Data not provided	Data not provided
Auto - Gás, SA	40,604.00	22%	Strategic	2015	Profit making
Banco Nacional De Investimentos - BNI, SA	2,240,000.00	100%	Strategic	2014	Profit making
Complexo Agro-Industrial De Chokwé – CAIS, SA	500,000.00	90%	Strategic	Data not provided	Data not provided
Carteira Móvel, SA	125,000.00	30%	Strategic	2014	Loss making
Companhia de Desenvolvimento Mineiro, SA	400.00	83%	Dissolution and Liquidation	Data not provided	Data not provided
Sociedade Gráfica - CEGRAF, SA	28,881.38	8%	GTT	Data not provided	Data not provided

[26] Participation as at April 2016.
[27] Lastest Financial Statement provided to IGEPE.
[28] Latest financial position based on net income (financial results after tax).

Cabos de Energia E Telecomunicações De Moçambique - CELMOQUE, SA	23,500.00	15%	GTT	Data not provided	Data not provided
Centro de Produção Apícola de Moçambique - CEPAM, SA	-	20%	Divestment	2013	Loss making
Cervejas de Moçambique, SA	224,178.03	2%	Strategic	2014	Profit making
Chá Namae, Lda	1,500.00	20%	Divestment	Data not provided	Data not provided
Companhia Industrial Da Matola - CIM, SA	168,000.00	7%	Strategic	2014	Loss making
Cimentos de Moçambique, SA	1,000,000.00	12%	Strategic	2015	Loss making
Coca - Cola (Moçambique), SA	223,500.00	29%	Strategic	2014	Profit making
Companhia Algodoeira de Nampula-CANAM, SA	38,040.21	24%	Dissolution and Liquidation	Data not provided	Data not provided
Companhia de Sena, SA	3,134,177.50	5%	Strategic	2014	Loss making
Companhia Moçambicana de Gasoduto - CMG, SA	500.00	20%	Strategic	2014	Loss making
Companhia Moçambicana de Hidrocarbonetos-CMH, SA	593,411.50	20%	Strategic	2014	Profit making
Companhia Pipeline Moçambique /Zimbabué, Lda	80,000.00	50%	Strategic - managed directly by MEF	2014	Loss making
Diário de Moçambique, SA	2,550.00	40%	Strategic	2014	Loss making
DOMUS - Sociedade de Gestão Imobiliária, SA	1,270.00	94%	Strategic	2014	Profit making
Empresa Moçambicana de Atum - EMATUM, SA	15,000.00	100%	Strategic	2014	Loss making
Empresa Moçambicana de Exploração Mineira - EMEM SA	1,500,000.00	85%	Strategic	2015	Profit making
Empresa Moçambicana de Seguros - EMOSE, SA	157,000.00	70%	Strategic	2014	Profit making
Empresa Moçambicana de Pesca - EMOPESCA, SA	29,500.00	80%	Strategic	2014	Profit making
Empr. De Constr. E Manut. de Estradas E Pontes - Centro, SA	36,168.00	100%	Dissolution and Liquidation	Data not provided	Data not provided

Empr. De Constr. E Manut. de Estradas E Pontes - Norte, SA	32,921.00	100%	Dissolution and Liquidation	Data not provided	Data not provided
Empr. De Constr. E Manut. de Estradas E Pontes - Sul, SA	74,880.00	100%	Dissolution and Liquidation	Data not provided	Data not provided
Empresa De Aluguer de Equipamento - Centro, SA	24,741.38	100%	Dissolution and Liquidation	Data not provided	Data not provided
Empresa De Aluguer de Equipamento - Norte, SA	20,312.67	100%	Dissolution and Liquidation	Data not provided	Data not provided
Empresa De Aluguer de Equipamento - Sul, SA	23,724.96	100%	Dissolution and Liquidation	Data not provided	Data not provided
Encatex, S.A	3,500.00	20%	Divestment	Data not provided	Data not provided
Empresa. Nacional. Instalações Eléctricas Maputo - ENIEL, SA	4,700.00	20%	Dissolution and Liquidation	Data not provided	Data not provided
Engenharia e Obras Públicas, - ENOP, Lda	20,000.00	15%	Divestment	2015	Profit making
Fundação Malonda	25,000.00	100%	Strategic	2014	Loss making
GAPI - Soc. Para Apoio A Pequenos Proj.De Investimento, SA	41,000.00	30%	Strategic	2014	Profit making
GEOMOC, SA	8,952.00	20%	Divestment	Data not provided	Data not provided
GERALCO, SA	6,500.00	20%	Divestment	Data not provided	Data not provided
GRAPHIC - Comércio E Indústria, Lda	7,346.02	7%	Divestment	Data not provided	Data not provided
Grupo Madal, SA	15,286.65	5%	Divestment	Data not provided	Data not provided
Hidroeléctrica De Cahora Bassa - HCB, SA	23,558,108.58	85%	Strategic - managed directly by MEF	2014	Loss making
Hidromoc - Beira, SA	5,801.86	20%	GTT	Data not provided	Data not provided
Hotel Cardoso, SA	9,363.20	26%	Strategic	2014	Profit making
Hotel Inhassoro, SA	-	45%	Divestment	Data not provided	Data not provided
Indústria De Borracha E Calçado - IBC, SA	5,000.00	20%	Divestment	Data not provided	Data not provided
Indústrias Florestais De Manica - IFLOMA, SA	39,062.50	20%	Strategic	2014	Loss making
Indústria Moçambicana De Aço - IMA, SA	1,250.00	20%	Dissolution and Liquidation	Data not provided	Data not provided

Linhas Aéreas De Moçambique - LAM, SA	352,600.00	91%	Strategic	2014	Loss making
Loumar, Lda	5.00	43%	Dissolution and Liquidation	Data not provided	Data not provided
Mabor De Moçambique, SA	70,000.00	93%	Dissolution and Liquidation	Data not provided	Data not provided
Mármores De Montepuez - Marmonte, SA	60,000.00	20%	Divestment	2014	Profit making
Maler , Lda	1,360.65	20%	Dissolution and Liquidation	Data not provided	Data not provided
Moçambique Celular -Mcel , SA	1,500,000.00	26%	Strategic	2014	Loss making
MEDIMOC, SA	59,262.00	65%	Strategic	2014	Loss making
Metro, Lda	1,692.05	40%	Dissolution and Liquidation	Data not provided	Data not provided
Mextur, Lda	60.00	25%	Strategic	2014	Profit making
Millennium Bim , SA	4,500,000.00	17%	Strategic	2014	Profit making
Mil-Metalúrgica Industrial, Lda	-	20%	Dissolution and Liquidation	Data not provided	Data not provided
Mirco Holdings, SA	1,500.00	45%	Strategic - managed directly by MEF	Data not provided	Data not provided
Moagens De Moçambique, SA	12,260.00	34%	Dissolution and Liquidation	Data not provided	Data not provided
Moagem Da Beira - MOBEIRA, SA	193,088.00	10%	GTT	Data not provided	Data not provided
MOCAJÚ - Cajú De Moçambique, SA	26,000.00	15%	Dissolution and Liquidation	Data not provided	Data not provided
Moçambique, Previdente - Sociedade Gestora De Fundo De Pensões, SA	24,000.00	20%	Strategic	2014	Profit making
MOGAS, Sociedade Mocambicana De Gases Comprimidos, SA	40,000.00	34%	Strategic	2014	Loss making
Monte Binga, SA	250.00	100%	Strategic	2014	Profit making
Mozaíco Do Índico, SA	60,000.00	49%	Strategic	2015	Loss making
Mozal, SA.	10,253,585.00	4%	Strategic	2014	Profit making
Mozauto, SA	74,589.15	20%	Divestment	Data not provided	Data not provided
MOZRE - Moçambique Resseguros, SA	33,000.00	20%	Strategic	2015	Profit making
NORSAD	4,809,741.00	3%	Strategic	2014	Profit making

Nampula Metalo-Meca E Inv, SA	2,500.00	20%	Dissolution and Liquidation	Data not provided	Data not provided
Padaria Benfica, Lda	100.00	20%	Dissolution and Liquidation	Data not provided	Data not provided
Património Internacional, SA	100,000.00	80%	Strategic	Data not provided	Data not provided
Pescom Internacional - Maputo/I´Bane, SA	70.11	20%	Dissolution and Liquidation	Data not provided	Data not provided
Petromoc, SA	1,800,000.00	80%	Strategic	2014	Profit making
Pintex - Fábrica De Tintas De Ultramar - Maputo, SA	8,226.02	10%	Divestment	2015	Loss making
Pintex - Fábrica De Tintas De Ultramar - Beira, SA	-	40%	Dissolution and Liquidation	Data not provided	Data not provided
Plasmex, Lda	3,000.00	20%	Dissolution and Liquidation	Data not provided	Data not provided
Procajú - Inhambane, SA	1,200.00	20%	Dissolution and Liquidation	Data not provided	Data not provided
Procajú - Manjacaze, SA	1,050.00	20%	Divestment	Data not provided	Data not provided
Projecto Inhassune Ramalhusca, SA	-	20%	Dissolution and Liquidation	Data not provided	Data not provided
Regadios E Construções, SA	7,076.00	49%	Dissolution and Liquidation	Data not provided	Data not provided
Saba Trading, Lda	-	20%	Dissolution and Liquidation	Data not provided	Data not provided
Soc.Argelina Moçam.De Expl. Florestal, SA	3,113.73	41%	Dissolution and Liquidation	Data not provided	Data not provided
Sociedade Algodoeira De Monapo, SA	25,000.00	46%	Dissolution and Liquidation	Data not provided	Data not provided
SEMOC, SA	34,611.00	100%	Strategic	2014	Profit making
Sociedade Moçambicana De Medicamentos - SMM , SA	750.00	100%	Strategic	2014	Loss making
Sociedade Malonda, SA	11,526.00	3%	Strategic	2014	Loss making
Sociedade Notícias, SA	10,000.00	35%	Strategic	2014	Loss making
Sociedade Para Gestão E Desenv. Da Reserv. Do Niassa, SA	15,500.00	51%	Strategic - managed directly by MEF	Data not provided	Data not provided
SOGERE - Fábrica De Refrigerantes De Gaza, SA	1,000.00	20%	Divestment	Data not provided	Data not provided
Sociedade De Gestão Integrada De Recursos - SOGIR, SA	25,000.00	100%	Dissolution and Liquidation	Data not provided	Data not provided

Socidade Mineira De Cuamba - SOMEC, SA	16.00	20%	Divestment	Data not provided	Data not provided
SOTIL, Lda	4,025.78	99%	Dissolution and Liquidation	Data not provided	Data not provided
Soc.Técnica De Equip.Ind.E Agrícola - STEIA 2000, SA	24,800.00	20%	GTT	Data not provided	Data not provided
Silos E Terminal Graneleiro Da Matola - STEMA, SA	245,935.00	100%	Strategic	2014	Profit making
Tecnauto - Empresa De Assistência Técnica Auto, Lda	3,446.00	48%	Divestment	Data not provided	Data not provided
Tecnomecânica, Lda	130.00	20%	Divestment	Data not provided	Data not provided
Telecomunicações De Moçambique – TDM, SA	2,800,000.00	90%	Strategic	2014	Loss making
Texlom, SA	50,080.00	100%	Dissolution and Liquidation	Data not provided	Data not provided
Textáfrica, SA	300.00	23%	Divestment	Data not provided	Data not provided
Têxtil De Mocuba, SA	-	100%	Dissolution and Liquidation	Data not provided	Data not provided
Tipografia Clássica Comercial Da Beira, Lda	-	20%	Divestment	2014	Profit making
Transmarítima, SA	120,000.00	100%	Strategic	2014	Loss making

Annex 4 – Disclosure of government guarantee – India[29]

GUARANTEES GIVEN BY THE GOVERNMENT
Statement under Rule 6 of the FRBM Rules, 2004

As at the end of Reporting Year 2014-15
(Rupes in crores)

Class	Maximum Amount guaranteed during the year	Outstanding at the beginning of the year	Additions during the year	Deletions (other than invoked) during the year	Invoked during the year		Outstanding at the of the year	Guarantee commission or fee		Other material details
					Discharged	Not dis-charged		Receivable	Received	
1	2	3	4	5	6	7	8	9	10	11
Guarantees given to the Reserve Bank of India, other Banks and Financial Institutions (viz Industrial Finance Corporation of India, Industrial Development Bank of India, Life Insurance Corporation of India, Unit Trust of India, etc.,) for repayment of principal and payment of interest, cash credit facility , financing seasonal agricultural operations and for providing working capital in respect of companies, corporations, cooperative societies and cooperative banks	78,057.62 (38)	71,837.54 (35)	6,220.08 (3)	549.51 (1)	...	...	77,508.11 (37)	204.17	*52.24*	...
Guarantees given for repayment of share capital, payment of minimum annual dividend and repayment of bonds / loans, debentures issued / raised by statutory corporations and financial institutions	31,813.66 (30)	27,834.19 (27)	3,979.47 (3)	793.50 (2)	...	...	31,020.16 (28)	87.99	86.99	...
Guarantees given in pursuance of agreements entered into by the Government of India with International Financial Institutions, Foreign lending agencies, Foreign Governments, Contractors, Consultants, etc., towards repayment of principal, payment of interest / commitment charges on loans, etc., by them and payment against agreement for supplies of material and	1,95,037.46 (225)	1,95,037.46 (219)	42,075.35 (36)	9,475.76 (1)	...	...	1,85,561.70 (254)	730.03	631.33	...

[29] Other examples of public disclosure on government guarantees are Chile's Report on Public debt (http://www.hacienda.cl/english/public-debt-office/statistics/public-debt/report-on-public-debt-statistics-776119.html) and Peru's Annual Public Debt report (https://www.mef.gob.pe/contenidos/deuda_publ/documentos/Informe_Deuda_Publica_2015.pdf)

equipment on credit basis to companies, Corporations / Port Trusts, etc										
Counter-Guarantees to Banks in consideration of the Banks having issued Letters of Authority to Foreign Suppliers for Supplies / Services made / rendered by them on credit basis, in favor of the Companies / Corporations	610.36 (8)	610.36 (8)	...	...	...	...	610.36 (8)	30.52	5.18	...
Guarantees given to Railways / State Electricity Boards for due and punctual payment of dues / freight charges by Companies Corporations.	...	...	...	...	...	...	...	...	...	...
Performance guarantees given for fulfilment of contracts / projects awarded to Indian companies in foreign countries.	...	...	...	...	...	...	...	...	...	...
Performance guarantees given for fulfilment of contracts / projects awarded to Foreign companies in foreign countries.	...	...	...	...	...	...	...	...	...	...
Others	...	...	...	...	...	...	...	...	...	...
GRAND TOTAL	**3,05,519.10 (331)**	**2,53,244.20 (289)**	**52,274.90 (42)**	**10,818.77 (4)**			**2,94,700.33 (327)**	**1,052.71**	**1,052.71**	

Figures in parenthesis indicate the number of guarantees

Note:

1. The above data is based on information reported by Ministries / Departments. The data may be impacted upon by changes due to further reconciliation of records.
2. The difference in the closing balance as on 31.3.2014 reported in BE 2015-16 viz. ` 3,741.51 Crore and the opening balance as on 1.4.2014 as reported above is due to exchange rate variation and reconciliation of records.
3. The net accretion of Guarantees for the year 2014-2015 is ` 41,456.13 Crore (Col.4 - Col.5-Col.6) which is 0.33% of the GDP at market prices for 2014-2015 (RE).
4. Guarantees amounting to ` 65,786.31 Crore have been committed / approved by the Ministry of Finance for Financial Year 2015-2016, which is well within 0.5% of the estimated GDP.

Annex 5 – New Zealand's Memorandum Statement on State-Owned Entities and Crown Entities

Accounting policies

The Crown's financial interest in SOEs and CEs is reported in accordance with the Crown's accounting policies. Adjustments have been made to restate the financial position and financial performance of certain entities, as reported in their own financial statements, to a basis consistent with the Crown's accounting policies.

With the exception of Tertiary Education Institutions (TEIs) the Crown has line-by-line combined all SOEs and CEs. The Crown has equity accounted 100% of the net assets of TEIs on the basis that, in the event of disestablishment of a TEI (which is subject to a resolution of the House of Parliament), 100% of the net assets revert to the Crown in the absence of a decision to transfer the assets to a new or existing institution and, in the meantime, the Crown enjoys the benefits of the provision of a higher education to the public of New Zealand (refer note 20).

Mixed ownership companies

In addition to the core Crown's direct investment in the mixed ownership companies (Air New Zealand, Genesis Energy, Meridian Energy and Mighty River Power) a number of Crown Financial Institutions (CFIs) have invested in the companies as part of their normal investment activities. These investments have the effect of reducing the overall minority interest.

Company	% minority interest before CFI investment	% minority interest after CFI investment
Air New Zealand	48.04%	45.44%
Genesis Energy	48.77%	46.14%
Meridian Energy	48.98%	44.87%
Mighty River Power	48.87%	46.01%

Balance dates

Except for those entities listed below, all SOEs and significant CE's have a balance date of 30 June, and the information reported in these financial statements is for the period ended 30 June 2015:

SOEs	**Balance date**	**Information reported to**
AsureQuality Limited	30 September	30 June 2015
Crown entities		
New Zealand Symphony Orchestra	31 December	30 June 2015
School boards of trustees	31 December	31 December 2014
TEIs	31 December	30 June 2015

Annual reports

	30 June 2015				30 June 2014			
	Revenue Distri- butions	Expenses (excl gains)	(excl losses)	Operating balance	Revenue Distri- butions	Expenses (excl gains)	(excl losses)	Operating balance
	$m	$m	$m	$m	$m	$m	$m	$m
State-owned enterprises								
Airways Corporation of New Zealand	186	172	15	4	181	169	12	3
AsureQuality Limited	189	179	11	10	173	162	13	10
Landcorp Farming Limited	224	219	(20)	7	246	232	55	5
New Zealand Post Group	2,241	2,149	144	5	2,176	2,073	107	14
KiwiRail Holdings Limited	769	871	(96)	-	836	1,005	(174)	-
Transpower New Zealand Limited	1,046	785	115	166	1,004	799	216	197
Kordia Group Limited	249	239	9	-	303	312	(9)	4
New Zealand Railways Corporation	-	1	3	-	-	1	(1)	-
Other State-owned enterprises	507	678	(171)	3	561	741	(176)	11
Total State-owned enterprises	**5,411**	**5,293**	**10**	**195**	**5,480**	**5,494**	**43**	**244**
Air New Zealand Limited	4,981	4,608	834	246	4,695	4,444	152	105
Genesis Energy Limited	2,067	1,982	142	146	1,961	1,948	50	121
Meridian Energy Limited	2,912	2,614	247	385	2,517	2,311	230	261
Mighty River Power Limited	1,240	1,202	49	260	1,258	1,085	213	173
Less minority interests	-	-	(384)	(476)	-	-	(194)	(166)
Total mixed ownership companies	**11,200**	**10,406**	**888**	**561**	**10,431**	**9,788**	**451**	**494**
Intra-segmental eliminations		(436)	(490)	(209)		(423)	(374)	(66)
Total SOE segment	**16,175**	**15,209**	**689**	**756**	**15,488**	**14,908**	**428**	**738**
Crown Entities								
Accident Compensation Corporation	5,444	5,364	1,611	-	5,679	4,649	2,145	-
Crown Asset Management	7	2	11	34	9	4	21	67
Crown Fibre Holdings Limited	29	132	(103)	-	16	171	(154)	-
Crown Research Institutes	660	638	19	4	647	633	22	2
Callaghan Innovation	232	230	2	-	179	176	1	-
District Health Boards	13,065	13,097	(32)	-	12,793	12,796	(4)	-
Earthquake Commission	349	(308)	658	-	222	(67)	289	-
Housing New Zealand Corporation	1,209	995	108	108	1,146	1,000	182	90
Museum of New Zealand Te Papa	59	65	(5)	-	53	61	(8)	-
New Zealand Fire Service Commission	366	374	(3)	-	361	349	5	-
New Zealand Lotteries Commission	848	650	199	-	943	715	226	-
New Zealand Transport Agency	2,289	2,265	(43)	-	2,163	1,974	189	-
Public Trust	68	70	(2)	-	69	68	5	-
Schools	6,968	6,887	75	-	6,759	6,714	40	-
Southern Response Earthquake Services	52	360	(329)	-	(3)	111	(116)	-
Tertiary Education Commission	2,851	2,831	20	16	2,819	2,816	2	-
TEIs	-	-	685	-	-	-	242	-
Television New Zealand	344	322	26	-	353	336	15	-
Other Crown entities	2,105	2,116	27	1	1,911	1,867	18	4
Total Crown entities	**36,945**	**36,090**	**2,924**	**163**	**36,119**	**34,373**	**3,120**	**163**
Intra-segmental eliminations	(651)	(459)	(138)	-	(714)	(452)	(204)	-
Total Crown entities segment	**36,294**	**35,631**	**2,786**	**163**	**35,405**	**33,921**	**2,916**	**163**

	30 June 2015						30 June 2014
	Purchase	Total	Total	Total bor-	Total		2014
		Equity of PPE				PPE	Equity
		assets	rowings	liabilities			$m
	$m	$m	$m	$m	$m	$m	
State-owned enterprises							
Airways Corporation of New Zealand	21	125	174	38	87	87	77
AsureQuality Limited	4	28	84	15	43	41	40
Landcorp Farming Limited	62	1,351	1,775	330	363	1,412	1,428
New Zealand Post Limited	34	150	19,170	17,683	18,003	1,167	1,045
KiwiRail Holdings Limited	276	1,449	1,729	235	435	1,294	1,182
Transpower New Zealand Limited	329	4,454	5,454	3,826	4,351	1,103	1,456
Kordia Group Limited	11	73	165	14	74	91	80
New Zealand Railways Corporation	-	3,363	3,381	-	-	3,381	3,272
Other State-owned enterprises	13	136	626	354	680	(54)	51
Total State-owned enterprises	**750**	**11,129**	**32,558**	**22,495**	**24,036**	**8,522**	**8,631**
Air New Zealand Limited	1,063	4,303	7,280	2,363	4,805	2,475	1,853
Genesis Power Limited	40	2,940	3,477	1,010	1,686	1,791	1,880
Meridian Energy Limited	130	6,928	7,456	1,263	2,876	4,580	4,634
Mighty River Power Limited	103	5,419	6,060	1,433	2,720	3,340	3,219
Total mixed ownership companies	**1,336**	**19,590**	**24,273**	**6,069**	**12,087**	**12,186**	**11,586**
Intra-segmental eliminations	(1)	133	(422)	(127)	(114)	(308)	(1,165)
Total SOE segment	**2,085**	**30,852**	**56,409**	**28,437**	**36,009**	**20,400**	**19,052**
Crown entities							
Accident Compensation Corporation	10	31	35,854	264	34,351	1,503	(109)
Crown Asset Management	-	-	23	-	-	23	44
Crown Fibre Holdings Limited	98	384	572	32	82	490	324
Crown Research Institutes	47	452	729	1	175	554	528
Callaghan Innovation	8	32	140	-	86	54	44
District Health Boards	361	5,691	7,155	2,399	4,547	2,608	2,507
Earthquake Commission	3	17	2,537	-	2,961	(424)	(1,081)
Housing New Zealand Corporation	331	20,918	21,773	1,983	4,153	17,620	15,562
Museum of New Zealand Te Papa	17	1,261	1,293	-	11	1,282	1,244
New Zealand Fire Service Commission	58	647	784	4	97	687	674
New Zealand Lotteries Commission	10	20	91	2	68	23	22
New Zealand Transport Agency	1,650	30,358	31,050	264	716	30,334	28,678
Public Trust	1	4	576	522	536	40	43
Schools	210	1,469	3,045	122	940	2,105	1,928
Southern Response Earthquake Services	-	1	1,107	-	1,214	(107)	(111)
Tertiary Education Commission	1	2	69	26	41	28	24
TEIs	-	-	9,657	-	-	9,657	8,508
Television New Zealand	41	110	288	2	64	224	198
Other	37	219	1,842	525	938	904	843
Total Crown entities	**2,883**	**61,616**	**118,585**	**6,146**	**50,980**	**67,605**	**59,870**
Intra-segmental eliminations	(1)	(200)	(841)	(506)	(574)	(267)	(323)
Total Crown entities segmen	**2,882**	**61,416**	**117,744**	**5,640**	**50,406**	**67,338**	**59,547**