



REPUBLIC OF MOZAMBIQUE

SELECTED ISSUES

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STATE-OWNED ENTERPRISES IN MOZAMBIQUE: CURRENT SITUATION AND POLICY OPTIONS¹

This section documents the role of state-owned enterprises (SOEs) in Mozambique, discusses some important fiscal issues, and makes the case for improvements in governance and transparency. A first step is to enhance timely and regular collection of data that is easily accessible to better assess the performance of SOEs and raise awareness about associated fiscal costs and risks.

A. Background

1. While SOEs are important for the provision of certain public goods and services, they entail fiscal costs and risks, and are generally subject to inefficiencies and poor governance. In many countries, SOEs are the only or the main provider of much-needed public services, including utilities. Thus, their operations affect people's lives and the activities of many firms. However, since some SOEs are not included in the central government accounts, their losses and debt may be unnoticed by the public for a prolonged time, until an entity requires immediate support from the budget, or government guarantees materialize. In this context, it is crucial to establish an institutional framework to ensure that SOEs operate in a transparent and accountable manner by improving efficiency and governance.

2. SOEs are large in Mozambique, compared to various other countries in sub-Saharan Africa. IGEPE,² has a portfolio consisting of 21 companies for consolidation purposes as of 2022.³ Among those, 11 companies are fully-owned by the state, while the state and/or IGEPE are the majority shareholder in 10 companies. The size of total assets of these 21 SOEs under the IGEPE's portfolio is large, staying about 70 percent of GDP in 2022 (Figure 1). This is also much larger than several selected countries in sub-Saharan Africa.⁴

3. SOEs play an important role in the Mozambican economy providing much-needed utilities, and also regarding employment and investment dynamics. SOEs' operations remain important for the public and the rest of the economic activity in Mozambique, since the sector is a major provider of key utilities (e.g., electricity), and other services (e.g., transportation and communication), while operating in extractives as well. Moreover, according to the data from IGEPE,

¹ Prepared by Can Sever (AFR) and Santos Bila (IMF Mozambique Office). We thank Pablo Lopez Murphy and the Mozambican authorities, including IGEPE ([Instituto De Gestão Das Participações Do Estado](#)), for extremely helpful discussions and suggestions. We also thank Richard Jones Neves, Ron Snipeliski Nischli, Esther Palacio, and Ana Cristina Hirata Barros for useful discussions and comments.

² IGEPE stands for [Instituto De Gestão Das Participações Do Estado](#).

³ This consists of the list of SOEs as included in the consolidated report published by IGEPE. While the portfolio included several other SOEs, those did not qualify for consolidation due to various reasons in 2022.

⁴ For instance, the assets of the SOE sector amount to 32 percent of GDP in Botswana in 2021, 34 percent of GDP in South Africa in FY 2019/20, 20 percent of GDP in Cameroon in 2020 (see IMF Selected Issues Papers on [Cameroon \(2024\)](#), [Botswana \(2023\)](#), and [South Africa \(2022\)](#)).

the SOE sector employed almost 18,000 people (about 2 percent of total formal employment) in 2022, with salaries and other personnel-related expenses in the sector amounting to 2.5 percent of GDP. Net investment in tangible and intangible assets by the sector was around 4 percent of GDP in 2022.

4. SOE sector is concentrated regarding assets, and spreads across several key sectors, including some network industries. SOE sector is highly concentrated with the total asset size of the top five SOEs in the IGEPE's 2022 consolidated accounts amounting to almost 90 percent of the sector's total assets.⁵ Such concentration of assets in the sector calls for the need to pay particular attention to large SOEs in the short-term, which can have significant implications for the overall economy and public finances. Moreover, the SOEs' operations spread over a wide set of activities in the Mozambican economy, including financial, electricity and hydrocarbon sectors, while the number of entities is concentrated in communication and transportation sectors (Figure 1).

5. Many SOEs reported losses in 2022, pointing to operational challenges in the sector with potential spillovers to the rest of the economy. Out of 21 fully- or majority-owned entities, nine SOEs saw negative operational profits in 2022, according to the available data from IGEPE.⁶ Several SOEs reporting losses are classified as strategic, with operations, for instance, in airport infrastructure, and information and communication sectors, which can have possible spillovers into the rest of the economy.⁷ This requires a comprehensive assessment of efficiency and commercial viability of these entities, which are particularly important for the Mozambican economy and for the provision of essential public goods and services.

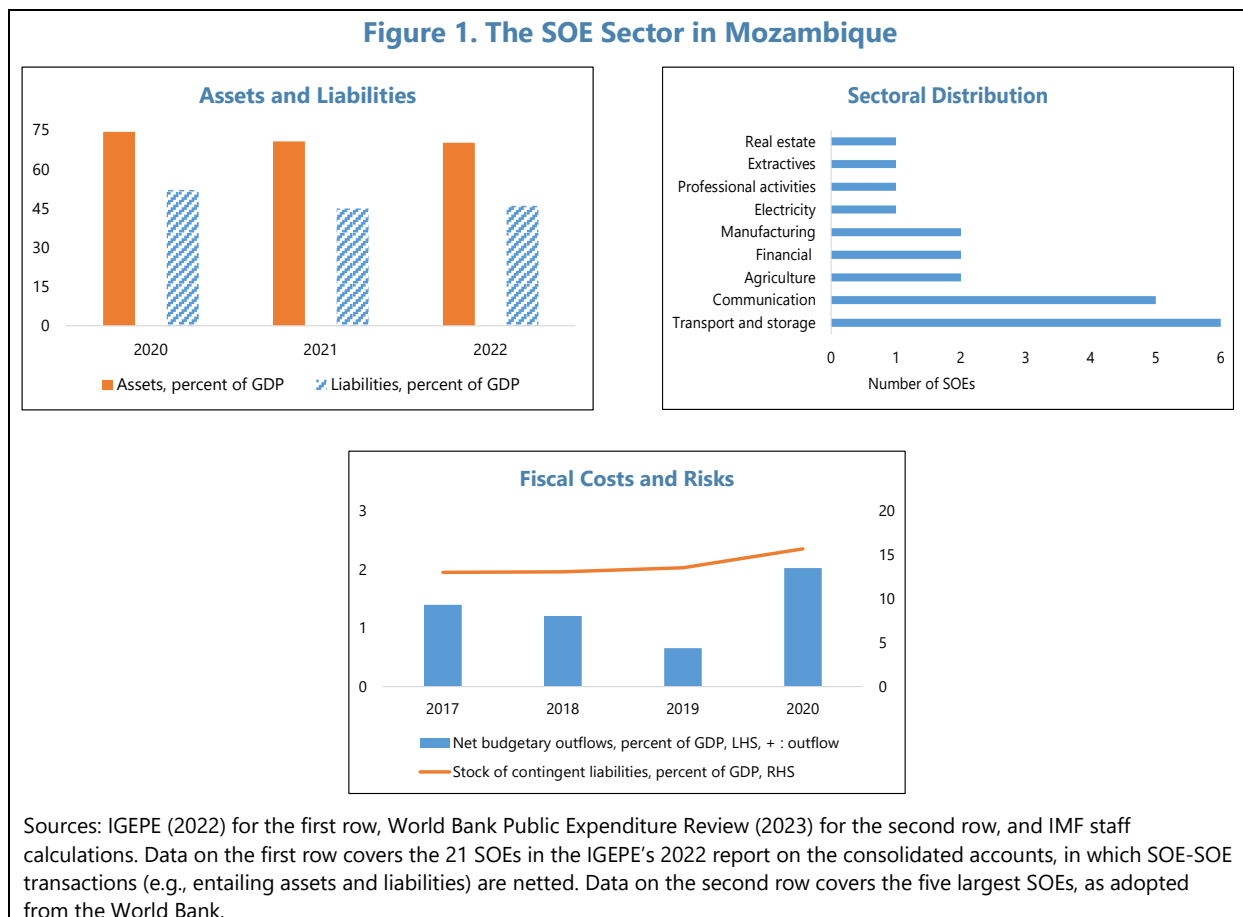
6. The SOE sector entails macroeconomic and fiscal costs and risks, adding to the pressures on public finances. Outstanding liabilities of the sector stayed about 46 percent of GDP in 2022, as reported in the IGEPE's report on consolidated accounts. Moreover, based on data from the World Bank Public Expenditure Review Report (2023), as of end-2020, accumulated arrears of the five largest SOEs to the amounting to almost 5 percent of GDP, while arrears to other SOEs accounted for a large fraction of this amount. During 2020, the net flows from budget to the largest five SOEs stayed about a deficit of 2 percent of GDP. Moreover, contingent liabilities of those entities stayed high, reaching almost 16 percent of GDP in 2020. It is worth noting that while these figures were elevated in 2020 compared to the previous years, possibly related to the effects of the pandemic, they were still large prior to the COVID-19 shock, with (i) the average of net outflows from the budget to the largest five SOEs being about 1.1 percent of GDP, and (ii) the contingent

⁵ These were EDM (Electricidade de Moçambique, electricity), ENH (Empresa Nacional de Hidrocarbonetos, hydrocarbon), CFM (Caminhos de Ferro de Moçambique, transportation), ADM (Aerportos de Moçambique, airports), and PETROMOC (Petróleos de Moçambique, petroleum).

⁶ The authorities emphasized that IGEPE is continuously monitoring the sector, and has been taking necessary measures to improve performance and profitability.

⁷ The authorities noted that (i) some of the SOEs that reported losses are important for social purposes (such as dissemination of information), and not established particularly for economic gains; and (ii) the losses in the SOE sector partially reflect the scarring effects of the COVID-19 pandemic on these entities (e.g., on the airline company, LAM).

liabilities averaging to 13 percent of GDP, during the period of 2017–19. These reveal significant macroeconomic and fiscal costs and risks associated with the SOE sector in Mozambique (Figure 1).



B. Policy and Reform Priorities for the SOE Sector in Mozambique

7. Cognizant of the macro-criticality of the SOE sector, the authorities have been working on improving monitoring and oversight. For this purpose, IGEPE started publishing annual reports on the sector’s consolidated accounts, and has been exploring options to improve the timeliness and quality of data and reporting, including through digitalization. IGEPE has also been revamping its website to improve data availability and accessibility, for instance, by compiling the SOEs’ annual financial statements in a timely manner, ahead of the publication of the reports on consolidated accounts. Ministry of Economy and Finance (MEF) incorporated the fiscal risks related to the SOE sector into its annual reports, and published a comprehensive analysis to assess financial health of the sector in 2024 with the support from IMF. Going forward, the authorities are committed to accelerate efforts along these lines.

8. Enhancing governance and transparency in the SOE sector remains essential to strengthen performance, oversight and accountability, aimed at containing the associated costs and risks.

9. There is room to improve availability and accessibility of data on the IGEPE’s website in a timely and regular manner, which is achievable in the short-term. Firstly, the IGEPE’s website includes the list of fully- and majority-owned SOEs, while some basic metrics (e.g., state ownership shares or asset size), and information on minority-owned enterprises are missing. It is important for transparency for IGEPE to publish the list of all SOEs under its mandate (fully-, majority-, and minority-owned) alongside the shares owned by the state and basic information (including the size of assets and liabilities), to be updated annually.^{8,9} The list should include the links for the websites of each SOEs, whenever feasible. Moreover, the revamping of the IGEPE’s website to publish each SOEs’ financial statements (together with the website links for the statements) helped improve transparency. Thus, IGEPE should continue this practice by updating the entities’ financial statements regularly as they become available.

10. IGEPE should continue efforts to achieve a more timely publication of the reports on SOEs’ consolidated accounts by exploring options to address delays in data submission by SOEs and continuing improving its capacity. IGEPE started publishing the SOE sector’s annual consolidated accounts in the context of the IMF ECF arrangement, albeit with a considerable lag, undermining the ability to oversee the sector and assess associated costs and risks in a timely manner. For instance, the 2020 and 2021 reports were published in the spring of 2023 and 2024, respectively, while there was a significant improvement with the 2022 report being published in May 2024 (but it lacks some details compared to the previous reports). Delays are partly due to delays in data submission by SOEs (while the work to digitalize of data submission is ongoing), which can also affect the quality and reliability of published data. To continue improving its capacity in coordinating and supervising the data submission process and producing the reports on consolidated accounts, IGEPE has been undertaking training activities for its staff and related personnel from each SOEs. Timely publication for those reports, including the audits, is important to effectively monitor operational performance and financial health of the sector and to promote stronger transparency and accountability.

11. Besides the consolidated accounts, there is a need for action to regularly publish granular data on SOEs to improve transparency and accessibility. While the consolidated accounts provide information on the sector, they (by nature) lack granularity about operational performance and financial health of individual SOEs. IGEPE should provide granular data for each SOEs (that are included in the consolidated accounts) by documenting all variables and indicators as reported for the overall sector, for instance, by launching a separate annual report, which will improve transparency of the reports on consolidated accounts and accessibility of data on each SOEs.

12. Moreover, a centralized database should be launched, and published annually, on outstanding arrears and liabilities within the SOE sector, as well as between government and

⁸ While the 2021 report on consolidated accounts included some information along these lines, the 2022 report lacks it. Moreover, it is also important for transparency to document the list of other (non-state) shareholders for all SOEs.

⁹ The authorities highlighted that there can be potential bottlenecks to publishing detailed financial information for minority-owned entities, due to restricted access to data for some of them.

SOEs. While consolidated accounts provide information on the liabilities of the SOE sector with the non-SOE sector, within-sector obligations are netted in those reports. Relatedly, there is lack of data regarding SOE-to-SOE arrears. Moreover, the SOE sector accumulates arrears to government (e.g., in tax obligations), and vice versa (e.g., in the form of value-added tax refund arrears). Overall, these pose a drag on SOE activities (particularly for the ones that supply goods and services to the rest of the SOE sector), impose repercussions on the private sector (preventing a level playing field), and elevate fiscal costs with implications on budget execution. A first step is to monitor outstanding arrears between at the SOE-to-SOE level, and also between each SOEs and government, on an ongoing basis and timely manner, at least for large SOEs, whose activities have macroeconomic and fiscal implications. MEF (in cooperation with IGEPE) should establish a dataset, and make it publicly available to enhance transparency and raise awareness. Once data becomes available, the next step for MEF should be to prepare a comprehensive strategy in coordination with IGEPE and SOEs to set up plans to reduce arrears, and prevent accumulation of new arrears, including the arrears of the state to SOEs.

13. It is also important to improve transparency in the SOEs' procurement processes to address vulnerabilities to corruption and improve public spending efficiency. Given the size of the sector, government and citizens should pay attention to the procurement processes by SOEs.¹⁰ Mozambique's legal framework grants SOEs broad discretion to undertake direct (non-competitive) procurement, elevating corruption risks. Although SOEs are required to follow principles supportive of transparency and open competition, they are authorized to use "exceptional" processes in situations of force *majeur*, or "when it is not possible to conduct an open tender", without providing objective criteria, safeguards, or special approvals (by only informing the shareholders meeting). Legislation allows each SOEs to develop their own procurement policies, subject to the IGEPE's approval, to be incorporated into the corporate documents (which are not always publicly available). Moreover, there is no centralized/granular database on the SOEs' procurement (e.g., including data on modalities), which makes it hard to assess the competitiveness of the SOEs' procurement processes, and hinders accountability.¹¹ As a first step toward enhanced transparency, it is important to ensure the publication of the SOEs' procurement policies, alongside the annual procurement plans, which can help improve the efficiency of processes. To achieve this goal, IGEPE (i) has been revising the SOEs' procurement policies to introduce the required AML, beneficial ownership transparency and anti-corruption elements, and (ii) is committed to complete publishing all the procurement guidelines and plans for the SOE sector by 2025, which will be an important step to improve transparency and alleviate corruption risks. Moreover, a centralized/granular database for the SOE procurement (including amounts, contracting SOEs, types of procedures, beneficiaries, and

¹⁰ SOE procurement is generally a significant share of overall public procurement and GDP. Data is not comprehensive for Mozambique, but for instance, [South Africa \(IMF Selected Issues Paper 2023\)](#), where assets of public enterprises are much lower than Mozambique, the size of their procurement activities amounts to almost 4 percent of GDP, and 27 percent of overall public procurement in FY2021/22.

¹¹ The legal framework does not explicitly grant the government power to collect information on and monitor SOEs' procurement. Since IGEPE is mandated to oversee the sector by law, UFSA (Unidade Funcional de Supervisao das Aquisicoes, the procurement authority) does not receive data on the sector's procurement activities. It is worth noting that various SOEs currently include some information of procurement activities in their websites.

beneficial owners) should be launched and made publicly available. Going forward, the authorities should consider revising the legal framework to make SOEs subject to the government's procurement rules, especially regarding transparency requirements, while considering adequate, but narrow, flexibility for those that compete with the private sector.

14. Government should also strengthen SOE governance based on international good practices. SOE governance reforms in many countries are based on the OECD Guidelines on Corporate Governance of SOEs (2015). Some country cases (World Bank 2020; OECD 2015a, 2015b, 2021; IMF 2020, 2021) point to various elements for successful reforms, including (i) introducing measures to strengthen the role and independence of SOEs' boards of directors; (ii) clearly setting and periodically updating the state's rationale for state ownership and the individual objectives assigned by the state to individual SOEs, supported by political leadership; (iii) enhancing competition via removing any barriers to entry by eliminating advantages enjoyed by SOEs, including special tax treatments, favorable regulatory treatment and preferential procurement procedures; (iv) requiring SOEs to maintain accounts according to international accounting standards, financial statements being subject to independent external audits, and establishing comprehensive internal audit mechanisms; and (v) taking steps to prevent monopolistic pricing power of SOEs and protecting private suppliers to SOEs from predatory pricing.

15. While recent reforms to the SOE legal framework and ongoing efforts by MEF and IGEPE improved financial oversight and reporting, the authorities should pay more attention to corporate governance frameworks to improve the SOE sector's performance. An important area of action in Mozambique is to strengthen the role, independence, and autonomy of SOE boards. Government should empower them to set their own strategy in line with clear objectives, and clarify the roles of the state (as owner), boards, and management, ensuring uniformity across SOEs. The state should also seek to separate its ownership, regulatory and policy-making functions, where a comprehensive ownership policy, including strong transparency requirements, both for SOEs and for the state as owner can guide this effort. The board nominations process should be formalized, and carried out based on competitive merit, and transparent principles seeking professionalism and relevant skills. It is also important to ensure that SOE board members (i) do not take other roles in regulatory or oversight bodies, and (ii) declare their ownership, if any, in all SOEs.

16. Undertaking a comprehensive analysis of the SOE sector is important to set a holistic strategy for prioritizing and sequencing needed reforms going forward. Taking stock of the existing SOEs (including the subsidiaries of SOEs) encompassing their commercial and financial viability, performance, public policy objectives, track record, as well as their role in addressing market failures can help the authorities identify current information gaps, and guide and sequence policies. The analysis can prioritize large SOEs, SOEs that are targeted for privatization, and those competing with private companies. This can also help government develop an SOE ownership policy, outlining the rationale and objectives for state ownership (including on minority-shareholding) to guide SOE reforms going forward.

17. In this regard, the recent effort to assess SOEs' health with the support of IMF is a good starting point. MEF has commenced using the IMF-designed "SOE Health Check Tool" to

evaluate the financial vulnerability of the fully- and majority-owned companies, and published the financial risk indicators of SOEs in 2024, in the context of the IMF ECF arrangement. The quantitative tool underpins the analysis of individual companies in the SOE Financial Health Report, analyzing trends in key metrics for liquidity, profitability and solvency for the largest ten companies, and similar information for other companies. The report has been prepared in close collaboration with IGEPE, and included information and analysis on the performance of the consolidated sector over 2020-2022. Going forward, it is important for the authorities to update the analysis annually, and publish the findings on for transparency and public awareness. MEF should also explore options on how to incorporate and quantify the fiscal risks arising from the SOE sector in its forward-looking (i.e., contingency) analysis. These analyses on the profitability and viability of SOEs can inform the IGEPE's Investment Strategy 2020-2030, which provides a useful roadmap.¹²

18. Government should also pay attention to minority-owned SOEs which pose fiscal risks and uncertainties, and adds to IGEPE's capacity constraints, urging the need for re-considering the SOE ownership strategy. By definition, state has no control on decision making of these entities. Given the IGEPE's capacity constraints, it is not feasible to monitor their operations and decisions thoroughly in real time, and project flows to the budget, in a timely and accurate manner.¹³ Going forward, government should reconsider the ownership strategy and rationale behind minority-owned SOEs. In this context, the IGEPE's Investment Strategy 2020-2030 can be a good baseline.

¹² The authorities noted that the implementation of this strategy has been bearing fruits so far, for instance, with the improvements in the operations of EDM and LAM.

¹³ The authorities mentioned that some of those entities has been a good source of income for the state via the receipt of dividends.

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