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Mozambique Private Sector Road Transport Support Study

Draft Final Report

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Abt Associates Inc.
in association with
Price Waterhouse/International Privatization Group

PREFACE

This study was undertaken by an Abt Associates Inc. team on the behalf of the Government of Mozambique, with funding provided by USAID/Mozambique through the "Privatization and Development" contract held by Price Waterhouse. The World Bank assisted with the technical design of the consultant's Terms of Reference.

We thank Messrs. Tim Born and Peter Argo, USAID/Mozambique, for their overall technical direction and substantive guidance. We appreciate as well the important input of Mission management staff, and of Messrs. Carlos Alvarez and Carlos DeCastro of the World Bank in Washington DC.

The team is particularly grateful for the cooperation and information provided by the numerous members of the public and private sectors in Mozambique contacted during the course of the study.

Finally, we would like to thank our colleagues James Waddell, Mara Fellouris and Peggy Norgren of Price Waterhouse's International Privatization Group for their support and technical assistance.

We take full responsibility for any errors or omissions in the report.

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LIST OF TERMS

Acronyms

ASDI	Swedish International Development Agency
AGRICOM	State Enterprise for Agricultural Marketing
BOM	Bank of Mozambique
CAMOC	Camionagem de Mozambique (State Trucking Company)
CFM	National Railway of Mozambique
CIF	Cost, Insurance & Freight
CIP	Commodity Import Program
CREE	Committee for Enterprise Restructuring
DNEP	National Directorate of Roads and Bridges
DNTR	Nationa Directorate of Road Transport
DPCCN	Department for the Prevention and Combat of Natural Calamities
E.E.	Empresa Estatal (State-Owned Enterprise)
EMOSE	Empresa Mocambicana de Seguros (Insurance Company of Mozambique)
GOM	Government of Mozambique
GVW	Gross Vehicle Weight
ICM	Cereals Institute of Mozambique
INAV	National Road Institute
MBO	Management Buy-out
MSC	Mercado Secundario de Cambio (Secondary Foreign Exchange Market)

MTC	Ministry of Transport and Communications
PTA	Preferential Trade Area (for East and Southern Africa)
ROCS	First Roads and Coastal Shipping Project
RONAP	National Road Passenger Company
SATCC	Southern African Transport and Communications Commission
SATS	South African Transport Services
SME	Small and Medium Scale Enterprise
SNAAD	Non-Administrative System for Foreign Exchange Allocation
TOR	Terms of Reference
TPM	Public Transport Company of Maputo
USAID	United States Agency for International Development
UTRE	Technical Unit for Enterprise Restructuring

<u>Glossary</u>

aviso	official, published government announcement in Mozambique
Caisse Centrale	bi-lateral French donor agency
comerciante	trader
drayage	short-distance truck haulage with marine port as origin or destination
metical	Mozambique currency; US$1 = 2,100 meticais at the MSC rate (early March, 1992); abbreviation: Mt
meticais	plural of metical

FROM Abt Associates
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EXECUTIVE SUMMARY

Mozambique Private Sector Road Transport Support Study

1.0 INTRODUCTION

Within the broader context of the Economic and Social Rehabilitation Program, the Government of Mozambique (GOM) has identified improvements to transport infrastructure serving domestic needs as a priority for investment. The main objective is to promote rural development and trade, despite the constraints imposed by the continuing adverse security situation.

The GOM has emphasized that development of a road transport subsector, which relies on the private sector, will require a sensible program of policy and regulatory reform. Principal constraints to efficient functioning of the subsector are seen by government as: (i) high concentration of the truck fleet in Government-controlled or parastatal fleets; (ii) inefficient vehicle utilization; and, (iii) poor facilities for maintenance and other support services.

The overall objectives of this current study were to:

- Develop proposals for the liberalization of regulations and other restrictions on private sector road transport activities; and,

- Assess the prospects and most suitable channels for privatization of the main parastatal truck fleets.

Field work for the study was conducted in two phases. The purpose of Phase I was to collect baseline information and conduct industry analysis. Phase I field work was undertaken in Mozambique during March 1992. The purpose of Phase II was to develop industry liberalization and fleet privatization plans. The field work for Phase II was in late June and early July. On both trips, interviews were conducted with members of government, the private sector, and members of the donor community.

The core team included: Anthony Davis, Team Leader/Privatization Specialist (Abt Associates); Charles Reinhardt, Trucking Operations Specialist (Abt consultant); and, Harold Kurzman, Trucking Policy and Regulation Specialist (Abt consultant).

The study was funded by USAID, via the "Privatization and Development" contract held by Price Waterhouse, under which Abt Associates is a sub-contractor.

2.0 MAIN FINDINGS AND CONCLUSIONS

2.1 Nature and Structure of Fleet

The size of Mozambique's overall truck fleet has contracted substantially since Independence in 1975. The share accounted for by the private sector has declined even more rapidly. The overall truck fleet is currently estimated at 8,000 to 10,000 units. However: (i) the vast majority are thought to be smaller trucks in the 2- to 5-ton range; and, (ii) many trucks are out of service due to the war or awaiting repairs.

Truck fleet ownership is concentrated in four principal segments:

- Private vehicles operated by small businessmen and traders;
- Proprietary fleets of large corporations, which in theory do not provide for-hire services;
- Common carrier road haulers offering transport services for hire; and,
- Government-owned and parastatal fleets.

There are four main parastatal trucking fleets operated, respectively, by: (i) CAMOC; (ii) AGRICOM; (iii) DPCCN; and, (iv) Transcarga. Their combined fleets comprise over 700 trucks with a capacity greater than 5 tons, in addition to about 200 smaller trucks and farm tractors. More than half of the larger trucks are six years old or less, and few are over 10 years old.

CAMOC is the national state trucking company which was formed by consolidating the operations of several private trucking firms which operated in the pre-Independence period. CAMOC is an "empresa estatal" for which the Ministry of Transport is responsible.

- The fleet consists of forty-eight trucks, ranging from 12 to 21 tons in capacity; twenty-six trucks, or 54 percent, are currently out of service; most of the trucks were manufactured by Scania; the trucks range from 3 to 22 years in age, with the fleet having an average age of 10 years; and, the fleet is concentrated in Maputo, although CAMOC is a nationwide carrier.

AGRICOM is a state enterprise that was formed to stabilize agricultural production and prices. The Transport Division's truck fleet transports seeds, fertilizers and other inputs to farms, and crops and other produce to market. AGRICOM is an "empresa estatal" under the aegis of the Ministry of Commerce.

- The fleet comprises 170 trucks (mainly Scania, Renault and Mercedes Benz), ranging from 2 to 15 tons in capacity, of which 79 percent is operational; half of all the trucks are 6 years old or less; fleets are active in all 10 provinces, with the greatest number of trucks concentrated in Nampula, Cabo Delgado, Maputo and Niassa; and, AGRICOM also has 141 Massey-Ferguson farm tractors of which 108 are operational, which it uses for transporting goods.

DPCCN was established in 1980 as Mozambique's national disaster relief organization. Its Logistics Unit transports relief cargo throughout the country, particularly to remote and/or war-torn areas. The Ministry of Cooperation is responsible for DPCCN.

- The fleet consists of 510 trucks ranging in size from 4 to 25 tons, the average being 11 tons; 371 trucks, or 72 percent, are currently operational; 80 percent of the fleet is 6 years old or less; major makes of trucks include Leyland, Volvo, Fiat, Nissan and DAF; and, Italy, ASDI and CARE are some of the larger donors of trucks, accounting for 46 percent of DPCCN's total truck transport capacity.

Transcarga is the principal national hauler serving the Beira Corridor. It is jointly owned by several government entities (CAMOC, AGRICOM and CFM) and a mixed enterprise (ACAUTO). Transcarga was established with substantial assistance from ASDI.

- Transcarga operates a modern fleet of forty 25-ton Volvo tractor-trailers, all of which are four years old or less.

The economics of the trucking business in Mozambique under current circumstances are very unfavorable, irrespective of whether the carrier is owned by the public or private sector. This is due to the high cost of vehicles and inputs, low levels of utilization, poor road conditions, poor maintenance facilities and practices, and risks and damage resulting from the war. Official trucking tariff rates fall far short of break-even thresholds. In order to stay in operation, most parastatal fleets are heavily subsidized through donations of vehicles and other inputs to truck operations.

2.2 Trucking Industry Regulation and Constraints

Selected trucking industry regulations and other operating factors are retarding industry growth and limiting the establishment of an enabling environment for the private sector.

Trucking Rates Official rates are set at unrealistically low levels and are not varied sufficiently either for different operating environments or over time. In practice, official rates are observed by only limited sections of the market. However, they do act as "reference" prices for a significant share of the industry.

Licensing The licensing of trucking companies is an unnecessarily lengthy and bureaucratic process, which lacks transparency. It also does not differentiate application procedures and requirements between small and larger truckers. In addition, current licensing provides government with the scope to restrict trucking capacity either on a given route, in a given province, or even nationally.

Taxes and Levies on Trucking Customs tariffs on imported spare parts and tires are excessively high on these crucial inputs to trucking operations in Mozambique. Their current customs duty classification appears irrational. Other taxes and levies on trucking operations are minimal, have little relation to road usage or services provided, and inadequately contribute to either road maintenance and repair funds or in support of road transport institutions.

Safety and Standards Physical inspection of vehicles and driver licensing standards pre-date Independence and are enforced in an uneven and discretionary manner. This results in: (i) threats to public safety from un-roadworthy trucks and unqualified drivers; (ii) accelerated deterioration of roads and bridges caused by vehicles exceeding maximum gross weight parameters; and, (iii) in the future, potential constraints to insurance and credit availability and affordability. In addition, Mozambique has more restrictive laws regarding gross vehicle weights than several of its neighboring countries. Lacking fixed weighbridges at border crossing points and ports of entry, many foreign haulers enter Mozambique with overloaded trucks and cause damage to roads.

Road Transport Sector Government Institutions DNTR is the primary agency charged with oversight of the road transport sector. However, it is weak institutionally, and its traditional roles are changing as a result of industry liberalization and efforts aimed at privatization of transport parastatals. Some of the functions of proposed new Road Institute appear to overlap with those of DNTR.

Credit Finance for both vehicle acquisition and for funding the on-going operations of truckers is largely unavailable, and when it is, it is expensive and too short-term. This is exacerbated by the current environment of tight credit ceilings, under-developed credit institutions, and the lack of war-related risk insurance.

Insurance Insurance is linked to credit because the vehicle often acts as the collateral for loans. The insurance sector in Mozambique is a monopoly, which is said to have a poor pay-out performance record for claims. No war-related risk insurance is offered.

Workshop Capacity and Spare Parts Availability Private mechanical workshop capacity in Mozambique is concentrated in the hands of a few companies, located in the main cities, in particular in Maputo, with poor regional networks. Repair and maintenance services are scarce and expensive. This deters preventive maintenance practices and increases the share of the fleet which is non-operational. It also serves to limit the feasibility (technical and economic) of rehabilitating vehicles. In addition, spare parts are in limited supply and expensive when available. Spares inventory management and distribution is poor, and the domestic parts industry is thin. There is also under-utilization of used and/or cannibalized parts.

Training Skills are lacking at all levels of the trucking industry and in related government agencies. This is accentuated by the requisite change in government's role, resulting from increased private/reduced public sector participation in fleet ownership and operation.

2.3 Shifting the Ownership Balance in the Trucking Industry

A number of options exist for shifting the balance of fleet capacity from the public to the private sector. Some options are more gradual than others, and they are not all mutually exclusive. A hierarchy of measures can be envisaged.

- Measures which specifically prevent any further growth in public sector truck capacity and allow private sector capacity to grow "naturally" over time. These include: (i) encouraging donors to stop providing vehicles to the parastatals; and, (ii) requiring that the parastatals sell and/or scrap existing vehicles in equal proportion to the rate at which new vehicles are acquired.

- Measures designed to proactively encourage expansion of private sector capacity. These include: (i) donors supplying vehicles directly to the private sector; (ii) stimulation of a vehicle rehabilitation industry; and, (iii) encouraging dedicated, in-house fleets into the common carriage business.

- Measures which deliberately reduce, in absolute terms, public sector capacity. These include: (i) replacement-induced inventory reduction whereby parastatals sell and/or scrap existing vehicles at a faster rate than new vehicles are added to the fleet; and, (ii) privatization and divestment of the parastatal fleets themselves.

An overall, phased program for shifting the balance should include the following.

1. Liberalize trucking related regulations and policy, and create an enabling environment, as a matter of first priority, so as to improve the sector's viability and economic attractiveness. This particularly includes liberalization of truck licensing which will facilitate the conversion of truckers to common carriage.

2. Deter parastatals as much as possible from receiving donations of more vehicles from donors. In those cases where further donations are permitted and forthcoming, the parastatals should be required to release to the private sector an equal or greater amount of "economic" truck capacity.

3. Donor programs which are allowed to provide vehicles directly to the private sector should be encouraged, but the market (ie, private sector) should be allowed to "signal" which vehicles it prefers.

4. Implement action plans for the privatization of the main parastatal trucking fleets (see below).

5. Conduct a study of, and develop an action program for, stimulating the vehicle rehabilitation industry.

2.4 Privatization of Government-Owned Fleets

Privatization has the potential to be a very effective means for shifting the balance of truck capacity from the public to private sector, and for improving the environment faced by the private sector trucking industry.

An overall policy for the privatization of public enterprises, supported by the necessary basic laws and regulations, is in place in Mozambique. The general institutional arrangements for assessing and ultimately executing privatization plans for a given public enterprise are also set out in broad terms. However, the process has not been extensively tested in practice, particularly for larger, non-agricultural enterprises.

Decisions regarding the privatization of the parastatal truck fleets will be influenced by: (i) the government's capacity to implement any given privatization process; (ii) the absorptive capacity of the private sector, especially with respect to financial resources, and the human capacity to operate profitably and maintain the vehicles; and, (iii) assumptions regarding the nature and continuation of the war and the drought. Issues related to government and the private sector are controllable and can be altered over time, provided an appropriate action program is developed and executed effectively. In contrast, the war and the drought are temporary, but there is little that government officials can do to control their nature and duration.

<u>Decision to Privatize</u> The decision as to whether to privatize the main parastatal fleets in Mozambique has largely been taken. There is general consent in the GOM and donor community that the main parastatal fleets should be privatized, perhaps with the exception of Transcarga on which there is a greater divergence of opinion. Much less consensus exists with regard to the timing and methods of privatization.

- Privatization of the fleets is stated government policy. In fact, it is a loan condition of the recently approved ROCS project funded by the World Bank.

- The fleets are widely recognized to be poorly managed and the assets under-utilized. There is evidence to believe that the private sector could manage these assets better than the government, particularly once an enabling environment is in place.

- The original rationale for creating many of the parastatal trucking fleets no longer exists.

Status of Privatization The clarity and status of government's plans for the privatization for the individual parastatal fleets varies considerably.

- **CAMOC** is clearly slated for privatization. Three expressions of interest have been received for CAMOC's Maputo operations. Government expects to sell CAMOC as going concern and to successfully conclude negotiations with one of the interested parties. No offers exist for CAMOC's operations outside Maputo, nor is it clear what the intention is with regard to CAMOC's workshop capacity.

- **AGRICOM's** transport division is to be spun-off. However, it has not been decided whether privatization, divestment, or the creation of autonomous, government-owned companies should be the course of action. An unknown share of the fleet may be designated for transfer to the proposed Cereals Institute.

- **DPCCN's** fleet is under consideration for privatization. However, given the disaster relief nature of DPCCN's function and the current drought situation, the timing and degree of fleet privatization are a matter of debate. Most observers feel a drought year is not the time for privatization, and expect thereafter that DPCCN will need to act as "transporter of last resort" under certain, limited circumstances.

- **Transcarga** is not considered by the government to be a parastatal and thus, is not under consideration for privatization. This is despite Transcarga being almost entirely government owned. The impending departure of foreign technical assistance from Transcarga will test its managerial capacity. In addition, a private group has proposed converting Transcarga to a SARL corporation and increasing the share of private ownership. It constitutes a management buy-out in some form, but details are not publicly available.

Timing of Privatization The timing and sequencing of privatization is also a matter of debate. There are arguments for both pressing ahead quickly and those for waiting a year or two. The timing also varies according to which parastatal fleet is being considered. However, on balance, given that any extensive privatization program will take time to implement, certain elements can be initiated as soon as possible.

- Pressures resulting from the drought are operating in opposite directions. On the one hand, the demand for transport services is high and fairly insensitive to the price of services. Thus, it is a buoyant market for private companies to enter. On the other hand, given it is a drought year, the cost of failure in human terms of "experimenting" unsuccessfully with private provision of transport services to the almost complete exclusion of public provision, is very high.

- Financial pressures exist for privatization to occur as soon as possible because: (i) the fleets are aging rapidly, and thus the likely sale value and economic life of the assets are diminishing quickly; and, (ii) to the extent that the fleets represent fiscal drains on government, the sooner such financial "hemorrhaging" is stopped the better. However, neither of these issues seem to be high on the government's list of priorities.

- Government has limited capacity to, and experience in, executing a major privatization program. Trucking may not provide the best "early testing ground" for the privatization process and the government's capacity to execute it. Lack of early success can stall or de-rail the whole privatization program. In addition, government lacks a "champion" for facilitating the process of privatizing the parastatal fleets.

- Creating an enabling environment is a pre-requisite for privatization, or at a minimum, needs to be undertaken simultaneously in a coordinated fashion. This will help to compensate for the private sector's current lack of financial resources and managerial capability, as well as make the trucking industry overall a more economically attractive prospect for the private sector.

- The continuing war -- with the resulting increased costs and risks of doing business (insurance, convoys, maintenance, loss of assets) and the resulting dampening of demand for trucking services due to the lower overall level of economic activity -- makes the industry uneconomic and unattractive to the private sector. This is outside government's direct control, so any privatization program needs to be designed in recognition of the likelihood that the effects of the war will be felt for many years to come.

<u>Methods of Privatization</u> A wide array of methods for privatizing government-owned enterprises exist. These range from public offering of shares through to leases and management contracts, to "give away" programs.

- The four main methods of privatization which involve selling all or part of the public enterprise as a going concern include a public offering of shares, private sale of shares, new private investment, and management/employee buy-outs.

- Another main method involves the sale of the some or all of the assets of the state enterprise to the private sector, but not the sale of the enterprise as a going concern.

- In addition, leases and management contracts, which involve neither the sale of the assets nor the company, are used as interim steps towards privatization. Government retains ownership but gives up some control of the company and assets.

- A final method is coupons, vouchers and other schemes designed to transfer ownership of all or some of a public enterprise to a wide sector of the public, in exchange for little or no money.

These alternative methods of privatization vary considerably in terms of pre-conditions for success, procedural complexity, and the privatization objectives they are designed to achieve. Key factors in deciding the most appropriate privatization program for each parastatal depends in large part on: (i) the privatization objectives of government; (ii) the strength of domestic capital markets; (iii) the viability of a given parastatal as a going concern, or the restructuring requirements needed to make it viable; (iv) the current organizational form and legal status of the public enterprise; (v) the future needs of the parastatal in terms of management know-how, new technology, injection of fresh capital, etc.; and, (vi) the "costs" involved in the process of privatizing the parastatal company (given the method chosen) versus the "benefits" of having the firm in the private sector.

An evaluation of the four transport parastatals against these criteria suggests that no single "model" of privatization is likely to suit all four fleets. At a minimum, they vary considerably in terms of: (i) fleet size and condition; (ii) legal status, organizational form and ownership structure; and, (iii) financial viability and restructuring requirements.

Several of the general methods for privatization mentioned above (or variants thereof) are, a prior, candidate methods for consideration in the case of one or more of the transport parastatals in Mozambique. However, the exceptions are: (i) a public offering of shares, due to lack of domestic capital markets, and the generally small size and non-viability of the trucking operations; and, (ii) "give-away" programs, because they can be administratively complex to organize and some financial proceeds are obtainable for the parastatal fleets via other methods of privatization. The more promising methods include the sale of assets through one means or another, and the leasing of assets, particularly those of CAMOC, AGRICOM and DPCCN.

3.0 RECOMMENDATIONS AND IMMEDIATE ACTION PLANS

3.1 Liberalization Plan for Road Transport Industry

The overall program and immediate action plan for liberalization of the road transport industry is as follows.

Ensure that proposed trucking tariff rate liberalization is fully implemented.

- Trucking tariff rate liberalization is required to foster efficient allocation of resources, allow truckers adequate returns on investment, balance supply and demand in market segments, and guide industry entry/exit patterns. Government already has a verbally stated policy of liberalizing truck tariff rates but has made little headway in formalizing and implementing the policy.

- Rates should be liberalized as soon as possible. The proposal should be scheduled for review and approval by the Council of Ministers by the end of 1992. DNTR/MTC should take a lead supporting role in this action area. No further studies or specific institutional reforms are required.

Liberalize and streamline licensing of common carrier truck operations.

- Licensing should be liberalized so that it does not discourage participation in the industry by any interested party which proves itself to be a responsible business entity with appropriately certified drivers and registered vehicles. Licensing liberalization will also lower the cost of industry entry, encouraging important industry subsectors such as dedicated in-house fleets to enter the industry, and will reduce the scope for government to allocate trucking capacity.

- The process for applying for licenses should be streamlined so that it does not add to the cost of "entry". Greater transparency should be added to the application process. An appeals process should be introduced for those parties who feel they have been unfairly denied a license.

- Specific means for liberalizing licensing and streamlining the application process need to be studied and recommendations formulated. This will in part depend on what exact functions the proposed Road Institute will perform, and its role relative to that of DNTR and to a lesser extent, DNEP (see below). The licensing study should be started after the Transport Institutions Study is finalized.

Rationalize system of tariffs, taxes and levies on truck operations.

- The system should be rationalized and have the dual objective of: (i) better matching road user contributions to usage; and, (ii) raising at least as much revenue as is currently.

    - Duties on imported spare parts and tires should be reduced, in the first instance by re-classifying them into a lower duty category, and in the longer term, through rationalization of overall number and incidence of customs duty categories.

    - The diesel tax fuel should be assessed as a percentage of its price and increased to a level of 10% or more.

    - Fees levied for licensing of truck companies and registering vehicles should be raised, and collections performance improved.

    - Other potential sources of revenue for the Road User Fund should be assessed.

- The reclassification of spares and tires to a lower category can be implemented fairly automatically by Customs, whereas streamlining of the entire system will require further study.

- A Terms of Reference for improving revenue generation and budget allocation for the road sector was developed as part of the preparation of the ROCS project, and should be undertaken as soon as possible under the supervision of DNEP and the Ministry of Finance.

Enhance standards and safety programs and procedures.

- Driver licensing and vehicle inspection standards and procedures need to be modernized and improved. Consideration should also be given to harmonizing gross vehicle weight (GVW) restrictions with the standards of neighboring countries. Further study is required in both areas, but need not be undertaken as a matter of immediate urgency.

Redefine and improve the roles and responsibilities of government institutions involved in road transport regulation, particularly DNTR and the proposed new Road Institute.

- An assessment needs to be made of: (i) the advantages and disadvantages of creating the Road Institute; and, (ii) the implications for the roles, responsibilities and even existence of DNTR -- both in light of the newly emerging, recommended regulatory environment, and the new role of government within that context.

- Such a study needs to be undertaken as soon as possible because: (i) the articles for the establishment of the Institute are scheduled for submission for approval to the Council of Ministers by the end of 1992; and, (ii) the Institutional Assessment is an input to study efforts aimed at rationalizing the Road Fund and at streamlining trucking company licensing procedures.

Development of an enabling environment for private sector road transport will require other actions in addition to liberalization of regulations and reform of regulatory bodies, as identified above. These are reform areas which are less within government's direct control but still key. They include the following.

Improve access to finance, through the development of new mechanisms and/or institutional entities.

- Only marginal improvement can be expected in this area under the current environment of tight credit ceilings, under-developed credit institutions, and the lack of war-related risk insurance. However, in order to stimulate private sector trucking and/or facilitate the privatization of parastatal fleets, consideration should be given to: (i) creating a special line of credit channeled through the commercial banking sector aimed specifically a private truckers; and, (ii) "earmarking" for the private trucking sector some of the funds of the World Bank's SME Credit Line which is administered through the Apex Unit at the Bank of Mozambique (central).

- A study should be conducted to assess alternative sources and mechanisms for funding vehicle purchases and truck operations, as part creating an enabling environment.

Stimulate development of a functioning private sector insurance industry.

- Current efforts aimed at opening up and liberalizing the insurance industry should be continued, and new entrants actively encouraged. This will, over time, improve the cost of, and pay-out performance on, all-risk insurance, exclusive of war risk. It will also increase the amount of long-term funds available in the economy.

- Even a dynamic commercial insurance sector is unlikely to be able to offer war-related risk insurance at a price which truckers could afford. Thus, consideration should be given to a Guaranteed Insurance Scheme/Fund, financially supported by the GOM and/or donors and administered through the commercial insurance sector, to cover the war related component of risk.

Enhance maintenance, repair and vehicle rehabilitation capabilities, and improve availability and cost of imported and used spare parts.

- A study should be conducted to: (i) encourage development of private sector owned and managed workshop capacity, particularly at the province and district levels; (ii) assess the potential for economic rehabilitation of vehicle resources; and, (iii) review and recommend polices to improve the ability of private sector parts distribution industry to cater to the needs of an expanded private trucking sector.

- Such a study has already been identified in a preliminary fashion by the GOM and World Bank, as part of their efforts to prepare the ROCS project. However, a detailed Terms of Reference has yet to be developed, but should be as soon as possible. The results of this study will also have a bearing on the attractiveness to the private sector of some of the privatization options considered for the parastatal trucks fleets.

Design and execute industry-specific training programs for private sector operators, and to train government in its new functions.

- A study needs to be conducted to assess in detail the types of training needed and appropriate delivery models. Draft Terms of Reference (ToR) have been developed.

The above regulatory and other reforms will lead to a significant improvement in the environment faced by private sector trucking companies and will stimulate growth of the sector. However, the single most important change required in order to revive a competitive, private sector road transport industry is the cessation of war activities, and the rebuilding of some semblance of a national economy.

3.2 Privatization of Parastatal Truck Fleet Divestment

The recommended program and action plan for the privatization of the main parastatal trucking fleets is as follows.

CAMOC

It is recommended that CAMOC's fleet be sold as soon as possible. The two main options are either to: (i) sell off its assets, either one-by-one or in blocks; or, (ii) sell CAMOC to the private sector as a going concern. The private sector is likely to have the capacity to absorb this small fleet, which is concentrated mainly in Maputo. In addition, expressions of interest in buying parts of CAMOC have already been received.

However, the sale of CAMOC's assets is recommended rather than its sale as a going concern, because: (i) the process of selling CAMOC as a going concern is complex, particularly given its "intervened" status, poor accounting and financial systems, and the unknown extent of its debts and other liabilities; (ii) the trucks and workshops are likely to attract different buyer groups, and therefore be sold separately; (iii) CAMOC, with or without the workshops, is of insufficient size and lacks the financial performance to yield the sort of value to justify the tender process; and, (iv) CAMOC is unlikely to be the early success case government needs to create momentum for its privatization program.

The truck assets should be sold through a public, advertized tender process managed by the MTC in collaboration with the Ministry of Finance. The process should include: (i) an inventory of the fleet; (ii) establishment of minimum floor prices for the vehicles; (iii) national advertisement of the impending sales; (iv) sale to the highest "bona fide" bidder; and, (v) the vehicles should be sold "as is" with no guarantees from government with regard to their physical condition.

If vehicles are unsold within a reasonable time period, then a public auction should be held in Maputo to sell the remaining trucks. The auction should be announced only after the advertised tender is terminated. Government should consider whether to lower or eliminate floor prices for the purposes of the auction.

Selling CAMOC as a going concern should only be undertaken if: (i) the workshops are found to have significant value and can be sold with the fleet; and, (ii) the expected value of the enterprise exceeds the costs of implementing the sale process. The tender process should follow the official process set out in the privatization law for the sale of enterprises. This would include: (i) development of an action plan by UTRE; (ii) updating of financial statements; (iii) valuation of the enterprise; (iv) clarification of legal issues; (v) preparation of a company dossier; (vi) widespread advertisement for sale; (vii) transparent and timely review and selection of investor proposals; and, (viii) negotiation and conclusion of transaction.

AGRICOM

AGRICOM's truck fleet should be sold to the private sector. Initially, a pilot program should be undertaken to test the absorptive capacity of the private sector to purchase the vehicles up-front. If these programs are unsuccessful, then the remaining portion of AGRICOM's fleet should be leased to the private sector, in concert with the leasing program recommended for DPCCN. The pilot program should be designed, executed and its success determined within the next 6 to 9 months.

The sale of the assets should be conducted at two levels: (i) the larger trucks (10 tons and over), of which there are about 95 in the fleet, should be sold on consignment in "tranches" or blocks through industry professionals in the private sector such as truck dealerships; and, (ii) the smaller trucks, of which there are about 75, should be sold directly by government through publicly advertised sales in combination with public auction, following the process described above for CAMOC.

The pilot program for the larger trucks should involve the competitive selection of 2 to 3 truck dealerships or other eligible groups, to which about 15 vehicles each would be allocated for on-ward sale. The dealership would be given 3 months to sell the initial allotment. They would receive a commission, expressed as a percentage of the sale price. It should be left to the private company whether it is worth investing in the repair and restoration of the vehicles prior to sale. The company can also make informed decisions regarding such issues as pricing, advertising, and financing terms for prospective purchasers.

The pilot program for smaller vehicles should involve the sale of 20 to 30 vehicles directly by government, following the publicly advertised tender process described for CAMOC.

If the pilot programs are unsuccessful, then the remaining vehicles should be added to the leased pool to be leased out to the private sector (see below).

DPCCN

The recommended privatization strategy for DPCCN is divided into a short term and a medium to longer term program. In the short term (the next 12 months), while the drought crisis is still at a peak, DPCCN should: (i) gradually reduce its fleet size through a replacement-induced inventory reduction program; and, (ii) commercialize as many component parts of its business as possible. In the medium term, DPCCN should lease to the private sector all of its remaining fleet.

DPCCN does not need to own and operate a truck fleet in order to perform its transport management function. In the short term, it can reduce the capacity of its total fleet in concert with increasing the use it makes of private truckers. The reduction in fleet size should be achieved at a minimum through a program of replacement-induced inventory reduction. This program would stipulate that for every new vehicle provided to DPCCN, at least three of its existing vehicles would be sold to the private sector. The three trucks should be of similar capacity to the new vehicle, and at least 2 of the 3 vehicles should have reasonable economic value. Vehicles over 10 tons should be sold on consignment through professional private sector truck dealers, and the smaller trucks sold directly by government through publicly advertised tenders (see AGRICOM above).

In addition, in the short term, DPCCN should commercialize as many of its functions as possible. This should include: (i) procure locally from the private sector all of its spare parts, oil and lubricant requirements; (ii) increase the share of its cargo carried by the private sector; (iii) procure fuel for its vehicles from commercial fuel stations; and, (iv) contract out provincial and district warehouse operations to commercial warehouse operators.

In the medium to longer term, DPCCN should lease out its fleet. The passage of the first 12 months will allow time for: (i) more of the enabling environment to be put in place; (ii) increased private sector absorptive capacity; (iii) the laying of groundwork for developing a leasing industry; and, (iv) hopefully, for the severest effects of the drought to be over.

The main steps in creating the leasing operation should include the following.

- A new government-owned holding company should be created, into which the truck assets of DPCCN and possibly AGRICOM and DNEP would be placed.

- A private sector management contractor needs to be found to run the leasing operation, in exchange for a commission-based fee linked to performance. A prospectus should be prepared and an international (regional) management company search conducted.

- The structure of the lease contracts should follow certain guidelines to meet the needs of the market and government. For example, leases should have a four-year duration, at the end of which lessees would either automatically own the vehicle or would have the option to buy it for a small residual payment. A pre-pay purchase option should also exist. In addition, "wet" leases, which provide insurance, maintenance and parts as a package, should be available to the lessees of at least the smaller vehicles, and perhaps the larger ones as well.

- DPCCN may need a provision in the charter of the leasing operation for DPCCN to have "rights of first refusal" on a portion of the leased fleet. The share of capacity subject to this provision, the notice period required for invoking the right, and the lease rate that DPCCN would pay should all be well specified in advance.

Transcarga

Transcarga is already legally a private company. However, the share owned by the private sector should be increased. A proposal exists for converting Transcarga to a SARL corporation, and selling (or giving) shares to current management and perhaps other "investor" groups.

Government should ensure that transparent, market-based transactions occur, and that the longer term viability of Transcarga is not weakened by any prospective change in ownership or capital structure. The following guidelines should form the basis of government's and Transcarga's action plan.

- Convert Transcarga from a Limited to a SARL corporation.

- Value the company on a market basis, with assistance from professional financial experts with industry-specific knowledge.

- Issue current government share holders with shares in the SARL corporation, in proportion to their current percentage ownership of Transcarga.

- Consider providing government with a special or "golden" share in Transcarga. This would enable the government to ensure that certain major decisions affecting Transcarga are consistent with government policy, while allowing the private sector to acquire over time a majority, "controlling" share of the company.

- Offer CAMOC's share of the company (44%) for sale to the private sector at the market based price, as an initial effort to increase the share of private ownership. At least half of the 44% should be reserved for sale to a private foreign corporation. The other half of CAMOC's shares should be offered to management for purchase at the market price or with a minimal discount. If the reserved share for management is under-subscribed, the residual shares should be set aside by Transcarga as Treasury stock for allocation in the future to management incentive schemes. The financial proceeds for the sale of CAMOC's shares should be reinvested in Transcarga.

- Consider, in year two, establishing a stock option program or other stock-based incentive schemes for top management and allocating some portion of AGRICOM's and/or CFM's shares, 27.5% and 16.5% respectively, to the incentive-based stock pool. Depending on the experience of the first year, the shares could be offered in some combination to management/employees for purchase, to the existing private foreign partner for purchase, and for allocation to the incentive scheme. Financial proceeds should be split between the Privatization Fund and for re-investment in Transcarga.

3.3 Implementation Considerations

A government Steering Committee or Task Force should be created to guide and coordinate the privatization of the four parastatal fleets.

- By design, there are common elements across the four recommended privatization action plans. These include: (i) fleet inventories and asset valuation; (ii) asset sale tender processes; (iii) creation of a leasing operation; and, (iv) allocation of sale or lease proceeds. The role of the Committee should be to ensure consistency, transparency and the transfer of "lessons learnt". The Committee would also serve to limit the extent to which the myriad of different entities involved in each of the truck fleets might subordinate the better interest of the nation to suit their own, specific needs.

- The Committee should comprise, at a minimum, senior members from the Ministries of Transport and Finance, respectively. The Committee could report to the CREE on overall policy issues and defer to CREE for approval of major transactions. It should coordinate its technical work with UTRE. One full-time expatriate might work as a technical advisor to the Committee. This person should have expertise in truck valuation, design and execution of tender processes, and in leasing.

The time frame for starting the privatization program should be coordinated with: (i) advances made in implementing the liberalization plan and creating an enabling environment; (ii) completion of selected key studies such as the workshop capacity assessment; and, (iii) progress made with the government's overall privatization program.

An early action by government should be to meet with donors to identify which donors are interested in supporting the various elements of the industry liberalization and fleet privatization programs. A work program and funding plan should be developed in coordination with select donors.

Chapter 1

INTRODUCTION

1.1 Background

Within the broader context of the Economic and Social Rehabilitation Program, the Government of Mozambique (GOM) has identified improvements to transport infrastructure serving domestic needs as a priority for investment. The main objective is to promote rural development and trade, despite constraints imposed by the continuing adverse security situation.

In recent years, substantial amounts of financial resources have been channeled to the rehabilitation of railway corridors to re-open international transit traffic facilities and restore an important source of foreign exchange earnings. However, the emphasis of public expenditure programs in the transport sector is now shifting toward: (i) rehabilitating rural feeder road networks, and primary and secondary roads providing access to the sea; and, (ii) increasing coastal shipping and trucking capacity.

The GOM has recently had approved a World Bank credit for the First Roads and Coastal Shipping Project (ROCS), but recognizes the need for a coherent strategy to develop all modes of transport serving the domestic economy. Policy reforms in the road transport subsector, which lay the groundwork for subsequent investment activities in road rehabilitation and related road transport services, are seen as an early priority activity.

Consequently, the GOM has emphasized that development of a road transport subsector which relies on the private sector will require development of a sensible program of policy and regulatory reform. Principal constraints to efficient functioning of the subsector are seen by government as: (i) high concentration of the truck fleet in large Government-controlled or parastatal fleets; (ii) inefficient vehicle utilization; and, (iii) poor facilities for maintenance and other support services.

The GOM has decided to study the most cost-effective means to remedy these constraints, and has sought technical assistance to help prepare action programs leading to: (i) privatization of parastatal and government-owned trucking fleets; (ii) liberalization of regulatory constraints to private initiatives in the trucking subsector; and, (iii) rehabilitation and productive utilization of the existing fleet.

To support the GOM in these efforts, the World Bank and USAID are cooperating to conduct a set of studies which contain actions and proposals suitable for immediate implementation, either through USAID program assistance or the World Bank/IDA-financed ROCS project.

These donors are planning to assist the GOM in four specific study areas.

1. Development of proposals for the liberalization of regulations and other restrictions on private sector road transport activities, including reduced and re-oriented role for Government agencies.

2. Development of guidelines for shifting the balance of the trucking industry from the public to the private sector.

3. Identification of types of training and/or other assistance needed by emerging private sector operators, and by GOM agencies to fulfill their new roles in road transport activities.

4. Assessment of the potential for rehabilitation of existing resources and projected needs -- including the mechanical condition of the present parastatal fleets and the mechanical skills at the workshop level.

1.2 Study Objectives

The overall objectives of this current study were to:

A. Develop proposals for the liberalization of regulations and other restrictions on private sector road transport activities; and,

B. Assess the prospects and most suitable channels for shifting the balance of the trucking industry from the public to private sector, particularly through the privatization of parastatal truck fleets.

In addition, Terms of Reference for a study to assess training needs were to be developed as part of this current activity.

The study was conducted in two phases: (i) Phase I: Diagnostic Study; and (ii) Phase II: Divestment/Liberalization Plans, so as to allow feedback to be provided on the first phase prior to starting Phase II activities. The purpose of Phase I was to collect and analyze basic information of the nature and structure of the trucking industry, and to assess the current status of government intentions with regard to privatization of the parastatal truck fleets and liberalization of the trucking industry. The purpose of Phase II was to develop recommendations and action plans for industry liberalization and privatization, as appropriate, of the main parastatal truck fleets. This report reflects the findings of both phases. The Terms of Reference for the overall study are provided in Annex A.

1.3 Conduct of the Study

Field work for Phase I of the study was conducted in Mozambique during March 1992, and in late June and early July for Phase II. Efforts were made to update any key, base information that was collected during Phase I that may have changed between the conduct of Phase I and

Phase II. During the course of both trips, interviews were held with members of government, the private sector and the donor community (see Annex B for a list of contacts).

The core project team included: Anthony Davis, Team Leader/Privatization Specialist (Abt Associates); Charles Reinhardt, Trucking Operations Specialist (Abt consultant); and, Harold Kurzman, Trucking Policy and Regulation Specialist (Abt consultant).

The study was funded by USAID, via the "Privatization and Development" contract held by Price Waterhouse, under which Abt Associates is a sub-contractor.

1.4 Structure of Report

In Chapter 2, the nature, structure and economics of the trucking industry in Mozambique today is presented. In Chapter 3, current trucking industry policy and regulations are reviewed, and in Chapter 4, other selected issues which influence the trucking industry are assessed. Then, in Chapter 5, the prospects and means for shifting the ownership balance of the trucking industry from the public to private sector are reviewed. In Chapter 6, key issues and options for privatizing the main parastatal truck fleets are evaluated. Finally, recommendations and immediate action plans for industry liberalization and privatization of parastatal fleets, are presented in Chapter 7.

Chapter 2

THE NATURE AND STRUCTURE OF THE TRUCKING INDUSTRY

In this chapter, the nature and structure of the trucking industry in Mozambique are examined. First, an overview of the evolution of the industry is presented, including a description of the composition of ownership by principal segment together with a profile of each of the main parastatal trucking fleets. In the following section, the operating economics of truck transportation are investigated to assess implications particular to the current environment in Mozambique.

2.1 Industry Evolution and Ownership Structure

Mozambique's total vehicle fleet has contracted substantially since Independence in 1975, and the share accounted for by the private sector has declined steadily throughout the late 1970s and 1980s. At the time of Independence, much of the vehicle stock was either exported or destroyed by emigrating owners. Thereafter, private ownership declined further due to: (i) the difficulty the private sector experienced in obtaining funding, spare parts, fuel, and replacement vehicles; and, (ii) the government's response, based in part on the Marxist-oriented regime in place at the time, which was to own and operate its own fleets in an attempt to secure regular road services. In the early to mid-1980s, the government -- in reaction to drought, famine, and an intensifying war situation -- furthered its ownership of the trucks by acquiring, mainly with donor assistance, large fleets dedicated to special market uses such as disaster relief and the distribution of agricultural inputs and produce.

The limited statistics available suggest that the private sector, which accounted for over 60 percent of the ton-km movements in 1975, contracted to around 40 percent by 1980, and was estimated at 25 to 30 percent in 1989.

Statistics on the current census of the trucking fleet are also unreliable. Best estimates suggest that the present fleet totals between 8,000 and 10,000 trucks, with many of these likely to be non-operational due to lack of needed spare parts. It is also believed that the vast share of the fleet is comprised of smaller trucks in the 2-ton to 5-ton range.

Mozambique's trucking fleet can be categorized into four principal segments:

- Private vehicles operated by small businessman and traders ("comerciantes"). Although presumably dedicated to the entrepreneurs' own needs, many also informally offer for-hire transportation on a space available basis.

- Proprietary, in-house fleets of large, commercial enterprises such as Lomaco.
- Common carrier road haulers offering for-hire transport services that range from intra-city and inter-provincial moves, to international carriage on major transit corridors.
- The large, government-owned trucking fleets.

Private and Proprietary Operators

The "comerciantes" and private businesses constitute the largest group of truck owners, in terms of number of private vehicles operated. Although not licensed as common carriers, many operate for-hire on an informal basis. The relaxed enforcement of regulations in Mozambique, particularly in rural areas, permits them to do this with relative impunity. Typically, comerciantes have just one or two small- to medium-sized trucks and tend to capitalize on opportunities to provide transport services when it is convenient with their other primary business activities. An example would be to earn back-haul revenue on an otherwise empty return trip.

It is often difficult to induce many common carriers to operate in wide areas of the country due to the guerrilla insurgency. Therefore, the "comerciantes" appear to fulfill an important public service by making-up for the shortfall in transport supply in some market segments.

Mozambique also has several large, proprietary trucking fleets that are operated to handle the in-house transport requirements of large, integrated commercial enterprises. Although at present these operators do not operate in the common carriage market, they have the potential to have a significant impact either by: (i) making available a large source of presently under-utilized trucking capacity or; (ii) serving as a new market for which the private sector carriers may someday compete.

Lomaco, for instance, has expressed an interest in obtaining a license to become a common carrier transporter. The economies of scale, high asset utilization rates and geographic span of operations made possible by its baseload traffic would likely make it very cost competitive. Conversely, the captive trucking fleets operated by Lomaco and other similar enterprises likely evolved out of necessity when, presumably, reliable transport services could not be found to meet in-house transportation needs. A robust and competitive private trucking industry could actually obviate the need for some in-house truck fleets, serving to open-up important new markets to the private sector.

Common Carriers

The private common carrier trucking industry is comprised of many diverse entities. Some, such a Transportes Lourenco, can trace their roots back to the colonial era. Others including

Cassamo and Salema have only recently commenced operations. Although lack of broad statistical data on the industry makes it difficult to reach many definitive conclusions, available information suggests that the industry is both broadly based and competitive with little concentration of market power in the hands of any single operator, as is evidenced by Exhibit 2-1. While not an exhaustive compilation, this exhibit lists many of the leading transport firms found to be operating in a sampling of four selected provinces. This information suggests that while the top three to four carriers in each province possess a substantial share of total capacity, numerous other carriers with smaller fleets are still able to compete.

In reality, the market is probably less concentrated and more competitive than the data in Exhibit 2-1 would suggest. Uncounted are many entrepreneurs who both own and operate their own trucks. Typically, these trucks are aged, with many being twenty to twenty-five years old. Historically, many of these operators provided inter-city and inter-provincial service. However, most have fled the war-ravaged countryside to seek the relative safety of the larger cities. Consequently, secure areas such as those within the Maputo city limits and along the Beira Corridor currently have a surplus of trucking capacity, while shippers in more remote and less secure regions may have fewer transport alternatives from which to choose.

Government-Owned Trucking Fleets

The last segment of the trucking industry includes vehicles that were acquired either as part of a national state transportation enterprise or to provide transport services within state-owned companies. Mozambique has four such parastatal fleets:

- Camionagem de Mozambique - CAMOC
- AGRICOM
- DPCCN
- Transcarga

Camionagem de Mozambique

CAMOC was established in 1976 as Mozambique's national state trucking company by consolidating the operations of several private firms including Vicar Transports, Transport Gaspar, Transport Mendes, Transport Isac Moreira and Transportadora, Lda. The firm offers service throughout the country and has principal operations based in Maputo, Beira, Nampula, Tete, Xai-Xai and Inhambane. Although it was chartered to be the national long-haul carrier, because of the war it now functions principally on short-haul routes providing transport services in the secure areas adjacent to the above cities. Nationwide, CAMOC employs a staff totalling about 1,100.

Exhibit 2–1

REPRESENTATIVE COMMON CARRIER TRUCKING COMPANIES IN SELECTED PROVINCES

PROVINCE	CARRIER	NUMBER OF TRUCKS	TOTAL CAPACITY (tons)	AVERAGE SIZE (tons)	SHARE (percent)
MAPUTO	SALEMA	42	902	21	49.4%
	CASSAMO	15	375	25	20.5%
	TRANSMAP	15	315	21	17.3%
	LOURENCO	5	125	25	6.8%
	ANGELO SILVA	2	40	20	2.2%
	WAN PHORN	3	30	10	1.6%
	ANTONIO OLIVEIRA	4	30	8	1.6%
	GUILHERME SILVA	1	9	9	0.5%
	SUBTOTAL	87	1,826	21	100.0%
SOFALA	TRANSPORTE BANOO	19	250	13	25.5%
	EDMUNDO CARRELO	10	250	25	25.5%
	SACUR & FILHOS	4	95	24	9.7%
	MUSSA KARA	3	70	23	7.1%
	GULAMO KARA BAY	3	58	19	5.9%
	TRANSPORTE MITHA	2	50	25	5.1%
	ORIENTAL	3	32	11	3.3%
	FARUK KARIM AZAM	1	25	25	2.6%
	DAVID NAVROLEON	1	25	25	2.6%
	TRANSPORTE RIEIRO	2	20	10	2.0%
	TRANSPORTE RIVAT	4	20	5	2.0%
	HERCULANO PORTRAIGHT	1	18	18	1.8%
	MARCO SOUSA SOARES	2	16	8	1.6%
	TRANSPORTE BORIS	1	15	15	1.5%
	TRANSPORTE PESTANA	1	10	10	1.0%
	ABDUL KARIM AZAM	2	10	5	1.0%
	TRANSPORTE KATIJA	1	8	8	0.8%
	TRANSPORTE MUCHANGA	1	8	8	0.8%
	SUBTOTAL	61	980	16	100.0%
ZAMBEZIA	ALTAF GAFAR	7	84	12	60.0%
	JOSE MANUEL	2	24	12	17.1%
	AMERICO SOARES	1	12	12	8.6%
	GILDO AZEVEDO	1	10	10	7.1%
	CHOCOLE ERMINIO	1	10	10	7.1%
	SUBTOTAL	12	140	12	100.0%
NAMPULA	ABACASSAMO	8	200	25	45.5%
	ISMAIL SADARDINE	6	120	20	27.3%
	NARCISO	6	120	20	27.3%
	SUBTOTAL	20	440	22	100.0%

Sources: Information obtained from industry personnel and government source during early 1992.

The composition of the truck fleet is as follows:

- forty-eight trucks with capacities from 12 to 21 tons each;
- twenty-six trucks (54 percent of the total fleet) are reported to be either destroyed or out-of-service;
- trucks include models manufactured by Scania, Fiat, Volvo, Renault and Berliet;
- vehicle ages range from 3 years to 22 years, and have an average age of 10 years.

In recent years CAMOC has had a scandal-plagued history characterized by inefficiency, unreliability and allegations of corruption. Indications are that the Ministry of Transport, the agency responsible for CAMOC, is investigating strategies for its privatization and has received a number of expressions of interest from potential new owners.

AGRICOM

AGRICOM is a state enterprise that was formed to stabilize agricultural production and prices. The logistics of moving crops to market, and distributing seed, fertilizer and other agricultural inputs to producing areas, made transportation a key element of AGRICOM's overall mission. During the 1980s, AGRICOM benefitted from donor programs which led to the creation of a modern fleet of trucks and farm equipment. The current fleet encompasses:

- 170 trucks (mainly Scania, Renault and Mercedes Benz), ranging from 2 to 15 tons capacity, of which 79 percent is operational;
- half of all trucks are 6 years old or less, with the overall fleet having an average capacity of 10 tons;
- transport is conducted in all 10 provinces, with the greatest number of trucks concentrated in Nampula, Cabo Delgado, Maputo and Niassa;
- 141 Massey-Ferguson farm tractors (108 operational) which are used to transport inputs such as seeds and fertilizer, and to collect produce during harvest.

Fundamental shifts in Mozambique's agricultural markets in recent years have dramatically altered AGRICOM's role. Where it was once responsible for 80 percent of the country's agriculturally driven transportation needs, it now handles just 20 percent. As a result much of the truck fleet is now very under-utilized. AGRICOM is currently reassessing its mission and it is likely that in the near future it will be considering strategies for divesting most of its transportation assets (see Annex F for details of AGRICOM's fleet).

Department for the Prevention and Combat of Natural Calamities (DPCCN)

DPCCN was established in 1980 as Mozambique's national disaster relief organization. Over the years, and with extensive technical assistance from donors such as CARE, it has become the principal agency responsible for coordinating the storage, transportation and distribution of emergency food aid. In this role, it has assumed the front-line responsibility for providing transport services. In isolated, war-torn areas DPCCN has tended to be the "transporter of last resort", even to the extent of employing air lifts to areas cut-off from truck service by insurgent activities.

Because of this critical humanitarian mission, DPCCN has been the recipient of substantial contributions from many countries. Included among these have been a large number of trucks, as well as spare parts and fuel, to support its extensive transportation and logistics responsibilities. DPCCN currently operates the single largest fleet of modern trucks in Mozambique. This fleet includes:

- 510 trucks ranging in size from 4 tons to 25 tons, the average being 11 tons; 371 trucks or 72 percent is currently operational;
- 80 percent of the fleet is 6 years old or less;
- major makes of trucks include Leyland, Volvo, Fiat, Nissan and DAF;
- Italy, ASDI and CARE have been major donors of trucks, accounting for 46 percent DPCCN's total truck capacity.

DPCCN recently commissioned a consulting study to explore possible strategies for divesting and privatizing its transport assets and spinning-off its logistics function.[1] However, continuing hostilities and the worsening drought have heightened the importance of its transportation functions for the near-term. It is likely that DPCCN will resist any action that might compromise its abilities to support urgently needed relief, unless it is confident that it will have the means to purchase adequate alternative transportation services on the open market (Annex G contains details on the DPCCN truck fleet).

Transcarga, Lda.

Transcarga was established in 1988 to be the principal national road hauler serving the Beira Corridor. It was formed as a consortium with operations independent from those of its principal share holding companies, which includes three parastatal firms: CAMOC (44%); AGRICOM (27.5%); and, CFM (16.5%); and, ACAUTO (12%), a joint private-public automotive parts supply company. Transcarga operates a modern fleet of forty, 25-ton Volvo trucks and tractor-trailers, which range from 2 to 4 years in age. Transcarga has a total staff of 120 managers,

[1] Estudo Para a Autonomizacao da Logistica Do DPCCN, Austral Consultoria e Projectos, Lda., 1991.

drivers and administrative support personnel. The responsibility for vehicle maintenance has been subcontracted to Frexpo, the agent for Volvo in Mozambique. A major portion of Transcarga's business comes from long-term contracts for haulage services, much of which comes from the donor community for the transport of food aid.

The Beira Corridor is served both by truck and by rail. Rail would normally have a significant competitive advantage based on rates. However, capacity constraints, delays and the long lead-time required to stage equipment on the CFM have enabled trucks to remain competitive. Still, due to allocation agreements between the CFM and the Government of Zimbabwe, rail continues to receive priority over road haulage. Since much of the traffic moving along the corridor is either consigned to or originated by shippers in Zimbabwe, this fact may also serve to give carriers based in Harare a natural marketing edge. Zimbabwe-based truckers are also known to gain competitive rate advantages by bidding westbound moves as backhauls to the export loads moving via the port of Beira. Transcarga has not been successful at capturing eastbound loads out of Zimbabwe and as a result its trucks usually travel this leg empty.

Annual utilization of the Transcarga truck fleet is said to average about 40,000 km. However, recent statistics for the first and second quarters of 1992 show utilization rates are even lower at 25,182 km on an annualized basis. The fact that this is an extremely low vehicle utilization rate, particularly for a carrier engaged in international transit carriage with medium length hauls, is put in perspective by the following illustration. The round trip distance between Beira and Harare is approximately 1,100 kilometers. Assuming one day in transit for each direction (backhaul empty), one day per trip to load and discharge cargo, one additional day for routine maintenance and pre-trip preparations, and two weeks per year for out-of-service periods resulting from unscheduled repairs, a truck should easily be able to achieve a <u>loaded</u> utilization rate of 48,125 km per year. This is twice Transcarga's current estimated loaded utilization rate.

Three factors exacerbate Transcarga's poor truck utilization rates. First, an over supply of trucking capacity has resulted from the sanctuary afforded by the Beira Corridor, and this has tended to concentrate competition into a very limited geographic region. Second has been the limited opportunity to capture backhaul cargoes. The combined impact of both the drought and the war has been to make most flows one direction only, inbound. Finally, domestic moves to more remote and less secure areas require military escorts. The time required to marshall convoys and assemble troops frequently results in substantial delays. For instance, while visiting Transcarga in Beira, it was learned that one of its trucks had been waiting for three weeks for a convoy to guide its return from Lichinga.

A peaceful resolution of the current hostilities would go a long way toward relieving these conditions and help to improve operating conditions for Transcarga. Unfortunately, this is a situation over which Transcarga has no control. A near-term strategy that Transcarga can employ to mitigate present market challenges would be to forge strategic relationships with other carriers and shippers in Zimbabwe to gain improved access to transit shipments, particularly eastbound backhauls.

Government Versus Private Ownership

Limited data availability about private sector common carriers make it difficult to compare the share of total trucking capacity operated by the public and private sectors. However, to illustrate representative values, Exhibit 2-2 was created for the four provinces for which at least partial data could be obtained.

-- Overall, the four parastatal fleets together account for 60 percent of all trucking capacity in the four provinces analyzed.

-- Private common carriers are most active in Maputo, where many have concentrated to avoid war-related risks.

-- Common carriers are least active in Zambezia.

Common carriers are well represented in three of the four provinces indicating that it may be possible to transition more toward the private sector in those areas. However, if the private sector's limited activity in Zambezia is due to war-related risks, this would argue for needed reforms in the area of war risk insurance and, perhaps, a continuing role for the government as the transporter of last resort. However, poor data for Zambezia and the likelihood that it may have a higher than average propensity towards small or individual owner-operators may undermine the accuracy of the data and the conclusions that can be drawn from it.

The split between public and private truck ownership varies depending upon the particular segment of the market being considered. For instance, various sources suggest that Mozambique's total country-wide truck fleet is between 8,000 and 10,000 units, although many of these are likely to be older and smaller models of less than 5 tons capacity. By contrast, the four large parastatal fleets have a combined total fleet of just 768 vehicles and 9,030 tons capacity, with an average size of 12 tons and an average age of 4.8 years. The parastatals may own half or even more of the newer, large capacity trucks. However, the dominant share of all trucks is still held by the private operators.

2.2 Road Transport Sector Economics

2.2.1 General Operating Conditions

Today, Mozambique's truck fleet is in poor condition and the economics of the industry are unfavorable. The high cost of vehicles and inputs, low levels of utilization, poor road conditions, poor maintenance facilities and practices, and risks posed by the war all make trucking unattractive and uneconomic. In addition, the public sector dominates the medium-to-heavy truck sector, particularly the newer equipment, but is very poorly managed and caters only to a limited set of market segments. The industry is characterized or influenced by a number of interrelated factors, all of which lead to poor performance.

Exhibit 2-2

Share of Capacity for Principal Operators in Selected Provinces: Common Carriers Versus the Main Parastatal Truck Fleets

PROVINCE	OPERATOR	NUMBER OF TRUCKS	TOTAL CAPACITY	SHARE OF CAPACITY
MAPUTO	COMMON CARRIERS	87	1,826	64.9%
	AGRICOM	26	309	11.0%
	DPCCN	30	238	8.5%
	CAMOC	21	441	15.7%
	SUBTOTAL	164	2,814	100.0%
SOFALA	COMMON CARRIERS	61	980	33.0%
	AGRICOM	4	40	1.3%
	DPCCN	70	867	29.2%
	CAMOC	4	84	2.8%
	TRANSCARGA	40	1,000	33.7%
	SUBTOTAL	179	2,971	100.0%
ZAMBEZIA	COMMON CARRIERS	12	140	9.9%
	AGRICOM	13	115	8.1%
	DPCCN	89	1,161	82.0%
	SUBTOTAL	114	1,416	100.0%
NAMPULA	COMMON CARRIERS	20	440	34.1%
	AGRICOM	39	358	27.8%
	DPCCN	48	428	33.2%
	CAMOC	3	63	4.9%
	SUBTOTAL	110	1,289	100.0%
ALL FOUR PROVINCES	COMMON CARRIERS	180	3,386	39.9%
	AGRICOM	82	822	9.7%
	DPCCN	237	2,694	31.7%
	CAMOC	28	588	6.9%
	TRANSCARGA	40	1,000	11.8%
	TOTAL	567	8,490	100.0%

Sources: Exhibit 2-1, Annex E, Annex F, and Annex G; data from early 1992.

- Low vehicle utilization, in terms of overall distances traveled, ton-km performance and load factors.

  - Annual distances traveled rarely exceed 30,000 to 40,000 kms, whereas truckers in neighboring Zimbabwe average 100,000 to 200,000 km per year -- Mozambican performance is constrained by the war, poor road conditions which reduce average traveling speeds, and the large amount of time spent out of service due to the excessive wear and tear created by the road conditions.

  - Low load factors, which are at best 60 percent, but more typically reported to be about 30 percent -- result from: (i) the lack of incentive or opportunity in the public sector to generate backhauls; (ii) regulations which prohibit dedicated fleets from carrying commercial traffic; and, (iii) poor fleet management.

- Short vehicle life -- which is estimated at 18 to 48 months, due to poor road conditions, inadequate maintenance, and damage caused to vehicles by war activities.

- Poor maintenance -- the deterioration of the fleets' physical condition is accentuated by: (i) the poor planning of maintenance and repairs, and inadequate workshops and related facilities and services; and, (ii) the shortage and expense of spare parts.

- Expensive and scarce inputs such as spare parts and tires, which reflect:

  - the high cost of inputs due to high duties and taxes on imported parts and tires, and the impact of massive devaluations in the metical;

  - the mismatch in parts inventories and needs because of poor inventory control and the unpredictable parts replacement requirements posed by the war (that is, a more frequent need for specific parts which under normal conditions would be needed only very infrequently); and,

  - the sparse distribution network throughout the country for parts, which is compounded by the multitude of makes and models in operation and the existence of only one major independent parts supplier.

- Expensive imported, new vehicles -- due to the depreciating metical and the substantial add-on costs in taxes, duties and dealer mark-ups on imported vehicles -- which often add 60 to 70 percent to the CIF price of a vehicle.[2]

- Proliferation of makes and models -- about 90 different models are reported to exist in Mozambique, leading to diseconomies in operation and repair. This has resulted from:

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[2] Sometimes as high as 100 percent.

- the government's indiscriminate practices with regard to vehicle procurement; and,

- the fact that a large portion of the more modern fleet was provided by a variety of donors who often stipulate procurement of vehicles made in their home country

- "Abnormal" trucking costs -- which are incurred as result of:

  - the need for armed and/or military escorts for convoys, which can add 8 to 40 percent to the cost of a ton-km; and,

  - the high levels of pilferage that escorted convoys seem to experience.

- Low truck rates -- which are insufficient to cover operating costs in all but the most "conducive" environments -- that is on paved roads, in secure areas and with good utilization rates.

The industry, as described above, is economically unattractive. However, trucking has an important role to play in resurrecting the Mozambican economy, particularly in rural areas. Efforts must be made to improve its performance.

While ending the war is the single most important factor contributing to the turnaround of the trucking and many other industries, a number of positive steps can be taken in the interim. Liberalizing industry regulation and creating an enabling environment for private sector trucking are important early actions. The fact that a number of sizeable commercial trucking companies have been established successfully in recent years (Transcarga, Salema and Sirs Cargo), suggest that with an improved environment, there could be a relatively more positive outlook for the industry.

2.2.2 Unit Transportation Costs

The conditions cited above currently make Mozambique a very difficult and uneconomic environment in which to operate a trucking business. High capital costs result from currency devaluations, tariffs and taxes, and exacerbated by onerous interest rates and financing terms, necessitate that high levels of utilization be achieved in order to be profitable in this price-regulated market. However, war, daytime only operations, unserviceable roads, extended out-of-service periods for lack of needed spare parts and management inexperience, all combine to hold truck utilization rates at low levels. This may be the single most critical constraint inhibiting revitalization of the road transport sector.

Current truck operating costs were developed for three sizes of trucks: 8-tons, 20-tons and 25-tons (details are presented in Annex E) and used to calculate unit operating costs in meticais per ton-kilometer for a range of combined capital costs, annual operating distances, and capacity utilization rates. The results of this analysis are summarized in Exhibit 2-3.

Exhibit 2-3
Comparison of Estimated Vehicle Operating Expenses Under Normal Service Conditions for New and Amortized Trucks (Meticais per Ton-Kilometer)

ANNUAL DISTANCE (Kilometers)	–UTILIZATION RATE– 20 Percent	40 Percent	60 Percent	80 Percent
		8 TON TRUCK - NEW		
20,000	3,756	1,878	1,252	939
40,000	2,031	1,016	677	508
60,000	1,456	728	485	364
80,000	1,169	584	390	292
100,000	996	498	332	249
		20 TON TRUCK - NEW		
20,000	2,025	1,012	675	506
40,000	1,098	549	366	275
60,000	789	395	263	197
80,000	635	317	212	159
100,000	542	271	181	136
		25 TON TRUCK - NEW		
20,000	2,094	1,047	698	523
40,000	1,131	565	377	283
60,000	810	405	270	202
80,000	649	325	216	162
100,000	553	276	184	138
		8 TON TRUCK - AMORTIZED		
20,000	1,178	589	393	294
40,000	885	442	295	221
60,000	787	394	262	197
80,000	739	369	246	185
100,000	709	355	236	177
		20 TON TRUCK - AMORTIZED		
20,000	623	312	208	156
40,000	469	234	156	117
60,000	417	209	139	104
80,000	392	196	131	98
100,000	376	188	125	94
		25 TON TRUCK - AMORTIZED		
20,000	610	305	203	152
40,000	450	225	150	112
60,000	397	198	132	99
80,000	370	185	123	92
100,000	354	177	118	88

Source: Abt Associates analysis.

The sensitivity of operating costs to utilization load factor, annual distance usage, economies of scale (size), and truck capital costs is demonstrated by the following illustrations.

- Utilization and Annual Distance.

  -- In the case of a new 8-ton truck, costs are estimated to be 1,016 MT per ton-kilometer if 40,000 kilometers are driven per year at 40 percent utilization;

  -- 498 MT if utilization is held constant but the annual distance is increased to 100,000 kilometers; and,

  -- 249 MT per ton-kilometer if utilization is increased to 80 percent.

- Truck Size and Capital Cost.

  -- 485 MT for a new 8-ton truck operated at 60,000 kilometers per year and 60 percent utilization versus 263 MT for an new 20-ton truck at the same usage level; however,

  -- Unit costs decline to 262 MT and 139 MT for 8-ton and 20-ton trucks, respectively, when vehicles are fully amortized.

This last point clearly demonstrates the cost benefits possible when vehicle service life is extended past the point where it becomes unburdened from financing expenses. However, in Mozambique, inadequate maintenance practices coupled with the harsh operating environment result in many trucks having inordinately short lives. Typically, these are often just two to four years, irrespective of whether the vehicle is new or used.

2.2.3 Economic Implications of Truck Rehabilitation Programs

Devalution of the metical, high interest rates and unfavorable credit terms create formidable barriers to expanding Mozambique's truck fleet by purchasing new, imported vehicles. An alternative approach that could mitigate these problems would be to recondition selected older trucks in the current fleet. This strategy may make particularly good sense given the many risks and hazards inherent in the present operating environment resulting from the war and substandard road conditions. These factors do not discriminate between old and new trucks, and can quickly undermine any advantage of longevity that a newer truck would have under more benign conditions.

A program to rehabilitate a portion of the existing fleet would also have a significant positive impact on Mozambique's economy. It would help to conserve foreign exchange (or leverage donor funds) and reduce domestic credit requirements by adding more units of capacity per dollar (metical) spent. Estimates provided by several major truck agencies in Mozambique indicate that a run-out truck can be totally reconditioned for a cost equal to between 20 percent and 40 percent of the CIF price for a comparable new truck. Further, a rebuilt vehicle should have a normal life expectancy of at least 80 percent of that of a unit purchased new. The program would also stimulate employment and training of mechanics and technicians, and serve to expand the pool of qualified labor available to support the needs of the trucking industry in future years.

However, perhaps the greatest advantage of a truck rehabilitation program is that it could significantly lower vehicle costs, a major barrier to entering this industry. In the longer-term, when transport rates are fully and officially deregulated, it may help to contain costs by reducing operator break-even points and allowing acceptable rates of return to be achieved at lower freight rates. Lower operating costs could also allow private sector truckers to command higher risk premiums to service the more war-torn areas, at total prices that are still tolerable to customers.

2.2.4 Additional Costs From Operations in Mozambique

The ongoing war and sub-standard road conditions dramatically inflate unit transport costs above those for "normal" conditions. In many areas the war necessitates that trucks be operated in protected convoys. Typically, the Mozambican Army provides the personnel needed to make up these escorts. Although the wages for the guard force are paid for by the government, the truck operators participating in the convoy are responsible for furnishing transportation and providing food for the troops. In some cases operators find it desirable to engage a dedicated, full-time paramilitary force for protection. Although cost estimates vary widely, it is believed that military escorts add between 25 and 50 meticais per ton-kilometer, increasing total transport expenses in some cases by more than 30 percent.

Generally poor road conditions also inflate transportation costs. Slower than normal transit times, and wear and tear caused by rough road conditions, reduce truck utilization rates and increase maintenance expenses. A study[3] conducted for DNEP in the late 1980s suggested that Mozambique's deteriorated roads could actually double the cost of truck transportation.

2.2.5 Transport Costs Versus Regulated Rates

A comparison between the trucking cost estimates presented in Exhibit 2-3 (after factoring in adjustments for military escorts and rough roads) and official trucking tariff rates reveals that little opportunity for profit exists. The current official distance-based tariff is set at 132 MT per kilometer ton-mile for moves made on paved roads and 164 MT per kilometer ton-mile for unpaved roads.

It is reported that some carriers have been able to gain partial relief through a more "liberal" interpretation of the published tariffs. For instance they charge the full tariff on the forehaul, an additional 50 percent for an empty backhaul, plus hourly fees to dispatch, load and discharge the truck. For a 20-ton truck on a 100 kilometer one-way trip and 2 hour wait time, the effective rate would be 228 MT/ton-kilometer. This compares to the official rate of 132 MT, respresenting a 73 percent increase. Looking back at Exhibit 2-3, 228 MT/ton kilometer falls,

3 Results of the World Bank Highway Design model as reported in the World Bank's "Mozambique Transport Sector Review", 1989 (see bibliography).

as a break-even point, in the mid-range between 40 percent and 60 percent load utilization, and annual distances of between 20,000 and 40,000 kilometers. It should be noted that while this rate enables all direct operating costs to be recovered, it makes no contribution to fixed capital costs, so it does not provide any reserve for asset replacement.

Chapter 3

TRUCKING INDUSTRY: POLICY AND REGULATION

Several policy changes and regulatory reforms are needed to create an enabling environment to foster private sector road transport in Mozambique. A number of initiatives are already underway. These include liberalization of trucking tariff rates, improved collection of user charges and administration of a Road Fund, and the proposed creation of a new Institute of Road Transport. However, full and efficient implementation of these initiatives has yet to be achieved. Other priorities need to be addressed as well. Highest priority areas for improvement overall include rate liberalization, improving restrictive licensing requirements, public safety, protection of road infrastructure, and a more rational system of taxing truck operations. Presented below is an assessment of some of the key areas of current road transport regulation in Mozambique.

3.1 Trucking Rates

Tariff rates for trucking services are currently established by the government. The tariff rate levels are set centrally by the National Directorate of Road Transport (DNTR). However, individual provinces have the right, de facto, to revise the official rates, as has been the case in Nampula (Exhibit 3-1). The current official distance-based tariff is set at 132 MT per ton-kilometer for paved roads and 164 MT for unpaved roads. In Nampula province these rates are reported to be 270 MT and 460 MT for paved and unpaved roads, respectively. Short hauls and local drayage moves are charged on a hourly basis depending on the size of the truck employed. These rates range from 15,859 MT per hour for trucks of less than 4.5 tons, to 30,481 MT for trucks over 16 tons.[4]

The tariff rates have been set at unrealistically low levels and do not allow for full cost recovery of services provided, except perhaps for truckers operating fully amortized vehicles in safe areas with well paved roads. Tariff levels are not varied sufficiently for differing conditions related to war risk, road surface conditions, the nature of the market served (long versus short haul, the type of good carried, the size of the vehicle), nor in recognition of the high import content of trucking and the depreciating metical. The fact that Nampula tariffs are 2 to 3 times higher than the national rates is indicative of how low national rates are and how little they reflect regional, operating differences.

[4] Source: Aviso of the National Commission on Salaries and Prices issued on 28 September 1991.

Exhibit 3–1

Official Tariffs for Road Haulage of Cargo

	National	Nampula Province
MT per Ton–Km		
Paved Surface	132	270
Unpaved Surface	164	460
Hourly Rate, Intra–Urban (by truck capacity–size)		
Up to 4.5 tons	15,859	–
4.5 to 10 tons	19,512	–
10 to 16 tons	26,645	–
More than 16 tons	30,481	–

Sources: National figures based on September 28, 1991 "aviso", issued by the National Directorate of Road Transport, Ministry of Transport. Rates said to be still in effect. Nampula rates based on interviewed conducted and are still in effect as of February 17, 1992.

A key issue is whether official rates are observed in practice, and if so, by which truckers and to what extent. There is evidence that some carriers have been able to gain partial relief through "liberal" interpretation of the published tariffs. In these instances, the official rates have probably operated more as reference prices than actual. For example, a common practice, particularly among parastatal trucking companies, which are required to observe the official tariffs, is to charge the full tariff on the forehaul, an additional 50 percent for an empty backhaul, plus hourly fees to dispatch, load and discharge the truck. Furthermore, it is typical for these truckers to charge tariffs as a function of whichever is highest between the vehicle's capacity or the weight of the load. Thus, for example, if a 20-ton truck carries a 15-ton load 100 kilometers, the trucker tends to charge for 2,000-ton kilometers not 1,500. However, if the 20-ton truck is over-loaded to 25 tons, then the tariff is levied on 2,500-ton kilometers. These practices combined, even when waiting-time is excluded, lead to overall rates which exceed the official rates by 100% to 150%. These we shall term "reference-based" rates.

Some of the professional trucking service market conducts business at the official tariffs and to an even larger extent at "reference-based" rates. This is particularly true where the government acts either as a shipper (customer) or trucker, as government entities are mandated to purchase/sell transport services at the official rates.[5]

Many private-sector truckers are reported to charge rates which are determined more by what the market will bear, than by reference to official tariffs. These rates are commonly 600 MT to 800 MT per ton kilometer, and are reported in certain instances to be as high as 1,400 MT. These rates are high by international standards but may "rationally" reflect the war situation and lack of security, the increasing frustration of donors with government-owned trucking companies, and the relative lack of donor price sensitivity brought about by the drought and consequent heightened need for the transport of emergency relief cargoes.

The Government is proposing to totally liberalize truck rates, and allow them to be freely determined by the market. While the Ministry of Transport has verbally committed to this policy, an official ministerial decree or aviso have yet to be issued. Current plans call for the tariff rate liberalization proposal to go to the Council of Minsters for review and approval by the end of calendar year 1992.

Tariff rate deregulation is critical to the long-term health of the road transport industry. Rates must be freely set by the market to allow adequate levels of profitability to be achieved so as to stimulate new entrants and/or re-investment in the industry. However, a competitive market structure also needs to be in place. This requires that, in addition to rate liberalization, restrictive licensing requirements need to be eliminated and that state-owned fleets be privatized or at least operated commercially, that is without subsidy and where services are priced on a full cost recovery basis.

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[5] Given that the official tariff schedule has no explicit reference to charges for backhauls, waiting time or how a ton-kilometer is to be measured, it can be argued that the "reference-based" prices are not inconsistent with the official tariffs, but probably not fully in line with the intent of the tariff schedule.

A more debatable question is whether and at what price private operators would service the more remote, insecure areas currently served predominately by government relief agencies. It can be speculated that the private sector could serve these markets, provided that sufficiently high rates can be commanded and that some war risk insurance can be obtained. However, in the absence of war risk insurance, and as long as the war persists, then the government may need to act as the "transporter of last resort" -- because the rates required to induce private operators to serve these areas would become restrictive. Rough estimates indicate that approximately one half of the tonnage moved by DPCCN goes to more remote, war-torn areas. The private sector, however, also services some of these areas, albeit at high rates.[6] Thus, perhaps only one quarter of the volume transported by DPCCN might ultimately fall within the category of "transporter of last resort." It should be noted, though, that government does not need to own or operate truck fleets in order to perform the function of transporter of last resort.[7]

3.2 Carrier Licensing

The rules and regulations regarding eligibility requirements and application procedures for becoming a common carrier to provide cargo and passenger road transportation services are set forth in Diploma Ministerial No. 92/89.[8] Non-transferable licenses, which remain valid for twenty years, are issued for two different categories of operations. Type A licenses are granted by the Ministry of Transport and Communications and authorize inter-provincial, nationwide haulage. Type B licenses are valid only for intra-provincial carriage in a given province and are issued by the Provincial Governor under the authority of the Provincial Directorate of Transport. Eligibility requirements are the same for both categories of licenses.

The license application process appears to be straightforward:

- the applicant must be of good character and have no criminal record;
- drivers must pass a physical examination and meet minimum health requirements;
- trucks proposed for use must be inspected for safety;
- the trucking enterprise must be incorporated as a business under Mozambican law; and

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[6] DPCCN's fully costed rates, unsubsidized by government and donors, may not be substantially different from the current private market rate.

[7] The government could arrange block capacity agreements as a condition of the sale or lease of its fleets to the private sector, whereby the government would have first call on the use of a certain percentage of the fleet under certain, pre-set conditions.

[8] See Annex H.

- a one-time license fee of 300,000 MT must be paid to the Reparticao de Viacao.

However, there is one aspect of the process that is particularly onerous. It requires that a feasibility study be submitted describing the nature of the transport operations proposed, including information on the origin, destination and types of cargoes to be carried. This information is purported to be used to assess trucking supply and demand on a route-by-route basis. In effect, it suggests that scope exists to exercise capacity control by issuing "route-specific" licenses.

This requirement should be eliminated. The Ministry has neither the staff nor the data to conduct a meaningful evaluation of any of these factors, so the exercise serves merely to create a needless burden, especially on applicants who plan small-scale operations. The application process could be improved by replacing it with a simple "statement of intended service" that describes the nature and scope of operations proposed.

At present it takes approximately two to three months to obtain a license. While not an unreasonable period, streamlining selected tasks could expedite this process. For instance, the standard vehicle inspection conducted at the time of vehicle registration should be accepted as proof of compliance with safety regulations. Further, it should be determined whether it is really important that all carriers, even one and two truck owner-operators, be incorporated as businesses.

Finally, changes are needed to make the overall application process more transparent. In those situations where licenses are denied, the reasons for denial must be clearly stated and an opportunity given to the applicant to "cure" any deficiencies without having to re-initiate the application process from the beginning. Introduction of an appeals process should also be given consideration.

3.3 Taxes and Levies on Vehicle Operation

A multi-tiered system of taxing vehicle operations exists in Mozambique, including: import duties and other taxes on imported vehicles, spare parts and tires; fees levied on licensing and vehicle registration; and, taxation of diesel fuel. Overall, trade-offs exist between reducing disincentives to the truck sector versus revenue collection for government. This area needs review and rationalization.

3.3.1 Imported Trucks, Parts and Tires

Imported trucks, spare parts and tires are subject to high levels of taxes, customs duties and mark-ups. The retail price of an imported truck to the end consumer in the private sector is about 70% greater than its landed CIF price, inclusive of dealer mark-up, and about 55% if the dealer's margin is excluded (Exhibit 3-2), as of March 1992. Increments to the retail prices of imported spare parts and tires are even greater. Margins over CIF price are about 135-145%

Exhibit 3-2

Import Duties and Taxes on Vehicles, Spare Parts and Tires

	Import Duty (a)	General Customs Duty (b)	Customs Sales Tax (c)	Margin (d)	Retail Sales Tax (e)
Vehicles	10.0%	7.5%	5.0%	25.0%	10.0%
Spares/Tires (f)	35.0%	7.5%	5.0%	10.0-80.0%	10.0%

Source: Industry interviews and offical tariff schedules, March, 1992.

Notes:
a. Direitos Aduaneiros
b. Emolument Jerais Aduanerois
c. Imposto de Circulacao na Alfandega
d. Margem de Comercializacao
e. Imposto de Circulacao
f. May also be subject to a 20% consumption tax, on after customs duty value
g. Per official schedules. Interviews indicated margins of 25-100% depending on type of spare part/tire and value.
h. The import and general customs duties are levied on the cif value. All other duties and taxes are calculated on a cumulative basis.

inclusive of dealer margins (assuming an average dealer mark-up of 45%), and about 90-95% excluding dealer margins. In addition, spares and tires may be subject to 20% consumption tax as well.[9]

Reduction of import-related taxes should be considered, given the importance of spare parts and tires to the trucking industry, particularly in such a "hostile" environment (war, poor physical condition of roads) as Mozambique. This should be undertaken in a way that is tax revenue neutral and does not impede the growth of domestic industry.

In both the case of spares and tires, the main difference in the level of import-related taxation relative to vehicles is the import duty. Spares and tires are subject to a 35% import duty, whereas vehicles to only a 10% duty. This emanates from spares and tires being classified as "consumer goods (luxury items)." At a minimum, consideration should be given to classifying them as "final products -- inputs" which are subject to a 25% import duty. A case might also be made for putting spares and tires into even lower customs tariffs categories which are charged duties of 10% or 15%. This would appear justified due to the extreme importance of these inputs to trucking in Mozambique, and the potentially significant role trucking could play in domestic transportation and consequent stimulus to economic growth.

It is interesting to note that "spares for road and transport equipment" was one of the first items placed on the SNAAD to facilitate and encourage their importation -- presumably in recognition of their vital importance to the economy. However, in stark contrast, these spares are placed in the highest of the six import customs tariff categories.

Longer term, the objective should be not only to lower the category in which spares and tires are placed, but to rationalize the overall tariff structure such that only two or so tariff categories exist rather than six.

Reduction of import duties on spares would make rehabilitation of the existing vehicle stock more attractive relative to importing new equipment, would lower the incentive to smuggle parts into the country (reported to be quite common), would lower out of service time of vehicles, and promote the safety of vehicle operations.

Tire life under existing road conditions in Mozambique varies between 15,000 and 40,000 kms for tires manufactured locally or for comparable quality tires from South Africa. For large 18 or 22 wheel trucks this is a significant expense. Moreover, to operate on worn tires both increases the chances of breakdowns and accidents. Therefore operators should be encouraged to replace tires according to professional operator norms. However, the high import duty acts as a disincentive to such practices.

In addition, the domestic producer of tires is now mature, and it is hardly fair to consumers to continue to protect, and thus subsidize, the national monopoly. The appropriateness of removing such protection is evidenced by reports that the national manufacturer even exports tires, and

[9] Such a tax was reported to the consulting team during the course of interviews, but no official supporting documentation to this effect was found.

at lower prices than the same tires are available in Mozambique. Haulers operating internationally have a significant advantage over domestic competitors in so far as they can easily purchase and mount foreign tires when they are travelling in neighboring countries and then enter without paying taxes. Furthermore, the massive devaluation of the metical in recent years should afford the domestic producer of tires more than sufficient protection, without additionally levying high import duties.

Lowering import tariffs on spares and tires would reduce government revenue from the trucking sector. However, a commensurate increment in tax revenue might be derived from increasing taxes rates and improving collections performance on a number of other taxes and levies on the industry -- such as license and registration fees, diesel fuel tax, and other road user charges -- as discussed below.

3.3.2 Fees for Licensing Trucking Companies and Registering Vehicles

Trucking company licensing and vehicle registration fees are levied at very low levels and collections performance is poor. A one time charge of 300,000 MT is levied to license a trucking company for a 20-year period. Vehicles registration fees are between 6,000 MT and 10,000 MT per annum per vehicle, depending on whether the vehicle is typically engaged of hauls of less than or more than 30 kms, respectively.

Review of the purpose and value of such taxes is necessary. On the one hand, they can serve as revenue to reimburse for services rendered and become receipts of the Motor Vehicles Department or the proposed Institute of Road Transport. Alternatively, they can be considered as one of the road user taxes to be paid into the Road Fund.

In either case, particularly the latter, the vehicle registration fee schedule should be related to the road wear that each vehicle causes, and thus related to gross vehicle weight (GVW) and number of axles. Consideration should also be given to increasing the overall level of fees. Currently, annual registration fees only represent the equivalent of the revenue collected for a 45 to 60 ton-kilometer haul carried at official tariff rates.

Collections performance is also poor. The fact that the Motor Vehicles Department has no centrally located listing of all vehicles registered nationwide and those records that do exist are often several years out of date, would suggest that there are considerable "leakages" in collection of fee revenue. The proposal to create a new Road Institute is, in part, in recognition of this problem.

3.3.3 Diesel Fuel Tax

The level of taxation on diesel fuel is low, both in absolute terms and relative to the level of taxation on other types of fuel. Diesel fuel is taxed 5 MT per liter[10] or about 1% of the retail

[10] Source: Ministerial Decree 22/90 of 24 September 1990 covering taxes on Petroleum Fuels.

price, which is approximately 550 MT per liter. Taxes on gasoline are 250 MT to 300 MT per liter, on regular and super blends, respectively, which is about 15% to 25% of the retail price.

One can argue that because diesel fuel is used mostly in commercial operations, it should be taxed lower than gasoline, for which high taxation can serve to "ration" consumption. However, the differential in Mozambique is much greater than in most other countries. If the Road Fund is going to be used to pay for highway maintenance, then commercial transporters should pay their share. The largest source of revenue for such purposes in most countries comes from fuel taxes. It is an appropriate source because volumes purchased relate quite closely to road usage, and it is a relatively easy tax to collect.

In the case of Mozambique, serious consideration should be given to applying fuel taxes as a percentage of ad valorem of the CIF price, perhaps adjusted or at least reviewed annually. In fact, a proposal to implement something similar is reported to have existed since 1986, but no action has been taken. The proposal suggested a 10% tax on petrol and oils and lubricants, 20% on diesel, and the elimination altogether of taxes on aviation gas. Consistent with current practices, the tax should be collected by Customs on importation and transferred quarterly to the Road Fund.

3.3.4 Other Road User Charges

The overall policy on road user charges is unclear and needs refinement. A Road Fund was legally established to increase funding available for roads maintenance and into which was to be deposited user charges. The application of disbursement was to be largely under the control of the Ministry responsible for roads.

The main source of revenue for the Road Fund to date has been fuel taxes. However, the decree establishing the taxes on fuels was designed by the Ministry of Finance mainly as a consumption tax which would reduce gasoline consumption and thereby conserve foreign exchange. These revenues, to date, have mainly been disbursed to urban areas (80%), although rural areas are where much of the trucking operations occur and are in substantial need of repair and maintenance.[11] In addition, the tax formula hardly taxes diesel (see above) and provides no significant additional revenue for maintenance of the national network. There is clearly a contradiction which needs correction.

A well operating Road Fund which improves road infrastructure is essential to efficient and cost-effective truck operations in Mozambique. A balance needs to be found between raising sufficient revenue from appropriate sources versus "over-taxing" road users and stifling economic activity. Thus, a number of issues related to the Road Fund need to be addressed:

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[11] As of early July 1992, it is reported that a more rational disbursement of the receipts of the Road Fund was in effect. Now an inter-ministerial committee, which includes representation from the National Department for Roads and Bridges, decides on the allocation of receipts rather than the Ministry of Finance. Currently it is reported that over three-quarters of the receipts go to rural areas, and the remainder to cities which have pressing road infrastructure needs and lack alternative sources of funds.

i. How best to increase overall revenue intake from road users and to ensure equitable distinction between users. Should other road user charges be added to the Road Fund? Potential sources include such items as bridge tolls, foreign vehicle taxes, fines, sales taxes on vehicles and annual vehicle registration fees (see above), in addition to fuel taxes. Should taxes on fuels be increased? Should supplemental allocations from the central budget be routed via the Road Fund?

ii. How to improve the revenue collection system from road users to minimize leakages.

iii. How to refine the operating modalities of the Road Fund so that it is better administered and better meets the needs of the national road network.

The World Bank sponsored project ROCS has identified the Road Fund as an area which needs improvement and ASDI has committed to financing related studies. These should proceed as soon as possible.

3.4 Standards and Safety

3.4.1 Standards

During the years since Independence, Mozambique's network of paved and light duty roads has deteriorated rapidly from lack of required maintenance. Additionally, because of the original construction specifications of these roads, which are low by modern standards, limits are often exceeded by the high axle loadings possible with current model trucks. Repeated exposure to high volumes of over-gross traffic has further accelerated destruction of road surfaces and undermined the structural integrity of key bridges. These conditions slow traffic flows, decrease truck utilization rates and increase maintenance and repair requirements, all of which lead to higher operating expenses for Mozambique's truckers.

The consulting team interviewed a large number of truck operators to determine attitudes about enforcement of vehicle weight restrictions. Based on these interviews, unanimous approval was found in support of the fair enforcement of weight limitations, since it was understood that this would lead to improved roads conditions. The Mozambican truck operators attributed the vast majority of overloading problems to foreign transit carriers that operate in Mozambique from areas having higher limits.

The regulations pertaining to maximum vehicle weights and sizes are published in Decreto-Lei No. 49-308, Articles 18 and 19.[12] Standard trucks are permitted to be 16 tons if the weight is distributed over two axles and 22 tons if over three axles. Tractor trailers are restricted to 26 tons, 32 tons and 38 tons, respectively, for vehicles of three, four and five axle configurations.

[12] See Annex H.

Mozambique's gross vehicle weight laws are generally more restrictive than those in most of its neighboring countries, particularly for larger vehicles types:

Figure 3-1

Maximum Legal Gross Vehicle Weights in Selected Countries of the Southern African Region
(Metric Tons)

Country	One-Axel	Two-Axel	Tract/Trailer	Max Any Type
	- - - - - - - - - - Truck Configuration - - - - - - - - - -			
Mozambique	16.0	22.0	38.0	38.0
South Africa	15.9	24.0	40.5	48.7
Swaziland	15.0	24.0	NA	NA
Tanzania	13.0	19.5	34.0	35.0
Malawi	16.0	24.0	40.0	40.0
Zambia	NA	NA	NA	NA
Zimbabwe	NA	NA	NA	NA

NA = Not available, dependent on axle spacing.

Not surprisingly, neighboring countries with road networks engineered to higher standards, such as South Africa, allow higher weights. Whereas Tanzania, which has rather poorly developed roads, has even lower weight bearing limits than Mozambique.

Upgrading Mozambique's roads to support the use of larger trucks, if economically feasible, should be an important goal. This will provide shippers with more economical services and help to ensure that Mozambique remains a competitive gateway for international transit cargoes. Bringing Mozambique's standards into harmony with those of neighboring countries will also serve to simplify the enforcement of these laws.

In the near term, however, Mozambique cannot tolerate the ongoing damage being caused to its roads and critical bridges by overweight vehicles. Existing standards should be reassessed for each principal corridor to ensure that they are appropriate, and then a streamlined system should be implemented to support enforcement. Ideally, this would include establishing fixed weighbridges at key border crossings and ports of entry for through-transit cargoes. These installations should be operated under the exclusive authority of a single agency such as DNEP or customs to enable strict monitoring and to minimize the scope for potential abuses.

3.4.2 Safety

The current relaxed regulatory environment in Mozambique has had profound consequences to public safety. High rates of property damage, death, and injury result from motor vehicle accidents. Public interest aside, improving this situation will likely be a prerequisite to attracting asset-based lending institutions and insurance companies to support truck operations.

Mozambique requires enhanced regulation and enforcement in two key areas:

- Vehicle Inspection
- Driver Licensing, Testing and Monitoring

Annual safety inspections are needed for all vehicles, but especially for large trucks operated at high speeds. Inspection compliance could be established as a precondition for vehicle registration renewal. This would centralize authority with the Ministry of Transport and away from local law enforcement officials.

Drivers licenses are presently issued for life without differentiation for class of vehicle. Clearly, the driver of large passenger bus or tractor-trailer should be required to demonstrate higher levels of competency than that of a small van. Additionally, changes in physical abilities can occur over long periods as a result of illness, injury or the normal aging process. Standards must be established for vision and hearing, and drivers tested at reasonable intervals. Finally, a national database should be created to provide a central clearing house of information on all active truck drivers. Flagrant violations, repeated accidents or chronic histories of intoxication should be grounds for de-certification.

Both programs will require a significant commitment of resources if they are to be implemented successfully. Still, these programs can offer real and important savings. It should also be possible to fund each directly with carefully selected user fees from licenses and vehicle inspections.

3.5 Government Institutions

The institutional responsibility for road transport operations at the GOM level needs to be clarified and redefined, and relevant institutions strengthened. The National Directorate for Road Transport (DNTR) has principal responsibility for industry oversight, including: (i) regulations related safety and standards; (ii) the operation of selected parastatal transport enterprises such as CAMOC, RONAP (Rodoviaria National de Passageiros) and TPM (Transportes Publicos de Maputo); and, (iii) for regulation and/or operation of vehicle repair and inspection facilities and dealer representatives and part distributors.

However, DNTR shares its responsibilities with the Vehicle Services Department (Reparticoes de Viacao) of the City of Maputo's Transport and Traffic Directorate for licensing of vehicles and drivers, and with the National Police for control of overloading.[13] In addition, DNTR suffers from both a lack of planning, and of trained and motivated staff, with the consequent poor management of such essential activities as driver testing, vehicle inspection, control of overloading, and trucking company licensing.

It is widely recognized by government and donors that the DNTR will need to be re-oriented and potentially strengthened, in light of the changing industry environment and the poor functioning of this entity in the past. The balance of transport capacity is shifting to the private sector and many of the parastatal enterprises under DNTR's control (RONAP, CAMOC) are slated for privatization. In addition, many of DNTR's current standards and safety functions are meant to be assumed by the proposed new National Road Institute (INAV - Instituto Nacional de Viacao).

Some key questions with regard to DNTR are, thus, as follows.

1. What does DNTR do if the new National Road Institute is created?

2. What is DNTR's role in a post-liberalization industry environment?

3. What is DNTR's prospective role in helping to implement the industry liberalization action program?

4. Given the above, what are the implications for the organizational structure, staffing and prospective strengthening of DNTR?

Partial answers can be provided to the above questions, but further study and analysis are required. Firstly, if the National Road Institute is created with its currently planned functions (see Annex K) and the parastatal transport enterprises under DNTR are privatized, this would then leave DNTR with mainly economic regulatory responsibilities in selected areas. However, creation of the new Institute and the specific functions it is to perform are still uncertain, and the draft articles for its establishment do not specify the Institute's powers to enforce regulations nor its relation either with DNTR or the police. In addition, the stated rationale for creating a new Institute instead of strengthening the existing government entity may not materialize -- namely, better management through greater organizational autonomy, and increased financial resources through a greater latitude in funding sources. Likewise, while privatization of transport parastatals is a stated objective, the execution of such plans will likely follow an uncertain and lengthy process.

Secondly, the role of DNTR in a post-liberalization period needs to be defined with some precision, as does its role in assisting with implementation of the liberalization action program.

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[13] The National Directorate for Roads and Bridges (DNEP) is the other main government entity which has responsibility for road transport operations. DNEP primarily plans, builds and maintains road infrastructure. However, it is also in charge of select weighbridges to check for overloading, and could potentially derive some of its funding from sources currently administered by DNTR (such as vehicle inspection and registration fees). Relevant aspects of DNEP's operations are addressed elsewhere in this report.

Whatever the economic regulatory role it assumes, DNTR should perform its functions efficiently, transparently, impartially and in a way that does not impede or tax the efficient functioning of the private sector. DNTR could have a central role in executing proposed liberalization and privatization action plans in such areas as transport parastatal privatization, streamlining and liberalization of licensing procedures, and improving vehicle repair and parts distribution capacity. DNTR may also, depending on whether the new Institute is created, play a central role in refining the definition and regulation of safety and standards.

Finally, a new organizational structure and staffing level/mix at DNTR will need to be defined in light of advances anticipated for industry liberalization and privatization, and for the creation and prospective role of the new Institute. As an interim measure, DNTR has already undertaken some rationalization by locating its safety and standards staff on the premises of the Vehicle Services Department and its other staff in the main building of the Ministry of Transportation and Communications.

All the above needs to be studied further, and is recommended as a priority early activity in the industry liberalization action program (Chapter 7).

Chapter 4

TRUCKING INDUSTRY: OTHER ISSUES AND CONSTRAINTS

A number of issues and constraints, which are outside the direct realm of road transport industry policy and regulation, will need to be addressed to develop a dynamic and competitive commercial trucking subsector in Mozambique. Selected key issues include credit and insurance, availability of spare parts and effective workshop capacity, training, and the role of transporter associations.

4.1 Credit and Insurance

4.1.1 Credit

The need for credit is the refrain heard most consistently from professional transporters in Mozambique. Trucking is a capital intensive business, with the vehicle representing a major investment. Amortization periods tend to be at least five years for larger units and 2-3 years for lighter ones, if used intensively. Transporters must also have a line of credit to pay for emergency repairs, which until made will keep their vehicle off the road. However, transporters and particularly owner-operators are considered high risk business by banking institutions. This is especially true under the security risk environment in Mozambique. A credit institution would require the borrower to have all-risk insurance coverage (exclusive of war risk), because the vehicle is normally the collateral for the loan. This typically costs about 6% of the vehicle's insured value. The probability of collecting on claims promptly, or at all, in Mozambique is said to be poor.

At present the facilities for obtaining credit for purchase of new vehicles are limited and the credit is very expensive. There is no institution which finances the purchase of used equipment, nor can small transporters obtain lines of credit unless they have other assets as collateral or can find a guarantor.

The Bank of Mozambique (BOM) used to provide individual, unincorporated transporters 75% financing for three years for transport equipment, with a minimum of a 10% downpayment required and the dealer typically providing the residual financing needs (usually over a 12 to 18 month period). Lately, the BOM has tightened its credit policy, and in effect shifted the responsibility and risk of financing to the company selling the vehicle. Many of the dealer's during the first half of 1992 have responded well by providing a higher share of the financing and extending the terms of the dealer loan.[14] For example, Industria Technica is offering the following terms: 25% cash down payment, a 50% bank loan at 42% interest over 2 years, and 25% dealer's own credit for a maximum of one year. Entreposto is offering up to 50% of the finance itself over a 1 to 2 year period. In contrast, Toyota requires a 30% to 35% down payment and a guarantor for the dealer note. BOM is not offering to discount the dealer's paper.

The rate of interest on finance is set by the Ministry of Finance and Bank of Mozambique. As of September 1991, the relevant rates were set at 40% for loans of up to 2 years, 41% for ones up to 3 years, and at 42% on loans for more than 3 years. Obviously real rates of interest are much lower, given that inflation is running at between 25% and 40% (good estimates of inflation rates do not exist). Furthermore, it is interesting to note that there have been two tiers for interest rates, whereby certain industries are charged the lower Level 1 rates and other industries the higher Level 2 rates. The spread between the two levels is significant, about 5% to 7%, depending on the term of the financing. Private road transport has been in the more expensive Level 2 category, whereas rail and port-related transport and public transport of people and goods were in the lower Level 1 category. The rationale for this apparent modal and/or public-private bias is not known, and has acted in the past as a negative bias against private sector transporters. As of April 1st 1992, the loan "tier" system was eliminated and no explicit distinction is made in interest rates charged to different sectors.

Few transporters can earn enough to accept prevailing bank or dealer financing terms. Low availability and access to bank funds remains a limiting factor, and the higher down payments and guarantee requirements are acting as barriers to entry. Additionally, dealers can only be seen as a partial solution. They are unlikely to be able to provide more than 50% of the finance on a sustainable basis. The term period of dealer finance, while longer than it used to be, is still not the 3 years that BOM used to offer and it places too heavy an ongoing debt servicing requirement on truck operations. Also significant is the fact that dealer finance currently applies only to new, imported vehicles.

The objective should be to make available to transporters the medium-term credit needed to purchase and rehabilitate used machinery, and short-term credit to deal with emergencies or temporary cash flow interruptions. The absolute level of funds required to place a used vehicle in service is obviously lower than the cost of purchasing a new vehicle. Thus, a policy of stimulating the purchase of used vehicles would also serve to reduce overall credit requirements. However, financing facilities serving these needs are virtually non-existent at present. This is

[14] The change in BOM policy is designed to ration credit (as part of an overall credit rationalization and restructuring program, which is not sector-specific), but also to relieve the bank of the administrative burden of supervising multiple small borrowers.

compounded by the fact that there is very little evidence of well-developed informal financial sector markets operating in Mozambique.[15]

The World Bank project entitled "Small and Medium Enterprise Development", the objective of which is to "promote the rehabilitation and development of Small/Medium Enterprises (SMEs) by financing fixed assets and working capital for SMEs capable of efficient operation", could offer some assistance in financing small to medium scale truckers. The line of credit at the central bank (Apex Unit) through which these funds are on-lent, has been expanded since its inception and now includes funds from the European Investment Bank and Caisse Centrale (France). In addition, lines of credit targeted at specific sectors such as cotton and cashews are also administered by the Apex Unit and on-lent via the "SME" credit line.

The terms of these loans are relatively favorable. While the market rate of interest is charged, there are grace periods of up to 3 to 4 years and the loans are typically over a 12 year period. However, ultimate borrowers need to submit acceptable feasibility studies in addition to meeting other eligibility criteria. Lending to the transport sector to date has been almost non-existent (one loan approved; two turned down since the project became effective in June 1990) and the weak institutional capacity of the commercial banks through which funds are on-lent remains a limiting factor, irrespective of the sector to which the funds are lent.

Lack of credit constitutes a significant limitation to the expansion of private sector road transport. Credit ceilings, lack of credit availability, and the weak institutional capacity of commercial banks means that domestically sourced credit will be in very short supply for truckers in the near-to-medium term. Relief will only come as a result of the end of the war, an improved national economy and fiscal management, and the availability of all risk insurance (possibly inclusive of some war-related risk).

4.1.2 Insurance

Linked to credit is all-risk insurance. No credit institution will provide financing for vehicle purchase without all-risk insurance, as the vehicle itself is most likely the collateral for loans. Insurance in Mozambique is now a State monopoly, run by Empresa Mocambicana de Seguros (EMOSE), which according to recent evaluations "leaves a lot to be desired."[16]

Private truck operators need to have more options, and a premium structure which recognizes that after financing costs, insurance may be the largest fixed cost. In addition, insurance providers who pay off legitimate claims promptly are needed.

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15 Village money lenders and informal rural financial mechanisms, according to the World Bank, are not widespread in Mozambique. This is in marked contrast to neighboring countries such as Malawi where informal markets mobilize and allocate large volumes of savings. This is most likely due to the disruptive influence of the war in the rural areas of Mozambique which has led to the breakdown of traditional money lending activities, but also due to very low and declining levels of income and the inflation-induced disincentive to saving.

16 "Mozambique: Financial Sector Study", World Bank, April 30th, 1992.

Recent proposals have been made in Mozambique both to restructure EMOSE by perhaps having it join up with a private foreign partner, and to encourage new entrants and increased competition. At least three foreign companies are known to have applied for licenses to operate insurance companies in Mozambique, and at least one approval has been obtained. The speed with which private operators can provide an effective alternative to EMOSE is a matter of debate. EMOSE already has a retail network throughout the country and can draw on its resource reserves, not least of which is the considerable amount of real estate it owns (reported to be over 100 buildings), to combat competitive commercial threats. At least, it is unlikely government will intervene directly to "prop" up EMOSE.

War risks are not covered under normal insurance policies, but are a real risk which can put the small operator out of business and make the outstanding debt on vehicles unrecoverable. This risk is one faced by the owners of any fixed asset in many parts of Mozambique, but truckers operating beyond secure urban areas or corridors are particularly at risk. It is a risk against which the Government must be the guarantor and a suitable war risk insurance scheme needs to be developed, as long as the war persists. Donors may also have a role to play, particularly in technical design and perhaps by providing an initial capital subscription to a special fund.

The private trucking sector will benefit from any initiatives aimed at liberalizing and expanding the private insurance sector, as well as from war-related risk insurance schemes as long as the war persists.

4.2 Availability of Spare Parts, Workshops and Repair Services

Availability of spare parts is a problem in Mozambique. Parts are expensive and in limited supply. There is often a mismatch between requirements and existing inventory, positioning of parts around the country is poor, and sub-optimal use is made of the used or cannibalized supply of parts. This situation is exacerbated by the fact that there are so many makes and models of vehicles, arising from the multiplicity of nations donating vehicles, and a "laissez-faire" policy on the part of Government to licensing new vehicle dealers irrespective of support services offered.

There is only one independent parts supplier, ACAUTO, and it only has a limited distribution network -- a major business in Maputo and a small one in Beira. There is only an informal market in second-hand parts, and no established firm dealing in cannibalized or rebuilt parts. Given the low quantity and large variety of the truck fleet, it might be difficult for independents to achieve the critical mass required for adequate stock turnover to be profitable. Conversely, as there is already a supply of scrapped vehicles and more coming on the market, a second-hand parts supplier could fill a significant niche.

Some dealerships keep a better stock of spares than others, but none seems to really satisfy their customers. The more responsible dealers order usually from source only a couple of times a year. Shipping time is 2-3 months. There is always some mismatch between inventory on hand and customer's needs. This is especially true in Mozambique, where because of the bad road conditions and the armed attacks and burnings, it is very difficult to predict the type and quantity of parts required. Thus, there is a high propensity to have special orders, which is expensive and time consuming. Sometimes a dealer will try to purchase parts in South Africa, but these are more expensive if available. For some truck types, such as those sourced in the former Soviet Union and Eastern Europe, there will be little further parts supply.

Imported parts are subject to the massive devaluations in the metical, like other imports. This has complicated the valuation of spare parts inventories and invoicing at the time of sale. Less scrupulous dealers are said to sell at today's prices inventory which was purchased years earlier at the more favorable exchange rates. The dealer thus makes windfall gains. New parts prices also include substantial taxes and duties and dealer markups (see Chapter 3).

There is furthermore a problem of parts positioning. Parts inventories are largest in a few major cities, and very limited elsewhere. Requirements in other locations have to be shipped, which involves risks and delays.

Government organizations, such as DPCCN and AGRICOM, which received donations of vehicles, also tended to receive significant amounts of spares. As these companies consider divesting their transport functions, it is important that the spare parts inventories be managed in the interest of the new vehicle operators and not simply be sold off to the highest bidder. Persons acquiring the parts, if unscrupulous, could in some cases demand high mark-ups and make enormous profits, especially given the "windfall" scope provided by the high taxes on legally imported new spares.

In addition to spare parts, mechanical workshop and vehicle maintenance, repair and rehabilitation capacity are very limited. Such capabilities are particularly needed in an environment such as that in Mozambique which is so physically detrimental to vehicles.

Private sector mechanical workshop capacity is concentrated in the hands of a few companies which are located only in the main cities (particularly Maputo) and have poor regional networks. Such workshops tend to be dedicated servicers of only a limited range of vehicle makes and models. Significant mechanical workshop capacity also exists in the parastatal and Government sectors. However, these facilities are poorly run and officially cater little to the needs of the private sector. There is minimal effective workshop capacity at the road-side garage level.

The problems associated with spare parts and workshop capacity result in repair and maintenance services for the private sector which are scarce and expensive. This deters preventive maintenance practices and increases the share of the fleet which is non-operational. It also serves to limit the technical feasibility and economic attractiveness of vehicle rehabilitation. An enabling environment for private sector truckers, particularly smaller owner-operators, will require enhancement of workshop, repair and maintenance capabilities.

Rebuilding of trucks using complete kits has been successfully undertaken in Mozambique by the Mercedes dealer. It reported that more units could be done if the owners had the money or credit to pay for it. The cost is substantial, about one-third the cost of a comparable new vehicle. However, the dealers claim that the rebuilds can achieve up to 80% of the economic life of a new truck -- thus, rebuilds are potentially a very economic proposition.[17] There may be other sufficiently large and homogeneous truck fleets which would allow rehabilitation, but the financing aspect needs to be addressed.

A study needs to be conducted to: (i) encourage development of private sector owned and managed workshop capacity, particularly at the province and district levels; (ii) review workshop capacity at the parastatal and Government levels, assess its efficiency, and propose options for increasing efficiency through concession and/or direct privatization; and, (iii) assess the potential for economic rehabilitation of selected vehicle resources.

Such a study has already been identified in a preliminary fashion by the GOM and World Bank, as part of their efforts to prepare the ROCS project. However, a detailed Terms of Reference has yet to be developed, but should be as soon as possible. Implementation of the study's recommendations will have a direct bearing on the attractiveness to the private sector of some of the privatization options considered for the parastatal fleets.

4.3 Training

Lack of required job skills, both at the basic literacy level and for industry-specific managerial and technical tasks, is a major problem in many private firms and government agencies in Mozambique. Even in those organizations fortunate enough to have at least one or two capable executives at the top, staff abilities tend to become substantially weaker at the middle manager and supervisory levels. A notable exception is in selected, long-established firms whose organizations pre-date Independence.

This reflects the limited opportunities in Mozambique for the education and training required by many jobs, whether they be in private business or government service. Additionally, the national economic philosophy followed by the country emphasized public sector initiatives over private sector activities. As a result, there have been only limited opportunities to gain practical experience in private sector businesses.

The country's economic orientation is now in the process of change, which is a direct response to the many years of unsatisfactory performance experienced since Independence. The near-future will prove to be a very dynamic period for many government agencies as they assume new missions and discard old responsibilities. In this environment, training can fulfill a critical role by becoming an important instrument to effect change. However, because these conditions involve great uncertainty, they also create formidable challenges by making it difficult to predict what skills will actually be needed.

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[17] The economics of rebuilds, both from the prospective of the rebuilder as well as the ultimate operator, needs to be examined. This should be conducted as part of the proposed World Bank initiative which is aimed at assessing rehabilitation of existing vehicles.

4.3.1 Required Skills by Sector

Private Sector

Large and small truck operators alike have significant training needs in two broad areas: (i) basic business skills; and, (ii) those unique to the road transport sector. Generally speaking, operators at all levels tend to lack the fundamental skills and resources needed to operate a business and to make business decisions in a rational manner. For example, basic information on equipment operating costs often has never been compiled by the operator. Lacking these data, it is impossible to choose between alternative equipment types or even to price one's services in a manner that is both competitive and compensatory.

The depth and scope of specific training needs also tends to be a function of a carrier's scale of operations. Small, independent owner-operators have different operational requirements than their mid-to-large carrier counterparts. Throughout history and across numerous cultures, the smaller entrepreneurs have successfully managed small transport enterprises using a combination skills amounting to little more than hard work and common sense.

Therefore, in targeting skills for enhancement it is important to distinguish between the different needs of each group (Exhibit 4-1). Clearly, the larger operators will benefit more from programs covering management matters, organizational issues, strategic planning, and knowledge about how their businesses fit within the broader competitive industry. In contrast, smaller operators only require training in a limited set of practical, operations-oriented skill areas.

Government Sector

The government sector in Mozambique is undergoing important changes and training will be required to support critically needed job skills. In a centrally planned economy, government officials have a very hands-on role and may even participate in day-to-day decisions about operations and production. In a free market economy, government involvement is focused on developing and administering a regulatory framework that contributes to the general economic welfare of the nation and the well-being of its people.

It is important that the training program for government officials should have three fundamental goals so that they can better meet the challenges of a free market economy. Namely it should provide: (i) a thorough understanding of the industry; (ii) the fundamental technical skills needed by regulators to administer their public trust; and, (iii) the philosophical and practical knowledge needed to weigh fairly decisions affecting the near-term and longer-term public interests. The general skill areas which should be enhanced in the government sector to help achieve these goals are also shown in Exhibit 4-1.

Local Versus National Needs

Training must reflect the specific mission of each level of a ministry or directorate being targeted for skills enhancement. For instance, at the Ministry of Transport, and at the higher

EXHIBIT 4–1

Representative Areas for Skills Enhancement

Private Sector	Government Sector
Larger Firms – Transport management – Cost analysis and pricing – Strategic planning and competitive analysis – Investment analysis – Management information and reporting systems – Workshop operations and management – Driver education and training	**National–Level** – Transport regulation and policy – Strategic planning and forecasting – Program management
Smaller Firms – Cost analysis and pricing – Bookkeeping and record keeping – Basic maintenance and repair	**Local–Level** – Driver testing and licensing operations – Vehicle testing and safety program management – Weighbridge operations and management

levels of DNTR (or the newly proposed Institute of Road Transport), training should support specific missions dealing with transport policy, regulation and planning. However, within the Motor Vehicle Department and at the provincial levels of DNTR, DNEP and licensing directorates, the training should reflect a stronger emphasis on the practical administrative and technical skills associated with day-to-day operations and regulatory enforcement.

4.3.2 Training Delivery Models

A wide range of options exists for delivering the training needed to support and revitalize the road transport sector. However, since only limited resources are available, the method selected must be both efficient and cost-effective. For instance, a customized, in-house program may be appropriate under certain circumstances. However, if similar but less costly training is available outside, that source should probably be used.

Training is required on many different levels. In addition to provisions for literacy training, basic skills and general business management, delivery models are needed for a variety of industry-specific areas.

Industry-Specific Management Training

Training in transport management is available at the national university and at other universities in the southern African region. The road transport sector should make maximum use these programs, both as a source for recruitment and as a training resource for managers being groomed for future responsibilities.

However, as transport sector training becomes increasingly specialized, industry-specific and practical, there will be fewer opportunities to outsource training services to traditional education providers like commercial schools, universities and vocational institutions. At this point it may become necessary to develop a special training program.

In-house training programs can be either formal or informal, or some combination of the two. Formal training requires the design of a suitable curriculum, development of appropriate training materials, allocation of staff to serve as trainers, and a commitment to reserve blocks of time for staff development. Informal training is much less structured and has a large on-the-job component. Enterprises receiving expatriate professional assistance have an important opportunity for valuable informal training. The goal in these situations should be to maximize the transfer of important technical knowledge. Unfortunately, there is often such a strong tendency to focus on day-to-day business requirements that it can interfere with this process. Opportunities for on-the-job training can also be negotiated as part of joint venture partnerships, contract management programs, and foreign internships in government or industry with donor countries.

Regional Training Solutions

Mozambique is just one of several countries in the southern African region facing similar challenges in the road transport sector. Each has different specific needs as well as different resources from which to draw in its endeavors to solve these problems. Significant benefits may be possible through bilateral or collaborative training efforts. Therefore, Mozambique would be served well to work with its neighbors to explore potential cooperative training initiatives. SATCC could provide an important coordinating role for regional educational activities. It has already undertaken extensive work to define regional transport sector training needs and to identify appropriate training institutions and providers. A first task in evaluating the potential merits of a regional training approach should include a review SATCC's efforts in this area.

Training Study: Terms of Reference

Training for the road transport sector has been identified by the World Bank as a high priority for future initiatives. The study Terms of Reference for a more detailed analysis of the these needs for both the private sector and government agencies, are presented in Annex J.

4.4 Transporter Associations

Cooperative trucking industry associations, with memberships comprised of small owner-operators, may have an important role in creating and then sustaining an enabling environment for the revitalization of the private road transport sector in Mozambique, and in supporting divestiture of the parastatal fleets. As a result, it is appropriate to investigate transporters' associations from three perspectives: (i) legal status; (ii) ability to foster or impede increasing competitiveness in the road transport sector; and, (iii) potential for facilitating vehicle transfers from the public to private sector.

4.4.1 History and Legal Status

In Mozambique transporters' associations are called "nucleos". They date back to the period just after Independence when the truck operators in each province were encouraged to cooperate to ensure transport services were provided in efficient manner. The nucleos were established informally without specific organizational charters. Practically speaking, nucleos never became a significant factor in the road cargo sector. Their period of greatest activity is reported to have been in the mid-1980s when the nucleos aided with the allocation of fuel in remote provinces during periods of scarce supply. This role was discontinued after a short time when fuel supplies and availability returned to normal.

In Maputo and Beira, there is little interest in nucleo membership on the part of many individual owner-operators. The reaction of the larger, more established carriers such as Cassamo, Transmap Transportes Banoo and Edmundo Carrelo was even more negative. They see nothing to be gained from participating in nucleos. These entrepreneurs are unattracted by any affiliations that might inhibit their abilities to compete aggressively for market share.

However, resistance to transporter associations should not be taken at face value because while every carrier said it was aware of nucleos in concept, there was no consensus about what roles these organizations actually fulfilled. In an effort to help clarify this uncertainty, the study team surveyed each of the nucleos currently active in Mozambique. Transporters associations active in both Swaziland and Malawi were also contacted to get an even broader, regional perspective on their roles.

4.4.2 Competitive Implications of Nucleo Activities

Nucleos were initially encouraged at a time when transport tariffs were tightly controlled by the authority of central government. Since all truckers were paid the same for similar services, the potential for anti-competitive abuses was minimal. However, Mozambique is now moving in the direction of free market rates. In those areas where they have the greatest strength, nucleos may be tempted to influence the rate setting process and/or limit access to markets. Such anti-competitive activity would limit the development and functioning of a dynamic, private road transport sector.

There are six principal activities that one or more of the associations engage in, either presently or which it plans to at a future date. The six functions are: (i) lobby government; (ii) purchase in bulk to obtain discounts; (iii) coordinate booking or dispatching services; (iv) administer billing and documentation; (v) offer maintenance services and support; and, (vi) negotiate rates.

These functions have differing effects on the degree of competition likely to emerge in the trucking sector. For example, jointly negotiating rates and coordinating booking and dispatching services tend to be conducted by such associations in a cartel-like fashion, with the consequence of increasing rates unfairly, worsening service levels and discriminating against certain customers. On the other hand, economies of scale provided by nucleos in such areas as bulk purchasing and "pooling" maintenance, which often lead to benefits which outweigh any anti-competition effects.

None of the nucleos in Mozambique currently was found to engage in any of the anti-competitive practices, largely because they are generally inactive in all areas. In addition, indications are that the prevailing market in Mozambique continues to be sufficiently un-concentrated and competitive to undermine any potential efforts at cartel-like pricing actions on the part of nucleos. However, if problems do arise, it may be necessary to prohibit by statute such anti-competitive practices on the part of nucleos or other, similar groups which have formed.

4.4.3 Transporters' Associations as a Mechanism to Support Divestiture

Transporters associations have the potential to assist in the divestment of state-owned trucking assets and to improve the overall health of the road transport sector by supporting owner-operators with day-to-day business activities. Experience in the Southern Africa demonstrates that when maintenance, purchasing and administrative services are pooled through cooperative arrangements, the resultant economies of scale can enable all members of a trucking association to benefit from reduced overhead and lower costs. This could serve to remove formidable barriers to entry for emerging small scale truck operators in Mozambique. By reducing costs and eliminating the need for certain specialized skills, the industry would open up for greater participation.

Encouraging an expanded role for nucleos is a worthy goal, but it is probably independent of any near-term plan to divest the parastatal fleets. Nucleos can aid development of a healthier private sector trucking industry and, in so doing, facilitate its ability to absorb more trucking capacity. However, the organizational infrastructure and institutional capabilities required by nucleos to fulfill this role presently do not exist and are unlikely to evolve in the foreseeable future. Additionally, nucleos are unlikely to have the ability to help overcome a main impediment to small operators being able to purchase divested vehicles, i.e., to provide the financial support through loans and credit needed to facilitate this transaction.

Chapter 5

SHIFTING THE OWNERSHIP BALANCE IN THE TRUCKING INDUSTRY

5.1 Policy Rationale

A key component of the Government's strategy for fostering a private sector road transport industry in Mozambique is the policy of shifting the balance of trucking capacity from the public to the private sector. The Government has identified high concentration of the truck fleet in Government-controlled or parastatal fleets as the major problem facing the industry, in addition to the need to develop an enabling environment. The intent is to minimize the extent to which national capacity is controlled by non-transport state enterprises which operate large own-account fleets inefficiently.

This policy is designed to alleviate at least three major problems associated with parastatal fleets.

A. Poor Management

The main parastatal truck fleets are widely recognized, by both government and the donor community, to be poorly managed and the assets under-utilized. The origins of this poor management reflect both issues that are endemic to the fleets being under public sector management and those endemic to the current environment in Mozambique.

Poor management emanates from the fact that most public sector managers are under-motivated, lack incentives, and are often poorly trained. Poor asset utilization results from the own-account public fleets being uncompetitive with the private sector where it exists, and because the function for which many of the fleets were first brought into the public fold, no longer need be undertaken by government. The public fleets also suffer from an inability to generate backhaul cargoes. In addition, the composition of the fleets reflects the proliferation of vehicle models of disparate origins, which results in difficult procurement and management of spare parts and represents a serious problem for vehicle rehabilitation and maintenance.

However, poor asset utilization results not only from poor public sector management but also from the environment that all truckers face in Mozambique -- poor roads, war hazards, vehicle destruction, unavailable maintenance, lack of spare parts, etc.

A key issue is whether there is evidence to suggest that the private sector would provide better management of these or similar assets. There is only limited evidence to suggest that this is currently the case. Managerial resources are not abundant in the private sector and utilization levels experienced in the private sector are not significantly better than those in the parastatal sector. However: (i) experience in Mozambique (for example, comerciantes) and elsewhere in the world suggests that private sector operators are more likely to be better motivated and display greater ingenuity; (ii) the emergence of several new, successful private carriers in the last couple of years (such as Cassamo and Salema) and the continued survival of some private carriers which pre-date Independence, even in the face of the "inhospitable" environment, is cause for hope; and, (iii) once an enabling environment is in place, private sector performance will improve considerably.[18] Furthermore, both government and donors are so disillusioned with the management of the main parastatal fleets, that eventually these operations will be forced out of business as the level of resource commitments decline.

For smaller truck owner-operators, the managerial intensity of their business is low. Comerciantes, small truckers and traders have successfully run small truck operations in Mozambique throughout the war. They will operate even more efficiently when an enabling environment is in place.

B. Industry Distortion

The existence of a substantial public sector truck fleet, as operated in Mozambique, represents a major distortion to industry structure and the efficient functioning of markets.[19] This has the effect of "crowding out" the private sector by acting as a barrier to entry for new truckers and dampening the performance of existing trucking firms.

The distortions take several forms. For example, the parastatal fleets are heavily subsidized by government and donors, and do not price their services on a full cost recovery basis. This serves to undercut the market, reduce demand for the service of private truckers, drive some of the private sector out of business, and discourage new entrants. Similarly, certain segments of the market or customer groups are either reserved for parastatal carriers or, at a minimum, the public fleets have rights of first refusal or are given preferential treatment. For example, most government shipments and food aid are transported by parastatal fleets, as in the past have been agricultural inputs and produce.

For the industry liberalization and enabling environment plans to have their full, intended effect, these distortions must be eliminated. For example, liberalization of prices for trucking services will not lead to rational pricing and an efficient allocation of resources if a significant share of the services are provided by subsidized government carriers which undercut the market. Likewise, liberalizing truck licensing and allowing free inter-provincial haulage will not eliminate inefficiencies if the government fleets still dominate certain provinces or segments of the market.

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[18] Obviously, the end to the war is the single most important change required to stimulate the revival of the private road transport sector.

[19] This is not explicitly stated by government as a problem associated with parastatal fleets, but is implicit in the government's rationale for identifying concentration of the fleet in the parastatal sector as a problem.

C. Financial Burden

The parastatal fleets represent a major financial burden on government and donors, both directly and indirectly.[20] Many of the fleets are subsidized directly from the national treasury or by having debts forgiven. Aid agencies have also donated substantial resources in terms vehicles, spare parts and technical assistance. Many of the donors feel that such assistance is no longer needed and that the private sector, with some nurturing, can better perform the services currently provided by government fleets. If the fleets are kept in the public sector and the donors withdraw support, then the financial burden on government will increase substantially -- an occurrence it can ill-afford.

5.2 Options for Shifting the Balance to the Private Sector

There are two main ways for improving the balance and interaction between the public and private sector, and thus, the performance of the industry overall. The first is to reform the parastatals, improve operational efficiency, and get them to operate more "commercially". The second is to increase, either gradually or quickly, the share of capacity operated by the private sector.

Reform of the trucking parastatals is not a viable option currently in Mozambique for several reasons: (i) reform of the parastatals is inconsistent with government policies which aim to encourage growth of the private sector and to maintain parastatals only in those sectors deemed to be "strategic" (trucking is not one of these); (ii) past attempts at improving parastatal performance have not been successful and even some of the more ardent supporters of select parastatals have withdrawn their support in the last year or two;[21] (iii) the inefficiencies in some of the parastatals are so severe that the resources required to reform them far outweigh the benefits, and would far exceed the resources required to stimulate the private sector to perform at similar levels; and, (iv) the truck fleets in the non-transport parastatals, which were brought "in-house" under special circumstances, are largely no longer needed to perform their original function. Thus, shifting the balance of capacity toward the private sector is the dominant strategy.

A number of options exist for shifting the balance of fleet capacity from the public to the private sector. Some options are more gradual than others, and they are not all mutually exclusive. A hierarchy of measures can be envisaged that: (i) deliberately prevent any further growth in public sector truck capacity and passively allow private sector capacity to grow "naturally" over

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[20] Government does not [illegible]itly view the financial drain posed by the inefficient operations of the parastatal fleets are a major problem. This may be because the exact extent of the financial burden they represent is not known due to poor accounting, and/or because, for the last decade, the major parastatal fleets have been primarily supported by donors and only indirectly by government. It may also be the perception that in last the decade, due to special circumstances, there was no viable alternative to the parastatal fleets, and thus, whatever resources were required to support them had to be committed.

[21] For example, AGRICOM has long been supported by ASDI. Much of this assistance has been withdrawn. Similarly, DPCCN used to receive donated trucks from over a dozen donors. In 1991 and 1992, only 2 to 3 donors donated vehicles; many fewer than in the past.

time; (ii) proactively encourage expansion of private sector capacity; and, (iii) deliberately reduce, in absolute terms, public sector capacity. The range of options include the following.

A. Prevent Growth In Public Fleets

Cease Donations to Parastatals

Over the last decade, donors have been the primary providers of vehicles to the major parastatals. There have been a number of negative consequences: (i) erosion of the market for private sector truckers because donated vehicles have permitted parastatals to price their services at below full cost recovery levels; (ii) proliferation of vehicle makes and models and thus, the lack of economies and the heightened difficulty in managing vehicle repair and maintenance; and, (iii) a disproportionately high share of newer, larger vehicles imported into the country have gone to the public sector.

If donors cease to provide vehicles to the parastatals, then this would automatically prevent further growth in the size of their fleets. Many donors are already pursing such a course of action.

"Static" Inventory for Parastatals

Another means for preventing growth in the parastatal fleets is the concept of "static" inventory. In essence, under this option donors would stipulate that for every new vehicle donated to a given parastatal, one vehicle from the parastatal's existing fleet would have to be released (sold or given) to the private sector. This has the dual effect of preventing growth in the parastatal fleet and provides greater capacity to the private sector. Unfortunately, a significant share of the vehicles in the parastatal fleets is non-operational, and it is usually these vehicles which are released first to the private sector.

B. Stimulate Growth in Private Fleets

"Donate" Vehicles to the Private Sector

The public-private mix would shift over time if it was stipulated that all trucks provided by donors in the future go to the private sector. Donors such as USAID have commodity import programs, for which trucks are eligible, which are aimed solely at the private sector (although in the past, traders and farmers largely have been the targeted beneficiaries, not common carriers).

Most bi-lateral agencies and NGOs operating in Mozambique have not in the past provided this sort of assistance to the private sector. While many of the donors are not prevented from doing this in their mandates, many would have difficulty making such a transition in the near term because their procurement systems are oriented toward government-to-government flows.[22] Likewise, many donors would still be required to source the trucks from their home countries -- thus, little would be done to reduce the range of makes and models available. However, at least the private sector could decide which makes/models were easiest to repair and maintain in Mozambique, and favorably bias procurement patterns in this direction.

Stimulate the Vehicle Rehabilitation Industry

Growth in private sector fleets could be encouraged by stimulating the vehicle rehabilitation industry. As much as one-third to one-half of the existing fleet in Mozambique is estimated to be either non-operational or spends a significant amount of time out of operation. The economics of vehicle rehabilitation can be quite favorable (see Section 2.2.3). Vehicles can be rehabilitated such that they have 80% of the economic life of new vehicle at 20% to 40% of the initial cost.

There are multiple sources of vehicles for rehabilitation. Private sector fleets already contain a significant share of non-operational vehicles. However, rehabilitation can also be coordinated with, and thus accelerate, other programs aimed at shifting the public-private mix balance. For example, the "static" inventory model for parastatals (see above) would be facilitated by the creation of a robust rehabilitation industry. The private sector would be more willing to accept, and put into productive use, the older or non-operational vehicles that the parastatals are likely to release as part of the program. Similarly, a number of donors have been investigating the prospects for importing used vehicles as part of their aid programs. The intent is to provide more truck capacity per dollar of assistance. Effective life of assets would be fairly similar to new vehicles because, due to the security situation, the life of a used vehicle does not differ that significantly from a new one. To the extent that these donor programs can be targeted at the private sector, private truckers are likely to be more receptive if they have an effective rehabilitation industry to support their used fleets.

Encourage Dedicated Private Fleets into Common Carriage

Another means for increasing effective private sector truck capacity is to encourage the conversion of dedicated, in-house fleets into common carriers. There is considerable, "quality" capacity in the dedicated fleet sector and the economics for them to convert to common carriage are favorable for both the operator and the national economy (see Section 2.1).

Conversion could be achieved quite quickly by liberalizing and streamlining common carriage licensing regulation and procedures (see Section 3.2), and other initiatives to encourage conversion. This would have the dual effect of: (i) increasing private sector common carriage capacity quickly, by adding vehicles in good physical condition and which are professionally managed; and, (ii) opening up to the common carriage and small trucker operator an attractive segment of the market, that is the goods currently carried in-house by dedicated fleets.

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[22] For example, both the Swedish and Dutch aid agencies in Mozambique were recently approached by the local agents of Scania and DAF, respectively, to see if the agencies could provide support directly to the private sector for the purchase of vehicles, parts and maintenance services. Neither agency felt it could respond effectively.

C. Reduce Size of Public Fleets

"Replacement-Induced" Inventory Reduction in Parastatals

A variant on the "static" inventory model, is to induce parastatals to reduce the absolute size of their fleets by requiring that for every new vehicle provided, two or more existing vehicles be released to the private sector. The principle is to ensure that more capacity is released to the private sector than is added to the parastatal's fleet. As with the static model, potential drawbacks are that: (i) donors would continue to provide trucks to the main parastatals; and, (ii) the "quality" of the parastatal fleets would be enhanced (ie, they would get new trucks in exchange for releasing older ones). Care must also be taken to ensure that the vehicles released to the private sector have some economic life left, or can be economically rehabilitated. A number of the vehicles recognized on the inventories of the main parastatals are well beyond "salvation". It would be a natural tendency of the parastatals to release these vehicles first. This should be discouraged. These vehicles should be sold for parts.

Privatization and Divestment

Another important way to reduce the absolute share of truck capacity which is operated by the public sector is through various forms of privatization. The range of privatization options is quite extensive and varies in terms of whether the parastatal in question still owns the vehicles but the private sector manages and operates them (for example, under management contract or leasing), or whether all or some of the vehicles are sold to the private sector. The feasibility of privatization and selection of which form(s) of privatization is appropriate are complex decisions. However, privatization in some form is a very effective means for shifting the balance of the fleet from the public to the private sector. Thus, privatization is examined in some detail in the next chapter.

5.3 Guidelines for Shifting the Balance

On-going events are already leading to the prevention of growth in the public fleets and to some increase in the private fleet size. Obviously, the initiatives to create an enabling environment outlined early in this report will in and of themselves, by making the industry more attractive to the private sector, stimulate increased truck capacity in that sector.

Government should pursue the following guidelines in order to shift the balance of the fleet from the public to the private sector. They are ranked in approximate order of priority in terms of significance of impact and prospective ease and speed of implementation.

1. Liberalize trucking related regulations and policy and create an enabling environment, as a matter of first priority, so as to improve the sector's viability and economic attractiveness. This includes liberalization of truck licensing and encouraging dedicated fleets into common carriage.

2. Deter parastatals as much as possible from soliciting donations of more vehicles from donors. In those cases where further donations are permitted and forthcoming, the parastatals should be required to release to the private sector an equal or greater amount of "economic" truck capacity.

3. Donor programs which can provide vehicles directly to the private sector should be encouraged, but the market should be allowed to "signal" which vehicles it prefers.

4. Implement action plans for the privatization of the main parastatal trucking fleets (see Chapter 7).

5. Conduct a study of, and develop an action program for, stimulating the vehicle rehabilitation industry.

Chapter 6

ASSESSMENT OF PRIVATIZATION OPTIONS FOR PARASTATAL FLEETS

Privatization has the potential to be a very effective means for shifting the balance of truck capacity from the public to private sector, and improving the environment for the private sector trucking industry. In this chapter: selected key issues which will influence decisions regarding parastatal fleet privatization are examined; the current privatization status of the parastatal fleets is reviewed; and, alternative privatization options for the fleets are evaluated.

6.1 Key Issues in Truck Fleet Privatization

An overall policy for the privatization of public enterprises, supported by the necessary basic laws and regulations,[23] is in place in Mozambique. The general institutional arrangements for assessing and ultimately executing privatization plans for a given public enterprise are also set out in broad terms. However, the process has not been extensively tested in practice, particularly for the privatization of larger, non-agricultural enterprises.

Decisions regarding the privatization of the parastatal truck fleets will depend primarily on: (i) the government's capacity to implement any given privatization process; (ii) the absorptive capacity of the private sector, especially with respect to financial resources, and the human capacity to profitably operate and maintain the vehicles; and, (iii) assumptions regarding the nature and continuation of the war and the drought. Issues related to government and the private sector are controllable and can be altered over time, provided an appropriate action program is developed and executed effectively. In contrast, the war and the drought are temporary, but there is little that government officials can do to control their nature and duration.

Presented below are a number of privatization-related issues which are key both in interpreting the current and planned actions of government, and for developing any future privatization plans.

Government-Related Issues

The overall motivation for considering the privatization of government-owned and parastatal truck fleets is stated by government to be the realization that truck fleets currently owned and operated by the government are poorly managed and therefore, these assets are being utilized in a sub-optimal fashion. A lesser motivation is a belief by some members of government (and many donors) that the private sector can use these resources and perform transport services better than government.

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[23] See Annex I.

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The fact that these fleets almost certainly represent a financial burden on the government's budget apparently is not a stated by government to be a main motivation for fleet privatization. This perhaps emanates from the fact that: (i) it is unclear, due to poor accounting procedures, what the level and nature of the fiscal burden is posed by any of the government fleets; and, (ii) as many of the fleets, vehicles, spare parts and other inputs were donated by donors, operating losses are subject to "confused" definitional decisions regarding what to consider as actual versus economic costs of operations.

Privatization of government-owned and parastatal trucking fleets will involve a number of ministries and government entities, because: (i) no single Ministry has overall responsibility for the trucking industry -- CAMOC is under the Ministry of Transport, AGRICOM under the Ministry of Commerce, and DPCCN under the Ministry of Cooperation; and, (ii) multiple government entities, by design, are involved in the privatization process, both evaluation and execution stages. By law, at a minimum, the line ministry in question, the Ministry of Finance and Bank of Mozambique are included.

Privatization laws are not explicit with regard to cases where only part of a company is being, or where asset control is transferred but not ownership. The law allows for three main "transformations" for state-owned enterprises: (i) continuation of state control for enterprise operating in "strategic" activities; (ii) independent companies ("sociedades anonimas"), in which government holds majority or exclusive ownership; and, (iii) total or partial private ownership, but where the government need not be the majority share holder. Where a company is not being sold, or transferred, but only a subset of its assets are sold or control of which is transferred, the law is less clear. It is also not clear whether the leasing of trucks to private parties, where the government retains ownership, would be considered by government as privatization, or to what extent it would be subject to the provisions of the privatization law.

Any process by which government truck fleets would be privatized will not have been extensively tested in practice in Mozambique in the past. This reflects the facts that: (i) few privatizations of major state-owned enterprises have occurred to date in the non-agricultural sector; (ii) most initiatives so far have involved enterprise restructuring, in which the government in one form or another has retained majority share ownership; and, (iii) the laws governing the process by which state-owned enterprises are to be privatized have, for the most part, been in existence for less than a year.

It is not clear which government entity (or entities) receive the financial proceeds from any prospective sale of such government assets as the truck fleets. Most members of government expressed the view that the Treasury would get the proceeds, because all assets of the State are ultimately owned by the Treasury. However, some members of government felt that it would depend on the legal status of the public enterprise in question. For example, AGRICOM as an "empresa estatal", feels that this status gives it the right to all or some of the proceeds of the sale of its assets. However, where the privatization leads to the dissolution of the state enterprise altogether, as would be the case were CAMOC to sell its fleet and workshops, then the flow of financial proceeds is brought into question again. Needless to say, resolution of this issue will greatly influence the various interest group's relative motivations for advancing the privatization process.

Furthermore, a Privatization Fund is meant to be established, into which the financial proceeds from any privatization are to be placed. In turn, the funds are to be spent on assisting with further privatization activities such as: restructuring state-owned enterprises in preparation for privatization; funding privatization-related processes and institutions; and/or, writing down the debts of state-owned enterprises slated for privatization.

Compounding this issue, is the fact that many of the assets were donated by donors in the first place (for example, trucks in the case of AGRICOM and DPCCN), and with a specific function in mind. While technically most donors provided these resources without any restrictions, the donors will be sensitive to the way in which the financial proceeds from selling these assets are applied.

In addition, in the case of DPCCN for example, where its overall function is not expected to change in the near term,[24] if it sells its fleet and does not receive the financial proceeds (which appears likely given DPCCN's status within the Ministry of Cooperation), a key question becomes whether donors or governmental and non-governmental sources will be willing to finance the transport services that DPCCN would then need to purchase.[25]

<u>Little consensus exists on the appropriate valuation of truck fleet and related assets.</u> A full range of values are suggested by different groups, including: (i) the market replacement value of vehicles -- that is, the total cost a purchasing new equipment today, either inclusive or exclusive of post-CIF charges and levies; (ii) an assumed book value on an almost fully depreciated basis; and, (iii) giving many vehicles away for free if their book value is near zero and they were donated in the first place.

Precedence exists for setting "floor" prices. The current privatization laws lay out a process by which the Ministry of Finance, in concert with the line ministry in question, sets a minimum price for assets which are slated for sale, and thereafter, bidders are meant to be selected on the basis of non-financial criteria, having met the minimum price hurdle

<u>The geographic dispersion of the parastatal fleets, mainly along provincial lines, will need to be taken into consideration in the privatization process.</u> A decentralized privatization process will facilitate a wider distribution of the privatization "benefits" and will save the expense of prospectively re-positioning fleets in Maputo for auction or sale. However, the dispersion complicates taking stock of inventory and may limit the ability to control quality in the execution of the privatization process itself.

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[24] In fact its role may increase in importance with worsening drought situation and impending need to transport relief cargo, both within Mozambique and in transit to land-locked neighboring countries.

[25] Most donors only provided the trucks in the first place because they felt their was no other way for serving the market segments served by DPCCN, that is remote and war-torn areas. Most donors interviewed by the consulting team felt that the private sector now could provide a viable alternative for most of the cargo currently carried by DPCCN, and would like to see DPCCN make more use of private sector truckers. Many donors also expressed the view that they would like to by-pass DPCCN altogether in transporting relief cargo, if possible.

Private Sector Related Issues

The absorptive capacity of the private sector to own, operate and/or maintain the parastatal truck fleets is questionable. Financial resources are scarce and difficult to obtain, the managerial skills for operating trucking companies are weak, and past experience suggests that maintenance will a limiting factor especially given the "hostile" (war, poor roads and costly inputs) environment truckers face in Mozambique.

The trucks in the main parastatals fleets are generally too small to optimally operate in international or long-haul service. These fleets consist largely of trucks in the 5- to 25-ton range, often averaging under 10 tons per vehicle. This means privatization should be biased towards domestic operators, particularly small owner-operators serving rural sector and other domestic needs.

War and Drought Related Issues

As long as the war persists, "externalities" to the efficient functioning of the trucking industry will remain. For example: (i) the government may need to act as the transporter of last resort, in some of the more remote and war-torn areas; (ii) the ability to obtain comprehensive insurance inclusive of war risk will remain limited and consequently restrict access to credit and thus entry into the industry by the private sector; and, (iii) operating costs will be abnormally high due to the cost of procuring military/security escorts and market distortions created by having to arrange convoys and a bias towards operating on intra-urban (ie, safe) routes.

The drought-related factors affecting the timing of the privatization of the fleets are working in mixed directions. On the one hand, with the current drought situation, the demand for transport services will be heightened and fairly insensitive to the price of services, thus it would be a buoyant market for private companies to enter. On the other hand, given it is a drought year, the cost of failure in human terms of "experimenting" unsuccessfully with private provision of transport services to the almost complete exclusion of public provision, is very high.

6.2 Privatization Status of Specific Fleets

Whether, how and when the main parastatal fleets should be privatized cannot be seen in isolation of actions taken to date. The government's privatization decision with respect to individual fleets varies greatly in terms of both the degree of clarity of whether a decision has been made, and of the nature, extent and timing of the privatization contemplated.

CAMOC. The case of CAMOC's (Camionagen do Mozambique) fleet seems the most clear. A decision has been made by the governing Ministry (Ministry of Transport) to "privatize" the company and the fleet,[26] and a number of actions have been taken in this direction.

[26] The distinction between the company and the fleet is relatively easy in the case of CAMOC, as its sole business is road transport. However, in selling the fleet, additional assets do include a spare parts inventory and workshop facilities.

The consulting team was informed that the Ministry has received several expressions of interest for the Maputo-based trucking operations of CAMOC.[27] Interested parties are said to include Transcarga, Scanmo (the local Scania truck dealership), and CFM.

- The Ministry is most seriously considering the Transcarga prospect, but is requiring that it find a suitable foreign partner with which to joint venture, to strengthen the bid's managerial and financial capacity. A key question is whether a sale to Transcarga, which is over 90% owned by various government entities, constitutes privatization. If a majority foreign partner is found and a legal joint venture company formed, then this issue would presumably be resolved.

- The logic behind the Scanmo interest presumably is because most of CAMOC's fleet is Scania equipment. Scanmo would be in a good position to maintain, and where needed, rehabilitate the fleet. However, it has little experience in running a commercial trucking operation. Scanmo itself is joint venture between the government and a private company. Thus, whether this would constitute a privatization transaction is debatable and would depend on the exact terms and conditions.[28]

- CFM is thought to be looking to generate local drayage capacity at its port and rail terminals. CFM may also be planning to enhance it's ability to undertake intermodal hauls, giving it a north-south capability in addition to its predominately east-west oriented rail network. CFM is a government entity, thus this would not constitute a privatization.[29] However, there are plans to privatize CFM, initially through a leasing arrangement.

The Transportation Ministry also states that it is in the process of conducting an inventory of CAMOC's assets.[30] This is meant to both facilitate the privatization of CAMOC as well as to verify the accounts at CAMOC, which have come under increasing suspicion due to a recent scandal involving the recently departed head of CAMOC.

Little thought seems to have been given to the privatization of that part of CAMOC's fleet and other assets which are resident outside Maputo. It is also unclear which entity/entities within

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[27] The Maputo operations of CAMOC constitute the majority of its fleet and workshop capacity.

[28] Many privatizations to date in Mozambique have preferred joint-ventures with government, either as an end state for the new company or as an intermediary step towards fuller private ownership.

[29] CFM originally had interests in most modes of transport in Mozambique. It now runs the railroad and main sea ports, but used to have trucking operations and the airline. In fact, some of CFM's old trucking operations have been absorbed into CAMOC. Resistance to CFM moving back into trucking would be high.

[30] As of early July, neither the Ministry of Transport nor CAMOC management could estimate with precision the exact inventory and status of CAMOC's assets.

government would receive the proceeds of any sale, especially given that CAMOC E.E. would cease to exist as a result of the privatization.[31]

Current management at CAMOC believes a management buy-out is the best course of action, perhaps as a joint venture with a well-funded private partner. They believe this would preserve the jobs at CAMOC, which they are in fear of losing if an outside private company buys the entire company.[32]

<u>AGRICOM.</u> The decision to privatize, in some form, the transport division of AGRICOM has been taken. However, the form that the privatization is to take, and the timing and specific process to be followed is less than certain.

The policy decision to privatize the transport division was precipitated by: (i) the recognition that the overall role of AGRICOM is changing, as the private sector now performs an increasing amount of the rural transport and distribution previously undertaken by AGRICOM -- so the transport function is less needed in-house; and, (ii) the fact that it was not AGRICOM's initial charter to perform transport functions, which was largely created as a response to the war and the corresponding decline in availability of private haulers.

AGRICOM itself is undertaking a number of initiatives to "test" alternatives for privatization. Most of these to date, however, have not involved the sale or leasing of assets, but rather represented attempts at "commercialization" and/or management contracting. For example, AGRICOM has experimented in three provinces (Maputo, Zambezia and Numpula) with delegating much more authority and responsibility to the provincial level to test the ability of these entities to operate independently. However, performance was reported to decline, highlighting the scarce/thin managerial resources available within AGRICOM.

AGRICOM now plans to evaluate additional options which include: (i) forming joint ventures with private partners in each of the main provinces, but has not specified whether the units will be majority government owned; (ii) outright sale of the trucks to private transporters, on a province by province or regional basis -- in recognition of the limited absorptive capacity of the private sector and the need for regional equity; and, (iii) sale to individuals, province by province, but probably with AGRICOM providing favorable financing terms -- in essence a seller's note over a 5 to 7 year period, with the truck acting as collateral. The consulting team's impression was that these alternatives were at the very early stages of investigation.

In addition, the survival of any part of AGRICOM is somewhat in question. AGRICOM's own restructuring committee has developed a plan for AGRICOM to cease operations over time, and

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[31] Also in question is which entity would take over CAMOC's share holdings in Transcarga (and any other company) in the event that CAMOC is dissolved and Transcarga is not.

[32] This proposal is rational given management's interest. However, this is precisely what a new private owner should be allowed to decide: (i) which managers should stay on -- poor management is much of CAMOC's current problem; and, (ii) how many workers to keep on -- so as to become more efficiently sized.

for some of its current functions to be taken over by a newly proposed Cereals Institution (Instituto dos Cereais de Mocambique -- ICM). The main functions proposed for the new Institute are to: (i) establish and manage food security stocks; and, (ii) act as buyer of last resort, at the wholesale level only. While the proposed organizational structure for the ICM contains no Transport Division (in contrast to AGRICOM), senior management at AGRICOM are of different opinions as to whether AGRICOM's truck fleet would be divested prior to, or after, the establishment of the ICM. In fact, there is the suggestion that ICM retain the truck fleet for some time, while it works out what its own trucking needs would be on an on-going basis.

DPCCN. The privatization of DPCCN's fleet has been considered, and alternative dispositions for the transport and logistics functions were evaluated in a recent report. Options considered[33] included: (i) maintain current status; (ii) transform the unit into a non-government organization (NGO); (iii) issuance of one or more management contracts; (iv) creation of a "mixed enterprise", with Mozambican private capital; (v) leasing of selective assets; and, (vi) the sale of selected assets to private groups or individuals. The report favors options iii, v and vi.

The general consensus in government is that the report's recommendations form the basis of an appropriate strategy for the medium to longer term. However, there is considerable hesitation in privatizing DPCCN's fleet in the near term due to: (i) DPCCN being seen as the "transporter of last resort", particularly for providing relief cargo in the more remote/war-torn areas; (ii) the fact that, unlike AGRICOM, the overall role of DPCCN is not expected to change significantly in the near to medium term; and, (iii) particularly in a period of drought, the perceived loss of government control over the transport of relief cargo by privatizing DPCCN's fleet is considered dangerous and inappropriate. However, as in the case of AGRICOM, it is recognized that transport was not an initial function set out for DPCCN originally, but more emerged out special circumstances in response to the war. Thus, in the longer term, the transport and logistics functions of DPCCN are slated by government for "commercialization" or privatization.[34]

Transcarga. Transcarga, despite being vastly majority government owned, is not considered to be a parastatal by the government and legally is a private company. As a result, no privatization decisions or plans have been contemplated by government.

However, Transcarga should probably be considered a candidate for privatization because: (i) it is vastly majority government owned; (ii) while reportedly well-managed in the past, the quality of management will come into question with the removal of the remaining Swedish technical assistance, from which Transcarga has benefitted since its inception; and, (iii) given that two of Transcarga's largest shareholders, AGRICOM and CAMOC, are both themselves

[33] The exact details for implementing each option are not well specified in the report.

[34] The longer term viability of the transport unit at DPCCN is unlikely under any scenario due to the increasing withdrawal of support from donors -- who are committing less resources and searching for alternative transport arrangements.

candidates for wholesale restructuring and/or dissolution, the ownership capital base for Transcarga may be substantially weakened.[35]

Current management at Transcarga are considering converting Transcarga from a "Limited" company to a "S.A.R.L.", in which current management would obtain significant shareholdings in the company. The proposal is neither public nor finalized yet. However, the proposal is already controversial for several reasons.

- It appears that management would gain substantial "windfall" profits, with the company receiving a minimal injection of new capital. The potential for windfall profits emanates in part from the fact that the current shareholders put in only limited amounts of capital when the company was formed 3 to 4 years ago. However, the value of the company far exceeds its original capital largely due to investments in plant, property, equipment and technical assistance donated by ASDI. It appears that the current proposal would offer shares to management at values closer to book value than the presumed much higher market value of the company.

- It is not clear whether the proposed transition includes completely buying out the share holdings of the government-owned enterprises, which now own more than 90% of the company.

- The lack of transparency in the process proposed is also of great concern, particularly given that the new share offering would only be made available to a select group of people (that is, current management and board representatives from the current shareholders).

6.3 Evaluation of Parastatal Fleet Privatization Options

Decisions regarding privatization are complex. They depend in large part upon the resolution of at least three major, interrelated questions: (i) whether a given entity should be privatized; (ii) when privatization should occur; and, (iii) what form privatization should take.

6.3.1 Decision to Privatize

The decision as to whether to privatize the main parastatal fleets in Mozambique has largely been taken (see above). There is general consent in the GOM and donor community that the main parastatal fleets should be privatized, perhaps with the exception of Transcarga on which there is a greater divergence of opinion. Much less consensus exists with regard to the timing and forms of privatization.

[35] It is somewhat ironic that Transcarga is considered an acceptable "buyer" for CAMOC/Maputo, given the "suspect" environment that Transcarga faces itself -- in addition to the fact that: (a) it is nearly 100% government owned; (b) may have limited quality managerial resources once the Swedes pull out; and, (c) it is itself part owned by CAMOC.

- Privatization of the fleets is stated government policy. In fact, it is a loan condition of the recently approved ROCS project funded by the World Bank in which the GOM agrees to the "divestiture of own-account trucking fleets by all relevant state-owned enterprises, within one year after credit effectiveness and prior to the first annual Project review."[36]

- The fleets are widely recognized to be poorly managed and the assets under-utilized. There is evidence to believe that the private sector could manage these assets better than the government, particularly once an enabling environment is in place (see Chapter 5).

- The original rationale for creating many of the parastatal trucking fleets no longer exists. There are plenty of existing and emerging 20-to-40 vehicle private companies such as Salema, Cassamo and Sirs, which can perform the function served by CAMOC. AGRICOM no longer is the major provider of transport services to the agricultural sector -- where it once served 80% of the sector's needs, it now serves 20%. DPCCN still has a role to play but need not own or operate a fleet to do it. Donors are gradually withdrawing support from DPCCN in recognition of this and a growing frustration with DPCCN's inefficiency. Only a sub-set of DPCCN's shipments are to war-torn, remote areas -- to most of which the private sector could be induced to provide transport services.

6.3.2 Timing of Privatization

The timing and sequencing of privatization is a matter of debate. There are arguments for both pressing ahead quickly and those for waiting a year or two. The timing also varies according to which parastatal fleet is being considered. However, on balance, given that any extensive privatization program will take time to implement, certain elements should be initiated as soon as possible.

- Pressures resulting from the drought are operating in opposite directions. On the one hand, due to the current drought situation, the demand for transport services will be heightened and fairly insensitive to the price of services. Thus, it would be a buoyant market for private companies to enter. On the other hand, given it is a drought year, the cost of failure in human terms of "experimenting" unsuccessfully with private provision of transport services to the almost complete exclusion of public provision, is very high.

- Financial pressures exist for privatization to occur as soon as possible because: (i) the fleets are aging rapidly, and thus the likely sale value and economic life of the assets are diminishing quickly; and, (ii) to the extent that the fleets represent fiscal drains on government, the sooner such financial "hemorrhaging" is stopped the better. However, neither of these issues seem to be high on the government's list of priorities.

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[36] Staff Appraisal Report, First Raods and Coastal Shipping Project, World Bank, May 6, 1992.

- The capacity of public sector is currently limited for undertaking privatization. The government has limited capacity to, and experience in, executing a major privatization program. Efforts can be initiated to improve the process and government's capacity. However, experience can only be gained over time.

  - A major issue to consider is whether trucking should be an "early testing ground" for the privatization process and the government's capacity to execute it. Lack of early success can stall or de-rail the whole privatization program.[37]

  - Government lacks a "champion" for facilitating the process of privatizing the parastatal fleets. This, in part, results from: (i) the myriad of entities involved in the prospective privatizations; and, (ii) the lack of experience overall with major privatizations.

- Creating an enabling environment is a pre-requisite for privatization, or at a minimum, needs to be undertaken simultaneously in a coordinated fashion. This would include liberalization of regulatory environment as well as other enabling factors such as improved credit and insurance availability, training, and availability of spare parts and private workshop capacity. This will help to compensate for the private sector's current lack of financial resources and managerial capability, as well as make the trucking industry overall a more economically attractive prospect for the private sector.

  - Of particular note, is the need for more information on workshop capacity and efficiency at the main transport parastatal facilities. The decision as to whether to combine these assets with the vehicle fleets and to "package" them for sale, will heavily influence the timing (and form) of privatization.

- The continuing war -- with the resulting increased costs and risks of doing business (insurance, convoys, maintenance, loss of assets) and the overall dampening of demand for trucking services due to the lower overall level of economic activity -- makes the industry uneconomic and unattractive to the private sector. This is outside government's direct control, so any privatization program needs to be designed in recognition of the likelihood that the effects of the war will be felt for many years to come.[38]

Significant advances can be made in the near to medium term to alleviate many of the retarding forces on privatization. However, certain factors such as the continuing effects of the war, the

[37] That is, government's intention to privatize all major industrial state enterprises which are deemed to be viable yet non-strategic.

[38] Despite recent encouraging peace negotiations between Frelimo and Renamo, the <u>effects</u> of such a lengthy and pervasive war are likely to persist for several years under any scenario.

paucity of private sector financial resources (credit and savings), and the lack of war-risk insurance, are likely to persist for several years.

6.3.3 Forms of Privatization

A wide array of options exist for the privatization of government-owned enterprises. These range from public offering of shares through to leases and management contracts, and to "give away" programs. Some of the basic forms and methods for privatization are presented in Exhibit 6-1. The key characteristics of each form are noted, along with core procedures for their implementation and an indication of the circumstances in which the given method of privatization is most commonly used.

- The first four methods of privatization involve selling all or part of the public enterprise as a going concern. These include a public offering of shares, private sale of shares, new private investment, and management/employee buy-outs.

- The fifth method noted involves the sale of the some or all of the assets of the state enterprise to the private sector -- thus, not the sale of the enterprise as a going concern.
- The sixth method, leases and management contracts, involves neither the sale of the assets nor the company. Government retains ownership but gives up some control of the company and assets and a portion of its prospective operating proceeds.

- The final method is coupons, vouchers and other schemes designed to transfer ownership of all or some of a public enterprise to a wide sector of the public, in exchange for little or no money.

The alternative methods of privatization vary considerably in terms of pre-conditions for success, procedural complexity, and the privatization objectives they are designed to achieve. Key factors in deciding the most appropriate privatization program for each parastatal will depend in large part on the following.

1. The privatization objectives of government.

2. The strength of domestic capital markets.

3. The viability of a given parastatal as a going concern, or the restructuring requirements needed to make it viable.

4. The current organizational form and legal status of the public enterprise.

5. The future needs of the parastatal in terms of management know-how, new technology, injection of fresh capital, etc.

Exhibit 6-1

Basic Methods of Privatization

Method	Characteristics	Procedures	Applications/Special Features
Public Offering of Shares	Distribution to the general public of all or part of shares in public limited company (as a going concern).	If SOE is in required form, standard processing of public offering on the basis of prospectus. If not in requisite condition, then readying process needed. Offer can be fixed price or tender basis.	– SOE going concern with reasonable earning potential or can be readied to become so. – Existence of equity market or feasibility of structured offering. – More appropriate for larger offerings.
Private Sale of Shares	Sale of all or part of government share-holding in a stock corporation (as a going concern) to a single entity or group. – Can take various forms such as direct acquisition by another corporate entity or a private placement targeting institutional investors. – Can be full or partial privatization (ie, transformation into joint venture).	Sale may result from negotiation or competitive bidding process. May be done ad hoc or may be subject to mandatory, official guidelines on valuation, pre-qualification, evaluation of proposals, terms of payment, etc. In some cases, prior restructuring necessary. Involves investor search.	– Preferred method for weak performing SOEs. – May be only alternative for sale as going concern in absence of equity market. – Size of enterprise may not justify public offering. – New owner known, can be evaluated, and may bring benefits (eg, technology, management skills, etc). – Implies SOE is sold with assets and liabilities (there are exceptions).
New Private Investment in SOE	Primary share issue subscribed by private sector (dilution of government's equity position instead of disposal of shares).	Public offering or private issue of new shares on basis of standard procedures for new issues, possibly in conjunction with disposal of government equity. New new investment may be for capitalization of new company embodying assets transferred by government.	– Applicable where primary objective is not divestiture but provision of new equity by private sector. – Addresses funding problems of under-capitalized enterprises. Offers flexibility: used as first step to, and in conjunction with, sale of government-held equity.
Management/ Employee Buy-Out	Acquisition by management and/or workforce of controlling interest in SOE. Leveraged management/employee buy-out (LMBO) consists of purchase of shares on credit extended either by the seller (government) or by financial institutions.	Negotiations by government, management, employees and lenders to cover wide range of issues.	– SOE must typically have competent, professional management and skilled, stable workforce. – Leveraged buy-out is a means of transfer to management and employees even with limited wealth. – Cash flow or other security required as underlying element of LMBO. – May be solution for SOE not salable otherwise, or to maintain employment levels.
Sale of Government or Enterprise Assets	Sales of assets (instead of shares). Private sale.	Alternatives: sale of assets by government; disposal of some assets by SOE; dissolution of SOE and sale of all assets; other. Procedures for private sale of shares generally apply.	– Where sales of shares not feasible, or objective is sale of individual assets. – Permits privatization of SOEs not salable as going concern. – Often results in separation of assets and liabilities.
Leases and Management Contracts	No ownership transfer. Under lease, fee is payable to owner of productive assets; lessee assumes full commercial risk. Under management contract, owner pays for management skills, while manager has full management and operational control. Many variations exist.	No standard method for structuring agreements, bidding, and contracting.	– May be appropriate where privatization of ownership of assets not acceptable. – Leads to injection of private sector management. – Continued financial liabilities of the state with respect to ownership of assets. – Can be interim step to privatization. – Under management contract, owner may still need to inject funds to support operations.
Coupons, Vouchers and "Give-Aways"	General population, or specific target groups, are either given or are offered for purchase, coupons which can be used to acquire shares in privatized companies, or whole enterprises.	No standard procedure. Detailed processes and procedures need to be specified to ensure equality and transparency.	– Obivates the need for capital markets, or investor searches. – Serves objective of widespread public ownership. – Tends to neither inject management skills or new capital, particularly when used for privatizing larger enterprises.

Source: Annex A in Volmue I, "Techniques of Privatization of State-Owned Enterprises", as adapted by Abt Associates.

6. The "costs" involved in the process of privatizing the parastatal company given the method chosen versus the "benefits" of having the firm in the private sector.[39]

An evaluation of the four transport parastatals against these criteria (Exhibit 6-2) suggests that no single "model" of privatization is likely to suit all four fleets. At a minimum, they vary considerably in terms of: (i) fleet size and condition; (ii) legal status, organizational form and ownership structure; and, (iii) financial viability and restructuring requirements. Thus, which form of privatization or combination of privatization methods makes most sense will depend on the specific parastatal in question.

All of the general methods for privatization mentioned above (or variants thereof) are, a prior, candidate methods for consideration in the case of one or more of the transport parastatals in Mozambique (Exhibit 6-3). The exceptions probably are a public offering of shares and "give away" programs. However, the methods vary considerably in terms of the degree to which they are an appropriate course of action for any one of the four enterprises.

Public Offering. A public offering seems unlikely at the present time because its pre-requisites for success tend to be as follows: (i) existence of a local equity market or the mechanisms for undertaking a structured offering; (ii) appropriate mainly for larger offerings, such telecommunications or national utility companies; and, (iii) the parastatal in question needs to be a going concern with reasonable earnings potential or can be readied to become so.

- No more than one of these conditions is met by any single one of the four transport parastatals. Lack of equity markets affects all four parastatals. AGRICOM and DPCCN are the only "large" operations (although probably still of insufficient scale to merit a public offering), but are not profitable and unlikely to readily become so. Transcarga is the only one of the four which is commercially viable but it is a relatively small operation. CAMOC meets none of the pre-conditions.

Sale as Going Concern. This involves selling the company or transport division as a going concern to the private sector. There are three principal ways of effecting the sale, in addition to a public offering. Firstly, there is the disposal of government shares, by selling of all or some of its existing shares in the company to the private sector. Secondly, there is dilution of government share holdings, through new private investment in the company via the issuance of new shares. Thirdly, management and/or the employees can buy-out a majority or all of the government's shares, either in a leveraged or unleveraged fashion (see section below).

Some key considerations for the sale of the transport parastatals as going concerns are as follows. Firstly, sale of the company will often involve re-establishing the enterprise in a new legal form, such as a stock corporation, and will require a formal process for tendering. Secondly, the capacity to absorb such acquisitions is likely to rest only in the large company business sector and/or with foreign companies. Given that the absorptive capacity of the local

[39] For example, to spend $1.5 million and two years to privatize a company with a fleet of 40 vehicles, which employs 500 people, and provides transport services which could readily be provided by the private sector, is unlikely to constitute a sensible investment of public funds and managerial resources.

Exhibit 6-2

Evaluation of Factors Influencing Selection of Methods of Privatization

Trucking Parastatals

Factors	CAMOC	AGRICOM	DPCCN	Transcarga
Government Objectives	– Improved management – Better utilization of assets	– Improved management – Better utilization of assets	– Improved management – Better utilization of assets	N/A
Capital Markets Maturity	– Low level of development – No influence on method chosen	– Low level of development – Effects method choice marginally	– Low level of development – Effects method choice marginally	– Low level of development – Effects method choice marginally
Viability of Enterprise	– Unviable – Nearly infeasible to restructure	– Marginally viable	– Marginally viable	– Viable
Organizational Form & Legal Status	– Empresa Estatal – Includes intervened companies – "Grand-fathered" private share-holdings	– Division within Empresa Estatal – Some assets contributed by other govt. entities	– Department within Ministry – Contains units created by donors	– Private limited company – Over 90% government owned
Future Needs of Enterprise	– Improved management – Capital injection	– Improved management	– Improved management	– Capital injection
Threshold of Procedural Complexity	– Small with poor assets --> minimize process	– Medium to large in size with marginal assets --> moderate process	– Fairly large with decent assets --> merits complex process if needed	– Small with good assets --> moderately complex process

Source: Abt Associates analysis.

Exhibit 6–3

Appropriateness of Selected Methods of Privatization

Trucking Parastatals

Method of Privatization	CAMOC	AGRICOM	DPCCN	Transcarga
Public Offering of Shares	– N/A	– N/A	– N/A	– N/A
Sell as Going Concern	– Medium	– Low	– Low	– High
Management Buy–Out	– Low	– Low	– Low	– High
Sell Assets	– High	– High	– Medium	– N/A
Leasing/Mgmt. Contract	– Low	– Medium	– High	– N/A
"Give–Away" Program	– Low	– Low	– Low	– N/A

Source: Abt Associates analysis.

private sector is limited, an interim step might involve forming a mixed-ownership enterprise with the ultimate objective of making it fully private at some future point in time. In either case, unless the management buy-out option is chosen, sale as a going concern will most likely subordinate small owner-operator objectives. Thirdly, the poor past performance of most of the candidate companies/divisions will limit their attractiveness as going concerns for purchase. Similarly, whether and in what way the liabilities of the enterprise are to be separated from the assets must be addressed.

- CAMOC is a reasonable candidate for outright sale as an going concern. It is sufficiently small such that there may be enough private capital available locally, or that foreign investors are willing to risk exposure of this limited scale. Its attractiveness as a company is emphasized by the fact that at least three expressions of interest have been received for its Maputo operations.

  However, its sale potential is somewhat dependent on an assessment of its workshop capacity, whether these assets will be sold jointly with the trucks, and what the implications are for candidate buyers (for example, some buyers may prefer to purchase the trucks "unbundled", that is without the workshops and purchase repair services from existing vendors).

  The ownership and legal status of CAMOC is quite complex. Although an "empresa estatal" many of its assets are from intervened companies, which in turn were privately held. Some of the original minority private share holders are still in Mozambique and would have some claim on the proceeds from a sale. In addition, the accounting and inventory systems are in poor condition. It is questionable whether the lengthy process and resources that would be involved in conducting an inventory, improving accounting systems, valuing the assets, and executing a tender process is worthwhile for a company whose fleet is no larger than 40 vehicles, in relatively poor condition.

- Selling AGRICOM's transport division as a going concern would be legally and procedurally complex, due both to its status as a division within an "empresa estatal" and to some extent, the imminent creation of the Cereals Institute (ICM). There may be only a limited number of potential buyers with sufficient financial means to purchase a fleet of this size. AGRICOM also faces an eroding market position and its earning prospects are poor. As in the case of CAMOC, the sale prospects would also depend on an assessment of its non-vehicle assets and the strategy developed for their disposal.

- Sale of DPCCN's transport division as a going concern is unlikely due to its large size, and would be legally and procedurally complex.

- Selling Transcarga as a going concern is feasible given its relatively small size and respectable performance, but is currently unwarranted. In addition, the valuation of the company and decision as to which entities would get what share of the financial proceeds would be complex.

Management/Employee Buy-Out. Here, the concept is for existing management to purchase the company in some manner. However, this option seems unlikely, given that the financial resources of management are limited in most of the trucking parastatals, and that poor current management is one of the main reasons for privatization. On the other hand, if management owns the fleet and operates in a liberalized industry environment, they may be better motivated and perform better. Additionally, if current management were to hire in on contract foreign, professional managers, this would compensate for the limited pool of proficient managers currently in Mozambique. Finding finance for a management buy-out is likely to prove difficult. The managers and employees are unlikely to have sufficient financial means of their own, and credit in the domestic banking sector is very scarce. It is most likely that any buy-out would have to take a leveraged form, with government extending credit.

- For **CAMOC**, a management buy-out makes little sense, as poor management is one of the major problems currently associated with CAMOC.

- A management buy-out at **AGRICOM** is not very feasible due to the lack of strong management currently residing in AGRICOM's transport division. AGRICOM has already proven this to itself through recent experiments with giving provincial fleets greater managerial autonomy.

- **DPCCN** lacks effective management, and its management are unlikely to find the funds necessary to purchase such a large fleet.

- A management buy-out is generally feasible at **Transcarga** and a proposal currently exists for such a course of action. This would serve to increase the share owned by the private sector, and should result in the injection of new capital. Current indications are that management at Transcarga is well trained and motivated, but how long this will last, given the recent departure of ASDI assistance, is subject to debate.

Sale of Assets. There are a number of ways in which the assets of the enterprise can be sold. The two main options in Mozambique appear to be either for government and/or the parastatal to sell the assets to private parties, or for the government to "delegate" responsibility for selling the assets to one or more private companies which would receive a fee for their services. The second option might be best organized as consignment sales on commission, in blocks or successive "tranches" of vehicles. This involves shifting the responsibility for selling vehicles onto the private sector to a company with specialized industry knowledge and managerial capacity. The government would give up some portion of financial proceeds via the commission, but would save the resources it would have to spend to manage the process itself, and probably at an inferior performance level to a private company. Some of the major truck importers/dealers such as Entreposto and Industria Tecnica are potentially good candidates for performing this function.

Key considerations for asset sales include the following. Clear ownership title to the assets needs to be established in advance. A clear and transparent process for sale should be followed. The government must agree in advance as to which entity or entities will receive the financial proceeds from selling the assets. Finally, it should be decided whether the parastatal in question is to be dissolved or not, either prior to or at the time of the sale of the assets.

- Selling off **CAMOC**'s assets, on consignment to the private sector or otherwise, is feasible, but may result in less revenue overall to government than selling it as a going concern. However, given that maximizing financial proceeds is not purportedly a major consideration of government, then this may not be a decisive factor.

- Sale of **AGRICOM**'s assets, either on consignment to the private sector or through government directly, is quite feasible. However, transparency is needed in the process. Given the geographic dispersion of the fleet and its size, it would be sensible to test the process for selling the vehicles via "pilot" programs in two or three provinces, with 15 - 20 vehicles being offered for sale in the first instance in each province.

- Sale of **DPCCN**'s assets, on consignment or otherwise, is attractive. However, the large fleet and its geographic dispersion argues in favor of "pilot" programs or sales in "tranches". The private sector may lack sufficient financial capacity in the short term to absorb the cost of purchasing such a large fleet.

- **Transcarga** is technically already a private company and its management is not considered so poor as to merit disposing of its assets.

Lease-Type Method.[40] Under leasing, the ownership of the assets is not transferred. The government receives a fee in exchange for the lessee using the vehicle and assuming full commercial risk. A number of options and key considerations exist.

Firstly, there is the question of who will run the leasing operation. The government could do it itself, or place this responsibility in the hands of a private group. Unfortunately, a leasing industry does not currently exist in Mozambique, so one would have to be created. An interim, hybrid arrangement may be for government to "pool" its vehicles in a new, government-owned leasing company and hire private professional managers to run the leasing operation in exchange for a performance-based fee.

Secondly, the terms and conditions of leases vary considerably. In principle, the private management group should structure the lease agreements. However, government may want to encourage the use of closed-end leases of about a four-year duration, whereby at the end of four years the trucker would automatically own the vehicle or, would pay a small residual payment in order to execute the purchase option. Thus, the government in essence would be financing the sale of the asset and allow the trucker to pay for it over time out of operating revenues. An early pay-off provision is also needed to facilitate the purchase of the vehicles by the private

[40] Management contracts as the main form for privatizing the fleet is not evaluated explicitly here because, while it privatizes the management function, it typically is not a step towards private ownership of the assets. It also does not relieve government of the obligation of injecting funds into the operation either to finance on-going activities or capital improvement.

sector in advance of the 4 year term of the lease. Leasing also allows for major portions of the parastatal fleet to be absorbed by the private sector over time. Thus, it may take 2 to 3 years to lease out the whole fleet. A benefit though is that the whole fleet could be owned by the private sector within 6 to 7 years, with government having received some revenue flows over the entire period.

Thirdly, there is the issue of which entity or entities get the financial proceeds of the lease revenue stream. Obviously the management company would get some portion in the form of a commission. The remainder could go either to the Treasury or Privatization Fund[41] and/or some portion to DPCCN to pay for essential transport services it might purchase from the private sector. A related issue is deciding which government entity will assume the debt and other liabilities of the parastatal fleet. This can become particularly complex depending on whether the public enterprise is dissolved as a result of the privatization initiatives.

Fourthly, government should stimulate the offering of both "dry" and "wet" leases. "Wet" leases are where insurance, maintenance and perhaps a parts package are provided as part of the lease. This would be a way of encouraging small-owner operators, who have limited access to private maintenance facilities or insurance, to enter the trucking sector.

Fifthly, it should be recognized that a leasing activity would have a minimum efficient scale of operation, in order to adequately compensate a management contractor and derive economies of scale in insurance and operations. Thus, the pooling of both the DPCCN and AGRICOM fleets at a minimum would probably be required to make this option viable. In addition, other types of equipment, such as construction equipment, could be added to the leased pool. In fact, DNEP has already examined options for placing its road construction and maintenance vehicle fleet in a managed leased pool.

Finally, if it is concluded that DPCCN still has a role to play in arranging for the transport of aid cargo to some of the more war-torn and/or remote areas, then some provision could be made for it to have "right of first refusal" on a portion of the leased fleet. For example, provisions could be made in the articles establishing the leasing operation which specify that DPCCN has the right to lease a certain share of the fleet given an adequate period of notice. DPCCN would have to pay a lease fee, which is set in advance and is tied to the going market rate.

- Leasing is a possibility for CAMOC's fleet, but not preferential. The size of CAMOC's fleet is too small to justify the development of a leasing industry. These vehicles, thus, would have to be part of a leased pool, were one established for the fleets of AGRICOM and DPCCN. However, this would probably delay the privatization of CAMOC and reduce the government's revenue potential. Likewise, leasing would stretch out over time receipt of financial proceeds. Indications are that government could get the "full value" of CAMOC right away through selling it as a company or selling off its assets.

[41] Assuming that it is in operation.

- Leasing would make sense for **AGRICOM**, particularly if the pilot programs for selling off the assets (see above) indicated that the private sector lacked the financial means or inclination to purchase the vehicles up-front. However, the scale issue arises, and the leasing of AGRICOM's fleet would be dependent upon DPCCN's fleet being added to the leased pool.

- Leasing is an attractive option for **DPCCN**'s fleet, particularly given that the private sector probably lacks the financial means to purchase the majority of the vehicles up-front. This may also be the only way of stimulating the development of an equipment leasing industry,[42] facilitated by the large size of DPCCN's fleet.

- **Transcarga**, to date, has been managing its assets in a satisfactory manner, although improvements could be made. Thus, leasing out its assets is inappropriate in the near term. In addition, its fleet total only about 40 vehicles. Adding its fleet to the leased pool from AGRICOM and DPCCN would contribute only marginally to the feasibility of the leasing operation.

"Give-Away" Programs. A number of options exist for either giving away companies, or selling them at highly discounted prices. This sort of program can be attractive in situations where there is a political objective to achieve widespread public ownership, where financial sectors are underdeveloped, and where the company in question has limited prospects for privatization using any other more remunerative method. However, such programs do little to inject new capital or management into the company.

One option is to give the vehicles to selected employees of the transport parastatals, most likely the drivers. They have or could quickly attain the skills required to run a small owner-operator trucking enterprise. This would serve the government objective of facilitating small business. The "give away to drivers" program could form part a severance package, because many of the current employees of the truck parastatals are likely to be let go as part of privatization. However, equity issues arise because the number of drivers typically far exceeds the number vehicles. Also, there are no financial proceeds from this option. Careful consideration will need to be given to whether the prospective revenue from other forms of privatization outweighs the other objectives met by the driver give-away program.

- This option is inappropriate for **CAMOC** because it begs the "equity" issue (who should get the trucks), and derives no revenue for government in a situation where the company/assets are potentially sellable.

- This option for **AGRICOM** is subject to the "equity" issue. Also, AGRICOM's management is likely to object to any option which minimizes financial proceeds, because they believe they would be the recipients a significant share of those proceeds.

[42] This is a goal in itself, which government should be encouraged to pursue as part of a financial sector reform program.

- A "driver give-away" program at DPCCN is subject to the equity and financial proceeds issues.

- Such a program for Transcarga is not applicable because workers at Transcarga will probably not be laid off under the more likely privatization scenarios. However, "long service" packages may make sense as a way of motivating drivers and rejuvenating Transcarga's fleet. The relatively small fleet size and low ratio of drivers to vehicles, makes this a more viable option at Transcarga than the other entities, but does not do anything to increase the share of private ownership.

In Chapter 7, specific recommendations are made for each parastatal fleet with regard to what form(s) of privatization are most appropriate and the time frame for the implementation of selected key actions.

Chapter 7

RECOMMENDATIONS AND IMMEDIATE ACTION PLANS

Recommendations and immediate action plans for liberalizing regulations and creating an enabling environment for private sector road transport are presented in this chapter. Emphasis is placed on identifying actions which are appropriate for immediate implementation, and for which government and donor support is likely to be forthcoming. In addition, recommendations are made for the privatization of the main parastatal trucking fleets. The timing, modalities and procedures for the privatization of each individual parastatal fleet are outlined.

7.1 Liberalization Plan for Road Transport Industry

7.1.1 Regulatory Reforms

An action plan and time frame for the liberalization of road transport industry regulations is summarized in Exhibit 7-1. Priority action areas include the following.

Ensure that proposed trucking tariff rate liberalization is fully implemented.

- Official rates are set at unrealistically low levels and are not varied sufficiently either for different operating environments or over time. Official rates are observed by only limited sections of the market. However, they do act as "reference" prices for a significant share of the market.

- Trucking tariff rate liberalization is required to foster efficient allocation of resources, allow truckers adequate returns on investment, balance supply and demand in market segments, and guide industry entry/exit patterns.

- Government already has a verbally stated policy of liberalizing truck tariff rates but has made little headway in formalizing and implementing the policy.

- Rates should be liberalized as soon as possible. The proposal should be scheduled for review and approval by the Council of Ministers by the end of 1992. DNTR/MTC should take a lead supporting role in this action area. No further studies or specific institutional reforms are required.

EXHIBIT 7-1

Recommended Trucking Industry Liberalization Action Plan

Action Area	Recommendation	Time Frame for Key Actions: 1992: Q4	1993: Q1	1993: Q2	1993: Q3	Potential Executing Entities and Sponsors	
Trucking Tariff Rates	**Liberalize**	* Draft statement for Council of Ministers * Review/Approval by Council	* Issue Decree & Aviso			* MTC/DNTR	* USAID (TA)
Carrier Licensing	**Liberalize and Streamline**		* Study procedures for streamlining	* Execute liberalization * Execute procedural & institutional streamlining	------>	* MTC/DNTR	* USAID (study)
Taxes/Tariffs							
– Imported parts/tires	**Reduce**	* Re-classify in lower customs category	* Rationalize/collapse number of tariff categories			* Min. of Finance & Customs Dept.	* World Bank (TA)
– Other taxes & levies (diesel fuel tax, licensing, registration, Road User Fund)	**Rationalize**	* Study Road User Fund sources & uses (Terms of Reference already drafted)	* Amend legislation	* Implement study recommendations -----	--->	* DNEP & Min. of Finance	* ASDI (study)
Safety & Standards	**Modernize; Harmonize**			* Study methods for improving driver licensing & vehicle inspection		* MTC/DNTR & Motor Vehicle Dept.	* N/A
				* Harmonize Gross Vehicle Weight Restrictions	* Modify institutional arrangements for enforcement	* DNEP	* N/A
Government Institutions	**Refine Roles & Responsibilities**	* Draft Terms of Reference and select consultants * Study roles of key institutions (existing & proposed)	* Reorganize existing institutions --	----> * Create any requisite new institutions -- * Commence requisite training --	------> ------>	* MTC	* USAID (study)

EXHIBIT 7-1 (cont'd)

Recommended Trucking Industry Liberalization Action Plan

Action Area	Recommendation	Time Frame for Key Actions 1992: Q4	1993: Q1	1993: Q2	1993: Q3	Potential Executing Entities and Sponsors	
Credit	**Improve Access**			* Study specific credit mechanism &/or institutions	* Incorporate findings as part of on-going financial sector reform	* Min. of Finance & Bank of Moz.	* World Bank (study)
Insurance	**Improve Availability, Choice & Settlement of Claims**	* Continue efforts aimed at liberalizing the industry	------->	* Study schemes for providing war-risk insurance	* Implement study recommendations	* Min. of Finance	* World Bank (TA)
Workshops & Spare Parts	**Enhance Private Sector Capacity** **Develop Privatization Program**	* Study public & private workshop capacity	* Incoporate findings in fleet privatization action plan * Develop & execute plan to stimulate private sector * Study vehicle rehabilitation & improved parts distribution	------> ------> * Implement study ----	---> --->	* MTC * MTC	* World Bank-- ROCS (study) * World Bank-- ROCS (study)
Training	**Enhance Public & Private Sector Human Resources**		* Study training needs (Terms of Reference already drafted)	* Implement study ---- recommendations	--->	* MTC	* World Bank-- ROCS (study)

Liberalize and streamline licensing for truck operations.

- The licensing of trucking companies is an unnecessarily lengthy and bureaucratic process, which lacks transparency. It also does not differentiate application procedures and requirements between small and larger truckers. In addition, scope exists for government to restrict trucking capacity either on a given route, in a given province, or even nationally.

- Licensing should be liberalized so that it does not discourage participation in the industry by any interested party which proves itself to be a responsible business entity with appropriately certified drivers and registered vehicles. Licensing liberalization will also lower the cost of industry entry, encourage important industry subsectors such as dedicated in-house fleets to enter the industry, and reduce the scope for government to allocate trucking capacity.

- The process for applying for licenses should be streamlined so that it does not add to the cost of "entry". Greater transparency should be added to the application process. Applicants should be readily provided with reasons for their rejection and given specific indications as to what is needed for remedy. An appeals process should be introduced for those parties who feel they have been unfairly denied a license.

- Specific means for liberalizing licensing and streamlining the application process need to be studied and recommendations formulated. This will in part depend on what exact functions the proposed Road Institute will perform, and its role relative to that of DNTR and to a lesser extent, DNEP (see below). The licensing study should be started after the Transport Institutions Study is finalized, and hopefully completed during the first quarter of 1993.

Rationalize system of tariffs, taxes and levies on truck operations.

- Customs tariffs on imported spare parts and tires are excessively high on these crucial inputs to trucking operations in Mozambique. Their current customs duty classification appears irrational. Other taxes and levies on trucking operations are minimal, have little relation to road usage or services provided, and inadequately contribute to either road maintenance and repair funds or in support of road transport institutions.

- The system should be rationalized and have the dual objective of: (i) better matching road user contributions to usage; and, (ii) raising at least as much revenue as is currently.

  -- Duties on imported spare parts and tires should be reduced, in the first instance by re-classifying them into a lower duty category, and in the longer term, through rationalization of overall number and incidence of customs duty categories.

-- The diesel tax fuel should be assessed as a percentage of its price and increased to a level of 10% or more.

-- Fees levied for licensing of truck companies and registering vehicles should be raised, and collections performance improved.

-- Other potential sources of revenue for the Road User Fund should be assessed.

- The reclassification of spares and tires to a lower category can be implemented fairly automatically by Customs, whereas streamlining of the entire system will require further study.

- A Terms of Reference for improving revenue generation and budget allocation for the road sector was developed as part of the preparation of the ROCS project, and should be undertaken as soon as possible under the supervision of DNEP and the Ministry of Finance.

Enhance standards and safety programs and procedures.

- Although Mozambique possesses a well-developed regulatory framework for vehicle and operator licensing standards that pre-dates Independence, the current environment is characterized by uneven and discretionary enforcement of these laws. This has resulted in several problems including: threats to public safety from un-roadworthy trucks and unqualified drivers; accelerated deterioration of roads and bridges caused by vehicles exceeding maximum gross weight parameters; and, in the future, potential constraints to insurance and credit availability and affordability.

- Driver's licenses are presently issued for life. In the future licenses should be issued for a finite duration, perhaps four to five years, and at the time of renewal the applicant should be required to demonstrate at least minimum capabilities in the areas of physical health and visual acuity. Similarly, truck registrations should be renewed on an annual or biennial basis, and the process should include a comprehensive vehicle safety investigation paid for by a revised schedule of registration renewal fees.

- Mozambique has more restrictive laws regarding gross vehicle weights than several of its neighboring countries. Lacking fixed weighbridges at border crossing points and ports of entry, many foreign haulers enter Mozambique with overloaded trucks and cause damage to roads. Maximum weight bearing limits should be reassessed, particularly on key transit corridors, and programs implemented to ensure compliance with these standards. Future efforts, if economically justified, should concentrate on upgrading roads to a region-wide standard to ease enforcement and eliminate the potential diversion of transit traffic to less restrictive routes.

- A determination should be made as to which governmental agencies should be responsible for implementing and enforcing regulations that pertain to the above areas, as part of the assessment of transport institutions (see below). New standards for drivers and vehicle inspections need not be phased-in until after regulatory reforms to liberalize and enhance the private sector trucking industry are in place.

- Conduct an institutional assessment of government entities involved in road transport regulation, particularly DNTR and the proposed new Road Institute.

  - DNTR is weak institutionally and its traditional roles are changing as a result of industry liberalization and efforts aimed at privatization of transport parastatals. Some of the functions of proposed new Road Institute appear to overlap with those of DNTR.

  - An assessment needs to be made of: (i) the advantages and disadvantages of creating the Road Institute; and, (ii) the implications for the roles, responsibilities and even existence of DNTR -- both in light of the newly emerging, recommended regulatory environment, and the new role of government within that context.

  - Such a study needs to be undertaken as soon as possible because: (i) the articles for the establishment of the Institute are scheduled for submission for approval to the Council of Ministers by the end of 1992; and, (ii) the Institutional Assessment is an input to study efforts aimed at rationalizing the Road Fund and at streamlining licensing procedures.

7.1.2 Other Reforms

Development of an enabling environment for private sector road transport will require other actions in addition to liberalization of regulations and reform of regulatory bodies, as identified above. These are reform areas which are less within government's direct control but still key. They include the following.

Improve access to finance, through the development of new mechanisms and/or institutional entities.

- Finance for both vehicle acquisition and for funding the on-going operations of truckers is largely unavailable, and when it is, it is expensive and too short-term.

- Little improvement can be expected in this area under the current environment of tight credit ceilings, under-developed credit institutions and the lack of war-related risk insurance (see below). However, in order to stimulate private sector trucking and/or facilitate the privatization of parastatal fleets, consideration should be given to the following.

-- Creating a special line of credit channeled through the commercial banking sector aimed specifically a private truckers. Some donors funding will be required. A pre-requisite will be the institutional strengthening of the commercial banks lending capability, which is already targeted as part of on-going financial sector reform.

-- "Earmarking" for the private trucking sector some of the funds of the World Bank's SME Credit Line which is administered through the Apex Unit at the Bank of Mozambique (central). This fund is administered commercially but provides longer term funds with up-front grace periods. A program would need to be developed to "advertise" that the "trucking credit line" existed. Much of the information and analysis required to have a loan approved for the SME credit line is the same as those currently required to obtain a trucking license. Thus, the "cost" to the trucker of applying for such a loan would be low.

- A study should be conducted to assess alternative sources and mechanisms for funding vehicle purchases and truck operations, as part of creating an enabling environment.

Stimulate development of a functioning private sector <u>insurance</u> industry.

- Insurance is linked to credit because the vehicle often acts as the collateral for loans. The insurance sector in Mozambique is a monopoly which is said to have a poor pay-out performance record for claims. No war-related risk insurance is offered.

- Current efforts aimed at opening up and liberalizing the insurance industry should be continued, and new entrants actively encouraged. This will, over time, improve the cost of, and pay-out performance on, all-risk insurance, exclusive of war risk, and increase the amount of long-term funds available in the economy.

  -- The level of interest in entering this sector is quite high. However, government needs to improve the legislative framework by reviewing existing insurance legislation to provide for more competition, and developing an appropriate supervisory framework and guidelines on the investment of insurance company assets.

- Even a dynamic commercial insurance sector is unlikely to be able to offer war-related risk insurance at a price that truckers can afford. Thus, consideration should be given to a Guaranteed Insurance Scheme/Fund, financially supported by the GOM and/or donors and administered through the commercial insurance sector, to cover the war related component of risk.

- Enhance maintenance, repair and vehicle rehabilitation capabilities, and improve availability and cost of imported and used spare parts.

    - Private mechanical workshop capacity in Mozambique is concentrated in the hands of a few companies, located in the main cities, in particular in Maputo, with poor regional networks. Repair and maintenance services are scarce and expensive. This deters preventive maintenance practices and increases the share of the fleet which is non-operational. It also serves to limit the feasibility (technical and economic) of rehabilitating vehicles.

    - In addition, spare parts are in limited supply and expensive when available. Spares inventory management and distribution is poor, and the domestic parts industry is thin. There is also under-utilization of used and/or cannibalized parts.

    - Thus, a study should be conducted to: (i) encourage development of private sector owned and managed workshop capacity, particularly at the province and district levels; (ii) assess the potential for economic rehabilitation of selected vehicle resources; and, (iii) review and recommend polices to improve the ability of private sector parts distribution industry to cater to the needs of an expanded private trucking sector.

    - Such a study has already been identified in a preliminary fashion by the GOM and World Bank, as part of their efforts to prepare the ROCS project. However, a detailed Terms of Reference has yet to be developed, but should be as soon as possible. The results of this study will also have a bearing on the attractiveness to the private sector of some of the privatization options considered for the parastatal trucks fleets.

- Design industry-specific training programs for private sector operators, and to train government in its new functions.

    - A study needs to be conducted to assess in detail the types of training needed and appropriate delivery models. Draft Terms of Reference (ToR) have been developed and are presented in Annex J.

The above regulatory and other reforms will lead to a significant improvement in the environment faced by private sector trucking companies and will stimulate growth of the sector. However, as stated earlier in the report, the single most important change required in order to revive a competitive, private sector road transport industry is the cessation of war activities, and the rebuilding of some semblance of a national economy.

7.2 Privatization Plans for the Parastatal Truck Fleets

7.2.1 Recommended Privatization Program

The recommended program and action plan for the privatization of the main parastatal trucking fleets is summarized in Exhibit 7-2. Key elements of the program are as follows.

CAMOC

The two main forms of privatization recommended for CAMOC are to: (i) sell its assets; or, (ii) sell the company as a going concern. The key issues in deciding between these two forms of privatization are: (i) whether the fleet is to be sold with or without CAMOC's workshops; and, (ii) whether it is judged that CAMOC's sale price as a going concern is worth the resources required to prepare the company and implement an appropriate tender process.

- Sale of CAMOC's truck assets is both feasible and procedurally uncomplicated. It has a small fleet concentrated mainly in Maputo. The vehicles could be sold through a well advertized public tender. Government is already familiar in general with such a process.

  A specific process needs to be designed for the sale of the fleet, vehicle by vehicle. Recommended guidelines are as follows.

  - Conduct an inventory of CAMOC's fleet, noting at minimum the make, model, size and age of the vehicle, where it is located, and whether it is operational or non-operational.

  - For representative "clusters" of vehicles, minimum floor prices should be established. These clusters should be designed to capture the economic characteristics of the fleet, organized into no more than 5 categories. The minimum prices should not be made public, but rather serve to guide government's evaluation of bids.

  - Details of the fleet should be advertized in newspapers nationwide. The process to be followed to purchase the vehicles should be included in these notices. The vehicles should be sold to the highest bidder, provided the price exceeds the "floor" price. Offers therefore should be evaluated on price, the form of payment (government should indicate preferred form), and the level of confidence in financial guarantees.

  - The vehicles should be sold "as is" and the "buyer beware". That is to say: (i) the government should not invest in repairing the vehicles prior to sale; and, (ii) government should provide no guarantees as to the physical condition of the vehicles, further than stating whether they are operational or not.

EXHIBIT 7–2

Recommended Privatization Action Plan For Parastatal Fleets

Fleet	Recommendation	Time Frame for Key Actions					
		1992	------------ 1993 ------------				1994
		Q4	Q1	Q2	Q3	Q4	Q1
CAMOC	a. Sell assets	* Inventory/value fleet * Design tender process	* issue tender	* Public auction (if required)			
	[OR]						
	b. Sell as going concern	----- Prepare for sale ----- (legal form; inventory; valuation; tender process)		* Public tender	* Negotiate/conclude transaction		
AGRICOM	a. Sell larger trucks on consignment through dealers		* Design pilot progs.	* Execute pilot progs.	* Expand progs., if successful --------->		
	b. Sell smaller trucks through public tender		* Design pilot progs.	* Execute pilot progs.	* Expand progs., if successful --------->		
	c. Leasing Co., with DPCCN & others				* Establish government holding company * Develop mat'ls to "canvas" foreign Co.	* Attract leasing Co. * Place AGRICOM fleet leased pool	* Negotiate mgmt. contract * Establish leasing operations
DPCCN	a. "Commercialize"	* Replacement–induced inventory reduction * Commercialization & contracting to private sector of component activities	--> (spare parts, fuel, warehousing, transport services) ---------------->				
	[and]						
	b. Leasing Co.				* Establish government holding company * Develop mat'ls to "canvas" foreign Co.	* Attract leasing Co. * Place DPCCN fleet leased pool	* Negotiate mgmt. contract * Establish leasing operations
Transcarga	Increase private ownership	* Convert to SARL * Conduct market valuation of company * Establish "golden" share for government	* Sell some CAMOC shares to foreign company * Hold some CAMOC shares as Treasury stock for mgmt. incentive scheme			* Sell CFM & AGRICOM shares to company * Initiate stock option program	

- For any vehicles not sold through the advertised tender, a public auction should be held in Maputo. Again, the vehicles should be sold "as is". The buyer could physically inspect the vehicles in advance. Floor prices could be lowered or totally removed, depending on the number of vehicles to be auctioned and the experience gained in the advertised tender.

- Government, specifically the MTC in association with the Ministry of Finance, should be in charge of implementing this program.

- The program should be started as soon as possible. However, the start date would depend on whether the government decides to sell CAMOC as a going concern or not, which in turn may depend on the results of the assessment of parastatal workshop capacity.

- CAMOC should be dissolved as a result of selling its assets, trucks and workshops. However, sale of the trucks should not await development of a dissolution plan.

<u>CAMOC could also be sold as a going concern</u>. This option is recommended only if: (i) the workshops are found to have significant value and are to be sold with the fleet; and, (ii) the expected value of the enterprise exceeds the costs of implementing the sale process. If sold as a going concern, the entire company should be sold to the private sector through a process of competitive bidding followed by negotiation. As a result, CAMOC EE would be dissolved, and a new private corporation formed.

The tender process should follow approved government procedures. These include:

- Development of a specific action plan by UTRE for a privatization implementation program for CAMOC.

- Updating of financial statements and auditing the accounts of the enterprise. This is the responsibility of UTRE, but should be contracted out to private accounting/auditing firms. This will increase the credibility of the statements.

- Valuation of the enterprise, based as much as possible on the market value of assets, the firm's earning potential, etc. Specialized industry expertise should be used for this task.

- Preparation of a company dossier which includes background on the company, financial highlights, a preliminary viability assessment, clarification of outstanding legal issues, clarification of outstanding issues related to labor (if any), and a recommendation on the preferred form of privatization (joint venture, private placement, etc.).

- Advertisement for sale should be placed nationally, in selected regional journals, and provided to selected foreign commissions resident in Maputo.

The advertisements should clearly state what steps the investor needs to take for applying to purchase t' company and whom they should contact. Prospective investors should be given the opportunity to visit CAMOC's facilities, review information provided by UTRE, and sufficient time to prepare their proposal.

- Review and selection of investor proposals should be conducted in a timely and transparent manner. Use of specialized consultants probably will be needed to assist with this task. The soundness of proposed business plan and the credibility of the investor should be dominating selection factors. A short list of investors with which government intends to conduct negotiations should be developed. Firms not selected for the short-list should be notified accordingly.

- Negotiation and conclusion of transaction. A negotiation should be conducted with the short-listed firms, in order of ranking, with negotiations held with the highest ranked bidder. If negotiations are unsuccessful, then the second highest ranked bidder should be invited to negotiate. At the conclusion of a successful negotiation, a memorandum of understanding should be exchanged, and the investor proposal sent to CREE for approval to proceed with the transaction. At the conclusion of the transaction (signing of final contract, transferral of ownership, etc.), an announcement should be made in the national media.

- This process should be started as soon as possible, if this option is chosen. However, it will need to await the results of the workshop capacity study, prior to completion of some of the earlier tasks in the tender process.

However, the sale of CAMOC's assets is recommended rather than its sale as a going concern, because: (i) the process of selling it as a going concern is complex, particularly given its "intervened" status, poor accounting and financial systems, and the unknown extent of its debts and other liabilities; (ii) the trucks and workshops are likely to attract different buyers groups, and therefore be sold separately; (iii) CAMOC, with or without the workshops, is of insufficient size and lacks the financial performance to yield the sort of value to justify the tender process; and, (iv) CAMOC is unlikely to be the early success case the government needs to create momentum for its privatization program, particularly as enterprises sold as going concerns tend to be the most visible.

AGRICOM

The recommended privatization program for AGRICOM's truck fleet comprises the sale of truck assets to the private sector, and eventual leasing of the assets, if efforts to sell them are unsuccessful. The sale of assets should be conducted at two levels: (i) the larger trucks (10 tons and over), of which there are about 95 in the fleet, should be sold on consignment in "tranches" through the private sector; and, (ii) the smaller trucks, of which there are about 75, should be sold directly be government through publicly advertised sales in combination with public auction.

A pilot program for the sale of AGRICOM's fleet should be conducted first, because the near-term absorptive capacity of the private sector is unknown and the fleet is quite sizeable, totaling about 170 trucks.

- The larger vehicles should be sold on consignment to industry professionals, such as the truck dealerships.

  -- The government should advertise nationally the envisaged consignment sale pilot program, and solicit expressions of interest. The advertisement should explicitly state the selection criteria and provide guidelines on the requisite structure of offeror's proposal.

  -- Two to three companies should be selected. A contract should be signed with each which states period of performance, commission structure, etc. Each company should be allocated up to 15 operational vehicles, for which they pay nothing and are given three months to sell. A rational allocation of vehicles should be undertaken -- for example, the Mercedes dealership should receive mainly Mercedes trucks, the Scania dealership Scanias, etc.

  -- A commission rate should be provided, where the company receives a given percentage of the sale price. It should be left to the private company to decide whether it is worth investing in the repair and restoration of the vehicle prior to sale. The company can also make informed decisions regarding pricing, advertising, financing terms for prospective purchasers, etc.

- If within three months the pilot program for larger vehicles is deemed to be a success, then additional "tranches" of trucks should be provided to the same companies for onward-sale. Success should be determined based on the rate at which the vehicles are sold, the price at which they are sold, and judgements regarding the continued absorptive capacity of the private sector.

- The smaller vehicles should be sold directly by government through publicly advertised tenders. The process described above for CAMOC -- valuation by clusters, advertisement nationwide, vehicles sold "as is", highest bidder wins, etc. -- should be followed. In the pilot program, 20 to 30 vehicles should be offered for sale in this manner. After three months a determination should be made if the program was successful.

If the pilot program proves unsuccessful for either the larger or smaller trucks, then the remaining vehicles should be added to the leased pool to be leased with DPCCN's fleet. The leasing program is described in more detail in the following section on DPCCN.

DPCCN

DPCCN has a relatively large fleet. The private sector is unlikely to be able to absorb such a fleet until much of the enabling environment is in place. In addition, during the drought period, DPCCN will still need to manage the transport of relief cargo. There is a risk associated with departing extensively, in the near term, from the current system DPCCN uses to transport goods.

The recommended privatization strategy for DPCCN is divided into a short term program and a medium to longer term program. In the short term (the next 12 months), while the drought crisis is still at a peak, DPCCN should: (i) gradually reduce its fleet size through a replacement induced inventory reduction program (see Chapter 5); and, (ii) commercialize as many component parts of its business as possible. In the medium term, DPCCN should lease to the private sector all of its remaining fleet.

- Recommended short term program (next 12 months).

  - DPCCN does not need to own and operate a truck fleet in order to perform its transport management function. At least one third of the cargo it currently transports in its own vehicles are not shipped to particularly war-torn or remote areas. This cargo could be carried by existing and emerging private sector haulers. Thus, DPCCN should aim to simultaneously reduce its fleet size and increase private sector capacity. However, given the drought crisis and the unknown absorptive capacity of the private sector, only a gradual shifting of capacity should be undertaken in the next 12 months.

  - Inventory reduction should be achieved, at a minimum, through a replacement scheme. For every new vehicle provided to DPCCN, at least three vehicles of similar capacity should be sold. Two of these three should have reasonable economic value -- that is they should be in operating condition and six years old or less. The third vehicle could either be non-operational and sold for parts or rehabilitation, or be a totally "lost" vehicle which for some reason is still carried on the books.

  - Vehicles of over 10 tons should be sold on consignment through the professional private sector truck dealers selected for the AGRICOM pilot program (see above). The smaller vehicles should by sold directly by government, following the advertized public tender process also described above for AGRICOM and CAMOC.

  - In addition to fleet reduction, DPCCN should commercialize as many of its functions as possible over the next 12 months. This will serve to foster the development of the private sector in a number of trucking-related subsectors, and at a minimum, reduce the extent to which DPCCN's activities distort the market and/or are unrepresentative of economic costs. Consistent with the proposed strategy for its logistics support unit, DPCCN should:

-- Procure locally from the private sector all of its spare parts, oil and lubricant requirements.

-- Increase the share of tonnage carried on a commercial basis by private sector transporters for port despatch and for delivery down to the district level.

-- Procure fuel for its vehicles from commercial fuel stations at the local level, as opposed to from its own fuel farms.

-- Contract out provincial and district warehouse operations to commercial warehouse operators.

The recommended medium to longer term program for DPCCN is to lease out its fleet. The passage of the first 12 months will allow time for more of the enabling environment to be put in place, for increased private sector absorptive capacity, and for the ground work to be laid for developing a leasing industry. In addition, hopefully the severest effects of the drought crisis will be over.

- A new, government-owned enterprise or holding company should be created (see Chapter 6). All of DPCCN's fleet should be placed into this corporation. The remaining fleet of AGRICOM should also be added to this company's assets, if either the pilot programs for the sale AGRICOM's assets prove unsuccessful and/or if its fleet is needed to achieve minimum efficient scale in the leasing operation. Consideration should be given to adding DNEP's road maintenance and construction equipment to this leased pool as well.

- A private sector company should be found to run the leasing operation on commission fee-based management contract. The management entity should be highly professional and have substantial past experience in the leasing of transportation equipment. A prospectus should be developed to facilitate the canvassing and attraction of a suitable management company. The prospectus should outline the proposed business plan for the leasing operation, particularly the relative roles and responsibilities of government versus the private entity, the commission structure, the duration of the management contract, and other provisions. The plan should be flexible enough to allow for the incorporation of selected suggestions provided by the management company. Government will need to advertise the opportunity locally and internationally, and develop rational screening criteria and a transparent selection process.

- The leases should be for four years. They should be structured in such a way that the lessee either automatically owns the vehicle after the four years, or can exercise an option to buy the vehicle at the end of four years for a small, predetermined residual value. An option should also exist for the lessee to prepay the lease before the end of the four years. A formula for the valuation of the vehicles will have to be developed taking account of vehicle age, usage and condition, perhaps with an inflation adjustment clause. The conditions under which the lease can be canceled by either party need to be very clear.

- "Wet" leases which include insurance, maintenance and a parts package should be an option available, at a minimum to the lessees of vehicles under 10 tons in capacity. All leases should be inclusive of at least insurance. If the proposed assessment of workshop capacity (see section 7.1.2) indicates that there are very limited capabilities in the private sector, then consideration should be given to providing the option of wet leases for all vehicles irrespective of size of vehicle or lessee.

- Portions of the financial proceeds of the leasing operation should be allocated, net of the management contractor's fees, to appropriate government entities. Candidates include Treasury, the newly created Privatization Fund, and conceivably to DPCCN to help pay for the transport services it would purchase from the private sector.

- DPCCN may also need a provision for it to have "rights of first refusal" on a portion of the leased fleet. Operating guidelines would need to be clearly established. At a minimum: (i) a ceiling should be placed on the share of the fleet for which DPCCN might potentially have rights of first refusal -- say 25%; (ii) DPCCN should be required to give adequate notice that it was planning to exercise its option -- perhaps, 45 days; (iii) DPCCN should pay a market-based lease fee, which recognizes that the lease is of a shorter term than four years; and, (iv) trucks which have already been leased to the private sector for four years should not be reclaimed in order to satisfy DPCCN's perceived needs.

- Between months 9 and 12, Government should develop the prospectus for the leasing enterprise and design a process for canvasing, attracting and selecting a leasing management company. During the same period, the government holding company should be legally established. Between months 12 and 15, a leasing contractor should be selected, and the fleets placed in the newly created corporation. The aim should be to have the leasing operation up and running and leasing out vehicles within one and one half years.

Transcarga

Transcarga is already legally a private company. However, government entities own the vast majority of the company. Management capacity is adequate but ASDI assistance has only recently been removed from the company. The fleet is modern, in good condition, and well maintained. Utilization rates are low, but may be due to factors largely outside the control of Transcarga such as discretionary allocation of cargo on the Beira Corridor. Thus, the main near term privatization issue for Transcarga is to increase the private sector share of ownership.

A proposal is reported to exist for converting Transcarga from a "Limitada" to a "SARL" corporation. In addition, current management (both operating management and management representatives from the main government share holders) would buy or be allocated a certain share of the new established company. However, the proposal has neither been made public nor finalized. It is not clear whether: (i) management would purchase or simply be allocated shares; (ii) workers would be eligible to receive share; (iii) individuals or entities outside the current firm would be eligible for shares; and, (iv) the sum of the private share holdings would represent a majority of the firm.

The valuation of Transcarga, and thus the price at which shares would be offered, is complex. The four current share holders put in only nominal sums of capital at the time of Transcarga's creation. Most of the investment in Transcarga during its four year life has come from ASDI in exchange for which ASDI received no shares. There is speculation, although specific details are not available, that the management team are planning to value the firm and price the shares such that: (i) the existing share holdings of government entities is substantially diluted; and, (ii) the MBO team gets a "windfall" gain reflecting ASDI's investment.

In light of the above, the following action plan is recommended.

- Convert Transcarga from a Limited to a SARL corporation.

- Value the company on a market basis, with assistance from professional financial experts with industry-specific knowledge.

- Issue current government share holders with shares in the SARL corporation, in proportion to their current percentage ownership of Transcarga.

- Consider providing government with a special or "golden" share in Transcarga. This would enable the government to ensure that certain major decisions affecting Transcarga are consistent with government policy, while allowing the private sector to acquire over time a majority, "controlling" share of the company. The golden provision should be clearly specified in the charter of the new SARL corporation. It may provide government veto or approval powers with respect to the valuation of future offerings of ordinary shares, the "earmarking" of shares to targeted groups, and the allocation of financial proceeds from the sale of government owned shares. The Ministry of Finance and/or Transport should represent government in exercising its special share powers.

- Offer CAMOC's share of Transcarga (44%) for sale to the private sector at the market based price, as an initial effort to increase the share of private ownership.

  - At least half of the 44% should be reserved for sale to a private foreign corporation. The foreign company should have trucking operations management expertise and be able to assist Transcarga with international marketing particularly to generate backhauls. Transcarga's current management, with government's help, will need to design and execute an international investor search on a limited basis. Bordering nations with "natural" trucking route connections, such as Zimbabwe, Malawi and Zambia, should receive priority attention.

- The other half of CAMOC's shares should be offered to management for purchase at the market price or with a minimal discount. If the reserved share for management is under-subscribed, the residual shares should be set aside by Transcarga as Treasury stock for allocation in the future for management incentive schemes.

- The financial proceeds for the sale of CAMOC's shares should be reinvested in Transcarga, because: (i) CAMOC will cease to become a going concern once it itself is privatized; and, (ii) Transcarga, with the recent departure of ASDI, will be in need of a capital injection.

Consider, in year two, establishing a stock option program or other stock-based incentive schemes for top management and allocating some portion of AGRICOM's and/or CFM's shares, 27.5% and 16.5% respectively, to the incentive-based stock pool. Depending on the experience of the first year, the shares could be offered in some combination to management/employees for purchase, to the existing private foreign partner for purchase, and for allocation to the incentive scheme. Financial proceeds should be split between the Privatization Fund and for re-investment in Transcarga.

7.2.2 Implementation Guidelines

Implementation of the recommended privatization program is scheduled to occur over a one and one half year period. It comprises a number of interrelated activities, such that the experience gained in privatizing one parastatal fleet may be transferrable to another. Managing the privatization process will be complex. Selected implementation guidelines are as follows.

- The time frame for starting the privatization program depends in large part on: (i) advances made in implementing the liberalization plan and creating an enabling environment; (ii) completion of selected key studies such as the workshop capacity assessment; and, (iii) progress made with the government's overall privatization program.

    - The privatization program should be synchronized with the industry liberalization plan (see Exhibit 7-1). This will allow elements of an enabling environment to be put in place first, make the trucking industry more attractive to the private sector, and increase the private sector's confidence that government will actually execute the liberalization program. However, privatization is a lengthy process. Certain elements can be initiated in advance of, or at the same time as, the liberalization program is executed. Thus, selected early actions identified for the privatization program are scheduled to be started as soon as possible.

- It must be recognized that the continuing war situation, lack of credit and unavailability of war risk insurance are constraints to private sector trucking which will not be alleviated in the near to medium term. However, the buoyant demand for trucking services resulting from the drought, and the declining age and economic value of the fleets, argues in favor of near term action. The private sector's absorptive capacity will not be stretched by the privatization programs recommended for CAMOC and Transcarga, and will be tested via pilot programs in the case of AGRICOM. DPCCN's fleet, under the recommended program, is not scheduled for large scale release into the private sector for another year and one half. Even then, the rate of release will be gradual because not all of its trucks are likely to be leased in the first instance.

- The results of the study of workshop and repair facility capacity in the parastatal sector will influence the choice of privatization methods selected for CAMOC, AGRICOM, and DPCCN. However, the workshops are likely to attract different purchasers than those interested in the vehicles. The key issue will be whether the existing parts inventories are to be sold with the trucks or the workshops.

- It is unlikely that the privatization of the larger fleets of AGRICOM or DPCCN will provide the early "success story" needed to build and maintain momentum for the government's overall privatization efforts. The privatization of these two fleets should be coordinated with the overall privatization program to ensure that a number of large industrial enterprises have been successfully privatized first.

A government Steering Committee or Task Force should be created to guide and coordinate the privatization of the four parastatal fleets.

- By design, there are common elements across the four recommended privatization action plans. These include: (i) fleet inventories and asset valuation; (ii) asset sale tender processes; (iii) creation of a leasing operation; and, (iv) allocation of sale or lease proceeds. The role of the Committee should be to ensure consistency, transparency and the transfer of "lessons learnt". The Committee would also serve to limit the extent to which the myriad of different entities involved in each of the truck fleets might subordinate the better interest of the nation to suit their own, specific needs.

- The Committee should comprise, at a minimum, senior members from the Ministries of Transport and Finance, respectively. The Committee could report to the CREE on overall policy issues and defer to CREE for approval of major transactions. It should coordinate its technical work with UTRE.

One full-time expatriate might work as a technical advisor to the Committee. This person should have expertise in truck valuation, design and execution of tender processes, and in leasing.

- An early action by government should be to meet with donors to identify which donors are interested in supporting the various elements of the fleet privatization program. A work program and funding plan should be developed in coordination with select donors.

- The government should not restructure enterprises in advance of sale, other than to clean up liabilities, assure buyers that no residual claims exist, and alter the enterprise's legal form where necessary.

- Every effort should be made to ensure that the privatization programs follow transparent processes. Tenders should be widely advertized, the opinion of management solicited, and selection criteria and results should be publicized. Special privileges, non-arms-length bargaining, and non-transparent negotiations and transfers should be avoided.

ANNEX A

CONSULTANT'S SCOPE OF WORK

Decretos 27/91 and 28/91 of 21 Nov 1991: Creation of an Inter-Ministerial Commission for Enterprise Restructuring and Definition of Methods of Privatization

These decrees define the mechanisms and procedures to be used in the transfer or privatization of state-owned enterprises. In effect, they serve to enable many of the provisions of Law 15/91, which permits privatization of certain state-owned businesses.

Decree 27/91 serves to create an Inter-Ministerial Commission on Enterprise Restructuring (Comissao Interministerial para a Reestruturao Empresarial -- CIRE). It sets out the organizational structure and main functions to be performed by CIRE.

Decree 28/91 identifies five options by which the process of privatization can take place, namely:

a. Public bidding
b. Sale of shares to the public
c. Negotiation or restricted bidding
d. Increases in capital from private investors
e. Sale to enterprise management, technicians and workers

The decree also identifies a standard process to be followed in privatizing enterprises. For example, under the provisions of this decree, Privatization Executing Commissions (CEP) are to be nominated to handle the privatization of each enterprise. Each Commission is to include representatives from the Ministry responsible for the enterprise, and in addition, the Ministry of Finance, the Bank Of Mozambique, and the Cabinet for Promotion of Foreign Investment (GPIE).

III. PROPOSED ARTICLES OF NATIONAL ROAD INSTITUTE[3]

Decrito (proposed): National Institute of Road Transport

This draft decree proposes the creation of the National Institute of Road Transport. A draft of the articles for establishing and defining the role of, and financing mechanisms for, the Institute are provided.

As proposed, the Institute will be a new legal entity possessing its own financial and administrative controls, although still subordinate to the Ministry of Transport. It would absorb all of the present functions and staff of the existing Reparticoes de Viacao. This transformation

[3] See Annex K.

from a Ministerial Department is intended to create an organization better able cope with the near-term challenges resulting from the rapid increase in demand for road transport services throughout the country, and in particular that are expected in the post civil war period. The Institute would operate offices in each province and its senior managers would be nominated by the Ministry of Transport. Although its functions are detailed in the decree, there is no explanation about the Institute's enforcement powers or how these will be shared with the police.

A National Transport Commission would be the policy making body, composed of representatives of the Institute, several Ministries, and private sector transport operators. Its financing would come partly from the National Budget, but also from administrative fees, foreign donors, and a portion of fines levied for infractions of laws and regulations.

However, under the decree as currently written, the Ministry of Construction and Water, which is responsible for administering the Fund and for planning and managing road maintenance and development programs, has no direct responsibility for establishing tax levels. At present, the tax on high octane gasoline is 300MT/liter, and 250MT/liter for regular gasoline. The tax on diesel fuel is 5MT/liter. This tax schedule suggests that it is more of a consumption surtax and general revenue generator for government, than a road user charge. Taxes on non-road fuels such as aviation fuel, kerosine and LPG are also included. The Road Fund is earmarked to receive all taxes generated on gasoline and 60 percent of the tax collected on diesel fuel. The balance of the diesel tax is to be divided equally between energy conservation/domestic production exploration, and rural development activities. Under the original provisions of the decree all gasoline tax receipts were to be consigned to road programs in urban centers and the tax on diesel fuel was to be distributed to the provincial budgets in a manner to be determined by the Ministry of Finance. Subsequent changes in government policy are now said to call for the largest share of total fuel-based tax receipts to be allocated to road projects in rural areas.

Aviso of 28 Sep 1991: Tariffs for Trucking Transportation

This advisory announced the official government rate, effective 3 Oct 1991, for the carriage of both passengers and cargo. For cargo transported on paved roads the rate is 132 MT/ton-kilometer, and for haulage on unpaved roads 164 MT/ton-kilometer. Transporters hauling on an hourly basis can charge between 15,859 MT/hour and 30,481 MT/hour, depending on the size of the truck employed.

Decreto-Lei No. 49-308: Maximum Vehicle Weights and Sizes

Articles 18 and 19 establish the maximum weights and physical dimensions of trucks operating in Mozambique. Standard trucks are permitted to be 16 tons if the weight is distributed over two axles, and 22 tons if over three axles. Tractor trailers are restricted to 26 tons, 32 tons and 38 tons, respectively, for three, four and five axle configurations.

Diploma Ministerial No. 6/91: Driving License Test Requirements

This document sets out the guidelines and provisions of driver license testing in Mozambique. It serves to modify and expand on Decreto-Lei No. 39 672 of July 15, 1954.

Aviso of 31 March 1992: Interest Rates on Loans

This amendment to article 25 of Law 1/92 of 3 January fixes the interest rates charged on loans made by the Bank of Mozambique and other lending institutions. Rates are set as a function of the duration/term of the loan, and range from 39 percent per annum for 90-day loans up to 44 percent per annum for loans longer than 3 years. These provisions are not specific to the trucking industry.

II. SELECTED PRIVATIZATION LAWS AND REGULATIONS[2]

Law 15/91 of 3 Aug 1991: Restructuring and Transformation of State Enterprises

This is the primary law governing the privatization and transformation of state-owned enterprises. This law, in essence, constitutes an overall privatization policy statement and outlines the objectives of, and forms and methods for, public enterprise restructuring and privatization.

The objectives of the enterprise restructuring and transformation is outlined, and includes to:

a. increase the efficiency and competitiveness of enterprises;

b. improve labor productivity and incentives;

c. improve quality, quantity, and variety of products;

d. attract private investment;

e. foster an environment that can support a capital market;

f. increase government revenue; and,

g. expand opportunities for the public, and in particular the workers, to participate in the enterprise.

Although this law clears the way for privatizing state-owned enterprises, it also permits the continuation of State control for certain activities of a strategic nature. Subject to the findings and recommendations made by the Privatization Executing Commissions (see below), three options are considered.

a. Not to privatize in cases of critical national interest such as the production, distribution and commercialization of goods and services which provide primary necessities to the public.

b. To transform the public enterprise into independent companies (sociedades anonimas) which can be exclusively state-owned or have mixed private-public ownership but where the State shall retain be the majority share.

c. The outright sale of all state interests to the private sector.

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[2] See Annex I.

ANNEX D

ABSTRACT OF SELECTED TRUCKING INDUSTRY REGULATIONS

ABSTRACT OF SELECTED LAWS, REGULATIONS, ADVISORIES AND DECREES RELATED TO TRUCKING INDUSTRY OPERATIONS AND TO PRIVATIZATION

I. SELECTED TRUCKING REGULATIONS[1]

Decreto 24/89 of 8 Aug 1989: Regulation of Automotive Transport

This decree provides the basic provisions regarding rules, regulations, licensing, tariff rates, tax liability and fines related to the operation automotive forms of commercial transport. The transport of passengers, baggage, cargo and mail via any type of road vehicle, including cars, taxis, light vehicles and trucks are covered by this decree. The decree has been reproduced as a manual entitled "Regulamento de Transporte em Automoveis "Actualizado"".

This decree is supplemented by Diploma Ministerial 92/89 of 20 Sept 1989, which adds or modifies some of the provisions in the earlier decree related to light trucks (under 7,000 Kg - GVW) and mini-buses with up to 25 seats/places.

Decreto 45/89 of 28 Dec 1989: Road Fund (Fundo de Manutencao de Estrados e Pontes -- FUMESP)

This decree serves to establish a Road Fund in Mozambique. The fund is to be administered by the Ministry of Construction and Water, and supervised by an inter-ministerial commission. The commission, which is to be headed by the National Director of Roads and Bridges, will determine how all funds received will be disbursed subject to oversight by the Ministry of Finance. The fund is to be held in a banking institution in an interest bearing account. It is anticipated that the fund will be sustained by surtaxes deemed appropriate by the Popular Assembly and the Council of Ministers (see Decreto 22/90, below), and by direct allocations from the national budget. The fund will be created as a legal entity with financial and administrative autonomy.

Decreto 22/90 of 24 Sept 1990: Taxes on Petroleum Fuels

This decree sets out the tax schedule related to a range of petroleum fuels. The intent is to reduce the consumption of petroleum fuels, to preserve foreign exchange by decreasing demand for imported oil, and to raise revenue for road repair. These taxes were prepared by the Ministry of Finance in conjunction with the Ministry of Industry and Energy and are subject to change over time. All receipts generated by these taxes are to be deposited in the Road Fund.

[1] See Annex H.

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ANNEX C

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ANNEX B

LIST OF CONTACTS

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** Task 5 was amended to read as follows:

Propose detailed and transparent procedures for divestiture to include Camoc and Agricom in their entirety and others as appropriate and as agreed upon by USAID and the contractor.

required experts.

__Phase I: Diagnostic Study__. Phase I will be a diagnostic and information gathering phase in which the complete core team will assess the current status and intentions with regard to divestment of the parastatal trucking fleet and liberalization of the trucking industry. Specifically the team will investigate/assess: i) macro-economic conditions, the business climate and overall privatization policy and plans with respect to trucking privatization and liberalization; ii) trucking policy and regulation; and iii) trucking operations and small owner-operator issues.

__Phase II: Divestment/liberalization Plan Development__. The specialist in private sector enterprise development and the economist will further develop plans for divestment of the parastatal trucking fleet and liberalizing the trucking industry.

V. Timing and Duration

The required work should begin on/about February 24, 1992; in-country work should be completed by April 20, 1992 and the final report completed by May 18, 1992.

VI. Roles and Responsibilities

USAID and the World Bank will provide joint supervision for this study, with direct supervision by USAID/Mozambique. Close consultation and collaboration with a range of Mozambican agencies and individuals during this work will be critical to ensuring that the study's recommendations are implemented. The progress of the study will also be monitored by a representative of the National Directorate for Road Transport of the Ministry of Transport and Communications.

VII. Required Reports

1. Within one week after arrival in Mozambique, the Contractor will present to USAID, the World Bank, and the GRM an outline of the Phase I Diagnostic Report and a schedule for completion of the study, including itineraries for field visits and preliminary list of contracts.

2. Prior to departure from Mozambique, the Contractor will orally present to USAID, the World Bank, and the GRM the principal findings of the diagnostic phase and recommendations of the study. The Contractor will also present the findings orally to the appropriate World Bank staff in Washington D.C. upon return to the U.S.

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3. Within ten days after departure from Mozambique, the Contractor will submit to USAID/Mozambique by courier service, transmittal to the World Bank and the GRM, ten copies of a complete draft report for the diagnostic phase including findings, recommendations, time frames, and other elements as described in the scope of work.

4. Within two weeks of receiving USAID, World Bank, and GRM comments on the draft report (to be consolidated and transmitted by USAID), the Contractor will provide USAID with 12 copies of the complete final report in English, for transmittal to the World Bank and the GRM.

   At the same time, the Contractor will provide USAID with 25 copies of a Portuguese translation of the final report's executive summary.

5. Prior to departure from Mozambique after Phase II, the Contractor will submit to USAID for transmittal to the World Bank and the GRM, ten copies of a complete draft report for the divestment and liberalization plans phase, containing findings, recommendations, time frames, and other selected elements described in the scope of work.

6. Also prior to departure from Mozambique after Phase II, the Contractor will orally present the principal findings from the divestment/liberalization plans phase study to USAID, the World Bank, and the GRM.

7. Within two weeks of receiving USAID, World Bank, and GRM comments on the draft report (to be consolidated and transmitted by USAID), the Contractor will provide USAID with 12 copies of the complete final report in English, for transmittal to the World Bank and the GRM.

   At the same time, the Contractor will provide USAID with 25 copies of a Portuguese translation of the final report's executive summary.

VIII. Logistical Support

USAID/Mozambique will provide the team with office space. All photocopy and secretarial/translation services will be a part of the contract. The local hired consultant will assist the team in arranging meetings with key contacts. USAID/Mozambique will make hotel and car hire reservations, arrange in-country travel, and assist with confirmation of onward travel arrangements. All other provisions are understood to be the responsibility of the contractor.

mechanical skills at the workshop floor level; also addressing workshop licensing constraints to installation of new capacity, the regulations relating to importation and distribution of spare parts and components, and availability of foreign exchange for workshop equipment and parts.

This statement of work addresses the first two of these four elements by providing primary information on the prospects and most suitable channels for privatization of parastatal fleets and the most critical areas of trucking regulation in need of liberalization.

III. Scope of Work

A. General

The Contractor will travel to Mozambique to consult with Government agencies, private sector transporters, donor agencies, and others involved in road transport and related services, in order to formulate cost-effective and operationally sound measures leading to privatization of Government and parastatal trucking fleets and liberalization of regulations and other restrictions on competitive private sector road transport activities, including mechanical and technical support services.

B. Specific

Specific tasks to be performed include but are not limited to the following:

1. Review the current policy framework supporting road transport operations and document and propose policy changes to effect stronger private sector participation in this subsector.

2. Review current regulations governing road transport activities and propose changes to streamline and liberalize these, including reform of tariff restrictions to permit road transport rates to be freely negotiated between transporter and client.

3. Review existing minimum standards for security and safety in the trucking industry, propose revisions as appropriate to reflect existing constraints to advocating these.

4. Identify types of training or assistance needed by the emerging private sector and by government agencies at appropriately decentralized levels to fulfill their new roles in road transport activities, and develop terms of reference for a more detailed study of these

training needs.

5. Propose detailed steps and transparent procedures for divestiture of vehicles, workshops, equipment, and similar or related facilities, from government institutions and parastatal companies to the private sector, with explicit consideration for small, entry-level owner-operators.

** Amended (see last page)

6. Assess funding needs and mechanisms for privatization of government and parastatal fleets, including appropriate procedures and intermediaries to move funds based on recognized commercial and banking practices, and taking into account ongoing World Bank assistance to restructure the banking sector in Mozambique.

7. Review the effectiveness of transporters' associations, their legal status, their potential role in facilitating vehicle transfers from public to private ownership, and their potential to foster or to impede increasing competitiveness in road transport.

8. Assess other constraints and make recommendations to improve the environment for private sector road transport activities (for example, insurance, reliable fuel availability, access to parts and services, etc.).

9. Develop a time frame for implementation of the policy reforms, regulatory changes, and privatization activities recommended.

IV. Required Expertise and Level of Effort

The Contractor will provide a three-person core team for a total of five person-months, of which approximately four person-months will be spent in-country. This team should include an economist and a two road transport specialists with a mix of specific expertise in privately owned/operated road transport operations and experience in financial services, road transport-related regulations and institutions, road transport-related skills development, and transport-related private sector enterprise development. Experience in sub-saharan Africa is essential. Portuguese language capability is highly desirable.

In addition, the Contractor may sub-contract to individuals to procure local technical expertise as necessary.

The study will be conducted in two parts; Phase I covering a <u>Diagnostic Study</u> and Phase II completing a <u>Divestment/Liberalization Plan Development</u>. Each phase will require approximately three weeks in country by each of the

Statement of Work

Mozambique Private Sector Road Transport Support Study

I. Objective

To provide primary information on the prospects and most suitable channels of privatization of parastatal trucking fleets and on the most critical areas of trucking-related regulation in need of liberalization.

II. Background

Within the larger context of the Economic and Social Rehabilitation Program Supported by the IMF, the World Bank, and many bilateral donors, the Government of Mozambique (GRM) has identified improvements to transport infrastructure serving domestic needs as a priority for investment. The GRM is at present applying to the International Development Association (IDA) for a credit for a Coastal Shipping Project, but recognizes the need for a coherent strategy to develop all modes of transport serving the domestic economy. Development of the GRM's proposed Coastal Shipping and policy reforms in the road transport subsector, thereby laying the groundwork for later investment activities in road rehabilitation and related road transport services.

The GRM's main objective in the transport sector is to promote rural development and trade, despite the constraints imposed by the continuing adverse security situation. In recent years, substantial amounts of foreign financial assistance have been channeled to the rehabilitation of railway corridors to re-open international transit traffic facilities and restore an important source of foreign exchange earnings. The emphasis of public expenditure programs in this sector is now shifting toward the rehabilitation of rural feeder road networks and primary and secondary roads providing access to the sea, and toward increasing coastal shipping and trucking capacity. Increased private sector participation will be fostered in all transport services, with the state retaining a much reduced role in transport. Divestiture of transport-related assets and responsibilities to the private sector will allow public enterprises to concentrate resources on priority activities and thereby improve performance. The GRM's pricing policy for transport services has already begun to shift to a full cost-recovery basis, and liberalization of transport pricing policy can be reasonably expected. In addition, steps are being taken to improve resource mobilization for road maintenance, for example through user charges for international road traffic (introduced in early 1990).
Development of a road transport subsector which relies on the

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private sector will depend on a sensible program of policy and regulatory reform. At present, trucking-related services in Mozambique have three overriding operational characteristics: first, high concentration of the truck fleet in large Government-controlled or parastatal fleets; second, inefficient vehicle utilization; and third, poor facilities for maintenance and other support services. The GRM has decided to study the most cost-effective means to remedy the constraints these traits impose on developing more efficient and competitive road transport, and is seeking consulting services to prepare an action program leading to (i) privatization of parastatal and Government trucking fleets (ii) liberalization of regulatory constraints to private initiatives in this subsector, and (iii) rehabilitation and productive utilization of the existing fleet.

The World Bank and USAID are cooperating to support the GRM in this effort by conducting a set of studies containing actions and proposals suitable for immediate implementation through either USAID program assistance or through a proposed IDA roads project. The set of studies will have four elements:

1. Development of guidelines for shifting the balance of the trucking industry from the public to the private sector -- these will address the funding required to effectuate privatization of the parastatal fleets and of appropriate procedures and financial intermediaries (based on recognized commercial and banking practices) to move such funds; in this context, special attention will given to the small, entry-level owner-operator, and the potential role of cooperative associations in facilitating funding and vehicle transfers and in acquiring support services (such as spare parts procurement) will also be considered.

2. Development of proposals for the liberalization of regulations and other restrictions on private sector road transport activities, including a reduced and re-oriented role for Government agencies -- these will address the need for Government regulatory or support services to encourage transport growth, while keeping GRM involvement in road transport activities to a minimum; issues to be addressed include insurance, security, and safety in the industry, and cost-effective means to advocate such standards.

3. Identification of types of training and/or other assistance needed by emerging private sector operators and by GRM agencies to fulfill their new roles in road transport activities.

4. Assessment of the potential for rehabilitation of existing resources and projected needs -- including the mechanical condition of the present parastatal fleets and the

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