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Strategic Review of Mozaico do Indigo S.A. Operations and Business Plan

June 2011

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Contents

Executive Summary	v
1. Background	1
Approach	1
Study Objectives and Organization	1
2. Policy Framework and Context for Establishment of Mozaico Do Índigo S.A.	3
Policy Framework	3
Recent Developments	3
Continuing Challenges	4
Responses to Challenges	5
Conceptual Role of Mozaico do Indigo S.A	6
3. Strategic Review and Discussion Findings	8
Main Issues	9
What Was MdI Intended to Be and Do and What Purpose/Core Mission Is Realistic?	9
What Is The Most Effective Way For MdI To Be Managed To Execute Its Mission and Core Function(s)?	14
Can MdI's Mission and Objectives Be Realistically Achieved with the Resources Available?	18
What Can Be Done To Streamline and Accelerate MdI's Organizational Process To Start Achieving Results?	20
4. Conclusions, Options, and Recommendations on Specific Findings	22
Company Mission and Objectives	22
Core Functions and Key Tasks	22
Capitalization	23
Governance Structure of Mozaico to Best Achieve Results	24
Skill Mix/Capacity to Manage Mozaico	26

Division of Labor and Responsibilities in Tourism Development to Ensure Linkage in Critical Components	26
Land Law in Context of Mozaico's Role	27
Coordination Branding and Promotion	28
Concluding Remarks	28
5. Next Steps	29
Appendix 1. Interview Contacts	
Appendix 2. Documentation and Reports Reviewed	

Executive Summary

In 2003, the Ministry of Tourism of the Republic of Mozambique, identified and designated some 18 Priority Areas for Tourism Investments (PATIs), across the country. To initiate a transformative tourism development process, the Ministry in 2006, began implementation of two major projects – i.e. Projecto Arco Norte (Northern Mozambique Tourism Programme) and Project Âncora (Anchor Project) with funding and technical assistance from the US Agency for International Development (USAID) and the International Finance Corporation (IFC), respectively. While both projects differed in scope, scale and objectives, a common denominator was to attract quality private sector investments into the development of major resorts in select PATIs.

However, an ad hoc approach and lack of integrated planning; the fragmentation and difficult access to developable land; lack of investments in supporting infrastructure of roads, water, electricity, sanitation and sewerage, and telecommunications; the absence of a management authority to coordinate the resort development process, assure standards and investor care and support remained major obstacles to attracting private sector tourism development investment. To address these challenges, the Council of Ministers in June 2008, adopted the Integrated Resort Scheme (IRS) as a framework for tourism development. In tandem, the Council approved the Conceptual Landuse Plan & Framework for Tourism Development in Northern Mozambique and recommendations therein for the establishment of a Special Purpose (Public/Private Partnership) Vehicle to drive and manage the integrated resort development process in the Arco Norte. Other measures enacted include:

- The promulgation in December 2009 of a decree that sets out guidelines, procedures and rules for the declaration of Zonas de Interesse Turístico (ZITs) or Special Tourism Development Zones with the Instituto Nacional do Turismo (INATUR) as the management authority and sole organ responsible for providing title, licensing, approving and authorizing any economic activities in the ZITs¹; and
- The formal declaration on 13 July 2010 of sites earmarked for integrated resort development under Projectos Arco Norte and Âncora, as ZITs.²

As a corollary, Mozaico do Indigo S.A (MdI) was conceived and incorporated in April 2009, as a special purpose limited liability Company with Instituto Nacional do Turismo (INATUR) and the Instituto de Gestão de Participações do Estado (IGEPE), as shareholders.³ MdI was to be capitalized and structured to play an innovative and pivotal role in the process of integrated tourism development

¹ Boletim da República, Terça-feira de 15 de Dezembro 2009,(Decreto 77/2009 – Aprova o Regulamento das Zonas de Interesse Turístico (Artigo 12)

² Comunicado de Secretariado de Conselho do Ministros, Maputo, 13 de Julho de 2010

³ INATUR is a semi-autonomous development arm of the Ministry of Tourism and the management authority for all ZITs. IGEPE on the other hand is a Trust that manages all Government shareholdings in public and private companies.

in the ZITs. Officially gazetted in April 2010, and with the appointment of the Conselho da Administração (herein the Board of Directors) in May 2010, the Company commenced business. Unfortunately Mdl's objectives as stated in the statutes of the Company were rather numerous (10 in all), which contributes to a broad, poorly defined and unfocused mandate.⁴ Given the broad vision and mandate expressed in Mdl's Statutes and compounded by the start-up nature of the Company as an innovative vehicle for Mozambique, beginning operations and getting Mdl to function has proven unwieldy. Subsequently, the Shareholders and the Mdl's new Board Chairman sought the assistance of USAID. The latter under the SPEED Project brought in the Lead Consultant to help Mdl sort out its thinking in order to develop an executable strategy acceptable to its Shareholders and ultimately, to commence active operations. A knowledgeable Local Consultant provided technical support and insight.

METHODOLOGY

In undertaking this review, the Lead Consultant conducted interviews with Mdl's Board, its Director General and in-house Legal Advisor, representatives of Mdl's Shareholders, the Ministry of Tourism, and others knowledgeable in Mozambique's integrated tourism development initiative. A review and analysis of critical documents was also undertaken. In addition, Lead Consultant brainstormed with Local Consultant and the SPEED Project Director on his findings. On the basis of documents, information obtained, and discussions, he shared preliminary views orally with Mdl's Board, SPEED and USAID. This process provided the basis for the following findings and recommendations.

FINDINGS & RECOMMENDATIONS

Company Objectives

Mdl's current mandate is too broad and open-ended. Consequently, the Company lacks clearly defined objectives and strategic focus. Therefore, a key threshold issue is to define exactly what Mdl's mission and core function must be and from a practical perspective, what Mdl can realistically do.

Current Focus of the Board

Although Mdl was created as a private sector Limited Liability Company, it clearly was conceived with a "developmental mission"⁵ and not for "profit maximization" per se. Thus, the current focus of the Board on generation of revenues and profit as the driving objective and key task of Mdl's is misplaced and indeed, creates a distraction from the Company's mission. Mdl must first and foremost focus its activities on its developmental mission.

Apparent Functions of Mdl

There appears to be no consensus on, and it is difficult to discern from Mdl's Board and stakeholders what precisely Mdl's role and added-value activities should be. However, it is obvious that Mdl was fundamentally conceived to fill a niche, which is to attract private sector investments and promote the integrated development of the ZITs. Further, and in performing this role, Mdl's role seems to be to ensure that ZITs are planned, competitively packaged and meet the standards of the international

⁴ Estatutos de Mozaico do Índigo S.A (Artigo Terceiro)

⁵ Having a "developmental mission" does not mean that Mdl cannot operate as a private sector entity with profitability goals; indeed, it should, but its revenues should be generated from the added-value Mdl brings in executing its core functions.

tourism and investment market. Realistically, as an unprecedented start-up with limited resources, it is best for Mdl to focus on a niche activity or activities that are currently not being performed by other entities -- i.e., doing something different, creating synergies and not duplicating the functions or roles of other entities, such as INATUR.

Capitalization

Mdl's capital needs and structure are ill-defined and have no relationship to the purported objectives of the Company. The Company's nominal book value or stated capital is 200,000 meticals (\$5,714). No equity contributions or payments have been made by the shareholders -- i.e., INATUR (with 51%) and IGEPE (with 49%). To date, the only capital injection into the Company is a \$500,000 shareholder loan provided by IGEPE, with an option to convert it to equity. By practically any measure, Mdl is currently severely undercapitalized to engage in even minimal activity under its statutory mandate. Even though there is a perception that various parastatals currently holding land rights in the ZITs would be willing to transfer those rights to Mdl as a capital increase and become Mdl shareholders, it does not appear that any action has been or is being initiated by the Board to seek a capital increase through a share offer to other parastatals with land use rights in the ZITs. Firstly, Mdl needs to define the Company's core function and attendant capital needs to achieve realistic objectives. Secondly, it needs to review its stated capital upward, accordingly to realistic expectations. Thirdly, it must make efforts to bring other shareholders to the table, if the Company is to be adequately capitalized.

Alternative Approach

Alternatively, the proposition that user rights to non-performing lands in ZITs belonging to other parastatals are to be transferred to Mdl by virtue of the Council of Minister's directive, means that Mdl would be managing these assets on behalf of the State, not for its own account or that of the parastatals, which transferred their land use rights to Mdl. If this proposition were to be the case, then an alternative, and probably a more effective and pragmatic approach, could be for Mdl to become an "asset management firm" serving as "property manager" for the entities which contribute their properties to it.

Management Standards and Overall Governance

Nature of the Board and Role of the Director General

The Company lacks critical full-time executive management leadership. Pursuant to Mdl's Statutes, the Conselho da Administração, which is comprised of members with other full-time jobs, is vested with executive and operational authority, and has not delegated such authority to the Director General (Chief Executive Officer). The role of the Director General appears to be limited to that of a staff assistant to Mdl's Board and particularly its Chairman. This "executive board" model, where the Board exercises the day-to-day management function, typically lacks critical checks and balances consistent with good corporate governance, putting the Board members and Chairman at greater risk. If Mdl is to be an innovative, entrepreneurial private sector vehicle conceived to achieve Mozambique's objective for tourism development in the ZITs, then shareholders must take a decision on whether to maintain a salaried and executive Board or a non-executive Board, which exercises a supportive, supervisory and monitoring role and not an executing and management role.

Board Membership

Although MdI was established to function as a private sector company, membership of its Board is comprised predominantly of individuals from public sector entities -- i.e., at least 4 of the 5 Board Members. There is thus very little private sector entrepreneurial experience to steer the Board and guide the Company, especially at this infant stage when creative private sector thinking is most critical. Also for an innovative private sector firm that is expected to interface with the international investor/developer market, there is a noticeable absence of a member on the Board from the international business community. If MdI is to succeed as a private company with a transformative role, it is critical that the Board have a mix of persons predominantly from the real private sector -- i.e., entrepreneurs who have demonstrated the vision, risk-taking and management skills necessary to actually build a company from the ground up; who can bring subject matter knowledge and access to resources that can contribute to MdI's mission -- and preferably, members bringing the perspective of an international investor. As an example, if MdI's critical function is to manage land and other assets and attract investments into infrastructure and resort development, it would be preferable to have individual Board Members with real private sector experience as a Real Estate Developer or Land Valuer; Architect or Planner; Investment or Commercial Banker; or as a Resort Operator.

Remuneration

From initial review, MdI lacks a clear policy on salary structure and conditions of service that can attract and retain quality personnel expected of a private sector firm. Also, there apparently is no definitive policy directive from the Shareholders on remuneration or benefits that Board members should expect or be entitled to. A competitive remuneration structure for key management positions and staff needs to be put in place.

Human Resources

MdI has no staff apart from the Director General, the Legal Officer, a Receptionist and Driver. The Company critically needs managers and support staff in order to deliver on its mission. Most critically, there is no Chief Financial Officer (CFO) to ensure that all transfers of assets to and from MdI are valued accurately and treated properly for accounting purposes; the introduction and ongoing oversight of internal operating and financial controls, as well as verifiable accuracy of MdI books and financial records and reports; and make sure that the Company, operates in accordance with private sector standards and disciplines essential for good governance. It is essential that the Executive Chairman or CEO of MdI (whichever governance structure is decided on by the Shareholders), take early action to employ the services of a qualified, dedicated and responsible Chief Financial Officer and other Managers to deliver on its mission. Furthermore, it may be necessary to recruit and embed an experienced expatriate Advisor in MdI to assist the Executive Chairman or CEO, as the case may be, to develop MdI's requisite capacity.

Operational Action Plan

With the rejection of a 5-year Business Plan prepared for it by a local consulting firm at a cost of \$70,000, MdI currently lacks a business plan. Ultimately, it is the responsibility of management to develop an operational plan to guide activities of the Company. Under the circumstances, MdI appears to be acting and moving forward without any proactive plan. At best, there is theoretical planning, which can go on endlessly and lead to paralysis and waste of resources. MdI would benefit immensely from a basic written planning document, and the Board in its role as management must take immediate steps to ensure at the least to make up for lost time, that an "operational Action Plan" for the next 12-month period is developed as quickly as possible. Further, to accelerate MdI's active

business engagement, there apparently are currently two ready-to-go opportunities for investments and transformation of the tourism sector – i.e., Projecto Âncora and Projecto Arco Norte. Based on the philosophy that “it is better to DO ‘small things’ than PLAN ‘big things’”, it is recommended that much of this first year Action Plan should have as its major focus how Mdl can package and bring opportunities in both projects to the market, as “pilots.”

Branding

Mdl is not easily recognizable outside the Board, Shareholders and officials of the Ministry of Tourism. There is very little understanding even among knowledgeable practitioners in the industry, of what the Company does or stands for. With a clarified vision and focused objectives and as part of the proposed Action Plan, it may be necessary for Mdl to rebrand itself uniquely in an effort to avoid confusion or overlap in function and name in the market. An effective communications strategy vital for success in dealing with Mdl’s constituencies and the international investor/developer market needs to be put in place as a matter of priority.

Work Environment

The offices and physical work environment of Mdl do not currently reflect a serious and businesslike company. Understandably, Mdl is now in temporary offices, but that should not explain why there are no internet connections in the office or a decent office for the Director General, for example. On an imaging and “cosmetic” note, it is critical that Mdl’s offices, even if temporary, reflect an environment that is professional and commensurate with its mission. Computers; broadband internet and intranet; a bilingual and welcoming receptionist, well trained in telephone etiquette and responding intelligently to enquiries from both the domestic and international markets; a good interior décor reflecting the corporate brand are basic to a conducive work environment for both employees and the clientele of the Company.

Shareholder Oversight and Collaboration

With the existing Executive Board model, Shareholders become the only source of effective checks and balances or supervision (other than any reviews by the Conselho Fiscal) over the actions of Mdl management, which in this case is the Board. Thus, it becomes imperative that Mdl Shareholders exercise an active monitoring and supervisory role over Mdl’s Executive Board, especially to nurture and get the Company on its feet and to chart the right path for it.

Holistic Approach

Mdl is only one of the links in the tourism development chain. Within this context, weaknesses in any of the links in the tourism development and promotion structure must be quickly addressed. Even when Mdl’s core function and mandate is clarified, it cannot succeed in its mission unless other parts of Mozambique’s tourism administration discharge their roles effectively. If investment promotion is part of the statutory functions of INATUR, one has to ask, “Where does Mdl fit in? What are the functions of INATUR and Provincial Directorates, and where does Mdl fit in the chain? What is the missing gap that Mdl must fill in order to do what it needs to and avoid what others are already doing or are supposed to be doing?” For Mdl to function effectively, a clear cut definition and distinction of roles or division of labor of the various entities within Mozambique’s tourism administration must be undertaken.

CONCLUSION

Mozaico do Indigo (Mdi) indeed has been conceived as an innovative vehicle to play a pivotal role in Mozambique's new market-driven approach to tourism development. However, without clarity of its specific mission and core function and with only minimal expertise and resources, vesting Mdi with the broad array of activities in its Statutes, does not mean those activities or any others will be accomplished. Rather, the diversity of potential activities creates a diffusion of focus and a tendency perhaps for Mdi to try to "build its own empire" or "bite off more than it can chew."

Simply put – if the Ministry of Tourism, Shareholders and Board and Management of Mdi want to achieve progress, they must start small and focus on:

- Clarifying the mission and governance structure of Mdi;
- Introducing into the Board, real private sector entrepreneurs, who possess requisite subject matter knowledge and access to resources that can contribute to Mdi's mission, and other professionals, who bring substantial hands-on international business experience..
- Proper capitalization of the Company;
- Assuring clear, clean rights of use to land and clear guidelines on processes for investing in the ZITs in the Arco Norte and Projecto Âncora, as pilots to get an integrated and catalytic tourism development project off the ground, in accordance with the new intended approach, land use and master plans that have been developed;
- Building expertise, capacity and the systems to execute the primary core functions of Mdi.

From this vantage point, Mdi will be better able to:

- Address challenges that become obvious in actual execution, and;
- Begin to replicate its work elsewhere in undeveloped Priority Areas for Tourism Investments.

Mdi could then expand, as appropriate, from that solid base into ancillary functions, which it proves better capable of executing than others and perhaps fulfill the vision for what many see it to be. Mdi must first show some results though, if it is ever to gain stakeholder and market confidence. Old approaches and old thinking clearly cannot be allowed to prevail if transformation is to be achieved. For Mdi, that means "breaking from," rather than "building on," instruments, vehicles and mindsets of the past.

NEXT STEPS

- An Urgent "Brainstorming" Session of Mdi's Board, Management Shareholders & MITUR is needed to:
 - Define what they believe are critical and realistically attainable core functions of Mdi in the context of Mozambique's strategy for integrated tourism development;
 - Define Mdi's specific mission, with a particular focus on Mdi's objectives;
 - Agree on a minimum of two specific integrated tourism projects that are realistically achievable projects in the ZITs – preferably, one in Arco Norte and the other in Projecto Âncora, where much foundational work has been done – to pursue as "pilots" with the goal of attracting international investors/developers to these projects;
 - Decide how Mdi will organize the functions of its Board and Management to best achieve results; and

- Agree on respective roles of the different institutions under the Ministry of Tourism to achieve synergies with MdI.
- Development of a Draft MdI Action Plan (by the Executive Chairman or CEO) for presentation to MdI's Board and ultimately to MdI's Shareholders for approval. Consultants could then work hands-on with MdI's Chairman or Chief Executive Officer to produce such a results-oriented Action Plan, which should include, at a minimum, the following:
 - how it would propose to execute the one or two selected pilot projects,
 - how it would organize its operations to do so, and
 - an outline of what resources, at a minimum, would be required and how it would propose to secure such resources.

On this basis, MdI could focus its operations, establish its credibility and build on a solid foundation. And more broadly-speaking, Mozambican policy-makers and donors will be able to see results and synergies and have a better appreciation of the across-the-board challenges and interrelationships critical to success in integrated tourism development initiatives.

1. Background

Following a request in November 2010 by the Mozambican Ministry of Tourism and the Board of Directors of Mozaico do Indigo S.A (a newly created, State-owned limited liability tourism company), USAID accepted to provide funding and technical assistance for a strategic review of Mdi operations, and depending on the outcome of that strategic review, development of a business plan for Mozaico do Indigo S.A (Mdi), as appropriate. Consequently, a Lead Consultant was hired, under the USAID funded Support for Private Enterprise & Economic Development Project (SPEED), to work with a Tourism Specialist resident in Mozambique (Local Consultant) and undertake the strategic review.

APPROACH

The consultancy commenced in Mozambique from January 13, 2011. Over a two week period, the Lead Consultant met independently with and interviewed key leadership of Mdi -- i.e., all members of Mdi's Board of Directors, its Director General and in-house Lawyer, individually and collectively; reviewed and collected pertinent information from Mdi materials, including the Mdi Statutes, documentation on budget, work plan and staffing, available job descriptions and the draft 5-year business plan. Other meetings in which, the Lead Consultant participated, were also held with the shareholders of Mdi -- i.e., Instituto de Gestão de Participações do Estado (IGEPE) and Instituto Nacional do Turismo (INATUR) as well as the Ministry of Tourism, the SPEED Project Director, officials of USAID and knowledgeable professionals in the private sector. Vide Appendix 1 – “List of Meetings”.

In addition, the Consultants conducted a secondary review of various documents on domestic and international tourism development models and investment strategies including the “National Tourism Policy & Implementation Strategy;” “Conceptual Landuse and Masterplans for Tourism Development in the Arco Norte;” “the Anchor Project,” among others. Vide Appendix 2 – “List of Documentation & Reports Reviewed”. Information gathered and initial findings and observations of the Lead Consultant were extensively discussed between the Consultants and the SPEED Project Director, and key threads and issues flagged. Using a consultative approach, these issues were then raised with Mdi shareholders and Board members to elicit more lucid perceptions and thoughts.

STUDY OBJECTIVES AND ORGANIZATION

Given the “loose-ends” and disconnects that were becoming apparent as Mdi was being organized, the accelerated strategic review leading to this Report was undertaken. The object of this quick study and analysis was:

- To have a fresh, independent assessment and to determine whether the expectations of parties critical to Mdi's organization and operations were clear;

- To determine whether all parties were on the same wave length in terms of Mdl's mission, role and plans, and that such expectations are realistically achievable in the context of existing and anticipated conditions in Mozambique, as well as;
- To offer suggestions for refinement and improvement in the process of bringing Mdl to fruition.

2. Policy Framework and Context for Establishment of Mozaico Do Índigo S.A.

POLICY FRAMEWORK

The Government of Mozambique clearly identifies: (i) integrated planning; (ii) access to land for tourism development; (iii) infrastructure and public services; and (iv) financing, among the key challenges and priority areas for intervention⁶ in the development and transformation of tourism into a major national industry. The policy further identifies the dangers posed by the haphazard approach, where the structure of the industry is largely dominated by a series of individual, poor quality hotel projects in key destinations. The results have been environmental degradation, polluted beaches, uncontrolled development, poor infrastructure, social problems and deteriorating ambience, scaring off quality developers and major investors, and thus, minimizing the development potential and competitiveness of the Nation's tourism industry.

The Policy further notes that “the vastness of the Country and scarcity of resources points out the necessity to prioritize and temporarily hierarchise areas for the development of tourism.”⁷ Consequently 18 Priority Areas for Tourism Investments (PATIs) were identified across the country. “These PATIs represent areas of focus for Government in terms of investment promotion, prioritization of resource allocation for development of tourism, human resources, infrastructure provision and environmental protection”⁸. In addition to the PATIs, Conservation Areas (CAs) and Tourism Routes linking PATIs and CA have been identified as destinations for investment.

RECENT DEVELOPMENTS

Since 2005, the Ministry of Tourism has sought and received substantial international Donor assistance to implement an integrated and planned approach to tourism development and to attract quality private sector investments into major resort and destination development. These include technical assistance and funding from USAID for implementation of the Projecto Arco Norte (Northern Mozambique Tourism Programme) and from the International Finance Corporation for

⁶ “Tourism Policy & Implementation Strategy” *Política do Turismo e Estratégia da Sua Implementação*) adopted by the Council of Ministers in April 2003, and the “Strategic Plan for Tourism Development in Mozambique (*Plano Estratégico Para o Desenvolvimento do Turismo em Moçambique: 2004 – 2013*), adopted by the Council of Ministers in October 2004,

⁷ “Tourism Policy & Implementation Strategy” *Política do Turismo e Estratégia da Sua Implementação*), Page 16.

⁸ Ibid

implementation of Projecto Âncora (Anchor Project); as well as from Agence France de Development (Quirimbas National Park); among others.

CONTINUING CHALLENGES

Despite the major investments made in the development of land use concepts and master plans for the integrated development of a number of pilot projects and destinations, the fundamental obstacles to attracting major private sector investments remain: (1) access to land; (2) lack of infrastructure and bulk services; (3) lack of expertise and management framework for private sector driven resort and destination development; and (4) lack of local capacity to deal with the complexities of sectoral transformation and the innovative, entrepreneurial approach that execution of the plan dictates. International private Investors/Developers are likely to cite other challenges specific to them should there be a systematic survey of their views.

Access to Land

This is fundamental for any investment and infrastructure development. The major issues for tourism development and for Investors/Developers are:

- *Fragmented nature of land* – nearly all lands identified as having developable potential for tourism and infrastructure development are currently, largely parceled out in small lots, with the rights of use (DUATs) held by varied individuals, communities and state institutions. In rural Districts, where land is largely *Greenfield* and used for agricultural purposes, average plot size is estimated at 1 acre (0.4 hectare). In urban areas, which are largely built-up *Brownfields*, maximum plot size is 1,500m² i.e. 50 by 30 meters. Thus, for an average 2 hectare development, an investor will have to deal with a minimum of 5 DUAT holders in the case of a Greenfield and 13 property owners in an urban Brownfield zone. This is worsened by the fact there are usually multiple claimants, because development rights are often sold to multiple buyers for the same plot. Also, as soon as land is zoned and earmarked for tourism development, squatters appear and make additional claims for compensation;
- *Lack of definitive title* in numerous cases, which results in long legal and arbitration processes or payments to multiple claimants, leading to increased cost of investments;
- *Multiple agencies and institutions* and approvals required for acquisition of user rights to land, and all the attendant delays and fees related to ensuring that “clear, clean land use rights” are secured;
- *Compensation claims against Developers from Individuals* even after Investors have paid the necessary payments to the requisite national institutions and to identified individuals holding land use rights; and
- *Lack of Funding to Compensate DUAT Holders* in cases where the public realm’s eminent domain right has been invoked and lands are declared for public use or as special development zones such as ZITs, for example.

Infrastructure and Bulk Services

Large scale resort and destination development require adequate supply of infrastructure services -- i.e., roads, water, sewerage, electricity and telecommunications. In addition, there are other necessary public investments such as Police Stations, Fire Stations, national and regional roads, hospitals, etc., for which the public sector frequently lacks the requisite budgetary resources.

Expertise and Management Framework for Major Private Sector Resort and Destination Development

An added challenge to transformation of tourism into a major industry for Mozambique is the lack of human, institutional and financial capacity in-country, to undertake and coordinate the myriad of multisectoral and investor/developer support activities. This gap exists without regard to whether Mdl is given its mandate or not, as human and institutional capacity still needs to be developed.

Capacity for Sector Transformation and Entrepreneurial Approach to Resort and Tourism Development

Mozambique's integrated tourism development initiative is an unprecedented and transformative effort by Government. However, to be responsive to private investors/developers, it needs to be driven by private sector principles. As such, it requires innovative and creative private sector entrepreneurial thinking, risk-taking and decision-making in terms of strategies, structures, staffing and implementation. These human and management resources vital for implementation of the Integrated Resort Scheme (IRS) and the transformation of the tourism industry are not in their totality readily available in-country. Also, the complexity of such an undertaking is not often fully appreciated even by those charged with implementation.

RESPONSES TO CHALLENGES

In a pragmatic approach to addressing these challenges, the Council of Ministers in June 2008, adopted the Integrated Resort Scheme (IRS) as the framework for tourism development. It also approved recommendations emanating from lessons learned on Projecto Arco Norte, for the creation of a new Special Purpose Vehicle to manage and drive the resort and destination development process. Conceptually, Arco Norte Resort Development Company (ANRDC) is designed to be a "for-profit", limited liability commercial company, specifically created for the sustainability and successful implementation of the tourism development and investment strategy for the three northern provinces of Mozambique, after termination of USAID's assistance in September 2010.

The ANRDC was to serve as a development authority for the proposed resorts in Cabo Delgado, Nampula and Niassa Provinces. The need for such an independent authority stemmed from the fact that, unlike Projecto Âncora, where each site required one major Developer, sites in the Arco Norte region required multiple Developers and multiple products, ranging from hotels, shopping malls, lifestyle communities, residential apartments and villas, offices, marinas, parks and landscape areas, golf courses among others. For example, the Pemba East Coast Resort Zone alone has carrying capacity for 5,000 rooms and an estimated 40 km of internal roads.

Within the framework of a public-private partnership, it was proposed that the ANRDC be capitalized primarily with Government and Community lands identified for resort development as well as equity capital and debt contributions of private investors/developers. Thus conceptually, shareholders would comprise of Government, Local Communities and Private Investors. Local Communities, whose lands fall within the resort areas, would be assisted in creating an investment vehicle or instrument that would consolidate and hold the legal interest of the Community for the purpose of participating as a shareholder in the Resort Development & Management Company; instead of having multiple individuals as shareholders.

The ANRDC was to provide the flexibility and legal framework for other public entities such as Caminhos e Ferros e Portos de Moçambique (CFM – the National Railway Company), Telecomunicações de Moçambique (TDM – the National Telephone Operator), Radio Moçambique

(RM – National Radio Broadcasting Company), Banco de Moçambique (BM – the Central Bank), Municipal Councils, etc., who hold DUATS over lands in the resort zone, to acquire equity positions (without any prejudice whatsoever to their current mandates and structure). This was the conceptual framework, but in execution, the real challenges are becoming apparent.

CONCEPTUAL ROLE OF MOZAICO DO INDIGO S.A

Due to the initial reaction of potential investors/developers and the restrictions of Mozambican land law providing only for concessioning of rights to land use given the prohibitions on the use of land as equity (which would result in legal transfer of State ownership and title⁹), it was recommended that a State-owned “Holding Company” be established. Theoretically, shareholders of the Holding Company were to be comprised of all State Agencies (Parastatals) with developable land and other assets in the newly declared ZITs, PATIs, Conservation Areas and Routes¹⁰. It was expected that these agencies (some of which have experience and track record in concessioning assets and management to private sector firms), would capitalize the Holding Company with subject lands in this case in the ZITs, plus cash contributions as necessary.

Since such a Holding Company is State-owned, land title would remain vested in and not leave the control of the State. Land in the ZITs was thus intended to be consolidated under MdI, as a privately-managed and functioning company owned by the State. Therefore, it was intended that a regional Resort Development Company will only need to go to and deal solely with MdI as a “private” concessionaire for clear, clean rights to land use, rather than to deal with multiple State institutions. To ensure compliance with development guidelines and the given masterplans and investor care, Investors/Developers in turn will take their sub-leases from the RDC. As equity holders in MdI, other parastatals could theoretically have representation on MdI’s Board, providing a clearinghouse for land issues relating to Government. Thus, it was felt that the problem of easy access and fragmentation of land, problems of multiple compensations and uncertainty over rightful ownership of land rights, could be addressed expeditiously.

In this regard, it seems that MdI was originally conceived primarily to hold and manage all non-performing public assets in proposed resort zones, negotiate with individual and public DUAT holders, consolidate and assure the availability of clear, clean title in order to offer concessions to the use of any and all lands declared as Special Tourism Interest Zones. Therefore and as a Holding Company, the idea was that MdI would be created to manage a collective public investment scheme. In this context, MdI would serve as a “one-stop” shop to hold clear, clean land use rights on all lands in the tourism zones, and from this base, concession the land and management of the resort zone, respectively, to a given Resort Development and Management Company, with the capital and expertise to execute infrastructure development and attract Investors/Developers into the development of requisite superstructure such as hotels, holiday homes, restaurants, shopping malls, offices, parks, lifestyle communities et cetera. This approach indicates that MdI was therefore not envisaged as a “brick and mortar” Developer or Implementer, but as a “facilitator” or “coordinator”, and as such, would need less initial and on-going support from State resources, than otherwise.

The primary goal in creating MdI was to optimize the use of potentially huge State asset base of land holdings and buildings. Conceptually, this was to be achieved by utilizing the most appropriate PPP

⁹ Land Law of the Republic of Mozambique and “Tourism Policy & Implementation Strategy” *Política do Turismo e Estratégia da Sua Implementação*), Page 12.

¹⁰ Plano Estratégico Para o Desenvolvimento do Turismo em Moçambique (2004-2013), (*Enfoco e Quadro Espacial do Turismo*), Page 60

mechanisms, primarily to attract resort management expertise and infrastructure financing, which are prerequisites for attracting private developers and investors. On this basis, it was felt that the strategic national objective of integrated resort development as a basis for transforming tourism in Mozambique into a world class industry and revenue generator for the economy would be achieved. Mdl was conceived as a key vehicle in the Government efforts to stimulate economic growth through increased consumer spending, tax revenues, jobs and tourism investment and development, rather than seeking to profit from Mdl's revenues per se. The PPP mechanism was seen as providing a practical option for the Ministry of Tourism to share and to shift the financial burden and risk by involving private sector investors/developers in the financing, operation and management of the ZITs. This approach can take various forms -- i.e., service and management contracts, leases, concessions, BOT (Build, Operate and Turnover), etc., or any combination of these. This mechanism would also allow Mozambique and Mdl to build capacity over time and to replicate the refined model in other areas of the country.

The theoretical approach outlined above is indeed meritorious, and demonstrated the willingness of Mozambican policy-makers to innovate and make a radical break from past practices. The incorporation of Mdl was designed to translate this approach into practical reality. However, commencement of actual execution demonstrates a multitude of continuing challenges. Key among them are the factors noted in 3.4.4. supra – essentially, the need for Mdl to be driven by private sector principles, which requires innovative and creative private business entrepreneurial thinking, risk-taking and decision-making in terms of strategies, structures, staffing and implementation. To succeed, Mdl from its inception must be capable of creating itself as a radical break from the past.

3. Strategic Review and Discussion Findings

Stemming from USAID and other donor-supported policy reform, the Mozambique Government has established a strategy to more fully develop its tourism potential. This initiative is “transformative,” in that it offers a new market-driven integrated approach with private sector entities playing a predominating role, subject to Government oversight. Such approach for Mozambique represents a radical departure from past practices. While models and experiences of similarly-situated countries and industries can be helpful, the Mozambican managers involved in implementation of this new tourism strategy are pioneers in the context of Mozambique. As such, they need to frequently ask themselves, and indeed, find answers to questions, like –“What strategies and structures work best”? “What are impediments to action”? “What impediments need to be adjusted for”? Or “What tactical approaches must be changed”? Answers to these questions can only be determined definitively through actual experience in implementation.

To implement such strategy effectively and efficiently a deep understanding not only of the dynamics of the tourism business on an international scale and the local environment, but also active, entrepreneurial management at all levels of the process is required. The totality of this capacity is not readily-available in Mozambique today, but the implementing entities and individuals should be capable of developing or acquiring the necessary skills to conceive and execute in creative ways. Such ability to “think out-of-the-box” has been demonstrated by work done to date – e.g., Arco Norte and Projecto Âncora, and the Council of Ministers’ approval of the new National Tourism Strategy and the decision to create Mozaico do Indigo (Mdi) as a private sector vehicle.

Although the focus of this paper is on Mozaico do Indigo, ultimately, a holistic review will be needed to ensure a more seamless process in the management and implementation of the nation’s overall tourism development process. Introducing a system of integrated tourism development activities is not dependent on Mdi alone. It will involve multiple entities, and the overall development process will only be as good as the weakest link in the chain. In any transformation initiative, it is not unusual to remove one bottleneck only to see others arising more clearly. Achieving success will be difficult if old approaches and old thinking are allowed to prevail in critical links of this system.

In implementation of the new integrated tourism development strategy, Mozaico do Indigo (Mdi) has been conceived as an innovative vehicle playing a pivotal role in Mozambique’s new market-driven approach. The specifics, however, need to be defined and ironed out soundly in concept and refined under the realities of execution. Given the “loose-ends” and disconnects that were becoming apparent as Mdi was being organized, an accelerated strategic review leading to this Report was undertaken in Mozambique from January 13-27, 2011. The object of this quick study and analysis was to have a fresh, independent assessment to determine whether the expectations of parties critical to Mdi’s organization and operations were clear; whether such parties were on the same wave length in terms of Mdi’s mission and role; whether plans and expectations are realistically achievable in the context of existing and anticipated conditions; as well as to offer options and suggestions for refinement and improvement in the process of bringing Mdi to fruition.

MAIN ISSUES

Three main issues became obvious during the subject strategic review, which leads to a fourth issue as an important focus of attention in the effort to move forward and assist Mdl to get its operations on track:

- What was Mdl intended to be and do, and what fundamental purpose/core mission of Mdl is realistically attainable?
- What is the most effective way for Mdl to be managed in order to execute its mission and core function(s)?
- Can Mdl's mission and objectives be realistically achieved with the resources available to Mdl?
- What can be done to streamline and accelerate Mdl's organizational process in order to start achieving results?

While Mozambique's approach to integrated tourism development is based on proven models, the details of first-time execution under actual conditions in Mozambique understandably present challenges. In creating a workable "structure", a methodical and systematic approach will be critical to success. Selected pilot integrated tourism projects have been developed, and potential private investors are in the wings, but these projects cannot proceed until Mdl becomes operational. The basic question Mdl is grappling with now is "To Do What Specifically?" – Answering this is fundamental to identifying the steps Mdl must take to develop its strategic or operating plan and budget and organize itself to begin meaningful operations.

WHAT WAS MDI INTENDED TO BE AND DO AND WHAT PURPOSE/CORE MISSION IS REALISTIC?

Vision vs. Mission

From discussions with Mdl's key stakeholders -- i.e., its Board and Management, Shareholders and the Ministry of Tourism, there is a sense of an expansive vision for what Mdl could ultimately be. However, there is a fundamental lack of consensus as to what explicitly the specific mission of the Company is. What seems clear among Mdl's Shareholders and the Ministry is that Mdl was created as a private sector vehicle that could act in innovative ways to stimulate investor interest in the development of the newly declared ZITs. In this regard, the Company needs to be responsive to and credible with private sector investors/developers. Nevertheless, Mdl was seen to be participating in executing a National "developmental mission" of integrated tourism development, rather than to advance its own commercial interests or generate profits or capital appreciation for its Founding Shareholders. While key Shareholders and other parties involved are expressing these broad views, the discrete activities of Mdl to support it are less clear, however.

Thus in discussions, while Mdl's key stakeholders and Board Members generally focused on selective activities of Mdl, there was a tendency also to describe Mdl in terms of the broad National mission and not as a specialized component engaged in discrete functions contributing to that larger process. Without regard to whether this stems from Mdl's Statutes, which are exceedingly broad and create an unwieldy mandate of potential activities, or whether these views contributed to the expansiveness of Mdl's Statutes, it will be difficult to move forward to organize Mdl's operations without clear agreement on Mdl's specific mission, core function and objectives.

Company Objectives

Given that Mdl has such broad statutory mandate, as noted in its Statutes, it is apparent that the Board (which currently also serves as the Management) has the added difficulty of defining and nailing down the Company's core objectives and business focus. This is a threshold step for assessing essential resources – financial, human and physical -- that a “start-up” like Mdl will require for planning and executing. Moreover, it appears from a quick review that many of Mdl's statutory functions overlap with the functional responsibilities of other entities. That is a recipe for duplication and conflict. Vesting Mdl with such a broad array of functions does not mean those activities will be accomplished by it; rather, the diversity creates a diffusion of focus and a tendency perhaps for Mdl to try to “bite off more than it can chew,” which appears to be the case at the moment.

As so succinctly put by the former Chairman of Intel Corporation in speaking about his philosophy for building and managing Intel, “It is better to DO ‘small things’ well than to PLAN ‘big things’.” This proscription can possibly serve as a guide for Mdl. Simply put, if the Ministry of Tourism and Mdl's Shareholders, Board and Management want to achieve progress with Mdl, they must start small and focus on activities that get investments into the ZITs, especially underlying infrastructure, off the ground. This will offer an excellent opportunity for Mdl to build expertise, develop competencies, capacity and the systems needed to execute its primary functions. From this vantage point, Mdl will be better able to work out challenges that become obvious in actual execution, begin to replicate its work elsewhere and then expand, as appropriate, from that solid base into ancillary functions it is better capable of executing than others. That seems to be the ultimate vision that most have for Mdl, but Mdl must be able to “walk before it can run.”

Core Function

Key stakeholders, Mdl's Director General and some Board members have indicated that Mdl's role is more in the nature of a “facilitator,” not an as an “operator” and that Mdl's mission is developmental. In contrast and in the Lead Consultant's interviews, the Chairman and other Mdl Board Members seem to indicate that Mdl needs to be driven by a focus on creating revenues to operate and pay for concessions and to generate revenues both for the Government and to support Mdl's own operations. The latter approach would have Mdl become more of an active manager. This is a role for which it does not appear to have been originally envisaged and for which currently, it clearly lacks resources, technical expertise and capacity. Moreover, it is at odds with Mdl's developmental role and the intentions of Mdl's Shareholders and the Ministry of Tourism. INATUR made explicitly clear that the Government sought economic growth and the tax revenues it spawned rather than to be recouping profits from Mdl's activities. IGEPE noted that Mdl should be developing the Country and not getting rich itself.

While Mdl's involvement in the broad tourism development mission as described above seems to be generally agreed upon, its specific role needs to be refined more tightly to distinguish what Mdl is intended to do from the roles of others. The primary challenge remains in identifying clearly what is the focus or core function of Mdl in terms of meeting a specific pressing niche need – i.e., what specific activities was Mdl created to do that are separate and apart from the functions of other entities involved in integrated tourism development? How can Mdl add-value to have impact?

Specific Activities

Considering what specific activities seem to be most pertinent to this function, of obvious note is the consolidation and delivery of “clear, clean rights” to use of the subject land in the ZITs, without which no major investments could take place. At the minimum, it seems Mdl must ensure that when

private investors are being approached to develop the supporting infrastructure and tourism superstructure in ZITs “clear, clean rights of use” to the underlying land can be transferred without impediment. It is on this basis that international and national investors/developers can confidently enter agreements to develop a given infrastructure or property in integrated tourism zones and in other areas, as MdI resources permit. This is a critical element in avoiding haphazard, uncontrolled construction in tourism zones and ensuring an orderly process in sustainable tourism development.

Execution

It remains unclear, however, by what means MdI would consolidate the various user rights and ensure the transfer of clear, clean rights to land use in the ZITs. Interestingly, clear guidelines and legal framework for acquisition of land use rights in the ZITs are spelled out in a Government Decree¹¹. Also, this decree prohibits any land uses in the ZITs that do not conform to the master plan. Further, the decree prohibits and requires explicit approval from INATUR for any development activity within the Zones.

Thus, it would seem that INATUR must first play its role as the management authority over the ZITs by publicizing this decree, the rules governing the ZITs and the role of MdI. This information has to be brought into the public domain and to the knowledge of all DUAT holders in the ZITs, the investor/developer market, local authorities and communities. There needs to be public awareness of the ZITs and of Mozambique’s transformative tourism process. This public education campaign should be carried out, for example, through trade journals; major newspaper and television announcements; the Ministry’s and other related Government websites; by direct correspondence to foreign diplomatic missions in Mozambique and Mozambique’s missions abroad; national and provincial hotel associations and Chambers of Commerce. INATUR needs to “clear the way” for MdI to enter ZITs and perform its niche tasks. However, before INATUR can prime the market with such announcements, MdI has to be staffed and sufficiently operational to begin to take any actions required of it, and it also has to be able to deliver.

Ultimately on the basis of INATUR’s initial promotional efforts, MdI could then proceed to update existing databases or create new ones (where information does not exist) on private and public entities with land rights in the ZITs. On that basis, it can then request the Government to exercise its rights under the public realm, revoke DUATs granted in the ZITs, determine necessary actions such as compensations and give unimpeded possession to MdI, so that it can offer concessions to investors/developers. Alternatively, MdI could directly engage private land right holders, like the parastatals and individual resort operators, and find out what developments they are planning and how they intend to develop their lands. Where such intended uses do not conform to the master plan, MdI could commence a negotiation process that allows such DUAT holders to transfer those rights to MdI. In return the transferors could, for example, get a possible land swap elsewhere, direct compensation at fair market value or some form of equity stake in MdI or the development, as the case may be, or in any property pool MdI serves as “asset manager” for.

What is imperative is for MdI to think through the various options and possibilities, evolve a strategy and implement! This seems to be an efficient and pragmatic way for MdI to secure full authority to acquire and concession land to investors/developers. Still, how any such transfer of land assets to MdI would be treated for accounting purposes and managed by MdI remains an open question. However, and as is discussed elsewhere in this report, there are various options, and there should be the means

¹¹ Decreto N° 77/2009 – Aprova o Regulamento das Zonas de Interesse Turístico

to deal with these issues. First and foremost, it is essential that Mdi demonstrates capability and progress on what is already on its plate before any more assets and responsibilities are given to it.

Other Apparent Mdi Functions

Ancillary to this apparent core function of ensuring that unimpeded land use rights can be offered to investors/developers, Mdi's Statutes provides for other activities, which could realistically fall within Mdi's purview. These include, for example:

- Promotion of infrastructure development in ZITs;
- Underwriting given integrated resort “master plans” to present to the investors/developers; and
- Working with local communities to ensure that community development concerns are adequately addressed and structured.

Promotion of Infrastructure Development in ZITs

Infrastructure and other bulk services are key to resort and destination development. They provide the basis for access, movement and quality of life in any destination and the hardware on which, private sector builds its superstructure such as hotels, golf courses, restaurants, leisure and other recreational facilities. Therefore as part of the strategy of delivering on land rights, Mdi was apparently also viewed and expected to serve as the central repository to **promote** infrastructure development in the ZITs throughout Mozambique. Indeed, Mdi could realistically build the skills to reach out, engage and establish credibility with Resort Development and Management Groups, Investors/Developers. Some Board members saw this as Mdi's area of key focus but as noted earlier, there is no consensus on this. Besides, tourism promotion, including related tourism investment, is currently a statutory function of INATUR.

In this regard, the division of labor and functional responsibilities vis-à-vis INATUR and Mdi need to be worked out very clearly. Obviously, there will be the need to build synergies through cooperation, avoid duplication and maximize resources of the two entities. This will require a close and institutionalized working relationship between both institutions.

Underwriting Given Integrated Resort Master Plans

In the role of interfacing with investors/developers, Mdi also seemingly became vested with a third responsibility of underwriting the given integrated resort “master plan” as an investment promotion toolkit. Simply put, a master plan is about looking to the future! Investors/Developers risk their funds and sink them into projects today, for expected returns in the future. Therefore and in the highly competitive international marketplace where alternatives abound, Mozambique should not expect that because land rights have been cleared and cleaned, quality investments and development will happen automatically in the ZITs. Serious professional investors/developers will need to see and be convinced about the vision and agreed future of a ZIT or particular site.

Thus, major international investors/developers will require upfront answers to the following questions: What is to the current situation and future vision, and how do we move from where a ZIT is today to that desired future? For any given land, what are the basic concepts of planning, use and for managing the sites? How much water is available? Who takes care of and how will sewerage and solid waste be removed and treated? Where will bulk supplies of electricity, telecommunications, labour and other services come from? Who will put in the roads, airports, ports? Where and what capacities will be provided for? Et cetera.

Furthermore, as a modern and multisectoral industry, tourism and integrated resort development in Mozambique will require a structure, a planned approach and effective coordination to succeed. How will co-ordination and co-operation not only in the whole of Government, but between the private and public sectors, take place in the ZITs? In short, when investment and development opportunities are packaged for the market, investors/developers will need to know the setting and strategic direction that will impact their choices and investment decisions. This is the essence of resort master planning.

However, as a start-up entity with minimal resources and no meaningful local presence in the ZITs, MdI's specific responsibilities in this regard would have to be limited to what seems to be its fundamental role -- i.e., Facilitator/Coordinator and not the actual doer. As is the case with successful destination developments, master plan development would have to be driven by the Resort Development & Management Company (which can be contracted within the PPP framework), and not dominated by a central authority like MdI with its office in Maputo and minimal sensitivity to local, on-the-ground issues and needs. By virtue of its business, expertise, financial capabilities and being on the ground in the ZITs, the Resort Development and Management Company would have a real stake in the outcome. However, and to contract such a company, MdI would likely need to step-in and ensure completion of the master plan for at least one of the pilot sites, where planning is at an advanced state, for example, in the Arco Norte.

With a master plan in hand, MdI would have the essential toolkit and could then package and go to the market directly or through INATUR's efforts with its first investment opportunity to hire or solicit bids for a Resort Development and Management Company. This company would then take up the concession, develop the infrastructure and attract investors/developers into the construction of hotels and other facilities. In such a context, it is foreseeable that once MdI has acquired sufficient human and financial resources and fundamental capabilities, it could play a key continuing oversight role. In such capacity, MdI would have to ensure that the Resort Development Company carries out and completes the given master planning process for the entire destination or area under its contract in a form acceptable to the international investor/developer community and consistent with Government policy concerning integrated tourism development in the ZITs. With regard to securing buy-in of diverse Government agencies, MdI should give serious consideration to replicating the Intergovernmental Multisectoral Commission concept, as was assembled for Arco Norte. Such a Committee could play a critical supportive role across the board in the ZITs.

Thus, while MdI could functionally fill the role of underwriting specific integrated resort master plans, it currently neither has the capacity or financial resources to do so. If this function is critical to the National tourism development strategy, some means must be found to perform it – whether under MdI or other entity, but this is not a decision that MdI can make on its own, and if the function is to be vested in MdI, then sufficient resources have to be devoted to MdI to carry-out the relevant activities – even at the stage of a “pilot” program.

Working With Communities to Ensure That Community Development Concerns Are Adequately Addressed

In MdI's role of ensuring land rights are properly consolidated, the needs of individuals and community are likely to come up. Therefore, a fourth function noted in MdI's Statutes, which also came up in the discussions with the Board, is the responsibility attributed to MdI of working with local communities to ensure that their development needs are addressed and dealt with properly in the master planning process. More importantly, that local communities effectively participate in, provide stewardship and benefit economically from the tourism development.

Again, given MdI's fundamental role of Facilitator/Coordinator, its limited resources, lack of capacity in specialized expertise and physical presence in Maputo, it would be constrained in what it could achieve in working directly with local communities. In line with best practice worldwide, community engagement and integration into the tourism value chain is an activity that is best handled by the Resort Development and Management Company. The means and extent to which MdI plays a role in ensuring local community concerns are addressed would have to be better defined in execution. Moreover, it is not enough to merely address community issues at the inception of an integrated resort development, there must be some form of continuing oversight during the life of the project to ensure the community is not later "short-changed." How MdI could best provide and discharge such oversight function remains to be seen, but as a centrally-headquartered, entity independent of local pressures, it could be an arbiter and advocate to ensure that terms are adhered to and community interests are not subverted.

Revenue Generating Function

Related to MdI's focus and core functions, there is a strong perception among some Board Members that "revenue generation," as a discrete profit center for MdI's Shareholders and for the current holders of land rights in the ZITs, is a key driver and objective of the Company's activities. Clearly, based upon the added-value which MdI will actually provide (as suggested in the preceding paragraphs), it is essential for MdI to determine a means of generating sufficient revenues in order to cover its operations and ensure appropriate reserves, and this is particularly vital as MdI's activities expand to meet growing demand.

However, focusing on revenue generation and profits is not what MdI was created to pursue; rather, the foremost goal of MdI, as discussed earlier, is clearly "developmental." Indeed, it would result in a misplaced priority and be contrary to the expressed intentions of the Shareholders and Ministry of Tourism for MdI to seek to make the maximization of its revenues the focal point of what it will do. Such a focus should not determine the activities MdI engages in. That is like "putting the cart before the horse," and will not maximize the intended developmental impact of Mozambique's new tourism policy and strategy.

WHAT IS THE MOST EFFECTIVE WAY FOR MDI TO BE MANAGED TO EXECUTE ITS MISSION AND CORE FUNCTION(S)?

Context

Assuming that MdI's mission and core functions are as described above, the process of organizing MdI is complicated by the fact that it is a "pioneering" new vehicle being created to meet the needs of a new national approach to tourism development. This approach is focused on attracting private sector resources to projects in Mozambique. As such, the organization and operation of MdI requires a great deal of creativity and a deep understanding of the dynamics of private sector investment in tourism infrastructure as well as experience in the "deal process". This is vital to ensuring that MdI is structured and managed to deliver what private investors/developers need to carry out the tourism projects Mozambique is promoting. And it cannot be done by fiat. It requires a systematic building process that takes time.

Accordingly, the Shareholders of MdI must ensure that their Board appointees have the requisite capabilities to guide MdI in the intended private sector entrepreneurial manner. Similarly, the responsible organs of MdI must ensure that the persons and positions endowed with "executive" power have the fundamental knowledge, skills and capabilities to conceive and effectively execute

MdI's essential function in the context of the Government's new approach to private sector-driven integrated tourism development.

Initial Efforts

To kick start its operations, the MdI Board hired the services of a consulting firm in drafting a 5-year business plan, including an organizational structure and staffing requirements. However, given MdI's broad mandate, the Board's view of a mission focused on generating revenue and the concept of an executive board, the consulting firm had difficulty in developing a plan satisfactory to most Board members. It needs to be pointed out and as emphasized by Lead Consultant, the exercise of strategic plan development must be driven by the individuals who are going to implement the plan, instead of a third party, external advisor. This is because the responsible executives are the ones who should have the core knowledge to guide the plan drafter as to what they want, and they ultimately must take ownership of the plan, because they will be accountable for defending their plan and executing it. This is even truer for MdI, because of the uniqueness of it as a firm, and the development agenda for which it was established.

Frankly speaking, it is extremely difficult to have a third party conceive and develop a plan for a new innovative start-up entity that is then imposed on the executive managers to carry out. Rather, in creating a pioneering institution, as MdI is intended to be, such an independent external party can be a valuable source of insight and assistance in helping a board and management sort through ideas and options and articulate clearly a realistic plan or strategy. It is the latter resource that MdI needs, not someone who will do the work for MdI's Board or Management, but someone who will work hands-on with the responsible managers, who will be executing their plan.

Current Management Approach

Executive Board

As currently constituted, MdI's Board is acting, and apparently intends to continue serving, as an "Executive Board," actively managing MdI. This was expressly stated and is further indicated by comments concerning individual Board Members serving essentially as Project Managers. This is further confirmed by the draft 2011 budget proposing a salary of \$60,000 per annum for the Chairman (which is almost equal to the Director General's fulltime salary of \$64,800) and \$36,000 per annum for each Board Member. Thus in 2011, a total of \$204,000 if planned just for Board compensation, without inclusion of related reimbursable expenses. The "board as executive" approach is in contrast to that of a traditional "non-executive board," which does not actively manage the company, but helps set strategic direction and provides oversight to the firm's Chief Executive Officer (CEO). Moreover, the executive board approach is at odds with the expressed preferences of IGEPE and INATUR for a non-executive, unsalaried Board for MdI.

It is understandable that this situation evolved with the appointment of the Board and pending hiring of the Director General. No doubt that in the interim the Board, of course, found it necessary to manage. A major drawback with the "executive board" model, however, is that critical checks and balances consistent with good governance are removed, putting the Board and Chairman at greater risk. This leaves the General Assembly, which normally meets annually (except in an extraordinary session) as the only check on company management – i.e., the Board – except for the specific oversight provided by the Conselho da Fiscal. MdI's Chairman advised that he had developed a "code of conduct" and a 200 page operating manual for MdI on the basis of his experience working in a UK-

owned firm in Mozambique. However, other Board Members and the Director General and In-House Legal Advisor were unaware of either document.

In addition in the case of Mdl, the Executive Board model is further complicated by two other factors that will likely adversely affect the Board and the Company's performance. Firstly, all members of Mdl's Board have other full-time jobs and cannot realistically present themselves as a dedicated full-time management team. Secondly, and as detailed below, the fact that Mdl's Director General's role is so limited and that he is not at least an ex officio member of Mdl's Board, means the Director General is substantially restricted in "executive authority" to make meaningful decisions and act day-to-day to build Mdl. A startup company without dedicated fulltime management is a blueprint for failure. Third as noted above, is the weakness in checks and balances over actions of the Executive Board.

As an example of problems stemming from the executive board model, while most Enterprise Funds in the Central and Eastern European countries (that were transitioning to market driven economies) took the traditional approach of their Boards and Chairmen serving in an oversight role with executive management vested in the CEO and his or her officers, one Chairman chose to also function as the Fund's CEO and to direct a local managing director. That approach proved early to be a disaster. As a result of insufficient checks and balances, the Executive Chairman ran afoul, and he and the entire Board were fired, and that Fund was forced to close.

Director General

In the case of Mdl, the Chief Executive Officer (CEO) typically would be the Director General. This office ideally is supposed to discharge traditional CEO functions of leading the day-to-day management team, hiring other officer/managers, overseeing financial accounts and reporting, and achieving targets and goals approved by the Board. However, having hired a Director General (whose job description as outlined in his contract contains many of these responsibilities), the Chairman and the Board are taking a wait and see approach to entrusting the Director General with any meaningful executive authority or responsibilities.

As such, the role of the Director General appears currently to be limited to that of a staff assistant to Mdl's Board and particularly its Chairman. He has no meaningful management authority and functional responsibility. This situation as the Chairman explained is due to the fact that the Director General is under a period of probation, and the Board is assessing his capabilities. Another view from a member of the Board was that the Director General needed to be coached before executive authority is transferred to him.

This raises a number of disturbing management issues. Is the Board admitting that they appointed a trainee or an incompetent person to the office of Director General of Mdl? How will the Chairman and other Board Members evaluate and test the Director General's management acumen at the end of the probation period without giving him the authority and space to function? Moreover, the Board Members themselves generally have had little, if any, experience as executive managers in traditional entrepreneurial private sector businesses, and so are not in the best position to coach or train a CEO. Indeed, the most credible draft Action Plan the Lead Consultant reviewed was developed by the Director General in September 2010. Having developed the plan, however, he lacks the authority to implement it and to build the Company day-to-day; rather, he must await orders and intermittent instructions from the Chairman of Mdl's Board of Directors (i.e., President of the CdA), who holds major spending authority, except for routine payments and petty cash.

From a corporate perspective, a “dual executive” does not augur well for effective management. Without authority and responsibility, it is difficult for the Director General to take initiative. Given the pioneering nature of Mdl, as a private sector firm owned by the Government with an innovative role in a cutting-edge initiative, there needs to be a “24/7” dedicated leader and a functioning management team with an entrepreneurial willingness to take business risks and move forward.

Ultimately, Mdl’s Board needs to determine whether they hired a Director General with the fundamental competencies to serve as CEO or not. If they made the right decision, then they need to vest the person with executive authority and not stifle him. If they made the wrong decision, they need to release the current Director General and hire a new one, who meets the necessary criteria to serve as an effective CEO.

The status quo of Mdl’s open-ended mandate; a specific mission that remains unclear nearly a year after the Board was appointed; five Board members in full time employment elsewhere attempting to drive Mdl, and a CEO without authority, offers a recipe for corporate paralysis.

Added to this, are comments from the representatives of the Shareholders that it is their intention that Mdl’s Board serve in a traditional “non-executive” oversight role, for which Board Members receive minimal fees associated with actual meeting attendance and do not take salaries. Moreover the Chairman of INATUR made clear his view that Government officials serving on Mdl’s Board in their official capacity are being paid by their employer, and that they should not be paid salaries by Mdl.

Given traditional best practices in corporate governance, the challenges Mdl has had in moving forward and the expressed preferences of Mdl Shareholders, Mdl’s Board should consider the best course of action. If Mdl’s Board wishes to continue to serve as in an executive capacity, then the Board should be prepared to make a sound business case for that approach to Mdl’s Shareholders.

Board Composition

A related issue concerning Mdl’s Board is in ensuring its membership is comprised of individuals with the competencies needed to oversee a new, innovative entrepreneurial private sector firm, such as Mdl is intended to be. Admittedly, Mdl is a pioneering initiative and certain capacities will take time to develop locally. Still, Mdl was established to function as a private company, but membership of its Board is predominantly of individuals from public sector entities -- i.e., 4 out of the 5 Board Members. If Mdl is to succeed as a private company, it is important that the Board has a mix of persons predominantly from the real private sector – entrepreneurs who have demonstrated the vision, risk-taking and management skills necessary to actually build a company from the ground up – and who can bring subject matter knowledge and access to resources that can contribute to Mdl’s mission.

As an example, if Mdl’s critical function is to manage land and other assets and attract investments into infrastructure and resort development, it would be preferable to have individual Board Members with real private sector experience as a Real Estate Developer or Land Valuer; Architect or Planner; Investment or Commercial Banker; or as a Resort Operator. At least one seasoned private sector professional with commercial board experience should be recruited to Mdl’s Board from outside of Mozambique, and a second similar such professional with solid entrepreneurial experience should be recruited from inside of Mozambique. Ideally, the former individual should bring knowledge and experience related to Mdl’s core function that is not available in Mozambique, and possibly the “deal-making skills of an investment banker. Moreover, all Board members should feel empowered to express themselves in ways that prevent a tendency for “group think” that can frequently occur on boards or management teams comprised of the same nationals.

Eventually, a Board of Advisors might be established with selected specialists to provide occasional advice and counsel to MdI, but this Board would have no responsibility or authority, per se.

Once MdI gets on its feet and starts generating sufficient revenue, its private sector Board members should be properly remunerated for their contribution to that success. Ultimately, MdI's Shareholders will have to determine what approach they will take to Board remuneration. In any event, most entrepreneurial private sector firms, as MdI is intended to be, are not managed by executive boards.

CAN MDI'S MISSION AND OBJECTIVES BE REALISTICALLY ACHIEVED WITH THE RESOURCES AVAILABLE?

To achieve its mission and objectives, MdI needs sufficient capital, qualified and competent personnel and a functional work environment. Assuming even a narrowed mission and core functions, as discussed above, MdI will have a difficult time achieving much beyond what it has already done with the resources it has today.

Capital

The stated capital of MdI is a paltry 200,000 meticals (\$5,714). Even though MdI's shareholding structure is designated to be 51% (INATUR) and 49% (IGEPE), it was not apparent that there was a share issue, call for capital or payment for shares by the Shareholders justifying this split. It appears the shareholding structure was determined by fiat with little consideration for commercial business principles. While MdI Board members acknowledged that IGEPE had provided approximately \$500,000 in cash to support the start-up activities of the Company, they did not know how such monies should be treated on MdI's books for accounting purposes. This should be a matter of serious concern,

Similarly, the accounting for INATUR's 51% shareholding was unclear, and generally attributed to the work that INATUR contributed to the conceptualization of the new tourism development strategy and ZITs and to the establishment of MdI. The Lead Consultant suggested that this might be attributed to "goodwill," but in any case, the shareholdings of both IGEPE and of INATUR have to be based on something of relative value, that each Shareholder contributed to MdI, and MdI has to account for these assets properly.

Clearly, the only funding available to the Company is the \$500,000 provided by IGEPE as start-up capital to fund organization and staffing of MdI. IGEPE has clarified that these monies are a "shareholder loan" that it would have the option to convert into equity. As noted, INATUR's "contribution" would apparently be treated as "goodwill" on MdI's balance sheet. While IGEPE recognized that more capital would be needed by MdI that it might be able to source, INATUR made clear that it has no funds available to support a capital injection into MdI. In any event, as of mid-January, MdI advised that approximately \$200,000 of the \$500,000 was left, and a complete picture of MdI's financial status will be available when its financial statements for 2010 are issued.

Even under the most optimistic scenario, it will be difficult for MdI to cover recurrent expenditures over the coming months, let alone accomplish the minimal activities under the more focused core functions assumed in the discussion above. Under the circumstances, it seems the only plausible options open to the Board of Directors are: (i) to make a call on Shareholders for the payment of shares acquired (but this begs the question, "At what valuation?"); (ii) to come up with a strategy to raise the stated capital of MdI and raise short term debt to cover its operations (but again, "What can MdI offer in terms of value, cashflow and or security?"); while (iii) taking steps to open up the current

shareholding structure and offer shares to more resourceful public entities and thereby raise some cash (but the same questions as above have to be addressed).

Given MdI's current condition, attracting equity or debt capital will take a great deal of effort, because its fundamental worth and potential for value has not been demonstrated thus far. Focusing on one or two pilot projects however could give MdI "something of value" on which it could leverage. As noted, assets contributed to MdI take on real value in the context of a specific tourism development, so the sooner MdI can move a tourism development project forward, the sooner its own worth and that of assets under its control can be established.

Staffing

MdI has only two professional staff members – its Director General and in-house Legal Advisor. At a minimum, MdI will need to hire a professional and competent Chief Financial Officer, which apparently in the Maputo market will require a salary in the range of \$60,000 per annum. Also in addition to the current in-house Legal Officer, an Architect/Planner, 2 Project Managers and/or a Real Estate Manager are likely to be required to deal with the tasks of ensuring that "clear, clean land rights" are available and to facilitate creation of master plans for the ZITs. Even with an immediate focus on Projecto Ancora and Arco Norte, where master planning is done or almost completed and where there is already developer pressure, qualified, competent and dedicated fulltime managers will be needed to bring such projects to closure. A Communications or Marketing Manager will also be required to ensure that all of MdI's public communications, promotional and tender-related materials meet international quality and professional standards.

If the budget estimates for Arco Norte are any guide, a competent local hire Chief Executive's salary should be in the range of \$80,000-90,000 per annum, and any event, should be higher than the referenced salary level for a qualified local Chief Financial Officer of \$60,000. Similarly, salaries for local-national project managers are likely to be in the range of \$40,000-50,000. One can envisage a competent communications/marketing manager's salary to be in roughly the same range. MdI's Chairman made clear that he wants to be assured that only top-quality, competent professionals are hired. So, with just this minimum core staffing of key managers, MdI would need to budget a minimum of approximately \$200,000 for new hires. No doubt with the passage of time and on-going expenditures, MdI finds itself in a "chicken or egg" situation now – it needs to hire staff to carryout activities to produce value that MdI can leverage, but with only \$200,000 left in start-up funding, it has little room to do necessary hiring with other burdens on its resources.

Functional Work Environment

MdI's current offices and the building entrance would not present the best professional image to international investors/developers considering projects of 10s and 100s of millions of dollars. Obviously as a start-up, MdI rightly needed to focus first on creating a functioning organization and make do with temporary facilities. However, once MdI defines itself and begins to reach out to its constituents, it needs to ensure its offices and physical work environment reflect well on it. While such offices do not have to be opulent, they should present MdI as a serious, businesslike private sector company. Also optically, the condition of the Director General's office at the moment would not encourage confidence and credibility for professionals who come with serious business intentions, especially given the adjacent larger office of MdI's Chairman, which would tell any casual observer who is in-charge currently.

Before long, Mdl will have to have a fully-equipped office suitable for housing its executives, managers and staff. Furthermore, it is essential that Mdl install appropriate communications systems, including Internet broadband capable of receiving and transmitting documents and files of the high bandwidth needed by professionals in the international tourism development realm. While Mdl's current receptionist is response and pleasant, eventually, Mdl will need a bilingual receptionist, well trained in telephone etiquette and able to respond intelligently to enquiries from both the domestic and international markets; a good interior décor reflecting the corporate brand are basic to a conducive work environment for both employees and the clientele of the Company.

As becomes readily apparent, no single element can be treated in isolation; rather, all have to be considered in context of one another, and worked out in tandem. The proposed Action Plan should also address the issue of Mdl's physical environment. Equipment and services have been factored into Mdl's draft 2011 budget, but whether they are sufficient would require closer examination better-suited to more detailed business plan development.

WHAT CAN BE DONE TO STREAMLINE AND ACCELERATE MDI'S ORGANIZATIONAL PROCESS TO START ACHIEVING RESULTS?

In light of the feedback provided by Mdl's Shareholders and other findings, as outlined herein, Mdl could accelerate its organizational process by developing as soon as possible a preliminary "action plan" covering:

- how it would propose to execute one or two selected pilot projects,
- how it would organize its operations to do so, and
- an outline of what resources, at a minimum, would be required and how it would propose to secure such resources

This should be presented "informally" to its key stakeholders, preferably in a collective session, or individually as Mozambican protocol and practice dictates. This effort would be designed to brief these stakeholders on Mdl progress, demonstrate what Mdl has done and what it is planning to do, highlight the challenges Mdl faces and what it needs to carry out its first projects. This will provide a basis for understanding the concerns and preferences of its key stakeholders in order to refine Mdl's approach and ultimately, to secure their formal buy-in and support.

As a first step, however, Mdl's Board and Management need to organize themselves to undertake an initial, internal, collective, and open-minded "brainstorming" session to define more precisely what they believe should realistically be Mdl's particular core focus and objectives. Next, in that session, Mdl should agree on one or two specific integrated tourism projects that it would focus its attention on, where Mdl has the clear potential to add-value necessary for Mozambique to present these projects to international investors/developers. This should include scoping out what basically needs to be done both by Mdl and other entities to reach that result. Projecto Arco Norte and Âncora offer some examples of potentially good and doable projects that Mdl could focus on.

Also at such session, Mdl's Board should decide how it will organize the functions of its Board and Management to best achieve results with respect to the 1-2 selected pilot projects. The Lead Consultant has recommended that Mdl's Board function as a traditional non-executive board and vest operational authority in Mdl's Director General, who would serve as the company's Chief Executive Officer and hire a team of managers responsible for day-to-day operations, reporting to him. This approach is in line with best practices and is in accordance with the expressed preferences of Mdl's

majority shareholder. If the Board believes in its best judgment that a different approach is necessary, they should present their case to convince MdI's owners that it is the better route to success and why.

If the Board decides to vest its Director General with executive authority, then it should request from him the development of the Action Plan described above. If he is a competent executive, his ability to demonstrate a realistic and workable plan will become obvious.

Then, MdI's Board and Management need to present their views on MdI's specific mission and core function(s), and MdI's attendant 1st year Action Plan before its Shareholders and the Ministry of Tourism for discussion, feedback and analysis on division of labor and responsibility. On the basis of such meeting, all parties will have a clearer idea of MdI's challenges and options (and indeed those more broadly for Mozambique's integrated tourism development strategy), and hopefully lead to MdI's stakeholders offering a focused direction for MdI's activities. The proposed informal meeting should be governed by an Agenda drawn from what is learned through the strategic review and be moderated by a third party professional.

4. Conclusions, Options, and Recommendations on Specific Findings

COMPANY MISSION AND OBJECTIVES

The objectives of the Company are too broad and lack focus on the development mission of MdI. Also, the tendency to focus on revenue generation per se as MdI's overriding corporate goal is misplaced and detracts from the fundamental reasons for which the Company was established. Corporate success can only be assured if MdI first defines its fundamental developmental objectives and then devises a strategic plan, which addresses the resources – human, financial, and physical – needed to achieve those set objectives.

Options/Recommendations

It is recommended that the Board undertakes an initial and internal, collective, and open-minded “brainstorming” session to define more precisely what should realistically be MdI's particular mission and objectives. Results of this session should be presented to shareholders and Ministry of Tourism for collective determination to secure buy-in by all stakeholders. This is a threshold issue, which will set the stage for resolving many of the real challenges facing MdI. Hopefully, this should give MdI the strategic focus it needs to operate effectively. Once a collective determination involving the Board, Shareholders and MITUR is made, it should be followed up with a comprehensive review of the MdI Statutes. This latter review should be undertaken with the added input of an international commercial lawyer to ensure they reflect the kind of innovative private firm that MdI needs to become in order to execute its mission.

CORE FUNCTIONS AND KEY TASKS

MdI is a start-up firm designed to pilot an innovative and transformative development agenda. However, the Company has to be seen also as only one link in the chain of institutions charged with the development and promotion of tourism. Against this background and with the resources currently available to it, MdI needs to define its role and key activities in a manner that fills a missing niche and does not duplicate the roles of others and lead to unproductive duplication and possibly internecine turf wars.

Options/Recommendations

To make a difference, MdI's functions and activities must be imbued by new-thinking and an entrepreneurial mindset. As a pivotal entity set up and owned by the public sector but designed to engage with and function as a private sector entity in a highly competitive tourism and investment marketplace, it is our considered opinion that MdI is best-suited for now, to serve as a

Facilitator/Coordinator of others with: (i) rights to land use within the ZITs; (ii) more sophisticated technical skills and the capital to develop and undertake infrastructure investments and catalytic projects in the ZITs. This is a program that can be realistically accomplished and is consistent as well with views expressed by key stakeholders of Mdl.

Also where feasible, Mdl might be able to take a further step and begin to serve as an “asset manager” for the holders of such land use rights. While Mdl would hold legal rights to be able to transfer such land use rights to investors/developers, the original holders of the land rights could retain their “beneficial,” economic interests. In turn, Mdl could extract fees for its value-added property management activities, as a realistic source of revenue to cover its costs and sustain its operations.

CAPITALIZATION

The stated capital or the stated value of Mdl’s total shares is a paltry 200,000 meticals (\$5,714). This means that if shareholders were to pay up in full for their shares, the Company can only call for and receive 200,000 meticals in equity contribution. This is unacceptable and leaves Mdl undercapitalized, by any standards to undertake any minimal and meaningful activity, even under the more focused functions as described in this report! The only funding available to Mdl at the moment is therefore a shareholder loan of \$500,000 (with an option to convert into equity) provided in cash by IGEPE to support the start-up activities of the Company. Clearly, there was not commercial or financial consideration in determining either the stated capital or shareholding structure of 51% (INATUR) and 49% (IGEPE). It appears these were determined by fiat with little consideration for commercial business principles. Of the shareholder loan, approximately \$200,000 was left as at mid-January 2011, when this review commenced. Expenditure was disbursed largely on recurrent items with little investment in resources that can yield future returns. To stave off imminent bankruptcy, Mdl has no choice but to take urgent steps to cut unnecessary spending and to raise capital. However, given what Mdl can offer today, the latter will be difficult unless existing Shareholders can find funding to support Mdl further until it can demonstrate its “worth” in the marketplace.

Options/Recommendations

Thus, the most plausible option open to Mdl at this stage is another injection of cash from or facilitated by existing Shareholders. The latter, for example, might be in form of income generating assets that can be collateralized, or possibly if Mozambique law permits, a guaranty to a lender.

On the other hand, if Mdl could demonstrate its value to cash-rich parastatals holding land use rights to unproductive assets in the ZITs, it might be able to seek equity or debt from them in return for transforming their property rights into something of value. Then, it could possibly sell common or preferred shares to these as institutional investors, or offer to manage their unproductive assets for a fee, which could be advanced pending determination of exact land use rights valuation and then be adjusted accordingly between Mdl and the parastatal. Similarly, there might be private individual investors who see a similar such benefit, but as successful businesspeople, they more likely would be able to manage their assets better on their own behalf. In any event, in return for cash and other valuable assets paid-in as a capital increase, new investors would be entitled to receive an ownership interest in Mdl.

However, as noted, valuation of in-kind land use rights is difficult to calculate in the abstract outside the context of a given development that defines the property’s use and value. Moreover, by virtue of its Statutes, Mdl cannot legally raise any amount beyond 200,000 meticals, without the permission of its Shareholders. And as more new shareholders were to enter, the process would become more

complicated; hence, the discussion on possibly creating two classes of shares to provide flexibility. Optionally, steps could be taken to revise Mdl's Statutes providing an easier means to allow for capital increases. A second option is to borrow money assuring liquidity to finance operations of Mdl. From these two options comes a third, which is a mix of both equity and debt finance. However, in all cases, there will be the need for share valuation, and should the Board decide to raise short term debt to cover its operations, it needs to demonstrate credible cashflow and collateral and a clear, predictable plan that will be acceptable to responsible Lender(s).

In any event, immediate steps need to be taken to sort out the books of Mdl by a competent Chief Financial Officer. With solid internal controls, a functioning financial management system and verifiable books, Mdl would be in better position to open up its current shareholding structure; offer shares to more resourceful public entities; successfully withstand any due diligence; and thereby raise needed cash. Given Mdl's current condition, raising capital will take a great deal of effort, because as noted earlier, Mdl's fundamental worth and potential for value has not been demonstrated thus far.

GOVERNANCE STRUCTURE OF MOZAICO TO BEST ACHIEVE RESULTS

Mdl is currently operated on an Executive Board model. Under this approach, the Board doubles as the salaried management with the Chairman (the CdA's President) operating as the de facto Chief Executive of the Company even though Mdl has hired a Director General with the job description of a traditional Chief Executive Officer. To summarize Mdl's current governance structure in a "nutshell" -- Authority therefore remains directed down from the Board to the Director General, who is put in a position of responding to and serving as a subordinate to five masters, on a day-to-day basis, with hands-on management by the Chairman, whose larger executive office is adjacent to that of the Director General's.

This is in contrast to what the Shareholders intended preference for a non-executive Board - i.e., a Board which largely provides oversight, guidance and direction to the CEO and management team; ensures appropriate checks and balances to minimize the risk of fraud, waste and abuse; serves as a "sounding board" to the CEO; and approves management's recommendations on selected actions fundamental to the Company's core business.

With Mdl Board Members having full time jobs elsewhere, the Company lacks a dedicated management team, which is vital for nurturing to good health a pioneering private sector start-up firm playing a pivotal role in the radical and unprecedented structural transformation of a key sector of the Mozambican economy. Mdl's challenges are compounded by the fact that most (at least 80%) of Mdl's Board Members actually come from the public sector and have very little experience in running successful private businesses or clearly possess deep substantive knowledge in the functional activities attributed to the Company as outlined in its Statutes. The Mdl Board apparently was selected by government officials with little input from business professionals in the Mozambican private sector. It is unclear what selection criteria were used in Board appointments or what conscious consideration was given to the mix of skills and individuals needed to maximize the effectiveness of Mdl.

While it is clear that the plan was for Mdl to be created as a private sector firm to shift the process of integrated tourism development out of the hands of the public sector, the conceptualization of Mdl and drafting of its Statutes was done by government staff officials, and then, on creation of Mdl,

government officials were embedded in Mdl's Board; thus, undercutting Mdl's ability to function in a credible private sector entrepreneurial way.

Options/Recommendations

The Board and Shareholders must take a decision on whether to continue with the Executive Board model or change to a more traditional Non-Executive Board approach with a CEO in-charge of managing Mdl's operations, the latter of which is advisable. It is also advisable that the Director General be made an "ex officio" member of the Board by virtue of his position to maximize the value and insight of the supposedly key person on the Company's management team. Without any reflection on the competency of individual Board Members in their respective fields, there needs to be a fundamental review of Board composition. In this regard, consideration must be given to the needs of the Company in light of its mission and agreed-upon core functions, what each existing Board Member brings and what supplemental private sector skills and experience they possess.

If Mdl is to succeed as a private company, seasoned private sector business and investment professionals must be brought on to the Mdl Board. It is essential that the Board has a mix of persons with skills and talents as well as access to resources that can be of benefit and enhance the attainment of the Company's mission. Fundamentally, these professionals must be people who understand and believe in the mission and goals for which Mdl was established.

In any event, serious consideration should be given to appointment of at least two seasoned private sector entrepreneurial business people with deep experience in investment management, asset or property management, tourism related development and the like. One of the two should be other than Mozambican to bring an external business perspective to the Board's deliberations and speak more freely than locals are likely to given established relationships and sensitivities to local protocols. (For example, for similar such purposes, the Lead Consultant was recruited to serve as the only non-Polish citizen on the Investment Committee of a ~\$300 million fund-of-funds in Poland capitalizing new Polish Venture Capital firms financing innovative SMEs.)

The value that can be extracted with the involvement of mixed cross-cultural input is illustrated by the differences in achievements of the local investment teams managing the Enterprise Fund in Poland compared to the one in Hungary. The Hungarian Fund's local investment management team was comprised exclusively of Hungarians (some of whom were Canadian citizens), who deferred to their local Managing Director, contributing to more narrow and less creative thinking. The all-Hungarian team was unable to raise further funds beyond the \$50 million private fund raised largely by the American executives managing the parent Enterprise Fund, and that team eventually disbanded. The local team managing the Enterprise Fund in Poland, however, was comprised of both Polish and American senior managers. It developed a more expansive, flexible and creative management style. It succeeded in raising a series of private funds totaling \$2 billion, and is now one of the most prominent fund managers in the CEE region today.

Eventually, the Board of Directors could be supplemented by a Board of Advisors, comprised of various subject matter experts. The latter would not hold authority over or responsibility for Mdl, but would merely be available for advice and counsel to the CEO and management and Board of Directors, as needed.

SKILL MIX/CAPACITY TO MANAGE MOZAICO

As an innovative vehicle designed to play a pivotal role in the Government's overall initiative to attract and meet the needs of international developers in Mozambican integrated tourism projects, MdI must be adequately staffed. The Director General definitely needs to recruit additional professional staff (beyond the single In-house Legal Advisor), who are fundamental to effectively managing MdI and carrying out its core activities on a day-to-day basis. As MdI's CEO, the Director General is in the best position to know the human resources needed and he should have the responsibility and authority to make it happen. In fact, in his September 2010 action plan for MdI's build-out and commencement of active operations, he outlined his needs and plans accordingly. As things stand now at MdI, it is the Board and its Chairman that are accountable, not the Company's CEO; whereas, they should be delegating to full-time managers, who they can hold accountable. Understandably, MdI is intended as an innovative private sector vehicle to play a pivotal role in the Tourism sector's transformation, and many of the critical creative skills, knowledge and capacity need to be developed in Mozambique.

Options/Recommendations

A Chief Financial Officer, Project Managers and Marketing and Communications Manager are key skills and positions that obviously need to be filled as soon as possible at MdI, and this team should be built by and accountable to MdI's CEO. With respect to these specific management positions, it is urgent for MdI to hire a "Chief Financial Officer" to ensure proper accounting treatment and management for all moneys and other assets of MdI and to establish effective internal controls. It is likely that MdI will need to recruit a senior expatriate manager with international experience to help its management team build necessary capacity over the next couple of years – thus, such a seasoned executive might be hired in a Deputy CEO position.

In addition to human resources and to assure effective management and communications, MdI will at a minimum, need to invest in the development of a suitable website that clearly describes who and what MdI is, its functional responsibilities and focus in the process of ZIT development and the like. Key background materials need to be presented in Portuguese and English and clearly describe MdI and its role in the process of ZIT development. Regardless of the division of labor with other entities and linkages, like INATUR, involved in tourism investment promotion, MdI's own outreach and promotional packages, whether supportive or direct, must be tailored to the needs of international tourism investors/developers with regard to the services MdI provides. To carry-out this function, a professional with solid communications and marketing skills will be needed to present business opportunities and to clearly identify the target market among domestic and international investors.

DIVISION OF LABOR AND RESPONSIBILITIES IN TOURISM DEVELOPMENT TO ENSURE LINKAGE IN CRITICAL COMPONENTS

Once roles and responsibilities are clearly defined and agreed upon by the key stakeholders, the viability of MdI in carrying out its mission will be dependent on the successful functioning of other institutions within the Ministry of Tourism, other Government institutions and also local Governments in key destination areas. Within Mozambique's tourism administration, INATUR plays a central role. It has the statutory responsibility for all ZITs, investment and tourism promotion and marketing industry grading as well as human resource development for the tourism sector.

On the other hand there is the Direção Nacional do Turismo (DINATUR), National Directorate of Tourism, which has a licensing, regulatory and quality assurance role relating to tourism facilities. There are also the Centro de Promoção do Investimentos (CPI), which is the Investment Promotion

Centre, as well as the Departamento de Geografia Cadastro under the Ministry of Agriculture. The latter plays a critical role in land demarcations, approval of DUATS and issuance of titles to rights of use. Last but not the least, are the Municipal Councils and District Administrations, which have statutory jurisdiction over building permits and approvals within their localities. One way or the other, the varied roles of these institutions will impact on the work of MdI and vice versa, particularly in the development of the ZITs.

Options/ Recommendations

It is important that MdI works in concert and avoids conflicts or duplication with these other institutions and agencies. This can best be achieved if MdI's role is clearly defined vis-à-vis the others. In addition, establishment of a clearing house that institutionalizes dialogue and channels of communications among these institutions should create a more propitious business environment for MdI to function in. The Inter-Ministerial Commission employed for coordination of government agencies in the development planning for Arco Norte could serve as a useful model in this subject regard.

LAND LAW IN CONTEXT OF MOZAICO'S ROLE

Land provides the fundamental basis for infrastructure and superstructure development. Therefore, for any meaningful development to take place in the ZITs, access to land becomes a sine-qua non. Hence, the proposition emphasized throughout this report that MdI should focus on the provision of "clear, clean rights to land" as a core function. Mozambique, however, has a peculiar and uncommon land law. The law clearly stipulates that all land in Mozambique is "the property of the State and cannot be sold or otherwise alienated, mortgaged or encumbered"¹². Therefore individuals and corporate persons may only acquire "rights of landuse and benefit"¹³.

Although the law stipulates conditions for acquisition of land use rights and benefits; titling; registration; requirements of proof and transfer;¹⁴ maximum term; and revocation of the right of land use and benefit; among others, the law is not very often well understood by international investors, especially those from an Anglo-Saxon legal tradition. Also, Mozambican Land Law stipulates that "revocation of the right of landuse and benefit for reasons of public interest shall be preceded by payment of fair indemnification and/or compensation"¹⁵.

The issue of provisional and final title under the said Land Law has implications for developers who may want recourse to debt financing from the international financial market. There is also the subject of fair market valuation of land, without infrastructure, as noted earlier. Assuring clear, clean rights to land use, which MdI must carry out, is therefore fraught with challenges for both DUAT holders and for investors/developers. Addressing these will require innovative thinking and some financial engineering.

¹² Mozambique Land Law Legislation (Chapter 2, Article 3)

¹³ Ibid (Chapter 3, Article 10)

¹⁴ Title holders to the right of use and benefit may transfer this right by inheritance or inter vivos infrastructures, structures and improvements existing on the land.

¹⁵ Mozambique Land Law (Chapter 4, Article 22)

Options/Recommendations

To carry out Mdl's proposed core function, Mdl will need to have a register of all title holders in the ZITs and their land exploitation plans¹⁶ and involve astute Investment Bankers and Corporate Lawyers in evolving innovative legal and financing mechanisms that satisfactorily address the interests of title holders and investors/developers, as noted above. Also Mdl needs to consult economic legislation in force and the existing related PPPs, LSPs (Large Scale Projects) and BCs (Business Concessions), some of which are already operating by means of concession contracts, contracts for assignment of operations and management contracts. Experiences of others and lessons learned should be of immense benefit as Mdl assumes operations of its business. In this regard for example, approaches and experiences of institutions such as the National Hydrocarbons Company in shifting the risk and attracting investments into developing national gas and oil fields through concessions with reputable international private firms or that of CFM in concessioning management and the development of its assets, such as ports and railways, can provide valuable insight.

COORDINATION BRANDING AND PROMOTION

Although this subject may seem beyond the scope of this review, these issues are critical to the effective discharge of Mdl's role. If Mdl is to engage with domestic and international investors, then it must take the issue of corporate branding seriously. "Branding" is basically about creating a special identity that differentiates a firm and assures it easy recognition in the market place, through a name, symbol or slogan. Besides differentiating, branding makes companies stand out among the competition on both the domestic and the international scene. In this regard, "branding" is more than marketing or an image-building tool. Quintessentially, a brand is founded on a core value or reputation (brand identity) that a company seeks to project. Consequently, it is a promise to deliver and live up to the company's core value or reputation. Currently, it is difficult to link Mdl's name with its developmental mission. Besides, there is anecdotal evidence of confusion over the name "Mozaico" and also the spelling "Índigo"

Options/ Recommendations

To carry out its core functions as proposed and discussed in this report, Mdl needs to establish the core values that will enforce a positive image and reputation for the Company. As part of an overall communications strategy that must be developed, the Company may wish to revisit its name and also the designation of "Director General" for position of "Chief Executive Officer," as the latter is more appropriate for a private company.

CONCLUDING REMARKS

If Mdl is focused, appropriately staffed and structured and properly equipped as a real, modern private sector company, it will have a better chance to serve as the pivotal and transformational entity it was conceived to be. Thus, it could play a driving role in coordinating public sector agencies, parastatals and individuals with lands in the ZITs, and working through the legal framework, allow these lands to be consolidated and made easily accessible for investments in and development of the tourism sector. In doing so, it will assure a more conducive environment for Mozambique's new transformative model of tourism development. In order to make this major initiative work and assure ultimate success, the fundamental challenge rests on the shoulders of the leaders and individuals entrusted with creating, overseeing and managing Mdl and Mozambique's plan for integrated tourism development.

¹⁶ Ibid (Chapter 4, Article 19)

5. Next Steps

Upon integration of initial feedback to the Consultants' draft report and delivery of this Final Report of the Strategic Review, follow-up meetings should be conducted with Mdl's Board, Mdl Shareholders and the Ministry of Tourism to solicit and discuss their feedback and views on the Final Report's Findings, Conclusions and Recommendations, as a means of determining whether there is a convergence of views on key elements and the direction that Mdl needs to move toward.

Develop outline of Strategic Options for Board and Shareholders of Mdl as a basis for narrowing focus of Mdl to its realistically attainable core functions.

Develop an Agenda outline for and moderate an internal "brainstorming" session of Mdl's Board and Management to:

- Define what they believe are critical and realistically attainable core functions of Mdl in the context of Mozambique's strategy for integrated tourism development;
- Define Mdl's specific mission, with a particular focus on Mdl's objectives with the goal of directing the Chief Executive (whether the Executive Chairman or the Director General) to develop a first year Action Plan for execution;
- Agree on at least two specific integrated tourism projects that are realistically achievable projects in the ZITs – one in Arco Norte and the other in Project Âncora, to pursue as "pilots" with the goal of attracting a Resort Development & Management Company as the case may be, or individual investors/developers to drive these projects; and
- Decide on how Mdl will organize the functions of its Board and Management to best achieve results;

Work hands-on with Mdl's designated Chief Executive in drafting Mdl's Action Plan for presentation to Mdl's Board and ultimately to Mdl's Shareholders for approval. Such Action Plan should include, at a minimum, the following:

- How it would propose to execute the one or two selected pilot projects,
- How it would organize its operations to do so, and
- An outline of what resources, at a minimum, would be required and how it would propose to secure such resources

Concurrently, a review of Mdl's Statutes needs to be undertaken to ensure Mdl is designed to operate as an innovative entrepreneurial commercial firm.

Mdl will need to engage in outreach to the local and international private sector to ensure that its plans and approaches meet the need of private sector investors/developers.

Once Mdl has defined its mission, core functions and objectives and developed its Action Plan, Mdl's needs to present its Action Plan before its Shareholders and the Ministry of Tourism. This session, moderated by a third party professional, would be designed to brief these stakeholders on Mdl progress, demonstrate what Mdl has done and what it is planning to do, highlight the challenges Mdl faces and what it needs to carry out its first projects. This will provide a basis for soliciting and understanding the concerns and preferences of Mdl's key stakeholders in order to refine Mdl's approach and ultimately, to secure their formal buy-in and support. Such exercise will also provide a means of helping to delineate roles and responsibilities to ensure that all critical links in the chain of Integrated Tourism Development are being properly developed and managed.

Appendix 1. Interview Contacts

MOZAICO DO ÍNDIGO, S.A.

- Armando Jeque – Chairman
- Mário Sevene – Member of the Board
- António Muluana – Member of the Board
- Bernardo Dramos – Member of the Board
- Pascoal Mocumbi – Member of the Board
- António Saia – General Director
- Joice Quilambo – Legal Advisor

KEY STAKEHOLDERS OF MOZAICO DO ÍNDIGO, S.A.

- **Hipólito Hamela** – Executive Chairman of IGEPE, representing the Shareholder
- **José Tomo Psico** – Chairman of INATUR, representing the shareholder
- **Mohamed Harun** – Ministry of Tourism
- **Zacarias Sumbana** – Ministry of Tourism

USAID and SPEED

- **Scott Simons** – SPEED Program
- **Robert Layng** – USAID
- **Tim Born** – USAID

PROVIDING GENERAL TOURISM INDUSTRY INFORMATION NONSPECIFIC TO MOZAICO

- Anna Spenceley – Spenceley Tourism and Development Consultant
- Ema Batey – Tourism sector consultant
- Quessianias Matsombe – President, FEMOTUR

Appendix 2. Documentation and Reports Reviewed

- Estatutos de Mozaico do Índigo
- Mdl's Promotional Brochure Folder
- Mdl 2010 Budget and 2011 Draft Budget
- Conceptual Land Use Planning & Design – A Framework for Tourism Development in Northern Mozambique, May 2008
- Invest in Arco Norte – Brochure
- Arco Norte Tourism Development Company Business Plan – Final Draft
- Mozambique Arco Norte Tourism Market Study – Market Research Findings & Recommendations, Demacon Market Studies, May 2010
- Tourism Policy and Implementation Strategy, Resolution n° 14, of the 4th of April, 2003, Ministry of Tourism
- Draft Mdl 5-Year Business Plan prepared by Intellica
- Nampula Destination Framework – Executive Summary Report of the Context Analysis
- Executive Summary of the Concepts for Cabo Delgado
- An Integrated Approach to Resort Development – Six Case Studies by Edward Inskeep & Mark Kallenberger