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In Pull
33p. tables

Centro de Aconselhamento
para o Desenvolvimento Industrial

"Special Post Rehabilitation Support to Salt Production in Mozambique"
UNIDO Project No. US/MOZ/00/150 – UNIDO Contract No. 2002/137

Final Report

Activities performed up to May 15, 2003

The Contractor
Centro de Aconselhamento para o Desenvolvimento Industrial (CADI)
Maputo-Mozambique

Centro de Aconselhamento
para o Desenvolvimento Industrial

1. Introduction

This report covers the activities carried out under the "Special post rehabilitation support to salt production in Mozambique" project aiming to develop, jointly with the APSSS, a strategy and activity plan for the management of salt processing facilities and for the strengthening of the APSSS itself.

The work done involved discussions with the APSSS members to figure out alternatives to increase production and income to individual members of the association and to build in sustainability for the association itself.

CADI had to perform more than what was stated in the terms of reference agreed with UNIDO in order to establish equal premises with the APSSS as project direct beneficiary and to address some of the concerns and requests from the APSSS members. Therefore, this report includes all activities performed within and outside the boundaries of the Project TOR.

2. Project Objectives

The objectives pursued under this project were:

a) to improve the APSSS functioning and credibility,
b) to revive and strengthen the APSSS as such,
c) to provide the necessary soft skills to be able to create services for the benefit of the members,
d) to propose feasible alternatives to manage the expected salt processing plant

3. Activities performed

As a result of our understanding of the current status of the salt production sector in Southern Mozambique, CADI has continued to produce, along with the APSSS leaders, the documents to be considered by all members. Accordingly, the following activities where carried out up to now:

a) Interviews with association members

The main objective of the interviews was to find out the main problems faced by the APSSS members and to come up with proposals of recommendations on alternatives to solve these problems. To perform this task, a team of CADI counselors has scheduled a list of site visits to the salt production units (ANNEX B). The major findings are listed bellow:

Main obstacles to the salt industry (producers):

1. Low market outreach. Knowing that Mozambique is a corridor to several inland countries in the SADC region, there is a opportunity for the country to export salt to these countries, However, most of the salt produced is sold locally. It is a common belief that if the salt produced was refined and the quality improved, they would be able to sell in the regional market or even to compete locally with imported salt.

2. High levels of theft. The majority of the interviewed people emphasized that theft was the second major constraint faced by salt producers. Most of the salt producers don't have safe storage facilities for their production. They went even further by saying that about 20-30% of the production is lost in each harvesting due to theft.

3. Very old water pumps. Some of the salt producers have problems because of the obsolete state of their water pump equipment.

4. Lack of infrastructure to refine the salt. There is need to have equipment for cleaning, drying, refining and packaging the salt.

5. Lack of transport and difficulties to access the salt production areas. Because most of the production sites are located in areas of difficult access, it is very difficult to transport their produce to the markets.

6. Lack of finance associated with the high cost of capital and high interest rates charged by commercial banks. The salt producers believe that if credit were provided at 17-18% interest rate, it would be enough for them to have returns on their investments. It is worth to mention that the current interest rate charged by commercial banks range between 38-42%.

7. High costs of maintenance. During the process of salt production the main costs incurred are fuel, maintenance of the water pumps, salaries for employees, package, spare parts for the water pump. The respondents believe that if the salaries were reduced, the earnings would increase for hem. Because at the moment the salt industry is considered an industry in Mozambique and not an agricultural activity, is therefore under the Ministry of Industry and Commerce (MIC). Salt producers have to pay the taxes and employees accordingly; the industry is not making much profit.

8. High transport costs. Because the production is sold mainly in three provinces, Maputo, Gaza and Inhambane, they incur high costs to place the product in other provinces. For example, importing salt from South Africa is cheaper than bringing the salt from Pemba, in the northern province of Cabo-Delgado in Mozambique.

Summary of Suggestions made:

1. The installation of a new facility for cleaning, drying and refining the salt would increase the revenue for salt producers, and even serve as a starting point for exports. Therefore, it was proposed that the new unit should be created as a cooperative for all the members of the APSSS. There is an old facility that can be rehabilitated to serve this purpose.

2. Before going into that venture, the APSSS must approve operational procedures along with the work plan and the strategy to built the easy road map for their common business.

3. Training is an important aspect to be taken care of as many of the salt producers possesses a very limited knowledge of doing business efficiently, even considering their long-term field experience.

4. Further studies must be done to assess the feasibility of moving the salt industry to be under the Ministry of Agriculture and Rural Development (MADER). We therefore, recommend that an in depth study be conducted on the issue.

b) Overview of available financial mechanisms (supporting SMEs).

The objective of this section is to prepare a set of common procedures for approaching the financial institutions when applying for credit. Therefore, the APSSS member will have a common lobby scheme and strategy to finance their activities. A summary of this study is given on Annex D.

In general Mozambique is characterized by having fewer opportunities for investors to access to money for investments and for working capital. Mainly because of the high interest rates charged by commercial banks (35-42%). These high interest rates are related to the government policy to control inflation. Another reason for lack of finance for investors is related to lack of assets to be used as guarantee to request credit.

There are two main alternatives to cope with this problem. First, we can try to attract foreign direct investments (FDI) with their own capital or we can try to develop innovative alternatives to finance activities such as the salt processing industry. The former is quite difficult for the salt industry because of its low returns on investments. However we can explore the second option.

The establishment of innovative financial mechanisms, more suitable to the local conditions of Mozambique is the best alternative for the moment. Some options are buyer credit at low interest rates, leasing credit for investments, soft loans given by donors, guarantee fund set by some donors, equity fund, etc.

Today, Mozambique has several Institutions that provide credit to investors. These are: (1) 12 *commercial banks*, which provide finance to large enterprises, although some of them have created smaller units (ex: BIM created NovoBanco that is specialized in credit for small and medium enterprises). (2) *Public and private institutions* like GAPI, PODE, AMODER, Tchuma, SOCREMO, etc. (3) *Public funds*: FFPI, FARE, FFA that were created by the Ministries of Commerce and Industry, Plan and Finance, and Agriculture and Rural Development respectively. (4) Several *Microfinance institutions (MFI)* for small credit mainly in the urban and surrounding urban areas. (5) *NGOs* like World Vision, World Relief, IRAM, ACCION International, etc. (6) Other *multilateral agencies*: World Bank, European Union, IFAD, USAID, CIDA, IFC, UNDP, SIDA, UNDP, etc.

In general terms, to apply for credit, the salt association members must submit a complete business plan, with proven viability to make profits and return on investments. It is also required that some assets be shown as guarantee for the financial institution to hold them in case there is default from the customers. Depending on the amount of money needed, the association can approach first the NGOs, and donor funds; then try the public and private institutions and finally try the commercial banks. CADI can help in the business plan design.

One segment of financial institution to be explored is the Microfinance for short-term loans. These are funds readily available but at a higher interest rates. Currently there are about 45 MFI, of which about fourteen are registered with the central bank, under the supervision and regulation by CIDA. These institutions provide loans from 200 – 1000 USD. Its an emerging sector and most of them are concentrated in urban and peri-urban areas were most of the salt industry players are.

c) Draft procedure for managing common goods

The showcase used was the coming salt processing plant, financed by the Government of Spain, which belongs to the Association and therefore to all individual salt producer member. The discussions on this procedure are resumed in Annex E.

d) Training of salt producers on production management issues and on entrepreneurial development

CADI has trained two salt producers on production management issues and on entrepreneurial development in Maputo province and other eight salt producers from Cabo-Delgado were also trained on basic management skills in November 2002. After the training the majority of the trainees was pleased with the technical assistance given by CADI and were keen in applying the lessons learned into their work environment. They even emphasized that the training would help improve management of their coming salt unit.

CADI provided two additional training modules to salt producers on accounting procedures and financial management. These training programs were conducted in the first quarter of the calendar year 2003 to other five members of the APPSS.

e) **Drafting of APSSS Strategy, Activity Plan, Mission and Vision Statements and "Core Service Statement.**

Please find in Annex F the "summary draft documents" related to the above-mentioned subject prepared by CADI consultants as a result of the interaction with APSSS. This section provides decision making guidelines for the APSS.

4. Findings

The interaction with the APSSS has shown that:

a) There are differences among APSSS members on the way they see the development of the association and also on what can be done as a group or separately;

b) Most of the important achievements made so far by the APSSS are not systematically worked out and need to be organized in such a way that it can serve as source of means for decision;

c) The APSSS and its members are now aware of existing sources of finance but, still existing some criticism in terms of real capacity to fit in the requirements of financial mechanisms;

d) Information on market is now available for the salt produced in Mozambique as result of the UNIDO Study. This may give incentive to those willing to invest.

5. Recommendations

The implementation of all documents being produced went over the project timeframe. Therefore, it is strongly recommended that some follow up activities have to be considered to ensure effectiveness of the Project.

6. Final Statement

This report is complete to our best understanding and reflects the result of the fieldwork done under this contract agreement. The team involved was committed to contribute for the global improvement of this sector, although recognizing the status encountered is even under the preliminary estimations. The present report is herewith submitted for UNIDO consideration as agreed in the contract.

Elias J Come
Director, CADI

ANNEX A

Preliminary Study of the Management model
Salt processing, iodization, and packaging unit

1. Background

Salt is one of the most important ingredients in the value chain (cooking habits) of every social class, especially for countries like Mozambique, where the majority of the population live based on natural food, that is food extracted directly from the nature without any additives or preservatives.

This almost irreplaceable characteristic of salt in the daily food eaten allows the introduction of substances like iodine in the salt.

The search for alternatives to salt utilization represent consequences on the quality live of the populations and can cause diseases that are highly visible like **struma or goiter (an enlargement of the thyroid gland visible as a swelling the front of the neck)**.

Knowing about the important of salt as a basic ingredient in the cooking process but also its role as a main source of iodine supply to the populations, the Government of Mozambique in partnership with the United Nations Organization have launched the National Program of Salt Iodization with the objective of ensuring that the Mozambican produced salt contains iodine and therefore is appropriate for human consumption.

As a consequence of the actions of this program, specific legislation on the issue was approved, which includes not only the mandatory status of salt iodization but also other aspects related like salt hygiene, grain size (**granulometria**), etc.

Considering these developments, salt producers started a process of adjustment of their infrastructure facilities to accommodate not only the law-required requisites but also the market demands. In this context, UNICEF support was fundamental for the acquisition of equipments, and required raw material to the process of salt iodization.

However, all the effort developed by salt producers up to that the 2000 floods, which practically destroyed the entire basic production infrastructure and have reduced the capacity of developing a planned process of introduction of techniques to ensure the compliance with the required regulations, jeopardized moment.

Since then, all the effort was therefore directed towards the recovering of some of the production capacity and to figure out collective solutions to problems of this sector of the industry, including the mandatory regulations.

Several initiatives of getting partners and financial support were, since then, developed by the Association of the Salt Producers of the Southern Save (APSSS) which ended with technical and financial assistance from UNIDO in the rehabilitation of the electric pump stations, including the installation of new pumps in some cases. At the same time, as a result of the same initiatives, the APSSS obtained some funds from the Spanish Government for the import of an already made unit capable of going through all the steps in the salt processing, including cleaning, crushing, drying, iodization, weighing, and packaging.

The concretization of this initiative will represent the solution of the problems of uneven salt quality and will provide a tool for the accomplishment of the requisites regulated that at the present moment only few producers are able to meet.

2. Start-up Questions

a) Who should the processing unit belong to?
b) How will the organization chart and the organic statute of the processing unit be?
c) Who will support financial expenses of pre-production and installation phases?
d) Who will provide working capital?
e) How long with the factory take until its break-even-point?
f) Are all the salt producers interested in the processing unit?
g) Will there be enough raw materials (reasonable quantity and quality) for the factory to operate and be economically viable?
h) Who are the main competitors? What is their capacity?
i) Is there sufficient technical capacity to ensure the factory's operation and maintenance?
j) Who are the main customers? What are the distribution channels?
k) How will the social security issue be handled by the processing unit?
l) Who will directly benefit from the profits of the unit? Who pays for the losses?
m) Who will be responsible for the assets and liabilities of the factory?

3. Hypotheses

Hypothesis A

The factory is a common asset to all the association's members, it's the property of the APSSS as the legal entity and only the association (APSSS) will respond for the administrative, and legal issues raised by doing the salt processing business.

Implications:

a) The Association should create technical and management capacity to run the business. The salt producers will therefore have two main concerns: produce salt and ensure its processing. That means absolute involvement in two types of businesses with different specifications.
b) The results of operating the processing unit will not only depend on the capacity of the salt producers group to provide salt (raw material) but also on the performance of the management team to come up with sustainable working methods, marketing of the product, brand name and the new unit.
c) Being the APSSS a not-for-profit organization, it would be very difficult to maintain the processing unit under the fiscal regime of the APSSS, considering that for the unit to be profitable, it should also have for-profit objectives.
d) The responsibility in the case of failure of the business would be a very difficult issue to deal with, considering the fact that the unit would be a common asset, where every single member has the same rights but no one wants to carry the obligation to pay in the case of failure.
e) Because the unit is a public debt and its going to aggravate the situation of the country's external debt as a all, there is a clear necessity to ensure its long life to be able to pay all the debt. Therefore, the mechanism for ensuring responsibility should be simple and efficient.

Hypothesis B

The company will be managed by a private entity on behalf of the association, composed of the association members in accordance with the current legislation.

Implications:

a) The company should be an attractive business for all the association's members as a mean to have their commitment to this initiative and share the legal and commercial responsibility of running the business.
b) All the investment in fixed assets, working capital and pre – production expenses should be equally shared by all members according to a formula to be defined between the partners.
c) There should be an absolute cohesion and trust among the people involved in the business because it is a group responsibility.
d) From the ethic point of view, it should not be advisable that some of the "owners" of the company have a business that would compete with the company's business because they would have a competitive advantage of knowing what the other part is doing.

e) In the case of business failure all the "owners of the company" would have the same civil – commercial responsibity. However it should be noted that this responsibility goes even beyond their own generation.

Hypothesis C

The members of APSSS will form a corporation of respective salt producer companies (as legal entities) or individuals representing salt producer units will have shares in the company, in accordance with current legislation.

Implications:

The same principles, as in hypothesis B, apply. The only exception is that the responsibility will be proportionally shared in accordance with the investment made by each members not covered by external financing (equity funds). The profits and/or losses will be distributed following the same principles. This model offers some security in terms of return guarantee of the public investment and is widely known by the business community in the country.

Hypothesis D

The APSSS will contract a private entity to manage the company in a commercial base where the rights and obligations, and all the formalities related to the business, are agreed upon between the two parties.

Implications:

a) It is necessary an updated feasibility study that would demonstrate the capacity of the company to generate sufficient income to attract a private entity. The costs of this study will be supported by the APSSS.
b) It is necessary to ensure that APSSS will have an efficient mechanism to control the accountings to ensure that profits and losses from the contract are the associations liability.
c) The benefits from the contracts will revert in favor of the associations and not to the individuals. And only within the APSSS a mechanism of sharing the benefits should be created.
d) It is also important to have trust and cohesion among the APSSS members.
e) The APSSS will continue to have the responsibility and ownership of the company but free from any management administrative or legal duties, in accordance to the contractual terms with the entity that will manage the company.
f) The different salt producers will continue to concentrate their efforts on salt production and in the usage of technologies for increasing productivity to ensure the supply of raw material to the company in a commercial base.

g) It is important that all the associations' members assume a compromise with the management company to supply their production to the company and to adherence to a common brand name for the processed products.
h) All members, the association and the management company should do the marketing efforts of the brand name, the product and the company. It's also necessary to avoid any kind of conflicts of interests between the salt producers and the management company.

CADI has requested the APSSS board of directors to provide us the best alternative, i.e., the one they felt more confident with. After discussions with them they have agreed with option A that is the establishment of the salt processing unit has a common asset to all the association's members. It's the property of the APSSS as the legal entity and only the association (APSSS) will respond for the administrative, and legal issues raised by doing the salt processing business. This option is explained further in detail in annex E (refereed to as the limited partnership structure).

ANNEX B: Work Plan and Visit Schedule

CADI's Assistance to the APSSS: Execution Plan (Note: **Only the colored and bolded item are under the CADI contract**)

S.N	Description	07-02	08-02	09-02	10-02	11-02	12-02	01-03	02-03	03-03	04-03	05-03	06-03
4. a)	**Field visits with objective of understanding the management procedures, appreciation of the general working conditions and procedures of each salt producer, and identification of the training needs**	**X**									X		
4. b)	**Training of key personnel on issues related to management in accordance with the identified training needs**	**X**	**X**	**X**	**X**	**X**	**X**	X	X	X	X	X	X
4. c)	**Elaboration of an action plan and strategy for the development of the association**		**X**	**X**	**X**	**X**	**X**						
4. d)	Prepare the overall vision of the financial mechanisms, incentives and fiscal duties applied to the sector and update it.		**X**	**X**	**X**						X	X	X
4. e)	Elaborate and present the proposal of the management model of the future salt processing unit. Organize public debates to come out with recommendations about		**X**	**X**	**X**								

	the best model to suggest												
4. f)	Prepare relevant information for discussions with the government with the objective of reintegrating the sector under MADER and not MIC			X	X	X	X	X	X	X	X	X	X
4. g)	**Prepare a strategy of functioning of the APSSS for the next three years, including the organization of their accounting and administrative procedures**		X	X	X	X	X						
	General evaluation of the program			X				X					X

<u>Visit Schedule of CADI's consultants to the salt production companies</u>

SN	Name	Salt production site's name	Contact	Location	Prod. Ton/ano	Nr. Employees	Visit Date	Obs.
01	Wane Pone	Wane Pone	082304151	Matola Rio	8.000	15	08-07-2002	
02	Wane Pone	Wane Pone	082304151	Nova Mambone	10.000	60	12-07-2002	
03	Romão Maiete	Tramar lda	082888655	Matola Rio	1.000	15	06-07-2002	
04	Luis Manuel Junior	Luis M Junior	780133	Matola C	1.000	17	06-07-2002	Not running
05	António C Trindade	Salmar	720430	Matola Rio	3.000	28	23-07-2002	
06	Abdul Assija Mossa	Mossa	423325	Matola C	3.000	28	23-07-	

							2002	
07	Tomás William	Raio Solar	721483	Matola C	4.000	30	18-07-2002	
08	Tomás William	Chalafa	082402279	Juba - Boane	4.500	20		Not visited
09	Zacarias Fernandes	Zacarias	415906	Matola Rio	10.000	75	18-07-2002	
10	Fernando Fragoso	Fragoso	493814	Matola Rio	3.000	28	23-07-2002	
11	António Anacleto	Anacleto	720012	Matola Rio	3.000	28	26-07-2002	
12	Missão Consolata	Missão Consolata	490336	Nova Mambone	10.000	80	12-07-2002	
13	Afisal de Moçambique		082311003	Matola Rio	12.000			Not visited
14	António Saíde	S. A. S	082497700	Quissico	360	14	10-07-2002	
15	Abdulremane Sumara	Esmael Sumara	02365014	Quissico	1.200	50	10-07-2002	
16	Lucas Tamele	Tamele	02365014	Quissico	300	35	10-07-2002	
17	José Chibucuzane	Chibucuzane	02365014	Quissico	250	25	11-07-2002	
18	Salema	Salema		Matola Rio	3.500	28	08-07-2002	
19	Sogeste	Martins	721450	Matola Rio	3.000	38	05-07-2002	
20	Medina	Bernardo	747190	Matola Rio	4.000		05-07-2002	

ANNEX C

List of participants
General Assembly of the APSSS on October 12th 2002

Name		Plant	Contact
1.	Ivo Saccomandi	Salinas Wan-Pone Matola Rio	082.30.40.51
2.	Claudino Simoes	Salinas Simoes	082.85.11.82
3.	Anacleto	Salinas Anacleto	72.13.07
4.	Ananiel Tavares	Salina de Batanhe Nova Mambone	49.03.36
5.	Antonio Saide	APSS Quissico Rep	082.84.29.48
6.	Nelson Cumaio	Salmar	082.30.08.45
7.	Zacarias	Salinas Zacarias	082.30.12.39
8.	Tomas William	APSSS Salinas Raio Solar	082.40.22.79
9.	Fernando Fragoso	APSSS Salina Fragoso	082.30.31.25
10.	Antonio Elias	Salinas Martins	72.14.50
11.	Moussa	Salina Mussá	32.23.23
12.	Romão Saínda	Salina Tramar	082.88.86.55

Annex D

Overview of financial mechanisms available (supporting SMEs)

The industry and commerce together absorb 50% of the country's credit portfolio, agriculture, even employing 80% of the population and contributing to 27% of the GDP, only gets 22% of the commercial credit. The commercial banks prefer not to give credit to high-risk activities like agriculture, salt production, etc. or activities with high operational costs and low productivity.

The financial sector in the country is composed by the Mozambique Bank (BM), the central bank, and 12 other banks: Banco Austral (BA), Banco Comercial e de Investimentos (BCI), Banco de Fomento (BF-Grupo BPI), Banco Internacional de Moçambique (BIM), Banco Internacional do Comércio (ICB), Banco Standard Totta de Moçambique (BSTM), União Comercial de Bancos (UCB), Banco de Desenvolvimento Comunitário (BDC), NedBank and Cooperativa de Crédito e Investimento (Credicoop). Besides the commercial banks there are also sectorial development programs (Fundos de Fomento).

The interest rates charged by commercial banks are very high, around 38-42% yearly. Other institutions like GAPI charge between 32-39.9% yearly, NGO's (WVI, World relief, MEDA, SOCREMO) charge between 5-10% monthly interest rate. The "Fundos de Fomento charge normally below the market prices, and depend on different criteria for different situation, but never above 28%.

Commercial banks generally finance large enterprises, often foreign or state owned. Nonetheless, some of them do small scale lending, and developing their retail-lending department is a strategic priority for some.

Institution like GAPI, KFW, CFD, and DANIDA are more targeted to finance fixed-asset acquisition. The World Bank project, PODE has provision for credit for start-ups, and established enterprises. These funds are sitting idle because the terms of credit are not attractive to entrepreneurs due I to its high interest rates and lack of collateral from the borrower side.

From the government side there are three main funds to promote SME: Fundo de Fomento da Pequena Industria (FFPI), Fundo de Apoio a Reabilitação Economica (FARE), and Fundo de Fomento à Agricultura (FFA). The former is targeted at providing working capital financing to SMEs, to a maximum of $55,000 for 12 months at a 110% collateral, and above-market interest rates. The second one has been known by its highly subsidized interest rates, to some rural investments in infrastructures. The third one offers loans and training to small businesses in agriculture and fisheries. It also offers guarantees for loans to rural general stores (cantinas) at a value not superior to $15,000.

Associação Moçambicana para o Desenvolvimento Rural (AMODER) is another institution for small scale lending mainly for rural trade. The Sociedade de Crédito de Moçambique (SOCREMO), with average loan size of $300 and maximum of $5,000, has two branches in Maputo and Beira. Several donors also provide assistance to this sector of the economy through programs like IFAD, SIDA, etc.

Members of the APSSS can pursue the following path to financing needs:

a) Small scale financing: Novobanco, SOCREMO, TCHUMA, AMODER, UNDP, ETC.
b) Medium scale financing: GAPI, IFAD, PODE, DANIDA/ADIPSA, etc.
c) Large scale financing: commercial banks described above.

Table 1: Financial Institutions List

	Instituição	Nome	Contacto			
			Endereço	Telefone	Fax	E-mail
1	AMODER	José Trindade	493 658	491 020 / 490 484	491 020 / 490 484	moder@virconn.com
2	Desenvolvimento de Iniciativas Privadas no Sector Agrario	Celia Ribeiro	Av. 25 de Setembro No.679	051-22874/23480	051-23477	adipsamanica@teledata.mz
3	FARE - fundo de Apoio a reabilitacao Economica	Abel Lopes		495 151		fare@tropical.com
4	FFPI - Fundo de Fomento da Pequena Industria	Omaia Salimo	Av. Samora Machel	324 090	430 093	ffpi-sede@tvcabo.co.mz
5	GAPI - Gabinete de Apoio a Pequena Industria	Antonio Souto	R. Mukumbura 434	491 505	491 827	fasouto@gapi.co.mz
6	IRAM - Caixa de Poupanca e Credito Comunitario	Enoque Changaro		301 470 / 91		erchangamoc@hotmail.com
7	IRAM	Sophie Teyssier		301 470 / 91		iram_moz@sortmoz.com
8	PODE	Antonio Sala	Av. Agostinho Neto	495412/3	495414	antonio.sala@podetlc.org.mz
9	SOCREMO - Sociedade de Credito de Mocambique	Jerónimo Binda	Av. 24 de Julho 426	499 409		gbarazorda@teledata.mz
10	TCHUMA	Kathryn Larcombe	Av. Eduardo Mondlane 1178	314 875/80/81	314 875	kathryn.lacombe@tchuma.co.mz
11	World Relief/ FCC - Fundo de credito Comunitario	Travis Wilson	Av. Kenneth Kaunda, No. 1174	485093/486180	486184	twilson@wr.org

Annex E
Selection of an Organizational Structure for management of the Expected Salt Plant
(A Case Study for procedures for consultation mechanism)

A business is originally established with the objective of making a profit. Regardless of the product or service provided, every business owner needs to decide what form of business organization is most appropriate for his/her needs. There are four main types of organizations:

1) Sole proprietorship;
2) Partnership, which may be a general partnership, a limited liability partnership or a limited partnership;
3) Corporation, which for tax purposes may be a C or an S corporation; or
4) Limited Liability Company.

1. Sole Proprietorship

A common form of business ownership is the sole proprietorship. Because it is the least complicated form of business ownership and is the easiest to set up and to terminate, it is understandable why the majority of businesses are of this type.
A business with a sole proprietorship is owned and controlled by one person; the owner *is* the business. The funds for the business come from the owner's personal funds such as savings and/or investments, loans from lending agencies, and sometimes loans or gifts of monies from friends or family members.

All the owner's personal assets can be used to satisfy debts and taxes owed by the sole proprietorship. Personal assets also may be tapped to pay any legal damages resulting from lawsuits filed against the business, subject to certain statutory exemptions. This means all the owner's assets--land, home, vehicles, checking and savings accounts, and investments--is subject to claims by creditors for satisfaction of business loans, contracts and legal judgments. For these reasons, liability insurance for business activities is an important risk management tool for the sole proprietor, just as it is for other business owners.

A sole proprietorship pays income tax for the business as part of the owner's personal income tax return. A sole proprietorship has serious limitations from the perspective of estate planning and inter-generational transfers. First, business continuity is linked to the life of the proprietor. When the proprietor dies, so does the business. Second, the proprietor's wealth consists of business assets-- equipment and land that are titled in the proprietor's name only.

People with a goal to continue the business into the next generation often consider other business forms such as a partnership, a corporation or limited liability company.

2. Partnership

A partnership is a voluntary association of two or more people for the purpose of operating a business. Each person contributes money, property, labor or skills, and shares in the business profits and losses. To protect others from using the partnership name, the partners must register the business name as an *assumed business name* with the respective authority.

A ***general partnership*** is similar to a sole proprietorship with respect to taxes and liability. Each general partner has unlimited personal liability for all debts and obligations of the partnership and acts of the partners, even if he or she is not directly involved in a particular debt or decision. Although a partnership is not a taxable entity, total income must be reported, which provides information on partnership income or losses for the year. Partners must also report their share of the partnership income--gains, losses, deductions or credits--on their respective individual tax returns. Even if the partnership income is reinvested in the business rather than distributed to the partners, it must be reported on each partner's individual tax return.

A partnership can be formed with an oral or written agreement. A written agreement is recommended to help avoid misunderstandings among the partners. Attorneys recommend that, at a minimum, the following should be included:

- Names and addresses of the partners and the name of the partnership
- Purpose of the partnership
- Duration, events resulting in termination of the partnership and the rights and obligations of the partners on termination of the partnership; how partnership assets are to be divided when the partnership is terminated
- Who is contributing what resources (cash, personal property, real estate, labor and services) and how they will be contributed (outright to partnership, on a use-only basis or rental)
- How profits and losses will be calculated and shared
- How decisions are to be made
- Any limitations on the activities of the partners
- How to add new partners and how to buy out partners
- How to resolve disagreements among the partners (dispute resolution by a third party)

There are three kinds of partnerships recognized: general, limited liability and limited.
In a ***general partnership***, two or more people contribute assets to the partnership, and these general partners share the management, profits and losses. The general partners manage the

business and are personally liable for all partnership debts and liabilities and acts of any of the partners.
At the death or withdrawal of one of the general partners, the partnership may be subject to dissolution. The partnership agreement may include provisions for business continuity by requiring the partnership or the surviving partners to purchase the interest of the deceased partner. Buy-sell agreements among the partners or between the partnership and a partner can also be used to provide a market for the interests of a deceased or withdrawing partner.

By registering as a ***limited liability partnership***, a partner limits his or her liability except for the partner's own negligence or the negligence of someone under the partner's direct supervision.

The ***limited partnership*** is a way for the general partner(s) to acquire additional capital without giving up management control. It must include at least one general partner and one or more limited partners. Limited partners take no active role in the management of the business, and their liability is limited to the extent of their partnership investment.
Limited partnerships can allocate a percentage of gross receipts to the general partners as a "cost" for management and use such costs as a deductible expense in computing profits and losses for the limited partnership. Profits or losses are then typically allocated to limited partners based on their percentage of ownership.

3. Corporation

A corporation has a legal and tax identity separate from its owners, who are called *shareholders*. A corporation must be registered and the following information is required: the name of the corporation, purpose of the corporation, names and addresses of incorporators, location of the registered office, name of registered agent, duration of the corporation, amount and kinds of capital stock that may be issued at the beginning, and description of the voting rights of shareholders. Articles of incorporation and by-laws should be prepared by legal counsel who is familiar with the corporate law.

Once formed, some countries require that a corporation file an annual report. It should list names and addresses of directors and officers and the number of shares issued. In addition, annual meetings of directors and shareholders must be held with written minutes reflecting important transactions or decisions. Corporations must file tax returns.

The primary advantage of the corporation is its "limited liability." While the corporation is fully liable for all its business obligations, individual shareholders are liable only to the extent of their investment. In practice, however, owners of small, closely held corporations (family members, for example) are often required to personally guarantee the debts of their corporation.

While the corporation offers shareholders some protection from liability claims, it is not a substitute for a comprehensive business and personal liability insurance program.

For income tax purposes, business owners must choose whether the corporation is a C or an S corporation. C corporations pay taxes on income. Shareholders do not report any portion of corporate income or losses on their individual returns, but when income is passed on to the shareholders as salary or dividends, it is taxable income for them.

C corporations are eligible for a wide variety of retirement and benefit plans, as well as these fringe benefits: group term life insurance; disability insurance and medical expense reimbursement plans; certain types of deferred compensation plans and employee stock ownership plans.

The shareholders of an S or C Corporation elect a board of directors that is responsible for the overall direction and management of the corporation. Directors elect officers who are responsible for day-to-day operations. A shareholder can be a director and officer. However, it is usually difficult to liquidate a C corporation or, usually to a lesser degree, an S corporation without adverse tax consequences.

4. Limited Liability Company

When properly formed and maintained, the limited liability company (LLC) provides the benefits of limited liability protection, operational flexibility and pass-through taxation without the restrictions applied to S corporations and limited liability partnerships.

One or more people may form an LLC by signing and filing articles of the organization with the authorized agency. The articles of organization must include:

- Name of the limited liability company
- Latest date on which the limited liability company is to dissolve
- Address of its principal place of business and, if different, its registered office and the name and address of its resident agent at the registered office
- Statement of whether the limited liability Company is to be managed by a manager or by its members.
- Names and street addresses of managers if managed by managers and of the initial members if managed by members.

The LLC may wish to create an operating agreement, which is an internal document governing an LLC's operations and respective rights and obligations of its members.
The owners of an LLC are called ***members*** and have both economic and management rights (including voting rights) and may constitute the management of an LLC. A manager is a person or

entity charged with management responsibility for an LLC. The manager may or may not be a member.
A limited liability company is required to deliver an annual report of its business activities.

Recommendation

Based on the types of companies discussed above, CADI counselors would recommend a limited partnership structure for the new salt unit. This partnership would allow all members to benefit from the company without having much liability from the entire group. A board of directors would be responsible for the decision making, and the business would not rely entirely on one person. This option is flexible because it allows partners to look for additional capital without giving up management control.

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Annex F
Draft Summary APSSS Strategy and Activity Plan including, mission, vision, policy and core service draft statement

Summary of APSSS Long Term Strategic Framework	
Matrix of Strategic Planning *(2003-2010)*	Overall Objective
	The overall APSSS objective is to assist its member to jointly improve their individual businesses and to strengthen the salt production sector as a group in order to contribute to the national economic growth.

(see next page for continuation)

	Specific Objective

1. LONG TERM OBJECTIVES

The APSSS Long Term Objectives are the following:

a) To contribute to the sustainability of the member's businesses, through value added activities, expansion of market linkages, and through promotion and protection of the interests of its members,

b) To contribute for improvement of the business environment especially on those aspects regarding the salt sector.

2. MEDIUM TERM OBJECTIVES

The APSSS Medium Term Objectives are the following:

a) To ensure uniformity and fulfillment of the government requirements for salt quality

b) To establish a National Association of Salt Producers

c) To ensure the qualification of the salt sector under the Ministry of Agriculture

3. SHORT TERM OBJECTIVES

The APSSS Medium Term Objectives are the following:

a) To design and approve long term strategy, activity plan and working procedures for the APSSS

b) To improve the quality of the salt produced by its members,

c) To adopt a common marketing scheme and lobby,

d) To improve the business awareness for its members,

e) To lobby for financial resources for the members individual business

	Expected results

1. Long term expected results

    a) All members producing salt at least at 75% of established production capacity,

    b) All salt being sold under the same brand name and trade mark both in the local and export markets,

    c) Self-sustainable APSSS, based on the membership fees and contributions and also getting resources from services provided to the members.

2. Medium term expected results

    a) Three units (Matola, Quissico and Mambone) established and processing all the salt produced by APSSS members,

    b) Established National Association of Salt Producers, integrating the local Salt Associations from all over the country,

    c) Approved decree qualifying the Salt sector under the Ministry of Agriculture and Rural Development and

    d) Reduced taxation for the salt sector

3. Short term expected results

    a) Approved APSSS Strategic Framework including all support documents namely, Activity plan, Procedures, mission and vision statements.

    b) Agreed special credit conditions for the APSSS members with at least one financial institution,

    c) Training provided to all members on business awareness,

    d) Improved salt quality (dry, clean, iodized, regular grain, packed and labeled) and agreed marketing scheme to be used by APSSS.

Global Activities *(Operational plan)*	This chapter presents the list of activities to be performed in order to fulfill the APSSS objectives and to achieve the expected results. **1. AT GENERAL ASSEMBLY LEVEL** 1.1. To meet at least once a year, according to the APSSS statutes (between January and March every year). 1.2. To approve the long term and the operational strategies 1.3. To approve the annual budget, annual financial report, annual activity plans (during the GA meetings). 1.4. To elect and/or to lay off the APSSS officials for the different boards (during the GA meetings). 1.5. To decide on several issues at policy level presented by the Management Board. 1.6. To decide on membership fees and other type of contributions presented by the Management Board. **2. AT MANAGEMENT BOARD LEVEL** 2.1. To perform all current management obligations as per the APSSS Statutes. 2.2. To plan, submit to GA approval and implement the strategies, work plans, budgets, procedures and all other concerned initiatives. 2.3. To search for and provide means and inputs to implement the Activity Plans and Strategies. 2.4. To negotiate with partners and stakeholders the means and strategies to materialize the Planed Activities. 2.5. To meet at least once a month to make decisions on current APSSS issues.

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3. <u>AT CONTROLLING BOARD LEVEL</u>

3.1. To monitor and control the performance of the management board and other APSSS structures.

3.2. To assure the legal utilization of APSSS resources.

3.3. To monitor the achievements made by the APSSS management and point the deviations and its possible causes.

3.4. To assure the fulfillment of APSSS strategic objectives and plans.

3.5. To audit and validate the accounts and activity reports before submission to the GA decision.

4. <u>AT SECRETARIAT LEVEL</u>

4.1. To ensure the organization and reporting of all meetings of all APSSS structures in accordance with the statutes.

4.2. To keep updated the list of the APSSS members and the status of any of them at any time.

4.3. To keep record of all decisions taken by any APSSS structure.

4.4. To ensure follow up on any activities done by any APSSS structure.

4.5. To provide any means may be of need to complete any APSSS task.

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<tr><td>Sources of Means and Input</td><td>The APSSS will exist and run its activities based on resources got from the following sources:</td></tr>
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	1. Members contributions 2. Membership fees 3. Service charges 4. Sale of publications 5. Donations/sponsors 6. Revenues from Salt Plants 7. Application of funds 8. Special loans interest rates and commissions
Mission Statement	The following sentences will be submitted to the decision of the APSSS GA for adoption as the APSSS mission: 1. To represent and support the members on the relationship with relevant stakeholders and ruling entities. 2. To support the members to better perform their business by providing a common processing unit to improve the salt quality and returns on their businesses. 3. To be the forward business player of all member.
Strategic Vision	The following sentences will be submitted to the decision of the APSSS GA for adoption as the APSSS Strategic Vision: 1. To be an active role player for the establishment of the National Association of Salt Producers as the Salt Producers forum for designing and launching of business improvement strategies. 2. To become the major actor on the development of the salt business in Mozambique through group marketing and transport provision.
APSSS Policy	The following sentences will be submitted to the decision of the APSSS GA for adoption as the APSSS Policy:

	1. The APSSS will act permanent and consistently in the business arena to assure continuous improvement of the members businesses 2. Together we do better our individual businesses 3. Together we can rule the salt market and face competitors 4. The member, first of all and overall.
"APSSS Core Services"	The proposed APSSS Core Service Statement is as follows: "The APSSS is intended to provide the following services to its members: a) Represent the interests of the members, b) Lobby and keep pressure for better business environment, c) Sourcing for means to support member's activities, d) Management of common goods, e) Bringing more and more member into the APSSS"

SUMMARY Draft ACTIVITY PLAN

Activities to be performed	Implementation timeframe (2003-2010)		
	Short Term (2003-2004)	Medium Term (2005-2007)	Long Term (2008-2010)
1. Approve APSSS Long Term Development Strategy, Activity Plan, Mission, Vision, Policy, Procedures and Service Statement. 2. Negotiate and lobby for affordable financial credit to support improvement programs or to cover stocks working	GA met on January 2003 to approve the drafts prepared with support of CADI.		

capital. 3. Provide training on Basic Management tools for members and for other salt industries all over the country. 4. Establish the Salt Plant (3 units)	Salt Plant Expected in 2004	Training will be conducted continuously.	Training will be conducted continuously.
5. Work together with salt producers in other regions to establish local salt associations as basis for the establishment of the National Association of Salt Producers (NASP). 6. Prepare Demonstration Document (DD) to approach and negotiate with the government the integration of the salt sector under the Ministry of Agriculture. 7. Keep pressure to the government for tax reduction and/or exemption. 8. Explore the Salt Plant for processing of member's salt.	Contacts are already in process for the NASP issue. DD will be ready by mid 2003.	Local Associations will be ready by 2006. Salt sector may be re-qualified by 2007. Salt producers will have set up private entity to explore Plant.	NASP will be established by 2010. Salt will have uniform characteristics and within the regulation.
9. Revenue from Plant operations will be invested in special loan basis to improve member's production facilities. 10. Development of marketing strategy and common salt brand mark. 11. Restructuring of membership fees and contributions.		All member will agree to supply salt only to the Plant and will not compete with the Plant by 2005	Sustainability of the APSSS will be based on membership fees and revenues from services provided.