



REPÚBLICA DE CABO VERDE

MINISTÉRIO DAS FINANÇAS

Terms of Reference

Technical support for elaboration a comprehensive SOE Policy and proposals for structure and function of future SOE oversight/holding arrangements

Background

The Government of Cabo Verde (GovCV), with financial assistance from the World Bank, has approved a project aimed at improving fiscal management through State-owned Enterprise (SOE) reforms. The Project objective is to strengthen SOE related fiscal management.

Boosting the performance of the SOE sector through improved governance arrangements, with clear objectives and KPIs, financial and non-financial, with a modern legal and regulatory framework is seen by the Government of Cabo Verde as the right way to lead to better economic and social outcomes, with a positive impact on the reduction of fiscal and budgetary risk the SOE Sector has been representing for the country over the last 20 years.

SOEs provide citizens with access to vital services such as water, electricity, health, sanitation and transportation. The competitive position of the private sector-led economy, including small and medium-sized enterprises, is heavily dependent on the services and infrastructure provided by these firms. Even the competitive position of Cabo Verde as a foreign investment destination is directly linked to the SOE's services provided, considering their availability, cost and quality. That said is clear that an SOE reform program is crucial to achieving the development goals defined by the Government.

The SOEs sector in Cabo Verde has long been a source of high risk contingent liabilities for the government due to its generally weak commercial and financial performance, and also due to lack of authority played by the Government as their owner. In order to improve the SOE performance was established by the Government, in 2017, UASE- State Owned Enterprises Unit, at the Ministry of Finance, a Unit who has the mandate to monitor and oversight the SOE Sector.

However, the Government is aware of the need for a profound reform in the Sector in order to assure better performance, financial and non-financial on these public companies, believing that this will represent a reduction in the fiscal and budgetary

risk they represent, creating a new dynamic on the economic environment, creating new business opportunities and more employments. This is one of the priorities of the current Government.

Currently the SOE Sector in Cabo Verde is composed by 34 entities, in different sectors. In 2017 the Government launched a Restructuring and Privatization list including the most strategic companies of the SOE portfolio. With this decision the Government selected the companies it wants to be analyzed in order to decide which of them should remain public, however with more efficient *modus operandi*, and those which no longer needs to be under the state ownership that could be considered for privatization in a way to extract more value for society.

Although, is crucial that all the SOE's, improve their performance and in the other hand that State improves its control mechanisms as a shareholder, as a way to prepare the listed companies with privatization potential for it and to improve the efficiency levels of those companies that will remain public.

Bearing this in mind and in order to achieve this important goal of divesting in some strategic companies and also to improve their levels of governance in regards to all SOE's, the Government seeks to have a deep assessment on the SOE's sector, in order to establish a new governance policy rules, which will include the definition of clear goals and KPI's, for each company and its Board, defining valuation mechanisms and tools and also review the legal and regulatory framework applied to the this sector.

Objectives

This assignment is to assist the Government of Cabo Verde, to elaborate and validate a SOE policy that should clearly outline the government ownership policy, the strategic objectives of individual SOEs, including any relevant performance targets, as well as clear corporate governance and transparency and reporting standards of SOEs as well as regulatory functions.

The scope will also include a review of current ownership arrangements with a view to identify opportunities to further strengthen portfolio management the, definition and implementation of a corporate governance framework in regards to the SOE's, in order to as a way to ensure the growth of public enterprises not only in terms of finance but especially as regards the quality of services they provide to the country. Many of them because of their size and importance end up being confused with the very sector in which they act. The Government believes that with the identification of strategic buyers, with know-how and financial capacity, many of these companies can improve their performance, being more efficient, thus contributing to the promotion of their specific field and thus, create new investment opportunities and consequently create new and more jobs.

This assignment will consider three main areas that must be worked in parallel during the progress of the works, considering the best practice in the world related to SOE's:

- Institutional and Legal and regulatory framework with a focus on the Government's ownership function and arrangements to make it operational;
- Development of a Government ownership policy. The Policy should outline the objectives for state ownership, as well as its expectations for individual companies and agencies in terms of their performance and adherence to general corporate governance principles,
- Improving the Oversight function: support the state ownership unit in fulfilling its role in supervising and supporting SOEs, notably in (a) improving reporting; (b) ensuring active engagement with SOEs through regular meetings and participation in annual shareholder meetings, including prior preparation and research and development of government position on key decisions; (c) active input into the Executive Board nomination/selection process; and (d) strengthening the SOE unit technical expertise through regular international advisory services
- Strengthen Executive Board Capacity
- Financial and non-financial goals and KPIs for SOE's
- Performance Valuation mechanisms (tools and methodology);
- Reporting system (relevant information/periodicity/tools-templates);
- Privatization/Concession and Restructuring options/recommendations.

In addition, the consulting firm is expected work closely with the Government representatives, to providing advisory support during the entire process, from the analyses of the scenarios, all this implications proposing mitigation measures, recommendation and the implementation of the approved options. Training programs and seminars are expected in order to facilitate the implementation of the strategy proposed.

Tasks

The scope of work for the consulting firm will include the following specific tasks:

Task 1 - In regards to the institutional legal and regulatory framework the consultancy firm is expected to:

- Assess the legal and regulatory framework in force in Cabo Verde applied to SOE's;
- Present a proposal to improve the current legal framework, and a timetable for implementation should be presented.
- Draw up all the legal documents (Law, Decree-laws and other request legal

documents) necessary submission and approval of proposed changes proposed;

- Present and supports the UASE team on the implementation plan of new legal and regulatory framework. This action plan must include socialization seminars.

Task 2 - In regards to the governance the consultancy firm is expected to:

- Design and implementation of a systems (tools and methodologies) to evaluate the performance of SOE's in relation to the financial and non-financial goals established by the shareholder;
- Definition and implementation of reporting instruments to be used by SOEs. Definition of a reporting schedule to be complied with by SOEs, defining the main information to be provided in each period;
- Definition of a clear, transparent system to appoint, evaluate and compensate the members of the Boards of Directors;
- Definition of compensation system and attribution of incentives to the members of the Boards of Directors and based on the best international practices;
- Training of the UASE and SOE teams in the use of all the proposed instruments (training programs and seminars);
- All the proposals done in regards to governance have to be aligned with the legal and regulatory framework proposed.

Task 3- In regards to privatization/Concession and Restructuring Agenda the Consulting firm is expected to:

- Assess the Privatization Agenda approved through the Resolution 87/2017 from August 3rd, (companies to be privatized / concessioned / restructured) and the propose inclusion or exclusion of companies from that list considering the universe of SOE's;
- Recommendations regarding the best option to be adopted (privatization/concession or restructuring) in relation to each of the entities included in the list of SOEs and indicated by the client. Recommendations must be presented in a meeting with the Government representatives;
- Preparation of an action plan (activities and timetable) taking into account the impacts of each process on the country's development process;

The selected consultancy agency is strongly advised to propose their own methodology, to improve the quality of the work. The methodology of work proposed will be subject of discussion with the client

Organization of the assignment

The winning firm or consortium shall undertake the assignments in close consultation with the UASE – Unidade de Acompanhamento do Sector Empresarial do Estado (State Owned Enterprises Oversight Unit) and work directly with a Task Force established for this process by the Minister of Finance. UASE and Task Force shall follow and support the assignment.

The Consultant will report to Unidade de Gestão de Projetos Especiais (UGPE) for the contract management aspects.

Each bid is expected to be detailed with the activities, time allocation of each expert, and costs, clearly outlined by stages.

Time and Deliverables

The assignment is expected to take about 5 months to complete.

The following outputs/deliverables are expected from the various tasks during the engagement:

- a) Deliverable 1 - Inception Report which include a description of the methodology for carrying out this consultancy. Legal and regulatory framework assessed, and all the documents prepared for submission and approval (In English and in Portuguese). Socialization seminars concluded (two months after the contract signature.);
- b) Deliverable 2 - Task 2: All tools implemented and training program and seminars concluded (2 months after the approval by the client of the deliverable 1).
- c) Deliverable 3 - Task 3: Presentation of the results and recommendation of the Privatization/Concession and PPP Agenda assessment to the Government (1 month after the approval by the client of the deliverable 3);

Qualification of the company the consulting firm

The assignment will require a consulting firm with at least 15 years of experience with a multi-disciplinary team of experts with experience in legal, regulation, financial, SOE's Governance, Privatization and PPP's. They should also have experience in working on similar projects and countries.

The team should be comprised of the following key experts:

- Team Leader – must have at least 15 years of experience and, at a minimum, a Master’s degree in finance, economics, business; should have management experience in similar projects and reforms of SOEs;
- Technical Expert (Privatization and PPP’s) - must have at least 10 years of experience in Privatization and PPP’s and, at a minimum, a Master’s degree in economy and related fields; should have both a technical and management background with excellent understanding of privatization and PPP’s processes.
- Financial Expert- must have at least 10 years of experience in in finance, economics, business administration, and/or accounting; extensive experience in business and asset valuation, financial modeling, and accounting and, at a minimum, a Master’s degree in finance, economics, business administration, and/or accounting; extensive experience in business and asset valuation, financial modeling, and accounting with respect to public company’s governance.
- Legal Expert- must have at least 10 years of experience and, at a minimum, a Master’s degree in Legal, with relevant knowledge on local legislation and experience in supporting and the drafting and legal documents like decree-laws, laws and other documents need in similar processes;

Contract Types

A Lump-Sum form of Contract shall be signed, payments of the Consultant remuneration are linked to approval of deliverables, and the payment of reimbursable expenses are made upon presentation of the receipt of the expenses occurred at the real cost.