



Investment Series 2007

Mozambique



Mozambique has come a long way within a short space of time. In less than 15 years it has moved on from its long period of internal conflict to become a stable democracy with an increasingly liberalized and fast-growing economy. Compared to most African countries, Mozambique is an island of peace and prosperity—hospitable, friendly, and open to international investment.



INTERNATIONAL INVESTMENT GUIDE

Africa's Rising Star

Mozambique has left its troubled past behind and is now enjoying an era of stability and rapid growth, with the economy expanding above 8% each year, giving fresh hope to one of Africa's most promising economies.



When Bob Dylan sang of the joys of newly-independent Mozambique 30 years ago—of its glorious white sand beaches and the natural warmth of its people—he was a little too far ahead of the game. The sudden exodus of Portuguese citizens left a skills gap that the new FRELIMO (Front for the Liberation of Mozambique) government, made up largely of former independence fighters, struggled to fill.

Then the country's descent into civil war delayed much-needed improvements in health, education, and infrastructure. The only constant through those years of turmoil was the warmth, hospitality, and national pride of ordinary Mozambicans—human qualities that remain to this day.

Over the last decade, however, Mozambique has moved into a new era of stability and rapid growth. The economy has been expanding above 8% each year, presenting an array of investment opportunities from mega-energy projects to transport infrastructure and tourism.

"We want to continue developing what we have built around sound monetary policies," says President Armando Guebuza, "maintaining this growth rate or even going beyond it, because without growth we cannot solve the problems of poverty."

Poverty eradication remains a priority and, along with improving health and educational facilities, this is now being addressed through more focused development programs. Yet these social goals are being combined with pragmatic fiscal economic and regulatory reforms to bring inflation under control, increase revenue collection, and curb low-level corruption among the police and customs services.

Mozambique is richly endowed with natural resources including coal, natural gas, and hydroelectricity, and these are

now being developed through international agreements and public private partnerships. Major investments include the Mozal aluminum smelter and Sasol gas exploration projects. The country's political stability and security is a plus point, and the Interior Minister, José Pacheco, is determined "to make security a competitive advantage to attract more investment."

President Guebuza is also looking to a 'green revolution' in agriculture, with further investment in rural banking enabling farmers to buy improved seeds and upgrade irrigation. Agrobusiness is already growing at double-digit levels, while the immense and largely untapped potential of Mozambique's mineral extraction and energy industries is now open to further investment.

Guebuza's government is prioritizing small and medium-sized enterprises (SMEs), especially those applying simple and appropriate technologies to add value. Working in partnership with the private sector, the government is building a more attractive environment for investment with reduced set-up times and transaction costs for SMEs and other businesses.

Tourism plays an important role in generating employment, and a growing number of international investors are being attracted to Mozambique's world-class beaches, pristine marine life, and magnificent national parks and game reserves. Investment in tourism has grown by 50% year-on-year in recent times, drawing more foreign investors than any other sector.

Foreign investment has already brought capital and expertise to developing the country's natural resources and has helped local companies improve their global competitiveness. With further inward investment and improved access to world markets, Mozambique is well on course for sustainable growth. ■

A Conduit for Trade

For too long, insufficient transport infrastructure has hindered the economic potential of Mozambique and held back the development of its ports as natural export terminals for neighboring African countries. Now, plans to enhance the capabilities of Maputo and other Mozambican ports will tie in with a major initiative to build three transport corridors, providing exciting opportunities for international investors.

President Armando Guebuza has identified transport infrastructure, including the expansion of seaports, as one of the four main areas with the strongest opportunities and where investment is most needed. So new strategic transport corridors are being created, not just to facilitate internal communications but to provide more direct transport links between neighboring landlocked countries, such as Malawi or Zimbabwe, and Mozambique's ports.

In the south of the country, the Maputo Corridor is being built around the upgrade of both road and rail links from the South African border, as well as a major expansion of loading facilities and associated infrastructure at Maputo's port. This will enable many South African exports to reach a major international seaport by a far more direct route than at present, when they have to travel far south through their own country to Durban and other ports like Richards Bay.

The northern corridor is intended to provide access for landlocked Malawi and Zimbabwe exporters to Mozambique's ports, notably Nacala. Again, the key to unlocking new transport routes is investment in highway infrastructure, for which special concessions are available. The same is true of the central corridor, which has the important port of Beira as its terminal.

"We have three main concessions covering ports and railway systems," explains Transport and Communications Minister Antonio Munguambe. "One in the south, one in the central region, and one in the north of the country, each of them operated by a different international company." Private companies, he adds, seeking to invest in Mozambique's transport infrastructure, would do so in conjunction with these concession-holders.

In terms of expanding volumes of exports, Maputo has the most immediate potential. "The region of South Africa bordering Mozambique is rich in minerals which they want to export through Maputo Port," says Munguambe. "The same is true of South Africa's production of cars for the international market." Which makes this an opportune time to invest in upgrading the terminal and port facilities of Maputo.

"With the terminal for loading minerals, we need to modernize existing equipment and expand the range of lines to accommodate different types of wagon and load," says Munguambe. "We also need to build new terminals for car exports, fruit, and other specific products, as well as expanding the container terminal. So there is a huge opportunity for growth in Maputo Port."

Jorge Ferraz, CEO of Mozambique International Port Services (MIPS), agrees that these are exciting times for Maputo. "We manage the container terminal and were one of the first

concessions that allowed the private sector to participate in the restructuring of CFM, the national ports and railway company."

Now 60% owned by Dubai Ports World—one of the top three global operators of port terminals—MIPS is, according to Ferraz, "Looking to expand into other ports in the region and achieve major regional growth."

And as Mozambique's ports are expanding to handle large export volumes, leading shipping company Navique is moving to "consolidate its position as a major player in short-distance sea-shipping in the East African coast markets," according to its General Director, Sebastiao Figueredo.

As well as improving the shipping services linking Mozambique's ports with Durban in South Africa and, less regularly, Tanzania, Kenya, and the Indian Ocean islands, Navique's 'second stage' of expansion is to compete with international shipping companies by operating as a liner company between Europe and southern Africa. Yet another sign of Mozambique's new-found confidence. ■

"There is huge opportunity for growth in Maputo Port."

Navique, S.A.R.L.
YOUR DOOR TO MOZAMBIQUE

The frequency, regularity and reliability of the shipping services we provide are the trademark of our company, along with our increasing vocation for supplying feeder and door-to-door services.

In Maputo we manage our own terminal TCM with a total area of 30.000 m², 300m quay and 10.000m² on warehouse capacity.

We also provide Shipmanagement & Crewing services through our affiliated company S&C Mozambique.

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Energy for the Future

Mozambique stands on the brink of a new era of energy self-sufficiency. The transfer of ownership of its main hydro-power complex on the Zambezi River, and the development of new resources—hydro, bio-fuels, and coal-based energy—will make it an African power-house and open up new opportunities to investors.

Mozambique has huge energy resources, the export of electricity to neighboring countries like South Africa and Zimbabwe being the second largest earner of foreign exchange. Yet its domestic electricity distribution network stands in need of major development before most of the population, especially in rural areas, can be assured of access to affordable energy and the economic and lifestyle benefits that this brings.

The country's greatest energy resource is the Cahora Bassa hydroelectric complex built around a giant dam on the Zambezi River. Until recently this remained under Portuguese control, held against a basket of debts owed by the Mozambican government. But the settlement of these obligations means the process of transferring this resource to national ownership can begin.

"Right now we are in a transition phase," says Dr. Manuel Tomé, who joined Hidroeléctrica de Cahora Bassa (HCB) in 2003 as 'a defender of Mozambican stakeholders' interests.' The protocols have been agreed, US\$250 million have already been repaid to Portugal, and upon payment of the remaining US\$750 million, the administration of the company will be mostly Mozambican.

"At this stage," Tomé says, "what needs to be done is the validation of financing proposals by some banks." But he is confident that will go smoothly since "HCB is a highly profitable company which produces clean, high-quality energy."

The re-acquisition of HCB is of enormous symbolic importance to Mozambicans. When the deal was announced the local headlines screamed: "It's ours!" It stands as proof that Mozambique now has the financial strength to honor old debts and, with greater self-sufficiency in energy, is able to control its own future.

That future will almost certainly mean building another hydro-power station in the north of the country, possibly more on the Zambezi, and extending the electricity infrastructure to rural areas. "We want to attract investment in energy," affirms President Armando Guebuza, "especially clean energy."

But hydro is not the only energy source waiting to be developed. As the Minister of Energy, Salvador Namburete, points out: "We have important reserves of coal and appropriate conditions for the cultivation of sugar and other crops like

cassava, which could be developed for bio-fuels." Mozambique's climate, he adds, is very similar to that in Brazil where bio-fuels are a major and fast-expanding industry that generates much new employment in rural areas.

"The development of our energy resources will lead to a reduction in poverty and improvement of the quality of life for the population," says Namburete. "But to achieve that, we need first to reduce the cost of transporting energy to rural areas and ensure that the population has access to that energy."

"Mozambique has great potential in terms of energy," he says, "but up to now there has been a lack of access to modern resources. Here, the role of international co-operation is to ensure that, in future, Mozambique can benefit from its natural resources. The government, the private sector, and international partners have to combine their efforts to make that possible." ■

"We want to attract investment in energy, especially clean energy."

President Armando Guebuza



Hydro-power: a valuable energy resource

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Container Terminal Port of Maputo

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Port of Maputo

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moçambique

A Platform for Growth

Mozambique has reached a stage in its economic development where demand for infrastructure services, combined with increased openness to international partnerships, is creating a whole range of new investment opportunities. Major projects under way range from water supply and transport infrastructure to tourism-related services, and many of them are now operated either directly by international players or in partnership with Mozambican agencies and companies.

Mozambique's fast-growing market for infrastructure services is increasingly open to foreign investment. The demand is there and, as Interior Minister José Pacheco points out: "Both physical infrastructure and service provision need to be improved in order to build on competitive advantages that, through a virtuous cycle, will then attract further investment.

"We need to improve our services," he says, "to expand and improve our road and water supply infrastructures, and to build further accommodation for tourists and business visitors coming to Mozambique." Yet, in contrast to many African countries, all the key infrastructure elements and support services are in place and are becoming steadily more sophisticated, especially in the cities and urban areas.

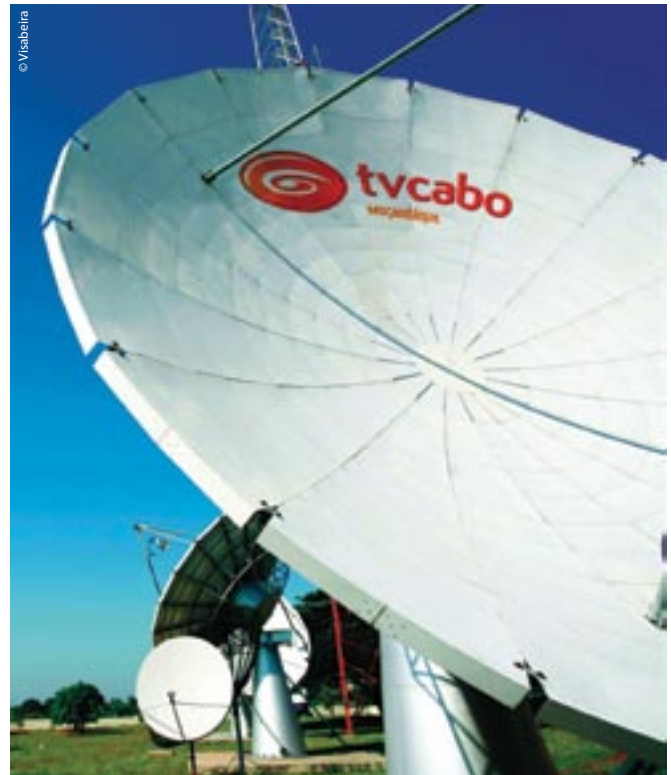
Telecommunications coverage is expanding fast with two mobile operators now competing in the country. The main priority, according to Transport and Communications Minister Antonio Munguambe, is to "reduce the digital divide" by extending fixed line and mobile coverage to rural areas. "Our target is to reach 85% of the population by 2009," he declares, "and these projects are under implementation."

An increasing number of services are now operated under concession by international companies, many of them Portuguese. A good example is Águas de Moçambique (AdM), part of Águas de Portugal, which won an international tender from the state water agency FIPAG to operate water supply in Maputo and Matola as well as fulfilling technical assistance contracts in four other cities.

"I think Águas de Portugal is committing a lot to this operation," says AdM's General Manager, Manuel Fernandes, "to develop our capacity to operate in Africa and make Mozambique a platform for expanding our business throughout the region."

Another major investor is Visabeira Moçambique, part of the broad-based Portuguese Visabeira Group of service companies, which has been active in Mozambique for nearly 15 years. During that time it has expanded its presence in Mozambique to cover a diversified range of activities ranging from TV and telecommunications (through local operators such as Tvcabo Moçambique, Televisa, and Sogitel) and rental and financing services, to industrial companies, real estate, hotels, and other tourism services, including restaurants and catering.

Much of this has been achieved by seeking local partnerships in strategic sectors, and adding value to local resources through technology transfer and by training up Mozambican personnel to internationally accepted standards.



TV and telecommunications are expanding fast in Mozambique

Finding qualified human resources is very much the focus of Select Vedor Mozambique, part of the leading international staffing services company Vedor NV which, like many other global companies, saw Mozambique's fast-developing economy as an opportunity to invest.

Mozambique's financial services have been opened up to international banks, to date mainly Portuguese or South African-based, and combined with an increasingly rigorous supervisory regime have contributed to a more robust financial system. Similarly, the adoption of International Financial Reporting Standards (IFRS) brings transparency and risk supervision fully in line with international standards.

A one-stop investment support service, the CPI (Investment Promotion Center), has been established to assist foreign companies with procedures and information concerning tax incentives and duty-free imports of capital goods. The CPI is likely to be in high demand in the coming months given the increasing international appetite for doing business in Mozambique. ■



HCB has the reaching capacity of 2075 megawatts. Its supplies the Mozambican market and exports for neighbouring countries such as South Africa and Zimbabwe, and it is also working on exporting energy to Malawi.

HCB has as its priority for the near future, to double its energy production capacity.

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