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Investment Climate Update: Mozambique

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FAST FACTS:

Mozambique has been politically stable and steadily growing since 1992, marking the end of nearly 16 years of civil war following its independence from Portugal. The country's economy is predicted to undergo a radical transformation over the next decade due to its large untapped reserves of coal and natural gas.

- Since 2000, Mozambique's GDP has grown on average 8% per year, one of the highest growth rates for nonpetroleum economies in Sub-Saharan Africa.
- India's Jindal Steel and Power announced in 2011 to invest in a $3 billion coal-fired power plant, operational by 2015, to help bolster the much-needed electricity infrastructure in Mozambique's Tete Provence, the nation's leading coal mining region.
- Mozambique's primary exports include aluminum, electricity, and tobacco, which totaled $2.77 billion in 2011, a 19% increase from 2010.
- Inflows of foreign direct investment (FDI) to Mozambique doubled from 2010 to 2011, to $2.09 billion, driven by strong growth in the agriculture, energy, and mining industries.

Growth and Potential in Mozambique's Natural Resources

FDI is flowing into the Mozambican economy, as huge export potential is seen in the country's vast coal and gas reserves. Dozens of private firms are operating in the region through the planning, developing, or constructing of megaprojects.

High-Growth in Coal Production

The Tete Province, along Mozambique's inland border, has the potential to produce and export 25% of the world's coking coal by 2025. To efficiently transport coal exports, infrastructure projects in three main corridors to key port cities Beira, Maputo, and Nacala are being implemented through the public and private sectors. Mozambique's strategic location gives it access to the growing economies of Brazil, China, and India, which are expected to be future high-demand economies of coal. In 2011, 30% of the world's energy sources came from coal, and by 2035 world coal use is expected to double.

While aluminum makes up more than 50% of Mozambique's total exports, coal is projected to become its primary export within the next decade, as the industry is gaining rapid investment and development. The Mozambican government announced that it is seeking investors for a railway and port development project worth $2 billion. The proposed 525 km line from the Tete Province to the port of Macuse will be able to transport 20 million tons of coal per year. Mozambique's state-owned Portos e Caminhos de Ferro de Mocambique (CFM), which oversees the country's rail and port systems, has several additional planned infrastructure projects to help boost the needs of the coal rush. Upon expected completion of the projects in 2017 at a cost of $12 billion, total export capacity will be 120 million tons of coal per year.

Natural Gas: The New Frontier

In addition to coal, Mozambique also has huge amounts of offshore natural gas reserves along its northern coast. These reserves may be one of the most significant discoveries of natural gas in the last decade. Combined current discoveries of natural gas reserves by the U.S. energy company Anadarko Petroleum and ENI, an Italian oil company, total more *(story continues on page 3)*

INSIDE:

Government Reform and Infrastructure Investment

According to the World Bank's 2012 Ease of Doing Business report, Mozambique ranks 146th out of 185, slightly above the average ranking for Sub-Saharan Africa. Divided into 10 indicator measurements, Mozambique enjoys a much higher ranking for "Starting a Business," 82nd out of 185; however, its "Getting Electricity" ranking is poor at 174 out of 185. This signals a gap in the progression of government reforms and infrastructure challenges.

Reforms in the financial and banking sector and the regulatory business environment are taking shape. While challenges remain in the management of public institutions, such as rampant corruption, improvements in business licensing and regulation, taxes, and customs services are being seen. Efficiencies in the regulatory framework include a decrease in the amount of time needed to start a business and reductions in the cost of completing licensing requirements. Better tax collection and management have greatly increased the government's revenue base. In August 2012, Standard & Poor's maintained its B+/B sovereign credit rating for Mozambique, citing the country's stable political situation and strong economic growth.

The Mozambican government is committed to increasing public infrastructure investment in order to keep foreign investment competitive and attractive. In 2011, it launched the $1.8 billion CESUL (Center-South) project, which is expected to bring a high economic return and improve the business climate. CESUL is a joint endeavor with the World Bank and other private and public investors aimed to provide the backbone of the country's power grid through the construction of the north-south Tete-Maputo Power Transmission Line. ★

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(from page 1) than 100 trillion cubic feet (Tcf). This suggests that Mozambique has the potential to become the world's fourth largest exporter of liquefied natural gas (LNG), behind Russia, Iran, and Qatar. The value of the discoveries could hold as much as 30—40 times the current GDP of Mozambique.

In 2005, Mozambique's hot spot of natural gas reserves, located in the deepwater Rovuma Basin, was auctioned off into blocs of territory for oil exploration and discovery. Texas-based Anadarko won the bid for Area 1 and has since invested more than $1 billion in its oil and natural gas exploration projects in Mozambique. To date, the firm has drilled more than 10 wells, with estimates of 17—30+ Tcf of recoverable natural gas.

Anadarko's success in its exploration in the offshore Area 1 has advanced its prospects to begin long-term production activities. Anadarko is the largest U.S. investor in Mozambique and is in negotiations with the Mozambican government and its partners to secure a final investment decision by early 2013 to develop a large-scale onshore LNG production plant. Anadarko predicts that the cost to build the LNG facility with a two-train system capable of producing 5 million metric ton per annum is around $15 billion. It is estimated to become the largest foreign investment project ever made in Mozambique, overshadowing the MOZAL aluminum smelter project in 2000.

Operations for Anadarko's LNG plant are forecasted to begin in 2018. Upstream activities are still being conducted in the area by ENI, which holds a contract for Area 4, adjacent to Anadarko's Area 1. ENI's discovery in May 2012 has estimates of natural gas reserves totaling upward of 70 Tcf, more than double Anadarko's findings. ENI plans to invest nearly $50 billion in developing its gas discoveries in the region.

In early 2012, Anadarko and ENI participated in discussions on the possibility of joining forces to build the onshore liquefaction plant, as well as combining their efforts in the continuing offshore development of the resource-rich area. The Mozambican government is encouraging foreign and domestic investments in infrastructure to support the rapid development of its energy sectors. ★

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Incentives for Investment: Economic and Industrial Free Zones

The Investment Promotion Center (CPI) and the Special Economic Zones Office (GAZEDA) are the two bodies in the Mozambican government that help facilitate and support international investment. Created in 2009, GAZEDA oversees the management of Mozambique's Special Economic Areas (ZEE) and Free Industrial Areas (ZFI). Firms operating in these areas enjoy exemptions in customs duties on the importation of machinery, building materials, parts, equipment, and other goods that contribute to their operation, as well as a value added tax (VAT) exemption on domestic purchases. GAZEDA manages three economic zones: Nacala Special Economic Zone, Beluluane Industrial Park, and the Manga-Mungassa Special Economic Zone, which was added in 2012. The government plans to establish additional economic zones to provide incentives for both foreign and domestic investors. ★

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Opportunities in Agriculture

The Mozambican government is actively engaged in improving productivity and infrastructure in the agriculture sector. The Ministry of Agriculture's Agricultural Sector Development Strategic Plan (PEDSA) was introduced in 2010 with the goal of doubling agriculture production and strengthening agriculture exports in this decade. One of the objectives of PEDSA is to create "a favorable environment for the private sector to invest in production, processing and marketing, through infrastructures, incentives, improving the legal framework, and providing public services."

The agriculture sector dominates Mozambique's economy, employing more than 81% of its labor force, and it contributed 32% to national GDP in 2011. Primary exports include cashews, sugarcane, tobacco, and cotton. Sugarcane production is growing rapidly from 386,000 tons in 1998 to a forecasted 4 million tons in the 2012 and 2013 market year, driven by new investments and increases in the efficiencies in four of Mozambique's large-scale industrial sugar mills located in the Maputo and Sofala provinces.

Further investment and competition is being generated by the Biera Agricultural Growth Corridor (BAGC) initiative, a joint partnership with the Mozambican government, private investors, and international agencies. The Biera corridor is one of the most important transportation routes in Southern Africa, linking landlocked Zambia, Malawi, and Zimbabwe to the bustling Mozambique port city of Biera. The BAGC initiative seeks to expand agriculture and agribusiness in this increasingly important area. Only 3% of more than 10 million hectares of arable land in this area is being farmed for commercial purposes. A report by the BAGC initiative shows how the development of agriculture-supporting infrastructure in the region, such as irrigation systems, grid-connected electricity, and all-weather feeder roads, could help bring $1 billion in private investment and create more than 350,000 new jobs. ★

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