INVESTING IN MOZAMBIQUE 2010

The conference is supported by

Foreword

THE PRESIDENT OF THE REPUBLIC ARMANDO EMILIO GUEBUZA

It is with great pleasure that I welcome you all to the Mozambique-UK Investment Promotion Forum in London. The hosting of this event provides an eloquent statement that Mozambique is, indeed, open for business and that she is keen to attract volumes of foreign capital to develop our national resources.

The United Kingdom has been a key, longstanding partner in our political, social and economic development. The support that the Government of Great Britain and Northern Ireland provides played a pivotal role in assisting us to lay the foundations for our sustainable development. The British private sector is also playing a significant role in our bilateral relations and in Mozambique's development. In recent years, the United Kingdom has been among the top origins of foreign investment in Mozambique, as many firms from this great country participate in different sectors of our economy and take advantage of the expanding opportunities that it continues to offer.

This is the reason we seek to encourage and nurture initiatives such as today's forum, in the hope that through them we can generate an even greater involvement of British corporations in our development through partnerships that produce mutually beneficial outcomes for the prosperity and well-being of both countries and their peoples.

We pride ourselves on being 'the Pearl of the Indian Ocean', given our immense potential and the many business opportunities we offer in a friendly business environment. Sectors such as transport and communications, agro-business, tourism, electricity and communications, agro business, tourism, electricity generation and transmission, renewable energy, ports and railways, mining, banking services, hydrocarbon exploration and infrastructure development present immense opportunities for investment.

Our government is playing its part fully by continuing to build and sustain a sound macroeconomic environment, refining and giving professional thrust to our public institutions and investing in necessary resources into wealth. Through this process we also seek to derive substantial benefits from economic growth.

We are particularly pleased that this important event is the outcome of a partnership between the High Commission of the Republic of Mozambique in London, Africa Matters Ltd and Developing Markets Associates. This is a true example of the public-private partnerships that we pursue in the implementation of our development agenda.

I would like to invite all potential investors to look seriously at Mozambique as we expand and diversify our economy and strive to make poverty history and build a prosperous nation, always united and peaceful.

Finally, we would like to express our gratitude to all those who contributed to make this forum a reality.

The President of the Republic,
Armando Emilio Guebuza

Introduction

HENRY BELLINGHAM MINISTER FOR AFRICA

It is my pleasure to welcome you to the first UK-Mozambique Investment Forum. It is also an honour to welcome to London Mozambique's Foreign Minister, His Excellency Oldemiro Baloi. The Forum aims to raise awareness of business opportunities and encourage UK investment in Mozambique.

In 2009 UK exports to Mozambique totalled £104m and UK imports £63m and a number of leading UK and LSE-listed companies are already present in Mozambique, including BP, Rio Tinto, G4S, SABMiller, BHP Billiton and PWC. I am pleased to note that the Minister is leading a strong delegation which underscores the Mozambican government's commitment to attracting inward investment.

Mozambique is a Southern African success story. In the 17 years since the end of a long and devastating civil war, the country has enjoyed impressive economic growth, supported by sound macroeconomic policies and international assistance such as the UK's Department for International Development (DFID) which has a significant in-country development programme (c.£70 million in 2010). Mozambique's economy has largely weathered the global economic downturn with annual average GDP growth of over 8%. In fact In macroeconomic terms Mozambique's performance over the past 15 years has been little short of stellar, and it has a real prospect of graduating to middle-income status over the next couple of decades.

The UK government believes in the importance of bilateral trade and investment and today is an opportunity to understand the depth and breadth of business opportunities in a key sub-Saharan African country and to engage with the Mozambican delegation on the vital role the private sector can play in the country's continued economic growth. British business and expertise has much to offer Mozambique and is already among the leading foreign investors in the country. I can assure you that the UK government supports British business but it is up to you, the private sector, to seize the opportunity to invest.

Today we will hear about opportunities in energy and infrastructure development. Mozambique has abundant unexploited mineral wealth, particularly coal, gas, and oil. These will be the key growth driving sectors over the coming years – within 15 years it should be Africa's second largest coal producer (after South Africa) and one of the largest coal exporters in the world. Mozambique is also an important regional transport corridor that links the southern African hinterland to the country's major ports of Maputo, Beira and Nacala.

Mozambique is also developing other sources of revenue such as agribusiness and tourism. She is blessed with spectacular scenery, ranging from breathtaking Indian Ocean beaches to sweeping savannas populated with an abundance of wild life; natural gifts such as these make the country an appealing top-end tourist destination for visitors from around the world. And with an estimated 36 million hectares of arable land available for crop growing, Mozambique is well placed to help address increased global concern about food security.

The purpose of this investment forum is to inform the business community about Mozambique's potential. It is already an attractive investment destination for many international companies; and investment opportunities look set to increase.

I would like to thank Minister Baloi and others in the Mozambican government for having the vision to support this investment forum. I would also like to thank the organisers for their sterling efforts in making the forum a reality. Finally, I wish you all a successful and fruitful conference and I hope that you will forge business relations that will flourish during the coming months and years.

Henry Bellingham,
Minister for Africa

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DMA and AML acknowledge the assistance of all the individuals and organisations who have contributed to this publication.

Published by Developing Markets Associates Ltd (DMA)
Printed by Woodrow Press
Picture credits: Joel Chizane, Naita Ussene, istockphoto.com

Economic overview

BY MOIN SIDDIQI, ECONOMIST

Mozambique, as a frontier emerging market economy, boasts great potential over the coming decade. Following the cessation of hostilities in 1992, the former Portuguese colony successfully embarked on a series of reconstruction and economic reforms initiated by its then president, the highly respected President Joaquim Chissano, which are now bearing fruit. Economic growth averaged about 8% per year during 1996-2009, a trend similar to the dynamic East Asian economies in the 1980s and comparing very favourably with its sub-Saharan African peers.

Strong commitments to macro-prudential policies and social stability have attracted large inflows of foreign direct investment (FDI) in recent years and have been underpinned by donor confidence. To date, Mozambique has held four peaceful general elections (1994, 1999, 2004 and 2009). A continued period of tranquility, thanks to national unity, has made Mozambique a 'role model' for post-conflict states. It has achieved the necessary criteria for sustainable economic recovery by scaling up infrastructural development (from scratch), assuring citizen security, tackling poverty and protecting property and private investment, as well as offering incentives for foreign investors. "The Mozambican state is moving from a state-enabler to a state-entrepreneur", said Professor Castel-Branco, a prominent economist and opinion leader.

Nominal gross domestic product (GDP) swelled by four-fold over the period 2000-2009 and is projected by the International Monetary Fund (IMF) to reach 306bn Metical (MZM) around US$ 8.6bn in 2010, representing a compound annual growth rate of 37% (see table 1). The World Bank commented: "Mozambique has emerged from decades of conflicts to become one of Africa's best-performing economies. The country has enjoyed a remarkable recovery – the highest growth rate among African oil-importers. This resulted in more than 3 million people being lifted out of poverty over the same period." Since the mid-1990s, the International Development Association (IDA), the soft lending arm of the World Bank Group, has committed US$4bn in support of over 60 socio-economic projects in Mozambique.

Building stronger buffers

Mozambique has proved resilient during the past two years of global and regional slowdown. The spillovers from external shocks were mitigated by sound macroeconomic fundamentals – reflected in declining fiscal and current account deficits, adequate reserve levels – equivalent to five months of imports – a low/manageable public debt burden and single-digit inflation. Supported by these buffers, the government was able to implement fiscal-monetary stimuli in the form of higher public spending and lower interest rates, which served to preserve its national development efforts, whilst facilitating private sector credit expansion.

The IMF noted: 'Those countries that had improved their policies most during the pre-crisis period were able to mount the strongest counter-cyclical responses, thus successfully limiting the decline in output.' Thus, Mozambique in 2009 still registered an impressive 6.3% output growth, whereas the Southern Africa Development Community (SADC) region as a whole contracted by 0.4%, based on IMF figures. Brisk commercial activity was spurred by the construction, services (notably financials and telecoms) and energy sectors. For 2010, real GDP growth is projected at 6 5% – again exceeding the SADC's average of 3.9%.

Some four million Mozambicans are now connected through cell phones thanks to the liberalisation of the sector. While capital spending provided continuous work for contractors on key projects, such as the US$506mn basic infrastructure project in four provinces (Cabo Delgado, Nampula, Niassa and Zambezia), the upgrading of Maputo International Airport and the completion of the Armando Emilio Guebuza Bridge – connecting the south and central regions with the north.

The global financial storm triggered dwindling export receipts from aluminium, natural gas, timber and cotton along with private capital inflows (including remittances), which was, however, mitigated by the IMF's one-year US$176mn Exogenous Shocks Facility (approved in June 2009) and new Special Drawing Rights (SDR) allocations that became effective in September 2009. Concurrently, forex reserves should remain at five months' import cover through to 2011-12.

Mozambique has also benefited in the mid-2000's from the enhanced Highly Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI), achieving a debt reduction from US$7 2bn in 2000 to US$3.6bn in 2009, thus creating fiscal space for development (see table 2). Debt stock as a percentage of GDP was estimated at 36% in 2009, down steeply from 180% in 2000. The debt sustainability should persist over the medium-term.

Achieving the social agenda

Official development aid (ODA), averaging 13% of GDP between 2005-09, remains a major contributor to the national budget. Almost half of ODA to Mozambique from the group of 19 donors, led by the European Union, the World Bank, the African Development Bank, Britain and Sweden, comprises direct budgetary support. For 2010, donor pledges have totalled US$766mn (a slight drop from 2009), of which 75% is in grants and the rest in soft loans.

Mozambique's Action Plan for Relief of Absolute Poverty, known as PARPA from its Portuguese acronym, guides pro-poor strategy. About two-thirds of total expenditure is devoted to high priority areas (infrastructure, health, education, agriculture, rural development and water/sanitation), a third of which is funded by donors. To be tangible, growth should be 'inclusive and equitable' – across the whole country. Development partners' welcome public investments into transport and electricity infrastructure, which will strengthen productive capacity, help to stimulate private sector activity and promote regional trade.

Before the onset of the global crisis – and the ensuing recession in advanced economies, Mozambique was on-track to halving the population living in abject poverty by 2015 in line with the Millennium Development Goals (MDGs). Nonetheless, substantial progress is evident on human development indicators (life expectancy, literacy and per capita income) in the past decade. Net primary school enrolment reached 95% in 2010; there are 1,000 new teachers a year in training. The infant mortality rate declined from 201 per 1,000 live births in 1997 to 90 per 1,000 in 2008. The number of health centres and general hospitals has increased steadily since 2003. The poverty rate also fell from 69% of the population in 1997 to an estimated 45% by 2009. But achieving all 21 targets for MDGs is a daunting challenge, hence the need for increased ODA.

The Africa Infrastructure Country Diagnostics (AICD) estimates that Mozambique needs to spend US$1.7bn a year on public infrastructure over the next decade to catch up with a number other developing nations. Current infrastructure investments from donors and the private sector amount to some US$700mn per annum. The AICD has also identified an annual efficiency gap of US$400mn.

A fledgling banking industry

The banking sector is led by 'the big-four', Banco International de Mocambique, Banco Comercial de Investimentos, Standard Bank (South Africa) and Barclays Bank Mozambique who, between them, control 90% of aggregate banking assets – the sector remains solvent and liquid with a low level of bad debts (see table overleaf). Most of their bank branches are centred in and around the Maputo region.

Ernesto Gove, the Governor of the Bank of Mozambique (BM), explained: "Unlike what happened in other economies we have been following, in Mozambique the international crisis did not have a direct impact on the financial sector, partly because the institutions that operate in our market have a low level of exposure to assets corroded by the crisis and partly because they have an adequate level of capitalisation."

Following recent rapid credit growth, the BM is now closely supervising the activities of lenders and encouraging them to develop a stress-testing framework. The key focus is on the quality of loan ▶

	Financial Soundness Indicators (percent)			
	2003	2005	2007	2009
Regulatory capital to risk-weighted assets	17.0	16.0	14 2	15.1
Nonperforming loans to gross loans	14.4	3.8	0.9	2.0
Nonperforming loans net of provisions to capital	7.9	0.9	15 5	5.3
Returns on assets	1.2	1.8	1.9	3.0
Returns on equity	16.3	27.4	25.1	36.6
Liquid assets to total assets	57.7	55.5	53.3	28.2
Foreign exchange liabilities to total liabilities	46.4	45.3	35 5	33.6

Source: Bank of Mozambique.

portfolios. Moreover, the banks must comply with International Financial Reporting Standards (IFRS) under new directives. It remains vital to expand both product offerings, including mobile banking and penetration by bringing the 'unbanked' population into mainstream banking and providing financing for micro, small and medium-size enterprises (MSMEs) and industrial projects that enhance productive capacity. Presently, only 3-4 million people out of a population of almost 23 million have a bank account.

Popular FDI hotspots

Mozambique's image as an investment destination has improved markedly, leading to a jump in FDI (see table 3). The UN Conference on Trade and Development (UNCTAD) figures put total net FDI during 2000-09 at US$3.5bn. Meanwhile, inward FDI stock has surged from US$1.25bn in 2000 to US$4.69bn in 2009. Aluminum production, energy and extractive industries have received the lion's share of investment. The Central Bank noted FDI has a positive impact on "job creation, promotion of technological progress and the improvement of the external position, both via exports and by replacing imports."

The country has several comparative advantages that appeal to strategic investors. These include its close proximity to Africa's largest market (South Africa), 2,750km of Indian Ocean coastline, rich mineral resources coupled with vast unused arable land. Thus, its unique geographical location in Southern Africa leverages Mozambique's role in regional trade (especially with its landlocked neighbours) as well as providing scope to attract 'vertical' or asset-seeking FDI from transnational corporations (TNCs), mainly in the manufacturing sector.

An export-oriented FDI entails relocating production facilities to the host country and factor-costs such as the availability of competitively priced labour and key raw materials in the home country are important considerations. The output is mainly exported to the investor's home market or other regions. Mozambique offers good conditions for TNCs to use it as a base for their southern Africa operations and access the wider SADC markets of 263 million customers worth some US$467bn. The surging middle-classes and hence increased purchasing power in South Africa and elsewhere offers lucrative marketing opportunities to TNCs.

Under the 2009 Code of Fiscal Benefits, 10 categories of investment are exempt from customs duty and VAT, as well as enjoying partial tax holidays and other benefits such as accelerated depreciation and deductions for professional training.

These include investment in public infrastructure, rural commerce/industry, manufacturing/assembly industries, agriculture/fisheries, hotels/tourism, science/technology parks, mega-projects, industrial free zones, and special economic zones. The minimum capital threshold to take advantage of any guarantees and fiscal incentives is US$50,000 for foreign investments.

Sizeable foreign capital and technical expertise have gone into building a diversified mining industry

Sizeable foreign capital and technical expertise have gone into building a diversified mining industry. Brazilian giant Vale, the world's No.1 iron ore miner, and Ireland-based Kenmare Resources are investing heavily in the coal and titanium sectors. Vale is developing the Moatize basin – ranked among the few unexploited regions for coal reserves – in a project costing US$1.5bn and projected to yield 40mn tonnes of coal per/year, while Kenmare Resources' US$450mn venture focuses on the Moma titanium mine (the world's largest).

Riversdale Mining of Australia and India's Tata Steel also plan to invest US$800mn in the Benga coal mine, which could produce 20mn tonnes/year in the long-term. The country's total coal reserves are estimated at 23bn tonnes. Mineral exports could rise by US$1bn annually when the Moatize coal mine reaches full production. According to official sources, eight new coal mines will be onstream by 2016, of which two should be operational by mid-2011.

Opportunities also exist for majors and independents to capitalise on 'untapped' deposits of gold, precious and semi-precious stones, iron ore, bauxite, beryllium, tantalite, copper, lead and even uranium. The modernised mining code and regulations have strengthened Mozambique's mining legislation on a level with global best practice. The new mining cadastre (with four regional offices) has contributed to the processing of about 1,000 licenses to date.

Mozambique's modest but rising gas reserves have attracted major foreign energy groups, Italy's ENI, Norway's Statoil, Malaysia's Petronas and US independent Anadarko Petroleum. Total natural gas reserves are put at 14 trillion cubic feet (Tcf) – surpassing both the UK's (10.3 Tcf) and Brazil's (12.7 Tcf). The state-owned Empresa Nacional de Hidrocarbonetos (ENH) has allocated US$1.4bn for exploration and development works over 2009-11.

"Tourism has been an unexploited sector so far and we have been undertaking some development in this area," commented the Centro de Promocao de Investimentos (CPI). adding, "We have natural conditions, such as large beaches and parks and that has enabled us to attract more people and more investors." Data from the Mozambican National Tourism Institute shows that visitor numbers reached 1.5 million in 2008 (up steeply from 441,000 in 2003). Tourists, mostly from South Africa spent an estimated US$195mn in 2009, compared with US$95.3mn in 2003. The labour-intensive tourism sector has significant growth potential along the Indian Ocean.

The government is now planning the privatisations of electricity, telecoms, ports and the railways. Commercially viable entities that could attract strategic foreign investors include ENH (responsible for exploration and processing of gas), LAM (the national carrier) and Portos e Caminhos de Ferro de Mocambique (the parastatal in charge of the railways and five ports).

Improving business competitiveness

Mozambique is ranked 126 (up from 140 in 2008) out of 183 countries by the World Bank Doing Business 2011survey. Given this relatively low global competitiveness ranking, the government, advised by the International Finance Corp (IFC), is working to enhance the business climate. Recently, a range of fast-track measures were implemented to ease red tape, streamline the granting of business licenses, improve bankruptcy proceedings, and facilitate cross-border trading – through better customs management and reducing customs duties.

The procedures to form a company have been cut to nine, close to the regional average, and the time for business start-ups was reduced to 13 days – level with developed countries (see table 5). Most significantly, the minimum paid-in capital requirement of MZM 20,000 was abolished in April 2009. Instead, shareholders can now decide on the proper equity of a company. Moreover, a one-stop shop was established for company registration. Registration with the Legal Entities Registrar Office of Maputo takes just one to two days and businesses are free to open and maintain bank accounts in foreign currency.

However, with some peer countries performing better than Mozambique, there is a need for more regulatory reforms, especially in areas where it scores less well such as access to finance, contract enforcement, closing a business and labour laws. Private investments in agriculture depend on reforming the land legislation. All land is considered property of the state and therefore cannot be sold.

The only option is the leasing of publicly held land. Foreigners may lease land provided they have an authorised investment project and the company is registered in Mozambique. Land can be leased for up to 99 years. ▶

Waves of megaprojects

Mozambique is fast developing into a 'project driven' market with lucrative openings for project financiers, engineering, procurement and construction companies, as well as general services providers. The economy's structure will change as 'multiplier effects' of megaprojects (i.e. investments equal or exceeding US$500mn) lead to a larger and more diversified industrial base.

The coming onstream of projects in the natural resources sector will boost tax revenues and reduce reliance on foreign aid over the medium term.

In 2007-09, the total value of projects approved by the Investment Promotion Agency (CPI) totalled US$14.9bn (see table below). The World Bank noted: "If a significant proportion of these projects are realised and well managed, they would have the potential to transform the socio-economic environment in Mozambique and create many thousands of new jobs. However, all authorised projects are not implemented while others are realised over several years' time."

Large projects where works have already started include the US$500mn railway line connecting the coal mines of Moatize with the coast; the construction of Nacala International Airport in Nampula province by Brazilian firm Odebretch; the rehabilitation of Beira port, which also serves landlocked Malawi and Zimbabwe; an expansion of hydroelectric production at the Cahora-Bassa Dam in central Mozambique; the building of a power line backbone between the Cahora-Bassa Dam and Maputo; and the upgrade of the road network (currently only one-third of Mozambique's roads are paved). About US$1bn is allocated for the country's electrification programme – with new power stations planned across the country.

Other mega schemes in the pipeline are the US$5bn coal-mining projects in northern Tete province by China's Kingho miner, new generation capacity of 6,000 megawatts (MW) planned in Tete province, as well as 2,400 MW from the Mpanda Uucua hydro plant on the Zambezi River. Furthermore, a transmission line is planned to connect the vast northern and southern regions.

The most successful foreign venture to date is the US$2.5bn Mozal aluminium smelter – just 17km from

Authorisation & Implementation of Authorised Industrial Projects, 2005-09						
	2005	2006	2007	2008	2009	Total
Number of authorised projects	38	34	66	57	60	255
Number of implemented projects	9	12	13	9	3	46
Number of projects in pipeline	29	22	53	48	57	209
Percent share of projects implemented	24	35	20	16	5	18

Source: Investment Promotion Agency.

Maputo. The smelter uses Aluminium Pechiney AP35 technology to produce over 500,000 tonnes a year of aluminium ingots and is supplied with alumina by the Worsley refinery in Western Australia. The shareholders are BHP Billiton, Japan's Mitsubishi Corporation, Industrial Development Corporation of South Africa and the Mozambique government – holding 47%, 25%, 24% and 3.9% stakes, respectively, in a project that has made Mozambique one of the world's leading exporters of aluminium. In 2009, foreign-owned projects led by Mozal aluminium accounted for 12% of GDP.

Mozambique is considering new financing options to boost infrastructure projects, including private finance initiative (PFI), public-private partnerships (PPPs), external sovereign bond issues, syndicated loans and co-financing from bilateral export credit agencies. The authorities should be cautious that non-concessional borrowing does not undermine fiscal and debt sustainability. Private investment is expected to increase significantly in mining, energy, refining and infrastructure as a series of mega-projects are implemented.

> Mozambique has successfully concluded first-generation reforms that have provided macro-stability and strengthened its resilience to exogenous shocks

Going for optimal growth

Despite robust expansion in the last decade, Mozambique still needs further structural reforms in the areas of tax policy/administration and the deepening of local financial markets; more private investments into the non-resource sector; improvement of the logistics for intra-regional trade; diversifying the export base (aluminium, electricity and natural gas comprised 60% of total exports in 2008); higher agricultural productivity; and improved delivery of public services and implementation capacity in the public-sector. Professor Castel-Branco argued that in order to make the developmental model sustainable, the government should tackle the issue of capacity and endeavour to make sure the state is endowed with the right skills, sound strategies and greater coordination.

The IMF is forecasting an average annual growth rate of 7.8% between 2011 and 2015, mainly due to large new projects and spill-offs from associated services and construction sectors, as well as increased agriculture output. But broader activity outside capital-intensive export sectors remains below potential and labour-intensive and the manufacturing and commercialisation of agriculture (including agro-processing) have yet to take off, which can raise the country's productive base.

Steering the economy onto a much higher growth trajectory demands boosting fixed investment to 30-35% of GDP a year, which, combined with more jobs and solid gains in total factor productivity, could sustain real per capita GDP growth of 7-8% per annum – pivotal for creating more jobs and eradicating poverty. But given a modest national savings rate, projected at 12% and 13.7%, respectively, this year and next, Mozambique's own resources are insufficient to undertake huge capital investments. That, in turn, highlights the need for continuous external support (including FDI) to fill the annual funding gap.

Mozambique has successfully concluded first-generation reforms that have provided macro-stability and strengthened its resilience to exogenous shocks. But concrete efforts are needed to achieve 'quality growth' and catch up with Asian economies by implementing micro-reforms. Chief among these are simplifying product and services market regulations, raising human capital and technical capacities, as well as nurturing a more conducive business climate. Developing a skill-based economy, greater diversification and most importantly, closing the 'infrastructure gap' are critical to improve national competitiveness.

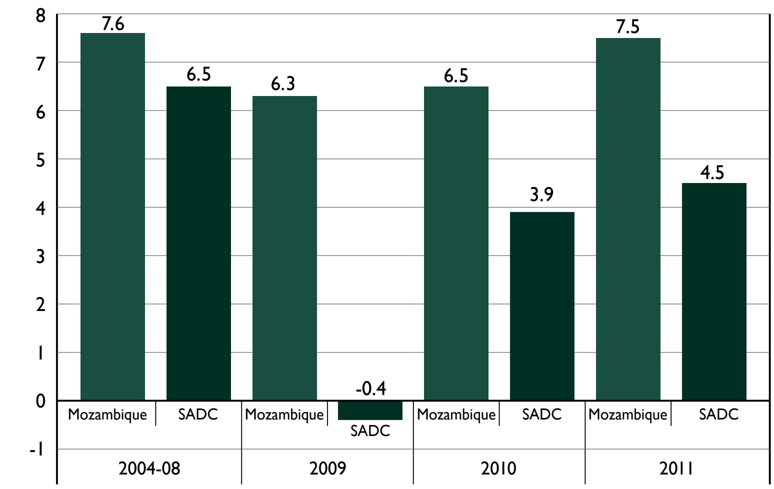
A report from the Organisation for Economic Cooperation and Development (OECD), Business for Development: Fostering the Private Sector, highlighted a correlation between a country's export variety and its level of productivity. Growth-supportive infrastructures, increased access to financial services, a skilled workforce along with a thriving private sector hold the keys to future prosperity. Empirical evidence indicates that a 1% hike in the rate of private investment could boost output growth by 1.3% on impacts in Mozambique, whereas a similar hike in the rate of public investment could raise output growth by 0 5% at best on impacts.

Favourable prospects

For dedicated investors, Mozambique offers tremendous possibilities in diverse businesses, notably 'value-adds' to minerals, agro-processing, downstream gas activities, light industry based on textiles/garments, tourism, information and communication technologies (ICT), as well as professional training and health-care. The government's reform agenda will help to unleash private enterprise, thereby boosting economic activity and wealth creation in future years.

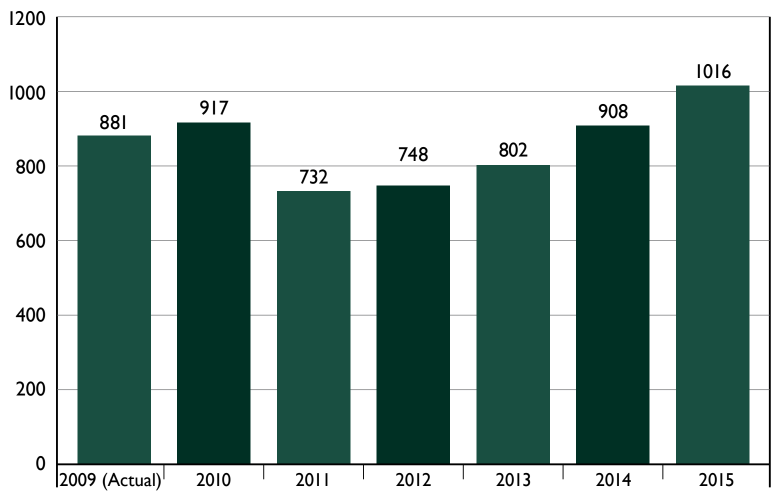
The regional economy is steadily improving, commodity prices are rising, credit conditions are easing and a global upturn is under way. Mozambique can expect more foreign investments into mining and other sectors in 2011 and beyond. Sustained output expansion and social harmony are Mozambique's strongest assets, which, combined with infrastructural development, technology transfers associated with megaprojects and the growth of private enterprises will place this resourceful nation on the map of the leading emerging markets of the 21st Century. Mozambique has plenty of reasons to be proud of its post-conflict transition. ■

CHART 1: TRENDS IN REAL GROWTH RATES (%) MOZAMBIQUE VERSUS PEER SADC ECONOMIES



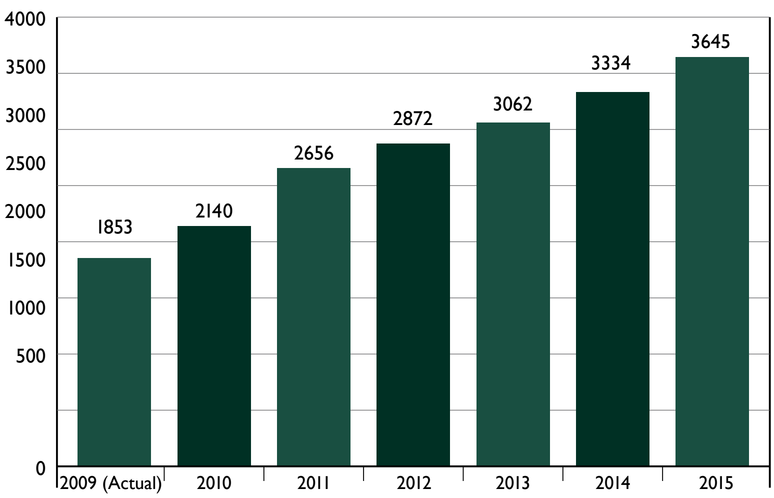
Source: IMF, African Department database, Sep 2010. The Southern Africa Development Community (SADC) representing Angola, Botswana, DRC, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe.

CHART 2: PROJECTED FOREIGN DIRECT INVESTMENT (NET INFLOWS US$MN)



Sources: World Investment Report 2010 and Projections by IMF Staff.

CHART 3: MERCHANDISE EXPORT GROWTH PROJECTIONS (US$MN)



Sources: International Financial Statistics 2010 Year Book and IMF Projections.

TABLE 1: KEY MACROECONOMIC INDICATORS

				Estimate	Projections	
	2005	2007	2009	2010	2011	2012
DOMESTIC ECONOMY						
Nominal Gross Domestic Product (GDP)						
at market prices (Billions of Meticais)	210.0	240.0	263.0	306.0	348.0	396.0
Real GDP growth[(1)]	7.3	6.7	6.3	6.5	7.5	7.6
Consumer price index (annual average)[(1)]	8.2	10.3	3.3	9.3	5.6	5.6
Real per capita GDP growth[(1)]	5.2	4.6	4.2	4.4	5.4	5.5
Gross domestic investment (%) of GDP	16.1	15.7	21.0	25.2	26.0	27.0
Gross national savings (%) of GDP	7.2	4.4	9.5	12.0	13.7	15.4
M3 growth[(1)] (Broad money supply)	21.6	26.0	34.6	22.6	21.6	16.6
PUBLIC FINANCES (%) OF GDP						
Government revenue, excluding grants	15.9	16.0	17.8	18.8	19.4	19.2
Government expenditure	28.1	27.9	32.9	33.8	36.5	35.2
Of which: Capital spending	11.7	11.6	13.1	13.9	14.3	14.6
Overall fiscal balance, after grants	-2.9	-2.5	-5.6	-5.4	-6.9	-6.8
Net aid flows (US$mn)	900	1200	900	1400	1400	1600
Public sector debt[(2)] (%) of GDP	21.9	25.4	29.3	35.1	39.2	42.4

[(1)]Annual percent change; [(2)]Central government external public sector debt & net domestic debt.

DEMOGRAPHICS
Area (sq km): 799,380. Population (mid-2010): 22.89mn. Population growth rate (2008-15): 2.1%.
GDP (2010): US$10,200mn. GDP per capita (purchasing power parity): US$926 (2010).
Currency – The Mozambican Metical (MZM); average exchange rate (2010): MZM30.5:US$1 (est).

Sources: Mozambican authorities and IMF estimates and projections.

TABLE 2: BALANCE OF PAYMENTS AND EXTERNAL DEBT (IN US$MN, UNLESS OTHERWISE INDICATED)

			Estimate	Projections		
	2008	2009	2010	2011	2012	2013
Exports (f.o.b)	2,653	1,853	2,089	2,656	2,872	3,062
Of which: Megaprojects exports	1,851	1,265	1,474	2,026	2217	2,375
Imports (f.o.b)	3,643	3,243	3,589	4,059	4,447	4,861
Of which: Megaprojects imports						
Trade balance	-990	-1,390	-1,500	-1,403	-1,575	-1,799
Terms-of-trade (%)[(1)]	-3.9	-8.2	1.8	12.0	0.1	0.4
Current account balance	-1,179	-1,171	-1,391	-1,380	-1,646	-1,858
As (%) of GDP, incl. grants	-12.0	-11.9	-13.6	-12.8	-13.5	-13.4
Gross international reserves	1,578	2,012	2,128	2,530	2,959	3,278
Import-coverage[(2)]	4.6	5.1	4.9	5.3	5.6	5.7
Net ODA flows[(3)] (%) of GDP	12.6	14.5	12.9	12.7	12.3	12.0
FDI inflows[(4)]	592	881	917	732	748	802
FDI (%) of external deficit	50.2	75.2	66.0	52.1	45.4	43.2
External debt stock	3,432	3,600	4,200	4,800	4,746	5,629
Total debt (%) of GDP	34.7	36.7	41.2	44.4	39.0	40.7
Debt service due	42	49	72	75	124	193
Debt service ratio (%)[(5)]	0.5	0.5	0.7	0.6	0.8	1.1

[(1)]Annual (%) change in terms-of-trade (the ratio of export to import prices). [(2)]Gross forex reserves in months of imports of goods and services. [(3)]Official development assistance. [(4)]Net flows of foreign direct investment, after repatriation of interest and profits. [(5)]Scheduled interest and amortisation payments as a percent of total exports.

Major export markets (percent of 2009 total): Holland (45.2%); South Africa (11.0%); China (3.5%), India (2.7%); and Malawi (2.2%).
Major sources of imports (percent of 2009 total): South Africa (32.0%); Holland (8.0%); India (5.6%); China (4.0%); and Portugal (3.3%).

Sources: The World Bank, UNCTAD, Direction of Trade Statistics and IMF projections.

TABLE 3: FDI INFLOWS TO MOZAMBIQUE (US$MN)

						(%) chg
	2000	2003	2005	2007	2009	2000-09
Inward FDI (net)(1)	139	337	108	427	881	534.0
As (%) of GFCF(2)	10.4	32.4	9.0	30.6	42.7	
Total FDI stock(3)	1,249	1,842	2,386	3,216	4,689	275.4
As (%) of GDP	29.0	39.5	36.3	39.6	47.7	

Sources: UNCTAD World Investment Reports.

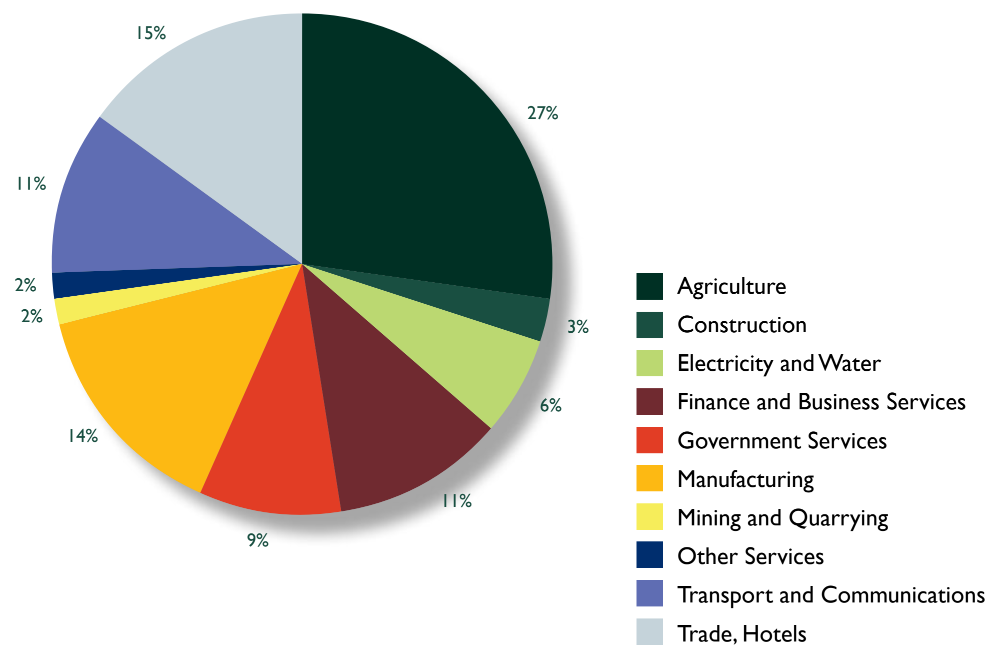
(1)After repatriation of interest, profits and dividends (IPDs). (2)Gross fixed capital formation (domestic investment). (3)FDI stock represents the value of the share of affiliate enterprise at book value or historical cost, reflecting prices at the time when the investment was made and reserves (including retained profits) attributable to the parent firm, plus net indebtedness of the affiliate to the parent company.

TABLE 4: INVESTING ACROSS SECTORS

Foreign equity ownership index (100= full foreign ownership allowed)			
	Country Score	Regional average	Global average
Mining, Oil & Gas	100.0	95.2	92.0
Agriculture & Forestry	100.0	97.6	95.9
Light Manufacturing	100.0	98.6	96.6
Telecommunications	75.0	84.1	88.0
Electricity	100.0	90.5	87.6
Banking	100.0	84.7	91.0
Insurance	100.0	87.3	91 2
Transportation	100.0	86.6	78 5
Media	20.0	69.9	68.0
Constr., Tourism, retail	100.0	97.6	98.1
Healthcare, waste mgt.	100.0	100.0	96.0

Source: Investing Across Borders 2010, World Bank.

CHART 4: GDP BY SECTOR, 2008 (PERCENTAGE)



Source: National Institute of Statistics.

TABLE 5: MOZAMBIQUE'S BUSINESS DATA

	Mozambique	Sub-Saharan Africa	OECD Average
STARTING A BUSINESS			
Procedures (number)	9.0	8.9	5.6
Duration (days)	13.0	45.2	13.8
Cost (% of GNI per capita)	13.9	95.4	5.3
Paid in min. capital (% of per capita)	0.0	145.7	15.3
DEALING WITH CONSTRUCTION PERMITS			
Procedures (number)	17.0	17.6	15.8
Duration (days)	381.0	239.5	166.3
Cost (% of income per capita)	530.3	1,773.3	62.1
REGISTERING PROPERTY			
Procedures (number)	8.0	6 5	4.8
Duration (days)	42.0	67.9	32.7
Cost (% of property value)	9.9	9.6	4.4
PAYING TAXES			
Payments (number per year)	37.0	37.3	14 2
Time (hours per year)	230.0	315.1	199.3
Profit tax (%)	27.7	23.1	16.8
Labour tax and contributions (%)	4.5	13.5	23.3
Other taxes (%)	2.1	31.5	3.0
Total tax rate (% profit)	34.3	68.0	43.0
TRADING ACROSS BORDERS			
Documents for exports (number)	7.0	7.7	4.4
Time for exports (days)	23.0	32.3	10.9
Cost to export (US$ per container)	1,100.0	1,961.5	1,058.7
Documents for import (number)	10.0	8.7	4.9
Time for import (days)	30.0	38 2	11.4
Cost to import (US$ per container)	1,472.0	2,491.8	1,106.3
ENFORCING CONTRACTS			
Procedures (number)	30.0	39.1	31 2
Duration (days)	730.0	639.0	517 5
Cost to enforce; in (%) of claim	142.5	50.0	19 2
PROTECTING INVESTORS			
Extent of disclosure index(1)	5.0	4.8	6.0
Extent of director liability index(1)	4.0	3.4	5.2
Ease of shareholder suits index(1)	9.0	5.0	6.8
Strength of investor protection index(1)	6.0	4.4	6.0
GETTING CREDIT			
Strength of legal rights index(1)	2.0	4.6	6.9
Depth of credit information index(2)	4.0	1.7	4.7
Public registry coverage (% adults)	2.2	2.7	8.0
Private bureau coverage (% adults)	0.0	4.9	61.0
CLOSING A BUSINESS			
Time (years)	5.0	3.4	1.7
Cost (%) of estate	9.0	20.7	9.1
Recovery rate, cents on dollar	17.7	23.2	69.1

(1)(0-10); (2)(0-6).
Source: World Bank Doing Business 2011 report.

Agriculture

BY CHARLIE GARNETT

Agriculture is the major employer in Mozambique's economy. The sector sustains around 80% of the economically active population and accounts for over 20% of the country's overall GDP. The sector is dominated by small scale farmers involved in cereal, sugar, tobacco, cashew and cotton cultivation, amongst others.

Mozambique's vast agricultural potential is yet to be fully realised. Of the total 36mn hectares of arable land, 12.5% (4.5mn hectares) is currently cultivated. Of this, 50,000 hectares are irrigated, with around 60% being used for sugarcane. Major rivers such as the Zambezi, Limpopo and Save remain largely untapped for their irrigation potential.

The government recognises that increasing investment in agriculture can have major positive implications, not just in spurring economic growth, but also in alleviating rural poverty and tackling a wide range of domestic challenges. Indeed, the World Bank has identified that a 1% increase in agricultural productivity is three times more effective than increases elsewhere in the economy.

Having identified the potential of agriculture in the country, not just as a business opportunity, but also as an alleviator of poverty, the government has produced a number of strategies to develop the agricultural sector. One of these is for government measures to serve as a catalyst for a 'green revolution' in Mozambique.

This Green Revolution is not viewed as a quick-fix by the government, but as a holistic, radical and systematic reform of Mozambique's agriculture sector. It will require a marked increase in the level of finance going into the sector, both from the government but also private sources, in order to re-evaluate the choice of crops, inputs, extensions, production systems, and marketing of Mozambique's crops.

One of the ways in which the government is looking to kick-start this revolution, is by backing the country's scientists. By 2025, the goal is to have 6,500 scientists working on lab-based research, up almost tenfold from 660 in 2007. In order to meet this target, the government is not just boosting its internal investment, but also offering scholarships for students to study abroad, in countries such as Brazil, India and Finland.

An action plan has also been formulated for food production (Plano de Acção para a Produção de Alimentos – PAPA), which has received widespread direct budgetary support from institutions such as the

CASE STUDY

The Beira Agricultural Growth Corridor (BAGC)

In Davos 2009, at the World Economic Forum, a partnership between the Government of Mozambique, a private sector coalition and international donors such as Norfund, was formed with an aim to catalyse a huge increase in agricultural productivity in the Beira Corridor.

The area itself has been identified as having enormous agricultural potential. It is roughly equal in size to the United Kingdom, and consists of the provinces of Tete, Manica and Sofala. The total arable land area is 10mn hectares, of which only around 1.5mn hectares are currently being used. 190,000 hectares of this land could be irrigated, and the soils and climate within the corridor are suitable for growing a variety of commercial crops.

Infrastructure in the Beira corridor is functional, but could be improved. Rail lines run between Beira and the border with Zimbabwe, as well as further north into Tete province. The Port of Beira can handle 5mn tonnes of cargo per year, but is being upgraded to a 10mn tonne capacity. Whilst roads could be improved, they are passable throughout the year. The African Development Bank has committed almost US$65mn to upgrading and maintaining various road projects in both Manica and Tete provinces.

There are already several key anchor investments in the BAGC, including a Tongaat Hulett sugar mill, a Jatropha plantation belonging to Sun Biofuels, as well as two major mining investments further north, forecasting over US$2bn in expenditure, belonging to Riversdale and Vale. With such investments serving as a cornerstone for others, infrastructure in the area is expected to improve dramatically.

On top of this, the area has good water resources vital for agriculture to flourish. There are four major river basins in the area, with annual runoff totalling around 123bn m3, as well as a good network of smaller rivers and tributaries which could play a key role in irrigation. Investment is needed in small dams and reservoirs.

The area has significant potential for the cultivation of both sugar and soya, as currently production is focused on tobacco, cotton, and maize. There is already a thriving horticulture industry, producing crops such as baby corn, mangoes, chillies and bananas. Such crops could be exported by air if necessary, with Beira airport serving as a link to several larger transport hubs.

EU, which recently made EUR22.2mn available for this programme alone.

The focus of PAPA is to achieve food self-sufficiency for the country, providing opportunities for investment in the production of staple foodstuffs for the population. On several of these, the country currently runs a deficit, and so there is a market there for businesses seeking to establishing themselves in the country and enjoy long-term gains. For example, in 2008, the country spent US$244mn importing cereals, yet the conditions in Mozambique are perfect for the domestic production of most relevant types of cereals. Similarly, a further US$13.5mn was spent on the import of edible vegetables and tubers, many of which could also be grown locally. Rice production is one area where significant progress is being made towards achieving self sufficiency. In 2009, Mozambique imported 315,000 tonnes of rice, and consumed around 600,000 tonnes. The government expects to have overturned this deficit by the end of 2011.

Another key policy the government is pursuing to develop the country's agriculture, specifically with regards to attracting private sector investment, is developing agricultural growth corridors in regions such as Beira, Maputo, and Nacala. By focusing efforts on these corridors, the aim is to fast-track agricultural development by building on existing infrastructure and encouraging clusters of agricultural businesses to develop.

Sugar

Mozambique's sugar sector has been rehabilitated and improved after the flood damage in 2000 through the expansion of the area through increased cane production, and improved milling and manpower productivity, aided by a protective trade regime which gives preference to local sugar production. Between 2004 and 2005 sugar production increased 30% to 263,000 tonnes. Since this dramatic growth there have been steady year-on-year increases, driven by increasing domestic consumption and improved access to the EU market courtesy of the EPA agreement. Domestic consumption is expected to grow by 12% by 2014. Sugar remains one of the country's key cash crops, and production is expected to rise by a further 43% by 2014.

The sugar sector is also important to the biofuels market. Indeed, biofuels are likely to be one of the key drivers of growth in sugar production in Mozambique thanks to EU biofuel regulation, but also increased domestic relevance. Mozambique is seen to have a competitive advantage over many other countries with regards to fuel crop production due to its year round growing seasons, availability of large tracts of land and low labour costs.

Maize

With so much of the agriculture being used for subsistence farming, maize is perhaps the main crop grown in Mozambique. There is however the potential for intensification of production, especially given the relatively low level of inputs. If the right investment is put into maize cultivation in the country, Mozambique has the potential to become a breadbasket for the entire region. Neighbouring Malawi has already achieved great success with its own agricultural policies, turning a maize deficit into a surplus, and Mozambique has the land area and growing conditions to dwarf Malawi's contribution to the regional food supply.

Indeed, since 1992 cereal production in Mozambique as a whole has experienced a steady upward trend, the majority of this has been driven by maize production. However, much of the growth is due to an increase in the amount of land under cultivation, rather than any intensification in method. The capital expenditure required to drive maize production to the next level needs to come from private sector investment in the sector.

Cashews

Mozambique's target is to supply 95,000 tonnes of cashews to the global market by the end of 2010; ▶

a significant increase on the 64,000 tonnes produced in 2009. The largest cashew producing province is Nampula, which accounts for roughly 67% of the total production. A further 14% come from Zambezia and Delgado, with the other provinces being responsible for the remaining crop production. Mozambique has ideal climatic conditions for cashews, and has attributed much of its growth in recent production to a successful campaign of spraying trees against pests. The nuts are of a high quality, which is another reason why they are proving increasingly popular on the international market. Factories within Mozambique itself can only process around 30,000 tonnes of the nuts with the majority are sent abroad raw to India to be processed there. Some will also be processed informally for local sales, though this is not a big market. The government of Mozambique has stated that there is an opportunity for investors to increase processing of the nuts in the country.

Rice

Mozambique produced 260,000 tonnes of rice in 2009, up from 190,000 tonnes the year before. Rice is very much a staple in the country, and the aim is aiming to be producing 400,000 tonnes per year, and to have achieved self-sufficiency by 2011. As stated earlier, consumption currently stands at around 600,000 tonnes per annum, though this increases each year.

> Mozambique has received over US$800mn from China to help improve its agricultural sector

The rice growing potential of Mozambique is no secret, and to date the country has attracted investors to the sector from Libya, India and Mauritius, to name but three. Investors can look not just to a growing domestic market for their crop, but also to the enormous markets of both India and China. Both countries are starting to look for alternative sources for their domestic staple, and Mozambique appears to be well situated to take advantage of this. Indeed, Mozambique has received over US$800mn from China to help improve its agricultural sector, with much of this money aimed at improving rice production. China also has over 100 experts stationed in the country to assist with agricultural, especially rice, growing programmes.

With such large scale investments going into the country it is clear that the potential is there for investors with capital, and the right expertise, to make a success of rice cultivation in Mozambique. The country has all the right conditions for rice production, as well as good access to key export markets. ■

Energy and Mining

BY COSIMA CASSEL

Mozambique is a country with vast energy resources, ranging from fossil fuels (predominantly natural gas and coal) to renewables (solar, hydro, wind, geothermal and tidal power). However, the exploitation of these resources for domestic use is limited at present and most of Mozambique's primary energy consumption is met by traditional biofuels such as wood, charcoal and agro/animal waste.

> "Energy demand is growing at an estimated 7% a year, in line with real GDP growth

Electricity production stands at 15.91bn kWh, of which 11.82bn kWh is exported, mainly to South Africa. Energy demand is growing at an estimated 7% a year, in line with real GDP growth, although as of 2009, only 5% of the population had access to electricity. The electrification rate is estimated at 20% of urban areas and 1-2% of rural areas.

Power distribution

Electricidade de Moçambique (EDM) is the Mozambican national utility which in the economic restructuring of 1995, was transformed from a state entity into a government-owned limited liability company. EDM accounts for the bulk of electricity distribution in the country, about 97% of total electricity consumed. EDM is undergoing a restructuring process, and has prepared a masterplan for the expansion of the country's national power grid and distribution networks with the goal of reaching 15% of the population by the year 2020, from the present 5%.

Since 1995 the number of private companies, or independent power producers (IPPs), in the market has also risen dramatically. The most important IPPs include:

- Hidroeléctrica de Cahora Bassa (HCB), privately owned by Portugal (82%) and Mozambique (18%)
- MOTRACO, formed between ESKOM, South Africa's electric utility, Mozambique's EDM and the Swaziland Electricity Board, to supply electricity from South Africa to Swaziland and Maputo.

HCB dominates power generation with its 2,075 MW capacity against EDM's 100 MW hydropower. HCB's transmission line to South Africa and MOTRACO's 850 MW to Maputo are considerably larger than EDM's southern and central-north lines, though in terms of coverage of national consumers EDM is more important. Private participation in electricity supply is being developed through a concession approach.

Regulation

Mozambique has put in place a modern legislative framework for the energy sector. Government regulation aims to increase competition and private participation in the energy sector. Furthermore, Mozambique's Poverty Reduction Strategy, PARPA, has energy as one of its six main pillars.

There is also a policy for rural energy development which aims to provide access to intermediate (kerosene, LPG) and modern (electricity) forms of energy to the poor.

In addition, two specific plans for electrification have been developed:

- The Rural Electrification Strategic Plan (Focus on Policy and Off-Grid Electrification, Intermediate Solutions)

- The Electricity Master Plan for Development of the National Grid 2005-2019 (Focus on Grid Supply Expansion in the short-to-medium term)

The main drivers in the energy sector are coal, natural gas, hydropower and biofuels.

Fossil fuels

Mozambique is a net importer of fossil fuels as at present it does not produce oil; it imports 13,760 bbl/day. However, as more investment flows into exploration and extraction of fossil fuels and the country further harnesses power from its natural gas reserves, this is set to change.

It has been thought for some time that there are significant reserves of oil in the Rovuma Delta, as well as between the northern and central regions of the country. Multinationals including Canada-based Artumas Group Inc., Italy's ENI and US firm Anadarko Petroleum Corporation have together invested US$300mn in oil and gas exploration on the Rovuma Delta. And, in August 2010, it was announced that Andarko had discovered oil in the Rovuma basin. President Guebuza stated of the find: "The first thing I would like to say is to advise people to remain calm until we have more information on the discovery" – research is ongoing, but if the find proves to be commercially viable its potential to the energy sector will be huge.

The country also has significant untapped resources of natural gas, with proven reserves of 127.4bn cu m (1 January 2009 est.). Despite burgeoning exportation to South Africa, domestic consumption of natural gas is just 100mn cubic metres. This is changing, however. The government is taking a series of steps to optimally exploit its large natural gas reserves. It has already imported several natural gas-powered buses from China on an experimental basis. It has also signed a partnership with Italy to gain expertise, training and financing for gas projects.

> "Government regulation aims to increase competition and private participation in the energy sector. Furthermore, Mozambique's Poverty Reduction Strategy, PARPA, has energy as one of its six main pillars

With regards to coal, the Moatize deposit comprises some 2.4bn tonnes; reportedly the largest unexploited coal reserves in the world. Transport links connecting these mines to various ports are improving; the Government of Mozambique has just announced plans for a railway from the coal-rich Moatize mines to Nacala port. They have secured funds of US$500mn for the project, which is projected to be completed by 2015.

Biofuels

Biofuels is an industry with significant potential; Mozambique currently only cultivates 20% of its arable land. In 2009 the government approved a National Biofuel Policy and Strategy, an important instrument to help realise the potential in this industry.

The strategy establishes a regulatory framework for production of biofuels by the public and private

CASE STUDY

The Moatize Coal Project

In 2009, the world's second largest mining company Vale launched a US$1.3bn (£908.5mn) coal mining project. The plant is expected to produce 11mn tonnes of coal a year, to be exported to Brazil, Europe, Asia and the Middle East.

It is thought Mozambique will now become the continent's second-largest coal producer behind South Africa. In total, the project is expected to generate 8.5mn tonnes of metallurgical coal, which is used for the production of steel. It will also produce 2.5mn tonnes of thermal coal, which is used for electricity generation, every year.

CASE STUDY

Enerterra SA and Zambezi Grown Energy Limited

Last year, Mozambique's Council of Ministers approved two major projects for the production of biofuels. Enerterra SA and Zambezi Grown Energy Limited will implement these projects in the central province of Sofala.

Enerterra has been granted an area covering 18,920 hectares for the production of Jatropha, the oil of which is used to make biodiesel. This project is budgeted at US$53mn and expected to employ 5,000 seasonal workers, and 25 permanent staff.

10% of the bio-diesel produced will be used for domestic consumption and the balance, 90% will be for export, mainly to Europe.

Zambeze Grown Energy Limited, the government granted 15,000 hectares in the provinces of Chemba and Sofala, for the production of sugar cane for energy generation and bio-diesel.

The project is budgeted at 224mn US$ and aimed to produce 100mn litres of alcohol annually.

Of the 100mn litres of alcohol produced per year, 10% will be sold in the domestic market and the balance exported to Europe, USA and Japan, while the electricity produced will be integrated into the national grid. This project will employ 2,104 Mozambicans and 34 foreigners.

These two companies will join another 12 companies that are currently investing in biofuels production in the country.

sectors, and created the National Biofuel Council, a body that will coordinate, supervise and evaluate policy and strategy, focussing on production of ethanol and biodiesel. Brazil has recently announced plans to invest US$6bn in the production of biofuels from sugar cane.

> "Mozambique is identifying ways to harness solar energy, and is receiving significant foreign funding for solar projects

Solar energy

Mozambique is also identifying ways to harness solar energy, and is receiving significant foreign funding for solar projects. Most significantly, South Korea announced it will provide US$35mn to build three solar power plants in Mozambique as part of plans to support eco-friendly projects in Africa. The finance ministry said the loan, from the Economic Development Cooperation Fund, will be offered interest-free for 40 years including a grace period of 15 years.

Hydroelectrics

The Cahora Bassa Dam system enjoys a monopoly in the production of hydroelectric power in the country. It is the largest hydroelectric scheme in southern Africa with the powerhouse containing 5 x 415MW turbines. Most of the electricity generated by Cahora Bassa, which is located on the Zambezi River, is sold to nearby South Africa. In 2006, Cahora Bassa transmitted about 1,920 megawatts of power, but the infrastructure is capable of higher production levels and the company had plans to almost double its output by 2008.

Mining and extraction

The country also boasts significant mineral deposits. Mining and quarrying accounts for around 2% of GDP. However, despite rapid growth in the mining sector over the past years, the country still has vast potential to expand. As a result, commercial interest in these sectors is ever-increasing.

The government is firmly committed to encouraging foreign investment in developing Mozambique's fledging mining industry. A new mining and geological policy has been implemented with the existing legislation, which improve the country's competitive position in the region. All applications for exploration and mining rights have to be addressed to the Minister of Mineral Resources and Energy for processing by the National Directorate of Mines.

The government has set out the following incentives:

- Exploration and development expenditures may be accumulated and carried forward until the first year of production
- A choice of depreciation rates
- Exemption on import duties for all equipment, materials and subcontractors
- Exemption of the dividend withholding tax, normally levied at 18% for ten years
- Exemption from Sales Tax, duties and taxes on mineral exports.

Other minerals

The country also produces significant shares of beryllium and tantalum. Its global share of beryllium output amounted to 5% in 2007, used in missiles, rockets and X-ray tubes. Tantalum output was 6% in 2007 and is used in electronic components and a variety of alloy metals.

E.C. Meikles (Pty.) Ltd. of Zimbabwe operates a small bauxite mine in Manica Province. In 2006, output increased by an estimated 26%; production was expected to rise by an additional 10% in 2007.

Mozambique is expanding its production of a range of other minerals. Key minerals include granite, garnet, diatomite, gold, bauxite, dumortierite and limestone. ■

Infrastructure

At independence Mozambique was left with a sparse and inadequate infrastructure network which, following the civil war, had either been destroyed completely or left in severe disrepair. Recently, the government, in partnership with international investors and donor groups, has begun to accelerate the construction and rehabilitation of its infrastructure – this has focused on Maputo, though not to the detriment of other areas. Whereas underinvestment and the civil war have historically presented many challenges for the country, they now also provide one of its greatest opportunities for sustainable investment as the country continues to attract serious FDI into its mineral resources, tourism and manufacturing sectors.

According to IMF sources, investment spending on infrastructure is currently 14% of GDP, with around 5% coming from government sources. The structural shift of the economy away from agriculture and fisheries towards manufacturing, construction and service industries will necessitate better infrastructure across the country. The maintenance or increase of these funding levels will allow Mozambique to continue to enjoy strong real GDP growth rates over the coming decade and beyond.

Policy and regulation

The government is steadily increasing investment in infrastructure through the National Action Plan for the Reduction of Absolute Poverty (PARPA). The funds have mostly been allocated to road repair, sanitation,

"According to IMF sources, investment spending on infrastructure is currently 14% of GDP, with around 5% coming from government sources

public works and transport links. This is decreasing reliance on concessional financing from multilateral development banks and export credit agencies, and the further utilisation of public-private partnerships (PPP's) and, potentially, external sovereign bond issues.

An IMF Policy Support Instrument programme aiming to address critical gaps in Mozambique's infrastructure, and to significantly scale up infrastructure spending is

Major investments in the country's infrastructure are being made, and with these improvements the transportation network is rapidly developing

underway. Under the programme, the IMF monitors and provides support to the country in regards to its economic policy. The programme ensures that infrastructure investment projects have a strong positive net return for growth, and according to the IMF review of October 2010, the programme is yielding such returns.

Transportation

Mozambique is a vast country relative to its population, and with plentiful natural resources in remote parts of the country, it will require greater investment in transportation infrastructure to realise its huge potential capacity. Major investments in the country's infrastructure are being made, and with these improvements the transportation network is rapidly developing. Improving Mozambique's infrastructure is seen as crucial to regional integration, with many of its land-locked neighbours being dependent on the country for their exports and imports. As a result, it is attracting widespread interest from multilaterals and private investors alike. Former Interior Minister José Pacheco says, "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."

Furthermore, Mozambique is becoming one of Africa's most popular tourist destinations. To cater for growing demand for easy access to its tourism hotspots, both investors and the country itself are beginning to reap the benefits from improving connections to and within its tourist regions.

Road development

The Mozambican road network connecting the provincial capitals is in relatively good condition, and furthermore, the management of the entire network is currently being restructured. The Mozambican National Roads Administration (ANE) plans to re-classify the country's roads in order to set out central, provincial and district responsibilities for their maintenance. Details of the ten year programme will see Denmark providing funding of US$50mn for districts to begin planning their networks and corresponding interventions.

2008-2009 saw the Programme of Investment in Regional Roads test several pilot schemes to identify which materials would be used. The project has introduced the concept of refurbishment in stages and aims to deal with the most troublesome areas using innovative technologies that set a balance between cost and the lifetime of the roads. It also combines the use of paving technologies and a focus on using local materials.

In line with the increasing investment, annual freight volumes are rising steadily, up by 35% between 2003 and 2006. However, road density remains low; at 0.86km per capita, compared to a 36km per capita average for developing countries. The road network still requires much greater capital investment in order to complete and regionally integrate the existing network and manage increasing volumes of traffic. The situation is continually improving though, and between 2007 and 2008 there was a 5.1% increase in the weight of goods being transported by road.

Railways

There has been heavy investment into the rail networks of Mozambique in recent years. The network totals 3123km, of which 2983km are narrow gauge. Transport by rail currently accounts for less than half of internal freight in Mozambique; however this will change dramatically with the development of the Moatize Coal Project, and its rail links to Beira and Nacala. Between 2007 and 2008 the total amount of domestic freight being transported by rail had increased by 40%.

There are also rail links from Maputo into South Africa and Zimbabwe, and from Nacala through to both Malawi and Zambia. Improving the capacity for all of these is seen as essential for regional development and trade. If freight railway capacity can be developed adequately, there will undoubtedly be huge demand for such services.

Aviation and airports

Mozambique has a well-developed internal aviation industry. The major international airport is in the capital, Maputo, however other airports can be found in Beira, Tete, and Nacala, while there are also smaller airstrips to be found in other parts of the country.

The country has a national carrier, LAM, and is also serviced by flights from Lisbon, Dar es Salaam, Johannesburg and Nairobi, amongst others. Given the government's drive to promote tourism in the ▶

country, there is increasing passenger traffic to Maputo, and therefore of the need for increased route options.

As Mozambique is fast becoming a leading tourist destination in Africa, and indeed the world, international aviation is experiencing ever-expanding demand and expansion.

Ports and harbours

In both Maputo and Matola, Mozambique possesses two of the continent's pre-eminent natural ports, while scheduled improvements for both Beira and Nacala will increase capacity and offer valuable alternatives to companies looking to export from Mozambique, or bring goods into regional neighbours. Matola and Maputo ports have both also been earmarked for improvement, with the Maputo corridor initiative resulting in US$70mn being pledged for improvements at both ports. At its peak the Maputo corridor carried 40% of all exports from Johannesburg and the Transvaal, as well as from neighbouring countries and from within Mozambique itself.

Both Maputo and Matola are operated by the Maputo Port Development Company, which has a 15 year lease which was due to expire in 2018, but which the government has extended for a further 15 years until 2033. Under the agreement, the company has the rights to finance, rehabilitate, operate, manage, maintain, develop and optimise the port area. The port of Maputo has 3,000 metres of continuous wharves, ranging in depth from 8-12 metres, and including citrus, sugar, and container terminals. Matola houses deepwater terminals, including the aluminium terminal that services Mozal, as well as an oil terminal. Beira port is being dredged to allow vessels of sufficient depth to service the country's coal deposits.

ICT

ICT has been a main priority area since 2000, when the government recognised the importance of the ICT sector to develop education, human resources, health and governance sectors. The country has made good progress towards its principal aim for the development of the ICT sector, which is to reduce the digital divide by extending fixed line and mobile coverage to rural areas. The government is now looking to extend the applications of ICT in order to increase efficiency in the country. Speaking earlier this year, Professor Massingue, the Minister for Science and Technology in Mozambique, said that his ministry is now taking on "the challenge of explaining to the people of Mozambique how e-Governance can help government institutions be more effective and responsible".

The country has taken a number of steps towards this goal. One such step was the introduction of the country's first undersea cable in 2009, which has transformed Mozambique's ICT sector and led to inflows of FDI. The cable, which stretches some 15000km and cost US$600mn to install, has been an unqualified success. It has been available for well over 95% longer than the target figure, and 75% of the revenues attributable to it are generated by the private sector. It is capable of carrying 1.28 terabytes per second and is expected to reduce the cost of data transmission in the country by around 90%.

CASE STUDY

The Nacala Road Corridor

The African Development Bank (AfDB) is financing a project to rehabilitate the Nacala road corridor. The first phase will cost in the region of US$293mn. This will improve access to markets not just for Mozambique's interior, but also for Malawi and Zambia. In Mozambique alone, some 787,000 people are expected to benefit from the project.

The biggest share of the financing for the initial phase of this project is expected to come from the African Development Fund, the concessionary window of the AfDB Group. Other donors include Japan's International Cooperation Agency (JICA) and Korea's EXIM Bank. The Mozambican government will contribute counterpart-funds estimated at US$34.14mn.

> The country has made good progress towards its principal aim for the development of the ICT sector, which is to reduce the digital divide by extending fixed line and mobile coverage to rural areas

CASE STUDY

Moatize to Beira – Nacala Railway Rehabilitation

In line with the development of the Moatize coal mines, the Government of Mozambique has secured US$500mn from the Dutch and Danish governments, as well as the EU, to build a new railway line to link the mines to Nacala port by 2015. Concurrently, the European Investment Bank has signed a EUR65mn deal to fund a new rail line between the coal deposits and Beira.

These developments are expected to present huge returns for Mozambique, and propel the country to become the continent's second largest exporter of coal.

CASE STUDY

The Mozambique Airport

China has proved to be a strategic partner for Mozambique and its largest interest and investment has been in the construction sector. The Mozambique airport is being modernised by a Chinese company Anhui Foreign Economic Construction (AFEC) at an expense of US$75mn.

> While Mozambique's fixed line network could benefit from improvements, the mobile network is extremely well developed

It has helped that the country already had legislation around the development of the ICT sector. Published in 2000, the policy prioritises the education, human resources, health and governance sectors as being key areas to develop using the ICT industry.

While Mozambique's fixed line network could benefit from improvements, the mobile network is extremely well developed. Policies aimed to increase coverage to 85% of the population have been successful, and at present two mobile operators are competing in the country, Telecomunicações de Moçambique and Teledata. The government recently launched a bidding round for a third operator license in the sector, increasing competition and therefore quality still further.

Water and sanitation

Water and sanitation services in Mozambique have huge potential for improvement. Currently only 43% of the population have access to an improved water source and 32% to a source of adequate sanitation. In 1999 an innovative public-private partnership for urban water supply was introduced. Under this partnership, assets in 13 cities are owned by the government, while operations are delegated to a private company, Aguas de Mozambique, jointly owned by a public Portuguese firm and local investors. The Ministry of Public Works and Housing is in charge of policy, and a regulatory agency is in charge of the private contract for service provision.

Huge improvements have been noted in four cities – Beira, Pemba, Quelimane and Nampula – which have achieved continuous or almost continuous water supply as a result of private sector participation, increasing the hours of water supply per day from nine hours (Beira and Quelimane) and 17 hours (Nampula and Pemba) in 2002 to 22–24 hours in 2007. Water supply in Maputo remains intermittent, increasing only slightly from 12 to 14 hours, but with investment could easily experience the same successful outcome.

Donors financed about 80% of all investments between 1995 and 2005. The main donors in the water sector are the World Bank, the African Development Bank, Canada, the Netherlands, Sweden and Switzerland. According to the World Bank, the urban asset holding company is "achieving full cost recovery and can graduate from government subsidies".

Tourism infrastructure

The Ministry of Tourism calculated that US$300mn will be required from 2009-2012 to finance supporting infrastructure for key resort development. This money is needed to improve road access to and circulation within planned resort zones, and supporting drainage systems, coastal engineering and marina development, water and sewerage systems, electricity supplies and IT platforms for the zones and their surrounding communities. Development is being carried out under PPPs, build-operate-transfers (BOTs) and other means. ■

CASE STUDY

Deep Water Port in Matutuine

In 2009, Mozambique Ports and Railways Company (CFM) received the approval to build a new deep-water port in the District of Matutuine, which is on the coast of the southern province of Maputo. The port will have a capacity to handle a minimum of 50mn tonnes of heavy cargo on an annual basis and is expected to harbour vessels with a maximum cargo capacity of 300,000 tonnes each. The port is expected to cost US$550mn and will be developed in partnership with the British-based Porto de Dobela (PDD). Given the magnitude of the project, it is expected to create a substantial number of jobs in the area, and will help Mozambique to improve its position as a regional distribution hub. The port will distribute fuel from a refinery which is expected to be built in the same area and will have a refining capacity of 350,000 barrels per day. Furthermore, given its proximity to South Africa's main coal producing region, it will also serve to export coal from South Africa and Botswana.

Tourism

BY NATALIA DEBCZAK-DEBSKI

With the return of peace and political stability, coupled with a smooth transition to democracy, Mozambique has restored its status as one of Africa's treasures whose tourism potential speaks for itself. The country's extensive 2,750km of Indian Ocean coastline, equating roughly to the distance between London and Moscow, boasts an abundance of coral reefs and marine life and is dotted with idyllic beaches and spectacular island paradises a few kilometers from the shore. On the mainland, the country is home to an abundant array of wildlife and flora; conservation areas cover 15% of its surface, including mountains, wetlands and safari. Mozambique, a land of extreme beauty and allure, is therefore appealing to both adventurous travellers who want to discover unspoiled and unexplored territories and those who want to relax in the sun.

Growth

Tourism in Mozambique plays an increasingly important role on the economic agenda as well as in national politics, and it is widely regarded as a potentially strong vehicle for poverty reduction, contributing around US$605mn in 2010 to GDP. The contribution of travel and tourism to Real GDP growth is expected to be 5.1% in 2010 and to average 6.7% per annum over the coming 10 years.

> Tourism in Mozambique plays an increasingly important role on the economic agenda as well as in national politics

In 2004, recognising the huge potential of the industry to the country's revenue and development, the government established the Strategic Plan for the Development of Tourism whose vision is the emergence of Mozambique as one of the most vibrant and popular destinations in Africa, with the goal of

receiving four million tourists a year by 2025. In terms of tourism as a contributor to economic growth, the World Travel and Tourism Council ranks Mozambique an impressive 16th out of 181 countries and within sub-Saharan Africa, its ranking is 6th out of 42 countries – highlighting the vital role tourism is playing in the country's development and its importance to its future prosperity.

The current contribution of the tourism sector to national employment levels is expected to grow from 4.4% of total employment, 356,000 jobs in 2010 to 5.3% of total employment, 474,000 jobs by 2020. Statistics such as these are core to the government's mandate for the promotion of tourism, and the pooling of resources into the sector as a contributor to the country's economic growth, reduction of poverty and job creation. Growth in the sector has been aided by a governmental focus on high levels of public investment in post-war reconstruction and infrastructure. Existing roads, bridges and airports are undergoing significant improvements through donor funding and public private partnerships and new transport links are under construction, improving access to some of the country's most remote and enticing locations and making domestic travel both more comfortable and less time consuming.

Initiatives

In February 2009, the government launched 'Brand Mozambique' as an instrument to promote and market the country's tourist potential with the aim of 'transforming the country into a world-class tourist destination'. President Armando Guebuza stated "strategic measures that facilitate the promotion of tourism, that encourage industry and trade and the establishment of infrastructures, and attract investment to various social and economic areas must be adopted". To ensure continued investment in the sector, the government has been proactive in creating pro-growth policies and regulations in order to create a more conducive environment for foreign investors. For example, the real property transfer tax has been reduced by 50% as an incentive to promote hotel investment and development.

The government has also encouraged the liberalisation of Mozambican air space, to allow more companies to fly directly to the country. On November 2nd 2010, the publicly owned air company, Mozambican Airlines (LAM) announced that it is increasing the number of its flights to both Luanda and Nairobi reflecting the growing demand from customers. The Nairobi flights offer an alternative to Johannesburg for those passengers whose final destination is in Europe or ▶

the Middle East, whilst the Maputo-Luanda route has become popular among Angolan visitors who regard Maputo as a friendly and great value tourist destination.

Other developments are underway in the aviation sector, including Kenya Airways extending its flight network into the northern province of Nampula, Ethiopian airline Precision Air beginning flights to Mozambique and the development of the former military airport of Nacala into an international civilian airport.

Attractions and opportunities

Eco-tourism is a growing feature of Mozambique where the government is supporting companies that are dedicated to the conservation of the country's wildlife. One of the largest safari operators in the country, Safrique, works closely with local schools to educate and to highlight the importance of conserving the beauty and wealth of the country's natural resources. Each safari trip is tailored to the traveller – who can experience their own private adventure whether it is a conservation safari, game viewing at night or a safari trek. Each day a new habitat can be explored while searching for the 'Big 5' when trekking through the unspoiled wilderness of the Niassa Reserve.

In the last few years, the government has made major strides in natural resource conservation, specifically, the creation of a marine reserve on Lake Niassa. The Lake is noted for its endemic fish species and is described by the WWF as "probably the most ecologically important freshwater body in the world". Also, rapid assessment of threats and scientific studies that will lead to the conservation and participatory management of Pemba Bay have been completed. With the recent declaration by the Council of Ministers of Pemba Bay as a Special Tourism Zone, the legal framework has been set to assure that this natural beauty is sustainably managed and remains pristine for future generations.

In reserves such as Limpopo National Park and Marromeu, foreign investment has aided the development of conservation projects and the

CASE STUDY

About STNSA

Since the launch of The Sustainable Tourism Network Southern Africa was launched in May 2008, Mozambique has been working closely with South Africans who have not only invested heavily into Mozambican business, but also bring with them experiences from their own well developed tourism industry.

The Sustainable Tourism Network Southern Africa (STNSA) initiative aims to establish an integrated, regional approach to sustainable tourism development in the Southern African Development Community (SADC) as well as to provide a channel for all SADC countries to exchange experiences and best practices regarding sustainable tourism policy and practice throughout the region. Initial focus areas identified by the Network are as follows: Policy and Advocacy; Standards and Branding; Training and Learning; and Marketing and Awareness Raising. For the initial set-up phase of the Network, Fair Trade in Tourism South Africa (FTTSA) was nominated as the Network Secretariat.

The Network communicates with members via a website, an online forum and a quarterly newsletter. Participation in the Network is open to all parties with an interest in sustainable and responsible tourism development in SADC; this includes civil society organisations, certification programmes, tourism authorities, tourism associations, government departments/ministries, travel and tourism businesses and academics.

CASE STUDIES

Mozambique is eligible for trade benefits under the African Growth and Opportunity Act (AGOA), the European Union Cotonou Agreement, the Southern African Development Community (SADC) Trade Protocol, and the US-Mozambique Bilateral Investment Treaty. Mozambique is implementing a US$506m compact with the Millennium Challenge Corporation. The compact focuses on the Arco Norte and Zambezia Province and includes projects for improving the business environment, water sanitation, transportation infrastructure and land titling.

Arco Norte

To attract investments and developers, an exhaustive destination assessment has been carried out, a GIS-based tourism management information system developed, and a tourism masterplan created. The masterplan proffers a vision of sustainable tourism development in the Arco Norte over the period ending 2020. It provides a clear structure for organising development, responding to opportunities as they arise, demonstrating feasibility and implementing them.

In its 'Tourism 2006-2013' marketing strategy, Mozambique has outlined a target of 1.26mn international tourists, with an annual growth of 6% to be reached by the end of this period. To help in the pursuit of inward investments, the Ministry of Tourism has formed a strategic partnership with the IFC and USAID, following an integrated development approach within the Northern Mozambique Tourism Development Programme (Projectos Arco Norte). This process identified and prepared nine geographic regions and three provinces that will house 8,000 rooms by 2020. A further target predicts the creation of 30,000 direct employment opportunities and a further 9,000 indirect opportunities.

The Arco Norte comprises three of Mozambique's 11 provinces: Cabo Delgado, Nampula, and Niassa. To the north it is bounded by Tanzania, to the west by Malawi and Lake Niassa, and to the east by some 885km of Indian Ocean coastline shared by the Nampula (460km) and Cabo Delgado (425km). It also has a 580km shoreline along Niassa Lake. From the ocean to the lake are breathtaking landscapes, a medley of vibrant cultures and peoples, astonishing waterscapes, superb marine and wild life, and a treasure trove of nature, largely undiscovered and pristine. Almost unknown to the outside world, Northern Mozambique is home to serene beauty, well-preserved culture, authentic experiences, and a land brimming with opportunities.

Tourism Investment Development Anchor Programme

Another appealing investment opportunity package is the so called Tourism Investment Development Anchor Programme which has four key areas. These include:

- The Crusse-Jamali, with over 1,750 hectares ready for development of lodges, hotels, marinas, restaurants and holiday homes
- The Gile, with its tropical Primeiras and Segundas islands
- The Inhassoro, with 2,500 hectares, 5.7km of beach in front of Bazaruto Islands, and a further capacity for 1800 residential units destined for domestic, regional and international tourism
- The Maputo Special Reserve also known as Elephant Reserve, incorporated in the World Bank's $35mn US dollars financing programme.

> Daily life as well as colourful festivals reflect the country's rich history and the welcoming and cheerful nature of the locals

construction of lodges to house a growing number of visitors. As eco-tourism continues to increase in popularity as a travel option, investment opportunities to sustain growth will only increase, especially as the government is actively seeking partners from the private sector.

Mozambique boasts a wealth of marine life and unspoiled beaches, offering a completely different venture for the traveller who may prefer scuba-diving, deep-sea fishing or sailing along the shoreline in dhows, that have been fishing along Mozambique's coast for centuries. An example of a tour operator that actively involves the locals and gives them the chance of a stable income is Wildlife Adventures. On the island of Ibo, home to some of the most unexplored island reef ecosystems in the Indian Ocean, Wildlife Adventures has established an ecolodge that provides refuge for 10 globally threatened bird species and five globally threatened turtle species.

Beach tourism is also a growing attraction and provides a host of investment opportunities in resort development. This year, Minister of Tourism, Fernando Sumbana announced: "with our anchor (tourism) projects that we approved recently… we are talking about $2bn of investment over a period of five to seven years". He went on to say that Mozambique has currently approved $400mn new hotel and resort deals with construction on some buildings having already started. Current investors have been attracted from neighbouring South Africa, China, the Gulf States and Europe. And the expansion of traditional tourist centres from the Maputo region into growing resorts such as Pemba and Beira is creating further opportunities. In Pemba, the construction of a new international airport is planned to cope with growing traffic; Beira is being transformed into a luxury resort.

Mozambique's blend of African, Arab, Portuguese and Indian influences have had an extraordinary impact on the country's cultural identity, making it stand out from other countries in the region. Daily life as well as colourful festivals reflect the country's rich history and the welcoming and cheerful nature of the locals.

With so much to offer, the future is bright and optimistic for Mozambique. The country has all the ingredients it needs to continue its development into an exciting and in demand tourism destination. ■

A political history

When Portuguese explorers first reached the Mozambique coast in 1498 they found a land rich with opportunity and quickly set up ports and forts along the coastline, which soon became stops en route to the trading posts of the East. Colonial power was exercised by settlers who were granted their own autonomous 'kingdoms', whilst the country's interior was plundered for its gold and its slaves. Indeed, even at the height of Portuguese imperial power, administration of the country was never fully centralised to Lisbon and by the early twentieth century it was effectively being run by large, private companies, many of whom were financed by Britain.

The early part of the last century saw the implementation of policies whose purpose was to empower and enrich the white settlers and provide revenue for the Portuguese motherland, while the needs of the country as a whole were ignored and the African population were used as cheap, often forced, labour on the railways and in the mines. In the years after World War II, in the growing clamour for African independence, Portugal resisted giving up her assets and indeed emigration to her colonies soared throughout the 1950's and 1960's. But in Mozambique, the desire for self-governance was by now too strong and widespread to be suppressed indefinitely and following a decade of armed struggle against colonial rule, led by the Front for the Liberation of Mozambique (FRELIMO), and an armed coup in 1974, independence was achieved in the summer of 1975.

The country's freedom fighters now became its rulers as FRELIMO's leaders established a one party state, with socialist leanings and methods of economic governance based on a centrally planned economy and the establishment of state-owned enterprises in key sectors. The ensuing years saw huge numbers of Portuguese settlers return home whilst a collapsing economy and a brutal war with the Mozambican National Resistance (RENAMO) – funded and inspired by Rhodesia and Apartheid South Africa – led to the deaths or displacements of millions of Mozambicans. In 1983, President Samora Machel of the ruling FRELIMO party suddenly announced the need for economic reform including tentative liberalisation and the beginning of negotiations with the International Monetary Fund and the World Bank Although much had been done to improve the lives of indigenous Mozambicans – especially in expanding education to a largely illiterate population who had been starved of the right in the colonial years – the announcement was an admission of disillusionment with the socialist experiment.

Whilst the gruelling war dragged on until the early 1990's, President Machel's acceptance of the need for reform marked a crucial turning point in the country's history. The government joined the World Bank and the IMF, beginning to relinquish its reliance on the socialist powers, and the policies and peace initiatives pursued by Machel and his successor Joaquim Chissano paved the way for peace and the country's transition into a constituted multi-party democratic republic with a market based economy in 1990 (mirroring the new democracies springing up in the old Soviet Bloc). The war finally came to an end in 1992 and gradually the country's refugees began to return – by 1995 some 1.7 million returnees had arrived from neighbouring countries in one of the greatest repatriations sub-Saharan Africa has ever seen.

> "Between 1994 and 2006 GDP growth levels were among the most impressive in Africa at an average of around 8%

Chissano became Mozambique's first elected president in 1994 under a multiparty political framework, bringing together the opponents of the civil war – his own party FREMILO and the Mozambique National Resistance (RENAMO) as well as smaller parties. Those that gained seats in Parliament formed the Democratic Union, although these were by no means the only parties that had participated in the elections. With relative political stability, a resettled population and prudent fiscal management, the economy began to grow. Between 1994 and 2006 GDP growth levels were among the most impressive in Africa at an average of around 8% and between 1994 and the end of the decade inflation was hugely reduced from 70% to less than 5%.

In the build up to the 1999 election, electoral reform was passed in response to contentious local elections in 1998 and procedural and transparency concerns voiced by the opposition. At the same time, in an effort to broaden the democratic process, donor funding allowed the registration as voters of 85% of the potential electorate. As a turbulent century drew to a close, Joaquim Chissano was re-elected with a margin of around 4%, increasing his party's majority, and beginning his second tenure as a democratically elected president in 2000. International observers noted that the electoral process and been smooth and well organised, turnout had been high (around 70%), and, despite opposition claims to the contrary, the result had 'reflected the will of the people'.

Mozambique drew the world's attention when devastating floods hit in early 2000. Whilst the loss of life was, miraculously, relatively low, the floods damaged the country's agrarian infrastructure and slowed economic growth, but with donor assistance and her own resourcefulness the country proved resilient and growth levels were soon back at between 7-10%.

As the decade wore on, FRELIMO continued to dominate the popular vote at both national and local levels. In the 2003 local elections the party won 29 out of 33 municipalities and in the national election of 2004 it won 64% of the vote as President Armando Guebuza, Chissano's successor, was elected into power. And FRELIMO continues to retain the support of the people – in 2008, the party's mayoral candidates won 42 out of 43 contests and in 2009 President Guebuza was re-elected, increasing his share of the vote to 75%. FRELIMO also won an equivalent proportion of the votes enabling the party to have a qualified majority (more than 2/3 of seats) in Parliament for the first time since the institution of multiparty democracy.

In recent years Mozambique has made significant progress in developing its economy and improving the lives of its people. The country remains poor in global terms but is blessed with vast amounts of natural resources and, with a population of over 21 million, a sustainable workforce and potentially large market. GDP in 2009 stood at US$17.64bn with an annual economic growth rate of 4.5% (IMF), agriculture currently contributes 21% of GDP and industry 31% of GDP. Figures for 2010 are projected to reach 5.5%, indicating steady growth. A proactive government has introduced extensive economic reforms to boost FDI – privatising state owned enterprises and cumbersome parastatals in the infrastructure sector and reducing customs duties and business taxes. And strategic foreign investment (often pinpointed by the government itself) is producing impressive results – FDI supported projects have greatly improved the country's trade balance and the medium-term outlook for exports is encouraging.

The implementation of the Southern African Development Community (SADC) Trade Protocol culminated with the launch of the Free Trade Area (FTA) in 2008, creating a zone among 200 million consumers in the SADC region and improving the climate for inter regional trade and investment. The protocol came into implementation in 2002 and Mozambique's country specific zero-tariff goal is 2015.

The aim is also to have established a common currency by 2018, though finance ministers will be watching recent developments in the Eurozone with interest. Overall, the FTA will significantly improve trade throughout the SADC region. Customs procedures will be harmonised, including through the introduction of a single, standardised document for customs clearance throughout the region. This will allow investors in any single SADC country to enjoy easy access to the entire SADC market.

Released from its interest payments by G8, World Bank and IMF debt relief, and with a stable political system and a popular government, Mozambique's future prospects are encouraging. Major sectoral reform – particularly in infrastructure and agriculture – aided by foreign investment, good governance and a boom in tourism should see living standards rise and the country develop at a pace, beyond its MDG's.

Mozambique is one of the 54 members of the Commonwealth of Nations. It is governed by a multi party democracy which allows for a president to be directly elected for a five year term, the constitution permits a president to serve for two terms. The president appoints the prime minister and the Council of Ministers. The 250 deputies of the Assembly of the Republic meet twice a year for lengthy plenary sessions, they also meet at other times during the year for more specialised committees. Mozambique has 11 provinces and each province is headed by a governor appointed by the president, each province is divided into districts. ■

THE JATROPHA OPPORTUNITY

Sun Biofuels is the leading investor in jatropha biofuels in Mozambique and Tanzania. Fuel produced from jatropha oil results in an estimated green house gas emission reduction of 70%. The company will be the first large scale producer of jatropha oil supplying both the domestic and international market.

MULTIPLE ENERGY USES:

Biodiesel: Mozambique is currently dependent on foreign imports. Moreover, most diesel engines need no modification at a blending ratio of 10% biodiesel.

Electricity generation: The oil can power modified diesel generators. Over 80% of fuel in East Africa is derived from wood and charcoal. The environmental impact of this reliance is devasting for the natural forest of Africa. Jatropha oil has the potential to remediate this situation. Only 2% of rural pop has access to electricity.

Bio-jet fuel: Jatropha bio-jet fuel has been tested successfully by several global airlines. With their upcoming entrance into the european emissions trading scheme (ETS), the global airlines will start paying significant carbon taxes. Bio-jet fuel reduces emissions by 68%, the aviation industry is potentially an enormous market.

Agricultural Opportunity: This new industry is a fantastic opportunity to Mozambique to develop its agricultural sector.

SBF's eleven farms total 5000 hectares and are sited on former tobacco plantations. By investing heavily in the farms SBF has delivered a new model for partnership and collaboration with its host country and the communities in which we operate.

We have invested in the soils, local infrastructure and basic needs of the local community. With USD 8 million invested to date the local economy has been transformed. We have brought in vital services and training and we support a myriad of service and supply industries. Over 1,000 jobs have been created and we have built a new school and clinic.

Alongside jatropha, the company also cultivates soya, sunflower, maize and castor – food crops that also present a commercial opportunity in the country and contribute to the food security of the community.

JATROPHA BIOFUELS – A GREAT OPPORTUNITY FOR AGRICULTURE IN MOZAMBIQUE

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Map No. 3706 Rev. 5 UNITED NATIONS
June 2004

Department of Peacekeeping Operations
Cartographic Section

The conference is supported by