

MOZAMBIQUE

Private sector poised for progress

The government faces huge challenges to lift millions of people from poverty into the consumer market, so it's working closely with private investors to diversify the economy and build the infrastructure needed for major mining and energy projects. Regional integration is a high priority. And tourism is booming, thanks to the safe and stable environment — **plus fabulous beaches!**



Wide open for business

Mozambique is a very poor country. But challenges can also spell opportunity, particularly when the government views private involvement and investment as a key part of the solution.

One theme underlies all economic and policy planning in Mozambique: the need to lift millions out of poverty. Easily said, and at first sight it might appear easily done, because the country enjoys so many advantages in terms of natural resources and location. But slow and messy decolonialization, followed by years of civil war, left Mozambique in tatters.

Today, that's fading into history. Things have been going well for several years, thanks to political stability, structural reforms, an improving business climate and rising investment. Economic growth averaged 7.1 percent a year in the period 1992-2001, the International Monetary Fund (IMF) reported, then ranged between 6.3 percent and 9.2 percent through 2010. This year could add a further 7.5 percent. Yet the size of the task remains daunting.

"During the 2005-2009 administration, we focused our attention on rural poverty; now for 2010-2014 our priority will be urban poverty, which is much more cruel," said Aiuba Cuereneia, minister of planning and development.

A stark example of the size of the challenge was recorded in two reports, both circulated by the government in January of this year. The good news: the school year started with an additional 511 new schools. The bad news: 700,000 students would still be having open-air lessons, due to the absolute lack of classrooms and the cash to build them. "This worries me greatly, but it's better than leaving kids at home," Education Minister Zeferino Martins remarked.

Mozambique's challenge spells op-

portunities for many foreign companies. FRELIMO, the former liberation movement and then Marxist-Leninist political party that has governed since independence in 1975, is now fully committed to capitalism. "Fighting poverty means always encouraging the private sector," said Cuereneia. "We know that the government can't do it all; we have to create the conditions for private business to act."

This implies major strategic infrastructure projects, many of them coordinated with neighboring countries and based on public-sector concessions, plus stimulus for regular private investment and efforts to diversify the economy, adding more local value. There are also grassroots programs for education, health and job creation.

Improving bottom-rung incomes will expand the market for services like mobile phones and banking that are now reaching down into new segments of the population.

"We are channeling the greater part of federal resources into sectors that we think can help reduce poverty," said Finance Minister Manuel Chang. "Right now, we are devoting 65 percent of public spending to social sectors, including health, education and infrastructure like highways, electrification, communications, drinking water and so on."

Mozambique is still heavily dependent on foreign aid and borrowing. The government's own receipts cover just 55 percent of spending; the other 45 percent must come from donations and institutions such as the World Bank, the African Development Bank, the Islamic Develop-





Facts

Decades of war and under development left Mozambicans amongst the world's poorest people.

- **POPULATION** 22 million, growing at 1.8 percent a year, 63 percent rural, male adult literacy 64 percent, female adult literacy 33 percent.
- **GOVERNMENT** Republican multiparty democracy; the directly elected president chooses the prime minister and 11 provincial governors.
- **OFFICIAL LANGUAGE** Portuguese, but most people speak one of several tribal languages.
- **CAPITAL CITY** Maputo (Lourenço Marques until 1976), population 1.3 million.
- **CURRENCY** Metical (meticaís, MZN or MTn); US\$1.0 = MZN32.5 in Jan. 2011.
- **GDP** US\$10.2 billion (2009 official exchange), projected growth 6.5 percent in 2010; 7.5 percent in 2011 (IMF/WEQ Oct. 2010), per capita GDP US\$463 at official exchange rate or US\$1,000 at PPP).
- **INFLATION** Projected: 9.3 percent in 2010; 5.6 percent in 2011 (IMF/WEQ Oct. 2010).
- **EXPORTS** Aluminum, prawns, cashew nuts, cotton, sugar, citrus, timber, electricity.
- **IMPORTS** Machinery and equipment, vehicles, fuel, chemicals, metal products, foodstuffs, textiles.

Symbols of national pride

Even as it gears up to host its biggest-ever international sporting event, the All-Africa Games, Mozambique said goodbye to its greatest painter. Malangatana Valente Ngwenya rose from rural poverty to exhibit in Europe and the United States; he died in January of this year at the age of 84. "Through his art, Malangatana showed our nation to the world," Mozambican President Armando Guebuza said at a state funeral.

The country will be the focus of international attention once again in Sept. 2011, when 6,500 athletes from four dozen nations compete in 23 sports at the 10th All-Africa Games, a four-yearly event recognized by the International Olympic Committee. It will be only the third time the event has taken place in southern Africa and the first time in Mozambique. An athletes' village is being built in Maputo comprising 106 four-story apartment blocks at a projected cost of up to US\$120 million, with Portugal picking up part of the tab. "This infrastructure is of great importance for the sports, and for the economy and social areas," the president said.



Around Mozambique: the capital city of Maputo; a bridge over the mighty Zambezi; and a beach at Inhambane, a coastline once visited by explorer Vasco da Gama.

ment Bank, Kuwaiti funds and others.

The U.S. government's Millennium Challenge Corporation has agreed to a five-year, US\$507 million compact to reduce poverty and boost growth, mainly in the center and north of the country. Projects include rural and small-town water supply, local transportation, land tenure improvement and family farm income support. Overall, the goal is to boost annual income by some US\$45 per head for for approximately 3 million people. This might not sound like much, but for many it could be a 10 percent hike.

Praising the U.S. program and the state of bilateral relations, Prime Minister Aires Ali Bonifacio said: "We have to work more with the American private sector; there's room for American companies here." ■

3 Leading players

Government and private investors are working together closely to develop the country's raw materials. Good infrastructure planning and sensible, equitable legislation pave the way for massive projects.



Ebbie Haan
Managing Director,
Sasol Petroleum
International

"For 50 years, there was no one willing to put US\$900 million into Mozambique, until Sasol came. We see Mozambique as an example to replicate of how we want to do an integrated value-chain from upstream gas to transmission and downstream modernization. It is growing in importance. It is a big investment, and it has a high profile."



Esperança Bias
Minister of Mineral
Resources

"In terms of minerals, Mozambique is basically divided into three regions, with one thing in common: there are hydrocarbons everywhere. The south is the best for building materials, while the center has more coal, gold and ornamental stone. The north offers the best prospects for pegmatites" (types of granite that can harbor rare elements, such as uranium, tungsten and tantalum).



Galib Chaim
Director, Vale
Mozambique

"Vale has been in Mozambique since November of 2004 when it won an international tender for a greenfield project to develop one of the world's largest coal reserves in Moatize, Tete Province. When we arrived here we were virtually pioneers in this process; today various other companies have come in with new investment. It's a clear sign that the country is proving to be viable and sustainable."

Country's fabulous future is buried in the ground – but not for long



Mozambique's resource wealth is nothing new. What has changed is the political and economic climate, which now gives companies the confidence to invest billions of dollars.

Sometime in the second half of 2011, all being well, long freight trains will haul coal 600 kilometers (373 miles) from a major new mine at Moatize in north-western Mozambique along a revamped railroad to a new ocean terminal at Beira port, launching what promises to be an important new chapter for the country.

"Coal will help develop other sectors; coal is the central product, but it will help development upstream and downstream because a mine requires various other sectors, from logistics and hotels, to agriculture and other industries," said Esperança Bias, minister of mineral resources. Her words are already coming true in the city of Tete, ground zero for the project headed by Brazilian mining giant Vale, which is tipped to require total investments of US\$1.3 billion. Construction of the huge mine has provided thousands of new jobs.

Vale is now building what it calls "one of the largest coal handling and preparation plants in the world," with the capacity to process 26 million tonnes per year. Other international companies are also invest-

ing in and around Moatize, although initial export capacity could be restricted by limitations on the rail line and port facilities. Some coal will be used locally in a planned major thermal power station; much more will go to export markets, with China, India and Brazil said to be interested.

Tete province isn't just about coal. In Jan. 2011, London-based Baobab Resources announced that initial prospecting results for iron, vanadium and titanium in the area were significantly better than expected, and that the company planned to step up activity.

In what amounts to a resource bonanza, Mozambique is also developing significant natural gas discoveries and evaluating possibly commercial oil strikes.

Nelson Ocuane, CEO of Mozambique's state oil company, ENH (Empresa Nacional de Hidrocarbonetos), said the government has studied the Norwegian experience, by designing a hybrid contract that combines taxes and production sharing, to make sure oil and gas strikes benefit both the investor and the country. ■

→ Q&A *Aires Bonifacio Ali* Prime Minister

“All wealth is the fruit of hard work”



Aires Bonifacio Ali, 55, was governor of Inhambane province (2000–2004) and education minister (2005–2010) before being named prime minister in January 2010. He is a member of FRELIMO, the former guerilla movement that has held power since independence in 1975.

Prime Minister, at the start of your public career, you were very involved with education. How does that experience influence you today?

Mozambique went through some very difficult times because of the war; neither our human nor our natural resources could be properly used. Now we have the chance to awaken this dormant capacity, particularly in terms of people. That's why we're investing so much in fundamental education, technical training and higher education. We can attract investors for big projects, but without ample and strong participation by Mozambicans these won't be sustainable.

How do you plan to reduce poverty in Mozambique while at the same time decreasing your dependence on foreign aid?

First of all, through hard work. Our greatest task, looking ahead, is to instill awareness that all wealth is the fruit of hard work and requires great sacrifice. We must find a way to quickly make up the ground we lost, and the negative influence of the war – 16 years that threw the workforce into something like compulsory vacation, where factories simply shut down. We have people who went 16 years with no experience of working; the economy was completely destroyed. So

to pull ourselves back up requires an additional effort. It's something we all need to be aware of – workers, businessmen and investors – so that we can get organized and everyone can carry out his role and responsibilities so we can produce more. For me, that's the great secret.

How do you propose changing popular attitudes?

We're working on that right now. Our first great priority is access to basic education – reading and writing. Then you can have dialogue and interaction between the various players, employers and employees, and they can understand that everyone is in this together. When a project doesn't go well, it's bad for the boss and also the worker. So bosses must demonstrate entrepreneurship and creativity, while workers need to show responsibility and dedication. And both must work hard.

But in addition to hard work, you need a strategy with a definition of priorities. ...

Certainly, and we have defined agriculture. We're placing a very high priority on food production, particularly cereals, because we have to achieve self-sufficiency. There's also space for various cash crops, nuts for example, and we're looking at a major

reforestation program. Some areas will be replanted with eucalyptus and pine and others with native species. With these new plantations we will be able to develop industries like paper and rubber. We might also develop alternative crops for biofuels. We also have to invest a lot in irrigation; we have many rivers, and often they are not well used.

Agriculture includes processing?

Certainly. We need to have more factories in Mozambique to provide more jobs, train people and develop their skills. That will help our domestic production integrate with international sectors, but the starting point is domestic production. Without that, we will never escape from poverty.

Does this mean attracting investment?

Of course, it does. These days no country can progress without cooperating with other countries, be they neighbors or more distant. So we are creating the right environment and inviting everybody. I have made various contacts with Asian countries, Great Britain and some Nordic countries, for example. And when our president goes on foreign visits, he always takes Mozambican businessmen with him.

Power: pathway to prosperity



Mozambique is blessed with significant energy resources. The challenge is to enlist private-sector cash and competence to harness them for social and economic development.

Hydropower, natural gas, coal, wind, solar, biofuels and now maybe — just maybe — oil. It's the kind of broad-based energy portfolio many countries would long for, and Mozambique has it. As the country looks to its future, energy should not be a problem, and indeed the government plans to continue exporting electricity.

"Energy is strategic to our fight against poverty," Energy Minister Salvador Namburete said in an interview. "It must be used not just to switch on lights and say that the darkness is over; it must be used productively."

Although Mozambique has sold surplus electricity to neighboring countries for years, just a minority of Mozambican homes have power, perhaps 15 percent. So one key government goal is investing in transmission, which remains under state control. Distribution and generation, which are both open to competition, also require investment.

Electricidade de Mozambique (EDM), the state-run utility, scheduled US\$289 million for electrification programs in the period 2010-2013. Some 3,600 kilometers (2,200 miles) of transmission and distribution lines were added in the last five



years, and various new hydro-power stations are under construction, Namburete said. The country's total hydro-generation capacity could be around 12,500 MW.

Namburete said his country will seek to develop in a sustainable manner but that does not exclude using more of its coal deposits for additional thermal generation, albeit in the cleanest way possible. "There are stages in development that cannot be taken without some pollution," he said.

The country has prepared a long-term

biofuels strategy that reflects the potential for creating wealth among family farmers. And much of the 2,800-kilometer-long (1,739-mile-long) coastline has the potential for wind power.

The biggest "question-mark" is oil. Texas-based Anadarko last year announced an oil strike off the northern Mozambique coast, although it was too early to say if the discovery indicated a commercially viable field. The region also has natural gas. ■



Cahora Bassa

Giant dam, symbol of past and future, sparks hope and controversy.

Built across the Zambezi River in the 1970s, Cahora Bassa has over the years symbolized colonial rule, a dash for regional development, postcolonial disputes, civil war destruction and, finally, the promise of independent prosperity. Portugal sold Mozambique 85 percent of the 2,075-MW power station in 2007, after years of bickering about debts incurred to repair damage during the war. Now construction is scheduled to begin in 2011 on a second dam at Mphanda Nkuwa, 60 kilometers downstream,

which will produce an additional 1,500 MW. Mphanda Nkuwa is likely to repeat the Cahora Bassa model of selling most of its power to South African industrial users under long-term contracts. Environmentalists complain that dams on the Zambezi are degrading the river, but authorities say flood control has improved. The Cahora Bassa lake is attracting a growing sportfishing industry catering to foreign tourists. Tigerfish of up to 14 kilograms (30 pounds) have been reported.

A powerhouse, open for business

"Our law clearly states that the energy sector is fully open to private participation," said Energy Minister Namburete. Projects are structured as Independent Power Producers, so they are developed by a private company or consortium under a government concession. "We now have some US\$20 billion of investments under way in electricity and fuel, including biofuel, but the state share is under US\$1 billion." Three key players, Britain's BP and Mozambican companies EDM and fuel distributor Petromoc, both state-run, describe their plans:



NUNO DE OLIVEIRA
CEO, Petromoc

"Our major objective is for Petromoc to be a self-sustaining company that does what it was created to do: ensure that energy resources are transported and made available to all Mozambicans, wherever they live. A person in (the remote, less-developed northern province of) Niassa must be able to buy one liter or 50 liters of gasoline. This requires distribution and storage infrastructure."



MANUEL CUAMBE
Chairman, EDM

"Our focus is on expanding access to electricity — expanding our grid to the whole country. Right now, we're supplying 90 of Mozambique's 128 county seats, and we'd like to have them all hooked up by 2014. We don't have money to do this, but we have enough to reach 115. Currently, we supply around 15 percent of Mozambicans (out of a population of 23 million), and we are adding around 600,000 (people) every year."



MARTINHO GUAMBE
General manager, BP

"Early this year (2010), BP announced a strategic decision to end its operations in a number of African countries, the exceptions being South Africa and Mozambique. We told the governments in those two countries about our plans to invest and grow our business. Mozambique offers good opportunities. ... We are very ambitious; we plan growing our market share (currently around 35 percent)."

Exploring business opportunities in Mozambique?

**Have you found it difficult to get information on investment procedures?
Do you need to understand the tourism business climate?**

If your answer to any of these questions is yes, the Investment Climate Library should be your first port of call. Here you find, free of charge, a wealth of studies, guides and legislation helping you to invest and do business in Mozambique.

The Investment Climate Library is produced by the Mozambique Anchor Tourism Program, a joint initiative on IFC, a member of the World Bank Group, and the Government of Mozambique.

For more information, please visit www.tourisminvest.org/mozambique



MOZAMBIQUE



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➔ *How they view it*



Paulo Zucula
Minister of Transport
and Communication

“Mozambique is a gateway into and out of countries that lie inland, even South Africa. We are a key factor for integration of the region, for economies within the Southern African Development Community (SADC), because without infrastructure there will be no competitive commerce. What’s new is that Mozambique will increasingly be not just a service supplier but also a player in developing the SADC. We have the greatest amount of clean energy, apart from the Congo, and the largest reserves of farmland; we use just 5 million hectares out of our 36 million total. Agriculture, tourism, transportation and energy are the foundation of economic integration, and they’re based in Mozambique.



Ghassan Ahmad
Chairman,
Kudumba
Investments

“Kudumba is an integrated border security solution; we provide the government with infrastructure, equipment, maintenance and training in the area of border security. We also do other services — surveillance, access control, CCTV, radiation control, perimeter control, narcotics and explosion-detection equipment. Mozambique is a very good place to invest; it’s a country with lots of potential. The African continent as a whole is the new frontier for the next decade. And Mozambique is one of the most stable countries in Africa to invest in.”



Francisco Pereira
Chairman,
Mozambique
Road Fund

“Our goal is to develop the concept of intermodal transportation, working with the Ministry of Transport. Not everything should go by road; we need connections via railways, rivers and sea routes. Our plan is based on integration, and we need to do more to make sure that investments can be profitable. One of our guiding principles is transparency and good governance — that’s fundamental. We are acutely aware that there is no development without infrastructure, so our role is fundamental, we can speed up or slow down progress.”

Regional corridors represent public-private pathway to prosperity

Less than one-tenth the size of the United States, Mozambique is shaped like a crazy jigsaw-puzzle piece, with 4,500 kilometers (2,800 miles) of land borders and six neighbors, four of them landlocked. Regional integration is a must.



Working with your neighbors always sounds good, but for Mozambique it’s a fundamental part of the growth strategy. So much of the country’s future prosperity is tied to the development of southeast Africa, that many of the major infrastructure projects are components of ambitious regional development corridors. The 15-country SADC Southern African Development Community (SADC) has identified 12 such corridors, no less than seven of which cut through Mozambique. Three, in particular, are emerging as major focuses for public and private investment, much of it via concessions.

The Maputo Development Corridor is the oldest and so far the most important. It runs almost 600 kilometers (373 miles), from Johannesburg in South Africa to Maputo Port in Mozambique, and has spawned several billion dollars of investment in industry, agriculture and mining. The infrastructure backbone of highways, railways, pipelines and electric power transmissions has been progressing, but it’s still a work in progress.

The long-term goal is for Maputo to challenge Durban, South Africa’s busiest port, as an option for foreign trade.

“Ultimately, we want Maputo to be the first choice for the region’s importers and exporters,” said Brenda Horne, CEO of the Maputo Corridor Logistics Initiative (MCLI), a nonprofit business organization that promotes development and investment along the corridor.

According to Horne, when the MCLI was created in 2003, it faced four major challenges: how to expand and upgrade the rail links; get rid of red tape at the border; promote the corridor to investors; and attract more shipping services. These private-sector goals complemented the major infrastructure improvements that the Mozambique government was developing at the port, where Dubai Port World and South Africa’s Grindrod are oversee operations. Now the port’s master plan calls for annual cargo to rise from a projected 8.7 million tons in 2010 to 26 million by 2015 and 40 million by 2025.

Container volumes at Maputo doubled to 11,000 a month in 2009, after shipping

giant Maersk added a weekly service to the port, and customs procedures around Mozambique have improved dramatically thanks to an innovative collaboration. A private company called Kudumba Investments is providing state-of-the-art technology, including container scanners and airport X-ray machines under a 20-year, build-own-operate-transfer concession. Government agents monitor the images at a remote location, without knowing details of the owner or shipper. "This eliminates fraud; it prevents people from getting together to pass something," said Kudumba's Ghassan Ahmad. The system has reduced container clearance time at the port from four days to three hours, he added.

Two other important corridors run from the northern port of Nacala up into Malawi, and from Beira Port inland to Zimbabwe — an important route for fuel. Scheduled port and rail investments in-



clude US\$1.5 billion at Nacala, US\$700 million at Maputo and US\$300 million at Beira, Transport Minister Zucula said, with plans through 2020 totaling US\$20 billion.

Outside of the corridors, other priorities include a new deep-water port just south of Maputo, and airport expansion at Maputo, Nampula, Beira, Tete and Ilhambe. Some US\$4 billion will be invested in highways nationwide through 2014, said Francisco Pereira of the Road Fund, and the corridors are a priority. ■

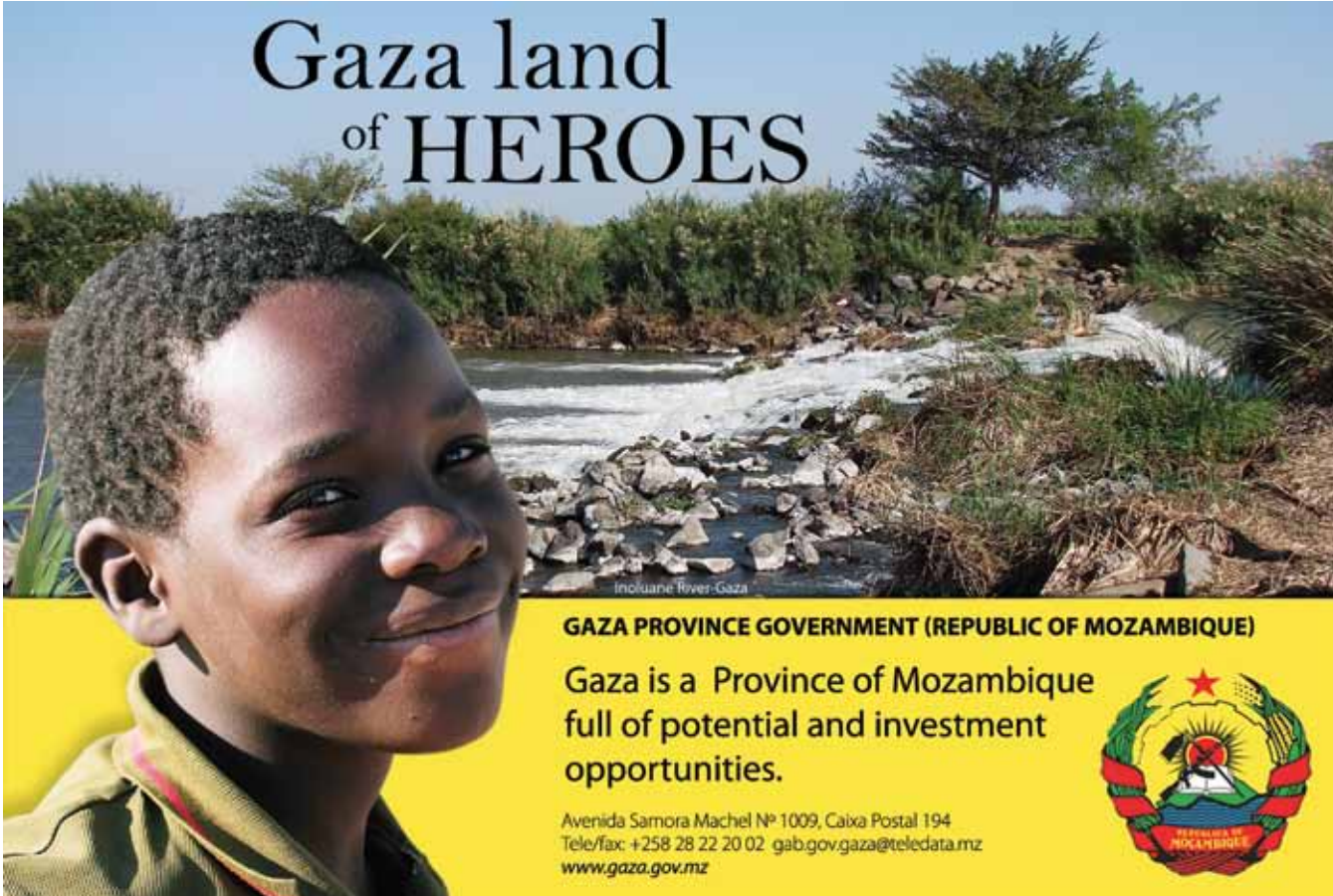
Spotlight on **mcel**



SALVADOR ADRIANO
CEO

The largest of three mobile telephony companies operating in Mozambique, the state-run mcel has roughly 4 million clients and 66 percent market share. It competes against Vodacom Mozambique, and a second private operator is due to enter the market. With 62 percent geographic coverage and the potential to reach 83 percent of the population offers customers 3G and BlackBerry service. Mozambique has roughly 6 million mobile subscribers, just over one in four of the population, but as the market expands most additional clients will come from lower-income groups. "They can spend only US\$2 a month, or even less, and often that doesn't pay for our expansion investment," said mcel General Manager Salvador Adriano. "We have to be innovative to maintain profitability."

Gaza land of HEROES




Inkluane River-Gaza

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“Magic in a magical land”

“I like to spend some time in in Mozambique. The sunny sky is aqua blue,” so sang Bob Dylan back in 1975, and the country remains just as attractive. The challenge lies in building up its infrastructure and facilities and then spreading the word effectively.



Focus on Inatur

Inatur, the National Tourism Institute, is Mozambique's main weapon in the battle to attract foreign tourists. The state-run agency says that Mozambique can cater to just about any type of tourism; the challenge is transforming potential into reality.

It's not just a question of seeing that the right infrastructure gets built, but also ensuring the industry has good projects, and conditions that are propitious for business.

Inatur has three lines of credit, all basically for local companies. One is micro-finance, for example to help a restaurant buy new crockery; one is for projects in the US\$50-70,000 range, typically a small guest-house; and the last is for projects up to US\$100,000. The agency is also promoting Kapulana Hotels, a chain of mid-range outlets around the country that could soon be opened up for franchising by local or international investors.



Foreign tourism has recovered strongly since the civil war ended in 1992, with arrivals more than doubling from 2004 to 2008, to now stand at more than 1.5 million visitors per year, according to Tourism Minister Fernando Sumbana. Most come from neighboring South Africa, particularly for Christmas, New Year and school vacations, and the number could grow further with the 2010 introduction of budget flights on the Johannesburg-Maputo route.

“International tourism is one of the main components for stabilizing our bal-

ance of payments,” Sumbana said. “We know we can do much more.”

Mozambique is working with neighbors Swaziland and South Africa to promote regional packages. One example might be two nights at South Africa's Mpumalanga nature reserve, five nights in and around Maputo, then a couple of nights in the fascinating tribal kingdom of Swaziland.

London, Berlin, Spain, Portugal, China, Italy, South Africa and the United States are among target markets for the country's promotion activities, Sumbana said. ■

Kudumba, Investments, Lda.
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TOP 5 Destinations

Beaches, fabulous restaurants, street markets, colonial history, wildlife. ... Mozambique offers just about everything. Here are five great options to start with:



Inhambane (photos 3 and 5) is 480 kilometers (298 miles) by road up the coast from Maputo; it's a laid-back old town on a headland overlooking a large bay that's great for snorkeling and diving. Tofo Beach, a fast-rising sun-seeker's paradise, is near by.

The **Island of Mozambique** (photo 4) goes back to pre-colonial times. It was an important trading post for Arab merchants long before Vasco da Gama arrived in 1498, starting centuries of Portuguese dominance — the island was a slaving center and the colonial capital until 1898. Now a U.N. World Heritage Site, Mozambique Island lies off the northern shore, close to Nacala, and has some fine old colonial buildings and gardens.

Maputo, the capital, used to be called Lourenço Marques. It's the largest city, with slightly more than 1 million inhabitants; Mozambique's capital offers a vibrant mix of old and new, with modern hotels and the classic old Polana Serena Hotel (photo 2), great restaurants, a fascinating traditional market, busy beaches, and much more.

The **Quirimbas Islands** (photo 1) off the Northeast coast offer spectacular swimming and diving.

Niassa Reserve (photo 6), fairly remote in the north, is the largest (10 million-acre) protected region in the country. Wildlife includes sable antelope, elephant, cape buffalo, impala, wildebeest, zebra, leopards and African wild dogs.



3



4



5



6

PAVING THE WAY
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**Ibraímo Abdul
Carimo Issufo Ibraímo**
CEO and Executive
Chairman, BCI

“I’m optimistic; Mozambique is politically and structurally stable, and few countries in Africa have such operationally functional institutions.

BCI is Mozambique’s second-largest bank; originally a small investment bank, it was acquired in 1997 by Portugal’s Caixa Geral de Depósitos (CGD). Portuguese financial group BPI also took a stake, so now CGD has 51 percent, BPI has 30 percent and local investors have 19 percent. Today, BCI has 76 branches and around 200,000 clients, focusing mainly on retail, where its market share is around 26 percent of deposits and 35 percent of lending. Ibraímo Ibraimo, CEO and executive chairman of BCI, said that 55 branches had been added in the past two years, boosting transactions five-fold. This growth prompted him to hold an urgent meeting

with shareholders, explaining that the changing international scenario, Mozambique’s booming economy and the rush of new players into the country’s banking sector demanded a strategic rethink. “I laid out three scenarios,” he explained. In summary, these were — hold the current course, and see market share slide; consolidate second place; or invest to be leader within seven years. “They chose the third option. ... The BCI board decided to double the bank’s capital over the next three years, so our current own assets of US\$80 million will receive another US\$80 million, and this will allow us to expand,” Ibraímo said.



Potential you can bank on!

Mozambique banking is booming. New players are coming in and branches are opening. For the government, building a solid financial infrastructure is just as important as constructing roads and railways.

Local bankers say that less than 10 percent of Mozambican adults have bank accounts. That compares with a global average of around 38 percent, according to World Bank figures. Even among developing nations, the average is around 28 percent — all of which shows the potential for growth. This, in turn, explains the interest.

Currently, the country has 15 banks operating, many with partial foreign ownership.

“My information indicates that the number of operating branches rose to 374 in August of 2010, with 58 of our coun-

ties now served, up from just 28 in 2007,” said Finance Minister Chang. However, many banks have also been investing heavily in ATMs.

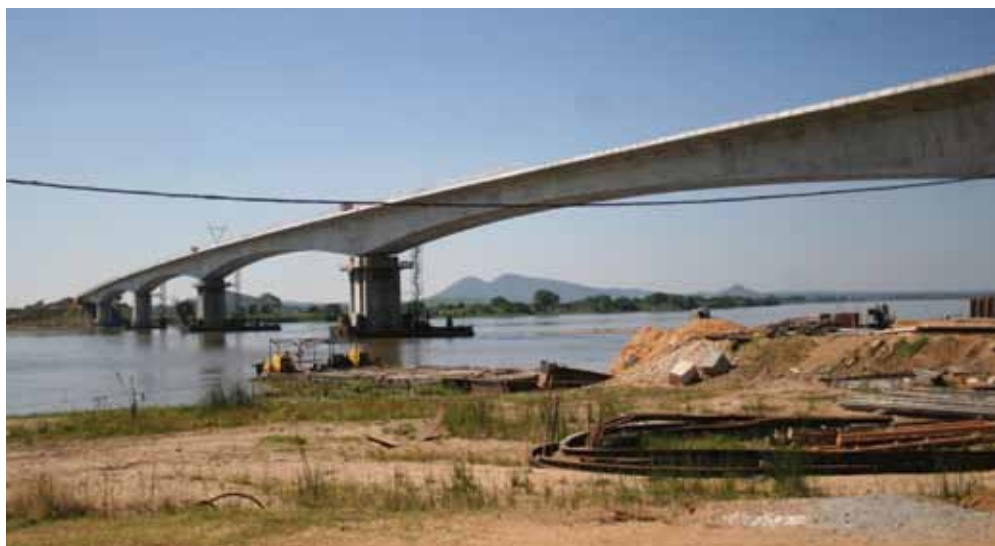
“Our strategy will always be to create the basic infrastructure, starting with the highways, communications and electrification, and to encourage financial institutions to open up branches in new places,” Chang said.

With services like banking and mobile telephony now penetrating previously unserved, low-income rural areas, there is obvious scope for synergy. ■



BANKS TO WATCH

- 1 BANCO ÚNICO** — A new bank, created in June 2010 and due to start operation in early 2011, with a strong focus on retail. Control is exercised by Portuguese groups Amorim and Visabeira via a holding company called Gevisar. Mozambican investors hold a minority stake that could rise to 49 percent over time. “The market today has not yet the depth and breadth that it needs in all the different places and regions of the country, but where it is operating it has the ability to offer any product or instrument that is available internationally in the basic banking market,” said CEO João Figueiredo.
- 2 MOZA BANCO** — Created with corporate, private and investment banking divisions, Moza Banco was originally 51 percent owned by Moçambique Capitais, a grouping of more than 200 local investors, and 49 percent by Geocapital, a Portuguese-Macanese investment company. In 2010, Portugal’s Banco Espírito Santo bought roughly half of Geocapital’s stake for a reported US\$35 million. “We will be able to expand from our current two branches to 30 branches around the country; each branch requires US\$500,000 to US\$700,000, depending on location,” said Moza Bank President Prakash Ratilal.
- 3 MILLENNIUM BIM** — Mozambique’s largest financial group, formerly called Banco Internacional de Moçambique, S.A. It is majority-owned by Portugal’s Millennium BCP, with local state and private minority partners. Millennium bim reports a 40 percent market share with the country’s largest network of some 86 branches serving some 500,000 clients. “Our specialty is retail, although we also have an investment bank,” said Board President Mario Machungo. “We have to meet all our clients’ needs, be they for investment, insurance, leasing, corporate and so on.”



Heading up-country, where the money is

In the past, at the risk of over simplification, Mozambique had industry in the south around Maputo and close to South Africa; agriculture in rich northern farmlands; and pockets of tourism along its fabulous beaches. Now, as the country improves infrastructure, development continues to spread wider.

The airstrip at Nacala, the country's sixth-largest city, used to be a military base. Today it's a key part of an ambitious plan to promote an economic development zone at the end of the Nacala Development Corridor, leveraging the deepest natural harbor in East Africa.

"We have drawn inspiration from Asian models," Planning and Development Minister

Cuereneia said in an interview. "We are transforming the air base into a regional hub for international flights." That development, plus the port and transportation corridor into the Congo, suggests potential for logistics, manufacturing and processing.

Nacala is just one of various economic development zones the government is promoting.

"We need to take develop-

ment into the more remote areas; that's where the people need it," said Lourenço Sambo, general manager of the government's Investment Promotion Center. "We have been working with universities and technical schools to identify synergies."

Gaza province, in particular, has benefitted from its proximity to Maputo and South Africa. ■

face to face



RAIMUNDO DIOMBA
Governor, Gaza Province

Everyone has heard about Maputo, but Gaza Province is also booming. How do you get investors' attention?
Well, we have to show our potential — for example in agriculture, hydropower and tourism.

What projects are happening now?
We're upgrading the main highway and other infrastructure for tourism, and we're investing in agricultural infrastructure.

What are the opportunities?
We are studying dams on the Lapopo River so that the north of the province could grow crops — now it's mainly animal pastureland-land.

What about minerals?
Studies are still going on, but it's a question of (determining the) quantity. We have heavy mineral sands at Xicuto and Xai-Xai, and investors have been looking at it. We have lots of limestone, and the goal is to have a cement factory here.

And oil?
I have to be cautious. There are indications, but nothing is confirmed.

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Increasing yields is key to farming fortune

According to Prime Minister Aires Bonifacio Ali, agriculture is right now the top development concern. “We are giving great priority to food production, in particular cereals, so that we can be self-sufficient.”



A land of opportunities

Some of Mozambique's agricultural advantages, according to Cepagri:

- Public farm land available: 6.95 million hectares.
- Top provinces: Zambézia, Niassa, Inhambane, Gaza.
- Land is not sold; it is a 50-year renewable state concession.
- Price per year per hectare (2009, approx.): US\$0.08 for ranchland; US\$0.58 for arable land.
- Abundant water resources in most areas.
- Opportunities: rice, high-value tropical fruits, peppers.
- Advantages: counter-seasonal production; preferential access to SADC and European Union (EU).

Just a few figures reveal Mozambique's desperate situation, the result of decades of under development and war. Around 70 percent of people are directly or indirectly involved in farming, the majority of them women, but they use only a fraction of the potential arable land and produce insufficient food. This means valuable foreign exchange must go to imports.

Recent data from the agriculture ministry's Agriculture Promotion Center (Cepagri) showed Mozambique producing 220,000 tons a year of rice, against a demand for 540,000 tons, or 18,600 tons of poultry against a demand for 36,000 tons.

“A major problem is that our agricultural yields are very low, which means that farmers earn very little,” an Agriculture Ministry official said. “To make farming profitable, we have to increase

yields, which means using better-quality seeds. We need to transfer technology and greater know-how to producers, who are mainly family farmers.”

The government is trying to set aside 10 percent of the national budget for investment to boost farming, but so far it is struggling to get to 8 percent.

Mozambique's productivity drama is evident. Rice farmers, for example, produce an average of 1 ton per hectare — roughly half of the average in India. Sugarcane farmers grow enough to export, but their yield per hectare is about 80 percent of Brazil's level. The country also sees agriculture as a key provider of raw materials for local processing which adds value.

Cepagri promotes agriculture opportunities to foreign investors and has reported success in biofuels. One such

project involves Principle Energy, an international company that focuses on renewable energy in southern Africa. The company is putting a reported US\$450 million into a 23,000-hectare development at Dome on the Buzi River in central Mozambique. An ethanol distillery is scheduled to come on-stream in 2013, crushing 2.5 million tons of irrigated sugarcane per year to produce 65 million gallons of fuel ethanol and about 13 MW of saleable electricity, the company said. The project includes schools and a health center, and it should provide 1,600 direct jobs, generating significant indirect economic activity as well.

The main export market for the ethanol was reported to be the United Kingdom, via Shell. Cepagri noted that as a less developed country, Mozambique can export ethanol duty-free to the EU. ■



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