

MOZAMBIQUE LOOKING TO REBUILD ITS ECONOMIC CONNECTIONS - VIEIRA DE ALMEIDA

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A focus is placed on rebuilding and restoring Mozambique's transport and communications infrastructure and to restore its position as a regional conduit to neighbouring landlocked countries.

But questions still remain around the strength of domestic project finance law and the transparency of public procurement processes, says Manuel Protásio, partner with Vieira de Almeida in Lisbon, which operates in association with prominent local firm Furtado Bhika LoForte Popat & Associados.

“Railway and port charges once made up a large share of Mozambique’s public revenue and rail, road and port handling were major service industries. But a lack of basic infrastructure now poses significant problems even for those companies operating within the country,” he says.

There is a significant difference in infrastructure penetration between the extreme south of Mozambique, and the capital Maputo, and the rest of the country, he says. A feeder “corridor” approach is therefore being taken to rebuilding transport networks and in order to provide export outlets for mineral and agricultural resources extracted from within the country and from neighbouring Malawi, Zambia, and Zimbabwe.

“Cross-border M&A legal work remains at a reasonable pace, in particular in countries where equity prices have lowered.”

Jaime Folguera, Uria Menéndez

“Mozambique has implemented various programs to restore its road system and is extending those efforts with the aid of international donors and already a large part of the network has been rehabilitated. In addition, infrastructure privatisation plans are also now

complete although in many cases a State monopoly was largely replaced by a private monopoly,” says Protásio.

A corridor approach is likewise being taken towards rebuilding Mozambique’s railway network, with a focus particularly on reconnecting the country’s ports. Various programmes are now underway, including a \$100m loan over 40 years by the World Bank, to improve lines and by granting concessions for local connections.

Significant emphasis is also being placed on rebuilding Mozambique’s electricity network. Consistent access to the grid is a major issue. Nearly all of Mozambique’s electricity is produced by the Cahora Bassa Dam, southern Africa’s largest hydropower project, although around 60% is used by the local Mozal aluminium plant, and a third is exported to neighbouring South Africa and, to a lesser extent, Zimbabwe.

“In 2003, a National Poverty Reduction Action Plan goal was established to electrify the 128 district capitals but as of today 60 districts remain without electricity. There is not even a direct line to Maputo province, the main consumption centre, instead it goes via South Africa,” says Protásio.

Mozambique’s Government seems however committed to developing new projects and willing to attract foreign investment. Efforts are being made to create a more robust legal environment while a “can do” business atmosphere is evident.

A new tax benefits package and foreign investment incentives, together with the simplification of business start-up rules – eliminating bank deposit and minimum capital requirements – along with administrative improvements all help illustrate the Government’s new strategy, says Protásio.

Nonetheless, challenges still exist. Mozambique lacks a transparent legal framework defining the basic rules applicable to parties in the procurement, construction, maintenance and operation of public sector projects.

“There are drafts of a new public–private partnership (PPP) and ‘mega projects’ law although they remain controversial, encompassing a huge commercial scope. It remains difficult therefore to predict their final composition and even when they will be approved.”

The better regulation of PPPs bringing greater transparency into the private sector management process is widely welcomed, but there is concern that the draft laws as they stand may conflict with existing project agreements, he says. The draft laws propose the renegotiation of all concessions entered into in order to conform with the new laws.

"It is currently common to see both Anglo-Saxon and Portuguese project finance models being followed. Projects in Mozambique are often influenced by the contracting parties' nationalities as well as by the need to comply with project supporters' requirements – more than half the Government budget depends on international donors."

Theoretically the leading domestic banks are prepared to support projects but there have been hurdles associated with the provision of security as well as a low degree of confidence in businesses plans, says Protásio.

"It is therefore outside Mozambique that the emphasis is being placed both for funds required to build the country and legal terms necessary to regulate projects."