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Mozambique Country report

For the SADC-DFRC 3P



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1 Overall evaluation of Mozambique's readiness for PPPs

1.1 Background

We evaluated the Member Country by looking at 6 broad categories, containing a number of sub-categories. The six ('6') broad categories include:

- Attractiveness of the member countries
- Availability of domestic capital and debt funding
- Judicial system
- Governance and decision making
- Ease of doing business in the member country
- PPP environment in the member country

The information and indicators were obtained from external sources like World Bank, World Economic Forum, IFC, Ibrahim Index of African Governance, KPMG country reports and actual visits to the member countries (with exception to three ('3') countries, namely , Democratic Republic of Congo, Swaziland and Seychelles). Where possible, KPMG utilised its in-country office to address the categories and answer questions surrounding the projects.

On the country visits we meet with the member country's PPP unit, Mr. Luis Matsinhe – Head of PPP Unit and Megaprojects (Ministry of Finance) and Mrs. Sónia Deus – Lawyer/Procurement advisor (Ministry of Finance).

We also discussed these topics with Mr. Inaete Merali, CEO of Mozabanco. Previous discussions were held with Millenniumbim and Standard Bank.

Each sub-category was rated either one ('1'), two ('2'), three ('3') or four ('4') based on the indicators from various reputable sources. Where one ('1') and two ('2') refers to "Developing towards PPP readiness" and three ('3') and four ('4') indicates a "Maturing level of PPP readiness". Where no information was available, no value was given. Where there was an element of subjectivity, KPMG, based on years of experience, applied its own mind in coming up with a value. The overall broad category value is addressed in more detail below.

1.2 Attractiveness of Mozambique

Attractiveness of the member country	Source of information	Findings
GDP % growth for last 3 years	World Bank data used for 2011	7.10%
Actual GDP in numbers (size of economy), current USD\$	World Bank data used for 2011	12 762 040 281
Lending Interest rates	World Bank data used for 2011	19.1
Inflation rate	www.tradingeconomics.com/country-list/inflation-rate	4.79%

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Credit Rating	Country Visit	B+ (S&P and Fitch)
Political Stable and Absence of Violence (rating of 0 to 100)	Country Visit	57.1
Macro-Economic Environment (score 1 to 7)	Country Visit	3.66

Attractiveness of Mozambique, overall result is a two ('2')

Mozambique has been growing at an average rate of 7.10% over the last three years and had a GDP of USD12,762 billion in 2011. The countries GDP per capita is around USD1,200 per annum which means its people are amongst the poorest in the world. Its credit rating of B+ from S&P means that it is sub-investment grade. However, its political stability and absence of violence rating has increased steadily to 57 out of 100 reflecting the improvement in investment environment. Its bountiful natural resources make it a country with high levels of interest from foreign investors. This analysis results in an overall value of two ('2'), Mozambique is thus considered "developing" in terms of this category.

1.3 Availability of domestic capital and debt funding

Availability of domestic capital and debt funding	Source of information	Findings
Number of banks	Country Visit	15
Number of equity investment funds	Country Visit	n.a.
Number of pension funds	Country Visit	n.a.
3 year history of bond issuance	Country Visit	Mozambican Government issued in April T-Bonds worth USD 16m. According to Domestic Debt Plan for 2013 the plan is to issue MT 3.5bn (USD 120m) in the current year. There is a track record of bond issues (placed in the local market) but they are very small in size. There are approximately 15 T-bonds and T-Notes outstanding with tenors of around 3y-5y. The market has barely any liquidity. Main corporations (MOZAL, ENH, EDM and banks) have issued corporate bonds in recent years. The aggregate raised amounts are still quite small.
Assessment of available capital (local) for investment	Country Visit	Local banks have no capacity for project finance deals. At most they will issue equity guarantees, but even here will be for small amounts. The only exception are large international banks like Barclays, Standard Bank, Standard Chartered who have appetite and capacity for these transactions and will use their parent companies abroad to raise finance for these large scale deals. Concessional loans are also available from foreign governments (bilateral agreements - e.g. mostly coming from China) and other multilaterals (COMESA, World Bank, and other DFIs etc). Most of the projects that are getting close to financial close stage will use a combination of project finance and ECA financing. As the lending rates are still attractive, there is a market for syndication.

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Availability of domestic capital and debt funding in Mozambique, overall result is a two ('2')

Mozambique has very limited local debt and capital markets. Although there are 14 banks registered in the country, their capacity for long term, high value investments required for infrastructure is extremely limited. Offshore banks with local subsidiaries are higher potential in this regard but currency mismatches require mitigation. Concessional loans from Development Finance Institutions plays a large role in the country and will continue to do so for the next few years.

Capital markets are developing but remain small. A mix of sovereign and corporates' bond issuances have been undertaken in the last few years and succeeded in creating a trading market, although the amounts are relatively small. This analysis results in an overall value of two ('2'), Mozambique is thus considered "developing" in terms of this category.

1.4 Judicial system

Judicial system that contributes to effective commercial dispute resolution	Source of information	Findings
Enforcing Contracts (country ranking from 1 to 185)	Doing Business 2013 – The World Bank and IFC (ranking 1 to 185)	132
Rule of Law (rating of 0 to 100)	Governance indicator, World bank, 2011 data	33.8

We used the key indicator 'Enforcing Contracts' from Doing Business as they focuses on how public institutions function in the case of a commercial dispute¹. Doing Business measures the time, cost and procedural complexity of resolving a commercial lawsuit.

Judicial system of Mozambique, overall result is a one ('1')

Enforceability of contracts has improved but Mozambique still ranks low in the third quartile at 132nd in the world and its Rule of Law rating is 33.8 out of 100. This analysis results in an overall value of one ('1'), Mozambique is thus considered "developing" in terms of this category.

1.5 Governance and decision making

Governance and decision making in member country	Source of information	Findings
Institutions (score 1 to 7)	The Global Competitiveness Report 2012-2013, World Economic Forum (score 1 to 7, with 7 being the best)	3.35

¹ Doing Business 2013, the World Bank and IFC

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Africa's Governance (score out of 100)	Ibrahim Index of African Governance (score out of 100)	55
Voice and accountability (rating of 0 to 100)	Governance indicator, World bank, 2011 data	44.1
Government effectiveness (rating of 0 to 100)	Governance indicator, World bank, 2011 data	35.5
Regulatory Quality (rating of 0 to 100)	Governance indicator, World bank, 2011 data	37
Control of Corruption (rating of 0 to 100)	Governance indicator, World bank, 2011 data	41.7

Governance and decision making of Mozambique, overall result is a two ('2')

Mozambique was given a rating of 55 out of 100 for governance by the Ibrahim Index of African Governance and a government effectiveness rating of 35.5. This analysis results in an overall value of two ('2'), Mozambique is thus considered "developing" in terms of this category.

1.6 Ease of doing business in Mozambique

Ease of doing business in the member country	Source of information	Findings
Starting a business (country ranking from 1 to 185)	Doing Business 2013 - The World Bank and IFC (ranking 1 to 185)	96
Dealing with Construction permits (country ranking from 1 to 185)	Doing Business 2013 - The World Bank and IFC (ranking 1 to 185)	135
Getting electricity (country ranking from 1 to 185)	Doing Business 2013 - The World Bank and IFC (ranking 1 to 185)	174
Register property (country ranking from 1 to 185)	Doing Business 2013 - The World Bank and IFC (ranking 1 to 185)	155
Getting credit (country ranking from 1 to 185)	Doing Business 2013 - The World Bank and IFC (ranking 1 to 185)	129
Protecting investors (country ranking from 1 to 185)	Doing Business 2013 - The World Bank and IFC (ranking 1 to 185)	49
Paying taxes (country ranking from 1 to 185)	Doing Business 2013 - The World Bank and IFC (ranking 1 to 185)	105
Trading across borders (country ranking from 1 to 185)	Doing Business 2013 - The World Bank and IFC (ranking 1 to 185)	134
Resolving insolvency (country ranking from 1 to 185)	Doing Business 2013 - The World Bank and IFC (ranking 1 to 185)	147

Ease of doing business in Mozambique, overall score is a one ('1')

Mozambique, is 96th out of 185 countries in the world in terms of ease with which to start a business and is ranked 49th for protecting investors. It is 129th in terms of access to credit and 135th for the ease of dealing with construction permits. This analysis results in an overall value of one ('1'), Mozambique is thus considered "developing" in terms of this category.

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1.7 PPP environment in Mozambique

Enabling environment in the member country for PPPs	Source of information	Findings
Legal system enabling PPPs in the member country	Country Visit	
- Is there a presence/development of enabling legislation ie PPP Law/ regulations etc?	Country Visit	There is legislation on PPPs, Large Scale Projects and Concessions which was approved recently (2011/12). There are specific regulations and guidelines that rule municipality projects and other small-mid size projects. Since 2010 there is a central PPP Unit housed at the Department of Economic Affairs within the Ministry of Finance.
- Does a policy for private participation in the member country exist?	Country Visit	Private sector participation in large scale and infrastructure projects is regulated by the PPP Law and is strongly encouraged. The PPP Law defines the procurement process and specifies the way private sector can get involved (solicited and unsolicited bids and the process thereafter). The Government is keen to involve the private sector as much as possible. Proof of this are several consultation processes regarding topics of participation, investment and raising financing from the private sector. Furthermore, the Government is currently looking at finalising legislation to further develop capital markets.
- Public Sector appetite/capacity and experience relating to PPPs in the member country	Country Visit	
Is there Political support for PPPs?	Country Visit	As mentioned in the first question, there is a strong political support for PPPs. In fact, Government knows the only way to expedite infrastructure delivery in the country is to engage with the private sector. Since local capacity is limited and public / local financing is not available for such an intensive capital programme, the Government of Mozambique has decided to use Concessions and other forms of PPPs to achieve this goal.

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<ul style="list-style-type: none"> - Is there a PPP focal point/ Unit in the member country? 	Country Visit	<p>There is a PPP Unit which is housed within the Ministry of Finance which is the single focal point for PPPs. The new entity will report to the Ministry of Finance. The unit will be responsible to approve any project/initiative that involves a concession/privatization of a public asset or a process which involves the use of Government funds.</p>
<ul style="list-style-type: none"> - Does an existing PPP track record in the member country exist? 	Country Visit	<p>In the past 10 years there are several examples of PPP (defined on a broad definition) projects. Most of these projects adopted the form of unsolicited bids or private sector led initiatives. Good examples of this point are: mining licenses/concessions in the Tete region, gas field concession blocks, port and terminal construction and operation such as the Maputo Port Development Company which is a JV between Grindrod, DP and state owned CFM, a JV to build and operate the Sena railway line (between Vale and CFM), the coal terminal in Beira currently operated by ESSAR, etc) and the IPP concessions (hydro, gas and coal fired plants).</p> <p>Although there are also 1-2 examples in other subsectors (N4 road, private hospital in Maputo), it is more complex to introduce the PPP model here. The Government is looking at this stage to PPP projects that are self sustainable (can generate revenues by themselves) as there is a concern with Government outstanding debt and the fact Mozambique is still fully dependent on external financing.</p>
Private sector capacity, capability and appetite	Country Visit	
<ul style="list-style-type: none"> - Are multiple firms active in the PPP market? 	Country Visit	<p>Most of the large infrastructure players have been active in the country. There is a huge investment coming from China. To a lesser extent, you can also see Brazilian, Portuguese and South African economic groups which have been targeting Mozambique construction, infrastructure, power and mining opportunities. Since Mozambique is rich in natural resources - coal and offshore gas in the north of the country- there is strong market appetite for these direct opportunities (large scale projects).</p>

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<p>- Does capacity exist in the private sector?</p>	<p>Country Visit</p>	<p>There is enough capacity given the presence of huge international conglomerates. Since the country is open and exposed to international markets, it will be possible to attract expertise and technical skills into the country. At the moment, local capacity is fairly limited.</p> <p>Since infrastructure, transport and accommodation is almost non-existent, construction is one of the flourishing sectors. G5, Basil Read, Stefanutti from South Africa, Mota-Engil, TD, Visabeira and Soares da Costa from Portugal, Odebrecht, Camargo, QG and Andrade Gutierrez from Brazil and most of the Chinese big players are present in the country.</p>
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PPP environment in the Mozambique, overall score is a four ('4')

KPMG, based on years of experience, applied its own mind in coming up with a value.

There is legislation on PPPs, Large Scale Projects and Concessions which was approved recently (2011/12). There are specific regulations and guidelines that rule municipality projects and other small-mid size projects. Since 2010 there is a central PPP Unit housed at the Department of Economic Affairs within the Ministry of Finance. There is a strong political support for PPPs. In fact, Government knows the only way to expedite infrastructure delivery in the country is to engage with the private sector. There is a PPP Unit which is housed within the Ministry of Finance which is the single focal point for PPPs. As a result there have been a number of concession type contracts in mining and gas projects as well as port, rail and IPP contracts. This analysis results in an overall value of four ('4'), Mozambique is thus considered "maturing" in terms of this category.

1.8 Observations

Our results are based on the most recent verifiable information available at time of the report. Reputable external sources were used where appropriate and fact based observations were made.

We haven't had the chance to go through the countries Project list. However, the representative of Mozambique's PPP unit mentioned the transport and logistics (ports and freight rail solutions) and power to be the sectors he expects to have projects feeding the RIDMP STAP.

1.9 Conclusion

Based on our research, market insight and feedback obtained from the meeting held in Maputo on the 21st of June, we can clearly say Mozambique is one of the countries where we will see several PPP projects to be implemented in the next couple of years.

It is widely accepted there is a huge need to develop infrastructure. Since the country is rich in natural resources (mainly coal and gas), it is possible to structure projects which have commercial viability and make economic sense. Further, there is a legal framework in place and mostly there is political support to

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deliver these projects. The Government knows this is the only way to grow, to achieve economic development and in that way improve the living standards for millions of Mozambicans.

The Government have taken considerable decisions in the last few years. Public sector entities are being capacitated but this is a long term journey. It is imperative Government and other state owned entities get involved on these large scale projects from the beginning. Since infrastructure is by definition a long term business, it is critical to manage political-social expectations very carefully as there is a huge social pressure to increase local content and to have wealth better distributed.

There is private sector capacity already established. Several projects have been studied and are ready to move towards financial close and implementation phases. Since most of the projects are earmarked to be implemented in the same period of time (next 3-8 years), it is likely the wider investor/financial community needs to be involved. This has already been tested with financing coming from places as remote as Brazil, Australia and China but it will evolve also to include other types of investors/financiers (e.g. private equity).

In conclusion, one way or the other these large scale projects will be implemented. There are no doubts private sector will be involved and it seems the PPP model is ahead in terms of being the main form of procurement. It is also expected these PPP projects will not require public funding or depend on Government budgets in the first phase. We will rather see an extensive use of project finance, ECA financing and other concessional financing schemes being structured and implemented.

Overall Mozambique is thus considered “developing” in terms of this assessment.

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