

Mozambique: Large-scale reform seeks to maximise and monetise resources

Guilherme Daniel of **Guilherme Daniel Advogados** and Teresa Empis Falcão of **Vieira de Almeida** consider how the spate of legislative and policy changes will create an attractive business and investment environment in Mozambique

The northern Mozambican province of Cabo Delgado has been a constant target of terrorist attacks since 2017. The vicious Palma attack on March 24 2021 was the latest of these terror attacks and greatly shook Mozambican society, economy sectors, and the international community.

Three days of relentless violence impacted the development of Africa's largest liquefied natural gas project in the Afungi peninsula, as the attacks occurred very close to the project implementation site. The March 24 2021 attack came a few hours after the French gas company Total, the concessionaire and operator of the project, announced that it was resuming their construction work. On April 26, Total was forced to announce that it would be suspending the works yet again for security reasons.

Despite the escalation of the terror in Cabo Delgado, Mozambique continues to wager on its attractiveness to foreign investors and is going through one of its most stable political periods. All players are aligned in their interest to build a national agenda based on political and institutional stability, and to carry out the reforms required to foster investment growth.

The reforms seek to place Mozambique in a prominent position internationally, while maximising and monetising its resources and creating an attractive business and investment environment adequate to the scenarios of the coming years.

Natural gas

The size and transformation brought about by the natural gas project in the Rovuma Basin's Area 1 Offshore led by Total has been positive. Close to \$20 billion has been invested in a project that has the potential to catapult Mozambique into the international spotlight as one of the world's largest natural gas producers.

Together with the Rovuma Basin's Area 4 Offshore project, it is expected to generate tax revenues for

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Guilherme has provided support to the Ministry of Energy and participated in the drafting of key legal instruments in the downstream petroleum sector regulation since 2006. He works actively with IGEPE on several corporate and corporate governance matters. He holds several national and international training certificates in the areas of oil and gas, law and management.

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Teresa Empis Falcão is a partner in Vieira de Almeida's infrastructure and mobility practice. She works on national and international transactions on project finance and other structured finance transactions, mainly focused on the infrastructure and energy sectors.

From 2011 to 2014, Teresa acquired a reputation as an advisor at the Cabinet of the Secretary of State for Infrastructure, Transports and Communications, and was responsible for drafting and reviewing legislation concerning these sectors, as well as leading negotiation teams in the context of the infrastructure public-private partnership (PPP) reviews. Before joining the firm, she worked in the projects group at Allen & Overy in London. She has extensive experience in overseas markets, particularly in Portuguese-speaking African countries, namely Mozambique.

Teresa is a graduate of Catholic University of Portugal, and holds a LLM in international finance law from the London School of Economics (LSE).

Mozambique to the sum of \$95 billion over the approximate 25-year life of the projects, seven times more than the country's current GDP.

Considering the postponement of, and all the uncertainties surrounding the Exxon-led Mozambique Rovuma Venture (MRV)'s final investment decision regarding the Area 4 project, the country is pinning its hopes on the Area 1 project, which will be the largest investment project ever implemented in Africa.

In addition to the direct revenue for the state, the project has an enormous potential to generate economic growth. It will attract a multitude of foreign investors and mobilise the national business community and service providers, create opportunities for local businesses, generate employment and everything that this entails for an economy going through a particularly difficult time. Since the suspension of international financial aid in 2015, the country has also been affected by multiple dire natural

disasters, security issues in the central and northern areas of the country (Cabo Delgado) and, more recently, the Covid-19 pandemic and its effects.

The Ministry of Economy and Finance published the 2022-2024 Medium-Term Tax Scenario in March 2021, which forecasts the recovery of the main macro tax indicators, moderate growth in the medium term and an acceleration in the long term driven largely by natural gas projects.

Despite the many uncertainties, Mozambique and Total have recently, and on different occasions, reaffirmed their interest and belief in the progressive resumption of the project as soon as possible, and as soon as the necessary security conditions are in place. President Filipe Nyusi's and Total CEO's statements following the May 17 Paris meetings are particularly relevant in this regard.

How Mozambique is going to solve the security issues that led to the project's suspension in the first place is not yet clear, particularly in regard to the acceptance of external military support to counter terrorism, an issue that has everybody at odds. The ruling party and several other sectors of society rule out effective military support at least for now, especially from Western powers.

Legislative reforms

As part of its endeavours to improve the economy's attractiveness, Mozambique introduced several legislative reforms to advance the business environment and streamline procedures.

One process underway seeks to reform some of the most significant legal instruments impacting the economy, including:

- The Labor Act, in order to bring its rules in line with the country's economic and social reality, without neglecting the pressing need to legislate on the emergence of new sectors and individual forms of work, such as telecommuting, one of the major shifts brought about by the Covid-19 pandemic and the ensuing restrictions;
- The Commercial Code, an enabling act has been recently approved that allows the government to recast the code mainly to streamline and cut the red tape involved in company incorporation and registration procedures, as well as in the organisation of commercial entrepreneurs, to improve existing corporate types and create new corporate types;

- The Civil Code, a simple reform mainly aimed at harmonising this code and the Land Registry Code enacted in 2018, and particularly focused on broadening the probative value of certified documents and changing the form of the voluntary mortgage agreement, purchase and sales, and purchase and sales with loan;
- The Electricity Act and other power sector regulations. The amendments to the Electricity Act streamlines electricity supply authorisation processes, encourages concessionaires to be more hands-on in the chain of approval of large consumer projects, and establishes incentives for the use of new and renewable energy sources. The changes to the Electrical Fixtures Licensing Regulation seeks to streamline the licensing procedures for fixtures, setting licensing standards linked to the establishment and operation of electrical power. An off-grid energy access regulation is also foreseen, designed to boost the implementation of mini-grid and off-grid projects, and also aimed at setting up a single registry. This will provide the country with a true database and an extremely important source of information and transparency for the sector. The single registry is to be managed by the Energy Regulatory Authority – ARENE;
- The Personal Guarantees Regulation, which implements Law 19/2018, of December 28, and approved the legal framework for offering personal property as collateral to secure the performance of obligations and going live with the Central Registry of Personal Guarantees. This latter entity is, among other things, tasked with ensuring the electronic registration of information on guarantees on personal property of any nature.

Although it is still at a very early stage, the launch of the Public Consultation Process on the Revision of the National Land Policy in mid-2020 is also worth mentioning. It is part of a process aimed at reforming land legislation, with a major focus on aspects related to community consultations in the process of authorising the right of use and exploitation of land (DUAT), exploitation plans in the authorisation of DUATs for economic activities and cancellation of DUATs, transferability of DUATs, and procedures for processing DUAT applications.

Considering the positions taken by the government, it is unlikely that Mozambique will be able to change the essence of the legal land framework, which is based on the constitutional principle that land is the property of the state.

Institutional reforms and privatisations

These reforms go hand in hand with major institutional reforms. The Mozambican Competition Authority, for instance, recently went live, and the act on the fees payable for the notice of operations to this entity was also recast.

The government has further launched a series of initiatives aimed at restructuring the state's business sector, and has so far approved the dissolution and liquidation of Empresa Correios de Moçambique, and of Empresa Moçambicana de Empreendimentos Mineiros, set up to hold the state's participating interests in mining ventures.

The government has also decided to sell its shares (more than 90%) in DOMUS, a real estate investment and management company and owner of the iconic 33-story building in Maputo City. An evaluation process is also underway for the privatisation of Emose – Empresa Moçambicana de Seguros, which holds the largest market share in the insurance sector, and Silos e Terminal Graneleiro da Matola (STEMA). Although no other has been disclosed so far, more privatisation initiatives are to be expected.

Industrialisation programme and other major initiatives

With regard to the diversification of the economy, the recent announcement of the government's intention to launch a programme for the industrialisation of the country, called the Mozambique National Industrialization Program (PRONAIMO), aimed at rationalising the nation's industrialisation process, creating and mobilising investment, and professionalising and upgrading the productive capacity.

Complete details about PRONAIMO's initiatives are awaited. The Minister for Industry and Trade, who made the announcement at the opening of the Economic Briefing's 5th edition promoted by the Confederation of Mozambican Economic Associations (CTA), indicated that the main goal is to boost industrialisation in Mozambique through a process based on local value chains in

industrial niches. This would replace imports with competitive exports, and build and mobilise investment for infrastructure to support rapid growth, and on the integrated professionalisation and upgrade of productive capacity.

This initiative comes on top of the endeavours to tap into the country's energy sector potential, particularly renewable energies and agriculture, defined by the government as the basis of the Mozambican economy.

In this context, the PROLER – Renewable Energy Auction Program launched by the President of the Republic in September 2020, aimed at improving transparency and competitiveness in the renewable energy sector and attracting potential national and international investors, could also be mentioned. This programme is developed by the Ministry of Mineral Resources and Energy to promote private investment and increase the country's power generation capacity, as there is a noticeably growing interest of investors and participation in tenders for the implementation of renewable energy projects.

The launch of the SUSTENTA project, designed by the Ministry of Agriculture and Rural Development (MITADER) and aimed at the integrated management of agriculture and natural resources, should also be highlighted. Its primary goal is to improve the living conditions of rural families, and the actions developed as part of the implementation of this project are in line with MITADER's five main priorities, namely food security, family income, employment, social inclusion, production, and productivity.

Last but not least, the Central Bank of Mozambique has presented a sovereign wealth fund model with the goal of accumulating revenues, ensuring prudent and transparent management, and contributing to the tax stabilisation of the country. This has emerged in a scenario where a considerable increase in revenue collection is expected, as a result of the exploration of natural gas and other natural resources.

The sovereign wealth fund is proposed to adopt a governance structure composed of parliament – responsible for approving the act that will establish and regulate the operation of the fund, the Ministry of Economy and Finance – tasked with the overall management and the definition of the fund's investment policy and representing the government, and the Central Bank of Mozambique – as the operational manager.