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BRIEFING: *Africa*

Investment

Angola and Mozambique: two reasons to think Africa

A mine of potential and regulatory reform to open up the market to investors make Angola and Mozambique a prime choice for industry and financial players

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Why Angola?

Angola's economic growth over the last decade has been just short of spectacular. The end of the civil war in 2002 was followed by the implementation of an ambitious and aggressive programme to rebuild Angola's shattered public infrastructure. Whilst infrastructure investments were until recently financed by public revenues generated by oil production, the recent sharp drop in crude prices left little budgetary margin for the state to fund such projects.

The Angolan government seems to have anticipated the current cheap oil cycle as it took measures between 2011-2014 to pave the way for alternative forms of private sector participation in the development of public infrastructure, the most relevant being: (i) the approval of a law regulating public-private partnerships (PPPs), and (ii) the creation of the Strategic Financial Oil Reserve, a sovereign wealth fund to boost national development.

Whereas the existence of the PPP legal framework allows for private entities to substitute the state in the funding, building, operation and maintenance of public infrastructures, the establishment of the Strategic Financial Oil Reserve made available a $1.1bn (£776m) dedicated infrastructure fund focusing on equity investments in energy, transport and large industrial developments in Angola and across the sub-Saharan African region. An additional source of financing is available with Banco de Desenvolvimento de Angola (BDA) which receives 5 per cent of government oil income and 2 per cent of state diamond revenues to invest in non-oil and non-mining sectors.

In terms of infrastructural development, the power sector is at the top of the Angolan government agenda. According to publicly available information, Angola has a 30 per cent electricity access rate and an installed production capacity of around 3GW, with forecasts for 2017 of 5GW and 9.9GW for 2025 (including 800MW of production from renewable sources). In this regard, several government-sponsored — studies identified private participation in all three segments of the business chain (production, distribution and transportation) as one of the critical factors for the quick and successful implementation of the sector's development strategy. Many opportunities are therefore open to industry players and financial institutions to participate in this expansion programme.

Alberto Galhardo Simões

Why Mozambique?

According to The World Bank's data, Mozambique will need to invest an annual amount of $1.7bn during the next 10 years to match the average infrastructure development of other African countries. While this figure clearly confirms that the country is still fairly undeveloped, even when compared to its regional neighbours, it also shows the window of opportunity that sponsors and lenders may find in Mozambique.

The recent gas discoveries in the Rovuma basin, estimated to be north of 200 trillion cubic feet, are expected to greatly enhance infrastructural development in Mozambique. In addition to liquefied natural gas projects (the quickest way to monetise gas and increase fiscal revenue), the government plans to use the gas as the basis for the industrial development of the country. Gas-to-power, gas-to-liquids and fertilizers are just some of the priorities listed in Mozambique's Gas Master Plan. These projects will have to be backed by a significant overhaul of the country's road, railway and port infrastructure.

The legal framework for infrastructure project finance has been deeply reformed in 2011-2012 with the enactment of the Law on Public-Private Partnerships, Large Scale Projects and Entrepreneurial Concessions (Law No. 15/2011, of 10 August 2011) and the Regulations thereon (Decree No. 16/2012, of 4 July 2012).

These statutes created a set of rules to govern PPP projects, especially the typical contract models and the relevant institutional framework in terms of tender preparation, contracting, control, monitoring and supervision, as well as mechanisms to ensure an equitable sharing of benefits and the prevention and mitigation of economic and financial risks.

One topic that deserves particular attention is the local content regime embedded in the Law and in the Regulations. Contracts shall provide for a participation in the share capital of the project company to be reserved for disposal, via the Stock Exchange on commercial market terms, to favour the economic inclusion preferably of Mozambican individuals, regardless of whether or not foreign investment is involved. This participation shall be in a percentage ranging between 5 per cent and 20 per cent of the share capital of project Co.

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