Mozambique has massive potential underpinned by its vast natural resources, but it will take some time until the benefits spread through the whole economy. Key hurdles are the challenge to diversify the economy, the need to upgrade infrastructure to meet rising demand and a lack of investment in human capital.

Mozambique ranks 185th out of 187 on the UNDP’s Human Development Index and is one of the most aid-dependent economies in the world. Its economy is highly dependent on natural resources – mainly coal, ores and other minerals – and this is not expected to change over the medium term, particularly since large reserves of natural gas were discovered in the Rovuma Basin in 2012.

Promising coal and gas reserves

This find, in addition to massive coal reserves in the Tete Province, not only demonstrate Mozambique’s potential, but also points to the intense pressure on the already shambolic transportation infrastructure, with massive investments in infrastructure needed to catch up with sharp increases in coal production. Rising coal production will lead to growing transport volumes from the hinterland to the coastal ports and increased earnings from exports.
Mozambique’s geographical location as a natural entry and exit point for the flow of goods to its landlocked neighbours will continue to congest the country’s transport channels. This will intensify as volumes of goods in transit increase.

While massive investment in infrastructure is needed, the United Nations reports that Mozambique ranks as the third-poorest country in the world, making private sector investment imperative. Given the prevailing circumstances, we recognise that the realisation of the vast opportunities for transportation and logistics service operators in Mozambique is likely to be a slow process.

**High growth, low base**

Mozambique’s export base remains narrow, with more than half of the value of exports being aluminium. Coal exports are the country’s second-largest export product by value. The country’s exports are mostly directed to Europe (26.4%) and South Africa (22.7%). Despite the ongoing economic crisis in Europe, exports are projected to increase by a further 14.4% to US$ 3.6 billion in 2013. Natural gas could emerge as Mozambique’s main export product in the medium term, with the first two five-million-tonnes-per-annum liquefied natural gas (LNG) liquefaction trains to be commissioned by 2018.

Mozambique is responsible for 70% of goods transit in the Southern African Development Community (SADC), with logistics corridors linking the deepwater coastal ports with the neighbouring countries.

Intra-regional trade is expected to gain further importance after a consolidation of SADC free trade tariffs, which were initiated in 2008. Bilateral agreements with Malawi and Zimbabwe have already been signed to enforce the rules of origin based on a product’s value.

Mozambique’s massive reserves of coal and natural gas should provide a substantial boost to exports, foreign investment, economic growth – which was supported by an increase in coal production in 2012 – and government revenues.

Economic potential arising from natural resource discoveries and extraction is extremely high, with natural resources rent of about 7% being recorded in 2011.

The success rate of companies looking for natural gas offshore has been phenomenal. In 2012, one third of all global oil and gas discovered was in Mozambique.

OECD expects Mozambique will become the fourth-largest exporter of liquefied natural gas globally and second-largest in Africa after Nigeria.

Real GDP growth averaged around 7.3% between 2010 and 2012 and is projected to be around 8% annually between 2012 and 2017. In spite of this, Mozambique remains one of the smallest economies in sub-Saharan Africa. The country’s most pressing medium-term economic structural challenge is the diversification of the revenue base. Aid flows are expected to decrease, which could have a major effect on the economy.

Per capita GDP is forecast to grow at 7.4% between 2012 and 2017, coming off a very low base of just US$634 per capita in 2012. Meanwhile, government spending is projected to increase by 10% as the state attempts to address infrastructure shortcomings. While consumer price inflation has been erratic, it has been declining overall since 2010 (reaching 1.1% in 2012).}

Vast potential for improvement

The weak institutional and business environment offers massive potential for improvement.

Trade and investment policies in Mozambique are undercut by a number of factors, including:

- Government interference in the economy;
- Arbitrary tax policies;
- Minimal enforcement of property rights;
- Private ownership of land is not permitted, and
- Weak rule of law.

These have driven many people and enterprises into the informal sector.

Mozambique also faces challenges with its governance and anti-corruption framework. Corruption is perceived to be widespread and bribe-seeking by officials is considered to be a problem. Red tape and government decisions can also be a barrier to doing business, as for example oil companies have not yet received the go-ahead to build the first platforms, with a deadline for gas exports to begin in 2018.

The tax regime is not too restrictive to business development and growth. However, the level of inefficiency created by the Mozambican tax bureaucracy heightens the cost of operating in the country. The World Bank’s Doing Business Project estimates it takes 230 hours, or twenty-nine 8-hour days, to become tax compliant.
Having successfully completed the transition from one-party state to democracy in 1994, Mozambique is considered a low political risk country and the security issues are not as significant here as in other African countries, though given pervasive poverty, social pressures will remain for the long term.

However, a new problem emerged early in 2013 when Renamo, a former rebel group and opposition party, threatened to sabotage the only railway access to the coalfields. It is understood that this is the result of the group’s bitter dispute with the ruling Frelimo party and heightened political tensions ahead of general elections in 2014.

Low human development level affects skill level of available workforce

Mozambique has a reasonably small population of just over 25 million people. The population growth rate is high at 2.5% and the estimated 300,000 new entrants into the labour market every year are a reasonable number.

The formal economy accounts for only a third of total employment.

As a result, many of the new entrants into the labour market are forced into marginal jobs in the informal economy, both in rural and urban areas. One possible reason for this is that Mozambique’s labour regulations are restrictive and as a consequence the cost of laying off an employee is high even if the non-salary cost of employing a worker is low.

While there are vast numbers of workers available, their skill levels are low as Mozambique still ranks among the bottom 2% of countries on the United Nations Human Development Index.

Low life expectancy of 50 years and high stagnant poverty levels, with 54.7% of the population living below the national poverty line, are the focus of the Mozambican Government’s Action Plan for Reducing Poverty 2011-2014 (PARP). The plan aims to reduce levels of food poverty to 42% by 2014.iii

Power generation and exports

Most of Mozambique’s electricity capacity is exported to South Africa with less than a quarter of Mozambicans being connected to the local grid. Electricidade de Moçambique (EdM), the national electricity provider, expects electricity demand in the country to grow by around 15-20% per annum over the next few years on the back of a boom in the coal and natural gas industries. At the same time the energy sector is expected to continue its expansion of nearly 10% a year, which will lead to a gap in supply.

To address this gap, power projects worth US$12 billion are in the pipeline.

Agriculture and small business development

One objective defined in the PARP programme is to focus on increased agricultural production and fishery. iv However, this could be limited to some extent by the scarcity of arable land, which makes up only 7.2% of the country’s total land area.

The Government also hopes to create jobs and boost agricultural production by facilitating and developing micro, small and medium-sized enterprises. Thus there should be some improvement in the agricultural sector, but the impact on transport volumes is not expected to be significant.

Trade facilitation logistics and customs

Trade facilitation logistics and customs procedures are a serious obstacle to logistics efficiency.

Mozambique ranked 136th out of 155 countries in the World Bank’s 2010 Logistics Performance Index (LPI), a decline from 110th out of 150 countries in 2007.

Logistics Performance Index

This poor showing is largely due to problems with customs. The efficiency of Mozambique’s customs clearance procedures (i.e. speed, simplicity and predictability of formalities) rated below average as customs clearance is a slow, complicated and uncertain process.

In the same study, Mozambique also ranked poorly in ‘trade facilitation’ logistics. It takes on average 23-28 days to export or import goods, making Mozambique a costly place to either sell or manufacture goods.

The country was excluded in the most recent survey in 2012 due to an
Transport infrastructure and operations

Overall, Mozambique’s transport infrastructure and links remain in disarray two decades after its civil war ended.

Transport projects worth US$17 billion are in the pipeline, including increased rail links to ports and expanding port capacities to allow for greater exports. However, it should be noted that these projects are being developed to serve the natural resource industry primarily, and therefore an uneven infrastructure build-out will be inevitable.

Transport infrastructure is mostly being developed transversally, west-east, connecting mining and agricultural clusters in Mozambique and neighbouring countries to exit ports. The central transport infrastructure extends from the Port of Beira to Zimbabwe, and marginally to Malawi and Zambia.

The concentration of urban population in Maputo means that this will continue to be the hub for infrastructure development projects over the medium term. The southern transport network links the Port of Maputo to the north-eastern part of South Africa, Swaziland and Zimbabwe. These two ‘transport clusters’ are, however, not connected other than by road.

Unmet demand

There are seven main seaports in Mozambique, of which Maputo, Beira and Nacala are the most important. All of these have functioning rail linkages to the hinterland and neighbouring countries via the rail network as well as some adequate road linkages.

Maputo is the busiest port and the primary hub for various kinds of cargo. Nacala is well suited for the export of coal and heavy-bulk products. Beira faces physical limitations that render it inefficient for the export of coal.

Mozambique has significantly increased the use of its ports’ capacity as port demand has risen strongly in recent years. In terms of performance indicators, Maputo, Beira, and Nacala’s truck-processing times compare well with other Southern African ports. While these ports also have above-average crane productivity, container dwell time in Mozambican ports is very high.

The Port of Beira has restricted sea access, significantly constraining its ability to accommodate more traffic. This issue is being addressed as part of Mozambique’s considerable investments in its existing ports.

New ports are also on the agenda, with the Mozambican Government inviting bids for a US$2 billion railway and port development project to boost coal exports — a 525-km rail line will link the coal-rich Moatize basin with a new port at Macuse. In addition, a new US$7-billion project is planned to construct a new deepwater port at Techobanine, close to the South African border. There is also a new port planned for Palma north of Pemba in support of the LNG sector.

Air transport

Airports and air transport do not seem to adequately serve the country’s needs.

Although air travel has shown strong growth in the last few years, airports have seen limited investment in recent years, with the quality remaining relatively low by global standards.

In general, aside from Maputo International Airport, airports service either tourist or economic destinations, such as mining hubs. Flights within the country are limited. A number of airport projects are currently underway, including an upgrade and extension to Maputo International Airport.

Additional airport hubs are planned for Pemba and Tete with a total investment of US$ 420 million. In addition, US$114 million rehabilitation and expansion of Nacala airport is due to be completed in 2013.

Numerous international airlines service Mozambique through the Maputo International Airport as well as some of the smaller international airports. However, Mozambique’s air industry still faces major challenges, including a decline in competition following the exit of a private carrier (Air Corridor), the national flag carrier’s financial troubles, performance at the Maputo airport and compliance with safety standards.

Rail

Private mining companies are funding a number of rail projects.

There are three major corridors in Mozambique’s rail network: The Nacala railroad (CFM Norte)
More than US$500m planned spend on airports.

Coal production exceeds rail capacity

“There is a Tete railway line, but everyone has to buy their own rolling stock and the line’s capacity is a constraint.”

Vernon Harvey, consultant on African operations

Despite being further away than Beira – with the railway line having to go through the south of Malawi and then north to Nacala – the Nacala transport option is seen as a better long-run solution for coal miners in the Tete region than the Sena/Beira line.

The refurbishment of the Sena railway line has repeatedly been delayed. Although mining companies have been able to use the line to transport coal, the trains cannot run at full speed and capacity is limited.

There are several other projects being proposed by the private sector such as Eurasian Natural Resources Corporation’s (ENRC) plans for the construction of a second new railway linking Tete province to the Port of Nacala.

Such potential infrastructure development plans are positive and will ensure that Mozambique’s exports will increase substantially over the medium to long term.

Road network

Roads regionally connect Mozambique to its neighbours, just as rail does.

Mozambique has one of the least developed road transport infrastructures in the Southern African region. With the exception of major arteries, overall road conditions in Mozambique

connects the Nacala Development Corridor and links to the Central East African Railway (CEAR) of Malawi.

Beira railroad (CFM Centro) is the oldest railway system in Mozambique. It connects the city of Beira with Harare in Zimbabwe, and also connects Beira to the coalfields of Moatize. It also has the potential to link to the railway of Malawi as well as to Zambia via the Sena line.

The third corridor, Maputo railroad (CFM Sul), links Maputo to the northeastern part of South Africa. It also connects with Zimbabwe and Swaziland through railway branches.

The railway system is functional and has been attracting private interest in recent years. The main challenges in the rail sector are meeting the increasing demand due to growing trade with neighbouring countries and a significant increase in domestic coal production.

This requires balancing the demands of maintaining the existing infrastructure while also completing the Moatize-Nacala corridor.

In addition, railway lines in Mozambique are still operating below capacity because there is a shortage of locomotives and wagons to run on them.

The quantity of coal that Mozambique can currently produce exceeds its rail capacity. This explains private sector interest in several rail projects, particularly since transporting coal by road is prohibitively expensive and inefficient.

As the narrow highway between the mines in Tete province and Beira is congested with trucks, Brazilian mining group Vale – a leading mining investor in Mozambique – is spending a total of US$4.5 billion developing the 912km Nacala railway corridor.

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Road network

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are generally poor – the road network is mostly unpaved and underdeveloped.

Road conditions are a significant bottleneck in developing trade in the region and utilising its port assets to move goods to neighbouring countries. The road network also requires expansion to keep pace with the country’s high growth rate.

The road network has, however, seen some improvement in investment and rehabilitation and a second-generation road fund has been set in place. Today, the connectivity between concentrations of human settlement, as well as the quality of roads along these transport corridors, is relatively good.

The predominant problems facing the road network right now are overloading and a lack of maintenance and repair.

**Regional integration**

Similar to the railway network, road corridors have developed around the three main logistics corridors (Maputo, Beira and Nacala) that serve coal exports and link to hinterland countries.

The Maputo Development Corridor connects Maputo with South Africa’s Gauteng province and provides access to South Africa, Swaziland and Zimbabwe.

Connectivity between urban and economic clusters is quite limited, as are the linkages that connect parallel corridors to each other. With the exception of the recently finalised north-south National Road, there is virtually no (or only very limited) connection between the several west-east corridors.

Large-scale road projects include an upgrade of the Great East Road, part of the Nacala Development Corridor, linking central and eastern Zambia to Mozambique’s northern provinces.

In the far north, the Unity Bridge across the Ruvuma River between Mozambique and Tanzania was opened in 2010 and is recognised for the important contribution it’s making to development in the region.

Construction of a second bridge across the Zambezi River in Tete was due for completion by September 2014. Until now, trucks have had to cross the existing Samora Machel Bridge one at a time, and the new structure will alleviate perpetually long tailbacks.

**Conclusion**

Based on our analysis, we’ve assessed the investment potential for Mozambique’s transportation and logistics sector as shown in the graphic below.

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**Mozambique – Investment potential assessment**

| 1. Demographics and resources |  
| 2. Economics |  
| 3. Business environment |  
| 4. Trade and logistics |  
| 5. Transport infrastructure |  

**Key:**
- Attractive
- Average
- Unattractive
- Strong improvement expected
- Some improvement expected
- Stagnation/marginal change expected

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**End notes**

ii http://www.doingbusiness.org/~/media/giawb/doing%20business/documents/profiles/country/MOZ.pdf
iii IMF, June 2011, Republic of Mozambique: Poverty Reduction Strategy Paper, p. 4
iv See above.

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