Pemba, Mozambique Market Overview

Description of Pemba

Pemba is a port city in Mozambique. It is the capital of the province of Cabo Delgado and lies on a peninsula in Pemba Bay. The Town was founded by the Niassa Company and has a population of over just over 140,000.

Description of Mozambique

Gaining Independence (from the Portuguese) in 1975, Mozambique has a population of 27,977,863 as of 2015, 2m of which live in Maputo the countries capital which sits on the southern end of the country. 30% of the population live in urban areas. Mozambique is bordered by South Africa, Swaziland, Zambia, Malawi and Tanzania.

Economic Overview

Over recent years Mozambique has been ranked among the world's fastest growing economies and bilateral trade with the UK is growing rapidly with trade in visible goods increasing by 14% in 2013 to over £150 million. UK export of goods was worth £45 million and UK foreign direct investment totalled USD 1.2 billion. DIT has designated Mozambique as a High Value Opportunity market, meaning they target resources towards developing trade activity between the UK and Mozambique.

Mozambique has raised substantial interest and expectations in the global oil and gas industry due to recent major offshore discoveries and the country hopes to harness its vast natural gas reserves to potentially become the world's third largest LNG exporter, behind Qatar and Australia.

With some of the largest gas fields in the world, no supply chain and an immediate, significant demand for skilled workers, there are vast areas of opportunity for oil and gas companies in the energy supply chain to export their products, services and expertise

Strengths in the Economy (date) :

- High Gross Domestic Product (GDP) Growth rate, low inflation and relatively stable currency
- Extensive mineral and hydrocarbon deposits which attract large amounts of foreign direct investment
- Geographically well positioned to export to Asian markets
- UK-Mozambique High-Level Prosperity Partnership which shall focus on extractives ,agriculture , financial services and the business environment.

Recent Developments in Economy

However, there has been here has been a rapid deterioration of the economy following the revelation of previous undisclosed borrowing. Mozambique's Gross Domestic Product (GDP) dropped to 3.3% in 2016, down from 6.6% in 2015. The World Bank's growth forecast for 2017 has been revised downwards from 5.2% to 4.8% to factor in the effects of likely fuel shortages and the continued effects of restrictive monetary policy. Official figures highlight a substantial slowdown in growth for most sectors, including negative growth in hotel and restaurant services and utilities. Foreign direct investment declined by 20% indicating a decline in confidence in the economy. Tight monetary policy and high prices also contributed to growth deceleration. The fiscal deficit has fallen from 6.4% of GDP in 2015 to 4.7% in 2016 on a cash basis, but this masks the accumulation of significant arrears to private creditors and fuel suppliers.

There are signs that external pressures are easing. The Mozambican Metical appreciated by 10% against the U.S. dollar between October 2016 and February 2017 as reduced liquidity and an adjusting trade balance began to take effect. Inflation, driven by exchange rate variations, has started to decelerate. Central bank reserve levels increased in the three months to end-January 2017 with effects of policy measures introduced in the last quarter of 2016 materializing. Recent developments, including the $2.8 billion ENI/Exxon deal, indicate progress with the Rovuma basin gas megaprojects and bring the final investment decision for multi-billion dollar investments closer. Existing megaprojects have shown resilience, and may find additional support in the near term from an improving outlook for key commodity prices.

Mozambique's energy potential is one of the highest in Africa , with installed generation capacity of around 2,475mw and substantial energy resources , ranging from fossil fuels (natural gas and coal) to renewables (solar, hydro, wind , geothermal and tidal sources of power) since 2000, annual energy production has increased by approximately 6%. This expansion is largely driven by developments in the natural gas and electricity markets.

Strengths in the Mozambique Economy

- High Gross Domestic Product (GDP) Growth rate, low inflation and relatively stable currency- although recent developments do show a deterioration in the economy.
- Extensive mineral and hydrocarbon deposits which attract large amounts of foreign direct investment
- Geographically well positioned to export to Asian markets
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Weaknesses in the Mozambique Economy

- Bureaucracy, pervasive influence of the political elites and widespread corruption.
- There is lack of infrastructure which will which shall provide many challenges for Aberdeen companies entering the market. For example, when not flying, the distance between the capital Maputo and the oil fields in Pemba is a drive of 2,400km which takes around 30 hours. This highlights the lack of infrastructure in 2016 the World Bank placed Mozambique 116/160 in their infrastructure rankings.
- As the price of oil has fallen the situation for Mozambique has become more uncertain. In 2016 the Mozambique government admitted to having USD 1.4 billion in undisclosed loans through the interior Ministry. The Mozambique government is now totalling 80% of GDP and is unable to make payments
- Skills and education shortage coupled with tightening work permit regime.
- Portuguese is the official language.
- Legal system is based on Portuguese civil law.

Opportunities in the Mozambique Economy

- FDI and government spending in major infrastructure projects are the are the main causes for growth in the country. According to the World Bank , in 2013 Mozambique was the second highest recipient of FDI in Africa. The most dynamic economic sectors are: extractives, financial services, construction, transport and communication.

- Eni an operator in Area 4 and Anadarko an operator in area 1 of the Rovuma basin –complete

- There are many opportunities for UK companies in the oil and gas sector in Mozambique including: subsea engineering, procurement, installation and commissioning (epic), original equipment manufacturers (OEM) of drilling and subsea systems, offshore support and man power services.

Key Opportunities

Particular areas of opportunity include:

- Subsea engineering, procurement, installation and commissioning
- Original equipment manufacturers of drilling and subsea systems
- Offshore support
- Manpower services

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- Eni an operator in Area 4 and Anadarko an operator in area 1 of the Rovuma basin –have stated they are strongly committed to their $15 Billion LNG project but like Eni with its floating LNG export terminal they are still weighing their final investment decision. If these projects proceed then both Pemba and Palma could turn into large LNG hubs with many investment opportunities presented by new operators entering the country such as ExxonMobil.

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Education

The system is structured so that the primary school cycle lasts 7 years, lower secondary lasts 3 years, and upper secondary lasts 2 years. Mozambique has a total of 6,087,000 pupils enrolled in primary and secondary education. Of these pupils, about 5,359,000 (88%) are enrolled in primary education. Figure 3 shows the highest level of education reached by youth ages 15-24 in Mozambique. Although youth in this age group may still be in school and working towards their educational goals, it is notable that approximately 12% of youth have no formal education and 48% of youth have attained at most incomplete primary

FIG 1. EDUCATION SYSTEM

School Entrance Age:

Primary school - Age 6

Duration and Official Ages for School Cycle:

Primary : 7 years - Ages 6 - 12

Lower secondary : 3 years - Ages 13 - 15

Upper secondary : 2 years - Ages 16 - 17

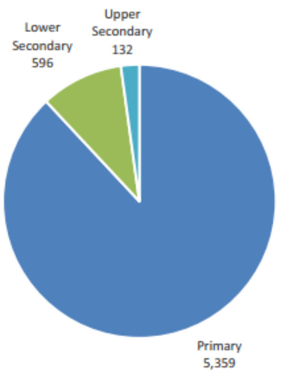
Academic Calendar:

Starting month : January

Ending month : October

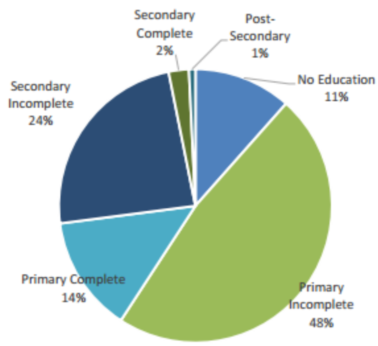
Data source: UNESCO Institute for Statistics

FIG 2. NUMBER OF PUPILS BY SCHOOL LEVEL (IN 1000S)



Data Source: UNESCO Institute for Statistics 2012

FIG 3. EDUCATIONAL ATTAINMENT, YOUTH AGES 15-24



Data source: EPDC extraction of DHS dataset 2011 education, meaning that in total 59% of 15-24 year olds have not completed primary education in Mozambique.

Oil and Gas

Only gas (no oil) in Mozambique. 5th licensing round of concessions (ENH is the government entity that must hold 10-15% share of each concession) started last year; will close on 30 April; and short list of bidders available on 1 July 2015.

25% of gas (and eventually an oil) produced, must be allocated for use in the domestic market. (Which sounds great, but insufficient demand means this is unlikely to be met

Sector regulated by the Petroleum Law of 2001 and then Petroleum Law of 2014 (the latter of which starts local content and local community requirements discussions). Covers upstream and midstream operations but not downstream. But not all together clear. For example: ''foreign entities that provide services to petroleum operations in Mozambique are required to 'associate with' Mozambican entities''....?? And companies working in the oil and gas sector must be listed on the Mozambican stock exchange and 10% of equity must be in the hands of locals.

Existing Contact

In recent years there has been significant activity between Aberdeen and Mozambique to build links and lay the foundations for UK companies to enter this market. Following a high profile visit to Aberdeen from the President of Mozambique in 2013 and most Recently in February 2017 the Energy Minister visited Aberdeen. There have been further outward visits leading to the development of a proposed MOU between Aberdeen and Pemba to give a more formal framework to the cooperation which proposed to be signed by the end of March with the date still to be confirmed. If delivered by committed partner organisations in both cities, an MOU can provide focus and credibility to trade development activity.

Resources

African Economic Outlook 2016, OECD, 2016

Scottish Development International: Business Opportunities in Mozambique (2016)

Department of International Trade: Doing Business in Mozambique: Mozambique Trade and Export Guide