

F.T.

Foreign capital is much sought after

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UK heads equity inflow table

AS peace prospects brighten, foreign executives are adding Mozambique to the relatively short list of African countries worth a visit.

The country's stock of foreign capital is "guestimated" at some \$1.2 bn, owned mainly by Portuguese, British and South African companies.

Since the mid-1980s, Mozambique has set its cap at foreign capital, introducing a foreign investment law, establishing a one-stop investment agency, phasing out controls and privatising state owned corporations. But progress is slow.

The Foreign Investment Promotion Office (GPIE) estimates new investment in foreign-controlled projects since 1985 at \$318m. About 40 per cent of this represents "autonomous" or equity investment. Of this almost \$100m is new foreign equity and the remainder of \$28m is domestic equity invested by joint venture partners. The balance of 60 per cent (\$190m) is mainly offshore loan capital.

Because of Lonrho's agricultural and mining activities, the UK heads the league table with 40 per cent of new equity inflows, followed by the US with 10 per cent. South Africa and The Netherlands

have 9 per cent each. Portugal 6 per cent.

Invariably, the Portuguese are interested in reviving the businesses they owned before independence. Many of these were taken over by the state - the so-called intervened companies. South African investment is designed to open up new markets and exploit natural resource opportunities.

Investors can reckon on getting an answer from GPIE within three to six months of submitting an application. But the system, while a large improvement on what went before, is not without its flaws.

Its critics say the board is trying to do too much - seeking to invent new projects and find joint venture partners for foreign companies, rather than sticking to its narrow mandate of granting investment approvals. More serious is the complaint that the system of negotiating different investment agreements for each project inevitably means disparity of treatment for different investors. As a result, some feel they are getting a second class rate package, while the flexibility of such case-by-case approvals opens the door to backhanders and side payments.

Three activities dominate - a--indus-

trial projects, (such as Lonrho's Lomaco development); turnaround activities by Portuguese companies reviving intervened companies and service activities (computers, telecommunications, tourism) and business advisory services, in which the South Africans are prominent. GPIE statistics show that 40 per cent of the new foreign capital (\$126m including loan funds) has gone into agribusiness, roughly a third into tourism and 18 per cent to mining, including oil and gas.

Because each agreement is negotiated individually, there is no standard incentive package. Typical agreements include a three- to five-year tax holiday, unfettered remittability of dividends; no withholding taxes; no curbs on the employment of expatriates; and access to foreign currency accounts thereby enabling companies to import freely. Expatriates are entitled to tax-free status and can hold foreign-currency bank accounts, not subject to exchange controls.

There is no requirement to share equity with Mozambique nationals but the government prefers joint ventures that ensure that domestic owners hold at least 20 per cent of the equity.