



RECOMMENDATIONS

- The Mozambican government should define a clear long-term strategy to attract Chinese public and private capital that is aligned to the country's development goals. In this way, opportunities presented by Chinese public and private capital can be better co-ordinated, so that they complement rather than compete with each other.
- Mozambican investment promotion authorities should prioritise institutional change and capacity building, to ensure that new projects are aligned with the country's needs rather than the investors' interests. The focus should be on a more efficient project design, a market-oriented selection of business opportunities and a bolder marketing strategy.
- Mozambican authorities should also strive to improve the regulatory framework of the banking sector. Investor confidence would be boosted by severing the ties between the political elite and the business class. Foreign investment would also benefit from increased transparency and investment protection mechanisms.

Chinese Banking Interests in Mozambique

Ana Cristina Alves¹

EXECUTIVE SUMMARY

Unlike in most other African countries, Chinese financial involvement in Mozambique includes state-owned banks (Export-Import Bank of China – Exim Bank, and the China Development Bank – CDB) and private commercial interests, in the form of Geocapital, a Luso-Chinese fund. This joint venture is structured around personal connections and a shared legacy rooted in Macau where it is based. Geocapital's personal web connects Chinese money to key political and business figures in Mozambique. In much the same way, Chinese state-run banks in Mozambique rely on their political connections to expand their interests in the country.

Despite having the necessary capital, enjoying strong links with the local political elite and the growing attractiveness of this economy, both Chinese state-run banks and Geocapital have so far struggled to attract Chinese capital to invest in Mozambique. This state of affairs is mostly due to poor strategic planning and co-ordination and a lack of institutional capacity on the Mozambican side.

INTRODUCTION

In 2008, China became the second-largest investor in Mozambique, up from 26th less than a decade ago. China's economic penetration of Mozambique was at first relatively slow, compared to other resource-rich countries in Africa, but has gained pace in the last few years. Two-way trade grew from \$70 million in 2004 to \$690 million by 2010. Investments totalled \$607 million in 2010 and cover a wide range of sectors, from retail to banking, logging, agriculture, fisheries, construction, manufacturing and mining. Chinese investments are expected to expand further, with Mozambique's coal reserves in the Tete Province attracting much interest. For instance, Wuhan Iron and Steel has pledged \$800 million as a part of an Australian-led consortium aimed at developing a mining concession in the province.

Unlike the pattern observed in other African countries, Chinese involvement in the Mozambican banking sector includes both state-owned

banks (Exim Bank and CDB) and private commercial interests, in the form of Geocapital, a Luso-Chinese joint venture.

EXIM BANK AND CDB

As in most other African countries, Chinese policy banks in Mozambique (Exim Bank and CDB) have intergovernmental co-operation agreements targeting mostly infrastructure development. Since 2001, Exim Bank has provided a credit line of \$3.9 million for infrastructure projects in Mozambique, helping to finance an international conference centre, a new office building for the Ministry of Foreign Affairs, police equipment and 150 units of low-income housing in greater Maputo.² As early as 2006, the Mozambican government applied to the Exim Bank for loans of \$2 billion for the Mphanda Nkuwa dam project³ on the Zambezi River, \$50 million for agricultural investment in Zambezia Province and a soft loan for rehabilitating the capital's international airport.⁴ This last loan, for \$115 million, was split into two phases: an initial loan for \$50 million, followed by \$65 million approved in 2010 to finance the reconstruction of the domestic terminal of Maputo's international airport by Anhui Foreign Economic Construction (Group) Co., Ltd. In 2007, the Exim Bank and the World Bank established a widely publicised venture to jointly finance projects in Mozambique, Ghana and Uganda, but no concrete project financing agreements resulted.

Exim Bank does not yet have a branch in Mozambique, although the Mozambican prime minister's visit to China in late 2010 led to rumours that an operations office was going to be opened in Maputo, aimed at facilitating credit lines to Chinese investors.⁵ During that visit, two other concessional loans totalling \$100 million were signed with another Chinese state-run bank (CDB) to support the construction of a cement factory in Sofala Province (\$80 million) and a cotton plant in Maputo Province (\$20 million). In August 2011, a follow-up trip to China by President Armando Guebuza produced a framework agreement on financial co-operation that was signed with CDB. The agreement aims

to provide commercial loans to Chinese investors, alongside a commitment to provide \$7.6 million in economic and technical assistance, suggesting further involvement by CDB in Mozambique.

GEOCAPITAL AND THE MACANESE CONNECTION

In addition to these two Chinese state banks, a private fund based in Macau was created with the aim of channelling Chinese capital into Mozambique and other Lusophone countries. Although its origins are unclear, from the outset the private Chinese banking venture in Mozambique is clearly a joint Sino-Lusophone initiative. It was established in Macau in 2006 by a Hong Kong magnate (Stanley Ho) and a Lusophone financier (Jorge Ferro Ribeiro) to maximise the opportunities created by the Macau Forum. The forum was founded in 2003 under the Ministry of Commerce of the People's Republic of China and sought to exploit the business potential of Macau as a platform between China (as a funding source) and the Portuguese-speaking countries (as bastions of natural resources). The chairman of the board of directors is Stanley Ho, who controls over 50% of Geocapital's shares and has large business interests in the gambling, hospitality, transport and financing sectors, including the Hang Seng Bank in Macau.⁶ Jorge Ferro Ribeiro is vice chairman and executive chair and the second-largest stakeholder in the venture. Acting as Stanley Ho's representative in Portugal, Ribeiro has accumulated interests in financing, telecom, tourism, real estate in Portugal and Macau. The other key figures in this Sino-Lusophone investment fund have very useful political connections. Eminent member of the Portuguese Socialist Party, Almeida Santos owns 5% of Geocapital and is president of the general assembly. He is the former president of the Portuguese Parliament (1995–2002) and has strong personal, political and economic connections to FRELIMO in Mozambique.⁷ Ribeiro is an old acquaintance who in 1974–75 worked under Santos when he was the Portuguese Minister for International Cooperation. One of the three administrators of Geocapital is Ambrose

So, a Chinese entrepreneur with close links to Stanley Ho's business empire and the Chinese political nomenclature.

Geocapital's primary aim is to channel strategic investments in Lusophone countries into the banking, agriculture and energy sectors. Its wide-ranging portfolio of investments includes biofuels and agribusiness in Guinea-Bissau, banking in Angola, Cape Verde and Portugal. Geocapital's initial forays into business were in Mozambique because of the personal connections highlighted above. At the time of setting up the investment fund (2005–2006), there was talk of investing in Zambezi River Valley in the agribusiness (biofuels) and energy sectors. The Portuguese government was preparing to hand over control of the Cahora Bassa dam, and it was rumoured that Lisbon was considering selling its remaining shares (15%) in the project, which attracted much interest from Geocapital.⁸

In September 2005, Geocapital signed a memorandum of understanding with the Zambezi Valley Planning Office (GPZ), headed by Sergio Vieira (an old acquaintance of Almeida Santos) to look into natural resources development opportunities.⁹ By December 2005, Geocapital and two Mozambican companies agreed to set up a joint venture,¹⁰ Zamcorp. The company was formally established in June 2006, with the main purpose of promoting the development of the Zambezi River Valley through privileged access to Chinese capital. As yet Zamcorp has no projects under development, which can be explained in part by the lack of concrete projects and ineffective advertising to potential Chinese investors.

Two financial institutions have grown out of Geocapital's role in Mozambique: Moza Capital (investment banking) and Moza Banco (primarily corporate banking). Founded in September 2005, Moza Capital aims to serve as a platform for Chinese capital wanting to invest in the Zambezi Valley. A retail bank, Moza Banco, was established more recently (in late 2007) and started operations in June 2008. Both institutions are partnered with Capitais de Moçambique, a private Mozambican group of investors headed by Prakash Ratilal. Ratilal is a high ranking

official in FRELIMO, a former head of the Banco de Moçambique and another old acquaintance of Almeida Santos. He is also CEO of the two institutions, which originally had the same ownership structure (51% Mozambique Capitais, 49% Geocapital) until Geocapital sold off part of Moza Banco.

Moza Banco had an initial capitalisation of \$15 million and a universal license (corporate and private banking), but aims to specialise in corporate banking (finance projects and enterprises) and investment banking (mainly agribusiness). During its first year, the bank grew considerably, with revenues of \$2.2 million. Although the bank has not funded any big investments, three projects (in energy and agro-industry) are being assessed for possible funding.¹¹ In late 2010, Geocapital sold 25.1% of Moza Banco for \$35 million to the African branch of Portugal's second-largest private bank, Banco Espírito Santo (BES). The deal was concluded in January 2011, and the current ownership structure is: Moza Capitais 50.4%, BES 25.1% and Geocapital 24.5%. However, this deal should not be seen as a divesting strategy but as a means to increase the bank's capital and to bring in a partner with more experience and know how, which is critical in the bank's current expansion phase.¹² In mid-2011, Moza Banco had only two branches and has much scope to expand in a banking sector that is still in its infant stage.

The Chinese public and private banks co-operate to some degree, as shown by the \$50 million credit line from Exim Bank to the corporate arm of the Ministry of Planning and Development (SOGIR), which is being channelled through Moza Bank/Moza Capital, following an agreement between Moza Bank and the Bank of China in early 2009 to facilitate the cash flow between the two countries.¹³ This credit line is earmarked for agriculture equipment and machinery (\$20 million) and the setting up of three agro-processing plants (\$30 million – two cotton and one corn processing plant) in the Zambezi Valley.¹⁴

Although the creation of these institutions generated high expectations and publicity, Geocapital has had extremely limited success

in channelling Chinese investment into Mozambique, with the sole exception of Geocapital's share in Moza Banco.

CONCLUSION

Despite a decade-long involvement in infrastructure construction in Mozambique built on close intergovernmental relations, to date the most significant project funded by Chinese state banks has been Maputo Airport. Other large projects have either collapsed (Mphanda Nkuwa Dam) or are still being discussed (cement factory and cotton plant). As Mozambique's economic potential expands, both policy banks have showed interest in creating facilities to support Chinese wanting to invest in Mozambique. However, despite the many Chinese delegations of private investors that have visited the country in recent years, these financial instruments have not yet produced results.

Operating without the formal linkages to the Chinese state enjoyed by its public counterparts, Geocapital believed that it could secure access to investment opportunities in the Zambezi River Valley through its strong personal connections within Mozambique. The bold initiative, which may have paid off in other Lusophone countries, rested largely on the confidence that personal networks and local knowledge would be able to overcome local obstacles and deliver solid projects to the company. However, while these networks overcame regulatory obstacles that might have thwarted another institution seeking to enter the financial sector in Mozambique, they also failed to deliver.

Chinese public and private banking institutions have thus far failed to attract Chinese investors into Mozambique, despite their financial muscle, close links with the business community on the Chinese mainland and in Macau, and their strong political capital in Mozambique. This reality suggests that connections may facilitate entry into a market but do not necessarily

guarantee results. It also implies that major obstacles exist in Mozambique, such as a lack of proper planning and local capacity at all levels, the loosely defined nature of projects on offer and inefficient advertising of investment opportunities.

ENDNOTES

- 1 Ana C Alves is senior researcher in the China in Africa project at SAIIA.
- 2 AFRODAD Fact Sheet, <http://allafrica.com/stories/201011240038.html>.
- 3 The dam project was later awarded to a consortium of two national energy companies (60%) and a Brazilian construction firm Camargo Correa (40%).
- 4 AFRODAD Fact Sheet, *op. cit.*
- 5 Personal interview, Portuguese Embassy, Maputo, 3 November 2010.
- 6 Stanley Ho was granted exclusive rights for the gambling business in Macau during the Portuguese rule. Although this came to an end (2002) shortly after the handover (1999), Stanley Ho still dominates the sector in Macau, having since expanded the gambling business to several Lusophone countries, including one casino in Maputo.
- 7 Santos was raised in colonial Mozambique between 1953 and 1974, and he opposed Portuguese rule alongside FRELIMO.
- 8 Various interviews in Macau (2005 and 2006).
- 9 Macau Hub, 'Macau Company to develop Zambezi region in Mozambique', 19 December 2005.
- 10 Shareholders: Geocapital 35%, SOGIR 55% (Sociedade de Gestao Integrada de Recursos, corporate arm of GPZ) and Moza Capital 10%. Initial capital was \$500,000, and headquarters are in Tete and Zamcorp International Office in Hong Kong.
- 11 Prakash Ratilal interview to *O Pais*, Olivia Massango, 'Nao temos ambicao de ser o numero um ou numero dois', *O Pais*, 18 June 2009.
- 12 Interview with a Moza Capital official, Maputo, 4 November 2010.
- 13 Prakesh Ratilal, *op. cit.*
- 14 Personal interview with officials at GPZ, Maputo, 4 November 2010.

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