

Keeping on track: Nacala Corridor

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WHAT WE SAID THEN: “It brings together many strands of project finance over the last 20 years, everything from risk allocation in concession agreements to managing political risk in a big-ticket ECA financing.”

Not many projects in the world have the size and scope of the Nacala Logistics Corridor. To build a rail and port network across two countries is impressive, to have done so in East Africa while raising \$2.73 billion of debt is well worthy of recognition.

It is the most recent of the deals we have chosen to highlight, and so its long-term legacy is unknown. But whether it is for good or bad reasons, we feel certain it will be a transaction still talked about in another 10 years.

The scale of the project is difficult to imagine. The route travels 912km from Vale’s Moatize coal mine in the Tete region of northern Mozambique to the port of Nacala, travelling through landlocked Malawi.

The project entails the construction of 230km of new lines and the rehabilitation of 682km of existing track, and also the construction of a coal export terminal at Nacala with a loading capacity of 18 million tonnes per year of coal and a further four million tonnes per year of general cargo. The rail portion has the capacity to transport 22 million tonnes per year, of which 18 million is assigned to Vale’s Moatize mine.

The management of Vale port and the connecting rail lines in the north of Mozambique had been awarded to Corredor de Desenvolvimento do Norte (CDN) consortium under a PPP contract in 2005. The full structure of the consortium is not in the public domain, but shareholders are understood to include Mozambique’s national railway company Caminhos de Ferro de Moçambique (CFM) and US companies Edlows Resources and Railroad Development Corporation.

The promised upgrades to the network and port failed to materialise however and the concession was understood to be losing money when it caught the eye of Brazilian mining company Vale, which owns and operates the Moatize mine in the country’s Tete province.

Existing rail links between Moatize and the country’s ports lacked capacity, and so Vale saw an opportunity to ensure it could maximise the Moatize mine’s export potential.

From 2009 onwards the mining company began to acquire an increasing stake in the Nacala concession.

The cost to upgrade the network and create a new more direct line to the port, cutting through Malawi, was considerable. Nacala began work on the network in 2012, paying for it on balance sheet while seeking a debt financing package and a co-sponsor with sufficient available funds.

Help was going to come from Japan. The ProSavanna programme is run by the Japanese government and seeks to

develop industrial agriculture in Mozambique. Nacala Port is crucial to the ProvSavana project as it is where equipment and machinery will be imported through and future production exported out of.

Japanese company Mitsui officially acquired a 50% stake in the logistics corridor and a 15% stake in the Moatize Mine in April this year, but Japanese banks and ECAs have been working on this deal for many years.

That Vale only completed financing eight years after it bought into the project, and two years after the coal export terminal was completed, demonstrates the complexity of getting the deal to financial close. Land rights have been particularly slow to resolve.

The debt package is split between: a \$400 million facility covered by Export Credit Insurance Corporation of South Africa (ECIC) priced at 350-400bp over Libor; a \$1 billion NEXI-covered facility priced at 190bp over Libor; a direct loan from JBIC of \$1.03 billion; and a \$300 million direct loan from AfDB. All the debt has a tenor of 14 years.

Nacala Logistics Corridor

Financial close: November 2017

Size: \$4.9 billion

Description: Construction of 230km of new lines, the rehabilitation of 682km of existing track, and construction of a coal export terminal at Nacala, Mozambique

Sponsors: Vale (85%); Mitsui (15%)

Debt: \$2.73 billion

Commerical lenders: Standard Bank, Investec, ABSA, Rand Merchant Bank, SMBC, MUFG, Mizuho, SMTB, Nippon Life Insurance Company, Standard Chartered

ECAs: JBIC; NEXI; Export Credit Insurance Corporation of South Africa

DFI: AfDB

Financial adviser to Vale: HSBC

Legal advisers: White & Case (Vale); Linklaters (lenders)

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