

# INTERVIEW

## Nacala Railway and Port Infrastructure Project in Mozambique and Malawi

Supporting a stable supply of mineral resources to Japan

Interview with Deputy Director Shun Hanagata and Nana Suzuki of Division 2, Mining and Metals Finance Department, Energy and Natural Resources Finance Group\*



Deputy Director Hanagata



Miss Suzuki

### Nacala Railway and Port Infrastructure Project

The Japan Bank for International Cooperation (JBIC) signed, in November 2017, a loan agreement for project financing amounting up to USD1,030 million (JBIC portion) with two corporations in the Republic of Mozambique and two corporations in the Republic of Malawi, in which Mitsui & Co., Ltd., and Vale S.A., a major resources company in Brazil, hold an equity stake. The purpose of the project is to construct the 912 km Nacala railway which connects Tete in inner Mozambique, where the Moatize coal mine is located, to the Port of Nacala through a part of Malawi, and build a coal shipment terminal at the same port.

This project is an internationally co-financed project (USD2,730 million in total) by the African Development Bank (AfDB) and private financial institutions, including Sumitomo Mitsui Banking Corporation, Mizuho Bank, Ltd., Standard Chartered Bank, Nippon Life Insurance Company, MUFG Bank, Ltd., as well as Sumitomo Mitsui Trust Bank, Limited. The financing provided by the private financial institutions will be covered by insurance from Nippon Export and Investment Insurance (NEXI) and the Export Credit Insurance Corporation of South Africa SOC Ltd (ECIC).

\*The titles are at the time of the project approval

### Investment and participation by a Japanese company in a mine, railway and port project

Mozambique is located on the east coast of Africa. The country is noted for its abundant natural resources, including coal and natural gas. Moatize coal mine, located in Mozambique, is one of the world's most prominent production sites for high-quality coking coal suitable for iron and steel. The mine started production in 2011, and is being expanded to achieve optimum output. As the mine is located inland, Moatize coal was being shipped from the port of Beira, located approximately 600 km south. But the expansion of production capacity necessitated a new means of transport.

Shun Hanagata noted when giving an overview of the project, "VALE and Mitsui hold interests in the Moatize mine. They constructed and maintained a 912 km Nacala railway through their joint venture companies in Mozambique and Malawi. The existing line is 682 km long, and the new line added 230 km. It connects the mine in western Mozambique to the port of Nacala at the eastern end of the country. The companies also built a coal shipment terminal at the port of Nacala. In addition, the railway features a heavy-duty Japanese rail suitable for transporting heavy loads."

### Supporting a stable supply of coking coal for Japan

JBIC provided support from the early stage of the project, including discussions on the finance scheme. In January 2015, after the participation of Mitsui, JBIC was officially requested to provide financing, full-fledged discussions began.

Nana Suzuki explained, "Japan is totally dependent on imports of coking coal, and about half of those imports come from Australia. This project is highly important for the diversification of coking coal sources. In addition, the Japanese government is aiming to provide high-quality assistance to the African region in the form of public-private partnerships through the sixth Tokyo International Conference on African Development (TICAD VI). JBIC also places importance on providing support for investments in Africa. The Facility for African Investment and Trade Enhancement (FAITH) was launched in 2013, as we have since established FAITH 2 to further reinforce it.

"Because this is a cross-border project encompassing Mozambique and Malawi, we worked hard to prepare the financing documentation while referring to the different legal systems of the two countries. We also conducted due diligence, including the assessment of political risks in both countries."

Shun Hanagata said, "It took two years to finalize the loan. We were assigned to this project at the final stage, and we faced a number of challenges

JBIC signed, in November 2017, a loan agreement for project financing with two corporations in the Republic of Mozambique and two corporations in the Republic of Malawi, in which Mitsui & Co., Ltd. (Mitsui), and Vale S.A. (VALE), a major mining company in Brazil, hold an equity stake. This project is internationally co-financed by the African Development Bank (AfDB) and private financial institutions in Japan and elsewhere.

The project is to construct and operate the Nacala railway, which will connect the Moatize coal mine in Mozambique to the port of Nacala, as well as a coal shipping terminal and other infrastructure. The project is expected to boost the quantity of coking coal exported to Japan.



before we could reach the signing of the agreement. We met with the multiple parties in London on several occasions for many discussions. There was also a time when we spent two weeks in the lawyer's office finalizing the terms in detail. We also had conference calls every week with co-financing banks in each country, including the one in Africa."

Finally, the financing agreement was signed on November 27. It was followed by a grand signing ceremony in Mozambique, attended by three ministers from the Ministry of Mineral Resources and Energy, the Ministry of Transport and Communications, and the Ministry of Economy and Finance.

### JBIC's largest financing commitment in Africa

Shun Hanagata stated, "The dialogues we had with the governments of both Mozambique and Malawi made us aware of their great expectations for this project from the time we started discussing the loan. This is a meaningful project for JBIC as well, because it is our largest financing commitment in Africa. Also, it is our first project with AfDB in seven years, and the first ever with the Export Credit Insurance Corporation of South Africa SOC Ltd (ECIC) providing co-financing. In addition, it is the first time in 16 years to provide project financing for Sub-Saharan Africa.

"The Nacala railway will not only benefit the economic growth of Mozambique and Malawi, but also it will allow the surrounding land-locked countries such as Zambia and Zimbabwe to access Mozambique, the gateway of Africa. It is attracting attention from other African nations as well.

"JBIC will continue to support projects involving Japanese companies that will lead to the economic development of Africa."

Nana Suzuki said, "This project will likely result in an increase of the quantity of high-quality coking coal exported from Mozambique to Japan. I feel I was able to take part in a meaningful project that will contribute to securing a stable supply of mineral resources to Japan. JBIC has provided financing for multiple projects involving VALE, and I believe we were able to further strengthen our collaborative relationship. As a Japanese public institution, we hope to provide financial support for the securing and acquisition of mineral resources by Japanese companies through our close relationships with valuable partners such as VALE."

