

Success Stories

PUBLIC-PRIVATE PARTNERSHIPS

This series provides an overview of successful public-private partnerships in various infrastructure sectors, where IFC was the lead advisor.

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Mozambique: Moatize Coal Deposit

In November 2004, IFC concluded a mandate advising the Government of Mozambique on selecting a developer for the Moatize coal deposit in the poverty-stricken Zambezi Valley. The Moatize Coal Project is intended to serve as anchor project to develop the Zambezi Valley, increase economic activity, and improve local social conditions while also contributing to the country's income.

The winner was Brazil's Companhia Vale do Rio Doce (CVRD), which bid US\$122.8 million for the rights to explore and develop the coal deposit. CVRD's proposal included an integrated feasibility study for the Moatize Coal Project and for associated railway and port infrastructure, plus studies to develop a 1,500 megawatt coal-fired power plant, along with pre-feasibility studies for other industrial projects. CVRD committed to spending US\$6.5 million on community development projects during the project exploration phase and more than US\$50 million during the production phase.

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BACKGROUND

Mozambique enjoyed some economic success from 2001 to 2004. Its GDP had a sustained growth rate in excess of 7% spurred by the Government's strategy of promoting economic development through some successful "mega projects". Even though these capital-intensive projects contributed greatly to the country's economic growth, their trickle-down effect was not at the level the Government had anticipated and did not spur growth in the traditional and informal sectors. Consequently, Mozambique continued to face great challenges: a GDP among the lowest in the world with large disparities between regions, half the population below the national poverty line, low life expectancy, and only 40% literacy rate.

The Zambezi Valley remained simultaneously one of the least developed and one of the most populated regions of the country, with approximately 3.5 to 4.0 million people living off subsistence agriculture. The region was ravaged by a 15-year long civil war and remained largely on the sidelines of the economic development experienced by the rest of the country.

IFC'S ROLE

Following 10 years of unsuccessful attempts to attract a company to develop the Moatize mine, in November 2003, the Government hired IFC to advise on the selection of developer and set the conditions for its successful development. The Government's objectives were socioeconomic and included engendering sustainable development, particularly in the Zambezi Valley and strengthening and diversifying Mozambique's productive base.

The project presented major challenges. In particular, the complex geology and the limited availability of geological information, which prevented potential investors from presenting well-informed offers; legacy issues; large capital investment requirements; and complex infrastructure arrangements as the 600-km long Sena railway line had just been awarded under a 25-year concession --which made the project dependent on the railway investor for its connection to the port of Beira.

Specifically, IFC:

- Prequalified investors, resulting in the selection of four large international mining companies.
- Compiled all available data and assisted investors with due diligence.
- Defined the selection criteria and developed guidelines for the proposals.
- Assisted in negotiations with prequalified investors and lead the drafting of the bidding documents.
- Assisted the Government in the evaluation of proposals.

TRANSACTION STRUCTURE

A complex selection process was designed to create competition among four large mining companies while ensuring transparency

and credibility and obtaining the highest possible value for the Government. Bidders were required to be committed to environmental management and to undertaking community and social development programs in the region.

BIDDING

Ten mining companies presented credentials for prequalification and four were prequalified: the Anglo American Corporation, BHP Billiton Mitsubishi, CVRD, and Rio Tinto.

CVRD was declared the winning bidder on November 12, 2004. In addition to a strong financial component, key elements of CVRD's proposal included a strong commitment to community and social development as well as a long-term strategy that included the development of a mine with a capacity of 21 million tonnes per year, 3% royalty (production tax); 5% free carried interest for the Government in the project, and up to 10% of shares reserved for Mozambican nationals.

POST-TENDER RESULTS

- CVRD spent approximately US\$80 million on the feasibility study, in addition to US\$130 million on the fee for the exploration license.
- The expected investment includes US\$1.5 billion for developing the mine, US\$1 billion for rehabilitating the Nacala railway line, more than US\$1 billion for power generation, and US\$0.5 to US\$1 billion for power transmission.
- The success of the project brought international visibility to Mozambique's potential as a coal producer, spurring investment by large international companies such as Tata, Riverdale, and India Coal in the Tete region of the Zambezi Valley that will result in large inflows of investment to the region.



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