AFRICA JULY 24, 2018

Nacala Logistics Corridor: Funding a vital link across 912kms

***Rand Merchant Bank (RMB) is a leading African Corporate and Investment Bank and a division of one of the largest financial services groups (by market capitalisation) in Africa – FirstRand Bank Limited.**

Railway infrastructure is key to the growth of any economy – all the more, if you are exporting coal across international trade waters. Thanks to the revamped and extended Nacala Logistics Corridor, the Moatize coal mine in the northwest Tete region of Mozambique can now export greater volumes of commodity to global customers. This landmark infrastructure deal was made possible by a consortium of three ECAs, an African development bank and a lending consortium of six international and four South African banks. RMB, acted as Mandated Lead Arranger and funded $113 million under the ECIC supported tranche.

"RMB is no newcomer to structuring and funding Export Credit Agency (ECA) backed projects. Our ECA team has strong relationships with the ECIC (Export Credit Insurance Corporation of SA Limited SOC) and international ECAs – covering the import and export of capital goods and services to and from sub-Saharan Africa," says Inal Henry, Head of Export Financing at RMB who was involved in the transaction.


Inal Henry, Head of Export Financing at RMB.

RMB is a *Go-To* ECA Bank in sub-Saharan Africa and has funded some landmark ECA transactions including the €705m boiler financing for Eskom's Kusile power station (backed by Euler Hermes of Germany) and the R945m Comair aircraft financing (backed by US Exim).

Multiple members

Due to the complex nature of the project, a significant collective effort was made by all parties including the Governments of Mozambique and Malawi, the International Sponsors – Vale and Mitsui, the consortium of International and South African Banks, the ECA's and the African Development Bank (AfDB). Harmonisation of the legal, financial, political, environmental, regulatory, compliance and other requirements across the diverse funding group was extraordinary.

“RMB was mandated under the $400m ECIC supported tranche and advanced funding together with Absa Bank Limited, Investec and the Standard Bank of South Africa. The South African banks took great comfort in having the South African government represented through its official Export Credit Agency (the ECIC) in the financing. The ECIC brought great insight to the transaction and underpinned the South African lending tranche, while the AfDB advanced $300m,” says Henry.

The Japan Bank for International Co-operation (JBIC) direct funded an additional $1.03bn, while a consortium of Sumitomo Mitsui Banking Corporation; The Bank of Tokyo Mitsubishi UFJ Ltd; Mizuho Bank Limited; Sumitomo Mitsui Trust Bank Ltd; Nippon Life Insurance Company and Standard Chartered Bank funded $1bn (insured by Nippon Export and Investment Insurance (NEXI)). JBIC and Nexi are the Japanese ECAs.

Altogether senior debt of $2.73bn was raised for the $5.15bn project (this excludes the Moatize mine development costs which were funded by the sponsors).

“By structuring ECA backed tranches, we are able to deliver more competitive financing terms to our clients through longer tenors and at competitive interest rates. The Nacala project finance facility will be repaid over 14 years,” adds Henry.

Mining drives rail plans

The Nacala Logistics Corridor project was initiated in 2012 by Brazilian mining conglomerate Vale and Mozambique’s state port and railway operator CFM, with support from Mitsui of Japan, who is also a shareholder in the Moatize coal mine and the Nacala Logistics Corridor.

The Corridor is a 912km railway which will transport coal from the Moatize coal mine to the port of Nacala, where a new deep-sea coal export terminal, capable of loading large freighters in record time, has also been built.

The existing railway lines in Mozambique were rehabilitated, while a new heavy haul railway across the southern part of Malawi was constructed. The new line will see 60 wagons transporting coal to the port, from where it will be exported to Europe and Asia. According to Vale, coal production at the Moatize mine has risen from 3.7 million tons in 2012 (the first year of operation) to 11.3 million tons in 2017. The opening of the new rail link will allow this to increase 18 million tons per year and will reduce the transportation costs from mine to port.

On the right track

In addition to creating a secure dependable logistics corridor for the Moatize mine, the project has delivered significant benefits to the region, such as enabling a new freight and passenger corridor in Mozambique and Malawi. Transport of goods and passengers has become a reality for previously isolated areas of these countries. It inadvertently also supports non-coal associated business such as a growth in agriculture in the region. This coupled with other projects such as electricity generation and transmission will only go further to develop the Southern African region.

“Over and above the immediate benefits of the corridor project, the Nacala transaction showcases the success of global sponsors and stakeholders working together with African governments to deliver a project for the good of Africa. It is confirmation that Africa is open for business and investment. We are proud to have played a part in the funding of this strategic sub-Saharan African project which provides such wide and far reaching benefits for the local communities and economies,” concludes Henry.

This project has received a number of awards, including the ‘Best African ECA Finance Deal of the Year’ awarded by TXF ECA Finance Deals of the Year: 2018.

Nacala by numbers

2012	The project was started in 2012
$5.15 billion	Total cost of the project
$2.730 billion	Total cost of the debt funding
912km	The distance of the single railway line that stretches from Tete in western Mozambique to the Nacala port on the eastern coast of the country through Malawi
4 Million	The anticipated number of tons of freight capacity per year
18 million tons	New projected delivery of coal for export
40%	Coal exports are to increase by 40% once the rail segment is in full operation
14 Years	The facility will be repaid over 14 years