



# Public-Private Partnership Impact Stories

## Mozambique: Moatize Coal Deposit



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In November 2004, IFC advised the government of Mozambique on selecting a developer for the Moatize coal deposit in the Zambezi Valley. The project was 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.

Brazil's Companhia Vale do Rio Doce (CVRD) paid \$130 million for the right to explore and develop the coal deposit. CVRD's proposal included an integrated feasibility study for the project and the 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 also spent over \$7 million on community development projects during the project exploration phase and more than \$80 million on the feasibility study.

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

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*The project was implemented with the financial support of DevCo, a multi-donor facility affiliated with the Private Infrastructure Development Group. DevCo provides critical financial support for important infrastructure transactions in the poorest countries, helping boost economic growth and combat poverty. DevCo is funded by the UK's Department for International Development (DFID), the Austrian Development Agency, the Dutch Ministry of Foreign Affairs, the Swedish International Development Agency, and IFC.*

## BACKGROUND

Mozambique enjoyed relative economic success from 2001 to 2004. Its GDP had a sustained growth rate in excess of 7 percent 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, they 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 a 40 percent literacy rate.

The Zambezi Valley remained one of the least developed and one of the most populated regions of the country, with approximately 3.5 to 4 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 a developer and set the conditions for its successful development. The government had broad socioeconomic objectives, including the sustainable development of the Zambezi Valley.

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.

## TRANSACTION STRUCTURE

A complex selection process was designed to create competition among four large mining companies and ensure transparency and credibility and the highest possible value to 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 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 bid, 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 tons per year, 3 percent royalty (production tax), 5 percent free carried interest for the government in the project, and up to 10 percent of shares reserved for Mozambican nationals.

## POST-TENDER RESULTS

- CVRD spent approximately \$80 million on the feasibility study, in addition to \$130 million on the fee for the exploration license.
- 500-600 permanent jobs were created during exploration phase (2004-2006), as well as 5,000 jobs during construction (starting in 2011).
- As of 2009, over \$7 million was spent by the concessionaire on health, education, agriculture and social programs (compared to \$6.5 million expected).
- During exploration, the realized fiscal impact was in line with the original expectation for this phase of \$122 million.

*\* Unless otherwise stated, monetary values are presented in 2009 US dollars. Results are from a post-completion evaluation completed June 2010.*

