

# INFRASTRUCTURE & PROJECT FINANCE

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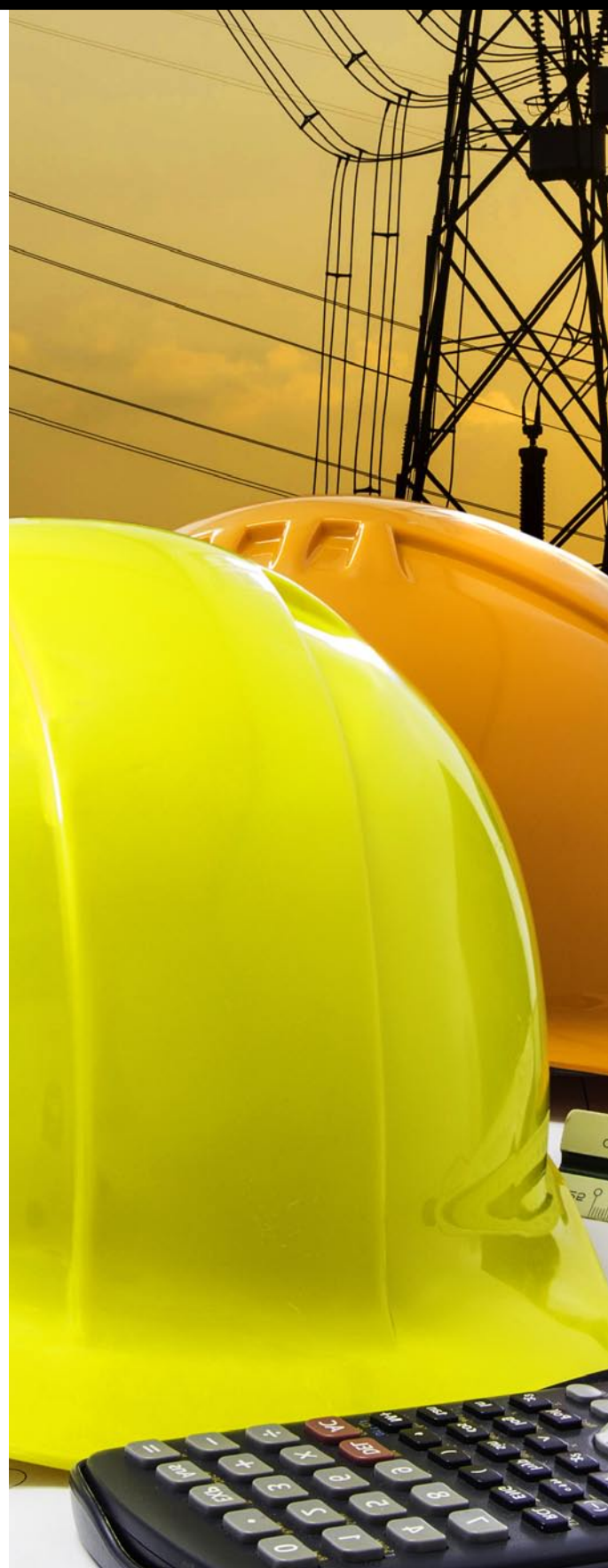
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Financier Worldwide canvasses the opinions of leading professionals around the world on the latest trends in infrastructure & project finance.

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## INTRODUCTION

Though infrastructure development is often a boon for regional and national economies, in recent decades there has been a surprising lack of it among some of the world's largest economies.

Despite their status as economic powers, countries such as Germany and the US have neglected their infrastructure needs, much to their detriment. Accordingly, workers and goods alike have been forced to traverse crumbling, antiquated transport networks for years. Thankfully, however, in certain jurisdictions there is political will – as well as economic need – to improve networks and drive investment.

Public-private partnerships (PPPs) have a vital role to play in the ongoing infrastructure renaissance. In many jurisdictions, diversifying funding sources to include PPPs has proven popular, kick-starting activity. However there is much more to be done, both in terms of new projects and rehabilitating existing infrastructure. Transport networks, high speed internet connectivity, schools and public building projects are just a few examples of the types of projects in desperate need of funding. And many of these projects cannot be financed through public sources alone – there is an urgent need for private finance, and PPPs have a key role to play.

For those parties undertaking infrastructure deals, the importance of due diligence cannot be overstated. Given the risks and regulatory challenges inherent in infrastructure transactions, due diligence is vital to successful deal execution. There are myriad legal, commercial and technical issues which parties must be prepared for, and due diligence is the key to overcoming them.



# MOZAMBIQUE

**PAULA DUARTE ROCHA**

HENRIQUES, ROCHA & ASSOCIADOS, SOCIEDADE DE ADVOGADOS, LDA

**Q HOW HAS THE INFRASTRUCTURE SECTOR FARED IN MOZAMBIQUE OVER THE LAST 12-18 MONTHS? WHAT FACTORS ARE AFFECTING INVESTMENT AND DEVELOPMENT?**

**ROCHA:** Over the last two years, Mozambique has experienced a reduction in foreign investment inflows. Low commodity prices, plus the withdrawal of funding by international donors due to hidden debts contracted by government, have slowed the country's economy and growth. All these factors have contributed to a decrease in investment in the infrastructure sector and consequently affected investments and developments in the sector. Some of the projects that were under way have come to a halt and some of them recorded losses when the price of goods in the market increased significantly and purchasing power declined. In the face of some measures implemented by government entities and the central bank, it was possible to prevent a further rise in inflation and restore the country's economic stability. Despite the reduction in the number of projects under way in the private sector, a number of important projects in the infrastructure sector have been developed by the public sector. The economy has shown signs of improvement and this has had a significant impact on the infrastructure sector.

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**Q WHAT TYPES OF INFRASTRUCTURE PROJECTS ARE PROVING POPULAR AT PRESENT?**

**ROCHA:** At the moment, the most popular infrastructure projects are Palma's LNG production plant, Nacala's deep-water port, the Maputo-Catembe bridge and the Ressano Garcia-Matola gas distribution network.

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**Q** TO WHAT EXTENT IS THE GOVERNMENT INTRODUCING POLICIES AND INCENTIVES TO ATTRACT PRIVATE INVESTMENT TO FUND INFRASTRUCTURE DEVELOPMENT? HAS THERE BEEN AN INCREASED APPETITE FOR PUBLIC-PRIVATE PARTNERSHIPS (PPPS) AND PRIVATE FINANCE INITIATIVES (PFI), FOR EXAMPLE?

**ROCHA:** Mozambique has an investment law which offers many inducements, including tax incentives, in order to attract private investment. The government has offered its support to private investment and is trying to attract private investment to fund infrastructure developments. For instance, 2017 saw an amendment to the law of entry and permanence of foreigners which will allow investors and tourists to get a visa at the border at the moment of entry to the country, even if in their country there is no Mozambican diplomatic representation. This measure aims to facilitate the entry of investors in the country with a view to attracting investments into various areas. In recent years, there has been no increase of projects in the form of public-private partnerships, however.

**Q** WHAT TRENDS HAVE YOU SEEN IN PROJECT FINANCE, IN TERMS OF PRICING, TERMS, WILLINGNESS TO LEND, AND SO ON?

**ROCHA:** The cost of an infrastructure project in Mozambique has increased significantly in recent years. The country's economic situation has also affected the banking sector and raised the price of interest rates in the market. However, banks have continued to lend.



**Q** WHEN EXECUTING INFRASTRUCTURE DEALS, HOW IMPORTANT IS DUE DILIGENCE TO MANAGE THE RISKS AND REGULATORY CHALLENGES?

**ROCHA:** Due diligence is crucial, not only to keep pace with and ensure compliance with constant legislative developments, but also to mitigate common risks associated with the gap between legal principles and common practice, including the potential for corruption risks.

**Q** IN YOUR EXPERIENCE, WHAT ELEMENTS ARE ESSENTIAL TO OPTIMISING EXISTING PROJECTS, GENERATING RETURNS AND CREATING LONG-TERM VALUE FROM INFRASTRUCTURE INVESTMENTS?

**ROCHA:** The majority of economic infrastructure projects in Mozambique still require a significant amount of private investment. Reducing barriers to private infrastructure finance – leading to a lack of bankable projects being developed in the country – and diversifying the economy, including developing the financial sector, are essential to optimising existing projects in the pipeline and creating long-term value from infrastructure investments.

**Q** LOOKING AHEAD, WHAT KEY TRENDS DO YOU EXPECT TO SEE IN INFRASTRUCTURE AND PROJECT FINANCE IN MOZAMBIQUE OVER THE COMING MONTHS?

**ROCHA:** Natural resources will continue to set the pace for the development of infrastructure and project finance in Mozambique, with the development of LNG projects playing a major role in restoring the economy, by creating investment opportunities and allowing the country to regain growth momentum. No financial decisions are expected to occur before the end of the year though.



**“The majority of economic infrastructure projects in Mozambique still require a significant amount of private investment.”**

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