INFRASTRUCTURE & PROJECT FINANCE

ANNUAL REVIEW **2018**

FINANCIER WORLDWIDE corporatefinanceintelligence

Published by
Financier Worldwide
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Annual Review • September 2018
Infrastructure & Project Finance

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SEPTEMBER 2018 • ANNUAL REVIEW

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

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INTRODUCTION

There have been some interesting developments in the global infrastructure market in the first half of 2018, with further new opportunities anticipated for the second half of the year.

The UK market remains disappointing, however. The private finance initiative (PFI) concept introduced in 1992 has dramatically fallen out of favour over the past year. Political support for the concept has collapsed among the previously enthusiastic Labour party, which has announced that it will move projects back under public sector control if or when it returns to office. At the same time, the collapse of Carillion, a major PFI construction player, has increased public opposition to private sector investment in infrastructure.

In addition, the UK National Audit Office (NAO) published a report in January which threw doubt on the methods used to calculate 'value for money' when comparing public and private sector investment for a project. The NAO maintains it cannot assess the actual efficiency of PFI or carry out an evaluation of the actual performance of PFI at the project or programme level.

We need more independent research globally on the value of private investment in infrastructure to counter these ambiguous and often incorrect assertions made against the PFI concept.

Globally, the PFI and public-private partnership (PPP) models have been shown to be better value for money and more efficient, in both the construction and operational phases, than infrastructure projects built and operated in the public sector. Fortunately, in other countries we are seeing further expansion of private sector investment and operation of infrastructure.

After a slow start, the Indonesian government's Infrastructure Plan now includes a requirement of 33 percent investment from the private sector. The Indonesian National Procurement Agency has been developing a new PPP procurement regulation and model bid documents which are presently out for consultation.

Following the 2016 elections in Argentina, the Ministry of Finance has now developed a PPP plan which requires a total of $26bn international investment in energy, mining, transport, communications, technology and social infrastructure. Some 60 projects have been identified with six road projects already out for tender.

The Japanese government has demonstrated its support for improving infrastructure through private investment and operation by announcing it intends to create a wealth fund to invest in American infrastructure projects. The state-backed fund will support infrastructure construction, along with resource development and storage, as well as investing in joint US/Japanese projects in other countries.

In the US M&A market, we are seeing a trend of developers selling down their project equity to passive institutional investors, like pension funds and sovereign wealth funds. They are also welcoming less expensive capital being brought into the market, as it allows developers' capital to be recycled into new projects.

Globally, we are seeing an enthusiastic interest in smart cities. The vision entails a city using renewable energy, energy efficiency, non-polluting transportation and the creation of local and regional electricity grids with services tied together by interconnected digital technology. The aim is a clean environment with adequate and clean power supplies at the lowest price. Likewise, interest in the green bond market continues to grow globally and offers corporate entities the ideal funding for smart cities. The UK is presently looking at a private finance 2 (PF2) or PPP model that could be used to procure district heating networks across the UK, offering a potential link to the new garden cities proposed.

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Paula Duarte Rocha is a partner with Henriques, Rocha & Associados, Sociedade de Advogados (HRA Advogados). She is highly experienced in the Mozambican market, having operated in all areas of practice, advising both national and foreign investors, as well as national and foreign private companies. She has notable experience and a strong track record in banking and project finance transactions. Experienced on cross-border transactions and regulatory issues, Ms Rocha developed know-how in advising economic operators and contracting authorities in public procurement and public-private partnerships.

Q. How would you characterise infrastructure investment in Mozambique over the last 12 months or so? Do investors seem to be attracted to opportunities in particular segments?

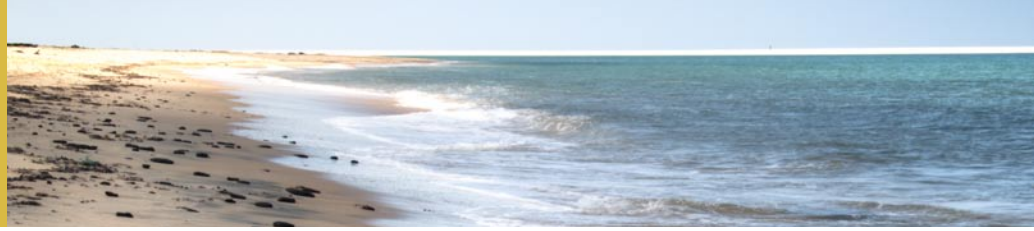
ROCHA: In the aftermath of the 'hidden debts scandal', which caused foreign investment in Mozambique to fall by 75 percent in the last three years and reduced external financing and donor support, investors seem to be regaining confidence in the country. The liquefied natural gas (LNG) sector is projected to be the primary recipient of foreign direct investment (FDI) inflows into Mozambique, as well as the major driver of the country's economic expansion prospects. Infrastructure in Mozambique is still significantly underdeveloped and remains a challenge if the country is to boost its economy and seize opportunities emerging from international interest in its vast natural resources. Railways, roads and ports are crucial for Mozambique's economic development, and constitute solid investment opportunities that will support not only the natural resources industry, but also the economies of landlocked countries neighbouring Mozambique, such as Malawi, Zambia and Zimbabwe. Significant infrastructure projects that have been put on hold are now regaining momentum and new projects also appear to be in the pipeline. In May, the Namaacha Wind Farm (*Parque Eólico da Namaacha*) was launched with grant funds allocated from the Sustainable Energy Fund for Africa and administered by the African Development Bank, which is a valuable trend indicator of the improvements being made in the Mozambique economy. Restructuring and privatisation of state-owned enterprises is also in the pipeline and will certainly attract new private investors. The national mobile telecommunications company Mcel and the national airline company LAM are seen as priorities in terms of investment needs.

Q. To what extent is the government in Mozambique using public-private partnerships (PPPs) and private finance initiatives (PFI) to achieve infrastructure objectives?

ROCHA: In the context of the Mozambican government's current shortfall, the use of private finance initiatives (PFIs) to achieve infrastructure objectives may be the best solution, and the government remains committed to supporting private investment and to attracting private investment to fund infrastructure developments in the country.

Q. What funding sources are active in the project finance market? Is there a strong appetite to lend?

ROCHA: External financing remains very active in Mozambique, with China being an important partner, especially in the financing of public infrastructure. Domestic banks are struggling to keep up with the Bank of Mozambique's new monetary policies to cover the government shortfall, and are seriously engaging in debt restructuring and recovery and have been 'forced' to lend to the government, but they are also benefiting from the regained confidence and rising appetite for investments in Mozambique, partaking in the various re-emerging private investment initiatives in the market.



Q. When executing infrastructure deals, how important is due diligence to manage the risks and regulatory challenges? What considerations need to be made when negotiating and preparing transaction documents?

ROCHA: Due diligence is fundamental in order to keep pace with and to ensure compliance with constant legislative developments, and 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 projects, generating returns and creating long-term value from infrastructure investments?

ROCHA: Resilience and long-term commitment are key. Appropriate knowledge of the legal framework, its constraints and the system's still excessive bureaucracy and engaging with the government at the planning stage of any project investments are fundamental. Removing administrative, regulatory and commercial legal barriers to trade and investment, and effective intergovernmental coordination, must become a priority for the government.

Q. To what extent are you seeing M&A involving infrastructure assets? What particular challenges tend to arise when executing deals in this sensitive sector?

ROCHA: The slowdown of the economy due to lower confidence, owing to the undisclosed loans, has lead to a decline in M&A transactions involving infrastructure assets.

Q. What are your predictions for infrastructure and project finance in Mozambique over the coming months? Do you expect particular trends to emerge or continue?

ROCHA: The oil & gas industry is definitively a catalyst for infrastructure development in Mozambique, with large investment inflows expected until 2020. While the $1bn Coral South FLNG project, led by Italian multinational ENI, with participating interests by Exxon Mobil, CNODC, ENH, Kogas and Galp Energia, in Area 4 of the Rovuma Basin, is in its implementation phase and with various signed contracts for infrastructure development, the US-based Anadarko project is expected to bring investments into the country amounting to billions of dollars, along with additional infrastructure development opportunities. The Thai Moçambique Logística (TML) project, *"The oil & gas industry is definitively a catalyst for infrastructure development in Mozambique, with large investment inflows expected until 2020."*

which plans to build a deep-water mineral port at Macuse, in Zambezia province, and a 900 kilometre railway linking Macuse to the coal mining area of Tete province to Nacala-a-Velha on the coast, is an eagerly awaited infrastructure development, said to have already mobilised $1.2bn. The 175-megawatt *Central Térmica de Ressano Garcia* plant, involving a syndicated loan of $42m, is also an expression of the 'appetite' for the Mozambique energy and power generation sector. Agriculture is, and has always been, a trending industry in Mozambique, although there are overall funding constraints, generally arising from a securitisation point of view, as land in Mozambique is not transactable as it is always property of the state.

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The firm Henriques, Rocha & Associados, Sociedade de Advogados (HRA Advogados), a member of the MLGTS Legal Circle, was founded by a group of lawyers of Mozambican nationality with the ambition of becoming a leading law firm in Mozambique. It is a firm with tremendous potential in Mozambique due to its dynamism, innovative capacity and quality of legal services provided. Building a legal practice capable of meeting its clients' needs in the Mozambican market and contributing to the growth and development of the legal market in Mozambique are the main goals of HRA Advogados team.

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