PROJECT SUMMARY INFORMATION: KOULOU MAGNESIUM PHASE I (REP. OF CONGO)

1. **Private sector Operation**

2. **The Project**

The operation concerns the execution of the remaining bankable feasibility studies (BFS) including development works and Environmental and Social Impact Assessments, necessary to reach financial close for, in the context of the development of the Kouilou Magnesium Deposit and associated production plants in the Pointe Noire region of the Republic of Congo (Brazzaville).

3. **Financing Proposal**

   **Borrower:** MagIndustries International Inc  
   **Promoter:** MagIndustries Corp.  
   **Final beneficiary:** Wholly or Majority owned subsidiaries of the borrower: MagAlloy Congo SA, MagMinerals International Inc., MagMetals International Inc.

   **Amount:** Up to 13 m EUR.  
   **Term:** 3 years, extensible to 6 years.  
   **Terms and conditions:** Participating loan on Investment Facility resources  
   **Interest rate(s):** A fixed base rate with a mark-up based on the occurrence of certain project progress events (project-milestones).

   **Investment Facility Committee opinion:** The Committee delivered a FAVOURABLE OPINION at its meeting of 19 January 2006.

   **Financing plan:** Total project cost is estimated at 26.12 m EUR, of which the Bank will finance 50%. The balance will be funded from the Promoter’s own equity.

4. **Value-added identification**

   - **Consistency with the priority objectives of the EU (Pillar 1)**
     The Kouilou project will be one of the major industrial investments in a post-conflict country that is slowly attracting inflows of Foreign Direct Investment. It enters fully into the government’s policy objective to facilitate private sector development, economic liberalization and diversification of production and exports. Bank support for the project would send a positive signal to the international financing community and be a catalyst for further foreign direct investment. The project is consistent with IF objectives and with the priority area of cooperation set out in Art. 23 of the Cotonou Agreement. The EU is stepping up its support to the Republic of Congo in anticipation of the country reaching the HIPC decision point. Although magnesium smelting and processing is an intensive energy consuming activity, the energy components of the Kouilou development project will have a positive socio-economic impact. The project will not lead to increased greenhouse gas emissions, due to the use of hydropower and gas associated with adjacent oil production, which is currently flared.

   - **Quality and soundness of the investment (Pillar 2)**
     The planned feasibility studies and preparatory works should demonstrate the technical, socio-economic, and financial viability of a major industrial project; it should also prove to be environmentally sustainable. The study’s structure, both management and execution, which is heavily reliant on external consultancies, appears to be adequate in the scope of the overall project, given the slim management structure of the promoter. The budget is well founded and appears reasonable, especially in relation to
the size of the intended industrial projects and taking into account the partially preparatory nature of this project. The overall venture is designed such that the electrical, potash and magnesium operations are viable on a stand-alone basis. The Bank’s early involvement at this pre-investment stage will ensure the Promoter’s adherence to international standards in terms of good governance, transparency and social/environmental issues.

- Financial value-added (Pillar 3)

The participating loan to be provided by the Bank is critical for the financing of the BFS because of the flexibility of its terms and conditions as provided for under Cotonou, with final repayment being extensible and with potential for upside remuneration as a function of the success or otherwise of this study phase, which is expected to lead to the eventual financial close of the Promoter’s development projects. The EIB contribution would also improve the investment profile of the Promoter thereby acting to catalyse investors in the future development projects, in which the Bank could also bring a substantial financial value added by contributing to the respective project finance facilities to be concluded.

5. Key issues

Environment

The direct environmental impact of the proposed studies and preparatory works is mainly confined to the development of the brine mining field consisting of drilling and equipping 5 wells located in a eucalyptus plantation co-owned by the promoter. This kind of activity would fall under Annex II of Directive 97/11 and therefore an EIA would be up to the decision of the competent authority if located in Europe. The Congolese authorities have not requested an EIA for this part of the project.

However, the environmental and social impacts of all project parts of Phase II, if implemented, will be of much greater scope. Therefore, full-scale social and environmental impact studies including public consultation and the set-up of appropriate environmental management plans form part of this project phase and are already under way by an independent consultant.

These studies will have to comply with applicable local laws and regulations as well as current EU standards and WB guidelines. The respective Environmental Impact Statements (EIS) will have to be submitted and approved by the relevant national authorities.

The industrial phase (Phase II) of this project appears to be environmentally attractive as it will entail some quite positive environmental aspects like brine mining (reduced surface area required), use of gas (otherwise being at least partly flared), rehabilitating and making extensive use of an existing hydro-electric power plant, co-production of potash fertilizer and salt (otherwise discarded) and producing magnesium metal and alloys. The latter is used particularly in the automotive industry to reduce car weight and hence reduce fuel consumption.

With regard to the planned use of flare gas, the promoter is following up the potential creation of credits in the framework of the Clean Development Mechanism (CDM) provided for under the Kyoto Protocol.

Social impact

The studies of the social impact of the underlying projects are part of the EIS being conducted currently. The studies will assess issues concerning, amongst others, potential resettlement, spreading of diseases, population influx and employment. It is anticipated that potential resettlement is minimum, as the projects will be developed in a low-populated private concession.

Procurement

The programme manager for the overall aspects of this project phase has already been appointed and the consultants, technology suppliers and contractors for the above-mentioned specific studies and works, have already been selected and contracts partly awarded. This selection was and will be based
mainly on expertise and experience following international negotiations. These procedures are suitable for the project and satisfactory to the Bank.

6. **Previous relations with the borrower/promoter and country exposure**

There is no previous relation with the borrower/promoter.