

PROJECT SUMMARY INFORMATION: MAGADI SODA PURE ASH PROJECT (KENYA)

1. Private sector Operation

2. The Project

The project comprises construction of a high purity soda ash plant using this process, of 365 000 tons annual production capacity, as well as upgrading of the existing dredges and transport and handling infrastructure. Its cost is estimated at 97 M USD; the EIB's contribution would be made in co-financing with IFC and FMO.

3. Financing Proposal

<u>Borrower and Promoter:</u>	Magadi Soda Company Limited ("MSC")
<u>Amount:</u>	Up to 27 M USD, of which 11 M USD on own resources (OR) and 16 M USD equivalent on Investment Facility (IF)
<u>Term:</u>	10 years
<u>Terms and conditions:</u>	<ol style="list-style-type: none">1) 11 M USD ordinary loan on own resources, priced at the EIB's standard interest rate for lending outside the EU in force at date of contract signature or at disbursement date;2) EUR equivalent of 14 M USD maximum, or 14 M USD, ordinary loan on IF, priced at the EIB's standard interest rate for lending outside the EU in force at date of contract signature or at disbursement date, increased by an appropriate margin;3) EUR equivalent of 2 M USD maximum, or 2 M USD, subordinated loan on IF
<u>Security:</u>	<ol style="list-style-type: none">1) Guarantee from FMO (AAA-rated)2) + 3) Project assets and borrower's existing property
<u>Financing plan:</u>	Own funds will cover 43 % of total project cost; the EIB's contribution, 28 % of the latter, would be granted alongside finance from IFC (27 %) and FMO (2 %)
<u>Special conditions:</u>	Mandatory drawdown of subordinated loans. The last 3 M USD of the ordinary loan from IF resources to be disbursed after all other senior and subordinated long-term loans have been drawn
<u>Investment Facility Committee opinion:</u>	The Committee delivered a FAVOURABLE OPINION at its meeting of 6 November 2003

4. Value-added identification

- Magadi Soda Company Ltd belongs to the UK based Brunner Mond Group Ltd., Europe's second largest producer of soda ash; MSC has exploited trona – raw "soda ash" (sodium carbonate) crystals occurring naturally in Lake Magadi 120 km South-West of Nairobi since 1915 – and produces from it refined soda ash for export mainly to Asian countries; it is Kenya's largest industrial earner of foreign exchange.
- Through the proposed financing, the Bank is assisting ACP private sector development in accordance with the primary focus of its mandate under the Cotonou Agreement. The project is in line with Government of Kenya's objectives to improve the country's balance of payments, raise employment and reduce poverty, and indeed has Government's full support.
- The Bank is providing 10-year finance with a grace period meeting the construction time of the project, which the promoter could otherwise not access on the local or international financial markets. The long grace period of the subordinated loan will help overcome cash constraints during the more risky early years after plant commissioning

5. Key issues

Environmental impact

The project will be set up within the borders of the existing operation. Tailings with elevated levels of NaF are pumped back into the mined out areas of the lake and stored there. SO₂ emissions from power generators are minimised by scrubbing the off-gas with naturally occurring soda liquor. The new plant technology will reduce dust emission, and co-generation of electric power will help limiting CO₂ emission to acceptable levels. Those parts of Lake Magadi that serve as a refuge for water birds will remain untouched.

MSC has commissioned in 2000 an independent consultant to carry out an EIA of the project, with participation of local stakeholders. The Kenyan Authorities confirmed in 2003 its conclusion that the project will not have any significant negative environmental impact. An environmental action plan has been defined and the lenders will monitor its implementation. The company, has taken concrete steps to minimize the spread of HIV infection during construction of the new plant, e.g. through remoteness of the workforce campsite in order to minimize interference with the local population.

The project has thus no major impact on the environment, as per independent assessment validated by the Kenyan Authorities and fully complies with the Bank's environmental principles of sustainability and minimisation of negative environmental impacts. Trona in Lake Magadi is permanently renewed by underground lake inflows and the promoter's activities can be seen as an example of sustainable mining.

Procurement

The promoter has selected an engineering and construction company of good international reputation to build the new plant on the basis of a lump sum turnkey contract, following international consultation. Several key pieces of equipment to be procured by the contractor will be manufactured by the internationally leading suppliers in the domains concerned. The remainder will largely be procured by international consultation following prequalification. Selection of suppliers of items to be procured directly by MSC will follow international or national consultation. These procedures reflect the proprietary rights of certain process technologies, the highly specific nature of the equipment and the limited number of potential suppliers. They appear adequate and in the best interest of the project.

6. Previous relations

The proposed financing would be the Bank's first lending relationship with MSC and it would be the first finance operation in Kenya under the Cotonou Agreement.
