

## PROJECT SUMMARY INFORMATION: MOMA TITANIUM (MOZAMBIQUE)

### 1. Private sector Operation

### 2. The Project

The purpose of the project is the mining, concentration and separation of mineral sands containing ilmenite - main product - rutile and zircon - by-products -, used primarily in the paint industry, as titanium oxide pigments.

The project is located in Mozambique, on the coast of the Northern Province of Nampula at Moma, some 160km South of Nampula city. The production and shipping of some 660 000 t/year of ilmenite, zircon and rutile is of a world scale in terms of the titanium industry.

### 3. Financing Proposal

<u>Promoters</u>	Principal sponsor: Kenmare Resources Plc (Kenmare). Minority equity investor: Industrial Development Corporation of South Africa (IDC), yet to be confirmed.
<u>Borrowers:</u>	Kenmare Moma Mining Limited (KMML) and Kenmare Moma Processing Limited (KMPL).
<u>Amount:</u>	Up to EUR 15m senior debt. Up to EUR 40m subordinated debt.
<u>Term:</u>	13 years for the senior loan. 15 years for the subordinated loan.
<u>Terms, conditions and interest rates:</u>	<i>Senior loan:</i> Fixed or floating rate at EIB's standard unsubsidised rate + a margin, in line with other co-financiers.. <i>Subordinated loan:</i> terms in line with other co-financiers. They include a remuneration package composed of different items.
<u>Security:</u>	The security package includes a variety of collaterals.
<u>Government Opinion:</u>	Full support.
<u>Commission Opinion:</u>	Not required under the terms of the Cotonou Agreement.
<u>Financing Plan</u>	<i>Equity</i> (25%) from Kenmare and the equity market. In addition, the equity holders had to raise a further USD 30m <sup>1</sup> . <i>Subordinated debt</i> (16%) from EIB and others. <i>Senior debt</i> (59%) from EIB and others.

### 4. Rationale for EIB financing

The project will yield substantial benefits for the regional economy of the Nampula province and the Mozambican economy in general. The most important are the improvement of infrastructure (roads, power supply and airstrip) as well as wages and salaries paid out to locally recruited employees (inclusive of the usual indirect multiplier effects). Moreover, income from royalties of the mineral license and fees for using the free trade zone will contribute to the positive economic impact of the project.

#### Eligibility

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<sup>1</sup> In the form of cash or an on demand instrument to fund a Contingency Reserve Account, which will be part of the Completion Guarantee required by the lenders.

This will be one of the first projects to be financed under the new IF, and is promoted by the private sector and politically supported by the Government. The Nampula province is a region where the GDP per capita is estimated at some USD 100, less than half the national average. Moma will contribute to the EU (and Government's) strategy of poverty-relief by creating up to 600 temporary jobs for local residents during the construction phase and about 400 permanent jobs during operation, and indirectly around 1,200 additional jobs. The contribution of mining and manufacturing industries is still limited: together they account for only 13% of GDP; mining alone accounts for only 0.25%, despite the favourable geological environment.

#### Background and Value Added

The Bank has been involved for quite some time helping the main sponsor in different ways with this difficult project due in part to its remote location. Certain design elements of the project, for example the integration of the electricity component, follow suggestions made by the Bank. Without the Bank's proposed financial instruments, the promoter would have difficulties in raising enough equity and debt to complete an acceptable project finance plan, even more so under the conditions in world stock markets at the time. The Bank proposed a relatively large subordinated loan, without which other lenders would not be supportive of the project and financial completion would have been difficult to achieve.

### **5. Key issues**

#### Environment

Under Mozambican environmental and mining law, the project requires an environmental licence, for which the approval process was completed.. A series of risks were mitigated in the project definition as a result of an early independent environmental assessment. The highest remaining environmental risk is potential ship wreckage offshore in the transshipment area, which has been relocated in order to protect a coral island (now some 5 km away). However, the likelihood of such an incident is low and can be further reduced by imposing and respecting strict operational procedures. The other issues such as e.g. resettlement of a village (some 1000 people in total), mine closure and preservation of a sensitive coastal forest were handled and mitigated accordingly, including an adequate resettlement and compensation plan following World Bank guidelines (as part of the Environment Management Programme) and a well-adapted mining plan. A conceptual mine closure plan will be set up during early construction.

Relevant issues have been properly addressed by the promoter and mitigation measures have been introduced or foreseen to the extent possible. The project thus complies with the Bank's environmental principle of minimisation of negative environmental impacts, and is deemed environmentally acceptable.

#### Procurement

Procurement of the main contractor – a turn-key lump-sum contract - and the main subcontracts for dredge, jetty and barge follow international negotiated procedures among the few specialised companies in the respective fields. The smaller subcontracts will follow international or national restricted tender or negotiated procedures. The adjudication processes will be transparent and monitored by the project lenders. The second hand floating concentrator and the mineral separation plant were acquired in 2000 following direct negotiations with the seller. Contracts proposed to be financed by the Bank conform to the Bank's guidelines for this type of finance. The procurement procedures followed to date and proposed by the promoter are suitable for the project and satisfactory to the Bank.

### **6. Previous relations with the borrower**

None with the borrowers (new companies). The sponsor Kenmare owned and operated a graphite mine project in Ancuabe (north of Pemba), supported by the Bank, but the plant's operation is currently shut down, on stand-by, until another suitable company takes it over.

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