PROJECT SUMMARY INFORMATION: MOZAL II ALUMINIUM SMELTER (MOZAMBIQUE)

1. Private sector Operation

2. The Project

Financing of Government's minority equity participation (3.8%) in the second phase of the Mozal Aluminium Smelter, near Maputo, which will double the capacity of the smelter to 500 000 t/year of aluminium.

3. Financing Proposal

Borrower: The Republic of Mozambique.

Amount: Up to EUR 20m, corresponding to the 3.8% Mozambican share participation in the project, from risk capital resources.

Term: Up to 16 years.

Remuneration: Based on dividends and capital gains.

Article 28 Member States' Committee: The Article 28 Committee gave a FAVOURABLE OPINION on the proposed operation at its meeting on 25th October 2001.

Mandate: Lomé Convention IV, Second Financial Protocol.

4. Value-added identification

With a combined direct investment of about USD 2 billion, Mozal is one of the largest industrial projects in Southern Africa Mozal with a major positive socio-economic impact on Mozambique. Approximately 6 000 people (75% of which Mozambicans) work on site during the construction. Mozal II will generate some 200 to 300 permanent jobs (in addition to the 900 jobs already created). Further 1 200 indirect jobs are expected to be created in related industries and services.

The Bank played an important role in the first phase of the project by providing financial assistance to Mozambique to fund its equity participation in the project, and by supporting the Motraco project for power transmission facilities for the smelter. The decision to finance Mozal considered that the project was a catalyst for foreign investment in a country that emerged from civil war. It contributed to the local infrastructure, including vital health and educational services at the factory's location; it provided employment and training for the local workforce; it created a local industrial park; etc. and took into consideration all of these benefits. Mozal II will have the effect of reinforcing them.

The Bank is asked to provide the same form of financial support for the project's second phase. With the second production line, Mozambique's total annual export value will increase by some USD 350 million, and the net contribution to the country's foreign exchange balance is estimated at around USD 25 million. The Bank's support will improve the country's direct financial returns from the expansion project as a minority shareholder (with non-voting shares), directly participating in profits and dividends. According to current financial projections the Government's 3.8% equity stake in the second line is forecast during the first sixteen years of the project to generate an annual dividend income of USD 2.5 to 3.0 million (of which the Bank will receive 50%). Additional income may be generated if the shares are sold above book value.

The Government has no alternative source of financing for its equity investment, other than the Bank (carrying out its mandate under the Lomé IV Convention), which would be, in this case, definitively the financier of last resort.

5. Key issues

Environmental impact:
An equivalent investment in the EU would fall under Annex 1 of Directive 97/11. The promoter commissioned a comprehensive independent Environmental Impact Study (including the impact of the future extension) of the original project. The various specialist studies have been updated and their conclusions are included in an Environmental Management Programme, which includes outside monitoring and follow-up. Acceptable mitigating measures are in place for atmospheric emissions (fluorides) and the model used for studying their impact has been updated with production data gathered at the equivalent Hillside smelter over its first two years of production. Mitigating measures on the impact of transportation (raw materials and finished products), which will be doubled, will also be implemented. The promoter is committed to best practices in terms of environmental management. In summary, the environmental impact of the construction and the operation of the smelter are minimized and take into account latest available technologies.

Virtually all electricity will be supplied from the Southern African grid which, *inter alia*, obtains about 5% of its capacity through an inter-connection with hydroelectric facilities in Mozambique (Cahora Bassa).

Procurement:
The contracts for the equipment and services for the plant construction were awarded under a negotiated procedure to the same suppliers as for Mozal I. New competitive bidding procedure would have been unreasonable and unjustified given the accumulated experience during the construction of Mozal I, which will translate into savings in time, security and reliability of construction. The conditions of implementation, the technology and the prices obtained are the best possible combination for the project. The procurement procedure is in the best interest of the project, in line with the Bank's usual policy, and therefore acceptable for the Bank's financing.

6. Previous relations with the borrower

The Bank co-financed the first phase of the project, with a senior loan of EUR 38m from own resources to the project (guaranteed by Industrial Development Corporation of South Africa and EUR 19m to finance the Mozambican minority equity from risk capital resources.
