

# MIGA: Supporting Mining Investments

The Multilateral Investment Guarantee Agency, part of the World Bank Group, mitigates political risks to investments through:

Guarantees covering the risks of:

- Currency inconvertibility and transfer restrictions
- Expropriation
- War and civil disturbance
- Breach of contract

Dispute mediation services

MIGA also provides:

Technical assistance to governments and online information on investment opportunities

With booming global demand for iron ore to produce steel and a growing world market for gems and precious metals, business opportunities abound for experienced investors in the mining sector. To take advantage of the opportunities, mining companies travel the world in search of new, resource-rich locations. Often, these sites are in remote or politically unstable parts of the world, adding to the cost and uncertainties associated with extractive industries. MIGA's guarantees mitigate the unique non-commercial risks associated with investment in mining projects.

## The Mining Investment Challenge

Mining projects are inherently risky propositions, since expensive but promising explorations may not result in commercially viable deposits. Heightened risk perceptions and high start-up costs—for infrastructure and skilled labor—are the reason for the disparity between mineral resource endowment and mining investment in many parts of the world. Civil disturbances and conflict can disrupt normal operations. Social and environmental concerns have become prominent. A weak macroeconomic environment and an inadequate legal and regulatory framework can invite unwarranted government intervention. Areas of increased focus arising from the World Bank Group's Extractive Industries Review, such as governance and transparency issues, community consultation and pro-poor distribution of revenues, have become part of the investment decision process.

## What We Do

MIGA—the Multilateral Investment Guarantee Agency—is part of the World Bank Group. We are a global insurer to private investors. We advise countries on the needs of private investors and on ways to attract foreign investment. And, in collaboration with our World Bank Group colleagues, we work with investors to structure deals in ways that will benefit all parties and foster positive relationships with communities where they invest.

## How We Help

MIGA political risk guarantees are well-suited to reduce non-commercial risks to mining sector investments. They are designed to help companies over hurdles that may loom large prior to deal signing, particularly for such costly investments in countries where there is a perception of high-risk. And once a deal is in place, MIGA guarantees bring companies peace of mind, providing that added measure of security that can make the project attractive to investors and lenders and reinforce positive relations with host governments. Bottom line: MIGA guarantees reduce the risk profile of your mining investment, increasing the probability of a better risk-weighted return.



**World Bank Group**  
Multilateral Investment  
Guarantee Agency

## Types of Coverage

**Expropriation coverage for sovereign and sub-sovereign risk.** This coverage protects against discriminatory administrative or legislative actions by governments at both national and sub-national levels that may result in nationalization and confiscation. Expropriation guarantees also protect against a series of acts that gradually lead to expropriation, such as changes in licensing or royalty agreements or burdensome administrative procedures.

**Customized breach of contract coverage when governments are contractual partners.** Guarantees can be designed to target specific mining-related concerns such as the revocation of leases or concessions, as well as tariff, regulatory, and credit risks arising from a government's breach or repudiation of a contract.

**Coverage against currency-related risks.** MIGA's transfer restriction coverage protects investors against losses from an inability to convert local currency into foreign exchange for transfer outside the host country. Even when governments impose a moratorium on moving currency, as shareholders of MIGA, they may agree to exclude MIGA-insured projects, and permit the transfer. This has been the case in a number of moratoriums since 1990.

**Guarantees for investments in the event of war or terrorist activity.** MIGA coverage against war, civil disturbance, terrorism and sabotage, protects against physical damage and prolonged business interruption (lasting 180 days). Coverage extends to situations in which an investor is forced to abandon the project due to war or other political disturbance. In such cases, assets need

not be damaged or destroyed for a claim to be made. Border closures or blockades also might not cause a loss of the local investment. However, they can significantly interrupt its business activities, and MIGA guarantees can cover losses due to these business interruptions.

### MIGA at Work: Guarantees Support Kenmare Mine in Mozambique

A Dublin-based mining company recently received critical financing to develop a large heavy mineral sands deposit on Mozambique's coast. Using a dredge floating on an artificial pond, Moma Mining plans to mine 22 million tons of titanium-bearing sand a year. MIGA has underwritten part of the financing, provided by Germany's KfW. The coverage is an extension of earlier guarantees, and protects against the risks of transfer restriction, expropriation, war and civil disturbance, and breach of contract.

Increasingly, political risk guarantees are considered a key component in the financing of such complex projects. Investors see the coverage as a means to mitigate non-commercial country risks, thereby lowering the cost of the borrowed funds. In the absence of such guarantees, the risk premium attached to the financing could be so high as to make the project unfeasible. In addition to the mine itself, the company is constructing a plant to concentrate the slurry removed from the mine and another plant to separate the minerals. A mechanized storage facility will send finished products via conveyor to company owned barges, for transfer to container ships offshore.

## The Value of a World Bank Partner

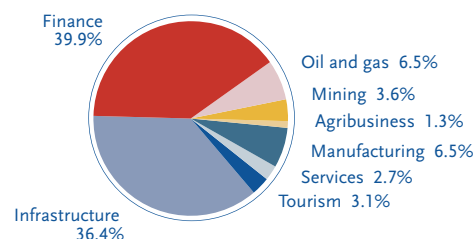
When it comes to extractive industries, the key stakeholders—investors and lenders, the government, the local community—may have different objectives. Balancing these objectives is key to reducing tensions. Here is where MIGA adds value well beyond the political risk insurance products we offer—risk mitigation. In today's uncertain world, the value of this kind of partner cannot be underestimated.

- As members of our multilateral convention, governments understand the importance of negotiating through an impasse.
- Our World Bank Group affiliation can bring all stakeholders to the table, helping our clients forge a mutual understanding and partnership with community activists, government officials and NGOs alike.
- Our involvement stands for deals that meet the highest standards of transparency and environmental and developmental sustainability, improving the development impact of projects as well as our clients' standing in the community.
- If disputes arise, MIGA's client focus and understanding of investor needs, coupled with World Bank Group expertise on the issues confronting developing countries, can help avert claims and resolve the dispute to the mutual satisfaction of all concerned.

## MIGA's Mining Portfolio

Since its inception, MIGA has issued 55 guarantees totaling \$1,110.6 million for projects in the mining sector. The mining portfolio currently stands at \$189.9 million, accounting for 3.6 percent of MIGA's outstanding gross portfolio.

### Outstanding Guarantees Issued by Sector (%)



*All figures are as of April 30, 2005*

## Selected MIGA Projects in Mining

Guarantee Holder	Investor Country	Host Country	Gross Amount (\$ M)
Barrick Gold Corp. of Canada	Canada	Tanzania	56.3
Kinam Gold Inc.	United States	Russian Federation	27.4
Standard Bank London Limited; New Arian Resources Corporation	United Kingdom	Russian Federation	17.1
Mitsubishi Corporation	Japan	Peru	39.9
Societe Generale, S.A.	France	Tanzania	115.8
Anglovaal Mining Limited	South Africa	Zambia	30.0
Teck Corporation; Rio Algom Limited; Noranda Inc.; EDC	Canada	Peru	67.5
Banff Resources Ltd. & LaSource SAS	France; Canada	Uganda	49.4
Sociedade de Empreitadas Adriano, S.A.; Secil-Companhia Geral De Cal e Cimento, S.A.	Portugal	Cape Verde	2.4
Minorco S.A.	Luxembourg	Argentina	5.0
Marubeni LP Holding B.V.	Netherlands	Chile	31.3

## What is MIGA's Added Value for Clients?

As a member of the World Bank Group, MIGA is able to provide a unique umbrella of deterrence against political risks related to government actions that may have a negative impact on projects.

### Investment Protection and Prompt Claims

- **Deterring harmful actions.** MIGA's relationship with shareholder governments provides additional leverage in protecting investments.
- **Mediating disputes.** As an honest broker, MIGA intervenes at the first sign of trouble to resolve potential investment disputes before they reach claim status, helping to maintain investments and keep revenues flowing.
- **Ensuring prompt claims payment.** In the event that a dispute cannot be mediated, MIGA ensures that valid claims are paid promptly, based on a strong balance sheet and stable stream of operating income.

### Improving Financial Terms and Conditions for Investors/Lenders

- **Accessing funding.** MIGA guarantees help investors obtain project finance from banks.
- **Lowering borrowing costs.** MIGA-guaranteed loans may help reduce risk-capital ratings of projects.

- **Increasing tenors.** MIGA can provide insurance coverage for up to 15 years (in some cases 20), thereby increasing the tenor of loans available to investors.

### Country, Social and Environmental Expertise

- **Providing extensive country knowledge.** MIGA applies decades of experience, global reach, and knowledge of developing countries to each transaction.
- **Providing environmental and social expertise.** MIGA helps investors and lenders ensure that projects comply with what are considered to be the world's best social and environmental safeguards.

## Contact

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