



MINING BRIEF

WORLD BANK GROUP MULTILATERAL INVESTMENT GUARANTEE AGENCY

## MIGA: Supporting Mining Investments

With booming global demand for iron ore to produce steel and a growing world market for 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 guaran-

tees mitigate the unique noncommercial 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 a member of the World Bank Group. MIGA's mission is to promote foreign direct investment into developing countries to support economic growth, reduce poverty, and improve people's lives. We do this by providing political risk insurance (or guarantees) against certain noncommercial risks to investments in developing countries, as well as

by mediating disputes involving guaranteed investments. We also advise our developing member countries on ways to attract and retain foreign direct investment, and provide online services offering free information on investment opportunities, business operating conditions, and business partners. In collaboration with our World Bank Group colleagues, we work with investors to structure deals in ways that benefit all parties and foster positive relationships with communities where they invest.

### How We Help

MIGA political risk guarantees are well-suited to reduce noncommercial risks to mining investments. They are designed to help companies over hurdles that may loom large prior to deal signing, particularly for such costly investments in countries seen as 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.

MIGA, a member of the World Bank Group, mitigates noncommercial risks by insuring investments against the risks of:

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

MIGA provides mediation services for guaranteed investments to prevent disputes from escalating.

MIGA also provides technical assistance to help countries attract and retain foreign direct investment, as well as providing free online information on investment opportunities.



## Types of Coverage

**Expropriation coverage for sovereign and subsovereign 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.



## Managing Environmental and Social Risks

Sound environmental performance, sustainability with respect to natural resource management, and social responsibility are critical to the success of an investment and its contribution to the development of a host country. Additionally, well-designed environmental and social programs can help manage potential reputational risks for project sponsors, reduce social conflicts within communities, protect the environment and help reduce political risks. For these reasons, MIGA aims to help its clients take a responsible approach to the environmental and social aspects of their projects. Central to MIGA's approach to risk management and development are project environmental and social impact assessments.

**Environmental assessments** (1) evaluate a project's potential environmental and social risks and impacts; (2) identify ways to improve project planning, design, and implementation by addressing adverse environmental and social impacts; and (3) include the process of mitigating and managing adverse environmental impacts throughout project implementation. Environmental assessments take into account the natural environment; human health and safety; and transboundary and global environmental aspects.

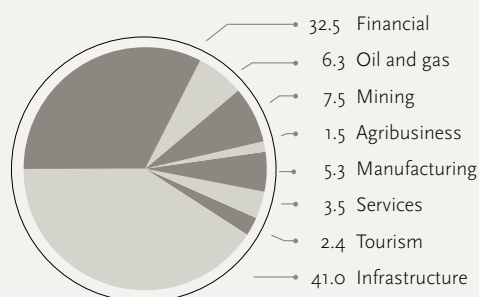
**Social impact assessments** examine a project's impacts on peoples' living standards, including impacts on their livelihood, and productive and cultural assets, and can be prepared as a separate report or integrated with the environmental impact assessment. MIGA works with its clients to define the parameters of these assessments and initiate them as early as possible in the project development process.



### MIGA's Mining Portfolio

Since its inception, MIGA has issued 57 guarantee contracts totaling \$1.4 billion for projects in the mining sector. The mining portfolio currently stands at \$400 million, accounting for 7.5 percent of MIGA's outstanding gross portfolio.

### Outstanding Guarantees Issued by Sector (%)



All figures are as of June, 2006

### Selected MIGA Projects in Mining

Year	Project Enterprise	Guarantee Holder	Investor Country	Host Country	Gross Amount (\$ M)
2006	Kupol	BEMA Gold Corporation, Mitsubishi Corporation (UK) Plc, Société Générale, S.A.	Canada, UK, France	Russian Federation	304.6
2005	Kenmare Moma Mining Limited and Kenmare Moma Processing Limited	KfW-Kreditanstalt für Wiederaufbau	Germany	Mozambique	12.4
2005	Anvil Mining Congo, SARL	Anvil Mining Ltd., RMB International (Dublin) Limited	Canada, Ireland	Congo, Dem. Rep. of	13.6
2001	Kahama Mining Corp. Ltd.	Barrick Gold Corp. of Canada	Canada	Tanzania	56.3
2000	Omolon Gold Mining Inc.	Kinam Gold Inc.	United States	Russian Federation	27.4
2000	Omsukchansk Mining & Geological Company	Standard Bank London Limited; New Arian Resources Corporation	UK	Russian Federation	17.1
2000	Compaqma Minera Antamina S.A.	Mitsubishi Corporation	Japan	Peru	39.9
2000	Kahama Mining Corporation Limited	Société Générale, S.A.	France	Tanzania	115.8
2000	Chambishi Metals Plc	Anglovaal Mining Limited	South Africa	Zambia	30.0
1999	Compañía Minera Antamina	Teck Corporation; Rio Algom Limited; Noranda Inc.; EDC	Canada	Peru	67.5
1998	Kasese Cobalt Company Limited	Banff Resources Ltd. & LaSource SAS	France; Canada	Uganda	49.4
1998	Cerro Vanguardia S.A.	Minorco S.A.	Luxembourg	Argentina	5.0
1998	Minera Los Pelambres	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 Payment

- **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

### For general information

World Bank Group  
Multilateral Investment  
Guarantee Agency  
1818 H Street, NW  
Washington, DC 20433  
t. 1.202.458.4798  
f. 1.202.522.0316  
migainquiry@worldbank.org

[www.miga.org](http://www.miga.org)

### For information on mining investment

Nick Halkas  
t. 202.458.1012  
nhalkas1@worldbank.org

## 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 noncommercial 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.