MIGA: Supporting Mining Investments

Mining projects in the world’s emerging economies present vast potential for experienced investors, but also pose significant challenges. In addition to the commercial risk associated with fluctuations in commodity prices, investors face many complexities that fall within the realm of political risk. Given the large capital costs and longer time horizons associated with projects, managing political risk should be a critical part of business strategy. MIGA has developed political risk insurance products especially designed to target mining-related investor concerns. These concerns include the revocation of leases or concessions, tariff, regulatory, and credit risks arising from breach of government contracts, as well as disputes related to take-off agreements and exploitation rights.

The Mining Investment Challenge
The risks associated with the mining sector are complex and require careful consideration by potential sponsors and lenders. Mining sites are often in remote or politically unstable parts of the world, adding to the cost and uncertainties associated with extractive industries. Civil disturbances and conflict can disrupt normal operations. Social and environmental concerns are prominent. Weak macroeconomic environments and inadequate legal and regulatory frameworks can invite unwarranted government intervention.

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 (guarantees) against certain noncommercial risks to investments in developing countries, as well as by providing dispute resolution services for guaranteed investments. We also conduct research and share knowledge as part of our mandate to support foreign direct investment into emerging markets. 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. Once a deal is in place, MIGA guarantees bring companies peace of mind, providing an added measure of security that can make the project attractive to investors and lenders, while reinforcing positive relations with host governments.

Bottom line: MIGA guarantees reduce the risk profile of mining investments, increasing the probability of a better risk-weighted return.
TYPES OF COVERAGE

Expropriation coverage for sovereign and subsovereign risk protects against discriminatory administrative or legislative actions by governments at both national and subnational 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 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 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.

Coverage against war, civil disturbance, terrorism, and sabotage protects against physical damage and prolonged business interruption. 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. In addition, while border closures or blockades might not cause destruction, they can significantly interrupt business activities; MIGA guarantees can cover associated losses. Coverage for temporary business interruption, including both costs and lost net income, is also available.

Non-honoring of sovereign financial obligations coverage protects against losses resulting from a government’s failure to make a payment when due under an unconditional financial payment obligation or guarantee given in favor of a project that otherwise meets all of MIGA’s normal requirements. It does not require the investor to obtain an arbitral award. This coverage is applicable in situations when a sovereign’s financial payment obligation is unconditional and not subject to defenses.

MIGA AT WORK

MIGA Supports Important Feasibility Study in INDONESIA
An innovative way that MIGA is supporting the mining sector is the agency’s guarantee to an exploration and feasibility study for the Weda Bay nickel mining project in Indonesia. The Weda Bay deposit is one of the world’s largest undeveloped nickel resources. Project sponsors, Eramet of France and Mitsubishi Corporation of Japan, asked MIGA to provide a guarantee of $207 million to support the detailed exploration and feasibility study stage. MIGA’s involvement in this early phase will help the sponsors to study social and environmental impacts in detail, design mitigation measures, and test their effectiveness—using MIGA’s Performance Standards, environmental guidelines, and good industry practices. MIGA sees this project as an important opportunity to influence the way such complex projects are carried out.

Guarantees Bolster Kenmare Mine in MOZAMBIQUE
A Dublin-based mining company, Kenmare Resources, has developed a large heavy mineral sands deposit in one of the poorest (though mineral-rich) regions of Mozambique. The project involves the development of a titanium feedstock based on the dredge mining of a large heavy mineral sands deposit. Operational since April 2007, the mine is producing ilmenite, rutile, and zircon and is expanding to increase capacity further. MIGA underwrote part of the financing, provided by Germany’s KFW. While the project is operating successfully from a commercial standpoint, one notable aspect is its commitment to the local community. To help serve the community effectively, Kenmare established a separate organization in 2004: the Kenmare Moma Development Association (KMAD). This independent non-profit organization contributes to the development of the communities close to the mine, assisting community members to improve their livelihoods and wellbeing.

In addition to other initiatives, and with financial support from MIGA’s Environmental and Social Challenges Fund for Africa, KMAD was able to hire the Malaria Consortium, a leading organization dedicated to the control of malaria, to develop a malaria action plan for the community.
MANAGING ENVIRONMENTAL AND SOCIAL RISKS

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

Environmental assessments evaluate a project’s potential environmental risks and impacts; identify ways to address adverse environmental and social impacts; and include the process of mitigating and managing adverse environmental impacts throughout implementation. Assessments consider the natural environment; human health and safety; as well as transboundary and global aspects. Social impact assessments examine a project’s impacts on living standards—including impacts on livelihoods as well as productive and cultural assets. While performing these assessments is the responsibility of the client, MIGA works with clients to define the parameters of these assessments and initiate them as early as possible in the project development process.

SELECTED MIGA PROJECTS IN MINING

<table>
<thead>
<tr>
<th>Investor/Guarantee Holder</th>
<th>Project</th>
<th>Host Country</th>
<th>Guarantee Amount ($M)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mitsubishi Corporation, Japan; Eramet SA, France; Strand Minerals Pte. Ltd, Indonesia</td>
<td>PT Weda Bay Nickel</td>
<td>Indonesia</td>
<td>207.0</td>
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<tr>
<td>Mitsubishi Corporation, United Kingdom; Société Générale S.A., France; BEMA Gold Corporation, Canada</td>
<td>Kupol</td>
<td>Russian Federation</td>
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<td>Kreditanstalt fur Wiederaufbau (KfW), Germany; Kenmare Resources PLC, Ireland</td>
<td>Kenmare Moma Mining</td>
<td>Mozambique</td>
<td>20.8</td>
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<td>Kreditanstalt fur Wiederaufbau (KfW), Germany</td>
<td>Kenmare Moma Mining</td>
<td>Mozambique</td>
<td>12.4</td>
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</tbody>
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MIGA’S MINING PORTFOLIO

Since its inception in 1988, MIGA has issued guarantee contracts totaling $1.6 billion for projects in the mining sector. The mining portfolio currently stands at $240 million, accounting for 2 percent of MIGA’s outstanding gross portfolio.

OUTSTANDING GUARANTEES PORTFOLIO as of December 2012

- 41% Infrastructure
- 37% Financial
- 12% Agribusiness, manufacturing, and services
- 9% Oil and gas
- 2% Mining
MIGA’S VALUE

As a member of the World Bank Group, MIGA offers a range of benefits to investors seeking protection and continuity for their projects in developing markets.

Keeping Developmentally Sound Projects on Track

- **Mobilizing sound investments**: As a multilateral development agency, MIGA supports investments that are developmentally sound and meet high social and environmental standards. Governments have a vested interest in the sustainability of investments covered by MIGA.

- **Resolving disputes**: By demonstrating that the investments being supported are developmentally sound, meet high social and environmental standards, and are approved by the host country government authorities as well as by MIGA’s Board, MIGA is in a strong position to help resolve disputes that might arise. MIGA has supported more than 700 different projects in its history, and has been able to resolve disputes that would have led to claims in all but two cases. MIGA is able to work effectively with all parties to resolve disputes, keeping projects on track.

- **Prompt claims payment**: When claims do need to be paid, MIGA is able to pay them promptly, based on a strong balance sheet and a stable stream of operating income.

Improving 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, leading to lower borrowing costs.

- **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.

- **Mobilizing reinsurance capacity**: MIGA is able to provide guarantee support for effectively any size project, through MIGA’s ability to secure reinsurance capacity.

Knowledge and Experience

- MIGA can help clients structure transactions to mitigate risk efficiently.

- Clients can benefit from the agency’s decades of experience, global reach, and knowledge of developing countries.

- MIGA works with clients to implement social and environmental best practices.

- MIGA ensures that appropriate risk solutions are implemented at various stages of the project life cycle.

Research and Knowledge

MIGA shares knowledge on political risk and foreign direct investment as part of its mandate to support foreign direct investment into emerging markets. The annual World Investment and Political Risk report examines the overall trends in political risk perceptions, foreign investment intentions, and longer-term demand for political risk insurance, especially in emerging economies (www.miga.org/wipr).

Technical Assistance

MIGA helps countries define and implement strategies to promote investment through technical assistance services managed by the Investment Climate World Bank Group.

Through this vehicle, MIGA’s technical assistance is facilitating new investments in some of the most challenging business environments in the world.

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