



PPIAF

Enabling Infrastructure Investment

Fostering the Development of Greenfield Mining-Related Transport Infrastructure

Mining-Related Infrastructure Ownership Model Considerations For Host Country Governments



In frontier countries, such as those in Sub-Saharan Africa (SSA), governments view new infrastructure projects as critical “capital stock.” The mining-related infrastructure can serve the mining sector and be used by the public and other industry users as well.

Infrastructure projects (e.g., roads, rail and port infrastructure) designed to accommodate mining operations typically follow three types of ownership models: public sector, private sector, and third-party as part of a concession agreement.

Each ownership model has advantages and disadvantages for host country governments. This Issue Brief, which is based on the PPIAF-sponsored report – *Fostering the Development of Greenfield Mining Related Transport Infrastructure Through Project Financing* – reviews the three models from a host government perspective and provides insights on financial exposure, key attributes, and critical risks.

PUBLIC SECTOR OWNERSHIP OFFERS FLEXIBILITY FOR HOST GOVERNMENTS

Host governments considering mining-related infrastructure improvements benefit from **public sector ownership**, because it offers the greatest degree of flexibility to implement the plan it chooses. Governments can maximize infrastructure use across users and sectors to spur economic development.

However, a government may not have the ability to deliver operational functionality and efficiency involving large-scale infrastructure projects, and the responsibility for financing and carrying the incumbent operational risks may be too enormous to consider.

Mining companies, who are eager to start production and generate cash flows, entrust host governments to deliver the infrastructure on time. Most will also want to see a track record of operating similar projects efficiently.

Table 1: Summary and Comparison of the Various Ownership Models

| | Public Sector | Mining Company(ies) | Third-Party |
|---|---|---|---|
| Decision Maker | Government | Mining company(ies) – private sector) | Operational and/or financial investors (private sector) |
| Country Financial Exposure | Maximum | Limited | Limited |
| Key Attributes | <ul style="list-style-type: none"> • Maximum govt. flexibility in deciding usage • O&M performed by SOE or contractor(s) | <ul style="list-style-type: none"> • Infrastructure evaluated as a consolidated project with mine(s) • Limited govt. ability to influence usage • O&M performed by concessionaire or contracted out • Lower risk of product transport = lower risk premium (for mining co.) | <ul style="list-style-type: none"> • Suitable for serving multiple small mines • Evaluated on stand-alone basis • Limited govt. ability to influence usage • O&M performed by concessionaire or contracted out • Greater mining co. comfort with mine deposit delivery outlook |
| Critical Risks | <ul style="list-style-type: none"> • Operational inefficiency • Mismanagement • Potentially higher operating costs • Funding risk | <ul style="list-style-type: none"> • Political risk • Regulatory risk | <ul style="list-style-type: none"> • Political risk • Potentially higher operating costs • Potentially higher tariffs • Regulatory risk • Operating risk |
| Likelihood of Limited Recourse Financing | Low | High | High – yet lower than the mining company model |

Source: Taylor-DeJongh

MINING COMPANY(IES) OWNERSHIP OFFERS LOW FINANCIAL EXPOSURE, BUT ALSO LESS CONTROL

The dearth of public sector capital, coupled with fear of mismanagement on the part of a state-owned operation in less developed markets, has historically led to mining companies owning their own infrastructure. Integrated mine-rail-port projects where the mining company owns the mine and the related infrastructure have been, in many instances, the ownership model of choice.

For host governments, the **mining company(ies) ownership model** provides the lowest degree of control on infrastructure projects, and once a contract is in place, governments have little flexibility to change or modify usage plans.

Governments can still obtain multi-client and/or multi-usage access to the infrastructure (assuming these are permitted by project economics) by including such conditions in the concession agreement; this means that the mining company will have a contractual obligation to permit other clients and/or users (other than the mine) to access the infrastructure on a pre-determined basis (volume, tariffs and other). However, governments will be bound by the concession contract's terms and will, therefore, lose the flexibility to change or modify any usage plans once the contract is in place.

In emerging markets where public transportation infrastructure operators have mixed operational track records, governments can expect mining companies who own the project to have lower perceived risks associated with product transportation. Because mining companies control the infrastructure, although on a contractual basis, they can assure precise delivery of products to market.

THIRD-PARTY OWNERSHIP LIMITS GOVERNMENT'S FINANCIAL OUTLAY AND FINANCIAL EXPOSURE

In many countries, undeveloped mining deposits may fail to become viable if they need to absorb the entire costs of building a dedicated infrastructure. Capital costs associated with transport infrastructure may be too high to bear, even under the most optimistic commodity price assumptions. The problem is compounded by mine distance from markets.

For the host government, third-party ownership is more likely to facilitate open access regime to non-mine infrastructure clients and/or users, as the infrastructure owner will seek to maximize revenue. Moreover, the government's financial outlay and exposure is limited, and it can preserve its balance sheet for other projects (as is the case with mining company ownership).

A major disadvantage of this ownership model for host governments is that flexibility in determining infrastructure usage is constrained by the concession agreement. Lenders may also limit flexibility. And, because in the third-party ownership model the infrastructure becomes a profit center, access to the infrastructure is likely to be higher.

Mining operators typically prefer third-party private sector ownership, especially if the firm has a strong reputation and track record. This enables the operators to focus efforts on the business over infrastructure issues. While control over transportation over their own product is limited, and they may be subjected to higher transportation costs, project efficiency and functionality trump these limitations.

Host governments can expect third-party owners to require a contractually agreed-upon tariff structure – they fear far more “the consequences of disruptive tariff disputes in the absence of such a regime rather than the higher tariff implied by the third-party ownership model.”

STABLE REGULATORY FRAMEWORKS REDUCE STRATEGIC THIRD-PARTY INVESTOR RISK

Despite constraining factors in the development of mining-related infrastructure under third-party ownership, freight rail operators – strategic third-party investors – may invest to expand their business. These types of investors are relatively risk-averse and expect a strong and stable regulatory framework to offset potential return and upside considerations. They have an investing history that includes capital-intensive projects and have come to expect a legal framework that reduces their risk.

OWNERSHIP MODELS CONCEIVABLE THOUGH THIRD-PARTY OWNERSHIP MOST REALISTIC IN SUB-SAHARAN AFRICA

Most countries in SSA do not appear to possess the sovereign borrowing capacity, or the budgetary capability, to provide meaningful financing for large-scale mining-related infrastructure projects. Thus, private financing (through PPPs or on a strictly private basis) is the only viable source of capital for most of the SSA-based projects, at least initially and until such times that recipient countries earn sufficient royalties to become themselves credible investors/financiers of infrastructure projects (e.g., Angola and Gabon).