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**Summary of the Operation Performance Evaluation Review**  
**Review evaluation of the financing of a mining operation**  
**January 2007**

**THE PROJECT**

A first OPER on this project was undertaken by EvD in 1998 with an overall performance rating of *successful*. The country context during that time was fundamentally different with perhaps somewhat unrealistic hopes regarding the political evolution and the required timeframe for significant strengthening of the framework for foreign direct investment (FDI). In particular, the expected demonstration effect of a successful project to attract further substantial FDI into the mining sector has not been achieved to date, although there is evidence of increased mineral exploration by Western companies.

**PROJECT RATIONALE**

A large state-owned mining company comprising various mining and processing entities was looking to develop the country's mineral resource base and entered into various partnership agreements with international companies to compensate for its limited resources. One deposit was identified as a high-priority project due to its size. The deposit was initially discovered in 1978 and underwent extensive exploration from 1979 to 1989. The government saw this deposit as a good opportunity to create employment, generate exports and contributions to its budget.

**ACHIEVEMENT OF OBJECTIVES****Increase gold production and generate hard currency for the country:**

Throughout its life, the project has achieved good production results which have recently been further enhanced by substantially higher prices. The good performance is remarkable given the setbacks due to construction cost overruns and initial prices being lower than expected. Pit wall failures and changing ore grades have posed further challenges. Mining and processing operations had to overcome the challenges of operating in a remote part of the country at a high elevation with an average temperature of minus 8°Celsius. This objective has been fully achieved.

**Facilitate the transfer of technology:**

The project has clearly introduced new standards for mining including the transfer of advanced world class mining technology and advanced ore processing facilities to the country. For the monitoring of the pit wall stability (which is subject to alternate freezing and thawing), a sophisticated electronic warning system has been installed which should provide sufficient warning of imminent wall failures. The company has introduced experience of operating and maintaining large mobile mining equipment at high altitude. The processing plant and tailings waste management also include impressive applications of modern technology. This objective has been achieved in full.

**Contribute to strengthening of sector framework in order to attract further international investors in the mining sector:**

This company has adopted the highest international mining industry standards and set a corporate governance example with the related demonstration effect. However, the expected improvement of the mining sector framework (for example transparency in the mining licensing process) which would attract other large investments of FDI has not been achieved to the extent expected. This objective is a long way from being fully achieved.

### **Support the privatisation of a former state owned mining company:**

The successful privatisation and successful initial public offering (IPO) and listing on a Western stock exchange created more liquidity for the shareholders and facilitated the introduction of a wider ownership structure. This will also allow a longer-term view of new exploration efforts hopefully leading to an extension of the mine's life. The commitments to truck renewal plans are expected to contribute to operating efficiency improvements. The company is aiming to achieve standards of operation as promoted by the financial institutions, which have adopted the 'Equator Principles'. This is expected to have a positive demonstration effect for other mining companies. Further continued and improved communication efforts (also in local languages) and access to information for all stakeholders will be important for continued success of this complex mining operation. This objective has been achieved in full.

## **OVERALL ASSESSMENT**

The *successful* overall performance rating is based on EvD's internal methodology, which takes into account transition impact, achievement of objectives, environmental impact, company and project performance, Bank handling of the project and investment performance. At the project level there has been a good demonstration effect, particularly in the introduction of Western management practices and international mining standards for operations and for health and safety.

At the country level, the sector was to become more transparent, in terms of obtaining licences and general interactions with all relevant government interfaces, but this has been less visible. The overall transition impact is rated *good* based on some new standards introduced at the company level such as the effective privatisation of a previously government-owned joint venture company, which had an excellent impact at the company level. Continued skills transfers have also had an excellent transition impact. At the country and sector level the company has set new standards for other mining companies, however the expected impact on government commitment to improve the sector framework has fallen short of expectations to date.

The company's environmental performance is rated *good*. The project has set high standards for mining, milling, processing and treatment of tailings. The extent of environmental change is *substantial*. The Bank's additionality is rated as *verified in all respects*. The company's financial performance is rated as *good*. The company reported good results underpinned by efficiency improvements of their mining operations and also by the substantial increases in sales prices. The OPER team rates Bank handling as *good* based also on the positive feedback from the client. The Natural Resources team has maintained a good relationship with the company and has also coordinated well with IFC/World Bank Group.

The delivery of technical cooperation (TC) intended for framework improvements has not taken place due to government changes and lack of a top-level commitment regarding objectives prior to the deployment of TC. The Bank's investment performance is rated *good*. The Bank achieved an excellent equity return underpinned by efficient operations by the company and by the substantial sales price increase.

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## TRANSITION IMPACT AND BANK'S ADDITIONALITY

EvD rates the overall transition impact as *good*. This is a mining company that has committed to the highest standards of operation and to meet all the project standards required by Banks which are committed to the 'Equator Principles'. This is one of the most cost-efficient mine operators and has set high standards. The company set a good benchmark regarding new technology and has generated employment directly in one of the least-developed regions of the country. At the end of 2005, the company employed 1,737 full-time employees and 264 full-time contractors. It has also supported various sustainable development efforts in the region.

The Bank's additionality in the first transaction was *high (verified in all respects)*. In the second transaction (conversion into equity stake), the Bank's additionality was *verified at large*, since the IPO was very successful demonstrating strong interest from private sector investors. The company had adopted highest European health and safety standards and the Bank had therefore a limited role to contribute in this area. Regarding the Extractive Industries Transparency Initiative (EITI) it should be noted that some progress has been made in the country which resulted in the publication of draft EITI reports in 2005 and 2006. However, as regards improvements of licensing by the government, it appears that no substantial progress could be achieved due to some setbacks last year regarding the treatment of licences.

## BANK HANDLING

The Bank, jointly with IFC, played an important role in helping the sponsor to obtain project financing at the outset of this transaction.

The company is of the view that IFI financing was of some benefit but did not reduce the ongoing workload of the company in terms of dialogue with the government and responding to continuous attacks by Government Officials and NGOs on the company mainly because of the fact that it is the most visible foreign company in the country. When asked regarding the merits of IFI involvement in mining projects of this nature, the company suggested that the particular helpfulness of IFIs could only be tested in extreme cases.

## MAIN OPER ISSUES AND LESSONS LEARNED

### **International mining expertise is crucial for successful operations in extreme conditions.**

The international experience of the sponsor contributed to an efficient and well-run operation. The senior expatriate staff contributed relevant experience and also brought in international consulting firms for specific aspects such as monitoring pit walls (via the electronic system mentioned above). The international operator's experience was also highly relevant for successfully introducing the use of large mobile mining equipment, and for mining in general, at high altitude.

**Handling of cyanide needs to be carefully monitored.** The experience of the mining company is crucial in the handling and managing of improvements in the use of cyanide treatment processes and in the treatment of the effluents. In this case, it was possible to reduce cyanide usage and cyanide shipments.

**Managing environmental impact with the objective to maintain best global practice.** A strong commitment by the company to achieve best global practice is essential in all mining projects. In this case, the company places a strong focus on occupational health and safety and in minimising its impacts on the environment. Nevertheless, any large open cast mine cannot fail to have a significant impact on at the very least the landscape it is located in.

**Training programmes are important ingredients in creating an increasingly local workforce.** At the end of 2005, 94 per cent of the workforce of 1,737 comprised nationals of the country involved. This demonstrates the successful adaptation of local citizens to the employment opportunities at this company and to the training programmes instituted by the sponsor. The benefits of drawing a high proportion of the workforce from within the country have included very good operating cost performance, in a unique and challenging location.

**Engaging NGOs in innovative community-based programmes.** Moving from generally critical comments by NGOs to engaging them in innovative community-based programmes is a challenging task. Some healthy competition for funding contributions by the sponsor may be constructive to identify NGOs who wish to improve community benefits with well-thought-out sustainable development programmes.

**Facilitating access to information in local languages.** An open and appropriate information policy by the company may need to include reports and web pages in local language(s). In this case it is felt that it is crucial that the company believes in an exemplarily way in the area of corporate citizenship across more effectively and besides English, the main local language may be necessary to facilitate access.

**Importance of explaining complicated transactions to the concerned public.** In order to obtain widespread support from the public it is crucial that simplified presentations be made to the concerned public and not only to woo prospective financial investors in an IPO. Relevant information needs to be readily accessible and available for future reference. This commitment to open communication and access to information is a crucial ingredient for long-term success of a complex mining operation.