Mining Journal

Miners deny country risks

Miners remain at odds with professional risk analysts over the impact of country risk on project evaluation.

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10 December 2020

The fourth World Risk Report by Mining Journal Research and Intelligence measures the jurisdictional risk characteristics of greatest importance to the mining industry in 111 locations.

The Mining Journal approach blends hard data on country characteristics with survey perceptions sourced from mining professionals to construct an investment risk index. The index is used to rank country and regional risks from AAA to D, much like well-known debt rating frameworks.

Those jurisdictions with the highest rating are described as having negligible risks. Having a 'D' means an investment in that location is difficult to justify, according to the report authors.

In theory, investors could use the ratings to inform decisions about equity prices in much the same way as debt ratings are used to price bonds. The risk index could be built into the economic evaluations contained in feasibility studies.

Unfortunately, the Mining Journal efforts go largely unrewarded. Industry entrepreneurs rarely report on the jurisdictional risk profiles of their projects. Questioned by investors, companies will typically deny the existence of jurisdictional risks or make out that they are so peculiarly well-positioned to cope that identified risks will have no impact. Feasibility studies universally ignore jurisdiction risk as a success mitigating factor.

Much of the industry's attitude is encapsulated in a letter to shareholders in the past week from the chairman of Danakali, an ASX-listed company struggling to finance an

Eritrean potash mine. Seamus Cornelius complained that "Eritrea has for too long been subject to unwarranted and unscrupulous criticism and worse by some foreign governments, NGOs, well-known news outlets and talking heads who should know better".

Mining Journal's objectively sourced data ranks Eritrea among the 10% of mining jurisdictions with the worst risk profiles. Eritrea is a one-party state operating without a constitutional mandate in a historically troubled region. Just this week, Reuters reported that Eritrean troops had crossed the border into Ethiopia, engaged in fighting and were forcibly repatriating Eritrean refugees. These are not matters investors should be asked to ignore.

> “ **Organisations like PwC are late arrivals on the environmental, social and governance scene. In pretending to have something novel to contribute, they have done little more than invoke an ill-defined acronym**

The Mining Journal risk ratings are generally consistent with inferences about business risk drawn from entirely objective macroeconomic risk measures. Highly variable growth rates impact policy stability, infrastructure planning, political conflict, social cohesion and fiscal capacity.

Australia, Canada and the USA are among the 10% of countries with the lowest growth volatility. Sweden, Norway, Spain, Germany and the UK follow closely. At the bottom of nearly 200 countries are Libya, South Sudan, Iraq, Lebanon, Eritrea, Rwanda and Venezuela. Motivation plays no role in such rankings.

Overall, the hard data assembled in the report does not differ significantly from the surveyed views of industry participants. The average difference in score is 6.5 points and the median difference is 5.0 points on a 100 point scale.

Despite the evident tendency to consensus about the incidence of jurisdictional risk, a few strong differences of opinion about the riskiness of jurisdictions do appear.

Ethiopia is the most extreme example. A score of 44 based on the objective data places Ethiopia in the bottom 10% of countries covered. The survey results, in contrast, give Ethiopia a score of 78, placing it among the 20% of most attractive investment locations.

Respondents are screened for experience in the jurisdictions on which they are expressing opinions. Anyone disenchanted with Ethiopia as a place in which to invest is likely to have moved on or may have never bothered to consider it a worthwhile destination, disqualifying them from expressing an opinion. The most favourably disposed will remain to bias the survey results.

Eritrea stands out similarly with a perception score 27 points higher than the report's hard data measure. On-the-ground experience should not be ignored but the highly favourable perceptions measure for Eritrea sits oddly amidst similar scores for New South Wales, Queensland and the Northern Territory. The views expressed about Eritrea by industry personnel are so favourable that the troubled east African nation is rated less risky than the resource rich, politically stable Yukon.

Those engaged on the ground in several other African jurisdictions, notably Morocco, Mozambique and Namibia, have similarly more favourable impressions about these nations than those making more remote and data-driven judgements about their riskiness.

Outside Africa, Poland and Japan have well above average survey standings despite both countries having especially low regulatory risk ratings and below average hard data scores.

Participants in a small number of jurisdictions believe that their experiences are worse than what the hard data suggest is likely. The highly creditable hard risk measure for Manitoba of 75 is 22 points ahead of its lower perception-based score. Among those with the relevant experience, Manitoba is thought to have high regulatory risk and governance standards only marginally better than in Venezuela.

Venezuela, despite having one of the two worst overall hard data scores, was still rated 20 points lower by survey participants who appear to be saying "if you think the data look bad, real life experience is so

much worse".

For the Democratic Republic of the Congo, the other state anchored at the bottom of the risk ratings, perceptions more or less match the data.

Whether company executives are insufficiently critical, too pessimistic or whether theirs is the more realistic view of conditions on the ground needs attention from investors performing their due diligence. The Mining Journal report could help by pointing out where differences emerge.

Risk alone is no reason to abandon an investment. A price discount could adequately compensate for identified jurisdictional risks where their existence and extent can be agreed through authoritative reporting.

The Mining Journal rankings could also be a useful investor relations tool. Rather than dismissively dealing with critical investors, directors could use apparent discrepancies in views to frame discussions in an effort to build support.

Evidence of disparities between objective measures of risk and the perceptions of individuals backing projects is information worth having. Ultimately, investment markets are driven by resolution of such differences.

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