

Sustainability: Reducing the Cost of Capital for Mining Firms?

The global financial crisis hit mid-tier and junior miners particularly hard with a drop in commodity prices and a significant tightening of credit. While commodity prices have recovered in the last year, credit remains tight for many miners as banks and investors remain reluctant to provide capital for even very promising projects. With credit tight mining firms need to look for any opportunity to lower their cost of capital. SSG is working with its clients to develop sound sustainability strategies that we believe will lower the cost of credit for mid-tier and junior miners.

Sustainability and Credit: The Missing Link

For more than a decade, the mining industry has been talking about business sustainability and, while there has been some progress, particularly among the most visible major firms, there is almost always pushback from the CFO's office to justify sustainability investments. With a few exceptions, these expenditures have been described as 'image improvements' or strengthening 'social license to operate.' While these are undoubtedly important, they are rather difficult to quantify.

Prior to the financial crisis, credit was both broadly available and comparatively cheap for all industries, mining included. Post-crisis, there have been three major shifts: 1) There is far less credit available overall; 2) Many major financial institutions are now effectively state-owned and, therefore, more sensitive to political considerations; and 3) Risk analysis has become much more intensive.

An effective sustainability strategy can play an important role in addressing factors 2 and 3. SSG is working with its mining clients to design sustainability strategies that enable mid-tier firms to comply with requirements from the IFC and ICMM. A sound sustainability strategy anchored in international standards and best practice aimed at not only improving our client's relationship with communities, but with the CFO's office as well.