Strategic Drivers of the Mining Industry

From Enclave Activity to Engine of Sustainable Development

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Strategic Drivers for Mining Development

- 1st Pillar---Economics: until 1970s
  - governments' focus → taxes and employment
  - companies' focus → profits
- 2nd Pillar---Environment: started in 1970s, accelerated in 1980s
  - Rise of environmental awareness
- 3rd Pillar---Social-cultural: Began in earnest in mid-90s
  - Rights of indigenous & local communities
  - Lower direct employment benefits
- In 2000s focus turning back to economics
  - From enclave to industrial clusters (sustainable benefits)
- 4th pillar---- Rise of Governance

Background: The Industry

- Large companies signed on to ICMM's sustainable development charter
- Environmental mitigation & integration fully accepted
- CSR & importance of leaving positive legacy accepted but duties and responsibilities were not clear
- Strategic drivers are changing back to economic concerns.
  - Set of economic questions is much more complex
  - Companies competing for access; countries no longer competing to attract investments

Background
The Mineral Rich Countries

- Most reforming countries made:
  - Strong progress on macroeconomic stabilization issues
  - Limited to fair progress on governance at central level
  - Not much progress on governance at local levels

- Overall progress good enough to attract point source FDI

- Beyond enclave style mining operations
  – Maximize linkages → mining as engine of development

- Governments seek larger fiscal share as price boom continues

The New and Continuing Strategic Drivers

- Economic Pillar
- Environmental & Social Pillars
- Governance Pillar

Economic Pillar

- Continuing resource price boom
  - New major consuming nations (India & China)
- Renewed emphasis on fiscal share of government → how to share the rent
  - The rise of predictable flexibility and risk sharing
- Emphasis on mining as engine of growth
  - Tied to greenfield developments; infrastructure heavy
  - Economic diversification & cluster development
  - Revenue management (macroeconomic repercussions)
- Arrival of international-national mining companies
  - Will they change the rules of the game?
- Governments in the drivers' seats

Environmental & Social Pillars

- Environmental focus → prevention rather than remediation
- Social modality moving from bilateral to tripartite consultations/agreement
  - Community engagement: early & continuous
  - Community sustainable development plan
  - Expansion of CSR beyond the workers and host community
- Who decides environmentally & socially responsible behavior?
- Who monitors outcomes? voluntary guidelines vs. regulatory enforcement
- Enviro-social behavior of junior, domestic & national-international companies

Governance Pillar

- Poor national & local level governance = Benefits Wasted
  - Income spent unwisely, used to promote wrong economic policies, booms mismanaged, culture of corruption
  - Creates new political economy, opposition to well-conceived sectoral reform
  - Weak local governance capacity → companies as de facto government
- Poor sector governance = Social/Environmental Harm
  - Long-term sustainable development highly unlikely
  - Damage to local communities, especially indigenous peoples
  - Contributes to social conflict, even civil war
  - Leads to demands for contract renegotiation, even nationalization

Mining as Engine of Sustainable Development

- Mining to kick-start economy (e.g. DR Congo, Tanzania, Peru, Mongolia)
- No more enclaves: multipliers and linkages
  - Maximize local employment and local/domestic procurement
  - Generate forward linkages
- Infrastructure development is crucial
  - Mobilizing additional capital to piggyback 'mining' infrastructure
- Mining industrial cluster (Antofogasta, Sudbury, Johannesburg)
- Little of above will happen if governance is weak

Industrial Cluster: Example

- Chile, Region II: Industrial cluster built around copper industry
  - 50% of mining industry's procurement from Region II
  - Mining companies work with new suppliers on quality enhancement
  - Infrastructure development
- Targeting of fiscal revenues
  - Education for mine employment and related industries
  - Innovation fund (new); aimed at expanding cluster beyond mining
  - Provision of finance for suppliers
- Contributing factors
  - Fiscal and macroeconomic stability (stabilization fund)
  - Social stability
- Success based on generating broad-based employment opportunities

Addressing Governance Issues

- Legitimate and credible governments
- EITI → 1st instrument to address disclosure of revenues
  - Increases transparency and dialogue
- Independent dispute resolution mechanisms
- Better analysis and understanding of governance risks

The Road Ahead (1)

- Economic concerns once again driving mining industry
- But industry looks very different from 20 or 30 years ago
  - Governments dealing with sector-related macroeconomic issues
  - Companies integrate enviro-social responsibilities into their operations
  - Most large companies striving to leave a positive legacy
- Outstanding issue is governance, 4th pillar of sustainable development
  - Can mining operations leave a positive legacy if weak governance?
  - What can/should be done to promote good governance?

The Road Ahead (2)

- National governments have critical role
  - Revenue stabilization mechanisms
  - Revenue disclosure and expenditure framework for revenue distribution to lower levels of government
- Capacity building in regional and local governments
  - Regional & community development plans
- Work with industry, national and international civil society and international organizations
  - Best practices in mineral sector legal and fiscal frameworks
  - Develop dispute resolution mechanisms accessible by all stakeholders
  - Improve sector dialogue beyond EITI to other key issues
  - Develop training & education programs for mine employment, procurement, and post-mining sustainable communities