Strategic Drivers of the Mining Industry

From Enclave Activity to Engine of Sustainable Development

SDIMI 2007
Milos, Greece
June 17-20, 2007

Peter van der Veen
Manager, Oil, Gas and Mining Policy Division
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
• 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
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