

International Council on Mining & Metals (ICMM)



Mining: Partnerships for Development

**Presentation to Conference on Mining and Minerals:
What Role in a Sustainable Future?**

Dundee

3-5 May 2011

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Oxford Policy Management

This new 2010- initiative builds on 6 years of prior work on ICMM's research-focused Resource Endowment Initiative (REi)

□ The REi is a research-focused project, conducted partly in collaboration with UNCTAD and the World Bank, from 2004

□ It identified some 50 mainly low and middle-income economies which currently rely significantly on mining. Some have undoubtedly suffered from the so-called “resource curse”, others have shown that this curse is not inevitable.

□ The REi has shown that multi-stakeholder partnerships can be a powerful way to maximise mining's positive socio-economic impacts, avoiding the “resource curse”.

□ The MPfD is a new ICMM initiative to stimulate more Partnerships on the ground in a variety of areas

Overview – ICMM work programs and the REi

ICMM's work programs

Health and Safety

Reserves and Resources

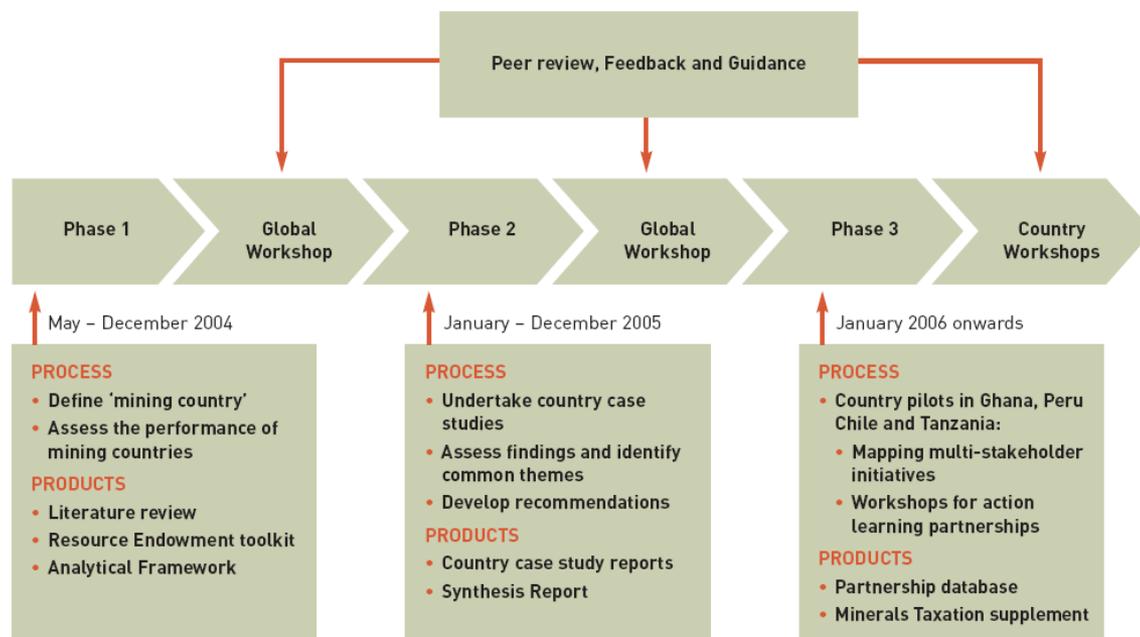
Socio-economic Development

Environment

Resource Endowment Initiative

Materials Stewardship

Resource Endowment Initiative (REi)



- Launched in 2004
- Industry-led attempt to understand what are the socio-economic impacts of mining and how these might be enhanced
- Work partly conducted with World Bank and UNCTAD and advised by independent panel

The REi has created

an extensive and published research base

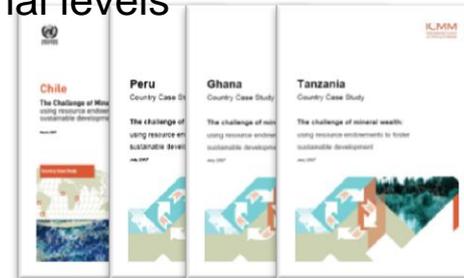
‘Analytical Framework’ & ‘Resource Endowment Toolkit’

- Analytical framework focuses on governance processes affecting socio-economic outcomes of mining – includes literature review & analysis of 33 mining countries
- Toolkit provides systematic approach to documenting impacts of mining projects at local, regional & national levels



Country case-studies & synthesis report

- Reports on field-based case-studies in Ghana, Tanzania, Peru and Chile – findings synthesised into single report



‘Spotlight’ series –

- Executive summaries on key aspects of REi – e.g., overview of REi’s methodology and governance; overviews of country cases; and summary of minerals taxation work

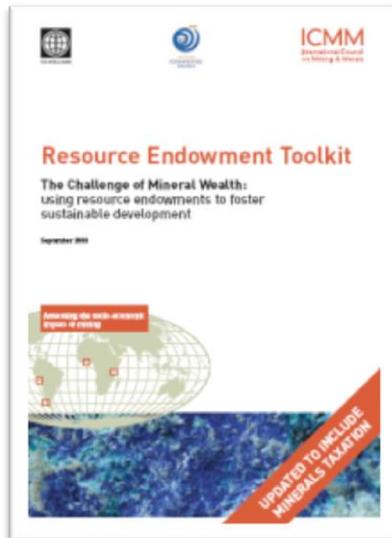


‘Minerals taxation regimes’ –

- Considers how different tax and fiscal arrangements may affect the translation of mineral wealth into development – published jointly by ICMM and Commonwealth Secretariat



REi Phase 1 – Analysis and REI Toolkit



- Phase 1 included the development of an **INITIAL Toolkit methodology** for systematically capturing the socioeconomic impacts of mining projects on host communities and countries at the local, regional and national level
- This was designed to enable mining companies or other stakeholders to capture socioeconomic impacts beyond the narrow project impact assessment
- It combined a macro (national) dimension with a micro (local and community dimension)
- Combined both qualitative and quantitative data collection
- It included a more detailed check list of issues on “governance” beyond the normal sub-set of quantifiable measures
- Subsequent work has used the Toolkit for *ex ante* assessments. A **REVISED** version will front the MPfD

REI Phase 2- Case Studies suggest Success Factors are Multi-Faceted

REI case study results show that the prospects of Mineral effects becoming **POSITIVE** depend on all of these but can be further enhanced by these

- Sound national macro-economic management
- Some revenue transparency
- Avoidance of mineral revenues funding *conflict* over their distribution
- **Reasonable** standards of national governance
- Responsible behaviour by companies – sound MDAs
- Implementation of key international initiatives: EITI, Voluntary Principles, Kimberley Process, etc

- Standards of governance at regional and local levels
- Nature/quality of the collaboration and partnerships between governments (at different levels), firms, donors & NGOs to tackle SIX key challenge areas, including:
 - Dispute resolution
 - Social development
 - Boosting Local inputs
 - Regional planning
 - Poverty reduction
 - Revenue management

Note – this emphasises the inherently LOCAL nature of mining and the governance needed to support it more effectively

These **SIX** areas were identified from the initial case studies and then subjected to some more detailed study in the REI (Phase III) pilots in Ghana, Peru and Tanzania

These are:

- Enhanced Revenue Management
- Regional Economic Development
- Mining and Poverty Reduction
- Socio-Economic Development incl. ASM
- Local Procurement
- Dispute Resolution and Communication

Resource Endowment initiative (REi)

Key findings:

- 1 Mining can be a powerful driver of development
- 2 Good governance is key to unlocking mining's benefits
- 3 Especially **where governance is weak**, multi-stakeholder partnerships in six priority areas can help maximise development

Challenge

How to strengthen and encourage development-focused multi-stakeholder partnerships around mining projects on a global basis?

Mining: Partnerships for Development (MPfD)

Goal of MPfD:

To encourage a flourishing of multi-stakeholder, development-focused partnerships in six priority areas

Three basic elements:

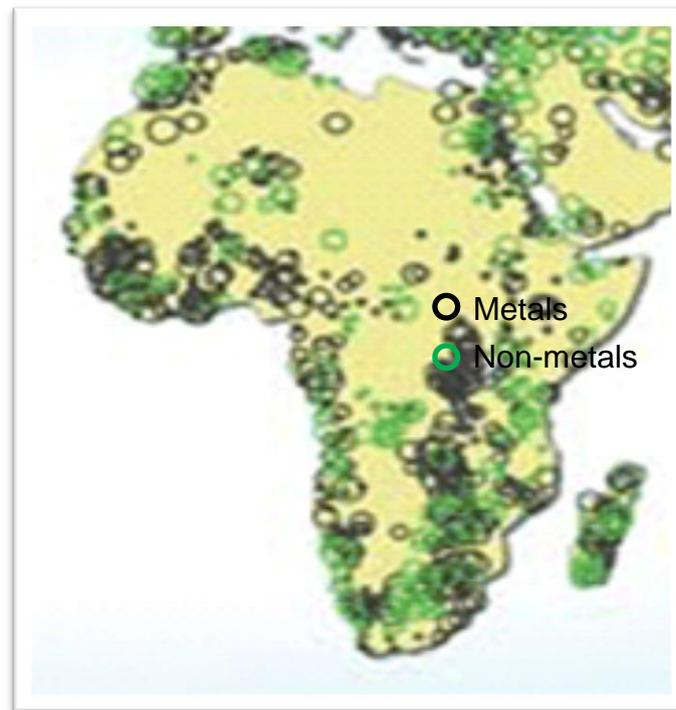
- a Position Statement – a new commitment by **ICMM Companies** to seek out more 'MPfD' partnerships across six priority areas
- b **ICMM Secretariat** to orchestrate MPfD and act as global hub
- c Call to all **Stakeholders** to join with ICMM members in 'MPfD' partnerships

REi has shown that Mining is economically critical for many of the poorest countries

- Some 50 countries are significantly dependent on mining, mainly developing or transition economies¹
- These countries are home to over 3.5 billion people, of whom 1.5 billion are living on less than \$2 per day
- Over 200m people worldwide rely on mining for a living – this includes both artisanal miners and employees of large mining companies²
- Foreign investment by the extractive industry as a whole in developing countries amounted to nearly \$27 billion from 2004-2006

See Andrew Kardan and Alan Roe, *Identifying Mineral Dependent Countries*, July 2009

Mineral resources in Africa³



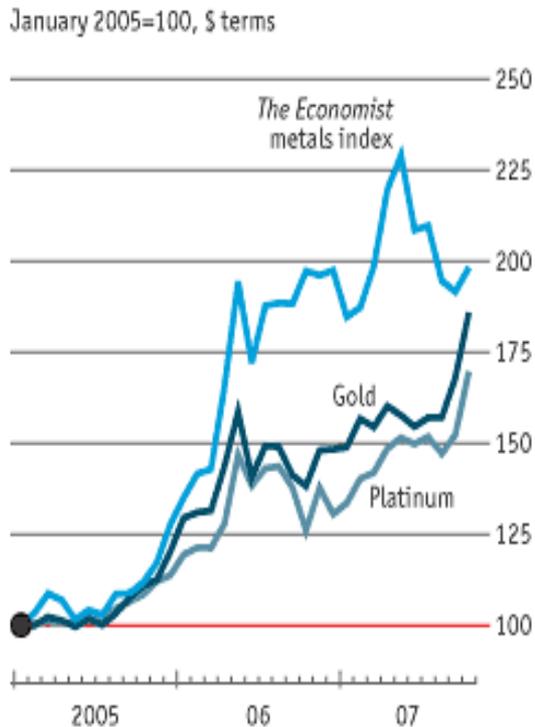
Symbol size relative to estimated deposit size

¹ i.e. mining provides at least 6% of exports or plays an important role in the domestic economy; World Bank. 2002. *Treasure or trouble? Mining in developing countries*. Source for graph: *The Economist*

^{2,3} Adapted from UNEP/GRID-Arendal. May 2008. *The Environment and Poverty Times*.

Mineral Wealth CAN be a positive force for Socio-Economic Development - but...

Fluctuating commodity prices in recent years have led to significant recent gains **BUT** also to big swings in government revenues in mining countries



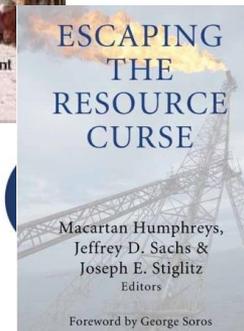
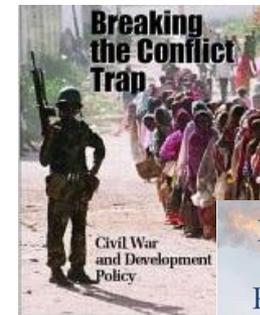
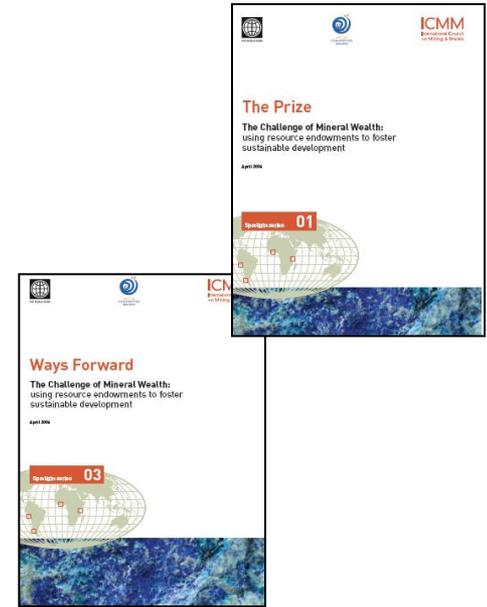
Resource blessing?

The REi case studies show that Mineral exploitation CAN drive growth, poverty reduction & help achieve major socio-economic gains

OR

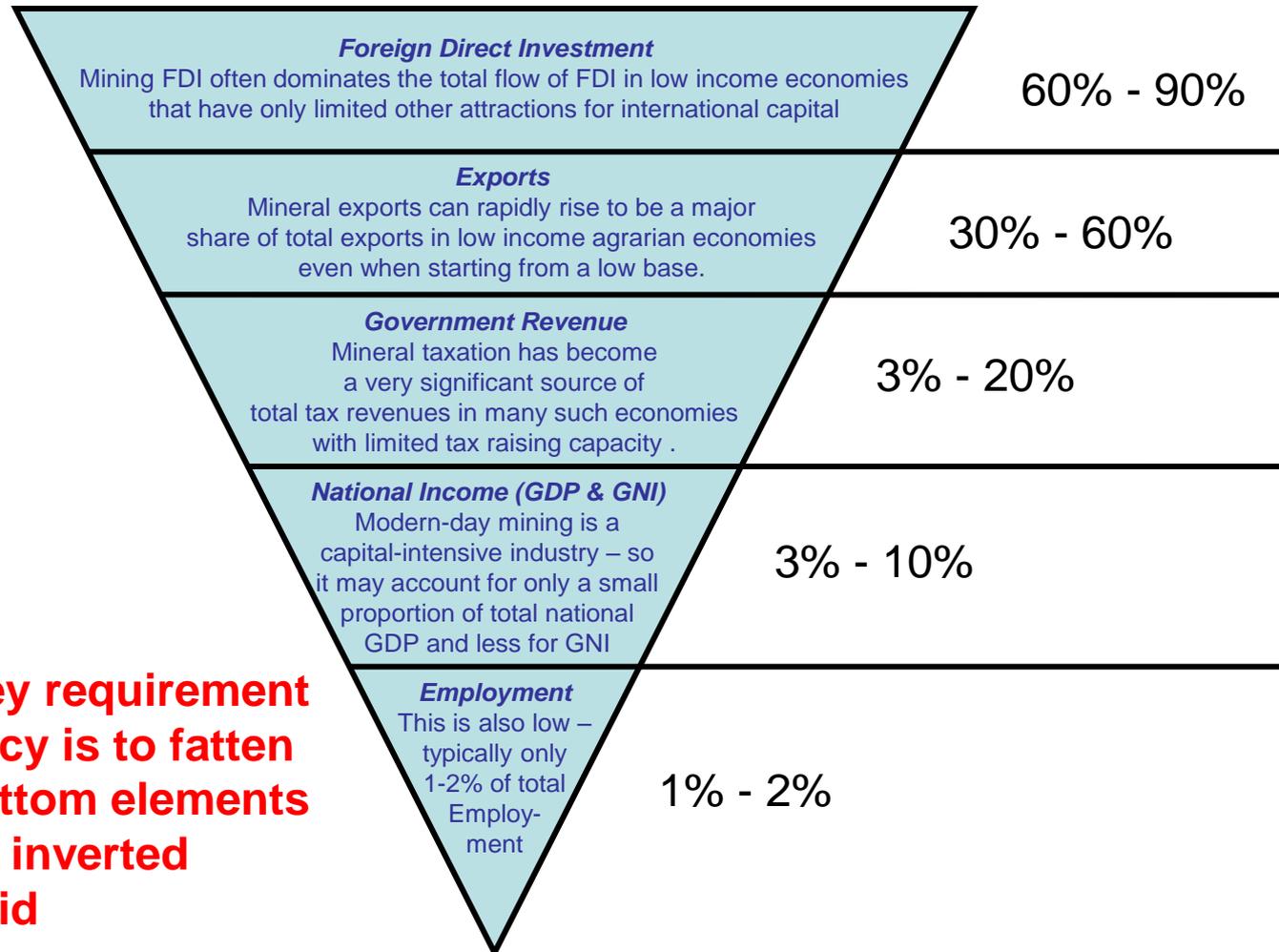
Resource curse?

- Conflict
- Poverty
- Economic stagnation
- Corruption
- Political instability



* Ratio of exports of metals and ores to total exports > 20% over time. Source: ICMM Resource Endowment "Analytical Framework" p25; Source for graph data: *The Economist*

Mining's macroeconomic contribution? – A stylised explanation of the tensions

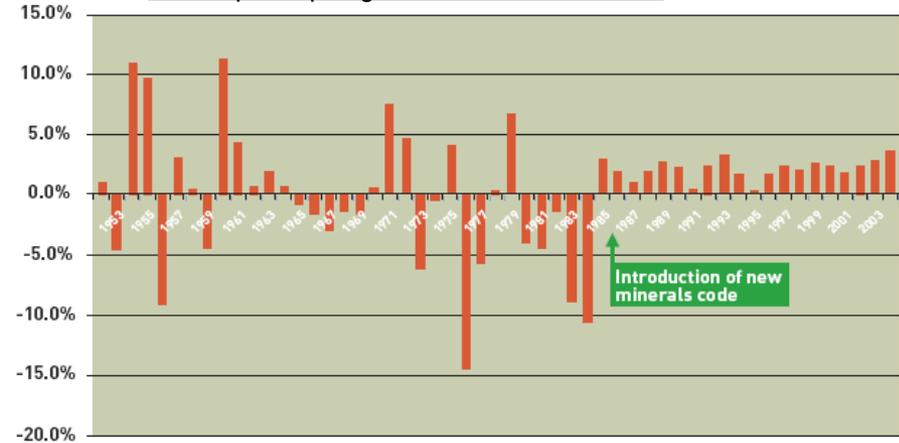


The key requirement of policy is to fatten the bottom elements of this inverted pyramid

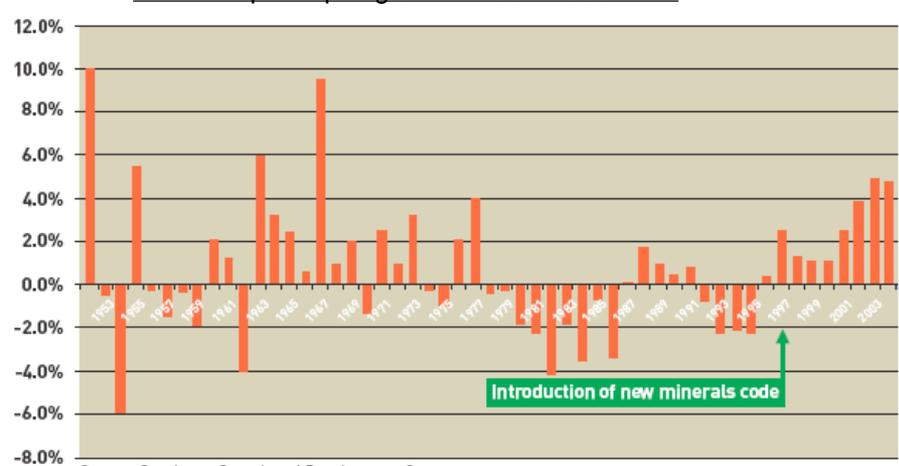
REi selected results in Ghana and Tanzania

- Resurgence of modern, large-scale mining investment in Ghana (from mid-1980s) and Tanzania (from mid-1990s) helped turn around national economy
- As graphs show, both countries experienced higher and sustained GDP growth and much less instability after introduction of new mining codes
- Mining investment in Ghana helped reduce poverty both nationally and locally. Income poverty nationally fell from 52% to 40% during 1990s¹. Poverty levels were lower in Ghana's four mining districts than remaining 112 districts (outside of Accra)
- In Tanzania, concerns that mining not yet contributing enough to development – but this is partly because 'bedding down' of industry still ongoing (10 years behind Ghana). Mining revenues still to substantially increase (will account for ~7% gov't revenue at peak in 2017)

Ghana per capita growth rates – 1950-2003



Tanzania per capita growth rates – 1950-2003



Source: Groningen Growth and Development Centre

¹ Source: Ghanaian Living Standards Surveys for 1991-1999

Resource Endowment initiative (REi)

Challenge:

How to strengthen and encourage development-focused multi-stakeholder partnerships around mining projects on a global basis?

Mining: Partnerships for Development (MPfD)

Goal of MPfD:

To encourage a flourishing of multi-stakeholder, development-focused partnerships in the SIX priority areas

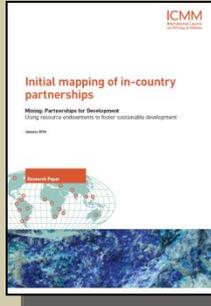
Three basic elements:

- a** Position Statement – a new commitment by **ICMM Companies** to seek ‘MPfD’ partnerships across six priority areas
- b** **ICMM Secretariat** to orchestrate MPfD and act as global hub
- c** Call to all **Stakeholders** to join with ICMM members in ‘MPfD’ partnerships

MPfD – The Revised TOOLKIT as basis of the methodology

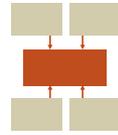
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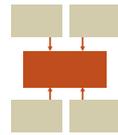


Initial 'mapping' of partnerships recently undertaken: firms already engaged in across six priority areas (31 existing partnerships identified)

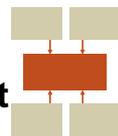
Poverty reduction



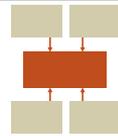
Revenue Management



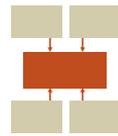
Regional Development



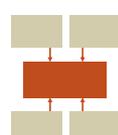
Local Content



Social Investment



Dispute Resolution



*MMG/local communities/district government in Lao PDR: **Sepon Mine***

- Optimizing local impact through business development in local area – purchase of local inputs; local business development and income generation activities
- These efforts led to 12x increase in average per capita income among local villages

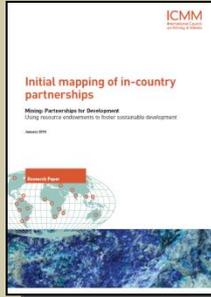


*BHP Billiton / IFC / Government of Mozambique: **Mozlink SME development program***

- Mozlink has trained 100+ small and medium-sized enterprises (SMEs) since 2001 – 3000+ employees reached by program activities
- ~US\$30m in revenue generated to participating SMEs
- SMEs show average turnover growth of 34% in total annual turnover during past 3 years

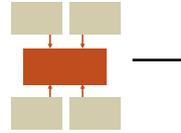


Examples of existing partnerships - Ghana - Stakeholder Workshop 2008 (2/3)

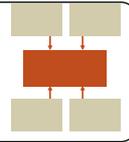


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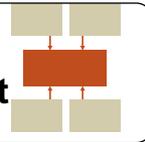
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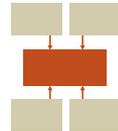
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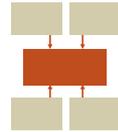
Regional Development



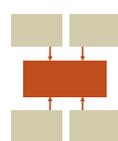
Local Content



Social Investment



Dispute Resolution

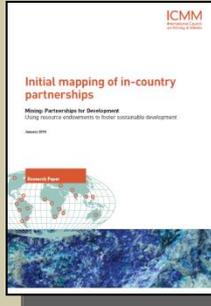


This meeting recognised the new District Development Fund in Ghana is a sound example of harmonisation with **Government** committed to a systematic District Assembly review process and new budget support for districts both for capacity building and projects

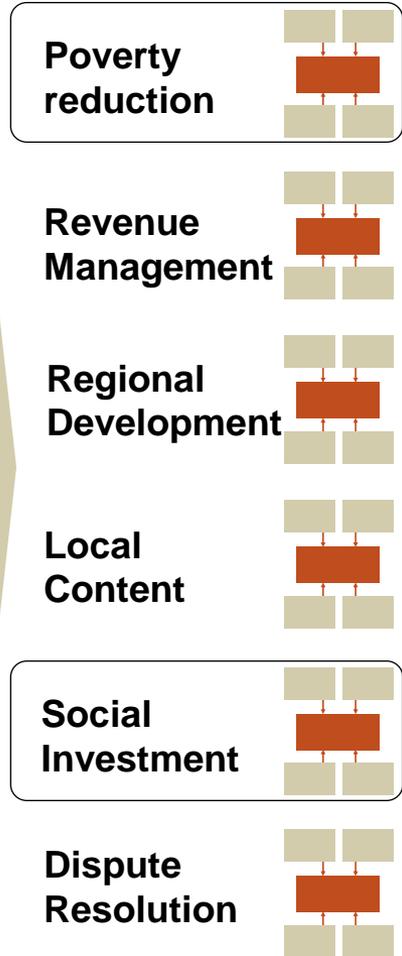
Donors were already committed to a far more harmonised use of their large donor funds at local level (led by CIDA)

It was agreed that there was no obvious practical impediment to the large local socio-economic spending of **Mining companies** being embraced as a **third** element in this partnership in the mining-affected districts of Ghana. Stakeholders committed publicly to support company, Ministry of Finance and donor efforts to establish this enhanced partnership

NB This was one of FIVE priority partnership actions agreed at the Workshop (from a much longer list that the REI research had identified).



Initial 'mapping' of partnerships recently undertaken: firms already engaged in across six priority areas (31 existing partnerships identified)



*Newmont Ghana Gold / African Connections / EDIF / Ghana Ministry of Food & Agriculture: **Ahafo Agribusiness Growth Initiative (AAGI)***

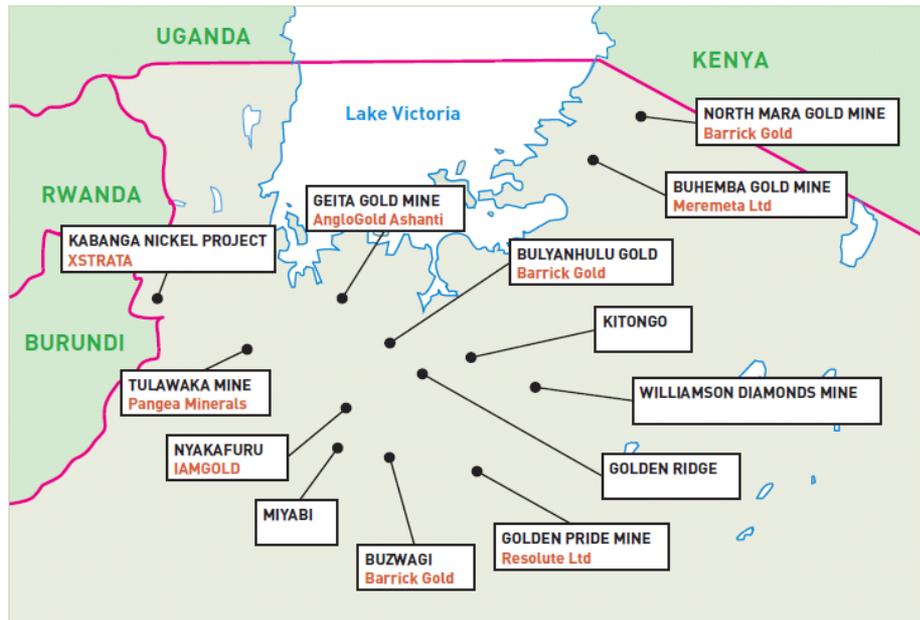
- Phase 1 objectives: Improve farmers' knowledge in production techniques, new market demands and opportunities; also introduce farmers to new crop varieties with high market potential
- 2008 to present – 2,264 farmers participated in training; 750 farmers accessed input credit; 2,220 acres are under cultivation by AAGI farmer groups

*Anglo American / USAID / Virgin Unite / Ndlovu Medical Centre, South Africa: **Construction of a Community Health Centre***

- Bhubezi community health centre aims to tackle the effects of HIV/AIDS, tuberculosis and malaria
- Services offered free for people suffering from these diseases & subsidized treatment for other illnesses
- Serves 70 000 people living in 21 villages
- As of Aug 2004, clinic sees ~140 patients daily and has created nearly 40 new jobs

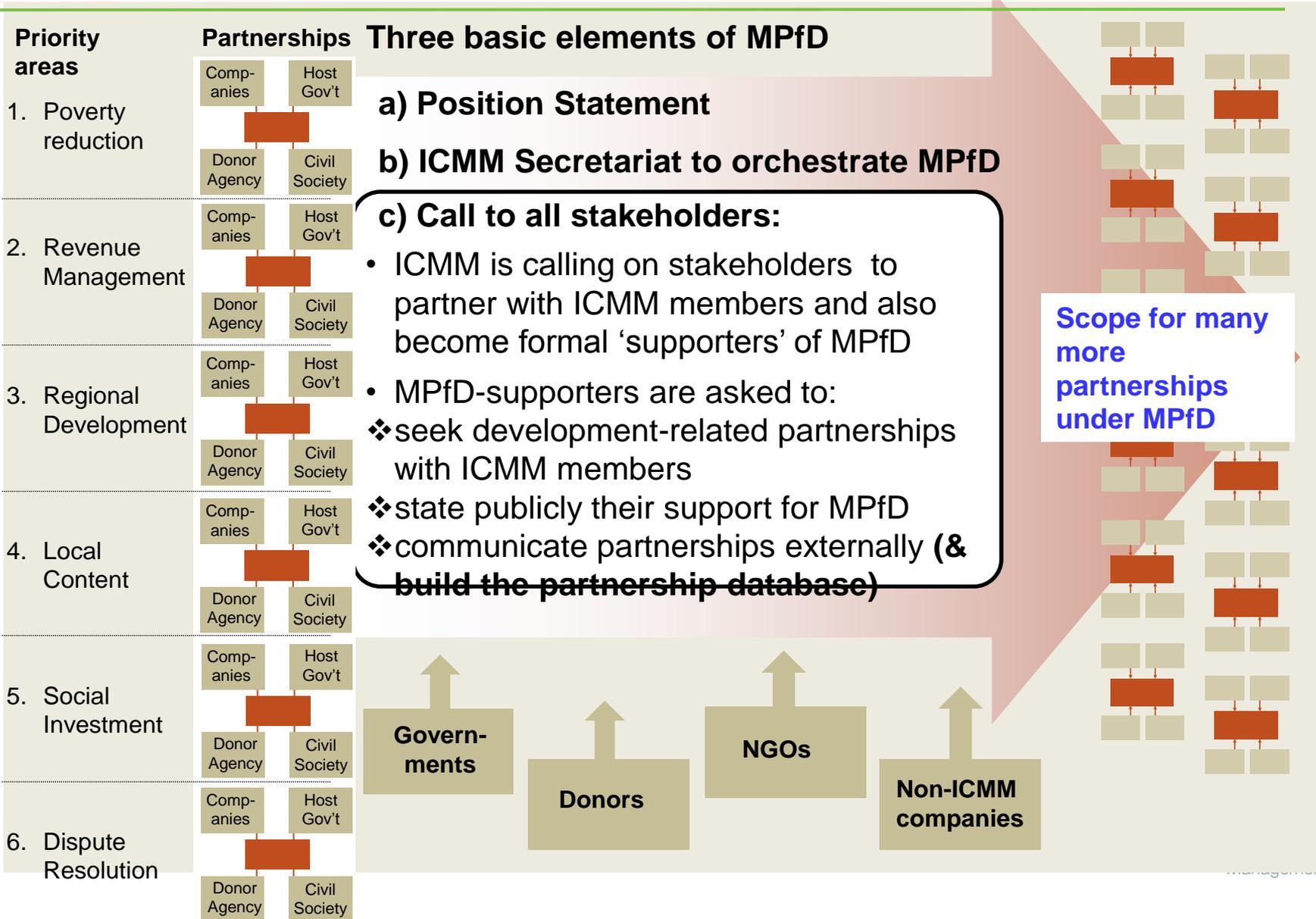
A Missed Opportunity (?) in Tanzania

Figure 1.1: The main mines of Tanzania



Neither Government, NGOs, Donors, or the Companies themselves have seen the merit of joining together the huge sums they collectively spend in these relatively poor regions to ENHANCE the total OVERALL development benefit.

Call to all stakeholders to support MPfD



Partnership Issues – Enhanced Revenue Management

- Revenue management is a key issue at the national and sub-national level as it has strong links to decentralisation
- Often the growing level of responsibilities of sub-national governments entities has not been matched by an equal increase in either financial or human resources
- As with many emerging economies general taxes are poorly targeted to expenditure programmes
- There is a clear common interest in enhanced revenue management - large mining companies, international and national civil society organisations, donor agencies and those regional governments where regional political representatives are keen to put mining revenue to good use
- However, there is insufficient emphasis on how to achieve the structural and incentive changes that could result in improved spending of revenues



- Often regional economic development plans appear to be largely absent, out dated or driven by the interests of a few individuals (Tanzania example)
- This has negative implications for the planning and budgeting processes of sub-regional government entities
- It also provides a weak basis for integrating the expenditures on infrastructure and services of the mining companies
- There is a common interest in much more emphasis to serious regional development planning - regional governments, domestic civil society organisations, donor agencies and the larger mining companies.



Partnership Issues – Mining and Poverty Reduction

- Poverty remains a huge challenge for many resource rich countries
Symptoms include highly deficient access to basic services such as health, education, housing, clean water *Causes* include the remoteness of many parts of the country where poverty is highest, but also the absence of effective local government capacity).
- Planning for and spending of social budgets is frequently poor
- Many mining companies are contributing directly to the improvement of some of these services via mine level socio-economic investment but with much variability across the industry and often poor integration with official providers.
- In some cases mining companies have assumed responsibilities in the absence of government leadership. But this creates its own problems. e.g. moral hazard for companies with perceptions of their role and obligations being greatly inflated (Peru example)
- Regional and local governments ought to have an interest in collaborating more actively with mining companies that provide significant direct social investment. Civil society organisations can and do play an additional partnership role as service providers. Donors can push this.



Partnership Issues – Socio-Economic Development

- There are many individual examples of company spending (often very large) contributing directly to local socio-economic development
- But there are also many constraints that limit the scale and effects of such initiatives - the quality of secondary schooling, poor infrastructure, an unfavourable institutional environment (e.g. complex processes for licensing, and national-level wage arrangements that render local unskilled labour uncompetitive)
- However, the formalisation process is transaction-cost intensive and much more support is needed
- Again support for enhancing the local content and employment impacts of mining ought to be available from improved partnerships of regional and district governments, large and medium sized mining companies, donor agencies, civil society organisations and local chambers of commerce



Partnership Issues – Local Content

- In most cases there are no formal requirements for mining companies to develop local supply chains to sell to the mining operations: volumes of indirect employment are typically relatively low
- Individual companies have taken different approaches to this issue
- Some civil society organisations have collaborated to identify the institutional constraints to raising local content and creating additional local employment opportunities
- Governments are often a big part of the problem of why more SMEs fail to emerge to supply the mines
- Support for enhancing the local content and employment impacts of mining is potentially available from regional and district governments, large and medium sized mining companies, donor agencies, civil society organisations and local chambers of commerce. But PARTNERSHIP is key.



- Disputes between mining and other economic interests seem to have increased recently
- Various initiatives monitor and mediate conflicts around mining at the national and the sub-national level
- But in the event that a conflict arises at a particular locality the procedures for conflict resolution often appear to be *ad hoc*
- Resolving disputes through a more orderly and institutionalised multi-stakeholder forum should be in the interest to all those stakeholders



- Broad-based income and employment generation is the ideal route to an effective absorption of mining into the national economy but in fragile economies with low government capacity this does not emerge quickly
- Existing redistributive mechanisms do not appear to be particularly successful in this regard (Peru especially but also Ghana) and in Tanzania do not exist
- Deepening governance reforms (especially public administration reforms) is critical to ensuring a more effective absorption of mining activity into its inherently local settings
- But this probably means greater fiscal decentralisation and fuller empowerment of local and regional authorities, areas where capacity must be built in parallel
- Pending the establishment of effective local capacity, the partners (companies, governments and donors) need to adapt behaviour to deal with various different situations
- There are many unexploited partnership arrangements that could help to bring about significantly larger social and economic gains in mining countries



Thank you!

Please send any comments and suggestions to:

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