The Contribution of the Mining Sector to Socioeconomic and Human Development

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Agenda

- The World Bank Group: Who we are and What do we do?
- Global Mining Industry ... Issues and Challenges
- How can Mining Contribute to Socioeconomic and Human Development? Three Channels for Action:
  - Revenue Mobilization
  - Sound Macroeconomic Management
  - Inclusive Growth
- Evaluating Mining’s Contribution: The case of Sub-Saharan Africa
## World Bank Group

<table>
<thead>
<tr>
<th>Role:</th>
<th>Clients:</th>
<th>Products:</th>
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</table>
| To promote institutional, legal and regulatory reform | Governments with per capita income between $1,025 and $6,055. | - Technical assistance  
- Loans  
- Policy Advice |
| To promote institutional, legal and regulatory reform | Governments of poorest countries with per capita income of less than $1,025 | - Technical assistance  
- Interest Free Loans  
- Policy Advice |
| To promote private sector development | Private companies in member countries | - Equity/Quasi-Equity  
- Long-term Loans  
- Risk Management  
- Advisory Services |
| To reduce political investment risk | Foreign investors in member countries | - Political Risk Insurance |

### IBRD
- International Bank for Reconstruction and Development  
- Est. 1945  
- Clients: Governments with per capita income between $1,025 and $6,055.  
- Products: Technical assistance, Loans, Policy Advice

### IDA
- International Development Association  
- Est. 1960  
- Clients: Governments of poorest countries with per capita income of less than $1,025  
- Products: Technical assistance, Interest Free Loans, Policy Advice

### IFC
- International Finance Corporation  
- Est. 1956  
- Clients: Private companies in member countries  
- Products: Equity/Quasi-Equity, Long-term Loans, Risk Management, Advisory Services

### MIGA
- Multilateral Investment and Guarantee Agency  
- Est. 1988  
- Clients: Foreign investors in member countries  
- Products: Political Risk Insurance

**Shared Mission:** To Promote Economic Development and Reduce Poverty

US$ 9 billion of cumulative investment over the past decade

(US$ Millions)
World Bank Group Extractives Current Portfolio

- **IDA: US$437 million. 14 Dedicated EI TA Projects**, of which 85% in Africa (Burkina Faso, Cameroon, DRC, Ghana, Guinea, Kenya, Malawi, Mozambique, Sierra Leone, Tanzania), plus Afghanistan, Mongolia, PNG.

- **IFC: $401 Million: 32 Projects in 21 Countries.**
Extractive Industries Support The WBG’s Twin Goals

Ending Extreme Poverty

- Tax Revenues For Public Investments & Safety Net Programs For The Poor & Vulnerable
- Job Creation & Skills Development

Boosting Shared Prosperity

- Developing Local Supply Chains
- Sharing Extractives-related Infrastructure
- Fostering Trade & Foreign Direct Investment

Adequate Governance Capacity & Institutions

Transparency Community Engagement

Robust E&S Mitigation

Mining Contribution to Socioeconomic and Human Development
Global Mining Industry ... Issues and Challenges

Potential Outcomes of the Current Price Declines:

- Concentration of supply, with return to safe havens and less focus on emerging markets.

- Possible Macroeconomic Windfall with greater gains for mineral consuming countries.

- Fiscal Adjustments for Mineral Exporters.

- Less Dependency and More Economic diversification for Resource Rich Countries?
Strategic Setting: Global Issues in Mining

Commodity prices declining after sustained high levels over the last 10 years bringing a lot of instability into the sector.

- On the Demand Side:
  - Global economic risks continue to hinder growth prospects. The global economy remains fragile and prone to policy uncertainty.
  - Slower growth in China is pulling down demand for and prices of exports of metals and minerals.

- On the Supply Side:
  - Record levels of investment in exploration and development ended.
  - Need to reduce excess supply: Marginal producers are closing, huge investment write-offs.
  - Risk of supply concentration (iron ore, copper) threatens future price increases.
Adjustment Taking Place on Background of Conflicting Expectations

- High expectations from shareholders of mining companies requesting adequate returns from past investments.
- Increased expectations by governments and communities for a bigger share of benefits, leading to trend in revising fiscal regimes, renegotiation of contracts, and local conflicts.
- Resource Rich Countries seeking higher contribution from the sector aiming at inclusive growth, bigger share in the markets.
- Environmental and Social “licenses to operate” becoming indispensable for any mining project.
Possible Outcomes: A Macroeconomic Windfall?

- **World Bank Global Economic Prospects:**
  - Lower Commodity prices will boost world output by 0.5%.
  - Global Inflation will fall by 0.4-0.9% over the medium term.
- **Resource Risk Countries** are going through Fiscal Adjustments because of reduced revenue mobilization.
- Fewer countries are falling on the “Debt Trap” created by excessive consumption and increases in public sector wages.
- Price volatility will affect **Subnational Governments and Local Communities** benefiting from Revenue Sharing mechanisms or Earmarked Revenues.
Possible Outcomes: Less Dependency?

Location Of Mining Activity Has Shifted Towards Emerging Markets

Resource Exports (Average, 2005 - 2010)

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How can Mining Contribute to Socioeconomic and Human Development? Three Channels for Action:

- Revenue Mobilization
- Sound Macroeconomic Management
- Inclusive Growth
Three Channels for Action

- **1/ Fiscal:** Optimizing revenue mobilization
- **2/ Macroeconomic:** Avoiding the "resource curse"
- **3/ Contribution to Social and Human Development through Inclusive Growth**
1/ Fiscal - Optimizing revenue mobilization:

- Build stable and transparent Legal and Regulatory Frameworks.
- Invest in improving technical capacities and skills for the negotiation of equitable and flexible fiscal regimes.
- Improve tax administration capacities to tackle tax avoidance schemes such as transfer pricing.
- Build strong institutions which promote transparency and good governance, ensure property rights, and support political stability.
- Promote Transparency and Accountability, to avoid elite capture, and support participation of the majority of citizens in economic activity.
2/ Macroeconomic - Avoiding the “resource curse”:

- **Minimize pro-cyclical government expenditure** by implementing fiscal rules which insulate the national budget from fluctuations in commodity prices. Revenues accruing above a benchmark commodity price are saved in a separate fund.

- **Develop a rules-based stabilization fund**, creating national public savings. The stabilization fund provides savings to finance public expenditure programs if commodity prices decline.

- **Aim at ensuring long-term income** (once resources are depleted), by converting the natural resource into financial, human and physical assets. Resource windfalls may be partly saved for future generations (Sovereign Wealth Funds).

- **Focus on investments in productive physical assets** like public infrastructure (such as power plants, transport infrastructure, etc.), which reduce the costs of doing business for the private sector (avoid ‘white elephant’ projects).
3/ Inclusive Growth - Contribution to Social and Human Development:
- Human Development:
  - Jobs
  - Skills and Education
  - Health
  - Gender
  - R&D and innovation
- Economic Diversification (including local content)
- Shared infrastructure and Local Economic Development
- Value addition and downstream integration
Inclusive Growth Route: Key Challenges

- Sound Investment Climate and Competitiveness of other sectors of the economy
- Identification of National Priorities and preparation of integrated Development Plans at the Central and Subnational Levels
- Inter Ministerial Coordination
- Integration of Mining Companies infrastructure and social spending into Government Plans, namely through Public-Private Partnerships
- Regional (Multi-Country) Approach
- Close involvement of Civil Society Organizations
- Continuous Support from Donor Agencies
Inclusive Growth: Potential Partnerships With the EUC

Four Potential Partnerships With the EUC:

- Support to Contract Negotiation
- EILCD: Extractive Industries for Local Content Development
- AMGI: African Minerals Geoscience Initiative
- Mining Associated Infrastructure
Support to Contract Negotiation

- **Extractive Industries Technical Advisory Facility (EI-TAF)** assists developing resource-rich countries to structure extractive industry transactions and related sector policies. EI-TAF facilitates rapid-response, third-party advisory services and capacity building for resource policy frameworks and transactions. On-going projects in 20 countries.

- Through its Knowledge Management window EI-TAF supports the production and dissemination of global knowledge products. The flagship products:
  - **El Source Book**: Developed in collaboration with Un. Of Dundee.
  - **Mining Government Assessment**: Developed in collaboration with Govt. of Germany, the Adam Smith Inst. and Natural Resources Governance Institute
EILCD: Extractive Industries for Local Content Development

- **Global activities:**
  - Global community of practice for sustained professional learning
  - Development of guidance notes and tool-kits for design and implementation of LCPs
  - Knowledge exchange, Advocacy and Promotion

- **Country-level and Regional-level activities:**
  - TA and capacity building for design/reform of local content policies and strategies.
  - Demand for Skills in the extractives industry and potential for local content
  - Supply assessment

Employment and local supplies: 66% of the value created
A new initiative chaired by the African Union Commission aiming at making geo-data accessible to a global audience in Africa.
Mining Associated Infrastructure

- New mineral and oil/gas discoveries are opening up countries and sub-regions in SSA,
- Vast untapped resources will require infrastructure for development, but funding needs vastly exceed national budgets of host governments.
- By partnering upstream with anchor investors, countries can leverage their natural resources for the development of mega-scale, shared-use transport and power assets.

**Guinea**
- US$20 bn in investments in extractives & related infrastructure

**Uganda**
- US$8-10 bn in oil investments
- US$50 bn in oil export revenue

**Tanzania**
- US$20 bn investment in LNG
- Possible US$2bn in gov’t revenue p.a.

**Ghana**
- US$8-10 bn in oil investments
- US$40 bn in export revenue

**Cameroon**
- US$7 bn in iron ore and aluminum investments

**Mozambique**
- US$10 bn investment in mining & infrastructure
- US$70 bn investment in gas

**Guinea**
- Iron Ore (Mauritania, Guinea, Liberia, Sierra Leone, Senegal, Cote d’Ivoire, Rep. of Congo, Gabon, Cameroon)
- Copper (DR Congo, Zambia)
- Bauxite (Guinea, Ghana, Nigeria, Cameroon, Sierra Leone)
- Coal (Mozambique, Zimbabwe, South Africa, Botswana, Namibia)
Evaluating Mining’s Contribution to Socioeconomic and Human Development:

The case of Sub-Saharan Africa
The Case of SSA: Strong Economic Performance

- Mining dependent low & lower-middle income SSA countries* posted the lowest GDP growth rates in the region in **1991-2000**.

- But they **outperformed** their non-mining and non-mining/oil peers in **2001-2010** and **2007-2011**.

**SSA Low- and Lower-middle-income Countries – GDP Annual Growth Rate (%)**

- **1991-2000**
  - Mining: 1.8
  - Non-Mining: 3
  - Non-Mining/Oil: 3.2
  - World: 2.9

- **2001-2010**
  - Mining: 5.1
  - Non-Mining: 4.7
  - Non-Mining/Oil: 3.8
  - World: 2.5

- **2007-2011**
  - Mining: 5.3
  - Non-Mining: 4.5
  - Non-Mining/Oil: 4.3
  - World: 2

Improving Human Development Indicators

- Mining dependent low & lower-middle income SSA countries* experienced **higher rates of HDI improvement** than their regional cohorts.

They also posted consistently higher rates than the world average.

Source: UNDP, 2012
Improving Human Development Indicators

Mining dependent low- and lower-middle income SSA countries* are bridging the disparity gap and increasing access to quality health and education services.

SSA Low- and Lower-Middle Income Countries – Change in Health and Education Indices (%)

Education

Health

Source: UNDP, 2012
Progress in Governance

- Mining dependent low- and lower-middle income SSA countries are closing the governance gap at a higher rate than their regional cohorts, except for government effectiveness.

- Moreover, contrary to resource curse theory, higher increased dependence on mining did not result in deteriorating governance.

<table>
<thead>
<tr>
<th>Voice Accountability (V), Political Stability (S) and Government Effectiveness (E) (% Change)</th>
<th>Regulatory Quality (R), Rule of Law (L) and Control of Corruption (C) (% Change)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mining</td>
<td>9.9</td>
</tr>
<tr>
<td>Non-Mining</td>
<td>9.5</td>
</tr>
<tr>
<td>Non-Mining/Oil</td>
<td>5.4</td>
</tr>
<tr>
<td>World</td>
<td>-0.4</td>
</tr>
<tr>
<td>Mining</td>
<td>3.5</td>
</tr>
<tr>
<td>Non-Mining</td>
<td>1.2</td>
</tr>
<tr>
<td>Non-Mining/Oil</td>
<td>-0.9</td>
</tr>
<tr>
<td>World</td>
<td>0</td>
</tr>
</tbody>
</table>

Evidence of positive human development outcomes

- Resource economies have fared better than non-resource economies in terms of human development.
- Mineral countries have fared better than oil rich economies in terms of human development.

Annual GDP and HDI Growth Rates 2000-2010

- Mineral rich
- Oil rich

GDP and HDI Growth Rates 2000-2010

HDI Growth %

0 3.5

- Angola
- Chad
- Sierra Leone
- Sudan
- Mozambique
- Namibia
- Botswana
- Zambia
- Burkina Faso
- Cameroon
- Mauritania
- DRC
- Gabon
- Mali
Early Indications of Impacts at the Community Level

- Using a large sample of women and children living within 100km of a mine, the establishment of a new mine increases income earning opportunities within the service sector by 41%.

- Other determinants of welfare are also affected:
  - Women are 23% less likely to state a barrier to healthcare access for herself.
  - Women’s acceptance of domestic violence decreases by 24%.

- Despite risks of environmental pollution from gold mining, infant mortality more than halves with the mine opening:
  - Mine opening is associated with 6.5% decrease in the likelihood that a child died within the first 12 months (which is equivalent to a two-thirds decrease).
  - For boys, the change is 4.8%, equivalent to a 47% decrease in the incidence.
  - The largest drop is among girls; an 8% decrease in the mortality rate, equivalent to 85% decrease.

ANJA TOLONEN: Local Industrial Shocks, Female Empowerment and Infant Health: Evidence from Africa’s Gold Mining Industry, November 2014
Thank you!