

**ENHANCING THE SOCIO-ECONOMIC CONTRIBUTION OF THE MINING AND METALS
SECTOR
29 – 30 NOVEMBER 2004
THE LANSDOWNE CLUB, LONDON, UK
SUMMARY NOTE OF PROCEEDINGS**

BACKGROUND

ICMM's Resource Endowment Initiative¹ seeks to identify good policy practice for mining and metals investments at national, regional, local and corporate levels within developing countries. The review aims to isolate the drivers of development effectiveness in the mining and metals sector and to document the policy frameworks, operational practices, and partnership arrangements that deliver sustainable outcomes on the ground. This action-research project complements recent policy research by pinpointing the reasons why some countries, communities and corporations have succeeded in making effective use of their mining resource endowment towards broad-based development and poverty reduction.

ICMM has appointed a high-level advisory group for the project to attest to the objectivity of the study's design and provide independent oversight for its implementation. Members of the group include policy analysts, government decision-makers and UN officials (see annex).

Development consultants (Oxford Policy Management and Environmental Resources Management) selected through a competitive process will carry out the review. The World Bank and UNCTAD will also participate in the research. Stakeholders, including governments, NGOs, donor agencies and academic bodies, will be consulted at key stages of the review.

The workshop was tasked to review the methodologies proposed for the review prior to the initiation of three country case studies designed to draw lessons learned at national, local and corporate levels. Following completion of the research, policy recommendations will be communicated widely and tool kits will be disseminated in order to support reform and improved operational practices.

WORKSHOP OBJECTIVES

- Provide feedback on how comments received from workshop participants on draft macro economic/governance and project methods and tools have been taken into account
- Review, revise and confirm methodologies for macro and project level tools

¹ Further details of the project, including Terms of Reference, can be found at www.icmm.com

- Obtain feedback on which countries, and which projects within those countries, would be good candidates for field tests

The workshop was held under the Chatham House Rule modified to allow disclosure of the list of participants and their affiliations.

SUMMARY OF PROCEEDINGS

Monday 29 November

Plenary Session: Contribution of the Mining and Metals Sector to Macro Economic Performance and Governance

Following an introduction by the sponsors of the review (ICMM; UNCTAD and the World Bank Group), Oxford Policy Management (OPM) described its proposed methodology. Discussion focussed on:

- Profile of selected countries ²;
- Country rankings by performance ³;
- Taxonomy: relating good governance against institutional and policy characteristics⁴;
- Forward and backward linkages of investment costs and benefits at local, regional and national levels ⁵

Plenary session participants suggested that reference be made to corruption indicators – especially pointing to criminal and rent-seeking behaviour. Other comments included a query on the criteria used for defining “successful” countries and a request for clarification about the treatment of countries that are no longer “mining countries”, having diversified their economies. One participant asked why the study does not tackle oil and gas investments and felt that the study is adopting too narrow a definition for CSR (i.e. community development), and advocated a deeper look into environmental aspects.

Breakout Groups: were asked to provide general feedback on the overall approach reflected in the suggested Taxonomy, and then to consider interface between large mining investments and two of the five areas of governance set out in the Taxonomy.

The highlights of their deliberations were reported to the plenary. A summary follows:

- The review should include assessments of donor behaviour. Earmarking of donor aid funds can skew government investment priorities away from creating an enabling environment for successful private sector investment at national, regional and local levels
- The diverse policy implications for different tiers of governance (local, regional, national and global) should be drawn. Impacts at national, regional and local levels are distinct but interdependent. The specific policy linkages among the

² Appendix 1, attached

³ Appendix 2, attached

⁴ Appendix 3, attached

⁵ Appendix 4, attached

three levels are essential determinants of project impact. National performance hinges on the quality of the regulatory framework, the economic diversification policies of government, the quality of public expenditures management, etc. while local/regional performance depends on the extent of revenue sharing, the kind of spatial policies followed by the national government (e.g. infrastructure investments to connect the mining region to the rest of the economy), the extent of decentralization; the quality of local/regional governments, etc. The need to consider the time dimension recognising the dynamic effects of mining investments

- The taxonomy requires greater clarity so that important issues do not “fall through the cracks”. e.g. the impact of corruption and criminality; conflict; social cohesion, cronyism; public awareness; local versus national role *vis-à-vis* revenues; influence of donors and IFIs on the sector; the “obsolescing bargain”.

*

*

*

Plenary: A Framework for Measuring the Local Socio-economic Impacts of Mining Operations

ERM presented its approach at project level, focussing on:

- Key Questions for Stakeholder Interviews
- Social and Infrastructure Provision
- Employment and Dependents
- Human Capital Development for Employees
- Value of Procurement
- Value Added that is Retained in the Local Economy
- Contribution to Government Revenues
- Contribution to GDP and Exports
- Comparison on Local and National Socio-economic Development Trends

Subsequent plenary discussion centred on

- The importance of capturing outcomes and not just inputs
- The need to learn from failures
- The need to make the model more dynamic (trends) and comprehensive (e.g. institutional/governance issues);
- The need to probe social, cultural and environmental aspects.

Breakout Groups were tasked with:

- Offering feedback on the proposed approach overall, and more specific feedback on selected areas of the proposed methodology
- Providing useful information, including good practice examples, to help in the design and implementation of the case-studies

Feedback from the breakout groups to the plenary centred on:

- The objectives, scope & audiences should be made clearer;
- The linkage between OPM and ERM should be tightened so that various aspects of government policy can be traced through their impacts on the major cost and benefit revenue streams that allow rate of return estimates for mining investments; e.g. fiscal policy that affects the extent of investment and the revenue stream, royalties and tax revenues that produce benefits dependent on the quality of public expenditures management and the extent of forward and backwards linkages; the overall quality of economic management and of industrial policies, the relationship between employment generation benefits and the health and education policies of government and its development partners.
- Gaps in framework: gender, environment, a focus on inputs rather than outcomes; more qualitative analysis of social/cultural/community (including gender) context; compensating for the absence of baseline analysis.

In his closing remarks, Sir Mark Moody-Stuart noted that revenue management was ranked as the most pressing issue by the Advisory Group of the Extractive Industries Review. One drawback of the EIR was its focus on failures. While these can provide important lessons, policy makers must also learn from success, in a balanced and objective way. Analysis must be integrated vertically: from local to regional and to national levels; over time: ensuring sustainability beyond the life of the mine; and ensuring equitable revenue split between the private and the public sector over the investment life. While this research will provide a toolkit for companies, progress will be dependent on the actions of all parties: governments, communities and donors. The industry is looking for help and support from these all of these actors as the work progresses.

*

*

*

Tuesday 30 November

Plenary: How best to link the Macro/Governance toolkit with the project analysis and proposals for country case study selection

OPM and ERM provided initial reactions to the feedback provided in the workshop yesterday focussing on:

- Issues that can be dealt with
- Issues that will need to be taken up with ICMM's working group
- How to arrive at a common project structure
- Suggestions for case study selection

Possible integrating themes:

- that benefits flows at national, regional and local levels are distinct but interdependent and thus the need to ensure that the specific policy linkages among the three levels are essential determinants of project impact

- social cohesion or its antithesis (including open conflict) – the quality of corporate initiatives in at least preserving such cohesion and not exacerbating incipient social divisions e.g. ethnic, gender, or geographical
- economic, social and institutional infrastructure – the management of these to both increase the spread of benefits and to contain incipient divisions

Case study selection:

- There are no absolute successes (see Table 6 in OPM report)
- Countries that have done relatively better have managed problems with which worse performing countries have suffered (e.g. distributive conflicts). Thus the merit in learning from these more successful cases. These will then be verified to determine whether the features identified as accounting for relative successes are systematically *absent* in less successful cases.
- Selection criteria:
 - Should the micro studies being done by the WBG have macro studies?
 - Some companies have proposed project level studies in addition to the 3 country case studies to be funded by ICMM
 - There are significant advantages joint project teams.

Breakout Groups then discussed methods for bringing macro and project level toolkits together and countries/projects selection for case studies before reporting back to plenary.

The main comments from the final plenary session were:

- There must be a single integrated analytical framework
- The objectives should be clarified: is the analysing the macro-economic/governance context for mining or the impact that mining has on the macroeconomic/governance framework
- The two distinct objectives of the study should be identified more explicitly: first, at the micro level to find a better way for companies to deal with socio-economic issues and second at the macro level to demonstrate the overall benefits that mining can bring
- CSR challenges and institutional capacity issues should be dealt with
- Lessons are needed regarding the incentives that can make governments and companies collaborate and become “agents of change” through partnerships
- Chile or Ghana might offer good case studies (both could be described as “one commodity” economies – either currently or historically). Peru and Malaysia were also highlighted as possibilities.
- “Do a limited number of things well”. Do not expand the scope.

Mamadou Lamine Loum, member of ICMM’s Advisory Group, welcomed the practical approach being taken by the research and provided a summary of lessons learned from the Chad Cameroon pipeline project:

- “two speeds” issue: state and community capacity building takes longer than expected; construction is often completed ahead of schedule. Thus capacity building needs to be addressed early on

- enclave syndrome: how to ensure that community concerns are addressed, e.g. education, health, affirmative action for rural areas
- good governance: this has become a central issue with an independent oversight body (IAG) acting as honest broker between all parties, including political parties, civil society, traditional chiefs, parliament etc
- transparency and public debate: transparency helps accountability and citizens are taking an active interest in the price of oil and the discount rate.

In his closing remarks, John Groom, Chair of ICMM's working group, summarized the objectives of the initiative and emphasised the importance of focusing on the ingredients for success in order to provide useful tools. He noted that it is not only up to companies to deliver: partnerships will be needed with other actors in the sector in order to achieve the desired outcomes.

In terms of next steps:

- a 4-5 page summary note will be circulated to all participants
- OPM and ERM will work towards producing an integrated model: with first discussions taking place in early January, 2005
- First testing of the model in "Country 1" will take place in Feb or March, 2005.
- The final workshop is likely to take place in the second half of 2005.

Table 4: Profile of Selected Countries (ranked by Population Size)

	<i>Population (million)</i>	<i>Income per capita (PPP in \$US)</i>	<i>Income per capita (\$ US)</i>	<i>Income Classification (World Bank)</i>	<i>Conflict State ?</i>
Mexico	99.4	8770	5540	High Middle	No
Philippines	77.0	4360	1050	Middle	Yes
Congo DR	52.4	na	na	Low	Yes
South Africa	43.2	9510	2900	Middle	No
Colombia	43.0	5980	1910	Middle	Yes
Tanzania	34.5	540	270	Low	No
Morocco	29.2	3690	1180	Middle	No
Peru	26.1	4680	2000	Middle	Yes
Malaysia	23.8	8340	3640	High Middle	No
Ghana	19.7	1980	290	Low	No
Mozambique	18.1	1000	210	Low	Yes
Chile	15.4	9420	4350	High Middle	No
Zimbabwe	12.8	2340	480	Low	Yes
Niger	11.2	770	170	Low	Yes
Mali	11.1	810	210	Low	Yes
Zambia	10.3	790	320	Low	No
Senegal	9.8	1560	480	Low	Yes
Tunisia	9.7	6450	2070	Middle	No
Bolivia	8.5	2380	940	Middle	No
Guinea	7.6	1980	400	Low	Yes
Papua New Guinea	5.3	2150	580	Low	Yes
Sierra Leone	5.1	480	140	Low	Yes
Jordan	5.0	4080	1750	Middle	No
Togo	4.7	1420	270	Low	No
Central African Rep	3.8	1180	270	Low	Yes
Liberia	3.2	na	na	Low	Yes
Mauritania	2.8	1680	350	Low	No
Jamaica	2.7	3650	2720	Middle	No
Namibia	1.8	6700	1960	Middle	No
Botswana	1.6	8810	3630	High Middle	No
Gabon	1.3	5460	3160	High Middle	No
Guyana	0.8	3750	840	Middle	No
Suriname	0.4	3310	1690	Middle	No

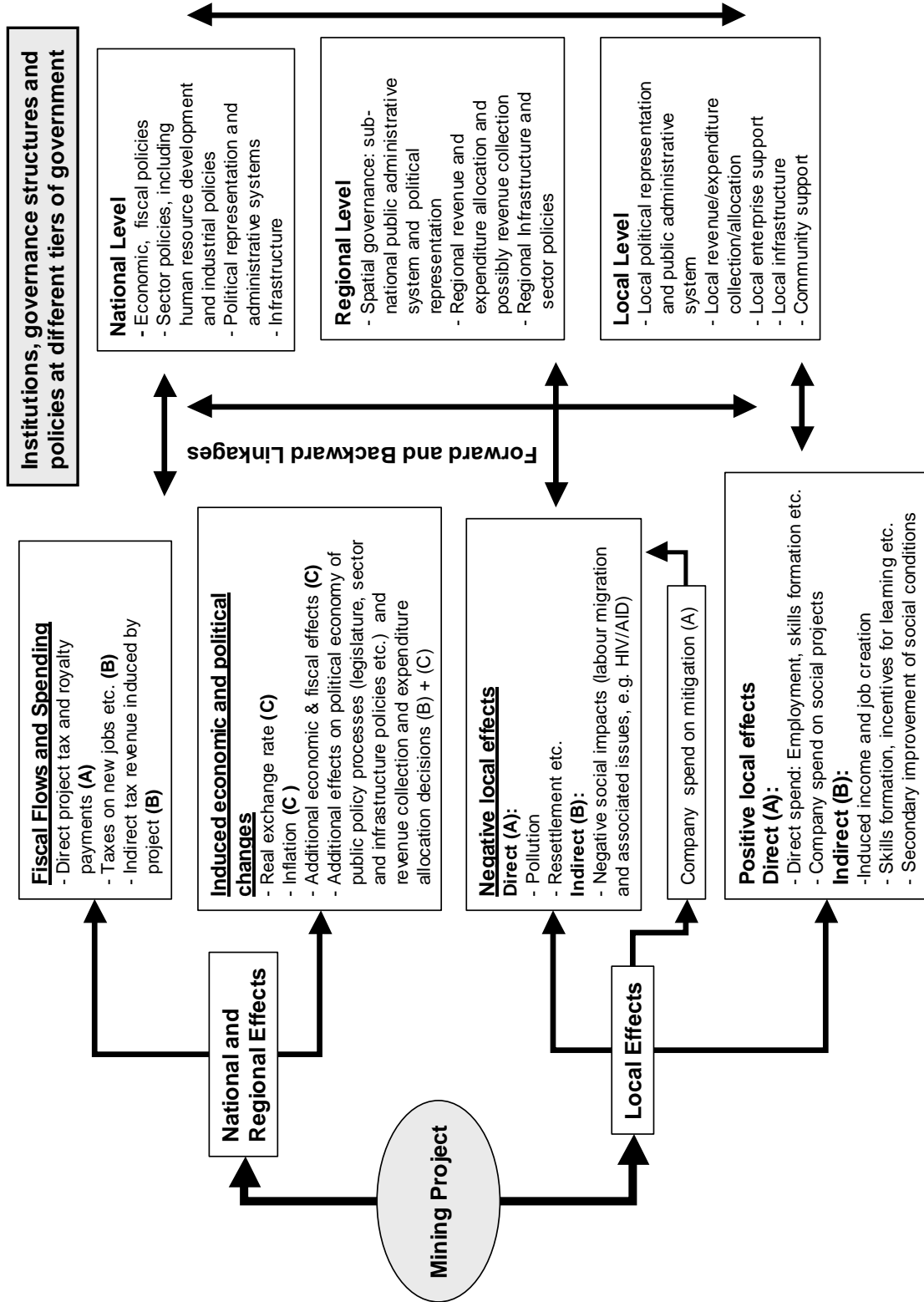
Table 5: Ranking Mining Countries by Performance in Growth & Poverty Alleviation

All 12 indicators given equal weight		All 8 growth indicators given equal weight		All Regional comparisons (Growth & poverty) given equal weight		All income-group comparisons (Growth & poverty) given equal weight		Social Indicators given equal weight	
COUNTRY	Score	COUNTRY	Score	COUNTRY	Score	COUNTRY	Score	COUNTRY	Score
Chile	12	Botswana ****	8	Chile	6	Chile	6	Chile	4
Botswana ****	9	Chile	8	Ghana	6	Malaysia	6	Ghana	4
Tunisia	9	Mozambique	8	Mexico	6	Botswana ****	4	Malaysia	4
Ghana	8	Tunisia	6	Namibia	6	Mozambique	4	Mexico	4
Malaysia	8	Colombia	4	Tunisia	6	Tunisia	3	Colombia	3
Mexico	8	Ghana	4	Botswana ****	5	Colombia	2	Tunisia	3
Mozambique	8	Guinea	4	Colombia	5	Ghana	2	Guinea	2
Colombia	7	Guyana	4	Guinea	5	Jamaica	2	Jamaica	2
Guinea	6	Jamaica	4	Mali	5	Mexico	2	Jordan	2
Jamaica	6	Malaysia	4	Morocco	5	Guinea	1	Mali	2
Mali	6	Mali	4	Senegal	5	Jordan	1	Morocco	2
Morocco	6	Mauritania	4	South Africa	5	Mali	1	Namibia	2
Namibia	6	Mexico	4	Guyana	4	Morocco	1	Peru	2
Senegal	6	Morocco	4	Jamaica	4	Peru	1	Senegal	2
South Africa	6	Namibia	4	Mauritania	4	Senegal	1	Suriname	2
Guyana	4	Senegal	4	Mozambique	4	Suriname	1	Togo	2
Mauritania	4	South Africa	4	Tanzania	4	Bolivia	0	Botswana ****	1
Tanzania	4	Tanzania	4	Gabon	3	Central African Republic	0	Gabon	1
Gabon	3	Gabon	2	Malaysia	2	Congo, Dem. Rep.	0	South Africa	1
Jordan	2	Zimbabwe	1	Togo	2	Gabon	0	Zimbabwe	1
Peru	2	Bolivia	0	Zimbabwe	2	Guyana	0	Bolivia	0
Suriname	2	Central African Republic	0	Jordan	1	Liberia	0	Central African Republic	0
Togo	2	Congo, Dem. Rep.	0	Peru	1	Mauritania	0	Congo, Dem. Rep.	0
Zimbabwe	2	Jordan	0	Suriname	1	Namibia	0	Guyana	0
Bolivia	0	Liberia	0	Bolivia	0	Niger	0	Liberia	0
Central African Republic	0	Niger	0	Central African Republic	0	Papua New Guinea	0	Mauritania	0
Congo, Dem. Rep.	0	Papua New Guinea	0	Congo, Dem. Rep.	0	Philippines	0	Mozambique	0
Liberia	0	Peru	0	Liberia	0	Sierra Leone	0	Niger	0
Niger	0	Philippines	0	Niger	0	South Africa	0	Papua New Guinea	0
Papua New Guinea	0	Sierra Leone	0	Papua New Guinea	0	Tanzania	0	Philippines	0
Philippines	0	Suriname	0	Philippines	0	Togo	0	Sierra Leone	0
Sierra Leone	0	Togo	0	Sierra Leone	0	Zambia	0	Tanzania	0
Zambia	0	Zambia	0	Zambia	0	Zimbabwe	0	Zambia	0

Table 8: Taxonomy

Common Features of Good Governance	Legal and Regulatory Framework	Fiscal Regime & Economic Policies and Public Administrative Capacity	Production Inputs	Human Capital Development	Social Cohesion
<ul style="list-style-type: none"> ▪ Strong and capable states, credible government commitments ▪ Limits to state strength, checks and balances against abuse of state power ▪ Compatibility of formal and informal institutions ▪ Legitimate formal economic institutions <p>Technical Capacity</p>	<ul style="list-style-type: none"> ▪ Basic constitutional issues ▪ General legal framework ▪ Political system, institutional access point for different stakeholders ▪ Regulatory framework for public sector management and interface between public and private sector ▪ Property rights and the ability to enforce these in a peaceful manner ▪ Sector specific legislation ▪ Issues of company legislation, ownership 	<ul style="list-style-type: none"> ▪ Fiscal (revenue) regime: taxation, royalties, tax exemptions ▪ Public expenditure management at different tiers of government (national, regional and local) ▪ Non-conflicting accountability relationships between the electorate, the legislature and the executive and within the executive ▪ Macroeconomic management: exchange rate regime, monetary policies ▪ Public administrative system & capacity at different tiers of government (national, regional and local) 	<ul style="list-style-type: none"> ▪ Infrastructure: National and regional policies, public-private partnership, cooperation arrangements at different tiers of government (municipalities, regional, national) ▪ Utility provision: national and regional policies, public-private partnership, cooperation arrangements at different tiers of government (municipalities, regional, national) 	<ul style="list-style-type: none"> ▪ Development of social policy system ▪ Development of health care systems ▪ Education policy, including basic education, vocational training, higher education, continuous adult education ▪ Broader human capital development issues (participation in decision making) 	<ul style="list-style-type: none"> ▪ Industrial/labour relations (including participation and shared ownership arrangements) ▪ Community development, local organisational capacity ▪ Stakeholder engagement, including consensus building and socio-economically effective management of conflicting interests

Flows and Effects of Mining Projects



ICMM Resource Endowment Advisory Group

Georg Kell (Executive Head, UN Global Compact)

Pedro Pablo Kuczynski (Minister of Economy and Finance, Peru)

Mamadou Lamine Loum (Independent Consultant, former Prime Minister of Senegal)

Warwick McKibbin (Professor of International Economics, the Australian National University; Professorial Fellow, The Lowy Institute for International Policy; Member, Board of the Reserve Bank of Australia)

Hon. Felix Mutati (Deputy Minister of Finance and National Planning- Zambia)

Jane Nelson (Senior Fellow and Director of the Corporate Social Responsibility Initiative at the Kennedy School of Government, Harvard University)

Delegate List

(alphabetical by organisation)

<i>Organisation</i>	<i>Name</i>	<i>Breakout</i>
ABN AMRO	Francis Condon	A
Anglo American	Edward Bickham	A
Anglo American	John Groom	C
Anglo American	Sir Mark Moody-Stuart	B
Anglo American	Ian Emsley	D
Anglogold Ashanti	Gertrude Makhaya	B
Antamina	Steven Botts	D
Barclays Capital	Martin Horgan	A
Barclays Capital	Gerard Holden	B
Business for Social Responsibility	Kate Fish	A
Business for Social Responsibility	Sandra Seru	C
Calyon Corporate and Investment Bank	Eric Cochard	D
Christian Michelson Institute	Jan Isaksen	C
Commonwealth Business Council (CBC)	Sangita Shah	A
Embassy of Peru in the United Kingdom	Alex Rodriguez	A
Embassy of Peru in the United Kingdom	Minister Mr. Gustavo Meza-Cuadra	D
ERM	Moortaza Jiwanji	A
ERM	David Elliott	D
Freeport McMoRan	Stan Batey	C
Ghana High Commission, UK	Appiah Donyinah	B
ICMM	Paul Mitchell	
ICMM	Kathryn McPhail	

Organisation	Name	Breakout
ICMM	Benjamin Hedley	
ICMM	Gabriela Flores	
IFC / MIGA	Aidan Davy	C
IIED	Maryanne Grieg-Gran	D
IIED	Halina Ward	
Independent consultant	Glen Armstrong	D
Independent Consultant and member of ICMM Advisory Group	Mamadou Lamine Loum	B
Insight Investment (UK)	Rory Sullivan	A
International Business Leaders Forum (IBLF)	Jonas Moberg	D
IPIECA	Chris Morris	C
Lloydmasters	Dave Moorcroft	C
Mining Association of Canada	Gordon Peeling	D
Newmont	Helen Macdonald	C
Noranda	Dave Rodier	B
Open Society Institute	Julie McCarthy	B
OPM	Evelyn Dietsche	B
OPM	Alan R. Roe	A
OPM	James Warton	
OPM	Roger Hay	D
OPM	Paul Stevens	C
OPM	Jeffrey Round	D
Oxford University	David Graham	B
Papua New Guinea Department of Mining	Graeme Hancock	A
ProNatura	Marcelo De Andrade	D
Rio Tinto	Nicolas di Boscio	A

<i>Organisation</i>	<i>Name</i>	<i>Breakout</i>
Tanzania Ministry of Energy & Minerals	Omar Chambo	C
Transparency International UK	David Murray	C
UK Department for International Development	Malaika Culverwell	A
UK Department for International Development	Richard McNally	B
UNCTAD	Olle Östensson	C
World Bank	Craig Andrews	B
World Business Council for Sustainable Development	Odd Gullberg	D
WWF-US	Marta Miranda	B
Zambia High Commission (UK)	Alfred Chunda	D