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AQ FEATURE

Ask the Experts: Mining

BY Jon Samuel , Anthony Hodge, Francisco Panizza , Lisa Sachs and Edwin Julio Palomino Cadenas

How can governments best ensure mining produces broad-based economic development?

Jon Samuel answers:

To secure a positive development outcome from mining, governments first need to create the conditions that will attract investment in new mines. This starts with open and honest means of allocating mineral exploration and development rights, the rule of law, a stable regulatory and fiscal regime, and openness to foreign investment.

Once governments have secured investment, what opportunities should they focus on? Governments need only look at the annual reports of mining companies to see the huge potential of building commercial sectors to generate inputs for the mining industry. At Anglo American plc., for example, procurement and wages together accounted for over $18 billion of our $31 billion of expenses in 2011. The vast majority of that was spent in our host countries. In contrast, taxes paid were $3.6 billion and dividends to our shareholders $2.2 billion. When viewed this way, even substantial increases in tax rates are overshadowed by the potential benefits for increasing local inputs.

Setting consensus targets for local procurement can be a helpful kick-start to local economic activity, but governments can and should do more than that. Creating a good environment for small businesses is critical, and providing supporting infrastructure such as supplier parks can help attract vendors into mining communities. Governments can also partner with companies to develop small-business development initiatives; in this area Anglo American has supported 47,000 small-business jobs in 2011, and social investment will remain important. For this, governments have a role to play in ensuring that companies adopt integrated development programs, rather than just sponsoring isolated projects.

Governments also need to ensure that the taxes generated by mining are put to good use, by preventing corruption and training local public officials. Governments deliver most of the basic services, such as education, that will unlock the development potential of communities.

Francisco Panizza answers:

It has become almost a default assumption that mineral rents are bad for economic development. The theory of the *rentier* state argues that states funded by royalties from minerals—particularly oil and gas— are wasteful and corrupt and that the foreign currency income from mineral rents crowds out other productive investment.

And yet there is nothing wrong with deriving income from mineral extraction. Actually, a lot of good can come out of it. Australia is one of the fastest growing developed economies in the world thanks to mineral exports to China. Norway, a major oil producer, is on top or near the top of all indicators for human development and good governance. In South America, Chile’s development success has been significantly boosted by high copper prices.

The problem with *rentier* states is not that they are good states gone bad because they found mineral wealth, but that they were never any good. So, whether mineral wealth is a curse or a blessing depends on politics rather than on economics. A good mineral-rich state will look surprisingly similar to any other good development state. It will be democratic and accountable, with checks and balances and rule of law.

Mineral wealth is a windfall income that can provide resources for sustainable development that should benefit the whole country, especially the poor. How governments use this income is what determines the relation between mineral wealth, development and social justice.

This is not a dilemma exclusive to mineral-rich states but for all developmental states. Mineral wealth just makes it more visible.

Anthony Hodge answers:

The biggest current limitation is the inability of all parties—governments, communities and even companies—to take into consideration the full range of benefits, costs, risks, and responsibilities that attach to a mining project, not only over the short term but also over the long term.

The industry must reach out, listen to and develop a deep understanding of the full implications for all stakeholders—government, communities, companies, and civil society. Many of the complex issues facing mining and metals operations require collaboration to be effectively addressed. If such collaborations are to work, the roles and responsibilities of each party need clear definitions, and mechanisms must be put in place to track progress, ensure accountability, and allow for adjustments if conditions change or new information comes up.

Inevitably, as we learn and grow as societies, the pressures increase for higher standards of social and environmental performance, greater transparency and more participation in decision-making by all interests. Simultaneously, the nature and fairness of the distribution of benefits and costs/risks associated with mining and metals operations are being examined more and more closely, and old ways are being challenged. The industry's operating environment is rapidly changing and the challenge for all is to stay abreast of this evolution, and proactively work for effective and well-founded solutions to the challenges being faced.

Lisa Sachs answers:

At the Vale Columbia Center on Sustainable International Investment at Columbia University, we have identified five "pillars" that are necessary for resource-based sustainable development. Each pillar requires the collaboration of governments, companies, donors and communities.

First, governments should have a transparent, robust legal framework, implemented and monitored by strong governmental and societal institutions. In many poor countries, governments require the support of their international partners to develop fiscal regimes that maximize government revenues, tools to arrive at fair and transparent contracts, and institutions to support the monitoring and implementation of investments.

Second, governments should include natural resources in medium and long-term development planning, including frameworks and budgetary mechanisms for the strategic allocation of resource revenues into priority public investments.

Third, governments should identify the potential synergies between national or regional priorities and companies' investments, for instance in the potential for developing downstream industries, capacitybuilding for local suppliers, and leveraging resource-based infrastructure (transport, power, water, telecommunications) for broader regional development.

Fourth, governments should work with their partners to support integrated development within and beyond the mining region to ensure that the benefits of the extractive project are realized at the local level. Failure to ensure that communities are benefiting from these projects can result in social unrest and conflicts that undermines both sustainable development and the investment itself.

And finally, fifth, governments must understand and manage the environmental impacts of potential investments, especially in the case of ecologically vulnerable regions, in order to ensure environmental sustainability for the joint benefit of the countries' citizens and the companies' operations.

Collaboration of all stakeholders is necessary to maximize the benefits of resource endowments for developing countries and to ensure a long-term mutually beneficial framework for governments, citizens and companies alike.

Edwin Julio Palomino Cadenas answers:

State, society, academia, and business must work together.

The mining industry can be an engine for a country's economic growth and development. But ensuring that the economic growth it generates is broad-based and sustainable requires collaboration among stakeholders.

It starts with the mining companies. Investors engaged in mining must do more than comply with national and international regulations; they also need to respect environmental balance, ensuring that the environment is protected for future generations.

The responsibility goes beyond businesses to include the state, academia, and society. For its part, governments must establish clear national priorities and regulations that promote sustainable development and shared responsibility. That vision must be shared at all levels of government: central, regional, provincial, and local. Today, governments are also responsible for integrating policies and practices that take into account and adapt to the industry's impact on climate change. This includes fostering a culture of prevention as well as risk management. And governments are also responsible for ensuring that the collection and transfer of resources derived from mining are done in a transparent and effective manner that avoids social unrest and brings broad social good. As a top priority, the state must support mega-projects that ensure sustainable water basin management, considering that water security will in turn guarantee food security, energy security, environmental security, and more.

For its part, universities and the research community must take a leadership role in practical, applicable science and technology research that addresses national, regional, and local issues related to natural resource extraction.

Communities also have a role. Communities where mining occurs and societies more broadly in countries where there is a heavy presence of natural resource extraction must commit themselves to proactively ensure that public and private investment improves quality of life and well-being of the countries—across the nation and over the long term.

For this to occur, state, society, academia, and business should work together to manage and oversee the extraction of these resources and the effective distribution of the wealth they generate. Although finite, natural resources can bring development, peace, and progressive country and society—but only if those groups and stakeholders can come to a common working vision.

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