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COMMODITIES AND DEVELOPMENT

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Integrating commodity policies;

Can the mining/metals sector contribute to sustainable development and poverty reduction?

by

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Intergovernmental Forum on Mining, Minerals, Metals and Sustainable Development

"The views expressed are those of the author and do not necessarily reflect the views of UNCTAD"
Can the mining/metals sector contribute to sustainable development and poverty reduction?

Searching for answers

André Bourassa
Plan of the Presentation

• Economic development and poverty reduction for developing countries
• The resource curse:
  – The “evil” sector: meaning and implications
• How the mining/metal sector can contribute to sustainable development
  – Understanding the generation of benefits
  – Promoting equitable distribution of benefits
  – Mining/metals: a continuum, same life cycle
Economic Development

• Needed for poverty reduction
  – Priority for developing countries.

• To be sustainable, economic development
  – Must be competitive (not a subsidy)
    • Competitiveness flows from comparative advantage,
  – Needs to optimize benefits
    • There could be few other development options available and the needs are great
Economic Development

• What are the **comparative advantages** of developing countries, e.g. Africa?
  – Access to capital?
  – Skilled or cost of labour?
  – Access to markets?
    • Geography and internal
  – Quality infrastructure to support economic activities?
  – Low cost of doing business, e.g. political risk, bureaucracy, admin costs, rule of law, etc?
  – **Land (resources)**?
A Dream?

• Imagine a formerly colonized country
• Exploited for its resources
• Becomes independent
• Transforms its resources (natural capital) into other forms of transferable capital
• Evolves from digging holes to global leadership in resource knowledge
• Becomes a developed country with equitable income distribution
• Unthinkable? The resource curse?
I am from Canada

• A former colony developed for its resources
• From digging holes, Canada became a leader in the knowledge side of mining
• A developed country with good income distribution (UN ranking)
• Resources still dominate economy
• Australians could tell the same story
• What happened to the resource curse?
Views Out There

• The « resource curse »
  – Mining presented as negative, anti-development
  – Countries with mining said to do worse than others
• Mines close, thus not sustainable
• Mining identified as a source of conflicts
• Mining companies: exploiters of the poor
• Anti-mining campaigns: e.g. World Bank/EIR
• Donors, including the UN, withdrew from mining sector because it is a bad sector
Canadian overall presence: contributing to Africa’s renaissance

% = GDP real growth rate
2005 estimate
World = 4.3%
Canada = 2.8%

More than 30
Between 21 - 30
Between 15 - 20
Between 10 - 14
Between 5 - 9
Less than 5
None
Not available

Sources: Natural Resources Canada, The world Fact book
Resource Curse Graph

\[ y = -0.0631x + 2.9058 \]
Personal Observations

• Anti-mining advocacy issues about mining?
  – No recognition of the rights of indigenous peoples
  – No recognition of the rights of labour
  – Mining benefits only local elites who serve themselves, only themselves
  – Companies do not follow local regulations
  – Governments lack ability to monitor and implement
  – Communities have no legal recourse
  – No possibility for community agency
  – Lack of due process, etc…
The Curse

• Quote from Richard Auty: The "Resource Curse" is part of a broader "loose revenue" curse whereby high rent encourages political contest for its capture at the expense of investment in sustained wealth creation. Such rent cycling distorts the economy and triggers a growth collapse, from which recovery is protracted (because rent recipients become powerful and oppose reform).

• Even foreign aid can have the same implications
Personal Observations

• The resource curse is not rooted in resources but in systemic failures in capacity in good governance

• **Mining highlights systemic failures that need to be addressed**

• Most mining projects end up operating without open conflicts

• All change generate conflicts anywhere
  – Competition for benefits and interests

• **The curse and anti-mining campaigns led donors to withdraw from mining sector support**

• **Yet resources can be a most promising basis for development in many developing countries**
The Question

- How can mining contribute to sustainable development?

- Economic development is an essential component of sustainable development
- Experience confirms mining contributes
  - Canada, Australia, Chile, Botswana, etc.
- Why does it not always work?
- When it works, what makes it work?
Mining and SD

• Differing outcomes explained by capacity for good governance;

• What is good governance?
  – Capacity to effectively develop, implement and monitor policies and strategies to manage the economic, social and environmental costs and benefits related to mining: broad sense;
  – Essential to effect the transformation of the natural capital into other forms of transferable capital: for sustainable development (SD);
  – Effective balance of power in society (democracy?)
    • A free market for all views and interests
Benefits from Mining

- Lots of erroneous information on
  - Taxes paid by mining companies
  - Generation of benefits from mining
- Royalties: small for mining
  - Focus is borrowed from oil model; mining is different;
- Local mining expenditure matters a lot more in relation to benefits from mining;
- Mines closure: timeline is known; not lack of sustainability.
Benefits from Mining

• Canada’s experience:
  – Royalties are profit based; no set payment
  – Downstream focus did not work well: these are market oriented activities; Canada market is small
  – Essentially an exporter of raw commodities
  – Cdn companies that did best were not integrated
    • They were good miners; lessons for countries?
  – Sidestream worked well: orientation beyond mines;
    • Examples: services (legal, financial, engineering, etc). Transforming natural capital into other forms: e.g. knowledge; go beyond mining.
    • Approach used in Impact Benefit Agreements; local expense
    • Unplanned by the Government but it happened: why?
Benefits from Mining

- Transformation to sustainability requires:
  - Enabling environment for benefit generation
    - National business and legal framework to facilitate entrepreneurship: from mining and beyond;
    - Linkage to national economic development strategy;
    - Mine activity/infrastructure integrated to economic strategy;
    - Sizable market for downstream; issue for Africa
      - Source versus market oriented
    - Good national institutions: political, legal, civil and others.
  - Spread the benefits to hinder capture: federation
    - Empowerment: community and local government
Mining and Development

• Land/resources: source of comparative advantage
• Mining is like the canary in the coal mine
  – Highlights the failures in good governance capacity
• Mining can be an entry point for systemic changes in good governance: role for major donors
• Mining will go where no other investor will
  – An opportunity and an challenge
• Optimizing benefits requires capacity, enabling environment: role for donors
  – Mining is one of the most demanding sector to manage
• Focus on benefits beyond mining; side stream, use of, infrastructure, etc.
  – Good news! Benefits mainly stem from local or national actions
The Forum

• Only global intergovernmental policy forum
• A voluntary partnership of countries with an interest in mining
• Forty-two member countries
• Mostly developing countries
• Objective: promote contribution of mining to SD through enhanced capacity for good governance
• Looking for more members