

# Mining and the development of local and national economies

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## 1. Introduction

In general terms the ICMM's mandate is twofold: to develop good practices in sustainable development and then to help our members adopt and implement them. The expectation of members is that by adopting these superior business practices they will benefit by gaining preferential access to resources, capital and markets, as well as being able to attract talented employees.

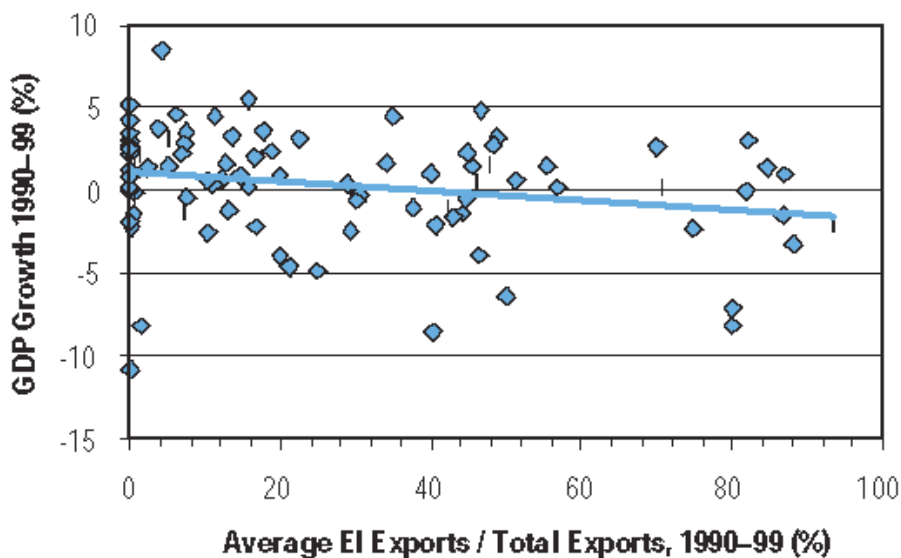
The range of sustainable development issues facing the mining and metals industry is substantial and thus ICMM's work program is correspondingly large. It covers: company performance and reporting; environment; health and safety; socio-economic development; and materials stewardship.

Today I want to briefly discuss one fundamentally important aspect of our work program, the relationship between mineral resources and socio-economic development. It is fundamentally important because it is one of the two parts of industry's case for access to land and countries' non-renewable resources, namely that these resources are essential for society and their exploitation provides economic development in the host country. It follows that if either of these arguments is weak or untrue, then our case for access to land is weakened significantly.

## 2. Mineral resources and socio-economic development

Mineral resources endowments have been beneficial for the economic development of many countries, as illustrated by the records of nations like Canada, South Africa, Australia, Chile, Botswana and Malaysia. Nevertheless, various economic studies have shown that a significant number of countries that are rich in natural resources have lower economic growth rates than those with little or no mineral resources. The relationship is illustrated in Figure 1 using data from the World Bank.

**Figure 1 – Mineral dependence and economic development**



Source: World Bank, 2003

This paradox of resource riches coinciding with low economic growth is known as the “Resource Curse” and it is a multi-dimensional phenomenon covering economics, governance and institutional capacity, and human rights as the following quotation illustrates: “Many of the world’s poorest countries possess significant reserves of oil and other natural resources. Yet numerous academic studies show that, controlling for income level, countries that are highly dependant on revenues from oil and other minerals score lower on the UN’s Human Development Index, exhibit greater corruption, have a greater probability of conflict in any five year period, have higher percentages of their populations in poverty, dedicate a greater share of government spending to military spending, and are more authoritarian than those with more diverse sources of wealth.” [Palley, 2003].

In light of these widespread and serious problems it is not at all surprising that there are many calls for restrictions on investments in resource rich countries, primarily in the form of mandating governance and revenue transparency improvements before investment occurs. The effect could be to greatly restrict access to valuable resources and to deny poor people opportunities for economic development.

Equally, it is not possible for mining companies concerned about maintaining long-term shareholder value to operate in circumstances characterized by social unrest, poverty, income disparity, corruption and political instability. Such operating conditions are even more untenable in a world of greater corporate transparency.

The challenges are clearly significant and fundamentally important.

### **3. ICMM’s response**

ICMM was the focal point for the industry’s response to the World Bank’s Extractive Industries Review conducted in 2003/4. At that time members became very aware of the lack of published research on countries that had successfully used their resources to foster socio-economic development, particularly compared to the large literature on the resource curse. Accordingly, ICMM developed two projects focused on enhancing the benefits of mineral resource investments at the national, regional and local levels.

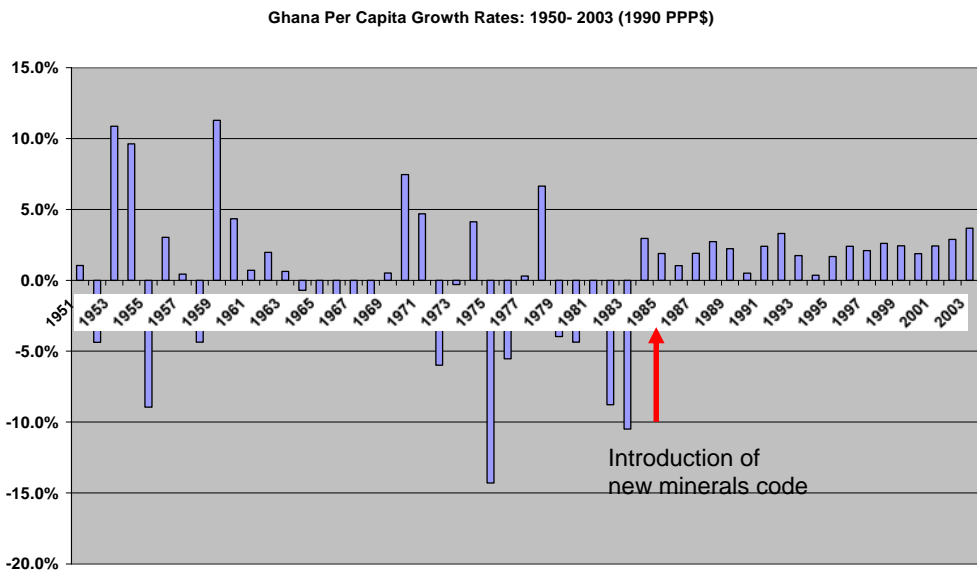
In late 2004 ICMM commenced its Challenge of Mineral Wealth (o Resource Endowment) project which is examining the experience of a number of countries [Ghana, Tanzania, Peru and Chile] that have benefited from recent growth in their mineral resource sectors with the aim of identifying policy lessons that could be applied more broadly. This study compliments another project, Community Development Tools, which provides guidance on how to best foster local economic development. Recognising the need for tools to support more sustainable community development, ICMM initiated this project in 2002 with the World Bank to develop new approaches and ‘tools’ to support government, industry and community efforts to realise more sustainable community development around mining and mineral processing operations.

### **4. What has been learned at the national level?**

Drafts of the Challenge of Mineral Wealth’s country case studies are now available and they are instructive.

In all four countries economic and policy reforms have led to significant national economic growth and mining has played an important role in this. In Ghana, since the Economic Recovery Program was introduced in 1983, there has been an unbroken 20 year period of economic growth. Investments in mining have exceeded USD 5 billion, minerals are the country’s leading export commodity, mining is the main single source of government income tax revenue [up to 17% of the total] and mining accounts for 5.2% of GDP.

**Figure 2: GDP Growth in Ghana**

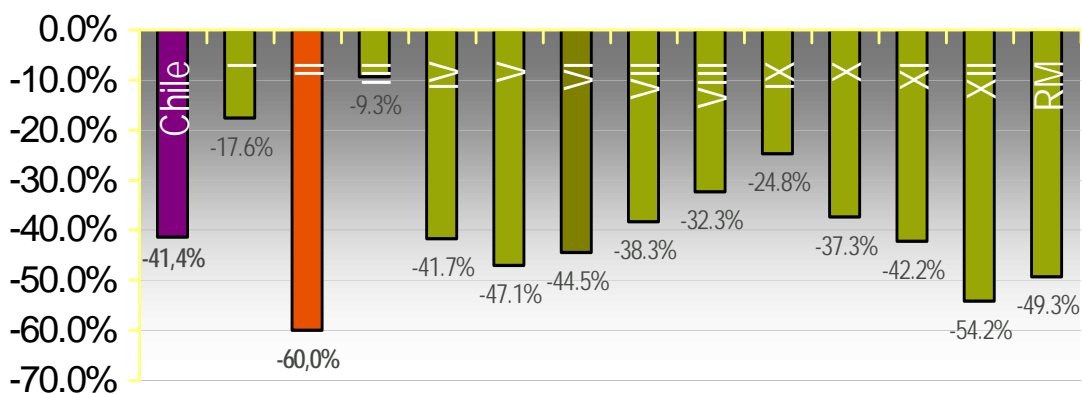


In Peru, since 1992, USD 8.9 billion has been invested in mining, the industry now pays 29% of income tax to the national government, it employs some 350,000 people directly and indirectly, and mining accounts for 6% of GDP. Similar stories were found in Chile and Tanzania.

In terms of social and poverty alleviation outcomes, the results have been more mixed. In Ghana the national poverty head count has been reduced by 12% [from 52 to 40%] over the eight years to 1999, while at the same time poverty rates in sub-Saharan Africa generally remained stagnant (at about 46%). In Chile, an even greater fall has occurred with an impressive 41% reduction in the fourteen year period up to 2003. Importantly, poverty reduction has been greatest in mining districts with the fall in Chile’s Antofagasta region, for instance, being 60% between 1990 and 2003 (see Figure 3).

However, poverty alleviation has not occurred in all countries with both Peru and Tanzania showing no significant changes over the period of growth in mining activity [although limited local reduction has occurred in major mining districts].

**Figure 3: Changes in Income Poverty in Chile by Region - 1990-2003**



Source: Groningen Growth Centre

The overall conclusion is clear, being that mining investment can be one of the first sectors to produce economic growth when basic policy and institutional reforms occur. Further, this can lead to significant poverty alleviation and improvements in national governance. Proponents of the resource curse would suggest that the reverse should occur and that problems- a variety of economic stagnation, corruption, Dutch disease and institutional decline- would emerge. The studies show no evidence of this but it is important to emphasize that the challenges in creating the right national governance conditions are substantial.

It is clear that more is needed to resolve these conundrums. The answer will almost surely lie in a more coordinated approach between governments, industry and international agencies, possibly to establish special purpose planning and development agencies in mining districts backed up by secure and predictable funding sources. Industry acting alone will not be able to solve the resource curse.

##### **5. Maximizing the benefits at the local and regional level**

There is strong pressure to ensure that local communities directly benefit from mining investments, that is, it is no longer sufficient to assume that investments “do no harm”. The mining industry can play a central role in local community development, it is one of the few sources of investment in poor countries and often this investment occurs in the poorest rural districts. The challenge is to enhance local outcomes through this investment.

This is where the *Community Development Toolkit* is valuable. It is a practical guide to support government, industry and community efforts to realise more sustainable community development around mining and mineral processing operations.

The initial phase of the project included six studies, developed in the southern African cultural, political and economic operating environment. The original focus on southern Africa was in response to the region's unique development challenges and the potential of the private sector to engage with, and contribute to, new approaches to sustainable development. The studies looked at ways of enhancing the value-adding potential of mining in support of local and regional social and economic development. They were framed with significant input from local stakeholders, including a regional advisory committee, and through a series of multi-stakeholder workshops in southern Africa.

The next phase involved the preparation of 17 integrated, practical “how to” Tools for all stages of the community development process – from first contacts between exploration geologists and local community members, or the acquisition of existing operations, through to construction, operations, and eventually decommissioning and closure. The Tools provide guidance for assessing, planning, implementing and evaluating community development activities, including relationship building.

It is clear that community development activities at the operational level are most effective when they are aligned with existing local or regional development plans and are linked to long-term strategic objectives. From a company perspective, a partnership approach also potentially avoids the company assuming the role and responsibilities of government. From the community perspective, it may allow for the development and maintenance of essential social services and infrastructure that would otherwise not be available. From the government perspective, it allows the government to be responsive to its citizens in ways that do not overburden its own capacity to deliver.

##### **6. Conclusion**

The mining industry faces significant challenges in being able to access resources in developing countries and this will only be possible when there is sufficient political and community support. It is not surprising that this is often missing because political support has its origins in demonstrable socio-economic development and too often this does not occur – ICMM's research showed poor outcomes in slightly less than 33 of the mineral dependent countries examined.

This challenge can be met because the industry has much it can draw on and offer. It has accumulated substantial relevant cultural knowledge by being the one of the only significant investors in the world's poorest countries and it has significant technical capacity. It must aim to become a welcome partner in emerging economies rather than being the fount of political controversy. It can do this by working effectively with local partners and international agencies and by demonstrating superior business practices wherever it operates.