7th Regional Meeting (Southern Africa) of the ACP-EU Joint Parliamentary Assembly

The Challenge Of Mineral Resource Exploitation And Its Contribution To Development In The Region

Kundhavi Kadiresan
Country Director
Zambia, Zimbabwe, Malawi
World Bank

Lusaka
22-24 February 2012
There is a tremendous opportunity for mineral-driven transformation in this region.

It requires a move away from enclave model of mineral development towards stronger economic linkages ("resource corridors").

It also requires wise management of resource curse risks:
- managing volatility and Dutch Disease; investing in human capital; saving for future generations
- combating rent seeking and erosion of accountability; fostering responsible investors
Paradigm shift in global mining outlook
- Mineral intensive growth in emerging economies coupled with an inadequate supply response (McKinsey’s *Resource Revolution* 2011)
- A new pattern of high prices with occasional dips
- Search for new production frontiers by traditional mining houses and emerging country SOEs to provide next generation of mine supply

Until now Africa’s mineral resources have been underexploited
- Low exploration intensity – mineral value per km² 1/5th of OECD (Collier)
- Less than 5% of global mineral investment flows
- “Above-ground” risks had inhibited mineral investment

Since 2000 interest has spread from focus on gold to other minerals, especially in Southern African region
- Rebound of the Zambia-DRC copper belt
- Prolific coal basins in S. Africa, Botswana and Mozambique
- Minerals of growing strategic interest: uranium (Namibia, Malawi & Tanzania); rare earths (Malawi & Mozambique); mineral sands (Mozambique); platinum (South Africa & Zimbabwe)
Many African countries have become mineral dependent and this is rising.

Mineral Share of Exports (%) in 2010 and trends

Sources: UNCTAD trade data; IMF reports; staff estimates
Per capita GNI high among resource rich countries

GNI per capita 2010
Large Economies too......
GDP growth in resource dependent countries has in fact been accompanied by HDI growth, especially in newer mining countries.
There needs to be a move away from the enclave model of mineral development towards stronger economic linkages

- This is a major theme of the African Mining Vision 2050 – Action Plan adopted by AU in December 2011

Spatial development initiatives based on resource endowments – combining anchor projects, trunk infrastructure and backward and forward linkages

Recent Vale Columbia Center study: Resource-based Sustainable Development in the Lower Zambesi Basin, 2011 examines mineral and agro-industry potential
Example: Potential of the Maputo Development Corridor

- High Cu Magnetite dumps > 300 MT
- Magnetite (>Cu) dump upgrading plant
- (Ti/V) Magnetite Sep. & conc. plant
  - magnetite
  - ilmenite
- Rail
- Slurry pipeline
- Other Potential:
  - Ilmenite smelter Ti/Fe
  - Fertiliser plant N/P
  - Chlor-alkali plant Na/Cl
- Fe pelletising plant
- MMC:
  - Iron (DRI) & Steel Plant
- Possible Ti/Fe from Chibuto
- Electricity transmission
- Pande Gas Pipeline
- Gas Connector
- Possible new major coal corridor to new port Techobanine
- Gas Connector
- Gas Connector
- Gas Connector
- Gas Connector
- Gas Connector

Source: Dr Paul Jourdan, October 2011
Diversifying regional trading partners (e.g. Zambia)

- Traditional global trading routes facing east
- New emerging regional routes in western crescent
  - Katanga copper belt
  - Exports to Burundi
  - Booming Angola
  - Kivus re-emerging
- Other key developments in the region
- Implications for regional transport infrastructure
Good practice guidance is proliferating:

- **EI Value Chain** ("EITI++") – optimizing the generation, capture, management and use of mineral rents – documented in the *EI Source Book* (consortium of academic institutions supported by World Bank [www.eisourcebook.com](http://www.eisourcebook.com))

- **Natural Resources Charter** developed under Paul Collier’s guidance since 2006

- World Economic Forum’s **Responsible Mineral Development Initiative** launched in 2010

- Mining industry’s **Mining Partnerships for Development Toolkit** (ICMM)

- **Global Witness’ Citizen Charter**, Jan 2012

- **UNECA meeting in Feb 2012** to evaluate use of *African Peer Review Mechanism* to address governance in resource-rich countries
Good practice reforms: Allocating mineral rights on fair terms

- Remedying information asymmetries
  - Generating new geo-data – WB financed airborne geophysical surveys in Uganda and Malawi
  - Building negotiation skills – WB’s Extractive Industries Technical Assistance Facility in Mozambique & Liberia
  - Contract disclosure (now part of IFC rules)

- Rule based allocation of mineral rights
  - Computer based mining cadastre – built with WB support in Madagascar, Mozambique and Zambia
  - Competitive bidding of major mineral deposits – advice on designing and running tenders in Liberia and Afghanistan

- Setting standards for responsible mining
  - safe and environmentally sound practices (>70 Banks have adopted “Equator Principles” developed by WBG)
  - resettlement policies based on WB safeguard policies
Good practice reforms: Enhancing revenue management and benefit sharing

- **Transparency of payments**
  - 35 countries are now implementing EITI
  - New disclosure requirements in home countries (US Frank-Dodd Act; draft EU Accounting and Transparency Directive covering both listed and large unlisted companies)

- **Combating transfer pricing and other types of avoidance**
  - IMF regional tax administration centers in Africa supported by EU
  - WB/IMF working with OECD tax offices to enhance tax administration capacity

- **Fiscal rules and revenue funds**
  - Chile and Botswana experiences with savings funds
  - Fiscal stability law recently adopted in Mongolia with WB advice

- **Revenue sharing**
  - Growing use of sub-national allocation of royalties to mining affected communities
  - Peru, PNG, Ghana experiences

- **CSR & community development agreements**
  - World Bank’s *Sharing Mining Benefits*, June 2011 examines 60 examples of foundations and trusts established by mining companies
  - Another World Bank study examines experience with negotiation of Community Development Agreements
<table>
<thead>
<tr>
<th>Country</th>
<th>Project</th>
<th>Amount ($mn)</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Afghanistan</td>
<td>Sustainable Development of Natural Resources Project II</td>
<td>44.7</td>
<td>IDA</td>
</tr>
<tr>
<td>Armenia</td>
<td>Second Development Policy Operation</td>
<td>6.3</td>
<td>IBRD</td>
</tr>
<tr>
<td>Burkina Faso</td>
<td>Mineral Development Support Project</td>
<td>31.0</td>
<td>IDA</td>
</tr>
<tr>
<td>C.A.R</td>
<td>Economic Management and Governance Reform Grant III</td>
<td>1.1</td>
<td>IDA</td>
</tr>
<tr>
<td>D.R.C</td>
<td>Growth with Governance in the Mineral Sector</td>
<td>49.5</td>
<td>IDA</td>
</tr>
<tr>
<td>Guinea</td>
<td>Development Policy Lending 1 (GN-DPL 1)</td>
<td>13.3</td>
<td>IDA</td>
</tr>
<tr>
<td>Laos</td>
<td>Seventh Poverty Reduction Support</td>
<td>1.4</td>
<td>IDA</td>
</tr>
<tr>
<td>Malawi</td>
<td>Mining Governance and Growth Support Project</td>
<td>25.0</td>
<td>IDA</td>
</tr>
<tr>
<td>Mali</td>
<td>Fifth Poverty Reduction Support Credit</td>
<td>7.0</td>
<td>IDA</td>
</tr>
<tr>
<td>Mauritania</td>
<td>Mining Sector Capacity Building Project</td>
<td>6.1</td>
<td>IDA</td>
</tr>
<tr>
<td>Mongolia</td>
<td>Mining Sector Institutional Strengthening TA Project</td>
<td>10.0</td>
<td>IDA</td>
</tr>
<tr>
<td>Nigeria</td>
<td>Sustainable Management of Mineral Resources</td>
<td>120.0</td>
<td>IDA</td>
</tr>
<tr>
<td>Peru</td>
<td>Third Programmatic Environmental Development Policy Loan</td>
<td>10.5</td>
<td>IBRD</td>
</tr>
<tr>
<td>Sierra Leone</td>
<td>Extractive Industries Technical Assistance Project</td>
<td>4.0</td>
<td>IDA</td>
</tr>
<tr>
<td>Tanzania</td>
<td>Sustainable Management of Mineral Resources</td>
<td>50.0</td>
<td>IDA</td>
</tr>
<tr>
<td>Togo</td>
<td>Economic Recovery &amp; Governance Grant</td>
<td>2.8</td>
<td>IDA</td>
</tr>
<tr>
<td>Uganda</td>
<td>Sustainable Mineral Development Project</td>
<td>15.0</td>
<td>IDA</td>
</tr>
</tbody>
</table>

Thank you