

**PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE**

Report No.: AB6408

Project Name	MW: Mining Technical Assistance Project
Region	AFRICA
Sector	Mining and other extractive (100%)
Project ID	P120825
Borrower(s)	REPUBLIC OF MALAWI
Implementing Agency	Ministry of Natural Resources, Energy and Environment Private Bag 350 Lilongwe Malawi Tel: (265-1) 789-488 Fax: (265-1) 788-689 hchiponwe@yahoo.com
Environment Category	<input type="checkbox"/> A <input checked="" type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> FI <input type="checkbox"/> TBD (to be determined)
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1. Country and Sector Background

Country Background

1. Malawi has experienced an improvement in its economic fortunes after years of stagnation but remains one of the ten poorest countries in the world (GDP per capita of US\$265, 2008) and is lagging in many indicators of social welfare (160 of 182 countries in UN Human Development Index, 2009). There have now been several years of consistent high GDP growth and declining inflation, prompted by prudent macro-economic management, debt relief after reaching the HIPC completion point in 2006 and bumper crops of its main agricultural produce. This has been accompanied by other signs of robust economic performance, with lending to the private sector and tax receipts both growing. Nonetheless, these economic gains remain vulnerable, with economic wellbeing overly dependent on rain-fed subsistence farming, publicly funded services supported by donors, traditional exports of tobacco, tea and sugar, and high cost imports of fuel and essential goods.

2. Sustained export-led growth requires the strengthening and diversification of productive sectors, including mining, the removal of binding infrastructural constraints and a supportive exchange rate management policy. The Country Economic Memorandum placed special emphasis on the need for public investment to improve energy supply and reliability and strengthen transport and trade facilitation. Mining development has the potential to contribute to alleviation of infrastructure challenges, since its requirement for reliable and cost-effective transport and energy on a long-term basis can underpin public investment choices. Moreover, Malawi's location as a potential transit route for the increasing volume of minerals being

produced regionally, particularly in Tete Province of Mozambique and in Zambia, offers further potential for significant infrastructure investment. Mineral exports can, unless accommodated by appropriate exchange rate management policies, put upward pressure on the currency, which can diminish the competitiveness of non-mineral exports.

3. Government development strategies in the mid-2000s had established a long term goal of “increasing the contribution of the mineral sector to GDP by at least 10 percent annually” from a base of less than 2 percent of GDP. This optimism was founded on assessments by the Ministry of Natural Resources, Energy and Environment (MNREE) that showed the existence of a favorable geological setting for a range of valuable mineral types. The full extent of Malawi’s mineralization can only be revealed by further geological data acquisition and mineral exploration, however, several mineral deposits that have already been partly or fully evaluated could, under the right conditions, attract investment from the private sector in the nearer term.¹ Particular interest is being shown in Malawi as a potential supplier of minerals with increasing strategic value, including uranium and rare earth minerals.

4. In 2009 Malawi’s first significant mine, Paladin’s Keyelekera uranium mine in northern region, came on stream and there is a pipeline of further investments to spur mineral sector growth. The World Bank’s *Mineral Sector Review*, July 2009 (MSR) projected the value of minerals output reaching some US\$250mn within three years, with potential to double that after ten years, provided binding constraints mentioned above can be removed. Minerals would become one of the main sources of FDI, provide up to 25 percent of export earnings and account for some 5-6 percent of projected GDP. Progress by Globe Metals and Mining in developing the Kanyika niobium mine and other positive exploration results, coupled with the generally strong mineral price environment, provides continuing support for this assessment.

Sector Background

5. The growth of the mineral sector on a sustainable basis from its present relatively low base is not assured. The key strategic challenges for Malawi are the same as those faced across the continent, which the African Union’s (AU’s) Africa Mining Vision 2050 is designed to address, namely:

- Overcoming the fact that Africa’s geology remains largely unexplored due to insufficient investment in mineral exploration and development compared to other parts of the world.
- Harmonizing institutional, policy, and regulatory frameworks to present a more even playing field for investors and avert a “race to the bottom” in a bid to induce investment.
- Ensuring that resource rents are shared fairly and managed wisely for the benefit of the present and future generations.
- Strengthening the human resource base across the region to take advantage of opportunities for skilled employment and develop technical expertise in managing all aspects of the mineral sector.

¹ Only limited new geological data has been acquired since the 1980s yet known mineralization includes deposits of bauxite, heavy mineral sands, rare earths, niobium, tantalite, copper, nickel, iron ore, gold, gemstones, various industrial minerals, and for energy production - uranium and bituminous and sub-bituminous coals.

- Establishing and better enforcing environmental, social, health, and safety standards in the mining industry which will have domestic as well as regional benefits.
- Providing reliable infrastructure to support exploration and exploitation of mineral resources.
- Encouraging greater backward and forward linkages so that mining ceases to take place on an enclave basis and can better contribute to local economic and social development.
- Fostering more sustainable and less environmentally and socially harmful artisanal and small scale mining activities.

6. It is now recognized that the wider benefits of mining cannot be achieved without good governance of the sector. Clear regulatory mandates and strong institutions are needed which operate in a transparent way, and are accountable to stakeholders. Successful reform will minimize the diversion of resource rent along the extractive industries value chain, ensure that rent contributes to sustainable development and cater for the economic and social needs of communities where mining takes place.

7. The National Mines and Minerals Policy was approved by the Cabinet Committee on Natural Resources on January 20, 2011 paving the way for full Cabinet review. It results from consultations conducted over several years with a wide range of stakeholders, including the stakeholder workshop of March 2009 in which the draft policy and the World Bank's MSR were discussed together. The policy sets overarching objectives for the management of the mining sector, drawing on the SADC Mining Protocol and AU Mining Vision 2050. Sound management of the fast emerging mining sector in accordance with these principles will require a sustained program of reforms, which the proposed project is designed to support. MNREE has already prepared the draft of a new mining law that will replace and repeal the outdated Mines and Minerals Act of 1981, which it proposes to submit for Cabinet endorsement in 2011 before seeking Parliamentary approval.

2. Objectives

8. The Project Development Objective is to improve the efficiency, transparency and sustainability of mining sector management. This should help the Government to improve sector governance and create an enabling environment for mining. The project is consistent with the national objective, which stretches beyond the scope and timeline of this project, of increasing the contribution of mining to sustainable growth and development.

3. Rationale for Bank Involvement

9. The World Bank's engagement on mining in Malawi started in 2007 with support to the Government in identifying key issues to be addressed in reforming the framework for managing mineral resources and developing a national mining policy. The World Bank prepared the MSR for this purpose. The MSR provides an assessment of mineral potential and provides recommendations on policy, legal, regulatory and institutional reforms to support growth and good governance of the mining sector. It also incorporates a rapid environmental and social assessment for the mining sector, which focuses on sector-wide mitigation of impacts of mining activities and the generation of tangible economic and social benefits in mining areas.

10. Other donors are showing growing interest in supporting the Government's mining sector reform program. The EU will co-fund the MGGSP based on its grant under the 10th EDF. The Government of France has undertaken to support MNREE promote mineral exploration under an aid-for-debt agreement with the Government signed in January 2011, details of which are still to be confirmed. MNREE convened a meeting to coordinate donor support. The World Bank-EU Project was acknowledged to be the most advanced and comprehensive of the projects and, therefore, other programs should complement it.

4. Description

11. The Project will provide sector-specific technical assistance over five years, considering limits to the absorptive capacity of beneficiaries and the time needed for capacity building programs to be delivered. The project design comprises activities to be implemented under three components plus project implementation, as a fourth component.

12. **A. Managing Mineral Rights and Operations.** The objective of this project component is to support the Government to build an efficient, transparent and environmentally and socially sustainable framework for managing mineral rights and operations. To achieve this, the project will support the following:

- **A-1 Public Communications, Outreach and Stakeholder Dialogue** by setting up the structure and support arrangements for continuous and formalized dialogue among stakeholders on mining policy issues and oversight of policy implementation, as well as design of MNREE's communications and outreach functions.
- **A-2 Reforming Minerals Legislation** by preparing of drafting instructions for the new mining law and developing a body of regulations to give effect to it, covering mineral licensing, monitoring and inspection functions, health, safety and environmental standards, and a model Mining Development Agreement.
- **A-3 Modernizing Minerals Licensing** by establishing a modern computer-based cadastral system and administrative arrangements for the efficient and transparent allocation and management of mineral exploration and mining rights by MNREE.
- **A-4 Strengthening Mineral Operations Supervision** by building capacity of MNREE for regular monitoring and inspections of exploration, mining and mineral processing operations using appropriate equipment.
- **A-5 Strengthening Environmental and Social Management of Mining** by establishing a comprehensive environmental and social management framework and robust monitoring systems at central, district and community levels.

13. **B. Generating and Managing Mineral Revenues.** The objective of this project component is to support the Government to develop transparent arrangements for optimal generation and use of mineral revenues. To achieve this, the project will support the following:

- **B-1: Reforming the Mineral Royalty and Tax Regime** by completing the establishment of a coherent, standardized and globally competitive fiscal regime for mining through design and implementation of suitable royalty and tax regulations.
- **B-2: Maximizing Mineral Revenue Collection** by building capacity in royalty and tax administration.

6. Implementation

16. Specific oversight of project implementation will come from the Project Steering Committee chaired by the Principal Secretary, MNREE. Other members of the PSC are, from MNREE, the Director of Finance and Administration, Director of Geological Surveys, Director of Mines, Director of Environmental Affairs, Director of Forestry, Controller of Policy Planning, Controller of Accounting Services, Controller of Human Resources and Commissioner of Mines, and the Secretary to the Treasury, Commissioner General for Malawi Revenue Authority, Secretary for Education, Science and Technology and Secretary for Development Planning and Cooperation.

17. The PSC had its inaugural meeting on December 20, 2010 and its second meeting on January 21, 2011 to review the PAD prior to Appraisal. The PSC will provide high level guidance on the implementation of the project and general policy guidance, approve work plans and budgets for the project and review quarterly and annual implementation and audit reports in accordance with its TOR.

18. In 2010 the Government issued a directive under which all externally-supported projects would be implemented using country systems and existing PIUs would be discontinued beyond December 2011. Accordingly, the implementation arrangements for this project conform to the directive and have been designed to meet Government objectives of mainstreaming project implementation capacity in the beneficiary institutions and World Bank objectives of ensuring professional, accountable and timely project implementation.

19. The Project will be implemented by a Project Management Team (PMT) in MNREE, reflecting the central role that the Ministry plays in the development of all components of the project. The PMT will be responsible for all financial management and procurement matters under the Project. Project management will be conducted in accordance with the Project Implementation Manual (PIM).

20. The PMT will be drawn from officers of MNREE's Planning Department, Procurement Unit, Accounts Unit and Environmental Affairs Department, who will be accountable for implementation of the fiduciary and safeguards responsibilities under the Project.

7. Sustainability

21. The principle of sustainability is embedded in the Project design. The PDO is to improve the efficiency, transparency and sustainability of mining sector management. The Project will help the Government to strengthen mining sector governance thereby improving the chances that mineral resources will be transformed into lasting development benefits, through the capture and wise use of resource rents, positive linkages with the local economy and communities and careful management of environmental and social impacts of mining, thereby averting the "resource curse".

22. The principle of sustainability is also built into Project implementation arrangements. The Project will use Country Systems rather than a self-standing PIU. Implementing institutions and

their staff will benefit from capacity building through direct engagement in project implementation, skills development, strengthening administrative practices and improving office facilities.

8. Lessons Learned from Past Operations in the Country/Sector

23. The Project builds on experience gained from similar mining sector technical assistance operations in many countries, especially in Africa. This includes countries with long traditions of industrial mining like DRC, Zambia and Mauritania, and countries where mining has only recently emerged like Madagascar, Mozambique and Tanzania. Lessons learned are regularly captured in SEGOM analytical work and publications. Recent examples include technical papers on mining cadastres and guidelines for community development agreements in mining areas (see www.worldbank.org/mining).

24. Lessons learned on issues of revenue transparency, and the Bank's experience in supporting Governments to implement the Extractive Industries Transparency Initiative in some 30 countries, in particular, will be taken into account when assessing the scope for its adoption in Malawi, as reflected in the design of Component B-3 on mineral revenue transparency.

25. The EITI++ approach used in the Bank's current programs on extractive industries (see <http://go.worldbank.org/GD13H18A10>) has been instrumental in highlighting the critical need to integrate interventions aimed at improving mining sector performance with those related to the management of resource rents generated by the sector. This approach is strongly reflected in the PDO and Project design.

26. Project implementation experience has demonstrated that Government ownership is crucial at the policy and project design level for successful outcomes. The Bank has maintained an active dialogue with Government over the past three years on preparation of the MSR, as well as on preparation of the National Mines and Minerals Policy. For this Project, the Government's strong ownership and commitment has been evident in consultations with all key ministries (MNREE, MoF, MoEd), regulatory agencies and revenue authorities. The team has also engaged in and supported Government consultation with the private sector and civil society. Consultations were designed to ensure that the project is fully in line with the Government's development goals and vision, and responds to the expectations of the private sector and civil society.

9. Safeguard Policies (including public consultation)

27. The Project is expected to have significant positive environmental impacts through improving environmental management of the mining sector, promoting modern mining methods and enhancing environmental management capacity in MNREE. As a technical assistance operation, activities will have no significant physical impact on the natural or social environment. Aerial surveys and modest office refurbishment will take place, however, there will be no new construction or significant civil works. Furthermore, the project will only provide support for establishment and improvement of general sector management systems, and will not engage in zoning, planning or preparatory activities for specific investments linked to identifiable impacts.

28. It is widely understood that mining activities often involve risk of significant adverse impact on natural habitat, people and their livelihoods and cultural resources if inadequate arrangements are in place to manage them. To help the Government address such safeguards concerns for future mining investments (which are not part of this project), a key project activity will be the preparation of a comprehensive SESA. The SESA will involve a consultative process to help the Government to: (a) diagnose the key environmental and social problems and opportunities associated with the anticipated growth of Malawi's mining sector; (b) identify the policy, legal, regulatory, and institutional adjustments and capacity-building actions needed to minimize the adverse environmental and social impacts of mining operations and associated infrastructure development, while enhancing the positive impacts; and (c) propose specific measures that Government can implement in the near future to improve the environmental and social sustainability of mining in Malawi, particularly through the MGGSP.

29. Although the proposed Project is limited to the provision of technical assistance and is not expected to result in any direct environmental or social impact, the support to sector development means strategic environmental assessment is appropriate, and the project has therefore been classified as Category B, triggering OP/BP 4.01 (Environmental Assessment). A rapid social and environmental assessment was previously prepared as part of the MSR. MNREE prepared a comprehensive TOR for the SESA at appraisal, to the satisfaction of IDA, which was disclosed in country on February 7, 2011, and via the Bank's InfoShop. The SESA will be conducted during the early stages of project implementation, leading to an action plan for: (i) revising (and expanding where appropriate) existing environmental and social regulations for mining sector, including guidelines and standards, and (ii) building government (and potentially private sector and civil society) capacity for environmental and social management in the mining sector. The action plan will be implemented in coordination with other project activities to ensure that development of sustainability mechanisms does not lag behind promotion of investments in the sector.

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment (OP/BP 4.01)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Natural Habitats (OP/BP 4.04)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Pest Management (OP 4.09)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Indigenous Peoples (OP/BP 4.10)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Physical Cultural Resources (OP/BP 4.11)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Involuntary Resettlement (OP/BP 4.12)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Forests (OP/BP 4.36)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Safety of Dams (OP/BP 4.37)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Projects on International Waterways (OP/BP 7.50)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Projects in Disputed Areas (OP/BP 7.60)*	<input type="checkbox"/>	<input checked="" type="checkbox"/>

* *By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas*

10. List of Factual Technical Documents

30. The following key technical documents have been used or produced during preparation:

- *Mineral Sector Review*, World Bank, July 2009
- *Malawi: Mining Governance and Growth Support Project, Terms of Reference for a Strategic Environment and Social Assessment (SESA)*, disclosed February 2011
- *Intermediate Report on Intermodal Corridors for Malawi*, Ministry of Transport and Public Infrastructure, May 2010
- *Extractive Industries Value Chain: A Comprehensive Integrated Approach to Developing Extractive Industries*, Africa Region Working Paper Series #125, World Bank, March 2009
- *Mineral Rights Cadastre*, World Bank Extractive Industries for Development Series #4, June 2009
- *Rapid Assessment of Mining Sector Activities in Critical Lake Catchments in Malawi, Mozambique and Tanzania*, December 2009
- *Formulation of 10th EDF Regional Integration, Trade and Investment Programme in Malawi*, May 2009.

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