Mining: World Bank Support to Mining Sector Reform

SYNOPSIS

The World Bank has supported 39 mining sector reform projects in 24 countries since 1988. The reforms have contributed to an increase in investment in the mining sector and related economic indicators such as exports, fiscal revenues and gross domestic product (GDP) in most recipient countries. The critical next steps are promoting policies and programs to strengthen governance and the links to the rest of the economy to ensure that the benefits are widespread and sustained.

Challenge

Many countries now view the mining sector as a key engine of economic development. Ample evidence exists that countries which adopt modern mining legislation and offer an enabling environment can attract private sector investment in mining exploration and production. This, in turn, contributes to increased tax revenues, export earnings, employment opportunities, infrastructure development especially in rural areas, and transfer of technology to the host countries. However, while the exploitation of mineral resources provides developing countries with considerable opportunities for economic development, there is the risk that mining operations turn into socio-economic enclaves as well as cause environmental damage. Attention to social and environmental considerations, and government commitment to good governance and transparency is important. Countries, communities, and companies face tough questions about opportunities and risks as they develop steps to ensure responsible approaches toward mineral resource development.

Approach

In response to this challenge, the World Bank’s approach to mining sector reform has evolved substantially over the last 20 years, with each new phase of World Bank support building on the past. In the early years, the emphasis was on reforming policies, legislation, and mining sector institutions to increase private investment and related economic indicators, such as export earnings and tax revenues. By the mid-1990s, the need to improve environmental performance of the sector became an essential part of the reform effort. Since then, where necessary, any technical assistance to the mining sector has included revisions to mining laws or regulations to ensure that environmental provisions are adequately covered. Since the turn of the new century, community and regional development issues have entered into the dialogue and assistance, including the impacts on women and other frequently disadvantaged groups. More recently, the role of the mining sector as an engine of economic development has become an important aspect of World Bank assistance. In some countries, the proper management and deployment of the sector’s fiscal revenues are the main factors driving development. In other countries, the emphasis is on the mining sector itself as the catalyst for industrialization. The World Bank’s support to the mining sector has moved along these stages over time, and provides a more comprehensive approach today by addressing all these steps of mining sector development (see Box 1).
There is a strong emphasis on policies and programs that can increase the value added by the mining sector, both at the community level for individual mines and at the regional or national level for the sector as a whole. The former focuses on the development of human and institutional capacities in host communities to take advantage of the new business opportunities afforded by a mine. The latter sees the mining industry as the first part of an integrated development platform with shared infrastructure, a mining industrial cluster, and subsequently the development of other industrial activities or clusters. While the bulk of the World Bank-supported work on mining sector reform has concerned medium- and large-scale investments, efforts have also been made with respect to artisanal and small-scale mining, particularly through the Communities, Artisanal and Small-Scale Mining (CASM) Initiative. The focus of World Bank support for artisanal mining has been to formalize the sector and in particular to enhance its productivity and environmental performance.

Results

The reforms of the 1990s and early 2000s focused on increased investment and building institutional capacity. In the 2000s, the focus has expanded to include transparency, revenue management and sustainable development, from both the community and national perspectives. Some specific results achieved with IDA and IBRD support are as follows:

**Tanzania:** From 1994-2000, IDA supported mining sector technical assistance (TA) in Tanzania in the areas of mining legislation and regulations, mining fiscal regime, environmental policies and enforcement, divestiture of state-owned enterprises, and strengthening institutional capacity. The foreign direct investment in the mining sector increased to an average of US$250 million per year in 2001-08 from less than US$10 million per year in 1990-99. However, as the fiscal regime was designed to attract investment into a moribund, high-risk sector, mining tax revenues were only 4 percent of total fiscal revenues in 2007, and several mining communities were not satisfied with their benefits from the mining operations. Since 2009, IDA has been supporting the government to strengthen its capacity to manage the mineral sector to improve the socio-economic impacts of mining. In 2010, the government passed a new mining law that increases the rate of royalty paid on minerals from 3 to 4 percent and allows for participation by the government in all future mining projects. These provisions are forecast to double fiscal revenues from the sector.

**Argentina:** Mining investment in Argentina was $56 million in 1995, but by 2008, 13 years after an IBRD-supported reform of the mining sector began, it reached $2.4 billion. Exports had grown by 275 percent to $4.1 billion. The Bank also worked with sub-national governments because mineral rights are held provincially in Argentina. The programs in each province and the federal government were similar and focused on: (i) revision and modernization of the mining legal and regulatory frameworks; (ii) institutional capacity development; (iii) development and harmonization of modern cadastre and registry systems; (iv) establishment of effective environmental, legal, and regulatory frameworks; and (v) training and institution strengthening in assessment of socio-economic impacts of mining investments.
Madagascar: IDA has supported mining sector reform in Madagascar through a series of technical assistance projects since 1998, with emphasis on attracting investment, improving the sector's environmental performance, and ensuring that the sector's benefits are widespread. The reforms fostered a large increase in activity, including the development of large mining operations in ilmenite and nickel/cobalt. Given the country's widespread poverty, the government undertook a strategy centered on strengthening local governance, decentralizing fiscal revenues, and providing technical assistance to community associations and municipal governments for the integration of mineral resources management in their development plans. Two investment agreements totaling $5.5 billion were signed in the mining sector in 2005-06. Approximately 12,000 domestic jobs were created during construction of the two mines. The ilmenite mine opened in 2009 and the nickel/cobalt mine is scheduled to open in early 2012. Mine forestry committees have been established to assist with biodiversity and land use planning. Both mining companies have provided extensive short-term training and some long-term training for workers that will help provide local communities with a source of income beyond mine closure. Both companies have taken proactive stances in enabling local small and medium enterprises to take advantage of business opportunities arising during construction and exploitation. A multi-use port partially funded by the World Bank (US$32 million, 2006) was built near the ilmenite operation, while the nickel/cobalt operation did a major port upgrade. Both operations provide power to their local areas. An additional objective was to establish a foundation in connection with the ilmenite mine that would provide local communities with a source of income far beyond mine closure.

Mongolia: Mongolia is rich in natural resources, principally gold, copper, coal, uranium, and oil. IDA supported sector reform, which began in 1997, resulted in the adoption of a modern mining law that encouraged increased mineral exploration and exploitation. Over the last several years, the mining sector has been a key driver of the country’s GDP growth of 7.8 percent per year from 2000-08. In 2010, Mongolia’s total mineral exports increased to $2.3 billion, from $267 million in 2000. While the mining sector accounted for 8.5 percent of GDP in 2000, it increased to 25 percent of GDP in 2010. However, while this was happening, transparency and openness in the sector did become a major concern for policy makers as well as the general public. In order to address these concerns, the mining law of 2006 obliged companies engaged in extractive industries to report their payments to the government. The government launched its Extractive Industries Transparency Initiative (EITI) process in 2007 with IDA support and has become a fully compliant country. IDA support to Mongolia in the mining sector is now focused on using mining-generated fiscal resources for fostering sustainable development in the regions affected by extractive industry activities. IDA is supporting institution strengthening in Mongolia’s mining sector, particularly regulatory capacity with respect to mining cadastre operations, and the effective management of environmental and social issues. Support is also being provided to create the infrastructure necessary for development of natural resources.

Some of the key highlights of results achieved in IDA supported projects aforementioned above are as follows:

Madagascar: Two investment agreements totaling $5.5 billion were signed in 2005-06; 12,000 domestic jobs created during the construction of two mines; strong involvement of local communities in planning and benefit sharing.

Tanzania: Increase in the foreign direct investment in the mining sector to an average of $250 million per year in 2001-08 from less than $10 million per year in 1990-99; increase in royalty paid on minerals from 3 to 4 percent as per the new mining law passed in 2010.

Mongolia: Increase in mineral exports to $2.3 billion in 2010 from $267 million in 2000; Increase in share of mining sector to 25 percent of GDP in 2010 from 8.5 percent of GDP in 2000; launch of EITI process in 2007.
Bank Contribution

From 1988 to 2011, there have been 39 World Bank-supported projects in mining sector reform, with at least one project almost every year. About 60 percent of the operations have been in Sub-Saharan Africa, with most of the rest in East Asia and the Pacific and Latin America. Total funding has been $1.31 billion, although the average project funding of $33.5 million masks a wide variance, ranging from $1 million (Solomon Islands, 2010) to $200 million (Mexico, 1991). Over the last decade, there have been 77 analytical and advisory activities that include a focus on mining and other extractive industries reform in client countries.

Partners

The World Bank has worked closely with various stakeholders in implementing mining sector reform. In the early 1990s the emphasis was heavily on the national governments, but as the World Bank’s approach has evolved, so have the number and type of partners. Sub-national governments, the private sector, nongovernmental organizations (NGOs), local communities and civil society more generally are all consulted on various aspects of the Bank’s assistance. Particularly in the case of the Extractive Industries Transparency Initiative (EITI), there has been a strong emphasis on bringing together all the important stakeholders in the mining sector to work together for greater transparency. The Bank-administered Multi-Donor Trust Fund, EITI, launched in 2003, promotes and supports improved governance and transparency in resource-rich developing countries through the full publication and verification of company payments and government revenues from oil, gas, and mining. The trust fund is presently supporting 34 client countries that are in various stages of implementation of the EITI process. More information on the EITI is covered in a separate Results Brief on EITI.

Moving Forward

While there are still many countries that are looking for assistance in the first stages of mining sector reform, i.e. policies and legislation to increase investment, most new World Bank technical assistance in the mining sector is focused on specific areas of work that will increase local community benefits and improve governance at national and sub-national levels. In order to take better advantage of the opportunities afforded by a growing mining sector, work is ongoing in a number of areas: (i) enhancing the roles of foundations and community development agreements in furthering sustainable development around mining communities; (ii) building the capacity of local governments to manage increased revenues from mining; (iii) improving the design and efficiency of mining fiscal regimes; and (iv) managing fiscal revenues from the mining sector to enhance their contribution to sustainable development in regions affected by mining activities.