A missed opportunity: Mining for sustainable development

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Donors and NGOs are missing an opportunity: they should be helping to turn large-scale commercial mining activities into sustainable development for poor countries that are rich in minerals. Instead of shying away, they should engage their development expertise and technical assistance and join forces with mining companies and local governments. This would help increase the spill-over of economic gains into local societies in a just and sustainable manner.

In the 1980s foreign investment in the mining industry in many developing countries boomed. In spite of this, a similar boom in sustainable development has not taken place.

Poor developing countries who are rich in minerals fostered this private sector development in the mining industry by reforming the mining codes, privatizing state-owned enterprises and offering fiscal incentives to foreign investors – and foreign private mining has seen a significant increase. But these large-scale commercial mining activities have brought about only mixed results in terms of economic development, growth and poverty alleviation. The lack of visible, positive development impacts has lead to strong criticism of the economic, social and environmental dimensions of the industry. With environmental damage and resource wars added to the picture, anti-mining sentiments are rife. In spite of such sentiments, donor institutions and NGOs should enter the battle. They are badly needed to help host countries benefit from the situation – especially when it comes to forging productive linkages between the mining sites and the surrounding society and to securing tax revenues from the mining companies.

DONORS AND NGO'S, WHERE ARE YOU?

Mining is necessary and has come to stay. Besides that, the industry supplies host countries with significant foreign investment. Donor institutions and the NGO community can enhance the potential positive stimulus of mining investments. To do so, they need to recognize that mining activities are necessary for the functioning of the global economy, and then take into account the environmental and social risks. They can contribute actively with their development expertise and technical assistance and increase the potential of positive socio-economic contributions in a manner that is just and sustainable

RECOMMENDATIONS

- **Donors and NGOs should become actively involved in the mining sector in developing countries. They should help fill knowledge gaps so as to turn mining benefits into sustainable development for the poor host countries.**
- **Donor agencies should fund to maximize economic linkages with other productive sectors in the host countries.**
- **They should also help combat tax evasion practices and support the development of fiscal linkages with host countries.**

So far, the international NGO community has tended to shy away from direct involvement in this field, even in non-fragile states. They limit their activity to environmental and human rights advocacy or social programmes (such as the establishment of HIV-AIDS support programmes, health clinics, or education projects). Many large-scale commercial companies operating in Africa, such as *African Barrick Gold* in Tanzania, have actively sought to cooperate with the NGO community but the latter often refuse. The NGOs explicitly state that they do not wish to offer expertise if it will benefit large-scale commercial activities. Their reluctance rests on the idea that the negative environmental, social and governance impacts outweigh any possible economic and social benefit that may accrue from the industry to the domestic economy and to the poor. Yet this is a missed opportunity: the investments made within the mining industry should not be underestimated and there are examples of mining areas which have flourished with infrastructural and economic growth. For some developing countries the mineral sector even represents the only opportunity to attract foreign capital, as they are not competitive in any other area.

CAN SUSTAINABLE DEVELOPMENT RELY ON PRIMARY SECTOR ACTIVITIES?

The rapid increase in direct foreign investment for large-scale commercial mining since the 1980's, combined with the lack of visible poverty reduction is spurring industry and public policy circles to consider the potential for resource-based sustainable development. Historically, the turn of the 20th Century saw the establishment of the transnational corporations (TNCs) that now control the large-scale commercial mining industry worldwide. The demand for metals rose at the beginning of the century, making the minerals industry highly profitable. As developing countries gained independence from colonial rule, academics began to link mining with development economics (most notably with the publication by World Bank economists of 'The Mining Industry and the Developing Countries' in 1977). Yet, already then, the sustainability of a high and increasing rate of mineral production and consumption was considered doubtful, since the income from mineral resources would eventually exhaust itself. Therefore, the development of primary sector industries such as mining was considered unfavourable for economic growth – it would only lead to the so-called 'resource curse' or the 'Dutch Disease' (eventually making the manufacturing sector less competitive). So, over the decades, priority has been given to secondary and tertiary sector activities as catalysts for economic development.

Translating resource wealth into sustainable development requires a change in orientation of the NGO and donor communities. They should focus on the end goal of changing the mining activities in resource rich developing countries into industries that promote pro-poor public and corporate governance, and then they should help address some of the constraints of the industry. Donors and NGOs can contribute with their expertise in order to mitigate the negative impacts of mining and they can become actively involved in funding the development of linkages with other economic sectors as well as in capacity building for fiscal revenue management.

CHALLENGES AND POSSIBILITIES

The boom of capital flows into the mining sector has created an expectation of private sector-led development for many poor countries that are rich in natural resources. But not all countries have seen positive growth rates in the years following this boom and even though some countries have had positive economic growth rates, there has been little effect on poverty alleviation. The disconnection between GDP growth rates and socio-economic development has led to misleading interpretations of the influence of the large-scale commercial mining industry's economic power over a country's overall economic wellbeing. Doubtless, the modern mining industry certainly does presents

SOME FACTS AND FIGURES: FOREIGN INVESTMENT IN MINING IN THE LAST DECADES

Over the past decades there has been a general increase in long-term foreign investment flows to developing countries. Even though mining investment represents only a small component of total capital flows worldwide, changes in the volume and special distribution of these investments could have significant socio-economic impacts for the developing countries.

In the early 1990s rising commodity prices led to a boom in mining investments in developing countries. South America increased its share of global FDI (Foreign Direct Investment) from 18% to 39% between 1990 and 2001 and in the late 1990s Africa increased its share from 12% to 28%. For example, investments by Australian and Canadian gold mining companies in Tanzania represented over 60% of total direct foreign investment flows for the country in the late 1990s (Bank of Tanzania, 2001). Tanzania is the second largest non-oil recipient of FDI on the continent, receiving $US 2.5 billion from mining over the last decade.

inherent constraints and challenges that, taken at face value, make it appear to be incompatible with sustainable development and poverty alleviation. The most common major challenges are: the nature of mines and how expensive they are to run; the capital intensive production methods that do not link to the surrounding society in a way that spurs local development; and lastly, problems of tax evasion which mean that the poor host countries do not secure a sufficient share of the economic benefits.

Yet if these obstacles are handled in a constructive manner the mining industry also represents an opportunity for the rolling out of infrastructure to otherwise remote rural areas, leading to new growth. The most well known example of this is in the Selebi-Phikwe in the Central District of Botswana. Here, the exploitation of mineral wealth, which was discovered in the 1960s, has brought about infrastructure development that has succeeded in turning a mining camp into a town with a diversified economy. The promotion of a horticultural cluster was made possible in part because of water available from the mine.

Most large scale commercial mines employ a small, but highly specialized workforce as such they do not contribute significantly to local employment. Photo: © France Bourgouin

THIS IS WHERE DONORS AND NGOS CAN MAKE A DIFFERENCE

In order for donors and NGOs to help this kind of positive development gain a foothold, they should work to improve the growth and employment linkages of large-scale commercial mines with the surrounding societies as well as to improve their fiscal linkages with the host countries.

Growth and employment linkages

As a whole, there has been relatively little donor or NGO activity looking at integrating the large-scale commercial mining industry into national economies. But enclave economies must be discouraged and donor institutions and NGOs must identify the potential economy-wide, socio-economic developments that can be generated, so that these industries are not merely vehicles for siphoning rent to the privileged.

One problem is that the capital-intensive production methods limit opportunities for local employment. The mines employ only rather small, but highly trained, workforces. Secondly, large-scale commercial mining activities must be developed in synergy with the rest of the local, regional and national economy and they must be used as catalysts for economic diversification. However, they are often isolated from the rest of the economy and do not

The size of a mine and its maturity governs the strength of its socio-economic development potential. Most obviously, mining activities are determined by geological, geographical, metallurgical, and production conditions. When mines lie in remote areas, the cost of production increases significantly given the investment needed in the necessary infrastructure to service the mine site and the costs of getting the mineral product exported. Photo: © France Bourgouin rely on the development of other industries in the local economy for supplies. Often, most input supplies have to be imported because the host countries cannot deliver. The pronounced enclave nature of mining sites does not bring about new production activities in the surrounding society either, unless a mineral processing industry is developed.

However, any large-scale commercial mining activity in a developing society always provides great potential for linkages into the small-scale manufacturing, agricultural, and service sectors. An example of this is the *ABG Group* in Tanzania which has about 7,000 employed and contracted personnel. The mine site represents a ready market for local dairy products, meat and poultry, and neighbouring farmers have continuously increased the quality and quantity of their production.

All food supplies can be locally sourced and this encourages farmers to move into commercial farming endeavours. Small-scale textile projects have been launched and security vests are locally sewn. Similarly, *Mantra Resources Ltd.* will soon be opening a large uranium mine in Tanzania and has contracted out the supply of all furniture for its offices as well as the provision of staff housing to local manufacturers. This shows that, if properly integrated, large-scale commercial mining activities can diversify regional economies in ways that sustain regional growth even after an eventual mine closure.

But the stimulus of large-scale commercial mining linkages with the broader economy is imperative for such a development. Without an increase of the side benefits into other sectors, developing countries cannot translate the increased economic gains from foreign direct investment in mining into sustainable development. However, an effectively operating mine can attract investments into linked activities. Interventions by donors and NGOs should thus be designed to improve the economic integration and to attract competitive investments that boost regional linkages between mining and other sectors.

Fiscal linkages

One potential positive domestic impact from large-scale commercial mining activities is taxation. The nature of the benefits this creates is sensitive to the scale of rent, the strength of the central government and of the mining region, and the strength of the local and regional administration.

When large-scale commercial mining in developing countries is owned by transnational companies, tax incentives are initially put into place according to international practice. This means that in the first decade or so after the initial foreign capital investment, tax revenues to national governments do not include the substantial corporate tax incomes that ensue only once the mine is operating profitably. In general the benefits to developing countries resulting from tax payments are believed to be inadequate.

Targeting transparency both on the part of the corporation and the host government would improve fiscal benefits. The present lack of transparency limits host countries' revenues – resources that could have been put into other productive sector activities or social services.

Transparency and tax evasion have been some of the donors' priority areas. It is imperative that they continue with and strengthen their activities to combat the multinational mining corporations' illicit financial flows and tax evasion practices. A lack of transparency also means that the state itself does not reveal the revenues earned through mining and thus does not have to justify fiscal expenditure from mining related revenue. Therefore, there is a need for donor and NGO assistance to help governments develop more efficient tax collection practices, and the redistribution of fiscal revenue to other productive sectors also needs to be developed.

SUSTAINABLE DEVELOPMENT – A CONCEPT THAT CAN ALSO DRIVE REFORM IN THE MINING INDUSTRY

While sustainable development has become a major concept driving reform in the legislation and regulation of the resource sector in developing countries and national policies and international standards are designed in accordance with sustainable development objectives, donors have been deterred from active engagement in large-scale commercial mining and related activities and NGOs have focused mainly upon their advocacy role. However, this denies an important development option to countries that are often very poor and have no other generators of economic development. The short-term volatility of some commodity prices makes it difficult for governments and companies to manage their activities in a way that facilitates economic growth. Donor institutions must be actively engaged in order to ensure that large-scale commercial mining activities offer socio-economic benefits to low-income mineral-rich countries. Large-scale commercial mining in resource-rich developing countries must not be discouraged, but rather be developed by involving all stakeholders (companies, host country governments, donors and NGOs) in order to foster economic development in a just and sustainable manner.

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