



Submission to
World Bank Extractive Industries Review
From
The Prospectors and Developers Association of Canada

Executive Summary and Recommendations.

The Prospectors and Developers Association of Canada (PDAC) believes that the World Bank must remain involved in resource development projects including mining as a force for good. The Bank should, however, use its influence to work with governments to develop and implement policies and mechanisms for the redistribution of revenues from resources for the benefit of local populations and, in particular, to effect poverty reduction.

Our recommendations to the Extractive Industries Review are threefold:

- I. That the World Bank remain involved in mining, oil and gas development, including direct investments through the International Finance Corporation, but,
- II. That the World Bank should prioritize investment in countries where governments are willing to work with the Bank to develop governance structures that lead to effective redistribution of resource revenues for the benefit of local populations in general and for poverty reduction in particular, and
- III. That the World Bank target the governance of wealth and revenues in developing countries as priority for change and/or strengthening for the next ten years.

Introduction

The Prospectors and Developers Association of Canada (PDAC) is a national association representing the interests of the mineral exploration and development industry both in Canada and abroad. The association was established in March 1932 and is headquartered in Toronto, Canada. Its members encompass the whole range of the exploration community including major producing companies, junior exploration companies, the financial community, consulting firms, geoscientists, prospectors, regulators and the service sector.

The work of the association is guided by the following mission statement:

The PDAC exists to protect and promote the interests of the Canadian mineral exploration sector and ensure a robust mining industry in Canada. The PDAC will encourage the highest standards of technical, environmental, social and safety practices in Canada and internationally.

The association's activities can be classified broadly under the headings of advocacy, information and networking and are summarized in the annual publication *PDAC Activities*.

Mineral Exploration and the Canadian Mining Industry

The decision to develop a mine and the social, socio-economic and environmental consequences of that decision come midway through a process that begins with mineral exploration and continues through closure, decommissioning and reclamation. For the mining industry and the investors who support it, exploration is an expensive, high risk, yet potentially very high reward, activity. It requires the opportunity to conduct surveys over vast tracts of land and to visit, examine, and evaluate innumerable mineral occurrences in the search for the rare economically viable deposits. Exploration is a dispersed and transitory activity characterized by uncertainty and ambiguity; industry experience suggests that less than one in a hundred mineral showings are considered worth evaluating, while barely one in ten advanced exploration programs go on to become producing mines. Furthermore, exploration projects typically proceed episodically, with more than one proponent involved and with periods of intense activity (drilling, etc.) separated by periods when there is little or no activity on the property. The process is often protracted and it is not uncommon for several years to elapse between first identifying the economic potential of a mineral deposit and the decision to mine. All this is in marked contrast to mining, which takes place at fixed locations and over extended periods of time.

During the process of exploration, there is a net flow of wealth into the district where the work takes place in the form of employment (predominantly labourers who are trained with new skills) and the purchase of goods and services. Properly conducted, exploration has a low impact on the environment. Social impacts are more variable and less well understood; nevertheless, these too can be positive and beneficial to the local community if appropriately managed. The PDAC is committed to encouraging the highest standards of environmental and social practice and has created the E3 Initiative (Environmental Excellence in Exploration), a web based communications and education tool for use by all parties involved in exploration.

The Canadian minerals industry is a dominant force in mineral exploration both domestically and internationally. Some 1,600 publicly traded mining companies are domiciled in Canada. Almost all of these are involved directly or indirectly in exploration. However, fewer than 100 of these companies have producing mines; the remainder, which are often referred to as "junior" mining companies, are dedicated exclusively to the exploration for and evaluation of new mineral resources. Normally, successful exploration projects are sold on to the "senior" and "major" companies that have the capacity to construct and operate mines.

Over the last 10 years Canadian companies have become increasingly international in their activities with projects on all of the continents except Antarctica. The PDAC has expanded its interests in accordance with this global range of Canadian exploration activity and monitors matters that may affect Canadian companies throughout the world.

Perspectives on the World Bank's Involvement in Mineral Development and Mining

The various elements of the World Bank Group (the International Bank for Reconstruction and Development, the International Development Association, the International Finance Corporation and the Multilateral Insurance Guarantee Agency) are not normally involved directly at the exploration stage of the mining cycle. Nevertheless, the World Bank has a strong influence on the practice and conduct of mineral exploration. Moreover, it is the opinion of the PDAC that this influence is overwhelmingly positive. In more detail, the World Bank influences the activities of the exploration sector in the following ways.

Raising Standards of Practice

The World Bank exerts a profound and pervasive influence on the environmental and social practice of the international mining industry that extends far beyond the individual projects in which the IFC and MIGA have direct involvement. The World Bank Safeguard Policies have become the industry reference point for all international projects. The driver for this comes from the financial institutions and insurance companies that consider compliance with these environmental and social directives as key to minimizing risk in new mining ventures. There is a trickle down effect from this economic imperative that reaches into the exploration sector and is particularly evident in late stage exploration projects where the need to comply with World Bank standards is built into project planning and management in anticipation of future mining. The overall effect has been to drive up standards of environmental and (particularly) social practice, one consequence of which has been the development of the PDAC led E3 program. It is fair to say that without the guidance and leadership provided by the Safeguard Policies it is likely that industry practice would be more disparate and possibly of a lower standard overall.

Creating a Favorable Environment for Investment

The more traditional World Bank programs of assistance to governments have also created a positive impact on the way in which mining takes place in developing countries. Here we wish to draw attention to two aspects.

(i) *Baseline Studies and Capacity Building.* The World Bank has provided financial assistance to governments for baseline geological and environmental studies, typically with a concomitant program of training and capacity building for local scientists and technicians. Such programs as the World Bank funded projects in Bolivia in the late 1980s and early 1990s have assisted in the orderly development of nations and created a core group of skilled technical personnel. Specific outcomes of consequence to exploration include:

- Identification of areas of high mineral potential where exploration can be focussed, achieving significant improvements in exploration efficiency, accelerating the rate at which new mines can be brought on stream and revenues generated for the host country.
- Identification of priority needs for environmental management.
- Creation of a group of professionals and technical specialists that can interface effectively with the international mining exploration companies on legal, regulatory and technical matters and articulate the priorities, concerns and interests of the host country.

(ii) Legislative Reform. Through the 1980s and 1990s, the World Bank provided loans and technical assistance for legislative reform in a large number of developing countries. This was particularly evident in Latin America, where reforms came as a consequence of earlier economic collapse, and the case of Bolivia can again be used as a reference point. More specifically, changes in laws governing foreign investment, foreign ownership of mineral resources and the repatriation of capital created a new, level playing field for the mining companies. In parallel with legal and fiscal reform, the Mining Codes were revised, procedures for acquiring and holding mineral title were streamlined and clarified, and comprehensive environmental regulations enacted. The consequences of this phase of reform have included:

- A massive wave of investment in mineral exploration and mine development through the 1990s, much of it by Canadian companies.
- A substantial reduction in corruption around mineral projects, particularly in Latin America.
- A transfer of momentum for mineral exploration into the developing countries, notably Latin America and the former soviet republics, and the opening of a significant number of large new mines.
- The creation of new revenue streams for governments and economic growth at the macro level.
- Workable environmental regulations that offer real protection.

Comments on the World Bank's Role in Mining and Poverty Reduction

As recently as 10 years ago, World Bank policy was focussed on economic development with a subsidiary imperative for environmental protection. The social component of development was assumed to flow from economic growth and, by extension, to be assured of success. The social imperative and the importance of effective poverty reduction have emerged rapidly to become the lead issue not only for the World Bank but also for the resources industries operating internationally.

The World Bank has a history of developing and implementing effective policies for the management of development, and is currently providing leadership in both the debate over social issues and the practice of managing the social component of development. Inevitably there is a lag between recognition of a need, developing a response and implementing a new policy to address the need. This is particularly true for mining projects, which are relatively infrequent, have long development times and are relatively difficult to redirect once on stream. Nevertheless, the World Bank has moved to address the concerns of local populations and worked hard to make recent mine development projects more socially responsive. For example, the Antamina mine in Peru, where

MIGA was involved in project financing, has a comprehensive program of assistance to local communities in education, health, agriculture and economic development that is widely regarded as defining current best practice for the industry.

In many respects the World Bank has been in a continual state of change since its formation at the end of World War II. An initial and sustained focus on economic development and growth was complimented in the 1970s by a concern for the environment, and in the 1980 by an awareness of the importance of protecting cultural and social elements. The current focus on social equity and poverty reduction is perhaps the most recent challenge that the Bank has faced. Historically the Bank has not only responded to the needs and concerns of its members, clients, civil society and changes in social values, it has also moved on to provide leadership and practical example. The Bank is well positioned to engage the question of poverty reduction in the context of resource development, having in hand the existing Safeguard Policies as a starting point. There is every reason to believe that the Bank can and will develop policies and programs that meet this challenge.

In a similar way, the international mining industry is also in a process of rapid change. Following the leadership provided by the Global Mining Initiative and the Mining Minerals and Sustainable Development project, the industry is working to embrace and operationalize the principles of sustainable development. At the extractive phase of the mine cycle, policies and procedures are being created to address the economic, environmental and social aspects of sustainability. In the social area the key question being asked is, “will the long-term consequences of any given mine be positive or negative for the local population”. Within this context, poverty reduction is emerging as a key issue. Companies in many parts of the world are implementing programs in which a portion of the wealth created by the mine is invested in the local communities in a way that is intended to create an economy that benefits as many individuals as possible, and that is sustainable beyond the life of the mine. What is evident in many situations is that the companies are doing this almost alone; government is conspicuous by its absence.

There is no doubt that resource extraction such as mining can generate significant revenues to national governments in the form of taxes and/or royalties. The argument presented to the Extractive Industries Review is that these revenues do not benefit the local people. Indeed, a body of opinion exists that, paradoxically, in most developing countries mining leads to greater poverty. The question has to be how could this be so when mining projects not only generate revenues to governments, but also develop infrastructure, create employment, create a demand for local goods and services, and offer opportunities for training and education?

A collective experience is emerging from mining projects in the developing world, where the pressure to ensure that local communities benefit from resource extraction is most intense, which goes a long way to explaining the paradox of wealth. In many cases, governments lack the mechanisms for effective wealth redistribution from resource revenue streams (taxes or royalties) to the local level. Policies and procedures may be lacking, capacity at the operational level is often deficient or absent, or political interference and corruption may disrupt the process. Furthermore, in many countries there is an absence of political will to consider any such wealth distribution. Thus the root cause of the wealth paradox lies not in mining itself but in a paucity of governance.

Recommendations to the Extractive Industries Review

The World Bank has a unique body of experience in economic development and also in creating policies and procedures to improve the effectiveness of environmental and social safeguards. This includes a portfolio of mineral resource related projects and direct investments in mining projects where the leadership provided by the Bank has elevated standards across the private sector in all parts of the world.

Mining is one mechanism for generating economic activity and growth in the developing world. A current paradox is that in many places the wealth created by mining is not translated into poverty reduction for local and national populations. This we see as a failure of governance and as such a practical problem that could be addressed by the World Bank.

We believe that the World Bank must remain involved in resource development projects including mining as a force for good. The Bank should, however, use its influence to work with governments to develop and implement policies and mechanisms for the redistribution of revenues from resources for the benefit of local populations and, in particular, to effect poverty reduction.

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