



INSTITUTO TECNOLÓGICO VALE



Munasinghe Institute for Development
making development more sustainable (MDMS)

Symposium on Sustainable Development: New Dimensions for Society & Business

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A mutually-beneficial investment framework for sustainable mining

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VALE COLUMBIA CENTER
ON SUSTAINABLE INTERNATIONAL INVESTMENT
A JOINT CENTER OF COLUMBIA LAW SCHOOL AND
THE EARTH INSTITUTE AT COLUMBIA UNIVERSITY

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Vale Columbia Center on Sustainable International Investment

- ▶ Mission: To develop and disseminate practical approaches and solutions to maximize the impact of international investment for sustainable development.
- ▶ FDI is a major global economic force and can play a crucial role in advancing sustainable development through the transfer of capital and technology, job creation, linkages with local industries, infrastructure development and capacity building.
- ▶ Extent to which these benefits accrue to host countries depends heavily on the policies of the host country and the investor, and the institutions available to find mutually satisfactory outcomes for both.

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Sustainable FDI

- ▶ Guiding belief: **cooperative, transparent, equitable, and efficient** FDI is achievable and in the mutual interest of private sector investors and host country populations.
- ▶ It is a shared priority of investors and governments to create an investment framework that is favorable for long-term investments, political and social stability and sustainable development.
- ▶ Particularly important for extractive industries, given the size of the investments, the duration of the projects and the cooperation of the communities and the governments required to support such investments.

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Extractive Industries and Sustainable Development

Why extractive industries?

- **Special Challenges in Extractive Industry Investments:**
 - Deposits often in poor, unstable countries with development challenges
 - Threat of the “resource curse”
 - Extractive projects can be treated as enclave sectors
 - Resources are non-renewable
 - Historical records of human rights and environmental shortfalls
 - Confidentiality and asymmetry of information
 - Highly politicized at times
 - **Potentially transformative Opportunities:**
 - Long-term partners (investments are often for many decades)
 - Capital intensive, with major infrastructure and supply chain needs with potential spill-over effects
 - Projects can be profitable while generating billions of dollars of revenue for governments
 - Increasing recognition that extractive industries can be a key driver for long-term growth
- ▶ **Extractive industry investments can truly be win-win investments for governments, companies and communities**

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A long-term perspective is needed for extractive industries... both for governments and for companies

- Extractive industry investments have **large upfront costs, and not profitable for several years**
- To *maximize* profit, extractive industries must:
 - Ensure **investment stability** over the life of the mine
 - **Minimize costs** over time

Companies and Governments too often take a short-term approach

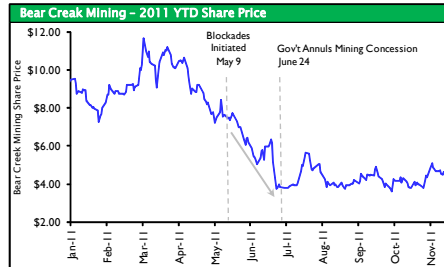
- Companies often focus on optimizing short-term financial performance “*ignoring the broader influences that determine their long-term success.*” (Porter and Kramer)
- Governments may also tend to take a short-term view, for instance by focusing on attracting investment, and overlook opportunities to maximize the contribution of the sector over the long term.

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Potential for short term consequences

Santa Ana – Silver Mine (Peru) / Bear Creek Mining

- ▶ 10,000+ protesters respond to development of Santa Ana Silver Mine
- ▶ Asset represents 20% of Bear Creek silver reserves – \$96 mm invested to date
- ▶ June 24, 2011 – Peruvian government annuls mining concession
- ▶ Market Response: \$311 mm decline in market capitalization (43% decline)

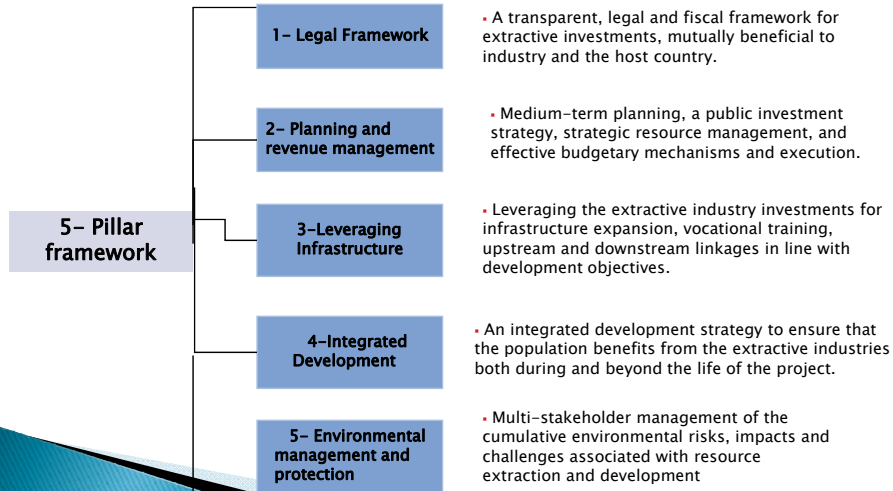


Framework for Extractive Industries and Sustainable Development

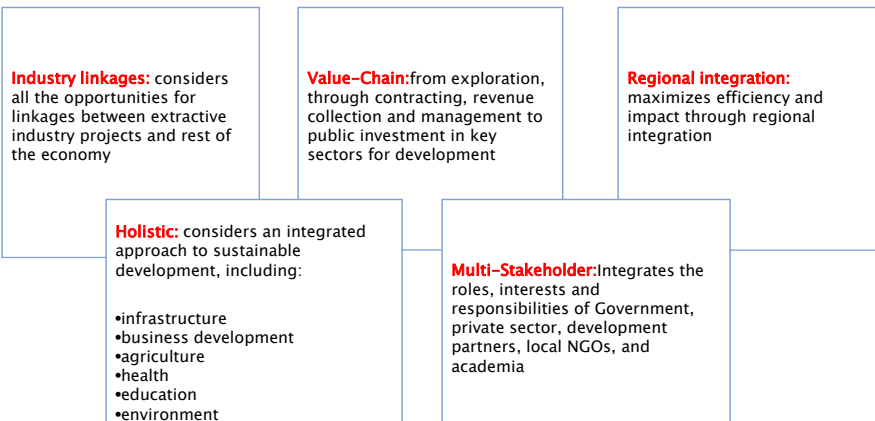
- ▶ The goal of all stakeholders is a mutually beneficial, long-term relationship, which enables the profitability of the industry as well as ensures that the investments translate into widespread development benefits for the population
- ▶ At the VCC, we have developed an investment framework that promotes the long-term stability of investments and aligns investors' activities with development priorities of the region and country.

Five-pillar framework for sustainable investment in mining

We have identified five pillars that are essential for the long-term stability of an investment:



The framework has 5 defining attributes:



Pillar 1 - A Transparent and Mutually Beneficial Legal Framework for Extractive Industries



Governments and companies can help promote a **stable and predictable investment climate** and **minimize the risk of disputes** through:

Balanced fiscal and non-fiscal benefits in legislation and contracts

Contract Transparency encourages a fair deal and clear allocation of responsibilities

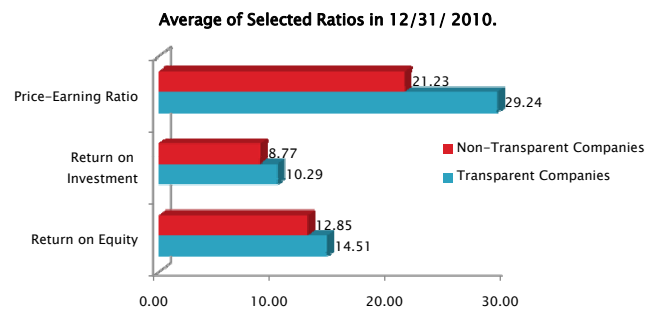
Use of innovative, flexible fiscal mechanisms that balance investors' needs for a **fair return** with governments' need for a **fair value for their resources**



Active, broad, inclusive, and detailed Extractive Industry Transparency Initiative

Increased capacity on auditing, financial modeling and contract negotiation

Illustration: Disproving that transparency hurts valuation

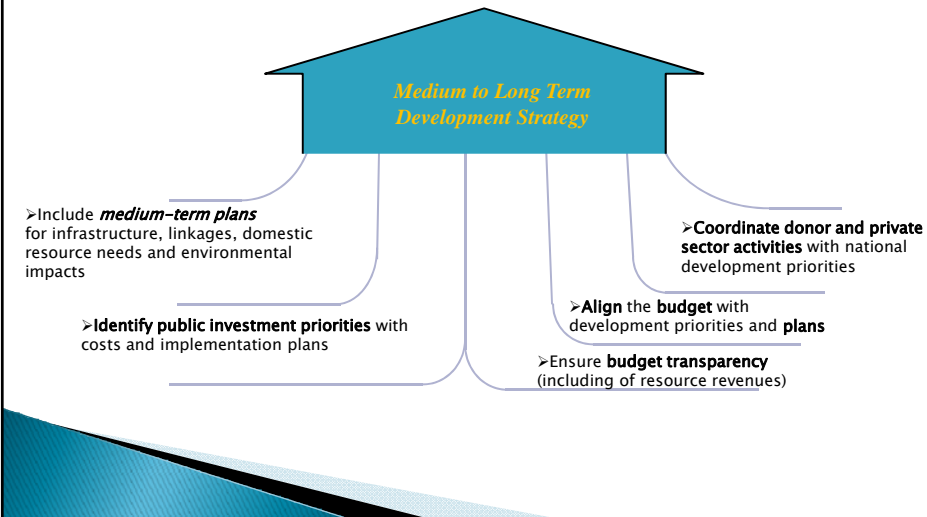


- ▶ **Transparent companies:** 17 companies that disclosed payments on a country-by-country basis in 2010
- ▶ **Non-transparent companies:** 17 companies that are either EITI or GRI supporters but do not disclose payments on a country-by-country basis

Pillar 2- Resource-based development planning and resource revenue management



Governments and companies can avoid the 'resource curse' and maximize the development impacts of extractive investments through:



Snapshot of Timor-Leste

- **Population:** 1.1 million
- **Per capita GDP 2009:** US\$717 (PPP)
- **Stunting rate in children:** 58%
- **Child mortality rate:** 64/1000
- **Children with malaria :** 50%
- **Literacy rate (above 15 years old):** 58%
- **Secondary school enrollment:** 41%

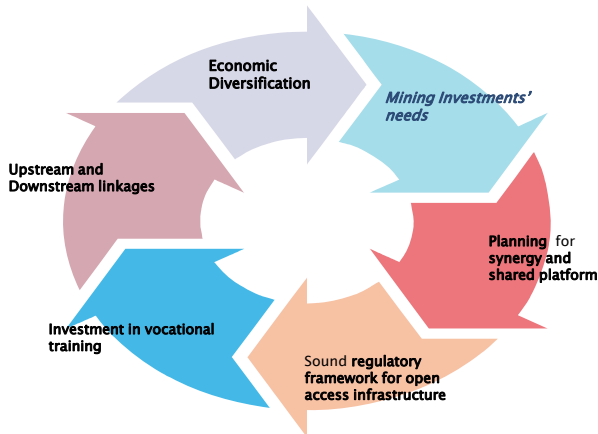


- More than **US\$2.172 billion** was collected in **petroleum revenues** in 2010
- The balance of the Petroleum Fund is now over **US\$10 billion**
- In 2010, government drafted a **Strategic Development Plan**
- The VCC helped to create an **Infrastructure Fund** and a **Human Capacity Fund** for increased, multi-year allocations to key sectors from the Petroleum Fund

Pillar 3- Leveraging the Mining Investments for Sustainable Development



Opportunities to create **economic** and **infrastructure linkages** from the extractive sector:



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Pillar 4 - Integrated Rural Development (IRD)



Local level development is maximized through coordinated public-private planning:

❖ **Village-level IRD programs** to address the integrated challenges of and opportunities for development



❖ **Agri-business Alliance** to support smallholder agriculture (including agricultural extension services)



❖ **Local development plans** to help companies identify appropriate and sustainable points of entry, to ensure companies are complementing, not replacing, local government



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Pillar 5 - Managing Environmental and Climate Risks



Managing climate risks and realizing opportunities

- Identify primary (exogenous) environmental risks in the region so that companies' programs can be tailored and proportional to the risk (eg. flooding, drought, deforestation)
- Coordinate public, private, and NGO- or donor-funded conservation, rehabilitation or adaptation projects to maximize the effectiveness of each
- Managing **climate risk** with strategies to **reduce rainfall-induced production variability**



Cumulative Environmental Risk Management System

- Assessing **cumulative environmental impacts of mining operations**
- Expanding the **Cumulative Impact Assessment to include competitive land and water uses and inform policy**
- Facilitating **coordination among public and private initiatives**



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SUMMARY: A new approach to sustainable investment in extractive industries should reflect the following:

- Extractive Industry investments can truly be **Win-Win** investments for governments, companies and communities in the long term.
- Projects can create **critical investments in infrastructure, jobs in the supporting industries** and be leveraged for the **diversification of the economy**.
- **Corporate Social Responsibility** must be partnered with **good governance**: strategic medium-term planning, sound resource management, and effective partnerships.
- At each stage, ***planning, transparency and cooperation*** in the process can help ensure positive results.

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