

Public-Private Dialogue for Specific Sectors: Extractive Industries



Public-private dialogue (PPD) is a structured engagement mechanism that aims to bring together all relevant stakeholders, in a balanced and inclusive manner, to assess, prioritize, and achieve sustainable results. Sector-specific PPD can provide an integrated response to factors constraining sector growth and improve the pace of sector reform. It can be particularly helpful in improving competitiveness and provide a highly valued platform for collaboration along the supply chain and across governments, businesses, and communities. Sector-specific PPD can also be implemented at a subnational or regional level.

An extractive industries sector-specific PPD platform that brings together key stakeholders can help overcome the issues of transparency and communication between the parties. This would also include reaching out to and informing citizens about the terms of contractual agreements. PPD and its policy outcomes will ultimately enhance investors' protection and subsequently boost their confidence. In some countries, linkages and spillovers serve certain local communities while ostracizing others. PPD interventions will have to take this into consideration and appreciate the local context by engaging the most relevant stakeholders (companies, communities, the public sector as well as marginalized groups) to build trust and avoid negative reaction and even conflict.

The World Bank Group's objective in the extractives industries sector is to

ensure that natural resources contribute positively to economic development by engaging along the industries' value chain.

The overall volume of FY2012 World Bank Group financing in the extractive industries sector was \$695.5 million. In support of private sector investment, IFC provided \$491 million of financing. IFC's oil, gas, and mining client companies contributed approximately \$6.2 billion to government revenues, created or sustained about 102,000 direct jobs, and supported communities with \$100 million of dedicated community-related spending. Total spending by these companies on goods and services from local and national suppliers approached \$5.4 billion, demonstrating significant linkages to domestic business and making a major contribution to local economies. The vast majority of IFC investments in extractive industries

continue to have notable, positive development impacts. With effect from January 1, 2012, IFC introduced a requirement that the principal contracts for extractive industries projects that it finances be disclosed, in order to enhance transparency in the negotiation process.¹

What areas of extractive industries could benefit?

In the case of extractive industries, areas that could benefit from PPD interventions include:

- Informing local communities about mining projects.
- Enhancing governance, accountability, and transparency around contractual agreements.
- Boosting investors' protection and confidence
- Establishing the relationship between large investors and local suppliers.
- Identifying local content and training needs.
- Improving communication between stakeholders.
- Fostering dialogue around security issues.
- Understanding and negotiating benefit sharing at national and regional levels.

With the World Bank Group's support, the Extractive Industries Transparency Initiative (EITI) — a global coalition of governments, companies, and civil society — enables an independent review of payments made to governments by extractive industries companies and of revenues received by governments from those companies by a reputable third party. Besides its oversight function, EITI has an operational angle supporting governments and civil society.

Key principles for effective PPD engagement in extractive industries

A cookie-cutter approach to PPD does not work. There is no one ideal format that would fit all types of dynamics, stakeholders, and issues to be addressed. Being adaptive and flexible while following key principles specific to a particular sector is necessary. For the extractive industries sector, the following principles should be considered:

1. **Determine the optimal point of engagement.** Each country experiences a unique combination of factors that will influence mining spillovers, including:
 - Stage of mineral resource development in the country.
 - Characteristics of global value chains and commodity groups.
 - Type of FDI.
 - The wider host country environment.
 - Domestic firm capabilities.

A customized approach to supporting mining spillovers is therefore required in each case. This should also ideally shift over time in response to changes such as maturity of

mining investments and resource exploitation, increased sophistication of local suppliers and skills, and shifts in local institutional capacity. Timeliness is of the essence.

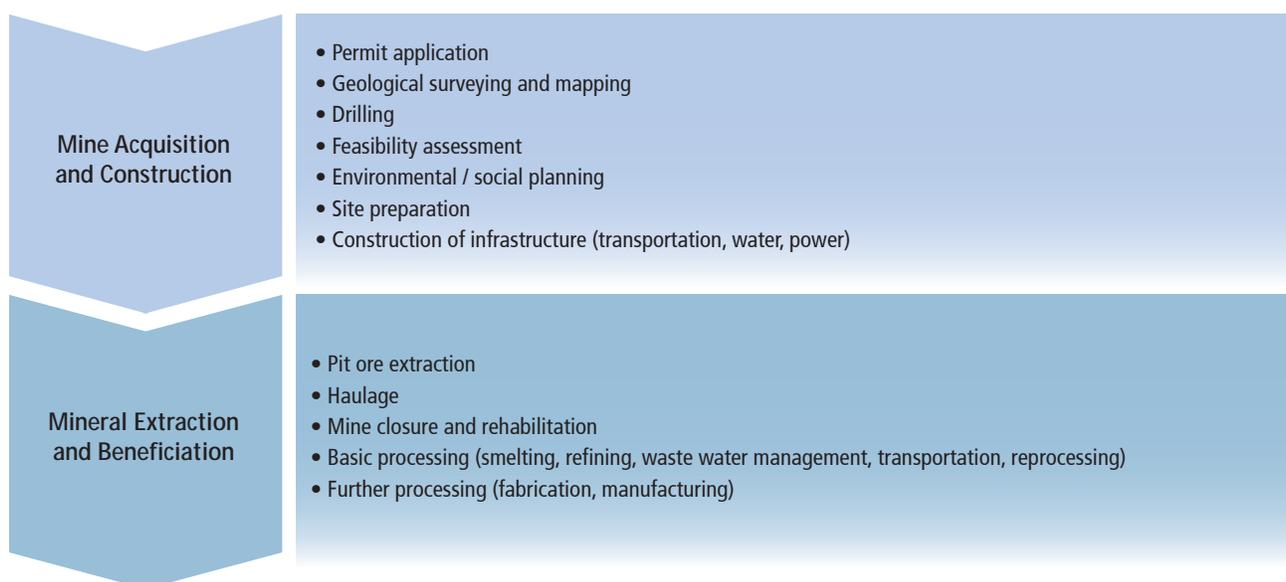
The mining value chain (Figure 1) includes two main stages:

- Mine development (acquisition of a mining concession and mine construction).
- Mine operations (mineral extraction and beneficiation).²

Multi-stakeholder engagement is crucial at every stage of the extractive industries value chain. However, the acquisition and construction stage usually only involves the mining company and the government. International partners (such as EITI, Revenue Watch) are sometimes involved when it comes to contract negotiations, terms of contractual agreements, and so on. Nevertheless, when mining codes are negotiated, not all parties — especially officials overseeing tax regimes — are always at the table. Focused engagement between the mining company and the relevant ministries is necessary. Sometimes, the political economy is such that a facilitated dialogue between ministries is required as well. In addition to companies and the government, mine development stage will need to involve the private sector/suppliers, the Chamber of Commerce, Chamber of Mines, local communities, and Community Service Organizations (CSOs). Identification by extractive companies of the needs and challenges related to local supply chain linkages will happen at that stage.

It is important to seek community and other stakeholder views as early as possible. Equally important is to understand and recognize the need to build relationships, capacity, and knowledge before making decisions. PPD will help communities and stakeholders raise

FIGURE 1: MINING VALUE CHAIN



and address issues; stakeholders review and respond to information. It will also establish clear and realistic timeframes for communities' and stakeholders' inputs. Finally, while early engagement is crucial, maintaining engagement throughout the life of the project — from planning to closure — is an absolute necessity to deliver maximum impact.³

2. **Be Inclusive.** Experiences highlight the need to approach mining sector development from different, interrelated angles. Multi-stakeholder consultation and involvement through PPD ensures that at every stage of the value chain, stakeholders' knowledge is used to help shape and implement solutions. While the public and private sectors need to be involved, the principle of inclusiveness suggests that one needs to also recognize, understand, and involve communities and other relevant stakeholders (such as nongovernmental organizations [NGOs], marginalized

groups, indigenous groups, women, and youth) early and throughout the process.

To ensure optimal participation of all parties, building stakeholder capacity — beyond government officials and small and medium enterprises (SMEs) — is a prerequisite, especially to enable civil society and indigenous people's organizations to participate fully in activities such as consultations and participatory monitoring. Mining companies' community development teams usually do this directly or through NGOs.

In many communities involved in the extractive industries sector, gender bias exists in the distribution of risks and benefits. The risks such as environmental damage and social harm, fall more heavily on women, while the benefits such as employment and compensation, accrue mostly to men. It has been noted that, "among the more than 20

Key Issues the Extractive Industries Face

The extractive industries sector faces a spectrum of operational as well as policy issues and constraints that have an adverse effect on the investment climate and local economic development. Key investment climate-related issues in the extractive industries sector include:

- **Lack of Governance and Transparency.** About 3.5 billion people live in countries rich in oil, gas, and minerals. With good governance, the exploitation of these resources can generate large revenues to foster economic growth and reduce poverty. However, when governance is weak, such resource revenues may result in corruption and potentially conflict. In fragile and conflict situations as well as post-conflict situations, distrust exists among stakeholders, particularly those from opposing sides during the conflict. Reliable official data concerning the extractive industries sector is rarely available in the public domain; corruption remains a huge problem, especially in resource-rich countries. Resource governance problems may go well beyond the need for transparency of revenue flows, but go into the heart of the extractive industries value chain.
- **FDI and Investment Security.** A key objective is to enhance the investment environment for extractives. A central issue identified by internal and external partners is that when mining codes (or frameworks in the case of no code and oil/gas investments) are negotiated, the conditions agreed in the initial contracts (concession agreements, mining agreements, production sharing agreements, contracts, and stabilization agreements) are normally not disclosed to all stakeholders involved. In particular, the stakeholders normally overseeing tax/incentives/customs regimes are not part of the process. Additionally, "stabilization agreements" — designed to ensure predictability of the fiscal conditions of the contracts routinely broken — cite shortsighted and/or non-inclusive policy negotiations. This creates an unpredictable business environment and a weak governance framework in the sector that can lead to a lack of investor security on the terms of investment.
- **Supply Chain Linkages and Spillovers.** Mining investment does not take place in isolation and potential benefits to the local economy depend heavily on the supply chain links. Enhancing spillovers from investment in the extractives industries sector requires a multiplicity of instruments and approaches. It involves ensuring that the policy environment is neutral to regulatory or fiscal constraints, ensuring local content sourcing, identifying the relevant firms in the sector, and linking local supply with demand through PPD. Additionally, many host countries would prefer technology transfer and high value linkages, as opposed to demand for low-skilled services. However, local suppliers have limited production capacity and their participation has been limited to less specialized and critical services. There is also a general lack of coordination between internal and external stakeholders. In addition, there are complex procedures and costs for SMEs associated with procurement pre-qualification requirements in the extractive industries sector. The absence of transitioning and exit strategies as well as different approaches to supply chains by non-traditional investors (from emerging markets) are also identified as barriers to successful local spillovers into the local economy.

Who are the Relevant Extractive Industries Sector Stakeholders?

A PPD can foster dialogue, collaboration, and communication within and between the following stakeholders in the extractive industries ecosystem. This will help overcome the key issues identified, promote investment, and foster spillovers.

Government. In Sub-Saharan Africa for example, there appears to be a correlation between governments having clear policy and regulation to support local procurement and increased supply chain spillovers. PPD will help governments adopt policies and regulations that will affect the investment climate and the ease of doing business. Facilitated dialogue will also be necessary to enhance coordination between ministries (Ministry of Mines and Ministry of Finance, for example) and between the central and regional public authorities.

Business Associations. A strong Chamber of Mines has been shown to be critical in driving local procurement programs, including the identification of opportunities and associated local suppliers.

Mining companies. Encouraging collaboration between mining companies, large and small, to identify opportunities will lead to more accurate identification of potential opportunities and wider opportunities for suppliers. In addition, involving other large customers will also lead to identification of opportunities for goods and services that are not specific to mining. Collaboration among companies in identifying supplier challenges, and developing and implementing support programs will also lead to more effective support as well as greater sustainability for suppliers.

Local suppliers. As businesses, chambers of commerce, and SMEs need to become aware of opportunities, local suppliers also need to communicate with the mining companies to address their needs (capacity building) and partake in PPD initiatives with the public sector (discuss policy issues related to local content procurement, taxes).

External partners. External partners such as IFC, the World Bank, and EITI are important for the delivery and coordination of technical assistance and to facilitate dialogue at the policy level between stakeholders.

Citizens. As mining companies focus on the location of a supplier within a country (community, regional, or national), and whether the supplier is registered in the country, other indicators of “local content” include the level of local participation of citizens in terms of firm ownership, management, and staffing. Besides, communities and NGOs advocating on their behalf will need to be engaged early in the planning phase of the mining project in regards to revenue management, distribution, and monitoring. Local governments, who are closer to the communities impacted by the mining operations, will need to be engaged as well.

Media. The media can be a key partner in efforts to promote accountability and good governance at the local level. A strong working relationship needs to be built on trust and recognition of each party's needs. Media can fuel or dispel rumors, update on the outcomes achieved through a PPD initiative, and help monitor progress or issues related to revenue management. As in any PPD process, the media can be engaged early but a clearly defined communications strategy should inform the timeliness, the process, and the type (such as press conference, TV, radio, or social media).

million artisanal and small-scale miners active around the world, the proportion of women miners was estimated at about 30% in 2003; their involvement may now be much higher. In Africa, women may make up anywhere from 40 to 100% of the workforce. In addition to working directly in mining, women often work part-time at informal mining operations and occupy ancillary roles (such as cooks and service providers). Because women are more frequently associated with transporting and processing materials, as opposed to digging, they are not always identified as miners.”⁴

A gender-specific element to PPD in general should involve women as key stakeholders of the value chain (such as

miners, service providers, key members of the community and households, and SME owners).

3. **Develop a Communications Strategy.** One of the main factors leading to misunderstanding as well as missed opportunities, frustration, and sometimes conflict between stakeholders in the extractive industries space is the lack of or weak communication between parties.

For example, PPD can enhance the communication of opportunities between mining companies and the local business community. Open and effective communication will also help mining companies engage with the communities and promote awareness and understanding

of royalties and municipal investment, for example. Communications strategies are also helpful for managing rumors and communities' expectations. Likewise, transparent communication by governments will foster good governance and transparency, especially when it comes to revenue management — the distribution of resource revenues to communities and local authorities —, and government investment in public goods at the regional level. Communities will themselves be more able to monitor activities by the private and public sectors and engage in feedback loop with the help of professional media outlets.

Conclusion

PPD offers stakeholders the chance to identify problems and suggest solutions in a safe and structured environment. It is a tool as well as a process that enhances transparency, accountability, and sustainability around reforms and other outcomes that will ultimately improve the investment climate, foster growth, and create jobs.

Sector-specific PPD provides a more focused response to sector challenges. In the case of extractives industries, PPD can ensure that prevalent issues — governance, transparency, inclusiveness, investors' protection, supply chain linkages, and spillovers — are addressed and solved for the benefits of investors, governments, and local communities.

Analysis and note prepared by Steve Utterwulghe (Investment Climate Department, World Bank Group).

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Notes

- ¹ IFC, *Annual Report 2012*.
- ² Adapted from Kaiser Associates, *Increasing Local Procurement by the Mining Industry in West Africa* (January 2012). The term beneficiation refers to "a variety of processes whereby extracted ore from mining is separated into mineral and gangue."
- ³ Ministerial Council on Mineral and Petroleum Resources (MCMPR), *Principles for Engagement with Communities and Stakeholders* (November 2005).
- ⁴ World Bank, *Gender Dimensions of Artisanal and Small-Scale Mining: A Rapid Assessment Toolkit* (2012).

Contact

Steve Utterwulghe | Global Lead, Public-Private Dialogue | Investment Climate

Email: sutterwulghe@ifc.org

TEL: 1-202-473-3203

www.wbginvestmentclimate.org