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International Resource Panel

Mineral Resource Governance in the 21st Century

GEARING EXTRACTIVE INDUSTRIES TOWARDS SUSTAINABLE DEVELOPMENT

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GEARING EXTRACTIVE INDUSTRIES TOWARDS SUSTAINABLE DEVELOPMENT

Coal industry, South Africa. Photo: Jassen Todorov © Getty images

FOREWORD

Well-managed income from extractive resources presents tremendous opportunities for supporting sustainable and inclusive development –particularly for low- and middle-income countries whose economies rely heavily on natural resources. In addition to generating government revenues, extractive projects can create jobs, build infrastructure and transfer technologies.

Yet natural resource extraction and use is not always done wisely, bringing a host of problems. As this report by the International Resource Panel shows, extractive operations can cause extensive and lasting damage.

Aside from such environmental disasters, resource rich nations face other issues when trying to use wealth from their natural resources to drive sustainable development. Volatility in commodity prices, limited national capacities, weak links to the rest of the economy, corruption and social unrest all undermine the transformative potential of extractive activities.

This report shows that good governance is key to managing environmental and social impacts, and unlocking the sector's potential as a catalyst of sustainable growth and development. Many of today's wealthiest countries were built on the back of natural resources. A modern example of a developing country making wise use of resources can be seen in Botswana, which has deployed its diamond deposits to promote broad-based development.

Significant efforts have been made to develop instruments to address governance gaps in the extractive sector. But we need broader and more collaborative governance for the industry to become an enabler of sustainable development. This report sets out principles and policy options that can help consolidate existing instruments, strike fairer deals, promote an equal share of benefits and ensure the protection of nature and people's lives.

I encourage everyone involved in the extractive sector to read this report, apply its recommendations and become part of the movement to create a better future for everyone.

Joyce Msuya
Deputy Executive Director
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PREFACE

Extraction of mineral resources has risen markedly in recent decades and will continue to grow to serve the needs of a growing, more affluent and increasingly urban population. Greater resource efficiency and circularity need to be prioritized around the globe to reduce demand for virgin materials, as current trends of resource extraction and processing cause environmental impacts that would exceed the planetary boundaries (GRO 2019). Especially high-income countries must strive for absolute decoupling of virgin resource use from economic growth. Developing countries need to relatively decouple growth from resource use, but will continue to grow demand for virgin resources to develop their basic infrastructure. Therefore, despite decoupling, resource extraction will continue to grow until necessary infrastructures are in place and resource circularity is effective globally. The global transition towards clean energy production will accentuate this pattern as renewable energy sources require much greater amounts of metals, both of the common and rare types, than energy production from fossil fuels.

The future demand outlook for metals and minerals presents notable opportunities for countries endowed with these resources to harness their extractive wealth to advance economic development and human well-being. Nonetheless, for a majority of resource-rich developing countries, mining, oil or gas exploitation has not translated into broad-based economic, human and social development. This is partly owing to the 'enclave' nature of the extractive industry, with few links to the local economy, in most of the developing world. Moreover, the industry is disruptive and can lead to severe environmental degradation and disruption of social fabric, in some cases, even unleashing political dynamics that result in the deterioration of governance and serious conflicts.

In response, mining companies have in the past two decades increasingly sought to secure acceptance of their activities by local communities and other stakeholders, build public trust and prevent social conflict. Such attempts to earn a 'Social License to Operate' are important in recognizing the need for mining companies to bear responsibility for the negative social implications of their practices, and have resulted in an explosion of soft regulation aimed at addressing the adverse consequences of mining. Notwithstanding, the agenda of the social license framework depicts industry's pragmatic, minimum response to business risk arising from public opposition and social conflict. In addition, the report's review of close to 90 existing international instruments governing the mining sector concludes that they tend to present piecemeal efforts and, importantly, often fail to be implemented at the national level.

The report thereby calls for moving beyond the established paradigm of the 'Social License to Operate', towards a new governance reference point that enables public, private and other relevant actors in the extractive sector to make decisions compatible with the 2030 Agenda's vision of sustainable development. The new governance framework put forward in the report is referred to as the 'Sustainable Development License to Operate' which extends the Social License to Operate in several important ways. It is relevant to all actors in the extractive sector, and its implementation is a shared responsibility by 'host' and 'home' countries along the extractive value chain. Importantly, it addresses a broader subject matter integrating all pillars – people, planet, prosperity, peace and partnership – of sustainable development, and sets out principles, policy options and good practices for enhancing the extractive sector's contribution to achieving the Sustainable Development Goals. At national level, the International Resource Panel suggests that countries adopt a Strategic Development Plan with proposed actions by different

stakeholders pertaining both to the mining sector as well as other sectors impacted by or impacting on mining, and mapped against the Sustainable Development Goals. The Plan could entail a mining law enshrining the principles of consultation, transparency and reporting, recognising the rights of local populations, and setting performance standards. It should also facilitate the creation of three core public institutions – an Environment Directorate, a Mining Directorate and a Geological Survey – to promote and regulate the development of mines and metals industries.

At the international level, the Panel discusses the creation of an International Minerals Agency, or the signing of an international agreement, to, inter alia, coordinate and share data on economic geology, mineral demand needs, and promote transparency on impacts and benefits. It is hoped that the UN Environment Assembly, the Intergovernmental Forum on Mining, Minerals, Metals and Sustainable Development, and wider ongoing UN processes focused on reviewing progress towards the 2030 Agenda for Sustainable Development could serve as fora for negotiating an international consensus regarding the specific policy options and programmes for the implementation of the new global governance framework for the extractive sector set forth in this report.

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EXECUTIVE SUMMARY

THE MINERAL RESOURCE GOVERNANCE TODAY: THE IMPERATIVE FOR CHANGE

There is a growing recognition that the extractive sector, if well-managed, can play a positive role in promoting broad-based development and structural transformation of economies. In the context of the current global development agenda, the sector has direct links to a large number of the 17 Sustainable Development Goals (SDGs) - specifically those relating to poverty eradication, decent work and economic growth, clean water and sanitation, life on land, sustainable and affordable energy, climate action, industry and infrastructure, as well as peace and justice. Mining generates significant revenue streams through taxes, royalties and dividends for governments to invest in economic and social development (Goal 1). Mining can help drive economic development and diversification through direct and indirect economic benefits, the development of new technologies and by spurring the construction of new infrastructure for transport, communications, water and energy (Goal 9). It can alter the lives of local communities, offering opportunities for jobs and training, while contributing to economic and social inequities if not appropriately managed (Goal 8). Moreover, mining requires access to land and water, which gives rise to significant and wide-ranging landscape impacts that must

Many of today's wealthiest and most powerful countries were built on the back of significant natural resource endowments and, in some cases, their economies are still largely based on the exploitation of extractive resources. Even among developing countries, this path to prosperity is being repeated in countries such as Botswana that have judiciously used diamond resources to promote broad-based development. Indeed, if managed prudently, mineral wealth presents enormous opportunities for advancing sustainable development -particularly in low-income countries.

In addition to generating vast amounts of government revenue through taxes, royalties and other levies, extractive projects can also yield benefits by, inter alia, fostering the emergence of competitive small and medium-scale enterprises that supply goods and services to the industry; opening up access to modern infrastructure and leveraging it to support a wider range of development objectives and boost productivity in other sectors; and facilitating the transfer of technologies and know-how, thus strengthening local human capital formation (which is the key to structural transformation).

However, mineral resources have attributes that make them difficult to manage and, for most