



Attracting Responsible Mining Investment in Fragile and Conflict Affected Settings

Fraser Thompson
Senior Fellow
McKinsey Global Institute (MGI)

Reversing the curse presentation
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December 2013

Reverse the curse: Maximizing the potential of resource-driven economies

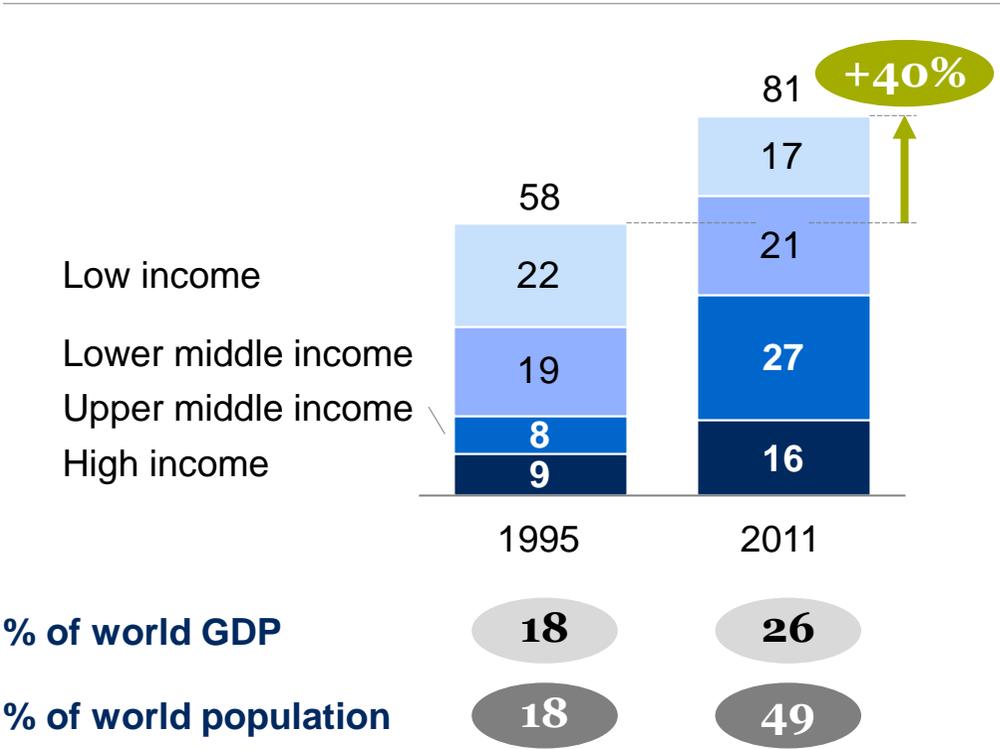


Central questions

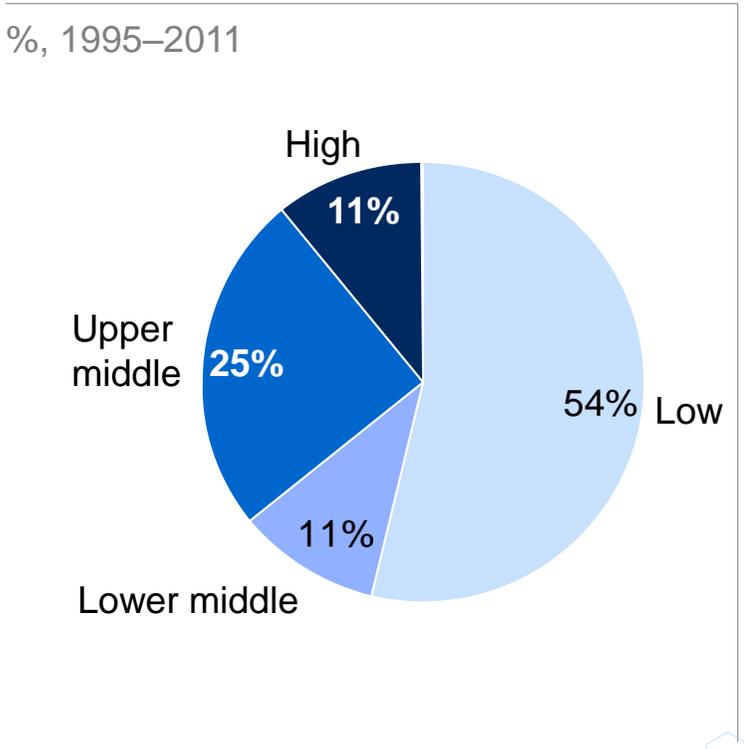
- 1 How is the resource supply landscape changing?
- 2 What are the implications for resource-driven economies?
- 3 What are the implications for extractive companies operating in these countries?

The number of resource-driven countries has increased by almost 40% since 1995 and most newcomers have low average incomes

Number of resource-driven countries over time, by income class



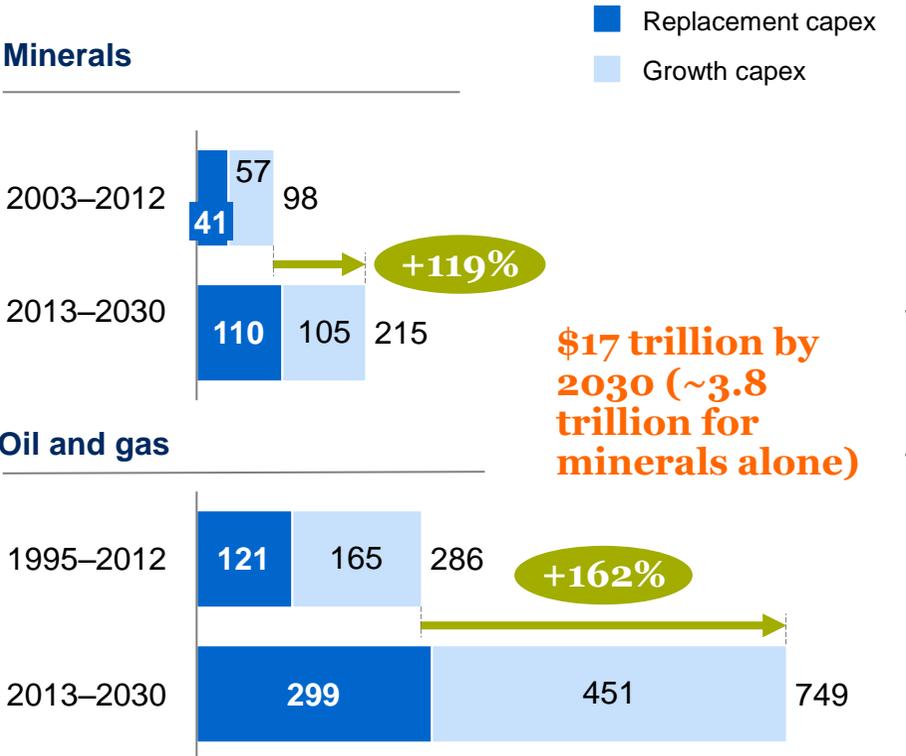
Income class at time of becoming resource-driven



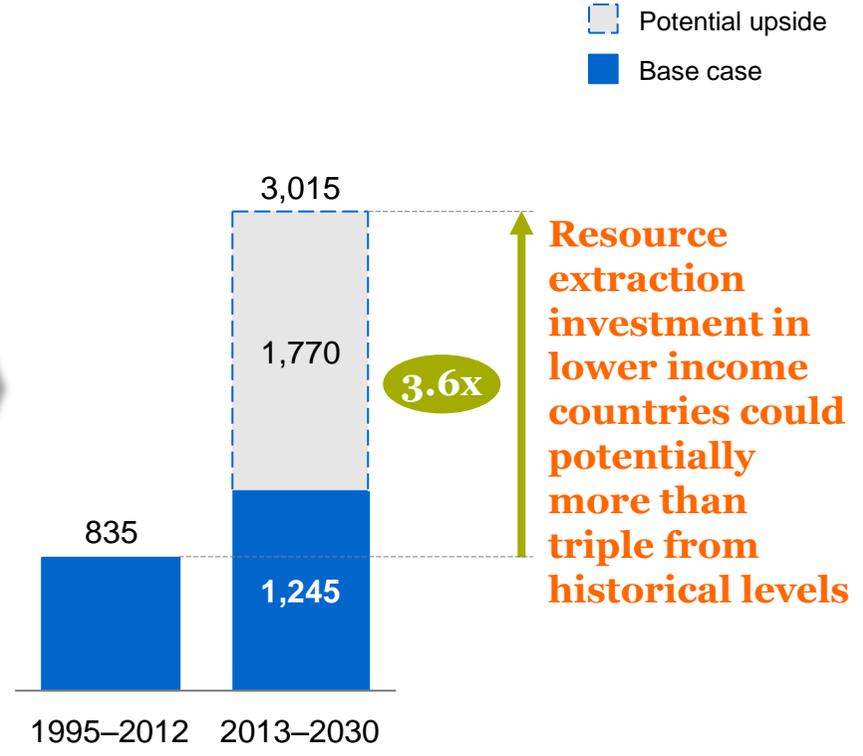
Annual investment in oil and gas and minerals could need to more than double to meet new demand and replace existing supply

2012 \$ billion

Annual investment requirements



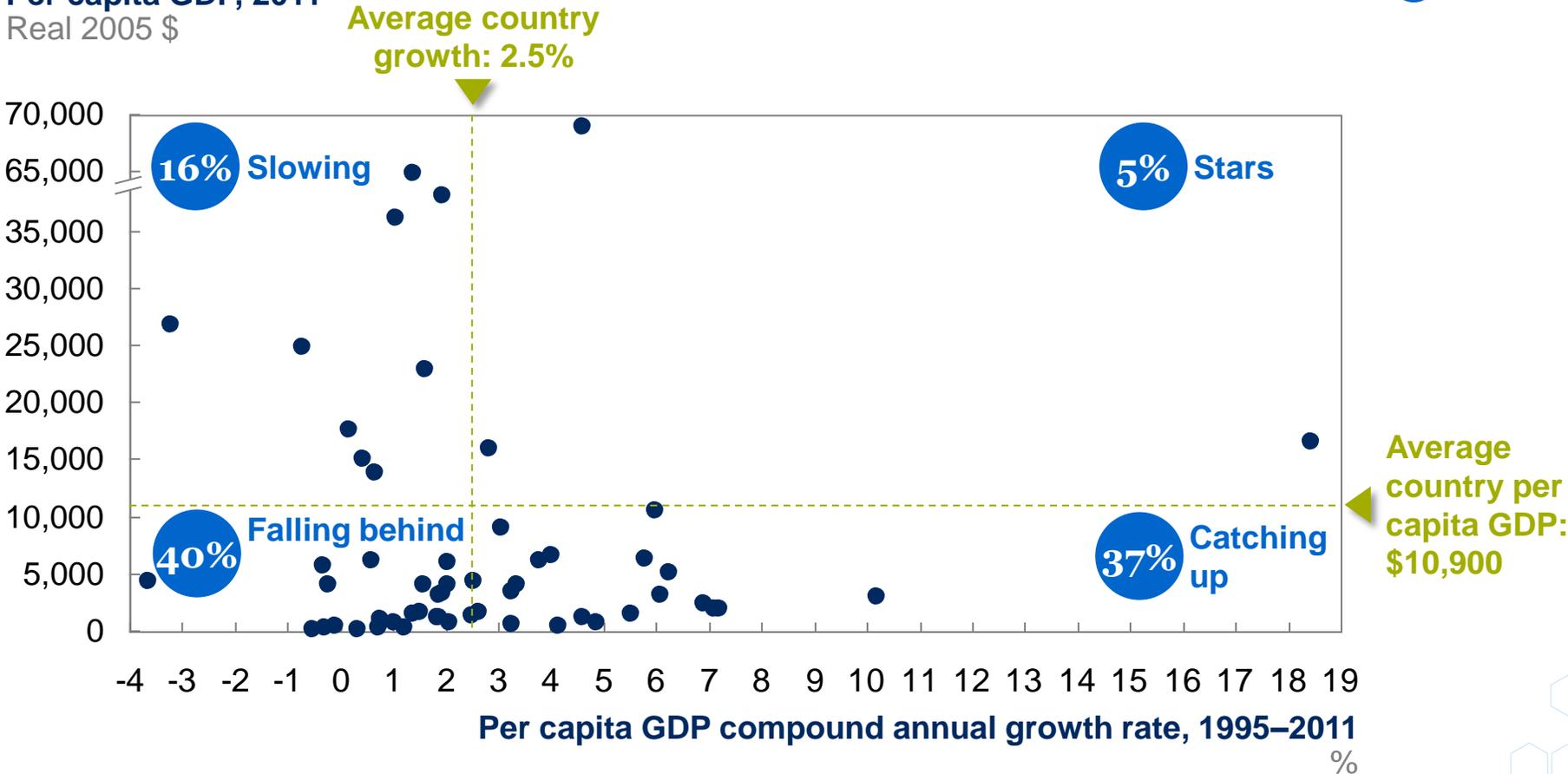
Resource investment in low and lower-middle income countries



However historically resource-driven countries have not performed well economically

Per capita GDP, 2011
Real 2005 \$

● % of RDCs



Our research suggests governments must consider six important dimensions to transform sub-soil wealth into long-term prosperity

Objectives

Topics

Produce resources efficiently



- 1** | Institutions and governance
- 2** | Infrastructure

Capture value from resources



- 3** | Fiscal policy/competitiveness
- 4** | Local content

Transform value into long-term development



- 5** | Spending the windfall
- 6** | Economic diversification

Three factors are putting pressure on the social contract between extractive companies and resource-driven countries



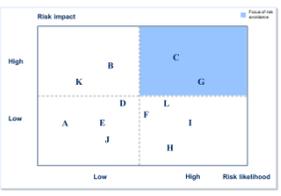
- 1. High and volatile resource prices.** Volatile resource prices have led to significant choppiness in resource rents and increased the likelihood that governments feel “cheated” and seek to renegotiate terms.
- 2. New projects are bigger and more complex.** Exploration and production are increasingly moving toward deposits which are environmentally and logistically challenging and geologically complex. This is driving up project costs and increasing the risk of delays.
- 3. Projects are a large share of the economies.** Historically, petroleum projects have been on a huge scale relative to their host economies, but today some mining projects are on a similar relative scale.

Companies need to shift their approach in managing these risks – moving it from “art” to “science”

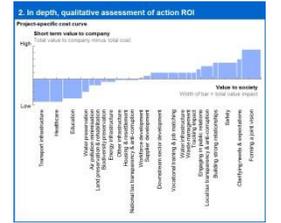
1 **Develop a detailed understanding of the country context**
 10 dimensions matter, which go beyond simple political risk considerations



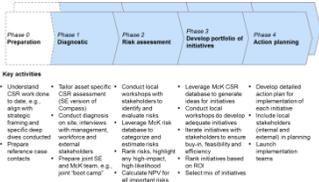
2 **Properly understand the risk (and upside)**
 What type of risks does under-performance create?
 Which are possible consequences and what is the magnitude/impact if risk materializes?



3 **Understand performance versus expectations**
 To what degree are company priorities aligned with key stakeholder priorities?
 How is the company performing vis-à-vis those expectations?



4 **Explore bold moves that create a symbiotic relationship**
 Don't optimize for the short-term
 Understand network of decision-makers and influencers
 Make clear to government what is at stake
 Link the company's operations to the country vision



Key activities:

- Phase 0 Preparation:**
 - Understand CSR work cases to date, e.g. align with strategy, branding and specific deep focus, identified and reference cases, contacts
- Phase 1 Diagnostic:**
 - Tailor asset specific CSR assessment to date, e.g. align with strategy
 - Conduct diagnosis on risk, business, and management, working and operations
 - Prepare joint SE and M&A team, e.g. joint "roadmap"
- Phase 2 Risk assessment:**
 - Conduct local workshops with SE team of Company
 - Leverage M&A case studies to identify and assess risks
 - Dark risks, highlight high-likelihood and high-impact, e.g. "all important risks"
- Phase 3 Developing portfolio of initiatives:**
 - Leverage M&A CSR database to generate ideas for initiatives
 - Conduct local workshops to develop relevant initiatives
 - Iterate initiatives with stakeholders to ensure efficiency
 - Rank initiatives based on ROI
- Phase 4 Action planning:**
 - Develop detailed action plan for implementation of each initiative
 - Include local stakeholders (internal and external) in planning
 - Local implementation teams
 - Select one of initiatives