Attracting Responsible Mining Investment in Fragile and Conflict Affected Settings

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Reversing the curse presentation
February 6, 2014

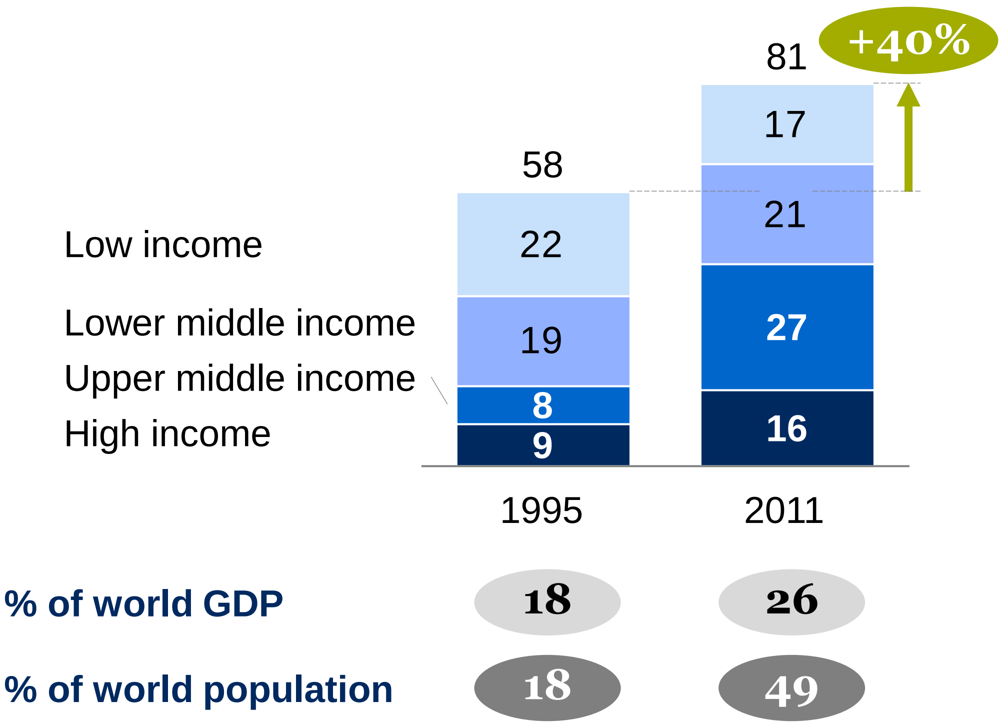
This presentation draws upon material in our “Reverse the curse” report – available for download at www.mckinsey.com/mgi

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?

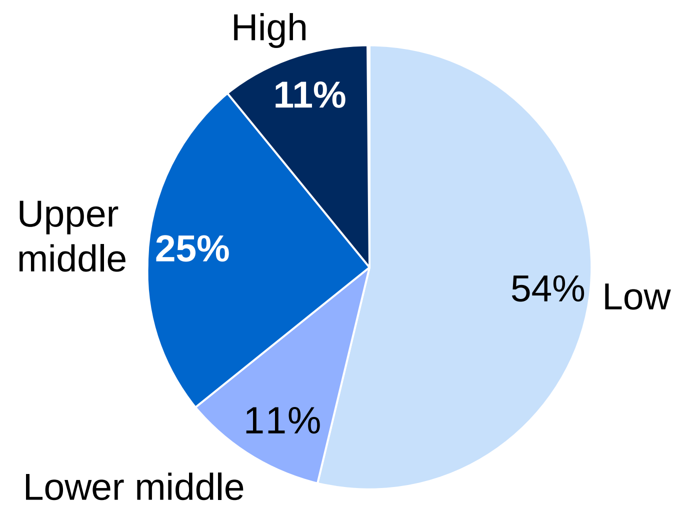
The number of resource-driven countries has increased by almost 40% since 1995 and most newcomers have low average incomes

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



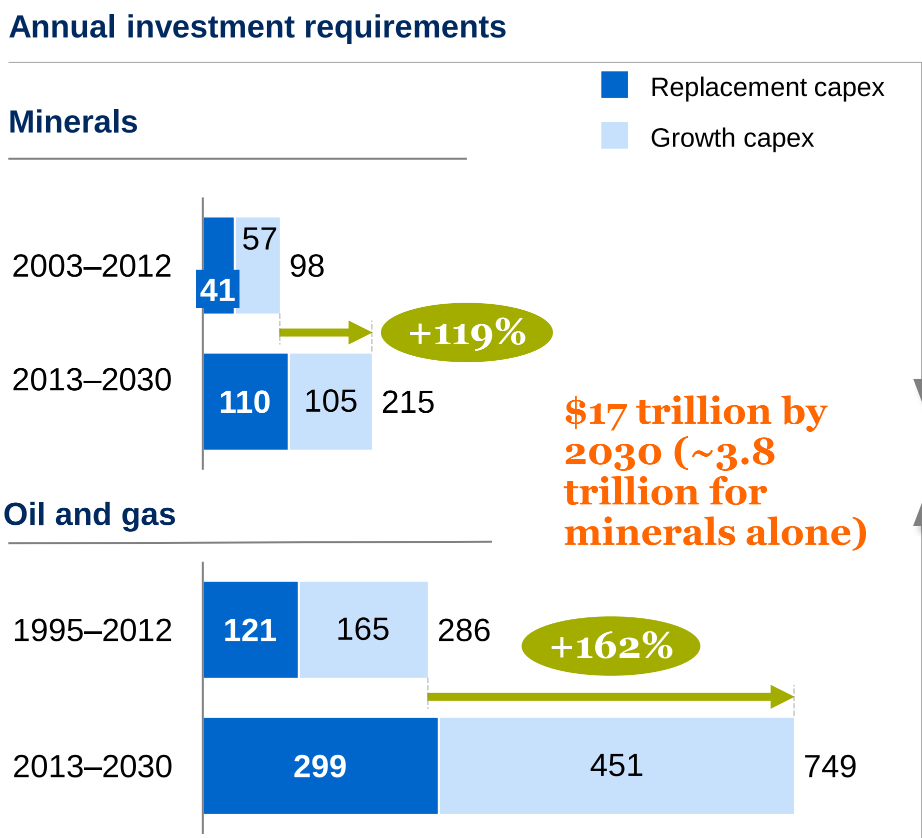
Income class at time of becoming resource-driven

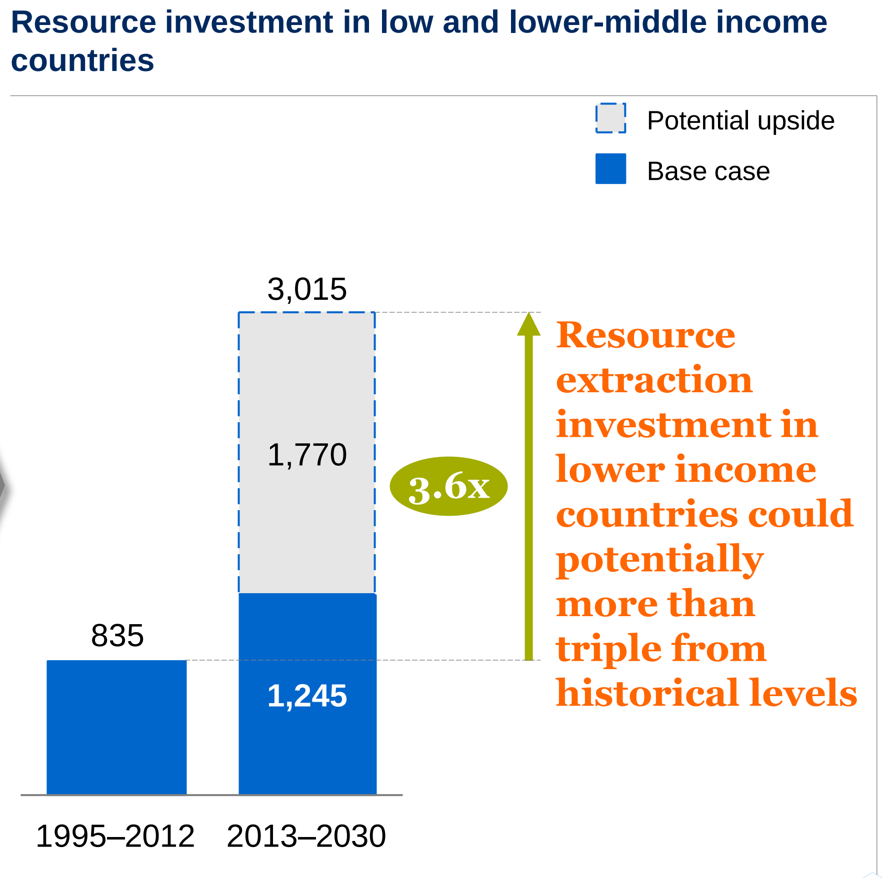
%, 1995–2011



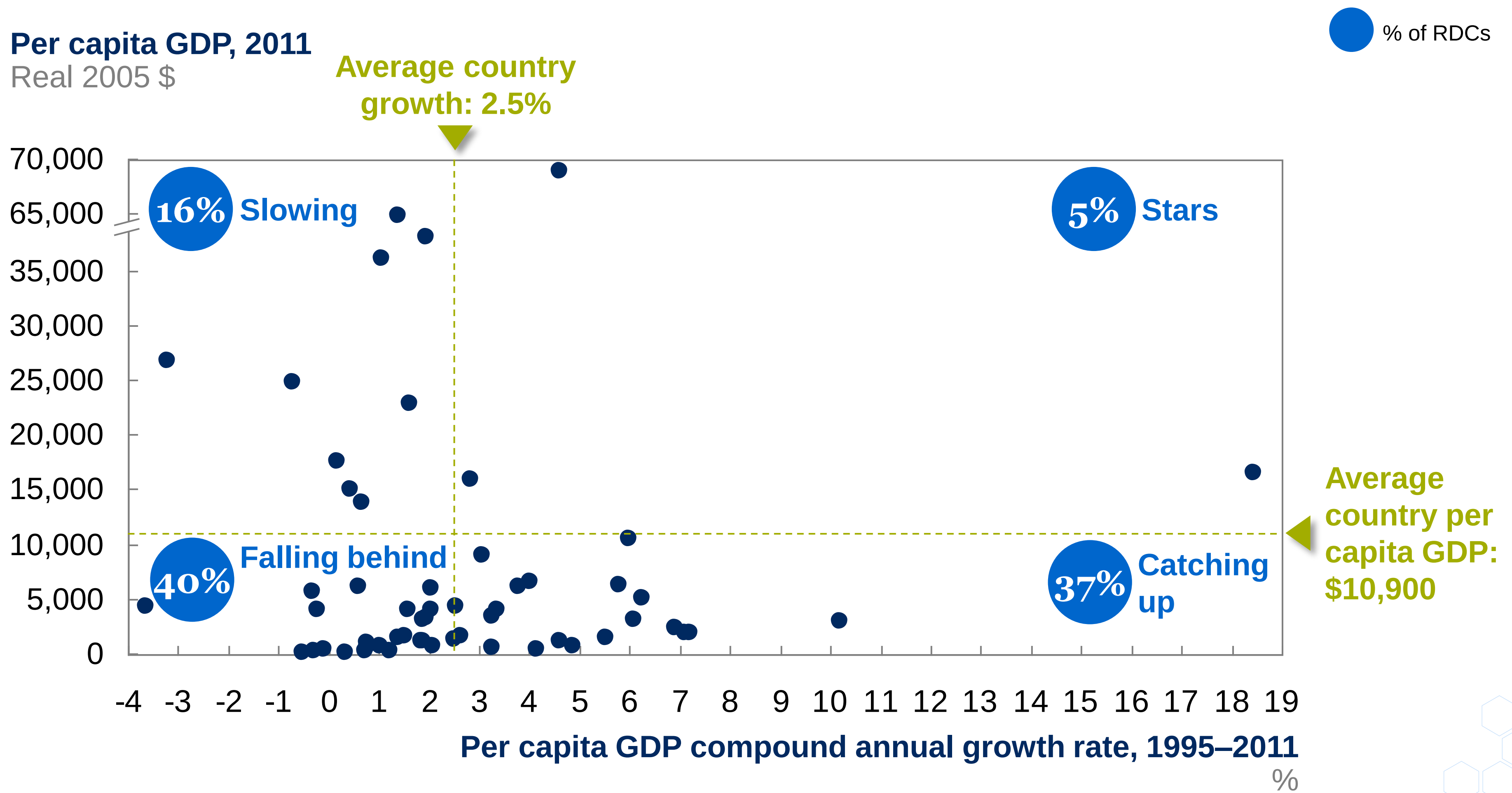
Annual investment in oil and gas and minerals could need to more than double to meet new demand and replace existing supply

2012 $ billion





However historically resource-driven countries have not performed well economically



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.

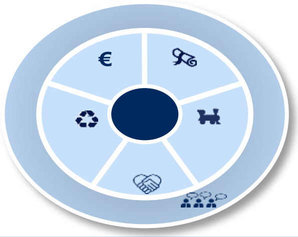
3. Projects are a large share of the economies. Historically, petroleum projects have been on a huge scale relative to their host economies, but today some mining projects are on a similar relative scale.

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

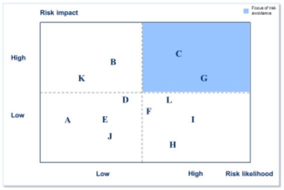


2

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?

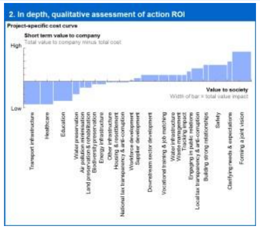


3

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