



# Attracting Responsible Mining Investment in Fragile and Conflict Affected Settings

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Reversing the curse presentation  
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# This presentation draws upon material in our “Reverse the curse” report – available for download at [www.mckinsey.com/mgi](http://www.mckinsey.com/mgi)

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December 2013

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

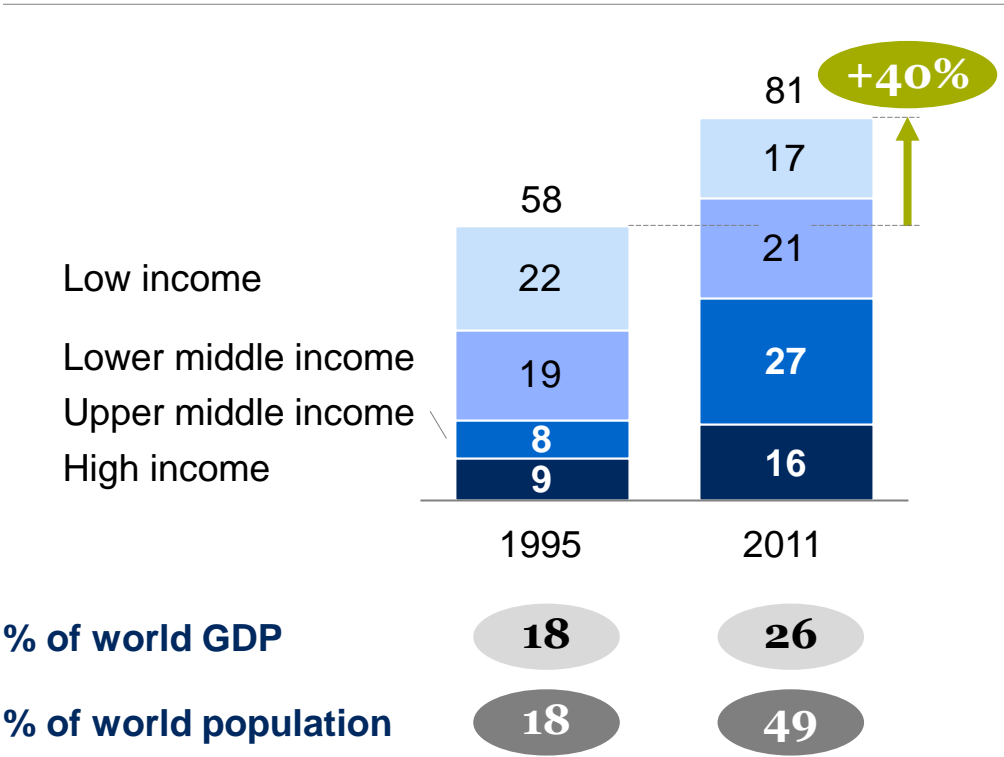


## Central questions

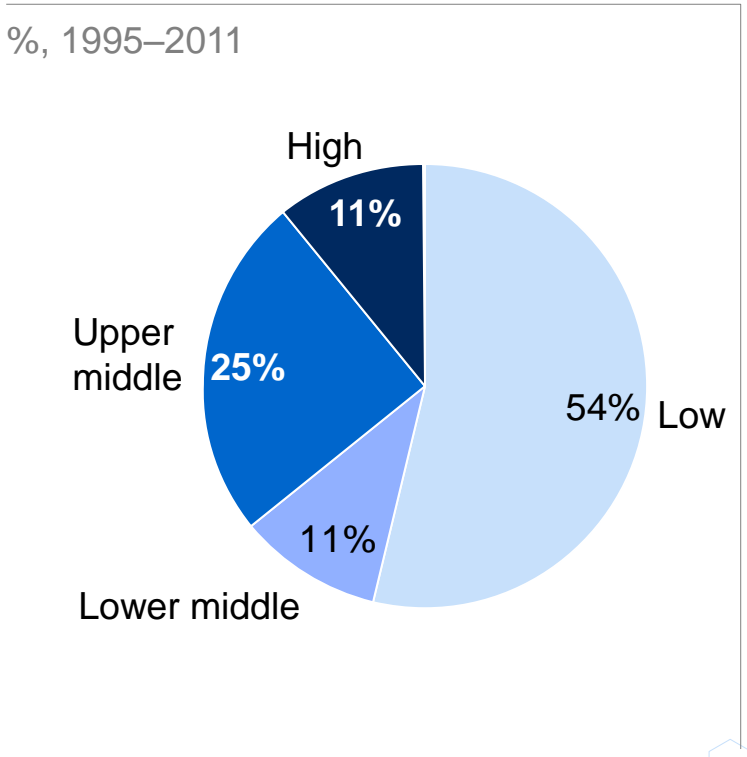
- 1 How is the resource supply landscape changing?
- 2 What are the implications for resource-driven economies?
- 3 What are the implications for extractive companies operating in these countries?

# 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



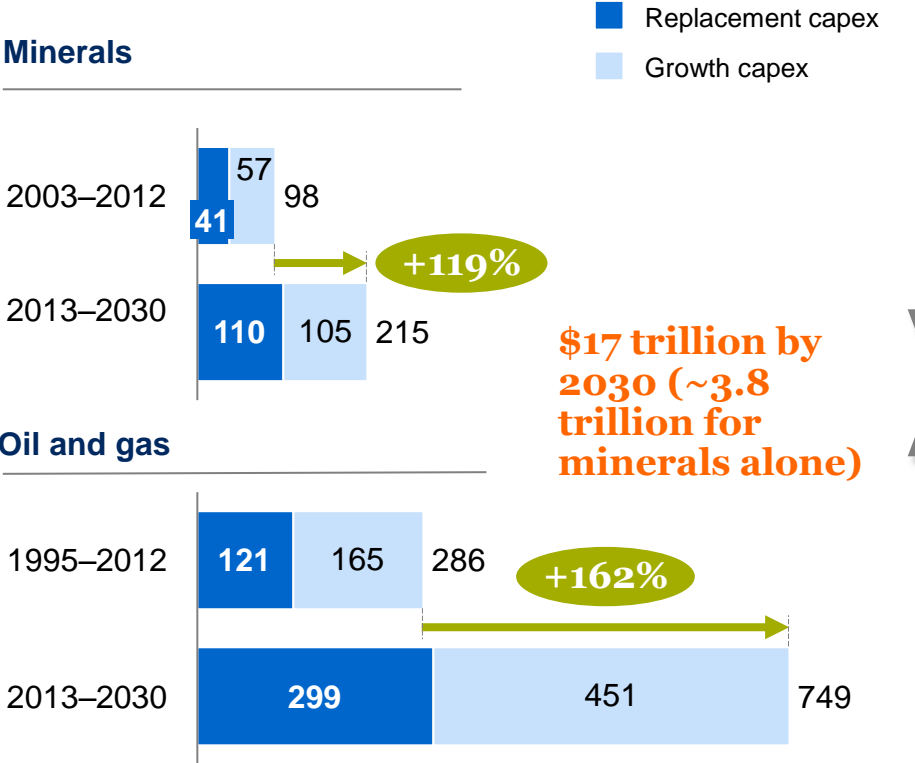
Income class at time of becoming resource-driven



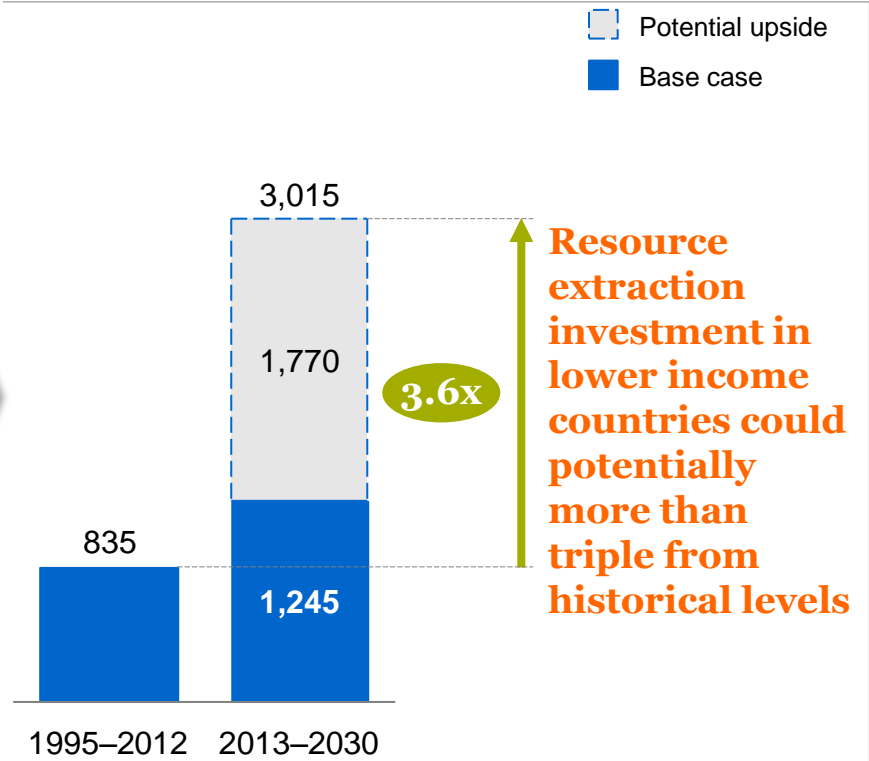
# Annual investment in oil and gas and minerals could need to more than double to meet new demand and replace existing supply

2012 \$ billion

## Annual investment requirements



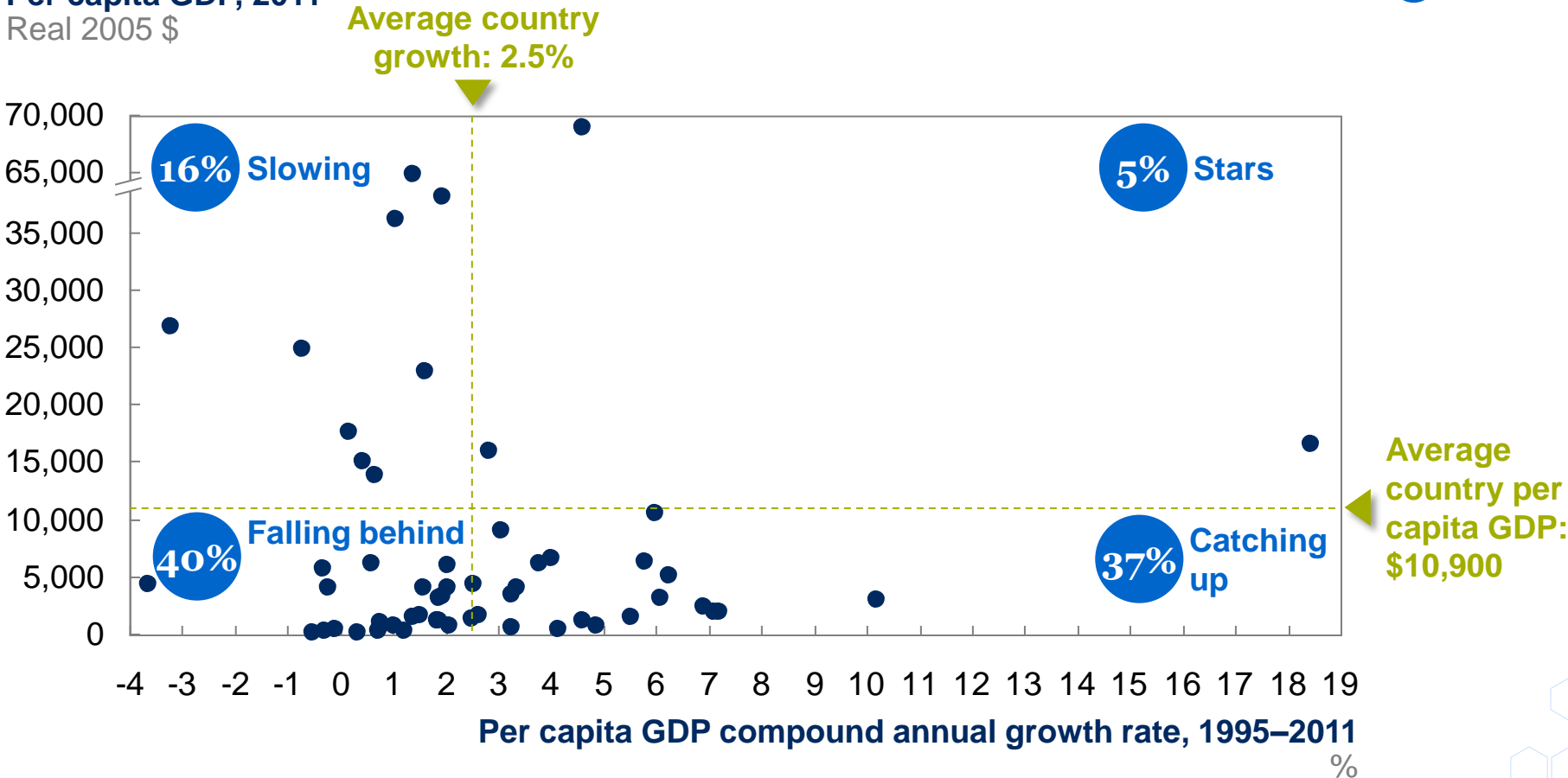
## Resource investment in low and lower-middle income countries



# 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

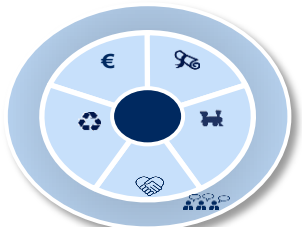
## Three factors are putting pressure on the social contract between extractive companies and resource-driven countries



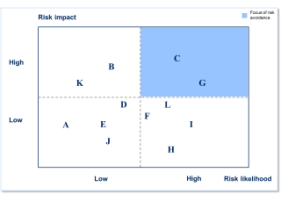
- 1. High and volatile resource prices.** Volatile resource prices have led to significant choppiness in resource rents and increased the likelihood that governments feel “cheated” and seek to renegotiate terms.
- 2. New projects are bigger and more complex.** Exploration and production are increasingly 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”

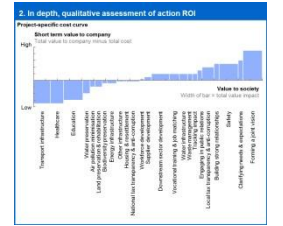
**1** **Develop a detailed understanding of the country context**  
 10 dimensions matter, which go beyond simple political risk considerations



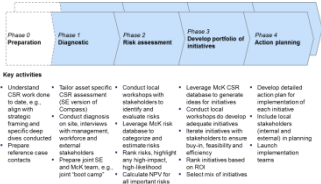
**2** **Properly understand the risk (and upside)**  
 What type of risks does under-performance create?  
 Which are possible consequences and what is the magnitude/impact if risk materializes?



**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, relevance, and management, working and ownership
  - 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 assess risks and opportunities
  - Dark risks, highlight high-likelihood and high-impact
  - Calculate MVA by 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