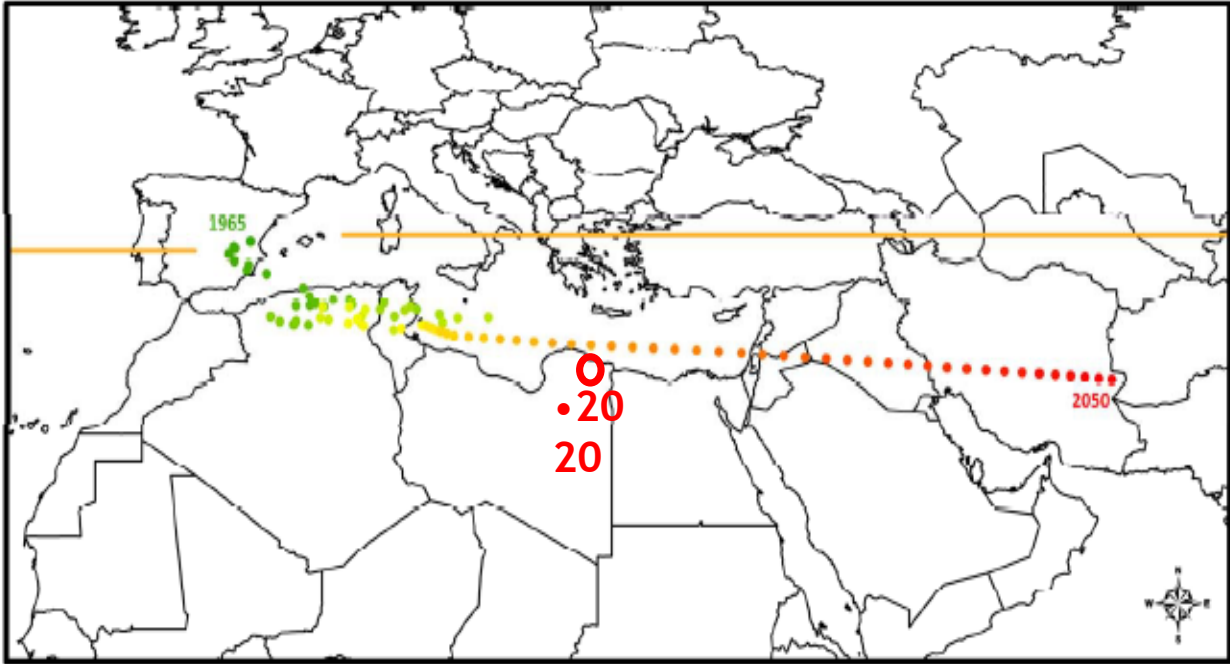


The Implications of Emerging Market Trends for Mining: A World Bank Group Perspective

London, April 24 2013

The world's economic center of gravity is shifting South and East..

Economic Center of Gravity: 1965 - 2050
GDP, Market Exchange Rates

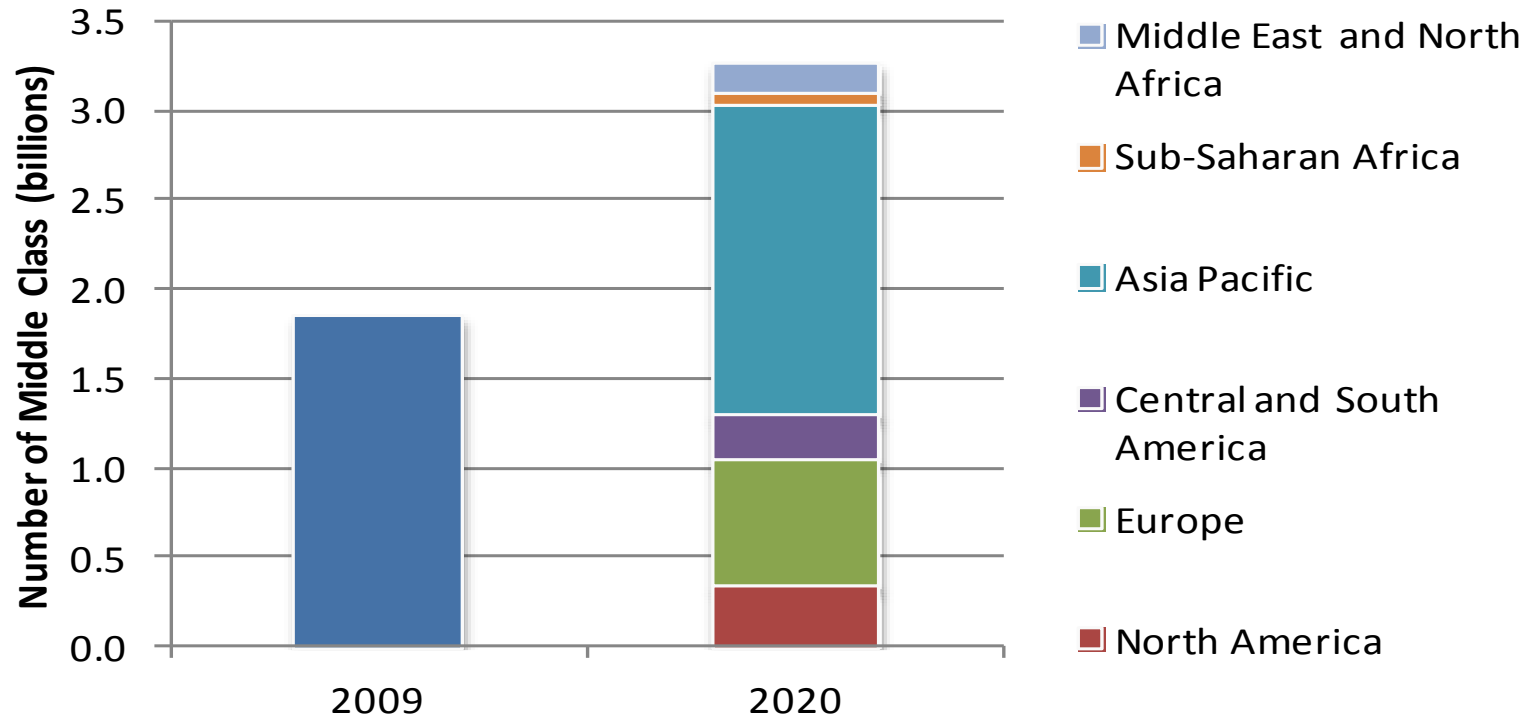


*Note: Green indicates earlier years, red indicates later years.
Orange lines highlight the latitudes of DC and Beijing (for reference).
Homi Kharas, Brookings
Dan Hammer, Center for Global Development

The “G-7” group of biggest economies will over the next 40 years be largely replaced by EMs.

Middle class is growing around this shifting centre of gravity.

Global Middle Class by region, 2009-2020

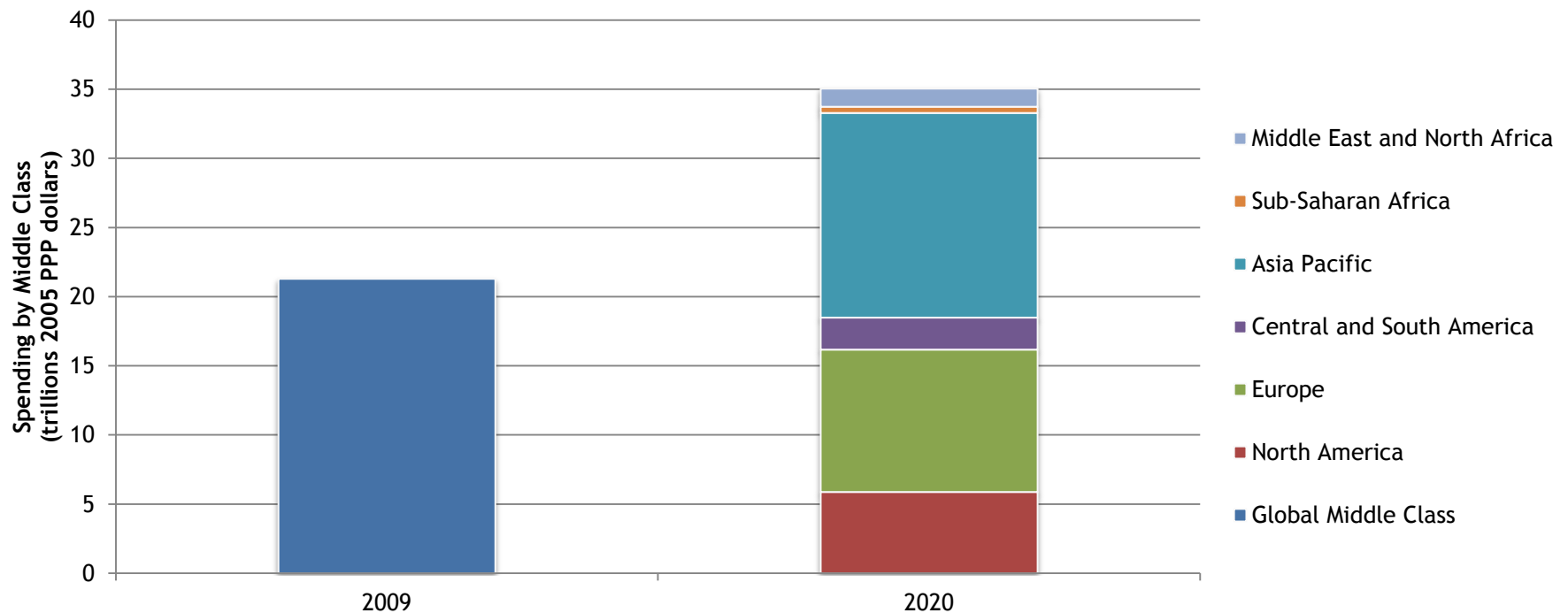


- EM economic growth will drive the increase of middle-income people
- The middle classes in the world (\$6,000-\$30,000 in PPP terms) are growing 90 million people p.a., reaching 3.6 bn by 2030 (vs. 1.9 bn today).

This growing global middle class has spending power...

- EM Middle Class (esp. Asian) consumption will replace stagnant demand in US and Europe
- EMs are 86% of global population but consume less than 40% of packaged goods

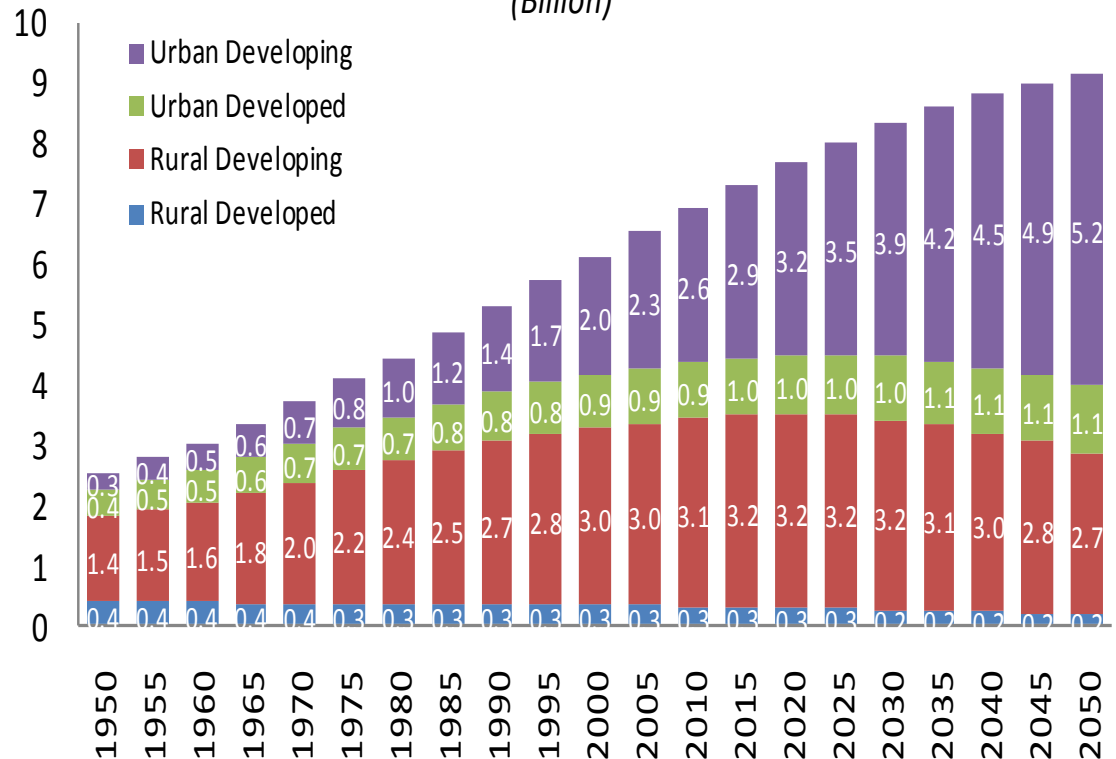
Global Middle Class Spending, 2009-2020



...and will inhabit a more connected, urbanized world

World Urban and Rural Population

(Billion)

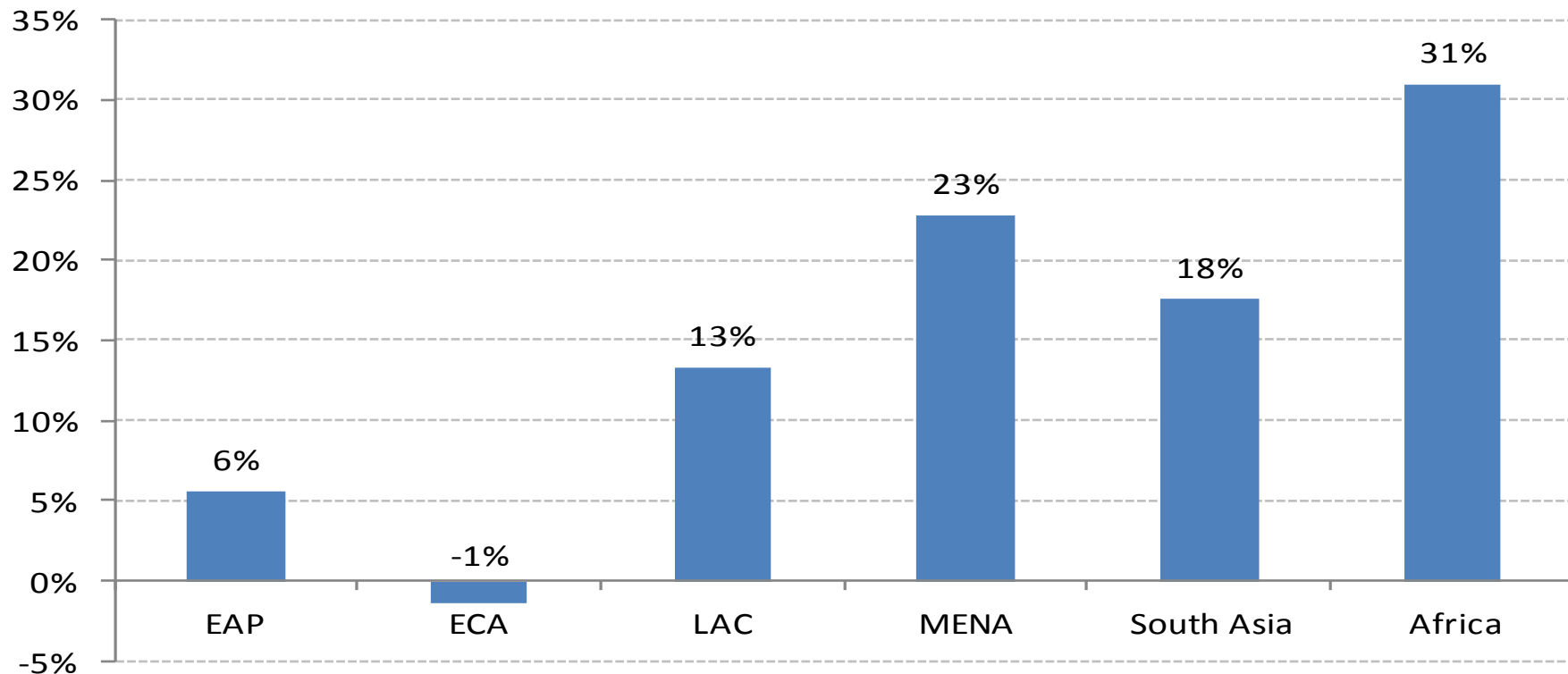


- EMs are largely rural today but by 2020, urban population will exceed rural population in EMs.
- Strong demand for housing and urban infrastructure. India has only built 20% of the housing it will need by 2020.
- There is growing demand for ITC - data traffic doubling annually in Africa and Asia – by 2020, near-universal access to broadband and mobile in urban areas

Jobs will be needed for 600 mn people in the next 10 years

Expected Change in Working Age Population

(% - 2020 vs. 2010)



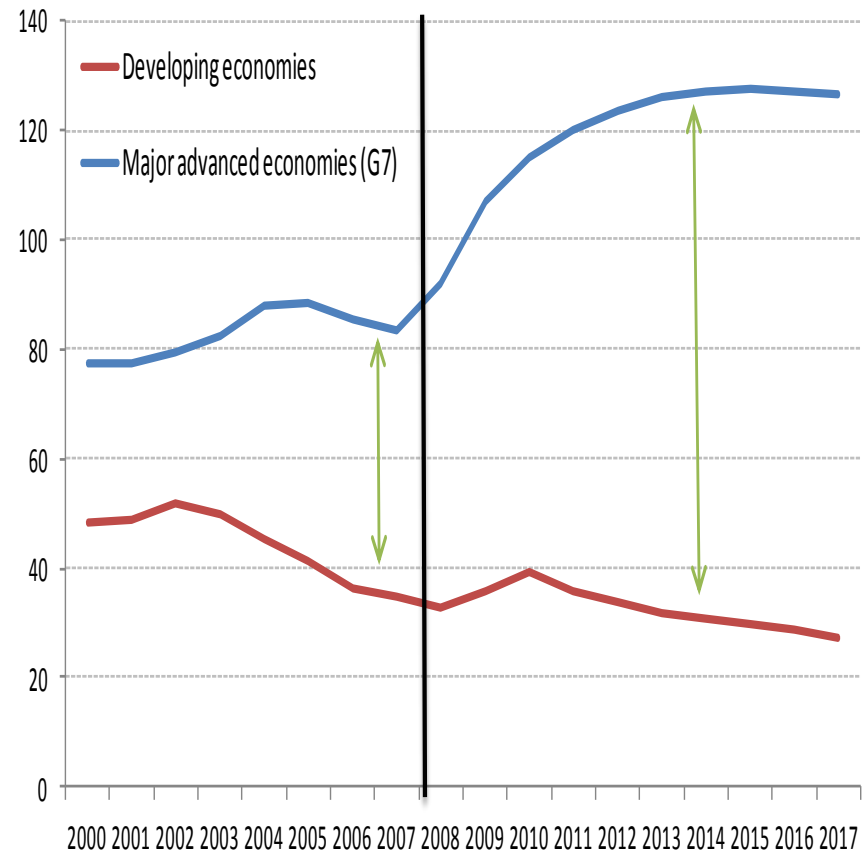
- The working age pop in EM will increase by 500 mn by 2020, almost 930 mn by 2030.
- EM countries will need to generate 50 million new jobs per year between 2010 and 2020

Deleveraging will continue to 2020

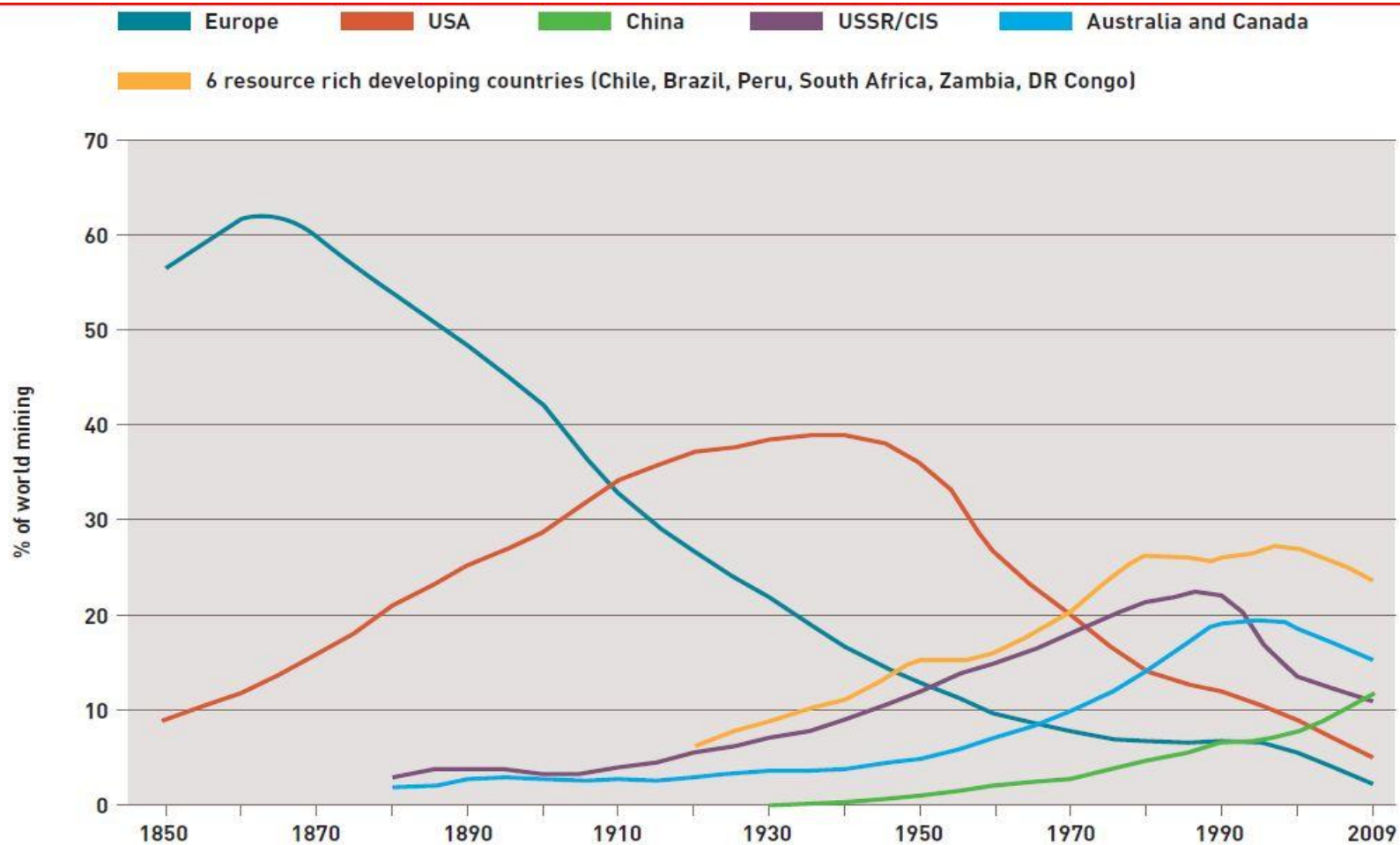
- Government debt levels have increased dramatically in developed countries, to above 120% of GDP.
- Tackling public debt will be a key issue in the next decade in the developed world - prudent policy actions will be important to avoid return of acute crisis
- Emerging markets have proved resilient in recent years - thanks to greater policy space and improved policy frameworks

Government Gross Debt

(% of GDP)



Mining production is tracking the economic centre of gravity..



Source: Raw Materials Group, Stockholm, Sweden.

Source: ICMM October 2012

... and this supply, though more difficult, will be sustained in the medium to long term

- Supply will be more expensive and difficult
 - New sources of supply – long lead times, more complex deposits, further from market,
 - Upward pressure on costs of production
- Drivers of demand will grow in medium term
 - Population growth in EM
 - Rising EM incomes
 - Urbanization and need for infrastructure
 - Continued, commodity-intensive growth in EM
- Super cycle prices look to be past peaks though likely to be volatile

Supply is shifting into areas with weaker governance

Weak Governance – The quality of institutions matters

- Strong institutions and transparency are condition for the sustainable development of resource rich countries and poverty reduction. Even with strong governance, macro-fiscal management can be difficult.
- Resource discoveries in new and more difficult countries present a challenge, putting a premium on transparency

And political risk and resource nationalism are rising

Resource Nationalism – Need for balance between fair sharing and investor certainty

- Resource nationalism has been on the rise – in developed and developing countries – around the globe
- Strong institutions can safeguard against sudden policy changes and ensure a balance between a host country getting a fair share while maintaining investor confidence

So transparency will continue to gain currency

- Awareness of the need for greater transparency in the EI sector has gained traction over the past decade (EITI, Dodd-Franks, EU Directive etc)
- The landscape is shifting further and stakeholders are moving beyond revenue transparency to transparency and disclosure of licenses, terms of contracts etc.
- Transparency of contracts helps companies that are entering on fair terms and doing deals above the table to show communities, investors, and other stakeholders that they are doing the right thing. Disclosure may also enhance the stability of the agreements by safeguarding against future claims of unfair terms
- In 2012, IFC introduced a contract disclosure requirement to complement its requirement for revenue disclosure.

...and community expectations are also rising

- Community expectations are growing and the industry has experienced some violent disruptions
- By providing access to infrastructure, jobs and economic opportunities the mining industry can extend significant development impact to communities.
- Companies need to be proactive, transparent and strategic in their community investments and make them a core part of the mine project planning process.



Mining companies will increasingly need to think about local jobs - and education for jobs...

- Jobs are a cornerstone of development and the main path out of poverty
- The private sector provides 9 out of 10 jobs in developing countries – direct employment in the mining sector is low, but multipliers are high
- Skills shortage is a key risk to the mining industry – and has been listed as such consistently among the top ten concerns in the past five years
- More cooperative approaches between companies and other stakeholders are needed: the industry needs to think long term

...and local procurement to benefit communities

Multi-stakeholder approaches are emerging to build up local supply chains that can service the larger industry.



- Benefits through indirect employment generation and income through local supply chain development can be significant.
- Many countries have local content requirements
- Strategic approaches to local procurement are important

by focusing on both supply chains and supporting SMEs



Challenges

- Undefined local content regulations
- Access to finance for SMEs
- Capacity to meet quality standards
- Personnel and skill shortage

Lessons

- Increase ease of doing business.
- Define “local” procurement
- Integrate local procurement into operations

Good local revenue management also benefits communities

- Royalties and taxes are increasingly paid by extractive industries to local governments
- Often local government don't have the capacity to invest those resources in projects that provide tangible benefits to communities
- AND... communities are unable to hold local authorities to account
- IFC works with a range of stakeholders to enhance royalty management to ensure that extractive industries adequately benefit local communities – thereby also improving community perceptions

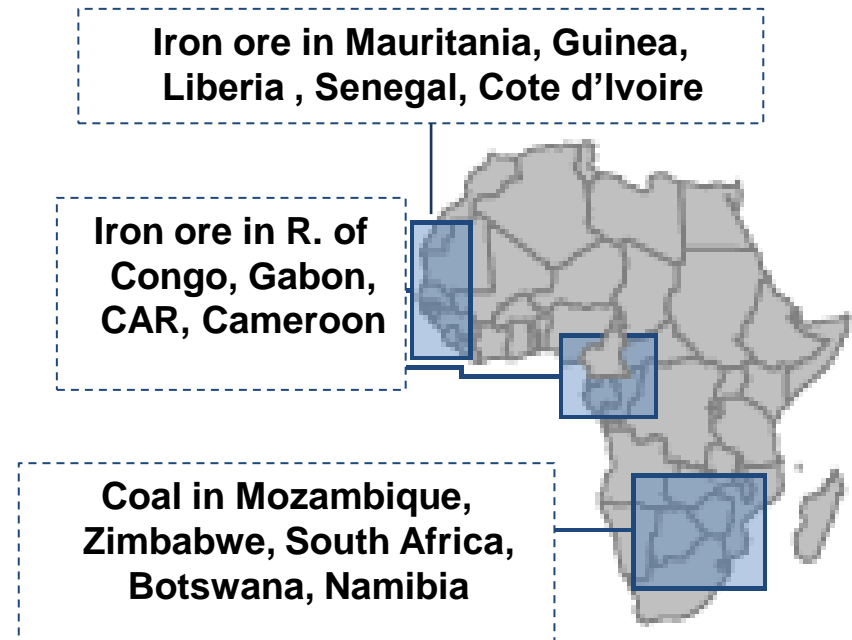
In a connected world, companies must communicate better

- Despite a growth in tools (web, social media, mobile) the challenge of communicating short term benefits (construction jobs) while managing expectations for longer term benefits (gov't revenues) is a challenge.
- More industry collaboration is needed on best practice ways to communicate in culturally appropriate manners – there is no easy solution.
- The communications missteps of one firm can easily cause mistrust of an entire industry. People need to feel that the messages being sent reflect what is happening to them.
- Communities and country level partners need to be made a part of the decision making process on programs and on communications methods.

In Africa, infrastructure will unlock mining & development

Regional Characteristics

- Vast untapped but concentrated resources
- Very large deposits/mines coexisting with many smaller deposits that alone cannot support the capital cost of the requisite transport infrastructure
- Long distances from the coast and / or no existing transport infrastructure
- Not enough public money – around US\$100 billion annual investment is needed for infrastructure in Africa



=> PPP/multi-user schemes will likely be key going forward

In Summary

Global Trends:

- Strongly growing middle class in EMs
- A more connected and more urbanised world
- Massive jobs growth needed, especially in EMs
- Developed world deleveraging – constraining some demand/financing: EMs picking up some slack
- Mining supply is moving into EMs
- EMs account for virtually all demand growth – and growing source of cross border investments

In Summary:

Implications for mining:

- Address weaker governance and resource nationalism with greater transparency
- In a connected world:
 - Local community expectations will only continue to grow
 - Communicating mining's positive impacts will matter ever more
- Need to think long term about skilling for local jobs
- Innovative financing and more cooperation will be needed to address infrastructure bottlenecks

Thank you for listening

Ignacio de Calonje
idecalonje@ifc.org