DIRECT FOREIGN INVESTMENT AND THE ENVIRONMENT

AFRICAN MINING SECTOR

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I. INTRODUCTION

A. HISTORY OF THE MINING SECTOR IN AFRICA

- COLONIAL PERIOD (1850 - 1960)
  - Mining sector developed rapidly
  - Investments were private sector
  - Domestic investments in a colonial sense
  - Governments provided the framework

- POST-COLONIAL PERIOD (1960 - 1990)
  - Direct Government participation
  - Disinvestment by private sector
  - Aid or loan finance used in the mining sector
  - Decline in the mining sector
- Mining is the growth sector for Africa
- Agriculture too, but problems exist
- World Bank strategy
  - DFI for high risk investments
  - Government provide framework
- The strategy has been successful in places (Mali, Mauritania, Ghana)
B. HISTORY OF THE IMPACT OF MINING ON ENVIRONMENT

- COLONIAL PERIOD (1850 - 1960)
  - No public accountability by Governments
  - Uncontrolled industry
  - Severe environmental impacts resulted

- POST COLONIAL PERIOD (1960 - 1990)
  - No public accountability existed
  - Uncontrolled industry
  - Financial constraints existed
  - Severe impacts continued

- GLOBALISATION PERIOD (1990 - )
  - Public opinion in the developed world exerted pressure
  - Pressure on Governments and companies was strong
  - Mining became a controlled industry
  - Environmental legislation developed
II. DIRECT FOREIGN INVESTMENT AND MINING SECTOR

A. DIRECT FOREIGN INVESTMENT

- $200 to $1,200 billion (1993 - 2000)
- Replace aid funding which became stagnant
- Create new production and a tax base
- Developing countries +- 16% of DFI
- Africa +- 0,16% of DFI
- Place pressure on governments to do policy legal exemptions
- unintended negative effects on local business
B. IN MINING SECTOR

- Only viable option to develop the Sector:
  - Risk profile is high
  - Expertise is scarce
  - Risk capital is scarce
  - Markets segment is complex

- Global best practices for the environment exists:
  - Impact assessments
  - Advanced monitoring procedures
  - Advanced technologies
  - Financial provisions for mine closure
  - All parties accept a control
III. NATURE OF MINING INDUSTRY

- Mining is a global industry

- Companies are “locality captive”

- Very high risk profile

- Stakeholders are diverse and ill defined, so public image does matter

- Success requires companies to be “good corporate citizens”.
IV. MINING COMPANIES AND THE ENVIRONMENT

A. PRE - 1970 PHILOSOPHY

- Environment is a cost, not a profit
- Environment is a Government responsibility
- Companies pay taxes, Governments should take the long term responsibility

B. POST - 1970 PHILOSOPHY

- Public opinion and environmental legislation changed perceptions
- Implemented measures to mitigate physical environmental impacts
- Reduce visibility of the impacts
C. POST 1990 PHILOSOPHY

- Mining impact on the social environment
- Mining and sustainable development

D. PHYSICAL IMPACT ON ENVIRONMENT

- Surface damage
- Bio-diversity impact
- Impact hydrosphere and atmosphere
- The role of mining to mitigate the impact of poverty on the environment.
E. SOCIAL ENVIRONMENT

- “Island” economies
- Philanthropic philosophies

1. PRESENT COMPANY VIEWS:

- Community relations
- Implied Social contracts
- Good business sense

2. PRESENT GOVERNMENT VIEWS

3. PRESENT VIEW OF COMMUNITIES

F. ECONOMIC IMPACTS

- Mining company responses
- Effects on the regional economy
V. MINING COMPANIES AND CODES OF CORPORATE GOVERNANCE

- Financial structure for mining

- Role of stock exchanges

- Changes in codes of corporate Governance

  - King 2: South African experience
  - Reporting and auditing
  - Public watchdog function is strengthened
VI. CONCLUSION

- NO ALTERNATIVE EXISTS FOR DFI IN THE MINING SECTOR

- POSSIBILITY OF ABUSE EXISTS

- COMPANIES HAVE BENEFITED FROM THE CONTROL ENVIRONMENT

- LOCAL COMMUNITIES ARE EFFECTIVE CHECKS AND BALANCES

- GOVERNMENTS HAVE INSTRUMENTS TO INTRODUCE CHECKS AND BALANCES
- SOCIETY AND THE MINING VALUE TRAIN HAVE EFFECTIVE CHECKS AND BALANCES

- SHAREHOLDERS AND INVESTORS HAVE ACCESS TO INFORMATION TO EVALUATE THE PERFORMANCE.

- ON THE WHOLE THE IMPACT HAS EVOLVED INTO A POSITIVE FACTOR.