UPSTREAMING ENVIRONMENT INTO INVESTMENT DECISIONS

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Distinguished Guests, Ladies and Gentlemen and Colleagues.

Thank you for the opportunity to share with you a few thoughts on “Raising the Bar on Governance and Transparency in Managing Natural Resources”. I do this from the perspective of an environmental professional not an economist.

I do not really need to start with repeating the problems we are trying to help address. The *‘paradox of plenty’/ ‘resource curse’* hypothesis is now the stuff of popular science and become a cliché headline in the press whenever an article is written about the current resources boom – especially articles on Africa.

From an environmental perspective one would expect that countries endowed with mineral wealth would be the leaders – not only in economic growth and poverty reduction - but also **sustainable development –** including environmental protection[1].

We, of course, often observe the opposite. It is not only conflict, corruption, civil strife and poverty that characterize failing (but resource endowed) states but also **environmental degradation.**

In such circumstances neither WWF (nor anyone else) will be able to achieve our (conservation) goals. Nor will there be adequate investment in protecting the renewable natural wealth that sustains the lives of millions of poor people in Africa.

[1] This term has been used throughout the day with various meanings but mostly with understandable emphasis on economic sustainability. It is used here to include the interplay of environmental, social and economic sustainability.

So we (economists, political scientists and environmental professionals) are all on the same side. The “magic bullet” of “good governance” has as much traction for environmental professionals as it does for other disciplines.

We have heard from other speakers that there is much anticipation of new untapped mineral wealth in Africa.

However, the search for resources is pushing ever deeper into pristine, sensitive and remote areas that were (until recently) difficult to access and largely untouched. Many of these areas have some form of legal status designed to protect them in perpetuity- but many don’t.

The exploitation of mineral wealth often poses such threats, but it also frequently creates opportunities to convert non-renewable natural capital into more sustainable options and invest in new “greener economies”- as we will be discussing at Rio +20 in June later this year.

We have also heard from other speakers that sovereign wealth funds will ensure that some of the benefits from resource exploitation can be reserved for future generations. These will, however, be pointless if those generations inherit deserts and dereliction as a consequence of our activities in our generation.

So, from an environmental perspective, what are a few likely trends that will “raise the bar on improving governance in managing natural resources’ in Africa?

<u>Firstly:</u>

With respect to Corporate Governance:

There is a need for investors to take the lead and pursue high (voluntary) standards of Corporate Responsibility - including environmental performance standards.

Appropriate environmental and social standards underwrite the sustainability of development.

It is not adequate to comply with legislation alone – the need is to do more - voluntarily.

In situations of poor governance CSR takes on whole new meaning. It becomes the *de facto* regime.

This may be obvious to most people – but I was in Beijing last week helping write environmental guidelines for Chinese overseas mining investors. It took a bit of explaining BUT…the first principle favored by my Chinese colleagues was “to comply with legislation”.

But this principle is essentially redundant:

Because…

- In a situation of bad governance, laws may exist on paper – but they are rarely enforced in practice.(the “implementation deficit”)
- No one is ever going to admit to NOT complying with legislation as a principle!!!...so we need something *a little more challenging.*

<u>Secondly;</u>

There is a critical need to ensure that environmental factors feature at the **strategic** stage of the investment decision making.

Environmental issues are rarely considered in the early stages of the investment process.

This failing is reinforced a little bit by initiatives such as the Natural Resources Charter, which only introduces environmental considerations at the project planning stage – not the policy development and assessment or investment appraisal stages.

Strategic decisions about investments are usually made on the basis of political and financial considerations alone - and are usually extremely opaque.

Yet secrecy rewards those who resist changes and creates an atmosphere of suspicion and mistrust.

(A colleague sent me (unsubstantiated) news report this morning that suggested that…. to access the feasibility study for a new refinery in Uganda (a major development that is likely to affect millions of lives in Uganda), one has to pay USD$30,000 and sign a confidentiality agreement?!!)

Secrecy also prevents citizens from holding their governments truly to account for the way they manage their nations’ natural assets - and *the environmental implications* of their investment decisions.

Environmental factors are (at best) an afterthought later in the decision making process - when critical decisions have already been made. They are usually only considered once an investment is approved *and opportunities to favor the most responsible investors and sustainable investments have long gone*.

Yet environmental risks and opportunities are very likely to be key in underwriting the sustainability of an investment – and ensure that *today’s short term economic opportunities do not become tomorrow’s long term environmental and social problems.*

The environmental profession has developed a tool to help mainstream environment into policies, plans and programmes – strategic environmental assessment (SEA)/ sustainability appraisal. This was referred to earlier today by Joe Asamoah and certainly Ghana is one of the pioneering countries in the application of SEA. I refer you to the OECD publication "Good Practice Guidance on Applying SEA in Development Co-operation (2006)" which provides a framework and recommendations for the application of SEA to development co-operation based on emerging good practice.

In existing circumstances both environmental professionals and citizens only learn about investment decisions when they reach the newspapers.

But at that stage the opportunity for *constructive dialogue* may have gone and the only likely course of action will be *reactive and adversarial relations in order to try and reduce the damage – rather than identify opportunities.*

To help address this situation WWF have been working with the Tanzanian Chamber of Mines and Energy and the government to provide Guidance on mainstreaming (and up-streaming) environmental considerations into investment decisions at their formative stage.

The work with our Tanzanian partners is a **pilot** exercise……but the indications are that several other countries are keen to do similar work and the Draft Guidance has been translated into Chinese as it excited some interest in Beijing.

Tanzania has some of the most iconic features in Africa- Serengeti, Selous, Kilimanjaro, Ngorongoro, Zanzibar…..Tanzania's natural wonders support the biggest economic sector in the economy – tourism.

Tanzania also has many less famous – but equally important - rivers, mountain ranges, forests and coastal and marine areas that directly support the livelihoods of millions of Tanzanians - and the wildlife within them.

Tanzania is fairly unique in that over 25% of its land area is under protective status of one sort or another.

So Mining and Infrastructure investors in Tanzania have a very good chance that their investments will be close (or in) one of these areas and the stage for conflict is set.

But Tanzania is also currently one of the <u>poorest</u> countries in the world.

(I say "currently" because recently significant natural gas deposits have been found which promise to turn Tanzania (and its neighbor Mozambique) into Africa's "Dubais").

But for now, 80% of the population of over 40 million is abjectly poor and dependent upon subsistence agriculture.

Consequently Tanzania is Africa's biggest recipient of international aid (and the third in the world.)

No wonder then that the government *is desperately keen to attract investors* – almost at any cost.

True to the "paradox of plenty",

Tanzania is also one of the continent's richest countries in terms of mineral wealth.

It is Africa's 3rd biggest gold producer, and the only source of Tanzanite gemstones in the world.

Mining contributes nearly 3% of Tanzania's GDP and is a key driver of growth - although all the political signs are that a fairer share will soon be demanded by government.

There are promising signs for new mineral deposits to be discovered. The past decade has seen a surge in interest in investing in Tanzanian mining – especially by the BRICS.

(An example is the recent discovery of significant uranium deposits just inside the Selous WHS - an area which is protected by the UN because of its global importance.)

But Tanzania also suffers from a lack of a planning framework that can shape investments………

Existing problems over access to and management of resources are compounded by…….

•No (obvious) Vision /Goal/ Strategy.

•Ad Hoc, Spontaneous, Incremental Developments

•Little or No Land Use/Spatial Planning to frame developments.

•Little or No Baseline Resource Mapping.

•Threats to high value Conservation/ Cultural Resources.

•Little or No Coordination between government agencies, donors etc

•Minimal stakeholder dialogue/ decisions by decree…….

In short, a recipe for conflict (between Sector Policies, Land Uses, Communities etc)

THE GUIDANCE.

The Guidance has two objectives:

<u>Firstly:</u>

To help investors access environmental information and contacts:

We get regular visits from Risk Assessors in our offices in Dar es Salaam.

They ask for information about environmental sensitivities, policies, regulations, experiences and pit-falls that would be of interest to potential investors.

They put this information alongside their traditional assessment of financial and political risks of investing in mining in Tanzania when reporting back to their clients (often multi-national mining companies – who remain anonymous).

This environmental information is not easy to find.

If a potential investor wanted to get information about environmental risks and opportunities …….. Investment Centers will probably give them tourist brochures about the holiday attractions.

The *Tanzanian Guidance* (which is a living document that will be regularly up- dated) helps investors answer critical questions:

- What are the key Environmental and Mining Policies and Legislation (and their history)? Are they effectively and efficiently enforced?
- What are Tanzania's international environmental commitments and obligations?
- Where can I find the important institutions that I need to consult (government departments, support service, NGOs/CSOs).
- What are the environmental journalists like? Who is likely to be friendly or hostile?
- What has the history of previous mining investments been like?
- Which International environmental standards does the Tanzanian government expect investors to adhere to?

- What do I do if my concession is covered by thousands of (illegal) artisanal miners who have been working the deposit for hundreds of years before me?

  And so on….

<u>Armed with this information Prospective Investors can</u>……..

- Assess the likelihood of Conflicts and other Risks that need to be avoided or managed.

- Consider potential trade-offs to compensate for negative impacts that may be unavoidable.

- Identify development opportunities to give their investments pro poor impact and gain local community support,

<u>Secondly,</u>

We are developing a simple environmental screening system - with government officials.

This provides a framework to help them….

- Identify those investors who are likely to operate most responsibly.
- Assess the environmental track record of potential investors (in other investments elsewhere)
- Create awareness of the *importance* attached to environmental factors in Tanzania right from the earliest stages of investments;
- Highlight environmental performance as a significant element in the competitive bidding process,
- Encourage investors to consider environmental investment *opportunities* as well as taking measures to reduce environmental risks.(ie do a little more than comply with legislation)
  And
- Identify those who have plans to leave a positive and sustainable legacy once they close the mine.

And <u>*Investments*</u> that

- Will have sustainable outcomes.

What are the advantages of the Guidance?

For Investors:

- It helps remove uncertainty and levels the playing field between competitors--- Some of whom (eg OECD based investors) have significant accountability mechanisms to comply with ….some of whom don't.

All investors will have a clearer understanding of what the government expects and the international standards to use.

- It will give Responsible Investors competitive advantage over those who want to simply get rich quick at the cost of Tanzania's environment.

For Government:

- It helps them demonstrate to citizens that they are responsible custodians of the nation's natural resource wealth.
- Helps them make better quality (better informed decisions) and more sustainable choices.

For Citizens:

- It opens up the very cloudy/opaque investment decision making process – enabling them to hold their government to account for their decisions against a publicly accessible benchmark (the Screening System).
- - which also introduces greater *objectivity* into decisions.

Conclusion

The Guidance is not another bureaucratic hurdle for investors to jump over.

It actually helps streamline decisions later in the project development stage and reduces the risks of costly delays and campaigns against the investment.

It creates an opportunity for people to engage on environmental matters at a stage when they can influence decisions and with those Departments responsible for Investment appraisal (often the most senior Departments and Ministers not Environmental Ministries).

It avoids putting all the emphasis on the EIA requirement at project approval stage – which in Africa is often a token exercise carried out by Environmental Ministries that lack capacity and influence.

It also creates the opportunities for early negotiations on …

- How the inevitable disturbance of mining investments can be balanced by identifying trade-offs (although off-sets should be a 'last resort' not a default option.)

and

- What positive opportunities for sustainable development can be created in return for the privilege of the investor being allowed to extract a resource.

Yes it is true, that the first decision must be …whether to allow the investment or not.

If the costs outweigh the benefits, then perhaps the resource is best left in the ground – and left to future generations to decide whether or not to exploit it.

But the purpose is NOT to stop extraction. It is to improve the quality of decision making and investments.

We believe the Guidance is…..

1. A contribution to improving the Governance of Mineral Wealth.
2. It encourages greater transparency in mining investment decisions (within the bounds of commercial sensitivities).
3. It encourages the inclusion of environmental factors alongside political and financial considerations at the start of the investment process – not when the key strategic decisions have already made.

and

4. It will help ensure Environmental factors underwrite the Sustainability of Development Processes.

Let me end with a quote from President Kikwete of Tanzania….

He was speaking last week at the launch of an annual award that will be given to responsible mining companies in Tanzania who show extra commitment beyond simply complying with legislation and contribute to sustainable development in Tanzania.

President Kikwete warned investors to….

"Fulfill their corporate responsibilities **or** suffer the conflicts that will ensue".

“The best insurance policy an investor and an investment destination can have is if everyone benefits from mining in Tanzania. If companies fail to deliver beyond legal compliance or fail to give local communities a vested interest in a mining operation, then mistrust and conflict will be ever present and people will be hostile to the company - which would not be good for business and might even jeopardize the investment”.

Thank you for your attention
