

THE ZAMBIA MINING INVESTMENT AND GOVERNANCE REVIEW (MInGov)



WORLD BANK GROUP

November 7, 2016

Lusaka, Zambia

Martin Lokanc

The Mining Investment and Governance Review

Funded by:



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with support from:*

**Adam Smith
International**



Outline

- I. MInGov: an introduction
- II. Results – the case of Zambia
- III. Comparing Zambia and the DRC
- IV. Conclusions and recommendations

Legend:

pg. #

Indicates page number where content can be found in the report.

I. Introduction

I. MInGov: an introduction.

Resource curse

- Not inevitable – resources can launch accelerated and sustained development
- Quality of institutions, governance and policy are instrumental in determining a country's path.

Resources can yield positive development outcomes, IF, “governance” is “good”.

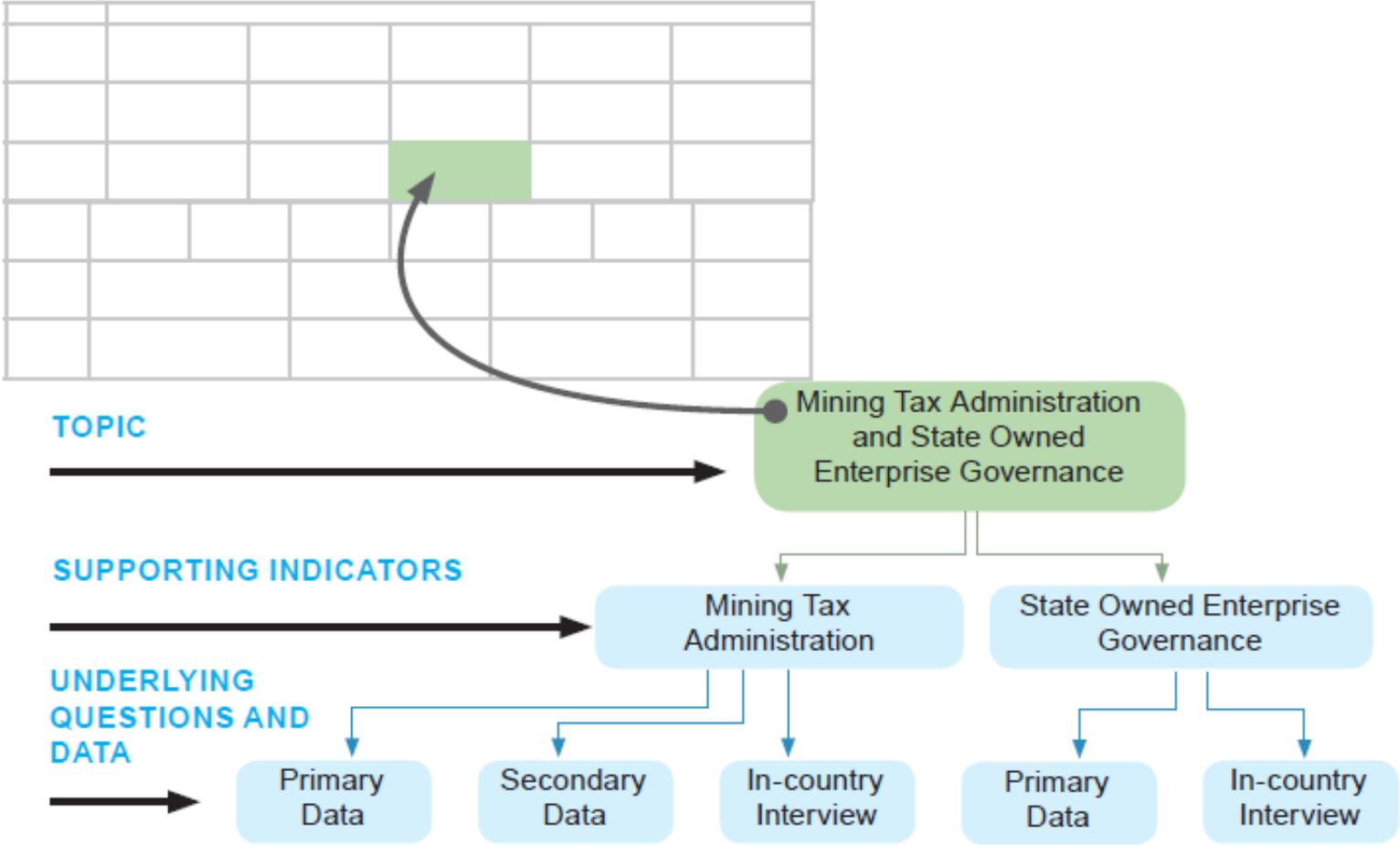


I. MInGov: an introduction cont'd: Key points

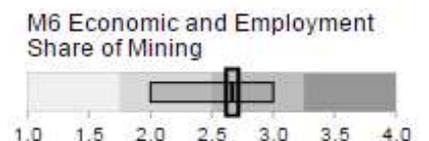
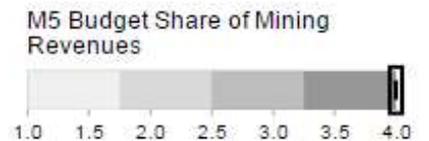
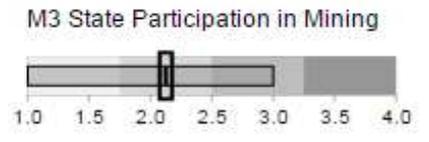
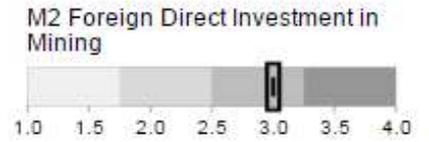
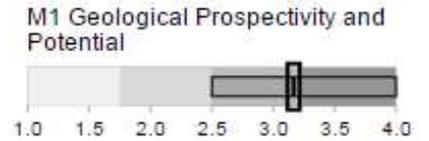
- Measures *de jure vs. de facto* performance
- Designed to be **actionable by governments**
- **Neither a ranking nor index**
- Focus on **sector investment attractiveness and bottlenecks** is a core value-adding element

II. Results – the case of Zambia

II. Results: Zambia and the MInGov framework



Mining Sector Importance



	1. Contracts, Licenses and Exploration	2. Operations	3. Taxation and State Participation	4. Revenue Distribution and Management	5. Local Impact
A. Policy, Legislation and Regulation	Rules for License Allocation and Geological Data Collection	Clarity and Harmonization of Sector Rules	Tax policy, Instruments and State Owned Enterprise Rules	Public Financial Management Regulation, Including Revenue Sharing	Policies to Mitigate Environmental and Social Impact
B. Accountability and Inclusiveness	Openness, Transparency and Independence of Licensing Process	Accountability of Processes, Compensation, Resettlement and Artisanal and ...	Mining Taxation and State Owned Enterprise Financial Management	Budget Transparency and Accountability, and Public Integrity	Human Rights, Employment Equity and Environmental Transparency
C. Institutional Capacity and Effectiveness	Cadastre, Geodata, License and Tenure Management	Sector Management and Intragovernmental Coordination	Mining Tax Administration and State Owned Enterprise Governance	Budget Implementation and Macroeconomic Management Effectiveness	Community Consultation and Environmental and Social Impact Management

Cross-Cutting Themes

D. Economic Environment	Business and Investment Environment	Mining Infrastructure	Diversity and Stability of National Revenues	Macroeconomic Stability	National Growth and Savings	Skills and Human Capital Availability	Human Health
E. Political Environment	Expropriation Risk		Political Stability		Predictable Mining and Tax Policy	Control of Corruption	
F. Sustainable Development	Development Planning		Local Supplier Development	Investment Promotion (Diversification)		Leveraging Infrastructure	

SPECIAL TOPIC

ARTISANAL AND SMALL SCALE MINING



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II. Results (Special topic): ASM

		1.0 - 1.75	>1.75 - 2.50	>2.50 - 3.25	>3.25 - 4.0
Clarity and harmony of ASM rules	Rules for formalization				⊕
	ASM recognized in law				⊕
	Rules for coexistence of LSM and ASM			⊕	
	Dispute resolution rules for ASM	⊕			
Accountability and ASM voice	ASM representation through association				⊕
	Participation of ASM association in advocacy			⊕	
Sector management in inter-gov't coordination	Dedicated gov't unit to address ASM issues	⊕			
	Extent of gov't support to ASM (tech and business)				⊕
	Effective use of dispute resolution system	⊕			
	Degree of actual ASM and LSM coexistence			⊕	
	ASM legality (in practice)				⊕
	ASM under formalized procedures(in practice)			⊕	
Tax policies and instruments	Simplified tax for ASM	⊕			
	Law for simplified enviro regs for ASM.			⊕	
	Gov't monitoring enviro requirements (in proactive)	⊕			

Stakeholder priorities



STAKEHOLDER PRIORITIES: ALL STAKEHOLDERS

Country results dashboard:

- Allows users to explore priorities for each country and by stakeholder group.
- Absolute scoring of governance does not change – only size of the cells change.

1. Contracts, Licenses and Exploration	2. Operations	3. Taxation and State Participation	4. Revenue Distribution and Managem...	5. Local Impact
Rules for License Allocation and Geological Data Collection	Clarity and Harmonization of Sector Rules	Tax policy, Instruments and State Owned Enterprise Rules	Public Financial Managem... ...	Policies to Mitigate Environmental and Social Impact
Openness, Transparency and Independence of Licensing Process	Accountability of Processes, Compensation, Resettlement and ...	Mining Taxation and State Owned Enterprise Financial Management	Budget Transpare... and Accounta... and Public Integrity	Human Rights, Employment Equity and Environmental Transparency
Cadastre, Geodata, License and Tenure Management	Sector Management and Intragovernmental Coordination	Mining Tax Administration and State Owned Enterprise Governance	Budget Implement... and Macroeconomic Managem... Effectiven...	Community ...

Cross-Cutting Themes

D. Economic Environment	Business and Investment Environment	Mining Infra...	Diver... and Stab... of Nati... Rev...	Macroeconomic Stability	National Growth and Savings	Skills and Human Capital Availability	Hu... Health
E. Political Environment	Expropriation Risk	Political Stability			Predictable Mining and Tax Policy	Control of Corruption	
F. Sustainable Development	Development Planning	Local Supplier Development			Investment Promotion (Diversification)	Leveraging Infrastructure	

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STAKEHOLDER PRIORITIES: GOVERNMENT



1. Contracts, Licenses and Exploration	2. Operations	3. Taxation and State Participation	4. Revenue Distribution and Management	5. Local Impact
Rules for License Allocation and Geological Data Collection	Clarity and Harmonization of Sector Rules	Tax policy, Instruments and State Owned Enterprise Rules	Public Financial ...	Policies to Mitigate Environmental and Social Impact
Openness, Transparency and Independence of Licensing Process			Budget Transparency ...	
	Cadastre, Geodata, License and Tenure Management	Accountability of ...	Mining Taxation and State Owned Enterprise Financial Management	Budget Implementation and Macroeconomic Management Effectiveness
Sector Management and Intragovernmental Coordination		Mining Tax ...		

Cross-Cutting Themes

D. Economic Environment	Business and Invest... Environ...	Mining Infrastr...	Diversity and Stability of National Reven...	Macroeconomic Stability	National Growth and Savings	Skills and Human Capital Availability	Human Health
E. Political Environment	Expropri... Risk	Political Stability			Predictable Mining and Tax Policy		Control of Corruption
F. Sustainable Development	Development Planning	Local Supplier Development				Investment Promotion (Diversificat...)	Leveraging Infrastructure

STAKEHOLDER PRIORITIES: CIVIL SOCIETY



1. Contracts, Licenses and Exploration	2. Operations	3. Taxation and State Participation	4. Revenue Distribution and Manage...	5. Local Impact
Rules for License Allocation and Geological Data Collection	Clarity and ...	Tax policy, Instruments and State Owned Enterprise Rules	Public Financial Manage... ...	Policies to Mitigate Environmental and Social Impact
Openness, Transparency and Independence of Licensing Process	Accountability of Processes, Compensation, Resettlement and Artisanal and ...	Mining Taxation and State Owned Enterprise Financial Management	Budget Transpar... and Accounta... and Public Integrity	Human Rights, Employment Equity and Environmental Transparency
	Sector Management and Intragovernmental Coordination	Mining Tax Administration and State Owned Enterprise Governance	Budget Impleme... and ...	
Cadastre, Geodata,

Cross-Cutting Themes

D. Economic Environment	Business and Invest... Environ...	Mining Infrastr...	Diversity and Stability of National Reven...	Macroe... Stability	National Growth and Savings	Skills and Human Capital Availab...	Human Health
E. Political Environment	Expropriation Risk	Political Stability				Predictable Mining and Tax Policy	Control of Corruption
F. Sustainable Development	Development Planning	Local Supplier Development	Investment Promotion (Diversification)	Leveraging Infrastructure			

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STAKEHOLDER PRIORITIES: INVESTORS

1. Contracts, Licenses and Exploration	2. Operations	3. Taxation and State Participation	4. Reve... Distrib... and Manag...	5. Local Impact
Rules for License Allocation and Geological Data Collection	Clarity and Harmonization of Sector Rules	Tax policy, Instruments and State Owned Enterprise Rules	Public Financial Manag... Regul... Includ... ...	Policies to Mitigate Enviro... and ...
Openness, Transparency and Independence of Licensing Process	Accountability of Processes, Compensation, Resettlement and Artisanal and ...	Mining Taxation and State Owned Enterprise Financial Management	Budget Transp... and Accou... and ...	Human Rights, Emplo... Equity and ...
Cadastre, Geodata, License and Tenure Management	Sector Management and Intragovernmental Coordination	Mining Tax Administration and State Owned Enterprise Governance	Budget Imple... and Macrof... Manag... Effecti... ...	Comm... Consul... and Enviro... ...



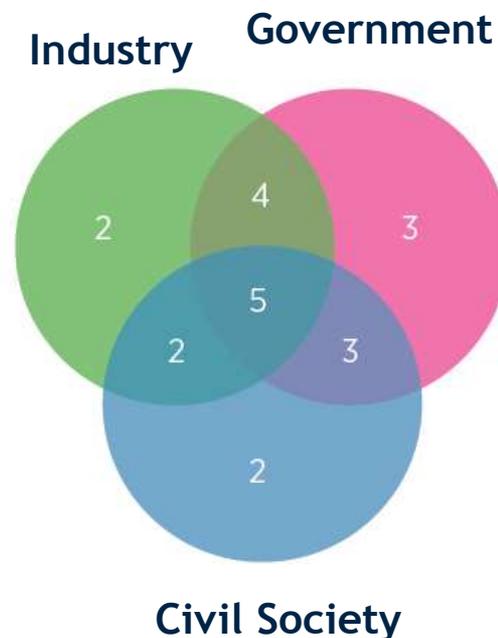
Cross-Cutting Themes

D. Economic Environment	Business and Investment Environment	Mi... Infr...	Div... and St... of Na... Re...	Macroeconomic Stability	Na... Gr... and Sa...	Skills and Human Capital Availability	Hu... He...
E. Political Environment	Expropriation Risk	Political Stability		Predictable Mining and Tax Policy		Control of Corruption	
F. Sustainable Development	Development Planning		Local Supplier Development	Investment Promotion (Diversification)	Leveraging Infrastructure		

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Where is the low hanging fruit?

Intersection of the following stakeholders	No. of items	Topics
CSOs, Government & Investors	5	<ul style="list-style-type: none"> Rules for License Allocation and Geological Data Openness, Transparency and Independence of Licensing Process Tax policy, Instruments and State Owned Enterprise Rules Mining Taxation and State Owned Enterprise Financial Management Sector Management and Intragovernmental Coordination
CSOs & Government	3	<ul style="list-style-type: none"> Political Stability Policies to Mitigate Environmental and Social Impact Human Rights, Employment Equity and Environmental Transparency
Government & Investors	4	<ul style="list-style-type: none"> Cadastre, Geodata, License and Tenure Management Macroeconomic Stability Skills and Human Capital Availability Clarity and Harmonization of Sector Rules
CSOs & Investors	2	<ul style="list-style-type: none"> Accountability of Processes, Compensation, Resettlement and ASM Voice Mining Tax Administration and State Owned Enterprise Governance
Government	3	<ul style="list-style-type: none"> Local Supplier Development Predictable Mining and Tax Policy Budget Implementation and MFM Effectiveness
CSOs	2	<ul style="list-style-type: none"> National Growth and Savings Budget Transparency and Accountability, and Public Integrity
Investors	2	<ul style="list-style-type: none"> Development Planning Business and Investment Environment



III. Comparing Zambia and the DRC.

III. ZAMBIA AND THE DRC



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How does Zambia compare with the DRC?

Zambia
DRC

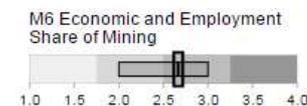
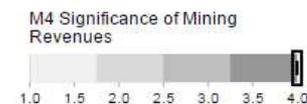
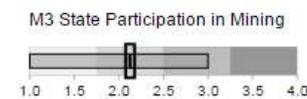
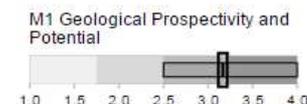
Value Chain Themes
Value Chain Themes

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F. Sustainable Development	Development Planning	Local Supplier Development	Investment Promotion (Diversification)	Leveraging Infrastructure			

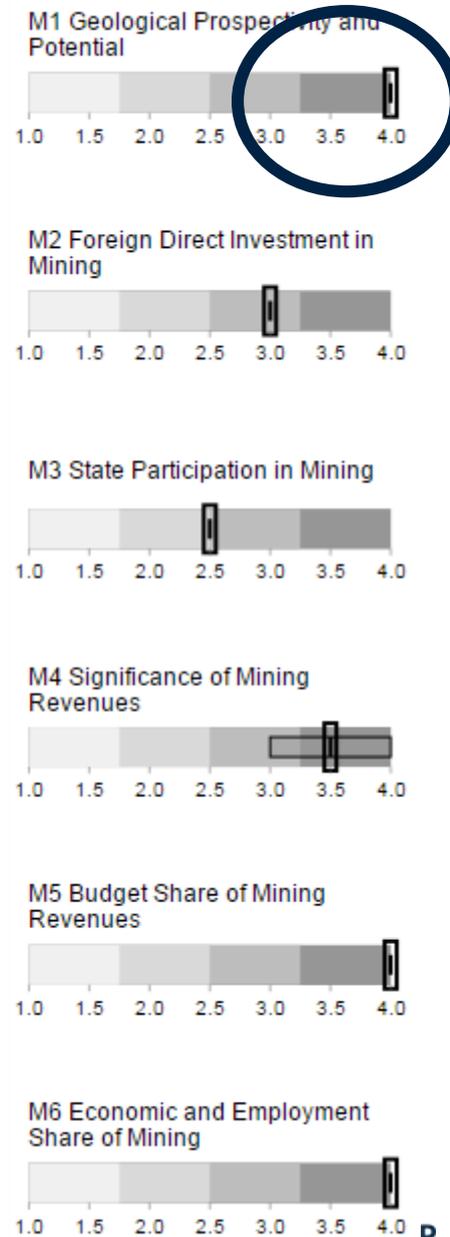
Mining Sector Importance
Mining Sector Importance



E4. Results: MInGov DRC (draft data)

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Mining Sector Importance



Cross-Cutting Themes

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Zambia

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DRC (draft data)

A. Policy, Legislation and Regulation	Rules for License Allocation and Geological Data Collection	Clarity and Harmonization of Sector Rules	Tax policy, Instruments and State Owned Enterprise Rules	Public Financial Management Regulation, Including Revenue Sharing	Policies to Mitigate Environmental and Social Impact
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How does Zambia compare with the DRC?

Zambia

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DRC (draft data)

D. Economic Environment	Business and Investment Environment	Mining Infrastructure	Diversity and Stability of National Revenues	Macroecon... Stability	National Growth and Savings	Skills and Human Capital Availability	Human Health
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IV. Conclusions and recommendations

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The mining sector in Zambia is of significant national importance and makes an important contribution to the national economy.

- Given the significant resource potential and long life of mines, the sector is likely to remain important for the significant future.

Investment has slowed down, partly due to prices. But policy instability is also taking a toll.

- Companies and civil society expect changes to take place over time. However, it is important that the process in which change takes place is “fair” and allows for meaning consultation.

IV. Conclusions and recommendations cont'd.

Economic diversification is key for Zambia.

- Developing (and subsequently implementing) local content, local employment and local development policies for the mining sector.
- Developing a sector strategy that supports the national development plan would help to ensure that parts of government work together.
- Addressing land title dispute issues in remote areas could increase the sharing of benefits and local content.

Governance gaps and capacity constraints exist with respect to environmental and social impact management.

- Although good policies are in place, they need operationalizing.
- Environmental Protection Fund needs to become more effective.
- Environmental regulations need to be closely monitored and enforced.
- This may require tough decisions around mine closure.

IV. Conclusions and recommendations cont'd.

Support to ASM sector.

- Zambia's ASM sector is not well understood – an area largely not focused on by the cooperating partners.
- Subject to resources becoming available, establishing a small cell in government to centralize action on artisanal and small-scale mining.
- Explore market access opportunities and synergies with LSM (especially in gemstones)

E1: Overview (extra slides)

E1. MInGov: Introduction cont'd (project structure)

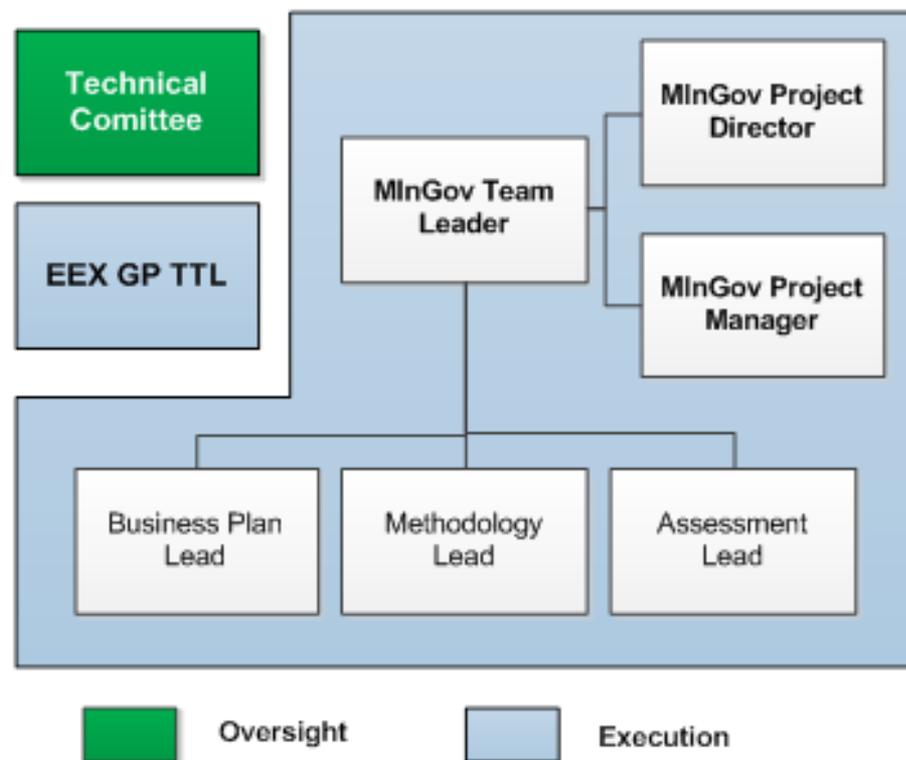
Broad World Bank Group representation throughout project structure:

Technical committee:

- EEX GP
- GOV GP
- Doing Business (DEC)

Project team and inputs:

- EEX GP
- GOV GP
- Doing Business (DEC)
- Enterprise Surveys Group (DEC)



E1. MInGov: an introduction cont'd. (gap analysis)

Sources	Key Features
Africa Mining Vision (assessments)	Vision of sector structure and role, broad value chain, limited data/comparability though country governance based assessments
Doing Business Survey	No focus on mining sector, all aspects of governance, country comparability
EITI	Voice and accountability, revenue transparency, limited country comparability
Fraser Institute	Broad value chain, government effectiveness and regulation, perceptions based enterprise surveys, limited actionability
McKinsey	Government effectiveness, political stability, regulations, limited comparability
Resource Governance Index	Focus on transparency, voice and accountability, cross-country comparisons, public policy lens only
MInGov	Entire value chain, governance and investment focus, civil society views, actionable indicators

E1. Methodology: Indicator types

	Policy, Legislation, and Regulation; Accountability and Inclusiveness; and Institutional Capacity and Effectiveness		Economic/Political Environment and Mining Sector Importance	Descriptive information
	Baseline questions	Performance questions	Outcome questions	
Description	Assess deviation from international standards of good practice	Assess deviation from existing regulation	Assess how mining, economic and political environment enable mining investment and growth compared to peers	Comparable mining governance and investment info that is not readily assessed
Actionable	✓	✓	Not necessarily	Not necessarily
Fact based	✓	✓ but perceptions vary	✓ mostly from secondary data	✓
Independently verifiable	✓ through desk research and experts	✓ through stakeholders	✓ mostly from secondary data	✓
Measurable and comparable	✓	✓	✓	
Capable country diversity	✓	✓	✓	✓
Data collection	In-country interviews, some desk research	In-country interviews, some desk research	Mainly secondary sources	In-country interviews, some desk research

E1. Methodology: underlying questions

Indicator 1 – Mining Tax Administration (21 questions)

Q130 *Are there clear rules in the tax code or regulations for the following payment processes:*

- *Time frames?*
- *Accounts to pay taxes into?*
- *Documents evidencing payment and receipt?*
- *Settling disputes?*

Answer for each point: Yes/No. **Evidence:** May be extracted from the relevant legislation and verified with the tax authority and tax lawyers. The processes should be clear for all material taxes applicable to mining, as listed above.

Q131. *Are interpretations of the tax code readily available?*

Answer: Yes/No; **Evidence:** Copy of interpretation or a URL link to it, verified with the tax authority and tax lawyers.

Q132. *Are the bases on which taxes are levied subject to disputes between companies and the government?*

Response from: Industry.

Answer: Yes/No; **Evidence:** As provided and verified by the industry, tax lawyers, and tax authorities. This can relate to any material tax applicable to mining, as identified in the questions above; **Note:** While tax rates are usually straightforward, the tax bases can be less clear (including taxed entities and how the bases are calculated, especially if there are special provisions relating to minerals).

Q133. *According to regulations, are regular tax, cost, or physical audits required?*

Answer: Yes/No; **Evidence:** Extract from relevant regulations, and procedures or guidelines for audits.; **Note:** Physical audits are defined as the physical checking or measuring by controllers of the amount of minerals that have been extracted, and the arrangements for transporting, processing, or selling those resources. Audits should include small-scale operators, not only large mining companies.

E1. Methodology: underlying questions

Indicator 2 – State owned enterprise (SOE) governance

- **Do mining sector SOEs publish annual financial reports?** Response from: Ministries of Finance and Mines, SOEs, industry, CSOs. Answer: Yes/No. Evidence: Website with URL.
- ***In practice, are annual audits of the mining SOE undertaken by an independent external auditor?*** Response from: Ministry of finance, SOEs, industry, CSOs. Answer: Yes/No. Evidence: Proof of audit.
- ***In practice, does the mining sector SOE have a board with independent expert members?*** Answer: Yes/No. Response from: Ministry of finance, SOEs, industry, CSOs. Note: The board should include independent members with private sector experience, separate the positions of chair and CEO, and not be so large as to undermine effective deliberation. This can be scored if there are clear criteria for being on the board set in the law. “Independent” may be assessed by having broad government representation on the board or experts that are not political. No ministers or elected officials should serve on the board. Based on OECD Guidelines on Corporate Governance of State-Owned Enterprises (2005).
- ***In practice, does the internal audit department review the effectiveness of internal controls annually?*** Answer: Yes/No. Response from: Ministry of finance, SOE, independent expert. Note: This review should look at effectiveness of functional, operating and financial reporting. Based on OECD Guidelines on Corporate Governance of State-Owned Enterprises (2005).
- ***In practice, does the mining SOE follow the role (including any subsidies or social expenditures) set out for it?*** Answer: Yes/No. Response from: Ministry of finance, SOEs, industry, CSOs. Evidence: Do SOEs provide public goods and services (e.g., water, energy, schooling and health access)? What percentage of SOE expenditures are on commercial activities and reinvestment in the company versus on social expenditures?

Interpretation of data scores

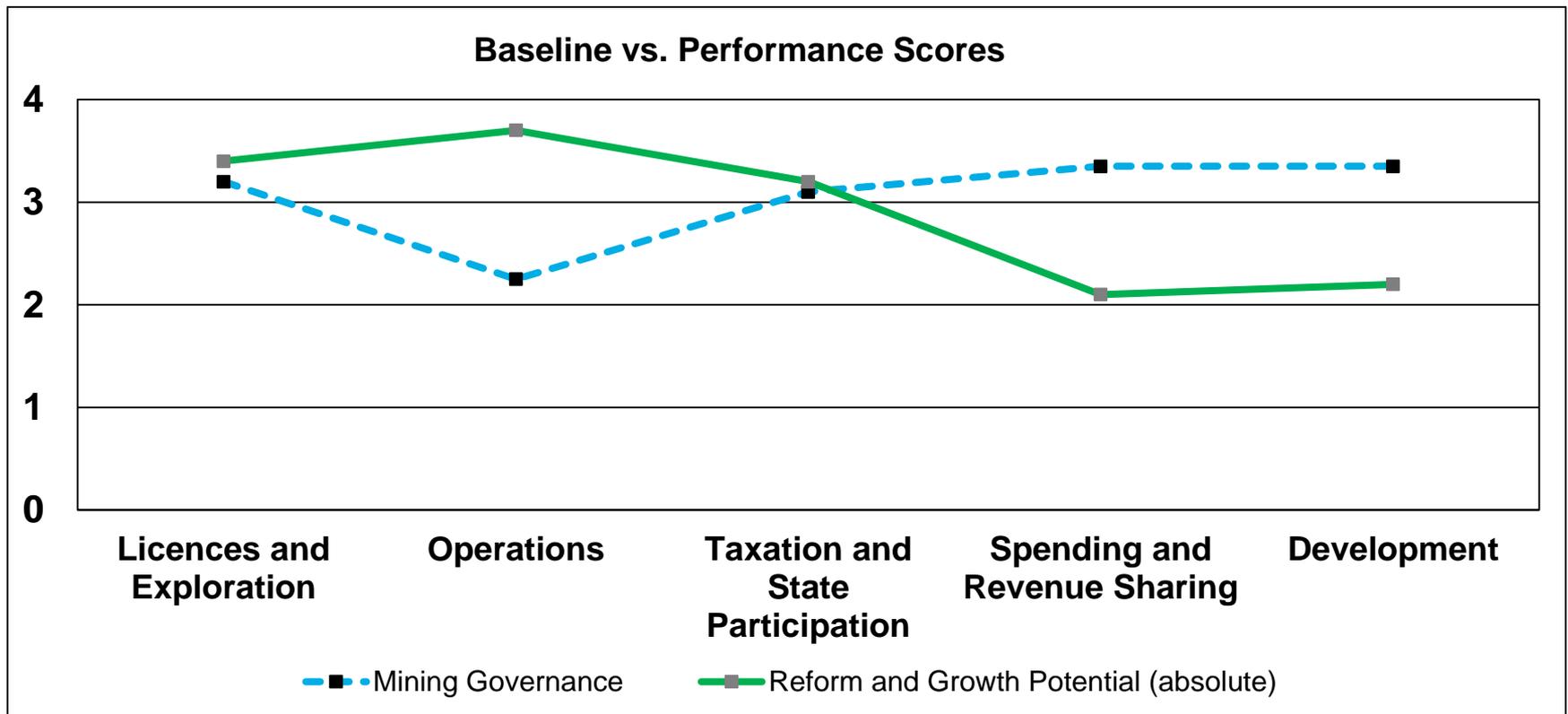
Score: Primary Data	Interpretation: Primary Data	Score: Primary interviews	Interpretation: Primary interviews	Score: Secondary Data	Interpretation: Secondary data
4	Good practice in place	4	Meeting its own goal	4	Top 75%+
2.5	Good practice partially in place	1.1 – 3.9	Partially meeting its own goal	3	Higher 50%-75%
				2	Low 25%-50%
1	Good practice not in place	1	Not meeting its own goal	1	Lowest 25%
..	Data not available or not applicable	..	Data not available or not applicable	..	Data not available or not applicable

Interpretation of topic and indicator scores

Score	Interpretation of Topic and Indicator Scores	Interpretation of Scores within Mining Sector Importance Theme
3.26 - 4.0	Very high	Highly significant
2.51 - 3.25	High	Above Average
1.76 - 2.50	Low	Below Average
1.0 - 1.75	Very low	Low significance
N/A	Not sufficient information or not applicable	Not sufficient information or not applicable

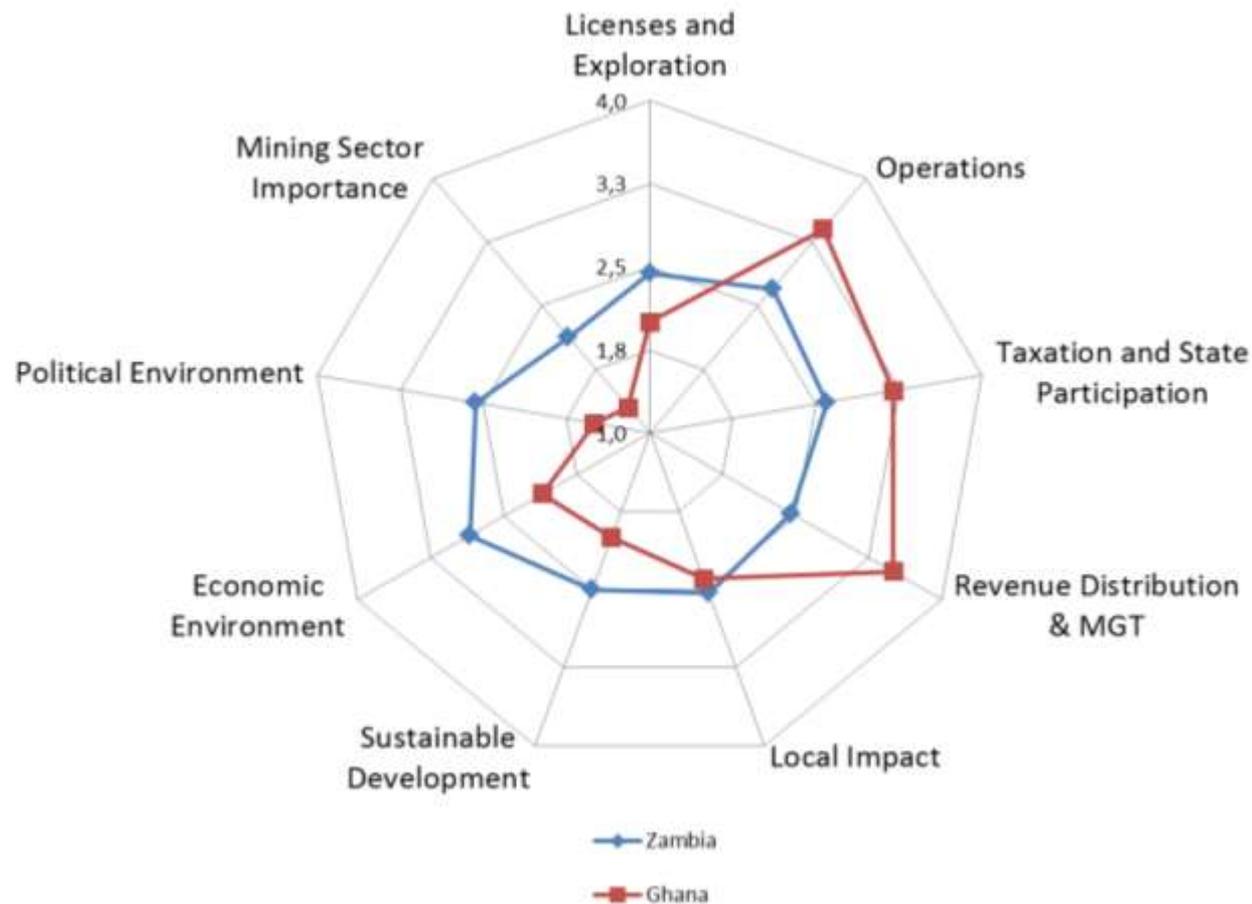
E1. Methodology: presentation of data

Methodological approach agreed and questionnaire drafted. Focus is on refining design criteria for indicators and simplifying methodology, secondary sources and analysis.



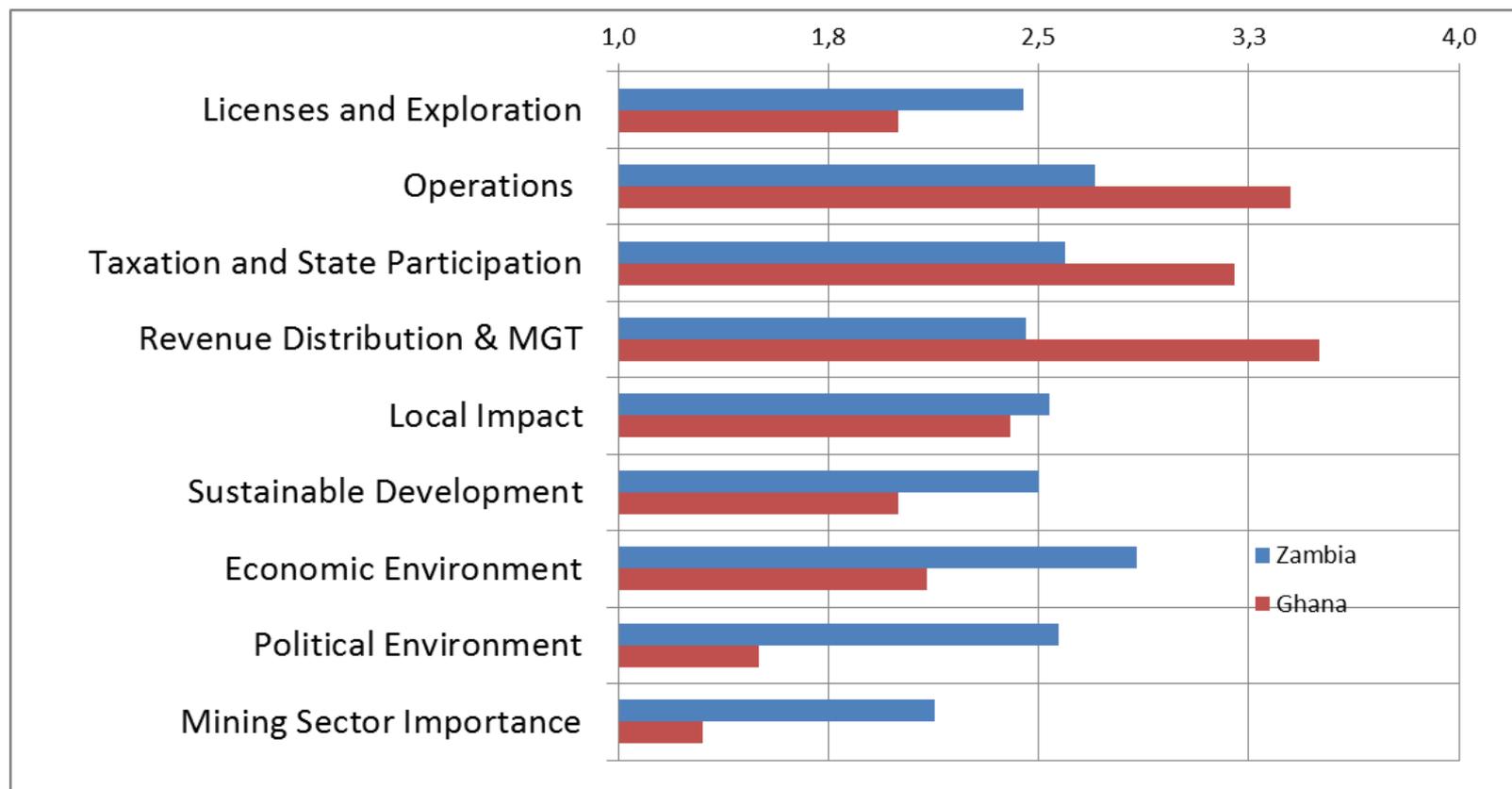
E1. Methodology: presentation of data cont'd.

Country comparisons can be done by thematic areas...



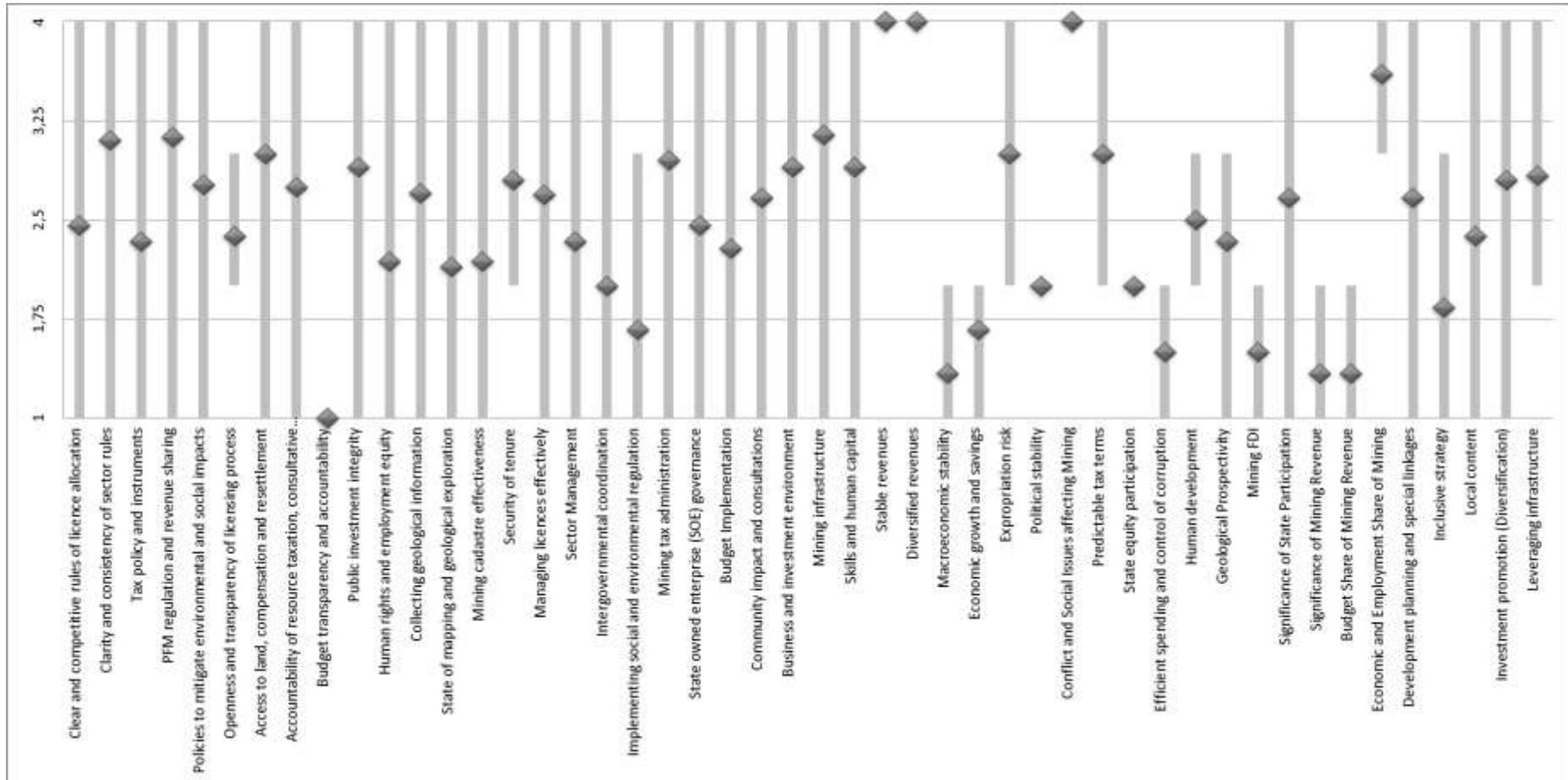
E1. Methodology: presentation of data cont'd.

... and country comparisons can also be done along the EI value chain:



E1. Methodology: presentation of data cont'd.

Entire set of 43 indicators will be displayed and data for over 300 questions can be downloaded off the website.



E1. Methodology: presentation of data cont'd.

As the project progresses and countries are periodically reassessed (possibly every 4-6 years) countries will be able to track progress on key indicators.

	2015	2016	2017	
Contracts, Licenses, and Exploration	2,4	3,0	3,2	
Operations	2,7	2,8	3,5	
Taxation and State Participation	2,6	2,6	2,6	
Revenue Distribution & MGT	2,5	2,8	2,9	
Local Impact	2,5	2,8	3,6	
Sustainable Development	2,5	3,4	3,3	
Economic Environment	2,8	3,9	3,9	
Political Environment	2,6	3,5	2,2	
Mining Sector Importance	2,1	2,1	2,1	

E2. Clarifying MInGov, challenges,.. and how you can help. (extra slides)

E2. What MInGov is... and is not...

MInGov is...

A combined governance and investment environment assessment at a country level.

Focused on three stakeholders: government, investors, civil society.

Based on primary and secondary information, and primarily on objective data.

A tool using indicators that are actionable for host governments.

A means to encourage mining investment and strengthen sector governance.

Relevant to various countries for the common lessons and comparisons it allows.

A continuous, updated process in assessed countries.

A continuous learning exercise.

MInGov is not...

A performance scorecard.

Directed to one stakeholder group.

Not based largely on subjective data.

A theoretical assessment that is not actionable.

An exercise without practical impact for government, investors and civil society.

A product that has single country-specific utility.

A one-off exercise for any country.

A static framework or product.

E3. Methodology

E3. Methodology: demand driven design

- Demand driven design: 34 potential end-users interviewed, Sep-Dec 2014, one-third from the public sector.
- Some variation in response by stakeholder group, but **strong shared preference for:**
 - Comprehensiveness
 - Neutrality and objectivity
 - Country level assessment reports and data access
 - Data representation that simplifies complexity
 - Summary information available as a public good.
- Gap analysis and consultations showed strong demand and space for a comprehensive, actionable country assessment of governance.



E3. Methodology: questionnaire

- Questionnaire with 64 indicators and over 300 questions created.
- Three types of questions: Primary desktop research (132), secondary sources (61), and in-country interview (121).
- Questions are asked to different stakeholders – industry, government and civil society. Not all questions are asked to all stakeholders. (Selective to reduce variation and to try to get the “*right*” (unbiased) answer.)
- Questionnaire should be read in conjunction with the report – it contains a detailed description of how a particular question is scored.