



Pakistan: Improved Investment Climate for Mineral Sector Development in Pakistan

Project Name	Improved Investment Climate for Mineral Sector Development in Pakistan					
Project Number	48275-001					
Country	Pakistan					
Project Status	Closed					
Project Type / Modality of Assistance	Technical Assistance					
Source of Funding / Amount	<table border="1"> <tr> <td colspan="2">TA 8735-PAK: Improved Investment Climate For Mineral Sector Development in Pakistan</td> </tr> <tr> <td>Technical Assistance Special Fund</td> <td>US\$ 225,000.00</td> </tr> </table>		TA 8735-PAK: Improved Investment Climate For Mineral Sector Development in Pakistan		Technical Assistance Special Fund	US\$ 225,000.00
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Strategic Agendas	Environmentally sustainable growth Inclusive economic growth Regional integration					
Drivers of Change	Governance and capacity development					
Sector / Subsector	Agriculture, natural resources and rural development - Land-based natural resources management					
Gender Equity and Mainstreaming	No gender elements					
Description	<p>Impact and Outcome</p> <p>The impact of the S-PATA will be improved climate for foreign and domestic investment into the mineral sector in Pakistan with a focus on Balochistan. The outcome of the S-PATA will be identification of measures that will improve rules on mining investment, licensing and revenue sharing.</p> <p>Outputs</p> <p>The S-PATA will have three outputs. These will be developed in consultation with the Pakistan Extractives Working Group (PEWG), presented at a high level meeting with federal and provincial governments and other key stakeholders, and used to prepare a guide for possible future technical assistance provided on a multi-donor basis.</p> <p>1) Government capacity to manage and address issues relating to mining leases and mine development. This output will be delivered by implementing the following activities: (i) review current mining contracts used in Balochistan and identify key issues which constrain mine development or have in the past or could in the foreseeable future result in disagreement or dispute; (ii) identify international best practice which could help the GOP and GOB address these issues; (iii) provide samples of mining contracts which have been successfully negotiated following international best practice and the Extractive Industries Source Book (EI Source Book) ; and (iv) in general, explain how international best practice and the sample mining contracts can be adapted and used to set a high standard for mining projects in Balochistan and other provinces.</p> <p>2) Improved and more transparent licensing process. This output will be delivered by implementing the following activities: (i) review the current legal framework in Balochistan for the issuance of exploration licenses and mining licenses; (ii) compare this to international best practice and what is recommended in the EI Source Book; and (iii) identify changes to the legal framework which will mitigate the risk of arbitrary, discretionary regulatory decisions.</p> <p>3) Transparent resource revenue management. This output will be delivered by implementing the following activities: (i) review of existing fiscal and procedural rules and mechanisms in Pakistan which allocate mineral sector rents, royalties, taxes, duties and other revenues between (a) current consumption and long term savings, and (b) federal, provincial and local governments, local communities/beneficiaries and other stakeholders; (ii) compare these to international best practice and what is recommended in the EI Source Book; and (iii) identify changes to the rules and other mechanisms which would increase transparency, accountability and fairness for current and future generations.</p>					

Project Rationale and Linkage to Country/Regional Strategy

Mineral Endowment. Pakistan has a rich mineral endowment that includes copper, gold, lead, zinc, coal, industrial stones and quality gemstones. With sufficient capital and a favorable investment climate for mining, the industry's contribution to gross domestic product could increase from about 0.5% to 2 - 3% to in the medium-term and over 5% in the long-term. It could generate substantial tax revenues to federal and provincial governments and thus improve the country's fiscal position. Mining could stimulate secondary and tertiary economic growth in remote regions of the country and along resource corridors, and generate substantial savings that could benefit future generations. Unlike Chile, Tanzania and a number of other developing countries with similar mineral endowments, Pakistan has not yet been able to develop its large-scale mineral resources.

Large-scale mining is an emerging opportunity. World class large-scale mineral deposits are found throughout Pakistan, and in particular in Balochistan for copper and associated gold at Saindak (now being mined), Reko Diq (comprehensive feasibility study at EL-5) and other areas under exploration. Other investment opportunities include Duddar in Balochistan for zinc and lead, Punfmin and Chiniot in Punjab for iron ore, and Thar in Sindh for coal. Commercial development of these resources will require (i) long lead times for exploration and development, with high geological risk that the resources are not sufficient to yield acceptable rates of return; (ii) multi-million dollar capital investments, some of which could exceed \$100 million and for exceptional deposits well over \$1 billion; and (iii) an equal or greater amount of investment in ancillary and regional infrastructure such as water, power generation and transmission, roads, rail and port facilities and vocational training.

Balochistan has large untapped potential. Of Pakistan's four provinces, Balochistan has about 50% of potential large-scale metallic deposits. For a long time these resources have been seen by provincial and federal governments as an important source of economic growth for the province and the country. Modern exploration however has been limited to a small but highly prospective area within the Chagai District, in a desert area close to Pakistan's border with Iran and Afghanistan. The EL-5 exploration license holders of the world class copper and gold deposit at Reko Diq are presently in arbitration with the GOP and GOB. This has resulted in the development of the projected \$3.3 billion mining project coming to a halt.

Regulatory, legal and institutional framework. A new National Minerals Policy (NMP) was adopted in 2013. It sets out a fiscal framework for the mineral sector and covers the constitutional position of minerals, environmental protection and small scale mining. The NMP seeks to (i) increase the economic contribution of the mining sector to the economy through more private investment, (ii) mobilize international investment through a stable and enabling environment, (iii) improve coordination between federal and provincial institutions in the implementation of the regulatory and legislative regime, (iv) ensure that exploration, development and production of mineral resources are environmentally sustainable, and (v) help small scale mining and local private participation in the development of the sector. Pakistan also has a complete set of laws dealing with corporate income tax, mineral royalties, custom duties, and other concerns that are important to the mining sector. These laws and the NMP contain provisions that are generally favorable to investment. However, the laws affecting mining also contain constraints to attracting investment, and are based on three generations of documents conceived under different circumstances. Under the Constitution, minerals are a provincial subject while oil and gas are a federal government subject under the Petroleum Policy. Each provincial government through its own department of mines and minerals is responsible for granting exploration licenses and mining leases, collecting fees and royalties, and addressing safety concerns. The federal government through the Ministry of Petroleum and Natural Resources (MPNR) is responsible for geological/geophysical survey and mapping, national and international coordination, and formulation of national policies. Although Balochistan and all of the other provinces now have such departments, they continue to need capacity building and technical assistance in mineral sector development.

Resource revenue management is needed. Fiscal rules and mechanisms such as stabilization and savings funds based on international best practice are needed in Pakistan to allocate mineral sector revenues between current consumption and long term savings - and between federal, provincial and local governments, local communities, beneficiaries and other stakeholders. These need to be put in place well before mining licenses are granted and investments are made to (i) ensure transparency, accountability and fairness for current and future generations, and (ii) avoid the 'Dutch disease' which could result in other exports becoming more expensive and imports becoming cheaper, thus making the manufacturing sector less competitive.

Barriers to investment. Reko Diq in Chagai district of Balochistan has world class copper and gold deposits which, if developed, would set the standard for large-scale mining in Pakistan and encourage further substantial investment in the mineral sector. In 2010 a joint venture completed an extensive and detailed bankable feasibility study costing well over \$200 million to establish the basis to develop the Reko Diq mining project. The proposed \$3.3 billion project would build and operate a copper-gold open-pit mine with an estimated mine life of 56 years, using high-efficiency mining techniques and cutting-edge technology. The project came to a standstill in late 2011 after the GOB rejected the joint venture's application for a mining lease. In November 2011 the joint venture commenced international arbitration proceedings against the GOP and GOB. After the elections in May 2013 the Prime Minister asked the new Chief Minister of Balochistan and new Minister for Petroleum and Natural Resources to find a way to resolve the dispute, mindful that the outcome of the international arbitration cases could have an adverse effect on Pakistan and make it more difficult to attract foreign direct investment into the mineral sector. See Attachment 4, Background Note on the Reko Diq Mining Project.

In addition to resolving the Reko Diq dispute, there are other barriers to attracting sustainable investment into the mineral sector in Pakistan. These include award and monitoring of licensing, environmental and social safeguards, and mine security. The current legal framework does not provide sufficiently clear criteria or detailed explanations for the licensing process. This is a strong deterrent to investors who shun arbitrary, discretionary regulatory decisions - and are concerned about the outcome of the Reko Diq mining project dispute. Environmental and social impact assessments (ESIAs) are required as part of application for mining lease, but the evaluation of ESIAs and their enforcement are not properly enacted. Mine closure and land reclamation plans are required, but there are no mechanisms in place to ensure monitoring and that companies are held liable for their implementation. Security and political risks are high. But they can be reduced by sharing benefits from mining activities with local communities through conflict-sensitive business practice.

Impact	Improved climate for foreign and domestic investment into the mineral sector in Pakistan with a focus on Balochistan
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Project Outcome

Description of Outcome

Progress Toward Outcome	TA has been completed on 30 September 2015. Final TA Report is being distributed to all stakeholders. Currently TA is under Financial Closure Process.
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Implementation Progress

Description of Project Outputs

Status of Implementation Progress (Outputs, Activities, and Issues)	TA has been completed on 30 September 2015. Final TA Report is being distributed to all stakeholders. Currently TA is under Financial Closure Process.
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Geographical Location

Summary of Environmental and Social Aspects

Environmental Aspects

Involuntary Resettlement

Indigenous Peoples

Stakeholder Communication, Participation, and Consultation

During Project Design	<p>In May 2014 the government of Pakistan (GOP) and the provincial government of Balochistan (GOB) requested ADB to provide small-scale policy and advisory technical assistance (S-PATA) to help improve the investment climate for the mineral sector in Pakistan with a focus on Balochistan. The S-PATA is not included in the Country Operations Business Plan 2014_2016 for Pakistan, but falls within the broader ambit of the Country Partnership Strategy (CPS) 2009-2013 which supports reforms that will improve the investment climate and private sector development at the provincial level. The S-PATA will help the GOP and GOB manage and address (i) issues relating to mining leases and mine development in Balochistan which, in turn, should help resolve a dispute relating to a mining transaction at Reko Diq, and (ii) other immediate barriers to attracting investment into the mineral sector in Pakistan.</p> <p>World Bank engagement with the mineral sector in Pakistan started in 2003 when it provided a diagnostic assessment of policy, legal and regulatory environment for the sector. In 2005 the World Bank assisted with strengthening mineral sector institutions and legislation at both the federal and provincial levels, with a focus on Balochistan. Outputs included a note on the mineral sector in Balochistan and road map to sustainable growth which was prepared in 2007 as a background paper for the Balochistan Economic Report (2007). Based on this work, in 2009 the World Bank processed a \$45 million technical assistance loan for Balochistan as an initial pilot for mineral sector reform and development in Pakistan. However, the project was not implemented and resources were reallocated to other projects due to lack of capacity and focus at the provincial government level at that time. Later in 2011 the World Bank prepared a small technical assistance program (\$750,000) initially focusing on knowledge sharing capacity building around international norms and standards on mineral sector development for Balochistan. This program was later expanded to include other provinces. USAID has also been providing support to attract investment into the mineral sector at the provincial level.</p> <p>To keep the reform momentum going, a national volunteer initiative began in 2012 with the emergence of the Pakistan Extractives Working Group (PEWG). The group now has senior representatives from the MPNR, each provincial department of mines and minerals, Pakistan Mine Owners' Association, mine owners, development partners (including World Bank and ADB) and other stakeholders. The PEWG is seen as an important forum which (i) invites open debate about the reforms necessary to improve the gas and mineral sectors, and (ii) enables peer-to-peer exchange of knowledge, lessons learned and the adoption of good practices from one province to another with regard to sustainable large-scale mining. The group depends on in-kind support from its members and some limited financial support for its secretariat from the World Bank and USAID.</p>
During Project Implementation	A Consultative workshop Extractives (Minerals) was held on 15-16 September 2015. The workshop was well attended by Federal, Provincial and Private Sector participants. A high level briefing is also conducted including the federal and provincial agencies (EA and IA) as well as NOGs and aid agencies.

Business Opportunities

Consulting Services The S-PATA will be implemented over twelve months, from October 2014 through September 2015. It will finance: (i) 5.5 person-months of three international consultants comprising a mineral sector legal and regulatory specialist and team leader (2.5 personmonths), a foreign direct investment and trade specialist (2.0 person-months), and a resource revenue management specialist (1.0 person month); and (ii) 5.5 person-months of one national consultant comprising a mineral sector legal and regulatory expert.' ADB will engage the consultants as individuals, as the skills mix and qualifications required from consultants are diverse and difficult to source from a single firm. All consultants will report to ADB and work closely with the EA and IA. The consultants will be recruited in accordance with ADB's Guidelines on the Use of Consultants (2013, as amended from time to time).

Responsible Staff

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Responsible ADB Division	Pakistan Resident Mission
Executing Agencies	<i>Ministry of Petroleum and Natural Resources 21 E. Huma Plaza, Blue Area Islamabad</i>

Timetable

Concept Clearance	-
Fact Finding	-
MRM	-
Approval	16 Sep 2014
Last Review Mission	-
Last PDS Update	31 Mar 2016

TA 8735-PAK

Milestones					
Approval	Signing Date	Effectivity Date	Closing		
			Original	Revised	Actual
16 Sep 2014	-	16 Sep 2014	30 Sep 2015	-	-

Financing Plan/TA Utilization						Cumulative Disbursements		
ADB	Cofinancing	Counterpart				Total	Date	Amount
		Gov	Beneficiaries	Project Sponsor	Others			
225,000.00	0.00	0.00	0.00	0.00	0.00	225,000.00	16 Sep 2014	181,268.82

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