

The Africa Mining Vision:

Looking beyond the boom, bust and boom of global mineral markets towards structural transformation

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Outline of Presentation

- Minerals in Africa' economies
- Global context of Africa Mining Vision
- Drivers of Change
- Key elements of AMV framework
- Challenges - From vision to changes in policy and practice
- Steps going forward

EXPORT MINERALS	AFRICAN % OF WORLD	AFRICAN RANK IN WORLD	AFRICAN % OF WORLD RESERVES	RANK IN GLOBAL SHARE
Platinum Group Metals	54%	1	60+%	1
Phosphate	27%	1	66%	1
Gold	20%	1	42%	1
Chromium	40%	1	44%	1
Manganese	28%	2	82%	1
Vanadium	51%	1	95%	1
Cobalt	18%	1	55+%	1
Diamonds	78%	1	88%	1
Aluminium	4%	7	45%	1

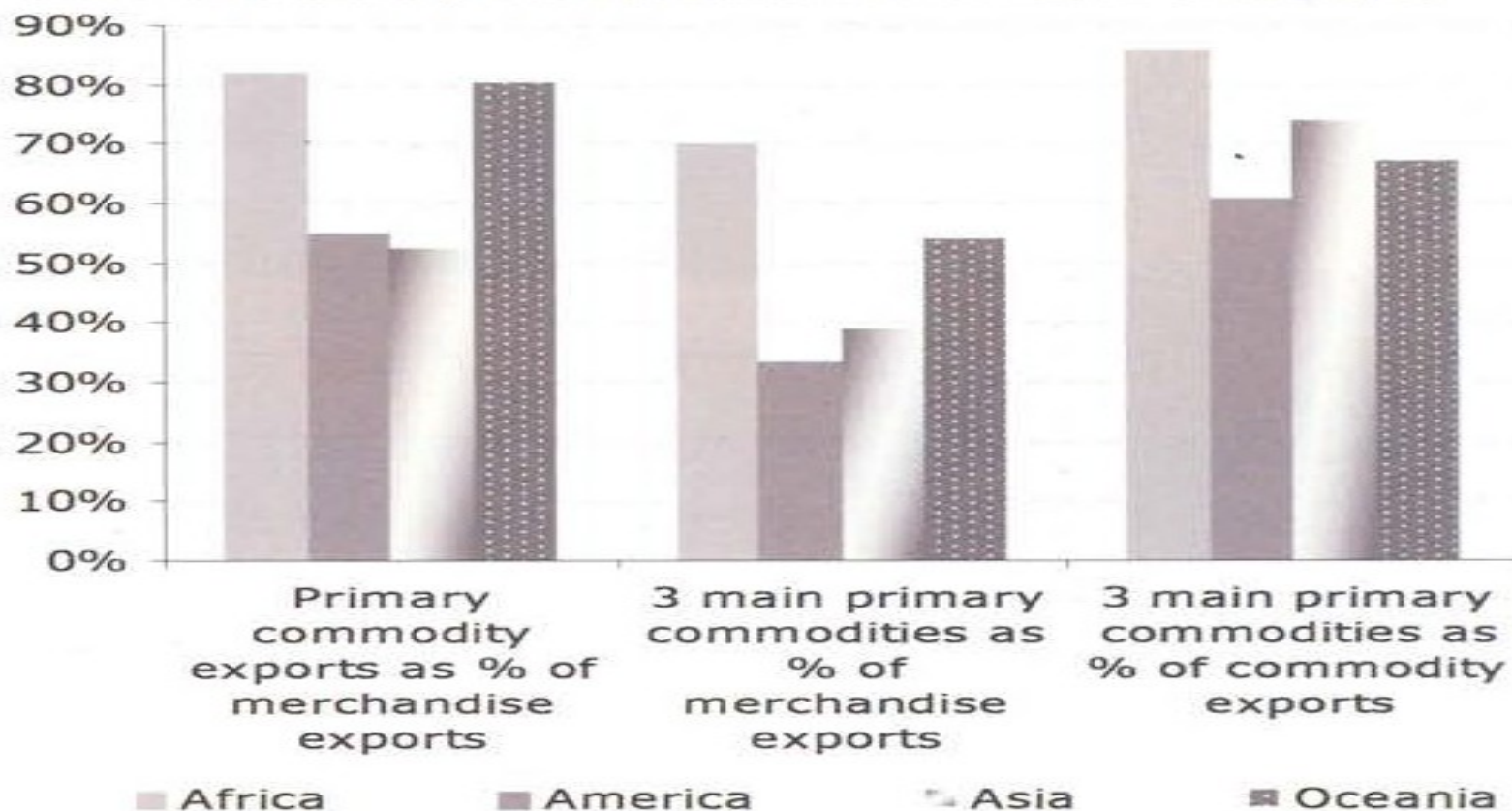
Mineral resources central to African boom and crisis

- Mineral exports an important part of exports of more than 20 African countries
- Natural resources generated 32 percent of Africa's GDP growth 2000 -2008 (MGI, 2010)
- In SADC the mining sector plays an important role to a varying degree in the different economies; contributing 22percent towards the total regional output and 13percent (3.2 million jobs) towards regional employment.
- Main export earner for a number of countries in West Africa (Ghana, Sierra Leone, Guinea, Mali, Liberia)

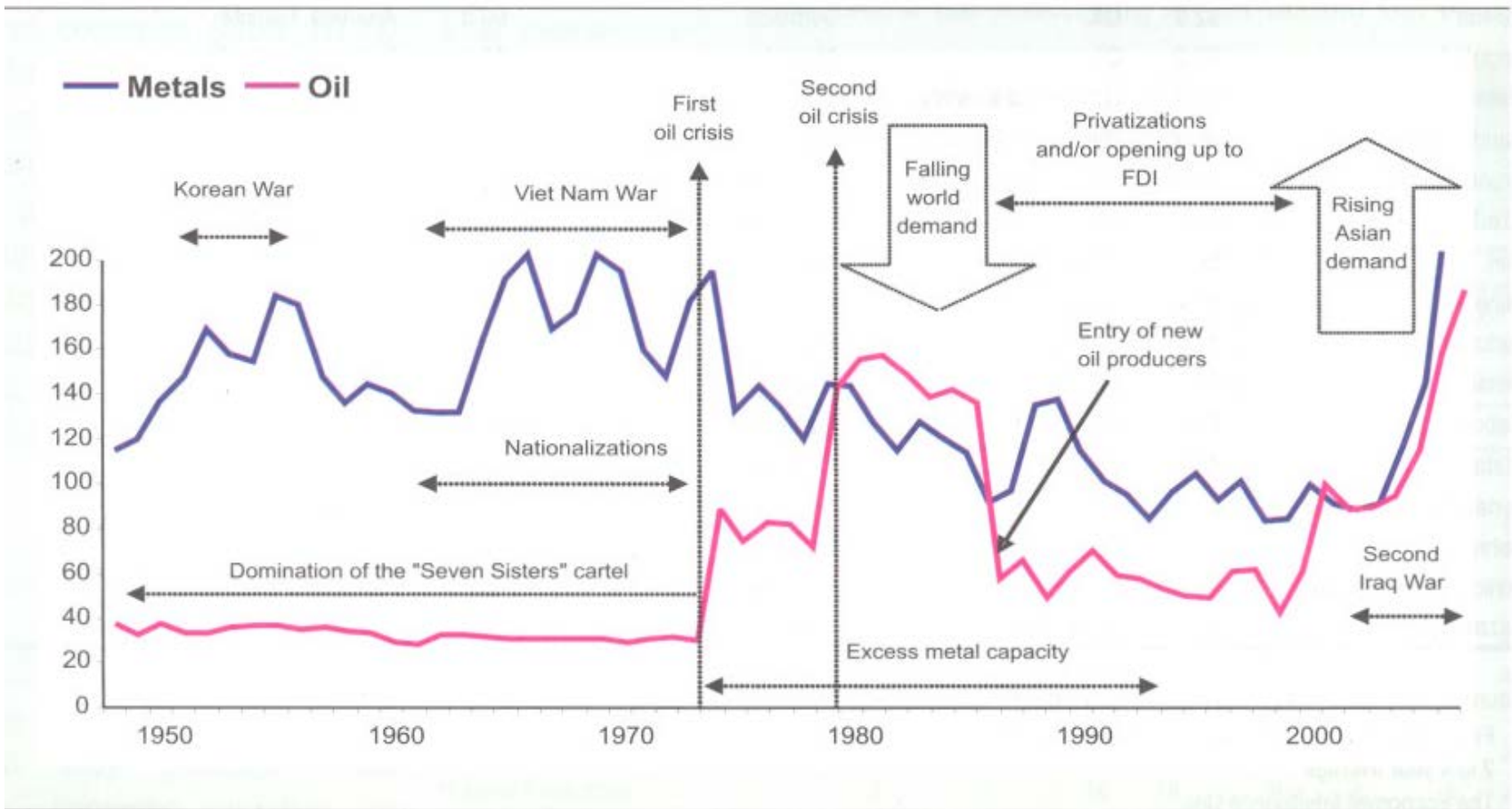
Minerals in Africa's economies

Comparison of Primary commodity dependence in developing countries

(breakdown by continent, 2008-2009 average)



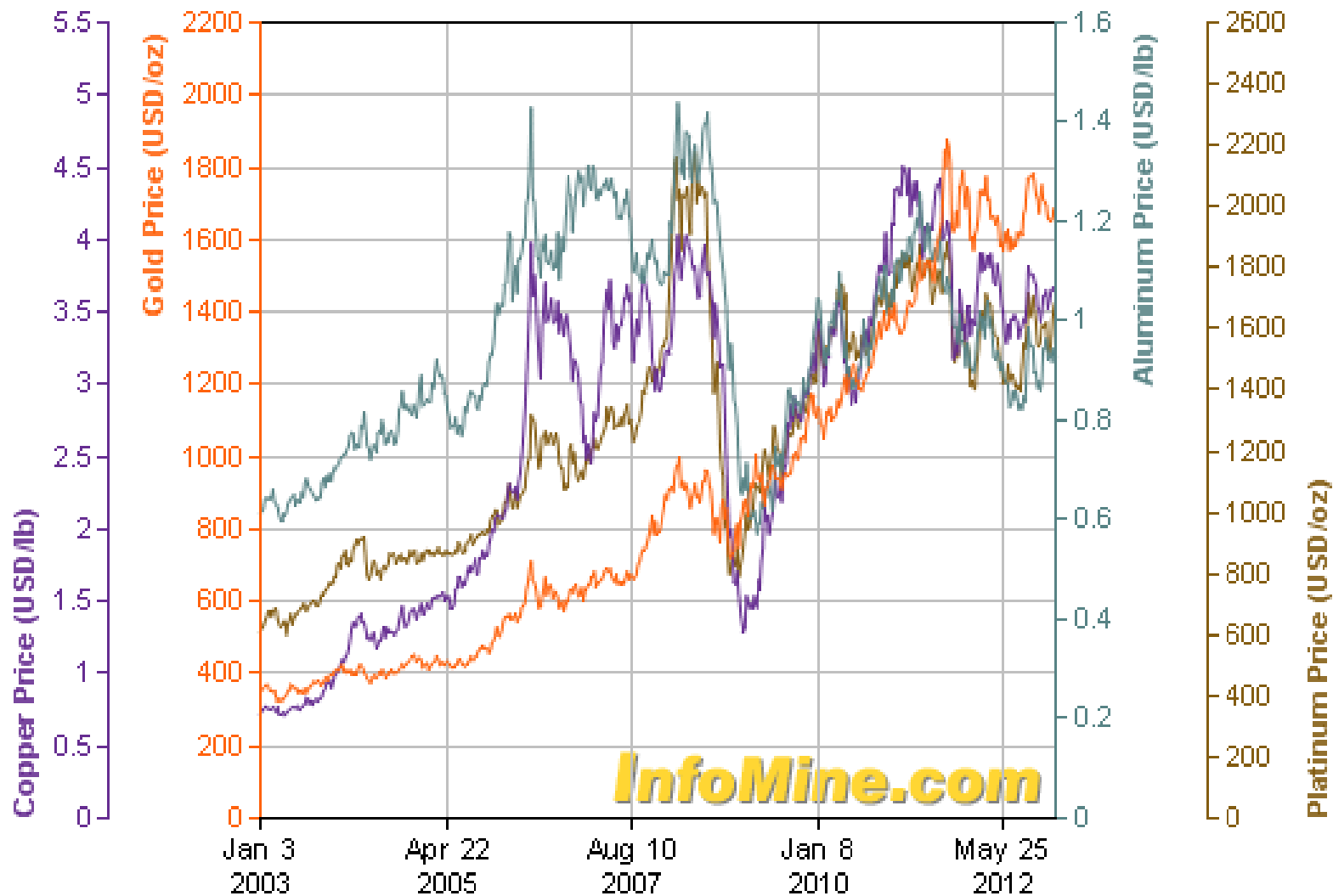
Real price index of crude oil and metallic minerals, 1948-2006 (Base year 2000 = 100)



UNCTAD and Radetzki,

GOLD PRICE - ALUMNUM PRICE - COPPER PRICE - PLATINUM PRICE

Jan 3, 2003 - Jan 25, 2013



Global Crisis lessons

- Boom, bust and boom of prices – from Zambia to Botswana
- 90% collapse of diamonds and Botswana went to AfDB
- Widespread job losses across Africa, e.g. SADC
- Botswana effect as most dramatic illustration of mineral dependence.
- Structurally little had changed since colonial times but a lot had changed in the mineral market since the pre SAP years.
- Raw material exporters, little processing and development of minerals for domestic and regional markets; FDI dominated

Drivers of Change

Mining Issues of focus outside Africa

- Revenue transparency and anti-corruption
 - (EITI, PWYP, OECD guidelines)
- Impacts –Conflicts, less HR and social and environmental
 - Kimberley process, Dodd-Frank Act
 - Guidelines on lending (IFC, Equator, AfDB)
 - CSR (slew of voluntary frameworks and principles)
- CSR
- More recently China bashing

Drivers of change from above – winner's Curse

- Failure of model to deliver on expectations on revenue and development
 - Policy since the 1980s
 - Revenue and development expectations unmet
- Worsened unequal benefit sharing during boom years 2002-2008
- Impact of global crisis on public revenue
- Response to pressures from society

Principles of mineral policy since the 1980s

“Overall, the main objective of donor intervention in African mining - whether through technical assistance or investment financing - should be to facilitate private investment and help reduce the country and project-related risk for the private investor.”

World Bank, *Strategy for African Mining*, 1992

Principles of Mineral Policy since 1980s

“The recovery of the mining sector in Africa will require a shift in government objectives towards a primary objective of maximizing tax revenues from mining over the long term, rather than pursuing other economic or political objectives such as control of resources or enhancement of employment. This objective will be best achieved by a new policy emphasis whereby governments focus on industry regulation and promotion and private companies take the lead in operating, managing and owning mineral enterprises.”

Strategy for African Mining – World Bank, 1992

Mineral Development Strategy since mid 1980s

- No policy framework for minerals and economic development including:
 - Upstream and downstream linkages
 - local enterprise development
- Focus on developing minerals with export value
- Emphasis on attracting foreign investment into sector
 - Creating enabling environment for FDI
 - Creating institutions and processes that deemed necessary for export led-FDI based mineral development strategy

Overgenerous Incentives for FDI

Liberal tax regime

No local content policy -- best endeavour
in employment and procurement

Informalisation of work in mines

Revenue retention outside

Better than national treatment

Over generous tax regimes

- Roughly similar trends across continent
- Sweeping exemptions and holidays
 - No export or import taxes
 - Low CIT rates (30% or lower vs 40% in 70s/80s)
 - Extremely low withholding taxes
 - No windfall or additional profit taxes
 - Low royalty rates: average 3% (0.6% in Zambia)
 - Stability agreements freezing fiscal terms
 - External retention of earnings

Consequences of Strategy

- Huge inflow of foreign capital into high demand export mineral sector –gold
- Expansion in mineral production and exports
- Revenue stream main planned benefit of mining
- Industrialisation involving exploitation of industrial minerals fell off the agenda
- Revival of colonial style mining enclave with weak linkages to rest of economy
- Promotion of institutions that support FDI
- Weak attention to local enterprise promotion and support

Consequences of Strategy-2

- Weak development of regulatory institutions and enforcement and policy incoherence
 - Trade policy, industrialisation and mining
 - Labour protection
- Race to the bottom among African countries
 - e.g. changes in Ghana's 2006 Mining Act

“some observers have described the incentive competition as a “winner's curse” for host countries, whereby investment competition among host countries can trigger a “a race to the bottom” not only in the more static sense of forgone fiscal earnings but also in terms of giving up policy options necessary to organize a more dynamic long term growth path” (UNCTAD,2005)

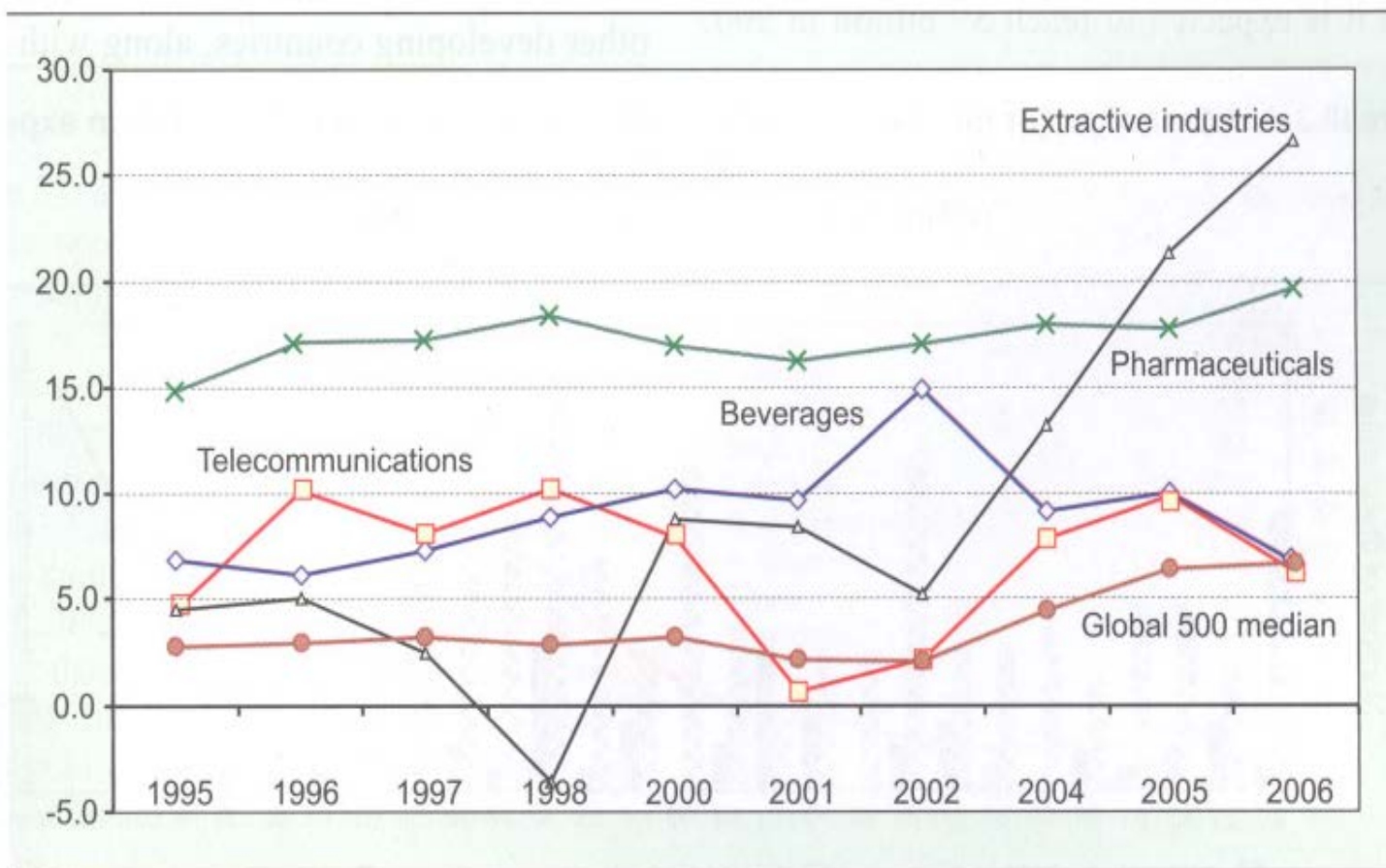
Unmet expectations- Revenue

Between 2002-2007 average prices of minerals and metals rose by 260%.

Between 2002 and 2006 average net profits of biggest mining firms increased by more than 1,400%, going up by 64% between 2005 and 2006 alone. (PWC,2007)

- Windfall gains for developing countries “have been partly offset by increased profit remittances by transnational corporations” -UNCTAD
- Cross country studies have shown that many mining taxation regimes are regressive with governments’ share of mining revenue of falling as the profitability of operations rise

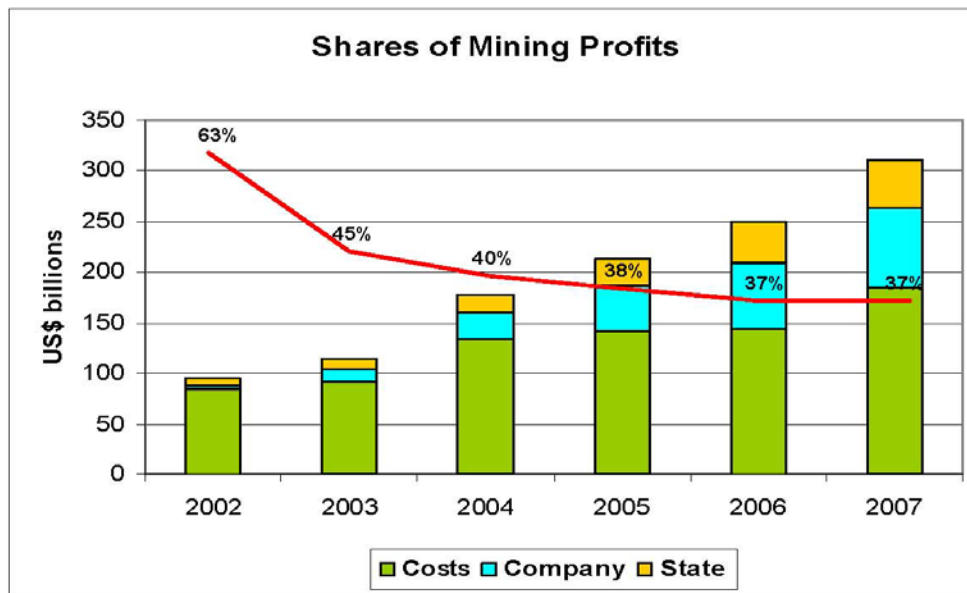
**Profitability of Fortune Global 500 companies in extractive industries and other industries,
1995-2006**
(Profits in percentage of revenues)



Source: UNCTAD, based on data from the Fortune Global 500 (various years).

How were profits shared during the boom?

- Sorting out reality from perception is a significant challenge because of limited transparency and delays in revenue reporting
- For a global perspective we have drawn on PWC's annual survey of the top 40 international mining companies
- This is a narrow sample and results have to be treated with great caution



PWC Top40 survey of mining company results*

State Share = PWC reported income taxes paid + 5% of gross revenue as a proxy for royalty and duties paid

Excludes dividend withholding taxes and dividend receipts from state equity

* PWC report "Mine*:As good as its gets?", 2008

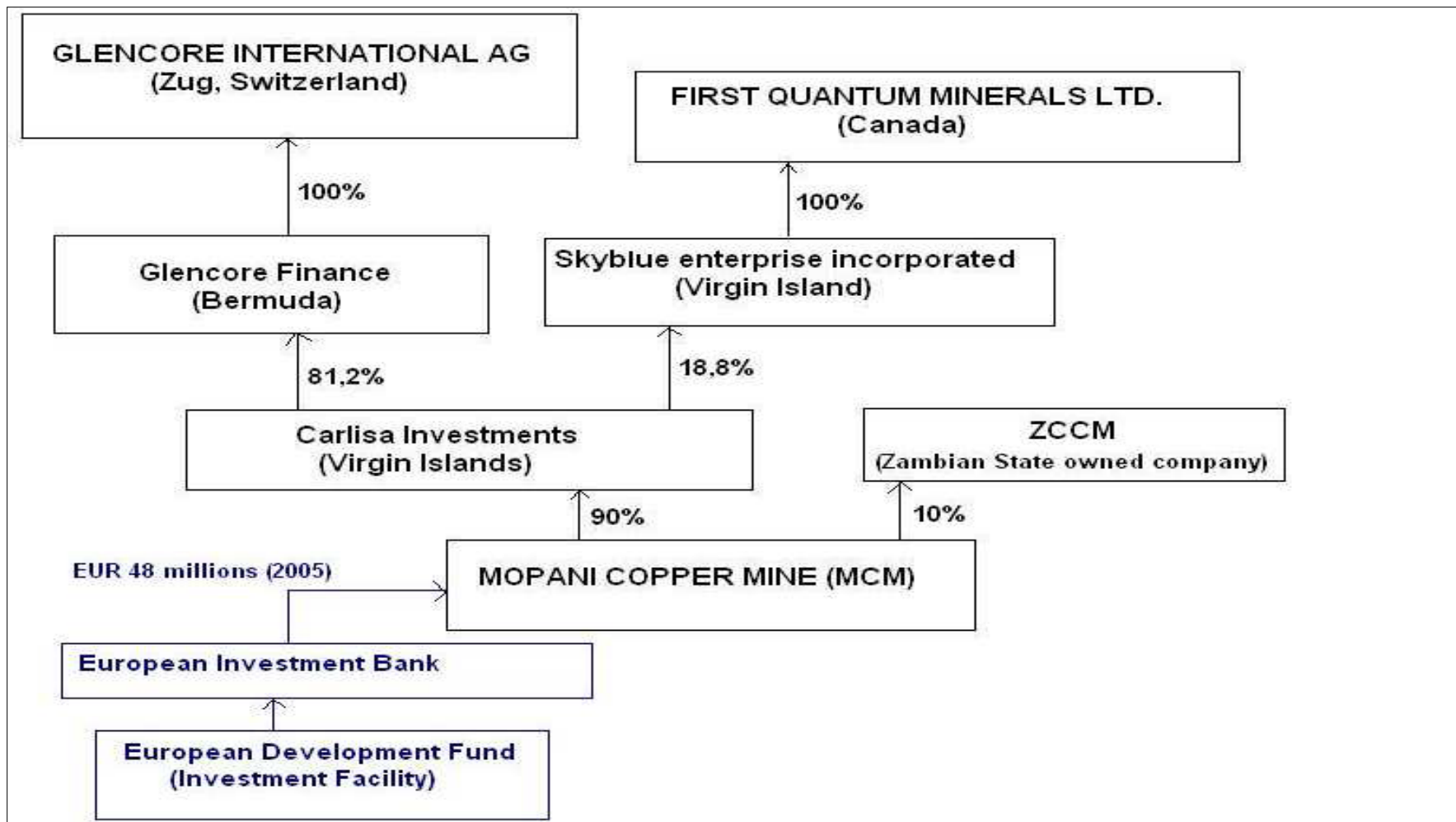
From Bryan Land (World Bank) presentation "Taxing the Minerals Industry in Turbulent Times", 2009

Terms of Trade changes versus actual benefits of price increases (UNCTAD, 2008)

Table 2. Impact of changes in terms of trade and net income payments on national disposable income in selected developing country groups, average for 2004
(Percentage of gross domestic product)

	Effects from changes in terms of trade	Effects from changes in net income payments	Net impact
- Oil exporters	7.3	-0.2	7.0
Exporters of minerals and mining products	5.7	-4.6	1.2
Other commodity exporters	-0.2	-0.1	-0.3

Tax avoidance and tax havens



Drivers of Change from below

- Growing societal questioning and mobilisation against overall cost-benefits of mining boom and operative frameworks
 - Limited new employment in mines
 - Workers protests over casualisation - unionisation, working conditions (health and safety, wages)
 - Privatization of SOmEs, heavy job losses across African mining sector (e.g. ZCCM privatisation cost nearly 40,000 jobs)
 - Accelerated casualisation in South Africa since 1990s (Marikana)
 - Unions demand for ratification of ILO Convention 176
 - Community struggles against negative HR, social (loss of livelihoods) and environmental impacts
 - NGOs research, Reports on taxation, investment agreements, mining codes across Africa

The African Mining Vision and related policy processes

- Conclusions of UN-ECA/AFDB February 2007 policy Big Table on “managing Africa’s natural resources for growth and poverty reduction”
- ISG set up in 2007 by UN-ECA as result of Big Table decision to review Africa’s mining regimes
- October 2008 - 1st AU Ministerial on Mining adopted Africa Mining Vision
- February 2009 AU Heads of State adopt AMV and charge preparation of Action Plan for its realization
- December 2011 – 2nd AU Mining Ministerial adopts AMV Action Plan informed by work of ISG
- December 2011 – ISG Report published
- December 2011 - Decision to establish Africa Minerals Development Centre AMDC
- SADC and ECOWAS processes

Essentials of African Mining Vision

- A knowledge-driven **African mining sector that catalyses & contributes to the broad-based growth & development** of, and is fully integrated into, a single African market through:
- **Down-stream linkages** into mineral beneficiation and manufacturing;
- **Up-stream linkages** into mining capital goods, consumables & services industries;
- **Side-stream linkages** into infrastructure (power, logistics; communications, water) and skills & technology development (HRD and R&D);
- Mutually beneficial partnerships between **the state, the private sector, civil society, local communities** and other stakeholders;

Essentials of AMV -2

- A mining sector that has become a key component of a diversified, vibrant and globally competitive industrialising African economy;
- A mining sector that has helped establish a competitive African infrastructure platform, through the maximisation of its propulsive local & regional economic linkages;
- A mining sector that optimises and husbands Africa's finite mineral resource endowments and that is diversified, incorporating both high value metals and lower value industrial minerals at both commercial and small-scale levels;

Essentials of AMV -3

- A sustainable and well-governed mining sector that effectively garners and deploys resource rents and
- A sector that is safe, healthy, gender & ethnically inclusive, environmentally friendly, socially responsible and appreciated by surrounding communities;
- A mining sector that harnesses the potential of artisanal and small-scale mining to stimulate local/national entrepreneurship, improve livelihoods and advance integrated rural social and economic development; and
- A mining sector that is a major player in vibrant and competitive national, continental and international capital and commodity markets.

Key elements of AMV framework -1

2011 Action Plan clusters

- Mining Revenues and Mineral rents management
- Geological and mining information systems
- Building human and institutional capacities
- Artisanal and small scale mining
- Mineral sector governance
- Research and development
- Environment and social issues
- Linkages and diversification
- Mobilizing mining and infrastructure investment
- Resourcing the Action Plan and the AMV

Key elements of AMV framework-2

Work clusters of the AMDC

- Policy and Licensing
- Geological and mining information systems
- Governance and participation
- Artisanal and small-scale mining (ASM)
- Linkages, investment and diversification
- Building human and institutional capacities
- Communication and advocacy

Key issues posed by AMV

- Puts industrialization back on agenda (LAP1980)
- Industrial policy
- Value addition and domestic/regional use of industrial minerals
- Local enterprise development
- Strong role for the state not only as regulator but as economic actor (South Africa debate on nationalization)
- Cross sectoral – national/regional development planning implications

Key issues posed by AMV -2

- Policy coordination and coherence in country and across RECs
- Institutional and HR development
- R&D strategy and spending
- Domestic transparency processes (APRM) and strengthen overall governance (CSOs, legislature)
- ASM and rural livelihoods and employment
 - Estimated 5m

Key issues posed by AMV -3

- Affirms state initiatives and societal demands
 - Taxation review of regimes (stabilization clauses, transfer pricing, incentives framework) – main focus of most countries (Zambia, Namibia, Ghana, Tanzania, DRC, Guinea, etc.)
 - Societal demands for prevention, mitigation of mining impacts and governance improvements
 - (transparency , FPIC, HR instruments, participation, improved revenue sharing)
 - Workers decent work, health and safety

Challenges - From Vision to changes in policy and practice

- History of passing resolutions and visions
 - LAP 1980, industrialization framework
- State capacity and political commitment
- Structural dependence of countries
- Movement from competition to cooperation among African countries
- Vested interests within and without
 - Domestic beneficiaries of current model
- Financing change –who will pay?

Power of TNCs & interest of Consuming countries

- Existing contractual obligations –stability agreements
- Declared hostility to resource nationalism
 - EU raw materials Initiative, US Criticality, EU/Japan/US use of trade instruments
- Nature of global commodities trade – concentrated power and speculators)
- South-South challenge
 - FOCAC (resource for infrastructure) Chinese take over activity , Brazil (CVRD), South African firms, India, etc.
- Outsiders will pick and choose elements of agenda that suits them (NRC, WB, EU, China, Aus)
- Climate change imperatives –moderating resource intensity of growth

Challenge of trade and investment rules and agreements

- Constraints from WTO Agreements
 - TRIMS, evolution of GATS and demands
 - Issues from BITs
 - e.g. of disputes and arbitrations
- Dangers posed by EPAs
 - Investment elements and constraints on policy autonomy
 - Competition and effects on policy space
 - Constraints for regional integration
 - 2008 AU ministerial resolution

Developmental state for AMV -1

The role of the African State

- Forward movement requires multiple state role beyond facilitating mining
- Pro active role supporting mining within an integrated development framework
- Committed to and promotes national and regional ownership of policy
- Committed to supporting the development of local enterprise
- Commitment to regional integration as a strategic aspect of national development

Developmental state for AMV-2

- Facilitates domestic resource mobilization/national capital accumulation
- Recognises and defends the importance of national and regional policy space for fulfilling national and regional development needs
- Promotes horizontal and vertical policy coherence across different sectors as well as between internal policies and international positions at regional, continental and global levels especially in key fora such as the WTO and the emerging framework of relations with the EU, USA, China, India, etc.

Developmental state for AMV-3

- Democratic
 - Promotes economic and social equity, especially of mining affected communities with particular attention to disadvantaged sections- women, youth, migrants
 - Promotes protection of human rights and environment in mining areas
 - Sets up mechanisms and processes for democratic participation
 - Laws, processes for access of all to information and scrutiny
 - by persons affected by projects and others such as those interested in environmental protection and human rights;
 - by citizens at large in mining policy

Developmental state for AMV-4

- Committed to principles and mechanisms of accountability much wider and deeper than a focus on revenue transparency, extending to the functioning of relevant public institutions
- Promotes environmental sustainability and the importance of full internalization of all costs by mining projects deemed worthwhile
- Recognises importance of building needed institutions and cadre for change

Policy space and international agreements

- Developmental state assumes policy space and autonomy
- State role and policy space lessons from Africa's experience and global South
 - China, India, NICs, new wave in Latin America
- Lessons and opportunities in current global situation –states and markets

Building an African alliance for change

- State and citizens -from conflict to common purpose
 - Need for base in society
 - build democratic state-citizens' engagement for change
 - Challenge of overcoming built up suspicions of state policy and practice
- Experience at national levels and what needs to change
 - Role of legislatures
 - Citizens, CSOs and mining policy making
- Among African states – from competition for FDI to cooperation for structural transformation
- Regional/continental processes
 - Challenge to RECs
 - What roles for citizens, unions and CSOs

Building global alliances and solidarity

- The challenge and opportunities of competing reform agenda
- Challenges and opportunities of competing interests from outside
- Opportunities for South-South cooperation (both state-state and among citizens)
 - Targeted investments from South
 - Latin American lessons and solidarity
- Support from international institutions

References and contact

- www.africaminingvision.org for key documents:
 - Africa Mining Vision
 - ISG Report: *Minerals and Africa's Development*
 - Action Plan for Implementing AMV
 - Documents from AU Ministerial on Mining