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Governing and Harnessing Natural Resources for Africa's Development

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**Mineral Resources for Africa's Development:
Anchoring a New Vision**

Issues Paper 1



African Union



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Economic Commission for Africa

I. INTRODUCTION

1. Africa is endowed with considerable amounts of mineral resources and ranks first or second in quantity of world reserves of bauxite, chromite, cobalt, industrial diamond, manganese, phosphate rock, platinum-group metals, soda ash, vermiculite and zirconium. The continent is also a major global producer of these minerals. For example, in 2010, Africa's share of diamond, chromite, gold and uranium was 57 per cent; 48 per cent 19 per cent; and 19 per cent, respectively. The continent is also becoming an important player in world production of coal, oil and gas. In 2010, Africa accounted for a total share of 12.2 per cent of the global oil production. These resources play a crucial role in the economy, as they account for a significant share of exports. Indeed, mineral resource exports contribute to merchandise exports in 24 (44 per cent) of Africa's 54 countries.

2. The big push theory¹ predicts that the exploitation of mineral resources should have a positive effect on economic growth as it provides sufficient financial resources for building economic infrastructure and human capital. Even though recent studies suggest that from 2000 to 2012, mineral resource exporting countries in Africa experienced faster growth than the non-mineral exporting ones, there were no corresponding improvements in social indicators for those countries.² Poor performance in mineral economies has been linked to the "Dutch Disease" effect³; the lack of forward and backward linkages; poor legal and regulatory frameworks and weak institutional capacity, including for negotiation of mineral agreements; and illicit financial flows that are lost by Africa through transfer pricing and other mechanisms used by private companies. Other explanations focus on the negative impact that resource rents have on the workings of political institutions, as they create political incentives for discretionary or non-transparent management of public expenditure.

3. The potential for mineral resource-driven broad-based development remains largely untapped in most African countries. The quest for solutions to making mineral resources an engine for growth and development has been therefore a central preoccupation of policymakers and other stakeholders in Africa, both at continental, subregional and national levels. Botswana represents a successful case of where, based on good governance, strong and capable institutions, a country uses its mineral wealth to promote growth and development. Another credible step forward is the adoption of the Africa Mining Vision (AMV) in February 2009 by the African Union Summit of Heads of State and Government, as a blueprint for unleashing a resource-based growth and industrialization strategy on the continent. It would be useful to learn from experiences such as those of Botswana and reflect on ways to replicate them in other African countries. ADF-VIII will provide a unique platform for such exchanges.

¹According to J. Sachs and A. Warner (1999): *The big push, natural resource booms and growth*, in Rosenstein-Rodan (1943, 1961) and Murphy et al. (1989), the big push literature underscores that underdeveloped economies need a large demand expansion to increase the size of the market, to make it profitable for entrepreneurs to incur the fixed costs of industrialization. The demand could be stimulated by a considerable public spending programme, foreign aid, the discovery of minerals, or a rise in the world price of a natural resource.

²IMF. 2012. *Sub-Saharan Africa: Sustaining Growth amid Global Uncertainty*, Regional Economic Outlook.

³The "Dutch Disease" focuses on the effect produced by a sharp rise in export rents; the flow of production factors from other sectors of the economy to the booming extractive industry, which may trigger de-industrialization; and an appreciation of the domestic currency that makes the non-resource sectors less competitive, undermines growth and puts inflationary pressures on the economy (See Ross 1999).

II. OBJECTIVE

4. The overall objective of this Issues Paper is to provide material and background input for the segment of the eighth African Development Forum (ADF-VIII), which will discuss mineral development issues. The Issues Paper complements the ADF-VIII concept note and should be read in conjunction with it. It identifies a set of key issues that should inform the relevant ADF-VIII deliberations. It poses questions to frame the debate with no attempt to offer policy prescriptions.

5. While the key strategic issues interrogate whether Africa has a new window of opportunity, the more specific issues are grouped in five categories, in no specific order, namely: policy, legal and regulatory; economic; governance, equity, human rights and social issues; environmental, social and material stewardship issues; and knowledge base, human and institutional capabilities. Regional integration will be discussed as a cross-cutting issue.

III. THE KEY STRATEGIC ISSUES

Does Africa have a new window of opportunity?

6. Africa's mineral endowment is a natural capital, which offers the continent comparative advantages for its development.

How can the continent maximize the developmental value from exploiting these resources?

7. Africa is being courted for its resources and there is increased competition for mineral acreage on the continent.

How can Africa benefit from this increased competition?

8. The demand for mineral resources rose significantly in the 2000s, especially for iron ore, aluminum, copper, zinc, lead nickel and tin. From early 2002 to 2008, industrial expansion in China and India, and the rise in demand for minerals and metals mostly from emerging economies led to a rise in international prices of metals. Some analysts suggest that mineral commodities are in a super cycle, i.e. an increased period of a rise in prices.⁴ A super cycle allows governments to increase their tax revenue and also diversify the mining value chain. Exploiting sustained surges in commodity prices offers tremendous opportunities for high revenues for development. In the past, Africa had failed to take advantage of this type of commodity price boom.

Can Africa optimize the benefits this time around? What would be the prerequisites for success?

⁴ UNECA and AU. 2011. *Minerals and Africa's Development*. The International Study Group Report on Africa's Mineral Regimes, UNECA.

9. Moreover, the governance scorecard seems to have improved on the continent, as evidenced by the wave of democratization. According to the African Governance Report II, African countries have continuously made progress on political inclusion, while political participation has increased since baseline year 2005. Elections are also held on more regular basis, albeit flawed in some countries; and social inclusiveness is on the rise.⁵ Indeed, since the late 20th century, there has been a flurry of initiatives to advance public participation in national policymaking in general and the mining sector in particular. Participatory frameworks for public consultation and stakeholder engagement are progressively being viewed, not as a “luxury”, but as an essential tool to gain the “social license to mine”, avoid conflicts, enhance transparency in the management of revenues and adhere to the principles of corporate social responsibility. The establishment of the African Peer Review Mechanism (APRM), which is often described as “Africa’s unique and innovative approach to governance”, aimed at improving governance dynamics at the local, national, continental and international levels is increasingly being seen as an opportunity to leverage State-society dialogue to enhance mineral resource governance.

How can this governance dividend yield better developmental outcomes from mining? What policy space and orientation is required to precipitate good governance? What institutional arrangements and structures are required for good governance?

10. Following the years of structural adjustment programmes when the State retrenched and privatized, the mere regulatory function of the State is now being questioned, while the notion of developmental State is re-emerging. According to the Economic Report on Africa 2011, developmental States are needed to promote economic and social transformation. It cites five major elements that are essential for building them: purposeful leadership and a developmentalist coalition; transformative institutions; focused industrial policy; investment in research; and enhanced social policy.⁶ This also applies to the mineral sector.

What role can a capacitated developmental State play to promote resource-driven structural economic transformation on the continent?

11. Resource nationalism⁷ is a growing phenomenon in many mining jurisdictions in the world, including Africa. To capture a better share of mineral rents, including windfalls arising from higher commodity prices, governments are tightening up provisions in their fiscal regimes and introducing innovative instruments to optimize revenues and hence the developmental impact of mining.

What is the degree of fiscal elasticity that governments have? How can fiscal regimes, specifically taxes, be shifted to generate greater value and broader benefits beyond mineral revenue?

12. In addition to the core business of extracting ore, mining companies are increasingly being expected to contribute to wider developmental goals to arrest the historic enclave nature of

⁵ UNECA. 2009. *African Governance Report II*. Oxford University Press.

⁶ UNECA and AUC. 2011. *Governing development in Africa- the role of the state in economic transformation*. Economic Report on Africa. Addis Ababa, Ethiopia.

⁷ Term used to describe the tendency of people and governments to assert control over natural resources located on their territory.

the sector. Thus, whilst profit maximization still drives companies, a triple bottom line approach, whose success is measured against good economic, environmental and corporate social performance, is gradually being mainstreamed. Some of the larger mining companies are considering regional development strategies in an effort to expand linkages between the mining sector and other sectors of the local economy.

What kind of mutually beneficial partnerships can be explored with the captains of industry to promote integrated mineral resource exploitation and strategic spatial planning and development in Africa?

13. Last but not least, the elaboration of the AMV adopted in February 2009 by the African Union Summit of Heads of State and Government, offers the continent a credible framework to promote “transparent, equitable and optimal exploitation of mineral resources to underpin broad-based sustainable growth and socio-economic development”⁸. The AMV envisages the mining sector to be a vehicle for structural change and transformation on the continent, through the adoption of domestically owned and generated policies and strategies. The AMV aspires to a “mining sector in Africa, which encourages local processing of minerals to increase value addition; and becomes a key component of a diversified, vibrant and globally competitive industrializing African economy”.

How can the ambitious and aspirational goals of AMV be realized?

14. The discussion on AMV will be further elaborated under “Policy, legal and regulatory frameworks” in the main body of the Issues Paper.

IV. THE SPECIFIC ISSUES

A. Policy, legal and regulatory issues

The Africa Mining Vision

15. An innovative and holistic vision for governing the mineral sector in Africa to ensure growth and sustainable development has been launched through AMV. It begins with the notion that Africa’s mineral comparative advantage would build competitive advantages and unleash structural economic transformation towards “knowledge-driven” economies. It is anchored on the understanding that mineral resources are part of the stock of natural capital that can spur Africa’s development. The Vision underscores the fact that development can occur if Africa succeeds in transforming transient mineral wealth into other forms of lasting capital which outlive the currency of mining.⁹ The principal resource endowment opportunities for realizing AMV are: resource rents; physical infrastructure; downstream value addition; upstream value-addition; and technology/product development.

⁸ African Union. 2009. *Africa Mining Vision*. February. <http://africaminingvision.org>.

⁹ Ibid.

16. While AMV recognizes the centrality of mineral revenue, other equally important benefits can be derived through employment generation; procurement of goods and services; entrepreneurial development; skills and knowledge creation; technology transfer; infrastructure expansion and linkages. As part of the strategic reorientation needed to promote structural change in the mineral sector, AMV calls for greater fiscal space and responsive taxation to allow African countries to optimize mineral taxes and to encourage value addition and linkages. On mineral licensing, it suggests that innovative licensing schemes, particularly auctioning systems, could realize better value for mineral terrains and should be used where relevant.

17. AMV is a long-term and aspirational framework. Its realization requires policy coherence and consistency beyond the expediency of electoral cycles. The implementation of AMV would also require alliance for change and coordinated action between public, private, civil society and community stakeholders.

To what extent do existing policy, legal and regulatory frameworks support the realization of AMV? How can African States domesticate AMV in national policy instruments?

B. Economic issues

1. Linking mining to other sectors and diversifying throughout the value chain

18. Promotion of linkages between the mineral sector and other sectors of the economy of host countries maximizes the value accruing to the local economy. It increases the proportion of mining revenues retained in the country, and enhances employment and other economic multiplier effects. The vision that extractive resources could be used to propel Africa to modernization has been articulated in many African plans and development strategies at national and regional levels (Lagos Plan of Action, SADC Minerals Sector Programme, Mining Chapter of NEPAD, the Africa Mining Partnership and more recently the African Mining Vision). Indeed, the Lagos Plan of Action for Economic Development of Africa (1980-2000) called for “the establishment or strengthening of national machinery for the creation of policies to ensure that proper backward and forward linkages exist between this (the natural resources) sector and other sectors of the economy in order to promote integrated rural development”.¹⁰ However, in most cases, the mineral sector operates as an enclave, targeting overseas markets. Challenges hampering the development of economic linkages in the mineral sector in Africa include inadequate infrastructure; low-level industrialization, which translates into weak markets for mineral products; procurement policies of the mining companies; and overall poor knowledge base and technological deficiencies.

What policies and strategies enhance backward and forward linkages between mining and other economic sectors of the economy?

¹⁰ African Union Commission. 1980. Lagos Plan of Action for the Economic Development of Africa: para 172.

2. Ensuring increased African ownership of and participation in the mining sector

19. The importance of ownership is enshrined in NEPAD guiding principles and was also recognized at the 2007 Big Table on “Managing Africa’s Natural Resources for Growth and Poverty Alleviation”.¹¹ It is also indicated as one of the G-20 principles in the Seoul Development Consensus, as encapsulated in the statement “Engage developing countries, particularly low- income countries, as equal partners, respecting their national ownership and recognizing that the most important determinant of successful development is a country’s own development policy”¹².

20. Increasing African ownership in the mining sector has been a big challenge, as the industry is capital intensive and African capital markets are small. In order to rapidly acquire capital and skills, therefore, most African States have opted to encourage foreign capital rather than rely on the development of local resource companies.

What can be done to broaden ownership to include nationals? Should specific terms be imposed on investors to ensure higher levels of local ownership in the sector? What is the role of financial institutions in promoting the creation of African- owned resource companies?

3. Improving the management of mineral revenues

21. A major mineral discovery in any mining jurisdiction raises great expectations among stakeholders in terms of levels of revenues and distribution, for instance. Policymakers are confronted with challenging options on how to: institute adequate regimes that benefit both the host country (including local communities) and investors; be a competitive investment destination without “racing to the bottom”¹³; distribute the benefits equitably within the country; and invest mineral revenue to perpetuate wealth and promote sustainable development.

22. Managing the Dutch Disease and mineral commodity price volatility is a major cause of concern. Transfer pricing and other illicit financial flows are increasingly becoming a challenge for mining economies. Lack of adequate capacity and weak coordination of actions within the mineral institutional chain¹⁴ exacerbate the problems. Tax administration is one of the weakest links.

How can the sometimes competing interests of the various stakeholders, including local communities, be balanced? How can transient short-term mineral wealth be converted into long-term capital that addresses inter-generational equity?

¹¹ UNECA and African Development Bank: The 2007 Big Table: “Managing Africa’s Natural Resources for Growth and Poverty Reduction”, 1 February 2007.

¹² G-20 Seoul Summit 2010: Seoul Development Consensus for Shared Growth.

¹³ This notion refers to the case where neighbouring countries compete with each other for markets and for Foreign Direct Investment, resulting in loss of revenue that could have been used to reduce poverty.

¹⁴ Institutions that are directly and indirectly involved in the administration of the sector include ministries of mines, geological surveys, environment authorities, land administration, central banks, revenue and customs authorities and ministries of finance.

4. Optimizing resource for infrastructure deals: The case of emerging global players

23. Africa is becoming more integrated into the world economy and its partnerships are diversifying, revealing unprecedented economic opportunities. Emerging global actors such as China, India and Brazil contribute to the diversification of FDI sources in Africa. They provide a welcome alternative to the traditional actors involved in FDI. By building infrastructure, using natural resources as source of financing, they play a tremendous role in development. These South-South arrangements represent an important alternative financing mechanism, which Africa should exploit. However, Africa should be fully knowledgeable about the quality and quantity of the resources before entering into these arrangements. The arrangements should also be linked to broader developmental objectives such as corridor development.

Is there a scope for optimizing the deals with emerging partners? What should inform their construct?

5. Marine mineral resources: alternatives to declining land-based reserves?

24. The recovery of minerals from the seabed and knowledge of new sources of marine minerals have developed rapidly in recent decades. Marine minerals could potentially yield significant economic returns and become valuable additions to the world's resource base. Of the non-metals, a viable diamond-mining industry exists off Namibia and the adjacent coast of South Africa. Mineral sands (rutile) and gravel are being mined from beaches and shallow offshore accumulations at many sites around the world for construction material. The non-solid minerals beneath the sea — natural gas and petroleum - are being exploited in shallow and deep water in national areas off the coasts of Africa.¹⁵ A number of private sector and government-sponsored entities are actively examining these potential resources, having identified them as partial substitutes to declining land-based reserves.

As the issue of marine minerals is increasingly becoming important to Africa's development agenda, how should policymakers, citizens and other stakeholders address marine mineral resource issues?

C. Governance, equity, human rights, and social considerations

25. Participatory approaches, through public consultation and stakeholder engagement, have been shown to enhance quality, ownership, and sustainability; empower targeted beneficiaries; and contribute to long-term capacity-building and self-sufficiency. Since the late 20th century, initiatives have been developed to advance public participation in the mining sector. However, challenges persist, as public participation processes are not deep rooted. In addition, there is an asymmetry of power relations between mining companies and local communities; a situation further exacerbated by lack of capacity and resources, in particular for vulnerable groups such as women and children. These inadequate participatory approaches could lead to conflict due to

¹⁵ International Seabed Authority. 2002. *Marine mineral resources*.

grievances of disenfranchised local communities around the mines. Other issues that arise include violation of human rights and equity and mining-related social problems.

1. Strengthening governance instruments

26. There are several initiatives and mechanisms to strengthen governance in the extractive industry sector. The most well known of these are the Extractive Industries Transparency Initiative (EITI), the Kimberley Process Certification Scheme, the Dodd-Frank Act and the OECD Due Diligence Guidance.

27. In general, these instruments have contributed a useful body of knowledge and practice to strengthening governance in the extractive industry in Africa. However, several studies have shown that in many countries, these instruments are stand-alone and parallel structures that are not sufficiently embedded in national policy and decision-making processes. Moving forward, therefore, it is imperative to domesticate these instruments into national processes.

How can Africa best use the existing package of governance instruments for the extractive industry? What lessons has the continent learnt from implementing these frameworks? Can existing international instruments and processes be institutionally embedded in indigenous processes?

2. The African Peer Review Mechanism¹⁶

28. In adding a specific chapter on extractive industry governance to its country review questionnaire, the APRM has made a significant step towards deepening the ownership of the governance agenda in this important sector on the continent. A further step forward was also made when the 17th Summit of the Committee of Heads of State and Government participating in the APR Forum approved the revised APRM Self-Assessment Questionnaire which includes detailed questions and indicators for the management of extractive industries. The quality and depth of the consultations that the APRM provides for, as well as the efforts to link its National Plans of Action with budget frameworks offer an opportunity to move discussions on governance beyond rhetoric to results and action-oriented compacts that can promote change.

How can the APRM be strategically repositioned to become the primary and effective instrument for assessing and monitoring mineral-sector governance?

3. Curbing human rights violations

29. The Special Representative of the United Nations Secretary-General on Human Rights, Transnational Corporations and other Business Enterprises, John Ruggie, reviewed corporate human rights abuses in 2006 and found that oil, gas and mining companies accounted for two-thirds of abuse cases. While respect for human rights is part of mining companies' social license to mine and operate, in light of these findings, it would be important to look into the obligations imposed on them by international human rights law. Indeed, these are limited in scope and

¹⁶ The APRM - a key component of NEPAD - is a mutually agreed instrument voluntarily acceded to by AU member States as an African self-monitoring mechanism.

litigious, even though it is globally recognized that domestic laws cannot fully address these types of human rights violation, which include gender-based violence.

How can the implementation of the United Nations “Protect, Respect, Remedy” framework for business and human rights be fast tracked?

4. Addressing equity and social issues emanating from mining

The case of artisanal and small-scale mining

30. Artisanal and small-scale mining in Africa is a marginalized sub-sector, yet they constitute an important constituency in many mineral jurisdictions on the continent. Artisanal and small-scale miners are trapped in a poverty loop from which it is difficult to escape. Very often, mining operations employ rudimentary equipment and techniques, while access to finance by operators is constrained. In addition, many miners lack the business skills and information needed to scale up their operations. Environmental impacts are serious and labour conditions harsh. Access to extension services and other administrative support seldom exist. Incidents of child labour, crime and gender-based violence can be widespread. Formalizing the sector is a serious challenge.

What strategies should member States consider to ensure that the contribution of ASMs to development, especially in rural areas, is strengthened?

D. Environmental, social and material stewardship

Ensuring increased compliance with environmental norms and standards

31. The exploitation of mineral resources leaves permanent adverse marks on the environment, damaging land and water, reducing the capacity to grow food and undermining local livelihoods. Environmental degradation and the social impact of mining are often linked to poor governance, a weak regulatory environment and insufficient enforcement capacity.

32. In the past two decades, initiatives designed to recognize and expand the scope of social responsibility of mining companies have led to what is called corporate social responsibility (CSR). The principle that the role and responsibilities of mining companies go beyond maximizing profits has been acknowledged and most mining companies are now willing to embrace the notion of CSR. CSR is a framework for formulating and implementing the expanded roles and responsibilities of the corporate sector to integrate the expectations and needs of the wider community into their business model. CSR has immense potential to mitigate the negative reputation of mining, lead to reduced conflicts with communities and employees and ultimately result in a higher value for the company.

33. Though the existence of instruments to address the social and environmental impacts of mining is welcome, the key challenge is the capacity to enforce such instruments. Africa's institutional weaknesses are clearly exposed in the case of management of cumulative impacts in large mining districts.

How best can African countries promote environmental stewardship and CSR in the mining sector?

E. Knowledge base, human and institutional capacities

1. Strengthening transformative capacity and bargaining power

34. AMV is a transformational framework which entails a multi-sectoral approach to mineral development policy, especially the link with industrial and trade policies. Implementing AMV requires considerable investment in research and development; knowledge acquisition and capacity-building; and strengthening of institutions responsible for the administration of the sector and long-term spatial development and planning. Equally important is the need to ensure better integration of mining activities in the overall economy, breaking departmental silos, and ensuring coordinated action between all agencies of government responsible for policy formulation, planning, development economics and public administration.

35. Unfortunately, research and development capacity to support the AMV transformational agenda is weak. Budgets for science, technology and innovation are meagre and the number of scientists and other relevant experts is inadequate. Africa needs an innovation strategy which hinges on the minerals sector through linkages.

36. Moreover, the state of the continent's knowledge of its mineral resources is less than optimal for this critical aspect of minerals development. Geological surveys are weak and poorly funded. Yet, Africa's bargaining power would be strengthened if the knowledge of its mineral assets is expanded. This requires comprehensive geological coverage and mineral inventory of the continent.

What institutions can better support the transformation of Africa's mineral resources for development?

2. The case of the African Mineral Development Centre: Anchoring the implementation of the African Mining Vision

37. In order to ensure the realization of the goals set out in AMV, the Second Conference of Ministers Responsible for Mineral Resources Development, held in Addis Ababa in December 2011, approved the establishment of AMDC. The AU Summit of Heads of State and Government held in July 2012 endorsed its establishment.

38. AMDC will be a one-stop organ to spearhead the implementation of AMV. It will specifically undertake the following activities: (a) coordinate the implementation of the AMV Action Plan; (b) identify gaps and needs in member States as well as expertise from a broad range of sources to address these needs; (c) undertake and coordinate policy research to develop policy strategies and options for realizing AMV; (d) develop and implement continuous advocacy and information dissemination campaign, including maintaining websites and discussion forums to engage various stakeholders; (e) undertake monitoring and evaluation

activities and generally provide corrective action to update and contextualize the intention of AMV; and (f) generally provide think-tank capacity for AMV.

How can the long-term sustainability of AMDC be ensured? How can the partnerships in the work of AMDC be sustained for continued development of the African minerals sector and in what form?

V. A CROSS-CUTTING ISSUE: REGIONAL INTEGRATION

39. Regional integration has evolved from a desirable policy option to a near-absolute necessity. Collective and concerted action at the regional level and moving from competition for FDI to cooperation for change is a must for the success of AMV. Instead of a race to the bottom, whereby neighbouring countries compete with each other for markets and FDI, minerals can be used strategically as a race to common voice and purpose, policy alignment and coherence. Indeed, regional integration can be used to ensure peace and security, strengthen regional economic integration and enhance cooperation. In addition, collaboration of supranational institutions can boost economic integration, while removing tariff and non-tariff barriers on goods and services accelerates trade and leads to economies of scale.

How can African member States rally together to strengthen their common voice and position?

VI. CONCLUSION

40. For Africa to use its mineral resources to foster industrialization and sustainable development, it should take advantage of its mineral endowment to overcome the challenges outlined above. It is imperative to take account of the Africa Mining Vision in extracting mineral resources using accompanying rents for development and by adding value through beneficiation. The natural resources sector is intertwined with the economic, social and environmental pillars of sustainable development and climate change. This means that we have to pay close attention to the outcome of the Rio +20 conference as well as the negotiations on climate change. This poses a big dilemma, and is a constraint to the development of the continent. ADF-VIII can be a perfect platform or contributing to the realization of AMV and the Rio+20 agenda on mining.