

A stylized map of the African continent is centered on the page, overlaid with a blue cross. The map is composed of various colored segments that radiate outwards from the center, creating a starburst effect. The colors include shades of green, yellow, orange, red, and grey.

# **EQUITY AND EXTRACTIVES IN AFRICA**

## **MANAGING RESOURCES TO TRANSFORM HUMAN DEVELOPMENT**

**Consultation Meeting**  
**Expert Contributions**

28 November 2012  
Geneva

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## INTRODUCTION

### Objective of the meeting

- Identify options for African countries to build human capital and reduce inequality by using their natural resource wealth. This conversation continues our work on inequality as per our Africa Progress Report (APR) 2012, and builds towards our 2013 APR.

### Emerging key question

- Lifting the resource curse, transforming the future – how Africa's natural resource wealth can be made to work for equity and human development.

How can Africa be so rich in natural resources, yet so poor in human development? This is an old question that has taken on a new relevance. Today, Africa is at the heart of a mineral wealth boom. Revenues from oil, natural gas, metallic ores, gold and other minerals are surging, in many cases dwarfing flows of aid. With Africa's share of known energy reserves increasing, prices buoyant, and investors – domestic and foreign – increasing productive potential across the mineral sector, the region's abundant natural resource wealth could become a catalyst for inclusive growth, poverty reduction and human development. Other outcomes are possible. Colonial legacy and recent history provide a painful reminder that ordinary Africans, especially the poorest, have seldom benefited from surges in mineral wealth. In fact, they have often suffered in direct proportion to the scale of the surge.

This year's Africa Progress Report will show that a different future is possible. Countries rich in mineral wealth have an unprecedented opportunity to make a breakthrough in development – a breakthrough that could transform millions of lives. Rising natural resource revenues could underpin investment in productive infrastructure, decent education and health systems, job creation, smallholder agriculture, and programs to alleviate poverty, vulnerability and insecurity that blight so many lives in Africa. Opportunities for governments, the African business community, foreign investors and civil society alike, mean that a win-win solution is both possible and necessary.

To date, though, the risks associated with natural resources provide an antidote to undue optimism. The alternative

outcomes have been painfully apparent. Instead of financing high quality education, natural resource revenue can be siphoned into the private (often foreign) bank accounts of national elites. Instead of creating jobs, supporting productive investment, and creating opportunities for the many, revenues from oil, gas and metals can fuel speculative bubbles in property markets, create windfall gains for the elite, widen disparities and leave the poor even further behind. Natural resource sectors can be managed through systems that incentivize transparency and environmental sustainability, or through systems which provide a license for opaque budget management and environmental destruction. And the revenues flowing from exports can be used to support the training of health workers and provision of essential medicines, or to purchase the weapons and sustain the armed conflicts that kill, maim and terrorize ordinary people.

### Priority areas

The Africa Progress Panel report will not set out to offer region-wide policy blueprints. It aims to capture the very different types of challenges faced by countries across the region, and by different sectors. However, the report will seek to identify the principles, policy approaches and best-practices across government, industry and civil society for converting natural resource wealth into accelerated human development.

Among the priority areas:

- Managing the revenue flows to catalyze development and minimize risk,
- Strengthening transparency and accountability to citizens,
- Identifying best practices on foreign investment and negotiations on concessions,
- Examining the role of transnational companies and the effectiveness of international legislation/initiatives on business practices,
- Protecting the environment,
- Analyzing the distinctive problems in conflict-affected/fragile states,
- Considering the human rights dimension.

The APP report team is seeking advice on all of these areas. In addition, the team would like assistance with 'mapping' the major natural resource trends. This includes

the identification of known reserves, projected exports and revenue flows for both the region and individual countries.

## LIST OF PARTICIPANTS

### Panel members

- Kofi Annan, Chair
- Michel Camdessus
- Peter Eigen
- Bob Geldof
- Linah Mohohlo
- Robert Rubin

### Consultation Group

- Laurent Coche, Senior Vice President Sustainability, Continental Africa Anglo Gold, Ashanti
- Peter da Costa, Senior Advisor - Policy & Strategic Communications, Africa Progress Panel
- Jim Cust, Acting Director of the Natural Resource Charter and a member of the Oxford Centre for the Analysis of Resource Rich Economies (Oxcarre), Oxford University
- Nathalie Delapalme, Director of Research and Policy, Mo Ibrahim Foundation
- Rob Donnelly, Senior Adviser, Government Relations for Europe and Sub-Saharan Africa, Shell
- Alan Doss, Senior Political Advisor, Peace and Security Unit, Kofi Annan Foundation
- Jamie Drummond, Executive Director, ONE
- Adama Gaye, CEO & Founder New Force Africa/ Africa China Consulting Group
- Mark Henstridge, Chief Economist of Oxford Policy Management,
- Karuti Kanyinga, Director, South Consulting
- Caroline Kende-Robb, Executive Director, Africa Progress Panel
- Sheila Khama Director, Extractive Resources Services, ACET
- Max Jarrett, Special Adviser, CODA; Programme Management Officer, Office of the Executive Secretary, UNECA
- Richard Manning, Senior Research Associate, Centre for the Study of African Economies, University of Oxford
- Strive Masiyiwa, Founder, Econet Wireless
- Festus Mogae, Fomer President, Botswana
- Mthuli Ncube, Chief Economist & Vice President, ECON, African Development Bank
- Tesfai Teclé, Senior Advisor to the Chair of AGRA
- Kevin Watkins, Senior fellow, Center for Universal Education, Brookings Institution
- Ngaire Woods, Dean of the Blavatnik School of Government and Professor of Global Economic Governance, Oxford University
- Lai Yahaya, Team Leader of the Facility for Oil Sector Transparency.

# AGENDA

9:15 – 9:45	Breakfast
9:45 – 10:00	Welcome - <i>Mr. Kofi Annan</i> Introductions - <i>All participants</i>
10:00 – 11:00	<b>Session 1: Managing Africa’s natural resource management for a human development breakthrough</b> Framing the issue and outlining the continuity with last year’s report Setting an agenda in four key areas: <ul style="list-style-type: none"> <li>• Budget transparency and accountability</li> <li>• Economic policy and public spending</li> <li>• Negotiations and regulation</li> <li>• Environmental management</li> </ul>
11:00 – 11:15	Break
11:15 – 12:30	<b>Session 2: Budget transparency and accountability</b> <i>Discussant(s) – 10 minutes</i> <i>Open exchange</i>
12:30 – 13:30	Lunch
13:30 – 14:30	<b>Session 3: Economic policy and public spending</b> <i>Discussant(s) – 10 minutes</i> <i>Open exchange</i>
14:30 – 15:30	<b>Session 4: Negotiations and regulation</b> <i>Discussant(s) – 10 minutes</i> <i>Open exchange</i>
15:30 – 15:45	Break
15:45 – 16:45	<b>Session 5: Environmental management</b> <i>Discussant(s) – 10 minutes</i> <i>Open exchange</i>
16:45 – 17:30	<b>Lessons, conclusions and follow-up</b>
17:30 – 19:00	Reception

## BIOGRAPHIES

### PANEL MEMBERS

#### **Kofi A. Annan**

Chair, Africa Progress Panel

Kofi Annan is Chair of the Africa Progress Panel. He also heads the Kofi Annan Foundation, Chairs the Alliance for a Green Revolution in Africa (AGRA), and is an active member of a number of organisations including the Elders, the UN Foundation, the World Economic Forum and the Club of Madrid. He served as United Nations Secretary General from 1997-2006. During his tenure, he made his mark as an advocate for human rights, the rule of law, and the revitalization of the United Nations. He has been a key player in the fight against HIV/AIDS and a leader of the multilateral response to the global terrorist threat. Since leaving the United Nations, Mr. Annan has continued to press for better policies to meet the needs of the poorest and most vulnerable, particularly in Africa.



#### **Michel Camdessus**

Panel member

Michel Camdessus is Honorary Governor of the Banque de France. He is the Chairman of the French Financing Corporation (Société de Financement de l'Economie Française - SFEF) and a member of the UN Secretary General's Advisory Board on Water and Sanitation. He is also a member of the Pontifical Commission "Justice and Peace" in the Vatican. Michel Camdessus was Managing Director and Chairman of the Executive Board of the International Monetary Fund (IMF) in the late eighties. In 1996, the Executive Board of the IMF unanimously selected him to serve a third five-year term as Managing Director. He has served as Financial Attaché to the French delegation at the European Economic Community in Brussels, worked for the Treasury rising to Deputy Director and Director. He was also Chairman of the Paris Club, of the Monetary Committee of the European Economic Community and Governor of the Bank of France before becoming the Managing Director of the IMF.



#### **Bob Geldof**

Panel member

Bob Geldof is a musician, businessman and UN advocate for the MDGs. He is the Founder and Chair of Band Aid, Live Aid and Live8 - ten landmark worldwide concerts held in July of 2005, timed to put pressure on the G8 leaders at their annual summit. Mr. Geldof is also co-founder of DATA and advisor and advocate for ONE, a powerful lobby group focused on better policy for and within Africa. He has a number of media and technology business interests. He is currently founder and director of Ten Alps, the UK's largest independent factual television production company. He has received numerous awards for his TV work. Amongst other international honours, in 1986 he was awarded a knighthood for his work on Africa and has been nominated for a Nobel Peace Prize five times. He was also a member of the Commission for Africa.



## Professor Peter Eigen

### Panel member

Professor Peter Eigen is founder and Chair of the Advisory Council of Transparency International (TI), a non-governmental organization promoting transparency and accountability in international development. In 2005, Eigen chaired the International Advisory Group of the Extractive Industries Transparency Initiative (EITI) and became Chair of EITI Board in 2006. He was previously the Director of the Regional Mission for Eastern Africa of the World Bank. His distinguished academic career includes teaching at Harvard University's John F. Kennedy School of Government, Johns Hopkins University/SAIS, and the Freie Universität, Berlin. Professor Eigen has also been a Visiting Scholar at the Carnegie Endowment for International Peace and is a member of the Board of The Centre for International Environmental Law (CIEL).



## Linah Mohohlo

### Panel member

Linah Mohohlo was appointed Governor of the Bank of Botswana in 1999, following a 23-year career with the Bank. She has also worked for the International Monetary Fund (IMF) and, in her capacity as Governor of the IMF for Botswana, she has been a member of the International Monetary and Financial Committee (IMFC), representing the Africa Group 1 Constituency comprising more than 20 English speaking sub-Saharan African countries. Ms. Mohohlo serves in Boards of major corporations in Botswana and abroad. Among her international engagements, she was appointed Eminent Person in 2001 by the former Secretary General of the United Nations, Kofi Annan, to oversee the evaluation of the United Nations New Agenda for the Development of Africa. She was later appointed by the former Prime Minister of the United Kingdom, Tony Blair, to the Commission for Africa, which addressed Africa's poverty and stagnation problems. She is also a member of the Africa Emerging Markets Forum.



## Robert Rubin

### Panel member

Robert Rubin is the co-chair of board of directors of the Council on Foreign Relations. He is the former Secretary of the United States Treasury under President Clinton. He played a leading role in many of the most important US policy debates: balancing the federal budget; opening trade policy to further globalization; and acting to stem financial crises in Mexico, Asia and Russia. Mr. Rubin began his career in finance at Goldman, Sachs & Company in New York City in 1966. Before joining Goldman, he was an attorney at the firm of Cleary, Gottlieb, Steen & Hamilton. After leaving the public sector, Rubin joined Citigroup in 1999, where he rose to Director and Chairman of the Executive Committee of Citigroup Inc.



## CONSULTATION GROUP

### Laurent COCHE

Senior Vice President for Sustainability in the Continental Africa Region, AngloGold Ashanti

Laurent Coche is AngloGold Ashanti's Senior Vice President for Sustainability in the Continental Africa Region since 2011, responsible for developing integrated mine sustainability approaches that prioritize community development, economic growth and environmental protection while maximizing shareholder value. Mr. Coche has over 18 years in international development. He is a seasoned development professional, with extensive expertise in policy and programme formulation, having served the United Nations Development Programme (UNDP) in East and West Africa for many years. Mr. Coche led the UNDP's "Multifunctional Platforms for Poverty Reduction" project, benefitting 45 communities in Mali, and coordinated the expanded Multifunctional Platform Regional Programme. From 2004 to 2008 he was based in Dakar, Senegal as UNDP's Regional Coordinator for the "Energy-Poverty Regional Programme", spearheading poverty-reduction initiatives through a public-private network of 30 enterprises, NGOs and foundations, improving the lives of 1.2 million people in 20 countries. In this capacity, he also developed pro-poor policies and programmes such as the East African Community's "Regional Strategy for Scaling Up Access to Energy Services to reach the Millennium Development Goals" and led funding negotiations with government and private sector sources to mobilise \$50 million in funds for development programmes in West and East Africa.

Mr. Coche entered the private sector in 2008 as the Managing Director of Aden Services, based in the Democratic Republic of Congo, then served as a Senior Consultant for Kibo Consulting in South Africa where he advised private sector clients on their CSR and social development strategies. Mr. Coche studied European and International Law, and Political Science, at the Sorbonne in Paris, and has a Masters in Development Studies from the University of Louvain-La-Neuve (Belgium)



### Jim CUST

Acting Director of the Natural Resource Charter and a member of the Oxford Centre for the Analysis of Resource Rich Economies (Oxcarre), Oxford University

Jim Cust's research work focuses on the economic geography effects of natural resource investments and the interactions between economic governance and economic performance in resource rich economies.



### Peter da COSTA

Senior Adviser, Africa Progress Panel

Peter da Costa is a development policy and strategic communication specialist who has worked extensively in Africa as well as on global issues and initiatives for more than two decades.

A trained journalist, he reported from West Africa during the early 1990s for a range of print, broadcast and multimedia outlets. In 1994 he became Regional Director for Africa of Inter Press Service, a global media and development communication agency, and moved to Zimbabwe. In 1997 he was appointed Senior Communication Adviser to the UN Under-Secretary General and Executive Secretary, United Nations Economic Commission for Africa, headquartered in Ethiopia. In 2003 he left the UN to pursue doctoral studies at the School of Oriental and African Studies, University of London, and was subsequently awarded a Ph.D. in Development Studies. His areas of expertise include Translating Research into Policy; Strategic Communication; Monitoring and Evaluation; and Organizational Development. He consults extensively with multilateral and bilateral development agencies, philanthropic foundations and civil society organizations. He originates from The Gambia and Ghana, is married with two children, and is currently based in Nairobi, Kenya.





## Nathalie DELAPALME

Director of Research and Policy, Mo Ibrahim Foundation

Nathalie Delapalme was previously a French senior civil servant and she specializes in Africa and development policies. Her most recent position was Inspector General at the Ministry of Economy and Finance.

Prior to this, Ms. Delapalme served the French Government as an advisor on Africa, Development and Humanitarian policies, in the offices of various Foreign Ministers between 1995-1997 and 2002-2007. She also served the French Senate as advisor for the Finance and Budgetary Commission, where she assessed a number of public expenditures and policies, notably in the development aid, foreign affairs, defense, education, environment, health and media sectors.

Ms. Delapalme graduated from Institut d'Etudes Politiques de Paris and the University Panthéon-Assas. She specialised in the public sector division and received a post-graduate diploma in applied economics. She focused particularly on the impact of demographic changes and international migrations.

Ms. Delapalme belongs to the editorial committee of the publication *Commentaire* and sits as a member on the boards of trustees for the Fondation Pierre Fabre and the Elle Fondation. She has published several articles on the strategic evolution of Africa and on relations between Africa and Europe.



## Alan DOSS

Senior Political Advisor, Peace and Security Unit, Kofi Annan Foundation

Alan Doss is a Senior Political Advisor to Mr. Kofi Annan and senior fellow at the Geneva Centre for Strategic Studies (GCSS). He has a long career at the UN working on peacekeeping, development and humanitarian assignments in Africa, Asia, and Europe as well as at the United Nations Headquarters in New York.

In 2007 he was the Special Representative of the Secretary-General of the United Nations in the Democratic Republic of the Congo and Head of the UN peace keeping mission (MONUC). Immediately prior to his assignment to the DRC, he was the Special Representative of the UN Secretary-General in Liberia and head of the UN mission (UNMIL). Mr. Doss had previously held positions as Director of the United Nations Development Group (UNDG), where he coordinated the UNDG's work on the follow-up to the UN global conferences of the nineties, which led to the pioneer publication "A Better World for All" published jointly by the UN, World Bank, IMF, and OECD and subsequently, at the end of the decade, to the UN's Millennium Development Goals.

Mr. Doss has written numerous articles on development, peace keeping and peace building. He delivered the 2009 Nelson Mandela Lecture on Africa at the Royal United Services Institute in London and the 2010 Count Folke Bernadotte Memorial Lecture on Protection and Peacekeeping at the United Nations Association of the United Kingdom. He has been a guest speaker and lecturer at the Woodrow Wilson Centre in Washington D.C., and the International Peace Institute in New York.

He is a graduate of the London School of Economics and Political Science.



## Rob DONNELLY

Senior Adviser, Europe and Sub-Saharan Africa, Shell Government Relations

Rob Donnelly is a graduate of Edinburgh University Medical School and served for 6 years in the Royal Army Medical Corps including time in Northern Ireland, Hong Kong, Botswana and the UK. He then joined British Steel for six years working at Integrated Steel works in South Wales as health services lead. He spent significant time dealing with community health issues including cancer clusters and health impact assessments. He joined Shell Expro in 2001 for 3 years before moving to Houston as the Regional Health lead covering the Americas. Mr. Donnelly then served as VP Health for Shell for 5 years leading a team of 520 health professionals in 70 countries. Professional interests include reputation and crisis management as well as human performance. Mr. Donnelly has been married to Lynn for 19 years and has 2 children, Charlotte and Findlay aged 11 and 8. Hobbies include playing and watching sport, travel, and photography.



## Jamie DRUMMOND

Executive Director, ONE

Jamie Drummond is the co-founder of advocacy organisation ONE. In 2005 ONE worked closely with the public and political leadership of the G7 and EU governments and the global entertainment industry to force consensus on just such a package of polices for African development.

Prior to ONE, Mr. Drummond also co-founded DATA, and was global strategist for Jubilee 2000 Drop the Debt. Together, working with partners, these entities have achieved: \$110bn in developing country debt cancellation and an overall increase in aid to Africa from \$17bn in 2001 to \$40bn in 2010. This includes significant initiatives to combat AIDS, TB, malaria and to increase immunization and access to primary education.

Currently Mr. Drummond and ONE are working to make sure that: the world squeezes the maximum value out of the last 4 years of the Millennium Goals framework: we begin the end of AIDS and other tropical diseases; we ensure an end to extreme hunger and famine; we promote far more transparency and accountability in development policy and practise.

Mr. Drummond has travelled widely in Africa and Asia and has a Masters in Development from the London School of Oriental and African Studies. In 2007, Mr. Drummond was elected a Young Global Leader by the World Economic Forum.



## Adama GAYE

Senegalese Journalist, CEO of Newforce Africa and China Africa Consulting Group (ACCG)

Adama Gaye is author of China-Africa: The Dragon and The Ostreich –Ed. L'Harmattan, Paris, 2005. He has extensively written on China Africa and African issues. He is a graduate in Oil and Gas (Geneva), Diplomatic Studies (Oxford), Development and Cooperation (Sorbonne University). A former Fellow of the Universities of Beijing and Johns Hopkins, he advises also the Center for Oil, Gas and Mineral Resources of the University of Dundee and many international companies investing in Africa.



## Mark HENSTRIDGE

Chief Economist of Oxford Policy Management, Oxford University

Mark Henstridge has over 20 years of professional experience as an economist, primarily working in or on Africa and South Asia. Before joining OPM, he was previously Acting Executive Director of the International Growth Centre, a joint initiative of Oxford University and the LSE, funded by DFID, where his work entailed building an institution to deliver the vision of bringing frontier research to bear usefully on pressing policy issues.

Dr. Henstridge was previously Director, Group Economics at BP, focusing on global economic developments, their impact on a large multinational, and the responsibilities of an oil company operating in non-OECD countries. He has also been an Economist at the International Monetary Fund in the African and Fiscal Affairs Departments, including as a Desk Economist for Nigeria; worked as Macroeconomic Policy Advisor in the Ministry of Finance and Economic Planning in Uganda; and was an ODI Fellow in the Ministry of Planning and Economic Development in Uganda. He holds a DPhil from the University of Oxford. He is a Research Associate of the Oxford Centre for the Analysis of Resource-Rich Economies (OxCarre).



## Karuti KANYINGA

Director, South Consulting

Karuti Kanyinga is an Associate Research Professor at the Institute for Development Studies (IDS) at the University of Nairobi, Kenya. Dr. Kanyinga holds a PhD in Social Sciences from Roskilde University, Denmark. He has wide knowledge and experience in governance and development in Africa and has many years of teaching and research experience at the University of Nairobi. He has published extensively on politics, development and governance. He has been involved in many research projects focusing on governance and development in Africa. Dr. Kanyinga is also a director of South Consulting Africa Ltd, a firm monitoring implementation of key reforms under the Kenya National Dialogue and Reconciliation Monitoring Project following the post-2007 election violence in Kenya.



## Caroline KENDE-ROBB

Executive Director, Africa Progress Panel

Caroline Kende-Robb is the Executive Director of the Africa Progress Panel. The Africa Progress Panel consists of a group of distinguished individuals, chaired by Kofi Annan, whose objective is to track and encourage progress in Africa and assess opportunities and threats to Africa's development.

Prior to joining the Africa Progress Panel, Ms. Kende-Robb worked at the World Bank for nine years as a senior manager and technical expert for the Sustainable Development Network in Africa, East Asia and Europe and Central Asia. In that role, she led teams of technical experts to implement World Bank loans and grants and to conduct policy research into complex global issues, including climate change, conflict and fragility, social justice, and financial crises.

Ms. Kende-Robb began her career in management in the private sector before joining the development community as a Business and Community Development Advisor in a rural fishing community in The Gambia with Voluntary Service Overseas (VSO). She then served as West Africa Field Director for the NGO Africa Now, and worked for the UNDP country team in The Gambia as the Poverty Alleviation Focal Point. Before joining the World Bank, Ms. Kende-Robb was the first Poverty and Social Development Advisor recruited by the International Monetary Fund with the responsibility to manage the introduction of a poverty and social perspective into the Fund's



macroeconomic programs and policy dialogue.

Ms. Kende-Robb is an Advisor for CAMFED, an NGO focused on the education of girls in Africa and a member of the WEF's Global Agenda Council for Africa. She is also the author of "Can the Poor Influence Policy? Participatory Poverty Assessments in the Developing World", a book co-published by the World Bank and the IMF.

## Sheila KHAMA

Director of Extractive Resources Services, African Center for Economic Transformation (ACET)

Sheila Khama's primary responsibility is to give strategic direction to the provision of extractive resources advisory services to sub-Saharan governments in the regulation and the management of mineral, oil and gas resources. Through the implementation of country interventions and targeted analytical work, the program is intended to contribute towards ACET's vision to be a driving force in removing institutional and policy barriers to the successful exploitation of Africa's natural resources. Sheila has extensive work experience in both the private and public sector in Botswana and internationally. Ms. Khama has 13 years of experience in the mining sector, starting as the compliance officer for up to 20 subsidiaries of the then Anglo American Corporation and De Beers Group in Botswana. These companies covered the entire industry value chain and a range of minerals including base metals, fossil fuels, and precious stones. In her most recent assignment in the sector she served as the Chief Executive of De Beers Botswana between July 2005 and March 2010. As the senior most executive of the Botswana's largest investor, she also served as a non-executive director of several companies including Debswana Diamond Company which contributes 60% of De Beers' diamond stocks. She holds an MBA degree from the Edinburgh University Business School in Scotland and a BA from the University of Botswana.



## J. Max Bankole JARRETT

Special Adviser, UNECA

Max Jarrett has twenty-two years of professional experience in the field of political and socio-economic affairs as an international broadcaster, writer and analyst for global leaders in the media and information sector (BBC World Service and the Economist Intelligence Unit); and, as an Executive Office aide, speech writer and team leader in the United Nations system. His current duties include, first, serving as a Programme Management Officer in the Office of the ECA Executive Secretary, as well as, the new AUC-ECA-AfDB Joint Secretariat Support Office, which is mandated to assist the three institutions in enhancing harmonization in the implementation of joint programs and initiatives, in several areas, including the "Africa Mining Vision"; and second, serving as a Special Adviser to the Executive Director of the Coalition for Dialogue on Africa (CoDA), a policy-oriented think tank (chaired by H.E. Festus Mogae, the former President of Botswana) that identifies and discusses issues of importance to Africa's development within a global context, advocates for the continent, and, provides a platform for African voices to be heard ([www.uneca.org/coda](http://www.uneca.org/coda)). Prior to joining the United Nations, Mr. Jarrett worked for 11 years as a senior broadcast journalist with the BBC World Service in Bush House, London, editing, producing and presenting Network Africa and Focus on Africa, the BBC's daily news and current affairs radio programmes for its African audience. He received his B.Sc (Hons) in Economics in 1990 from the London School of Economics and Political Science and his M.A (in Area Studies, Africa/ Specialism: The Political Economy of Tropical Africa) in 1996, from London University's School of Oriental and African Studies (Dissertation: 'Civil War in Liberia – A Manipulation Of Chaos?', Award: Distinction).



## Richard MANNING

Senior Research Associate, Centre for the Study of African Economies,  
University of Oxford

Richard Manning worked for the UK's DFID and its predecessors from 1965-2003. This included postings to the British High Commission in Lagos (1968-70) and as head of the SE Asian Development Division, Bangkok (1977-80). He was also a member of the UK Permanent Representation to the European Communities, Brussels, (1973-75), covering inter alia the negotiations of the Lome Convention, and UK Alternate Executive Director at the World Bank (1984-86). From 1996-2003, Mr. Manning was a Director-General at ODA/DFID.

Mr. Manning served as Chair of the OECD Development Assistance Committee from 2003-08, in which capacity he was particularly involved in the work leading to the 2005 Paris Declaration on Aid Effectiveness.

After leaving the DAC in early 2008, Richard has worked as an independent consultant for a variety of clients, including the Global Fund and GAVI in respect of their replenishment exercises. In 2009, he wrote a report for DFID and the Danish Institute for International Studies on the Millennium Development Goals. He is Chair of the Board of the Institute of Development Studies and Vice-Chair of the Board of the BBC World Service Trust, and a Senior Research Associate at the Centre for the Study of African Economies at Oxford.



## Strive MASIYIWA

Founder, Econet Wireless

Strive Masiyiwa has been in business since 1986. He first came to international prominence when he fought a landmark constitutional legal battle in Zimbabwe. The ruling which led to the removal of the monopoly of the state in telecommunications is generally regarded as one of the key milestones, in opening the African telecommunications sector to private capital.

His flagship business, South African based Econet Wireless ([www.econetwireless.com](http://www.econetwireless.com)) is now a global telecommunications group with operations, investments and offices in more than 18 countries (in Africa, Europe, USA, Latin America and Asia-Pacific). Other business activities include operations and investments in some of Africa's leading businesses in areas such as financial services, insurance, renewable energy, bottling for Coca-Cola, hotel and safari lodges.

Mr. Masiyiwa is internationally recognised for his leadership contributions in a number of areas outside of business including his crusading campaigns to stamp out corruption in Africa. He is a leading business voice, championing the establishment and promotion of the rule of law.

Over the years Mr. Masiyiwa has served on many international boards and foundations and received numerous awards. He is currently involved in numerous not-for-profit organisations. Mr. Masiyiwa and his family live in Johannesburg, South Africa.



## Festus MOGAE

Former President of Botswana

Festus Gontebanye Mogae gained an undergraduate degree from North West London Polytechnic, an honours degree from Oxford University and a degree in Development Economics from Sussex University. Mr. Mogae returned home in the late 1960's. He took up post at the Ministry of Finance and Development Planning in 1968, where he later became Permanent Secretary. From 1976 to 1980, he served in Washington, D.C. as Alternate and Executive Director, International Monetary Fund for Anglophone Africa. He came back to take up the position of Governor of the Bank of Botswana from 1980 to 1981, and of Permanent Secretary to the President, Secretary to the Cabinet and Supervisor of Elections from 1982 to 1989.



He was appointed Minister of Finance and Development Planning in 1989 and became Vice President in 1992, until 31st March, 1998, when he was elected the Third President of the Republic of Botswana. President Mogae's tenure of office ended on 31st March 2008. Mr. Mogae is the leader of a group of former African presidents called "Champions of an HIV-Free Generation", which was launched in September 2009 and established its secretariat in Gaborone. Mr. Mogae also chairs a group of leading African experts called "Coalition on Dialogue for Africa" (CoDA). During 2009 he served as one of the four UN Secretary-General's Special Envoys on Climate, who assisted the Secretary General in climate change negotiations leading to the UN Copenhagen Climate Change Conference in December 2009.

President Mogae was awarded numerous honours, including the highest honour of the Republic of Botswana, Naledi Ya Botswana (2003); Honorary Fellow - University College Oxford (2003); The Commander of the Legion d'Honneur Grand Croix of the Republic of France – Paris, France (2008); and Mo Ibrahim Prize for African leadership (2008).

## **Mthuli NCUBE**

### **Vice President and Chief Economist, African Development Bank (AfDB)**

Professor Mthuli Ncube is the Chief Economist and Vice President of the African Development Bank (AfDB). As Chief Economist, he oversees the Economics Complex, which is focused on the process of knowledge management within the Bank and with its partners, and general strategic economic research within the Bank. In this regard, he supervises the Development Research Department, Statistics Department and African Development Institute. As a Vice President, he is a member of the senior management team of the Bank and contributes to its general strategic direction. His team produces the African Economic Outlook, African Development Report, African Development Review, Africa Statistical Review, Africa in 50 years time, the Middleclass in Africa, among others. He has also facilitated policy dialogue among African countries. He represents the bank in some external activities, including at the G20 Development Working Group. He also leads the development of the bank's long term strategy. Mthuli Ncube, holds a PhD in Mathematical Finance from Cambridge University in UK. He was also a Lecturer in Finance at the London School of Economics, UK.

Before joining the Bank, Professor Ncube was the Dean of the Faculty of Commerce Law and Management, and also Dean and Professor of Finance at Wits Business School, all at University of the Witwatersrand, South Africa. He led Wits Business School to the 45th global rank in the UK 2007 Financial Times survey. He has extensive experience as an investment banker and as a regulator, having served as a Board member of the South African Financial Services Board (FSB), which regulates non-bank financial institutions in his country. He was also Chairman of the National Small Business Advisory Council (NSBAC) in South Africa. In 2008 and 2009, he was rated as one of the "Best Managers" in the manager-ranking surveys in South Africa. For the last 20 years, he has been devoted to economic research on Africa with the African Economic Research Consortium (AERC). He is now Chairman of the Board of AERC.

Moreover, he has published extensively papers, articles and books in the area of finance and economics and received several awards. His books include "Mathematical Finance", "Financial Systems and Monetary Policy in Africa". His papers have appeared in Journal of Banking and Finance, Journal of African Economies, Mathematical Finance, Applied Financial Economics, Journal of Accounting and Public Policy, among others. Some of the reports he has led have been cited in The Economist, Wall Street Journal, and Financial Times, among other newspapers. He was nominated Chairman of the Global Agenda Council of the World Economic Forum on "Poverty and Economic Development in 2010/2011 and Deputy Chairman in 2011/2012. His interests are golf, reading, and painting. He is married with four children.



## Ngairé WOODS

Dean of the Blavatnik School of Government and Professor of Global Economic Governance, Oxford University

Professor Ngairé Woods is the inaugural Dean of the Blavatnik School of Government and Professor of Global Economic Governance. Her research focuses on global economic governance, the challenges of globalization, global development, and the role of international institutions. She founded and is the Director of the Global Economic Governance Programme ([www.globaleconomicgovernance.org](http://www.globaleconomicgovernance.org)). She is co-founder (with Robert O. Keohane) of the Oxford-Princeton Global Leaders Fellowship programme. She led the creation of the Blavatnik School of Government at Oxford University and, before her appointment as Dean, served as the School's Academic Director.

Her recent books include *The Politics of Global Regulation* (with Walter Mattli, Oxford University Press, 2009), *Networks of Influence? Developing Countries in a Networked Global Order* (with Leonardo Martinez-Diaz, Oxford University Press, 2009), *The Globalizers: the IMF, the World Bank and their Borrowers* (Cornell University Press, 2006), *Exporting Good Governance: Temptations and Challenges in Canada's Aid Program* (with Jennifer Welsh, Laurier University Press, 2007), and *Making Self-Regulation Effective in Developing Countries* (with Dana Brown, Oxford University Press, 2007). She has previously published *The Political Economy of Globalization* (Macmillan, 2000), *Inequality, Globalization and World Politics* (with Andrew Hurrell: Oxford University Press, 1999), *Explaining International Relations since 1945* (Oxford University Press, 1986), and numerous articles on international institutions, globalization, and governance.

Ngairé Woods was educated at Auckland University (BA in economics, LLB Hons in law). She studied at Balliol College, Oxford as a New Zealand Rhodes Scholar, completing an M.Phil in International Relations (with Distinction) and D.Phil. She won a Junior Research Fellowship at New College, Oxford (1990-1992) and subsequently taught at Harvard University (Government Department) before taking up her Fellowship at University College, Oxford.

Ms. Woods has served as an Advisor to the IMF Board, to the UNDP's Human Development Report, and to the Commonwealth Heads of Government. She was a regular presenter of the Analysis Program for BBC Radio 4, and in 1998 presented her own BBC TV series on public policy. She has also served as a member of the IMF European Regional Advisory Group, and Chair of a World Economic Forum's Global Agenda Council. She is currently a Rhodes Trustee, a Non-Executive Director of Arup, a member of the Advisory Group of the Center for Global Development (Washington DC), a member of the Board of the Center for International Governance Innovation (Waterloo), a member of the Academic and Policy Board of Oxonia, and a Trustee of the Europeum.



## Tesfai TECLE

Special Advisor to the Chairman, AGRA Board

Dr Tesfai Teclé brings AGRA more than 30 years of experience in management and technical expertise in the fields of international agriculture and rural development. He has provided extensive policy guidance and promoted investment in developing countries by organizations such as the World Bank, Regional Development Banks, and the European Union. Prior to joining AGRA, he was the Assistant Director-General and Head of Technical Cooperation with the Food and Agriculture Organization of the United Nations (UN) in Rome. He has designed large-scale rural development investment programs, working as program economist and analyst, and the leader of large, multidisciplinary teams. He has served in various senior capacities at the UN,



worked with the Institute of Development Research in Ethiopia and the World Bank in Washington DC. Dr Teclé, an Eritrean national, has a PhD in International Economics and Development from Cornell University (USA).

## Kevin WATKINS

Senior fellow, Center for Universal Education, Brookings Institution

Kevin Watkins is Senior fellow at the Centre for Universal Education at the Brookings Institute and a visiting Research Fellow at the Global Economic Governance Programme. He is currently Director of UNESCO's Education for All Global Monitoring Report – an annual report which examines progress towards internationally agreed goals in education. From 2004-2008, Kevin was Director of the United Nations Development Programme's Human Development Report Office. He was lead author of three Human Development Reports including the 2008/2009 report on climate change.

Prior to joining the UN, Mr. Watkins was Head of Research at Oxfam, where he worked for thirteen years on a wide range of issues, including African debt, international trade, education and health policy. He was author of Oxfam's Education Report (2000) and Rigged Rules and Double Standards (2003) – an analysis of international trade rules. Mr. Watkins has written extensively on a wide range of international development issues and is a regular contributor to a number of newspapers.

Mr. Watkins is a board member of the Center for Global Development, UNICEF's Innocenti Center and the Journal of International Development.

Mr. Watkins holds a BA in Politics and Social Science from Durham University and a doctorate from Oxford University, with a concentration in modern Indian history and economics.



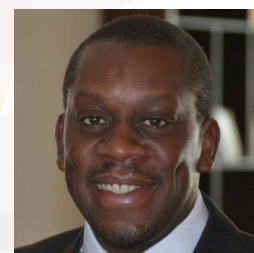
## Lai YAHAYA

Lawyer, Economist and Policy Entrepreneur

Lai Yahaya is a lawyer, economist and policy entrepreneur who advises African governments on economic reform, energy sector restructuring, privatisation, public sector reform and public financial management issues.

He is currently Team Leader of the Facility for Oil Sector Transparency (FOSTER) a UK DFID-funded initiative designed to support the restructuring of the oil and gas sector and to increase transparency and accountability in oil sector governance in Nigeria. He also recently sat on the Presidential Task Force on Power and worked previously as Technical Adviser to the Minister of Power and as Deputy Director/Special Assistant to three successive Directors General at the Bureau of Public Enterprises, the Nigerian privatisation agency. In this guise, he oversaw several key aspects of privatisation and sector reform processes in the power, telecoms, natural resources and services sectors.

Mr. Yahaya was previously an associate with the global energy project finance team of the law firm of Milbank, Tweed, Hadley & McCloy and General Counsel of the LSE-listed African gas player, Gasol. In addition he currently advises the board of GADCo Coöperatief U.A, a leading African agri-business venture and is a board member of the African Leadership Institute in South Africa. He received his BA (Hons) and MA from Balliol College, Oxford University and was a qualified solicitor of the Supreme Court of England and Wales. He is a Fellow of the Archbishop Desmond Tutu Leadership Programme and was named a New Leader for Tomorrow by the Council of Europe-affiliated Fondation du Forum Universale.





# BACKGROUND NOTES, PAPERS AND CONTRIBUTIONS\*

*\* Background notes, papers and contributions are in no particular order.*

## NOTE FOR DISCUSSION

Prof. Peter Eigen, Africa Progress Panel

Africa is rich in natural resources. To translate them into inclusive development depends on good governance. This includes political governance, in particular an accountable government -- with effective checks and balances -- with informed citizens under the rule of law. But this includes also effective sector governance, which has a number of diverse facets creating together the enabling environment for good extractive industry development.

The different elements of good sector governance are systematically presented in the Natural Resource Charter (see [www.naturalresourcecharter.org](http://www.naturalresourcecharter.org)) as 12 "Precepts".

They can be summarized below:

- most attention is normally focused on the Fiscal Regime - taxes, royalties, dividends, and other payments to government
- the use of the resource revenues is often the subject of scrutiny by parliaments and development partners
- the secondary linkages (up- and downstream, horizontal) and associated infrastructure development
- the human development dimension (employment, training, education, capacity building, health, safety, local communities)
- land use and environment issues (minimize damage, reclamation, tailings and effluent, water, wildlife, local communities).

The rules and regulations covering this universe of precepts have to be clearly embedded in the legislation, institutions, policies, practices and contractual arrangements applicable to each concrete project. As much as possible should be in generally applicable legislation -- preferably without "Stabilization Clause". Negotiations and competitive bidding by investors should be limited to few measurable parameters. Dynamic rules, such as escalation clauses responding to significant changes, should be included in the arrangements, to avoid disruptive defaults or renegotiations.

Transparency on all sides is essential. EITI creates a high degree of transparency about financial flows between the parties (see annex 1). Information and transparency at other stages of the development cycle should be optimized -- possibly also through multi-stakeholder mechanisms. In particular the confidentiality of concessions contracts is widely criticized.

One important reason for imbalanced investment arrangements is poor negotiation capacity on the part of host governments. While quite a number of negotiation support facilities exist, there is wide consensus that this is by far not enough to provide to all African Governments timely and reliable advice, as and when needed (see annex 2).

### **ANNEX 1 - Status report: EITI**

5 billion people live in countries rich in oil, gas and minerals. With good governance, the exploitation of these resources can generate large revenues to foster economic growth and reduce poverty.

However, when governance is weak, such resource revenues may result in poverty, corruption and conflict. The EITI (Extractive Industries Transparency Initiative) aims to strengthen governance by improving transparency and accountability in the extractives sector.

The EITI is a global standard that promotes revenue transparency. It has a robust yet flexible methodology for monitoring and reconciling company payments and government revenues at the country level. Each implementing country creates its own EITI process which is overseen by participants from the government, companies and national civil society. The international EITI Board and the International Secretariat are the guardians of the EITI methodology internationally.

Governments benefit from following an internationally recognised transparency standard that demonstrates

commitment to reform and anti-corruption, leading to improvements to the tax collection process and enhanced trust and stability in a volatile sector.

Companies benefit from a level playing field in which all companies are required to disclose the same information. They also benefit from an improved and more stable investment climate in which they can better engage with citizens and civil society.

Citizens and civil society benefit from receiving reliable information about the sector and a multi-stakeholder platform where they can better hold the government and companies to account.

Energy security is enhanced by a more transparent and level playing field. This increased stability encourages long-term investment in production – and thus improves the reliability of supply.

35 countries are already well underway in implementing the EITI.

16 countries are now EITI Compliant (9 African countries): Azerbaijan, Central African Republic, Ghana, Kyrgyz Republic, Liberia, Mauritania, Mali, Mongolia, Mozambique, Peru, Nigeria, Niger, Norway, Timor-Leste, Yemen and Zambia.

21 other countries have achieved EITI Candidate status: Afghanistan, Albania, Burkina Faso, Cameroon, Chad, Democratic Republic of Congo, Republic of Congo, Côte d'Ivoire, Gabon, Guatemala, Guinea, Indonesia, Iraq, Kazakhstan, Madagascar (suspended), Sao Tome et Principe, Sierra Leone, Solomon Islands, Tanzania, Togo, Trinidad and Tobago.

29 of these countries have disclosed their payments and revenues in an EITI Report.

Several other countries, including the United States of America, have signalled their intent to implement the EITI and are working towards meeting the sign-up indicator requirements.

60 of the largest oil, gas and mining companies are

committed to supporting the EITI - 60 of the world's largest oil, gas and mining companies support and actively participate in the EITI process – through their country operations in implementing countries, international-level commitments and industry associations.

The EITI has won the support of over 80 global investment institutions that collectively manage over US \$16 trillion. A broad coalition of governments, civil society and international organisations supports the EITI.

Civil society organisations participate in the EITI directly and through the Publish What You Pay campaign, which is supported by more than 300 NGOs worldwide.

International organisations supporting the EITI include the World Bank, International Monetary Fund and the Regional Development Banks. These organisations provide technical and financial support to implementing countries, and support EITI outreach.

A number of governments support the EITI including Australia, Belgium, Canada, Denmark, Finland, France, Germany, Italy, Japan, the Netherlands, Norway, Spain, Sweden, Switzerland, the United Kingdom and the United States. These governments provide political, technical and financial support, both internationally and at the country level. They also provide financial support through direct bilateral support to EITI implementing countries or through a multi-donor trust fund managed by the World Bank.

The EITI has also been endorsed by the United Nations, G8, G20, African Union, the International Organisation of La Francophonie and the European Union.

## **ANNEX 2 - Negotiation support initiative**

(A slightly adapted summary of an ongoing effort to strengthen the negotiation capacity of developing country governments)

For many developing countries, in particular in Africa, large scale projects carried out by foreign investors, for example, in extractive industries or infrastructure, are the most important means of generating funds to drive

economic growth, development and prosperity. While these deals are of critical importance, many developing host country governments in Africa but also elsewhere do not have in place strong regulatory frameworks, a strategic vision or the necessary resources to negotiate the deals, meaning that they are losing the opportunity to maximize the benefits of these major projects for their country. Poorly conceived and negotiated deals for such projects, which often last for decades and sometimes sit outside the legislative framework the country puts in place, not only prevent a country from enjoying the full long term benefits of its resources, but help to entrench poverty, corruption and even conflicts, particularly when governance systems are inadequate. Similarly, from the company's perspective, bad deals can lead to adverse business outcomes, such as reduced security of titles or concessions, increased prospects for disrupted operations from civil protests and greater risks of revisions of tax and other conditions.

In light of this, we have initiated a process to see whether and, if so, how the availability of expert support in relation to these large scale projects could usefully be expanded globally. A first workshop was held at the Humboldt-Viadrina School of Governance, Berlin, in October 2010; a second workshop was organized at Columbia University, New York, in July 2012. The workshops brought together over 50 participants involved in, or with knowledge of, developing country negotiations, including government officials, investors, lawyers, representatives of existing initiatives, members of civil society, donors, multilateral organizations and academics.

The discussion made it clear that there is a significant need and demand for comprehensive support for host country governments in relation to complex projects, during each of the phases of negotiation from formulating strategic policies and regulatory frameworks, to preparing for and carrying out negotiations in relation to particular projects, to monitoring and enforcing contracts (outlined in detail in the background paper). This demand for support is increasing and urgent as more countries make commercially viable discoveries. It was emphasized that it is important to support governments in creating a strong legislative framework, so as to

leave less room for discretionary elements in contracts and decrease the scope of negotiations. This may be particularly true in the hydrocarbon sector, where experts suggested that most elements of the deal could be in the legislation. Government representatives from different countries indicated that needs may differ among countries –some see support during contract negotiations as a priority while others need assistance in earlier phases such as developing a regulatory framework.

In addition, participants discussed the importance for governments to have in place a national strategic vision before negotiating large contracts, in which to frame the terms of these projects in a broader development context. Advisors could then seek to ensure that negotiations for particular deals addressed the national plans and priorities. The need for integrated teams of experts was also highlighted, and these teams should include experts with industry experience. Participants, particularly the recipients of support, stressed the need for rapid response and deployment of experts in response to requests for support.

Finally, it was mentioned that developing host countries need “an honest ear” to which they can turn in order to receive advice in the face of the intense pressure to conclude a deal. Investors agreed that from their perspective, increased support to host governments would be desirable. The investors seek stronger negotiating partners so as to facilitate the negotiation process, legitimize their deals and ensure that contracts are more robust. Participants agreed that there is a need to increase the sharing of information and experiences, as well as coordination, between host country governments.

Finally, it was discussed that not all governments are equally receptive to negotiation support and that governance and politics play a role in ensuring good outcomes. A number of barriers, including corruption, lack of coordination, lack of resources, distrust, internal discord and other factors could make some governments reject, or not seek, external support. Politicians are often under pressure to achieve results while in office for short periods of time. It was therefore noted that support could also usefully be provided to the sources of checks and

balances -to strengthen parliament and civil society, in order for them to hold government accountable for negotiated deals.

The discussions highlighted the important contributions that individual initiatives have made so far to deal with this problematic. At the same time, the limitations of most of these initiatives to provide a rapid response to requests for assistance was pointed out, as was the absence of comprehensive support. Due to procurement or approval processes, a number of the available sources of support were said to be slow to provide assistance after a request is made. In addition, the gap in the availability of long term support was also raised.

A number of suggestions were made for potential mechanisms, tools and innovative solutions that could expand the availability of comprehensive support to enable developing country governments to secure the best possible deals. Potential beneficiaries, in particular, agreed that it would be useful to increase coordination

of existing initiatives, to provide additional tools and resources that developing country governments could draw on, and to create a rapid response capacity.

The issue of institutional set up and governance of any new initiative was discussed at a preliminary level. For example, there was suggestion that it is important for such an initiative to be independent, rather than tied to any single multilateral organization so that it is not limited by institutional pressures or bureaucracy. Participants discussed how a multi-stakeholder structure – such as the multi-stakeholder governance of EITI - could further limit undue influence (perceived or real) and increase the legitimacy of any new initiative. The question of funding was also raised at a preliminary level. The feasibility of mobilizing funding from the World Bank or the Regional Development Banks (like the African Legal Support Facility) and from donors would have to be explored. It was agreed that a further workshop, likely to be held in early 2013, would be convened to take forward these discussions.

# MINING AS A CATALYST FOR DEVELOPMENT

Laurent Coche, AngloGold Ashanti

**Summary** - AngloGold Ashanti believes that “the mining business is the business of development”. This requires that a country’s development policy takes into consideration how its mineral wealth can contribute towards sustainable development. How can this be achieved? AngloGold Ashanti has a vision to realise business benefits and be a partner to African governments in implementing development initiatives. Fundamental to this vision, is an alignment with both the **Millennium Development Goals (MDGs)** and the **African Mining Vision (AMV)**.<sup>1</sup> The AMV articulates a vision for the continent on how mining can act as a catalyst for socio-economic development. However, this continent-level vision needs to be detailed at the country and sub-regional level to provide a framework within which mining companies can effectively contribute to their host countries’ sustainable development. This note outlines a proposed approach by which African governments could fully harness the benefits of their mineral assets.

## Introduction

Africa is a continent with significant mineral wealth and yet, with a few exceptions like Botswana, this wealth has not resulted in broad-based development for the continent. Indeed, mining and by association, mining companies, have come to be viewed as synonymous with how mineral wealth ends up benefiting a corrupt elite, with little or no benefits accruing to the broad population. In the worst cases, success in mining has been linked to the crowding out of other industries, and thus impeding the development trajectories of countries rich in minerals. Mining policies have not succeeded in stimulating sustainable and inclusive development outcomes, experiencing instead increasing income inequality, weakened governance structures and in some instances, conflict. Clearly, the sector and countries can and must do better to address the question how African governments can take advantage of long-term and relatively predictable income that mining revenues offer, and how these revenues can be used to promote development.

As an industry, we need to recognise that we are in the business of sustainable development. We have every interest to structure deals that allow mining companies to make a profit and which rewards our significant long term risk, investment and timelines. At the same time, we need to secure the long-term trust of the people and governments of Africa and this can only be achieved through fair deals which are perceived by all key stakeholders as wins. At AGA, we believe this is the right thing to do because it is in our long-term business interests to become the partner of choice for governments and maintain our social license to operate. To remain successful in mining, companies must be effective partners for sustainable development.

As a sector, mining is relatively insular, the purview of a small number of people in government and the private sector. We need to learn from other sectors such as technology, health and agriculture, and understand how these sectors have been used to jump-start development in other countries. How do other sectors integrate their industries into the broader challenges of development? What models have worked, including in the Middle East? What can the mining sector learn and replicate for Africa? How can mining become a vital component to a diversified industrial Africa?

## African Mining Vision

A vision for mining and its role in the continent’s development has been articulated in the African Mining Vision (AMV). This document, which was ratified in 2009, describes nine programme clusters where mining can become a force for development in Africa through targeted private sector investment. Importantly, it puts knowledge at the centre of mining development with a more holistic view of the skills needed to effectively grow and administer the minerals industry in Africa.

AGA fully supports the AMV. However, in our opinion, it must be translated into country-level visions to become an operational framework which delivers development

<sup>1</sup> Signed off by all African heads of state in 2009, the AMV has been broken down into strategic “Programme Clusters” which allow for targeted support and presents opportunities for private sector involvement.

benefits effectively. In order for change to happen, the mining industry needs to be fully integrated into a country's development agenda. We propose the concept of a Country Mining Vision (CMV) to harness the full benefits of mineral wealth sustainably and equitably. This country-level vision needs to be developed by government, in collaboration with civil society and the private sector.

### **Developing a Country Mining Vision**

The Country Mining Vision (CMV) requires a transformation in the way that mining companies operate, as well as how national governments engage with the sector. We do not have all the answers, and CMVs will differ from one country to the next. Yet, an effective CMV would probably need to address the following elements.

#### *A shared development vision*

The first change must start with how mining companies view their business. We need to put sustainable development at the centre of what we do, and this is a revolution underway in AGA. We see this as a rational approach to business circumstances as well as a business imperative to enable AGA to continue operations, gain new concessions, and become the leading mining company in Africa. Concretely, this requires explicit objectives and clear accountability on how each mining operation contributes to development in the host country. Such accountability is vital, and must be based on full transparency.

Governments and mining companies must develop a long-term vision for the development contribution from the mining sector. This vision should include time-bound objectives that are based on national development priorities, including the Millennium Development Goals (MDGs). The development of a Country Mining Vision (CMV) will need to be drilled down to the local mine level. Change on the ground happens at the mine. It is at this basic unit, where we need to ensure that projects aligned with the MDGs and national development policies, are piloted and tested.

This vision should also include shared principles for

accountability and transparency. At AGA we believe in the value of public consultations around such national visions to ensure the vision addresses the needs and interests of a broad range of stakeholders. Critically, such consultations are an important means to generating transparency and buy-in, which are both indispensable ingredients of an effective accountability framework that applies to mining companies and governments alike.

A shared vision of the future is the foundation that will enable all stakeholders to build trusted relationships, founded on common long-term objectives. However, one of the main obstacles in maximising benefits for development is the mistrust that often characterizes relations between government, civil society and the mining companies. Given this context, the idea of a 3rd party, honest broker, such as the African Minerals Development Centre, could be an effective means to create a genuine platform for multi-stakeholder dialogue and collaboration.

### **The contributions from the mining sector to sustainable development**

Countries and mining companies need to agree on what constitutes a fair deal for mining concessions. A lot of progress has been made in this area, but more can be done by involving independent third-party expertise for counsel and validation of the concession agreements. Yet, focusing on the design of concessions alone would be too limited a view on how mining can contribute to sustainable development. Additional ways in which mining companies can support sustainable development include:

- **Multi-purpose infrastructure investments:** Most mining concessions require massive infrastructure investments to service the mines and export the minerals. In the past, ports, railway lines, roads, etc. were designed to focus on the narrow needs of the mines and mining companies. **Country Mining Visions (CMVs)** should explore PPP opportunities to explore how such infrastructure investments can be designed to serve broader development purposes, including urban connectivity and trade, expanding agriculture, and – importantly – enhancing cross-

border transport infrastructure. Naturally, such multi-purpose infrastructure will have increased costs which should be clearly identified to ensure they are compatible with the business model of the proposed investment. They should then be factored into the overall concession agreement. These types of arrangements would certainly be most relevant for base metals investment (iron ore and copper) which are typically much more infrastructure intensive than gold mining for example.

- **Direct delivery of infrastructure and services:** Mining companies are good at building and managing infrastructure, conducting large-scale training programs, and delivering targeted services, such as health and education. Many African governments, particularly in post-conflict countries have weak governance capacity and financial management systems. As part of a CMV, mining companies could be tasked with providing some of their resource rents in the form of roads, energy infrastructure, education services, health interventions, etc. This should be done in a way where the private sector can play a catalyst role in attracting appropriate partners to leverage off the mining industry's infrastructure development and service delivery/management capacity as well as on their need to outsource some of their requirements around healthcare, education and other services. To deliver sustainable outcomes, these PPP should also aim at strengthening the role of Government in fulfilling its core missions, and therefore a capacity building component should be included.
- **Local and regional sustainable development strategies:** Mining companies have a particular responsibility to the population living in the vicinity of mines that often do not benefit much from highly mechanized mining operations that provide little employment and might even curtail informal employment opportunities, such as artisanal mining. At AGA we firmly believe in this approach and propose that CMVs include time-bound development objectives that must be achieved in the communities surrounding a mine. Over time such project-based investments could become programme-based investments or development corridors, with a strategic role in the long-term socio-economic development

of the country. In addition, national governments, through the CMV could commit a percentage of the revenues from national mining concessions to flow back to local regions, as currently discussed in Tanzania.

### The contributions from Governments

Local communities and governments will benefit the most from mining operations if the latter can operate effectively. To this end, a **Country Mining Vision (CMV) would be the first contribution from Governments**, and could frame their commitments that go beyond the core principles of transparency and accountability. These might include:

- **Ensuring maximum long-term predictability, i.e. bankability, of resource rents:** African countries are short of infrastructure and human capital, and they face a vast youth bulge. These challenges can only be addressed through massive investments in social, human and physical capital, which in turn requires financing through predictable revenue flows. A **Country Mining Vision (CMV)** could spell out how to reduce the volatility of natural resource rents, which in turn would allow governments to leverage these future revenue flows into broad investments today without jeopardizing national debt-to-GDP ratios.
- **Breaking the silo approach to engaging with the mining sector:** Currently, ministries at the national level approach mining companies individually. For example, concessions are handled by the Minister of Mines, but taxation is the domain of the Ministry of Finance. The Environment Minister has little sway even though mining operations have major environmental consequences. What would benefit both the government and mining companies is an integrated or cross sectorial approach that would bring together the key ministries, and civil society, with a shared vision of what the country would like the contribution of the natural resources sector to its sustainable development objectives to be, and how to work with the industry as a whole
- **Capacity development:** Capacity building of all stakeholders involved with the management of extractive resources is a vital part of development.



A capacity-building strategy in support of the CMV should analyse gaps within government (be it at the policy development, governance level, or at the implementation and results-tracking level) as well as within the mining sector and civil society. For example, mining companies need to know and take action on the major negative impacts that their operations are responsible for. This will allow all stakeholders to agree on the gaps, determine who is primarily responsible for filling these gaps, deciding what role the mining sector could and should play, and importantly, prioritise and sequence the timing of actions. Civil society should continue to play the role of watch-dog, acting as a means to ensure that goals are tracked and met.

- **Improving security:** Mining companies cannot operate effectively in the absence of security for their assets (the mining contract or their employees). Improving security requires a fair deal among mining companies, the local population and the country at large. But it also requires transparency and clear communication, particularly from the government side.

### **AGA's experience so far and preliminary lessons**

#### *Regional and local development pilot strategies*

At AGA, we have launched in partnership with the Earth Institute at Columbia University, an approach called the **MDG Based Mine Sustainability Strategy**. It is our belief, that using these mine-based strategies, which are aligned to local MDGs, we will see high impact projects that can be replicated and ideally scaled-up to programmes at a sub-regional level, resulting in development corridors in each of the countries we operate in.

#### *New partnerships*

We need to approach the challenges of development in a way that is smart and effective. A multi-partner approach is a model that we are developing together with national government, other private sector players, including our competitors, and civil society to help define how mining companies support African governments to develop the

skills needed to effectively manage the mining sector in the next five to eight years. Successful models of effective partnership between the private sector and the public sector exist, and we need to see what we can learn from them, and what can be effectively adapted to help our sector and Africa.

#### *Expected timing of actions*

The timeline envisioned are not sequential but rather issues that need to be worked on simultaneously from different but complementary angles:

- At the national level, AGA is exploring partnerships with entities such as UNECA, Columbia University, the World Economic Forum to support the formulation of Country Mining Visions.
- At the regional level, the concept of development corridors has gained traction and should be tested, using the CMV as a framework. The creation of development corridors would allow for the exploration of alternative implementation models to accelerate delivery of public services. For example, can the current AGA Malaria Project in Ghana be a model for delivering malaria health care regionally?
- At the local level, the formulation of MDG based mine sustainability strategies have already started. More emphasis needs to be given to economic benefits resulting from local content and job creation.
- The combined results and lessons learned from the work at all three levels would feed back into national policies and strategies to progressively mainstream the contributions of the extractive sector into national public policies and strategies.

Integrating mining into national development plans will not happen overnight. However, much can be achieved in a relatively short time period with the right vision and willingness – a Manhattan project if you will. In the mining business, investment timelines are long – but there are clear milestones for progress. We should apply this same rigor to our development approach. We expect the time it will take for mining to be fully integrated into a country's development agenda to take a minimum of 7 to 10 years.

However, the significant lack of skills must be addressed. No transformation in mining and development will happen, unless host countries develop the capacity to manage the extractives sector. To address this gap, AGA is funding the African Mining Skills Initiative (AMSI) which will be managed by the African Mineral Development Centre which is expected to be operational in 2014.

AMSI aims to address the challenge of skills development and human capacity as identified in the AMV by:

- Focussing on broad skills development in Africa in relation to the minerals sector
- Taking a holistic view of skills and institution building for the minerals industry (so not defining 'mining skills' as just geology or engineering, but to include skills such as finance, environmental management, human rights, strategic planning, etc)
- Supporting the locally-owned delivery of skills and opportunities through selected African mining schools

### Conclusion

In the next 2 to 5 years, we expect that the MDG based Mine Sustainability Strategies will have demonstrated a strong positive local impact – be this in new jobs at the community level, focused educational programmes, targeted capacity building programmes or at the mine level through fewer escalations of problems, quicker resolutions to grievances, etc.

In the next 5 to 10 years, we would expect to see the beginnings of functioning development corridors and scaling-up of pilot projects which would have proven successful at the mine level, to support sustainable economic development.

In 10 to 15 years, we would expect to see a functioning Country Mining Vision (CMV) where the mining sector is one of the major actors in the socio-economic development of African countries.

We are seeking to support a transformation, not an evolution, in how mining companies and government cooperate. This requires a change in the way we as mining companies think about our business, how we engage with our stakeholders including civil society. Similarly, it requires a change in how governments engage with us.

To enable this transformation to take place, a robust policy framework is needed, with an integrated approach across different ministerial sectors, and we believe that the African Mining Vision provides the necessary foundation and overarching framework for this transformation to take place across the continent.

The challenge is to operationalize this great vision to enable national governments to harness the full potential of their mining resources, and enable mining to become a resource for sustainable and equitable national growth for all Africans.

# LOCAL CONTENT POLICIES IN SUB- SAHARA'S MINERALS, OIL AND GAS (MOG) SECTOR

Sheila Khama, African Center for Economic Transformation (ACET)

## 1. Background

The argument by many that local content policies are the missing link in the right of resources rich countries to extract greater value from resource development projects is not in dispute. Regional think-tanks (including ACET), civil society groups and finance development institutions such as the IFC have all spoken in support of governments because if successful the economic benefits are significant. For instance the South African Chamber of Mines reports that in 2010 mining companies in that country spent 'US\$27.6 billion of the US\$53.91 billion in 2010 on locally procured goods and services'. It is this understanding that has prompted lawmakers to design policies and enact pieces of legislation that require investors to procure inputs from source countries. However advocates also acknowledge that the issue is more complex and requires much more than just policy design. Observers believe that there are major constraints facing governments wishing to benefit from local content policies in the industry. Specifically, Africa's biggest challenge is the capacity of public and private institutions to compete with those in emerging markets of Asia and Latin America. Given the global nature of the supply chain for natural resources projects, investors tend to centralize this management function and select locations based on market competitiveness, availability and efficiency of support services. In Africa, the absence of matured manufacturing and service sectors, poor infrastructure, lack of skilled manpower, inefficient regulatory processes and high costs are key impediments. For instance according to Secretary General of Southern Africa's regional body, SADC, "it costs about \$5 000 to ship a car from Abidjan to Addis Ababa but just \$1 500 to ship the same car from Japan to Abidjan. It costs about \$1 000 to ship a 20 ft. container from Japan to the Port of Mombasa, but it costs \$5 000 to ship the same container from Mombasa to Kigali, in Rwanda, and Bujumbura, in Burundi."

On the other hand, critics perceive that industry is not

sufficiently supportive of African policymakers' aim of using MOG projects to springboard growth in domestic markets. They argue that investors prefer to conveniently fall back on established supply chain networks that give preference to global rather than national suppliers. Both in the petroleum and the mining sector, corporations have centralized supply chain managements systems with a long list of standard stock items and budgets running into millions of US\$. Through these systems corporations enter into long term supply and maintenance contracts for the procurement of major capital goods including drill rigs, earthmoving equipment and fuel. Many are supplied by established global brands creating significant entry barriers for domestic firms. Yet these are the very stock items that can potentially transform local economies. The challenge is determining the ideal policy and institutional frameworks for the region to reverse the trend without undermining project competitiveness and with it the ability to attract foreign direct investment in the sector.

Nevertheless, in countries where there are policy and legal requirements, investors have responded by adjusting corporate strategies to oblige host governments. Yet others argue that more can and should be done to leverage sub-Saharan's resources and that policy effectiveness and investor enthusiasm leaves much to be desired. In an attempt to shed more light on some of the key stumbling blocks, ACET has commissioned an 8 country review of local content laws and policies and has (in collaboration with the Africa Progress Panel (APP) conducted a focused group discussion by African policymakers to examine some of the key opportunities and challenges. Experience working with regional policymakers, the deliberations from the meeting and preliminary outcomes of the study have informed the views expressed below.

## 2. Preliminary Observations.

Almost without exception MOG sector policies and laws in most of the African countries surveyed reference the requirement to give local inputs preference over imports.

Many laws tend to focus on the procurement of goods and services, human capital and equity participation. Other important drivers of development are however conspicuously absent. For instance almost never provided for are requirements to source project finance locally and to establish research and development facilities. Yet both are not only important for economic growth but these constitute significant inputs into MOG projects on an ongoing basis. Project finance could boost national capital markets and grow the financial services sector. From the survey, we have also established that few countries have dedicated institutions and systems to facilitate oversight and ensure compliance. Some of the key issues that surfaced from the focus group discussions are;

- the choice between prescriptive and incentives based policies ,
- the importance of defining the scope and focus of local content policies,
- the need to promote shared value between governments and investors,
- the gap between policy design and institutional capacity to implement,
- the absence of strong political leadership to steward policies,
- the lack of thriving entrepreneurial class in the region to respond to opportunities,
- In the paragraphs below we discuss a few of these in more detail.

### **2.1.1. Policy Approach (Prescriptive Laws versus Incentives)**

Generally speaking local content policies and laws are either formulated with a view to prescribe or to incentivize the behavior of investors. For several reasons, most of the countries surveyed have adopted the former approach. This is probably because governments prefer to assume a leadership position in determining the role of resource projects as engines for economic growth. If clearly articulated and effectively enforced legal and policy provisions can strengthen the position of the governments in relation to investors. To the extent that the laws are part of a long term development agenda they can also align resource exploitation with a country's overall development

framework. Some regional policymakers have expressed the belief that left to their own devices, investors will not voluntarily promote local inputs and hence the need for legislation. This is probably true because given the need for global competitiveness and resource efficiency, from a corporate strategy point of view, local inputs policies are counter intuitive. Finally, one could argue that setting specific targets for investors compels them to comply, lays the foundation for monitoring and measuring policy effectiveness.

On the other hand, advocates of incentives based policies prefer liberal regulatory frameworks that challenge investors to work within the limits of global competitiveness and corporate resources to optimize local inputs without undermining project or country competitiveness. The impact of such laws on regional competitiveness should certainly not to be taken lightly. For instance for 10 years running, Ernst & Young's Global Competitiveness Report in the sector cites resource nationalism as the top investor risk driving FDI from sub-Sahara to other parts of the world. Not surprising given that the study by ACET shows that in the region state equity participation is the most common legislated and enforced form of local input. The study also shows that in sub-Sahara there is a growing call to increase the state share's in natural resources companies. Guinea, Kenya and South Africa are recent examples of countries that have increased the legislated state equity.

In addition, those who prefer the open market economy approach argue that prescriptive policies are not sustainable because they distort competition and tend to be effective only while the resource is available to be leveraged. Therefore, unless the source of leverage for governments includes effective industrial development policies and is not only based on the availability of a finite product, the policies are limited in their long term transformational potential. While recognizing the importance of setting local content targets therefore critics also argue that they have the unintended consequence of making investors perform according to the prescribed targets even when they could deliver much more. Hence, the argument that in the long run those policies that are based on a strong value proposition to attract foreign

investment across sectors are more likely to succeed.

In the mining sector, Australia serves as a good example of the incentives approach. In the oil sector Nigeria's local content laws lean more towards prescription backed by a dedicated oversight board. In South Africa and Ghana local content policies are other examples of prescriptive policies. It would appear however that the issue is not which approach is better than but rather that policymakers need to examine the internal and external macro-economic environment and the country's long term development goals and use this knowledge to determine an appropriate approach. In this respect Norway, Indonesia and Saudi Arabia serve as good examples of self-determination.

Most importantly few countries (if any) have been able to develop domestic economies without some protection of domestic investors. For instance, while the US Federal Government has no "local content" policy per se many pieces of legislation were clearly formulated with the same outcome in mind. Proof of this is the US's response to the imbalance of trade with Japan in the 1990s and now with China.

### 2.1.2. Defining the Policy Scope and Focus

There is no universal definition of local content and for all practical purposes this is not material. What is important is to assess the economic development needs of a country and to use the knowledge to determine an appropriate focus because the value of the policy depends upon its capacity to deliver economic benefits. This is particularly important in light of the varying (and sometimes conflicting) needs, aspirations and expectations of the different sectors of the society which in turn suggests that there are bound to be disproportionate benefits at least in the beginning. Hence, policymakers need to rationalize the focus of such a policy and in doing so, there are several options. Firstly governments may opt to focus on stimulating inputs from communities in the vicinity of natural resources projects in order to alleviate rural poverty. On the other hand governments may opt for a nationwide entrepreneurial development approach for the SME sector. Finally, governments may choose to

promote regionally integrated policies that are aimed at capturing collective value and boosting regional competitiveness instead. Striking the balance between these clusters of stakeholders and prioritizing their needs defines the core challenge. Separating national political interests from regional economic development goals while meeting citizen expectations is another. Recognizing too that with each policy focus, there are inherent trade-offs and designing policies that clearly rationalizes "winners and losers" while optimizing value therefore requires rigorous thought.

However, the strongest argument for regional integration is that it can boost regional competition, contain project costs and attract higher levels of investment. Critics of nationally focused local content policies argue that while large and profitable projects can withstand duplication of the necessary resources, small marginal deposits cannot. That said it is clear that giving consideration to commercial imperatives is often in direct conflict with political realities that face governments whose constituents expect national interests to take precedence over regional collaboration.

### 2.1.3. Creating Shared Stakeholder Value

In the light of the divergent goals of investors and governments, constructive dialogue is crucial to pave the way for mutually beneficial relationships. Traditionally, not enough effort has been made by either party to accommodate each other's underlying constraints and therefore reconcile differences. Yet this is essential to achieve mutual benefit. Governments are motivated by political power and investors by financial gains. While not always mutually exclusive pursuit of these two goals tends to be divergent in its manifestation. Investors tend to want predictable business environment and secured conditions of tenure both of which require a long term approach. Governments tend to focus on re-election and political survival both of which are comparatively short term. In this regard, investors tend to belittle the political realities facing governments and see their actions as hostile and uncompetitive. For their part, governments are suspicious of the motives of investors and are skeptical about the true nature of commercial constraints

confronting investors when dealing with the growing call for increased local inputs into MOG projects. In the end this undermines the potential to create “shared value” which can provide the impetus needed for successful partnerships between MOG investors and governments. Many underestimate the damage that this lack of trust does and the importance of finding ways to overcome it as a pre-requisite to successful industrial development policies.

#### **2.1.4. Capacity to Implement**

The ability of public and private institutions to implement, monitor and evaluate performance is a vital ingredient for policy effectiveness. Apart from the conventional capability of institutional and governance structures of an efficient public sector, local content policies also require deeper understanding of the MOG industry. Without knowledge of the MOG value-chain and factors that impact the global commodity trade, the capacity of the national economy to respond is hampered. However, because such knowledge comes with experience, achieving this while extracting value from the onset makes the capacity building goal a difficult task to achieve. But failure to commence policy implementation as early as possible in the project life cycle can result in the exclusion of many of the supply and service contracts which are typically awarded well in advance of the project development phase.

To address this, governments may consider adopting a partnership approach with investors to facilitate knowledge transfer. Secondly, some skills are better outsourced while others are best developed in-house. Therefore determining what skills to build in-house and sequencing of the myriad of internal resources to achieve this is essential. For instance policy design may be deemed a core public sector management skill while the monitoring of company compliance with local content policies might be outsourced to firms with in-depth knowledge of industry supply chain management. Deciding upon the composite skills and systems needed is a necessary first step to capacity building. Separating the type of skills to build in-house from those to be outsourced is therefore another important strategic decision for governments to make.

This implies that the willingness of governments and investors to work together is key to successful implementation. The goal should be to maximize benefits from current opportunities while building capacities to extract more value in future through clearly mapped capacity building programs. Yet most policies and laws do not adequately address the importance of joint implementation and monitoring programs. Indeed it is in this context that incentives may be more effective than prescriptive laws. Either way, lack of capacity cannot be sufficient justification for governments to defer local content policies, nor for investors to renege on the call to promote domestic linkages.

#### **2.1.5. Policy Stewardship**

The need for good leadership is as important for local content policies as any other initiative intended to extract greater benefits from MOG projects and to deliver the benefits to those who most need them. Committed leadership that places the interests of citizen at the center of its mandate is a prerequisite to responsible resource exploitation. Not only do local content policies deal with several issues but they impact many diverse interest groups as well as target long term policy objectives. The inability of leaders to provide guidance and reconcile these into a coherent package of economic deliverables to citizens is the thread that runs across many parts of the continent. Yet, in the absence of a clear vision and commitment to a set of ideals, most governments are unlikely to achieve this goal. Specifically, the ability of the leadership to balance political and economic considerations and the willingness to subsume partisan lines to national interests are all important attributes. An example of a country that has succeeded in doing this is Norway. In her management of the North Sea oil reserves Norway’s ability to separate decisions pertaining to the national oil company (Statoil) from the authority of any one ruling party has helped it avoid the resource curse. In Africa, many resources rich countries have fallen victim to partisan politics and the political economy that serves select interest groups. To the extent that these define the region’s political landscape, efficient resource management is likely to remain aspirational for some time.

# NATURAL RESOURCES AND INEQUALITY IN AFRICA

Mark Henstridge, Oxford Policy Management

*This brief note discusses the challenges of using natural resource wealth to support broad-based economic growth in Africa, which helps reduce poverty, build human capital, and reduce inequality.*

**There are a number of reasons why natural resources do not directly contribute to accelerated growth and development.** One is that the scale and complexity of mining and oil and gas operations require sophisticated legislative and regulatory frameworks, and the capacity to enforce these. Building legislative frameworks and administering them is the job of the state, but many countries are short of capacity in this area. Another is that extraction of natural resources means transforming stocks of natural assets into stocks of financial assets, both held by the state. This is the first of several steps. Once resources are transformed into financial assets, the state then faces the challenge of turning money into physical capital – and social and human capital – and such transformations are, in theory, separable from the equally tough to achieve public policy objective of increasing the flow of income to private citizens. Finally, the scale of natural resources sectors means that they are usually perceived as ‘strategic’, and they have a particular role in the political economy of economic policy, and one which can mitigate against connecting the transformation of natural assets into higher private incomes, particularly when formal administrative capacity and procedures are weak. This note reviews these three reasons in turn.

**Natural resources across Africa take many forms:** oil, gas, and a range of minerals, of which coal, copper, iron ore and gold are among the most important. To transform such sub-soil resources into the opportunity for growth and development usually demands significant capital and some sophisticated technology. Mining and the production of oil and gas is usually done at scale in a complex operation.

**The scale and complexity of extractives industries makes them both strategic and at the same time**

**difficult for public sector entities to manage and administer these industries. The legislation required is complex, as are the associated regulations,** and, as a result, for both to be properly enforced it needs quite sophisticated public administrative capacity. In addition, this legal framework cuts across the conventional remit of public agencies. Extractives industries and their economic and other consequences impinge on the mandate of ministries of energy, mining, environment, labour, education, industry, trade, and finance, as well as the central bank, and public sector oversight offices such as those of the auditor general and accountant general.

**Complex legal frameworks that cut across public agencies can contribute to weak accountability.** There is scope for poor coordination and some administrative incoherence when the mandates of different ministries and agencies with respect to extractives overlap. The combination of complexity and incoherence weakens accountability. Holding any one agency to account is hard, both for other public sector agencies and for the social organs of accountability, such as the press or NGOs, when it is hard to pick out who is supposed to have done what.

**Transforming state assets does not automatically entail higher flows of private income.** Stuck under the ground, mineral assets have little intrinsic value. Any valuation of reserves depends on the use to which resources can be put once extracted. So resources need to be extracted to have value. But the process of extraction is, for the state, one of asset transformation: the reserves under the ground being initially turned into financial assets – what is usually classed as public revenue is better thought of as an instalment of mineral wealth being converted into financial wealth held by the state. This process of asset transformation is complex to govern. The capital intensity and technology limits the flow of benefits to local economies, at least relative to the scale of the operation.

**Economic growth and development from extractives**

**therefore comes through the further transformation of accumulated financial assets into physical, social and human capital.** The physical capital is a relatively direct transformation: public investment projects create the roads, bridges and other physical public infrastructure. The human capital, by definition, is accumulated to individual private citizens – and is a key part of role of natural resources can play in supporting growth and development when the connection between state-held assets and private accumulation can be sustained.

**Public investment in physical assets entails choices** – both what to invest in, and how to deliver and manage investment. The challenges of such public financial management should not be under-estimated, but project selection and execution are relatively well established techniques in many countries around the world. It is more difficult to get these right, when public sector administrative capacity is limited.

**Transforming resources into human capital also entails public investment; but private accumulation of human capital is harder to achieve than public infrastructure, and is a more indirect result of public policy.** It entails stronger health outcomes, and higher educational attainment and skills development for individuals, who then need to be able to translate augmented human capital into higher standards of living through employment – or entrepreneurship. Delivering the health and education services needed for higher health status and human capital is itself one of the central

challenges for developing countries.

**All these transformations are technically hard to do, but also require accountability if to be achieved on a sustainable basis.** In addition, when resource revenues are significant and displace taxation on a broader social basis, they can weaken the social contract between governments and citizens as tax-payers, unless other socio-political conditions make up for this. The incentives and collective bargaining position of citizens through social organisations, such as employer and employee associations and other types of socio-political organisations, to hold government to account for the management of public financial assets, and the delivery of physical and human capital is weakened when governments have natural resource receipts to finance investment. This is compounded by the additional difficulties in accountability arising from the complexity of the legal framework required by a big, capital intensive, complex, sector.

**In sum, transforming mineral assets in the higher private incomes is hard.** The extractives sector is complex and capital intensive; the legislative frameworks are complex – and accountability is often weak; and the final steps in the transformation from natural resource assets into physical, social and human capital to sustain higher incomes are hard to do all around the world. It is increasingly recognised that for minerals to increased growth and reduce inequality these latter steps are the most critical.



## TRANSPARENCY, ACCOUNTABILITY AND PARTICIPATION

Jamie Drummond, ONE

The APP report on extractive industries will be published at a critical time. Natural resource finds continue apace in Africa and it is essential the complimentary reforms needed to avoid the well-known challenges of the sector are implemented. The policies outlined below could be easily adapted for the use of wider natural resources, including forestry, fisheries and land.

### Recommendations:

- All countries hosting stock exchanges with significant extractive industry listings pass mandatory payment transparency laws on a project-by-project basis, along the lines of Dodd-Frank Section 1504 and the forthcoming European Union Accounting Directive.
- Resource-rich countries implement and become compliant with the Extractives Industries Transparency Initiative.
- Resource-rich countries implement the 12 precepts of the Natural Resource Charter.
- Donors support accountability institutions (government and non-government) to use new data about extractive industries.
- African resource-rich countries mainstream the Africa Mining Vision into their national development plans
- Regional economic communities develop action plans to translate the AMV's provisions into results at the regional level, according to agreed timelines.

Africa's natural resources were worth \$333 billion in exports in 2010. In some countries the government's portion of this is the largest revenue flow governments receive. In many others, it should be. Yet paradoxically one-third of the world's poorest people live in resource-rich countries. In Africa these revenue flows are likely to increase as resource extraction increases to the OECD km<sup>2</sup> average. They are currently one fifth of the average so can be expected to increase fivefold (from \$29000 per km<sup>2</sup>). Combined with high commodity prices the revenues will continue to dwarf other financial flows,

and are a major opportunity for poverty reduction and economic growth.<sup>1</sup> Alongside telecoms, revenue from the extractives sector has been a significant driver of the fourfold increase in domestic resource mobilisation in Africa. These increases have fed into greater funding for essential social sectors. However, they have the potential to be generating larger increases in funding for these sectors than they are now.

This makes it imperative that policies are now put in place to help African governments, civil society and citizens make the most of their own resources which, for example, were seven times greater than ODA flows (\$48 billion) and six times the value of agricultural exports (\$55 billion) in 2010. Civil society needs to be able to both access information about extractives revenues and have the capacity to analyse this information. This will unlock civil society's ability to hold governments, and private companies, to account for their actions, and thereby increase resources available for spending on poverty reduction.

The voluntary Extractives Industries Transparency Initiative (EITI) has had success in highlighting where money has gone missing. In Nigeria a recent report on 2005 figures found over US\$800m of discrepancies between what companies said that they paid in taxes, royalties and signature bonuses, and what the government said it received. In Ghana an average royalty rate for mining companies of 3% was exposed, and led to a 6% minimum royalty rate for new projects.<sup>2</sup> However, data accessed through EITI often comes too late to be used effectively for accountability and, after EITI audits are completed governments have not taken rigorous action to recover the funds owed to them by companies, as revealed by the audits. Currently, countries assessed as EITI compliant include Ghana, Mozambique, Mauritania, Nigeria, Zambia, CAR, Liberia, Mali and Niger. Candidate countries include Cameroon, Chad, DRC, Guineau, Burkina Faso, Cote d'Ivoire, Gabon, Congo Brazzaville, Tanzania, Togo,

<sup>1</sup>[http://www.europesworld.org/NewEnglish/Home\\_old/Article/tabid/191/ArticleType/articleview/ArticleID/21804/language/en-US/Default.aspx](http://www.europesworld.org/NewEnglish/Home_old/Article/tabid/191/ArticleType/articleview/ArticleID/21804/language/en-US/Default.aspx)

<sup>2</sup> Final report: Validation of the Extractive Industries Transparency Initiative in Ghana. <http://eiti.org/document/Ghana-2010-Validation-Report>

Sao Tome. Madagascar has been suspended. The EITI is essentially a minimum standards tool for transparency that is credited with building platforms and improving financial management. However, it has some significant deficiencies, including a growing body of research indicating that it has served government and corporate interests more than civil society interests. Currently, multi-stakeholder consultations are taking place to build a new and stronger EITI Standard. An enforcement mechanism or legal sanction would help significantly.

This is why we need legally binding transparency measures – along the lines of Section 1504 of the US Dodd-Frank Act – to be introduced as broadly as possible. The EU will soon follow with legislation and other G20 economies are likely to in the medium term. Extractive companies will be obliged to report financial information to the stock exchange on a country by country and project by project basis. Legislation in the EU will also cover the forestry sector. Such measures would immediately shed light on all payments made by companies to governments, as well as other financial information. For example, oil-rich Equatorial Guinea is a country listed in the top 10 most corrupt and the President's son was found by a Senate committee to have channelled more than \$100 million into the US.<sup>3</sup> Dodd-Frank will force companies like ExxonMobil to report their payments to the Obiang Administration. The USAID submission to the SEC argues that Cardin-Lugar type legislation will improve the effectiveness of their spending.<sup>4</sup>

Once transparency in extractive industries is in place, the capacity of governments to collect tax is key, along with fiscal transparency in budgets, other revenues and expenditures. ODA can play an important catalytic role here. For example in six years, with modest investment by DFID, the Rwandan Revenue Authority increased the volume of tax as a proportion of GDP from 9.5% to 13%. Funding for civil society working on transparency and accountability is also important. It can help ensure they have the capacity to analyse complex financial data for accountability purposes. The EITI has in many cases been a helpful means to invest in civil society capacity

and create a multi-stakeholder platform whereby civil society, private sector and government can exchange information, share analysis and agree on and implement best practice.

The development of independent, accountable and transparent institutions that can help governments manage resource revenues is critical. In the case of Botswana – a country with an exceptional growth record driven by good resource governance - the initial quality of its institutions created a positive and reinforcing dynamic, whereby the revenues from diamonds mining were used to further strengthen national institutions, which supported a range of policies that generated sustainable human development for the country. Strong parliaments that fulfill an oversight mandate beyond rubber-stamping of executive decisions is a key factor in promoting accountable resource governance and in leveraging effective state/citizen consultation on revenue use for improved service delivery.

The African Peer Review Mechanism (APRM), as a “home grown” and African owned mechanism for improvement of governance on the continent, offers a great opportunity to improve Africa's governance standards in the natural resource sector. This instrument, through its multi-stakeholder engagement, rests on creating both supply and demand for good governance – supply in the form of suggested laws, policies and development of institutions, and demand through strengthening civil society and private sector involvement. Following a process to streamline the APRM Country Self-Assessment questionnaire, the economic governance review now includes a section on the governance of extractive industries.

Citizen-state accountability and participation are interdependent. Participation takes information flows, government outreach and citizen feedback a step further to an advanced two-way engagement in decision-making through open dialogue processes. Advisory bodies, commissions and councils can help governments to consult and receive in-depth information from citizens on mineral policy options, and build a transparent and open

<sup>3</sup><http://africanarguments.org/2011/07/26/passing-the-dodd-frank-act-would-promote-transparency-and-development/>

<sup>4</sup>USAID SEC submission: “Vigorous implementation of Section 1504 could contribute to the efficient and effective use of U.S. development dollars and complement U.S. development strategies by ensuring resource extraction dollars benefit the developing country rather than increase the wealth of particular individuals”. Full letter available here: <http://www.sec.gov/comments/s7-42-10/s74210-101.pdf>

communication culture. Governments may ask individual citizens – such as experts or representatives of CSOs – to join as members of review boards evaluating government policies or programmes, or may conduct citizens’ panels to receive reactions on a variety of policy initiatives.

Public hearings are a productive venue for government engagement with broader public audiences. Hearings provide a structured way to solicit public input into policy and to bring multiple perspectives into state deliberations on extractive issues. Following the introduction of South Africa’s Mineral and Petroleum Resource Development Bill, for example, the Committee for Minerals and Energy and the Committee for Economic Affairs held joint public hearings in Parliament and in the three provinces that would be most affected by the bill’s provisions. These were held largely in response to public concerns that the executive had not adequately consulted stakeholders in drafting the bill. The final bill reflected input from the hearings, and completely overhauled South Africa’s mining sector. Such dialogue platforms build greater understanding between governments, private companies and civil society on basic standards and good practices to be incorporated into the extractives sector, and enables greater inclusion and participation of civil society in extractive resource management.

Much can be learnt from the best practise principles of the Natural Resource Charter, which covers all steps in the natural resource management process – and not only the transparency of payments and contracts – to ensure revenues are maximised and opportunities for corruption

are minimised through each stage of policy making and project implementation. Ideally every country which discovers natural resource wealth should pass complementary legislation based on these principles to ensure proceeds benefit citizens.

The successful implementation of the Africa Mining Vision (AMV) is also critical. The AMV’s provisions guide governments and companies towards a sustainable and well-governed mining sector that makes positive use of its resource rents and that is human rights-based, environmentally sustainable, socially responsible and welcomed by surrounding communities. It hinges on developing a new, integrated development approach to mineral resource exploitation rooted on strong political will and a good understanding of Africa’s advantages, harnessing opportunities in the current commodity boom, maximizing the potential of regional integration and building partnerships for change. It also aims at addressing capacity deficits in the critical areas of auditing, monitoring, regulating and improving resource exploitation regimes and developing resource sector linkages into the domestic economy, and encourages governments to open their management processes and to commit to transparent fiscal governance of their mining sectors. Most importantly, the Africa Mining Vision depends on civil society to hold governments and companies accountable to delivering on their commitment to making it a reality. Citizens need to take ownership of the Africa Mining Vision, proactively working with all stakeholders to translate it into national laws, policies and practice.

## DISCUSSION POINTS

Alan Doss and Alero Okorodudu, Kofi Annan Foundation

The current narrative on the economic outlook for Africa is generally positive. Six out of ten of the world's fastest growing economies are in Sub-Saharan Africa. Much of this growth has been driven by the extractive industries. These industries, primarily oil and gas, have attracted the greatest proportion of foreign direct investment (more than 50%); as a single category, the oil, gas and coal sector accounted for 40% of FDI capital in 2010, emphasizing its role in driving the African growth story.

This growth, unfortunately, has not breached the gulf between economic potential and economic power. Nor has growth in Africa been accompanied by corresponding improvements in human development. Though the extractives industries in several Sub-Saharan countries are playing an increasing role in meeting the world's energy requirements, they have largely failed the region. Many of the oil-exporting countries have some of the worst development indicators in the world. The decline in poverty rates in resource-rich countries has generally lagged behind that of countries with little or no natural resources.

There are exceptions, however, in both directions.

Botswana, one of the strongest economies in Africa, and heavily dependent on its diamond sector – accounting for more than one third of its GDP and 70% of its export revenue - has escaped the 'resource curse' and maintained progressive social spending.

Angola lies on the other end of the spectrum with starkly insufficient social spending in a country where half of its population lives on less than \$2 a day.

On average, resource-rich countries have done even more poorly than countries without resources. They have grown more slowly, and with greater inequality – the opposite of what one would expect.

The recent discoveries of oil and gas resources in several African nations provide ample reason to refocus attention on the extractives sector in Africa. Given the poor

human development record of Africa's major oil and gas producers, the stakes are high both for the new-comers and the veterans.

In principle, the transparency movement, embodied in the Extractive Industries Transparency Initiative (EITI) is a good starting point for this debate. However, given the high profitability of the extractives sector – led by international and national actors with vested interests in the status quo - its voluntary approach limits its influence on the practices of government and international companies.

Governments seeking to ensure that their countries and peoples make the most of the resource boom face two critical challenges.

The first challenge is one of inclusivity. The nature of the extractive sectors tends to favour the accumulation of benefits by a small fragment of the population. In the case of Nigeria, it is estimated that 80% of revenues derived from energy resources benefit just 1% of the population – the elite. Through profits from the extractives sector, the state is firmly entrenched in the redistribution of rents with the elite forming the first circle of beneficiaries. How to ensure that natural resources benefit people at large, not just the privileged, is a question likely to grow more acute as the divide between rich and poor worsens, amidst a demographic boom.

Discretionary political control by rulers and powerful elites has greatly influenced how the benefits from extractive industries resources are used, or misused. Often, there is minimal public scrutiny on where and how extractive income is spent. In the case of Zimbabwe, for example, recent attention from international NGOs brought to light the fact that much of the country's diamond revenue is not channelled to the national treasury but ends up with the ruling ZANU PF party and the military elite who control the Marange diamond fields.

The embedded role of the state in the extractives sector needs to translate into a more equitable growth model

that encourages human development and poverty reduction. In the case of Nigeria, the Nigerian Extractive Industries Transparency Initiative (NEITI), a flagship of the global EITI, attention has focused on the auditing framework of the initiative. Criticisms have highlighted its limited effect on the complex problems of revenue distribution, which is mired in bureaucratic and political processes. Though NEITI is pushing reform in the Nigerian oil industry, the danger remains that it will have only a cosmetic effect rather than a lasting impact on the country's human development.

The second challenge lies in the tendency for the extractives sector to squeeze out other productive, job creating sectors of the economy. The extractives sector has largely operated in a closed circuit, with few links to the broader national economy. Resource-rich countries tend to have strong currencies, which impede other exports. Agriculture and manufacturing have become less competitive on the world market for resource rich countries in Sub-Saharan Africa – a symptom of the 'Dutch disease'. In the case of South Sudan, the discovery of oil

ushered in a progressive decline in the productivity of the agriculture sector – once the backbone of its economy. The implications are structural – a structural shift in the sources of economic dynamism toward sectors which are integrated with the global but not necessarily the national economy. Economic policies - backed by political will - that create productive links with other sectors of the economy are not yet the norm in the countries endowed with extractable resources.

The importance of refocusing attention on the poor track record of the extractives sector in contributing to the alleviation of poverty and job creation cannot be overstated. The stakes are high. The vast majority of Africans have yet to reap tangible benefits from the natural resources of the continent they inhabit. As Africa's population grows, and the number of young people increases, the demands for equitable access to the earnings of the extractives sector are likely to multiply. And if those earnings do not translate into the broader welfare of the population, violent instability could well follow as competition for those benefits intensifies.

## NOTE ON KEY ISSUES

Lai Yahaya, Facility for Oil Sector Transparency

Recent discoveries in Mozambique, Ghana, Uganda, Tanzania and high commodity prices, which in turn are increasing the pace of exploration, clearly provide significant opportunities for the continent. However, significant challenges remain that may yet undermine the extent to which these countries and others will manage these resources optimally.

Certainly, there is now more than enough guidance available for countries that are serious about putting in place the mechanisms to avoid well-known resource curse effects. The Africa Mining Vision and Natural Resource Charter provide excellent pointers on the resource decision chain. The Extractive Industries Transparency Initiative (EITI) and work by the Revenue Watch Institute, Publish What You Pay, Global Witness, ONE, Oxfam and a host of others have done a great deal to push for greater transparency and accountability. In addition, there is a plethora of forum initiatives, like the Intergovernmental Forum on Mining, Minerals and Metals; Sustainable Development's Mining Policy Framework; the World Economic Forum's Framework for Advancing Responsible Mineral Development; the International Council on Mining and Metals' Sustainable Development Framework and the E3 Plus Framework for Responsible Exploration.

But will this smörgåsbord of emerging policy best practice and prescription really take us beyond avowed statements of purpose and intention? The answer to this will lie in the extent to which we are able to address issues of corruption, capture and capacity.

On **corruption**, much has already been written and said on how natural resources can feed corruption and thereby lower economic performance. Further, there is now clear consensus on how resource rents induce (i) patronage, as governments use these rents to buy political support to stay in power, resulting in reduced accountability and an inferior allocation of public funds; and (ii) increased rent-seeking, as different groups and individuals focus more on fighting for a share of the rents rather than applying themselves to more productive activity.

The important lesson that has been learned is that success in anti-corruption efforts is most likely to be attained by shifting focus from the local, where the corruption is manifest, to the international, where illicit assets are transferred and processed. The recognition that joint action by developed and developing countries is needed to tackle corruption has led to such important successes as the jail sentencing of James Ibori and civil suit against Teodoro Nguema Obiang Mangue. More importantly, recent FCPA actions against members of the TSKJ joint venture and the bribery of Nigerian officials, and emerging action on the Malabo Oil deal, provide a demonstration of the possible impact of coordinated international action. Certainly, more needs to be done to sustain the momentum, for example with Europe moving faster to push through its own anti-corruption legislation and African countries fully domesticating the UN Convention against Corruption (UNCAC) and improving investigative and prosecutorial capacity.

**Capture.** Collusion between powerful international companies, focused by the corporate necessity of rent maximization, and state officials lured by private gains, remains a challenge to attempts to improve governance and push through necessary reforms for the more equitable distribution of resource benefits.

Many of the questionable practices in the extractives sector are actually supported by ostensibly legal transactions and take place within seemingly robust regulatory frames. However, when large private sector players have been intimately involved in the design of policy and drafting of legislation that seeks to regulate practice and maximize government take, clear conflicts of interest arise. The granting of pioneer status, provision for the issue of waivers, opportunities for transfer pricing, and existence of generous tax breaks and loopholes are just a few of the much-used techniques of ensuring that effective control of the process and outcome of negotiated deals rests often with the international companies. Added to this is the sheer strength of their lobbying machinery, often including interventions by foreign governments

and “technical assistance” provided via donor agencies. In addition, we are starting to see an increasing tendency of companies to bully governments into changing policies by threatening to relocate to more favourable economic environments, ironically on the basis that new discoveries elsewhere in Africa as well as increased production at home provide companies with more options. When one considers the typical nature of state officials, charged with representing the interests of ordinary citizens, sitting on the other side of the negotiating table and sensing opportunity for private political or financial gain, it is easy to see how undue influence is so easily applied.

What makes such forms of “legal corruption”<sup>1</sup> difficult to address is the fact that it is, in a sense, perfectly acceptable for companies to seek to maximize returns for their shareholders, employing legal means to do so. Political lobbying, donations to political parties, the provision of different forms of assistance to policy makers and bureaucrats are not usually illegal, or even, unethical. Indeed, in some jurisdictions (France and Germany, for example) associated payments are in fact tax-deductible. Unfortunately, the question of who is best able to ensure that, in the process, negotiated outcomes favour the interests of African citizens, rather than, for example, European or American shareholders or even taxpayers, is often difficult to answer.

Another form of capture concerns the role played by international intermediaries, most often commodity traders and service companies, through whom often significant amounts of rent are channeled, again ostensibly legally, abroad. For example, the sale of crude oil by national oil companies (NOCs), which can involve more than two-thirds of total government income in countries such as Angola and Congo-Brazzaville, is often “managed” by international traders like Glencore, who capture a margin that theoretically could have been captured by the NOC if it marketed the crude itself. Traders are typically secretive companies that typically operate out of jurisdictions that impose limited regulation or taxation burdens. Their business model favours aggressive negotiation of sale terms, which can generate pressure on NOCs to grant favourable treatment. NOCs that sell to a

mix of traders and end users can end up competing with traders as both attempt to market the same crude to end users—a dynamic that could lower the eventual sale price received. Further, in some countries, like Nigeria, NOCs sell their crude exclusively through traders, when instead they could contract directly with end-buyers, resulting in considerable amounts of lost value to the state.

Whilst several other forms of capture persist, including, for example the somewhat shadowy involvement of such service companies as Halliburton in transfer pricing mechanisms, recent attempts to mitigate these and other “legal” forms of capture by promoting greater transparency in the contracting and payments process are starting to have an important mitigatory effect. The Dodd-Frank Act and associated amendments, requiring that companies disclose oil, gas and mining payments to governments, together with the EITI will prove to be significant. Indeed, African governments are actually leading the way in promoting this new global standard of transparency, with contracts now to be published in Congo Brazzaville, Democratic Republic of Congo, Liberia and Ghana, and disclosure now being a legal requirement in Niger, Guinea and Sierra Leone. African governments are also leading calls to make contract disclosure a required element of EITI. At the EITI board meeting last month, several African governments (Liberia, Nigeria, Congo Brazzaville, Central African Republic and Mauritania) spoke strongly in favour of this step, and they plan to hold a meeting in January 2013 of all African governments to strengthen this position.

This leaves the issue of **capacity**. Natural resource management involves a string of decisions that need to be made along the resource value chain: from the decision to extract and ability to plan for long-term asset sustainability; to initial negotiations with foreign companies; to decisions on how best to distribute benefits to communities in order to dampen local tensions; to the management of the complex interplay between the demands of communities in which the resources are located and broader development needs; to decisions between consumption and savings and to the management of negative externalities. Also added to this is the need for labour markets to provide people with skills to take up the managerial and technical

<sup>1</sup> Kaufmann, Daniel and Vicente, Pedro C., *Legal Corruption* (November 24, 2005). Available at SSRN: <http://ssrn.com/abstract=829844> or <http://dx.doi.org/10.2139/ssrn.829844>

roles necessary for Africa to capture maximum value from resource markets and for greater beneficiation so that more value stays 'in country'. And, at every step of the way, the ability to make properly informed decisions is often hampered by inadequate or non-existent data, severe information asymmetries and the absence of tools and technology to process information.

Managing many of these issues adequately will require not just a well-trained and experienced administrative cadre, it will require parliamentarians, lawyers, journalists, accountants and auditors, as well as civil society and others, who are needed to provide important checks and balances to monitor the behaviour of government and companies. Fortunately support is available, such as the International Bar Association's Model Mine Development Agreement, which serves as a useful reference legal and regulatory framework development; or the African Legal Support Facility, which provides technical assistance to African countries involved in contract negotiations.

We need to see much more concerted action to address this issue of capacity, not just in the long term through training and administrative, institutional and other reforms but more importantly in the short term, perhaps by creating a greater market for policy and bureaucratic entrepreneurs and using private sector incentives to attract African skills to African opportunities. Opportunities do exist to mine the rich pool of diaspora talent and it is possible to access technical support from a variety of private, public and not-for-profit sector organizations. But the issue of lack of capacity requires that African governments be more considered in their approach to resource exploitation. This means designing systems and rules that more realistically reflect available human resources, skill sets and national capabilities and, most importantly, aligning the extent and pace of extraction with the building of capacity.





# CHINA OIL AND MINERAL DIPLOMACY IN AFRICA - Turning an unclear relationship into a blueprint of sustainable opportunities

Adama Gaye, CEO of Newforce Africa and ACCG

## Introduction: Devising a multi-level strategy

No other country outside of the continent has contributed as powerfully as China to the current renewal of interest towards Africa's natural resources. Considering that, to a large extent, the sudden realisation by the rest of the world that Africa is more endowed in such resources has in effect contributed to the new image being associated with the continent, one can claim without risk of being contradicted that China's oil and mineral diplomacy towards the continent has so far helped transform the way it is now viewed by outsiders. Once dismissed by the rest of the world, especially after the brutal end of the Cold War, shunned by Western nations and sub-contracted to the technocratic institutions, mainly those of Bretton-Woods, such as the World Bank and the International Monetary Fund (IMF), Africa seemed poised to a never-ending cycle of structural adjustments policies and internecine conflicts, along with autocratic leadership.

It is obvious however that the situation changed altogether when China found herself a net importer of oil, from 1993, and came to the conclusion that to fuel her roaring economy it had no option but to go abroad in search of the natural resources it lacked at home. Africa became the new frontier for China. As a consequence, the continent's resources saw their values increase dramatically. With China rapidly becoming a geo-economic and geopolitical global power, determined to reclaim the leading position, if not number one slot, it occupied prior to the advent of the industrial revolution, all eyes turned to Africa. Suddenly, other nations, particularly from the West, but this time with a host of emerging Southern ones, joined in the fray. The continent has since been the subject of an arduous courtship by all of them. How to translate this renewed interest into economic and political assets should be a

major objective for African decision-makers. It is not yet the case.

Clearly, China's oil and mineral resources diplomacy has contributed to the rebranding of Africa. It is no longer seen as a hopeless basket-case, as described in an infamous cover story by the well-known magazine *The Economist* (May 2000 cover story devoted to *The Hopeless Continent*). Due to the resources contained in its sub-soil, and other factors some of whom having not much to do with economic reasons, Africa is now being depicted, by the same influential magazine, as the '*Rising Continent*' (Cover Story, December 2011, *The Economist*).

The role China has played in enhancing the status of Africa should not leave unanswered the many challenges coming along with it. They include an increase in corruption in dealing with government officials (the favourite interlocutors of China), the promotion of non-transparent transactions regarding the resources of the continent, and, even worse, the roll-back of the prospects of democratic freedoms across the countries where China practices her resource diplomacy while creating a context where inequalities are on the rise.

Because China's oil and mineral diplomacy, more than that of any other foreign actor, has impacted the rising status of Africa in an age of growing reliance on natural resources for economic development, and also the consequence on the prices of these resources deriving from her demand, it makes sense, I believe, to revisit the way it affects the resource-rich countries of the continent.

The objective, advocated in this presentation, is to use it as a pretext for Africa, and particularly the resource-rich countries of the continent, to devise a multilevel strategy, in the approach proposed by Robert Putnam, so as to ensure Africa creates a truly win-win relationship, not a rhetorical one, with China. This model could also

be applied to other foreign, States or non-States, actors eyeing the continent's natural riches.

### **Breaking the one-on-one relationship**

Ever since it has embarked on a 'Safari' aimed at securing natural resources from Africa, among other places, China has privileged a bilateral dialogue with its resource-rich countries. Among the many cases that could highlight this approach, Sudan comes first to mind. Here, China took over the exploitation of the oil in what used to be formerly a united State. That was in the mid-1990s, at a time when Western nations and companies left Sudan, as a consequence of it being labelled a rogue State by the USA. Cynically, in pursuit of her economic interests, China took over, as part of her worldwide relentless attempts to get hold of the resources it needed for her economic continued growth. Next to Sudan, Angola that can showcase China's oil and mineral diplomacy. In 2002, following deadlocked discussions with the IMF to get a loan of less than 200 million dollars, China stepped in, dismissing the political and governance 'conditionalities' put forward by the international financial institution. It offered a 2 billion dollars resource-backed loan. A former Portuguese colony, Angola choose the Chinese hand. The same can be said with the Democratic Republic of Congo (DRC) which entered also in a resource-backed loan with China. In the first instance, the exchanges involved the transfer of mining rights against 9 billion dollars of loans destined for infrastructures. With the uproar generated by the unclear conditions of this agreement, the opposition parties in the DRC and the IMF managed to reduce the loans level, bringing it to 6 billion dollars without indeed eliminating the uneasiness surrounding the conditions of the Chinese mineral diplomacy in the conflict-ridden country. "The Sun rises from the East", said Robert Mugabe, Zimbabwe's President, a country rich in mineral resources, who summarises the general feeling of many African leaders more than ever at ease dealing with China's terms, without pressure on their governance and democratic records.

The One-On-One relationship, bilateral, that China is favouring comes at a time when the West is in financial distress. That the economic policies followed under

Western guidance have not been effective in alleviating poverty and fixing economic difficulties in many African countries have also contributed to China's increasing attractiveness despite the huge problems associated with her natural resources diplomacy. Truth is that because it is flush with foreign-reserves built out of an effective export-led strategy in the years following her reform and economic strategy that started in 1978, China is better positioned to provide finances to financially distressed African countries whereas Western nations, lacking financial muscles, and the Bretton Woods Institutions, bogged down by their policies, have become less attractive.

But no matter how important China has been in revamping the fortunes of the resource-rich countries of the continent, the fact is that China may end up contributing to the resource curse that has plagued most of the African nations, including Nigeria, Gabon, Equatorial Guinea, Guinea Conakry, Tchad to name a few...

Without dismissing the positive aspects generated by China's incursion in the continent, one must however be more demanding concerning the terms of its ties with Africa. Even the infrastructures it built seem to be part of a new mercantilist drive, helping her mainly to substract the resources and send them directly through the roads, railways and ports built in the vicinity of the oil and other mineral fields. That pattern, not adding value to the resources and leaving Africa with the lower level of the value chain in the exploitation of her resources, has already been criticised rightly both by Thabo and Moeletsi Mbeki, from South Africa. It is reminiscent of the old colonial model when Western nations, then colonial masters, looted Africa's resources for their own development. Like then, China's current investments in Africa's infrastructures are destined to take out the resources through ports and pipelines built in the resource-rich countries. It is difficult to substantiate the rumours according to which China gets what it wants by corrupting African officials. But that is likely. And indeed this is a solid reason to believe that by doing so, China's oil and other mineral diplomacy contributes to increasing the inequalities between Africans while entrenching further the resource curse in the continent.

That China engineered her African Safari in order to gain the upper hand is obvious and has been supported by a clear strategy contained in various visits, mechanisms and documents, including via the visit in 1982 of the then Prime Minister Zhao Ziyang, who advocated a pragmatic form of cooperation (no longer the one built on ideological considerations as proposed in 1963 by Prime Minister Zhou Enlai); the establishment of the Forum on China Africa Cooperation to promote her interests and through the January 2006 White Paper on China Policy towards Africa...

### **Defining a collective and comprehensive African response**

Responding to China's structured approach to Africa, and specifically to her resource diplomacy, requires that the African Union (AU) takes her rightful seat -the driving seat- in order to help guide the resource-rich nations of the continent build human resources, negotiating capacity and have a road-map to follow in dealing with China.

1. The first step to achieve this is make it clear to the Chinese leadership that Africa will no longer accept to see the AU being side-lined by China, as has been the case in so many circumstances. The question is whether or not for the sake of maintaining their sovereign rights to dealing directly with China, will resource-rich countries accept to relinquish partly their negotiating power? It may be difficult to get them to agree to that but in the long-run they may allow the AU a seat at the table.
2. Responding to China's resource diplomacy requires also that the AU, now under a new leadership, become more proactive and assertive when it comes to dealing with external actors. The European Union provides here an example that can be emulated. The various policies and directives devised by it to guide her Member Nations in such strategic fields as energy, agriculture or immigration have come to be seen as the right entry points when dealing with EU nations.
3. The AU may convene a continent-wide technocratic conference preceded by a series of regional or sectoral

conferences that would examine the resources map of the continent and discuss the best way and terms for their exploitation.

The conference could learn from the best practices pursued elsewhere in the world, notably that of Norway where resources have turned out to be a blessing thanks to the establishment of a 10 Commandments' destined, from the inception, to ensure the nation and its people benefit from the national resources in a transparent and visionary management.

The establishment of a Sovereign wealth fund to deal with the effects of the Dutch-disease often associated with a boom in natural resources is another example that Norway can help African nations devise as they seek to benefit more from their resources.

Another country, now in need of Africa for her geopolitical ambition and that can help Africa better deal with her natural resources, is Australia. A close partner in mineral diplomacy with China, Australia has a lot to share with Africa, considering also that many Australian companies are in the mining and oil exploitation business in Africa.

4. The road map should include some of the aspects that the China oil and mineral diplomacy has disregarded, such as poor labour and environmental records; lack of transparency that is benefitting only the officials who are in the know; and insistence on the necessity to avoid shadowy structures set in place by officials, with the support, implicit or explicit, of China.

Africa's response to China's resources diplomacy should include a greater role for the media and civil society, as they may be freer to defend Africa's interests, the forging of institutional ties with institutions of learning specialising in natural resources, the creation of centers of excellences in Oil and Mining fields across the continent, as well as, the expansion in the training in foreign languages (Chinese in particular), better negotiating capabilities and capacity-building for political actors in Africa...

5. The Mechanism that should be used to entrench the new rapport between Africa and China in resources diplomacy could be, but not limited to, the Forum of Cooperation between China and Africa -FOCAC. If Africa organises herself well, it should be able to have her response to China at the next -the 6th Edition- of the FOCAC to be held in 2015.

**Conclusion: Sending signals...**

China offers Africa a unique opportunity to set the terms for the exploitation of the continent's natural resources. So far, unfortunately, it has contributed, through her

resources diplomacy, to the increase in inequalities between Africans. Worse, the unclear conditions it has been operating may end up compromising Africa's chance to maintain control over her resources and build a sustainable approach in managing them.

Because it has become the number one trading partner of Africa now, China offers the possibility to the continent to send through her the signals to the rest of the world on the basis it intends to interact with foreign actors -not just on natural resources but, more broadly, in political terms. So far, it has been missing in action.



# KEY ISSUES FOR AFRICA CONCERNING EQUITY AND RESOURCE FLOW FROM EXTRACTIVES

Max Jarrett, UNECA

## The consensus regional perspective is well framed in the African Mining Vision

### What is it?

The **African Mining Vision (2009)** is the new regional framework to promote a more transparent, development-centred and equitable management of the natural resource wealth of the continent. It aims to address the fact that while Africa is a major exporter of minerals, the continent has not been able to use its revenues and operations from the extractive sectors as a catalyst for significant social and economic transformation.

### How is it different?

The AMV pushes for a re-alignment in the way that African governments think about the extractive sector. In the AMV approach, the emphasis must fall on how mining can be harnessed to drive sustainable social and economic development.

It urges African states to develop partnerships that leverage the opportunity provided by the presence of large-scale minerals extraction operations by framing them within strategic development plans.

Two key messages from this approach should be highlighted:

- “mineral operations must constantly be re-evaluated for their contribution to broad and long-term development goals”
- “restructuring African mining from its enclave nature is the fundamental task of African policy makers and those committed to having it play a transformative role”

As the outcome of the 2012 African Development Forum, (convened by the **African Union Commission, UN Economic Commission for Africa** and **African Development Bank**) on the theme, “Governing and Harnessing Natural Resources for Africa’s Development”, highlighted,

there is increasing consensus now in the region on the critical elements of the way forward.

Relevant sections of the ADF consensus statement are excerpted below.

African countries should:

1. **Undertake** all-round domestic policy reforms in the mining and other sectors to: anchor the minerals sector in a broad development vision; better align mineral, industrial and trade policies; institutionalize inter-departmental collaboration within the governmental system; expand local ownership, participation and control in the mining sector; significantly increase local content; boost mining revenue/taxation receipts whilst plugging financial leakages; enhance the contribution of mining activities to various backward and forward linkages in the local economy throughout the entire mineral value chain, and overcome the phenomenon of enclave economies; catalyze the emergence of domestic and regional economic corridors across the continent; improve geological and geo-scientific knowledge; promote environmental, social and material stewardship; and give attention to urban mining for the purpose of recycling extractable precious and base metals from e-waste;
2. **Commit** to entrenching democratic governance principles along the mineral value chain, including strengthening the African Peer Review Mechanism (APRM) with a view to strategically repositioning it to become the primary instrument for promoting a shared understanding of mineral value creation, eliminating mineral resource-driven conflicts, institutionalizing mandatory mineral revenue disclosure, and improving overall mineral sector governance in Africa;
3. **Embrace** the transparency and accountability advocated for by the African Mining Vision (AMV),

the Extractive Industries Transparency Initiative and similar reciprocal accountability standards and mechanisms to ensure that the minerals sector delivers development dividends to Governments and communities while rewarding investors for the risk they take. This outcome can and should be achieved alongside strong commitment to curb human rights violations, address issues of child labour, overcome gender-based violence, redress the abuse of migrant labour, improve mining safety, achieve sustainable wages, provide decent housing and cater to the health needs of miners and their families;

**4. Extend** significant support to Artisanal and Small-scale Miners (ASM) in recognition of the important role they play as legitimate actors in creating employment, rolling back household poverty, enhancing women's and youth participation, generating backward and forward linkages and overcoming underdevelopment in rural communities. Also, Governments should strive to address the technical equipment, skills and financial challenges faced by ASM, as an integral part of a development-oriented mining policy. This should be done in the knowledge that their full integration into rural development programmes, including their formalization as may be appropriate, could be a potent strategy for raising the living standards of communities, improving gender equity, encouraging youth participation, and promoting sustainable local economies;

**5. Enhance** their knowledge of the continent's geological endowment as a good thing in itself but also with a view to employing that knowledge as a key tool for strengthening the continent's bargaining power with other international actors interested in Africa's mineral wealth. Better knowledge of Africa's mineral wealth will also allow Governments to experiment more effectively with innovative mechanisms of allocating exploration ground such as auctioning, and entering into better informed and more optimal "resources for infrastructure" deals. To

this end, careful consideration should be given to the strategic importance of a stable funding mechanism that would support the geological mapping of the continent on an on-going basis;

**6. Urgently invest** in tackling the institutional and human capacity challenges faced by stakeholders along the mineral value chain, doing so by strengthening existing institutions and, as necessary, building new, specialist ones. This will make for the emergence of a well capacitated African minerals sector, anchored in a clear developmental vision, and able to negotiate beneficial contracts and contribute to innovation and development of a knowledge based African minerals sector.

#### **Where are we now?**

Support for the AMV is firming up. It is increasingly seen as a viable channel to create the conditions for African development through using the extractive sector as a catalyst for socioeconomic transformation.

At the 2nd AU Mining Ministerial Conference in December 2011 over 90 senior officials and ministers from more than 30 countries also agreed to the AMV Action Plan. Both the Vision and Action Plan have also been endorsed by the African Union Assembly of Heads of State and Government.

What is important now is for states to translate the principles of the vision into harmonised country and regional policies for the extractive sector. This will help countries resist the "race to the bottom" and build a common case for regional cooperation in this sector.

Indications from discussions at the Mining Indaba in Cape Town and the Africa Down Under Conference in Perth, Australia, this year indicate that the AMV has successfully garnered support from the major international donors and bilateral donors and that a number of major mining companies are also very supportive. Civil society is also supportive.

**The role of the regional “Joint Secretariat” institutions (African Union Commission, UN Economic Commission for Africa and African Development Bank)?**

The Joint Secretariat is collectively supporting this change in perspective and actively advocating for the AMV. We advise that mining policy needs to be articulated in terms of corridors, clusters and linkages and sharing infrastructure, in contrast to enclaves that stand witness to the industry’s current and historic main orientation – extracting and shipping bulk materials to overseas markets.

At the operational level, our core focus now is on the establishment of a new African Minerals Development Centre to provide strategic technical support capacity to AU/NEPAD, Regional Economic Communities (RECs) and member States in the implementation of the AMV Action Plan. As well as formulating the business plan for this centre we are currently in the process of building partnerships with a range of stakeholders (including civil society, the private sector and development partners) to support the activities of the centre. It is hoped that the centre will be established in 2013.

# AFRICA'S EXTRACTIVE RESOURCES - CHANGING CURSE TO DEVELOPMENT

Karuti Kanyinga, South Consulting

## Introduction

The role of natural resources in economic development is one issue that has been debated for many years now. In recent years, however, natural resources have become increasingly important for another reason: their centrality in contemporary political agendas across the world. Volatile commodity markets and impact on domestic and global politics continue to attract media but not policy attention at all levels. But there is general consensus that in some African countries natural resources are a 'curse'. The developing countries that produce extractive minerals are cursed into economic and political ruin or general underdevelopment.

Explanations for correlation between extractive resources and poor development are usually of economic in nature although political science has also joined to reinforce the argument about this correlation. Simply put, the argument is that the wealth from natural resources can undermine economic development in poor countries that produce these resources.<sup>1</sup> Several factors account for this. First, countries that export natural resources tend to suffer from poor terms of global trade. International trade is structured in such a way that it will favour the industrialised states and therefore the poor countries exporting minerals and other resources get less for their exports. Second, international prices for these resources are never constant; they fluctuate so much that it is not prudent, from a policy point of view, to plan for national development using these resources. Third, foreign investors and companies extract these resources without building the capacity of local investment groups. They extract with the motive to generate revenue and make profits for investments made in extracting the minerals.<sup>2</sup> Significantly, they repatriate the profits to their home country or overseas banks in a fashion similar to

that of 'capital flights', which characterised Africa's difficult economic moment of the 1980s.

## The paradox of the plenty

This 'paradox of the plenty' debate is about how countries that produce resource wealth have not benefited from this wealth. They are seen as developmental failures. Some resource rich countries appear to be doing poorer than others are. There are several explanations for this. First, resource rich countries have strong currencies as a result of resource exports. And because of the dominance of the extractive resource sector in their GDP, other sectors grow slowly. They do not have the incentive to grow faster and the governments do not give adequate attention to other sectors. This leads to another problem: soaring unemployment levels.

With increased attention to extractives, countries fail to pursue sustainable growth policies. They rely on one sector, which does not compete with others. The countries become poorer; levels of poverty increase. So do levels of inequalities in the society; the gap between the rich and the poor continue to widen as the elites accumulate from extractive resources without redistributive policies. Furthermore, extractive industries in these countries are oriented to external markets; they have few linkages to the domestic market. Because of this, the domestic markets<sup>3</sup> and industries remain weak that they cannot support innovations for development including development focussed on extractive industries.

Contributing to this paradox is the existence of weak institutions, governance institutions in particular, alongside large amounts of natural resource rents.<sup>4</sup> These combine to cause political dysfunction especially when rents lead to behaviour change among political

<sup>1</sup> Rosser, A. 2006. The Political economy of the Resource Curse: A literature Survey, IDS Working Paper, 268, Institute of Development Studies, University of Sussex, provides detailed survey of literature on the subject.

<sup>2</sup> For details on some of these arguments see Ross, M. 1999. 'The political economy of the resource curse', World Politics, 51, 2: 297-322.

<sup>3</sup> There is a useful summary of these arguments in Jones, S. 2008. Sub-Saharan and the 'Resource Curse': Limitations of the Conventional Wisdom, DIIS Working Paper No2008/14.

<sup>4</sup> See Jones, *ibid*.



leaders. This change includes increased dependence on the extractive resources for national planning and development as well as increased interest in drawing personal rents from the sector. This leads to a political system lacking accountability to the society. Political elites begin to make policies that promote their quest for rents rather than promote public interest. Their behaviour undermines growth. They lose legitimacy but resort to repression in order to retain power.

### Extractive resources: the new scramble for Africa

Many countries in Africa are resource rich; they are endowed with extractive resources. The continent is known to be producing over 60 different types of minerals and metals, among others. The continent is also becoming a producer of oil and gas. By 2010,

about 30 per cent of the countries or 17 out of 53 countries in Africa were producing and exporting oil. There are more discoveries announced every year as explorations intensify across the continent. The intensity of exploration and competition between the west and China, for Africa's extractive resources compares with the old scramble for Africa. The continent, today, has the fastest expansion of extractive resource exploration than any other region in the world. The new and significant findings of oil, gas, metals and other extractives is a pointer that the continent could be having more than initially estimated, particularly because no other time has the region experienced this form of expanded invasion of its underground. Table 1 shows the per cent share of world producers of mining resources by region and illustrates Africa's position in respect of mineral potential.

**Table 1: Share (%) of world production of mining resources by 2008.**

Minerals	Africa	North America	Europe	Asia	Latin America	Oceania
Platinum	80		14	14		
Gold	20	15	13	12	21	14
Copper	6	13			51	6
Diamond	54	19	25	13		
Silver		10	15	33	50	10
Iron Ore	4	15	13	55		20
Coal		17	17		23	6

Source: compiled from World Economic Forum, 2010. Mining and Metal Scenarios to 2030. The World Economic Forum in Collaboration with International Finance Corporation and Mckinsey and company.

The continent is generally the leading world producer of platinum. It leads in production of diamonds while its share of gold production is second to Latin America. The continent is also said to hold over 10% of the world's oil reserves and supplies over 12% to the global market.<sup>5</sup> However, there are variations in the continent in terms of concentration of these minerals; there is uneven production between countries. For instance, Zambia

and DRC are the main producers of copper while South Africa is the largest producer of platinum metals.

Notwithstanding the new sources of wealth on the continent, there are startling findings on the state of development among the resource rich countries. Resource wealth has not impacted in any significant manner on poverty levels in resource rich countries. For

<sup>5</sup> Ramadoo, I. 2012. From Curse to Purse: Making Extractive Resources Work for Development. ECDPM Discussion Paper No.136, October 2012. European Centre for Development Management

instance, some estimate that Nigeria has earned over USD 350 in oil rents since the 1960s but poverty level has risen over the years and per capita incomes remained static.<sup>6</sup> Many countries fall short of their MDG targets and income inequality remains an issue of concern. The resource curse can also come in the form of a conflict, if the story of Sudan is anything to go by. But this is not to say that progress cannot be achieved. Some resource-rich countries, notably, Namibia and Botswana, have shown that resource do not have to be a curse on a country; rent from resources, if effectively utilized in line with sound national economic development policies, can lead to prosperity. Some countries without resources have also proven that sound management of economies, and getting politics right, can lead to prosperity. Mauritius and Cape Verde may not be mineral rich but have made some important steps in improving living standards of their citizens. In other words, Africa is not cursed. The prospects for the future are bright if countries got their policies and politics right.

Why are some of the countries endowed with extractive resources not able to turn their resources into wealth for their citizens? Joseph Stiglitz provides perhaps a succinct overview of the factors discussed earlier in this respect. To him, resource rich countries tend to have strong currencies, which impede other exports; they have high unemployment levels because extraction does not require a lot of employment creation; and prices for resources are usually volatile which contributes to unstable growth. These countries also do not re-invest their wealth into productive sectors above the ground. Political conflict among leaders exacerbates the problems in these countries; political leaders conflict over access to rents. This leads to dysfunctional political system and institutions.

A closer look at this 'curse' reveals that there are many actors who have to be involved to get things right. Extractive companies bargain to get value for their costly investments and therefore would prefer to minimise costs. To achieve a balance between their interests and the development needs of the resource rich African countries becomes a problem. Contracts are sometimes made in favour of the extractive companies with very little attention on socio-political context of the extraction activities. The contracts give disproportionate share of the revenue to the companies. Profits and the urge to have more revenue

override the national goals. These observations point to one important thing: that economic rationality is not a sufficient lens to show why extractive resource rich countries are poor. There is a need to look at politics and policies – there is need to look at the politics behind the extraction. And this implies paying attention to a number of governance related issues with respect all actors in the chain of extraction: the resource rich countries and their societies, extractive industry corporations and their home countries, and the international economic system and its institutions as a whole.

### **Conclusion: Transforming the 'curse'**

*Building on transparency:* The curse can be turned into a foundation for sustainable development. Some mineral rich countries in Africa have demonstrated that getting policies and politics right is sufficient for take off. In this regard, there is need for improved governance. But this cannot happen without improving on transparency in the conduct of public affairs. Governments, therefore, must begin to implement sound economic reforms alongside a strong foundation for transparency in the extractive sector. Notably, they should enact legislations that promote access to information and data on extractive resources. They must make public all activities relating to extraction of resources and empower citizens to demand answers in relation to contracts and the extraction of resources in general. Multinationals involved in extraction have a role to play here too. They need to open themselves up to public scrutiny.

*Diverse economic base and policies:* The local economies usually remain un-integrated into the extractive resource industries. Extraction takes place without any relationship to local economic institutions. In many instances, local economic and financial institutions are by passed on argument that they do not have technical capacity. Local enterprises therefore lose out from the opportunities presented through the extraction processes. There is need therefore to begin thinking about how local enterprises can service the extractives industry including by developing service industries on the side. Improving on rules and regulations on procurement is one approach that would lead to stronger local institutions.

<sup>6</sup>Jones, S. 2008. op-cit, citing estimates from other sources

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# EXTRACTIVE INDUSTRIES IN AFRICA: MAXIMIZING THE BENEFITS FROM THE SUPPLY SIDE CHAIN

Mthuli Ncube, AfDB

## Introduction

The recent major discoveries of vast reserves of coal, oil and minerals, and abundant renewable energy resources in Africa offer greater optimism for the potential that these natural resources hold for Africa's economic transformation. The cliché that natural resources are a 'curse' would be challenged if the socio-economic opportunities that accompany the efficient and good management of these resources is realised. The energy resources boom has not only increased access to electricity and transport (roads), it has the potential to contribute to human development, economic diversification and poverty reduction. In fact, if natural resources are adequately developed (without severely impacting the environment) and well managed (creating wealth for the broader social benefit), they can be groundbreaker for increased export revenues, access to energy, private sector development, job creation, human development and economic growth.

Recent evidence shows that economic growth in Africa is generally strong, fuelled in large measure by business-enabling policy reforms, more favourable commodity prices and a marked improvement in peace and security. Average growth in the continent is expected to rebound to 4.5% in 2012 and 4.8% in 2013, after a slow of 3.4% in 2011. However, many challenges remain in most African countries, notably high levels of poverty (sub-Saharan Africa's poverty rate was estimated at 48% of the population in 2008), increasing size of the economically active population (averaging around 3.5% per annum), slow improvement in human development, and limited employment opportunities. To halve extreme poverty in Africa by 2015 in line with the MDGs, financial resources from the extractive industries could help curtail poverty and rising unemployment (60% of Africa's unemployed are young people). Moreover, well managed resources from the extractive industries could be invested into initiatives to improve infrastructure, develop human

capacity (education and vocational training), and create enabling environment for private entrepreneurship.

This note briefly examine the ways in which Africa's natural resources boom can translate into sustained and inclusive economic growth. It touches on some recommendations with regards to the creation and management of Sovereign Wealth Funds, the local procurement in the supply of goods and services, and the social capabilities needed to spur the domestic industry.

## Management of Natural Resources Revenues

Well managed extraction of natural resources holds significant opportunity for resource-rich African countries to finance the investments needed for infrastructure development and human development. Several mechanisms can be adopted by countries to make the best possible use of natural resources for growth and poverty reduction. Those include mechanisms to capture the rents and investing in economic development such as well design of exploration and extraction contracts, establishment of stabilization funds to mitigate volatility as well as natural resource funds and/or sovereign wealth funds that increase transparency in the management of those resources.

To date, 15 Sovereign Wealth Funds (SWF) have been established by African resource rich countries, namely Algeria, Angola, Botswana, Chad, Congo, Equatorial Guinea, Gabon, Ghana, Libya, Mauritania, Namibia, Nigeria, Sao Tome and Principe, and Sudan. While the number of African SWFs may be encouraging, the small size of their combined total assets under management (representing only 2% of global assets under SWF management) raises concerns about the governance structures and management of the sovereign resources. The lack of, or poor enforceability of, institutional arrangements and the issues of accountability and transparency have

overshadowed the quality of governance in African SWFs. Similarly, the focus of African SWFs on stabilization and investment abroad has had limited impact on savings and wealth creation for future generations, and long term fiscal and macroeconomic stability. However, an exception is the Libyan Investment Authority (LIA), the largest African SWF, which pursues a relatively active and aggressive investment strategy and engages more with local economies.<sup>1</sup> However, the LIA governance needs to be strengthened.

It is therefore essential that the goals of Africa SWFs expand to include intergenerational resources transfers, infrastructure financing, financial sector stabilization, and regional integration in order to maximize value added for African economies. For instance, African SWFs resources could help bridge the unfunded African infrastructure investment gap of USD 50 billion per annum. The long term investment characteristics of SWFs can have a stabilization effect on African financial market volatility. The resources to be accumulated through SWFs can help meet the investment needs required for economic diversification and development. Furthermore, strong corporate governance structures are the basis for well managed resources and guarantees against illicit financial flows from extractive sector revenues (e.g. corruption, illegal exploitation and tax evasion).

### **Venture Capital Investments/Funds**

Parts of the resources from the SWFs should be utilized to create national venture capital funds with the main purpose to assist the development of home-grown venture capitalists. Such funds will provide financial and technical assistance for the development of start-up and small and medium-size enterprises with a business and growth potential in the oil, gas and mining industries. The

underlying principle is that the national venture capital funds will invest in venture capital firms that are primarily owned by African private entrepreneurs. The ultimate goal is to help develop and expand business entrepreneurship and contribute to economic diversification. A notable example of an African national venture capital fund is the Citizen Entrepreneurial Development Agency (CEDA) Venture Capital Fund in Botswana, which offers funding for capital expenditure, stock or working capital in new and existing business ventures.

### **Procurement of extractive companies and suppliers**

African countries rich in oil and gas and other minerals have not been able to successfully develop and implement policies aimed at stimulating national and widespread value creation from their extractive industries. The contribution of the extractive industries to job creation and entrepreneurship has been significantly limited in Africa. This is not surprising given the African countries lack of capacity to meet the extractive industry skill requirements, which is highly capital intensive. The weak and narrow industrial base in African resource rich countries forced most extractive companies to outsource the procurement of the supply chain of oil, gas and mining projects instead of engaging local enterprises in the provision of goods and services.

Given the wide range of goods and services<sup>2</sup> that local companies can supply in oil, gas and mining projects, the economic and social benefits of developing the local supply chain cannot be underestimated. In fact, strengthening the capacity of local procurement in the supply of goods and services conducted at the mine sites in resource-rich African countries will have a significant impact on the growth prospect of the mining industry in Africa and will eventually create opportunities for local

<sup>1</sup>Thouraya Triki and Issa Faye. Africa's Quest for Development: Can Sovereign Wealth Funds help? African Development Bank Working Group Series, N°142, December 2011

<sup>2</sup>Accommodation, catering, cleaning, security, logistics and warehousing, mailing and courier services, personal agencies, pest control, printing and photography, forestry and environmental services, translation services, transportation services, landscaping and gardening, legal and accounting, maintenance (small vehicle, low-voltage electrical, simple mechanical, civil works, air-conditioning), earthworks, painting and corrosion protection, telecommunication and data systems, road marking and signage, roofing and waterproofing, sewage and drainage, carpeting and floors coverings, fencing and paving, waste recycling and management, and sales (automotive parts, small motor vehicles, fuels and lubes, cleaning supplies, food supplies, uniforms, furniture and fixtures, laundry equipment, machined tools and parts, office equipment and stationary, appliances and electrical goods, construction supplies).

entrepreneurship and job creation. In addition, creating the enabling environment for local procurement in mining and oil exploration (by setting policies and developing regulatory frameworks for increasing local procurement) will create opportunities for local businesses and entrepreneurs to expand into areas such as civil works, construction, transport, drilling, mining, and equipment maintenance. This will eventually lead to increased participation (i.e. employment) by local individuals/communities.

Beyond the capacity of local companies to supply goods and services in the oil, gas and mining projects, the procurement policies and processes and contracting (e.g. cost, time, quality and risk management) should be modified and make them more accessible to local enterprises. For instance, aligning corporate policy with local enterprise development objectives, providing preferential treatment to local firms in awarding tenders, 'unbundling' contracts and encouraging subcontracting can incentive local companies engage more in supply chain projects. This will contribute to enhance the

effectiveness of local entrepreneurship and create more opportunities for diversification and competitiveness of African economies.

### **Human and Institutional Capacity Development**

Given the often limited capacity of national institutions to formulate and implement effective public policy and deliver public services, especially in the oil sector, developing the human and institutional capacities of resource-rich countries in Africa, through increased investment in higher education, science and technologies, as well as specialized petroleum-sector training, will help create the adequate skills level of the population and administration. Higher-capacity (human and institutional) oil producing countries will contribute to increased productivity of natural resources, improved governance and/or management of natural resources revenues, and prospects for diversification into renewable energy. Ultimately, sustainable wealth management will enhance the social impact of the natural resources boom in Africa.



## EIGHTH AFRICAN DEVELOPMENT FORUM (ADF VIII) - STATEMENT

Carlos Lopes, Executive Secretary of the United Nations Economic Commission for Africa (UNECA)

22 October 2012  
Addis Ababa, Ethiopia

Excellency, Ato Mekonnen Manyazewal, Minister of Industry of the Federal Democratic Republic of Ethiopia, Excellency, Dr. Nkosazana Dlamini-Zuma, Chairperson of the African Union Commission, Mr. Aly Abou Sabaa, Vice President, Sector Operations, African Development, Honourable Ministers, Excellencies, Ladies and Gentlemen,

Permit me to begin by thanking our constant hosts, the Government and People of the Federal Democratic Republic of Ethiopia for their warm hospitality and friendship. This is further manifested by the presence of H.E Mr. Mekonnen Manyazewal, Minister of Industry of Ethiopia who is here with us at the opening ceremony. We look forward to listening to the keynote speech to be delivered by H.E the Prime Minister tomorrow. I am also delighted that Dr. Dlamini-Zuma, Chairperson of the AU Commission is able to join us here today. The existing strong collaboration between the pan-African institutions will no doubt benefit from her leadership and experience. Both of us being new to our functions in Addis Ababa, it is befitting to express the importance this partnership represents for Africa.

Let me at this stage pay tribute to the memory of late Prime Minister Meles Zenawi, who participated in all previous sessions of the ADF, and whose noble efforts inspired us to remain steadfast in our belief that Africa can only do better. He will be sorely missed. May his soul rest in peace.

Excellencies,

This Forum has remained true to its purpose of deepening the understanding of key development issues concerning Africa. It provides a space for stakeholders to challenge

stereotypes. It contributes to vigorously debate new ideas to accelerate Africa's transformation. Our deliberations are taking place against the background of renewal and revival in Africa. Seven out of the ten fastest growing economies in the world are in this continent. Yet, we have six out of the ten most unequal societies in the world. Our challenge is much more than scaling up current good growth performance. It is also to take into account the interests of the most vulnerable.

The way we use the abundant continental endowment in natural resources will be critical in this regard. As things stand, Africa has a long way to go in order to harness the full potential of its natural resources. It is obvious that we are not there yet. We are gearing up to cope with increasing global demand for natural resources, at a time of global concern about environmental sustainability and climate change. Our policy responses would therefore require that we change. We have to improve the processes for accessing and extracting mineral resources in a way that tackles poverty and promotes inter-generational equity. We have to better use our land and sea resources. In short, global circumstances and Africa's development needs compel us to deliberate at this session on "Governing and Harnessing Natural Resources for Africa's Development"

Let us first gain a clearer picture of what is at stake. Africa, for example, accounts for three-quarters of the world's platinum supply, and half of its diamonds and chromium. It has up to one-fifth of gold and uranium supplies and it is increasingly home to oil and gas production with over thirty countries now in this category. Yet, with minor exceptions, Africa does not consume or add significant value to these and other mineral products which it has in abundance. Rather, we are net exporters of raw materials that fuel prosperity and development in other regions.

The case of land is equally telling. Africa has 60% of the world uncultivated arable land. This means that most of the available land to feed a rapidly growing global population will have to be found here. However, current



crop yields are low and land issues are caught up in the vortex of economic needs versus cultural and historical rights. Similarly, Africa has forest resources covering over 23% of its land area. Notable in this regard is the Congo Basin, which is the second largest forest in the world - it offers livelihoods to up to 60 million people. This is a valuable resource, both in the context of climate change as well as the demand for forest services, which is expected to rise globally. The same can be said about fisheries and aquaculture endowments which, if properly managed, could be more valuable than familiar non-renewable resources.

Given these vast endowments, the question that arises is why our continent continues to struggle with limited economic transformation, and scarce employment. Certainly it is not due to lack of exploitation! Mineral resources continue to attract high levels of foreign direct investment and account for the highest share of economic activity in four out of every five African countries. Land resources are also being exploited with up to 754 land deals, covering over 56 million hectares, already concluded. In Burkina Faso alone, the share of the mining sector in exports expanded from 2% to 41% in the last five years. The conclusion that can then be drawn from this situation is that the current resource-for-development model is not working to bring about equity or boost development.

The on-going Glencore-Xstrata merger is a good starting point to show why this is the case.

Glencore is a commodities trading and mining company that is headquartered in the small village of Baar, in the Zoug canton of Switzerland, a country with no mining activity. The company operates mostly in the Democratic Republic of Congo, but it is worth more than the economy of that resource-rich country. Xstrata another mining company, is also based in Switzerland. Their on-going merger will create a \$70 billion mining powerhouse, which will be the fourth largest in the world. It will create a vertical integration of mining and trading operations that will control over half of the global zinc and copper markets. We are therefore compelled to ask just how much of the value created by the merger will benefit the Democratic Republic of Congo?

The Glencore-Xstrata merger underscores the need to address the important issue of resource ownership, and control and the distribution of benefits from mining operations. Of the twenty major mining companies currently operating in Africa, only Anglo-Gold Ashanti is home-grown. Moreover, while ownership of mineral resources is vested in the State, nearly all mining operations are foreign-owned, with marginal local ownership. Indeed, the current mining model is essentially that of an enclave industry, with very weak links with other economic and social sectors. Firms import nearly all their inputs and export nearly all output without processing. Associated export earnings seldom enter the national economy and the most important tasks are performed by expatriate labour. A sector that exists in this form is surely not sustainable in the long-run and it cannot underpin Africa's long-term social and economic transformation. This model of extraction has to be examined in a sober and realistic context. It must be understood that seeking a greater share of benefits from national patrimony cannot be reduced to just resource nationalism.

In the last ten years commodity prices have hit a super-cycle, yet Africa's share of windfall earnings have been miniscule, compared to what mining companies have realised. Average net profits for the top 40 mining companies grew by 156% in 2010 whereas the take for governments grew by only 60%, most of which was accounted for by Australia and Canada, two countries that graciously want to share their experience with Africa. Indeed, most African countries got much less than this due to generous tax holidays given to mining companies! Looking at the issue from another dimension, the profit made by the same set of mining companies in 2010 was \$110 billion which was equivalent to the merchandise exports of all African LDCs in the same year. It is fair to say therefore that the resource-to-development model puts raw materials suppliers at a significant disadvantage.

There are other examples of inequitable returns to other African natural resources. A lot of illegal and unreported fishing takes place in African waters. Annual losses amounting to \$629 million can cover the infrastructure funding gap of a country like Mozambique, which is very dependent on fisheries. Similarly, in the case of Somalia

its revenue losses from illegal fishing could easily have funded the United Nations coordinated development programme for 2011, covering poverty reduction, governance, rule of law, security, gender and HIV/AIDS.

Given this state of affairs, it is imperative that we exercise greater strategic control over our natural resources. Rising purchasing power in emerging global players is indeed increasing demand for natural resources. It is important for Africa to retain and capture more value. Similarly, the extensive agricultural land leased or sold to meet global food security challenges should be configured to meet Africa's food security and other needs first, now and in the future. The same considerations apply to logging particularly the export of low-value unprocessed wood products.

There is also a well known link between natural resources exploitation and conflicts which, of course, impacts on development. Poor governance of the natural resources sector has led to conflicts that are fuelled by many grievances. They arise from excluded or disenfranchised groups, issues of access, rights, perceptions of unfair distributions of benefits or, indeed, the business of war! Classic cases include diamonds related conflicts in Angola, Sierra Leone and Liberia; the case of gold, diamonds, coltan and other minerals in the Democratic Republic of Congo; and so on. The insurgency and unrest in the Niger Delta was also caused by similar factors.

Ladies and Gentlemen,

Structural measures to address grievances and improve transparency, and overall governance of the sector, will require time and concerted effort by all stakeholders. There are related short-term actions that could give us quick wins. Internationally, we welcome the Dodd Frank Act and similar efforts by the European Union Commission to adopt legislation requiring publicly traded and private EU companies to disclose payments to governments made in exchange for oil, gas, mineral and forest resources. These actions need to move from paper to reality.

Allow me to share a few principles that might put us firmly on the path to using Africa's natural resources wealth for its benefit. First of all, we need to embed long

term development objectives firmly into the processes for extracting natural resources. To take the example of mining, our current focus seems to be mainly on collecting taxes, whereas it should be on using the sector and its resource rents to drive socio-economic development. This means investment in infrastructure, research and human capital development, through conditionality for local content. This is what other regions have done, this is what Africa needs to do.

Second, our natural resources sectors must become socially and environmentally accountable. This implies increased participation, so that a broader share of citizens contribute to policy and benefits from economic and social returns in the natural resources sector, including gainful employment. One is sadly reminded in this instance about the Marikana tragedy in which 34 people lost their lives. While the headlines have focused on the violence and economic impact of the incident, there is an untold story of marginalised workers and limited communal benefits.

Marikana illustrates the power asymmetry between mining companies and its workers on the one hand, and the lack of institutional protection of workers and communities on the other. It is about workers who cannot survive on R4000 a month because they have to pay R800 rent for one room in corrugated iron shacks, pay their living expenses and also send money to their families back home. It is also about inadequate social infrastructure, including for health services which are vital for people working in such onerous conditions. This is an untenable situation. Mining companies are reaping super profits and platinum prices extracted in mines such as Marikana have increased four-fold since 1992. The desire for economic gain must be balanced by good environmental stewardship and real corporate social responsibility.

Third, we need to make a significant push to use natural resources as a springboard for diversification and eventual industrialisation. This would require policies that deliberately encourage innovation and that establish local content goals. It would require ensuring backward and forward linkages to promote internally articulated economies and regional value chains.

Fourth, we need to continuously build human and institutional capacities, to create knowledge based and competitive natural resources sectors. This requires strengthening our bargaining power to negotiate better contracts. Notable examples are unjustifiable tax holidays, illicit financial flows, or poorly articulated resources for infrastructure swaps. It will also mean building up domestic capacities and skills to participate in the natural resources value chain. Similarly, our institutional frameworks and political processes must steer the natural resources sector in such a way that it supports transformation.

The good news is that Africa has made strides to formulate credible blue-prints such as the African Mining Vision and the Land Policy Initiative, which if implemented will inclusive growth and economic transformation. We need now to start operationalising such frameworks. To sum

up, we have to shift focus from the short term and limited financial benefits to long term development options. This is a joint responsibility of governments, private sector, civil society organizations and ordinary citizens, shareholders and workers. It is in this context, that I would like to thank partners who have been very supportive of our efforts to establish an African Minerals Development Centre.

I have shared these thoughts to stimulate a rich and healthy debate and it is my candid hope that deliberations at this session will help chart a way forward on these issues. The broad and intellectually diverse range of stakeholders assures me that this will certainly be the case.

Thank you very much for your kind attention.

## RESPONSIBLE MINERAL DEVELOPMENT INITIATIVE (RMDI) – MINERAL VALUE MANAGEMENT

Michael Tost, Associate Director, Head of Mining & Metals, WEF

The World Economic Forum launched the Responsible Mineral Development Initiative (RMDI) in 2010. It started by asking a global range of stakeholders to identify the key challenges around responsible mineral development. It asks what works, what does not, where discontent and frustration commonly arise, and where improvements can occur. Link to Phase I report: [https://members.weforum.org/documents/ip/MM/AM11/RMDI\\_FinalReport\\_20-01-2011.pdf](https://members.weforum.org/documents/ip/MM/AM11/RMDI_FinalReport_20-01-2011.pdf).

In its second phase, throughout 2011, the RMDI sought both a deeper understanding of these challenges and constructive, practical responses to them. Further research and consultation was underpinned by workshops across six continents.

A framework of 6 building blocks was identified which addresses the common recognized challenges and provides guidance for next steps.

1. Progressive capacity building and knowledge sharing among all stakeholders
2. A shared understanding of the benefits, costs, risks and responsibilities related to mineral development
3. Collaborative processes for stakeholder engagement throughout the life cycle of mining projects
4. Transparent processes and arrangements
5. Thorough Compliance, Monitoring and Enforcement of Commitments
6. Early and comprehensive dispute management

The Phase II report (link below) that was released in February 2012 highlights and discussed specific actions for each building block ([http://www3.weforum.org/docs/WEF\\_MM\\_Report\\_2011.pdf](http://www3.weforum.org/docs/WEF_MM_Report_2011.pdf)).

In 2012 we have been conducting further research on 'Mineral Value Management' (see attachment), looking at the total value created from the mining industry and strategies countries can take to maximize that value outside taxation and equity including the benefits of downstream processing, developing local mining input industries, economic diversification and leveraging mine infrastructure for public benefit.

In addition, we intend to host several roundtables within specific countries (including, relevant for Africa, Guinea) putting this key area of RMDI at the center of the conversation and also enhance collaboration among stakeholders to promote constructive on-going relationships to best integrate responsible mineral development activities into the country's overall development agenda. We are also looking into partnerships with other organizations such as UNECA, where we are exploring how RMDI could be supportive of the implementation of the AMV.

ANNEX II - SUMMARY OF THE CONSULTATIVE MEETING  
Blavatnik School of Government, Oxford University

# TOWARDS AFRICAN GROWTH AND OPPORTUNITY: CORPORATE ROLES IN NATURAL RESOURCE MANAGEMENT

Blavatnik School of Government, University of Oxford and Africa Progress Panel

1st October 2012

*DRAFT*

## **Introduction**

Senior executives from major oil & gas and mining companies discussed their African work at a consultative meeting in Oxford, as part of preparations for the 2013 Africa Progress report. The discussion was framed in two parts. The first session focussed on how firms can best work with local communities. The second session explored how firms can partner with governments to ensure national transformation – the transformation of natural assets into investments in Africa's future.

Natural resources in developing countries frequently raise the spectre of the 'resource curse'. Such negative framing frequently results in discussions which focus on the downside risks when there are also significant opportunities linked to these revenues. Such opportunities can occur at both local and national levels.

Three questions emerged through the discussion: How large is the extractives sector? How can CSR-type activities generate a better understanding of the social value of extractives? And, what are the most important public policy issues for the extractives sector?

The next decade could be decisive. The boom in commodity prices has stimulated increased exploration such that the quantities of hydrocarbons and minerals produced in Africa are likely to increase. Meanwhile, growing demand in China and elsewhere is likely to keep prices robust and sustained resource revenues are expected.

## **1. The balance of risks and opportunities**

In weighing up risk and opportunities, it is worth bearing in mind that oil, gas and mining industries impact at local levels – such as oil in the Niger Delta – and at national levels – such as iron ore in the case of Guinea. In the event

of continued high and sustained commodity prices, opportunities are likely to increase. Furthermore, over the next decade, new discoveries in Africa will likely come to production. This consultative meeting discussed the associated risks and opportunities.

Tanzania, for example, looks set to expand its extractives production. The oil sector is presently under-developed and gas is relatively small, but gold is its single biggest export. Tanzania's offshore natural gas, however, is potentially transformative. Transformation, however, will depend on the capacity of the government to manage both the LNG export industry and how gas is used for sustainable domestic electricity generation. One way to put the scale of the investment into context is that capital expenditure over the life of the project will likely be in the order of US\$25 billion.

Tanzania also has a strong gold industry. The Anglogold Ashanti Geita mine, which started operations in 2000, produces some 0.5m ounces of gold a year. It has paid US\$600 million in royalties, fees, corporation and other taxes. But it was only after 11 years that the investment turned positive in terms of net cash-flow for investors – however, the government was receiving a flow of royalties and tax receipts from the time of first production.

Ghana also has lower production of hydrocarbons than gold at present, but is expected to benefit from oil in the future.

A typical sequence of commitment runs as follows: privately funded capital expenditure leads to operations, which leads to government revenue; but cash-flow to the private investor only results some time later, as much as a decade later in the case of Tanzania's Geita mine. This 'time inconsistency' can complicate discussions to align a company's activities with a broader development agenda. Too often these discussions become a static, zero-sum, dialogue about the share of rent from the asset.

Capital expenditure and cash-flows may be traditional measurements to assess and describe the nature of a project, but they should not be the only ones. Guinea's Simandou project could double the country's GDP, but not if iron ore prices continue to fall. Project feasibility depends on economic assumptions and on non-financial challenges too. How many jobs will the project create? How many people must be trained? A broad range of other factors contribute to the viability of natural resource investments. Natural resource projects can bring profit and revenue, but can also support a government's broader efforts to diversify the economy and achieve a more widely-shared economic growth.

These issues should be reflected in a broader, more dynamic, engagement between extractives investors and government, and at both national and local levels.

At present, engagements are frequently framed by a narrative which goes along the following lines: "We have oil, so we should be rich, but we're not and it must be someone else's fault, so let's blame the government (or the companies)". A better narrative would be that natural resources provide the financial opportunity for transformation, perhaps a unique opportunity, but that grasping this opportunity will take time and effort.

When expectations are high, as in the case of Ghana with its oil, then the risk exists that disappointed expectations will lead to the "we should be rich, we're not, so it is someone else's fault" narrative and this will sustain dialogues centred on who gets what share of the rent, rather than on seeking means with which to transform revenues into long-term national assets. Difficult political decisions may be required. For example, the viability of producing off-shore gas for LNG exports from Tanzania and Mozambique will, in part, be determined by how much gas is used for onshore power, and on what terms. This in turn, may depend on whether or not onshore power generation receives sufficient investment and on the government's ability to regulate the power utilities. Similarly, decisions on a refinery in Uganda have been central to negotiations on the development of oil production in Uganda.

The breadth of issues and range of interlocutors make it

tough to sustain a broad and satisfactory dialogue. Trust can easily disintegrate when some interlocutors do not have enough information with which to appraise the complete sweep of issues in technically complex sectors. An erosion of trust is often manifested by suspicion of civil society organisations towards extractives companies and towards governments who do not comply with international transparency standards in the use of mining revenues.

Governments do not always have the resources to manage legislation, regulation and administration for such technically complex sectors, especially when developments in technology can change the period between discovery and production.

In some instances, external advice does not sufficiently consider the institutional and political challenges facing government. One participant described having to deal with four Mining Ministers in as many years. Others mentioned the lack of dialogue between ministries of planning and natural resources as being a challenge. Identifying who is in charge and making decisions can also be difficult. Others said governments can fail to act as responsible stewards of their countries' unique and finite natural resources.

## **2. Sustaining the local**

A range of local initiatives prompted discussion on the relative virtues of different approaches to investing in community development. For instance, Shell abandoned initial and unsustainable attempts to provide 80 community hospitals in the Niger delta, opting instead for its 'livewire' programme which has thus far trained 3,000 people of whom 700 have since set up their own businesses. This investment may prove to wider potential. The advantages to this approach rests with Shell using its core competencies, and not working on areas which might trespass on government responsibilities for service delivery, which was the case with the earlier hospital construction project. In terms of health care, Shell now works with local health services to find local staff who will stay, and to establish insurance-based health financing. Tullow Oil agreed that construction projects alone do not work. In Ghana, they have shifted focus towards education

and skills, and supporting business development including assisting the Government of Ghana set up an Enterprise Development Centre focused on SMEs near their on-shore base at Takoradi.

As a result of importing pipes from elsewhere at considerable expense, Exxon started a specialist precision pipe-making company in West Africa. No such company previously existed. Six years later the operation is of sufficiently high quality to supply the entire Gulf of Guinea with precision pipes. This example was in contrast to that of a Nigerian construction company which built capacity in-house to re-tread tyres when they couldn't find a similar company of sufficient quality in the market. By seeding a company that could supply the wider market, and not just their project, Exxon supported capacity building in a much broader sense.

The Nigerian construction company's search for suppliers also highlights the fact that exports of natural resources generally lead to construction booms, often outstripping the capacity of domestic construction. A resource-rich economy needs and prompts the development of construction skills. Botswana's successful management of its diamond revenues included a rolling annual construction plan which included discussions with construction companies about upcoming construction needs.

This echoed Shell's view that any training supported by extractive companies should be for skills that are in demand – that people can use beyond the lifetime of a specific project. In other words, education and training initiatives should be thought through to build capacity for economic growth more broadly.

The discussion explored some tensions between central and local governments. Areas in which resources have been identified can quickly attract attention from central government. In instances where central government had been hitherto unresponsive to local needs, such interest is often received with mistrust. Disconnects between central and local governments were also said to be down to the lack of capacity on both sides to deliver public services.

In Ghana, AngloGold Ashanti implemented an anti-malaria

programme in 2004. For a cost of US\$ 5 million over five years, malaria incidence reduced by 75% in a community of more than 200,000 people. When Ghana applied to the Global Fund to Fight AIDS, Tuberculosis and Malaria for a US\$ 138 million grant for malaria control, the Global Fund approved the grant on condition that AngloGold Ashanti would be the principle recipient and thereby responsible for managing the funds. AngloGold Ashanti agreed and set up a special vehicle to take the pilot to scale. Such initiatives, unless they can be transferred back to governments, leave the mining company with a significant reputation risk in case the project fails. AngloGold Ashanti may still face a reputation risk when the grant runs out.

In Tanzania, the Geita gold mine and the government have entered into a partnership to supply water to Geita town with a population of around 250,000 people. AngloGold Ashanti faces the possibility that it will have to become more involved with the town's water distribution if local authorities do not fulfil their own responsibilities, which would include building the capacity needed to sustainably manage the infrastructure.

In general, an extractives firm will find it neither cost-effective nor sensible to attempt to substitute local government services. More successful approaches involve those that develop skills that relate to local business opportunities. Such approaches can be evaluated by looking at the extent to which local firms become local suppliers. However, standard forms of evaluation can be tough to implement if small local firms are required to provide audited assurance on codes of conduct, such as operational safety or anti-bribery measures that are designed for larger contractors, national or international. Other issues arose and included examples where locals wanted to be miners and not work in businesses. In some instances this is despite the fact that few jobs exist in mines. In others, business opportunities in and around remote mines are few and precarious. Remote mines often have poor infrastructure and are far from markets and suppliers. It was also pointed out that when mines close, miners and their dependents lose a precious income source.

Another approach is to support governments in their planning processes so that sustainability-type investments by the private sector can be delivered to



support the achievements of long term national and local development priorities. In this respect, the Millennium Development Goals, and national strategic plans, seem to offer platforms for the private sector and governments to define partnerships to deliver developmental benefits to communities.

### 3. Transforming the National

Discussion focused initially on the observation that governments in poor but resource-rich countries often lack capacities for legislation, regulation or administration of the sector, especially when natural resources constitute an emerging sector of their economy. However, using natural resources to transform natural capital to physical and human capital - can't take place effectively without government having this capacity and using it well.

Paradoxically perhaps, resource revenues provide the financial means for a government to do more, but not necessarily the organisational capability to do it well. In principle, opportunity exists to re-invent government to some extent. But in practice, there is neither the time, nor the need, to build a state with, for example, the French approach to a statist model of development. A 21st century government could leap-frog such approaches in just the same way as mobile telephony overtook fixed lines and enabled Africa to catch up quickly with the rest of the world and lead the way in using mobile technology for making payments.

Discussion turned to the most practical ways of engaging with government. In practice, approaches vary. In the DRC, for instance, it is simplest is to go direct to the minister; in Tanzania, the minister is very hard to meet. The ideal approach is to avoid an issues-based meeting, which can quickly descend into a zero-sum conversation, in favour of a sustained and broader developmental dialogue across different government agencies. It can be good to have a national industry body to focus consultations, but putting ad hoc coalitions together can be hard and unproductive. The ICMM agenda is rather different, but could perhaps be leveraged.

Shell's engagement in Nigeria works differently. It is possible to engage bilaterally with government on specific

issues, but the bulk of interaction takes place through industry bodies – as is the case with on going engagement on the new Petroleum Industry Bill. Companies referred to instances where it is best to avoid being a focal point of the dialogue; it is often more productive to raise an issue and then step back. Otherwise the risk is that focus remains on the reputation, perceived positions and vested interests of the company, and not on the issue itself.

In Ghana, the government has a stake in the Jubilee consortium. This changes the dynamics of discussions, because everybody has a joint interest in the business' success. In Botswana, tough discussions between DeBeers and the government took place. But the fact that neither party could walk away meant both parties were committed to find solutions. A clear understanding of the fact that both parties needed one another sustained the dialogue and helped align the efforts of all concerned to the future of Botswana.

Management of a state-held equity share may not always be good use of scarce public resources. Public officials may not be able to undertake the commercial processes of a company. That said, safeguarding public interests may require public regulatory agencies which understand the complexities of industry

In instances where governments lack highly skilled negotiators and lawyers, there is merit in hiring such skills. This approach has been used successfully by Botswana, and South Sudan. The cost of the lawyers may be high, but the benefits are higher. And today, the private sector is, in most cases, willing to support government access to skills well beyond legal assistance. Ideally, such support would be provided through facilities set up by third parties such as the African Development Bank.

Efforts to simplify negotiations by having standard (best practice) contracts and regulations have not succeeded. Part of the difficulty lies in the differences in specific contexts, but also in the fact that conditions change over time. Rigid contracts can fast prove redundant. In Mali, multiple editions of a draft mining law have been circulated, and mining codes are generally ignored in practice. Stabilisation clauses have similar frailties.

Strategic discussions are needed prior to final negotiations on the broad direction the sector will take and to encompass considerations as to the pace of investments. The importance of accountability was also underscored. Accountability is framed, at least in part, by popular perceptions and a narrative of the industry and its impact. One key to securing the transformation from natural assets to physical and human capital lies in a clear 'developmental' narrative. The informed involvement of civil society is also critical.

Botswana's saying: "Carry your own weight" is in contrast to the "we have oil so we should be rich" narrative. The former implies personal initiative towards self-reliance; the latter suggests a more passive stance. In Ghana, discovery of oil and an imminent election led to an initial surge in public spending. This was subsequently reined-in. Legislation now establishes a savings rule for the management of the public finances. This may be an example for Liberia to consider.

#### 4. Wrap-up

Discussions concluded with a few points. A key conclusion was the broad need for "honest brokers" - to facilitate solutions that satisfy all parties, are trusted as fair deals, and harness the unique opportunities of a country's natural resources to serve the long-term interests of its people.

Firms can and should do more to bolster local content and develop broader capacities along the supply chain.

But firms can face limitations in their ability to take on social service support or take part in decisions that should strictly fall to government.

There is a need to find ways to align companies' community/ development efforts with public policy priorities. An element of mutual trust is also needed to make such engagement productive.

The senior executives attending the meeting agreed that sustainable investments in Africa are best made when there is a well-coordinated, resourced and capable government with whom to negotiate. Public sector capacity can be built wherever necessary. Each country needs 1) a national strategy which is clearly enunciated and communicated; 2) clear and enforceable rules within which the private sector can work (such as a mining code); 3) sound adjudication and enforcement of those rules, which in many cases means further strengthening of governance institutions. Each of these elements can be strengthened by strong national leadership, engagement with international standards and regionally-focussed organizations, and innovative communications strategies which reach out to a wide range of stakeholders.

Companies frequently have a presence and impact at both local and national levels and they and governments have overlapping interests. Having the right narrative is important for positive engagement. This means shifting away from a static, zero-sum, issue-focused, bargaining towards a broader, dynamic and aligned engagement around common interests.

*The Africa Progress Panel promotes Africa's development by tracking progress, drawing attention to opportunities and catalyzing action.*

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## PANEL MEMBERS

### **Kofi Annan**

Chair of the Africa Progress Panel, former Secretary-General of the United Nations and Nobel Laureate

### **Michel Camdessus**

Former Managing Director of the International Monetary Fund

### **Peter Eigen**

Founder and Chair of the Advisory Council, Transparency International and Founding Chair and Special Representative of the Extractive Industries Transparency Initiative (EITI)

### **Bob Geldof**

Musician, businessman, Founder and Chair of Band Aid, Live Aid and Live8, Co-founder of DATA and ONE Advisor and Advocate

### **Graça Machel**

President of the Foundation for Community Development and Founder of New Faces New Voices

### **Linah Kelebogile Mohohlo**

Governor, Bank of Botswana

### **Olusegun Obasanjo**

Former President of Nigeria

### **Robert Rubin**

Co-Chair of the Board, Council on Foreign Relations and former Secretary of the United States Treasury

### **Tidjane Thiam**

Chief Executive Officer, Prudential Plc.

### **Muhammad Yunus**

Economist, Founder of Grameen Bank and Nobel Laureate

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Africa Progress Panel  
P.O.B. 157  
1211 Geneva 20  
Switzerland  
+41 (0) 22 919 7520  
[www.africaprogresspanel.org](http://www.africaprogresspanel.org)