The Mineral Industry and the Quest for Africa’s Economic Transformation: Hopes and Impediments-

By

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QUESTION

How can Africa’s mineral wealth contribute to (economic development and growth) the quest for economic transformation?

The role of non-fuel mineral resources in building a platform for growth has become of much greater concern to politicians, policy makers and industry experts in recent years.
Motivation

Minerals versus Oil and Gas

Similarities
- Are depletable (non-replenishable).
- Multi-year projects.
- High capital investments.
- High risk and faces all kinds of uncertainties.

Differences
- Minerals are storable and most are recyclable.
- Their measurement and assessment for regulatory and fiscal purposes are different (Oil & gas are metered. Minerals are not.)
- Minerals are typically under concessionary arrangements
- Under concessionary arrangements, asymmetric information (about geological prospects, costs, revenues, ore quality, joint production prospects) between resource owner and mining companies can be severe.
- There are historical deficiencies of the sector in the bigger policy conversation. Precious minerals as store of wealth.
Africa’s Mineral Wealth

Oil and Gas / Energy

Oil and Gas / Energy

Oil and Gas / Energy

ACET- Good Governance and its Linkages to the Extractives Industry
Box 1: Africa’s Mineral Reserves

- Africa holds 30% of world mineral reserves, higher proportion of deposits of gold, platinum, diamonds and manganese.
- South Africa produces ¾ of world’s platinum, 40% of chromium, over 15% of gold and manganese.
- Guinea: 8% of world bauxite, one of the world’s highest-grade reserves of iron ore.
- Guinea and DRC in 2010 half of production of world’s cobalt, ¼ of industrial diamonds, 14% of tantalum, 3% of copper and tin.
- Zambia ranks 6th in world production of copper, one-fifth in the production of cobalt ore.
- Botswana accounts for around 20% of diamond exports.
- Burkina Faso, Ghana, Guinea, Mali, Tanzania 9% of gold production.
- Sierra Leone – 10th ranked producer of diamonds by volume, 3rd ranked producer of rutile (heavy mineral used in paints, ceramics and plastics).
- Namibia(4th) and Niger (5th) ranked producers of uranium =17% of world output.
- Zimbabwe world 2nd largest platinum reserves after South Africa.

*Source: Africa Progress Report, 2013*
What do These Mean? Potential

• How to translate the potential (the base metals, precious metals, non-ferrous ores, rare metals) into the transformation agenda?

Three areas:

– Source of revenues – added fiscal space for public investment, infrastructure development financing
– As a means to diversification of the structure of production: Catalyst for industrial development.
– Export competitiveness through value addition up the global value chain
Transformation of the Mineral Sector

Colonial Era
• Enclave mineral industry: Orientation- extracting and shipping bulk
• Raw material exports
• Rudimentary fiscal regime through income tax and export and import duties

Post Independence: 1960s and 1970s
• State as owner, producer and regulator
• State mining enterprises
• Continued raw material exports
• Rudimentary fiscal regime - import duties, income tax and royalties
• Skills and capacity problems, Little understanding of industry complexities
Reform Era: 1980s 1990s

- Structural Adjustment and Economic Reform Agenda 1980s-1990s
- Foreign direct investment, Privatization
- Diminished role of the State as owner, gatekeeper, regulator
- Strengthening of concessionary regime

Key Presumption: Mineral-rich countries can achieve through the regulatory process, policy and fiscal instruments (tax and royalty system) the desired developmental outcomes from their mineral resources.

Challenges
- Asymmetric information,
- weak state capacity for effective regulations and management of fiscal regime,
- low state share of resource rents,
- unsustainable fiscal regime,
- loss of control of resource extraction,
- enclave orientation persisted,
- low linkages with domestic economy,
- questionable welfare gains and development outcomes
Searching for New Directions

- **Industry Initiatives.**
  - Led by the ICMM (with membership of many leading mining companies), industry has committed to good governance through the collective action of its members.
  - The World Business Council on Sustainable Development and industry associations such as the World Gold Council and the World Diamond Council all advocate (i) responsible extraction of natural resources and (ii) the need for resource proceeds to benefit governments, citizens, and investors fairly.

- **Advocacy groups and CSOs:** Call for good governance in the natural resource sector, focusing on
  - transparency in revenue management,
  - public accountability,
  - environmental protection,
  - citizens’ participation in policy formulation,
  - improved employment conditions,
  - human rights, and
  - business ethics.

• Good governance initiatives
• Focus monitoring compliance with good governance best practices.
• Examples: EITI, the Kimberley Process, the Dodd-Frank Act, the World Bank Governance Report, the RWI Resource Governance Index, and Mo Ibrahim Governance Index.

• Great Initiatives
• Fixing some of the deficiencies of the industry.
• But... the deep-seated historical deficiencies of the industry:

The Paradox of Africa’s mineral wealth and persistent poverty.
New Directions

Transformation this time should be based on

• Well-defined and focused mining policies.
• Integrating mining policies into broader national development framework.
• Strengthening (not diminishing or relegating) state capacity in resource control and overall governance

Enter the African Mining Vision (2009).
The AMV

Sees the opportunities in 5 areas

• Maximize resource revenues and their optimal use
• Leverage the development of resource-related infrastructure to open up development corridors within mining areas at both local, community and regional levels.
• Maximize opportunities for local content and downstream value addition
• Promote upstream value addition and forward linkages as catalyst for industrial development.
• Technology and product development-resource exploitation technologies, knowledge intensive technological competencies
Role of Government along Industry Project Cycle

- Project Identification & Initiation
- Exploration
- Appraisal
- Development
- Production
- Closure
Range of Government Actions

Stage 1: Resource Control
- Policies
  - Legislations
  - Institutions
  - Fiscal Regime

Stage 2: Revenue Use and Management
- Revenue Assessment
- Revenue Collection
- Revenue Management

Stage 3: Linkages to the rest of the economy
- Backward Linkages
- Lateral Linkages
- Forward Linkages
Getting It Right at the Outset

Contracts – leasing and contract licensing arrangements.

• Getting it right at outset is key to balancing the overall state interest in pursuing the transformation agenda.

• Existing form of licensing, leasing and contracting is fraught with pitfalls.
  – Closed door licensing by ministries or government agencies is the beginning of revenue leakages and rent capture by politicians and public servants.
  – License to explore often translated automatically into license to extract or mine.

Solution: (a) The need for regional pool of contracting experts – lawyers, accountants, economists and geological experts. There is substantial economies of scale in doing this; (b) open tendering/auctions.
Getting it right at the outset also means the availability of data concerning what countries have, the capacity to map (knowing what countries have), to extract and to add value.

Official statistics, comprehensive data — base metals, ferrous minerals, precious minerals, industrial minerals, gem stones, rare earths essential for innovative materials and technology — the cobalt, titanium, niobium, tantalum and uranium among others, are either incomplete or just not available.

The problem is partly one of cost, and partly due to the lack of planning. The potential contribution of mineral wealth is insufficiently known.

Solution: Compiling African mineral statistics is of fundamental importance in the transformation agenda.
Getting it Right at the Outset... Fiscal Regime

Maximizing the fiscal benefits from mineral extraction.

Re-design of the fiscal terms (e.g. Ghana, Zambia revised royalty rates upwards; Kenya Mining Act 2013 reviewed all its royalty rates and drilling charges, on valuable rare earths and precious metals)

Re-negotiating Stability agreements and Development agreements (rectify asymmetrical arrangements): Ghana

Obsolescence Bargaining
- Reputational problems
- Ability to generate desired revenues questionable.
Getting it Right at the Outset.....Resource Revenue Administration

• Strengthening (drilling deeper into the administration of the fiscal regime)

• Operational challenges range from
  – Assessment and collection,
  – auditing, and
  – *plugging revenue leakages*: Channels:
    o design and enforcement of depreciation allowance regime,
    o exemptions regime and tax expenditures,
    o thin capitalization and interest deductibility,
    o management and technical service fees,
    o transfer pricing,
    o hedging, measurement challenges.
Local Content and Value Addition

• Local Content and Value Addition

• strengthening linkages with non-resource sector – the question here is not “what to do”, but rather “how to do it” – legislation versus administrative measures, voluntary measures?

• Maximizing opportunities for forward linkages through value addition. Here there are a number of challenges
Value addition, market power and entry barriers:

- The concentration of market power in the hands of a few major mining conglomerates (e.g. for iron ore in the hands of the 3 main companies – Vale SP, BHP Billiton, and Rio Tinto).

- The leading copper commodity producers are huge international companies in both industrialized and emerging economies, relying on global networks of suppliers. The possible divergent interest of multinational firms and resource country’s interest.

- Can Africa countries insert themselves into the global value chains? How?
Value addition and Trade policy:

EU-ACP Lome I: global and regional agreements for securing sales and stabilizing export prices for raw materials.

Lome II, III, IV provided compensatory finance to the ACP states for adverse fluctuations in world commodity prices. Cotonou 2000 enacted for 20-years ending in Feb 2020 established additional support within the European Development Fund.

• Current round of EPA negotiations
• The need for reciprocal arrangements by way of streamlining national trade distorting barriers such as export duties, export restrictions, and import duties on processed minerals.
Concluding Thoughts

Need for new thinking: To be emphasized in this new conversation are

1) Transformation of the mining sector requires strategic active minerals policy, industrial policy, development policy and trade policy at the regional level.

2) Regional harmonization of minerals, industrial and trade policies on minerals use, refining and outsourcing strategy must intensify

3) putting a premium on government – business relationships to create a win-win outcomes.

4) Balancing tri-sector partnerships between government-international investors, and indigenous private sector in the greater push for local content.
Thank You