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Thematic Focus

"Extractive sector for development"

Extractive resources are becoming increasingly important for the economy of a growing number of countries. This is particularly true for Africa, where new natural resources discoveries are opening the prospect that domestic resources will further stimulate development opportunities.

The challenge for resource-rich countries however is to effectively take advantage of such good fortunes to foster long-term, sustainable and equitable development. This is no little challenge. The extractive sector has often been quoted for its sad track record of malpractices, ranging from rent-capture by local or/and international elites to widespread corruption, illicit capital flight, environmental degradation, labour and social outrages, population displacement, or fuelling conflicts, to mention just a few. As a reaction, the civil society has traditionally played the role of watchdog. Today, the international community is increasingly paying attention to the need to improve governance. The Extractive Industries Transparency Initiative (EITI), the US Dodd-Frank Act, the EU financial transparency regulations or various OECD initiatives (on due diligence, transparency, corruption, etc) are just some of the more prominent ones. This is a welcomed move.

More is yet to be done. Greater attention must be paid to the potential synergies among the key stakeholders in the extractive sector. The extractive industry, resource-rich countries' governments and the international community must act together to make extractive resources work for development. How can a resource-rich country best combine new opportunities from its extractive sector with the development



assistance it receives and with initiatives by the industries geared towards local community and national development? Donors tend to not directly engage with the extractive industry, though there is widespread recognition that private investment and initiatives in mining or oil can usefully contribute to development, notably of infrastructures. How to best tap this private sector dynamics remains a distant concern for too many.

Moreover, the linkages between the extractive sector and other sectors of the economy, in terms of vertical but also horizontal and diagonal value-chains must be fostered further.

This issue of GREAT Insights brings together a wealth of expertise on these questions, including from African development perspectives and from the extractive sector. ECDPM is committed to contribute to make the extractive sector work for development, bridging the private sector, international partners (traditional donors and emerging powers) and developing countries efforts to that end.

San Bilal and Isabelle Ramdoo

Treasure Hunt: Do Extractive Resources Work for Development?

Isabelle Ramdoo



Africa hosts at least a third of the world's known extractive resources. A glance at economic prospects of the past few years suggests that the continent has been able to capitalise on the increasing dynamism of the extractive sector. This article argues that despite remaining challenges, the opportunities, if well harnessed, could make extractive sectors work for development.

Today, some 4 billion people, i.e. almost half of the world's population, live in countries where mining, oil and gas are key economic activities. Although their importance varies across countries, these resources have shaped to a large extent the economic trajectories of many countries. Only a handful, notably the United States, Canada, Norway or Australia, have succeeded in using their wealth as a stepping stone towards sustained development and are today among the wealthiest countries. Notwithstanding challenges, some others - Chile, Botswana, Namibia or South Africa - have also fared quite well in transforming their endowments into wealth. But for many others, the danger of getting trapped into a sort of "resource curse" is still real.

Africa is known to host about 30% of world's reserves of extractive resources and produce over 60 different types of metals, ores and minerals. In 2010, Africa had over 10% of the world's oil reserves and supplied over 12% to the global market. But this is largely underestimated. As pictured below, new

discoveries of hydrocarbons estimates show that Sub-Saharan Africa is home to some 115 billion barrels of oil, 75% of which are in the Atlantic ocean, and 744 trillion cubic feet of gas, most of it lie offshore of East Africa, mainly in Tanzania, Mozambique, Madagascar or Seychelles.

A glance at economic prospects: mixed feelings

After a few lost decades, economic prospects on the continent are very promising. Many African countries have been extremely resilient to the global financial crisis: while most developed countries are still battling with their debt crisis and have difficulties in achieving positive growth rates, a number of African countries have recorded growth rates exceeding 5% on average, compared to less than 2% between the period 1978-95. In 2011, Africa was the second fastest growing region after Asia and seven African countries were among the world's ten fastest growing economies. The number of Foreign Direct Investment projects grew

by 27% in Africa between 2010 and 2011.¹

In general, good economic performance was the result of profound economic reforms and efforts to capitalise upon windfall gains from the commodity boom. Dependence on development assistance is expected to shrink significantly, in part due to donors' diminishing resources but also because of Africa's increasing capacity to mobilise its own resources. At the same time however, progress remain uneven. Victims of the "paradox of the plenty", many countries continue to be plagued with rising inequality, to fall short of their Millennium Development Goals targets, to face high poverty levels and to have largely undiversified economic structures.

But good prospects in themselves do not automatically translate into meaningful development. While it provides the necessary dynamism to conduct sustainable policies, it also requires complementary "endogenous" efforts on the part of countries to provide a business-friendly climate, to undertake profound and sustainable economic reforms,

to manage resources efficiently and to set up strong and transparent regulatory and institutional frameworks. A closer look at the impressive growth performance in Africa however reveals that in many cases, much of the growth has been driven by "external" demand, with a large share of trade and investment being concentrated in the extractive sectors.

A number of challenges remain...

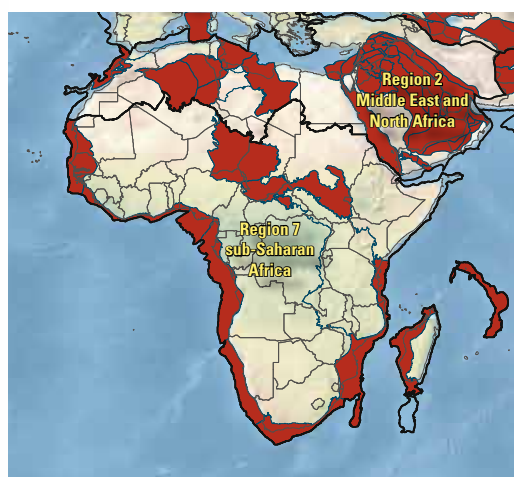
The demand for extractive resources is likely to continue to expand, given the combined effect of rising demand both from developing and developed

Figure 1: Mining in Africa, 2012



Source: The Economist, April 2012

Figure 2: Estimate of undiscovered oil and gas, 2012



Source: US Geological Survey, March 2012.

countries and slow supply adjustments. A number of challenges however need to be addressed.

For instance, many countries are highly dependent on extractive resources, in terms of contribution to their national income but also as a source of foreign exchange. This renders countries vulnerable to price fluctuations and market conditions. It also shapes the political system because it creates a climate for self-interested behaviours, such as rent-seeking. This is generally accompanied by transparency and governance challenges, leaving the civil society at large only with illusions and speculations about what they see and what they could actually get.

Additionally, extractive sectors have operated in a closed circuit for far too long, with little link to the broader economy. The challenge is therefore to create productive linkages with other sectors of the economy, including by diversifying both within and outside the sector and by moving up the value chain. Creating physical linkages by bridging the large infrastructure deficit will also serve development purposes. Complementary to this is the need to address crippling capital, skills and technology deficits and asymmetric geological information about resources.

There is a stunning paradox: some mineral rich countries have also the worse financial and economic situations. Consider the Democratic Republic of Congo (DRC) for instance – it is known to have most of the world's critical natural resources, including 40% of the cobalt reserves and immense reserves of oil, copper, tantalum, gold, diamond and wood. But yet, it is one of the world's poorest countries, has a GDP per capita of only \$180, is a highly indebted country, has a poverty ratio of 71.3% and a life expectancy of only 48 years. Although faced with more profound underlying structural questions, the case of DRC shows that the management of resources remain one of the biggest challenges for many resource rich countries.

The fiscal regimes applying to extractive sectors are determined by the capital intensive nature of the projects and their long gestation period before the latter become profitable. While it is important to strike the right balance in the share of risks and reward between companies and the government, many countries have provided too generous fiscal exemptions, at the cost of government revenue. In addition, many companies have abused of their complex financial structures to avoid and evade taxes, using tax havens as instruments. The Global Financial Integrity Report estimated in 2009 that between 1970 to 2008, Africa lost the astronomical sum of US\$ 854 billion in cumulative capital flight.² Enough to wipe out the region's outstanding debt of US\$ 250

billion and potentially leaving US\$ 600 billion for poverty alleviation and other development priorities. It leaves some food for thought for those who still have doubts on Africa's capacity to leverage sufficient endogenous sources of financing for development.

... but there are numerous opportunities

The impressive economic prospects of recent years give good hopes that as the demand for extractive resources expand, challenges could be turned into opportunities. One could therefore expect that high returns and comfortable rents from resources could genuinely contribute to increasing wealth and therefore help countries achieve inclusive and sustainable economic development.

The role of the private sector is crucial, provided one is clear about which private sector and what role it could be playing. Historically, large extractive companies have been involved in the production and exports of raw/ unprocessed products. There has been little value addition, beneficiation, transformation or growth of indigenous local industries. Where small-scale artisanal industries existed, they remained in the informal sector, were often delinked from the “real business” and therefore contributed little to community development. Promoting linkages along the value chains and more importantly, encouraging and giving the means to the private sector to do so, are essential elements in the transformation of African economies and in the generation of new growth poles around and outside extractive industries.

By their very nature, extractive industries are not “footloose” and therefore have significant impacts on local communities. In this regard, many large companies are involved with the community as a way to maintain “peace”, to obtain and retain their social license to operate, but also because there are business benefits to be gained. Often criticised by local NGOs and international watchdog organisations for problems of accountability and transparency and their lack of constructive engagements with local communities, many companies have set up corporate social responsibility (CSR) initiatives. And beyond CSR activities, some have been involved in the financing of infrastructure or social projects, in addition to paying taxes, royalties and other production-related fees to national and local authorities.

While these are valuable initiatives, there is still a missing link with other development initiatives, undertaken either by the government or through the support of development partners. Projects are rather done independently, without much coherence

and coordination with national or local development plans, or without synergies with what the development community is doing. This creates duplications but most importantly, since they are not entrenched in local/ national authorities development plans, they fall short of expectations and results when mining activities decline or when companies decide to move on to some other pet projects. Proper policy coherence, coordination and harmonisation among all those who want to make extractive industries work for development is therefore central. It has the potential of leveraging funds and pooling resources together for improved and sustainable development of communities where extractive sectors are found.

Recent years have witnessed quite fundamental shifts in the geostrategic relationship between African countries and the rest of the world, with the increasing presence of emerging powers, driven, in part, but not only, by their interests for extractive resources. Although often seen as a threat by some traditional partners, probably because of the fear of losing grip on the longstanding and privileged relationship, these newcomers could potentially play a positive role, since competition in the market is generally healthy. While the presence of new players have brought in choice and much needed investments, one must ensure the rules of the game remain in favour of resource rich countries in terms of good deals, industrial, fiscal and economic benefits.

Ultimately and fundamentally, though, it is not only what countries decide to do with their natural resources that matter, but rather how they do it. Home-grown African initiatives, must be pursued in a systematic, coherent and sequenced way, not only at the national level, but more importantly with a link to regional and continental initiatives – and done the African way...

Notes

- 1 See Ernst and Young attractiveness survey 2012: Building Bridges, Africa.
- 2 Just for the period 2000-2008, the cumulative flows were estimated at \$ 437 billion. It comprises about 3% of illicit flows from corruption, bribery and theft out of government coffers; about 30 – 35% of criminal proceeds, due to drug trafficking and counterfeiting and about 60 - 65% of commercial tax evasion due to transfer mispricing, tax havens, secrecy jurisdiction etc.

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The Africa Mining Vision: Towards Shared Benefits and Economic Transformation

Antonio M.A. Pedro



Africa's abundance of mineral resources contrasts with the pervasive poverty of its people. The continent harbours the world's largest reserves of several minerals and it is a global leader in the production of many others. However, most of Africa's minerals are exported as ores or concentrates, with little value addition. In many jurisdictions, the mining industry constitutes an enclave with insignificant linkages with the local economy.

Following a long period of decline, mineral commodity prices have surged since 2002, driven by demand from large developing economies, particularly China. This has ushered in a sellers market and strong competition for access and supply of resources. It has also created a unique window of opportunity for African countries to capitalise on the value of their natural resource endowments with a view to catalysing broad socio-economic growth and development as well as structural transformation. It has been recognised that these developmental strategies have to be supported by a more favourable political climate, governance gains, policy and fiscal space. It was against this background that the Africa Mining Vision (the Vision) was conceived.

The Africa Mining Vision's Key Tenets

The Vision was endorsed by the 1st Ordinary Session of the African Union (AU) Conference of Ministers Responsible for Mineral Resources Development in October 2008 and later approved by the AU Summit of Heads of State and Government held in February 2009 in Addis Ababa, Ethiopia.

The Vision advocates for "transparent, equitable and optimal exploitation of mineral resources to underpin broad-based

sustainable growth and socio-economic development". It aspires for a sustainable and well-governed mining sector that effectively garners and deploys resource rents and that is safe, healthy, gender and ethnically inclusive, environmentally friendly, socially responsible and appreciated by surrounding communities. It seeks to set Africa on an industrialisation path, based on its natural capital, to enable the continent take its place in the global economy. This can occur if the continent succeeds in transforming transient mineral wealth into other forms of lasting capital, which outlive the currency of mining and ensure intergenerational equity.

The principal opportunities to realize the Vision are:

- To optimise the capture, management, sharing and use of resource rents to improve physical, social and human capital and infrastructure. If well harnessed, this will deliver benefits for all. Necessary conditions include good governance, increased transparency and accountability, more equitable fiscal regimes, increased participation of all stakeholders in decision making, environmental and material stewardship and social responsibility.
- The collateral use of the high-rent resource infrastructure to open-up other resource potential in areas such as agriculture, forestry and tourism and to provide access to zones of economic potential with lower returns, but that cannot afford their own infrastructure.
- To promote downstream value addition, through the use of the locational advantage of producing crude resources, with a view to establishing resource-processing industries (beneficiation) that could then provide the feedstock for manufacturing and industrialisation.
- To promote upstream value-addition, through the use of the relatively large

resources sector market to develop the resource supply and inputs sector, such as capital goods, consumables, and services.

- The development of technology and product development. Resources exploitation technologies generally need adaptation to local conditions like climate, mineralogy, and terrain. This provides opportunities for the development of niche technological competencies and transfer of technology and technical know-how in the resource inputs sector.

The Vision recognises the centrality of mineral revenues. It therefore calls for more fiscal space and responsive taxation to allow host countries to better capture windfall gains and to encourage the use of revenues for value addition and linkages. The Vision also underscores that other equally important benefits can be derived, notably through employment generation, local procurement of goods and services, entrepreneurial development, skills and knowledge creation, technology transfer, infrastructure expansion and above all linkages. Regarding mineral licensing, it suggests that innovative licensing schemes, particularly auctioning systems, could be used where relevant, in order to realise better value for mineral terrains.

What Would Make the Vision Tip?

In moving forward, there are at least four crucial intervention points, which are critical for the realisation of the Africa Mining Vision.

The first concerns the improvement of the level and quality of the resource potential data. Africa is one of the least explored continents. Geological mapping and mineral inventory work so far has not covered the entire continent. On the one hand, this could mask the true geological potential of the continent. On the other, the less is known about the potential value of a resource, the

The Vision advocates for "transparent, equitable and optimal exploitation of mineral resources to underpin broad-based sustainable growth and socio-economic development.

greater the share of the rents a potential investor will understandably demand, due to the high risk of discovering or dimensioning the resource. To start with, it is imperative to improve knowledge of Africa's resource potential. This will strengthen the continent's bargaining power during contract negotiations vis-à-vis well informed partners.

The second intervention point targets capacity building and institutional strengthening. In general, African states negotiate with international mining companies on unequal terms. Negotiations are asymmetrical and in most cases, mining companies are better resourced and skilled. Given Africa's capacity dearth, efforts need to be deployed to build a critical mass of capable African negotiators across the continent. Capacity deficits have also been identified in the critical areas of auditing, monitoring, regulating and improving resource exploitation regimes and developing the resource sector linkages into the domestic economy. To harness the linkages potential, research and development platforms for innovation need to be established and human capital formation in knowledge intensive areas should be accelerated.

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A third critical area is Africa's infrastructure constraints. A resource-based development strategy is generally severely constrained in many African states by the lack of the requisite infrastructure, especially in transport and energy. This is particularly true for land-locked countries. The Vision suggests that the provision of trunk infrastructure for mining should be synchronised with other users through strategic spatial development. Driven by the high rents that mining generates, this would strengthen the business rationale and provide economic rigour for infrastructure investments, thus achieving an effective investment prioritisation of infrastructure projects.

Finally, the coupling of mineral policy with industrial policy, investment, and trade is an imperative for the success of the Africa Mining Vision. An holistic and sector-wide approaches to development, new institutional arrangements reflecting this approach, and cluster development are essential. This should help build synergy and break departmental silos and rivalry across sectors, foster greater interaction between such institutions and industries and mobilise investments along the mineral value chain. The realisation of the Vision implies therefore a cross or multi sectoral approach to mineral development policy. As a matter of priority, it is vital to develop the capacity to integrate mineral sectoral policy with industrial and trade policies.

International trade and investment treaties and agreements signed by African countries require a special focus because they have a direct bearing on the future of Africa's mineral sector. In the past, several countries have successfully used tariff protection, subsidies, export restrictions, scorecards and other performance requirements as instruments to foster economic transformation and rapid industrialisation. This policy space is currently shrinking and could adversely affect Africa's prospects to promote local content and resource-based industrialisation. It is therefore important for African countries to maintain a consistent eye on the full implications of the specific provisions of treaties into which they are invited to enter and ensure that these agreements are development oriented.

Conclusions and Policy Implications

The Africa Mining Vision (AMV) is an ambitious continental framework. To become a reality, it needs to be domesticated into national policies, laws and regulations. However, the inclusion of AMV provisions in national policy and legal frameworks, alone, will not unleash mineral-driven structural transformation of the continent. This needs to be backed by strong political will and commitment, entrenched belief in the power of indigenous ideas, a capacitated developmental state, visionary leadership, and a good understanding of Africa's advantages and the dynamics of mineral commodities. As illustrated in the Nordic countries, the state has a critical role to play in spearheading this transformation. However, policy space should not be monopolised and a new governance dispensation with strong participation of both state and non-state actors, including the private sector, civil society and community-based organisations is required.

International trade and investment treaties and agreements signed by African countries require a special focus because they have a direct bearing on the future of Africa's mineral sector.

Nation states cannot deliver the Vision alone. African states need to rally together to secure the policy space required for the Vision. Regional cooperation and integration are essential to reduce transaction costs, establish intra-regional synergies, enhance the continent's competitiveness and realise economies of scale that would catalyse minerals cluster development. However, for goods, services, capital and other factors to freely flow in regional spaces, there is need to expedite intra-regional alignment of laws, regulations and fiscal regimes, among other critical factors.

Financing the change would be a serious challenge. Without racing to the bottom, Africa needs to continue to be an attractive investment destination by establishing an adequate enabling environment for private sector participation, both domestic and foreign.

In establishing a timeframe to implement the Vision, it is important to take into consideration the long gestation period of mining projects, the local state of governance and political context as well as the stage of development of the mineral economy. Thus, trajectories to achieving the Vision at country and sub-regional levels will be different and phased. The African Mineral Development Centre (AMDC) being established by the African Union Commission, the United Nations Economic Commission for Africa and the African Development Bank will play a key coordinating role in accelerating this process across the continent.

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Can Africa Harness Potential Mineral Rents for Development?

Silas Olan'g and Johannes Schreuder

Africa is a continent well-endowed with a variety of mineral resources; it ranks first in chromium, cobalt, diamond, gold and vanadium reserves and production, among others. For about a decade now, the world has witnessed a steady rise in global demand for these metals and minerals triggered by rapid economic growth in China and India. This trend offers unique opportunities for mineral resource rich countries in terms of revenue generation and diversification.



In spite of this favorable context, most African mineral resource rich countries have so far failed to harness the full potential of the resource boom to spur their economic growth and development. Evidently, many African mineral resource-rich countries register frustratingly low rates of non-resource sector growth, high levels of poverty, increasing inequality gaps and low tax revenue/GDP ratios.¹ In short, while extraction might be expanding at a high rate, its impact on development remains limited. In fact, resource rich countries have performed poorly both in terms of revenue generation and socio-economic development.

Need for strategic management

By and large, Africa lacks strategic management of mineral resources in terms of good policy, legal frameworks and institutions capable of managing development path strategically, i.e. aligning mineral resource extraction to long term national development goals. Extractive industry value chains underpin the logic of strategic management of extractive resources. The framework helps policy makers and planners in resource rich countries to reflect on strategic questions such as why and when to extract their mineral resources, and or what it takes to optimize revenue collection accruing from mineral extraction and spend it on sustainable development (see Figure 1).

The most critical but always neglected decision facing resource rich countries is if and when to begin extracting their natural (especially nonrenewable) resources and convert them into monetary or other benefits. In principle, this decision is supposed to be reached after thorough consultation to get prior and informed consent from citizens. They need to be informed about what they should expect from extracting their resources in terms of achieving national development goals; how expected revenues will be spent and managed and where mining activities should or should not take place. To effectively address these questions, governments should undertake a cost-benefit analysis that makes every effort to weigh all the costs, benefits and risks over the expected timeframe of extraction and beyond. Only when the benefits outweigh the risks it is justifiable to move on with exploration.

Currently, the practice in Africa is that this decision is overridden by the companies' interests - rather than national development agenda. Alarming, the decision often involves only a few technocrats! It may be argued that at the pre-exploration stage there is little motivation for financially constrained poor country to invest a significant amount of its meager resources to undertake detailed cost benefit analysis for an unknown amount of mineral deposits. While, to some extent, this argument makes economic sense, the cost to the country of not doing so is enormous in the long run.

Establishing a conducive framework

Prior to the commencement of exploration activities, a country must independently establish proper frameworks for awarding rights to explore and extract resources in conjunction with the legal and fiscal terms governing those rights. While exploration and extraction rights may be awarded in a variety of ways, the legal and financial arrangements governing the extraction process need to be enshrined in the law to avoid too wide a room for case by case negotiations that are always asymmetrical. More often than not, resource rich African countries have been at a disadvantage when negotiating with multinational mining companies; consequently, they get less revenue than they should. To address this challenge, Africa needs to build its own pool of in-country multidisciplinary expert negotiators. However, not all countries have the capacity to mobilize such expertise in the short term; these countries may consider outsourcing technical assistance around the globe.² The donor community, especially UN institutions, could also assist these countries to access such expertise from the growing global pool of experts which is heavily deployed by the industry exploit resources at their own benefit.

Once the terms are set, extraction will begin and the companies will typically make a variety of financial or in-kind payments to the government. Depending on the size of mining operations, it always takes time before governments can collect sizeable revenues except royalties and fees that are paid immediately after production commences. The terms and manner in which these payments are collected is dictated by the extraction contract and the legal framework, itself subject to how much room the law allows discretionary decisions by the Minister responsible for mineral resource development. It is not surprising, however,

Figure1: Extractive Industry strategic value chain



Source: Adapted from Revenue Watch Institute. www.revenuwatch.org

to find the terms in the contract diverging significantly from the provisions of the respective laws. Secrecy of the contracts further complicates the matter as most of the contracts tend to escape public scrutiny.

International and domestic governance

While revenue collection has been the main focus of national and international efforts, Africa as a continent lags behind, in spite of the fact that it is the potential beneficiary. The Extractive Industry Transparency Initiative (EITI), new United States listing requirements for extractive companies, the International Accounting Standards Board's consideration of a reporting standard for extractives and the proposed EU regulation on mandatory disclosure of payments made by extractive companies to producing governments all seek to make the mining industry more transparent and accountable. Nevertheless, many countries continue to embrace confidentiality clauses in their respective mining laws! Furthermore, such initiatives address only one side

Effective operational and fiscal audits of multinational mining companies, currently lacking in many countries would significantly reduce possibilities of company manipulations to reduce their tax liability

of the equation-revenue transparency. While disclosure of what has been paid is very important, such disclosure does not address what the companies should have paid. Effective operational and fiscal audits of multinational mining companies, currently lacking in many countries would significantly reduce possibilities of company manipulations to reduce their tax liability. For example, the mineral audit report in Tanzania discovered that mining companies over declared US\$250.8 million as operational costs and capital allowances. Transfer pricing has become one of the most challenging practice promoted by the fast growing tax planning industry. It is estimated that transfer pricing accounts for about 60% of capital losses in Southern African countries.³

Forward looking management of resources

Minerals are non-renewable assets that must be transformed to other assets - physical, human and financial – which can support a country's economic growth and development before and after the resources are depleted or prices decline. Governments and citizens need to decide how much to save, how much to spend and on what to do to mitigate the adverse effects of dependency on natural resource revenues. This decision has to be made prior to or early after production starts. It is, however, a common practice in most African mineral rich government and communities to start thinking about how to manage mineral revenues relatively late in the process, making such interventions ad hoc crisis-driven rather than strategic. Botswana's success in mobilizing resources for development – especially savings and investment is attributed to deliberate choice of transformative and diversification policies supported by overall prudent macroeconomic management.⁴

The lesson we can draw from Botswana is that resource-rich governments need to spend money well, which implies spending efficiently and practicing integrity in investment execution, and requiring systematic and rigorous monitoring and audits of public investment programs by oversight institutions: both state institutions (parliament) and independent civil society groups. These practices must be institutionalized, contributing to the achievement of good governance.

The common instrument for revenue management is natural resource funds, mainly in the form of stabilization and savings funds, with clear fiscal rules and transparency in spending. The efficacy of these instruments depends very much on the discipline in implementing fiscal policy, institutional capacity and political commitment without which transformation of mineral wealth to sustainable socio-economic development is unlikely to happen. Most resource rich African countries have failed in maintaining discipline in the management of mineral revenues due to political dynamics, corruption and lack of transparency. Papua New Guinea for example created the Mineral Resources Stabilization Fund (MRSF) for smoothing out resource revenue flows in 1975. Five years later, this noble initiative experienced serious problems in the wake of increasing politicization of public expenditure, structural problems of rapid economic transformation and corruption.⁵

Institutional setting matters

The importance of stronger institutions to effectively and strategically manage mining sector in order to harness its contribution to national development cannot be overemphasized. First and foremost, it is crucial to have institutions capable of developing the right mineral policies and laws tailored to harnessing the benefits of mineral resources. Such institutions range from relevant government ministries particularly Ministries of Finance, Natural resources (Minerals), Economic affairs and planning; agencies and oversight especially parliament, civil society and the media. The bottom line is that the long-run effect of extractive revenues is likely to be positively significant for good governance countries while negatively significant for bad governance countries.⁶

Summing up

In conclusion, for African resource rich countries to harness full potential of resource revenues for sustainable development, they need to embrace the logic of extractive industries value chain as a framework for strategic management of their minerals resources. Strong institutions, technical capacity, audits, and prudent revenue managements are not optional in the quest for sustainable development in resource rich countries.

Notes

- 1 Africa Mining Vision 2009.
- 2 Revenue Watch is one of the technical assistance providers
- 3 <http://ataftax.net/news/member-news/continent-must-address-transfer-pricing-collectively.aspx>
- 4 www.growthcommission.org/storage/cgdev/documents/Africa/Maipose%20on%20Botswana.pdf
- 5 www.eastasiaforum.org/2012/01/02/managing-the-boom-in-mineral-revenue-in-papua-new-guinea/
- 6 African Development Bank, Working Paper Series No. 147- March 2012

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CSR in the Extractive Sector: the Canadian Stamp

Marketa Evans



Research conducted by Natural Resources Canada tells a fascinating story: cumulative investment by the Canadian mining industry overseas mushroomed from \$30 billion in 2002 to over \$110 billion today. Interestingly, investment in traditional destinations such as Australia and the US was flat over that period – but in Latin America and Africa, investment increased seven-fold.

The potential benefits of extractive industries to economic development are increasingly acknowledged. Looking at Africa, \$40 billion in annual official development assistance is overshadowed by the roughly \$400 billion in export revenue generated by mining, oil and gas industries. Globally, the number of mining dependent countries, defined by the United Nations (UNCTAD) as states where mining represents more than 25% of total exports, is on the rise, increasing from 33 mining dependent countries to 41 in recent years. These changes bring significant and complex risks as well as opportunities.

Looking at Africa, \$40 billion in annual official development assistance is overshadowed by the roughly \$400 billion in export revenue generated by mining, oil and gas industries.

Many of the countries where investment has flowed in recent years have limited experience with modern resource extraction. Some are very poor, or emerging from conflict, with attendant complex social problems. Faced with these social and environmental challenges, Canadian companies are increasingly engaging in corporate social responsibility initiatives, generally defined as voluntary activities undertaken by a company to operate in an economically, socially, and environmentally sustainable manner. CSR is important for Canadian business abroad because it helps manage risks, improve access to capital, enhance employee relations, build social license to operate, and improve reputation.

The global consultancy Deloitte recently identified “the demand for heightened corporate social responsibility” as one of the top 10 trends facing the mining industry.¹ With greater global visibility, the report notes, comes industry’s “greater responsibility.”

A Canadian Strategy

As Canadian Prime Minister Harper noted in Tanzania in November 2007, the government encourages and expects Canadian companies to meet high standards of corporate social responsibility. Canadian industry associations and extractive companies have been recognized for their leadership on these issues. However, more can be done. Many companies look to the Canadian government for guidance and support in managing the risks of operating in complex environments abroad.

The Office of the Extractive Sector CSR Counsellor is a new entity, part of a larger Government of Canada CSR Strategy for Canadian mining, oil and gas companies operating abroad, called “Building the Canadian Advantage.” This relatively

new CSR Strategy aims, through a variety of integrated initiatives, to boost the competitiveness of Canadian extractive companies by enhancing their ability to manage dynamic social and environmental risks. The Strategy, announced by the Minister of International Trade in March 2009, is based on four complementary pillars, with the participation of three Government of Canada departments: the Department of Foreign Affairs and International Trade, the Canadian International Development Agency and Natural Resources Canada. The pillars of the Strategy are to:

1. Support host-country initiatives to enhance resource management capacity, and to benefit from these resources to reduce poverty. To that end, the Minister of International Cooperation, Bev Oda, recently announced initiatives in the extractives sector for Africa and South America, and the Prime Minister announced the creation of the Canadian International Institute for Extractive Industries and Development. These undertakings reinforce Canada’s commitment to support initiatives in developing countries that promote sustainable economic growth, create jobs and reduce long-term poverty.
2. Promote widely-recognized international CSR performance guidelines, which include the OECD Guidelines for Multinational Enterprises, the International Finance Corporation Performance Standards, the Voluntary Principles on Security and Human Rights, and the Global Reporting Initiative. These are the voluntary standards which underpin the mandate of my Office.
3. Support the development of a CSR Centre for Excellence, which was launched in January 2010 and is supported by a Secretariat housed at the Canadian Institute of Mining, Metallurgy and Petroleum.

Canadian companies are increasingly engaging in corporate social responsibility initiatives, generally defined as voluntary activities undertaken by a company to operate in an economically, socially, and environmentally sustainable manner.

4. Set up the Office of the Extractive Sector CSR Counsellor.

Many companies look to the Canadian government for guidance and support in managing the risks of operating in complex environments abroad.

The CSR Strategy recognizes the good work that Canadian companies have done in meeting the challenges of new operating environments, while noting that stakeholder expectations about social and environmental issues are dynamic and intensifying. The Strategy also appreciates that good CSR outcomes are a shared responsibility – governments, civil society, and companies all have important roles to play.

The Office of the Extractive Sector CSR Counsellor

Large investments in extractive projects can raise the risk of community conflict; communities can feel left out of the big decisions, and consultations may not be adequate. People fear losses to their livelihoods or have concerns about their health. The Office I head up was put in place to put new problem-solving tools in the hands of both communities and companies, in order to address these kinds of issues. We act as a resource to project-affected communities and Canadian mining, oil and gas companies who wish to reduce and constructively resolve conflicts around projects outside of Canada. We proactively put information into the public domain, in the belief that many risks can be avoided and many impacts can be mitigated with the effective and systematic use of performance standards. And, existing, often free, tools are available – we try to raise awareness of those tools, and of good practice. We convene multistakeholder groups to build better understanding of the issues and challenges, and to build bridges between constituencies. We have a Learning Partnership with the Centre for the Study of CSR at Ryerson University for example; I write a monthly opinion piece for the Canadian Mining Journal; we interact continuously with a wide cross section of stakeholders, both to let them know about our work, but also to ensure we deepen our understanding of on-the-ground complexities.

As a recent Harvard University/University of Queensland study points out, the costs of corporate/community conflict are extremely high.² Aside from reputational, legal and investor relations issues, in a third of the cases studied, the conflict resulted in loss of life. How do people typically try to resolve such issues? Companies might try to petition the host government, or go to the courts. Communities might try to launch a lawsuit, a media campaign or some kind of social activism at the site. But such processes can be long and costly, and not always satisfactory. Sometimes the issue at hand is not really amenable to resolution through these typical means.

Another potential avenue for tackling some of these types of disputes is through third party honest brokers, such as this Office. In addition to our proactive advisory role, we provide a neutral convening and facilitation space for problem-solving between Canadian mining, oil and gas companies and their local communities.

Problem-solving approach

Impressive results have been achieved by similar processes globally. The Compliance Advisor Ombudsman (CAO) office at the World Bank Group, with over a decade of experience, spent some time recently in Canada demonstrating the value such a problem-solving approach might provide. The CAO works with private sector companies, across all industries, and host communities, resolving complex conflicts in emerging markets. They now have 100 cases to draw lessons from. From their case history, we learned a couple of key things: most of the disputes they deal with involve socio-economic issues. In fact, for mining, about 90% of the cases deal with water issues in some fashion. The cases are getting increasingly complex, with more stakeholders involved, and the number of cases is increasing. A webcast, hosted with the Ryerson CSR Institute, is available at <https://ryecast.ryerson.ca/12/watch/1680.aspx> Community concerns sometimes arise due to lack of useful information, so one benefit

of the type of approach used by my Office is the ability to provide information and to understand what else the community needs in terms of information. Can we build a richer, multi-perspective understanding of the problem, and can we, using that information, find opportunities to resolve conflicts in a way that might generate new win/win options? For communities, it is an opportunity to have their voices and concerns heard. And it is critical for companies to listen.

We invite you to contact us and learn more, or join our listserv to stay up to date on news from the Office. You can join by going to our website at www.international.gc.ca/csr_counsellor-conseiller_rse/

Notes

- 1 Deloitte (2012), Tracking the trends 2012.
- 2 Davis, R and D.M. Franks (2011) The cost of conflict with local communities in the extractive industries. Paper presented at the First International Seminar on Social Responsibility in Mining, 19-21 October, Santiago, Chile.

Author

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Disclaimer: The CSR Counsellor is a special advisor to the Minister of International Trade. The Counsellor has no policy-making role and does not represent Government of Canada policy positions.

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For communities, it is an opportunity to have their voices and concerns heard. And it is critical for companies to listen.

Human Capacity Problems in Developing Countries and Local Content Requirements in the Extractive Industries

Claudine Sigam



Capturing more value in the local economy is a priority for resource-rich developing countries in their quest for leveraging natural resources for development objectives. Research suggests that there is nothing inherent in resource abundance that condemns countries to either low growth or unsustainability.¹ Rather than focusing on mineral resources narrowly, it can therefore be suggested that human capital under-development may be one of the root causes of poor performance of resource-rich economies in developing countries, particularly in Africa.²

In many resource-rich developing countries, particularly in sub-Saharan Africa, less than 20% of total transnational corporations' (TNCs) investments in the mineral sector remain in the host country. In Nigeria, for example, an estimated \$15 billion is spent annually on servicing operations in the oil and gas industry. However, only very little proportion of this amount and the accruable profit is available to indigenous oil servicing firms or spent in developing Nigeria's industrial base.

As a consequence, the sustained rise in mineral commodity prices has led to record profits for the energy and mining industries without commensurate reduction of poverty in host countries. In the petroleum industry, for instance, oil prices have quadrupled between 2002 and 2007, driven by growing Asian demand. China alone accounted for 29% of the growth in global oil demand in 2006 compared to 20% in 2000. This was compounded by tight inventories in OECD countries and refinery bottlenecks, as well as declining rate of new oil discoveries. Other factors include supply fears (geopolitics) and

the financialisation of commodity markets. In 2011, 7 out of the 11 largest (Fortune Global 500) companies were from the energy and mining sector. Africa represented 38% of Total's reserves and global production and absorbed 45% of the group's investment in exploration and production.

In many cases, the low level of human capital in host countries means that the buyer (the TNC) in the oil and gas exploration and exploitation knows more about the good being sold than the seller (host country government). In such instances, the asymmetry of information and unequal expertise result into a weak bargaining power of the resource owner (host country government) relative to the company for maximising the profits accruing from its wealth.

Policy frameworks and strategies that strengthen capacities, create knowledge for economic innovation and human capital are therefore critical to negotiate symbiotic agreements and create better production (backward and forward) and horizontal linkages between the extractive industries and the national economy. These policy frameworks would help foster value retention locally through mineral beneficiation, employment creation, technology and knowledge transfer, and industrial development. This is put forward by the African Union's African Mining Vision 2050.³

In order to fully realise the development outcome of the extractive industries, developing countries commonly impose local content requirement⁴ on Foreign Direct Investment (FDI).⁵ Building an educated and skilled workforce to labour fit for market requirements is one of the major challenges to overcome.

In spite of this observation, developing countries relying on natural resource wealth tend to neglect the importance of nurturing a diversified and skilled workforce that can support other economic sectors once the non renewable resource wealth has dried up. While the costs of such a neglect might not be felt in the short term, as capital-intensive activities take up a larger share of national production, its effect is likely to become significant in the longer run as soon as economies start to diversify.⁶

When a country's wealth depends on investments in manufacturing or other productive activities, human capital investments is an essential part of wealth creation. But, when the wealth arises from an endowment of natural resources, investment in a skilled workforce is not necessary for the realisation of current income. Without a focus on wealth creation, or sustainability, insufficient attention will be paid to investments in human capital (or other productive investments).

Addressing human capital deficiencies

Evidence from several resource-rich countries - Angola, Botswana, Brazil, Chile, Equatorial Guinea, Nigeria and Trinidad and Tobago suggests ways for addressing the skills shortage: by creating an educational base (to support development in the long run) and by improving the direct participation of the local workers with companies in the industry value chain.

With regard to the educational base, the training of personnel, the provision of relevant education, the development of Research and Development (R&D) programmes, and the collaboration between major companies, local universities

In many resource-rich developing countries, particularly in sub-Saharan Africa, less than 20% of total transnational corporations' (TNCs) investments in the mineral sector remain in the host country.

and training institutes is paramount to design programmes with an appropriate syllabus to meet the skills requirements of the industry. In Chile, the government created an environment that generated positive synergies between the government, universities, mining firms and local companies, which resulted in mining clusters.

The introduction of local content provisions for training and hiring national workforce, and the creation of industry linkages and extensive supplier development programmes, including training, product development, testing and factory auditing are some of the ways governments can involve local workers in the value chains.

Several resource-rich countries have applied hiring quotas or targets for training of local workers. Countries like Nigeria and Angola have even set targets of participation, to increase local staffing in oil companies. However, companies have encountered difficulties in achieving these targets, especially for more specialised staff. These policies are more effective when complemented with training programmes supported by the extractive industries and intended to ensure the availability of skilled workers, in accordance with the sector's changing requirements. In Trinidad and Tobago, support measures to local entrepreneurs and special preferences in terms of participation and training were applied for a certain period for local capabilities development, business opportunities and diversification.

Partnership between companies and governments on local content strategies could have mutually beneficial results if they align public economic policies and priorities for industrial development, private sector development, investment promotion and competitiveness. For example, company's local content agreements on training and employment for nationals, and preference to local suppliers, could be better aligned with public policies for human capital development, job creation, and technology transfer. This may include specific policy and regulatory measures included in the procurement plans in support of local entrepreneurship as well as policy making capacity to better regulate and monitor the implementation of the relevant measures. In Equatorial Guinea for example, the Hydrocarbons Law stipulates that TNCs should not only train workers, but also contribute to the training of ministry personnel and to maintaining oil related institutes and training centers. Botswana requires mining investors to have a localisation and training plan that will enable local personnel to take over skilled positions over a pre-determined time.

Conclusion

Human capital deficiencies are complex and fixing problems for natural resource exploitation and development is a long term exercise. Addressing these deficiencies is essential to increase beneficiation and to enable domestic companies and institutions to learn, interact and compete with foreign affiliates. From the developing countries' perspective, skills shortages hinder the incorporation of local workers into the extractive industries and the development of an industrial base necessary to spread the benefits of these sectors to other areas, or the possibility to build a competitive local supply industry. From the operating companies' perspective, skills shortages can cause the delay of new projects, increase costs and even hamper the fulfillment of local content requirements. However, the cases of Brazil, Chile and Trinidad and Tobago where elements of these problems have been dealt with serve as good examples for other developing countries, particularly in Africa.

Policy Recommendations

The capacities of resource-rich developing countries need to be strengthened and mineral wealth should be invested in the creation of knowledge for economic innovation, and in human, social and physical capital formation, including infrastructure for development. A quick human capital formation can occur through vocational training programmes. As part of their corporate social responsibility, companies can emphasise human capital formation areas where they have comparative advantages.

Mineral wealth should be invested in the creation of knowledge for economic innovation, and in human, social and physical capital formation, including infrastructure for development.

Policy strategies to achieve higher local content can be achieved by consciously building "local capability development".⁷ It can be argued that this strategy is more of a "Pull" model that would involve considerable undertakings from the oil companies such as providing direct and prolonged assistance

to indigenous firms to improve their quality and reliability. The limits of this model lies on the profit-oriented nature of the TNCs, mainly driven by the maximisation of their shareholders value. In this case, voluntarily collaboration for talent creation may be shortcoming. Therefore, an effective local content policy should be driven by an optimal balance of both incentives and strict regulations with the host government encouraging a multi-stakeholder approach to human capital development.

Notes

- 1 Mikesell, R. (1997). "Explaining the resource curse, with special reference to mineral-exporting countries." *Resources Policy*, Vol. 23, No. 4.
- 2 Human capital refers to the aggregate skills, abilities and knowledge, and other competencies of an organisation's workforce.
- 3 "The term beneficiation, used broadly to describe the successive processes of adding value to raw materials from their extraction through to the sale of finished products to consumers, covers a wide range of very different activities.
- 4 Local content can be defined in different ways but a common denominator is value addition in the host country economy.
- 5 An important consideration for any local content policy is the consistence with international trade and investment agreements such as the Trade-Related Investment Measures (TRIMs) of the World Trade Organization (WTO).
- 6 Humphreys, M, Sachs, J.D. and J. Stiglitz (eds.) (2007) *Escaping the Resource Curse*. New York: Columbia University Press.
- 7 Warner, Michael. 2011. "Do local content regulations drive national competitiveness or create a pathway to protectionism? Solutions Briefing #5. Local Content Solutions

This article uses evidence from practices highlighted in UNCTAD's recent publication entitled "*Extractive industries: Optimising Value retention in host countries*".

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Working in Partnership Towards Shared Development Goals: AngloGold Ashanti's Journey in Sustainability

AngloGold Ashanti



Trust and legitimacy are critical attributes for any business. At AngloGold Ashanti, we have always tried to engage respectfully and in the spirit of good neighbours. However, in the past we have sometimes tended to direct engagement efforts rather than act as active participants in a shared effort to achieve community and national goals.

We need to move beyond lip-service stakeholder engagement to honestly soliciting the input of governments, local communities and civil society as partners in a journey of achieving sustainable development. This requires a conscious recognition that AngloGold Ashanti is not a landlord having power over communities, but rather that AngloGold Ashanti is a tenant within the communities in which we operate. Only an organization in tune with the needs and expectations of all of its key stakeholders can create a model for sustainability that meets the eternally changing imperatives of our complex society.

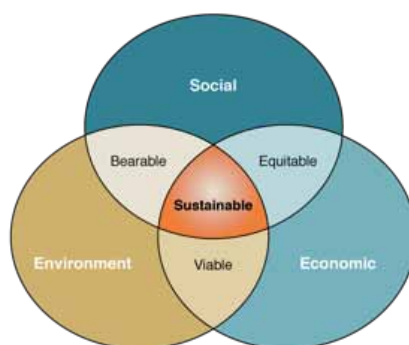
AngloGold Ashanti's Vision: The Leading Mining Company

AngloGold Ashanti's vision is to be the leading mining company. We operate in regions that possess a unique suite of challenges borne out of, in some cases, more than a century of commercial mining. In Africa in particular, AngloGold Ashanti holds vast mineral endowments across the continent. In a global industry characterised by dwindling resources, these tenements represent an opportunity for effective environmental management and rehabilitation and the upliftment of host communities.

Mining can bring vital benefits to countries through revenues, taxation, and employment. But we know that we need to avoid doing harm and that we can do more good. Governments and civil society are increasingly emphasising the need for mineral development to maximise benefits to citizens and for mining operations to be managed in a transparent and accountable manner. Mining companies' strategies need to be aligned with government planning processes. Successful sustainability interventions will align closely with the key priorities of governments and communities. In Africa, among other locations, high levels of youth unemployment and poverty,

limited job opportunities and prospects, imbalances in wealth distribution, have created an increased demand for businesses to deliver on social dividends above and beyond the creation of local jobs and local commercial opportunities.

The question for today's leading practitioners of corporate sustainability is: how can we ensure corporate sustainability goals are grounded in local content, yield significant benefits to stakeholders and are in line with business objectives?



AngloGold Ashanti's Values: Communities Are Our Future

At AngloGold Ashanti, we see the first step to achieving this goal is to Do No Harm. We need to stop making today's decisions tomorrow's regrettable legacies. This requires understanding the full sustainability impact of our business, meeting our sustainability commitments and being fully transparent for what we are responsible for. We also need to be mindful about what we can achieve on our own, and what we can only achieve in collaboration with others.

When it comes to developmental needs – be it health, education, energy use or environmental stewardship – we simply

Box 1. Siguiri Stakeholder Mapping Exercise

In January 2012, AGA conducted a **stakeholder mapping and analysis** with Siguiri Gold Mine (SAG) and its stakeholders. Included in this exercise were representatives from the local government and local NGOs. Through facilitated, candid discussions, a number of emerging themes were distilled, which are now being used by SAG in developing their Mine- Sustainability Strategy and MDG-based local development plans

- 1. The stakeholder landscape is complex and constantly evolving:** There is a multitude of stakeholders with complex local and national power structures in Siguiri. Despite a current environment of relative calm, expected changes in local power dynamics could challenge SAG going forward.
- 2. Several influential new stakeholders are currently not part of SAG's targeted stakeholder population:** The needs and voices of informal community structures such as youth groups, elders and prominent families groups need to be heard more strongly and considered in SAG's future stakeholder strategy as we need to take account of their interests too in order to ensure an appropriate relationship between the mine and the community.
- 3. Opportunities exist to reduce tensions and align interests:** There are opportunities to test a more participatory and broader engagement style. One of the tensions to manage is that between short-term benefits and long-term investments. The prevailing mind-set among local communities is focused on the short-term distribution of wealth, thus setting it in potential conflict with the SAG corporate mind-set which is centred on the longer-term creation of wealth. However, both sides share the goal of fuelling local economic development to improve the lives of local communities.

cannot succeed alone. As a company we must have a better understanding of what it is our stakeholders expect. Our plan starts with a humble approach. First, we ask governments and civil society, "What are your priorities?" by listening to what they tell us, can we then move on to ask "How can we help?"

This is a complete change from previous approaches which often tended to be driven from a perspective of what we assumed was needed by stakeholders. Today we are not seeking to rush into implementing perceived "solutions", but rather seeking to approach the problem together with our stakeholders as partners, listening and being prepared to give and take. This deep-rooted engagement with stakeholders is the cornerstone of AGA's approach to sustainability (See Box 1 on p. 12).

For decades, the industry has dabbled in small-scale sustainability projects such as educational grants to families, setting up a few schools, or health interventions at local communities. While these efforts have made a difference in people's lives, the long-term impact has been limited.

At AngloGold Ashanti we have an ambitious vision. We want to transform our approach in sustainability from one-off, project based interventions to a broad strategic program for change and impact over the long-term. We want to move away from a situation where our contributions to local development are ad hoc, fragmented and inefficient. We have been developing a Sustainable Development Strategy Framework. In our Continental Africa Region we launched in 2012 a regional Sustainability Strategy.

As a result of this strategy development process, we have chosen to align our sustainability development goals with the internationally accepted Millennium Development Goals. The MDGs, as they are more commonly called, are comprehensive targets for reducing poverty and improving the health and well-being of communities. Importantly, these goals have been accepted by all African governments, and are a common, international framework for planning and measuring the benefits of social and economic progress. While the MDGs provide a starting point for community expectations and measuring performance, we must remember that community needs are local, and must be considered on a case-by-case basis.

The Mine Sustainability Strategy: Defined at the local level, aligned to corporate objectives

Transforming a company of over 60,000 employees, with some 15,000 employees in our Continental Africa Region where we have with eight operations across five countries, requires an operational model that can be understood and integrated across the enterprise. While the strategic direction comes from the corporate level, the action happens at the business unit level. Local staff need the flexibility to create solutions that work for their communities. AngloGold Ashanti's sustainability approach, while coordinated at the corporate level, has its roots at the mine.

Real sustainability means demonstrating that mining benefits families, communities and the societies in which we operate. People need to see the unique value that AngloGold Ashanti brings to the table. At the same time, businesses need to be aware of areas where they have full responsibility for their actions. AngloGold Ashanti's sustainability strategy incorporates both internal and external focus areas to provide a holistic view of AngloGold Ashanti's role and responsibilities in terms of sustainability.

The internal focus is on issues where AngloGold Ashanti's business units and mines have sole responsibility and accountability. A core element of the internal perspective is the AngloGold Ashanti Sustainable Development Strategy Framework which ensures compliance to all corporate policies as well as to mine-specific legal and other requirements.

The external focus is to create shared value at the community level. A core component here is the support to government to formulate MDG-based local development plans which contribute to accelerating progress towards achieving development goals, in particular the MDGs. In this external perspective, AngloGold Ashanti is a partner with other stakeholders, notably governments, to achieve shared development objectives. The plan includes information on the company's role and contribution to making communities better off and will be measured against performance indicators such as the number and quality of external partnerships with local governments and community leaders, as well as actual social progress on the ground.

The outcome of the overall strategy is an Investment Framework which supports implementation of the MDG-based local development plans, and provides an opportunity for other public and private sector partners to invest in the long term development of communities.

Closing

Business as usual, when it comes to sustainability, is no longer enough. We have an opportunity to redefine sustainability and work in partnership with governments, local communities and other stakeholders, to transform social development in Africa and around the world. Engagement at this level will take time and effort. At AngloGold Ashanti, we have just started this journey. Achieving these ambitious objectives will require teamwork and dedication, not to mention a dash of creativity. We know that with perseverance and a resolve to work together with our partners in the region, we will achieve our vision to be the Leading Mining Company.

Business as usual, when it comes to sustainability, is no longer enough. We have an opportunity to redefine sustainability and work in partnership with governments, local communities and other stakeholders, to transform social development in Africa and around the world.

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Contribution of the Minerals and Mining Sector to National Development: Ghana's Experience

Benjamin Nii Ayi Aryee



Mineral commodities give countries possessing them an advantage in their developmental efforts. The sector's resources and growth can be harnessed as inputs for holistic sustainable development. Mineral commodity policies should therefore ensure that these resources serve as a catalyst for sustainable development, especially non-renewable resources.

Contribution of mining to Ghana's economy

With a reasonably well-known and attractive mineral resource base, significant mining investment has been attracted into the country over some 20 years of stable multi-party democracy. The mining sector has therefore been an important part of our economy, with gold accounting for over 90% of the sector. Ghana is the second largest gold producer in Africa and the 9th largest producer in the world.

The sector directly contributed 38.3% of Ghana's total corporate tax earnings, 27.6% of government revenue and 6% GDP in 2011. The sector employs 28,000 people in the large scale mining industry whilst over 1,000,000 people are engaged in the small scale gold, diamonds, sand winning and quarry industries. In 2011, Ghana produced 3.6 million ounces of gold, the highest ever in the history of the country. This resulted in export revenues of over US\$5billion. It is significant to note that small scale miners contributed some 28% of the total gold production in 2011. Total Direct Investment (DI) into the minerals and mining sector from 1983 to 2011 amounted to US\$ 11.5billion.

Value creation beyond fiscal payments to Government

Beyond direct fiscal receipts, the sector has great capacity when it is integrated into the economy. This is achieved through several channels: additional fiscal revenues from mining-related activities, employment generated by these activities, inputs provision for other sectors, research and development activities, and technology transfers. Mining has therefore contributed to the state of development of sectors like banking, financial services, transport, logistics, amongst others.

Mining also contributes to development through implementation of Corporate Social Responsibility (CSR) programmes for host Communities and the general public at large. In 2011, US\$24million was spent on CSR projects by the mining companies.

Current challenges confronting the mining sector

However to fully realize the potential of the sector to contribute to socio-economic development, a number of key challenges have to be addressed, such as inadequate linkages between the mining sector and the rest of the economy and poor diversification of the sector, which is concentrated on gold.

The legal framework in which mining operates also faces a number of limitations, first amongst which its capacity to optimize financial benefits and ensure – and demonstrate – fair and equitable distribution of the benefits from mining.

Another challenge facing the legal framework around mining is the management of artisanal and small scale mining, especially the menace of illegal mining. This relates to finding suitable areas as well as the creation of awareness among such miners to regularize their operations and to operate legally, efficiently and in an environmentally friendly manner.

Interventions aimed at addressing the challenges

Recent reforms and strategies have been put in place to address these challenges. Amongst these, the revision of the draft national minerals and mining policy aims at consolidating various policies in the mining sector into the national minerals and mining policy, with "Sustainable Development through Mining" as a guiding principle. It has been extensively reviewed through stakeholder consultation and should be adopted by Government shortly. A number of regulations covering a broad spectrum of issues including, environment, local content, mineral licensing, among others, have also recently been passed by Parliament.

A review of the fiscal regime is also under way, through a collaborative approach to optimizing the distribution of the benefits from mining. This includes the establishment of a framework to review legal provisions which appear inequitable and a multi-

agency mining revenue taskforce tasked with ensuring effective and efficient collection of revenues and recommending legal policy reviews.

We are also working towards managing social issues in the sector. Baseline data on social conflicts has been compiled along with policies and guidelines on mine closure and post closure, compensation, corporate social responsibility and the use of mineral royalties by district/municipal assemblies.

In terms of increasing linkages and multiplier effects, efforts to increase local content development in mining operations are underway, supported by the International Finance Corporation (IFC). This has included the development of a database on goods & services required by the mining industry; the identification of some local companies with capacity to service mining companies; and the building additional local enterprise capacity.

Finally, we are also members and participants in a number of initiative, such as the Extractive Industries Transparency Initiative, the African Union's African Mining Vision, ECOWAS Directive on the Harmonisation of Guiding Principles and Policies in the Mining Sector of West Africa as well as the Inter-governmental Forum on Mining Metals and Sustainable Development.

Conclusion

With the right policies, backed by judicious use of our resources and support from our Development Partners, the mining sector can catalyze sustainable development within a framework of stakeholder collaboration. Ghana is pursuing measures in this respect and which will also lead to development of skills, spawning of other industries and generating the necessary revenues for national development.

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Financial Transparency in the US and the EU: A Reader

Isabelle Ramdoo

This reader gives a brief overview of what is contained in the two sections of the US Dodd-Frank Act and in the EU Proposal to review the Transparency Directives and Accounting Standards, regarding specific requirements for companies involved in extractive industries.



The US Legislation: What is the scope regarding extractive resources?

In July 2009 U.S. Representative Barney Frank proposed a comprehensive federal financial reform, known as the US Wall Street Reform and Consumer Protection Act (Dodd Frank Act). President Obama signed the bill into law in July 2010.

- (i) Section 1502 of the Act directs the U.S. Securities and Exchange Commission (SEC) to adopt new rules for domestic and foreign companies listed on US stock exchanges that use “conflict minerals” originating in the Democratic Republic of Congo (DRC) or in “adjoining countries”.
- (ii) Section 1504 of the Act requires companies listed on the SEC to publish in their annual reports any payment made by the company, a subsidiary of the company, or an entity under control of the company to a foreign government or U.S. government for the purpose of the commercial development of oil, natural gas or minerals.

What is covered?

Under section 1502, “conflict minerals” include columbite-tantalite (coltan), cassiterite, gold, wolframite or their derivatives, or any other minerals determined by the U.S. to be financing conflict in the DRC or an adjoining country. “Adjoining” countries are countries that share a border with the DRC, and include Angola, Burundi, Central African Republic, Republic of the Congo, Rwanda, Sudan, Tanzania, Uganda and Zambia.

Under section 1504, commercial development of oil, natural gas or minerals includes exploration, extraction, processing, export and other significant actions relating to oil, natural gas or minerals, or the acquisition of a license for any such activity, as determined by the SEC.

What are the requirements?

Under section 1502, companies will have to submit an annual detailed disclosure to the SEC. The report will be audited and published on the company's website. It will include a description of the measures taken by the company to exercise due diligence regarding the source and chain of custody of conflict minerals; a description of the products manufactured or contracted to be manufactured that are not DRC conflict free,

a description of the facilities used to process the conflict minerals, the country of origin of the conflict minerals and the efforts made to identify the mine or location of origin.

Given the wide use of “conflict minerals” in the manufacturing industry, if Section 1502 is interpreted in its broadest sense, a large number of companies are likely to be subject to the requirements. It is however unclear whether a product manufactured by a subsidiary of a reporting company would be subject to the new disclosure requirements.

Under section 1504, reporting companies will need to describe any payment made for each project by the company, a subsidiary, or an entity to a foreign government or the U.S. government for the purpose of the commercial development of oil, natural gas or minerals. Payments include taxes, royalties, fees, bonuses, production entitlements and other material benefits that the SEC determines are part of the commonly recognised revenue stream for the commercial development of oil, natural gas or minerals and are not de minimis.

Where does the legislation stand?

The SEC is yet to promulgate the rules to implement these requirements.

The EU Directive: What is the scope regarding Transparency?

In October 2011, the European Commission proposed amendments to the existing Directive on transparency requirements for companies and to the Directives on accounting rules for annual accounts and consolidated accounts. The Proposal introduced a new obligation for listed and large non-listed extractive and logging companies to report all material payments to governments, broken down by country and by project, when these payments have been attributed to a specific project.

What will be covered?

All large non-listed companies and all companies listed on EU regulated markets, with activities in logging of primary forests and extractive industries, even if they are registered in a third country.

What are the requirements?

Types of payments to be reported include production entitlements, taxes on profits,

royalties, dividends, signature, discovery and production bonuses, licence fees, rental fees, entry fees and other considerations for licences and/or concessions, other direct benefits to the government concerned. The information disclosed on payments to governments would be publicly available to all stakeholders either through the stock market information repository or the business registry in the country of incorporation (Annual detailed disclosure).

Where does the Proposal stand?

The Proposal has been submitted to the Parliament and the Council. While there is a general agreement on more transparency, discussions have stalled between Parliament and member states over the disclosure made to governments on a project-by-project level. While Parliament is largely supportive of these rules, many member states are instead pushing for rules for companies to publish what they pay to central and local governments, without breaking down payments by project.

How does the EU Proposal differ from the US Proposal?

In general, the EU and the US proposals are broadly similar regarding transparency requirements for listed companies in mining, oil and gas industries. Both require companies to disclose information by project and at country level. However, the EU regulation goes a step further by extending the requirements to large unlisted companies. The EU Directive also covers the logging industry, which is not covered by the US Regulation. However, the EU Regulation does not cover conflict minerals. Unlike the US proposal, the EU Regulation provides for a limited exemption for companies operating in countries where disclosure of payments could potentially be charged as a criminal offense. A safeguard to prevent abuse is however foreseen.

Notes

1. See Paul Weiss (2010) Client Memo – The Dodd Frank Act's Requirements relating to conflict minerals, mining and resource extraction companies.

Regional Plans to Address Food Security in Southern Africa: State of Play

Francesco Rampa



SADC never formally launched a regional Comprehensive Africa Agriculture Development Programme (CAADP) compact preparatory process as it is currently developing a Regional Agricultural Policy (RAP). The initial ambiguity about the relationship between the CAADP and the RAP is now clearing up. The formulation of the RAP and the regional CAADP compact preparation are now aligned into the same process. Challenges and opportunities remain in terms of learning from the general bottlenecks to regional cooperation experienced so far by SADC.

Stakeholder engagement and SADC's Regional Agricultural Policy

Most stakeholders interviewed in SADC seem to agree that one of the weaknesses of the RAP process so far has been limited multi-stakeholder engagement. Nevertheless, compared to its early stages, RAP consultations are now broader and more aligned to the CAADP methodology. However, it is still unclear for many actors what is the actual way forward for a "CAADP-compatible" RAP, what the concrete plans are for designing the regional compact in the coming months, and what process will be followed to ensure that such compact add value to national food security strategies.

It would be important to make this information widely available to the public, so that the SADC agenda, relevant documents, and steps to design a common approach to food security, are accessible for interested stakeholders. This would also counter the perceptions that such regional preparations are slow and inefficient. Most non-state-actors (NSA) lack platforms to engage regularly on food security at a regional level, and creating such platforms for CAADP/RAP would be urgent particularly for small farmers and other intermediary business organisations. A pre-condition for increased engagement would be capacity building for farmers and institutional strengthening for both regional and national farmers associations. This in turn would require a mapping of farmer organisations in each SADC country to assess the type of membership, geographical coverage and assistance needed. These accompanying

support measures, and a broader participation, would be very important for the smooth conclusion of the RAP formulation in 2012.

Supporting the SADC Secretariat

A consensus seems also to be emerging in the region about the need for more institutional support for the SADC Secretariat. The Secretariat is already acting to tackle some of the challenges it traditionally faces, such as the internal "silos mentality" hampering coherence and coordination between different areas of regional cooperation. But also the SADC MS should do more to support the Secretariat. Possible recommendations for the way forward are to strengthen the Secretariat by i) enhancing efforts by MS for more systematic input and interaction with the Secretariat on 'agriculture and rural development' (ARD) and food security; ii) increasing support by donors to the 'Food, Agriculture and Natural Resources' Directorate; and, iii) increasing the quantity and quality of technical personnel dedicated specifically to food security processes at national and regional level.

Lukewarm donor support

SADC development partners' contribution to the regional food security plans has been lukewarm, mainly due to weak donor coordination and not-functioning (though existing) donors-SADC engagement structures. In general, more donors should step up their support to regional food security initiatives in SADC, and in particular

to the RAP as the overarching framework that should guide future external support. Many donors assist ARD programmes at national level in SADC countries, but only few of them have a policy to create synergies between regional and national level assistance and between their different sectoral programmes that contribute to food security (e.g. aid for trade).

According to many actors in SADC, both types of synergies should be built. If donors are to fulfil their commitment to support implementation of CAADP at regional level, they could: improve operational linkages and coordination around regional CAADP plans between their respective head-quarters, regional and national offices; increase regional donor coordination in SADC around CAADP by e.g. assigning a donor lead agency

In general, more donors should step up their support to regional food security initiatives in SADC, and in particular to the RAP as the overarching framework that should guide future external support.

(possibly in Gaborone) and establishing a specific donor working group for the SADC regional CAADP.

Existing formal engagement structures between SADC and development partners have lost impetus, and all parties agree that this type of dialogue should be revitalized (looking possibly at the experience of the water Joint Working Group which has shown better progress).

Acknowledging bottlenecks to Regional Integration

Another emerging message from the SADC stakeholders is that the regional agricultural plans, which have the overall regional integration framework (RISDP) explicitly at its core, should take into account the cross-cutting general bottlenecks to RI experienced so far by SADC. For regional integration to work, including cooperation on CAADP, a better match should be achieved between bottom-up, business-led processes and the more top down (government-led) dynamics, such as policy frameworks and protocols.

There seems to be no “low hanging fruit” in regional cooperation, and very often formal binding SADC frameworks are not sufficiently followed-up at national level: the same is likely to hold true for a future regional CAADP. In addition, ARD actions will have to be accompanied by much better ‘campaigns’ in each SADC MS to raise awareness about the benefits of regional approaches in every proposed regional cooperation area relevant to food security, and about the results achieved so far. In this sense, the example of the ‘water basin cooperation awareness kits’, which has been disseminated also in the rural areas, could be replicated for future ARD programmes and other initiatives like the ‘trade corridors’.

Most of the suggestions by consulted stakeholders on the way forward for a regional CAADP relate to the process and not to the substance. This is not only because the content of the RAP has not been developed yet, but also because only a few SADC countries have signed a national CAADP compact, and the national regional nexus in agriculture is yet to be fully explored within SADC. Such ‘vertical’ coherence (and synergies) between national and regional policies and investments, however, is deemed crucial by many actors in SADC, in parallel with the ‘horizontal’ coherence (and synergies) between policies and investments in food security and in other sectors of regional cooperation in SADC. This process is only in its early stages, and the strategic thinking on regional policies and investment to complement action at national level is still

lacking within several SADC governments. Many SADC stakeholders realise the importance of linking a regional CAADP to ongoing initiatives on trade, infrastructure and natural resources, and are willing to explore in detail the opportunities and challenges for the creation of synergies.

Some linkages will naturally emerge, such as on sanitary and phytosanitary measures, ‘agriculture trade corridors’, irrigation as well as existing regional agricultural programmes and institutions. Other synergies will need to be carefully analyzed.

Differentiated gears

A realistic way forward for an overarching multidimensional regional CAADP could be a programmatic approach to different areas of intervention. This could meet the interest of all involved SADC countries and their different stakeholder groups and could be shaped as a ‘differentiated gears’ regional CAADP framework. SADC countries are very heterogeneous and it would be realistic and useful to build a regional food security compact and an investment plan that take into account: i) different cooperation areas that are progressing at differentiated gears; ii) and different sub-groups of SADC countries which already cooperate well in specific areas (or are likely to) and do have in place a series of programmatic cooperation initiatives.

Many SADC stakeholders realise the importance of linking a regional CAADP to ongoing initiatives on trade, infrastructure and natural resources, and are willing to explore in detail the opportunities and challenges for the creation of synergies.

This could, for instance, be a uniform agricultural markets information system for those where the trade integration de facto happens already; further and faster natural resources management cooperation for countries who share water basins and so on. A faster ‘gear’ would mean a specific investment plan for that specific area or

sub-sector, or a pilot joint programme to be initially implemented only by those few willing SADC member states.

The added value of such an approach would be to look at existing sector progress and find a niche for CAADP, either as a synergy-creation or in some cases as new ‘multi-purpose’ programmes related to food security, e.g. a value chain development approach which identifies and addresses simultaneously the bottlenecks on natural resources, corridors, and trade.

Given the many countries involved and the complexities at stake, the process towards a flexible, differentiated-gear, regional food security framework would necessarily take time for identification, agreement and design of realistic plans. Careful formulation of a ‘comprehensive, internally coherent and differentiated gears’ compact would require a step-by-step multi-stakeholder consultative process, where all key actors should be represented. This would probably have to start with identifying a minimum common ground among SADC MS on what major bottlenecks and opportunities are for establishing operational linkages between CAADP and other regional programmes; articulating possible multi-sector priorities into the SADC CAADP compact; and finding ways for regional actors and their development partners to work more effectively together to fast-track implementation of a regional CAADP.

This article is part of a five part series to share findings from a regional Comprehensive Africa Agriculture Development Programme (CAADP) mapping exercise undertaken by ECDPM. Each monthly article will highlight lessons learned from one of four African regions (COMESA, EAC, ECOWAS and SADC). A fifth final article will summarise and present crosscutting lessons relevant for successful implementation of the CAADP process at the regional level. This article is based on ECDPM's Mapping Study of CAADP in the SADC available at: www.ecdpm.org/dp128

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EPA Update

Melissa Dalleau

This month, this section covers recent EPA developments that occurred over the past month in the East African Community (EAC), the Eastern and Southern African (ESA) and the Pacific regions. It also reports on the outcomes of the recent EPA negotiations Coordination Meeting organised by the African Union. For the state of play of negotiations in other regions, please read our previous issues and do not miss our forthcoming updates in these pages!

All ACP

95th session of the ACP Council of Ministers adopts resolution on EPA

ACP Council of Ministers met in Port Vila, Vanuatu, from 10-15 June in preparation 37th session of the ACP-EU Council of Ministers, which was held subsequently. This was an opportunity for ACP Ministers to discuss and take joint positions on various areas of common interests. Among other things were the request by the Republic of South Sudan to accede the Cotonou Partnership Agreement discussed and agreed upon.¹

Economic Partnership Agreements featured high on the agenda as well, and a Resolution was adopted, which strongly condemned the proposal of the European Commission

ACP calling "on the EU to lower its ambitions and consider seriously the level of economic development of its ACP negotiating partners"

to amend the EPA Market Access Regulation (MAR) 1528/2007. The amendment of the MAR 1528/2007 permits the EU to exclude countries from its remit that have not taken the necessary steps to ratify and implement their EPA agreement as from 1st January 2014, calling "on the EU to lower its ambitions and consider seriously the level of economic development of its ACP negotiating partners".²

Members of the European Parliament argue in favour of a 2 year extension on the "EPA deadline"

The condemnations of some of the ACP countries seem to have been partly heard by the European Parliament (EP). The long awaited decision of the International Trade Committee (INTA) of the EP on the European Commission (EC) proposal on MAR 1528/2007 has finally been taken. Members of the

EP trade committee voted to extend 2014 deadline up until 2016 for EPAs

INTA committee³ argued that ACP countries would indeed need more time to prepare for an EPA and to finalise their agreement in good conditions. They therefore voted for the extension of the 2014 deadline up until 2016. This represents obviously a positive, yet moderate step in the eyes of some African stakeholders who may have wished for the complete rejection of the Commission proposal, as suggested by the EP Committee on Development.⁴

It is worth recalling that according to this legislative proposal, if countries want to continue to benefit from EPA market access, either they have to sign and start the ratification of their existing EPA or conclude a new regional EPA. If none of these steps are taken, countries will either fall under one of the schemes of the new GSP (i.e. Everything but Arms, Standard GSP or GSP Plus) or they will have no preferences (as might be the case for Botswana and Namibia).⁵ Whether or not the two-years extension will make a tremendous difference will obviously depend on the pace of the negotiations across regions.

West Africa

Preparatory discussion on Market Access prior to joint technical level meeting

Following the West Africa-EU technical and senior officials' round of negotiations that was held from 17-25 April in Brussels, no joint EPA meeting has been convened in order to leave the time for the region to hold consultations on the various contentious issues that continue to prevent the parties to reach a full regional agreement, in which the question of market access is central. In this respect, it is worth recalling that issues of the joint statistical basis behind the offer, the new categorization of specific tariff lines (and the analysis that underpinned the categorization), as well as the level of tariff classification that should be considered for this offer (HS6 vs HS10), continue to be the subject of heated debates. With this in mind, the West African region recently held a regional meeting, in preparation of the Joint West Africa-EU technical market access meeting, currently foreseen in July.

UEMOA and ECOWAS Presidents met with EC Commissioners for Trade and Development to explore issues of common interest.

In addition, and beyond the framework of the formal/usual negotiating sessions, the presidents of the ECOWAS and UEMOA

Commissions met on 18 June with the EC Commissioner for Trade, Karel de Gucht, and for Development, Andris Piebalgs, to discuss, among other things, the EPA, and to explore mutually agreeable solutions.⁶ More flexibility from the EU side, notably on the question of market access, was among the strongest requests of the Presidents of the two WA sub-regional organisations. Technical experts were also invited by all parties to re-examine questions linked to the statistical basis behind the offer and present the outcome of their discussions to the Chief Negotiators.

Equally important, the newly appointed presidents of the two sub-regional Commissions urged the EU to ensure that sufficient resources will be committed to address adjustment costs deriving from the EPA, not least in the context of the EPA Development Programme (EPADP). They also expressed their concerns and disagreement over the recent proposal by the European Commission to amend the EPA Market Access Regulation (MAR) 1528/2007 arguing that this could disrupt the regional integration processes in West Africa, should some countries (eg. Ghana/Cote d'Ivoire) decide to implement an interim EPA on their own (i.e. outside the regional framework). Commitments from all parties to try and reach a full regional EPA appear indeed critical to safeguard the integrity of regional integration processes in the region. In particular since Ghana, even though still committed to the establishment of a full regional agreement, was quoted in the press as being ready to take "steps to protect [its] economic interest if the ECOWAS platform for the full EPA failed to reach a consensus within the stipulated time-frame".⁷

Call for the EU to ensure that sufficient resources are being committed to address adjustment costs deriving from the EPA

West Africa progresses on the possible implementation of the Regional EPA Fund (FRAPE).

In the context of the EPA and the implementation of the related EPA Development Programme (EPADP), it is worth recalling that the region originally foresaw the creation of a Regional EPA Fund (FRAPE) to finance the EPADP. This was based on a decision of the West African Ministerial Monitoring Committee (MMC) in Niamey in November 2006, which was confirmed by Chief Negotiators of both parties in February 2007.

A study on the operationalisation of the fund was carried out for ECOWAS, UEMOA and the EC by a team of consultants in summer 2007.⁸ The study made proposals concerning the specific objectives, intervention areas, beneficiaries and contributions to the fund and identified different options in terms of the institutional home of the FRAPE. GREAT insights has been informed that the elements regarding the institutional home of the FRAPE have recently been approved by the Presidents of the ECOWAS and UEMOA Commissions, and that a decision has been made on FRAPE's institutional anchorage with the ECOWAS Bank for Investment and Development (BIDC) or West African Development Bank (BOAD – Banque Ouest Africaine de Développement).

When it comes to the practical modalities of implementation of the Fund, the West African EPA negotiating sub-group, responsible for the elaboration of the legal and organizational framework for the FRAPE, has communicated last year the results of its work to the Ministerial Monitoring Committee MMC. The MMC subsequently called on the ECOWAS and UEMOA Commissions to finalize the implementation of the FRAPE before October 2012. The draft Framework Document on the FRAPE (Document-cadre) should be finalized in Dakar from 11-13 July 2012 during a meeting on the subject, organized by the ECOWAS Commission.

Southern African Development Community (SADC)

SADC-EU Senior Officials met in May to continue discussions on EPAs

Following a meeting of the SADC-EU EPA joint technical working group (TWG) on Market Access (24-25 May), SADC and EU EPA Senior Officials met from 29-30 May 2012 in Pretoria, South Africa, to discuss the remaining contentious and outstanding issues that continue to hamper the pace of the negotiations towards a full regional agreement. Whilst some progress have been made in certain areas, for instance on textual

considerations with regards to the definitions of parties, and although both meetings were reportedly held in a positive and forward-looking atmosphere, major bottlenecks still remain to be addressed.

Prime amongst these bottlenecks are the details of the SADC EPA market access, particularly in regard to agricultural goods. The EU continues to argue that there is room for the region to improve its offer, notably on those goods where the region appears to be a net importer. This question will be further discussed during the next technical working group meeting on market access, currently planned the 18-19 July. This meeting will also look at ways to overcome both parties' constraints by examining various instruments such as quotas and safeguards. On the question of (EU) agricultural subsidies, which has often been reported as being one of the major stumbling blocks in the negotiations (in all regions), no progress seems to have been made.

In Pretoria, disagreements on Non Agricultural Market Access (NAMA) also became clear. The EU judged the latest proposal tabled by the SACU countries during the Johannesburg round of negotiations (November last year) as insufficient, and the EU thus considers the issue to be currently expelled from the negotiations. This position is not shared by the region, which insists that the NAMA should to be part of the agreement.

Beyond Market Access, the issues of export taxes and (agricultural) safeguards remain highly contentious. Similarly, the so-called "new issues" (good governance in tax matters, and provisions related to "sustainable development") that the EU proposed to include in the EPA, continue to oppose the parties. According to sources close to the negotiations, some progress have been made on two issues that has often been reported as blocking the negotiations:

- (i) On the Most Favoured Nation (MFN) clause: the region has submitted a proposal to extend the non-automatic application of the MFN clause, currently applicable to South Africa, to all members of the Southern Africa Customs Union (SACU), in order to preserve their regional integration process. More discussions might however be required in this respect
- (ii) On the question of Geographical Indications: discussions seem to be progressing between the EU and South Africa, both parties have submitted their proposal for consideration. This question may be more difficult to address for the other SADC members, given some capacity constraints.

In Pretoria, parties also used the opportunity of the meeting to discuss issues pertaining to Rules of Origins (RoOs). On the positive side, this meeting allowed parties to clarify certain elements to ensure mutual understanding.

For instance, on the question of product specific rules contained in the Protocol, the EU confirmed that it had no intention for

Meetings were reportedly held in a positive and forward-looking atmosphere

the moment to reopen negotiations on these rules, leaving the product specific rules chapter as agreed in the IEPA. EU's position on this was not unexpected given the recent reform of the RoOs applicable within the GSP framework, these could however be subject to revisions in the future since the Protocol contains a review clause.

Some progress has also been made in regard to the question of cumulation, for instance in terms of streamlining the structure of the draft text on this subject. Yet, this still realistically requires some major work for it to be finalised in a way agreeable to all parties. The administrative/legal cooperation arrangements between SADC EPA members and other ACP (EPA) states as well as the lists of products excluded from cumulation⁹, yet remain to be agreed upon. Besides, the EU also indicated that it wants materials cumulated within the GSP or a FTA to be notified in order to ensure sufficient monitoring and controls over the implementation of the rules. This demand is currently opposed by the region, which argues that the foreseen system of administrative cooperation of the EPA should be sufficient in this regard, all the more given the difficulty to provide the required information.

Beyond cumulation, parties also discussed some of Namibia's demands regarding the rules for fish and marine products, including i) its request that "born and/or raised" products of aquaculture and mariculture be considered "wholly obtained" products; ii) its demand for tuna derogation;¹⁰ and, iii) the question of the right of first refusal --- all issues which still require further discussions. These questions, relating to RoOs, should be further discussed during a specific technical meeting on this subject in early September.

The next joint Senior Officials meeting is currently foreseen for the first week of October. More information will be provided in due course.

Caribbean

CARIFORUM launches "CAFEIN"

During a GIZ-supported CARIFORUM EPA Implementation Network (CAFEIN) workshop on the 11-13 June in Santo Domingo, Dominican Republic, regional and national officials from the EPA implementation units shared their experiences on communication strategies in implementing the EPA. They also deliberated the preliminary results of a recent study on the monitoring and evaluation of the EPA, which should be further discussed during the next CARIFORUM Directorate-led meeting of Heads of EPA Implementation Units in early August 2012.

**CARIFORUM EPA
Implementation Network
(CAFEIN)**
www.cafein-online.net

This workshop also provided an opportunity to fully launch the new regional EPA implementation network and website, whose creation had been planned during the October workshop on the Communications and Public Education Dimensions of the Implementation of the CARIFORUM-EU EPA in Antigua and Barbuda.¹¹

This network aims to connect all actors that have a stake in EPA implementation, including representatives of the regional EPA Implementation Unit, national EPA implementation authorities and other relevant government departments. Aimed at "harmonising efforts, expediting problem solving in the EPA implementation process and assisting the national Authorities to improve their activities related to the communication dimension of EPA Implementation"¹², this network comprises two facets: (i) a public website (see: www.cafein-online.net/) intended to raise awareness around the EPA¹³; and (ii) an intranet platform to allow networking among key CARIFORUM EPA implementing authorities at all levels. This network should facilitate cross-sharing of experiences and best practices.

Joint CARIFORUM-EU Trade and Development Committee foreseen for September

It is moreover worth noting that the Joint CARIFORUM-EU Trade and Development Committee meeting (responsible for the implementation and efficient application of the provisions of the EPA), should be held on 27 September in Port-of-Spain, Trinidad and Tobago. Among other items on the agenda is the approval of the Joint Consultative Committee of academics and civil society, the last of the institutions related to the agreement still to be brought into being. It will be preceded by a preparatory meeting of CARIFORUM EPA Implementing States in the first week of August, and will be followed by a meeting of the Joint CARIFORUM-EU Council (highest institution in the context of the EPA) on 26 October, in Brussels.

Notes

1. See Decision No 2/2012 of the ACP-EU Council of Ministers of 15 June 2012 concerning the status of the Republic of South Sudan in relation to the Partnership Agreement between the members of the African, Caribbean and Pacific Group of States, of the one part, and the European Community and its Member States, of the other part. (Brussels, 19 June 2012)
2. ACP Group/ Resolution N8 of the 95th Session of the ACP Council of Ministers held in Port Vila (Vanuatu) on Economic Partnership Agreements. Port Vila, 13 June.
3. European Parliament. Press Release. Developing countries need more time to ratify new EU trade agreements, say MEPs. 22 June 2012.
4. European Parliament (2012). OPINION of the Committee on Development for the Committee on International Trade on the proposal for a regulation of the European Parliament and of the Council amending Annex I to Council Regulation (EC) No 1528/2007 as regards the exclusion of a number of countries from the list of regions or states which have concluded negotiations (COM(2011)0598 – C7-0305/2011 – 2011/0260(COD)).
5. See Ramdoo, I. and S. Bilal. 2011. EPA Negotiations: The honeymoon is over.... ECDPM Briefing Note 31. Maastricht: European Centre for Development Policy Management.
6. ECOWAS Press Release. N173/2012. Mission conjointe des Présidents des Commissions de la CEDEAO et de l'UEMOA auprès de l'Union Européenne. 22 June 2012.
7. Ghana will protect her economic interest if ECOWAS-EPA fails - Ms Tetteh, GhanaWeb, 28 June 2012.
8. Diop, Chimère, Diouf Oumar, Honliasso Anani et Seck Galaye, Appui à la création du Fonds Régional APE Afrique de l'Ouest, rapport provisoire première étape, ECO, octobre 2007. For a presentation of the report, see the presentation by Chimère Diop, at the 1er Forum des affaires de la CEDEAO, Accra, 31 October 2007, www.privatesector.ecowas.int/fr/event/ecobiz/presentation/Presentation_Accra_fonds_regional_%20APE_Mode_de_compatibilite.pdf
9. In this respect, however, and given the concerns expressed by the SADC party regarding the heavy legal procedures that would be necessary to amend in the future the lists of products excluded from cumulation, the parties notably agreed in Pretoria that the lists that will be included in the agreement could be updated through less constraining procedures, for instance by notifying the joint committee for customs matters.
10. GREAT insight has been informed that Namibia submitted a request for an automatic derogation of 800 tonnes for tuna.
11. Meeting on EPA calls for action on communications and public education. 1 November 2011. CARICOM Press release 398/2011
12. EPA Workshop gives direction for monitoring and communication, CAFEIN website.
13. CARIFORUM launches EPA Implementation Network "CAFEIN". GIZ Trade Newsletter. 18 June 2012.

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Monthly Highlights from ECDPM's Talking Points Blog

www.ecdpm-talkingpoints.org/

Development: between and rock and a hard place? Talking Points, Paul Engel, 29 June 2012

This article was published in ECDPM's Annual Report 2011. It seems fair to expect that 2011 will come to be seen as the year in which the contours of a new global consensus on development emerged. The traditional focus on aid alone was replaced by a more comprehensive view of international cooperation aimed at achieving solutions to national and global challenges. It was also the year that South-South cooperation arose as a potential standard for good practice in development cooperation. Above all, it was the year in which Africa, with the Tunis Consensus on Development (...)

Southern Mediterranean NGOs and the quest for a new social contract in the region, Talking Points, Niccolò Tissi, 22 June 2012

Few would question the importance of civil society's role in the events of the Arab Spring, especially in Tunisia and Egypt. Non-state actors were a catalyst for change, particularly as they were vocal in calling for more democratic participation, for government accountability and for a legal framework ensuring the respect of human rights. However, now that transitions away from authoritarian rule have been set in motion (to different degrees), in many instances Arab civil society faces the difficult task to put forward a new, enduring, development agenda. This is all but an easy quest, and (...)

EU support to regional integration: between cuts and 'unfailing' commitment, Talking Points, Kathleen Van Hove, 15 June 2012

Despite being hit by the current economic and financial crisis, Europe remains a strong advocate and keen supporter of deep regional integration, at home and abroad. In Africa, the arguments for fostering integration are manifold; from building larger markets that can attract

Foreign Direct Investments, achieving economies of scale, enhancing competitiveness, to fundamental security considerations. Today there are a host of ambitious integration arrangements among African states, many of them overlapping in space and scope. However the track record is quite disappointing for a variety of reasons. What could the EU do to improve this (...)

A new conflict-free standard can build confidence in gold, Talking Points, Terry Heymann, 8 June 2012

++ GUEST CONTRIBUTION ++ Mining is a driver of development but despite its capacity to create wealth and alleviate poverty, it can also be a potential source of finance for armed conflicts in certain high-risk and fragile areas. A number of multilateral initiatives are under way to address this issue and to reduce the risks. The World Gold Council is pioneering in developing a "conflict free gold standard", and ECDPM will hold a consultation to gather inputs from various stakeholders before the World Gold Council finalises the standard. In a guest contribution Terry Heymann, Director, (...)

Charting change at the European External Action Services (EEAS), Talking Points, Andrew Sheriff, 8 June 2012

Organisational charts in general can't tell you much about what happens behind the scenes in a company or an institution. They don't show who is in or out of favour, they don't map influence and informal lines of communication dictating priorities. However, when looking at previous versions and updates, they help to understand how an organisation is evolving, or at least the formal thinking about how it should. Last week the EEAS published a new version of its organisational chart (dated 1st of May 2012), displaying its internal structure and stating the names of key (...)

Monthly highlights from ECDPM's Weekly Compass Update

www.ecdpm.org/weeklycompass

EU weak on early warning systems for conflict prevention, Weekly Compass, No 114, 22 June 2012

Although the EU adopted a conflict prevention agenda and has shown a lot of interest in early warning systems, it is struggling with putting this into practice effectively, finds a new report by the NGO Saferworld. Data from two case studies in Africa and Asia show that "there is no shared understanding across the EU of what its early warning system is and what its purpose should be" and that "the EU does not conduct systematic analyses to inform its programming process or political dialogue". A set of timely recommendations proposed by Saferworld could help the EU to improve its practice so it can tackle the root causes of conflict more proactively once the newly established European External Action Service will be fully up to speed.

Poor countries likely to be hit hard by Euro crisis, Weekly Compass, No 114, 22 June 2012

A breakup of the Euro zone could cost developing countries around 25 billion EUR in lost trade and foreign investment, according to a new estimate by Oxfam. This amount is equivalent to almost a quarter of the global aid budget and its loss would pose an additional challenge to poor countries. To mitigate the negative effects, Oxfam called on the G20 that met this week to implement a five-point policy programme, which also includes the introduction of a global financial transaction tax. In another recent paper on the same topic ODI provided a set of policy recommendations to developing countries on how to cope with the impacts of the European debt crisis.

Will more money add value to the Joint Africa-EU Strategy? Weekly Compass, No 113, 15 June 2012

Negotiations on the next EU budget have put the Joint Africa-EU Strategy (JAES) under intense scrutiny. Despite the existing commitment to the strategy on both sides, there is wide consensus that it struggled with delivering on many of its ambitions. One of the reasons for this is the lack of an ad hoc financial instrument. This has prompted the European

Commission to propose a 1 billion EUR envelope - the so-called Pan-African Programme (PAP) - to support the implementation of the strategy. While this proposal reasserts the EU's faith in the JAES, it prompted a debate on its future. In a Briefing Note, ECDPM's Faten Aggad-Clerx and Nicola Tissi analyse whether this new financial envelope would help to revitalize the strategy and highlight some broader issues EU member states should consider in the negotiations of the PAP.

Private profit for public good, Weekly Compass, No 112, 8 June 2012

As global aid flows stagnate, several development agencies have suggested a dramatic scaling up of public finance devoted to supporting private sector investments. By 2015, the amount of donor support to the private sector is expected to exceed \$100 billion - making up almost one third of external public finance to developing countries. A new report by Eurodad assesses grant and loan trends in the portfolios of some of the largest multilateral and bilateral development agencies. It looks at which types of companies are benefiting the most from public aid and how development institutions ensure they support responsible investments that contribute to equitable and sustainable development.

Aid for Trade and innovative financing, Weekly Compass, No 111, 25 May 2012

The aim of the multilateral Aid for Trade (Aft) initiative is to channel aid resources towards interventions enabling developing countries to "trade their way out of poverty". Since its inception in 2005, the aid context has changed and the international development community is now looking beyond traditional aid, seeking to combine it with 'innovative' forms of finance, including greater levels of private funding. A new ECDPM Discussion Paper explores this shift and the relationship between Aid for Trade and such new forms of finance. It finds that Aft is an area that is well-suited to such an approach, and some useful models are emerging in infrastructure or agriculture finance, for instance. At the same time, innovative forms of funding have important policy implications which need to be explored further.

ACP-EU Trade Calendar

July

- 4-6 33rd Meeting of the Conference of Heads of Government of the Caribbean Community (CARICOM), St Lucia
- 9-13 Joint EAC-EU Technical Officials meeting, Brussels, Belgium (TBC)
- 11-13 ECOWAS meeting on the Regional EPA Fund (FRAPE)
- 18-19 SADC-EU EPA Technical Working Group on Market Access (venue TBC)
- 23-27 Thirty-Fifth Meeting of the CARICOM Council for Trade and Economic Development (COTED), Guyana
- 27 Pacific ACP Officials Meeting, Suva, Fiji
- TBC Joint West Africa-EU technical meeting on Market Access, Accra, Ghana

August

- 1 Meeting of CARIFORUM EPA Implementing States (date and venue TBC)
- 8-9 2nd CARIFORUM-EU Business Forum, with the theme "Making the CARIFORUM-EU Economic Partnership Agreement (EPA) Work", (venue TBC)

September

- 27 Joint CARIFORUM-EU Trade and Development Committee meeting, Port-of-Spain, Trinidad and Tobago
- TBC SADC-EU EPA technical meeting on Rules of Origins (venue, TBC)
- TBC ESA-EU iEPA Committee inaugural meeting, Brussels, Belgium (TBC)

October

- 8-12 Central Africa-EU Technical meeting, Brussels, Belgium (TBC)
- 26 Joint CARIFORUM-EU Council meeting, Brussels, Belgium (TBC)
- TBC Pacific-EU Technical negotiating session (venue tbc)

Resources

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