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Feature

Country Perspectives: Mining & Development

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Thematic Focus:

From Growth to Transformation: What Role for the Extractive Sector?

The forthcoming African Economic Outlook 2013 focuses on an issue high on the agenda of African policy makers, namely fostering structural transformation from natural resources in Africa. The report will focus notably on the management of resources and the expectations they create, the potential for strategic diversification and linkages that can be developed to transform resources into long-term, sustainable and inclusive development. Because of the many on-going discoveries of new sources of energy and minerals in African countries, extractive resources in particular generate big hopes. In this context, this issue of GREAT Insights, produced by ECDPM in collaboration with the OECD Development Centre and the UN Economic Commission for Africa, provides an accompanying platform to reflect on the potential of extractive resources to foster structural transformation for sustainable development in Africa.

From Vision to Action: what are the milestones?

The extractive sector is expected to play a catalysing role in many African countries, notably for industrial development and structural transformation. Yet, for the continent's resources to be beneficial and valuable for its people, policy makers need to address not only the governance and sustainability of the extractive sector, but also to stimulate value addition and promote linkages with other sectors of the economy. Sharing experiences and lessons among resource-rich countries is an important step to overcome numerous challenges ahead.

A coherent strategic vision and effective implementation will also be paramount; at the local and national levels, but also at the regional one.

In this regard, 2013 is an important year for Africa. *First*, the continent celebrates the 50th anniversary of pan-Africanism. The recent African Union Summit has already set the tone, by giving strong political signals of a new impetus for the African renaissance. This is expected to stimulate endeavours for a structural transformation of African economies, notably by harnessing the benefits from natural resources, such as minerals and agriculture. It will be fully endorsed by the Chairperson of the African Union Commission, the Executive Secretary of the UN Economic Commission for Africa and the President of the African Development Bank, who have been asked to help formulate a vision for Africa, 50 years from now.

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Secondly, Africa's evolving discourse on the post-2015 development agenda puts the continent's interests and priorities first, anchored in the understanding that its enormous potential and endowments, including mineral resources, have to be harnessed in order to turn the growth of the last decade into sustainable transformation. There is growing understanding that mineral resources need to play an important role in the development efforts of the continent. This is widely reflected in several initiatives and strategic documents.

The *Africa Mining Vision* (AMV) provides the continental framework and support to achieve this objective, and an *African Minerals Development Centre* (AMDC) will be officially established in 2013. This is a reason to celebrate because, for the first time, the continent will endow itself with a one-stop facility to support the implementation of the AMV. Similarly, the *African Minerals Skills Initiative* (AMSI), an integrated Private-Public Partnership strategy, will focus on skills development, beyond the mining sector, by promoting innovative approaches to capacity development, helping countries mainstream the AMV, develop their own mining visions, and strengthen planning, especially for resource corridor development. A key focus area of the AMSI will be to strengthen the capacity of African entrepreneurs to enter minerals value chains: without an indigenous entrepreneurial class that can harness the opportunities to develop value chains, there will be leakages and only minimal wealth will be retained from the extractive sector.

Finally, at the national level, booming economies are rethinking their fundamentals, notably by designing policies to move from growth to long-term and inclusive transformation, using their natural resources as a lever. To ensure coordination and coherence, the AMDC will assist countries in mainstreaming the AMV at the national level, by supporting the formulation of country mining vision, in line with broader goals, interests and objectives. All those efforts would amount to little without an African governance framework to monitor progress in implementing the AMV and achieving the objectives of the AMDC. More importantly, such framework should help generate robust social compacts at the national level by facilitating the alignment of stakeholders' understanding on mineral benefits and managing expectations better. The African Peer Review Mechanism (APRM) assumes a renewed importance in this regard: it is the ideal governance framework for linking institutional issues around fiscal regimes and mineral resources to strengthen transparency and domestic accountability to citizens.

Looking forward

Promoting an effective and transparent management of resources, and of the expectations they create, remains a formidable challenge. Security issues in the Sahel region, political instability in North Africa and recent conflicts in Central and West Africa severely impede structural transformation. Global economic prospects are still relatively bleak and the crisis in Europe and in the US continues to unfold. Furthermore, the world, and Africa in particular, is not immune to the risk of a commodity price bubble burst.

> (...) promoting sustainable development in the minerals sector is a joint responsibility of home and host countries, (...)

Addressing the impacts of such shocks requires strong, concerted efforts by countries themselves, using fully their regional and continental mechanisms. They must also be supported by the international community and external partners. Indeed, promoting sustainable development in the minerals sector is a joint responsibility of home and host countries, shareholders and civil society organisations, captains of industry and mine workers, as well as politicians and ordinary citizens. The success of a long-term, inclusive transformation will depend on three Ps: *p*olicies, *p*olitical processes and *p*artnerships.

At the **policy level**, a coordinated and integrated value chain approach to mineral resource development is necessary at all levels. It is therefore important to move away from a too common narrow approach, which considers the extractive sector as an enclave in the economy, towards a more comprehensive one, which focuses on the linkages with local businesses and other non-extractive economic sectors. New institutional frameworks that promote inter-departmental collaboration and policy coherence are necessary, and mineral policy must be linked with industrial, trade and educational policies.

At the **political level,** while leadership is key, the interests of a few must be decoupled from the broader collective interest in economic transformation. Indeed, the twisted relationship between rents and politics can lead to counter-productive outcomes. Coalitions at the national, regional and international levels can help counter those. The APRM provides the platform for dialogue and alignment of interests.

Finally, efforts to build **partnerships** in support of Africa's aspirational goals in the extractive sector have to be based on a common understanding of challenges and opportunities. The strategic alliances to realise the Vision will not stem from a donor-recipient relationship; rather, they need to be based on trust, mutual interest and equality among the parties involved. Engaging partners in a constructive dialogue is therefore essential to moving the agenda forward.

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Bridging Africa's Transformation Gap: Could Natural Resources Do Good After All?

By Jan Rieländer, Abebe Shimeles and Henri-Bernard Solignac-Lecomte

Last year's edition of the African Economic Outlook (AEO) on Promoting Youth Employment showed that, despite steady growth, Africa's capacity to offer economic and social opportunities to its younger generation has been falling short of its demographic dynamism: African economies today are facing no less than the formidable challenge of creating more and better jobs, not just by sustaining the pace of growth, but by making it more inclusive.

Africa's Structural Transformation Gap

Emerging economies, such as China, Brazil, India and others have been more successful than most African countries in that endeavour, achieving impressive reduction in poverty on a sustained basis for over two decades. How are they different from Africa? They have undergone a more rapid *structural transformation*, i.e. the process by which new, more productive activities are created and resources move from traditional activities to these newer ones. A higher proportion of labour thus moved from low to high productivity sectors. In Africa, evidence suggests that structural transformation is still at its formative stage in most countries and has not yet taken a deep root.[1] As a result, the pace of poverty reduction has not been commensurate with the relatively rapid growth attained in many countries.

Fresh evidence is casting light on the magnitude of the shortfall: the African Development Bank's Research Department recently analysed changes in poverty for selected African countries, using successive household surveys in the 2000s: results - to be published in the forthcoming *AEO 2013* - suggest that the bulk of the change in poverty was due to a rise in productivity - per capita income or output per worker - within each sector, while the movement of labour across sectors, a proxy for structural transformation, made negligible contributions. In fact, changes in employment across sectors were associated with a rise in poverty on average.

Figure 1 goes one step further and sketches what poverty reduction would have been like, had labour moved from low productivity to the most productive sectors of the economy: the pace of poverty reduction would have been much faster under such positive structural transformation.

Are Natural Resources To Blame?

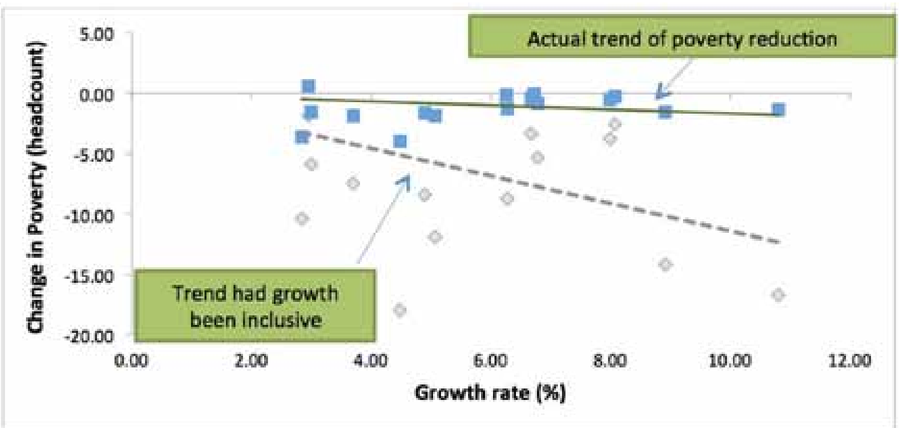
A lot of the growth achieved by Africa in the last decade originated from the same, primary sectors, such as agriculture, mining and energy: many African economies continue to depend heavily on exports of unprocessed raw material, with little additional value or employment created on African soil. The abundant literature on the 'resource curse' has conceptualised the vicious circle of bad governance and lack of economic diversification that seems to beset those economies.

How can African economies break that vicious circle? How can its economies break away from the resource curse and bridge the transformation gap? Should they prepare to seize the new opportunities open by rising labour costs in China, and adopt East-Asian types of manufacturing, export-led strategies, like Mauritius successfully did 30 years ago? Should they invest massively in the processing of raw materials extracted from African soil, so as to climb up the global value chains and retain a larger share of their own wealth? Or should they look into an alternative "Indian model" centred around services?

Africa is not Asia: natural resources -energy, minerals, and agriculture - will undoubtedly remain the continent's comparative advantage for the foreseeable future. Former DFID Chief Economist Adrian Wood's diagnosis holds: "*Although there are important lessons for Africa from the experience of East Asia, the sectoral and spatial structures of an increasingly prosperous Africa will be more like those of the Americas. Because it is land-abundant, as is America, Africa will always have a larger primary sector and a smaller manufacturing sector than the land-scarce regions of Asia and Europe*" .[2]

Yet most young African nations failed to build on those natural resources to accelerate their development in the decades following independence. The primary sector has often been seen as contributing little to economic development. Agriculture was branded as backwards or traditional and extractive industries as 'enclave' activities that offer few opportunities for employment and for the generation of important expertise for higher value added activities. Focusing on industrialisation was seen as the high path to development. Many African countries pursued policies aimed at fast industrialisation, defying their comparative advantage[3] in natural resources. Often these policies were actively biased against the primary sector, especially against agriculture. The result has been a sub-par performance of the primary sector and little industrialisation to show for. The share of manufacturing value added products in Africa's export has remained at the same level for the last 20 years. Agricultural productivity in Africa is lower than elsewhere: 24% of global agricultural land is in Africa, but only 9% of global agricultural production. As a

Figure 1. Poverty reduction in Africa had labour moved to higher productivity sectors



Source: African Economic Outlook 2013 (forthcoming).

consequence of rising commodity prices, Africa's production of mining and petroleum products has increased over the last decade, but it remains the most underexplored continent. Expenditure on mining exploration activity in Africa has remained below US$ 5 per square kilometre relative to an average of US$ 65 per square metre in Canada, Australia and Latin America.[4]

What can we learn from the experience of African economies? The original desire to build a diversified economy that provides employment and protects the economy from the risks of overdependence on a single product was a good one. The mistake was to look at the primary sector as a single entity, standing in the way of diversification. Indeed, several developing countries have successfully grown by actively basing their strategy on their resource endowment. They have shown that the primary sector itself can be an important source of diversification. Chile used its proceeds from copper to invest into new agricultural commodities, such as salmon, a product that had not been part of the countries export products before. Malaysia invested its oil revenues into forestry and palm oil, building very successful industries. Indonesia used its oil rents to supply fertilizer to farmers and develop new crops, building the basis for the country's green revolution.

Another mistake made was fixating on the enclave nature of extractive industries as a reason for their inability to generate technological advancement and inclusive growth. The key is to look beyond the core business of extraction, and consider all the "lateral" opportunities, such as supplying food for miners or engineering services. As lead resource firms increasingly concentrate on their *core* activities, they strive to outsource those *other* functions. In many cases, technology requirements for those inputs pose a lower threshold, so developing countries can more easily participate in this part of resource value chains.

The fact that every resource deposit has specific characteristics poses further opportunities for local value addition. This route has previously been taken by South Africa and Australia, both of which now have internationally competitive industry's for mining supply.[5] More recently, Chile has successfully developed local know-how on adapting mining technology to local conditions, and Nigeria has also started to build up a supplier industry for its resource sectors. A range of low- to high-tech activities such as food supply chains or engineering and chemical analysis services for the setting up of mining operations offer opportunities to generate employment and build capabilities through learning-by-doing that can be the basis for expanding the economies production possibility frontier.

Furthermore, the pursuit of processing and beneficiation of raw materials has proven challenging in Africa and elsewhere for a number of reasons. First, the distance between the necessary technology and local know-how was often too large to generate meaningful learning opportunities for enough people to create new capabilities. Second, the search for value addition does not always make economic sense. Consider for example distance to markets: the higher the manufacturing value added of a product, the higher are transport costs and the more important is proximity to the customer. Chile decided against a copper processing industry because the additional transport costs for copper products like wire and sheets from Chile to consumer markets in Europe and the US would have been higher than the price difference between these products and simple copper concentrate. In fact, most of the recent increase in prices has accrued to miners, not processors. Refining charges accounted for 30% of the price of refined copper in the 1990s but are down to less than 10% today. Third, the raw material input, for example in the form of ore, is evidently essential, but only one of many inputs into the processed product. Energy is another one. In the USA aluminum smelting alone consumes 5% of total electricity production,[6] which is equivalent to a third of Africa's electricity production. In most of Africa, however, electricity is a scarce good. At about 28 megawatts the energy capacity required to refine 10,000 tons of copper, roughly 2% of Zambia's annual production, for example, would be equivalent to two times Benin's current electricity generating capacity.[7]

The good news is that having a large natural resource sector is not at odds with industrial capacity. Recent analysis of the determinants of comparative advantage by the OECD Development Centre - to be published in the forthcoming AEO 2013 - demonstrates the close link between a strong resource sector and strong manufacturing sector. Balassa defined a country's revealed comparative advantage (RCA) as the number of products which the country exports relatively more of than these products' share in world trade. Applying this concept separately to raw commodities and higher value added products we find that countries' RCAs in both categories are closely related. Countries that have comparative advantages in a large range of raw commodities also tend to have comparative advantages in a wide range of higher value added products. Thus, instead of holding a country back, a strong primary sector is an important step towards a diversified economy that creates productive jobs. What's been holding back Africa was not the large share of its primary sector per se, but the poor performance of this sector. Investing in the right conditions for agricultural productivity and mineral exploration and assuring the domestic economy build capabilities in the process will pay off.

This is where the double dividend of extractive industries comes to play. Beyond the creation of jobs and capabilities, arguably the greatest benefit offered by extractive industries in the short- to medium-term is revenue collection. Invested wisely, the proceedings from mining and petroleum production can be used to fund many of the crucial inputs for structural transformation such as education and health, as well as infrastructure and strong public services.

Charting an Economic Transformation Agenda

Instead of putting the primary sector aside, African countries should look at it for its strengths and the opportunities it offers to create a diversified economy. Can policy beat the odds? It can, but to be successful in promoting structural transformation, it must be done differently than in the past. The fact that the African Union and Economic Commission for Africa are dedicating their *Sixth Joint Annual Meetings* later this month to the theme *Industrialization for an Emerging Africa* is a strong signal: as sources of development finance continue to rise and diversify, and their policy space broadens --underpinned by sustained macroeconomic stability--, a growing number of African governments are exploring options for actively promoting the transformation of their economies; industrial policy and economic planning "2.0" are back on the agenda. The forthcoming *African Economic Outlook 2013*, out in May, aims to help policy makers get it right.

Notes

1. McMillan and Rodrik, 2011
2. Wood, 2002
3. see Lin's *New Structural Economics* for an explanation of the concept
4. Ncube, 2012
5. see *One thing leads to another* by Morris, Kaplinsky and Kaplan
6. see *Nature's Building Blocks* by John Emsley
7. see *World Bank Open Data* for electricity data

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From Growth to Transformation:
Time to close the gap between extractive sectors and other productive sectors

Isabelle Ramdoo

Africa's impressive growth performance in the last decade, largely driven by the commodity boom, and in particular, by high demands from emerging markets, has been widely heralded. This is very positive and most welcomed, in particular after almost *two lost decades* during which many struggled hard with their macro-economic imbalances or with other political challenges.

But although necessary, growth alone cannot do it all. More is needed to attain long-term, sustainable and inclusive structural transformation. Zooming into the economic structures of many African countries, much remains to be done to translate opportunities arising from the good economic performance into real, high-quality employment, business prospects for local entrepreneurs and more broadly, into a solid industrial base that can propel countries to a higher level of development.

To maximise on the good fortune, development strategies in mineral-rich African countries, have to take a more transformative approach. In this regard, bridging the gap between extractive sectors and other productive value chains is necessary. Three complementary policies are thus essential, namely:

1. Creating and promoting linkages *within* the extractive sector, notably through focused industrial strategies to boost backward and forward linkages;
2. Promoting linkages *outside* the extractive sector, notably in the field of agriculture, the most important economic sector in Africa; and
3. Strategic positioning in the global value chain, to ensure integration into the complex system of fragmented production.

Linkages *within* the extractive sector

To overcome the current situation of over-dependency on few economic sectors, it is important to consolidate the growth performance by building strong economic fundamentals around productive sectors. The *fiscal link* can act as a first lever, by using the windfall gains from the extractive sector to support other productive sectors.

To be transformative, the extractive sector can no longer be just a source of raw materials and unprocessed goods produced locally and meant to be transformed elsewhere. It is therefore important to provide incentives to facilitate business opportunities because and investment, which can in turn can act as a catalyst, in support of employment, industrial value creation and growth of an indigenous entrepreneurial class. This needs to fit in the overall development of the domestic supply chains.

While the purpose is *not to turn miners into manufacturers* nor for governments to pick winners from the business community, it is nevertheless essential to have a proper framework within which the private sector can operate. This requires a supportive business climate and a *set of carefully designed industrial policies,* aimed at promoting linkages *within* the extractive sector. Government can generally act as a facilitator, notably by providing efficient public goods such as infrastructure and education and by addressing some of the existing market failures,[1] which are particularly strong in the extractive sector. It must also undertake complementary reforms to address numerous remaining challenges, such as the technological divide, infrastructure deficits and other institutional and governance weaknesses, amongst others.

More broadly, it is also important to fix the current disconnect between the extractive sector and the wider industrial sector. So far, the lack of high value-added industrial activities in many African countries have resulted in countries accounting for negligible shares in global industrial output and manufactured exports. While it is widely recognised that industrial development is key to structural transformation, the current resource boom therefore represents a unique opportunity to create and promote those linkages. In essence, two types of linkages have substantial potential, albeit to different degrees:

1. *Backward linkages*, relating to industries that *supply inputs* to the extractive sector. Examples include industries that produce specialised equipments, machinery or services for the extractive sector or service provider and industries that operate at the exploration stage, prior to exploitation and production.
2. *Forward linkages*, which consist of industries that use the *inputs* from the extractive sector into other activities. These linkages provide the opportunity to develop clusters of manufacturing activities around the extractive sector through beneficiation processes and higher value added activities.[2]

Taken together, linkages can therefore generate synergies with other productive sectors to create more productive jobs and competitive industries.

Linking the extractive sector with *other* productive sectors: The case of agriculture

Agriculture is the most important economic sector in many African countries, with an average GDP contribution estimated at 30% in 2012. It can act as catalyst for Africa's broader economic transformation, if supported in a strategic manner. Extractive sectors are next in line, although in some countries the latter have a far larger economic impact.

That said, the extractive sector and agriculture have at least one thing in common: both are guided by strong political considerations, although for different reasons. In the case of the extractive sector, rents generated create, structure and maintain incentives for many stakeholders. The relationship between politics and rents not only have bearing on the (mis)management of resources, they also continuously shape governments' relationship with citizens. High revenues too often lead to low tax collection, in turn weakening accountability link between the citizen and the State, in the end distracting governments' attention from the needs of the people.

In the case of agriculture, rural and small-scale agricultural farmers represent a significant proportion of *voters*. History and recent events have testified that food (in) security is a powerful instrument, capable of triggering popular upheavals against the political power in place and hence destabilise a government.

Governments therefore have strong interests in policies in both sectors. While both sectors have their own sensitivities, governments may, however, use the gains from one sector to compensate and lift the other sector to a higher level of development, notably by using financial resources from the extractive sector to irrigate agriculture, or through support to value chain development and to local entrepreneurship in agribusiness.

Extractive companies can also play a lead role in supporting agricultural economic activities. This can be a way to maintain their *social license to operate* in regions where agriculture is a mainstay, but where farmers still struggle to provide for their own subsistence. In their endeavour to work better with local community, there are basically three ways in which extractive companies can support the creation of linkages with and for local farmers, namely:

1. Supporting programmes to encourage *value chain activities* in existing farming activities or encouraging the development of new, integrated activities from farm to fork.
2. Pursing a *breadbasket* approach, when industries operate in regions that have high agricultural potential by virtue of their relatively good climate or soil endowments. They can support linkages between small farmers and the larger, market-oriented farming operations, encouraging small farmers to grow staple food and helping them to sell their surpluses on the local/national/regional markets.
3. Developing *spatial agricultural activities* along infrastructure corridors, which serve first and foremost the needs of the extractive sector. This includes support to storage, warehousing and processing facilities around already existing major infrastructures and support to the development of clusters of activities or regional agricultural value chains, in and across countries that are serviced by these corridors.

Integrating the global value chains

The context in which countries are today promoting industrial development is far more complex than what it was a few decades ago, as the available policy space for pro-active industrial policy intervention has been dwindling. Today, self-imposed international legal frameworks and bilateral and regional liberalisation commitments greatly constrain the margin of manoeuvre of countries, who could be tempted to frame their national policies to protect their nascent industries.

Furthermore, the world is far more globalised and production structures are more integrated and sophisticated. In addition, there is a growing interdependence between services and manufacturing industries, where the production of manufactured goods involve a multitude of services inputs and service-like activities, to the extent that distinction between manufacturing and services has become increasingly blurred. The recent mergers and acquisitions between mining companies and companies that have commercial activities, as in the recent Glencore and Xstrata merger, give some flavour of the complexity and increasing fracturing of the global value chain.

The growing importance of global value chains in the production process is at the heart of the economic system. The increasing fragmentation of production processes, coupled with country specialisation in specific tasks and business activities, as well as the growing role of networks, global buyers and suppliers have all shaped industrial activities and policies[3] as reflected by the rising share of trade in intermediate inputs, estimated[4] to represent some 50% of OECD imported goods and almost 75% of imports from countries such as China and Brazil.

Medium-sized and large companies generally dominate the extractive sector in developing countries, leaving little space for small, local companies to operate. In addition, they outsource their activities to enterprises overseas, where the business environment is more efficient and where competitive advantages are more important.

Africa still lags behind in this cobweb of value chain integration. This is in part due to weak domestic industries and relative competitive disadvantages vis-à-vis Asian economies, but also due to the difficulty to link theirs existing industries to geographically dispersed and continuously shifting activities. However, bottlenecks need to be addressed to ensure access to international markets.

The way forward

Attaining an effective structural transformation necessarily requires the *disenclavement* of the extractive sector. Linkages can provide for that, if done in an effective manner. Otherwise, once the commodity boom is over, countries will have little solid basis to sustain development objectives. Policies must be consistent, sequenced and coherent, and take into account commitments with third partners as well as concurrent policies developed at the regional or pan-African level. Internalising broader frameworks such as the Africa Mining Vision, the Accelerated Industrial Development of Africa (AIDA), the Comprehensive Africa Agriculture Development Programme (CAADP) or the Programme for Infrastructure Development in Africa (PIDA) in national strategies can help foster synergy between national and continental approaches and facilitate a more encompassing and coherent transformation framework. Acting as a facilitator, Government must also work in partnership with industries to complement to their own efforts and with international development partners, engaged on their side, in supporting national and regional initiatives. Bringing all the stakeholders to the table to support transformation can only bring more positive and inclusive results.

This article is a summary of a forthcoming ECDPM Briefing Note 48. – Ramdoo I. and Bilal S. Fixing Broken Links: ECDPM 2013. www.ecdpm.org/bn48

Notes
1. These include information asymmetry, notably on the geological knowledge; inefficient financial markets, which prevent local investment; excessive red-tape, preventing innovation and entrepreneurship; rent-seeking behaviours and corruption, that often shape the (in) efficiency of policies and development outcomes; dominant market conditions of large firms, which often prevent local firms to tap the benefits of the super-cycle etc.
2. On the example of diamonds, see the article by Roman Grynberg in this issue.
3. OECD. 2012. *Mapping global value chains*. Paper prepared for the final WIOD Conference: Causes and consequences of globalization, Groningen, The Netherlands. April 24-26 2012.
4. *World Economic Forum*. 2012.

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Governing Extractive Resources for Inclusive Growth

Marit Kitaw

Africa is endowed with considerable amounts of mineral resources and ranks first or second in quantity of world reserves of bauxite, chromite, cobalt, industrial diamond, manganese, phosphate rock, platinum-group metals, soda ash, vermiculite and zirconium. The continent is also a major global producer of these minerals.

For example, in 2010, Africa's share of diamond production was 57%; chromite was 48%; gold was 19%; and uranium was 19%.[1] The continent is also becoming an important player in world production of coal, oil and gas. In 2010, Africa accounted for a total share of 12.2% of the global oil production.[2] These resources play a crucial role in the economy, as they account for a significant share of exports. Indeed, mineral resource exports contribute to merchandise exports in 24 (44%) of Africa's 54 countries.[3]

The dichotomy between the wealth of nations in terms of resources and the poverty of the people in Africa has been the subject of many debates. In the scholarly literature, the paradox of countries endowed with mineral resources growing less than or similar to non resource-rich countries,[4] and the fact that oil-rich countries had declining per capita income and displayed lower development outcomes[5] are well documented. Even though recent studies suggest that from 2000 to 2012, mineral resource exporting countries in sub-Saharan Africa experienced faster growth than the non-mineral exporting ones, there were no corresponding improvements in social indicators for those countries.[6] Indeed, most of Africa's resource rich countries such as the Democratic Republic of Congo (DRC), Mozambique, Liberia and Guinea have the lowest the Human Development Indicators.[7]

Governance as an overarching principle

Successful harnessing of extractive resources for growth, poverty reduction, and social development depends on good governance and sound management practices. While there has been progress since the 1990s in promoting democracy, African leaders have identified the *entrenchment of good governance principles and practices as preconditions for Africa's development*.[8] Indeed, mineral resources can be the engine that propels Africa in the trajectory of inclusive growth if good governance practices, including transparent and participatory processes at all levels, are cemented, as articulated in the *Africa Mining Vision* (AMV). Capacitated and competent governments to ensure long-term scenario analysis and integrated spatial development and planning as well as strong institutions capable of regulating and administering the sector are key pre-requisites for the realization of the AMV. Participation of all relevant stakeholders to ensure a bottom-up approach for organic growth of social institutions, and for enhanced public participation in the development, management and oversight of the mineral sector is also crucial for broad-based growth. Participatory approaches, through public consultation and stakeholder engagement, have been shown to enhance quality, ownership, and sustainability; empower targeted beneficiaries; and contribute to long-term capacity building and self-sufficiency.[9]

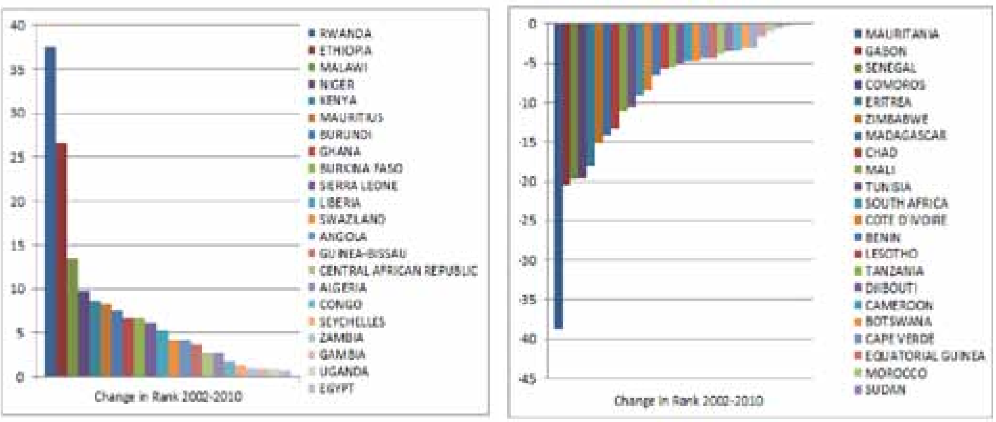
Box 1. The Africa Mining Vision

> The Africa Mining Vision (AMV), adopted in February 2009 by the African Union Heads of State and Governments, advocates for "transparent, equitable and optimal exploitation of mineral resources to underpin broad-based sustainable growth and socio-economic development". This includes fostering a transparent and accountable mineral sector in which resource rents are optimized and utilized to promote broad economic and social development; promoting good governance of the mineral sector in which communities and citizens participate in mineral assets and in which there is equity in the distribution of benefits; fostering sustainable development principles based on environmentally and socially responsible mining, which is safe and includes communities and all other stakeholders; among others.
>
> For more information, please visit: http://africaminingvision.org.

The Africa Mining Vision: setting the framework

Africa may now have a unique opportunity to use mineral resource revenues efficiently as the political economy is more favorable to developmental policies; the policy space to promote resource-based industrialization is expanding; commodity prices are high; and the quality of stakeholders' engagement and multi-stakeholders consultations is getting better. Further, African countries themselves have renewed efforts to ensure that the minerals sector contributes to sustainable socio-economic development. The African Development Forum (ADFVIII) on *Governing and Harnessing Natural Resources for Africa's Development* has put mineral resources exploitation at the center of development policy and practice on the continent, as reflected in the debates

Figure 1: Change in *Government Effectiveness* Percentile Ranking, between 2002 and 2010[10]



Source: World Bank Governance Indicators.2012. http://info.worldbank.org/wgi/index.asp.governance/

across the continent on economic and social structural transformation, on the post-2015 development agenda, and on *Africa's moment and Afro-enthusiasm.* [11]

The AMV has informed the choice of the building blocks for an effective governance of the mineral resources sector on the continent. These are, amongst others, peace, security and political stability; clear, transparent, predictable and efficient legal and regulatory frameworks to ensure mineral wealth creation; fair and equitable fiscal regimes to facilitate equity in the distribution of benefits; credible public participation to enhance ownership and shape shared development outcomes; transformational leadership and followership to harness mineral wealth with a view to building resilient, diversified and competitive economies; strong institutions to ensure effective management of the sector; adequate infrastructure including an advanced human development to remain competitive; and building a sustainable future beyond mining.

There are several initiatives and mechanisms to strengthen governance in the extractive industry sector. The most well known ones are the *Extractive Industries Transparency Initiative* (EITI), the *Kimberley Process Certification Scheme*, the *Dodd-Frank Act* and the *OECD Due Diligence Guidance*. In general, these instruments have contributed to a useful body of knowledge and practice to strengthening governance in the extractive industry in Africa. However, several studies[12] have shown that in many countries, these instruments are stand-alone and parallel structures, which are not sufficiently embedded in national policy and decision-making processes. Moving forward, therefore, it is imperative to domesticate these instruments into national processes. Strengthening governance systems and creating platforms with the view to facilitating the alignment of stakeholders' understanding on mineral benefits and managing expectations better is also fundamental. In this regard, the *African Peer Review Mechanism* (APRM) can play a leading role to advance governance in the extractive sector on the continent. The APRM, as a home-grown and African-owned mechanism, offers a great opportunity to improve Africa's governance standards in the extractive sector and the management of Africa's mineral resources. As an indigenous process, it encourages public discussion with all stakeholders through an inclusive, participative and consultative process that has the potential of assuring domestic accountability and of creating a real social compact. In adding a specific chapter on extractive industry governance to its country review questionnaire, the APRM has made a significant step towards deepening the ownership of the governance agenda in this important sector on the continent. A further step forward was also made when the 17th Summit of the Committee of Heads of State and Government participating in the APR Forum approved the revised APRM Self-Assessment Questionnaire, which includes detailed questions and indicators for the management of extractive industries. The quality and depth of the consultations that the APRM provides for, as well as the efforts to link its National Plans of Action with budget frameworks offer an opportunity to move discussions on governance beyond rhetoric to results and action-oriented compacts that can promote change.

With African ownership as a core principle, inspired by the AMV, the establishment of the *African Minerals Development Center* (AMDC) in 2013 as a continent-wide one-stop facility to operationalize the aspirational goals for the African mineral sector in a holistic and integrated manner, is an exciting development for Africa and an opportunity to seize the *Africa momen*t, to catapult Africa towards the path of sustainable inclusive growth.

Notes

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9. UNECA. 2009. *African Governance Report II.* Oxford University Press. http://new.uneca.org/agr/agr2.aspx
10. Government effectiveness reflects the ability of the public sector in providing public services, and in doing so effectively. It also reflects on institutional quality. Effective government can create an overall environment to better manage the mineral sector. Evaluation of this governance indicator in mineral-dependent States in Africa, between 2002 and 2010, indicates that Niger, Ghana, Sierra Leone, Liberia, Angola and Zambia, among others, demonstrated significant improvement in their government effectiveness (see Figure 1). However, some mineral-dependent countries such as Mauritania (-38), Gabon (-20), Chad (-13), Tanzania (-6), Botswana (-5), Nigeria (-2) and Namibia (-1) demonstrated a significant decline in their government effectiveness, between 2002 and 2010.
11. See *ADFVIII Consensus statement.* http://new.uneca.org/adfviii/home_adf8.aspx.
12. Studies include: Aaronson S., 2008, *'Can Transparency in Extractive Industries Break the Resource Curse?'* VoxEU.org http://voxeu.org/index.php?q=node/1395; Olcer, D., 2009, *'Extracting the Maximum from the EITI'*, OECD Development Centre, Working Paper no. 276 http://www.oecd.org/dataoecd/56/60/42342311.pdf.; and Shaxson, N., 2009, *'Nigeria's Extractive Industries Transparency Initiative: Just a Glorious Audit?'* Chatham House http://eiti.org/document/shaxson-neiti-glorious-audit.

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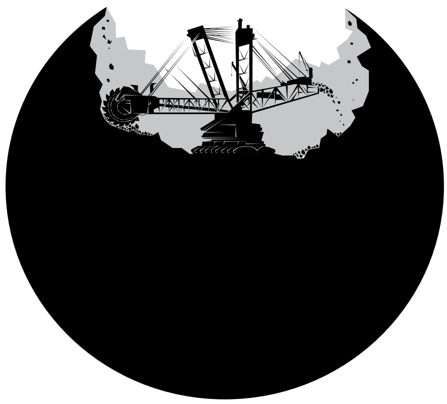
Problems in the Mining Industry in South Africa

Ben Turok

The current turbulence in the mining industry in South Africa has its roots in several different factors. First, the fall in global demand for platinum and other minerals due to recession; second, the consequences of the Marikana disaster in destabilising labour relations; and third, the structural character of our mining industry. A great deal has been written about the first two factors, so this article will examine the last factor, especially as the special features of mining cuts across the whole of mining and not just platinum.



Mining in South Africa has always been an enclave industry, albeit with substantial impact on the rest of the economy. In the main, minerals have been extracted from deep levels, subjected to some basic processing and then exported as ores without a great deal of beneficiation or fabrication. For instance we do not have substantial gold or diamond manufactured products capabilities despite having huge natural resources.

The gap between mining and manufacturing

The result of this restricted role of mining is a large gap between mining and manufacturing to the detriment of both sectors and to the national economy. Manufacturing has been subjected to extraordinarily high prices for raw material inputs such as steel, making our manufacturers uncompetitive internationally and even in the home market. The value chain and linkages so necessary for efficient and competitive production of finished goods have been seriously undermined. So has the flexibility of production needed to cope with shifts in global supply and demand, due to rigidities arising from the separation of the production of minerals and manufacturing.

This separation is strongly supported by the Chamber of Mines of South Africa, which argues that mining is driven by inherited comparative advantages, such as mineral deposits or natural beauty, while manufacturing depends on competitive advantages. They emphasise that a mineral resource endowment does not necessarily translate into manufacturing beneficiation. Furthermore, the mining industry should not be required to subsidise manufacturing beneficiation or to provide minerals below internationally determined prices.

In practice, this means that South African manufacturers have to pay import parity prices to the mining companies - i.e. the same price paid by overseas manufacturers - which ensures that our manufacturers are not competitive. When this difficulty is added to the problem posed by cheap manufactured goods from China and India, South African manufacturing operates on a very uneven playing field. Its only hope is to find niche markets where its specialised products may find space.

The isolation of mining from the total industrial value chain also has consequences for labour policy. *Amplats* is now proposing to displace 14,000 workers from mining into other activities. But what broad training have they been given to enable them to switch to other jobs, especially in manufacturing? These workers have been confined to mines, so what skills could a rock driller bring to a production line in a factory?

Bridging the gap with beneficiation

The mining industry has substantial multiplier effects on the rest of the economy, but it could contribute even more to the development of other enterprises. We need to take a hard look at the potential for downstream processes if the country is to benefit from these enviable mineral resources. The export of raw mineral resources has been steadily rising over the past decade.

In June 2011, the Department of Mineral Resources developed a beneficiation strategy for the minerals sector,[1] arguing in essence that it is possible to industrialise by leveraging natural resources, with the government driving beneficiation. Noting that "the composition of South Africa's trade with most parts of the world is characterised by the export of raw materials and the import of manufactured goods", it defined beneficiation as entailing "the transformation of a mineral (or combination of minerals) to a higher value product, which can either be consumed locally or exported. The term is used interchangeably with 'value addition'". The document called for a "paradigm shift in mineral development" and sought to "advance development through the optimisation of linkages in the mineral value chain, facilitating economic diversification, job creation and industrialisation". However, the mining industry "remains geared towards export orientation of raw material, with the bulk of current producers bolted in long term contracts with their international clients". This is the pattern across Africa and is leading to calls for "resource nationalism" to ensure greater benefits from natural ressources.

As mentioned above, the Chamber of Mines rejected many of these provisions on the grounds that mining is a specialised activity quite distinct from manufacturing. This highly questionable position serves to reinforce the enclave character of mining, with its high levels of foreign ownership and orientation towards the export of raw ore.

In December 2012, the Cabinet approved a draft amendment to the Mineral and Petroleum Resources Development Act (MPRDA) that gave effect to its constitutional obligation (in Section 24) to ensure that "the nation's minerals are developed in an orderly manner while promoting justifiable social and economic development". It provides for "the implementation of the approved beneficiation strategy through which minerals can be processed locally for a higher value", and for mineral "rights to fall within the insolvent estate in the event that a company is liquidated". It will also "strengthen the provisions relating to cession, transfer and encumbrance of rights in order to permit the partitioning of rights", and "regulate the exploitation of associated minerals".

The case for an increased role for manufacturing in the beneficiation of minerals is therefore compelling. This role would seem to be primarily suited to domestically based firms located within the mining value chain. Such firms are more sensitive to national interests and more likely to co-operate with government requirements in terms of producing for the domestic market, keeping economic rents under control, complying with tax rules, employing local rather than foreign managers and technical staff (where available) and taking account of the social impact of their activities.

The benefits of beneficiation are: job creation, contribution to skills enhancement, diversifying the economy and moving away from a primary producer status towards manufacturing-based industrialisation, increasing foreign direct investment, turning the comparative advantages of being resource-rich into a competitive advantage, small and medium enterprise creation.

Making beneficiation work for development

South African emerging mining lobby groups argue that location advantage means that finished goods are easier to transport than raw ore. Furthermore, since many mines are located in rural areas, special economic zones with tax incentives for manufacturers would encourage job creation and associated industries and services there. It is indeed the case that many mines in South Africa are self-contained enclaves that import what they need from Johannesburg and have no impact on their neighbourhood, apart from limited labour supply. Even the most basic requirements are brought in from large cities.

As other minerals such as chrome ore, platinum and copper were mined, there was some processing and smelting but the main beneficiation and fabrication was done abroad. At the same time, manufacturing industry developed partly to create inputs to mining but also in other sectors such as clothing and textiles, leather etc. A wall seems to have developed between mining and manufacturing which stands in the way of creating an integrated economic base for the country.

Yet cooperation could include such elements as agreed pricing arrangements, limited and selective protectionist measures app-lied by government, cooperation in skills development, positive procurement in favour of domestic industry, and taxation policies to encourage localisation.

The Chamber of Mines argues that their firms should remain within their "core competencies" and that the era of vertical integration within one firm is past. Paradoxically, this leaves room for local firms to move in (rather than foreign suppliers), provided that there is cooperation. The argument that mining is a function of comparative advantage (and is therefore a natural heritage) also logically leads to the conclusion that the links to the rest of the economy must be a major consideration, including the needs of manufacturing.

In any event, a rigorous examination of the value chain will indicate where the potential for local intervention may be maximised at any point in the production process from extraction to fabrication in order to become a significant multiplier. Or, if the capability is not available steps may be taken to correct this, for example by government support for infant industries, by expediting special training, etc.

Government intervention needed

South Africa must take full advantage of the presence of large mineral deposits where there is proximity government intervention can turn this to advantage. Intervention can reduce land transportation costs, promote local procurement and incentives, and ensure that local input costs are contained.

The tax regime should also favour local industry. In other countries in Africa, foreign firms have been provided with favourable tax breaks and other incentives such as no value added tax (VAT) payments, and this has worked against local firms. Furthermore, some foreign firms use their power to extract excessive economic rents beyond reasonable returns and exploit the local workforce, whereas local firms are more easily regulated by government.

Since markets in minerals are generally imperfect due the cartels dominated by multinational monopolies, developing countries need to be vigilant to protect the national interest.

Government is responsible for laying out the necessary infrastructure such as energy supply, roads, water, rail, ports etc but these facilities should not only be in favour of foreign firms which export raw ores, but also for the support for domestic firms in the value chain. This has been neglected in South Africa in the past.
The licencing of mining to foreign firms may be a problem. Since minerals in South Africa are formally public property, under the control of government, conditionalities should be prescribed such as providing a portion of mineral assets for beneficiation by historically disadvantaged firms and their communities, local procurement etc.

Licences should specify the quantities allowed for export, prices for domestic users, environmental protection, and all socioeconomic factors. Above all, there must be full acceptance that minerals are a depleting resource, so downstream considerations should be taken seriously and industrial capabilities built in to ensure a sustainable economic future.

The current debate in South Africa about state intervention can be accounted for by the failure of mining to enhance the further industrialisation of the country and give adequate attention to the living conditions of its workers as Cyril Ramaphosa has pointed out.

The State Intervention in Mining Sector (SIMS) report of the ANC examined international practice in Brazil, Chile, Venezuela, Botswana, Namibia, Zambia, China, Malaysia, Norway, Finland, Sweden and Australia and is probably the most comprehensive study in this area yet.

The main message from all this research seems to be that we need to break away from the notion that mining is an enclave industry which must be treated as a generous benefactor to be treated with kid gloves. On the contrary mining exploits a country's endowment, which is ephemeral, and whose potential multiplier effect must be realised while it is thriving, not when it is in decline. This is best realised by rigorous analysis of the interface between mining and industrialisation.

Notes

1. www.info.gov.za/view/DownloadFileAction?id=147564

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Diamond Beneficiation in Botswana

Roman Grynberg

In 2011 Botswana is estimated to have exported 25 million carats of diamonds, making it the world's largest diamond producer by value, and the second largest by volume, after the Russian Federation. This production is however down from 35 million carats in 2007, the last normal year of production, prior to the global financial crisis. While unit export prices have risen from USD 91/carat to USD 218/carat, government revenues from diamonds have fallen.

However, there has been an important policy shift in 2012. Indeed, in 2012, Botswana has cut 18-20% of its own rough diamond production domestically and has signed a new marketing agreement with De Beers, its partner,[1] whereby all its diamonds will be sold through the Diamond Trading Corporation Botswana (DTCB) by December 2012. This implies that all sorting of De Beers diamonds, that once took place in London, will now be done in Gaborone

At present, the diamond cutting and polishing industry employs 3,200 workers, 94% of whom are nationals. This is the single largest manufacturing activity in Botswana. Employment in the industry has however remained at this level since the beginning of the global economic crisis.

> (...) the diamond cutting and polishing industry employs 3,200 workers, 94% of whom are nationals.

The domestic sorting and processing of diamonds has been a major political and economic objective of the more nationalist elements of Botswana's Government since 20 years. Originally, De Beers had been strongly opposed to any domestic processing, arguing, correctly, that Botswana had no comparative advantage in the cutting and polishing of diamonds. Following the demise of De Beers as a cartel in 2000, and with the move to its 'Supplier of Choice' strategy, the company was commercially weakened and the new management policy is now supporting the development objectives of the countries in Africa in which the company operates.

Why Beneficiation occurs in Botswana?

The beneficiation of diamonds is a direct result of the conditions required to be a DTCB sightholder.[2] One of the criteria is indeed that local processing should take place.Simply put, no processing, no access to rough diamonds.

This policy required rough diamond traders to move down the value chain if they wanted access to rough diamonds. It has been estimated that the implicit tax placed on sightholders, as a result of the obligation to process domestically, is equivalent to USD 31/carat (see figure 1). Botswana sightholders would import rough diamonds of sufficient value in order to make domestic processing profitable. According to the government, it is estimated that 84% of the allocation that was given to sightholders is processed in Botswana. The remainder is exported to low cost-cutting centres such as India. Thus, the implicit tax is countervailed by access to rough diamonds, which is 4 times larger than the volume actually cut in Botswana. The economics of the decision to absorb the beneficiation tax is that the access to rough provides a sufficient economic rent, so that absorbing the cost still means that production remains commercially viable. It is for this reason that beneficiation, which is not predicated on commercial advantage by the country, remains viable and has not resulted in serious objections from the De Beers sightholders.

The World Bank and Beneficiation

The World Bank remains opposed to beneficiation on what appear to be practical economic and commercial grounds. The Bank has funded a number of interventions in the last three years, attempting to give governments an alternative perspective on what has emerged as a consensus view on industrial policy in Southern Africa.[3] The Bank has funded the travel of Professor

> If governments introduce policies to establish linkages between the domestic economy and beneficiation processes then, in the words of Hirshman, 'one thing leads to another'.

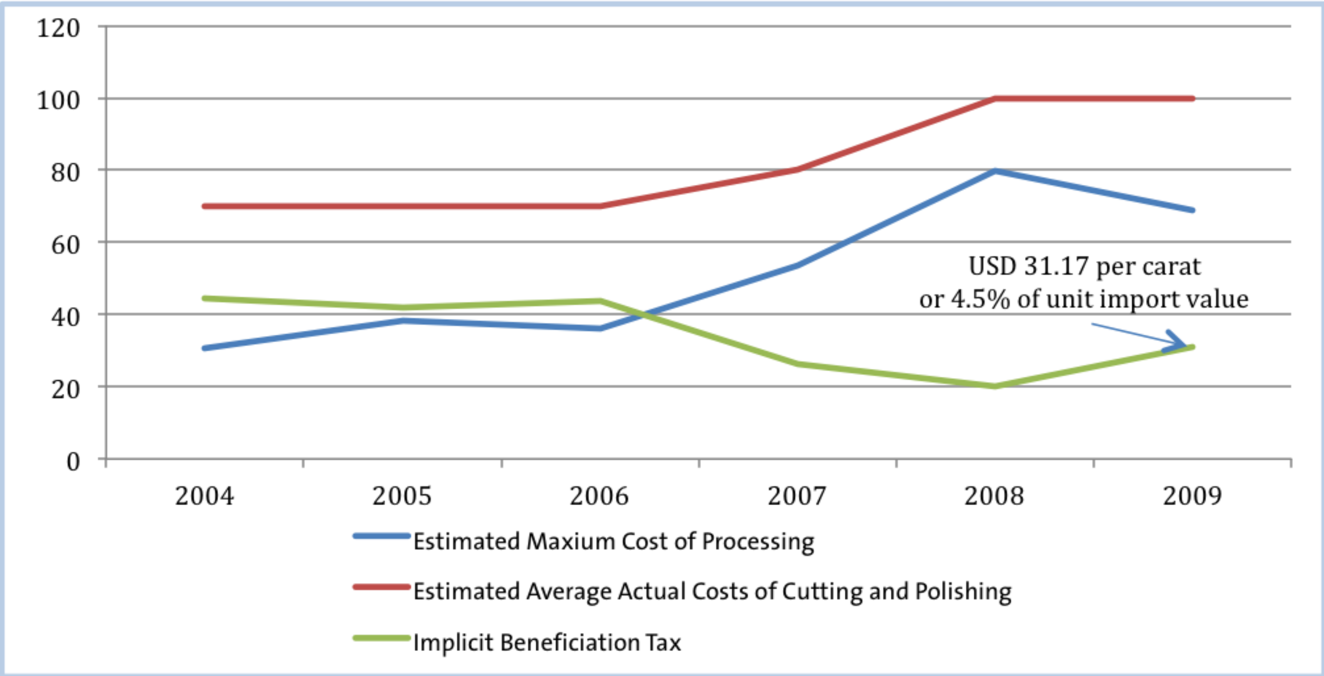
Hausmann, a lead expert opposed to the concept of beneficiation, in Southern Africa and has also funded reports in Zambia attacking government policy on beneficiation of copper.[4] A more subtle criticism of beneficiation is found in the recent work by authors such as Professor Kaplinksy, who generally advocates upstream policies in the mining sector.[5]

While some of the World Bank's criticisms of the beneficiation approach are justified, the proposals often made to governments do not reflect a serious analysis of what constitute commercially or even economically viable alternatives. Beneficiation, as an approach to industrial policy, stems from a very justified concern by small landlocked states that are at a competitive disadvantage because of higher transport costs, often to the benefit of the large dominant producer in a regional grouping, a phenomenon largely overlooked.

Is Diamond Beneficiation Sustainable in Botswana?

Unless there is a very substantial lowering of production costs in Botswana or an increase in productivity or there are other external benefits provided by the government, then diamond beneficiation is unlikely to continue beyond the life of the

Figure 1: Estimated Unit Cost of Cutting and Polishing and the Implicit Beneficiation Tax (USD)



Source: Data on actual costs of cutting come from various Diamond Hub presentations 2008-2009. The estimated maximum is based on the standard rule of thumb in the industry that diamond cutting cost should be no more than 10% of the value of the rough. Rough values are based on Botswana import data, Kimberly Process website. http://mmsd.mms.nrcan.gc.ca/kimberleystats/public_tables/Annual%20Summary%20Table%20 2008.pdf

existing mines, which are amongst the most profitable in the world. However, this is not to suggest that Hausmann and the World Bank's conclusions are necessarily correct. If governments introduce policies to establish linkages between the domestic economy and beneficiation processes then, in the words of Hirshman, *'one thing leads to another'*. However, without a clear sectoral plan, which devotes real resources to increasing local participation up and down the diamond value chain, along with appropriate policies to strengthen domestic capacities, then diamond cutting will prove unsuccessful. The country has at least 20 more years of significant diamond production from known deposits to establish these linkages.

For a more complete discussion, see Grynberg, R. (2013), Some Like Them Rough: The future of Diamond Beneficiation in Botswana, ECDPM Discussion Paper 142, March 2013, www.ecdpm.org/dp142

Notes

1. Botswana owns 50% of Debswana which is said to generate 70% of the profits of De Beers. The government of Botswana also own 15% share of De Beers.
2. A 'sightholder' is a company on the Diamond Trading Company's (DTC) list of authorized bulk purchasers of rough diamonds.
3. The SADC draft industrial policy as well as the one of central planks of South African government policy rest on beneficiation of base and precious metals. See 'Zero Draft SADC Industrial Policy'- SADC Secretariat 2010
4. Nathan Associates (2011) '*World Bank -Zambia* 2011'How Can Zambia Increase the fabrication of copper products? Dispelling the Myth that domestic production of copper is an advantage'
5. Morris M., Kaplinsky . & Kaplan D. (2012) *'One Thing Leads To Another: Promoting Industrialisation by Making the Most of the Commodity Boom in Sub-Saharan Africa* p. 24 www.commodities.open.ac.uk

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The views in this article are those of the author and not necessarily those of BIDPA.

Extracting the Value from the Extractive Industries: Insights from the Australian experience

David Doepel and Geoffrey Bolton

The three sources of potential wealth creation from the development of a country's natural resources (particularly from mineral and energy resources) are: 1) rents and taxes, 2) beneficiation[1] and 3) upstream and side linkages into the wider economy. In all countries richly endowed with such natural resources, there is an ongoing robust discussion and debate regarding the appropriate policy settings and regulatory frameworks that would maximize their value while, at the same time, minimizing negative consequences (environmental and social) associated with pursuing their exploitation.

Rents and Taxes

Through rents and taxes, governments seek a balance between a fair return for the resource owned by the citizenry and held in trust by the governing entity, with their own competitiveness in attracting large scale mining activities vis-à-vis other resource rich countries. Governments do so with varying levels of success.

In the current super-cycle of commodity prices there exists an appetite to renegotiate rents and taxes upwards. In such mature developed mining economies as Australia, royalty structures at the state level (Western Australia and Queensland) and corporate federal taxation for iron ore and coal producers were recently changed. In the developing countries, there is also a drive for transparency and "inventory taking" of current arrangements, and a desire to create more equitable arrangements going forward. In Ghana, for example, a windfall tax has been introduced along with increases to corporate tax rates and in Burkina Faso royalty rates are now indexed on a sliding scale with higher rates for gold over US$1,000 per ounce.[2]

Even the best-negotiated contracts – completely honoured – cannot be relied upon to deliver the full potential value of the minerals and hydrocarbons "owned" by the state on behalf of its citizens. In the Australian state of Queensland, for example, state royalties and federal company taxes totalled approximately $8 billion Australian dollars[3] ($3 billion royalties and $5 billion taxes) in 2010/2011. In the same period, industry also had a direct spend in the state of $31 billion ($8.0 billion in wages and salaries to approximately 64,286 fulltime resident employees and $27.9 billion in voluntary community contributions and purchases of goods and services from local businesses including contractors).[4]

In other words, when mining is fully integrated into an economy and a skilled workforce is sourced locally with goods and services largely procured from within the jurisdiction, then the economic multipliers are very significant. By contrast, if the majority of support services and goods are procured internationally and the labour workforce is also imported (except for local unskilled labour), then the potential returns to a national economy are greatly diminished - by up to as much as a factor of four. This is underscored by the labour requirements of the extractives industry where only 5% of labour is characterized as lower skilled (see Figure 1).

Beneficiation

Global political rhetoric touts the advantages of local beneficiation, particularly as this approach relates to jobs creation.[6] Experience, however, in many mature, resource-rich countries is that these downstream processing industries are very difficult to sustain in a globally competitive economy.

Successive Australian attempts to mandate beneficiation through policy mechanisms have for the most part failed, and failed spectacularly.

Figure 1: Characterisation of an average Australian mine workforce.

Machinery operators & drivers	34.7%
Technicians and tradespeople	24.5%
Professionals	15.6%
Managers	9.0%
Clerical & administrative workers	8.9%
Labourers	5.3%
Other	1.1%
Community & peronal service workers	0.5%
Sales workers	0.4%

Source: Australian Bureau of Statistics 2008 data.

At the same time, market-driven, non-mandated beneficiation[7] does occur, usually determined by the particular market characteristics of a given metal as well as local competitive advantage. Analysis of these industries suggests that the main elements of investment decisions include access to competitively priced energy, abundant water and a skilled workforce underpinned with a world-class research environment.[8] Government support in securing land tenure and appropriate zoning and land buffers are also important. What is less important is the location of the ore, because transport costs (port to port) often represent a very small component of the total input cost to a beneficiation process. Thus, the apparent competitive advantage of "owning the natural resource" is quite illusory.

This analysis has significant implications for African countries,[9] and underscores the need to address the capacity development challenges that have been well identified in the African Mining Vision. While water and energy are potentially available at appropriate prices and volumes,[10] the greatest limiting factor to the establishment of beneficiation industries is the lack of presence of a local skilled workforce and associated research support. An additional barrier to beneficiation also exists in the form of current financing models for mining enterprises that require long-term off-take agreements for ore that is then transported to a fully vertically integrated beneficiation value-chain enterprise offshore.[11]

Cross-linkages

The African Mining Vision Action Plan[12] clearly identifies opportunities for cross-linkages between the extractives industries and other areas of the economy to create lasting benefit and a more robust and resilient economy. In mature mining economies, such linkages are very strong and often include innovative companies providing materials and services to the extractives industries: from exploration technology; data interpretation; software services; machinery and equipment support innovation in mine processes and management. It is precisely these companies (described as mining technology services and equipment, the MTSE sector) that provide the economic multipliers through indirect employment, which is often cited by mining advocacy groups worldwide. In Australia in 2008, 167,000 people were employed nationally in the mining and oil and gas sector, with the MTSE sector bringing an additional 31,300 employees and $8.7 billion dollars in revenue.[13] Analysis of economies that have successfully created significant cross linkages suggests that success is due to the presence of strong policy support and funding through higher education for Science, Technology and Innovation (STI), research and development (R&D) tax concessions, R&D commercialisation incentives, -all with sophisticated capital support structures.

Agriculture and mining – cross linkages that can work

One area of direct linkage that is immediately possible in the African context is the nexus between mining industry investments (from small scale to large international entities) and the agricultural sector during all phases of mine life, including exploration, mineral project and supporting infrastructure construction, operations, and post-decommissioning. This can lead to two positive outcomes: 1) the creation of new local markets in the form of a mine workforce coupled with a 'patient procurement approach'; and 2) the deployment of dual or multi-use infrastructure that creates new supply chain possibilities for agricultural inputs and other market (including export) development. At the present time, many mining operations do not procure from local farmers to feed mining personnel and, instead, source from 'out of area' or 'out of country' suppliers. A targeted cross-sectoral co-investment in a mutually beneficial agricultural capability will lead to wider economic development, and is a major opportunity in regions with considerably large populations involved in the sector.

In 1893 rich gold deposits attracted tens of thousands to Kalgoorlie in Western Australia. On the edge of a desert, 600 km from the coast, Kalgoorlie lacked enough water to serve domestic demand and the requirements of an industry whose technology demanded steam power, evaporation and condensation. Each month, 47 thousand tonnes of firewood were consumed. This level of consumption was unsustainable. Desalination was attempted but proved inadequate. A visionary State engineer, C Y O'Connor, devised a scheme to pump water 600 km from coastal dams. O'Connor insisted against opposition on an "Australian procurement solution". The chosen company operated a factory in Perth, creating a new suburb to support the endeavour and licensed a patented technology specifically for the project. The pipeline and its technology survive to this day, providing water not only to Kalgoorlie but to the intermediate region. The pipeline, supplemented by a railway and agricultural innovation, has transformed marginal grazing land into one of the world's most productive wheat growing areas, producing 15 million tonnes in 2011 and exporting 80 per cent of it. An initial investment of 600 million dollars (in today's terms) has delivered an economic legacy estimated at 50 billion dollars.

This example should encourage African countries to more fully explore the nexus between mining and agriculture as a way to deliver structural transformation and to support initiatives such as the Mozambican Beira Agricultural Growth Corridor (BAGC) and the post-mine transformation of the Golden Pride mine in Tanzania into an agricultural precinct.

Conclusions

Maximizing the value of a country's natural resources while minimizing the potential for harm (environmental, social, etc.) on the part of extractives industries continues to be the goal of national and regional governments of countries with significant natural endowments. Considerable policy innovation has been seen in the area of rents and taxes, particularly in the latest commodity price super-cycle. At the present time, opinions still vary as to the success of such mechanisms for creating long-term reliable revenue streams. In parallel, there is a growing realization, particularly in developing nations, that rents and taxes alone will not deliver community expectations with regard to poverty reduction, wealth creation and extraction of the maximum total benefits available from national resource developments.

Beneficiation and economic linkage strategies are indispensible components to maximizing benefits. At the same time, neither component is easy to support via policy settings alone. Therefore, long-term commitments, particularly in the area of science, technology, and innovation are indispensible precursors and are neither "cheap" nor "quick". However the mining-agriculture nexus does represent "low hanging fruit". It also represents significant employment opportunities and a short-term and effective poverty reduction potential. This linkage, while not neglecting the longer-term, is a laudable goal and assists the development of a fully integrated "extractives economy".

Notes

1. Transformation of ores to minerals to metals to manufactured goods and the refining of hydrocarbons and energy minerals into distillates and/or transformation into usable energy (heat and electricity),
2. Gajigo O. Mutambatsere E. Ndiaye, G.* (2012) *Royalty Rates in African Mining Revisited: Evidence from Gold Mining*, Africa Economic Brief Volume 3 Issue 6 p 1-11
3. The Australian dollar is at present of similar value to the US dollar.
4. Lawrence Consulting (2012) *Economic impact of resources sector on the Queensland economy 2011/12*. Queensland Resources Council. Brisbane, Queensland, Australia.
5. Gray G (2010) *Resourcing the future. National resources sector employment taskforce report July 2010*. Commonwealth of Australia. ISBN 978-0-642-33020-8.
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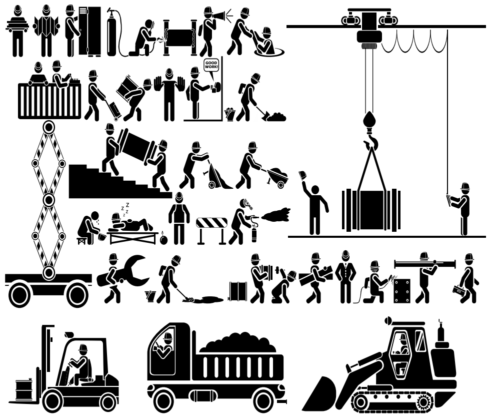
Mining and Development in Australia : Driving Structural Transformation

Ian Satchwell

Australia is rich in many mineral and energy resources. For 150 years, mining has helped to drive Australia's economic growth and ongoing economic change. Development of Australia's world class resources has accelerated during the past decade, with investment and production reaching historic highs.



An economy driven by the extractive sector

Mining, including oil and gas, today contributes to about 60 percent of Australia's exports and more than 10 percent of gross domestic product. The sector's rapid growth during the past 10 years has been stimulated by strong demand for commodities, led by China. The mining sector also dominates direct investment: in 2012, some 46 per-cent of the record USD446 billion of the committed and probable investments were in mining and infrastructure. However, direct mining employment (just under 2 per cent of total employment) is relatively small, due to the capital-intensive nature of the sector, but many more jobs are generated in supplies and services to mining and in second round jobs created by the economic activity that mining generates. In fact in Western Australia, one of the world's great minerals and energy regions, 78 percent of the workforce is engaged in services of all kinds.

The economic contribution of the resources sector has had some profound effects on the economic structure – underpinning not only rapid growth despite global economic perturbations, but also catalysing broader economic transformation, as Australia re-orientates to Asia and builds a sophisticated services export sector. Australia is therefore converting its natural advantages in mining and agriculture into a wider knowledge-based, diversified and service-oriented economy.

Linkages and diversification

Although this transformation has not always been easy, with some traditional economic sectors, such as mass product manufacturing now coming under pressure from rising costs and a high exchange rate, other sectors such as mining equipment, technology and services (METS), education exports, construction and financial services have grown rapidly, in response to rapid expansion of the mining sector. Furthermore, the Australian METS sector is a rapidly growing exporter – following and enabling mining investment elsewhere in the world. The METS sector comprises many knowledge-intensive industries, such as engineering, environmental and business services, and complex EPCM project delivery.

> Mining, including oil and gas, today contributes to about 60 percent of Australia's exports and more than 10 percent of gross domestic product.

Many of the new technologies used in the mining industry have been developed by the services sector. These technologies have not only enabled the Australian mining industry to be increasingly efficient, but have also developed as valuable exports themselves, providing an additional route to add value to Australia's rich resource base.

In the major cities close to mining regions, economic activity is increasingly driven not only by mining activities and the complementary supply of mining goods and services, but also by technology and knowledge being developed and exported to other mineral-rich countries. In many cases, suppliers are both supported by, and provide support for Australian mining companies in their offshore investments.

Effective industry and government partnerships have encouraged and supported the supply of Australian content in mining projects, which have in turn, contributed to the development of the mining goods and services sector in Australia. For instance, the Australian Industry Capability Network links customers with suppliers by providing market information and portals to major project procurement. Suppliers focus not only on project construction, but also on through-life support of mining operations. In addition, major projects provide for Australian Industry Participation Plans as part of their approval processes to ensure local content.

Australia's transformation strategy

Notwithstanding challenges, Australia has nevertheless managed to build its mining industry, deliver strong growth and deliver economy-wide benefits. It has also managed its economic transformation, initially using the mining sector as a lever. But as transformation is a continuous process, and to meet the upcoming opportunities in particular from Asia and beyond, Australia still needs to undertake reforms in order to maintain the momentum of change. The key tenets of Australia's strategy are outlined below.

The foundations for a robust and adaptable Australian economy were laid more than two decades ago when a program of major economic reform was launched to build more flexibility into the economy and improve its efficiency. These changes included market-based reforms to energy, water and transport, building a more flexible labour market, more demand-responsive education and training, trade and investment liberalisation, and taxation reforms. Economic reform has provided a business environment in which new industries have been able to develop, grow and pursue innovation.

Today, the reform program is still ongoing so as to ensure that Australia stays competitive in a fast changing global economy.

But there are concerns that the pace of reform has slowed down in recent years, along with the rate of productivity improvement, necessary to maintain competiveness in traditional markets and to access new markets with new goods and services. There is therefore a renewed emphasis on productivity, innovation and market responsiveness.

Skills matter

Key to this is a responsive, diversified and increasingly skilled labour market. Low-skilled jobs have declined as a proportion of total employment, with a shift to a more educated workforce and higher skilled occupations. As a result, Australia enjoys high rates of employment, but with some skills in short supply. Forecasts indicated continuing strong labour demand in many traditional sectors as well as emerging sectors.

Effective education and training are therefore fundamental to ensure labour market responsiveness. Australia has sought to align its education system to skill needs and to ensure it is able to respond flexibly to changing needs.

> "(...) improving productivity also requires innovation by firms, government, education and research institutions and individuals.

Both technical education colleges and universities play a key role in educating and training the workforce. New courses and delivery modes – including through-career retraining and professional development – have been introduced. Partnerships between education institutions and industry have been developed to more closely match skill development to employers' needs.

In line with other high-growth sectors, education is oriented not only to servicing Australian skill requirements, but also to help other countries meet their skills needs. Education is now Australia's largest services export, with tens of thousands of foreign students participating in courses in Australian and offshore campuses as well as on-line.

In Australia's high growth situation and the provision of an adequate workforce has also necessitated overseas migration, inter-regional migration, retraining workers to meet new skills needs, increasing participation rates (particularly of women, indigenous people and older people), automation, and lifting worker productivity.

Hard and soft infrastructures

Furthermore, adequate infrastructure is essential to economic transformation. Until recently, most of the infrastructure focus has been on providing 'hard' facilities like railways, ports and roads, as well as energy and water to support industrial activity. In addition, high-speed telecommunication is crucial to support more knowledge-intensive industries and improve global outreach. However, government and the business community have recognised that human resources are just as important, and much more effort is now being applied to the development of quality communities and the provision of soft infrastructure and services to support them.

Towards a knowledge economy

In addition, improving productivity also requires innovation by firms, government, education and research institutions and individuals. A strong research base goes hand-in-hand with world class advanced education. Australian universities as well as public and private research institutions have therefore engaged in providing globally significant pure and applied research across all fields of human endeavour. The research outputs service both the Australian economy and other countries.

Despite decades of micro-economic reforms in Australia, individuals and firms remain nevertheless burdened with unnecessary and restrictive regulations that inhibit innovation and productivity. It is therefore crucial to continue reform by removing the remaining barriers to the efficient functioning of markets in order to enable the business community to contribute to future prosperity of the Australian economy.

> "(...) individuals and firms remain nevertheless burdened with unnecessary and restrictive regulations that inhibit innovation and productivity.

Australia has learned a lot about the development of world-scale mining and have so far been able to maximise benefits. But there is still much to learn. In this regard, the International Mining for Development Centre has been established to help transfer Australian knowledge about mining and associated sectors to other mineral-rich countries that wish to support their mining sectors to promote broad-based economic growth and deliver larger community benefits.

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Taxation and Revenue Management Challenges in Resources-Rich African Countries, such as Ghana

Alexander Kwame Archine

Tax revenue represents a dependable source of income for national development. For all countries, especially those dependent on revenue from finite natural resources, such as gold, oil, and gas, a dynamic link ought to exist between revenue and its efficient utilization.

The test of success is efficiency in the management of the inverse relationship that should exist between natural resource exploitation and growth in human capital. As natural resources are exploited, high value enduring assets, such as human capital, must be produced to replace depleting assets. Countries that have succeeded in engendering efficient operation of the natural resource - human capital development relationship, are reaping the benefits through enhanced socioeconomic development for their people. In this regard, Botswana's commendable effort deserves special mention. Within a decade of restructuring its diamond mines, Botswana has succeeded in transforming its economic fortunes with a significant increase in its Gross Domestic Product (GDP) per capita from US$3,180 in 2000 to US$15,700 in 2010. [1]

> "(...) revenue accruing to governments has at best remained minimal compared to other revenue sources, such as corporate taxes from the services sector.

The unfortunate reality with most natural resource-rich developing countries, however, points to a situation of disappointment as governments find it difficult to maximize revenues from significant increases in export earnings accruing to Multinational Mining Companies (MMCs).[2] In this respect, revenue accruing to governments has at best remained minimal compared to other revenue sources, such as corporate taxes from the services sector.

The focus of this article is to investigate the issues preventing natural resource-rich developing countries from maximizing revenue potential accruing from commodities, especially in the wake of increasing world market prices. Remedial measures in place to improve revenue generation from natural resources exploitation shall also be examined to assess the extent to which the interest of the state is protected.

A review of extant literature revealed two major issues impeding maximization of benefits from natural resources for the sustained development of natural resource-rich developing countries. Lack of transparency in contracts and the harmful effects of corruption are critical issues affecting the efficient harnessing of revenues.

Lack of transparency in contracts

The 1980s and 1990s constituted a difficult period in the economies of most African countries. Dwindling volumes and value of export revenues from natural resources characterized this period. This unfortunate development resulted in the reliance by a number of African nations on International Financial Institutions (IFIs) for economic stimulus packages to shore up their fiscal and international trade deficits. Bailout packages agreed with IFIs included the advice to divest national interest in natural resource management and ownership in favour of MMCs for their claimed expertise and resourcefulness in harnessing potential benefits inherent in extractive industries. Contracts executed since reflect systematically lower prices as key incentive strategy to attract and retain the interest of Foreign Direct Investment (FDI). Under most of the FDI contract terms, national governments have had to contend with returns arising from carried interest, royalties, property rates, and corporate taxes as main sources of income. Such unfavourable contract terms account for the relatively low returns and income earned by natural resource-rich countries in the past decade that limit maximization of potential income even in the wake of increased prices that have characterized trade in minerals, oil, and gas, etc. The price of an ounce of gold for example, increased from US$347.20 in 2002 to US$1,644.90 in 2012, yet African states did not benefit fully from this windfall.[3]

> Lack of transparency in contracts and the harmful effects of corruption are critical issues affecting the efficient harnessing of revenues.

Low carried interests, royalties, corporate taxes and ground rents limit the potential of natural resource-rich developing countries, such as Ghana, from increasing their share of revenue in tandem with phenomenal price increases. Although revenue from gold increased from US$995 million in 2005 to US$2.38 billion in 2009, Ghana government's share was

US$40.5 million in 2005 (four percent of total) and US$154.5 million in 2009 (six point five percent of total) of the share accrued to MMCs. While in absolute terms these amounts appear significant, a fairer share would have significantly increased Government resources to finance development projects and reduce its dependence on aid. The Ghana Government's inability to renegotiate better rates on royalties in particular, account for its reliance on foreign aid to supplement its development budget.

Although the Minerals and Mining Act, 2006 (Act 703) stipulates royalty rates of between three and six percent, most mining companies in Ghana paid the lower rate of three percent until March 2011 when a flat rate of five percent was introduced.[4] That upward review did little to change the situation. The contribution of gold revenue to Ghana's total revenue as a consequence remained low at an average of 6.5% despite the over 230% percent increase in gold revenues in the five years from 2005 to 2009.

Harmful effects of corruption

Abuse of transfer pricing constitute the dominant challenge to maximization of governments' share of natural resource revenue. Transfer pricing, a means by which imported input costs are padded to facilitate transfer of higher amounts to suppliers, remains detrimental to host countries because of avoidance of payment of appropriate legitimate taxes. This abusive practice of transfer pricing also unduly affects declared profit before tax through increased input cost that reduce taxable profit. Additionally, government loses revenue through capital flight – transfer of huge and illegitimate proceeds from transfer pricing. Practices related to transfer pricing account for a minimum loss of US$160 billion annually to developing countries.[5] Complicity on the part of revenue officials tasked with the responsibility of monitoring activities of MMCs, entrench the negative practice of under-declaring production volumes and revenues. Failure to regularly replace revenue officials, with some remaining at a post for well over a decade, compromises their professionalism to the detriment of their nations.[6]

Revenue management challenges in Ghana

Ghana's revenue from natural resources is derived from profits accruing mainly from carried interests and corporate taxes and royalties based on the revised five percentage fixed rate on volume and value of extracted minerals and oil and gas. A key success factor, therefore, for revenue generation from the two sources, is the technical competence and experience of revenue collecting agencies to accurately assess profit levels on which returns are determined. The primary challenge is that it would appear that Ghana has not independently converted its natural resources into reserves to ascertain their economic value. More so, revenue agencies do not have the capacity to assess independently the veracity of declared export earnings by MMCs. Given these serious drawbacks, the Ghana Revenue Authority (GRA) had no other option than to accept profit, volume, and value levels declared by MMCs on which tax assessments are made. This is a daunting challenge that has to be surmounted to engender increased revenues from natural resources to serve the best interests of the country.

The other major challenge is how to balance the need to increase revenue from rising export prices and earnings with the reality of mitigating political risk via stability agreements to ensure increased inflow of new investment into the lucrative mining sector. Stability agreements under Ghana's Mining Law have been crafted to mitigate political risk and assure investors of the safety of their investment over a 15-year timeline. This in part accounts for Ghana's inability to take full advantage of the ongoing significant increases in prices of minerals such as gold. In the 2012 budget for example, the attempt by the government of Ghana to reintroduce the windfall profit tax that was removed from the Minerals and Mining Law in 2006, attracted stiff opposition from MMCs. The contention of MMCs was that the government could not unilaterally vary validly executed contracts to the detriment of MMCs.

Accountability and transparency principles enshrined in the Extractive Industries Transparency Initiative (EITI), if supported with requisite national legislation, efficient implementation and close monitoring, will help reverse the negative trends in the management of revenues from natural resources. The EITI is a transparency tool adopted by natural resource-rich countries in 2002 to inject accountability and transparency into the retrieval and utilization of revenues from natural resources.

Conclusions

Enactment of appropriate accountability legislation, similar to a Freedom of Information Bill, which seeks to inject accountability and transparency into national operations, will compel stakeholders engaged in natural resource extraction and management to play by the rules. This will make information available for scrutiny to help obviate the age-old practice of massaging income and returns on investments for the mutual benefit of stakeholders. Savings made through efficient harnessing of resources from natural resources invested in social infrastructure such as education, will reflect better use of revenue thus earned. Provision of education will enhance the capacity of natural resource-rich countries to replace revenue from natural resources with relatively stable and easy to manage returns on human capital. Additionally, where appropriate, nations could gain from the knowledge and expertise of their citizens whose services could be exported for relatively better value compared to finite natural resources. The significant contribution of the services sector in most African countries to GDP is a credible example of the value that human capital could contribute to sustainable development. Accelerated and subsidized education as passport to a good life for the people must be offered as worthy replacement for depleting natural resources.

Notes

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3. African Economic Outlook (2011). *External Financial Flows and Tax Receipts in Africa*. Retrieved from: www.africaneconomicoutlook.org/en/outlook/
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EITI Myths and Reality: The Case of Tanzania

Bubelwa Kaiza

The Extractive Industries Transparency Initiative (EITI) is apparently the only renowned extractive industries transparency standard in the world today. The initiative, in practical terms, involving reconciliation of payments (taxes, fees, royalties) that governments receive from oil, gas or mining companies in a particular fiscal year, has been globally lauded. EITI is ostensibly geared to promote material information disclosure on the legal payments that extractive companies contribute to governments' revenues.

Civil society representatives, formally invited to observe the process that involves reconciliation of companies' payments and governments' receipts resulting from extractive industries operations, legitimise the initiative, which is generally voluntary. Perhaps some analysts viewing the EITI process as quasi legal could be close to reality, bearing in mind that a gentleman's agreement – a memorandum of understanding or terms of reference – is set in place to steer cooperation principles. Such gentleman's agreements bind companies, civil society and governments to work together in a Multi-Stakeholders Group (MSG) charged with overseeing EITI reconciliation and reporting.

But experience has shown that EITI stakeholders' domain is limitless, expanding to include bilateral and multilateral agencies who directly or indirectly support the initiative technically and financially. MSG, amongst others, is obligated to annually publish reconciliation reports, possibly followed by a validation, and submit the same to the EITI international secretariat, which again tables the same to the EITI International Board for review and endorsement. EITI country reports reveal the status of extractive companies payments vs. governments' revenue received from extractive industries operations in a particular fiscal year. Assuming existence of a vibrant and civic competent public in resource-rich countries implementing the initiative, EITI reports would be regarded as 'stock in business'.

Tanzania Resource Governance History

Tanzania is a resource-rich country endowed with plenty of minerals and natural gas deposits. The country possesses enormous proven quantities of tanzanite (12.6 tons), gold (2,222 tons), diamond (50.9 million carats), copper (13.65 million tons), nickel (40 million tons), uranium (35.9 million pounds), coal (1.5 billion tons), iron ore, and over 45 trillion cubic feet of natural gas. A number of large-scale mining, oil and natural gas companies are licensed, and therefore currently carrying out mostly upstream activities. Over 30 large-scale extractive companies, including the giants Barrick Gold, Anglo Gold, Resolute Mining, Mantra Resources, Petrobras, Ophir, British Gas (BG), and Statoil, to mention only a few high profile extractive companies, are painstakingly operating in Tanzania.

Tanzania acceded to EITI in February 2009 following fulfilment of EITI initial requirements. In a public declaration in mid November 2008, the Government had stated Tanzania's commitment to implementing EITI. Tanzania had, by 27th January 2009, accomplished the pre-EITI launch groundwork, including formation of MSG, drafting of terms of reference and crafted a full-costed work plan. EITI International Board[1] announced admittance of Tanzania to start implementation of EITI on 16th February 2009 in Doha, Qatar.

Previously, the public had been apparently discontented over prevalent opacity, mediocrity and impunity, prompting perception of corruption as senior government officials regulated mineral and gas resources in the country. Even today, the public believes corruption and rent-seeking had significantly influenced the Government secretly entering into Mining Development Agreements (MDAs) and Gas Production Sharing Agreements (PSAs) with extractive companies.

Experience of Tanzania as EITI Compliant

The EITI International Board has on the 12th of December 2012 declared Tanzania EITI compliant. However, close examination of the initiative implementation shows a corrosive and callus situation. Since EITI implementation started, material resources information and knowledge across the Government, companies, civil society and media stakeholders have continued to remain at the bottom. A reflection on the EITI inception workshop organised by the Government in December 2008 reveals that everything ended helplessly without tangible conclusions. Only the second workshop, held in January 2009, ended up with relatively meaningful outcomes[2] in the context of EITI inception definition. The workshop was concluded with the formation of MSG, a crafted costed work-plan, and draft terms of reference tentatively agreed by stakeholders.

However, even with the second workshop promising outcomes, records show that Government-invited civil society representatives were poorly informed, disorganised and disoriented. This implies that the process of EITI in Tanzania started with weak[3] civil society participation. Only few civil society representatives acting on sheer activism, gate-crashed into the second workshop. Noteworthy is the fact that gate-crashers won the trust of formally invited fellows and ended up being nominated to represent civil society constituency in the MSG – this signifies an unpleasant beginning of EITI implementing in Tanzania.

Undeniably, Tanzania seems to have successfully implemented EITI – MSG has so far published two reports – the 2008/2009 and 2009/2010 fiscal years, thus earning the recognition of being EITI compliant. However, there could be a number of issues stalling behind the scene – a weak civil society, Government caring little or nothing about civil society significance in EITI process, an ambivalent Government representation in the MSG, opportunistic oriented profiteering mining companies, but above all, a largely corrupt civil service little concerned about transparency and accountability ethics. MSG borrows all technical staff, but two from the Government to staff the EITI Secretariat in the country. It is no wonder that His Excellency, Jakaya Kikwete, President of the United Republic of Tanzania spoke loudly and boldly at the 5th EITI international conference in Paris 2011, the time Tanzania had just published the first report, but mentioned nothing about Tanzania EITI compliant achievement in his New Year 2013 Speech to the Nation.

Dissecting Tanzania EITI Reports

Surely like others elsewhere, Tanzania EITI reports are unique. Open and obscured details characterise the reports.[4] Reading Tanzania's first EITI report *highlights a number of questions starkly shining above numerical discrepancy. No windfall tax charged despite goldmine companies having confirmed super profits. No capital gains tax charged despite reported mergers and acquisitions during the year.* Why did the Government negotiate MDAs with no considerations of such vital taxes? Neither MSG nor EITI was expected to provide credible answers. Again, corporate tax yield from extractive industries, as captured in the report, is as meagre as 1.04 percent of entire extractive industries yield. Mining workers' Pay As You Earn (PAYE) tax yield feeding into the Government coffers during the 2008/9 fiscal year was 48.74 percent of all extractive industries revenue. Workers paid the tune of US$ 35,151,382 to the Government while the extractive companies paid only US$ 1,097,111 as corporate tax from mining and gas operations.

Likewise, the first Tanzania EITI report shows discrepancy – Government failing to account for US$36million, of which US$17million were royalties received by Ministry of Energy and Minerals (MEM). Where did the money go? The Controller and Auditor General (CAG) tried for over one year but failed to get a plausible answer from MEM until the World Bank forced it out of it. Unfortunately, the World Bank exclusive answer is not applicable to quenching Tanzanians thirsty, including the Government's black and white statement regarding rationale for MEM, instead of Tanzania Revenue Authority (TRA), to manage royalties – the core extractive industries yield constituting significant public revenue.

The second report is more or less the same as its predecessor. No major taxes are seen to be paid apart from mining workers' PAYE and other statutory contributions. Despite showing the extractive industries revenue yield triple, from 135,684,607,000 Tanzanian shillings during 2008/9 to 419,552,271,000 Tanzanian shillings during 2009/10, the contribution of key taxes from core extractive industries remains very low. Ballooning of revenue actually results from 3 Portland cement and 6 gas industries' taxes, not included in the first report. Again, the Value Added Tax (VAT) not included in the first report has a significant effect on extractive industries total revenue documented in the second report. VAT effect in the report is plausibly understood, cement and gas exploration companies are known for their massive local procurements that finally attract VAT, accounting 28.38 percent, against 6.6 percent corporate tax contribution from entire large scale mining, oil and gas operations.

> (...) Government failing to account for US$36 million.

A significant discrepancy involving TRA and Geita Goldmine, amounting to 35bn Tanzanian shillings, is stated to have been resolved following TRA, not MSG, instituting an internal audit. An active MSG would instead have instructed an independent audit to clear mistrust or doubt.

Conclusion

As way of conclusion, the notion that being EITI compliant Tanzania governs her mining, oil and gas resources transparently and accountably with ramification to prudent and efficient management of the country's economy is, perhaps, a smoke screen. A lot more is required for Tanzania to be really seen as compliant with EITI standards. Rigorous reforms should be instituted to change the mindset of Government staff and political bureaucrats, governance structures and systems, relevant policy and laws, but above all, to build a competent civil society that will demand transparency and accountability to ensure that information on mining, oil and gas material is disclosed and publicly available for citizens to scrutinize the revenue the Government receives from extractive companies.

Indeed, it is worth noting that MSG has recently finalised a review and submitted draft EITI legislation to the Government. Nevertheless, such critical issues as overseeing supremacy of the law of the land over MDAs and PSAs, expanding and enforcing tax base to cover windfall and capital gains taxes, monitor mergers and acquisitions to enforce appropriate taxes, instituting strategic management of extractive revenues, including charging the Tanzania Revenue Authority instead of the Ministry of Energy and Minerals to collect royalties, amongst other issues discussed above, rely entirely on the confidence of the Tanzanian Government to enforce legislations rather than having the statutes in place. Only will then Tanzania become truly EITI compliant.

Notes:

1. During the 7th International Board meeting.
2. *Tanzania Roadmap to Joining EITI: Inception Workshop Observatory Report* available at http://www.fordia.org/fordia_web/_strategic_activites/Tanzania%20EITI%20Workshop%20Observatory%20Report.pdf
3. The Social Forces Analysis contained in the Tanzania State of Civil Society Report (2011) shows country's civil society at the tail headed by multilateral and donor organisations, multinational companies, local politically connected business tycoons, state coercive organs, ruling party, media and finally civil society. More information about Tanzania state of civil society report is available at http://socs.civicus.org/wp-content/uploads/2012/04/State-of-Civil-Society-2011.pdf
4. http://eiti.org/Tanzania

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Extractive Industries, Related Benefits and Financial Intermediation in Africa

Claudine Sigam

This article provides an overarching view of the key dynamics shaping extractive industries, distribution of benefits from procurement, financial intermediation and institutional capacity in host African countries.

The benefits of extractive industries in development are well documented[1] Assuming an appropriate host-country financial infrastructure and a minimum level of development, studies show that extractive activities, through the creation of industry clusters and linkages, can trigger technology spill overs, assist human capital formation, contribute to international trade integration, help create a more competitive business environment and enhance enterprise development, notably through procurement services. These can contribute to higher economic growth, the most potent tool to alleviate poverty in developing countries.

On average in Africa, the annual capital and operational expenditure of project operators on procurement of capital goods, consumables and services is greater than total contributions to government.[2] For example, in 2010, BHP Billiton's operating costs in Africa (i.e. payments to suppliers and contractors for materials and services) reached USD 3.6 billion, while payments to government amounted to USD 598 million). In the new competitive landscape of waning supply and increasing demand for energy and mineral resources, mining related activities are booming, which then translates into significant procurement spending. As such or in this context, companies in the extractive industries are pressured to find the lowest cost suppliers that can produce the required quality and meet delivery schedules reliably. This therefore represents significant opportunities for local enterprise development in the procurement service sector in Africa.

Challenges to domestic participation

Despite the opportunities, the benefits of extractive industries through procurement services do not accrue automatically and evenly across countries, sectors and local communities. The framework for reforms in the financial sector in Africa can increase the benefits of extractive industrial activities to national economies, particularly when focused on supporting domestic entrepreneurial participation in procurement services. The national financial facilities and infrastructure for procurement and pre-qualification schemes, for instance, are critical for reaping the full benefits from extractive activities for development.

Since independence in Africa, financing[3] for entrepreneurial development and participation in procurement in extractive industrial activities has been constrained by poor capitalization and infrastructure, limited borrowing experience (no credit bureau and track record), inadequate legal and regulatory framework (no leasing laws in countries such as Nigeria), collateral issues (moveable assets not considered as collateral and no collateral registry), high transaction costs (similar resources needed to process small loans and large loans) and high borrowing costs due to perceived risks. This financial constraint resulted in the inability of small-and-medium sized enterprises (SMEs) to access funds, because of limited capacity and the financial sector's low appetite for SMEs.

The limited access to funds and their higher costs do constitute a comparative disadvantage for local entrepreneurs, who often lack the ability to finance projects, such as procurement activities when awarded contracts. Access to long-term finance is limited and the short-term facilities that may be available in the country generally attract high interest rates. Moreover the cash flow to service these debts often start when the project is completed and performing well, and lenders are usually not prepared to assume the risk of a borrower not being able to complete the project. Consequently borrowers are required to provide guarantees, which commit them to supply additional capital to the project in the event of cost over-run or to pay all or part of the project debt upon failure to attain completion.

The challenge faced is so prevalent that even relatively mature SMEs rely heavily on their retained earnings or own funds as sources of finance. Figures in Nigeria and Kenya show that as much at 70% of funds are sourced from local supplier's own funds and a quarter from supplier's credit. In cases where financial support is successful, the costs are extremely high: small, medium and micro enterprises (SMME) reported 24% to 35% interest rates in Ghana. Expansion is therefore hampered for SMEs having market access, while start-ups are faced with entry barriers.

Frameworks for reform

The past three decades have seen progressive frameworks for reform in the financial sector across the continent, especially in the countries where the extractive industry represents an important part of domestic production, such as Ghana, Nigeria, South Africa[4] or Angola. These countries have largely increased market capitalization and policies to force trans-national corporations (TNCs) to use local banks and create space for local financing to support domestic procurement of services. In Angola, new financial regulations were introduced in 2011, with the objective to strengthen domestic banking institutions capacities. Under the new banking legislation, companies operating in Angola, are now obliged to use local banking institutions to complete their financial transactions, including payment to third parties such as government taxes, and payment of suppliers or their expatriate workforce, whether based in Angola or abroad. The question is whether this reform will provide more incentives to allow for increased market appetite for SME operating in extractive industries.

Along the same line, in Ghana the "Borrowers and Lenders Act, 2008" introduced the use of movable assets in bank lending and created a collateral registry at the Central Bank. These developments resulted in an increase in the volume of financing for SMEs: some 20,000 loans were registered, accounting for more than USD 800 million in financing secured with movable property since 2010. This also allowed CAL Bank to set up a scheme, the "Purchase Financing Scheme for Gold Mining", where more than USD10 million was allocated to more than hundred SMEs with not a single Non-performing loan (NPL) in the 30 months since program commenced.

Addressing the performance risks

A downside to these reforms however, is that TNCs are concerned with the performance risks associated with local suppliers. These include risks that the purchase of products might not work efficiently; that the project fails to perform as intended once completed; or failure to meet business requirements. These risks can, in turn, lead to schedule and cost risks if technological problems increase the duration and cost of the project. This is a major area to be considered when pursuing the reform, to ensure the objective of accommodating the domestic banks in the supply chain is useful and sustainable for economic growth.

Countries such as Angola, Ghana and Nigeria have considered developing an extensive supplier programme to address these risks by enabling local suppliers to attain the necessary quality and reliability. Technical, business management, financial support and risk guarantees may all be necessary. The supplier programme implies that TNCs enter into financial agreements to support local companies, including allowing loans at a relative low interest rate, with the contract as guarantee, or providing for more frequent payments in the contracts, to improve the liquidity of local companies.

But pre-qualification is often so onerous and time consuming that local firms can be discouraged from participating in procurement. The process could be simplified by using different levels of prequalification for different types of contract, or even post-qualification in some circumstances. All prequalification requirements should be clearly communicated in a manner, which is readily comprehended by local enterprises. Another challenge faced by the pre-qualified companies is the delay in responding to the requirements. This could be addressed by centralizing, for a group of local companies pre-qualified, services such as accounting. Furthermore SME are faced with liquidity risks due to the time lag between completion of goods and services and receipt of payments from TNCs. This could be tackled by providing more frequent payments in the contracts.

Box 1: The case of Angola

The gap analysis conducted in Angola in 2003 recognised that one of the major components, as well as the largest constraint to SME growth necessary to promote local companies in conducting business with the oil industry, was "access to finance". In a bid to increase local participation, government and TNCs have set up the Centro de Apoio Empresarial, an enterprise development centre. Initially, local SMEs were evaluated and provided with training and technical assistance. Successful SMEs were then indexed and certified in a "certified supplier's directory", allowing access to market. The programme was further developed in 2010 to help qualified suppliers gain access to finance, vital to execute contracts and critical for growth. By the end of the project more than 1500 Angolan-owned businesses had participated in the programme, 124 were certified as suppliers for the oil industry, 300 contracts were acquired, generating in total, more than USD 214 million and 2700 jobs for Angolans.

Conclusion

African countries need the benefits from extractive industries for their development. This requires a strong and stable financial infrastructure that lends support to the domestic entrepreneurs participating in the industry, particularly in the procurement services. The availability of financial services is dependent on the level of maturity of SMEs (unemployed subsistence, start-up, growing and mature) as well as the phase of the project or stage of value chain. Supporting local skills development and supplier marketability can be a key value proposition during negotiation with host governments for new business. Governments need to provide incentives for institutions to finance local SMEs and create an enabling environment for foreign companies to support domestic participation and contribute to the development of a local competitive industrial base. Therefore, frameworks to involve local entrepreneurs in extractive industries and financial sector reforms cannot be mutually exclusive.

Recommendations

National frameworks for reforms should encourage companies to have a long-term vision for local participation. For example, a joint venture (JV) between the lead contractor Fluor Daniel with local partners for the construction of the Cannonball platform in southern Trinidad in 2002 led to a cost premium of USD 10 million. However, after four years, in 2006 the JV engaged the same local firms for the design and fabrication of two new platforms, Mango and Cashima. Thanks to the suppliers' experience and standardization of the platform, the project saved an estimated USD 11million in design costs. In addition, process improvements reduced fabrication time from 16 months (Cannonball) to 12 months (Mango and Cashima). This JV arrangement is worthy of emulation by African countries.

Furthermore, international and regional financial institutions[5] sources of funding in extractive activities should consider incorporating domestic supplier participation as conditionality in their financing frameworks.

Notes

1. Campbell B. 2009. *Mining in Africa: Regulation and Development.*
2. Extractive activities in Africa are mostly conducted through Foreign direct investment (FDI). In 2011, total FDI to Africa was USD 43bn and FDI stocks totaled USD 570bn. It is estimated that 90% of those amount went into extractive industries.
3. SME financing includes; leasing, supplier credit, factoring working capital finance, equipment finance, trade finance and mortgage finance. Providers for SME financing include institutional banks, multilateral and regional development banks, venture capitalists, owner funding, informal sources, specialized institutions and larger companies in the industry (usually advances from customers).
4. According to the South African Chamber of Mines, mining expenditure in 2010 was USD 49.4 billion, 92% of which was spent locally. In order to rectify the economic inequalities resulting from the apartheid regime, the government put together a *Broad Based Black Economic Empowerment (BEE) Act* No. 53 of 2003, which was also included in the *Mining Charter.* The Charter was established to increase Historically Disadvantaged South Africans (HDSA) participation, including ownership in the mining industry. An assessment in 2009 by the Department of Mines in South Africa showed that 89% of companies have not given HDSA companies preferred supplier status. Only 8.9% of local assets were owned by HDSA, well below the target of 15% by 2007. This was due to ambiguity and misinterpretations that resulted in appalling levels of non-compliance.
5. Iddrissu D. 2012. *The financing of gas commercialization projects in developing countries: A comparative analysis of bilateral and multilateral funding assistance.*

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Negotiation of Fair Contracts: for a Sustainable Development of Extractive Industries in Africa

Coumba Doucouré Ngalani

Extractive industries represent strong potential for the economies of many African countries. However, for the last few decades, the benefits of this sector remained very limited for resources-rich countries and, for their local communities, their immense resources have yet to be translated into significant economic and social development.

To optimize these benefits and to ensure a sustainable and well-governed mining sector, many factors have to be considered and among these, it is essential for countries to enter into fair and transparent contracts with their private partners. It is also important to involve technical and legal experts in the negotiation. Created by the African Development Bank as a unique international institution, the African Legal Support Facility (ALSF) assists all African countries in the negotiation of contracts and complex commercial transactions related to the extractive industries, natural resources, mining, oil and energy sectors.

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The increase in commodity prices since 2002 has motivated African countries to facilitate access to their natural resources and to open their markets to international investors, offering the latter favorable terms, more often to the detriment of their own mid- and long-term interests. The difficulties for African countries to optimize the revenues are due to various factors, such as corruption, lack of transparency, lack of legal capacity and negotiation skills and lack of human and financial resources. Indeed, African countries lack the capacity to effectively negotiate key legal and financial detail of sophisticated transactions and therefore fail to negotiate favorable provisions. They also often underestimate the implications of such agreed terms.

Fair and good contracts with key provisions

The majority of codes and laws applicable to extractives industries provide for the negotiation and conclusion of contracts for mining investments between states and foreign companies. These contracts are sometimes based on standardized conventions and are required to remain in compliance with the legislation in force in the host country. These investment contracts are at the heart of investment projects as they set out the terms and conditions that will guide foreign investments. However, in many cases the negotiation process and the contents of these contracts are in total distortion with laws and international practices.

The extractive industry and investment agreements are typically complex agreements dealing with various aspects of extractive activities. These include issues such as property rights, royalties and taxes, local content requirements, employment and protection of local communities and citizens, rights and obligations of parties with respect to labour law, human rights, obligations and guarantees of the host state, stabilization clause, dispute resolution and arbitrage, competent jurisdiction and applicable law, amongst others. For the country to maximize revenue and benefits from these extractives activities, they therefore have to anticipate any major issues that may arise as a result of natural resource investments, taking into account potential implications resulting from market changes and ensure that these contracts are legal, balanced and fair.

Transparent process of negotiation and legal capacity

In this context, national authorities have to establish and implement transparent processes when awarding and negotiating key contracts. Indeed, in countries such as Liberia, the law requires contract to be publicly published via specific tools. Countries can even take this further by also involving Parliaments in the process by presenting all key contracts for their consideration and approval.

> (...) national authorities have to ensure they maintain a well balanced bargaining power vis-à-vis international investors when negotiating each contract (...)

However, one can argue that these contracts contain highly confidential elements that parties are not keen to share. But in any case, the key point here is that national authorities have to ensure they maintain a well balanced bargaining power vis-à-vis international investors when negotiating each contract, by being well advised by multidisciplinary experts and competent lawyers, in particular since international investors are typically advised by highly competent legal teams.

This also touches upon the issue related to capacity building in contract negotiations in Africa. The issue of strengthening negotiating skills for such contracts is paramount and must therefore be brought to the attention of governments since these agreements are expected to provide the legal framework for major concession agreements, that will most probably engage most host countries for a period of 20 years or more. But unfortunately, in most cases, governments do not have access to good experts to assist them.

> The commodity price boom provided a window of opportunity for the continent to address the regional gaps in contract negotiation skills.

ALSF support to African countries in negotiating extractive contracts

All the above-mentioned issues have been clearly identified by African ministers since 2007. In this regard, the African Big Table ("the Big Table") held in February 2007, co-sponsored by the African Development Bank and the United Nations Economic Commission for Africa, recognised the skills gap for regional member countries in negotiating contracts for extractive natural resources and called for appropriate intervention. The commodity price boom provided a window of opportunity for the continent to address this issue.

The ALSF has therefore been specifically designed to create synergies between the private sector and African countries. All parties have a lot to gain in terms of transparency and good governance in contractual negotiation resulting from the assistance of the ALSF.

Since it became operational in March 2010, the Facility had already registered significant progress in addressing the needs of African countries for which it was established and its Managing Board had already approved more than 15 projects to support countries in various areas (such as Public-Private Partnership projects, agriculture, energy and mining sectors). With respect to the extractive industries, the ALSF is assisting various resources-rich countries such as Rwanda, Kenya and Guinea and has received several other requests, which are currently being evaluated.
When extractive contracts are poorly drafted, national authorities realise at a later stage the negative effects and implications that these agreed contractual provisions may have for the economy at large. A country may therefore respond by delaying the negotiations, or cancelling the investment contract altogether, which will effectively impact on the investment and alter the reputation of the country. The interventions and support of the ALSF to countries on specific projects are therefore aimed at avoiding that such situations occur by fully assisting the country with the services of competent law firms identified by the ALSF and recruited to act as government counsel during the negotiations.

> The importance of building the negotiating capacity of African countries is also important for the development of the extractive industries, complementary to enacting appropriate laws and regulations.

The ALSF supports countries particularly on complex concessions agreements with the private sector. The services range from the analysis of the transaction through the negotiation, including on drafting and signing of agreements. To avoid the cancellation of a transaction, countries may also require assistance to renegotiate an existing agreement: the documentation of the transaction is therefore reviewed to determine if the country has strong legal arguments for new negotiation with the counterpart party. This can only be done through a transparent process involving all parties provided the country did not breach its obligations under the agreement.

The importance of building the negotiating capacity of African countries is also important for the development of the extractive industries, complementary to enacting appropriate laws and regulations. In this context, the Facility is also helping African countries to develop home-grown skills and expertise through specific training, not only provided by the law firms recruited for specific projects, but also through regional training that the ALSF organises for African lawyers. The role of the ALSF is therefore to ensure an effective transfer of knowledge, notably through its assistance and interventions so that countries are, at some stage, able to develop their own legal capacities, knowledge and experiences at the national level.

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Unpicking the Connections between Resources and Armed Conflict

Terry Heymann

This article describes the range of initiatives being taken to combat the misuse of natural resources to fund unlawful armed conflict, including attempts by the formal gold mining sector to establish a new 'conflict-free gold' standard.

Linkages between natural resources and armed conflict

Over the last fifteen years there has been a growing awareness of the role which natural resources, when controlled by malign forces, can play in triggering, funding or prolonging armed conflict. There are a number of such conflicts in which resources have played a role including timber in Cambodia, oil in the Aceh Province of Indonesia, oil and diamonds in Angola and diamonds in Sierra Leone, Liberia and the Democratic Republic of Congo (DRC).

The genesis and rationale for these conflicts is complex and they are typically associated with multiple inter-related factors, including religious or ethnic tensions and differences in ideology. The desire of one political faction or armed group to control land – and the resources that go with it – is, however, often a factor, albeit rarely the dominant one. It is clear, as the painful reconstruction of many of these countries reminds us, that armed conflict is damaging for development.

In this context, much work has been undertaken over recent years to attempt to cut links between natural resources and unlawful armed conflict, while recognising that, responsibly produced and traded, these natural resources have the potential to promote social and economic development, and to contribute to prosperity and peace.

It is important to note, however, that it is bad people who trigger conflict and abuse human rights, not bad minerals. Terms such as "conflict minerals" or "blood diamonds" are not helpful, if they create the impression that it is the inanimate materials themselves that are somehow "bad". This risks stigmatising entire commodities – and the people who work with or use them - on the basis of what is usually, in the global context, a relatively small number of "bad actors". In developing public policy and industry-led approaches, we need to be very mindful of this, and not unduly risk the livelihoods of large numbers of legitimate actors and consumers in the supply chains of gold, diamonds and other minerals.

The terrible conflict in the DRC has seen the death of over five million people. Periodic reports by the UN Group of Experts have evidenced the role that minerals have played in partially financing this conflict. This has sparked a number of initiatives to improve governance and increase the traceability of some key minerals so as to reduce the likelihood of them being used to fund wars, albeit it is recognised that additional approaches are needed to address the underlying causes of the conflict.

These initiatives fall into three main categories: regulatory, normative and industry-led.

1. Regulatory Initiatives

Section 1502 of the Wall Street Reform (Dodd-Frank) Act requires US-listed manufacturers who use tin, tantalum, tungsten (the three 'T's) and gold in their products to ascertain whether they come from the DRC or the nine surrounding countries. If they do use these so-called "conflict minerals", or if they are unable to determine their origin, the company needs to conduct 'due diligence' to find out whether their supplies may have been implicated in funding the conflict.

There is widespread support for the humanitarian objectives that underpin the Dodd-Frank Act. However, gold is extremely fungible, inherently recyclable and of high value, acting as much as a currency as a commodity, altogether implying that gold supply chains are not linear. Instead, the refinery becomes a central "collection point" for gold from many sources and when gold passes through a refinery, it loses its connection with its point of origin. This makes it impossible for downstream participants in the gold supply chain, including jewellery, electronics and aerospace manufacturers to trace the point of extraction for the gold that they are using.

In the case of the three Ts (the effect is currently less visible in the case of gold) the legislation has played a key role in reducing demand for minerals from the DRC, even if they have been mined outside the areas impacted by conflict. Reports from the Organisation for Economic Co-operation and Development (OECD) talk of a 90% decline in sales, as companies look for alternative suppliers, wary of the additional costs of compliance of sourcing from the DRC. This has significantly reduced trade and employment, making the day-to-day challenges of putting food on the table harder, and arguably increasing instability in the region.

2. Normative Initiatives

The OECD attempts to put due-diligence processes in place to look at the activities undertaken by actors in the supply-chain. Drawing upon work done by the UN Group of Experts and the International Conference on the Great Lakes Region, the OECD has produced guidance on responsible supply chains of minerals from conflict-affected and high-risk areas. This is supported by separate supplements on the '3Ts' and gold. Although strongly influenced by concerns about the DRC, the Guidance has global application.

The Gold Supplement is required because of the unique nature of the gold supply chain. A little over half of annual supply comes from newly-mined gold produced by formal mining operations and in recent years, up to 40% has come from recycled sources with the balance emanating from artisanal and small-scale producers. As a point of comparison, less than 1% of the supply of newly-mined gold comes from the DRC.

The Artisanal and Small Scale Mining (ASM) sector is a very large provider of employment. Due to its informality, and in some cases seasonality, of activities, it is hard to get exact figures, but estimates suggest that between 10 and 20 million people globally may be directly involved. Unfortunately, in addition to its frequent association with child labour, the uncontrolled use of mercury and poor safety and environmental practices, much of ASM operates either illegally or in a legal grey area. This informality, together with their lack of scale, makes artisanal miners vulnerable to exploitation by opportunistic middle-men who ensure that, even at times of high gold prices, most artisanal miners don't enjoy a significant return on their labours. This risk is multiplied in weak governance areas, where they may suffer extortion by armed groups and be a key source of finance for criminal networks and militias. Moreover, in relation to securing continued access to markets, now that an increasing number of industrial users want assurance about the origins of the gold they use, artisanal miners rarely have the capacity to meet their would-be customers' due diligence requirements.

This conundrum of ASM being associated with the greatest conflict risks but being least able to provide assurance to downstream users, has posed a significant challenge for the OECD process. No stakeholders want to deny legitimate artisanal miners access to markets or to drive them into the clutches of criminal groups, and the OECD Gold Supplement recognises this. In particular, Appendix 1 of the OECD Gold Supplement calls on a broad range of actors to work together to ensure that responsible ASM enterprises can continue to have access to international markets.

3. Industry-Led Initiatives

Pre-dating the Dodd-Frank Act and the OECD Due-Diligence Guidance, leading gold mining companies, working through the World Gold Council, had begun working to develop a standard through which responsible companies, operating in conflict-affected or high-risk zones can demonstrate that their gold has been extracted in a manner that does not cause, support or benefit unlawful armed conflict.

The work was initiated for three reasons: first, because of the desire to cut any link between gold and armed conflict; secondly, to protect the reputation of gold in the minds of end-users and consumers; and thirdly to create a framework that would help mines operating in difficult environments show that they can do so without fuelling armed conflict and so contribute to sustainable development and poverty reduction. It is increasingly recognised that the closure of a responsibly managed source of employment and, often, of infrastructure support, in a potential conflict zone tends to make matters worse.

The Conflict-Free Gold Standard was published in October 2012 after over two years of work and an exhaustive process of stakeholder engagement involving two rounds of external consultation to ensure its credibility and field-testing to ensure its practicability. Over 100 organisations participated through bilateral meetings, written submissions or eight roundtable events across five continents. They included 16 governments, leading NGOs, investors, academics, international organisations and supply chain participants.

The Standard is an open-source framework that can be used by any gold mining company. Conformance will be subject to independent, external assurance and public reporting. The Standard is based upon a set of demanding benchmarks and draws upon internationally recognised standards including the OECD Guidance on responsible mineral supply chains, the UN Guiding Principles on Business and Human Rights and the Voluntary Principles on Security and Human Rights. When operating in areas assessed to be 'conflict-affected or high-risk', it requires companies to have a policy on human rights and to show how this is implemented including through areas such as the management of security provision, disclosure of payments to governments, tracking of benefits in kind, including the use of company assets, regular engagement with affected communities and provision for whistle-blowing and for resolving grievances. It also requires monitoring of gold bearing material during the mining process, to guard against 'leakage' from the mine site that could benefit militias. Due diligence requirements are also set out, where a mine acquires gold-bearing material from external parties. The Standard applies in a conflict or high risk situation, irrespective of whether or not mineral production has been implicated in funding or causing the conflict. The mere presence of armed conflict makes additional controls and extra due diligence appropriate.

A key challenge has been to define which gold producing areas are 'conflict-affected or high risk'. This is tough even for seasoned international relations specialists, let alone asking individual mines to pass consistent and sensitive judgements on the countries where they work when their license to operate is dependent upon the goodwill of a potentially sensitive host government. Thus we have sought to draw as much as possible upon widely-accepted external sources such as United Nations Security Council resolutions and the Conflict Barometer published by the Heidelberg Institute for Conflict Research. This use of external benchmarks does not obviate the need for a mine to undertake their own due diligence.

Complementary industry-led initiatives have been developed, including the London Bullion Market Association's Responsible Gold Guidance (focused on refiners), the Responsible Jewellery Council's Chain-of-Custody Standard (focused on the requirements of the jewellery supply-chain) and the Electronic Industry Citizenship Coalition and the Global e-Sustainability Initiative's Conflict-Free Smelter Programme. The first two mirror the OECD global approach, the latter one focuses on the DRC and surrounding countries.

Summary

Unpicking the links between minerals and conflict is a significant and complex challenge and industry, government and civil society need to work together to ensure that gold is not misused to fund armed conflict. Challenges remain, notably the need for improved governance and formalisation of the ASM sector which will require leadership from host governments and donors as well as other stakeholders. We must also continue to guard against unintended consequences and managing in balance, the need for increased levels of compliance and oversight without negatively impacting those responsible operators least able to conform. However, collectively, these are significant events which will help to shape the development dialogue and the role that governments, civil society and industry all play in advancing society's needs.

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Involving Extractive Industries in Local Communities: The Case of Anglo American

Richard Morgan

Anglo American is a global mining company with the majority of its operations (over 80%) in developing economies. The company is acutely aware that they are increasingly judged not just on the value they extract (and the significant revenue that this can raise) but on the value that they leave behind. How to measure that value and where to collectively set the level of expectation is not fixed in advance: it has to be part of an ongoing dialogue against the political context of the day.

Any failure in this dialogue process increases the risk of mutually negative outcomes: governments are tempted to over-regulate, impose extra rents or nationalize, companies walk away without investing and resources stay in the ground. Conversely, getting this dialogue right delivers revenue for the host government, developmental benefit for its people and sustainable commercial returns for the mining company. Additionally, it also attracts the support of international development agencies, for whom responsible mining is an important socio-economic driver.

Engaging in dialogue in South Africa

Nowhere is this dialogue more critical for Anglo American than in South Africa, where it has major operations in four of our seven main business units - iron ore, platinum, diamonds and thermal coal. Anglo American has a good record both in revenue payments (over US$2bn in 2011) and is one of the largest private sector employers. but expectations are always moving to a higher level.

In this context, in a recent speech in Johannesburg CEO Cynthia Carroll outlined ten commitments, that Anglo American would take to meet these expectations. These are:

1. To re-double efforts to achieve zero harm in the mining industry. Safety is, above all, a moral imperative. The last twenty years have seen South Africa striving constantly to redress the historical inequities that existed in society. Whatever progress is made on economic issues, it is difficult to say that the society has become just until the mining industry can guarantee that everyone can go home safe to their families at the end of the working day.

2. To promote health in the workplace and in the broader community. Anglo American has extended its world-leading HIV/AIDS testing and treatment programme to target the additional scourge of tuberculosis. It is also very active in supporting and expanding community healthcare initiatives. Good healthcare transforms lives.

3. Make mining a positive force in the environment. Building on projects like the Emalahleni water purification initiative, which provides thirty million litres of clean drinking water to 80,000 people each day demonstrating that, mining can make a positive contribution to solving the problem of water scarcity in South Africa.

4. Better employment equity in the industry. At Anglo American in South Africa, 55% of the managers come from historically disadvantaged backgrounds, and 19% of the employees are women. Across the industry, mining companies have been working to achieve the Mining Charter targets. But there is more to be done – particularly to promote the role of women in mining. It is therefore crucial for all companies to deliver on what was promised and to move beyond compliance to true transformation.

5. Support to education and skills development in the broader community. 18 years after the dawn of democracy, South Africa is still battling to overcome the legacy of prior decades of conscious underinvestment in education for the majority population. The mining industry has a crucial role to play in helping to accelerate the development of the skills society needs – for example, through support for Further Education and Training colleges. Anglo American is working with the Development Bank of South Africa to support capacity building and service delivery in local municipalities.

6. Use the power of mining to create jobs. Unemployment is a tragedy that must be tackled. With the right policy framework in place, the growth of the mining industry will itself create jobs and mining companies have a critical role to play in creating jobs beyond the mining sector. Anglo American Zimele has already created almost 20,000 jobs and our 31 business hubs are constantly driving that number higher. 36% of the beneficiaries of Zimele are women and 48% are young people. Again, there is much more to be done, beyond the target of 25,000 jobs already set, particularly by fostering the creation of medium-sized enterprises.

7. Complete the transformation of the ownership of Anglo American. The company has already met the 2014 Mining Charter targets for Black Economic Empowerment (BEE) ownership. Since 1994, it has completed BEE transactions worth over €50billion. It is further extending the benefits of ownership not just to

its host communities, but also to our key labour-sending areas.

8. Improve housing for its employees. The mining industry of the past has left South Africa with a housing legacy which is quite disappointing. This cannot be addressed overnight, but it is important to work with determination to achieve good housing conditions for all employees. Across the Anglo American businesses in South Africa, the latter has committed to build over 23,000 houses and to convert the remaining hostel accommodation to single-person occupancy by 2014.

9. Use local procurement to support South African businesses. In 2011 Anglo American spent over €2billion in procurement from BEE suppliers in South Africa. It is committed to local procurement as a core part of its business and to developing skills in the South African economy through partnerships between local and international suppliers.

10. Transparency and mutual accountability. The standards of the best mining companies can justifiably render both the nation and the company proud, and there is a mutual responsibility to work together to achieve the highest standards. Only then can the progress made be genuinely transformative.

Going beyond Corporate Social Responsibility

The ten commitments above go beyond the Corporate Social Responsibility of Anglo America. While CSR is still valuable in some ways, its impact has not always been transformative. Anglo American therefore goes beyond, as exemplified by its approach, to enterprise development.

Believing in the innovative spirit of communities

In South Africa, Kutting Mpumalanga's 24-hour mobile field service delivers on-site hydraulic repairs on a Terex machine. The company is supported by Anglo American Zimele's supply chain fund.

Gaining and maintaining the "social license to operate" has turned into one of the most strategic goals for mining operations. Unlike formal permits, the social license to operate is an open and unregulated agreement between the mining company and the community.

Mining companies need to demonstrate that there are going to be direct socio-economic benefits for the communities otherwise the project may be delayed or even stopped. Anglo American believes that this process is also an opportunity to differentiate itself.

The traditional approach to deliver socio-economic benefits would be through social investments (i.e. grants). The advantage of a philanthropic approach is that it is simple to provide and usually does not take long to disburse. Moreover, sometimes grants are the only sensible way to support a community. However, donations may reduce incentives for the community to be independent; asking for more social investment has no cost for them. This not only reduces the capacity of the community to deal with their own needs but also increases costs for companies. And, because social challenges are rarely seen as solved, additional requests normally follow.

> While CSR is still valuable in some ways, its impact as not always been transformative.

A more strategic way of delivering socio-economic benefits is through enterprise development programmes. These are schemes that provide financial, technical and implementation support to local small and medium size enterprises (SMEs). Importantly, enterprise development schemes respond to the strengths rather than the weaknesses of host communities – for example, their capacity to innovate and their potential to create value. With technical and business support, SME productivity grows, which allows them to repay the financial support. This process allows SMEs to deliver socio-economic benefits such as jobs, capital accumulation and better salaries. Most importantly, the long-term dependency risk is reduced as communities focus on solving their problems via their own income-generating activities.

Governments have run SME development programmes for many years with mixed success. However, as a business, Anglo American has an advantage – it has a large supply chain (over US$10bn globally) and can help SMEs to understand how to compete successfully for its custom. This information allows the company to design supplier development programmes that are more effective and provide enterprise development schemes at a lower cost. In South Africa, the survival rate of SMEs is one of the lowest in the world; however, the businesses supported by Anglo American have surpassed the five-year EU survival rate of 50%.

Enterprise development turns the conventional understanding of the "bottom of the pyramid" upside down: it is not seen as a potential market in a community, but a supplier base. It focuses on the production potential of local communities instead of their consumption capacity and provides the complementary assets and services, while the local SMEs provide the innovation and effort.

Enterprise development schemes also work as long-term platforms for partnerships. They are designed to bring together services that can be provided by Anglo American, but also by third parties. For example enterprise development programmes in Chile and South Africa already partner with governments, NGOs such as TechnoServe, and private sector companies. The result is that efficiency and performance are improved as each partner focuses on its particular area of expertise.

Anglo American is now launching new enterprise development programmes in Peru and Brazil to complement its well-established programmes in Chile and South Africa which, between them, support more than 47,000 jobs. In Botswana it is using its experience to contribute to the government's economic diversification programme. The capacity of communities to innovate and the power of enterprise development programmes is thus essential to enable them to share sustainability of the socioeconomic benefits generated by mining companies.

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Making Sustainability Work for Communities, Countries & Companies:

How Canadian Miner Sherritt International is Contributing to Madagascar's Growth

James M. Small

Today, a mining company issuing a sustainability report is not the rarity it was a couple of decades ago. But issuing a 60-page annual sustainability report on a single operation is rare. It's also an indication of just how holistically the Canadian mining company Sherritt International Corporation[1] views both sustainability and governance at its Ambatovy nickel and cobalt operation in Madagascar.[2]

Indeed, there are few companies operating anywhere in Africa with such a comprehensive program in place to "leave things better off than before we got there."

First, some facts about Ambatovy: it's owned 40 percent by Sherritt, 27.5 percent each by Sumitomo Corporation and Korea Resources Corporation, and five percent by SNC-Lavalin Incorporated. Sherritt, a global leader in hydrometallurgical processing technologies for mining, is the operator of Ambatovy. This operation has a mine reserve life of about 30 years and represents, at US$5.5 billion, one of the largest-ever foreign investments in Madagascar. Over $2 billion of that is in the form of project financing from a consortium of 14 lenders, including the European Investment Bank, the African Development Bank and Export Development Canada. The lending agreement requires Ambatovy to comply with the International Finance Corporation's Performance Standards on Environmental and Social Sustainability, which are a globally recognised benchmark for sustainability practice in the private sector. Ambatovy's compliance is audited several times a year by third-party experts that report to the lenders.

Madagascar is one of the poorest nations in the world, with literacy rates and lifespans perilously low, and half the population living below the poverty level. Following a non-democratic change in government in 2009, Madagascar's transitional authority has failed to gain recognition from many industrialised nations, which in turn, resulted in the country receiving only limited foreign aid. At the same time, Madagascar is ground zero for biodiversity – an extraordinarily rich island nation in terms of plants and animal species.

This is the setting in which Ambatovy began operating in 2012 and continues to ramp up production.

Well before the beginning of construction in mid-2007, Sherritt had established a sustainability initiative driven by values that have informed its more-than 20 years of experience in Cuba, where it is also among the largest foreign investors and based on its success as the largest thermal coal producer in Canada and its performance as a public company traded on the Toronto Stock Exchange.

As Juanita Montalvo, Sherritt's Senior Vice President, Corporate Affairs and Sustainability, says: "We're a mining company – by our very nature, we impact communities. We're not perfect. We make mistakes. What's important is that we have robust procedures and systems in place to reinforce our values and commitments. Having clear guidance and training for our workforce is also key to minimizing negative impacts and maximizing positive ones."

The Ambatovy Joint Venture has the potential to make nickel one of Madagascar's most valuable exports and spark real and lasting growth of the nation's economy. However, the country can end up succumbing to the "resource curse" – with little value-added and much left bare, in terms of effective governance, economic benefits, skills improvement, environmental sustainability, and improved livelihoods for the thousands of workers who built and work in Ambatovy, not to mention their 65,000 to 75,000 family members, the surrounding communities and, more broadly, Madagascar's 22 million people.

How to avoid the "resource curse?"

This question is especially germane in a country that is struggling just to stand in place economically, socially and environmentally. An ongoing challenge in such fragile places is the need for governments to effectively administer their resources, in order to optimise in-country benefits in the long-run. Efforts such as the Extractive Industries Transparency Initiative (EITI) play a growing role in helping local stakeholders ensure greater government accountability on how payments received from mining companies are used. For its part, Sherritt has taken a leadership position in supporting two independently audited EITI publications in Madagascar, making public all their payments to government.

Sherritt is also pioneering a number of programs to significantly expand the skills of the Ambatovy workforce and more broadly, to make a meaningful contribution to strengthening Madagascar's economy and institutions. Here, Sherritt draws on its two-plus decades of experience in Cuba, where it has been involved in many aspects of the nation's economy and culture.

It took more people – almost 20,000 – to build Ambatovy than the 6,000 it needs to operate it, making sure that Ambatovy's "hire locally" policy reached its target of 85% of the workforce well before production began.

Towards the end of construction of Ambatovy, Sherritt launched a unique program to provide demobilised workers with financial assistance over a fixed period, job-search support and agricultural training. This initiative was designed to help the transition to other income-generating opportunities and mitigate the effects of retrenchment.

Sherritt's commitment to its workforce is mirrored in its work with local businesses. Since 2007, some US$1.5 billion in contracts has been awarded to Malagasy suppliers, and 56 percent of Ambatovy's current supplier base is from Madagascar, with Europe the next highest-ranking area at 13 percent and Africa at 10 percent.

Indeed, the Ambatovy Local Business Initiative (ALBI) has been hailed by many as the single most important factor in helping Madagascar avoid the "resource curse." Local hiring, along with a local supply chain, is already creating multiplier effects on local communities that payments to governments or social investment projects just can't achieve.

ALBI is creating something even more important: by linking the local business initiative, contracts and procurement into a single supply-chain management function with embedded corporate responsibility values, mining companies around the world are taking notice of ALBI – and the determination of Sherritt and its partners in making it work.

All Ambatovy suppliers must pass a third-party audit that contains legal, organisational and performance requirements. The concept is relatively new to Madagascar and the audit program has brought about an extraordinary and, to some, totally unexpected effect. Suppliers who meet audit requirements can then leverage their certificate in bidding for other non-Ambatovy business. Few suppliers are reluctant to submit to the audit but on the contrary, many are now eager to get audited and even put pressure on Ambatovy's management to have them audited as quickly as possible.

Another essential link in the strengthened supply chain is Ambatovy's Business Training Centre for existing and new suppliers and prospects. The Centre offers basic training in business administration, including legal requirements, database management, tendering, responding to requests for proposals, business planning and growth management.

Says Montalvo: "Once people understand the objective and are given a chance to learn how to reach new standards, they are motivated to get it right. This has proven true in the Business Training Centre, whether people are learning about finance, requirements of the International Organization for Standardization, traceability, or whether its issues such as corruption, child labour or child prostitution."

Broader community engagement

Sherritt has partnered with UNICEF and local Child Protection Networks in Madagascar to educate families on the issue of Zero Tolerance for child prostitution. Ambatovy is also engaged in several other community development activities centered around health, education, livelihoods, governance and planning.

A few years ago, these subjects would have been viewed as either "none of business' business" or not a major part of a company's sustainability program, as would social issues such as HIV/AIDS and child prostitution. Mining companies would not even have viewed these matters as an integral part of their operational mandate. But clearly, the world has changed when it comes to linking social well-being and economic sustainability.

> (...) clearly, the world has changed when it comes to linking social well-being and economic sustainability.

Ambatovy's environmental programs also offer a fresh perspective on a chronic issue faced by all mining companies. Sherritt's guiding principle when it comes to the environment is that there be no net loss of biodiversity and preferably a net gain, through the application of the "mitigation hierarchy." In other words: *avoid, minimise, restore and offset potential impacts to biodiversity*. Those four credos are at the heart of everything Ambatovy does. Sherritt believes it is important to partner with respected local and foreign institutions to create pioneering environmental programs that can be emulated in other biodiversity hotspots. After all, 80 percent of the island nation's plants and animals exist nowhere else on earth.

Examples abound. Since 2007 Ambatovy has invested over US$1 million a year in establishing and managing biodiversity offsets. These range from conservation forests surrounding the mine footprint, known as "onsite offsets," to an area of forest corridor connecting the mine forests to the nearby national park (the Analamay-Mantadia Forest Corridor or CFAM) and the more distant Ankerana forest massif forming part of Madagascar's eastern forest corridor, known as an "offsite offset." In 2007, Ambatovy became a pilot project of the Business and Biodiversity Offsets Program, a global partnership of non-governmental organizations (NGOs), business leaders and conservation scientists that promotes best practices in biodiversity offsetting. Sherritt is working with Conservation International, an NGO that manages biodiversity programs, and with the national forest authorities, to conserve the 6,800 ha Ankerana forest massif and establish the 14,000 ha CFAM as a new national protected area. In 2011 and 2012, national research partners carried out the first-ever scientific studies of the Ankerana and CFAM forests. Well before the mine closes in some 30 years, Ambatovy expects to have secured the long-term conservation of over 20,000 ha of forests, resulting in a net gain in biodiversity for Madagascar.

Madagascar is home to over 100 species of lemurs, and Ambatovy's mine site is affecting their habitats. Sherritt is therefore working with several leading international and national institutions to capture and monitor lemur groups affected by its mining operations and implement a major long-term lemur health evaluation program.

So to assume that a major mining operation such as Ambatovy does not have a stake in local environmental, social and economic issues is not in Sherritt's value system. This is why the company has pioneered programs in each of these areas to help expand the meaning of the concepts of social responsibility and sustainability.

Notes

1. www.sherritt.com
2. www.ambatovy.com

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James M. Small is Executive Director at the Canada-EU Mining Council.

***Sherritt** is a member of the Canada-EU Mining Council, which represents Canadian mining interests at the European Union. Established in 2009, the CEUMC's purpose is to advance and promote the activities of Canadian mining companies operating worldwide that invest, develop, and trade in the sustainable and responsible mining, production, and trading of metals and minerals. The CEUMC pursues its goals on behalf of its members primarily through high-level advocacy and an ongoing dialogue with national governments, the EU, multilateral institutions, and civil society representatives. Please visit our website at www.ceumc.com for more information and contact details.*

Eni at the Heart of Africa's Development

Pasquale Salzano

Africa is on the rise on the world scene. In recent years, its economy has grown faster than any other one in the world (except for China), thanks to the increasing global need of raw materials. The number of African countries becoming hydrocarbon producers is rising as well, and in the last five years oil resources have increased by 30%, while gas resources have more than doubled.

Against this background, it is little known that Eni has long been the main hydrocarbon producer in Africa, reaching in 2011, about 1 million barrels of oil equivalent (boe) per day, which represents 56% of Eni's global production. Eni has worked in North Africa (Egypt, Libya, Tunisia and Algeria) for many years, but it is now increasingly present in Western and Southern Africa (Liberia, Ghana, Togo, Nigeria, Gabon, Congo, the DRC, Angola, South Africa, Kenya). Furthermore, in 2011-2012, Eni made the most important discovery in its history in Mozambique: a gas deposit that, on its own, could satisfy all European demand for five years.

One of the key secrets of Eni's leadership in Africa is the traditional adherence to the principles of its founding father *Enrico Mattei*: the oil found in producer countries *belongs to them*. As an international company, Eni has a contractual right to extract resources and to benefit from an adequate return on its investments. But more importantly, the company never forgets that producer countries are the "owners" of the oil, and they therefore have the right to perceive the largest profits *from it*. From this philosophy descends a real commitment to supporting the countries where Eni acts.

In 2011, Eni invested about €70 million for development projects in countries where it operates. Out of this, more than €20 million was invested in Africa. As a member of the LEAD excellence programme for the social responsibility of companies organised by the United Nations, Eni is also committed to accompanying Africa to work towards achieving the UN's Millennium Development Goals (MDGs).

Access to energy

In Eni's view, moreover, there can be no development without electricity. Unfortunately today, two thirds of the 600 million inhabitants of oil and gas rich sub-Saharan Africa live without access to electricity.

> (...) there can be no development without electricity.

Eni's strategy includes the implementation of infrastructure for the development of local markets along with plans for the exploitation of energy resources. In this context, providing energy to people allows the company to pursue, directly and effectively, the MDGs. Eni therefore is currently involved in building efficient, clean, combined- cycle gas plants, that often use the gas associated with oil production, which otherwise would be burnt off (in technical terms "flared") into the atmosphere. While producing energy, Eni also avoids gas flaring, with evident environmental benefits. Eni today reuses and revalorises 50% of the gas, which was flared in 2007:this positive trendis expected to continue .

Today in Nigeria, Eni produces 20% of the country's electricity and as a result of significant investments, about 90% of associated gas is enhanced through conversion in LNG, power production and local distribution (it was 50% in 2000). Relevant flaring down projects have also been set up in Congo, where the company currently produces 60% of the country's electricity.

Along this path, Eni is going to implement similar projects in other African countries, becoming one of the largest continental electricity producers. While many oil companies do not want their investments in dollars to be subject to electricity rates in local currency, as set by local governments, Eni considers such investments in producing electricity as a crucial investment which also enhances its reputation and image in the continent.

> (...) Eni considers such investments in producing electricity as a crucial investment which also enhances its reputation and image in the continent.

Eni Foundation

Eni has also a specific Foundation which, in line with the MDGs, implements several projects, notably for mother and childhood protection, the fight against transmissible diseases and the prevention of the mother-baby transmission of HIV.

In 2011, the projects underway in the Congo and Angola reached complete executive maturity. Acknowledged in the field as concrete and effective intervention models, developed alongside communities and local institutions, they have been able to implement new operational approaches in local health systems, destined to have lasting effects.

Three hundred thousand vaccines have so far been administered in addition to the 250,000 paediatric and children's check-ups, 325,000 laboratory analyses, 17,000 antenatal consultancies and HIV screening tests, 11 thousand safe births, 61 thousand obstetrical check-ups, thousands of hours of training and the sensitisation of local health workers. This bears witness to the daily commitment of the men and women involved in the Foundation's work, carried out with constant, silent devotion in cities just as in the most remote, isolated villages.

In 2011, the Foundation further broadened its horizons of solidarity and development, completing, in cooperation with local health authorities, the design of a new initiative in Ghana which, by improving health service conditions in the western region of the country, aims to reduce mother and infant mortality.

Numerous projects are currently on-going. For instance, in the Congo, the Salissa Mwana project ("Let's protect children" initiated in 2008 in collaboration with the country's Ministry of Health and the local non-governmental organisation Foundation Congo Assistance) aims to improve childrens healthcare in the isolated rural areas of the regions of Kouilou, Niari and Cuvette, through extensive vaccination programmes against the most common pathologies, to strengthen the basic peripheral healthcare structure, to train healthcare staff on various levels and to sensitise the population in terms of prevention.

Similarly, the Kento Mwana ("Mother-Child") project, that first started in 2009 in collaboration with the local Ministry of Health, aims to reduce the mother-baby transmission of the HIV virus in HIV-positive pregnant women to 2-3%. It also offers counselling services and voluntary screening at the network of first level healthcare centres and, in the event of seropositivity, prophylaxis or treatment services at the maternity and children's wards of reference hospitals.

Furthermore, in Angola, the Kilamba Kiaxi project, promoted with the Ministry of Health and the local non-governmental organisation Obra da Divina Providencia, aims to improve health in the mother-child population of the municipality of Kilamba Kiaxi, in Luanda. The intervention, which also enjoys the support of major international scientific institutions, aims to reduce the incidence of preventable diseases, including those caused by malnutrition, by strengthening peripheral healthcare structures, monitoring epidemics and developing vaccination programmes and dietary education.

> (...) producer countries are the "owners" of the oil, and they therefore have the right to perceive the largest profits from it.

In Ghana, the Foundation is now starting a €6.2 million, 3-year health project, aimed at strengthening maternal-infant medicine services in districts of the Western Region. The project, in line with the strategies of the local Ministry of Health, aims to support the action of the health authorities in achieving the MDGs, and in particular goals 4 and 5: respectively to reduce infant mortality and improve maternal health. The project envisages developing the extension of basic healthcare services in the least served areas, in line with the planning strategy and healthcare services on a community level promoted by the Ministry of Health. It also aims to strengthen maternal-infant medical services, as well as obstetric and newborn services on an intermediate level (community clinics and health centres). Other goals are the strengthening of in-patient and emergency services in relation to obstetric and newborn assistance in district hospitals; strengthening of the capacity to plan, monitor and assess and training of regional and district healthcare staff. The Eni Foundation finances the project and is responsible for its management.

Finally, in Mozambique, the Eni Foundation and the Ministry of Health are due to sign, in early 2013, under the High Patronage of First Lady H.E. Maria da Luz Guebuza, a Memorandum of Understanding to strengthen Maternal and Child Health Services in Palma District (Cabo Delgado Province). This €2.5 million, one-year project, aims at supporting the Minister of Health in the reduction of maternal and child mortality by improving the emergency health services of Palma District with particular regard to obstetric, neonatal and paediatric care.

All Eni foundation's projects apply specific criteria, such as adherence to local health policies and programs, prevalent training and use of local health staff, focus also on operational & management aspects, in order to facilitate the handover to the local authorities, and to assure a long lasting sustainability and an impact within country's national health system.

Eni's commitment to supporting the countries where it operates is real and intense. From access to electricity to mother and childhood protection, from the fight against transmissible diseases to the prevention of the mother-baby transmission of HIV, etc, Eni is one of the most active actors promoting the development and ultimately the structural transformation of African countries. This is one of the key factors behind its growing success in the continent.

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EPA Update

This section covers recent EPA developments to all ACP and EAC regions.
Stay tuned for coverage of negotiations in other regions.

Quentin de Roquefeuil

East African Community (EAC)

EPA round held in Mombasa: towards a ministerial package?

Seniors officials and permanent secretaries from the European Commission (EC) and the East African Community (EAC) met in Mombasa, Kenya from 5th to 7th of February to discuss outstanding issues in the negotiations, building on the previous technical round held in November of last year in Kampala.

According to sources close to the negotiation, the Economic and Development Cooperation chapter of the agreement, which outlines the support measures accompanying the EPA, is now agreed upon and finalized at Senior Officials (SO) level, after a few adjustments inserted in the text. Technical level negotiations had already prepared the ground and cleared most hurdles in the Chapter in May and July of last year. The Economic and Development Cooperation chapter is one of the major points of interest for the EAC in the negotiations.

Another development in the negotiations concerns the link made by the EAC between the finalization of the agriculture chapter of the Agreement to the article on export taxes. The agricultural chapter is almost finalized following the "package" deal struck earlier last year. While the details of the agricultural package remain murky, the broad contours seem the revolve around the idea that the EAC drooped its demand to address domestic subsidies in the negotiations, and agreed to remove the term "trade distorting" from the body of the text in exchange for a commitment from the European Union (EU) to increase transparency of domestic agricultural support and to refrain from subsidizing goods liberalized in the agreement. It seems that the region is now linking the finalization of the text in the question to the agreements' article on export taxes, where it has sought flexible language. The EAC considers export taxes as an important tool for its industrialization and policy space.

On Rules of Origin (RoOs), the question of full cumulation with South Africa and ACP countries has been deferred to discussions at the ministerial level, as part of a possible "ministerial package" that would include other traditionally contentious issues such as the MFN clause. Technical work remains to be done on product specific rules. Fisheries and the principle of time-bound asymmetry in RoOs were also discussed, with the EAC reportedly agreeing to the latter in principle. Other issues requiring more technical work concern the Dispute Settlement Chapter's scope and institutional provisions.

Finally, the Trade and Sustainable Development chapter has been relegated to the rendez-vous clause – meaning that it will be negotiated at a later stage, after the signing of the agreement. Good governance in Tax matters and the "Turkey clause" concerning EU customs unions with third parties are still not recognized as issues for discussion by the EAC.

> Further progress on ECOWAS-EU EPA negotiations is contingent on the establishment of the region's common tariff regime(...)

With negotiations having made significant progress in the past months, sources appear confident that a "ministerial package" could be put together after another round of technical and SO negotiations, possibly within the first half of 2013. Officials cite MAR 1528's "expiry date", still to be agreed upon in Brussels (see below), as a possible reason for the renewed dynamic. This package would bundle all the issues having been identified as political-level decisions by technical and senior officials. The next SO meeting is foreseen for mid May, preceded by a technical round.

The Economic Community of West African States (ECOWAS)

As CET design speeds up, ECOWAS wants to revive EPA negotiations in 2013

As reported in these columns last month, the ECOWAS Common External Tariff (CET) made headway towards full implementation from the 1st of January 2014 onwards after the 12th meeting of the Joint ECOWAS-UEMOA Committee for the Management of the ECOWAS Common External Tariff. Final details are expected to be polished in the first half of 2013, are as the community's texts on trade defence measures, namely the Decreasing Protection Tax (DPT), the ECOWAS Countervailing Duties (ECVD), and the Import Safeguard Tax (IST). This would leave sufficient time for information and sensitizations missions to take place in ECOWAS Member States from July to December.

Further progress on ECOWAS-EU EPA negotiations is contingent on the establishment of the region's common tariff regime, because the CET is the basis of West Africa's market access offer to the European Union (EU).

It is in this context that the experts from the ECOWAS Ministerial Monitoring Committee (MMC), the body in charge of overseeing EPA negotiations on the West African side, met on the 20th of February for a three-day meeting. While the conclusions of the meeting are unknown, market access issues – one of the biggest hurdles in the negotiations - were firmly on the agenda, with discussions apparently focusing on a new "draft offer". The expert's discussions are expected to feed in a ministerial level meeting of the MMC in Cape Verde in March.

It should be remembered that no round has taken place between the EU and its West African counterpart since April 2012, when negotiations got stuck on market access issues – notably the level and timing of market opening on the West African side and the level of detail of the statistical basis used to conduct negotiations. ECOWAS negotiators insist on a maximum opening of 70% of their own market, while the EU argues for an 80% opening. Further, the because the ECOWAS CET is fragmented on some tariff lines at H6 level, the level of detail commonly used for trade negotiations, ECOWAS negotiators have insisted that negotiations take place at a greater level of detail in order to keep the EPA Market Access offer consistent with the CET's structure. The EU has not been forthcoming on this request.

The European Commission, in its last communication on the negotiations stated that it was confident that "a compromise can be found with a decision at political level on reciprocal market access." In a press release prior to the MMC, the region seemed to agree that all the technical options had been exhausted during earlier market access talks, hence the need for Ministerial guidance.

While the conclusion of the MMC's experts on market access are not known at the moment, an ECOWAS press release stated that a new draft offer, discussed during the meeting "would be forwarded to Member States for their comments as part of the process of generating a consensus" – possibly implying that ECOWAS could budge on its previous position of 70% market opening, but that consensus amongst its Member States had not yet been reached regarding the details of the new draft offer.

Apart from market access issues, the MMC also reportedly discussed all outstanding issues in the negotiations, including, inter alia, divergences in the main body of the text (the MFN clause, the non-execution clause, agricultural subsidies and the clause relating to countries in a Customs Union agreement with the EU) and the protocols (notably the programme APE pour le développement (PAPED) and Rules of Origin).

The amount and "additionally of the funding going into the PAPED, is also a particularly sticky point of contention between the two parties, with West Africa calling for 9.5 billion Euros of additional "fresh" funds while the EU projects that the PAPED will be financed under current EDF funds, totaling 6.25 billion euros together with other forms of aid and grants going to the region.

The MMC meeting did not go unnoticed amongst West Africa's civil society organizations, which released a communiqué reminding their "outright opposition" to any concession beyond the 70% market-opening threshold ECOWAS negotiators have stuck to so far. The communiqué was released on the 18th of February by the Plateforme des organisations de la société civile d'Afrique de l'Ouest sur l'Accord de Cotonou (POSCAO).

European Commission, Council and Parliament Trialogue

MAR 1528 trialogue started on 17 of January 2013

Talks between the European Parliament (EP), the Council, and the European Commission (EC), dubbed "trialogues" in European Union (EU) jargon, have started on January 17th in Brussels on the amendment of Market Access Regulation (MAR) 1528.

The amendment, proposed by the EC last year, would exclude countries that have taken "insufficient steps to ratify and implement Interim EPAs (IEPAs)" from the remit of the temporary MAR put in place for IEPA countries years ago when the World Trade Organization (WTO) waiver covering the Lomé preference expired. The EC had proposed 2014 as a "deadline" for implementation of IEPAs, while the EP argues for a two-year extension to 2016. The Council, representing the Member States, had backed the EC's 2014 date.

> The move to put a "deadline" for IPEA implementation on the MAR had been criticized in ACP quarters, while the EC holds that the MAR has always been temporary in nature.

The conciliation procedure, or "trialogue", between the EC, EP and Council are relatively common after the introduction of the Lisbon Treaty, which gives more voice to the EP in EU decision making. The aim is to find a consensual compromise solution, so that the regulation can pass the second legislative round between the EP and Council successfully. A decision is expected by mid-April.

The move to put a "deadline" for IPEA implementation on the MAR had been criticized in ACP quarters, while the EC holds that the MAR has always been temporary in nature. Officials also cite WTO conformity worries.

Eastern and Southern Africa (ESA)

European Parliament gives consent to Interim EPA with four ESA countries, progress on institutional dimensions

The four Interim EPAs of the concluded in the Eastern and Southern Africa region, concerning Madagascar, Mauritius, the Seychelles and Zimbabwe, were given the European Parliament's (EP) "consent" on January 17th 2013 during the EP's plenary session in Strasbourg, securing a majority of 494 votes. The Draft Report recommending the adoption of the text by the EP had gone through the EP's International Trade committee on the 18th of December 2012, with 20 votes in favor, 5 against and 1 abstention. The text has been provisionally applied since May 2012, and will officially come into force once ratified by EU Member States and ESA countries.

In related news, the European Commission released a draft proposal for consideration by the Council outlining the institutional setup of the bodies governing the EPA, as laid out in the agreement's text.

Notes

1. See Dalleau, M. 2012. EPA Update. GREAT Insights, Volume 1, Issue 7. September 2012 www.ecdpm.org/great_1_7
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Monthly highlights from ECDPM's Talking Points

www.ecdpm-talkingpoints.org

Barriers to trade in agricultural goods: let's focus on solutions, not on problems, Talking Points, Jeske van Seters, 22 February, 2013

Account of the "Food Across Borders" conference in West Africa West Africa has far-reaching commitments to promote intra-regional trade. The Economic Community of West African States' trade liberalization scheme, launched back in 1990, provides for the elimination of tariff and non-tariff barriers between the region's 15 member states. Also the regional agricultural policy, adopted in 2005, reflects this ambition, the regionalization of agricultural and food products is at its core. Both frameworks should contribute to food sovereignty and food security in West Africa, particularly through enhanced cross-border trade between food abundant and food deficit areas. (...)

African Renaissance 2.0 needs to focus on IDEALS, Talking Points, Faten Aggad, 25 January 2013

When former South African President Thabo Mbeki brought back the notion of an African Renaissance to the African political circles in the late 1990s, the continent was at a different place than it is today. It was still suffering from decades of civil wars, dictatorships, bad governance, and socio-economic hardship. Africa was the 'hopeless continent'. These were the issues the forefathers of the 'African Renaissance' sought to tackle when they set out to launch a plethora of new initiatives aimed at promoting popular participation and good governance, peace and security, ensuring the economic take off of (...)

Time to clear the confusion around the Comprehensive Approach, Talking Points, Andrew Sheriff, 25 January 2013

Despite he EU's "comprehensive approach" in external action policy has provoked a range of responses – but the most widespread seems to be confusion. Ask 10 people from across the EU institutions to define the comprehensive approach and chances are you'll get 10 different answers. While the basic premise is simple enough to grasp, it's hard to find consensus, common language or any sense that the EU is actually acting comprehensively. Current developments in Mali have made the necessity for clarity even more pressing. This blog seeks to explore the key questions needed to frame the (...)

From Aid for Trade to Aid for Business, Partnership and Profits, Talking Points, Bruce Byiers, 23 January 2013

The OECD hosted the 2013 Policy Dialogue on Aid for Trade last week to discuss "how to continue delivering aid for trade results in a changing international environment for trade and development". While this in part retread old ground, discussions nonetheless suggested that a change in thinking is taking place, particularly in terms of working with the private sector and helping developing country companies enter into global value chains. As my colleague Dan Lui discussed in a previous blog, the Aid for Trade agenda has faced a constant stream of questions, among others about definition (...)

Monthly highlights from ECDPM's Weekly Compass Update

www.ecdpm.org/weeklycompass

Is food security about producing more or eating well? Weekly Compass, No. 137, 8 February 2013

Ensuring food security is about much more than increasing agricultural production and trade, argues ECDPM's Francesco Rampa in a blog reporting from last week's Global Donor Platform for Rural Development Assembly. Global food production already suffices to feed the world's population and the latest figures show that more people are overweight than hungry. As economic growth brings about unhealthy diets, Africa is also facing a dramatic increase in obesity. Rampa emphasises that policymakers should be asking questions such as whether "linking farmers to markets" promotes food systems that are healthy, sustainable and help create jobs.

Building bridges between trade and agriculture: who needs to lay which brick, Weekly Compass, No 136, 1 February 2013

Weak coordination between agriculture and trade policymakers and the private sector poses a challenge to boosting intra-African trade and the development of regional agricultural markets. Continuous policy dialogue at the continental, regional and national levels could ensure consistent planning and more integrated action, a new joint Briefing Note by the Global Mechanism (UNCCD) and ECDPM recommends. It points to priority areas to leverage synergies and pool public and private resources channeled through the Aid for Trade initiative, the Comprehensive Africa Agriculture Development Programme and related private sector initiatives. ECDPM's Francesco Rampa, a co-author, presented the paper at the Global Donor Platform for Rural Development's general assembly earlier this week.

Bilateral donor approaches to engaging the private sector, Weekly Compass, No 136, 1 February 2013

Donor policies do not promote space for developing countries to establish strong national ownership over the growth and private sector agenda according to a new paper from the North-South Institute and the Canadian Council for International Co-operation. The paper identifies emerging themes in donor policies around growth and the private sector by comparing and contrasting different elements of donors' strategies such as visions and assumptions, areas of focus, and budget sizes. The research also examines how donors see the role of the state, private sector actors, and other development actors.

2013 a crucial year to renew EU foreign policy, Weekly Compass, No 135, 25 January 2013

The European External Action Service (EEAS) needs to take charge of strategic planning and be bolder in taking the initiative to achieve common EU external policies according to a new paper by The Finnish Institute of International Affairs. The paper calls on European players to use the upcoming review of the EEAS to increase coordination within, between and across EU institutions and policy areas to develop a policy that more than just the sum of national and EU foreign policies. It should build on national strengths, compensate for national weaknesses, and draw together inputs from the whole system. Another paper by FRIDE agrees, arguing that the added-value of EU foreign policy depends on what the Union stands for in global politics, and whether it is prepared to take action in a more pragmatic and effective fashion, adapting to a changing world.

ACP-EU Trade Calendar

March 2013

11-16 EU-SADC Technical Working Group on Market Access and Senior Officials meeting
(TBC) Pacific EPA Joint Technical Working Group
(TBC) ECOWAS EPA Ministerial Monitoring Committee, Praia, Cape Verde

May 2013

(TBC) EAC-EU Technical meeting, Brussels, Belgium
(TBC) EAC-EU Senior Officials meeting, Brussels, Belgium

Resources

Mobilizing Aid for Trade to Enhance CAADP Regional Trade and Private Sector Initiatives, Eleonora Canigiani and Francesco Rampa, ECDPM Briefing Note 47, February 2013

Corridors of power or plenty? Lessons from Tanzania and Mozambique and implications for CAAD, Bruce Byiers and Francesco Rampa, ECDPM Discussion Paper 138, January 2013, ECDPM Discussion Paper 138

Resilience: A Trojan Horse for a new way of thinking, Frauke de Weijer, ECDPM Discussion Paper 139, January 2013

Practice makes perfect? The European Union's engagement in negotiations on a post-2015 framework for development, Adam Moe Fejerskov and Niels Keijzer, DIIS Report 2013:04, February 2013

Trade Facilitation Indicators: The Potential Impact of Trade Facilitation on Developing Countries' Trade, Evdokia Moïsé, Silvia Sorescu, David Hummels and Peter Minor, OECD Trade Policy Paper No. 144, 22 February 2013

Sub-Saharan Africa: Trends in U.S. and Chinese Economic Engagement, U.S. Government Accountability Office, Report to Congressional Requesters, February 2013

BRICS trade is flourishing, and Africa remains a pivot, Jeremy Stevens and Simon Freemantle, Standard Bank Research Department, Africa Macro EM10 & Africa, February 2013

Fragile States 2013: Resource flows and trends in a shifting world, OECD DAC International Network on Conflict and Fragility, OECD Publishing, December 2012

Estimating the Constraints to Agricultural Trade of Developing Countries, Evdokia Moïsé, et al., OECD Trade Policy Papers No. 142, January 2013

Challenges for European Foreign Policy in 2013: Renewing the EU's role in the world, Giovanni Grevi and Daniel Keohane, FRIDE, 8 January 2013

Political Reforms and Public Policy: Evidence from Agricultural and Food Policies, Alessandro Olper, Jan Fatkowski, and Johan Swinnen, The World Bank Policy Research Working Paper 6336, January 2013

Reviewing the evidence: how well does the European Development Fund perform? Mikaela Gavas, ODI and ONE, 31 January 2013

What Is Governance? Francis Fukuyama, Centre for Global Development, Working Paper 314, January 2013

Investing in the Business of Development: Bilateral Donor Approaches to Engaging the Private Sector, Shannon Kindornay and Fraser Reilly-King, NSI and CCIC Report, January 2013

The Role of Local Institutions in Adaptive Processes to Climate Variability: The cases of southern Ethiopia and southern Mali, Todd Crane, Oxfam Research Report, January 2013

An assessment of the Trade and Development Cooperation Agreement, Ron Sandrey and Tania Gill, tralac Working Paper No. S13WP03/2013, February 2013

Donor in the Dark: Putting a spotlight on UK aid to small-scale farmers, Monique Mikhail, Claire Hickson, and Robin Willoughby, Oxfam, 25 February 2013

Sweet nothings: The human cost of a British sugar giant avoiding taxes in southern Africa, Mike Lewis et al., ActionAid, February 2013

Addressing Base Erosion and Profit Sharing, OECD Publishing, February 2013

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