

The Africa Mining Vision: How can Africa benefit more from emerging global players?

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Objectives

- Share information about the impact of emerging global players on Africa's mineral sector
- Raise awareness about the Africa Mining Vision (AMV)
- Discuss how in a changing and multipolar world, the AMV can propel Africa's structural economic transformation

To Start With: The Context Changed

- In 1992, I prepared a very naive paper for ISRI titled “O Sector Geologico-Mineiro em Mocambique, sua Importancia e Perspectivas” , which suggested that coal, heavy mineral beach sands, gas, and rare metal pegmatites would form the basis of Mozambique’s mineral industry
- Nobody wanted to touch coal (it was dirty): We failed to secure WB funding for Moatize
- It was a buyers’ market (Commodity prices were low)
- Washington Consensus and the “Strategy for Africa Mining” were the mantra³

And the Mantra Was

“The recovery of the mining sector in Africa will require a shift in government objectives towards **a primary objective of maximizing tax revenues from mining over the long term, rather than pursuing other economic or political objectives such as control of resources or enhancement of employment.** This objective will be best achieved by a new policy emphasis whereby governments focus on industry regulation and promotion and private companies take the lead in operating, managing and owning mineral enterprises.”

Strategy for African Mining – World Bank, 1992

Today

- We are in a sellers' market and possibly in a Super Cycle of historically high commodity prices
- China and India have entered the ball game
- Mining is booming in Mozambique
- Mining has a much better profile
- Strategic stockpiles back in fashion: Rare metals and rare earths are in the US "critical" list of minerals
- There is policy space for developmental strategies
- Environmental stewardships are mainstreamed
- We have governance gains: EITI, APRM, CSOs
- We have the Africa Mining Vision

WHAT IS THE AMV?

- Its goal is to create a -
“Transparent, equitable and optimal exploitation of mineral resources to underpin broad-based sustainable growth and socio-economic development”
- It is essentially seeks to use Africa's natural resources sector to transform the continent's social and economic development path

The AMV Process

- Task Force: AUC, ECA, AMP, AfDB, UNCTAD, UNIDO and UEMOA
- Draft informed by outcomes of several meetings and initiatives: JPol, Yaounde Vision on ASM, AMP SD Charter and Mining Policy Framework, 2007 Big Table, ISG, SADC + UEMOA harmonization efforts
- Discussed at the First African Union Conference of Ministers of Mines in October 2008
- Endorsed by AU Summit in Feb 2009

The AMV Process (2)

- Has become the Framework for developing mineral resources in Africa
- Being used by RECs to harmonize their mineral policies
- Recognized by CSD 18 as a basis for the sustainable development of mineral resources in Africa
- Recognized by the EU as a basis for EU-AUC Cooperation
- Recognized by ACP countries & used it to inform the drafting of the ACP Framework of Action for the Development of Mineral Resources
- Endorsed by the World Bank

The Tenets – focus areas

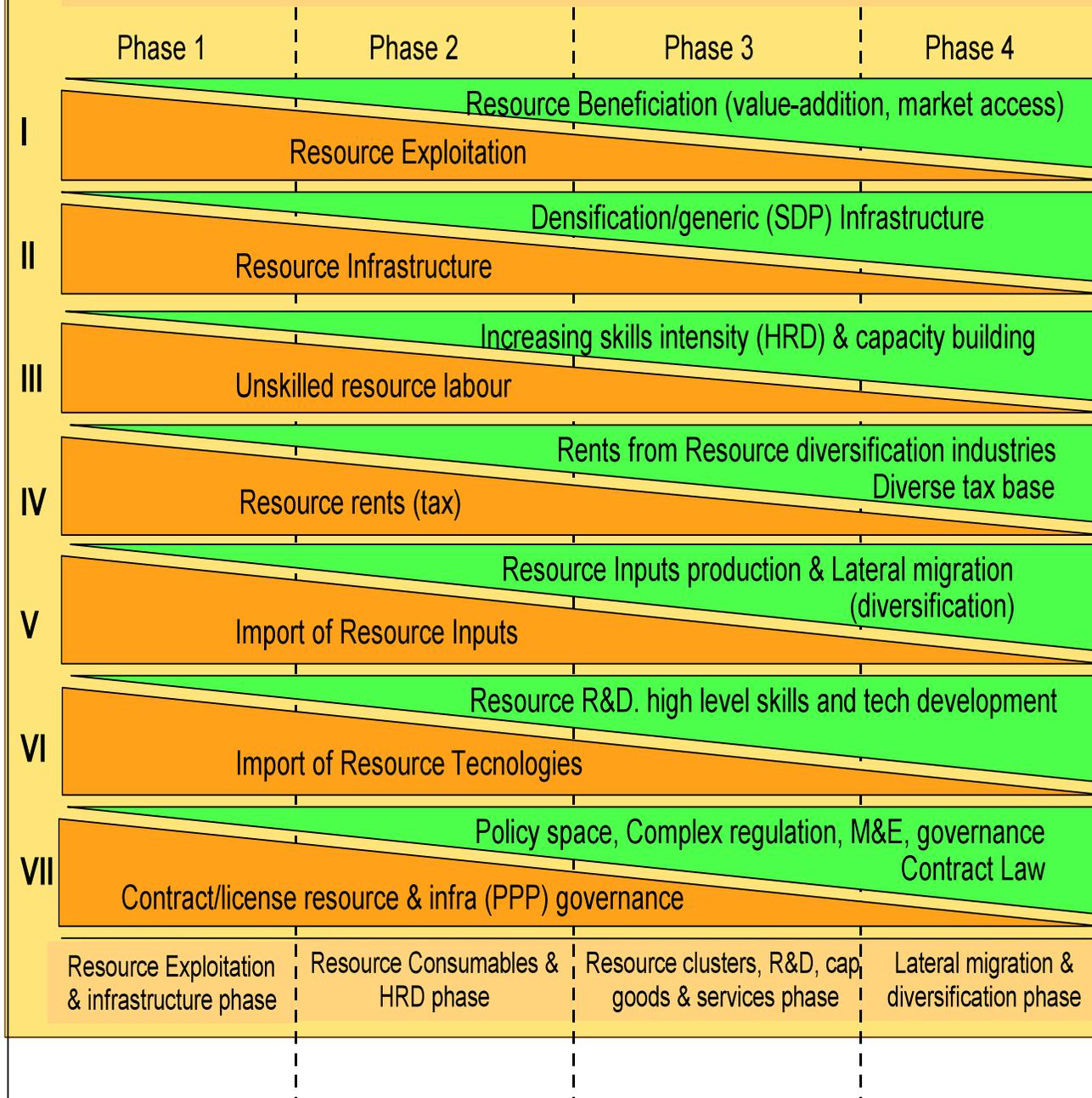
- Development of a diversified and globally competitive African mineral industry which contributes to broad economic and social growth through creation of economic linkages
- Fostering a transparent and accountable mineral sector in which resource rents are optimized and utilized to promote broad economic 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

The Tenets – focus areas (2)

- Optimizing knowledge & benefits of finite mineral resources at all levels of mining & for all minerals
- Harnessing the potential of small-scale mining to improve rural livelihoods and integration into the rural and national economy
- Fostering sustainable development principles based on environmentally and socially responsible mining, which is safe & includes communities and all other stakeholders.
- Building human and institutional capacities towards a knowledge economy that supports innovation, research and development

Fig 1: Schematic Resource-based African Industrialisation Phasing

(relative economic importance)



Why the AMV ?

- Need to have an African common voice
- Resource endowment: Comparative advantage to harness
- Top producer, but most minerals exported as raw materials: Potential for mineral beneficiation is great
- More favourable political economy: " Failure" of the Washington consensus opens room for more policy space
- G20 Seoul Development Consensus
- Africa has more chances now to bargain for better deals than in the days of the Lagos Plan of Action

Why the AMV (2)?

- Although RBIs are not a new mantra in Africa (Lagos Plan of Action), in general, mining has not delivered broad-based development: We can learn from successful RBIs (e.g. Nordic countries)
- Despite swings in commodity prices, resource intensity theory (resource use flattening at US \$16,000/GDP) suggests that demand for minerals might continue to be strong if China and India (and other emerging economies) continue to grow: This and other factors might support prices

Why the AMV (3)?

- Other sectors don't have the same rents: Better resource rents in the mining sector can catalyze growth of other less competitive sectors
- Geopolitical competition for Africa's resources can strengthen the continent's bargaining power
- Resource nationalism and assertive governments: Pendulum can swing to host countries, but don't kill the goose that lays the golden eggs
- Governance gains: Growth of non-state actors (CSOs) democracy, APRM, less monopoly of the policy space
- Greater political maturity and better internal capacity

Why the AMV (4)?

- Merely regulatory role for the state being questioned: Is the “developmental state” back?
- ”Tri-sector partnerships and public participation: Being mainstreamed
- New age miners: Embracing developmental and transformative approaches; triple bottom line (financial success, contribution to social and economic development, and environmental and material stewardship)
- We can learn from good practices: Nordic clusters

But, is a scramble taking place? What should Africa do?

- India has also expanded its FDI into the African extractive sector, driven by large multinationals like Vedanta in copper and Tata in steel
- Brazilian companies are aggressively investing in Africa's mining sector – eg Vale in Guinea, Mozambique and Zambia
- Concerns about security of supplies led to EU defining the Raw Materials Initiative
- And the US and Japanese strategy based on “criticality” of high technology materials eg rare earths considered more important
- Criticality defined by importance & availability (US)
- The EU, like the US has no stock pile. But systematically monitors markets and supply – Raw Materials Initiative

A CURSORY SWOT ANALYSIS OF AFRICA AND MINING SHOWS

Strengths

- Unquestionable mineral endowments
- Unexplored areas: New frontiers (EA)
- Governance gains, political and economic reforms
- Improved macroeconomic stability and capital markets recognition

Threats

- If China's growth slows down there will be a fall in mineral prices
- Global recession leading to high interest rates and low capital markets activity for financing exploration and development
- Lack of local participation in the value chain
- Exposure to the vagaries of commodity price swings as exacerbated by the financialisation of commodity markets

Weaknesses

- Negative perception for investment
- Infrastructure deficiencies
- Heavy reliance on commodities combined with low capacity for contract negotiation
- Low capacity to audit value chain
- Weak policy capacity

Opportunities

- Expand mineral production to meet demand through foreign and domestic investment
- Explore opportunities for linkages with local industries
- Invest in infrastructure development
- Explore resource corridors to facilitate FDI flows

The Strategies

- A win-win conversation beyond optimising the current scramble for Africa's resources and aimed at potentiating a future beyond mining
- Improve the level/quality of Africa's resource potential data (gm and mineral inventory): It strengthens the continents' bargaining power
- Fight for more fiscal space: Robust, but flexible tax regimes that are responsive to economic circumstances; beware of stabilization clauses, BITs/IIAs
- Innovate licensing schemes to boost competition and realise better value: Go beyond "First come and first served" and explore auctioning through differentiation of mineral terrains

The Strategies (2)

- Boost Africa's capacity to negotiate contracts and extract better deals (AMDC, ALSF, EI-TAF)
- Enhance the capacity to administer [auditing, illicit financial flows (Global Financial Integrity) monitoring, regulating, fomenting linkages] the sector and build robust institutions
- Audit, review and renegotiate (if required) existing mining agreements
- Manage mineral wealth better (APRM, oversight committees, stabilization funds, prudent spending)

The Strategies (3)

- Develop African junior resource companies
- Unbundle the “minerals complex” (from exploration to fabrication, markets and mine closure) to bundle
- Address infrastructure constraints (Resources for infrastructure deals, SDP, DCs) and facilitate factor flows through RI
- Promote mineral clusters and support SMEs to enter the supply chain
- Yaounde Vision: ASM and rural livelihoods and employment

Implementation: Some Success Factors

- Shared vision, but phased (Short, medium and long-term actions) and context specific action (There is no “one size fits all”)
- Phases are not mutually exclusive: Implementation can be fastened depending on internal and external factors (Auty)
- Political will and proactive government action: Key
- Mainstreaming the AMV at national and regional levels and secure buy in: Essential
- Entrenched belief on the power of indigineous ideas
- Policy space and ownership of the development process: The cornerstone!
- A capacitated African developmental state: It is a must!

Implementation: Some Success Factors (2)

- Domesticate transparency processes (APRM) and strengthen overall governance (CSOs, legislature)
- Build an alliance for change: State and citizens -from conflict to common purpose
- Movement: Coordinated action between public, private, CSOs, and community stakeholders
- Collective and concerted action/The African voice: Indispensable
- Among African states – from competition for FDI to cooperation for change
- RI, policy harmonisation and coherence
- Build global alliances and solidarity: Africa's structural socio-economic transformation is a shared responsibility

Implementation: Some Success Factors (3)

- The “minerals complex” (from mining/extractive industry to a minerals industry): New institutional mindset, break silos and departmental rivalry
- Through the AMDC, deepen work of the ISG: (Auctions, Capital Gains Tax, Local Content, Linkages, Value Addition, Institutions, Trade Agenda, Industrial Policy)
- Capacity building, R&D: Fundamental
- ADF VIII (23-25/10/2012) on “Governing and Harnessing Natural Resources for Africa’s Development”: Another rallying point
- Move fast: The game changes fast (“Super cycle” can go...)

Challenges

- History of passing resolutions and visions
 - LAP 1980, industrialization framework
- State capacity and political commitment
 - Structural dependence of countries
 - Movement from competition to cooperation among African countries
 - How to be a competitive mining destination without racing to the bottom?
 - How to manage the Dutch Disease?
 - How to build a future beyond mining
- Continued lack of capacity to stand tall among global players in the industry
- Vested interests within and without
 - Domestic beneficiaries of current model

Challenges (2)

- Failure by Africans to rally together and trigger the “movement”: Nation states can’t deliver alone
- Facile certitudes about sovereignty
- Tunnel vision in favour of short term gains as opposed to the big picture
- Failure to connect the dots: Poor understanding of the new world and the opportunities it offers
- Silos as opposed to defragmented govts
- Aligning mineral and industrial/trade policy
- Financing change –who will pay?

Challenges (3)

- Existing contractual obligations –stability agreements
- Declared hostility to resource nationalism
- EU raw materials Initiative, US Criticality, EU/Japan/US use of trade instruments: How to reconcile interests of securing access to raw materials and the continent's aspirations to use minerals to promote Africa's structural economic transformation
- New Global Players and new models (e.g.R4I, “non-interference”, preference for raw materials instead of value added products, lowering of standards)
- Outsiders will pick and choose elements of the AMV agenda that suits them (NRC, WB, EU, China, Aus):Who benefits the most? Africa?
- Too many detractors in a congested field: Players looking for private gain!

In Conclusion

The AMV Is A Credible Instrument

- It provides a good rallying point for the world to join Africa in its development
- It was endorsed at the highest possible level in Africa by African themselves
- It has buy in internationally: CSD 18, EU, ACP, WB
- The moment is right: There is policy space and willingness to partner, good economic fundamentals and market opportunities
- Social compacts are becoming a norm: APRM EI

Thank You!