

Governance, Economics and Mineral Value Chains

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At the 6th Sustainability in the Extractive Industries Conference

19-20 July 2017
Abuja, Nigeria

Outline

1. Background on Mineral Value Chains in Africa
2. Mineral Sector Governance
3. The Africa Mining Vision
4. AMDC work in support of the AMV
5. Policies for Mineral Value Chain Linkages

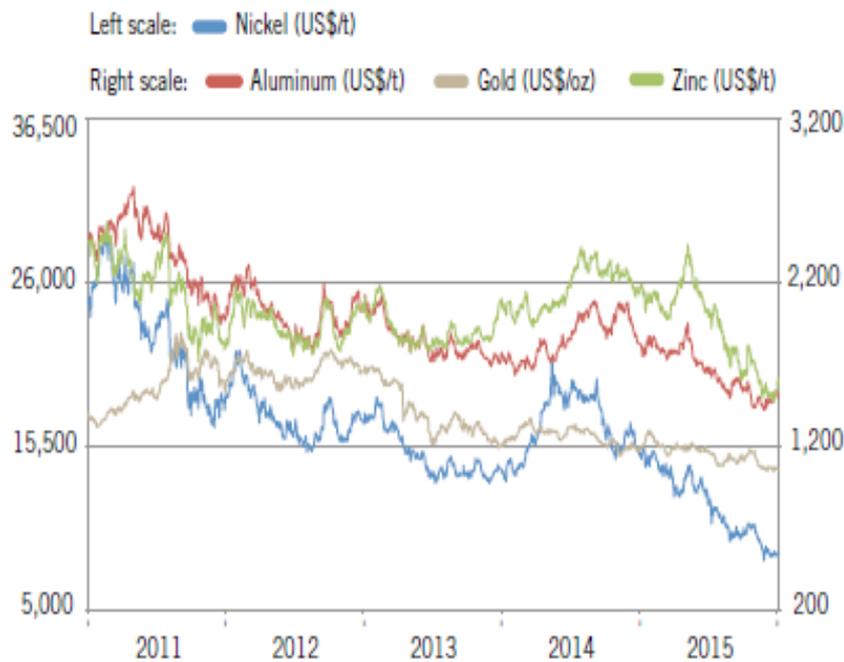
1. Background on Mineral Value Chains in Africa

The importance of mineral-based value addition

- Increasing recognition that the **extractive sector (ES) has not created significant jobs and raised incomes** and has not unlocked opportunities for local businesses;
- Commodity price fall has highlighted weaknesses due to **insufficient linkages with other viable economic activities.**
- Linking ES with other sectors for broad-based inclusive development a key tenet of the **Africa Mining Vision.**
- Clear opportunity for mineral resources to fuel industrialization, which is a main policy priority of African policy makers.
- This mineral value addition occurs both **upstream and downstream**

Commodity Crunch – adverse effects but an opportunity to build institutions and resilience to next boom

Five-Year Prices

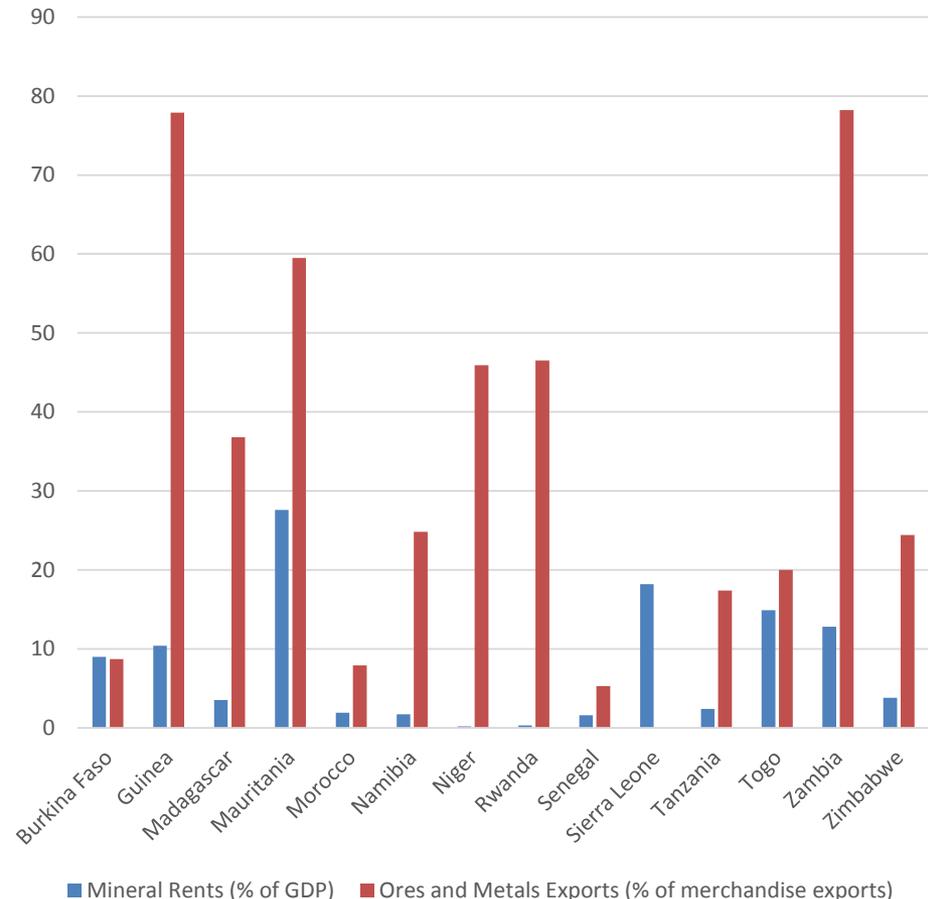
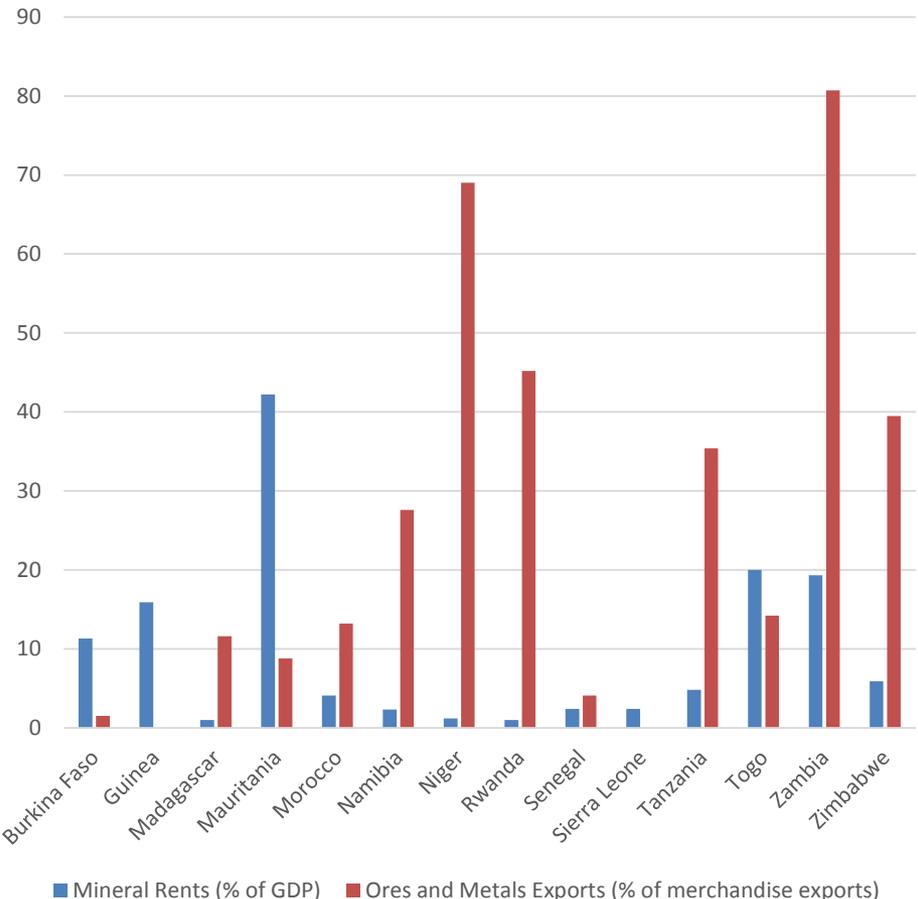


*Thermal; 6,000kcal/kg; 50mm; FOB Richards Bay

High dependence on commodities for growth, exports

2011

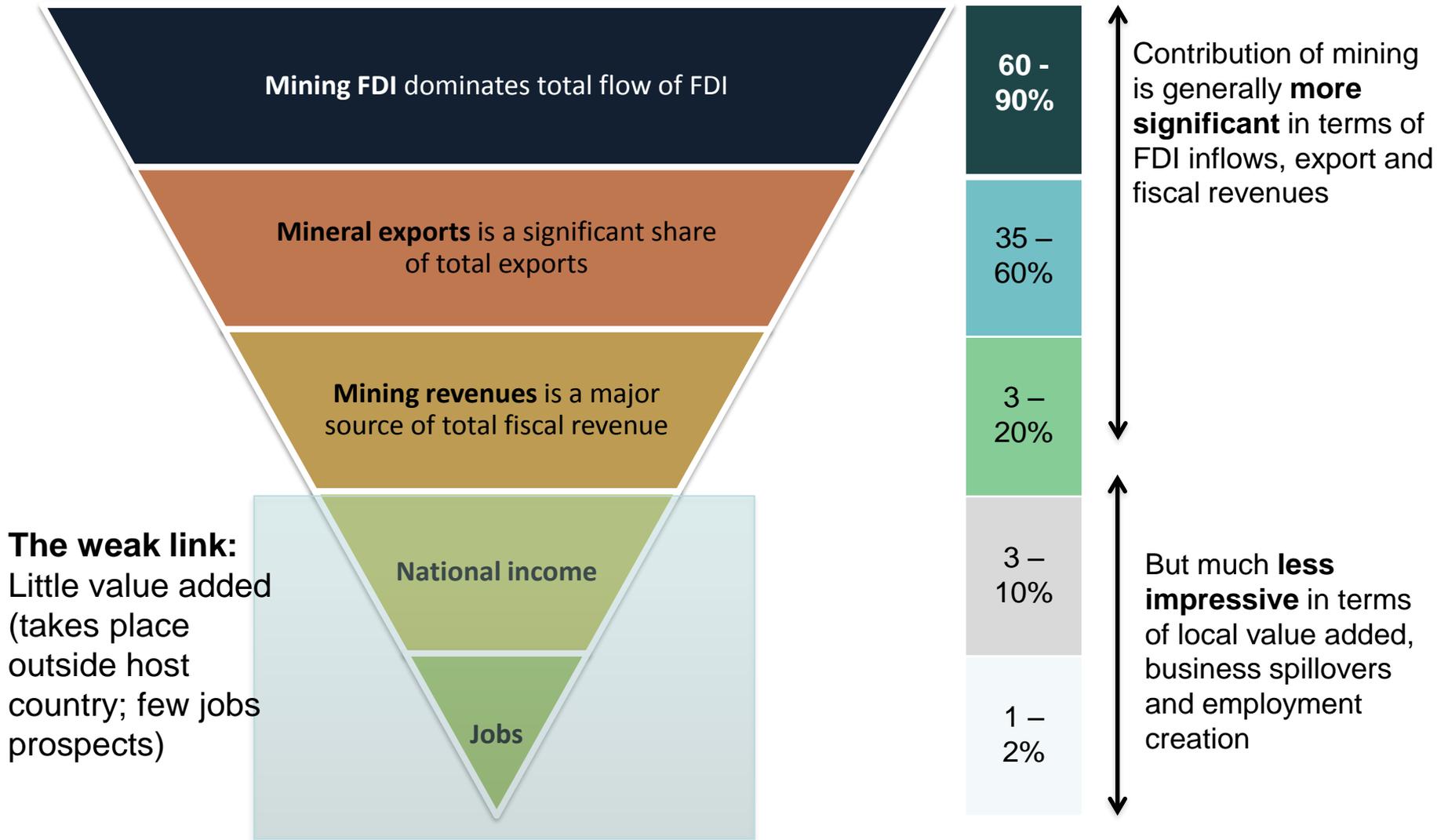
2014



■ Mineral Rents (% of GDP) ■ Ores and Metals Exports (% of merchandise exports)

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The challenge – small share of mining sector in income and jobs



Source: ICMM: 2014

Africa's resource and industrialization potential

There is immense mineral resource wealth to harness:

- Africa home to **30 per cent of world's mineral reserves**
- **Over half** of platinum group metals, diamonds, phosphates

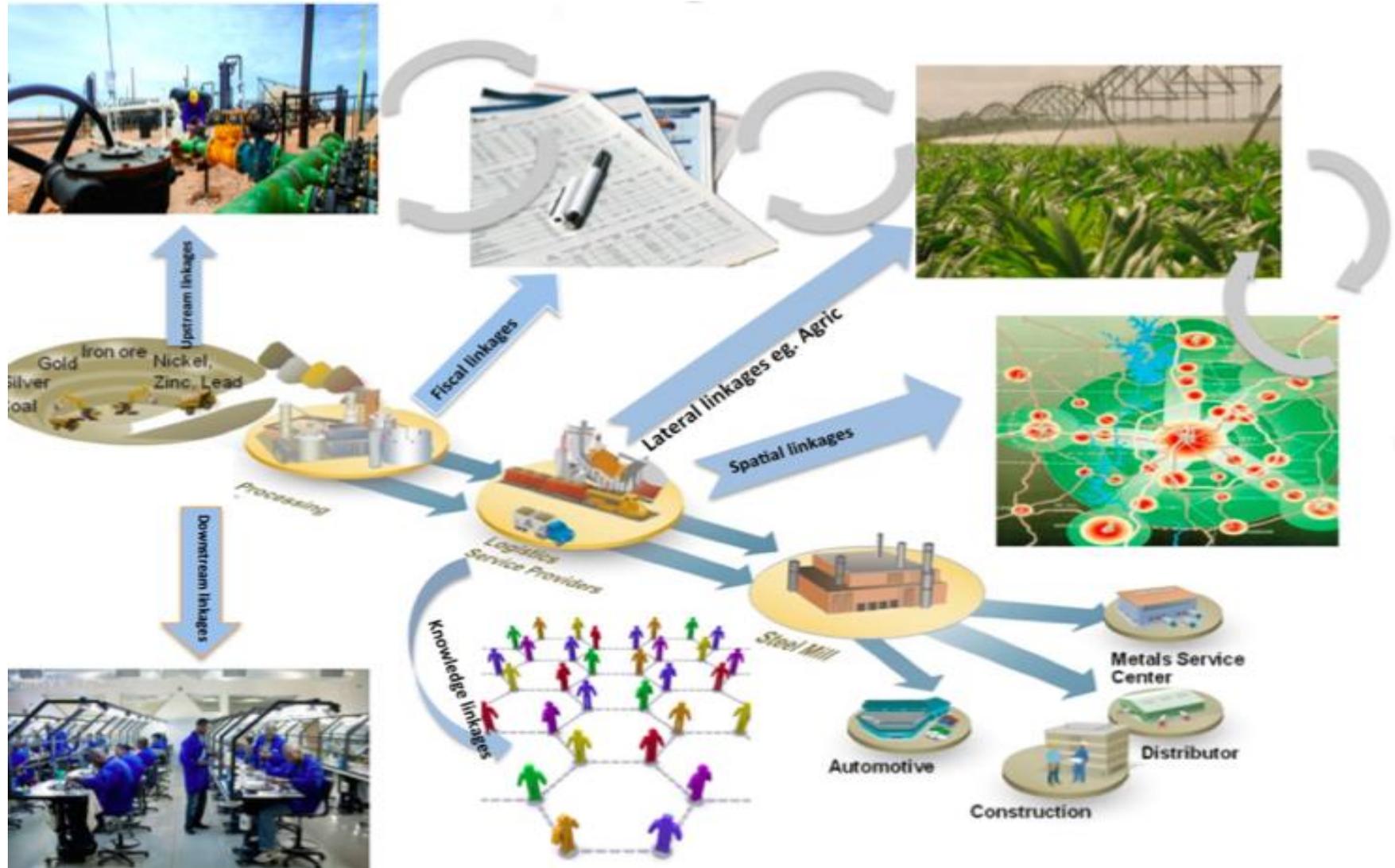
Clear industrial potential across the continent:

- Light manufacturing, agro-processing successes in Ethiopia
- Regional Value Chains for mineral processing and upstream linkages in Southern Africa
- But at macro-level, stagnating growth of manufacturing (declining MVA 2000-2015), slow policy implementation, etc

Regional trade provides an opportunity to foster this industrialization:

- Highly diversified intra-African trade: manufactures account for **43%** of intra-African exports and only **18%** of exports to the rest of the world (ECA 2017)
- RVC possibilities

Significant prospects along the mineral value chain

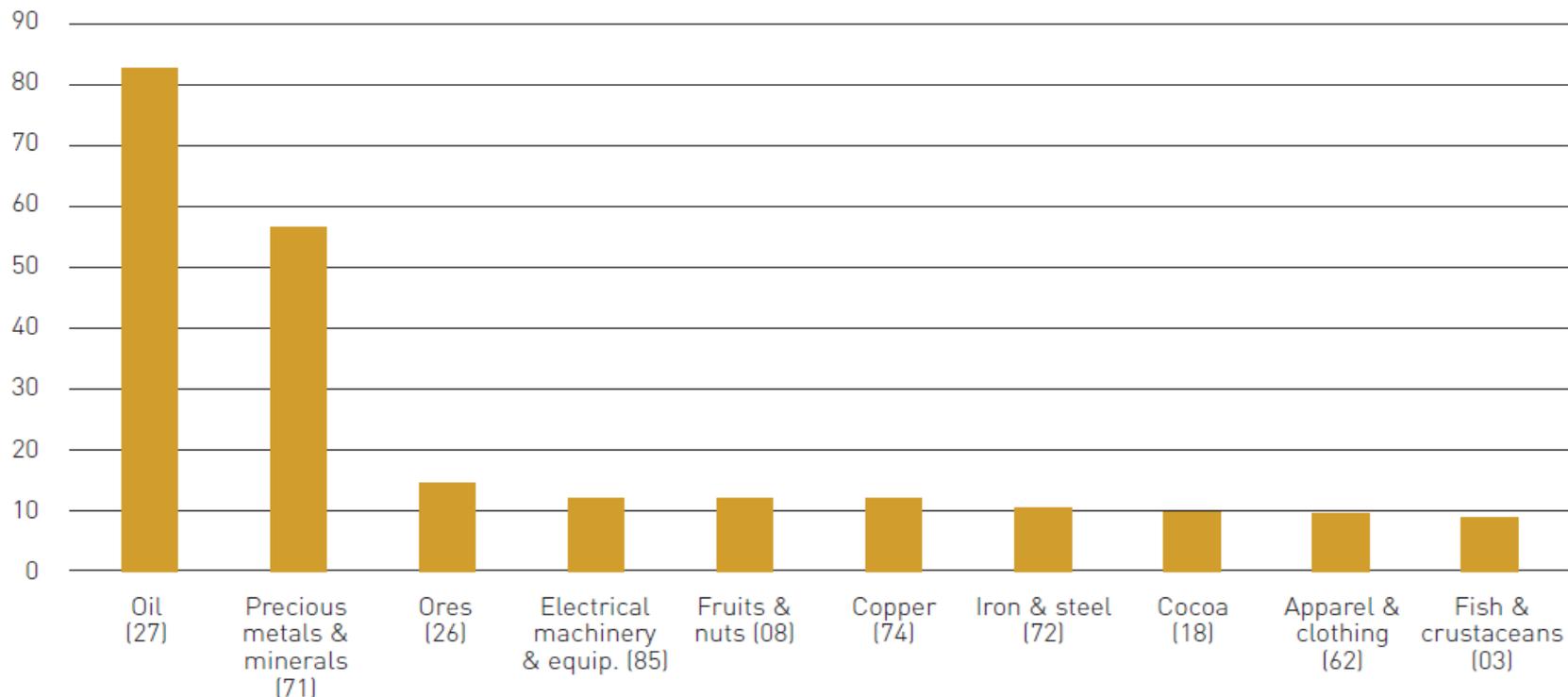


2. Mineral Sector Governance and Challenges

Fiscal Governance and illicit financial flows

- Africa loses an estimated **\$80 billion** per year through illicit financial flows
- This is more than all aid flowing to Africa, and makes the continent a creditor to the world.
- Extractive sectors drive **over half** of outflows
- In minerals, 'legal' means such as offshore hubs, also practices difficult to identify such as **Transfer Mispricing**
- Fiscal regimes in Africa are not harmonized, and often address fiscal practices in contracts rather than cemented in law and policy
- Reaching fiscal harmonization **requires innovative thinking outside the 'mining and tax boxes.'**

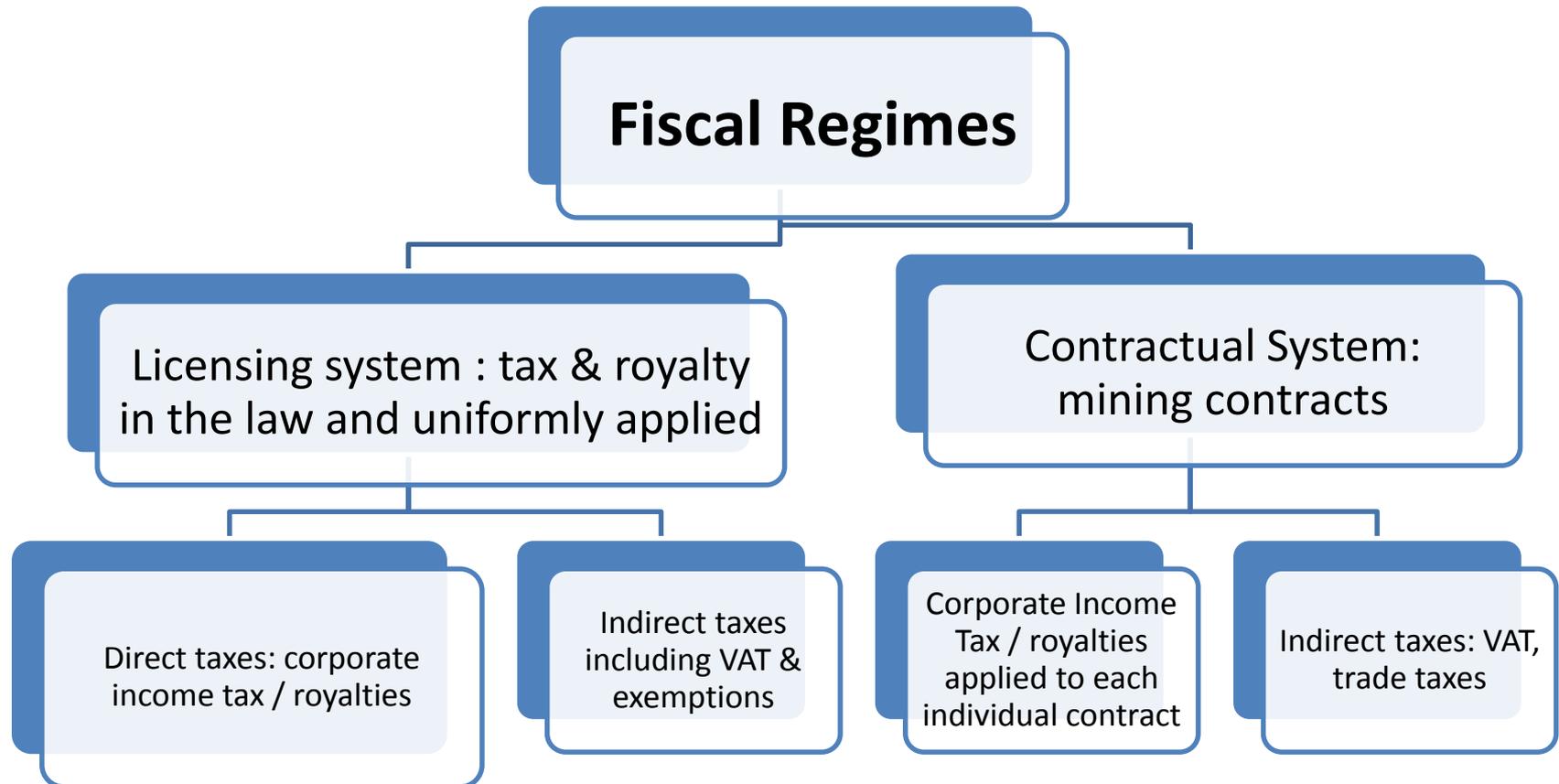
Sectors driving IFFs in Africa 2000-2010 (ECA 2015)



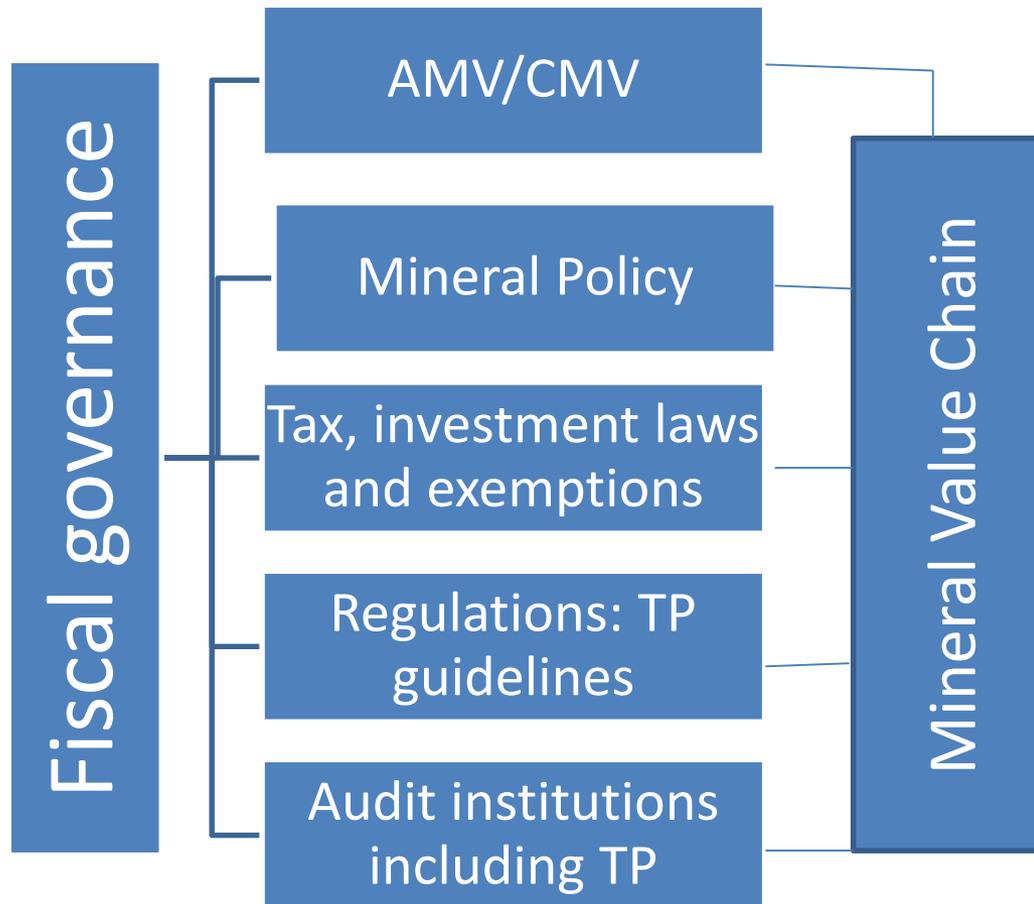
Note: Top 10 sectors are by HS2 classification. See annex IV for full details about HS2 codes and definitions.

Source: ECA calculations.

Types of Fiscal Regimes (AMDC, 2016)



Fiscal governance needed to address DRM and leakages



IFFs and value chains

- Need to view addressing IFFs **beyond a revenue and rent maximization** exercise
- Indeed much of the IFFs leak out at linkages with other economic activities, are thus **draining resources needed to promote diversification and transformation.**
- Good fiscal governance and instruments should be placed within the broader transformative context and vision for greater DRM along the mineral value chain
- Addressing IFFs at specific segments of value chains will require **capacity** amongst firms and government, and **coordinated activities** between Ministry of Finance, Revenue Authority, Ministry of Mines etc.

ASM – Support Triangle Approach

Support for :

- Women in ASM
- Low value development minerals
- Environmental Sustainability of ASM related activities & responsible value chains
- Alignment of ASM with rural socio-economic development strategies



Contract Negotiation

Contract negotiation is a critical intervention point to improve resource governance

- **Contracts must, at the end of the day, increase ownership and serve to transform the mining sector in Africa.** Must be flexible so that countries can continuously enact new initiatives.
- **Strong capacities are needed to negotiate fair and equitable contracts,** as pressure on countries **can lead to a race-to-the-bottom** through negotiation of weak contracts
- Well-negotiated contracts are **conducive to linking in to higher levels of regional and global mineral value chains** (i.e. Botswana and value-added diamond activities).
- Importance of **embedding contract issues in legal and regulatory frameworks,** so that contracts are negotiated in line with long-term economic development strategies and sustainable goals.

3. The Context of the Africa Mining Vision

The Africa Mining Vision

- Adopted by African Heads of State in **2009**
- Advocates for a fundamental shift towards **harnessing minerals for inclusive and sustainable opportunities**
- The only **African-owned** transformative framework on minerals
- Addresses big-picture issue of what role minerals should play in economy and society
- Focus on **harnessing minerals for broad-based development**, notably through innovation, linkages and diversification
- Moves away from one-dimensional focus on rent maximization
- AMV is **not a 'project driven' initiative**, but a **comprehensive tool** to tackle all facets of mineral governance and to leverage economic linkages

'Initiatives Fatigue': Key Mining Frameworks

Broad-based

- **AMV**
- RECs Initiatives
- IGF
- OECD Policy Dialogue NR
- NRGi
- WB MinGov
- WEF/RMI

Issue-specific

- EITI/PWYP
- Kimberly Process
- ICGLR
- CONNEX
- Dodd Frank
- ACP/UNDP NDM Programme
- AMGI
- AMLA
- DDI
- EWB Mining Shared Value

Industry-focused

- ICMM
- IFC
- RJC
- Better Gold Initiative

The AMV

- **AMV ahead of its time** in advocating for inclusiveness, linkages with employment and environmental sustainability – as precursor for SDGs and AU Vision 2063
- Focus on **institutions** – only through effective institutions and regulations can countries take advantage of commodity booms and have a well-linked mineral sector that drives growth regardless of commodity prices.
- **No one-size-fits-all approach to AMV implementation** –
 - Can be adopted in new comprehensive mineral legislation;
 - Can be pursued through ad-hoc onboarding of AMV tenets regarding its seven foundational pillars;
 - Is flexible based on needs of member States.

4. AMDC Work in support of the AMV

African Minerals Development Centre

- **Established in 2009 by AU Heads of State as implementing agent of the AMV.**
- AMDC works with member States to promote the transformative role of minerals through increased economic and social linkages.
- Helps countries onboard the AMV through **Country Mining Visions**
- Provides operational support for the AMV along seven pillars:
 - Policy and licensing
 - geological and mining information systems
 - governance and participation
 - artisanal and small-scale mining
 - linkages, investment and diversification
 - building human and institutional capacities
 - communication and advocacy
- AMDC has engaged in **over half of African member States**

AMDC focusing on topics in mineral resource governance and value addition

- Identifying opportunities for value addition and designing supportive interventions. For example, **upstream linkages and a Supplier Development Programme in ECOWAS/Ghana**
- Research, advocacy and training workshops on the impact of **illicit financial flows** and transfer mispricing on mineral-based value addition
- Contract negotiation and other capacity buildings - targeted programme for capacity building in contract negotiations in **Burkina Faso, Chad, Congo-Brazzaville, DRC, Equatorial Guinea, Malawi and Niger**. Also presenting on Africa's needs to the G7 CONNEX Initiative
- Research on the role of **Regional Value Chains** for mineral-based development
- **ASM institutional support framework** for sustainable rural development
- Promoting Africa's harnessing of the **Blue Economy**, gathering of **Geological and Mineral Information**, and participation in international frameworks on these.

5. Policies for mineral value chain linkages

Building mineral-economic linkages in West Africa

- To support West Africa's broader industrial agenda and leverage the mineral sector to depart from traditional raw material dependence.
- **More than a 'project': a long-term engagement** to identify opportunities in upstream and downstream linkages in the entire extractive sector.
- **An inclusive dialogue process:** Our engagement and support includes a range of stakeholders – policy makers, mining companies, suppliers, think-tanks, etc.
- Scope of project: deep analysis of mineral sector, identify opportunities in upstream linkages, formulate **supplier development programme** to enable local firms to produce for the mineral and other sectors.
- Fits in with ECOWAS Mineral Development Policy and Directive on Harmonization of Guiding Principles and Policies in the Mining Sector.
- ECOWAS value chain potential in **bauxite**, iron ore, gold. is home to 40% of global bauxite, so a particular potential here, also with iron ore and gold deposits.

SADC regional approach to mining and value chains

- The **SADC Regional Indicative Strategic Development Plan** is an important general regional initiative regarding cooperation
- **SADC Protocol on Mining** – to harmonize policies, cooperate on improving capacity and sharing knowledge
- Has developed a framework for “Harmonization of mining policies, standards, legislative and regulatory framework in Southern Africa” with ECA, embracing the need for **uniform standards** on governance and participation
- ECA-SADC report on harmonization of national mining policies in the SADC region (2009) - Recognizes **need for greater regional negotiating capacities, transparency regarding contracts** and laws

Lessons from the case of Chile

- **Chile is an oft-cited success story in commodity-based development**
- The world's **largest copper producer**, also with the highest GDP per capita in its region, success with trade and investment policy
- Lessons from Chile in developing **other high-income sectors** in parallel with copper
- Also an inclusive role for **ASM** and support provided (**ENAMI**)
- In general, Chile has pursued incentives for mineral-based industrialization and formalization rather than punishments to dissuade primary extraction and export, thus preferring the “**carrot over the stick**”
- Copper stabilization fund – accruing savings if global copper prices and thus revenues exceed projections
- Also **similar challenges faced by Chile and African countries** – energy, continuing dependence on one commodity, constraints regarding quality and reliability of domestic suppliers, leading to the import of many inputs



Policy Interventions

- **Implementation of AMV** comprehensively or in part, with assistance from AMDC
- **Implementable and realistic plans** to promote mineral-based linkages
- Diversification – can be based on **upstream value addition** as well
- Incentives to overcome high barriers and sunk costs to **export**, in order to promote manufacturers and RVCs
- Initiatives to induce learning-by-exporting from lead firms which engage in regional and global trade
- Local content – adjust this to involve **manufacturing, value addition and job creation**, not just national suppliers.
- **“Transformation funds”** to allocate rents towards activities for sustainable growth
- Fiscal harmonization and other regional efforts to reduce financial loopholes, improve transparency of foreign partners/MNCs, enhance capacities to detect and deter these activities, and promote a unified African approach.

Thank You!