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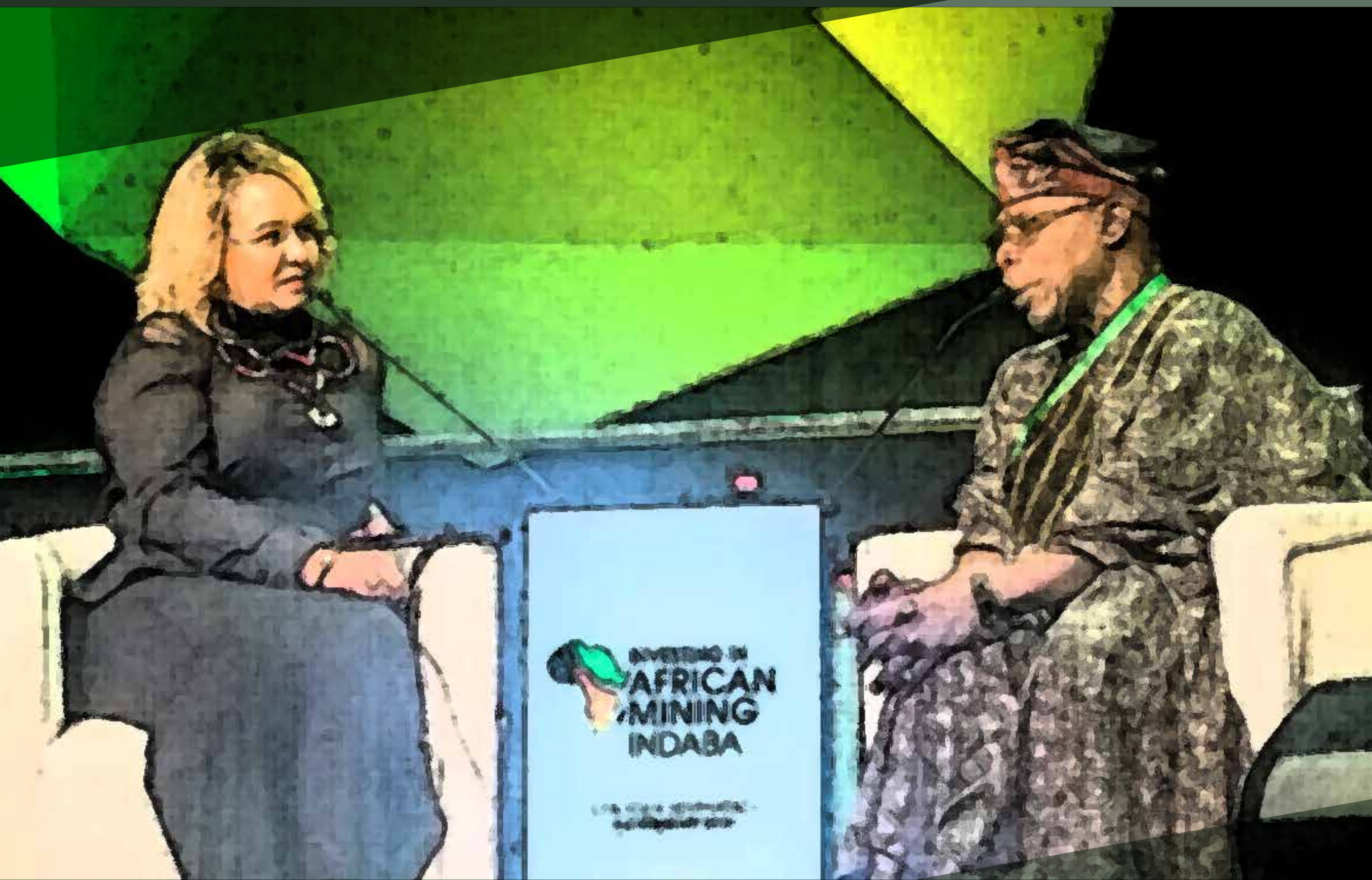
# From Confrontation to Partnership

## Realising Africa's Mining Potential

Mining Indaba, Cape Town, South Africa, 4–5 February 2018

by His Excellency Chief Olusegun Obasanjo




*Strengthening Africa's economic performance*

THE BRENTHURST FOUNDATION

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## About the Author


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## Introduction

Imagine an Africa where we have full employment, where we are free from the bitter tyrannies of poverty, homelessness, illiteracy, marginalisation and hunger, the likes of which fuel desperation, anger and instability.

To realise this prosperous Africa, we will have to utilise all advantages across every sector, including mineral commodities, thereby driving our economies forward, raising growth to ever-higher figures, and creating fresh employment opportunities for our ever-increasing and energetic youthful population.

Sadly, we are not there, and yet we should be there.

While we have enjoyed much better economic growth rates across the continent this century, catching up on much of the ground lost in the 1970s and 1980s has been tough. Employment and growth have not kept pace with population increases, making us have more poor people than we had at independence.

Something must change if we are to deliver on our promise not just to make poverty a thing of history, but for Africa to play its proper role and make meaningful contribution to the global economy.

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Mining has a critical role to play in all of this, given that the continent is so blessed with all manner of mineral resources. Yet this all-important sector is in crisis in Africa.

At the root of this crisis is a lack of trust between mining companies, governments and civil society. A failure to tackle this crisis will result in serious, adverse implications for both economic growth and employment prospects at the very moment that Africa's need for jobs is rapidly increasing.

Mining and, indeed, the related oil sector should not be sunset industries in Africa.

On the contrary, the sector holds great promise, and Africa enjoys a considerable comparative advantage vested both in its store of mineral wealth and in its human capital.

However, realising this vast potential requires a long-term, generational approach by all parties, not short-sighted resource grabs, tactical gains and reprisals. The goal is to win the long-term investment needed to develop our assets, which will in turn create and sustain jobs and provide much needed tax revenue. Instead of an antagonistic relationship it needs to become a symbiotic, win-win relationship.

To establish this necessary policy framework, a new narrative of the value of the industry to Africa is necessary.

Some 18 months ago I chaired a meeting held on the banks of the Zambezi River to create such a dialogue. The result was the Zambezi Protocol, which seeks to help arrest this destructive cycle by improving trust between parties as a means to ensure longer-term investment horizons and improved competitiveness for Africa's mining sector, and thus jobs and revenue for mining nations.

I would like now to unpack some of the thinking and proposed actions behind this Protocol.

## The State of the Industry

African economies remain heavily dependent on the extractives sector. In 2012, for example, the sector provided 28 per cent of the continent's combined gross domestic product, 77 per cent of total exports and 42 per cent of all government revenues.

Studies by the International Mining and Minerals Council (ICMM) show that for every US$1 generated by mining, at least an additional US$3 is generated elsewhere in the local economy, and that for every direct mining employee, as many as 15 more jobs are created elsewhere in that economy.

During the commodity boom, there was considerable optimism that African economies were changing and that they were no longer dependent on raw material exports. However, the subsequent commodity price downturn has shown clearly the continent's continued dependency on this sector and its vulnerability to variations in external demand, especially from China which, since 1990, has grown its share of worldwide metals consumption sevenfold to over 40 per cent, and also from India to some extent.

> Negative perceptions within African societies as to the value and role of mining are amplified in environments where there are few other opportunities

Despite the commodity boom, the relationship between the industry, government and host communities in Africa has been characterised by abiding levels of mistrust on all sides, fuelled by misperception. Legend persists that mines have massive wealth and, at an extreme, deliberately steal ore or withhold tax through under-declaration or 'transfer pricing'. Meanwhile the mining companies complain that the long-term nature of their business, through good and bad times, and the levels of risk they have to take are not understood by those who set the rules and the communities with which they co-exist, thereby creating unmatched expectations.

Such tensions are compounded by increasing capital intensity of the business and by increasing mechanisation. The effects of these tensions are felt particularly in those countries where mining is the mainstay of the economy and often the main or even only source of jobs. In South Africa, to take but one example, the number employed in mining has nearly halved since the sector's heyday of the 1980s.

Despite increasing mechanisation, it does not have to be this way.

Negative perceptions within African societies as to the value and role of mining are amplified in environments where there are few other opportunities. The popular narrative on mining is about huge profits made at the expense of the population – a 'win-lose' scenario. In contrast, the communities around mines are heavily dependent on mining companies, frequently from cradle to grave. Yet often the very companies bringing this development have to deal with considerable interference, corruption and rent-seeking, reflecting the difficulty of managing a fixed, immovable asset where there is little else going on in the economy.

Rather than engage the industry and its supply chain as a long-term developmental partner, some governments have sought to target the sector with higher tax regimes and other redistributive mechanisms, including calls for beneficiation and value addition. The mining supply chain also has a role to play in supporting the industry and governments with additional job creation, skills transfer and partnership opportunities for local entrepreneurs.

The overall health of the sector is intrinsically in the interests of government. Not just for reasons of long-term revenue, jobs and the prospects of industrialisation, but because many governments hold a direct stake in mining operations.

While the success of mining demands a partnership of common interest, and Africa's young and ever-increasing population demand jobs and growth, policy instability has planted the seeds for a vicious downward cycle.

> The overall health of the sector is intrinsically in the interests of government

Policy uncertainty leads to investor uncertainty. This in turn limits the pool of capital available and consequently many major mining investments are put on hold. As large mining companies rebalance their portfolios across the globe, seeking the best returns for the least risk, policy uncertainty drives them away and fuels a move to small-scale and less reputable mining companies, and eventual 'de-evolution' of the mining sector. These smaller mining companies tend to have less developed governance systems, which in turn increases the burden of regulatory oversight in an environment in which many governments have only limited capacity. This can, in turn, result in further distrust and dissatisfaction by government and society, creating political pressure for even more change, not in the interest of the operating companies.

Zambia's mining policy changes illustrate this cycle.

With four major mining tax regime changes in five years, the country's tax regime has offered precisely the opposite to the stability investors seek, with long-term consequences. As Zambia's Minister of Finance himself noted to parliament in April 2016, such policy prevarication invariably damages the country's investor credibility which 'is anchored on two themes: predictability and consistency. If somersaults are going to be our recipe,' he said, 'such will reduce investor confidence in our country.'

> The mining industry has suffered through a combination of policy instability, persistent fears about nationalisation and labour militancy

The mining industry in South Africa has also suffered through a combination of policy instability, persistent fears about nationalisation and labour militancy. The publication by government of the 2016 Mining Charter draft, in spite of industry representations, is a contemporary example; the manner of the publication of the Codes of Good Practice for the Mining Industry in April 2009 and, subsequent amendment, is a more historical one.

A 2010 Citibank survey put South Africa as the world's richest mining country in terms of non-oil reserves, worth an estimated US$2.5 trillion then, more than either Russia or Australia with around US$1.6-trillion apiece. By the late-1980s South Africa's share of global mining was 40 per cent, with some 880 000 jobs in the sector, but by 2014, its global share had declined to just 4.5 per cent. By 2011, South Africa's global share of greenfield mining projects was just 5 per cent; Australia's was 38 per cent.

Such a drop in investment is consistent with trends in other parts of Africa, and undermines much needed jobs and growth. We will double our populations at current rates within the next 30 years, and 80 per cent of that increase will be located in our cities. Already Africa has to create an estimated 20 million high-value new jobs each year just to keep pace with the newcomers in our job market.

Frankly, Africa needs a whole lot more jobs, across a variety of sectors, to make inroads into the backlog and also to enable people to move up the value chain. Like agriculture, mining should be regarded as a critical engine of growth – what I would call a 'flywheel' of the economy, enabling activity across a range of other sectors.

## Learning from Others

There are many good international examples out there from which we should – and must – learn.

Chile is one useful analogue. In 1972 Chile was recorded to have the 'second worst economy in Latin America', inflation had reached 500 per cent, there were frequent strikes, 'nationalisation, price controls and high tariffs were the order of the day', and the state controlled more than two-thirds of economic output. Yet from a low of US$4 000 per capita in 1975 in the wake of political instability, real income per person more than tripled over the next 30 years.

This transformation has been built on three pillars.

The first was the institution of free market economic reforms in the mid-1980s by a team of bright young economists. The second pillar of economic transformation relied upon a massive increase in domestic copper production. Copper, of which Chile supplies nearly a third of the world's annual consumption, accounts for some two-thirds of the country's export revenue.

And third, growth in the economy really took off with democratisation in the 1990s.

The transformation of this sector over a quarter of a century has been spectacular. In 1990, the private sector produced less than one-quarter of Chilean copper mining output. By the end of the 2000s, while the state mining company CODELCO was producing more than twice as much copper as it had done 20 years before; the private sector was producing two-thirds of the annual national output of six million tonnes. In 1970 Chile produced the same amount of copper as Zambia; four decades later it produced eight times more.

Chile is not alone: Botswana, Panama, Mauritania all offer other thought-provoking success stories.

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It is easy to forget Botswana's situation at independence in 1966. Possessing just ten kilometers of tarmac road, it was then one of the least developed and poorest nations in the world, with a per capita income little over US$70. The majority of the population was dependent on subsistence agriculture. There were then fewer than 50 university graduates and 30 000 people in salaried employment and a little over the same number of migrant workers, mostly employed in South Africa's mines. Their remittances equaled one-fifth of Botswana's total exports. Literacy was scandalously low, and there was scant access to health, sanitation, water, telephones, electricity, public transportation and other services.

Botswana depended then on British foreign aid not only to develop, but to survive.

Now Botswana's per capita GDP is more than South Africa's, nearly US$17 000 in purchasing power terms. Botswana learnt quickly how to gain maximum value from its natural resources, in this case, diamonds, establishing a productive relationship with De Beers.

Little wonder that former President Festus Mogae described in March 1997 the relationship in these terms: 'The partnership between De Beers and Botswana has been likened to a marriage. I sometimes wonder whether a better analogy might not be that of Siamese twins.'

## A New Way Forward

Solving the current crisis in the African mining sector requires moving from the current series of tactical actions where the industry and government constantly bicker and spar against each other, to a more cohesive, inclusive and strategic approach. The intent must be to exit a backward-looking, destructive, downward spiral and shift to a positive, constructive cycle which offers a 'win-win' deal for all.

For this to occur, all parties need to recognise the inevitable outcomes of the current cycle – the gradual deflation and downsizing of the industry – and the losers: current and future workers, governments, populations, and the mining companies. Such a new strategy will need to build on a number of existing dialogues and related initiatives, but do so with much greater cohesion, commitment and urgency. This requires, at its core, an acknowledgement that the sector is beset by a number of critical tensions between government and business.

The intent must be to exit a backward-looking, destructive, downward spiral and shift to a positive, constructive cycle which offers a 'win-win' deal for all

The difficult issues that have underwritten the current crisis will need to be addressed in an honest and open fashion, for example: How should the historical legacy be dealt with? How much profit is reasonable? What is a mining company's responsibility to its employees and communities?

Equally importantly, agreement will have to be reached on what a successful mining industry looks like. There must be, too, recognition that mining is an inherently risky and long-term endeavour. For success and the mutual benefit that results, risk needs to be reduced, by all parties, as far as possible. But this needs to comprise more than an enlightened business case. Mining also needs to understand the problems that government has to address and in so doing make a strategic contribution to wider issues (enterprise development, water, land, education and so on) in an atmosphere of collaboration, not confrontation.

For success and the mutual benefit that results, risk needs to be reduced, by all parties, as far as possible

Whilst there is broad consensus on the lack of common industry country narratives, a lack of unity has prevented their development. Such a narrative needs to make a case for the maintenance and development of the mining industry for each audience (government, the nation, and lobbying organisations). It needs to address: the status of the industry in society and issues of historical legacy, the need for policy stability, the balance of revenue generation with the need for beneficiation, the need for the minimum essential but fair constraints and the need for a fair settlement for all parties.

The narrative needs to be properly communicated using the full range of media, to all sections of society, with the aim being to move the debate, through a national dialogue, from one of extraction and exploitation to one of shared enterprise and endeavour through demonstrable and credible actions.

Given the depth of emotion this will not be an easy or a quick action to achieve, but failure to address this issue will ultimately lead to further decline in the industry. With confidence between the industry and governments at a low ebb, there may be considerable advantages to both sides in using a 'trusted champion' to help reset the relationship. Such a champion will need a creditable background in the industry and the authority to intercede.

Even so, for such an initiative to stand a chance of success there needs to be recognition that a problem exists and that there is mutual benefit in its solution.

## Conclusion

Sub-Saharan Africa will double its population to over two billion people by 2050. In my own country, Nigeria, at independence in 1960 the population was 45 million. Today it is around 190 million. By 2050 it is projected to be 415 million.

This huge change can be used to our advantage, for while the average age of Africa's population is set to stay young, in the rest of the world it is getting older.

But to do so requires ending business as usual and a ruthless focus on jobs and growth.

We need to use all our assets to develop our continent. We must not let old arguments about past injustices get in the way of our future prosperity.

In today's environment, the quality of governance and policy attractiveness will inevitably become increasingly important differentiators in the performance of African countries. Indeed, as the World Bank has noted that, after geological factors, governments are the single largest determinant of where mining investments flow globally.

We need to use all our assets to develop our continent. We must not let old arguments about past injustices get in the way of our future prosperity

There must, I repeat, be recognition by all that mining is an inherently risky and long-term endeavour. For success and the mutual benefit that results, risk needs to be reduced, by all parties, as far as possible. Mining companies also need to understand the problems that government has to address and in so doing make a strategic contribution to wider issues – including enterprise development, water, land, education and so on – in an atmosphere of collaboration.

Let me end where I began.

To achieve that dream of an Africa where there is full employment, and is free from the bitter tyrannies of poverty, homelessness, illiteracy, marginalisation and hunger, we need to do things differently. As a first step, in the mining sector, all parties – business, government and labour – must recognise that the level of trust has deteriorated. For the sake of Africa's economies and its people, it needs to be quickly rebuilt.