Africa's mining legacy and the search for a new policy direction

Africa's efforts to transform the mining sector away from its colonially created enclave features have so far met with very limited success. The Africa Mining Vision offers a framework for integrating the sector more coherently and firmly into the continent's economy and society.

—The Africa Mining Vision

The ISG Report argues that mining in Africa exhibits structural features that have **changed little since colonial times**; even today most mining regimes remain narrowly focussed on the direct export of strategic minerals to industrialised countries at the expense of African development. Just as under colonialism, the extraction industry is characterised by **enclaves of mining activity** with very weak links to local economies. So why hasn't mining been able to integrate more thoroughly with national and regional economies?

At independence, ownership and operation of mines was still in the hands of foreign firms. These companies imported most of their inputs and repatriated all their profits, less what was reinvested in mining itself. So even though mining soon became a major source of public revenue through taxation, and trade figures were dominated by mineral exports, this painted a false picture of how much the country was benefitting. Mining was not well integrated.

From the '60s onwards, many newly independent countries began setting up state-owned mining enterprises or at least took shares in existing mining companies. The aim was to increase revenue to the state, but results from these new state mining enterprises were mixed. Often they were still dominated by expatriate management teams, external procurement remained the norm and new ways were found to repatriate revenue abroad. Thus local economies still did not benefit as they might. Moreover state revenue from mining, rather than being reinvested in developing the sector was usually diverted into financing other priorities. The end result was that even under state control mining remained an enclave operation.

Following a decline in African mining in the 80s, a 1992 World Bank study proposed a series of liberal reforms. These were designed to attract foreign direct investment (FDI) back into African mining. Following the World Bank study, most African nations changed their mining regimes, they:

- Reduced or eliminated state participation in mining enterprises.
- Provided a wide range of incentives, causing foreign direct investment into the industry to surge.
- Made tax regimes more competitive relative to those in other developing regions, particularly Latin America.
- Liberalised exchange controls and exchange rate policy.
- Introduced investment-protection assurances, such as a stabilisation periods, dividend repatriation and non-expropriation.

But although the World Bank reforms created a more favourable climate for foreign investment in African mining, their **contribution to social and economic development objectives** was less certain. The emergence from the 90's onwards of vocal civil society movements protesting about social and environmental costs and questioning the benefits of mining suggests that African countries were still not getting the best deal for their citizens.

In fact African countries might have been getting a worse deal than before. The ISG Report argues that one effect of the WB reforms was to introduce competition between states for foreign investment. This triggered a "**race to the bottom**" where states vied with each other to encourage foreign mining companies to operate in their territories. The end result was not only that states had to forego fiscal earnings but also that governments missed out on the chance to formulate policy options with long-term development goals.

So some 40 years after independence and despite different policies, the colonial pattern of extraction and shipping overseas had become entrenched and linkages with the local economy remained as weak as ever. Hence the search for **a new developmental approach to mineral regimes** epitomised by the Africa Mining Vision.

In 2007 a “Policy Big Table” organized by the United Nations Economic Commission for Africa (UNECA) and the African Development Bank, brought together officials from the two bodies and the African Union (AU), African countries and international partners. The Big Table urged African countries to seize the “window of opportunity offered by the boom in demand for minerals and metals and the accompanying price surge to extract better terms from natural resources exploitation and to catalyse growth and poverty alleviation across the continent”. It proposed that existing natural resource laws and regulations be reviewed “to better accommodate the interests of African countries”. The conclusions of the Big Table were then carried forward to the first AU conference of Ministers Responsible for Mineral Resources Development in October 2008. The conference then adopted the *Africa Mining Vision*, which was then subsequently endorsed by Africa’s heads of state in February 2009.

The central premise of the AMV is that mining in Africa must be constantly re-evaluated against its contribution to **broad and long-term development goals**. It insists that mineral operations need not—and should not—be activities of an enclave. It follows that restructuring African mining from its enclave nature is the fundamental task of African policymakers and those committed to having it play a transformative role. This makes the AMV distinctively different because it challenges a pattern that was first established under colonialism and has persisted until today.

The Vision acknowledges that changing the paradigm means that governments must face tough challenges. However, unlike several other proposals for exploiting the mineral resources and collecting and managing the revenues of the continent, it recognizes governance is only one of the range of issues that must be addressed when formulating a comprehensive policy framework.

Unlike policies that primarily focus on better ways to tax large-scale mining and then secondly on finding better ways on how best to spend the revenue, the AMV sets out a different pathway. In contrast to an enclave mineral economy, the ISG Report articulates mining policy in terms of **development corridors, clusters of industrialisation and sharing infrastructure**. Most of all, the ISG argues, mining enclaves must be opened out so that linkages with local, national and regional economies can proliferate.

The paradox of African mining today lies in its historical structural deficiencies. The ISG Report argues that the sector’s key characteristics—and challenges—are those of an enclave industry. Even today, most of the industry has very weak links with the rest of the national economy, ownership and operation of mines is in the hands of foreign companies, most of the minerals are exported in raw form and the industry imports most of its inputs from abroad.

In the next bulletin we will look at how the ISG Report suggests this situation could be turned around.

The Africa Mining Vision

Transparent, equitable and optimal exploitation of mineral resources to underpin broad-based sustainable growth and socio-economic development

- A knowledge-driven African mining sector that catalyses and contributes to the broad-based growth and development of, and is fully integrated into, a single African market through:
  - — Downstream linkages into mineral beneficiation and manufacturing.
  - — Upstream linkages into mining capital goods, consumables and services industries.
  - — Sidestream linkages into infrastructure (power, logistics, communications and water) and skills and technology development.
  - — Mutually beneficial partnerships between the state, the private sector, civil society, local communities and other stakeholders.
  - — A comprehensive knowledge of its mineral endowment.

- A sustainable and well-governed mining sector that effectively garners and deploys resource rents and that is safe, healthy, gender and ethnically inclusive, environmentally friendly, socially responsible and appreciated by surrounding communities.

- A mining sector that has become a key component of a diversified, vibrant and globally competitive industrializing African economy.

- A mining sector that has helped to establish a competitive African infrastructure platform, through the maximization of its propulsive local and regional economic linkages.

- A mining sector that optimizes and husbands Africa's finite mineral resource endowments and that is diversified, incorporating both high value metals and lower value industrial minerals at both commercial and small-scale levels.

- A mining sector that harnesses the potential of artisanal and small-scale mining to stimulate local/national entrepreneurship, improve livelihoods and advance integrated rural social and economic development.

- A mining sector that is a major player in vibrant and competitive national, continental and international capital and commodity markets.