The Current State of Mineral Resource Governance – Opportunities & Challenges

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Presentation Outline

- Defining resource dependent economies
- Understanding mineral resource governance
- Why mineral resource governance matters
- What key indexes tell us about mineral resource governance in Africa
- Trends on Domestic resource Mobilisation
Defining Resource Dependent Economies

- In this presentation, the terms resource and minerals are flexible used at times to refer to oil, gas and mineral sectors
- How do we define resource dependent economies? Contextualise this to your community, country, sub region or African continent.
Oil, gas and minerals play a major role in the economies of resource driven or resource dependent countries and three categories are used (McKinsey Global Institute 2013)

1. Resources account for more than 20 percent of exports;
   - Export earnings for most African countries are largely hinged on resources - oil, gas and minerals.
   - Examples include Zimbabwe where mining contributed more than 50 cents to every dollar generated from total exports in the past decade.

2. Resources generate more than 20 percent of fiscal revenue;

3. Or (3) resource rents are more than 10 percent of economic output.
Defining Resource Dependent Economies

- (2) resources generate more than 20 percent of fiscal revenue;
  - Of course, this can only be deciphered when government revenue from oil, gas and minerals in separately accounted. A sizably number of African countries are part of the Extractive Industry Transparency Initiative (EITI)
  - EITI is a global best practice that seeks to promote open and accountable governance of oil, gas and mineral sectors.
- or (3) resource rents are more than 10 percent of economic output.
  - Examples include
What is Mineral Resource Governance?

- Mineral Resource Governance comprises of institutions, rules and practices that determine how company executives and government officials make decisions and engage and affect citizens, communities and the environments they inhabit. (NRGI)

- Good governance means having good rules, strong oversight to enforce the rules, and the competence and willingness to follow them. (NRGI)

- The Africa Mining Vision (AMV), a blueprint agreed to by African Head of States and Government in 2009 captures the aspirations of good mineral resource governance for the African Continent

- AMV envisages “Transparent, equitable and optimal exploitation of mineral resources to underpin broad-based sustainable growth and socio-economic development”
Why Mineral Resource Governance Matters

- Contextualise why mineral resource governance matters at local, country, sub regional and continental level
- Challenge - you are encouraged to generate blogs based on this discussion
Why Mineral Resource Governance Matters

- Mineral resources are owned by the people and are held in trust for their benefit by the state - Constitutions of most African countries stand by this position.

- Government has a stewardship role and must account to the owners of the resources

- Zimbabwe Constitution, for example, compels the State to put mechanism in place for communities to benefit from resources in their areas under Section 13 (4) on National Development.

- Minerals, oil and gas are finite resources. Therefore, the opportunity to use them as levers for sustainable development is not limitless, and must not be squandered.

- Think about any squandered opportunity in your community or country? What are the main reasons behind this?
Why Mineral Resource Governance Matters

- A global pandemic, COVID-19 exacerbated problems of poverty and inequality in Africa.
- COVID-19 will place 43 million Africans into extreme poverty according to World Bank.
- Without stronger institutions and policies, as well as a reduction in corruption, countries are more likely to fall victim to the “resource curse”—under which the poor stay poor and elites accumulate further wealth.

- What does your constitution say about ownership of minerals and the right of communities to benefit from resources in their locality?
- Minerals, oil and gas represent intergenerational equity. The benefits must be shared between present and future generations.
- Botswana utilises the principle of Sustainable Budget Index - over 50% of revenue is earmarked towards human development programmes, health and education? Share your country experiences
Why Mineral Resource Governance Matters

- Resources are prone to price volatility. Governments mainly overspends during commodity price booms and when prices fall, rely on debt to cover deficits. In some cases, debt is leveraged on resources and when prices plunge, the ability to pay can be heavily compromised.

- Savings and investments are critical shock absorbers for smoothening government income and expenditure patterns

- By nature, extraction of natural resources violates environmental, economic, social and cultural rights of communities residing in or in proximity to areas of extraction. Therefore, the costs of extraction but be mitigated to ensure costs do not outweigh benefits.

- Share country experiences on environmental management, impact of involuntary displacement of communities on livelihoods and any other challenges.

- Climate change is causing havoc in Africa. The extractive sector is strongly linked to climate change problems and solutions. Fossil fuels (oil, gas and coal) drive climate change and clean energy minerals eg lithium and cobalt are advanced as part of the solution.
Why Mineral Resource Governance Matters

- Think about it, oil and gas reserves have been discovered in Africa recently, Kenya, Uganda, Zimbabwe, & Mozambique, for instance. Should Africa forgo this opportunity?

- Governments and corporates are under pressure from citizens to reap a greater share of the rewards of developing their natural resources

- Corporates need a social license to operate, engagement of local communities and promoting local economic and social development beyond the bottom bar regulatory compliance issues.

- Increasing transparency, citizen participation and accountability is deal breaker when it comes to good mineral resource governance?

- A quick reflection on transparency, civic space, citizen participation and accountability and sharing of country experience needed here.
Key Indexes With Telling Impact on Resource Governance in Africa

- Resource Governance Index (RGI) produced by Natural Resource Governance Institute (NRGI)
- Fraser Institute’s Investment Attractiveness Index, a blend of the Policy Perception Index and Mineral Potential
- Corruption Perception Index (CPI) produced annually by Transparency International (TI)
# Resource Governance Index - A focus on mineral producing African Countries

<table>
<thead>
<tr>
<th>Governance rating</th>
<th>Score</th>
<th>African Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Good</td>
<td>≥ 75</td>
<td>Nil</td>
</tr>
<tr>
<td>Satisfactory</td>
<td>60-74</td>
<td>Botswana</td>
</tr>
<tr>
<td>Weak</td>
<td>45-59</td>
<td>Burkina Faso, South Africa, Ghana, Niger, Mali, Morocco, Zambia, Tanzania, Tunisia &amp; Sierra Leone</td>
</tr>
<tr>
<td>Poor</td>
<td>30-44</td>
<td>Liberia, Ethiopia, Guinea, Madagascar, DRC</td>
</tr>
<tr>
<td>Failing</td>
<td>Less than 30</td>
<td>Zimbabwe &amp; Eritrea</td>
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Resource Governance Index

- The first component assessed is value realization— it covers the governance of allocating extraction rights, exploration, production, environmental protection, revenue collection and state-owned enterprises.

- The second component assessed is revenue management— it covers national budgeting, subnational resource revenue sharing and sovereign wealth funds.

- The third component assessed relates to enabling environment - it covers six Worldwide Governance Indicators: voice and accountability; political stability and lack of violence; government effectiveness; regulatory quality; rule of law; and control of corruption.

- It has a seventh open data subcomponent, comprised of the Global Open Data Index, Open Data Barometer and Open Data Inventory.
Granularizing the composite score

<table>
<thead>
<tr>
<th>Rank in Africa</th>
<th>Country</th>
<th>Index Score</th>
<th>Value Realisation score</th>
<th>Revenue Management Score</th>
<th>Enabling Environment Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Botswana</td>
<td>61</td>
<td>40</td>
<td>62</td>
<td>81</td>
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<tr>
<td>2</td>
<td>Burkina Faso</td>
<td>59</td>
<td>66</td>
<td>54</td>
<td>57</td>
</tr>
<tr>
<td>3</td>
<td>South Africa</td>
<td>57</td>
<td>50</td>
<td>40</td>
<td>80</td>
</tr>
<tr>
<td>9</td>
<td>Tanzania</td>
<td>49</td>
<td>54</td>
<td>40</td>
<td>53</td>
</tr>
<tr>
<td>17</td>
<td>Zimbabwe</td>
<td>29</td>
<td>37</td>
<td>30</td>
<td>20</td>
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</table>
What the 2017 RGI is Telling Us

- Countries with the weakest resource governance are least likely to implement the rules they set. Practice reforms deserves as much attention as legal reforms.

- The widest gap between law and practice is seen in two particular subcomponents of the index: local impacts and subnational resource revenue sharing.

- Countries are more likely to follow the rules they set for themselves if they also control corruption well. Therefore, the divergence between laws and practice is not merely a matter of poor technical implementation capacity.
Investment Attractiveness Index

This annual mining survey conducted by Fraser Institute, a Canadian think tank is an attempt to assess how mineral endowments and public policy factors such as taxation and regulatory uncertainty affect exploration investment.

The survey was circulated electronically to approximately 2,400 individuals between August 20th to November 8th, 2019. Survey responses have been tallied to rank provinces, states, and countries according to the extent that public policy factors encourage or discourage mining investment.

With this survey, Fraser Institute seeks to create a “report card” that governments can use to improve their mining-related public policy in order to attract investment in their mining sector to better their economic productivity and employment.

Others like investors, academia, and the media also may find the survey useful for evaluating potential investment decisions, or for assessing various risk factors in jurisdictions of interest.
The investment attractiveness index is a combination of the Mineral Potential Index - which considers the geological attractiveness of a jurisdiction and the Policy Perception - how government policy decisions affect investment decisions on exploration.

No African country is among the 10 mining investment attractive jurisdictions globally.

Top 10 mining investment attractive jurisdictions respectively comprises of Western Australia, Finland, Nevada, Alaska, Portugal, South Africa, the Republic of Ireland, Idaho, Arizona, and Sweden.

Bottom 10 is dominated by Africa countries, using the order of the worst performers - Argentina: Chubut, Argentina: La Rioja, Guatemala, Dominican Republic, Zambia, Venezuela, the Democratic Republic of Congo, Mali, and Nicaragua.
Policy Perception Index

- Policy factors assessed include uncertainty concerning the administration of current regulations, environmental regulations, regulatory duplication, the legal system and taxation regime, uncertainty concerning protected areas and disputed land claims, infrastructure, socioeconomic and community development conditions, trade barriers, political stability, labour regulations, quality of the geological database, security, and labour and skills availability.

- Again, no African country is placed in the top 10 attractive jurisdiction based on policy environment attractiveness.

- The bottom 10 is dominated by African countries, particularly SADC countries - Venezuela, Zimbabwe, Tanzania, Argentina: Chubut, Argentina: Mendoza, Bolivia, the Democratic Republic of Congo (DRC), Zambia, Guinea (Conakry), and Argentina: La Rioja.
Mineral Potential Index

- The geological attractiveness of a jurisdiction has a massive influence to investment decisions, carrying a weight of 60%.
- Policy attractiveness of a country carries a weight of 40% in terms of influencing investment decisions.
- African countries that were deemed to be very attractive according to the 2019 annual survey are DRC and Zimbabwe.
- Given that the issue of tax incentives, how they are used to attract foreign direct investment is a topical DRM, it is important for government, parliament and civil society to understand that geological pull factors dominate the decision making process of investors.
- This does not detract though from the importance of improving the policy environment of course without deflating the fiscal wheel.
Corruption Perception Index - Rating of SADC Countries

1. Botswana (34/198)
2. Namibia (56/198)
3. South Africa (70/198)
4. Tanzania (96/198)
5. Zambia (113/198)
6. Angola, Malawi & Mozambique all ranked at (146/198)
7. Zimbabwe (158/196)
8. DRC (168/198)
Africa Mining Vision (AMV)

- AMV is Africa’s overarching framework for achieving inclusive, sustainable mineral-based structural transformation.
- AMV Envisages a “Transparent, equitable and optimal exploitation of mineral resources to underpin broad-based sustainable growth and socio-economic development”
- According to African Mineral Resource Governance Framework (AMGF)- AMV must be assessed on 6 outcomes;
  - Legal and institutional framework for contracts and licencing.
  - Geological and mineral information systems.
  - Fiscal and revenue management.
  - Linkages, investment and diversification.
  - Artisanal and small-scale mining
  - Environmental and social issues
Legal and institutional framework for contracts and licencing

- **Outcome:** Greater transparency in licensing and management of mineral rights
- **Intervention area:** Develop a comprehensive and transparent licensing and mineral rights management system.
Contract negotiation, agreements & performance monitoring of contracts

- There are large opportunities for governments to reduce risk by developing their ability to understand and negotiate contracts (ensuring that the contracts are fair and seen to be fair), adopting a set of formal legal mechanisms to help reassure investors, and generally improving interaction with investors and companies.

- Governments will achieve far more by focusing on production costs and reducing risks in collaboration with resource companies than by narrowly focusing on trying to increase the government take. Successfully reducing production costs and risks produces a larger revenue pie that can then be shared by the government and the resource companies.
Geological and mineral information systems

- **Outcome:** Comprehensive knowledge of geological and mineral endowment, leading to broad-based development.

- **Intervention area 1:** Improvement in and strengthening of geological and minerals information systems to underpin investment, exploration and mine development. Intervention area

- **2:** Improvement in the standards of reporting, resource classification and mineral reserve valuation, and optimize mineral resource and reserves governance.
Geological information

- Africa remains hugely under-explored, with little knowledge of the quantity and quality of its mineral assets.

- It is estimated that US$130,000 of known sub-soil assets are beneath the average square kilometer of countries in the OECD - Paul Collier, The plundered planet: Why we must—and how we can—manage nature for global prosperity, Oxford University Press, 2011.

- Whilst around US$25,000 of known sub-soil assets lie beneath the average square kilometer of Africa, a continent that relies heavily on exports of natural resources.

- Fundamental differences in geology does not account for this huge difference

- International investment in exploration and prospecting in Africa has been limited, much of that continent’s resources still await discovery.
Fiscal and revenue management

- Outcome 1: Optimized share of revenue accruing from mineral resource extraction.
  - Intervention area: Improvement in the policy, legal and fiscal instruments for revenue maximization and increased investment in the mineral sector and the prevention of illicit financial flows.

- Outcome 2: Improved transparency and accountability in the management of mineral revenue.
  - Intervention area: Strengthening of policies (legal and practice or systems) and institutions for transparency and accountability in the management and use of mineral revenue.

- Outcome 3: Equitable and efficient use of resource revenue.
  - Intervention area: Improvement in policies (legal and mechanisms), including capacity for the equitable use of resource revenue and productive investment to promote broad-based development.
Linkages, investment and diversification

- **Outcome 1**: A knowledge-driven minerals sector that is a key component of a diversified, vibrant and globally competitive industrialized African economy.

- **Intervention area**: Strengthening and investing in education, science, technology, engineering and mathematics skills development and technology transfer for an inclusive and competitive mining industry.

- **Outcome 2**: Broad-based development catalysed by a mineral sector that promotes upstream, downstream, side stream and infrastructure linkages.

- **Intervention area**: Creation of a conducive policy, legal and institutional environment to catalyse the mineral sector to generate upstream, downstream, side stream and infrastructure linkages.
Linkages, investment and diversification

- **Outcome 3:** Increased level of investment flows into value added minerals activities and multi-use infrastructure to support broad socioeconomic development.

- **Intervention area:** Creation of a policy and regulatory environment that leads to increased investment in multi-use infrastructure and socioeconomic development.
Artisanal and small-scale mining

- Outcome: Improved entrepreneurship in an environmentally and socially responsible manner, leading to sustainable livelihoods, growth and development.
- Intervention area: Improvement in the viability, progressivity and sustainability of the artisanal and small-scale subsector to enhance its contribution to growth and development through gaining access to training, extension services, finance, marketing and cleaner, efficient technologies.
Environment and social issues

- **Outcome:** Improved and sustainable quality of life for mining-affected communities and the country as a whole.
- **Intervention area:** Strengthening the environmental, social, economic and cultural protection policies, laws, systems and capacities of communities to benefit from mineral extraction.
Transparency is best disinfectant - critical issues to focus on

- Adoption and implementation of the Extractive Industry Transparency Initiative (EITI), a global best practice promoting open and accountable governance of oil, gas and mineral sectors.
- Granular disclosure of various payments made to government by extractive companies
- Contract disclosure, terms and conditions under which payments are made to government by extractive companies
- Beneficial ownership disclosure - unmasking the natural persons benefiting from ownership or commercial relationships with any extractive company
- Open and web based mining cadastre system