Africa's Mineral & Beneficiation Policy Monitor

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Eunomix™ is a pioneering advisory firm at the nexus of strategy, risk management and socioeconomic development. The firm specialises in resource rich countries, with a focus on Africa. Serving businesses and governments, it helps deliver sustainable outcomes in the face of systemic uncertainty, competition for resources and growing demands for shared prosperity.

Eunomix produces monthly briefs monitoring and reporting on political and policy issues of relevance to clients. This monitor will be issued on a quarterly basis, and dedicated to tracking trends in beneficiation and mineral rent policy, legislation and regulation in Africa. It aims to provide a 'live' overview of the continent-wide movement to derive greater local value from the mining industry, with all the implications this entails for economic development, investment climate and the growth of the mining sector. This monitor represents a natural extension of Eunomix's comprehensive work on the topic.

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1.1. A balancing act for industry and governments

In our July issue, Eunomix highlighted the ways in which African governments seek to increase their 'local take' of mining activities. While we argued that this represents a necessary and legitimate aspiration, we also warned that certain of these measures were 'perilous' in times of downturns in the mining sector. We, along with analysts in the industry, predicted that these could lead to government revenue losses due to mine closures, the sterilisation of mineral rents, and associated socio-economic opportunity costs.

In the last few months, an initially moderate decline in commodity prices has accelerated at an alarming rate due to a number of reasons, including lower Chinese demand. Economists have predicted that commodity prices are likely to remain low for at least two to three years. As a result, many mining operations in Africa have started cutting costs by shedding jobs, selling mines or temporarily shutting down certain mines. Exploration is at a low point. Seeing as though many African countries are still overly reliant on the export of raw materials and oil, the current downturn could have significant negative impacts on the growth prospects of African economies. The latest growth figure revisions indeed show that rates are softening throughout the region. Resource rich countries are being affected the worst.

African governments, however, have – through the Africa Mining Vision and several regional and national policy frameworks – identified beneficiation of raw materials as a priority on their development agendas. The important question will now be how governments can manage economic pressures from current and future job losses in these key economic sectors, while still deriving more socio-economic benefits from their vast natural resource endowments.

One measure that governments have adopted to encourage local processing and capture more value is export controls, a policy currently debated by the South African government and already implemented by the likes of Zambia, Uganda and Zimbabwe.

However, Eunomix notes that under the current economic climate, it is not the time to extract further concessions from battered mining and oil and gas industries through increased state regulation and export barriers. Indeed, a recent paper by the Organisation for Economic Co-operation and Development (OECD), examining the role of export controls of minerals in five African countries, has concluded that the policy has not promoted downstream processing activities, and in some cases has led to substantially negative effects.

Rather, policy choices need to make commercial sense in the light of the economic environment. Some governments have already recognised this and chosen to focus on economic diversification and regional integration, as the following monitor explains in further depth. Another option to increase value addition may be the use of incentives, though this option may be challenging for governments limited by strained national budgets and revenue losses. Either way, the current economic situation calls for courageous policy-making in primary commodity exporting countries.

In these times of crisis and uncertainty, the policy priority should be to limit the damage to the mining industry. In parallel, governments, the industry and multilateral organisations need to develop strategies that can help Africa's resource rich countries capture a greater share of the rent *sustainably*.

2. Recent policy developments

2.1. Governments under pressure

Achieving the beneficiation ambition is being hampered by the economic realities facing the mining industry. In addition to the commodity price slump, many African governments need to grapple with challenges such as lack of infrastructure, social and/or labour troubles, and upcoming elections:

- **In Zambia**, copper accounts for more than 70% of the country's export income. As a result of the commodity downturn the local currency, the Kwacha, has fallen by more than a quarter this year. Adding another challenge, the water level in the Kariba Dam has declined, affecting electricity availability and forcing mines to import high cost electricity.
    - This situation has resulted in the temporary suspension of the mining operation at CNMC's Luanshya Copper Mines Plc and Glencore's Mopani mine. These two mines are responsible for around a third of the country's copper output and employ more than 10,000 workers.
    - In a move welcomed by the industry, newly elected President Edgar Lungu reversed his predecessor Michael Sata's dramatic increase in mining royalties. Further job losses from the copper-belt, however, will not bode well for the ruling party in Zambia's current uneasy political transition period.
- **South Africa** – where mining accounts for over 50% of exports and employs 440,000 people – is suffering from similar problems: low commodity prices, chronic electricity shortages, legislative uncertainty, fractious labour relations, and an unemployment rate of 25%.
    - One year before municipal elections, the country is grappling with thousands of job losses, and more looming with Glencore, Lonmin and possibly Anglo American planning on further cuts. President Zuma's tenure is under ongoing pressure, given his administration's promises to lower unemployment and transform the economy.
    - In a show of force, government suspended Glencore's Optimum coalmine licence in August – citing concerns over the mine's planned job cuts. Former Mines Minister Ngoako Ramatlhodi announced that the company had failed to implement a proper social labour plan, and

should have looked at alternatives to retrenchments. The government eventually reinstated the mine's license after negotiations.

- While legislative uncertainty has become the norm in the South African mining sector, the surprise replacement of Ramathlodi with Mosebenzi Joseph Zwane, a former provincial politician with no experience in the mining sector, was a shock to industry leaders and even senior African National Congress (ANC) members.
- The National General Council (NCG) published a discussion document in October, which noted the importance of beneficiation in promoting value addition but failed to propose any decisions on the matter.

- **In Uganda**, President Museveni has lifted the ban on mineral ore exports that had been imposed earlier in 2015. The aim of the ban had been to try and force value addition of mineral ores. Elly Karuhanga, Chairman of the Ugandan Chamber of Mines and Petroleum, said that the ban had breached contracts with investors who had been issued with licenses. Karuhanga also said that the ban had frustrated major developments in the sector.
- There is growing concern in the **SADC region** about the decline in diamond beneficiation in the region. **Botswana, Namibia and South Africa** all beneficiate diamonds but the number of people employed in the cutting and polishing industry has been declining significantly in the past few years. Namibia's Prime Minister Saara Kuugongelwa-Amadhila noted her concern about job losses, not only in Namibia (where employment has dropped from around 2,000 people to around 600 people in the industry), but also in Botswana (where about 2,000 people have lost their jobs in the cutting and polishing industry) and South Africa (where there has been a drop from 3,200 people to only a few hundred). This decline points to the importance of maintaining and improving competitiveness in industrial activities in order to retain a country's market position. In this regard, the decline in jobs and value added underlines how tenuous that competitiveness is, and how fragile legislated beneficiation truly is.

In Zambia, Uganda and South Africa investors and members of the industry will have all of their eyes on government, judging how they manage a balancing act between implementing beneficiation agendas and supporting a battered mining industry. While the South African government has already shown that it is prepared to take the hard line, Zambia's government is planning on holding talks with mining CEOs to 'find a common ground'. In Uganda, although the government thought it could simply enforce value addition through an export ban, the u-turn on this decision demonstrates the inefficacy and large economic costs of poorly timed intervention. Zimbabwe, with its reversal of the ban on the exports of chrome, also illustrates this point.

2.2. Economic diversification

The current global economic conditions have highlighted the dangers associated with a country's dependence on commodities. As a result of falling oil, gas and metals prices, the topic of the 'resource curse' or the 'Dutch disease' is once again surfacing in the policy discourse of many African states:

- **Ghana** is rich in gold, cocoa and oil. While the country has only been a member of the club of oil-exporting nations for five years, it has already become dependent on the income of the commodity. With the fall in prices Ghana's currency, the Cedi, has plummeted and national debt has risen to 67% of GDP. The World Bank has warned that dependence on raw material exports is one of the main risk factors for Ghana's development.
    - President John Mahama had already highlighted Ghana's dependency in 2014 – at the time mostly caused by the decline of the prices of cocoa and gold – and acknowledged a need to add local value. At the time, he planned to create a system to incentivise cocoa traders to process beans domestically, rather than simply exporting the commodity.
    - Today, much of the same problems persist with little headway in diversification. In August, Mahama claimed he no longer wanted to rely on oil, gold or cocoa but instead grow the energy sector, specifically solar energy and other renewables.
- **Sierra Leone's** economy, hit by both the Ebola epidemic and the collapse in iron-ore prices, will contract by 21.5% this year, while the shortfall in government revenues will push the budget deficit to 4.8% of the GDP. The World Bank identified iron ore mining and the related potential decrease in foreign direct investment as Sierra Leone's main source of concern beyond Ebola.
    - Before the Ebola outbreak, the government had acknowledged that it was failing to diversify the economy. The country's Chamber of Mines stated that "*In the long term, it's not a bad thing to mature the economy in that way. There are other opportunities especially in agriculture,*

which, from a stability point of view, really does create a lot of jobs very quickly [and the] skills base is minimal".

  - The plan for diversification is to move into the manufacturing (including agro-processing) sector, which has been identified as one of the four sectors pivotal for diversification.

- In **South Africa**, mineral beneficiation has been touted as the solution for economic diversification. While the jury is still out on how exactly this will be done, Patrice Motsepe of African Rainbow Minerals warns: *"We have for many years – not just in South Africa but in many parts of the continent – spoken about beneficiation. And I think part of the secret, in relation to beneficiation, is you have got to make it attractive, profitable, for the private sector – and it will take off."*
  - In pursuit of the beneficiation policy ambitions, the government has announced the start of the construction of the Gauteng Province's Growth and Development Agency's Jewellery Manufacturing Precinct to be established within the OR Tambo Airport's Industrial Development Zone (IDZ).
  - An investment of over USD 19 million has been committed for the IDZ with the aim of attracting investors through a range of incentives. These include customs support services, duty-free importation of production-related raw materials, and tax breaks.

As a result of many African states' overreliance on the export of primary commodities and the lower demand from China, the African growth path has slowed considerably in the past two years. Many of the emerging economies such as Nigeria, South Africa and Ghana are facing serious difficulties. As a state that was growing at a rapid rate but had only just started properly recovering from many years of civil war, Sierra Leone is probably one of the hardest hit. While necessary, these states' plans for economic diversification must be carefully designed with regards to the market realities possibly constraining growth in value add manufacturing.

2.3. Strength in numbers

Various intra-regional agreements and movements are taking place on the continent with the goal of facilitating trade and/or harmonising policy frameworks for the mining industry. The impetus for most of these are for African nations to support each other on a path out of poverty and into industrialisation – often through beneficiation – as well as to create a common front to negotiate better deals with mining companies:

- **Continental solutions:** Formal negotiations are taking place among the 54 member states of the African Union (AU) to create the Continental Free Trade Area (CFTA) by 2017. The negotiations were launched in June 2015 and members are expected to reduce trade barriers by decreasing export and import duties and, in some cases, waiving visa requirements.
  - South African Deputy Director General for International Trade and Economic Development Division (ITED), Xolelwa Mlumbi-Peter, stated that the Trade Area would support – amongst other things – the beneficiation of minerals and petrochemical products in order to achieve greater industrial activity on the continent. Accordingly, this might require using 'a policy tool' to promote beneficiation throughout the continent. Mining Industry Association of Southern Africa president and Botswana Chamber of Mines CEO, Charles Siwawa, added that increased trade in mineral resources would reduce transportation costs and increase profit margins for commodity traders and mining companies on the continent.
  - However, it is important to note that the AU has had years of unsuccessful discussions on the idea of creating free trade areas. Additionally there are a number of inter-regional trade bodies on the continent, which have failed to achieve their goals – either for political reasons, or due to un-secured borders, inadequate infrastructure, or mismanagement.

- **Regional solutions:** High-level meetings concerning the harmonisation of policy for the management of natural resources in West Africa's Economic Community of West African States (ECOWAS), organised by the United Nations Economic Commissions for Africa (UNECA), were held in Dakar in October.
  - The meetings highlighted various difficulties and challenges and in response the participants formulated recommendations to enrich the study report and strengthen the domestication of the AMV, the EITI and the ECOWAS Directives for Member States. These recommendations were as follows:

- "Strengthen and consolidate the project to harmonize policies and mining codes in a context where the sub-region has the same mining resources and faces the same multinationals,
- Develop geological engineering expertise, along with the financial, economic and legal expertise of States for an appropriation of reforms and the promotion of multi-disciplinary endogenous teams that could accompany States in their negotiations of mining contracts and contribute to the improvement of the knowledge of local actors on the available resources in the country from the qualitative and quantitative point of view;
- Make an inventory of best practices on the domestication of sub-regional mining initiatives and encourage their adoption and diffusion,
- Promote the partnership between the African Minerals Development Centre (AMDC) and the ECOWAS states on the mining sector in order to benefit from the expertise of this centre."[1]

- **Bilateral solutions:** Guinea's national mining company Société Guinéenne du Patrimoine Minier (SOGUIPAMI) and Gabon's state owned mining company, La Société Equatoriale des Mines (SEM), have signed an agreement of cooperation with the goal of exchanging experience and knowledge in the mining sector.
  - The two have committed to share their experiences in mining exploration, portfolio management and the promotion of mining heritage. They will also establish a committee that will provide a forum to address, approve and monitor the annual work programme and budget.

While laudable, such arrangements in Africa have often been 'hit and miss' and cooperation at continental level has proved, through the AU, to be complicated. Yet, some regional bodies have had more success, such as the East African Community's (EAC) trade partnerships. While it is important to view these arrangements with a critical eye, they could help individual nations establish more transparent and stable policy frameworks.

2.4. Beyond Africa: Indonesia's export controls

In January 2014, Indonesia enforced mineral export controls, designed to force the mining industry to beneficiate minerals in country. This included a total export ban on unprocessed nickel and bauxite and a progressive tax on all exported commodities. Some of the export controls have since been relaxed and companies have managed to negotiate new deals. Despite this, however:

- Indonesia's economy grew by just 4.7% in the second quarter of this year, the slowest pace in six years. The country's currency's value - the Rupiah - is at its lowest level in 17 years.
- A recent survey carried out by Bloomberg suggests that Indonesian tin exports could fall to around 61,000 tonnes this year due to tighter controls on mining operations. This is a drop of 20% compared to a preliminary trade ministry estimate.
- The depressed prices and lack of revenue is inhibiting the government's plans for the construction of domestic smelting facilities, which have been delayed.

Indonesia's mining production has fallen (and so have the benefits associated with high production), in an already difficult economic climate. The negative impact of the export controls on minerals in Indonesia, may serve as a warning to African countries seeking to add local value through similar means.

END OF REPORT

[1] http://www.uneca.org/stories/mainstreaming-international-initiatives-mining-policies-west-africa

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