

Mineral Commodities, Governance and Poverty Reduction
"TURNING AFRICA'S MINERAL WEALTH INTO DEVELOPMENT"

Action Plan

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October 1st 2008

Acknowledgments.

In preparing the Action Plan, **Pierre Defraigne** (Shepherd) Honorary Director General European Commission and Executive Director of Madariaga - College of Europe Foundation, and **Claude Kabemba** (Co-shepherd) Director of the Southern Africa Resource Watch, had the support from a number of experts and contributors whose works and suggestions have been debated and helped shape the present document. Special thanks to: **Ambassador Liu Gujin**, Chinese Ambassador, Special Representative for African Affairs; **Chris Alden**, London School of Economics; **Renato Amorim**, Vale Director of International Public Affairs & Chair of ICMM's Socio-economic Development Task force; **Paul Anciaux**, DG Enterprise, EC; **Habib Ouane**, Director, Africa and LDC and Special Programmes Division, UNCTAD; **Eddie Kapungulya**, Chamber of Commerce and Industry Kitwe, Zambia; **Jean-Luc François**, DGCID France; **Nicolas Gerard**, DG Development, EC; **Michel Laval**, DGCID France; **Evelin Lehis**, EIB Sustainable Development Unit; **John Lungu**, Copperbelt University, Zambia; **Henri Minnard**, Principal Trade Expert NEPAD, Regional Integration and Trade Department, ADB; **Oladayo Olaide**, Coordinator of the West Africa Resource Watch, OSIWA; **Antonio Pedro**, Chef de Division Ressources Naturelles, UNECA; **Jerome Pons** (Rapporteur), DG Development, EC; **Pascal Saint-Amans**, Head of Division, International Co-Operation/ Tax Competition, OECD; **Ibrahima Soumah**, ancien Ministres des Mines, Guinée; **Stephan Stork**, DG Taxud, EC; **Jakob Thamage**, Director of mineral affairs, Botswana; **Mariuz Tamborski**, DG Development, EC; **Akolang Tombale**, Principal Secretary, Botswana; **Graham Whyte**, OECD; **Zhu Ye**, Third Secretary, Department of African Affairs, Ministry of Foreign Affairs, P.R.C.

A. Context

Developing countries hold a significant proportion of known resources of non-energy raw material. For instance, Africa holds 30% of the world's bauxite resources, 60% of manganese, 75% of phosphate, 88% of platinum, 80% of chromium, 60% of cobalt, 30% of titanium, 73% of diamond and 40% of gold. For many African countries, raw materials are important export products and represent a significant part of state revenues. Reliance on mineral exports as part of the total exports vary from 40 to 90% in countries like Democratic Republic of Congo, Papua New Guinea, Mozambique, Jamaica, Zambia or Suriname. Raw materials are thus potentially a valuable asset for sustaining growth, reducing poverty and improving on Millennium Development Goals in many of the poorest countries of the world.

Since 2000, oil and energy mineral commodity prices have been undergoing a strong and steady rise, mainly due to increasing demand from China and other emerging economies. After 30 years of price stagnation, non-energy raw materials prices are following a similar trend. However, while profits of the big international mining corporations have sharply increased¹, the additional corresponding extra revenues available to producing countries did not materialise in similar proportion and did not result in significant progress towards development yet.

Although the expected duration of the commodity market boom is uncertain, it is likely that part of the rise will become permanent thus generating stable extra revenues for a number of exporting countries in the long run. In parallel, as commodity prices go up, net capital flows from South to North are on the rise. These developments illustrate the limited absorption capacity of exporting countries and the unbalanced nature of deals between foreign companies and governments, in a general mineral commodity context marred by corruption, tax avoidance and tax evasion. Moreover, the rapid increase of commodity prices has the potential to hamper the negotiation of long-term agreements and contracts thus further adding to market uncertainty and price volatility. Several routes, such as the renegotiation of contracts with private companies and policies to favour reinvestment of the commodities revenues into the local economy, have already been explored in a number of countries.

Against this background, the Working Group reflected on the potential to promote real and sustainable development benefits and outcomes from increasing revenues in producing countries. There is a real possibility that developing countries can benefit more from the present commodity market trends and foster local development. For this to happen, there is need to strengthen institutions, improve governance systems, and negotiate better deals.

B. Rationale of the Action Plan

To assist interested countries in Africa to better harness the opportunities offered by the current commodity boom, Working Group 7 has formulated an Action Plan outlining a number of recommendations to be further explored. The plan is informed by success stories and existing initiatives on the African continent.

¹ The cumulated profits of the three main mining corporations (Rio Tinto, BHP Billiton, Anglo American) increased from 4.3 milliard\$ in 2002 to 26.9 milliard\$ in 2006

The proposed Action Plan is of general nature: there is no specific country to which it could apply in full. In the area of mineral commodities extraction, transformation and trade, it is clear that there is no such a thing as "standard approach" or a one-size-fits-all policy orientation leading to better development. Policy options and recommendations must be country specific and must be adapted to the local economic, social and cultural environment. In addition, while short and long-term impacts have to be considered, short to medium-term initiatives are of more relevance to the issues at stake: thanks to the current market conditions, there is a momentum for policy changes that may not exist anymore in the next few months. This momentum must be seized. Furthermore, advancing the right policy changes today could engender long-term benefits for developing countries.

C. Key intervention areas

Three broad intervention areas are being suggested:

Sustainable Mineral Sector Development & Economic Development

In a short-term perspective, taking into account commodity price volatility, it is urgent to increase governments' ownership and revenues for the country, keeping in mind the momentum for policy changes. In the long-term, policy recommendations should relate to maintaining and stabilising the flow of revenues and using the revenues to promote economic diversification as well as broad-based development. Enhancing linkages between mining and the local economy, improving working conditions in the mines, upgrading local and regional infrastructure as well as investing in education and training of manpower in line with economic needs are critical issues to be addressed.

Enhancing Good Governance in Mineral Sector Dependant Countries

Ownership by the country of the policy options, transparency of the deals, political will, top leadership involvement, rule-based business environment and participation of parliamentarians and civil society groups are key governance aspects to ensure that the mineral wealth is turned into long-term and lasting development.

Addressing Capacity Constraints & Mineral Sector Dissymmetry of Information

Accurate strategic information on mineral resources as well as adequate human and material capacities and competency/skills to analyse the data, to collect/manage revenues, to elaborate sound policies and monitor their enforcement, to negotiate fair deals are lacking in most developing countries. Building this capacity in government officials, parliamentarians, civil society representatives and, to some extent, local and international private firms is therefore essential to developing friendly sustainable management of mining resources.

D. Agenda for Action

Section 1: Addressing Dissymmetry

1.1. Auditing, reviewing and, if necessary, redressing unbalanced mining contracts, in particular against the background of booming prices.

Rationale: With the prospect of long-term commodity price rises, mining presents the main comparative advantage that Africa has today in the global economy to contribute, through trade and foreign direct investment, to sustainable economic development, poverty reduction

and the achievement of Millennium Development Goals (MDGs). Mining will contribute to these objectives only with fair deals and good governance at country level. In that context, a number of African countries are now renegotiating or contemplating renegotiation of their mining contracts.

African countries should take advantage of high-level fora such as the upcoming United Nations (UN) High-Level meeting in New York in September 2008 and the Doha Conference on Financing for Development in December 2008 to get the support of the international community for entering into contract renegotiation when audits and reviews reveal imbalances.

Activity: Securing the support of world leaders for auditing, review and redressing of unbalanced mining contracts. African ministers and leaders attending GDTF as well as the representatives of African Union (AU) Member States attending the next Conference of the Ministers Responsible for Mineral Resources Development in Addis Ababa in October 2008 should take the lead on the issue. Countries willing to engage in a review process should be supported by the recently established African Legal Support Facility (ALSF) of the African Development Bank.

1.2. Towards Fair and Effective Taxation

Rationale: Fierce international competition, increasing freedom of capital movements, over "incentivation" to attract foreign direct investments (FDI) and corruptive practices from governments and private stakeholders regarding taxation, can seriously deteriorate revenues arising from mining resources for commodity dependant countries. Moreover, the revenue which is lost in developing countries is being "round tripped" via or often accumulated in tax havens (e.g. through favourable international transfer pricing schemes) before being reinvested in the developed world.

It is therefore crucial that income is taxed in the developing country before being reinvested elsewhere. To address that challenge, transparency and effective exchange of information is crucial.

Activity: Set up a mining taxation chapter in the African Tax Administration Forum. The Chapter would facilitate and promote exchange of information and best practices on taxation issues between OECD and African commodity dependant countries in particular with regard to corruption and tax evasion. The aim is to promote good tax governance in commodity dependant countries by fostering transparency of the tax systems, the effective exchange of information on tax matters and fair tax competition, extending to offshore financial centres.

The Chapter will lead to the preparation of an African owned code of conduct on taxation and commodities on the basis of existing international taxation governance standards and best practices (e.g.: OECD work in the context of the Forum on Harmful Tax Practices and with regard to transfer pricing issues). These international taxation governance standards reflect internationally agreed standards and include transparency of tax systems, bribery of government officials, the effective exchange of information, transfer pricing and tax competition. They would then be adopted by AU countries.

The Chapter shall support the negotiation of well balanced double taxation agreements between developing and developed countries. It shall provide counsel and support to

developing countries on the basis of a needs analysis and respective requests. It will complement the capacity building activities mentioned below by providing respective specialized training and offering a platform for tax administrations in terms of exchanging as well as enhancing best practises in a customized way.

The Chapter shall *inter alia* rely on close support by stakeholders in the international tax field, such as the OECD, the International Tax Dialogue and the UN ECOSOC committee of experts on international cooperation in tax matters.

The case of Zambia

At present, the tax system of Zambia provides for a number of features giving rise to observations with regard to harmful tax features. For instance the existence of specific Export Processing Zones that apply tax preferential regimes in general and that are even granted on outbound investment of interests and royalties indicates a high likelihood of harmful tax features. The same applies to reduced tax rates for the mining sector and to the need for efforts to address more effectively transfer pricing issues. In addition, the network of tax treaties could be extended and updated especially as regards state of play measures to exchange information. In the same line of reasoning, according to the last article IV review by the IMF in 2007, *inter alia* the following statement was made in paragraph 4 of the executive board conclusions thereto:

"Directors emphasized the importance of strengthening tax administration and widening the tax base, and welcomed the efforts underway to increase revenue by aligning the fiscal regime for mining companies with international standards."

The fact that the need to strengthen tax administration and widening the tax base as well as the efforts to increase revenue by aligning the fiscal regime for mining companies with international standards are being highlighted by the IMF gives rise to the suggestion to launch a review of the tax system of Zambia, in order to allow it to be revamped along international standards and become more effective.

Some Key Features

- Exploiting potential synergies/complementarities and promoting harmonisation/simplification of the many initiatives already existing in that field (e.g. EITI++, ITD, OECD work, WB/UNODC Stolen Assets Recovery Initiative, OECD tax centre in South Africa, UN Code of Conduct on Cooperation on Combating International Tax Evasion and Tax Avoidance).
- Southern Africa Development Communities(SADC) and West African Economic and Monetary Union (WAEMU) respective frameworks of harmonisation of mining policies, laws and regulations, the International Council on Mining and Metals work on the issue as well as the results of the International Study Group to Review Africa's Mining Regimes are existing initiatives of which the Forum should be aware of.
- At African level, proposal could be made to use the existing Africa Peer Review Mechanism (APRM) to foster fair tax competition, transparency and sharing of information on taxation issues.
- While promotion of transparency at national level on taxation issues is important (including capacity building and technical assistance for tax administrations), there is a strong need for support to NGOs and Parliamentarians in their watchdog/oversight role in that field.
- Introducing a "good tax governance" clause in EU ACP agreements, aiming at promoting fiscal cooperation/exchange of information on taxation issues between the EU and ACP countries.

- The newly created Forum on Tax Administration should be encouraged with a specific chapter on mineral commodities/mining. .

Section 2: Addressing Competitiveness

2.1. Support to Regional Infrastructure Development

Rationale: Commodity dependant countries often lack the necessary infrastructures at national and regional levels (roads and rail transport networks, energy, water, communication ...) to fully and sustainably exploit mineral resources and to increase competitiveness on the international market. Africa needs an infrastructure to support global demands. Infrastructure bottlenecks and inefficient energy supply are causing extraordinary frustration to mining companies who fear their ability to capitalise on the Asia-led resources boom is being undermined. Lack of appropriate infrastructures is a constraint which impedes commodity dependant countries from attracting investments and using their mineral resources to develop more value adding economic activities (local first transformation of raw material) and so to stimulate economic diversification and resource based industrialization processes.

Activity: Ensure political support to the African Union infrastructure plans for Africa, to develop regional/continental infrastructures, at the occasion of the AU Conference of Ministers responsible for mineral resources development, in October 2008 in Addis Ababa. The aim would be to foster sustainable mineral resources exploitation, value-addition and trade in Africa. The infrastructure plans should be given political priority and listed infrastructure projects should be subjected to careful environmental, economic and social impact assessment thereby demonstrating the viability of the proposed projects. Ultimately bankable projects should be disseminated to a wide audience of mining sector stakeholders and development partners at the occasion of regular regional natural resource and infrastructure development conferences organised on the continent. The opportunities offered by the increasing presence of emerging economies in the mineral commodities business should be discussed with relevant partners.

Finally, resource dependent countries should establish Task Forces whose objective would be to examine the capacity of infrastructure to support and enhance mining, transformation of raw products and collection of related revenues. The overall aim of these propositions is to reduce transport cost, increase value added production in developing countries and revenues from exploitation/transformation of mineral resources within the constraints of sustainability. Equally, the expanded infrastructure should promote broad-based development, economic diversification and cluster formation.

A. Increase infrastructure through beneficiation activities

Africa remains a net exporter of raw materials and importer of manufactured good. There is need for the continent to deploy efforts to start adding value to the minerals before export.

Diamond producing countries in Southern Africa have started to insist that beneficiation of diamonds should take place in their countries. Angola, Botswana and South Africa are leading in this process. Botswana is also positioning itself as a location of note in the manufacture of diamonds. This small step is bound to have downstream and upstream benefits for countries that adopt such strategy. If all African diamond producing countries insist on their diamonds being sorted and sold from Africa and preference given to manufactures working from Africa, this can go a long way in supporting the creation of a competitive manufacturing sector in one or more African countries.

B. Local Mineral Processing: Local Transformation and Value Adding.

Processing of minerals on the continent is a serious issue. Countries on the continent are to add value to their minerals before they are exported. This is possible considering the comparative advantage that Africa has in terms of cheap labour and abundance of resources. Processing of minerals would have multiplier effects in terms of infrastructure development: it would open-up opportunities for local companies and increase the tax base for the countries. A larger tax base with reasonable rates would offer more opportunities to fund infrastructure development.

Three modes of infrastructure development might be considered: Road network, rail systems and water and energy infrastructure. Infrastructure development and upgrading could benefit from the EU-Africa Partnership on Infrastructure. Regional infrastructure is identified by the EU- Africa Joint Strategy as a means of interconnecting Africa for contributing to economic growth, competitive trade and regional integration. This initiative would be coherent with the infrastructure development programmes of the regional economic communities (RECs) as well as the NEPAD Spatial Development Programme (SDP)..

Railways in Zambia and Tanzania

Zambia can either export its minerals through the port of Dar es Salaam in Tanzania or Durban in South Africa. The current rail capacity of Tanzania Zambia Railways Authority (TAZARA) is limited and maintenance has been poor. Compared to roads, rail system is much cheaper for exports. Zambia would benefit from a well run and efficient rail system from its copper belt to Dar es Salaam. A large share of the infrastructure spending will ensure that Tazara is able to increase its freight capacity thus reducing transport costs. But Government can do more to promote industrial development by ensuring that infrastructure development is planned in accordance with an integrated industrial and macroeconomic strategy.

Energy and water supply pose a serious challenge to a sustainable extraction of resources on the continent. Investing into energy and water supply is not just a necessity for mining but critical for the sustained mining sector. Increasingly, countries are facing shortage of energy, which can impact on the region ability to meet international demands of minerals.

C. Regional export and infrastructure Task Forces to assess infrastructure needs

There is a need for regional rules and regulations to be made simple and transparent thus promoting efficiency and alignment of capacity and economic interest throughout the entire export chain. Resource dependent countries should establish Task Forces to examine the capacity of infrastructure to support and enhance mining, transformation of raw products and collection of related revenues. The mandate of the Task Forces should be prepared in close consultation with the NEPAD Spatial Development Programme Coordination Unit to be set up under the hospices of Mr Jean Ping, President of the AU Commission.

The Task Forces could identify natural resources projects that could anchor infrastructure development.. A preliminary scoping exercise could be carried out at Regional level to check how infrastructure development plans (SADC, COMESA etc.) caters for increased mining operations, to avoid any duplication of efforts and to enable the Task Forces to concentrate on issues that are insufficiently tackled by other institutions or initiatives. Regional/ Continental

ownership will allow reaching consensus on priorities and should help address the specific needs of landlocked countries.

D. Using infrastructure around mining to foster industrial development

Increased economic activity associated with infrastructure development cascades throughout the economy from one sector to another. Simply focusing on infrastructure directly linked to extraction of minerals would produce an economy with both strengths and weaknesses. The strengths would arise out of the productive and infrastructural capacities that would have been built up around its core sectors. The weaknesses would arise from the failure to integrate it into the rest of the economy. The result would be an internationally uncompetitive consumer goods industry and limited capacity across a range of intermediate and capital goods sectors. When governments and regions are planning infrastructures, they should have an integrated macroeconomic and industrial strategy with clear plans on how infrastructure investments can increase industrial development.

Some Key Features

- Many rich resource countries on the continent are landlocked. In addition, in many countries most minerals are extracted in the mainland far away from the export ports. Addressing these specific needs and selecting priorities at regional level will be a challenge.
- Beneficiation of activities has a cost for the country (and the sector): sharing costs (and benefit) would require in depth collaboration between private sector and countries.
- There has been limited establishment of manufacturing facilities arising from the resources extracted from countries in southern Africa: identifying the constraints (including the trade constraint) is paramount to promote further development of the region.
- Regional infrastructure needs strong regional and pan-African institutions and programmes: the articulation of the various actors' roles and responsibilities need to be carefully understood. The AU needs to take a proactive and prominent role taking into account the growing presence of emerging economies actors in the field.
- The long-term implications on the debt sustainability of current deals between developing countries and emerging countries regarding exploitation of mineral resources should be assessed.
- Sector regulations are needed to improve regional infrastructure schemes: while market base solutions may be considered, the role of the countries and regional organisations in defining priority projects remains paramount.
- Financing regional infrastructure: the feasibility of establishing a regional fund for infrastructure development needs to be considered. The modalities to replenish the fund could include allocating a proportion of mineral commodities revenues earned on an annual basis. This would guarantee the availability of funds and could be seen as a form of regional redistribution of mineral commodities revenues from richly endowed countries to poorer countries in the region.

2.2. Enhancing Africa's Mining Competences.

Rationale: Policy-makers in commodity dependant countries often lack sufficient expertise and analytical skills required to elaborate sound legislative and fiscal policies as well as industrial and sector development strategies adapted to the local context, with the aim to maximise the development potential. This can notably lead to imbalances in mining contract

negotiation processes resulting in inequitable deals being struck between multinationals and governments of commodity dependant countries, to the detriment of the latest. In addition, building capacities would facilitate local recruitment by international companies thus ensuring a boost for local employment – including highly paid skilled and management positions – and development of a local expertise capable of providing quality services through subcontracting to mining companies.

2.2.1. – Developing a "world class" mining public administration

Activity: Because of the critical importance of the mining sector for the economy at large and for the public budget, commodity dependant countries need to develop "world class" public administration within relevant government departments, including public representation on the board of Mining Companies. This would require innovative approaches, including a revised system of merits and incentives, revised terms and conditions of employment to allow the recruitment of competent staff and retention of the best officials at key positions in the public service. Support would include enhancing staff working environment (vehicles, computers, exposure to international environment, training, twinning with other country administrations, on the job training etc.). The aim of this activity is to reinforce the capacity of public administrators to ensure an effective administration of the mining sector, in particular revenue management and enforcement of mining policies, laws and regulations.

A short to medium-term training program at all levels to cater for the requirements of the whole mining industry could be designed and could include tele-training, peer-learning, thematic workshops, etc.

A Peer Learning group on Natural Resources

The main objective of such learning group would be to create a critical mass of informed natural resources development practitioners from government, the legislature and other oversight bodies, private sector, academia and civil society of African natural-resources dependent countries, raise their awareness on the potential of natural resources in supporting long-term economic development and growth, provide them with tools for policy design and implementation, and enhance their knowledge and capacity on natural resources subjects, which are important to create a conducive environment for natural resources development in Africa.

Some Key Features

- Retention of public servant is a critical issue in building institutional capacities. Several suggestions (see above) can be made to ensure that qualified staff remains in their posts.
- Financing of such reinforcement should come from public budget to ensure transparency and independence of the Administration. Financing principles can be devised so as to ensure that sufficient amount of funds are allocated to allow smooth running of the Administration and financing of needed investment.
- Performance evaluation systems can be set up linking budget available for the reinforcement schemes to mineral commodities revenues collected (in percentage of total export, percentage of GDP, of countries revenues etc.)

- Developing similar systems in several countries and building network of officials through conferences, workshops etc would help foster the needed cooperation between countries to benefit from the commodities market potential.

2.2.2. - Setting-up of an African Mining Institute

Activity: Establishing an African Mining Institute, with active involvement of the private sector, as the core of a network of national centres of excellence to train selected students and upgrade government officials' skills so as to manage efficiently mineral commodity sector development and ensure the effective collection of related revenues. A multidisciplinary approach is required aimed at providing students with administrative, legal, economic, fiscal and methodological background, as well as practical knowledge of geo-science subjects, land survey, negotiation of contracts, policy making, environment management, health and safety standards etc. Availability of highly skilled officials would strengthen the ownership and the bargaining power of developing countries, as well as their capacity to formulate policies, negotiate contracts, etc. The Institute would ensure that high quality research programmes are conducted and would also develop tailor-made short-term training for parliamentarians, media and civil society actors in order to reinforce their capacity to exercise their oversight responsibilities and fulfil their watchdog mandate. Finally, building from the experience of the Institute, a dedicated department would be set up to provide Technical Assistance to countries with a view of conducting geological surveys, assisting in mining contracts negotiation and providing strategic information on mining resources and potential, market perspectives, technological monitoring etc. This would support and promote the development of information systems and stimulate information sharing.

A multidisciplinary approach

- i. Cadastral systems, information management, and infrastructure. This sub-component will focus on strengthening the capacity of Mining Ministries in terms of provision of facilities and improvement of techniques for managing information such as production, statistics, sales, taxes and other control data to improve the capacity of the sector to track and collate information on the sector's performance.
- ii. Strengthening the capacity of Governments to negotiate mining contracts, and enforce mining policies, laws and regulations. This would include specialized short-term courses on contract negotiation, drafting of mining laws and regulations.
- iii. Strengthen the capacity of the Departments of Mines in Africa to undertake technical and economic evaluation of mining projects and contractual matters.
- iv. Strengthen the capacity of governments to formulate sound policies for sustainable resource-based development and devise and sustain a balanced and viable development path over the long term, with an emphasis on the application of integrated economic, environmental and social policies to the mining sector.

Some Key Features:

- The Mining Institute should build upon the experience of existing centres [Southern and Eastern African Mineral Centre (SEAMIC)], NEPAD Capacity Building Foundation, African universities or study programmes in Africa.
- While a pan-African dimension is ideal, regional centres (West, East, Central, Austral Africa) are of more relevance in the medium-term. Those regional centres can be

networked and form the backbone of a true pan-African approach (similar curricula, exchange of students etc.)

- The Republic of Guinea Conakry can help develop a regional centre for West Africa in connection with other regional initiatives. Synergies with South Africa should be sought.
- Networking and partnership will be sought with international training bodies (from Europe, US, Asia...) thus ensuring that "state of the art" training is provided.
- The sustainability of the initiative is paramount: the Network of Institutes should be designed as a joint public-private project with regard to the design of the training, research projects and assistance programmes as well as with regard to the financing. Strong involvement of international and local mining firms will be essential. In addition, the provision of Technical Assistance services by a dedicated department, building on the expertise of the Institute research and teaching staff, should ensure a degree of financial independence.
- In parallel to the setting up a Network of capacity building institutes/centres, training scholarships should be made available to allow for new graduates to be on the job market rapidly, since to sustain the current commodity boom and demand for minerals there would be a continued need to recruit qualified staff for the mining sector.

Section 3: Addressing Corporate Responsibility

3.1. A Comprehensive Corporate Social Responsibility (CSR) Model.

Rationale: Private sector involvement is key to turn the recent positive trends in the mineral sector into sustainable and real development for producing countries. While mining companies can play a positive role for development through investment of financial resources, job creation, transfer of technologies or skills development, their activities can also have a damaging impact in terms of environment degradation, working conditions, displacement of local communities, corruption and fiscal evasion, etc. particularly in developing countries with outdated policies and weak institutions.

Activity: Developing a Comprehensive Corporate Social Responsibility (CSR) Model for Mining Companies through the consolidation of existing voluntary (CSR) initiatives and guidelines with a proven track record in terms of concrete contribution to local development (environment protection, decent working conditions, human rights, relations with local communities, local companies and manpower, training programmes, reinvestment of profits...). Definition of CSR, including the quantification of targets, should be worked out and CSR models disseminated widely. The International Council on Mining and Metals (ICMM) is a key partner in this respect and should engage all stakeholders in a structured dialogue on these issues. Equally, the EITI++ should anchor this initiative. The aim is to ensure that mining companies, local and international, are more transparent on the impact of their mining activities and their CSR initiatives are subject to public scrutiny (through independent evaluation, publication of reports...) by civil society groups and Parliamentary committees.

A. CSR Context

Today, CSR is voluntary and mostly a public relations tool for the largest companies. It is used by the private sector in order to attract attention and publicity. It is generally in the form

of donations and sponsorship of sporting events in front of the press. The cost and effects of these activities could be said to be negligible and do not necessarily add value to the communities in which they are undertaken. Local firms and smaller international companies have only limited interest in CSRs and see CSR activities as unnecessary costs reducing net profit.

However, there has been some positive examples and progress is certainly being made by companies and firms involved in mining. There is a need for stronger action to be taken to ensure that CSR initiatives are now consolidated, widely disseminated and carefully implemented.

B. Better Definition and Ensuring Compliance

Definition of CSR programmes and harmonisation of content across countries are needed. While respecting basic agreed principles, CSR schemes should be tailor-made and ultimately should meet all stakeholders' needs: shareholders, suppliers, customers, and their business counterparts. In addition, major mining firms, local or international should ensure that CSR applies to their core activities and to activities undertaken by their subcontractors. A mining sector model CSR could be a benchmark for spreading CSR among local firms, beyond the mineral commodity sectors. The multiplier effect of such approach would have tremendous effect on the well being of local populations.. Positive impacts would also be felt on the commodities sector as harmonisation and common definition would allow mining companies' CSR activities to be compared against an agreed basis. This would de facto apply not only to major international firms, but also to small and medium-scale local or international mining businesses.

Areas including labour relations, environmental issues, social issues, corporate governance, safety/health are the core dimensions of CSR initiatives. Boundaries between State and Companies respective roles should be clearly defined. Measures need to be put in place to ensure compliance by the concerned parties through regulations that could form part of investment requirements and conditions. Follow-up mechanisms would also need to be put in place in order to monitor and review performance of the various CSR schemes. To ensure implementation, CSR requirements could be built into tendering processes thus allowing clear CSR strategies to be available in advance with adequate funding foreseen for the duration of the project. Though mining projects are usually long term, exit strategies should be prepared as from the beginning of mining operations. Mining closure plans should be also a standard practice. To be effective, CSR principles need to be mainstreamed into national laws, regulations and codes.

Key dimensions of CSR Initiatives

Labour relations: these are essential as investors must to maintain decent working conditions for their workers, through engaging them in all aspects of decision making which would have direct effect on there welfare.

Environmental issues: investors should be compelled to monitor and safeguard the environment they operate in. Environmental impact assessment reports should be done and properly scrutinised before permits to start operations are given. A follow up mechanism should also be put in place to monitor compliance. Damages caused by operations should be addressed.

Corporate Governance: union representation, owning of shares in the enterprises, proper emoluments and placement of employees according to their skills, pension funds, and education should be considered.

Social issues: there is need for investors to be compelled to help uplift the well being of the communities in which they operate, investment into community services, programmes in education, support for employees' family well being etc. More efforts should be put into the fight against malaria, HIV/AIDS and other health issues.

Safety/health at places of work: measures should be put in place to ensure that workers are given appropriate protective clothing and appliances, the working environments are suitable, working hours are compliant with ILO standards, and HIV/aids programmes at the places of work are implemented.

Some Key Features

- Securing funding for CSR activities remains a challenge: introduction of CSR requirement in tendering processes is an option being explored in several countries. In addition, statutory instruments could be devised by Government to make it compulsory for companies to spend a percentage of their earnings on CSR.
- While Communities are at the centre of the CSR effort, proper community representation should be ascertained to design support activities. An all-inclusive participatory approach is required to promote development of local communities in line with broader country development programmes (poverty reduction programme etc.).
- Beyond making it compulsory for companies, rewarding complying companies, through tax incentives or other means could be introduced by local governments. CSR requirements should ultimately be integrated into local laws, regulations and codes with monitoring of implementation/compliance being the responsibility of Government (with active involvement of parliamentarians and civil society groups)
- Political will is required to implement sound CSR programmes. Ensuring that political will within the countries top administration is present is a role for civil society groups. Support should be provided to empower these groups to actively contribute to the debates at country and regional level.
- Implementing CSR is a costly exercise and can be seen as unfair competition by small-scale companies. Reconciling the need for CSR at local level and competitive exploitation of resources is a challenge which more debate and discussion within the sector should help resolve.
- International Finance Corporation (IFC) and ICMM extensive work on the issue should be taken into consideration. The ICMM should be at the forefront of implement a CSR agenda for change.

E. The Way Forward

Section 1: Addressing Dissymmetry

1.1. Auditing, reviewing and, if necessary, redressing unbalanced mining contracts, in particular against the background of booming prices.

With the prospect of long-term commodity price rises, mining presents the main comparative advantage that Africa has today in the global economy to contribute, through trade and foreign direct investment, to sustainable economic development, poverty reduction and the achievement of Millennium Development Goals (MDGs). Mining will contribute to these objectives only with fair deals and good governance at country level. In that context, a number of African countries are now renegotiating or contemplating renegotiation of their mining contracts. African countries should take advantage of high-level fora such as the upcoming United Nations (UN) High-Level meeting in New York in September 2008 and the Doha Conference on Financing for Development in December 2008 to get the support of the international community for entering into contract renegotiation when audits and reviews reveal imbalances.

What	Who	When	Comments
Securing the support of world leaders.	African ministers/leaders attending GDTF. Ministers attending the AU meeting.	Immediate October 2008	Upcoming AU Conference of the Ministers responsible for Mineral Resources Development in Addis Ababa.
Auditing, review and redressing of unbalanced mining contracts.	AU Member States and African Legal Support Facility	Immediate – On going	

1.2. Towards fair and effective taxation

Set up a mining taxation chapter in the African Tax Administration Forum. The Chapter would facilitate and promote exchange of information and best practices on taxation issues between OECD and African commodity dependant countries, particularly in relation to corruption and tax evasion. The Chapter will lead to the preparation of an African owned code of conduct on taxation and commodities on the basis of existing international taxation governance standards and best practices (e.g.: OECD work in the context of the Forum on Harmful Tax Practises and with regard to transfer pricing issues). These international taxation governance standards reflect internationally agreed standards and include transparency of tax systems, bribery of government officials, the effective exchange of information, transfer pricing and tax competition. These would then be adopted by AU countries. The aim is to promote good tax governance in commodity dependant countries by fostering transparency of the tax systems, the effective exchange of information on tax matters and fair tax competition. The objective is to move offshore financial centres into transparency and effective exchange of information

What	Who	By When	Comments
Adopt international taxation standards on governance.	AU, African leaders, OECD.	December 2009	Including transparency of tax systems, bribery of government officials, exchange of information, transfer pricing, tax competition.
Set up of a mining taxation chapter in the African Tax Administration Forum.	AU, Regional Economic Communities, African countries, OECD	Mar 2009	African countries can share best practices and work together.
Move Offshore Financial Centres into transparency and	African Leaders + OECD	Ongoing	

What	Who	By When	Comments
exchange of information.			

Section 2: Addressing Competitiveness

2.1. Regional infrastructures for mineral competitiveness and diversification

Ensure political support to the African Union infrastructure plans for Africa, to develop regional/continental infrastructures, at the occasion of the AU Conference of Ministers responsible for mineral resources development, in October 2008 in Addis Ababa. The aim would be to foster sustainable mineral resources exploitation, value-addition and trade in Africa. The infrastructure plans should be given political priority and listed infrastructure projects should be subjected to careful environmental, economic and social impact assessment thereby demonstrating the viability of the proposed projects. Ultimately bankable projects should be disseminated to a wide audience of mining sector stakeholders and development partners at the occasion of regular regional natural resource and infrastructure development conferences organised on the continent. The opportunities offered by the increasing presence of emerging economies in the mineral commodities business should be discussed with relevant partners.

Finally, resource dependent countries should establish Task Forces whose objective would be to examine the capacity of infrastructure to support and enhance mining, transformation of raw products and collection of related revenues. The overall aim of these propositions is to reduce transport cost, increase value added production in developing countries and revenues from exploitation/transformation of mineral resources within the constraints of sustainability

What	Who	By When	Comments
Ensure discussions at political level on priority infrastructure projects.	AU	October 2008	A. Pedro to ensure follow up at the upcoming AU Conference of the Ministers responsible for Mineral Resources Development in Addis Ababa.
Consolidation of current infrastructure initiatives into one NEPAD programme.	AU + Regional Economic Communities	Dec 2009	Set up of Task Force(s) (link with the SDP Coordination Unit to be set up by Chairperson of AU Commission)
Dialogue with Emerging Economies on infrastructure potentials at regional/African level	AU + Regional Economic Communities	Dec 2008	
Explore beneficiation/local transformation potential in specific countries.	AU Countries, AU, Dev partners	Dec 2008	
Organise a Natural Resource & Infrastructure Investment Conference.	ADB	November 2009	Through Aid for Trade Conferences. Conference with Broad agenda including infrastructure at regional level. Liaising with NEPAD Business Foundation.

2.2 – Enhancing Africa's Mining Competences

A – Developing a "world class" mining public administration

Because of the critical importance of the mining sector for the economy at large and for the public budget, commodity dependant countries need to develop "world class" public administration within relevant government departments, including public representation on the board of Mining Companies. This would require innovative approaches, including a revised system of merits and incentives, revised terms and conditions of employment to allow the recruitment of competent staff and retention of the best officials at key positions in the public service. Support would include enhancing staff working environment (vehicles, computers, exposure to international environment, training, twinning with other country administrations, on the job training etc.). The aim of this activity is to reinforce the capacity of public administrators to ensure an effective administration of the mining sector, in particular revenue management and enforcement of mining policies, laws and regulations.

What	Who	By When	Comments
Retaining officials in Developing Countries Ministries: Develop a "world class" mining civil service	Countries, World Bank.	March 2009	Through existing reviews of Public Sector reform programmes. Pooling of best practices.
Make short-term scholarships available to African mining officials	Private Sector, OECD	Immediate.	

B – Setting-up of an African Mining Institute

Establishing an African Mining Institute, with active involvement of the private sector, as the core of a network of national centres of excellence to train selected students and upgrade government officials' skills so as to manage efficiently mineral commodity sector development and ensure the effective collection of related revenues. A multidisciplinary approach is required aimed at providing students with administrative, legal, economic, fiscal and methodological background, as well as practical knowledge of geo-science subjects, land survey, negotiation of contracts, policy making, environment management, health and safety standards etc. Availability of highly skilled officials would strengthen the ownership and the bargaining power of developing countries, as well as their capacity to formulate policies, negotiate contracts, etc. The Institute would ensure that high quality research programmes are conducted and would also develop tailor-made short-term training for parliamentarians, media and civil society actors in order to reinforce their capacity to exercise their oversight responsibilities and fulfil their watchdog mandate. Finally, building from the experience of the Institute, a dedicated department would be set up to provide Technical Assistance to countries with a view of conducting geological surveys, assisting in mining contracts negotiation and providing strategic information on mining resources and potential, market perspectives, technological monitoring etc. This would support and promote the development of information systems and stimulate information sharing.

What	Who	By When	Comments
Ensure discussions at AU political level	AU	Oct 2008	A. Pedro to ensure follow up at the upcoming AU Conference of the Ministers responsible for Mineral Resources Development in Addis Ababa.
Mapping of existing capacity building initiatives in Africa	ADB, EC	Dec 2008	H. Minnaar (AFDB), J. Pons (EC) to finalise mapping (based on Africa Capacity Building Foundation and NEPAD programme for centres of excellence).
Identification of supportive countrie(s).	Guinea Conakry volunteered to be actively involved	Dec 2008	I. Soumah to liaise with Guinea Ministry of Mines
Consultant recruited to design ToR for pre-feasibility study + costing of initiative	ADB, EC, WB, EITI	Dec 2008	H. Minnaar to enquire about possible financial support for appointing consulting.

Section 3: Addressing Corporate Responsibility

3.1. A Comprehensive Corporate Social Responsibility (CSR) Model.

Developing a Comprehensive Corporate Social Responsibility (CSR) Model for Mining Companies through the consolidation of existing voluntary (CSR) initiatives and guidelines with a proven track record in terms of concrete contribution to local development (environment protection, decent working conditions, human rights, relations with local communities, local companies and manpower, training programmes, reinvestment of profits...). Definition of CSR, including the quantification of targets, should be worked out and CSR models disseminated widely. The International Council on Mining and Metals (ICMM) is a key partner in this respect and should engage all stakeholders in a structured dialogue on these issues. Equally, the EITI++ should anchor this initiative. The aim is to ensure that mining companies, local and international, are more transparent on the impact of their mining activities and their CSR initiatives are subject to public scrutiny (through independent evaluation, publication of reports...) by civil society groups and Parliamentary committees.

What	Who	By When	Content
Set of a forum for a structured dialogue on CSR	ICMM	March 2009	Aim is for private firms to meet the highest CSR standards, establishing quantifiable targets and disseminating standards. These include modalities to ensure compliance. Bring emerging economies partners on board.
Mainstreaming of CSR into national policies, laws and regulations aiming at a level playing fields.	AU Member States	2009-2010	

Annex :

China's Role in Mineral Commodities in Africa: Options for Development

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Paper written for the GTD Forum Working Group no. 7
'Commodities, Governance and Poverty Reduction'

5 September 2008
Not for citation without author's permission

Africa's natural bounty is attracting public and private investment on a scale unseen for decades. The result is that the African continent has been experiencing a sustained growth rate of 6% over the last few years and, in selected countries, a surge in foreign direct investment into neglected areas like hard and soft infrastructure as well as the opening up of new sectors of economic activity. The prospects for African development appear brighter than at any other time since independence.

Leading the move into Africa is China, with a seemingly insatiable appetite for energy and other resources to fuel its booming economy. Beijing's approach to capturing new markets and accessing resources, predicated on a 'no conditions' policy coupled to deep financial pockets, has won it plaudits in African capitals and criticism amongst Africa's traditional European and American partners. Behind the crude media characterisations of China's single-minded resource diplomacy is a more nuanced and considered set of evolving policies towards the continent that reflects the variety of state and private actors from China as well as their growing experience in Africa.

This paper seeks to provide insight into China's role in the mineral commodities sector in Africa and assess the impact that China is having on African development prospects by examining the following: China's search for resource security; how China operationalises its resource diplomacy; where Chinese investments are represented in Africa; what impact they have had on African development; and, finally, the policy options for Africa.

I Chinese Engagement in Africa and the Search for Resource Security

China's three decades of unbroken growth, transforming it from an economic backwater to the world's third largest economy, has fuelled an ever-expanding demand for energy and new markets.ⁱ The promulgation of the government's 'going out' strategy, whereby ultimately over a hundred restructured state-owned enterprises have been given the legal and administrative means, preferential access to finance, and diplomatic support necessary to break into markets outside of China, has been the main policy response to this need. Given the financial resources of what by 2006 had become the world's largest holder of capital with over US\$1 trillion in foreign reserves and applying these to the problem of carving out a position in the energy and strategic minerals markets was, in retrospect, fairly straight forward in a capital-starved African environment. Concurrently, the willingness of the Chinese government to provide a whole package of inducements alongside any leasing or supply agreements, aimed at elite defined needs ranging from presidential palaces to large-scale infrastructure projects, has proved to be crucial to securing deals in Africa.ⁱⁱ And finally, underlying this approach is a highly publicised provision whereby the Chinese government forswears any interest in the domestic affairs of African governments, in direct contrast to the European Union (EU) or the United States (US), both of whom have selectively applied conditions to their development assistance programmes and even some investments. The success of Chinese resource diplomacy in Africa can be measured in terms of its presence across the continent in most of all the major resource economies there: it has gone from a status of no position in the resource market in 1995 to a standing as a significant player today with oil leases from Angola to Sudan and mining concessions from the Democratic Republic of the Congo (DRC) to South Africa. Its two way trade with Africa, set at over US\$72 billion in 2007, is overwhelmingly based on the extraction of oil, strategic minerals and a few raw materials in exchange for manufactured goods.ⁱⁱⁱ

The Chinese search for resource security is a major focus of its foreign policy and in that regard Africa has assumed a critical role in achieving that objective. The National Development and Reform Commission, a key policy-making body within the State Council (China's highest administrative body), plays a central role in defining the long term aims of the Chinese state. The China Export Import Bank (China ExIm), a state run financial institution founded in 1994, is directly under the State Council and has been the leading financial institution involved in providing concessional loans for projects in Africa. In 2006, for instance, the China ExIm Bank provided an estimated US\$12-15 bn in concessional loans to Africa, more than the World Bank. More recently, the China Development Bank (CDB) has been authorised by the State Council to handle the US\$5 bn China Africa Development Fund launched at the Forum for China Africa Co-operation in November 2006. A move into 'soft

commodities' in Africa, reflecting the National Development and Reform Commission's recognition of China's growing food deficit in 2004, appears to be the next focus of China's Africa strategy.

As a strategy for engagement and carving out access in what the Chinese liked to characterise as Africa's 'closed market', it is clear that the resource diplomacy pursued since 1995 has been a resounding success. However, despite the visible success of China's resource diplomacy in gaining access to African energy and mineral markets in a relatively short period of time, it has become evident that operating in the African environment coupled to the changing demands of consolidating its established position in certain markets has posed new challenges for Beijing.

II Operationalising China's Resource Diplomacy towards Africa

Chinese resource diplomacy towards Africa is intimately linked to its development co-operation programme. Though private sector plays a small role in China's drive into Africa primarily through the sub-contracting firms involved in the big infrastructure construction projects, at this stage all major players have strong ties to the state. This is either formally as state-owned enterprises, such as the China Non-Ferrous Metal Mining Group, or more informally through Chinese government financing and residual networks. This is reflected in the state's involvement in everything from the provision for capital need to development, for instance, mineral concessions to internally bidding process organised by MOFCOM for a particular infrastructure project that accompanies a particular deal between China and an African host government. Private actors and private capital are at this point at the margins of the resource sector, though some, like South China Mining and Feza Mining based in the DRC's Katanga province, are beginning to make their presence felt.^{iv}

Starting in 1956, the Chinese government initiated a modest development co-operation scheme towards African countries whose ideological basis was replaced by a commercial rationale which emphasized profit from 1982 onwards.^v The notion that developing countries faced a similar set of challenges -- be they developmental or nation-building -- that distinguished their interests from the industrialised countries in the West, is a fundamental feature of Chinese development co-operation. What some critics characterise as explicitly political aspects of Chinese development co-operation -- namely the idea of *solidarity, sovereignty and the non-interference* as well as *mutual benefit* as the basis for co-operation -- reflect these concerns. It is important to note that mutual benefit (recently recast as 'win-win'), which is often passed over as merely rhetoric, has the effect of identifying areas of common interest, where each participant is able to derive some form of benefit from a particular project, and use that as a platform for building further co-operation. This deliberate forging of interest-based links between China and the host country has the potential to create sustainable forms of engagement between the participants to these projects.^{vi}

The contemporary structure of China's development co-operation with Africa revolves around three basic instruments: grants, interest free loans and concessional loans. Grants are aimed at social projects, technical assistance, training and disaster relief. The primary modality of this form of assistance is decidedly not cash but rather grants in kind with housing, clinics and schools being the favoured application of this support. Interest free loans are provided towards larger infrastructure such as roads, railroads and dams. According to Davis, '(d)ebts derived from these loans -- and some debts from concessional loans -- have been subject to debt cancellations, in effect turning loans into grants.'^{vii} Finally, concessional loans (which the press sometimes confuses with 'preferential loans' which are provided at near market rates by Chinese institutions) were low interest loans provided over a period as long as 20 years at below markets rates subsidised by the government.

The key institutions involved in Chinese development co-operation reflect centrality of mutual benefit to the contemporary formulation of foreign assistance policy.^{viii} The Department of Foreign Aid at the Ministry of Co-operation's (MOFCOM) manages the bulk of the aid flows to Africa. It is charged with formulating, implementing policies and monitoring aid -- be it in the form of grants or interest-free loans. Regional units within the MOFCOM, namely the West Asia and African Affairs division, play an advisory role in this process. The Economic and Commercial Counsellor is MOFCOM's

representative in a given country and, as such, is in charge of managing bilateral aid. As noted above, the China Export Import Bank and China Development Bank are currently the leading financiers of Chinese investment into the resource sector. Both banks originally only lent to state owned enterprises but recently China ExIm Bank has broadened its profile to include private firms. This situation appears to be supplemented by the role of the Industrial and Commercial Bank of China, traditionally China's leading financier of state owned enterprises, which has taken a 20% stake in Africa's largest bank, Standard Bank in late 2007 and have earmarked US\$850 mn towards African investments.^{ix} The Ministry of Foreign Affairs (MOFA) plays a part in shaping Africa policy, primarily through the work of its Department for African Affairs which advises on matters like political risk, while the Ministry of Finance allocates the annual budget for economic co-operation and aid that ends up as bilateral aid dispersed by MOFCOM, funds aimed at multilateral aid are dispersed directly from it to any of the international financial institutions including regional banks like the African Development Bank.^x

The bulk of significant Chinese investment in the African resource sector is built around a combination of large concessional loans, export insurance and related measures aimed encouraging Chinese resource firms to invest in particular resources while concurrently providing incentives for Chinese construction firms capable of carrying out infrastructure projects that feature in the framework agreements with African governments. African governments which lack the credit-worthiness are approached on the basis of using long term supply agreements as security against the loan. These loans are provided through the Minister of Co-operation primarily to state owned enterprises or privatised companies like Huawei deemed by Beijing to be 'corporate champions'.

There are certain elements of the Chinese economic co-operation which are worth highlighting as they either differ from contemporary Western donor practice or, rhetorical assertions to the contrary, replicate aspects of it. Financing in the form of cash gifts, much less budget support, are not favoured by Beijing and rarely utilised. Chinese scholars have suggested that the preference for projects in kind reflects in part a desire to manage closely funds expended by them and ensure that they are not wasted by recipients.^{xi} Of equal importance is the fact that the application of 'mutual benefit' has made the use of Chinese factors of production – management, labour, equipment and supplies – a feature of any prospective project. This approach serves to mitigate risk for the Chinese by limiting their exposure to the uncertainties of operating in the unknown African environment. Moreover, this stands in contrast with the OECD-DAC donors, who have committed themselves to eliminating this sort of 'tied aid' (as the use of donor materials and manpower are characterised), though only two donors have in fact fully implemented this. The Chinese also insist that their project personnel conform to local standards and that they do not receive 'special treatment', which effectively means that their wages and living arrangements are equivalent to those found in the host country.

III Chinese Investments in the Resource Sector in Africa

Though China now has a major presence in the African resource sector, its investments are unevenly distributed across the continent. The key sectors of Chinese trade and investment with Africa reflect the dominance of commodities driving Beijing's interests. Leading these is oil with 80% of the total export value in China-Africa trade, followed by iron ore (5%), timber (5%), manganese, cobalt, copper and chromium (all 0.5-1%).^{xii} While China's import strategy is necessarily global, such that Latin America provides more copper and iron or exports to China than Africa, in certain cases China has become dependent on Africa mineral exports. These include manganese from Gabon, South Africa, Ghana and Zambia, which provides 40% of Chinese import needs and cobalt from the DRC and other African sources, which currently supplies 80% of China's needs.^{xiii}

As noted above, Chinese investment into the mineral commodities sector includes joint ventures, up until till now the preferred approach, but more recently the global trend has been towards mergers and acquisitions by cash-rich Chinese firms. In the case of Africa, according to a report by McKinsey, between 1995 and 2007 China concluded 2 major mergers and acquisition deals in the mining sector in Africa worth a combined US\$3bn and 5 further mergers and acquisition deals in oil and gas sectors valued at US\$3.9bn, bringing the total M&A form of investment into the African resource sector to

US\$6.9bn.^{xiv} This was lower than combined M&A investments into these sectors in Asia (US\$15.3) during the same period but slightly higher when compared the next largest recipient, Latin America (US\$6bn).

Moreover, with the energy shortage looming in the early 1990s, Beijing began its initial outreach by focusing on procuring access to petroleum in Africa. This has meant that the main recipients of China's comprehensive packages linking aid and investment to long term supply contracts to date have been oil rich countries, namely Angola, Sudan and more recently Nigeria; China only became involved with minerals producers like Gabon, Mauritania and South Africa at a later stage. However, the announcement of a US\$9bn package for the DRC in late 2007, which was aimed at funding infrastructure development and rehabilitation in exchange for mining concessions, is the largest application of this approach to a non-oil producing country.^{xv} When coupled to the existing deals such as the Belinga project in Gabon (see below) and ongoing discussions between Chinese and African officials, it seems clear that mineral commodities are set to receive further investment.

The Chinese experience in Gabon, one of the largest Chinese investment commitments to date, highlights both the appeal of China's comprehensive package of financial and diplomatic incentives in exchange for long term supply contract with African governments and the complexities of realising these deals. In Gabon, a modest oil producer with significant under-exploited deposits of iron ore and manganese, the Chinese were actively encouraged by the Gabonese government to put in a bid for the Belinga iron ore project, which had been contracted out to the Brazilian firm CVRD (now Vale).^{xvi} Following the visit of Hu Jintao, an all-Chinese bid led by China National Machinery and Equipment Corporation (CMEC) won exclusive rights to Belinga and its outputs in exchange for a US\$3bn investment aimed at developing Gabon's infrastructure underwritten by the China ExIm Bank. The project includes the construction of a brand new 560km railway line linking Belinga to the coast (CVRD offered to build only a 200km stretch of the railway), a deepwater mining harbour for transportation located north of Libreville, a hydroelectric dam in the Ivindo river and the iron mining factory.^{xvii} For the Gabonese government, which generated only 2% of GDP from the mining sector as recently as 2005 and had not invested in infrastructure on this scale, it would be opening up new revenue streams as well as expanding local employment possibilities in advance of elections. At the same time, realising the deal proved more difficult as a coalition of local and international NGOs, along with the World Bank, launched protests over the secretive nature of the contract, the concern over the Chinese 'control' over national resources and the building of a dam in a national park. The result was that the Chinese were forced to renegotiate the terms of the agreement within a year of signing the original contract so that the government's stake in the company created to run the project, Compagnie Minière du Belinga, was raised to 25%. Delays in initiating the work, partly a product of the structure of the consortium itself, have meant the project has yet to produce results.

Because of the structure of Chinese development co-operation and the nature of African state control over concessions, the principle from of engagement by China has been through bilateral framework agreements. This position contrasts with both longstanding African aspirations for enhancing regional economic integration and even Chinese rhetoric in support of that goal. This bilateral focus pursued by China in securing commodities has been the subject of criticism by some Africans based at the fact that it ignores African aspirations encoded in the NEPAD process to enhance development through the promotion of regional integration. Since the FOCAC III meeting in Beijing in 2006, there has been a rhetorical commitment made by the Chinese towards supporting trans-regional infrastructure projects. Indeed, the China Development Bank, as the administrator of the China Africa Development Fund (which was launched at FOCAC III), has indicated that it would be willing to support infrastructure projects in the SADC region.^{xviii} Perhaps as an indication of greater willingness to expand and open its outreach in Africa, Chinese construction firms which had originally relied upon Chinese government financed projects have branched out and are proving to be highly competitive bidders for publicly tendered infrastructure projects, including trans-regional ones, winning between 10-20% of all African infrastructure projects by the International Development Association.^{xix}

IV Assessing the Development Impact of Chinese Investments

The development impact of Chinese investments in commodities in Africa has been generally quite positive, though not without controversy.

On the positive side of the ledger, China has made a substantial contribution to provisions for 'hard infrastructure' such as roads, railroads and hydropower. As noted in a recent World Bank study, the investment backlog in infrastructure is set at US\$22bn annually and Chinese investment, peaking in 2006 at US\$7bn, is making a major contribution to addressing this need.^{xx} China is financing 10 major hydropower projects with a combined capacity of 6000 megawatts that will increase sub-Saharan Africa's total hydropower generation by 30% while its firms are rehabilitating 1350 kilometers of existing railroads and building 1600 kilometers of new railroads, a significant addition to the 50,000 kilometers of railroads in Africa.^{xxi} These activities tailored nicely to the over-capacity in China's domestic construction industry, which had like other sectors, been encouraged by Beijing to 'go global' and is a fine illustration of the principle of 'mutual benefit' in developing country co-operation. Chinese project finance, which has in some instances ignored the conventional assessments of risk produced by Western banks, has set off a process of reviewing industry standard risk metrics and, concurrently, the investment potential in Africa.^{xxii}

Problematic features of the relationship are the wilful ignoring of some of the features of financing which have been designed to improve African governance (so-called 'soft infrastructure'), the accompanying lack of transparency in financial support (primarily concessional loans) for investment projects and the conduct of some Chinese companies (state and non-state owned) in violating labour and environmental standards in host countries. In the mining sector specifically, this has resulted in practices such as the illegal use of child labour and sub-standard health and safety conditions in Katanga.^{xxiii} Indeed, 600 Chinese nationals involved in mining have been expelled by the government for violating basic labour and environmental standards. Evidence suggests that new private entrants into the mineral commodities sector are more culpable in this regard than Chinese state owned enterprises. In any case, Beijing has committed itself to introduce CRS measures into business practices amongst Chinese SOEs. Finally, there are concerns as to the structure of loans being provided by the Chinese could potentially put African countries into a new cycle of debt, something that is especially disturbing given the hard-fought concessions necessary to win debt-forgiveness in the last decade.

It should be noted that while poverty reduction is not being addressed directly as such in Chinese investments into mineral commodities but, in so far as provisions for hard infrastructure release untapped or underexploited resources, the Chinese are making an important contribution towards alleviating it nonetheless. The elimination of bottlenecks by providing new transport, port facilities and increasing power generation are all contributing to laying the foundation for Africa's economic take-off.

V Policy Options for African Development

The Chinese role in mineral commodities in Africa is fast changing the landscape of investment in this sector, most decidedly for the positive. Though China has introduced some features in its pursuit of African resources that are contributing to problems through poor practices of its firms, in most respects its comprehensive approach to resource acquisition brings with it tangible development gains in the form of new infrastructure. Moreover, the so-called 'China problem' in resources can be more accurately be folded into a larger set of concerns around the shortcomings of African governance in managing foreign investors into the mineral commodities sector, rather than any particular Chinese strain of malfeasance. In light of this, the following policy recommendations are proposed as potential avenues of action:

1. Support African government efforts to improve their revenue collection through monitoring and auditing financial accounts of foreign multinationals operating in their countries. This in turn requires fuller disclosure by MNCs of their income losses, profits and remittances to government.

2. Encourage Chinese companies to abide by established standards of corporate governance used by EU multinational corporations such as OECD guidelines on MNCs, the UN's Global Compact etc. Hold discussions with Chinese financial institutions (China ExIm, China Development Bank etc) on responsible lending given that their loans are effectively commodity backed. Good corporate citizenship is not just a product of conventional 'social offsets' such as stadiums and health clinics but first and foremost involves fulfilling their corporate obligations by providing a fair portion of revenue to host governments through taxation, royalties and the like. Development remains the responsibility of governments, not multinational corporations, and this revenue is vital to achieving any such aims.
3. Provide institutional capacity building to bolster African national regulatory bodies to enable them to fulfil their statutory role, that is to say review and comment on socio-environmental impact of potential investment projects, investigation of purported violations of the national law and following up any identified violations through prescribed legal means and enforcement. Constitutional safeguards alone cannot always guarantee that national regulatory bodies act in the interests of local communities or in support of broader pro-poor aims: independence of action comes with stable, functioning and trusted institutions.
4. Recognise that the apparent division in emphasis between EU donors, which tends to focus on 'soft infrastructure' in its development programming, and China, which focuses on 'hard infrastructure' in its development programming, holds considerable collaborative potential. Exploring ways of fostering greater co-operation which takes advantage of the complementarities in these two approaches can produce a win-win scenario for EU, China and – most importantly – Africa.

Appendix

Table 1: Projections for China's Commodity Import Demand

Commodity	Unit	Annual Demand		2006-2020, Percentage Change	
		Latest	2020	Total	Average p.a
Iron Ore	m tons	148	710	380	10
Oil	m tons	91	1860	1940	20
Soy	m tons	26	50	80	4
Coal	m tons	11	810	7400	20
Copper	m tons	3	20	600	10
Manganese	m tons	3	13	360	10
Wood	m cub	34	150	330	10
Source: Deutsche Bank Research					

Endnotes

1. See, for instance, Erica Downs, 'The Energy Security Debate', *China Quarterly*, No. 177, March 2004, pp. 21-41; Ricardo Soares de Oliveira, 'Making Sense of Chinese Oil Investment in Africa' in Chris Alden, Dan Large, Ricardo Soares de Oliveira, eds., *China Returns to Africa: an emerging power and a continent embrace* (London: Hurst 2008), forthcoming.
2. For further details on this, see Chris Alden, *China in Africa* (London: Zed 2007), pp. 11-36.
3. Nicholas Pinaud, et al, 'The Rise of China and India: what's in it for Africa?', Paris: OECD 2006.
4. 'Young Workers, Deadly Mines', *Bloomberg Markets* 17:9 September 2008, pp. 89-90
5. The shift from the ideological basis for development assistance to the mutual benefit framework marked a major turning point away from any ideological considerations as a basis for co-operation. In December 1982, China's Premier Zhao Ziyang embarked on a tour of eleven African states with the aim of explaining the changes in foreign aid policy to African governments. In keeping with this, the 'Four Principles on Sino-African Economic and Technical Co-operation' declared that China's foreign assistance would in future be provided on a mutual benefit basis alone, no longer responding to the ideological shibboleths of the past, but would nonetheless continue to respect principles of sovereignty and non-interference; it would be oriented towards achieving practical results; technical co-operation will conform to the needs and specificities of the host country; and the aim of mutual benefit and common development would be to enhance self-reliance. For an overview, see Deborah Brautigam, *Chinese Aid and African Development: exporting the green revolution* (Basingstoke: Macmillan 1998).
6. Carol Lancaster, *Aid to Africa: so much to do so little done* (Chicago: The Century Foundation 1999), pp.
7. Penny Davies, *China and the End of Poverty in Africa – towards mutual benefit?* (Sundbyberg: Diaknia/EuroDad 2007), pg. 52-53.
8. This section relies upon the work of Penny Davies.
9. Riaan Meyer and Chris Alden, 'Banking on Africa: Chinese financial institutions and Africa' Policy Report No. 7, China in Africa Project (Braamfontein: South African Institute of International Affairs 2008 – forthcoming).
10. Notably, there are concerns in MOFA that the commercial rationale behind the MOFCOM approach is not always fully attuned to the 'win-win' nature of economic co-operation. Anonymous interview, Chinese MOFA official May 2008.
11. According to Xu Weizhong, Chinese Institute for Contemporary International Relations, Johannesburg, 2 June 2008
12. PPIAF/World Bank, 'Building Bridges: China's growing role as infrastructure financier for Sub-Saharan Africa', Washington DC, July 2008, p. 29.
13. PPIAF/World Bank, 'Building Bridges: China's growing role as infrastructure financier for Sub-Saharan Africa', Washington DC, July 2008, p 29; p. 36
14. Joe Ngai and Yi Wang, 'Global Investment Strategies for China's Financial Institutions', *The McKinsey Quarterly*, June 2008, p. 77.
15. Gu Yang, China Development Bank, presentation at South Africa-China Conference, South African Institute of International Affairs/Chinese Embassy, Pretoria, 21-22 May 2008.
16. Ana Cristina Alves, 'China and Gabon', Policy Report No. 5, China in Africa Project (Braamfontein: South African Institute of International Affairs 2008), pp. 4-5.
17. Ana Cristina Alves, 'China and Gabon', Policy Report No. 5, China in Africa Project (Braamfontein: South African Institute of International Affairs 2008), p. 4-5.
18. Gu Yang, China Development Bank, presentation at South Africa-China Conference, South African Institute of International Affairs/Chinese Embassy, Pretoria, 21-22 May 2008.
19. PPIAF/World Bank, 'Building Bridges: China's growing role as infrastructure financier for Sub-Saharan Africa', Washington DC, July 2008, p. 27.
20. PPIAF/World Bank, 'Building Bridges: China's growing role as infrastructure financier for Sub-Saharan Africa', Washington DC, July 2008, p. 26
21. Vivien Foster et al, 'Building Bridges: China's growing role as infrastructure financier for sub-Saharan Africa', Washington DC: World Bank/PPIAF, July 2008, p.
22. Anonymous interview with banking official September 2008.
23. 'Young Workers, Deadly Mines', *Bloomberg Markets* 17:9 September 2008, pp. 89-90.

ⁱ See, for instance, Erica Downs, 'The Energy Security Debate', *China Quarterly*, No. 177, March 2004, pp. 21-41; Ricardo Soares de Oliveira, 'Making Sense of Chinese Oil Investment in Africa' in Chris Alden, Dan Large, Ricardo Soares de Oliveira, eds., *China Returns to Africa: an emerging power and a continent embrace* (London: Hurst 2008), forthcoming.

ⁱⁱ For further details on this, see Chris Alden, *China in Africa* (London: Zed 2007), pp. 11-36.

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- ⁱⁱⁱ Nicholas Pinaud, et al, 'The Rise of China and India: what's in it for Africa?', Paris: OECD 2006.
- ^{iv} 'Young Workers, Deadly Mines', *Bloomberg Markets* 17:9 September 2008, pp. 89-90
- ^v The shift from the ideological basis for development assistance to the mutual benefit framework marked a major turning point away from any ideological considerations as a basis for co-operation. In December 1982, China's Premier Zhao Ziyang embarked on a tour of eleven African states with the aim of explaining the changes in foreign aid policy to African governments. In keeping with this, the 'Four Principles on Sino-African Economic and Technical Co-operation' declared that China's foreign assistance would in future be provided on a mutual benefit basis alone, no longer responding to the ideological shibboleths of the past, but would nonetheless continue to respect principles of sovereignty and non-interference; it would be oriented towards achieving practical results; technical co-operation will conform to the needs and specificities of the host country; and the aim of mutual benefit and common development would be to enhance self-reliance. For an overview, see Deborah Brautigam, *Chinese Aid and African Development: exporting the green revolution* (Basingstoke: Macmillan 1998).
- ^{vi} Carol Lancaster, *Aid to Africa: so much to do so little done* (Chicago: The Century Foundation 1999), pp.
- ^{vii} Penny Davies, *China and the End of Poverty in Africa – towards mutual benefit?* (Sundbyberg: Diaknia/EuroDad 2007), pg. 52-53.
- ^{viii} This section relies upon the work of Penny Davies.
- ^{ix} Riaan Meyer and Chris Alden, 'Banking on Africa: Chinese financial institutions and Africa' Policy Report No. 7, China in Africa Project (Braamfontein: South African Institute of International Affairs 2008 – forthcoming).
- ^x Notably, there are concerns in MOFA that the commercial rationale behind the MOFCOM approach is not always fully attuned to the 'win-win' nature of economic co-operation. Anonymous interview, Chinese MOFA official May 2008.
- ^{xi} According to Xu Weizhong, Chinese Institute for Contemporary International Relations, Johannesburg, 2 June 2008
- ^{xii} PPIAF/World Bank, 'Building Bridges: China's growing role as infrastructure financier for Sub-Saharan Africa', Washington DC, July 2008, p. 29.
- ^{xiii} PPIAF/World Bank, 'Building Bridges: China's growing role as infrastructure financier for Sub-Saharan Africa', Washington DC, July 2008, p 29; p. 36
- ^{xiv} Joe Ngai and Yi Wang, 'Global Investment Strategies for China's Financial Institutions', *The McKinsey Quarterly*, June 2008, p. 77.
- ^{xv} Gu Yang, China Development Bank, presentation at South Africa-China Conference, South African Institute of International Affairs/Chinese Embassy, Pretoria, 21-22 May 2008.
- ^{xvi} Ana Cristina Alves, 'China and Gabon', Policy Report No. 5, China in Africa Project (Braamfontein: South African Institute of International Affairs 2008), pp. 4-5.
- ^{xvii} Ana Cristina Alves, 'China and Gabon', Policy Report No. 5, China in Africa Project (Braamfontein: South African Institute of International Affairs 2008), p. 4-5.
- ^{xviii} Gu Yang, China Development Bank, presentation at South Africa-China Conference, South African Institute of International Affairs/Chinese Embassy, Pretoria, 21-22 May 2008.
- ^{xix} PPIAF/World Bank, 'Building Bridges: China's growing role as infrastructure financier for Sub-Saharan Africa', Washington DC, July 2008, p. 27.
- ^{xx} PPIAF/World Bank, 'Building Bridges: China's growing role as infrastructure financier for Sub-Saharan Africa', Washington DC, July 2008, p. 26
- ^{xxi} Vivien Foster et al, 'Building Bridges: China's growing role as infrastructure financier for sub-Saharan Africa', Washington DC: World Bank/PPIAF, July 2008, p.
- ^{xxii} Anonymous interview with banking official September 2008.
- ^{xxiii} 'Young Workers, Deadly Mines', *Bloomberg Markets* 17:9 September 2008, pp. 89-90.