

EXTRACTIVE FUTURES DIALOGUE SERIES

REGIONAL WORKSHOP ON EXTRACTIVES REVENUE TRANSPARENCY



13th NOVEMBER 2014, PRETORIA

Introduction

On 13 November 2014, the Southern Africa Liaison Office (SALO) held a regional multi-stakeholder workshop on Extractives Revenue Transparency as part of its *Extractive Futures Dialogue Series*. The series aims to enhance the sustainability and development contribution of resource extraction in South Africa and the region by facilitating multi-stakeholder dialogue and knowledge and experience sharing on international best practices in extractives transparency.

Summary of Discussion

Opening Remarks: Dr Showers Mawowa, SALO

Dr Mawowa stated that there has been a momentum in Africa towards continental and regional initiatives in the extractives sector; in 2000 the Southern Africa Development Community (SADC) developed the SADC Protocol on mining, followed by attempts to harmonise policies at a regional SADC level to improve the developmental benefits from the sector and to ensure poverty reduction in the region.

He observed that as far as African Governments are concerned, there are three challenges worth pointing out:

- Tackling the macro-economic consequences of natural resources
- Ensuring transparency in the awarding of mining contracts
- Building capacity to negotiate better fiscal terms for mining contracts

He mentioned that there is a need to align one's investment priorities with host countries' development priorities, and that Governments, Industry, Labour and CSOs have to work together to stem illicit financial flows and ensure honesty.

He concluded by stating that the issues of conflict and development in Africa cannot be addressed without addressing the issue of proper governance of natural resources, and that therefore the following questions need to be explored as experiences are shared:

- What are the common challenges and successes in extractives governance in the region?
- Can we share experiences and lessons on extractives revenue transparency?
- How can we continue engaging on these issues?

Introductory Remarks: Mr Ian Stewart, British High Commission

Mr Stewart explained that the Prosperity Team, based in the British High Commission, supports capacity building projects aimed at strengthening institutions and improving the investment environment, and that the Extractives Industry is a priority area within that. They currently have a project aimed at convening business, civil society experts and government players to talk about issues, challenges and opportunities within the extractives sector and to ultimately build a culture of communication between these key players.

He shared his hope that participants would be able to identify common challenges in Extractive Governance within the Region, share experiences on Extractive Revenue Transparency and continue engagement in Extractive Transparency in South Africa. He concluded by stating that the UK and other partners are involved in the Extractive Industry's Transparency Initiative (EITI), which is a voluntary multi-stakeholder initiative that provides a standard for companies to publish what they pay in the oil, gas and extractives



sectors and also for governments to disclose what they receive from these companies, and that the UK is signing up to the EITI process itself.

FIRST PANEL: SOUTH AFRICA AND ZAMBIA DISCUSSION

Mr Makgotha Machaka: Director, Mineral Economics, Department of Mineral Resources, South Africa

Mr Machaka presented on behalf of the Minister of Mineral Resources of the Republic of South Africa, Advocate Ngoako Ramatlhodi. He stated that Africa has developed the African Mining Vision (AMV) which is aimed at optimising value creation through the development of mineral resources in terms of:

- Fiscal flows
- Foreign exchange
- Upstream and downstream opportunities
- Employment creation and poverty reduction
- Technology acquisition
- Development of skills creation
- Infrastructure
- Industrial development



Mr Machaka addressed the question of how can Africa benefit from its mineral wealth, and pointed out the following as important.

- Africa must quantify its mineral resources; the problem here, however is that the majority of geological survey data available is composite- making the use of it a problem.
- It is imperative that Africa takes ownership of the resources development process
- The focus should be on ensuring that there is development of sustainable artisanal and small-scale mining
- Strengthening of mineral governance systems in key
- Strengthening of research and development capacity on the continent is needed
- There is need to promote value addition and economic linkages.

He indicated that the SADC Mineral Processing sub-Committee has been established to implement SADC Mining and Industry programmes related to the regional mining value chain. He also expressed concern around illicit financial flows, citing a report that indicates that Africa loses a minimum of fifty billion US\$ per annum in revenue through the mal-practice of multi-nationals that have established complex structures to effect illicit flows of revenue from the extractive industry. This, he said, has denied the African child its rightful state of development, and entrenched hopelessness in perpetuity.

He suggested that think-tanks should focus on proposing mechanisms to ensure that such mal-practice is completely eradicated from this continent. He concluded by stating that in South Africa there are several checks and balances established to ensure transparency in general, including extractives revenue transparency.

Mr Gideon Ndalama: Director of Mines Safety; Ministry of Mines, Energy and Water Development - Zambia



Mr. Ndalama gave a background on the mining industry in Zambia, stating that the new mining policy of 2013 has a target of mining contributing at least twenty percent to the GDP. Therefore, the issue of Transparency in Mining Revenues has become a key issue on the national agenda. He also explained that government passed a mineral resources policy in 2013 which supports transparency in the mining sector.

Zambia became compliant and was admitted to the EITI process in 2012, though according to Mr Ndalama, being EITI-compliant is not an end in itself. There is a need to

move a step further so that the benefits can begin to be seen in the economy. How revenue obtained from extractives is utilised is critical to transparency and therefore, the following aspects are important:

- Construction and maintenance of public infra-structure in mining areas is expected both to stimulate mining and also to build confidence among the locals.
- The benefits need to be distributed to include non-mining areas as well.
- It is essential to also account for by-products that come from mining.
- It is important to know the geological deposits; the quality of mining and metallurgical recovery.
- It is important to note the issue of the environmental degradation that occurs in mining areas and to interrogate whether the revenues that are received from mining justify the environmental degradation that is taking place.

He concluded by stating that while the journey towards transparency in mining has just begun in Zambia, there needs to be dialogue between all stakeholders, and regional consultation on industrial best practices.

Mr Edmond Kangamungazi: CARITAS, Zambia



Mr Kangamungazi stated that the Human Development Report of 2010 found the quality of life in Zambia in the 1970's was far better than it is today. He indicated that eighty percent of Zambia's revenues come from extractive industries, and that they have about two thousand active mining licences in the country. According to the EITI, in 2011 Zambia received about seven billion Kwacha in mining revenues, and that fifty-five percent of that revenue came from a single mining company.

He expressed that the government seems not to be in a hurry to address certain issues around the extractives industry in Zambia, such as:

- Environmental degradation; it has been reported that some communities near mining sites can no longer grow any vegetation due to the effects of sulphur dioxide on the soil.
- The revenue from the mining sector has been minimal compared to what has been expected.

- The uncompensated displacement of several communities, who were removed in 2005 with the as yet unfulfilled promise of schools and a hospital. Without access to a school, the children haven't been to school since their displacement in 2005- a tragedy for development.
- The Mines and Minerals Act provided that there would be a royalty sharing mechanism, however, seven years later this has not yet been implemented.

He concluded by stating that Zambia has signed on to the EITI process which has seen nine full reports done. As a result, it is now known which company is actually paying tax and which company is not paying tax. The challenge is that the EITI itself is a voluntary process, but there is no legislation that actually backs it up.

Mr Pooven Moodley: Country Director, Oxfam, South Africa



Mr Moodley built on the narrative questioning whether and how good mining, or extractives industries, are for countries, and how to ensure that more people benefit from the resources of the country. He indicated that the challenge facing South Africa is not that there isn't enough wealth in the country, but that the distribution of wealth is skewed, resulting in high levels of inequality.

He expressed that there needs to be a fundamental shift in order for us to stop illicit financial flows. There is need to address the issue of the closeness between government and business; the idea of political capture, because it essentially results in rules either not being followed or not enforced. And there's also corruption and all of the related issues. He also argued that it is important to share information with both government and the public, stressing the importance of presenting the information in a way that people can actually use. The global tax system needs to be fixed, and challenges of transfer pricing and tax competition must be address. He concluded by stating that there seem to be opportunities to start closing some of the loopholes.

Facilitator: Dr Tara Polzer-Ngwato

Tara summaries five points that stood out:

- Local capacity needs to be enhanced in the countries where mines are located, to provide an independent assessment of the data that we actually need for our transparent systems.
- The importance of having transparent, clear and simple government policies, particularly around the allocation of mining rights.
- Sometimes there is a trade-off of having a concentration of mining activity in a small number of large, highly professionalised global companies, which results in a monopoly, giving these companies a lot of power.
- It is important to distinguish between transparency and equity.



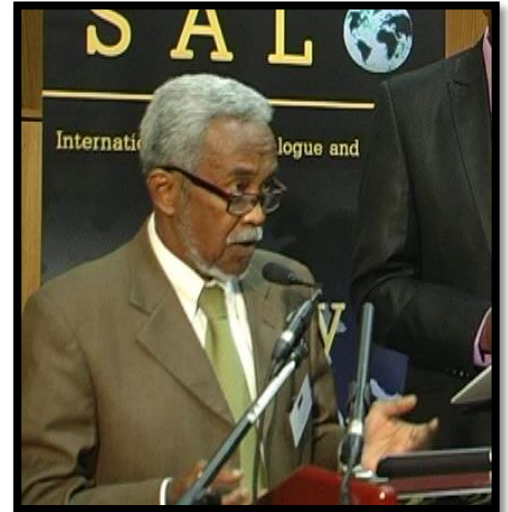
- There is an assumption that if you have mineral resources under the ground, you should get them out, you should turn them into an active economic commodity, whereas I think more and more communities near mining are asking: Why? Therefore, there needs to be transparency pertaining to the full impact cycle.

SECOND PANEL: MADAGASCAR AND ZIMBABWE DISCUSSION

Mr. Jacqueson Ranasay: Secretary General, Strategic Resources Ministry, Madagascar

Mr. Ranasay stated that the Strategic Resources Ministry is in charge of the mining sector, as well as hydro-carbons, which are referred to as strategic resources. The Government of Madagascar uses strategic resources as a tool for strategic development of the country, and has the following stated objectives:

- Ensuring that the extractive sectors be an important tool for the development of the country.
- Improving governance and ensuring that the resources are maximised for investment and sustainable development outcomes.
- Establishing transparent, equitable and optimum utilisation of mineral resources to support sustainable growth, which is in line with the EITI.



He stated that Madagascar wants to see how the transparency programme can positively impact the poorest of the population. The revenue from the extractives sector has already been planned so that it can be distributed at the regional level, at the provincial level, at the local level as well as at the national level. It is important that government benefits from these projects, and for the extractive industry to become an important tool in the development of a country.

Mr Isaac Kwesu: Acting Chief Executive and Chief Economist, the Chamber of Mines of Zimbabwe

Mr Kwesu spoke to developments in the mining sector in Zimbabwe, with reference to Extractive Revenue Transparency. He stated that the mining sector in Zimbabwe has recently become one of the most dynamic sectors in the economy. In 2014, the sector became the centrepiece of socio-economic development, with all stakeholders expecting immediate gains and benefits, putting the mining sector under pressure. He indicated that Zimbabwe's mining sector's contribution to the economy appears in several forms, including:

- Direct contribution to GDP
- Employment creation
- Foreign exchange generation
- Gross national investment
- Social infrastructure



He reminded the attendees to also consider the multiplier effects, through linkages with other sectors in the economy; the upstream and downstream contributions. He indicated that the mining sector generated about two billion US \$ of revenue in 2013; the question is how was this revenue shared? About 40% of this money was consumed by costs related to supplies (energy *etc*), 22% benefited workers in the form of salaries and wages, 17% percent contributed to the national fiscus and 15% was profit earned by the mining companies' shareholders.

He indicated that there were differences between the figures that the government reported receiving and those that the mining companies allege they have contributed, and that this illustrates the serious problem of information asymmetry regarding revenue transfers in the extractive industry.

He indicated that Zimbabwe is not currently a member of EITI, but that that does not mean that Zimbabweans do not subscribe to transparency and accountability. The Zimbabwean Mining Revenue Transparency Process was launched as the first step towards the adoption of the EITI.

He concluded by stating that the Chamber of Mines believes that the citizens who own the resources have the right to know how much of their resources industry and the government produce and sell, as well as to know how much of the revenue has been used by us and the government. Hence, the government must be held accountable for all contracts they enter, by providing access to information on these contracts, as well as revenue accruing from these contracts. He also emphasised that if the mining sector is to make a sustainable contribution, it must be anchored on three pillars: Economic, Social and Environment Development.

Mr Gilbert Makore: Zimbabwe 'Publish What You Pay Campaign', Zimbabwe Environmental Law Association (ZELA)



Mr Makore gave an indication of the challenges at the lower end of the scale in terms of transparency and accountability. He stated that the 2012 audited financial statements for the Zimbabwean Mining Development Corporation (ZMDC) found a few problems, such as the fact that a company which a state-owned enterprise has a significant shareholding of, Angin, is 50% Chinese owned; ZMDC owns ten percent and the Government of Zimbabwe is listed as owning 40%.

In terms of the National Budget Statements', contribution of the diamond mining companies has decreased over the period of 2010 to 2012, this has led to the question of the linkages between revenue transparency and national development. He posed the question of whether citizens are better off now, than they were five years ago at the start of formal diamond mining in Zimbabwe – "...the answer from both the ordinary man in the street and the government will be that we are not better off". Statistics have shown that Zimbabwe sold diamonds to Dubai, and that they were priced 43% higher than the price at which Zimbabwe sold them- this raises red flags in terms of potential smuggling of gem quality diamonds, and also of transfer pricing.

He indicated that ZELA currently has a campaign called the ‘Publish What You Pay’ Campaign, which encourages transparency in the following ways:

- Around the process of signing contracts
- Company have to declare their profit
- The cost borne by the community must be quantified
- The cost borne by the environment must be quantified
- Looking at the government’s priorities and how the revenue is used- ‘Publish How You Spend’

He expressed that the campaign has some challenges, including:

- The political capture of some institutions
- The issue of rational self-interest on the part of the companies and the part of politicians and government representatives

He concluded by stating that while the Zimbabwean government and mining companies are resistant to EITI, ZELA has given testimony to the Prospectors and Developers Association of Canada and to the Mining Association of Canada to motivate for mandatory disclosure, and they are now in the process of doing that in partnership with civil society and government there. Submissions have also been put to the US Securities Exchange Commission on the issue of disclosure.

Mr McBride Nkhalamba, the Southern Africa Trust (SAT):



On behalf of the Southern Africa Trust (SAT), Mr Nkhalamba extended his gratitude for the invitation. He then made a disclaimer that neither the Trust nor he are experts on the Extractive Revenue Transparency issue, and that his was to present possibilities for furthering the ERT agenda at a regional policy level, and further engaging civil society. SAT seeks to encourage the engagement of civil society in the profiling, articulating and monitoring of regional policy to ensure that Revenue Transparency Agenda is integrated into the policy fold with the proposals.

SAT seeks to create stronger regional level relationships of accountability between government, business and the poor, and their intended impact is to ensure that integration policies and strategies are people-driven and people-focussed. They therefore look at regional integration policies, and interrogate them to see whether they cater to the interests of the poor.

SAT has five programmes, but he spoke to the two relevant to the discussion:

- ‘Learning for Better Poverty Results’ - a programme which seeks to generate knowledge for civil society organisations
- A program focused on creating new opportunities for the poor, for citizens and civil society to be heard in policy dialogues, by fostering mechanisms through which civil society can engage institutions like SADC and Governments.

He concluded by inviting the government representatives, diplomats and civil society representatives present to promote the agenda of civil society organisations’ engagement in regional policy development.

Conclusion by Facilitator: Dr Tara Polzer-Ngwato

Dr Polzer-Ngwato summarised the fascinating thread running through the Panel- the importance of politics and political leadership buy-in:

- We should be quite careful about claims of lack of capacity; lack of technical capacity; lack of knowledge, because often those kinds of claims actually hide a lack of political will.
- Transparency initiatives are not an end in themselves; they are supposed to monitor policy initiatives.
- The reversibility in the move on transparency is, because the decision on whether transparency is actually increased still rests with the political leadership of a country, usually, and with their interests. And those interests are often influenced by the interests of the corporations, whereas it should be coming from the actual interests of the populations that are most affected by resource extraction.
- Why not just go to the home countries of international corporations and get those countries to enforce the necessary regulations on their companies.



The analysis and recommendations included in this Policy Dialogue Report do not necessarily reflect the view of SALO or any of the donors or conference participants, but rather draw upon the major strands of discussion put forward at the event. Participants neither reviewed nor approved this document. The contents of the report are the sole responsibility of SALO, and can under no circumstances be regarded as reflecting the position of the donors who provided financial assistance for this policy dialogue session.

About the Southern African Liaison Office:



The Southern African Liaison Office (SALO) is a South African-based not-for-profit civil society organisation which, through advocacy, dialogue, policy consensus and in-depth research and analysis, influences the current thinking and debates on foreign policy especially regarding African crises and conflicts.

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