" The African Mining Vision - what African countries are doing (and can do) to encourage investment in the current market" on March 6 from 8:30 am to 10:30 am

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The panel discussions will address the current challenges facing the mining sector as well as opportunities for countries and mining companies to better weather the commodity price slump. The talking points underlying the questions, are oriented towards the private sector. The paper has used the latest evidence from the industry including the Fraser Institute just released survey report and the E&Y Business Risks in the Mining Sector.

Questions for the Panel Discussions:

1. **What lessons countries can draw from the just ended upturn, which could lay lasting foundation for the sustainable development of the mining sector?**

- Attracting mining investment presents a transformational opportunity to African countries. But without forward looking strategies countries will remain unable to attract and facilitate investment in way that enhances the sector's contributions to broad-based development
- Fiscal regimes in Africa are not progressive enough to optimize revenues during times of high prices, while minimizing the need companies to reduce or end production during periods of price collapsed. The disproportionate use of royalties, is neither good for business nor for countries. According to a survey conducted by the African Development Bank, with the exception of South Africa, which imposed a profit-based royalty, all other African countries utilized ad-valorem royalty as of mid-2011. The Africa Progress Panel reports that mining companies' profits increased at four times the rate of government revenues between 2000 and 2011.
- Africa deindustrialized over the period of the boom. The Economic Commission for Africa reckons that the manufacturing sector's contribution to total output has actually declined, from 12 to 11 percent

2. **In current market how can countries foster a resilient environment for attracting investment capable of responding to the downturn as well as take advantage of future opportunities, when prices eventually recover?**

- African countries will need to take a long-term view of the sector. They must guard against beggar thy neighbor strategies,that continue to be misaligned with the risks facing businesses. Governments need to desist from creating another race to bottom, eroding tax packages and watering environmental compliance in order to attract investment.
- While the subdued price environment remains a major challenge to mining companies, it is however not the major risks facing businesses. According to the Ernest and Young flagship survey report of Business Risks Facing the mining and metals for 2015-2016, structural factors rather than time based specific factors ranked higher among the top risks facing the industry. In fact productivity was the most important risks facing mining companies while volatility and subdued prices ranked as the 6th most important risks reported by mining companies.
- What this suggests, is that companies are taking the long-term view, rather than the short-subdued-price view. So too, should governments. Resource nationalism emerged as 4th most

important risks, albeit declining slightly since its peak during the boom. The tendency for countries to change rules in the middle of a game is bad for business and also bad for the rule of law.

- However, this ad hoc approach by governments reflects a symptom of a much profound structural weakness facing African countries rather than opportunism. It is not for ineffective regulations, policies and weak institutions that countries are unable to maintain stable and agreed rules for businesses to plan and thrive. But the lack of a long-term vision and effective policies create conditions for governments to engage in self-damaging business unfriendly strategies, unilaterally reviewing laws and contracts with damaging impact on investors.

3. **In order to prepare for long-term viability in the sector, beyond boom and bust cycles, what are African countries as well as the private sector doing to strengthen the enabling environment?**
    - Africa still remains an attractive destination for mining investments. According to the recently published Fraser Institute Survey of Mining Companies in 2015, the median investment attractiveness score of the continent as perceived by business stakeholders improved. The composite measure includes both geological potential and policy attractiveness. On both measures together, Africa now ranks ahead of oceania, Asia, Latin America and Caribbean as the most attractive places for mining investment.
    - Yet there are still many more areas for governments to enhance the attractiveness of mining investments. African governments will need to create a stable environment for businesses to plan both in the short and long-term. It is not for weak institutions and ineffective regulations that countries continue to remain unable to take advantage of booms as well as sustain business interests during the downturns. It is the lack of long-term vision and effective policies that create weak institutions and laws, unfit to respond to dynamic nature of the sector.
    - Countries will need to build linkages in the sector including smart local content policies. In the present context, it is even more cost effective for companies to reduce their transportation costs by sourcing their inputs from the local economy. Over 61% of mining expenditures goes on procurement. This is far greater than what government collect as revenues through taxation. African governments will need to create an enabling environment including incentives for companies to procure locally, in a way that is cost effective and sustainable for the local and regional economies.
    - The dynamics of demand and supply of inputs created by mine development, requires the deployment of human and financial resources along the value chain at different levels. But without purposeful strategies, the opportunities for optimizing linkages with the broader economy may be missed, or underutilized. Expenditure by mining companies on procuring human, financial and infrastructure and other inputs into the mine operations often holds the greatest promise for local businesses to participate in supplying goods, services and labor along the value chain with cumulative impact on the economy far greater than what government take home in taxes, or direct jobs created by the mining companies. Seizing the opportunities as well as managing the challenges, requires strategies that extend far beyond the boundary of mines operations as well as

targeted enough to accompany the different phases of mining operations. Unfortunately, they may be unprioritized in planning process.
- Governments and businesses will have to step up efforts to build capacity both in terms of skills development and entrepreneurial capabilities of local businesses.
- Harmonization of mining and fiscal regimes across countries so as to facilitate free movement of skills across regions as well as reduce transaction costs for companies.
- Geological potential remains the most decisive factor for attracting investment. Yet many mineral rich African countries lack basic geological information systems including human and institutional capacities. Africa remains the most unexplored continent even though, exploration budgets have grown over the last decade, with the continent share of global exploration budgets more than tripled and relatively resilient even with the downturn.
- However, exploration data at basic or rough scale, regarded as public good, remains limited due to inadequate investment in geological survey institutions. As a result, large proportion of the continent remains unmapped geologically and unexplored in a systematic manner at appropriate scales. The value of known subsoil assets per square kilometre of Africa is barely one quarter of that for high-income countries with comparable geological potentials (Gelb, Kaiser, & Vinuela, 2012). In fact, while Africa's share of global exploration budget of mining companies has risen significantly to 17%, it remains the lowest in absolute terms, below five USD per kilometer square as compared to 65 USD in Canada, Australia (African Development Bank, 2012).

4. Why should mining companies support countries to implement the Africa Mining Vision?

- The AMV as a comprehensive framework for undertaking reforms, provides a stable policy and institutional framework for businesses to plan long-term.
- The AMV addresses in a long-term manner key business risks which have consistently been expressed by the industry. For example, geological information, productivity, infrastructure development, access to energy and social license to operate.
- The AMV provides a framework for government and businesses to address issues emerging risks like productivity through opportunities for forward looking investment in capacity building both at the systems, organizational as well as individual levels, which remains imperative for the long-term profitability of the sector.
- The AMV provides a one-stop governance, for businesses to reduce their transaction costs in meeting specific compliance requirements for gaining their social license to operate. It is African owned and endorsed by communities and provides mechanisms for continuous dialogue between business and governments for the long-term viability of the sector.
- In fact, a recently published report by the World Economic Forum reviewing voluntary responsible mining initiatives, raises the additional burden to doing business in the sector impose by the proliferation of governance initiatives. Survey participants in the report highlighted the real danger of 'initiative fatigue'.
- However, most of respondents surveyed in particular businesses, expressed the need for broad-based and comprehensive framework like the AMV capable of dealing with the emerging challenges facing the sector.

- On a more substantive side, it is interesting to note that despite the proliferation of initiatives in the extractive sector, like commodity price collapsed.
- And this is where, the relevance of AMV broad-based diversification message for mining stands out as paradigm whose time has come. While regulations where cited as a major driver, it is surprising that initiatives to curb Illicit Financial Flows including abusive transfer pricing were not highlighted as a gap area, of urgent importance.