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ECONOMIC COMMISSION FOR AFRICA



AFRICAN DEVELOPMENT BANK

## The 2007 Big Table

### *Managing Africa's Natural Resources for Growth and Poverty Reduction* 1 February 2007

## Summary Report

### I. Background

1. The 2007 Big Table which was organized jointly by the Economic Commission for Africa (ECA) and the African Development Bank (AfDB) took place at the United Nations Conference Centre (UNCC) in Addis Ababa, Ethiopia on Thursday, 1 February 2007. The Executive Secretary of ECA, Mr. Abdoulie Janneh, and the AfDB President, Mr. Donald Kaberuka jointly chaired the meeting. The meeting brought together Ministers and senior officials from eleven African countries and high-level representatives from four Organization for Economic Cooperation and Development (OECD) countries, and regional and international organizations (ECA, AfDB, AUC, IMF, OECD-DAC, and World Bank). Also in attendance were representatives from research centres, the private sector, and NGOs. The agenda for the meeting and the full list of participants are attached.
2. The 2007 Big Table sought to advance discussions on the challenges of effectively managing Africa's natural resources for growth and poverty reduction on the continent. It also discussed an agenda for future action.
3. A keynote presentation on "The Challenge of Effective Management of Natural Resources for Growth and Poverty Reduction in Africa" was made, to set the stage for the discussion in the ensuing sessions. It provided information on a number of issues pertaining to Africa's mineral resources and production and their optimal management.
4. The informal setting of the Big Table led itself to a frank and honest exchange of ideas on five main themes pertaining to natural resources: *Governance; Ownership, Participation and Intergenerational Equity; Bargaining Power, Value and the Role of Emerging Global Actors; Environmental Stewardship; and Capacity, Partnerships and Regional Integration.*

## **II. Highlights of the discussion**

### **1. Natural Resources Governance**

5. The meeting noted that natural resources exploitation can contribute to growth and development in Africa. For this to happen, sound governance systems, capacity to administer and monitor the sector, and better linkages between the natural resources sector and other sustainable sectors of the local economy are required.

6. Participants agreed that a concerted approach to address issues of transparency in the natural resources sector needed to be implemented under the African Peer Review Mechanism of the New Partnership for Africa's Development (NEPAD/APRM). It was further recommended that APRM should be strengthened and expanded to incorporate natural resources governance (including revenue transparency) as a key governance performance indicator. It was found equally relevant to develop African codes of conduct and guidelines on natural resources exploitation, particularly on safety, health and environmental practices (SHE). The Extractive Industries Transparency Initiative (EITI), the Organization for Economic Cooperation and Development (OECD) guidelines, the Equator Banks Principles, the Global Reporting Initiative (GRI), and other similar instruments could inform this process.

7. Several natural resource-rich countries are also fragile States. Hence, it was underscored that tools such as the Kimberley Process Certification Scheme, the OECD Guidelines, and EITI are important safeguards to ensure good practice by hosting governments and investors. Hence, the meeting underscored the importance of endorsing and expanding the EITI by addressing upstream and downstream issues (such as licensing, procurement, ownership, corporate social responsibility, sustainable development, etc.). Participants therefore called for more countries to adhere to the EITI, and for the G-8 countries to endorse it. It was also noted that the Kimberley Process Certification Scheme should be extended to other minerals such as gold, columbite-tantalite (coltan), etc. in order to break the link between conflict/criminality and natural resources.

8. It was further agreed that the existence of an oversight mechanism was crucial. To that effect, it was noted that non-state actors such as parliaments and civil society organizations (CSOs) should be empowered.

### **2. Ownership, Participation and Intergenerational Equity**

9. The concept of ownership of natural resources projects has evolved to include local communities as important stakeholders. It was underlined that local communities should participate in the planning and development of natural resources projects to ensure that a lasting social contract will operate.

10. Furthermore, ownership and participation should also be evaluated in terms of local supply chains and employment of the local community in natural resources projects, as well as the stimulation of local companies to service the projects.

11. Participants stressed the need for a new dispensation in contract negotiations and for the formulation of appropriate laws with regards to ownership and local participation. These would require government, companies, and civil society representatives to be equipped with a new set of skills.

12. The Big Table further underscored that strategies such as the Mining Charter and Black Economic Empowerment mining (BEE) of South Africa could offer empowerment models for local participation that could be replicated elsewhere in Africa. In this regard, AfDB was requested to look at methods of stimulating the growth of African Junior Resource Companies (JRCs) in order to secure long-term socio-political sustainability.

13. The meeting observed that corporate social responsibility is entrenched as a business practice of some natural resources companies. However, it also noted that, particularly in fragile states, some natural resources companies were not observing the highest corporate standards. To address these challenges, the meeting recommended that EITI, OECD, and apex bodies such as the International Council on Mining and Metals (ICMM) should deploy greater efforts in disseminating their conduct and enforcing their application. The meeting also noted that the involvement of the AfDB in natural resources projects served as a tool to enforce adherence to international standards by project operators. It was recommended that this trend should be maintained.

14. The meeting also emphasized the importance of diversifying natural resources sectors throughout the value chain to ensure sustainability, particularly for finite mineral resources. This could be achieved through the promotion of local beneficiation and value-addition, fomenting the local inputs industry, and investing natural resources' wealth in other sustainable activities, including financial assets, infrastructure and human resources development.

15. With regards to the use of Stabilization Funds and Non-renewable Resource Funds (NRFs) including Future Generation Funds, the meeting noted that they had the potential to insulate economic activity from fluctuations in commodity prices, address inter-generational issues, encourage fiscal discipline, and protect local economies against inflationary pressures from windfalls (Dutch disease). However, the Big Table observed that the Funds are not a panacea, and that instituting an appropriate public financial management framework for savings and investment such as medium-term fiscal planning could achieve the same objectives.

16. The meeting observed that in Africa, political pressure as well as the immediacy and enormity of the development challenges, including achieving the MDGs, could lead to such Funds being raided, thus defeating the purpose of their establishment. To reduce these risks, it was underlined that there was a need to establish independent, competent and accountable entities to ensure proper management and oversight of these Funds. The meeting also highlighted the need to divulge information about the Funds and exchange experiences on their application. To improve performance in the sector, it was further suggested that African countries could learn from positive experiences in managing natural resources wealth in Africa, notably in Botswana. Equally important are experiences from countries such as Norway and Canada, which have been successful in using natural resources funds to fuel their growth and development.

17. It was also noted that there should not be a dichotomy between the interests of current and future generations. Instead, participants agreed that the issue should be how to invest wisely to balance both interests. Participants also recognized that it was important for Africa to strengthen its capacity to harness renewable resources with a view to preserving part of the stock of non-renewable resources for future generations.

18. The meeting also recognized the importance of addressing the interests of resource-poor and resource-rich regions within the same country, and of promoting gender equity in the use of the proceeds of natural resources exploitation. To reduce the potential for conflict, there is need to develop a formula for the equitable distribution of benefits and wealth between resource-rich and resource-poor regions. This can be informed by relevant experiences in Africa and beyond.

### **3. Bargaining Power, Natural Resources Value, and the Role of Emerging Global Actors**

19. The Big Table recognized that, historically, Africa had not gained the best possible benefits from the exploitation of its natural resources. In the 1990s, this was further compounded by African efforts to attract FDI to their natural resources sector, which led to the formulation of overly generous investment laws and regulations. The meeting further observed that the scale of reforms in Africa did not have any historical precedent.

20. However, the meeting noted that there has been a paradigm shift in the 2000s with a surge towards a more societal-oriented development. In addition, it was observed that the natural resources sector is witnessing a commodity price boom, fuelled by global resource scarcity and the entrance in the commodity market of new global resource-demanding players such as China and India. Given Africa's unique resource endowment, this offers a window of opportunity for African States to extract better terms from natural resources exploitation and to catalyze growth and poverty alleviation across the continent. For this to happen, the meeting emphasized the importance of building the negotiating capacity of African countries. In this context, it recommended the establishment of a facility to help African countries develop skills and expertise in such contract negotiations.

21. The meeting also underscored the fact that natural resources companies were global, that the industry was cyclical, and that there was competition for capital, especially from equally endowed continents such as Latin America. Thus, the need for the creation of an enabling environment, modern legal and regulatory frameworks, and competitive fiscal regimes was underlined. Additionally, the Big Table also recognized the importance of reviewing the current generation of natural resources laws and regulations to better accommodate the interests of African countries. This could be informed by practices from the oil/gas sector, such as auctioning of blocks and product sharing agreements. The international community and leading research centres in natural resources policy and law were called upon to help in this effort.

22. The meeting confirmed that Africa's highest short-medium term potential lies in its mineral resource endowment. It also observed that most African countries are poorly surveyed and do not have good information about their mineral resources potential. It was agreed that for Africa to extract better terms in its negotiations with partners and enter into equitable deals, it has to have a good geological database and inventory of its mineral resources. This requires urgent and substantial investment in geological mapping and mineral inventory. African governments and the international community, in particular regional and international financial organizations, are encouraged to fund this effort.

23. The meeting also noted that there are recent examples in Africa where natural resources exploitation led to infrastructure development. It underscored that these practices should be replicated throughout the continent. In this respect, the meeting endorsed NEPAD's Spatial Development Programme (SDP), where, due to their greater differential rents, mineral and energy projects anchor infrastructure development in Africa, thus underpinning the viability of infrastructure projects, which could then underpin the development of other sustainable sectors such as agriculture, tourism, and resource-based manufacturing. The meeting urged the NEPAD Secretariat to raise awareness about the potential of SDPs and to scale-up their implementation.

24. While recognizing that Chinese and Indian companies might not be subject to the same checks and balances and corporate social charters as their counterparts from the West, the meeting underscored the importance of engaging with them; understanding their motivation, business practices, culture, and investment drivers. This was considered important since these countries represent an alternative source of capital and are global players in their own right. The meeting recognized that this should result in a better compact where development outcomes would be maximized. The importance of strengthening the individual negotiating capacity of African States, as well as that of the continent as a block to achieve this was reiterated.

25. The Big Table observed that Africa's traditional partners have not always supported the continent's effort to promote local processing and value addition. They noted that tariff and non-tariff barriers imposed by the West curtailed Africa's efforts in this direction. It was noted that this issue should be addressed during the Doha Round of negotiations and during the Economic Partnership Agreements (EPAs) negotiations. African Caribbean and Pacific (ACP) countries were urged to place this issue high on their agenda for negotiations with EU.

26. Overall, the meeting noted that it was important to integrate the natural resources sector in national development plans and strategies such as the Poverty Reduction Strategy Papers (PRSPs) if the sector is to better contribute to growth and development. Therefore, the meeting recommended that the natural resources sector should be mainstreamed in all the PRSPs.

#### **4. Natural Resources Exploitation and Environmental Stewardship**

27. The meeting noted that environmental considerations were moving to the top of the political agenda and that they were now central to considerations in natural resource

industries. It further observed that lending institutions such as the AfDB, World Bank, and international industry associations such as the ICMM could play a role in enforcing environmental compliance in Africa. It was further noted that Africa should develop its own resource exploitation SHE codes, aligned with international best practice.

28. The meeting underscored that environmental issues were not solely the realm of governments and that, increasingly, local communities and other stakeholders should be involved in monitoring and enforcing environmental compliance. It was highlighted that there was need for more advanced and standardized systems to monitor compliance with rules and regulations. This could be implemented through self-monitoring systems or by the creation of tripartite governance structures that would include governments, civil society organizations and private companies. In addition, information about the International Organization for Standardization (ISO) 14000 standards for environmental compliance should be better disseminated and capacity built to ensure their wider application.

29. The meeting noted that the global market did not provide enough mechanisms to enforce environmental stewardship. It also observed that environmental trading systems and mechanisms such as the Carbon Trading System, the Clean Development Mechanism, and the Global Environment Fund were not widely known by African countries. The meeting recommended that the international community, in particular the G-8, countries should step up efforts to disseminate information about these tools and build the capacity of African countries to use them. It was also stressed that capacity-building was needed for government institutions, NGOs and community based organization (CBOs) to better monitor and enforce application of laws, regulations and environmental standards.

30. The meeting agreed on the need to expand the mandate and scope of EITI to include environmental stewardship.

### **III. Crosscutting Issues**

#### **5. Capacity for Natural Resources Management, Partnerships and Regional Integration**

31. While acknowledging the various initiatives taken to build the capacity of African countries to manage natural resources, the meeting identified some gaps, including the lack of capacity to negotiate contracts. The need to establish a facility to help African countries better negotiate contracts was reiterated. In addition, the establishment of a peer learning group on natural resources management to promote capacity-building, exchange of experiences, identification and dissemination of best practices, and creation of an appropriate knowledge base was considered a priority.

32. The meeting noted that AfDB was conducting a survey to identify capacity gaps in Africa. This would be instrumental in designing tailor-made and targeted capacity-building programmes for government officials, oversight bodies such as Parliaments, Chambers of Mines, and other stakeholders. A special area of concern is the need to enhance understanding of fiscal issues in natural resources contracts and accounting

practices of international companies operating in the sector. The meeting underscored that the AfDB survey could help map existing capacity-building initiatives in the region to improve co-ordination and avoid duplication of efforts.

33. The importance of finding ways to avert brain-drain, which affects the existing capacity, was also highlighted. In this context, it was suggested that existing centres of excellence in Africa should be strengthened and more should be created.

34. Regarding regional integration, the necessity of building the capacity of existing regional economic communities (RECs) and/or building them in different ways that take cross-border issues into account when resources and infrastructure are not wholly within one country was emphasized. Moreover, the importance of collaborating and creating partnerships for large projects in the region (e.g. SDPs) was underlined.

35. The meeting also noted that RECs should pay urgent attention to the harmonization of laws, regulations and standards in their respective subregions. This was considered key to facilitating factor flows, especially capital, human resources, goods and services. The meeting also noted that some environmental problems are trans-boundary and require regional and subregional approaches to address them.

36. Also recognized was the need to build or strengthen partnerships and coalitions at national, regional and international levels with the aim of strengthening existing capacities, inducing change, and enforcing application of international treaties, agreements, and standards to promote good governance and an efficient use of natural resources wealth, and to reduce the possibility of conflicts.

#### **IV. Conclusions and Way Forward**

37. The meeting agreed that Africa's huge natural resources endowment could engender growth and multiplier effects on the continent, if properly managed. This hinges on ensuring Africa's ownership of the development process, strengthening governance systems, reinforcing institutional capacity, investing natural resources wealth in the creation of knowledge for economic innovation, negotiating better terms with external partners, and integrating the natural resources sector into national development frameworks. It was recognized that many natural resources are finite, and the wealth they generate should be invested in other forms of capital, particularly human, social and physical. The potential of using natural resources rents to promote Africa's infrastructure development was recognized. As a way forward, the following compact for future action was agreed:

(a) Require G-8 endorsement of EITI and encourage more African countries to adhere to and implement the principles;

(b) Expand the mandate and scope of EITI and beyond the oil and gas sectors and revenue transparency to include other natural resources, upstream and downstream issues, and environmental stewardship. The EITI Board should consider this;

(c) Extend the Kimberley Process Certification Scheme to other minerals such as gold, coltan, etc.;

(d) Expand the scope of the APRM process to include governance of the natural resources sector. It is proposed that the NEPAD Heads of State and Government Implementation Committee should consider this matter.

(e) Encourage the establishment of independent oversight bodies to monitor implementation of natural resources projects at the country level. This could include representatives of NGOs, CBOs, and the private sector;

(f) Mainstream the natural resources sector into the second generation PRSPs in African countries. This would require concerted action between national governments, the AfDB, World Bank, UNDP, and other stakeholders, ECA's database from the PRSP Learning Group could inform this process;

(g) Build Africa's capacity to utilize environmental trading systems and mechanisms such as the Carbon Trading System, the Clean Development Mechanism and the Global Environment Fund. The international community should help in this exercise;

(h) Encourage AfDB and other regional and international financial institutions to participate in natural resources projects in Africa. Their presence serves as a guarantee that project operators will respect international standards;

(i) Facilitate the development of African Junior Resource Companies, possibly through a dedicated finance instrument under the AfDB. This could contribute to an increase of local participation in and ownership of natural resources projects;

(j) Strengthen Africa's capacity to harness renewable resources as a means to preserving the stock of non-renewable resources for future generations;

(k) Devise mechanisms for sharing benefits between regions in the same country based on tested formulae;

(l) The establishment of a study group to review Africa's mining codes. This could include research centres in Africa and abroad, ECA, AfDB, ICMM, the Commonwealth Secretariat, and OECD-DAC;

(m) An AUC/AfDB/ECA programme to elaborate Africa codes and standards for natural resources exploitation (To be informed by OECD Guidelines, EITI, Equatorial Banks Principles, Global Reporting Initiative, ISO, etc). This could have an impact on AfDB's lending guidelines;

(n) The establishment by AfDB of a grant facility to help Africa's emerging oil and other natural resources producers in contract negotiations;

(o) The establishment by ECA of a peer-learning group on natural resources management. The work streams of this group would include seminars/workshops on oil/gas exploitation, management of mineral wealth, natural resources and infrastructure development, Stabilization Funds and Non-Renewable Funds, compendia of best practices, policy briefs, e-discussion groups, etc.;

(p) Tailor-made and targeted capacity-building programmes in the key areas of management of natural resources funds and windfalls, monitoring and enforcement of environmental obligations, taxation, and accounting procedures of international natural resources companies. The target group would include government officials, oversight bodies such as Parliaments, Chambers of Mines, and other stakeholders;

(q) Undertake better profiling of emerging global players such as China and India and engage them. This could include research centres in Africa and abroad, ECA, AfDB, UNCTAD, ICMM, the Commonwealth Secretariat, and OECD-DAC;

(r) Build or strengthen partnerships and coalitions at national, regional and international levels with a view to improving information sharing and dialogue, co-ordination and collaboration, and enforcing application of international treaties, agreements, and standards to promote good governance as well as an efficient use of natural resources wealth;

(s) Call on the international community to support Africa's effort to map and create inventories of its natural resources. This could impact on Africa's capacity to obtain better terms and could lead to the establishment of an African Natural Resources Information Clearing-house. (This would have information about Africa's resources, production and consumption, market dynamics, etc);

(t) Scaling-up awareness-raising programmes on the potential of SDPs in Africa. This could culminate in an international conference on infrastructure and natural resources development in Africa (2009). The AfDB, the Infrastructure Consortium for Africa, AUC, NEPAD Secretariat, ECA, and the Regional Spatial Development Initiatives Programme (RSDIP)/Mintek could be involved in this process;

(u) Maintain the momentum created by the 2007 Big Table through a co-ordinated series of follow-up events, including a discussion with Ministers of Finance during the next Annual Meeting of the AfDB; and

(v) Develop a scorecard to measure impact and degree of implementation of recommendations agreed upon in these fora.