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Can Canadian Mining Companies make a Difference in Africa?

by Andrew McAlister

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President, McAlister Consulting Corporation
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Sub-Saharan Africa remains the world's greatest development challenge. Poverty on an unacceptable scale persists on other continents, but does not have, for the most part, the same intensity as in much of Africa. According to the World Bank's 2016 report, *Poverty in a Rising Africa*, the share of Africans who are poor fell from 57 percent in 1990 to 43 percent in 2012, but the absolute number of Africans living in extreme poverty has grown substantially. To contribute to meeting this challenge, Canada's engagement with Africa should comprise both the public and private sectors with emphasis on reducing risk to productive Canadian investment and generating sustained tax revenue for African governments to support social programs.

In the first three or four decades following the independence of many African countries, major development agencies focused on assisting African governments in meeting basic needs, largely in health and education. These were understandable priorities in their time. But one consequence was the build-up of large public sectors with few indigenous sources of tax revenue to maintain them over time. Private sector development has more recently become a theme of many development programs, but it is still the case that the tax-generating private sectors in many African countries remain relatively small. The absence of meaningful progress in this area is a source of frustration to donors and recipients alike and poses a significant challenge to the sustainability of social programs and Africa's long-term development.

The constraints on African private sectors are often a legacy of experiments in socialism or state-centric economic policy. Yet even in countries with a long history of free enterprise, much economic activity is small-scale, informal and largely untaxed. A further constraint on tax collection stems from capacity and governance challenges within African tax administrations.

One key to increasing tax revenue to support social programs is increased private investment to complement the large flows of official development assistance. The main barrier to such investment, however, is that most African countries are viewed as relatively high risk because of political instability, regulatory incertitude, infrastructure weaknesses and shortages of skilled labour. Perceptions of high risk mean that most private investment in Africa for the foreseeable future, at least as far as Canadian companies are concerned, will be in the natural resources sector. The reason is obvious. Most industries have a range of options when it comes to location, but extractive companies have no choice but to go where the resources are.

Against this background, Canada's comparative advantage in mining and its major role in the mining sector internationally are highly relevant. According to the Mining Association of Canada, 57 percent of the world's publically listed exploration and mining companies are headquartered in Canada and they accounted for nearly 30 percent of global non-ferrous exploration expenditures in 2014. More than 1,300 mining companies were listed on the Toronto Stock Exchange in 2015 and some 800 Canadian companies are actively exploring in over 100 countries.

At the same time, the recent downturn in commodity prices has led to a sharp decline in mineral exploration globally. According to the SNL Metals and Mining Survey, the mining industry's total budget for non-ferrous exploration fell to $9.2 billion USD in 2015, a 19 percent drop from the previous year. Still, the geographic distribution of the exploration activity which remains provides good insight into investor perceptions of relative risk and reward across countries endowed with mineral resources. In this regard, the SNL Survey reported that Africa was the destination for about 14 percent of global investment in mineral exploration in 2015, about the same as Canada. Latin America's share, however, was 28 percent and exploration in Chile and Peru alone was about equal to all of Africa.

The relatively small proportion of global mineral exploration in Africa is in sharp contrast to the widespread perception that the continent is a mineral treasure chest. It is certainly true that many African countries have highly prospective geology, but emphasis should be put on *prospective*, as much of the continent remains unexplored. In addition, the mere presence of various minerals in a given country does not mean that it has the necessary conditions for a thriving mining industry. Mineral deposits must be exhaustively explored and defined. Comprehensive feasibility studies are required, as well as extensive social and environmental impact assessments and management plans. Project design and development can thus absorb tens of millions, if not hundreds of millions, of dollars depending on the nature of the deposit and its location. In the circumstances, it is only natural that companies approach high-risk destinations with caution and look closely at political and regulatory stability before venturing into new areas.

It is not only investors who would benefit from reducing the risk of investing in African countries with mineral potential. In fact, there should be a confluence of interest among investors, African governments and host communities. For investors, lower risk would mean a more secure and hence more commercially viable environment. For governments and communities, it would mean higher volumes of investment leading to more economic activity, jobs and tax revenue for social programs. Lowering the risk is all the more important in today's economic climate where there is intense competition for capital around the world. Countries seen as secure will capture the lion's share of available funds.

Reducing the risk in African countries requires the commitment of many players, most notably African governments and actual and potential investors. There is also a role for the Canadian government, given Canada's long history of mining and deep expertise in the governance of the mineral sector.

WHAT CAN AFRICAN GOVERNMENTS DO?

- Engage affected communities and sensitize them to the impacts and benefits of foreign investment in exploration and mining.
- Treat all foreign investors equally, regardless of their country of origin, while making an effort to attract investors of high quality and competence.
- Minimize 'special deals' by applying a single regulatory framework across the board. Where individual agreements are required to secure a particular project, make them publicly available in a timely way.
- Provide for regulatory stability. Investors must know the rules of the game for the life of a project if they are to determine its viability.
- Design tax frameworks to deliver at least some revenue into the hands of local authorities and not just the central treasury, but understand that mining projects require large amounts of up-front capital and will not normally pay corporate income tax quickly.

- Focus on transparency, competence and efficiency in tax administration and the independence of the courts dealing with commercial disputes, and develop effective dispute resolution mechanisms – judicial and non-judicial.
- Ensure consistency and fairness in the management of exploration and mining permits, so that all applicants and license-holders play by the same rules.
- Enforce minimum expenditure and time requirements for permit holders to dissuade speculators from locking up large land positions for long periods.
- Avoid pushing foreign companies into assuming sole responsibility for the social development of their host communities and insist that any community investments by companies are fully integrated with relevant local, regional and national development plans.

Issouf Sanogo/APP/Getty Images

WHAT CAN COMPANIES DO?

- Understand the local culture and context and establish partnerships to the extent possible with local institutions.
- Understand that African leaders must be able to explain to their political constituencies why they have permitted foreign investors to mine their non-renewable resources.
- Commit to strict adherence to the tax rules and to full transparency in payments to all levels of government.
- Understand in this context the importance of generating tax revenue, perhaps the most politically visible benefit of a mining project. Other benefits, such as employment and economic stimulus, may produce larger positive impacts but may be less visible.

- Commit to high standards in health and safety, environmental protection, human rights and community relations, and audit performance systematically through qualified third parties.
- Put in place aggressive training and succession plans to replace expatriates with local staff and managers as quickly as possible. This is not only the right thing to do in helping to secure host country support but can also reduce costs.
- Put in place aggressive local procurement plans to stimulate spin-off economic activity in host communities, including, as needed, training and development for local companies to meet procurement needs. Again this may help to reduce costs.

WHAT CAN COMPANIES AND GOVERNMENTS DO TOGETHER?

- Avoid feeding exaggerated or unrealistic expectations about the benefits flowing from mining projects. Both investors and host governments have been guilty of this at times, with the inevitable result of tension and conflict when these expectations are not met.
- Take care to communicate to host communities that mining projects can make a significant contribution in the fight against poverty but are not *the* answer in themselves.
- Focus on effective implementation of the Extractive Industries Transparency Initiative (EITI) to promote fiscal transparency.
- Support to the extent possible host country capacity-building in natural resource management.
- Establish clear roles and responsibilities with respect to engagement of companies with local communities to ensure that accountabilities remain where they belong.
- Communicate constantly with each other, guided by the principle of no surprises.

WHAT CAN THE CANADIAN GOVERNMENT DO?

- Support African governments and Canadian companies on the agendas above, building on the government's current corporate social responsibility policy.
- Continue to promote the core corporate social responsibility and fiscal standards and practices for the extractive sector, namely:
    - Organization for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises;
    - United Nations Guiding Principles on Business and Human Rights;
    - Voluntary Principles on Security and Human Rights;
    - International Finance Corporation (World Bank Group) Performance Standards on Social and Environmental Sustainability;
    - OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas;
    - Global Reporting Initiative;

    - Extractive Industries Transparency Initiative (EITI);
    - Mining Association of Canada Towards Sustainable Mining; and
    - e3 Plus initiative of the Prospectors and Developers Association of Canada.

- Encourage consolidation of standards, rather than the introduction of new ones. The existing standards are comprehensive and already challenging to digest, especially for small and medium-sized enterprises. Instead of introducing new standards, strive for wider and deeper compliance.

- Strengthen the Office of the CSR Counsellor which is in Global Affairs Canada. The existing mandate is sound but the office requires more resources to achieve maximum effectiveness.

- Avoid new legislation or new compliance mechanisms given the mandate of the CSR Counsellor and the OECD National Contact Point to advise companies and look into cases where conflicts have arisen between companies and their hosts.

- Focus a portion of development assistance on strengthening African tax administrations and commercial courts, as well as management systems for mining permits, but analyse first whether a prospective recipient is serious about managing its mining sector responsibly and professionally.

Contrary to some popular perceptions, most Canadian mining companies are not looking for the Canadian government to subsidize social development in their host communities as a way of helping them to secure their social license to operate. While there are cases where there are useful synergies between the activities of mining companies and Canadian development assistance, this is not the highest priority. A more strategic approach for Canadian development assistance would be to focus on strengthening the capacity of host administrations at all levels – national, regional and local – to support infrastructure development, promote skills development and manage the increased flow of tax revenue to the greatest advantage for host communities. Support for the social sectors should continue to be a vital part of Canadian programming, but if dependency on foreign aid is to be reduced and ultimately eliminated, African countries will need significant revenues from indigenous private sectors to sustain their progress.

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About the Author

Andrew McAlister was a member of the Canadian Foreign Service for 30 years. His last overseas assignment was High Commissioner to Tanzania and Ambassador to Madagascar. Since 2008, he has been a consultant in the mining sector in Africa, Asia and Latin America with a focus on government relations, stakeholder engagement, and corporate social responsibility.

Canadian Global Affairs Institute

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The Institute was created to bridge the gap between what Canadians need to know about Canadian international activities and what they do know. Historically Canadians have tended to look abroad out of a search for markets because Canada depends heavily on foreign trade. In the modern post-Cold War world, however, global security and stability have become the bedrocks of global commerce and the free movement of people, goods and ideas across international boundaries. Canada has striven to open the world since the 1930s and was a driving factor behind the adoption of the main structures which underpin globalization such as the International Monetary Fund, the World Bank, the International Trade Organization and emerging free trade networks connecting dozens of international economies. The Canadian Global Affairs Institute recognizes Canada's contribution to a globalized world and aims to inform Canadians about Canada's role in that process and the connection between globalization and security.

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