Sustainable Development through Globalization of Quality Extractive Industry in Zambia

Distinguished Keynote Speaker at


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21 Century Africa with high growth potential

Africa’s Rise to Middle Income - 2013 Study (Yellow – Already; Others - degree of likelihood by 2025)

A third of the continent will be growing at or above 6%, buoyed by new mineral exports, a return to peace, or robust growth in the non-minerals sector.
World Bank Group Experience

• Focus: Revenue Transparency, Government accountability, Politics and Institutions, Private Sector, Environmental Sustainability, Governance, and Stakeholders

• Sustainable Development defined – (1) Economic benefit for current and future generations (2) Financial – Risks and Returns (3) Environmental – Mitigation and if possible, net ecological gains (4) Social – Tangible and sustainable benefits for local community and minimization of negative impacts

• Social issues related to mine closures currently outside IFC mandate

• WB EXTRACTIVE INDUSTRY REVIEW:
  Only half of participants responded; Consistently low rankings for key outcomes –
  (a) share of GDP, economic growth and income distribution;
  (b) net benefits from WB investments
  (c) impact on private sector development
  (d) environmental and social impact
  (e) corruption
  (f) transparent and fair contracts
  (g) community development, habitat, employment and linkages
• **Berlin Conference 1884-5** – Dismemberment and suppression of indigenous civilizations (Kongo, Mali Empire (> W Europe in 14th C), Ashanti (W Africa in 17th -19th C): Kingdom of Benin, The Zulu nation; Zanzibar and Great Zimbabwe)
• **White farmer ownership** – South Africa (96%), Zimbabwe (70%), Namibia (50%)
• Growth rates hide low human development indices (UN lowest rankings)
• Concentration of the world’s poorest billion (50% of world); ½ of Sub-Saharan Africa < $1/day
• **Aid and debt addiction** and dependence culture (since 1970, Africa received $1T of loans, having paid back almost all, $300M still o/s by 2002) Africa has 5% of developing world’s income but 2/3 of its debt
• **Washington Consensus** of aid conditionality, fiscal stringency and ruthless privatization short-changed grassroots
• **WTO rules exempt Western agriculture**, African Growth and Opportunities Act favours US consumers
• **Corruption and abuse of power**, vote rigging
• **Internecine wars** (e.g. Congo in the 1990’s, Sudan since 2003)
• **Resource Curse, Dutch Disease** – (a) Diversification (b) Linkages (c) transparency, accountability, allocation
• 2003 Sub-Saharan African GDP@ = 11% 30 years ago
• 1980-2000, number in extreme poverty doubled to 316 million
• **Three-legged stool** of Development: Democracy inclusive of gender, children and environment, Sustainable and accountable management of natural resources; Culture of peace, *fairness, justice, respect, compassion* and forgiveness.
• **The Big Five** – Agriculture, Health, Education, Infrastructure, Water and Sanitation
• Need bottom-up development with grass-root initiatives, civil society (e.g. Constituency Development Fund)
• 65% of African farmland ecologically damaged (UNDP)
• Africa home to 17% of world’s forests – ½ of world deforestation, losing 1% annually. 15 rain forests nations (Coalition for Rainforest Nations including Costa Rica, Indonesia, and DRC) could generate $1T carbon credits
• **African way** of values and family life – Industrialization and Urbanization
• **Economic, Social and Cultural Council (ECOSOCC) of the African Union**
Zambia was one of Africa’s richest until 2004

“Unlucky” copper price timing – Independence (1964), Nationalization (1974) and Privatization (1990’s) – World copper prices went up from $3-4000@ton before Independence to $6,000@ton up to Nationalization and then plummeted to below $2,000@ton by the time of Privatization, thereafter rocketing to $5,500@ton by 2008. Plummeting prices weakened the hands of the Zambian government on privatization terms.

With Nationalization, ZCCM (Zambia Consolidated Copper Mines) able to provide cradle-to-grave workers welfare with high copper prices.

Falling copper prices weakened unionism. WB/IMF Structural Adjustment programs led to food riots and strikes.

Aid dependency = 40% of government budget.

Privatization at times of low copper prices allowed purchase under confidential “Development Agreements” (DAs). These exempted foreign investors from social and environmental obligations and liabilities for 15 years. Tax on profits not revenue led to tax-avoiding transfer-pricing practices. Royalty < 0.6% gross revenue (global average 2-5%, IMF estimate of 5-10%).

Privatisation led to environmental degradation, negative growth rates, de-industrialization, deepening debt, and increasing poverty.

Copper mining = 2/3 Zambia’s foreign exchange earnings. 82% of exports (2006). Diversification hampered by lack of infrastructure in land-locked country + skills

Import substitution (1970-80) failed to upkeep investments in aging mines.

Surge in copper prices led to stronger currency hampering non-resource exports.

Dutch Disease + corruption and lack of accountability and transparency.

2004 copper price revival led to unilateral imposition of windfall tax and reduced tax concessions. These had to be abandoned when prices dramatically fell in 2009.
• **Equator Principles** on projects environmental and social risks (adopted by 79 financial institutions in 35 countries) + **ISO 14000** (environmental management), **OHSAS 18000** (health + safety) – adopted in Chambisi + FQML (First Quantum Minerals Ltd)

• **Partnership Approach** – multi-stakeholders, mutual accountability, NGO (e.g. Citizens for Better Environment), self-reporting on compliance

• **Kimberly Process** (“blood diamonds”)

• **“Illegal” copper dump sites** (e.g. Luanshya) may be only means of survival – single woman supporting three siblings and 5 orphans

• **Local chiefs** as gate-keepers and arbiters in access and resources (mining licenses) – corruption?

• **Fairness** to all stakeholders including grassroots in **International Financial Institutions** (IFI) e.g. WB and IMF, and WTO

• Bottlenecks – **Spatial and Vertical Integrated Development** – Skills, capacities (including infrastructure) and economic linkages.

• **Chinese companies** tend to reply more on home countries suppliers, supplemented by sub-contracting for labour and other inputs, no exemplar in wage and working conditions, no Zambians in senior positions

• Fall in copper prices 2008 did not dent **foreign profits** – top 40 investors 28% increase > 2007; net assets up 10%, cash flows up 25% (5 x 2002 levels), average growth in profits 2002-08 = 40% annually, price downturns useful for M & A consolidation


• **Resource-based African Industrialization and Development Strategy (RAIDS)** - **Infrastructure for Human Resource Development** – roads, rail and ports, manufacturing, ports, R &D, markets, capital, and commodities, backward and forward LINKAGES, local supply chains, processing industries, human resources and skills, R & D, industrial policy, power in negotiations with investors, institutions and safeguards, governance, accountability, and transparency –ecology, disposessions, local livelihoods, economic viability, sustainability
UN Sustainable Development Goals 2015-30

1. No Poverty
2. Zero Hunger
3. Good Health and Well-being
4. Quality Education
5. Gender Equality
6. Clean Water and Sanitation
7. Affordable and Clean Energy
8. Decent Work and Economic Growth
9. Industry, Innovation and Infrastructure
10. Reduced Inequalities
11. Sustainable Cities and Communities
12. Responsible Consumption and Production
13. Climate Action
14. Life Below Water
15. Life on Land
16. Peace, Justice and Strong Institutions
17. Partnerships for the Goals
China’s pledges at UN Sustainable Development Summit 2015

- $2 billion fund to aid South-South cooperation
- Raises investment in LDCs to $12 billion by 2030
- $3 billion fund to help DCs fight Climate Change
- “Six 100s” Initiative in the next 5 yrs - poverty reduction, agricultural cooperation, trade promotion programs, environment protection and climate change programs, hospitals and clinics, + schools and vocational training centres.
- To provide 120,000 opportunities and 150,000 scholarships for developing countries to receive training and education in China, and help nurture 500,000 professional technicians.
- To set up an Academy of South-South Cooperation and Development
- $2m for the World Health Organisation.
LINKAGES

• Long term trend for commodity prices to fall (Prebisch, 1960; Singer, 1950); Financialisation leads to greater price volatility (Hirschman, 1981); Dutch Disease

• Norway, NZ, Canada, Finland, and Australia: backward (upstream): e.g. agricultural machinery; forward (downstream) – sawn wood, pulp and paper (Bloomstrom & Kokko, 2007); horizontal - US in late 17th to early 19 C supplied > 50% of industrial Europe’s raw materials which spawned US industrial and service sectors + supporting infrastructure (Staples Theory).

• BACKWARD LINKAGES
  • Developing outsourcing independent firms (Urzua, 2007) e.g. South Africa mining equipment and clean coal technology firms – Industrial Policy Action Plan (IPAP) – 10 selected commodities – spill-offs in patented technologies, export of mining and haulage equipment etc.

• Gold sector in Ghana – (43% of exports (2009), over 50% GDP) – mandatory 10% government stake without contribution, small-scale mining for Ghanaians only, Made-in-Ghana products encouraged, development of Ghanaian mining equipment and service companies, training and localization of staff

• FORWARD LINKAGES
  • Diamond industry in Botswana – (40% of GDP, 60% of De Beer’s global supply of rough diamonds + high-grade large diamonds) – 2005 re-negotiation of 25-year mining license with De Beers – 50-50 JV Diamond Trading company (DTC) – mandatory release of >$500 m of diamonds for local cutting-industry with growth targets, creation > 3,000 diamond-cutting jobs, strict penalty for non-compliance, sorting, valuing, cutting and polishing = 1/3 value of mining, taking over London’s role for “aggregation of diamonds” = sale in parcels, government-established “Diamond Office” to develop long-term strategies on mid-level stones as costs > China and India but < Belgium and Israel

• Zambia’s potential in refined copper products e.g. cathodes and semi-fabricates e.g. plates, sheets and wires (controlled by one single US multinational due to lack of infrastructure, energy and skills); $800m new Chambishi China-Zambia Economic Cooperation Zone to offer opportunities for large-scale semi-fabricate manufacturing
Linkage determinants

- **FIVE DETERMINANTS** – (1) Strategic Vision (2) Local Content Policy (3) Local Supply Chain Development (4) Local skills and capabilities (5) Hard and Soft Infrastructure (inc taxation) (6) Political Will
- **MULTI STAKEHOLDERS** – government, private sector, investors, suppliers, customers, local communities
- **Ghana’s Sustainable Community Empowerment and Economic Development (SEED) Program** – Gold Field Ghana Limited’s Foundation - $1 @ounce of gold sold + 0.5% pre-tax profits; Newmont’s Foundation – same but 1% pre-tax profits; Newmont in-house staff to develop local sourcing, to control erosion, and to train local women in producing jute mats in lieu of plastic sheets; Golden Star Development Foundation – scholarships, schools and hospitals
- **INFRASTRUCTURE** – cross-border delays and high import-export taxes = 40% of export costs
- **Zambia’s North-South Corridor** project (April, 2009) linking the copper belt to Dar Es Salaam, Tanzania
- **Zimbabwe’s “Feeder infrastructure”** servicing agriculture, forestry, agro-processing “food basket” industries.
- **Gabon’s poor roadwork** (relying on rivers) greatly limits its linkage potential
- **SKILLS** – Nigeria- almost all oil majors invest in local skill development e.g. Shell Intensive Training Program, university scholarships, sponsored professorial chairs, and youth development program
- **China’s FOCAC + South-South Cooperation** initiatives offer many training and skill development opportunities
- **INNOVATION** – national systems of innovation, government-business partnerships, computer numerically-controlled diamond cutting technology, Zambia- only 1% of national budget to innovation
- **STRATEGIC VISION** – Botswana’s 5 Strategic Foci for diamond-cutting industry (a) Education (b) Innovation (c) Agriculture (d) Health (e) Transport. Reduced corporate tax, fast-track work permits. Exemption for training levy, import (technology and equipment) and export (locally-cut diamonds) tax exemption, Kimberly Process certification
Extractive Industry Transparency Initiative

- **Sunlight best disinfectant**
- **Revenue Watch – Publish What You Paid Campaign**; Liberia Report - $8 billion of contracts awarded illegally; Nigeria uncovered $2 billion of unpaid taxes; DRC - $25m
- **12 Principles agreed 2003 (London conference)** – 140 delegates, 70 governments, 15 MNCs and NGOs. **Validation Guide 21 Indicators**, Collective Governance Standards, Reports subject scrutinized by cooperative triangle of Government, Civil Society, and Business; **Validation for “Compliant”, “Candidate”, “No Meaningful Progress”, and “De-listed” status**.
- **Multi-donor Trust fund; Oslo Secretariat, Soft Law** – accountability, social expectations, shared responsibility
- **Indices, ratings** - Resource Governance Index, Natural Resource Governance Institute (formerly revenue watch), World Bank’s “Public Expenditure and Financial Accountability” Country Policy and Institutional Assessments, IMF Reports on Observance of Standards and Codes, Sovereign Debt Ratings
- **Transparency International Integrity Pact, Open Government Partnerships, parliaments, judiciaries, media**
- **Governments, not companies required to comply**. By 2015, about 2/3 candidates become compliant, a few delisted (Equatorial Guinea, Sao Tome and Principe) and downgraded (Azerbaijan)
- **EITI Board, annual meeting of implementing countries, circulars, teleconferences, training seminars**
- **Future focus** – making EITI reports more timely and focused, clearer set of rules, Beyond the Minimum – “Encouraged” indicators, Impact of compliance, Innovation and Continuous improvement
- **New topics** – Beneficial Ownership (hidden); Subsidies; Commodity Trading, SOEs; Contract Transparency; Transfer Pricing; Tax Evasion; Smuggling; Fraud
- **“Governance Entrepreneurship” – Building collective governance**, multi stakeholders, step-by-step reduction of conflicts and disagreements, seeking minimum consensus on the meaningful, trust-building, substance not form, momentum, right people agreeing on a small thing, art of the possible, neither voluntary nor mandatory
Summary and Conclusion

Price stabilization and long-term development - Sovereign Wealth Management Fund owned by the people and governed according to internationally-accepted “Santiago Principles” of accountability and transparency

The Big Five: Agriculture, Health, Education, transport + communications, water + sanitation

Hard and Soft Infrastructure – Building physical and human capacities including utilities, transportation, schools, hospitals, clinics, technical and vocational training, R & D, good governance, business-efficient and fair taxation

Upstream, downstream and horizontal linkages – Vision and Measures

Governance, Accountability and Transparency

Multi Stakeholder Partnership – Government, Business, Civil Society + local communities
Thank you

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International and independent China Specialist with over 40 years professional experience covering Hong Kong and Mainland China. Chairman of Andrew Leung International Consultants, founded in London now relocated to Hong Kong. Provides strategic advice on China-related finance, investment, politics and economics globally, including both business and governments. China Futures Fellow selected worldwide by Berkshire Publishing Group, Massachusetts. On the Brain Trust of Evian Group, a Lausanne-based think-tank. Founding Chairman of China Group of Institute of Directors City Branch, London. Advisory Board Member of China Policy Institute, Nottingham University, 2005-10. Governing Council, King’s College London, 2004-10. Visiting Professor with Metropolitan University Business School. Helped set up Standard Chartered Bank’s first merchant-banking subsidiary in Hong Kong (1983); oversaw the trans-migration of industries into China as Deputy Director-General of Industry; US-government sponsored month-long visit to brief Fortune 50 CEOs on China beyond Tiananmen Square (1990); Editor-at-Large of a London-based international consultancy on China’s energies (2007). Sponsored Speaker on China at international conferences, including Forum Istanbul, Turkey, Annual African Banking and Financial Institutions Conference in Accra, Ghana, and Low Carbon Earth Summit in Dalian, China. Regular interviewee on live television with CNBC, Aljazeera English, Times Now of India, BBC and other international channels. Awarded Hong Kong’s Silver Bauhinia Star (SBS) and included in UK's Who's Who since 2002.