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***CHECK AGAINST DELIVERY***

# Eighth African Development Forum (ADF VIII)

**Statement**

**by**

**Carlos Lopes**

**UN Under-Secretary-General and**

**Executive Secretary of ECA**

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**Addis Ababa, Ethiopia**

***Excellency, Ato Mekonnen Manyazewal, Minister of Industry of the Federal***

***Democratic Republic of Ethiopia,***
***Excellency, Dr. Nkosazana Dlamini-Zuma, Chairperson of the African Union Commission,***
***Mr. Aly Abou Sabaa, Vice President, Sector Operations, African Development,***
***Honourable Ministers,***
***Excellencies,***
***Ladies and Gentlemen***

**Permit me to begin by thanking our constant hosts, the Government and People of the Federal Democratic Republic of Ethiopia for their warm hospitality and friendship. This is further manifested by the presence of H.E Mr. Mekonnen Manyazewal, Minister of Industry of Ethiopia who is here with us at the opening ceremony. We look forward to listening to the keynote speech to be delivered by H.E the Prime Minister tomorrow. I am also delighted that Dr. Dlamini-Zuma, Chairperson of the AU Commission is able to join us here today. The existing strong collaboration between the pan-African institutions will no doubt benefit from her leadership and experience. Both of us being new to our functions in Addis Ababa, it is befitting to express the importance this partnership represents for Africa.**

**Let me at this stage pay tribute to the memory of late Prime Minister Meles Zenawi, who participated in all previous sessions of the ADF, and whose noble efforts inspired us to remain steadfast in our belief that Africa can only do better. He will be sorely missed. May his soul rest in peace.**

**Excellencies,**

**This Forum has remained true to its purpose of deepening the understanding of key development issues concerning Africa. It provides a space for stakeholders to challenge stereotypes. It contributes to vigorously debate new ideas to accelerate Africa's transformation. Our deliberations are taking place against the background of renewal and revival in Africa. Seven out of the ten fastest growing economies in the world are in this continent. Yet, we have six out of the ten most unequal societies in the world. Our challenge is much more than scaling up current good growth performance. It is also to take into account the interests of the most vulnerable.**

**The way we use the abundant continental endowment in natural resources will be critical in this regard. As things stand, Africa has a long way to go in order to harness the full potential of its natural resources. It is obvious that we are not there yet. We are gearing up to cope with increasing global demand for natural resources, at a time of global concern about environmental sustainability and climate change. Our policy responses would therefore require that we change. We have to improve the processes for accessing and extracting mineral resources in a way that tackles poverty and promotes inter-generational equity. We have to better use our land and sea resources. In short, global circumstances**

**and Africa's development needs compel us to deliberate at this session on "*Governing and Harnessing Natural Resources for Africa's Development*"**

**Let us first gain a clearer picture of what is at stake. Africa, for example, accounts for three-quarters of the world's platinum supply, and half of its diamonds and chromium. It has up to one-fifth of gold and uranium supplies and it is increasingly home to oil and gas production with over thirty countries now in this category. Yet, with minor exceptions, Africa does not consume or add significant value to these and other mineral products which it has in abundance. Rather, we are net exporters of raw materials that fuel prosperity and development in other regions.**

**The case of land is equally telling. Africa has 60% of the world uncultivated arable land. This means that most of the available land to feed a rapidly growing global population will have to be found here. However, current crop yields are low and land issues are caught up in the vortex of economic needs versus cultural and historical rights. Similarly, Africa has forest resources covering over 23% of its land area. Notable in this regard is the Congo Basin, which is the second largest forest in the world - it offers livelihoods to up to 60 million people. This is a valuable resource, both in the context of climate change as well as the demand for forest services, which is expected to rise globally. The same can be said about fisheries and aquaculture endowments which, if properly managed, could be more valuable than familiar non-renewable resources.**

**Given these vast endowments, the question that arises is why our continent continues to struggle with limited economic transformation, and scarce employment. Certainly it is not due to lack of exploitation! Mineral resources continue to attract high levels of foreign direct investment and account for the highest share of economic activity in four out of every five African countries. Land resources are also being exploited with up to 754 land deals, covering over 56 million hectares, already concluded. In Burkina Faso alone, the share of the mining sector in exports expanded from 2% to 41% in the last five years. The conclusion that can then be drawn from this situation is that the current resource-for-development model is not working to bring about equity or boost development.**

**The on-going Glencore-Xstrata merger is a good starting point to show why this is the case.**

**Glencore is a commodities trading and mining company that is headquartered in the small village of Baar, in the Zoug canton of Switzerland, a country with no mining activity. The company operates mostly in the Democratic Republic of Congo, but it is worth more than the economy of that resource-rich country. Xstrata another mining company, is also based in Switzerland. Their on-going merger will create a $70 billion mining powerhouse, which will be the fourth largest in the world. It will create a vertical integration of mining and trading**

**operations that will control over half of the global zinc and copper markets. We are therefore compelled to ask just how much of the value created by the merger will benefit the Democratic Republic of Congo?**

**The Glencore-Xstrata merger underscores the need to address the important issue of resource ownership, and control and the distribution of benefits from mining operations. Of the twenty major mining companies currently operating in Africa, only Anglo-Gold Ashanti is home-grown. Moreover, while ownership of mineral resources is vested in the State, nearly all mining operations are foreign-owned, with marginal local ownership. Indeed, the current mining model is essentially that of an enclave industry, with very weak links with other economic and social sectors. Firms import nearly all their inputs and export nearly all output without processing. Associated export earnings seldom enter the national economy and the most important tasks are performed by expatriate labour. A sector that exists in this form is surely not sustainable in the long-run and it cannot underpin Africa's long-term social and economic transformation. This model of extraction has to be examined in a sober and realistic context. It must be understood that seeking a greater share of benefits from national patrimony cannot be reduced to just resource nationalism.**

**In the last ten years commodity prices have hit a super-cycle, yet Africa's share of windfall earnings have been miniscule, compared to what mining companies have realised. Average net profits for the top 40 mining companies grew by 156% in 2010 whereas the take for governments grew by only 60%, most of which was accounted for by Australia and Canada, two countries that graciously want to share their experience with Africa. Indeed, most African countries got much less than this due to generous tax holidays given to mining companies! Looking at the issue from another dimension, the profit made by the same set of mining companies in 2010 was $110 billion which was equivalent to the merchandise exports of all African LDCs in the same year. It is fair to say therefore that the resource-to-development model puts raw materials suppliers at a significant disadvantage.**

**There are other examples of inequitable returns to other African natural resources. A lot of illegal and unreported fishing takes place in African waters. Annual losses amounting to $629 million can cover the infrastructure funding gap of a country like Mozambique, which is very dependent on fisheries. Similarly, in the case of Somalia its revenue losses from illegal fishing could easily have funded the United Nations coordinated development programme for 2011, covering poverty reduction, governance, rule of law, security, gender and HIV/AIDS.**

**Given this state of affairs, it is imperative that we exercise greater strategic control over our natural resources. Rising purchasing power in emerging global players is indeed increasing demand for natural resources. It is important for Africa to retain and capture more value. Similarly, the extensive agricultural land**

**leased or sold to meet global food security challenges should be configured to meet Africa's food security and other needs first, now and in the future. The same considerations apply to logging particularly the export of low-value unprocessed wood products.**

**There is also a well known link between natural resources exploitation and conflicts which, of course, impacts on development. Poor governance of the natural resources sector has led to conflicts that are fuelled by many grievances. They arise from excluded or disenfranchised groups, issues of access, rights, perceptions of unfair distributions of benefits or, indeed, the business of war! Classic cases include diamonds related conflicts in Angola, Sierra Leone and Liberia; the case of gold, diamonds, coltan and other minerals in the Democratic Republic of Congo; and so on. The insurgency and unrest in the Niger Delta was also caused by similar factors.**

**Ladies and Gentlemen**

**Structural measures to address grievances and improve transparency, and overall governance of the sector, will require time and concerted effort by all stakeholders. There are related short-term actions that could give us quick wins. Internationally, we welcome the Dodd Frank Act and similar efforts by the European Union Commission to adopt legislation requiring publicly traded and private EU companies to disclose payments to governments made in exchange for oil, gas, mineral and forest resources. These actions need to move from paper to reality.**

**Allow me to share a few principles that might put us firmly on the path to using Africa's natural resources wealth for its benefit. First of all, we need to embed long term development objectives firmly into the processes for extracting natural resources. To take the example of mining, our current focus seems to be mainly on collecting taxes, whereas it should be on using the sector and its resource rents to drive socio-economic development. This means investment in infrastructure, research and human capital development, through conditionality for local content. This is what other regions have done, this is what Africa needs to do.**

**Second, our natural resources sectors must become socially and environmentally accountable. This implies increased participation, so that a broader share of citizens contribute to policy and benefits from economic and social returns in the natural resources sector, including gainful employment., One is sadly reminded in this instance about the Marikana tragedy in which 34 people lost their lives. While the headlines have focused on the violence and economic impact of the incident, there is an untold story of marginalised workers and limited communal benefits.**

**Marikana illustrates the power asymmetry between mining companies and its workers on the one hand, and the lack of institutional protection of workers and communities on the other. It is about workers who cannot survive on R4000 a month because they have to pay R800 rent for one room in corrugated iron shacks, pay their living expenses and also send money to their families back home. It is also about inadequate social infrastructure, including for health services which are vital for people working in such onerous conditions. This is an untenable situation. Mining companies are reaping super profits and platinum prices extracted in mines such as Marikana have increased four-fold since 1992. The desire for economic gain must be balanced by good environmental stewardship and real corporate social responsibility.**

**Third, we need to make a significant push to use natural resources as a springboard for diversification and eventual industrialisation. This would require policies that deliberately encourage innovation and that establish local content goals. It would require ensuring backward and forward linkages to promote internally articulated economies and regional value chains.**

**Fourth, we need to continuously build human and institutional capacities, to create knowledge based and competitive natural resources sectors. This requires strengthening our bargaining power to negotiate better contracts. Notable examples are unjustifiable tax holidays, illicit financial flows, or poorly articulated resources for infrastructure swaps. It will also mean building up domestic capacities and skills to participate in the natural resources value chain. Similarly, our institutional frameworks and political processes must steer the natural resources sector in such a way that its supports transformation.**

**The good news is that Africa has made strides to formulate credible blue-prints such as the African Mining Vision and the Land Policy Initiative, which if implemented will inclusive growth and economic transformation. We need now to start operationalising such frameworks. To sum up, we have to shift focus from the short term and limited financial benefits to long term development options. This is a joint responsibility of governments, private sector, civil society organizations and ordinary citizens, shareholders and workers. It is in this context, that I would like to thank partners who have been very supportive of our efforts to establish an African Minerals Development Centre.**

**I have shared these thoughts to stimulate a rich and healthy debate and it is my candid hope that deliberations at this session will help chart a way forward on these issues. The broad and intellectually diverse range of stakeholders assures me that this will certainly be the case.**

**Thank you very much for your kind attention.**