SESSION SUMMARY - PLENARY SIX

Building good governance for mining for development

Professor Paul Flatau, HE Mrs Sinkinesh Ejigu, HE Ms Gudrun Kopp, Mr Erik Solheim

To understand good governance, we need to understand its components at national, subnational, community and industry levels. This message was delivered by Professor Paul Flatau, Director at the Centre for Social Impact at the University of Western Australia, at the Mining for Development Conference 2013.

Professor Flatau introduced the session by noting the importance that good governance plays in making sure communities benefit from resource development. Her Excellency Mrs Sinkinesh Ejigu, Minister of Mines in Ethiopia and also Chair of the Bureau of African Union Mining Ministers, said as relative latecomers to minerals development Ethiopia can take advantage of the experiences of others and put controls in place to make the most of these.

"In my country, we have a vision as a country, to take our people out of poverty," she said."Our mining sector contributes to 20 percent of our export revenue but its contribution to GDP is very low, only 5 percent and this, we are trying to enhance."

Investment in Ethiopia has been free-market driven since 1993, and the government promotes the private sector as an engine for development, she said.

Mrs Ejigu said Ethiopia's minerals and petroleum exploration is in its early days but already, exports include gold, platinum, iron ore, potash, natural gas and many other minerals, and her government is active in its management.

In petroleum exploration, for example, there are very clear and transparent laws in place, with seven companies holding ten licenses around the country to date.As the mining sector in Ethiopia grows, the government has strong involvement in negotiating agreements that are both fair and transparent, and places high importance on building the capacity of the Ethiopian people.

That has been a major challenge, Mrs Ejigu acknowledges, but development partners are expected to contribute. Across Africa, as large parts of the continent are fully surveyed, challenges for governments will include a lack of capacity in negotiation, and a lack of sufficiency in information. The development of a mineral resources database is a priority to address these.

Other challenges include protecting local communities from negative impacts and environmental degradation.T he Bureau of African Union Mining Ministers has developed the African Mining Vision, which is a pathway to underpin broad based and sustainable growth and to put the continent's long term development objectives at the heart of all policy-making concerned with minerals extraction.

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Mrs Ejigu said that to stimulate and diversify the discussion around the topic, they have established the African Mining Development Centre and are encouraging political ownership of these issues among African governments.

“Previously, the mining sector in Africa was not linked to social development and it was considered a curse,” she said.“But it was not the commodities that were cursed but the management of them that was a curse. This has to be changed.”

She says that political leaders in Africa must take ownership and link the development of resources to social and economic development of their countries, to take their people out of poverty. That means changing the mindset of mining companies. “Just extracting and going is no longer good enough,” Mrs Ejigu said. She noted that the Ethiopian government is committed to the mining sector.“The wealth that can be generated can never be a curse but viewed as a critical part of our growth and will support poverty reduction.”

Her Excellency Ms Gudrun Kopp, Germany’s Parliamentary State Secretary of the Federal Ministry for Economic Cooperation and Development, said there was international debate concerning whether the resources sector is a blessing or a curse. “It is up to what we decide to do mutually and in partnership and if we decide to use this sustainably and in a good way,” she said.

Ms Kopp said that a government’s political will is of critical importance and that political leaders must ensure that state revenue from mining is used to promote development. Diversification is critical, and means that mining can build up a “value chain” that spreads benefits widely.

“Good governance lies in the basis of political stability,” Ms Kopp said. Minerals extraction requires high levels of investment, which in turn requires reliable legal frameworks and proper taxation.

She pointed out that effective binding rules in environmental protection, human rights and labour rights are critical and are linked to a vibrant and active civil society.“It is not only the producing countries that need to play their part,” she said. “Countries where mining investors come from must also do their bit.”

Ms Kopp highlighted recent consensus in the European Union on mining. “All stock-listed enterprises – and even large unlisted companies – involved in extractive industries and forestry must disclose all payments of over $100,000 Euro to government bodies.”

She said that transparency is a key part of the joint efforts to level the international playing field and this is a way for the North to assist the resource-rich countries of the South.The G8 countries’ Transparency section aims to establish transparency more firmly among mining and other industries, she said, and added that mineral revenues must benefit the population at a very large level.

She said that linkages between mining and a sustainable economy become the driver to employment and growth. What's important is employment involves not just basic education but further development and further skilling so young people become not just skilled engineers and scientists but also decent workers who have enormous future potential.

Taking a human rights approach to development ensures that each development is assessed for its risk and impact on human rights. "Public authorities, civil societies and businesses must co-operate – only then will minerals wealth become the basis for sustainable development," she said.

Erik Solheim, Chair of the OECD Development Committee and formerly Norway's Minister of International Development and Minister of the Environment until 2012, said Australia's extensive mining experience makes the country a natural adviser to developing countries who seek to maximize their country's benefits from this sector.

Mr Solheim said there's a common belief that a country rich in raw materials has wealth – but in fact, the opposite is true. He pointed to South Korea and Singapore – countries which have grown substantially in recent decades yet have few natural resources to drive this growth.

There are three key factors which will determine how successful a country is in exploiting its wealth, he said.

The first factor is the quality of a country's political leadership. He says that minerals extraction can provide an enormous pot of money which corrupt political leaders can tap for their own purposes."There is a need to establish a contract between a country's people and its rulers, through taxation," he said.

According to Mr Solheim, the second factor is economic. "If you do well in a particular raw material extraction, you can employ more people in that area; but you have to be careful that you don't drag all your best people into the one place."

The third factor is moral, he said. Having the enormous gain in wealth that mining exports bring can undermine the link between hard work and economic prosperity. He cited South Korea again, noting that they sustained economic prosperity through hard work and smart work over several decades.

Mr Solheim said that core to good governance, is not the technical details – but leadership. The key to a country's economic success is a leadership that is not corrupt, but dedicated to improve the prosperity of its people.

But economic success through good leadership does not rest with a government alone, he continued. It is important to bring in good leadership from civil societies and from the business community. He said corrupt mining companies exist and the international community has a responsibility to name and shame these companies.

MrSolheim said successful leadership requires a single, often unpopular component – tax. Taxation is the basis of the social contract between a country's leadership and its society. "If you are paying taxes, you expect to get something back – you expect healthcare, you expect education."

Taxation that is set in a fair and just manner is the key to distribution of wealth, he said. "For sure, mining companies must make money," he said, but added that through taxation, governments can prevent super-profits and can stop companies moving profits away and to stop enormous personal wealth.

Mr Solheim cited Norway's 78 percent flat tax rate on the oil and gas sector and said that when good leaders hear that this is a possibility, they understand what this means in terms of schools they can build, hospitals they can build and services they can deliver.

He cites the example of Ghana, whose President and leaders established a national dialogue around how the country could use the revenue from the oil and gas industry."Ghana has become one of the great success stories of Africa," he said.

Mrs Ejigu noted that governance must involve transparency and accountability and it requires a system that interacts with every stakeholder."Everybody must contribute on their own behalf," she said. "Then you have ownership of the system and if it does not deliver what it promises, you have the right to act."

Mr Solheim said that governance requires the "two T's" of Transparency and Tax.

Mrs Kopp said that through governance, mining can be prevented from harm in local communities. She gave the example of Chile where mining investors were not permitted to use groundwater because of the impact that this had on farmers; miners were instead required to build desalination plants to source water for production.

Discussion on corruption followed, with a delegate from South Sudan noting that, as the world's youngest country, they wanted mining companies who had bad practices to be named and shamed – and for this information to be publicly available.

In conclusion, Professor Paul Flatau thanked panelists and hosts and noted that good governance covered accountability, transparency and processes and environments that drive sustainable development.

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