

# THE EXTRACTIVES SLOWDOWN IN AFRICA: A WINDOW OF OPPORTUNITY?



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*“For more than a decade, African economies have been riding the crest of a global commodity wave. Demand for energy resources and metals has been outstripping supply, pushing up prices to near-record levels in some cases. There is more to Africa’s growth performance than booming extractive industries and investment by foreign energy and mining companies – but commodity prices have contributed considerably to the growth surge.”<sup>1</sup>*

## INTRODUCTION

As noted by the Africa Progress Panel (APC) above, the rush for minerals and energy resources in Africa has contributed to unprecedented economic expansion. However, shortly after their 2013 Report, things began to change for some mineral-rich countries. The optimism of a few years ago is now being tempered by declining demand, falling commodity prices and declining capital investment.

But it is not all bad news. The sector is characteristically subject to ‘booms and slumps’ and this downward trend will be a temporary phenomenon. It provides a window of opportunity to learn from past mistakes and build stronger capacity for when the good times return. New systems are needed to improve the planning and management of the next wave of minerals-driven growth. Integral to these reforms are better environmental and social safeguards.

## AFRICA AND MINERALS

Africa is richly endowed with oil, gas and minerals (commonly labelled ‘extractives’). The US Geological Survey ranks the African continent as having amongst the world’s largest reserves of bauxite, cobalt, industrial diamonds, manganese, phosphates, platinum group metals and zirconium. The products made from minerals such as these are essential to modern lifestyles and they will be key components of the more sustainable futures for which we must strive.

Extractives investments have made a significant contribution to the recent growth of African economies. The mining sector in Ghana, for example, attracts more than half of all foreign direct investment, generates more than a third of all export revenues, is the largest tax-paying sector in the country and makes a significant contribution to GDP and employment creation. Buoyed by high commodity prices, the advent of oil production and related investments, Ghana’s economy grew from its average of 6.5% in the 2000s to 15% in 2011 (non-oil GDP growth in 2011 was about 8%) before slowing down to about 7% in 2013. This is higher than the sub-Saharan African average growth rate of 4.2% in 2013. In 2013, Ghana was ranked 13th out of 52 African countries



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in the Human Development Index and is the best-performing country in sub-Saharan Africa on the Global Hunger Index. Furthermore, Ghana ranks seventh out of 52 African countries on the Ibrahim Index of African Governance<sup>2</sup>.

In 2012, Africa received 15% of global mining exploration expenditure and investment<sup>3</sup>. Investment attractiveness has spread across the continent. Countries once deemed non-viable due to perceptions of high political risk have become better investment propositions<sup>4</sup>.

The economic outlook for Africa's extractives sector remains bright. For example, GDP growth rates in Mozambique are expected to remain near 8% over the medium term on account of new extractives industry activity. As yet, there is no shortage of resources. It has been argued that Africa is one of the least explored regions for minerals in the world. It is estimated that only 25% of hard rock minerals have so far been discovered. Africa's average mineral and energy deposits amount to only \$23,000 per square kilometre compared with \$114,000 for more explored OECD countries<sup>5</sup>. The implications are clear: future discoveries could easily dwarf the current situation if developments are not kept in check.

### THE SILVER BULLET?

This progress has occurred in parallel with two trends: firstly, the burgeoning Chinese demand for Africa's resources (often linked to infrastructure deals); and secondly, the emergence of many initiatives to help governments avoid the perceived 'paradox of plenty' or 'resource curse' trap.

This phenomenon suggests that, in spite of the potential offered by mineral wealth, there has been a general failure to convert it into *sustainable* development outcomes. In fact, although it might seem counter-intuitive, a case is made for the opposite – extractives' revenues are associated with undermining

development goals because of their frequent correlation with corruption, conflict, tax evasion, secretive investment agreements and dubious contracts.

Amongst many initiatives, arguably the most influential was the two-year, independent, multi-stakeholder consultations that comprised the World Bank's Extractives Industries Review (EIR). The EIR was commissioned by the World Bank to answer the question; "Is continued investment in the extractives sector compatible with the WB's goals of supporting economic growth, sustainable development and poverty reduction?"

The EIR concluded in the affirmative, but with the proviso that a greater emphasis be placed on the needs of poor people, improving governance and on promoting environmentally and socially sustainable development<sup>6</sup>. The Bank responded by agreeing that its priority must be to help governments "create appropriate policy and regulatory frameworks for the sustainable development of their countries' resources"<sup>7</sup>.

Clearly, the *resource curse* is not an inevitable consequence of mineral wealth exploitation. Whether the sector underpins or undermines sustainable development depends upon the EIR's silver bullet: good governance.

Amongst others, the Extractives Industries Transparency Initiative (EITI) and the Natural Resources Charter have subsequently sought to give definition to what constitute the ingredients of 'good governance'. These include: more effective rule of law, inclusive decision-making, political stability, predictable fiscal regimes and efficient bureaucracies – but the key requirements are greater *transparency and accountability*. With these in place, the prospects for the sector to achieve the desired outcomes of poverty reduction, more equitable distribution of benefits, better protection of rights, greater retention of value in Africa and

environmental protection are much improved.

As the Africa Progress Panel has observed, and as has been debated for over a decade, these initiatives have been externally driven. More support needs to be given to homegrown initiatives and local champions. External initiatives have provided guidance but successful implementation is an African affair. The African Mining Vision (AMV), launched in 2009<sup>8</sup> by the African Union's Heads of State, is an encouraging example of taking external guidance and translating it in to African relevance and ownership.

### ENVIRONMENTAL RELEVANCE

Why, one might ask, is all of this of interest to organizations whose core business is environmental conservation? Simply put, corruption and conflict spawn illegal natural resource access and trade and exacerbate environmental degradation. There is little chance of achieving conservation goals in situations of bad governance. Good governance is as good for the environment as it is for the economy. Demanding environmental and social standards are key components of good governance.

### ENVIRONMENTAL ASSETS

Just as Africa is well endowed with mineral wealth, it also hosts many important and unique land- and seascapes. These are home to the iconic species that support growing tourist industries, while the economic potential of Africa's genetic diversity (and indigenous knowledge about its benefits) remains even less explored than its mineral wealth.

To put this into perspective, Africa has a quarter (1,229 species) of the world's (approximately) 4,700 mammal species, and more than 2,000 of the approximately 10,000 bird species in the world. It has about 950 amphibian species, and new species and even genera are described every year. At least a sixth of the world's estimated



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270,000 plant species are endemic to Africa. Southern Africa alone has a rich and varied insect and arachnid fauna with at least 100,000 species recorded<sup>9</sup>. About two million square kilometres of protected areas (an area four times the size of Spain) attempt to shelter this wealth from industrial pressures (UNEP/IUCN-WCPA, 2013).

As with minerals, there is good news and bad news. In comparison with most other parts of the world, Africa's biodiversity is still in good condition<sup>10</sup>. However, this is more to do with the poor state of other regions than the good state of Africa. Approximately half of Africa's terrestrial eco-regions have lost more than 50% of their area to cultivation, degradation or urbanization<sup>11,12</sup>.

**AFRICAN ECOLOGICAL FUTURES**

African ecological futures will be fundamentally influenced by development decisions made today. If considered in terms of trends such as population growth, urbanization, consumption growth, expanding financial flows and global demand for natural resources, Africa's potential to develop *sustainably* is cause for concern.

In a recent collaboration, WWF and the African Development Bank made clear the impact of Africa's current growth upon its ecological resource base. "This year, 2015, Africa is projected to be in biodiversity deficit; the impact of the use of resources will be greater than the capacity of Africa's ecosystems to produce useful biological materials and absorb wastes

generated by its growing population." If Africa continues to pursue its current trajectory, there is compelling evidence that its ecological systems "will be undermined and the quality of growth on the continent may be limited"<sup>13</sup>. The continent is rapidly losing its biodiversity wealth.

Of course, one cannot lay blame for these trends solely at the feet of the extractives sector. However, the recent growth in exploration poses significant threats to some fragile systems. These 'ecological hotspots', where extractives and sensitive areas overlap, must receive urgent attention.

**INEVITABLE CONFLICT?**

This is not an easy challenge. The extractives sector conflicts with many

of the core values of conservationists. Clashes are exacerbated because mines and rigs cannot locate anywhere other than close to the resource to be exploited, locations that are often also of high conservation value. Polarized views prevail that can be very costly to mining interests, making it difficult for investors to access capital, land and labour<sup>14</sup>.

## SEEKING SOLUTIONS

Environmental interventions must do more than address the impacts of specific projects if they are to influence ecological futures. It is necessary to strategically influence the ‘bigger picture’ that frames extractives investments. The two examples we highlight here are integrated resources planning and up-streaming environment into policy decision-making.

### *Integrated resources planning*

When commodity prices were high, new frontiers of terrestrial and marine exploration opened rapidly. When the boom times return, so too will the economic feasibility of exploring far from points of export or refining/processing. A good example of this is the Southern Guinea Growth Corridor, whose Simandou project will soon start construction of a 650km railway from Rio Tinto’s iron ore mine to port. Fragile and pristine areas situated far inland, in the coastal zone or offshore will again be threatened – areas thus far unaffected by industrial development. These may not only be rich in biodiversity but also (probably because of this richness) support the livelihoods of marginalized and vulnerable communities.

New extractives ventures, especially in low-value/high-volume commodities (iron ore, copper, coal) require an extensive supporting infrastructure of road, rail, pipelines, electricity transmission, communications, etc. In many cases these developments, being linear in nature, are concentrated in corridors that link mines and rigs to ports, the names and acronyms of which are becoming increasingly

familiar: LAPSSET, TRIDOM, Simandou, Beira, Maputo and Ncala, to name but a few of the more than 20 African corridors in question.

Economic corridors appeal to governments because of the opportunities they present for attracting additional investments, regional integration and diversifying development opportunities – benefits that could endure long after extraction ceases. On the negative side, corridors potentially open up areas to illegal trade in forest and wildlife products, create barriers to migration routes, potentially introduce invasive, alien species and can act as vectors for diseases – something west Africa is very conscious of after the recent Ebola outbreak.

Corridors need to be planned and managed to maximize positive opportunities while minimizing potential negative impacts. Yet concerns exist that they are developing spontaneously and in an ad hoc way. There is little assessment of the accumulative impacts of numerous individual investments; the policies of different government departments are often inconsistent; development agencies and NGOs duplicate efforts and communications between governments; and developers and affected communities are limited. This is a recipe for conflict.

Corridors need comprehensive baseline information that identifies sensitive areas to be protected in situ. Each new investment or policy decision should be screened for compatibility with a sustainability vision. They need to anticipate and build in adaptation to predicted impacts of climate change. They need to recognize that protecting the integrity of ecosystem ‘infrastructure’, and the services they provide, is as important as developing engineered infrastructure. They need ongoing, multidisciplinary and multi-stakeholder dialogue. The keyword is *integration*. With this in mind, WWF has entered into a partnership with the UK’S Department for International

Development (DFID), the World Bank and others to develop policy guidance and a suite of tools (some new, some in need of more effective use) to support better integrated resource corridor planning. This will be based on the practical experiences and challenges facing several existing corridors<sup>15</sup>.

### *Up-streaming environment*

A common misperception is that environmental considerations can be left to project site-specifics. However, at this stage, the opportunity for truly strategic dialogue about compatibility of projects with sustainable futures has been lost.

A site-specific focus is, of course, critically important and no project should be undertaken without a rigorous Environmental Impact Assessment (EIA) in planning and Environmental Impact Management Plans (EIMPs) in construction, operation and closure. But EIAs, commissioned by prospective investors, too often attempt to justify decisions and protect investments already made. At best, EIAs may allow for the mitigation of negative impacts, highlight environmental and social risks to be managed and offer suggestions where feasible to improve layout, design and implementation of projects. It is not sufficient to relegate environmental considerations to mitigation or amelioration of projects.

It is not uncommon for stakeholders to only read about project proposals in the media when they have become faits accomplis. Inevitably, this forces some groups into reactive, adversarial positions and creates atmospheres of mistrust.

Strategic Environmental Assessment (SEA) is a remedy to this failing. SEA is an iterative, systematic process that evaluates the environmental risks and opportunities of proposed policies, plans or programmes. These will set the contexts in which projects will be implemented. SEA ensures environmental factors are given due consideration in strategic decision-

making on a par with social and economic factors. It assists decision makers to think through, with other stakeholders, how economic, social and environmental considerations can fit together, suggesting trade-offs should they be necessary. It provides a framework for more inclusive, transparent and better-informed decision-making and is, therefore, an important contribution to good governance. Without SEA, we risk turning today's economic development successes in to tomorrow's environmental and social challenges<sup>16</sup>.

## THE WAY FORWARD

From an environmental perspective, a framework is needed that can guide decision-makers through a series of difficult choices. At project level this is called the 'mitigation hierarchy'; this proposed strategic framework is an adaption of this process. The greater the uniqueness or vulnerability of ecosystems, the greater the need for emphasis on proactive avoidance rather than mitigation.

1. The best defence against environmental degradation and biodiversity loss is to reduce demand for new, 'greenfield' projects. This can be achieved by improving efficiencies in production and consumption, encouraging shifts to renewable technologies and product design (that builds in recyclable components, etc.) and influencing excessive consumer behaviour.
2. Decisions whether or not to approve new projects must be based on a balanced consideration of all factors – economic, social and environmental – through an SEA process. 'No Go' areas for extractives need to be unambiguously identified and treated as sacrosanct. Some areas and systems are just too sensitive or valuable (or the impacts cannot be reliably predicted to be effectively managed) to be

considered options for extractives developments. The starting point for 'No Go' areas is UNESCO's World Heritage Sites, which are globally significant and must be inviolate. To their credit, several extractives companies have agreed not to explore in them. Nevertheless, a precautionary approach is needed in order to prevent damage caused by less conscientious companies.

3. Beyond 'No Go' areas there are, of course, many other important areas – some with protective designation, some without. Extractives proposals in or close to them need to be assessed on a case-by-case basis.
4. When a decision falls in favour of an extractives project, it goes without saying that it must be implemented in a responsible fashion – avoiding, minimizing or restoring negative impacts. There is no shortage of guidance on what constitutes responsible policies and practice<sup>17-19</sup>.
5. As a last resort, and controversially amongst some conservationists, one option would be for compensation to be considered for unavoidable negative impacts. One compensatory measure for residual adverse impacts on biodiversity is off-setting. These measures are designed to fully counterbalance negative impacts.

## THE GOAL

All extractives projects, where they are appropriate, should aim to have net positive impact in terms of human development, environmental quality and biodiversity with no net loss being the bottom line. These concepts, of course, require practical definition – which is a work in progress.

## CONCLUSION

Historically, extractives projects have operated as enclaves, divorced from surrounding communities and landscapes

and dismissing their environmental impacts as externalities. There was no concept of shared 'stewardship' of the resources upon which they, and others, depend. Jobs were created, taxes and royalties paid, pollution controlled – and this was considered adequate.

However, the extractives sector's role in society is being challenged. Expectations are moving beyond simple site-specific responsibility, which is non-negotiable, to being better partners in sustainable development. This requires imagination. Although a cliché of sorts, the sector must actively seek to do good, as well as minimize harm<sup>20,21</sup>.

Reconciling economic growth with environmental protection is, of course, not a new challenge. We also know it is not possible to build a prosperous economy on a bankrupt environment. Environmental factors must underwrite development for it to be sustainable. Environmental dereliction must not be the trade-off for economic growth. If it is, the benefits will be short lived.

## ABOUT THE AUTHORS

Jon Hobbs is WWF's International Coordinator for the Extractives sector. He leads WWF's work in the sector globally out of Nairobi, Kenya. Prior to joining WWF, he spent 10 years with the UK's Department for International Development (DFID) in London as lead policy advisor on extractives. He has served on numerous boards related to mining, metals and environmental awareness including the Extractive Industries Transparency Initiative (EITI), the World Economic Forum's "Mining and Metals in a Sustainable World 2050" initiative, the Multilateral Financial Institutions' Environment Experts Group and the International Chamber of Commerce's Environment Committee. He is a past chair of the OECD's Development Assistance Committee's Environment Professional network (Environet) and of the World Bank's 'Communities and Small scale Mining' (CASM) initiative. He has also

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