Resource management and development: opportunities accorded by regional cooperation –the case of the Southern African Development Community

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Introduction

The Southern African Development Community (SADC) region comprises fifteen member States[2]. The mandate of the SADC as stated in the Treaty (Article 5) is "to promote sustainable and equitable economic growth and socio-economic development so that the region emerges as a competitive and effective participant in international relations and the world economy" (SADC, 1992). One area of focus within the SADC is the mining sector which holds enormous promise for economic growth and sustainable development. This promise is tempered, however, by significant disappointment with regard to the poor outcomes of exploitation of natural resources and sometimes crippling social and environmental legacies. Regional cooperation has the ability to address a number of these negative sequels and increase the likelihood of positive outcomes.

The mineral value chain has been well characterised. Equally well understood are the inputs required to develop robust and efficient components along such chains. Some of these requirements include skills in government to manage the sector and skills in industry to carry out activities. Other requirements include the appropriate investment climate and critical infrastructure in all its forms. Many countries in the region face similar challenges; however, their ability to respond is varied. This provides opportunities for cooperation in addressing these pressing challenges and maximising opportunities. The SADC has attempted these cooperative efforts, some of which are now advanced by the African Mining Vision (AMV) at a continental level. This paper explores the "what and how" of the SADC initiatives to foster cooperation in the extractive sector and offers some observations for potential ways forward.

The SADCC

The SADC was conceptualised as the Southern African Development Coordination Conference (SADCC). It was formed in Lusaka, Zambia, on 1 April 1980, following the adoption of the Lusaka Declaration – **Southern Africa: Towards Economic Liberation** by the nine founding member States (SADC profile). The original member States were: Angola, Botswana, Lesotho, Malawi, Mozambique, Swaziland, Tanzania, Zambia and Zimbabwe. The

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[2] Angola, Botswana, DR Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe

Declaration outlined the fundamental aims of the SADCC whose principal development objectives were:

- The reduction of economic dependence, particularly, but not only, on the Republic of South Africa;
- The forging of links to create a genuine and equitable regional integration;
- The mobilization of resources to promote the implementation of national, interstate and regional policies; and
- Concerted action of secure international cooperation within the framework of the strategy for economic liberation.

The first object is worth noting because it influenced the initial cooperative programmes. Following from this declaration, a number of sectors were identified for particular attention and each country was assigned the responsibility to coordinate a sector. The mining sector coordination unit was created in 1983 and Zambia was assigned as the lead country.

Member States identified projects for consideration by the technical committee comprising of senior officials in the ministries responsible for mining in member States. Thereafter the committee of Ministers responsible for mining considered and approved the projects. The projects were identified on the criteria that they must benefit at least two member States. For example, if it is a direct extraction project in country, that project must also benefit a second country. Promotion of a mineral laboratory in one country must be able to be utilised by another country as well. Most of the identified projects related to actual production. The project approach had its own shortfalls but it served its purpose during the time by enabling member States to:

- Identify common problems and opportunities arising; and
- Learn to work together, discuss common challenges and look for common solutions.

By 1990 it became apparent that the SADCC mining sector needed bold moves to promote private investment into the region. The sector coordination unit developed a 5-year Mining Strategy for the period 1992 to 1996, aimed specifically at attracting private sector investment. In implementing the strategy, six committees and working groups were created to cover geology, mining and marketing, mineral processing, environment, human resources development and information. These were primarily created to utilize the region's capacity in implementing projects. The subsectors were allocated to member States' groups, which would have the mandate to work on the specific projects and obliged to report progress to the Ministers during their annual meetings. Such an arrangement ensured that all member States were at least responsible for making contributions towards regional effort. Again what is apparent is that these discussions and resolutions were being taken by mining sector ministers without due regard to interconnection or linkages with other sectors whose roles would eventually be critical.

The SADC

The Declaration and Treaty establishing the Southern African Development Community (SADC) replaced the Coordination Conference and was signed at the Summit of Heads of State or Government on 17 August, 1992 (SADC, 1992). Member States now include the Democratic Republic of Congo (DRC), Mauritius, Namibia, Seychelles and South Africa making a total of fifteen. The Objectives of the Community as stated in the Treaty are to:

- Achieve development and economic growth, alleviate poverty, enhance the standard and quality of life of the peoples of southern Africa and support the socially disadvantaged through regional integration;
- Evolve common political values, systems and institutions;
- Promote and defend peace and security;
- Promote self-sustaining development on the basis of collective self –reliance and inter-dependence of member States;
- Achieve complementarity between national and regional strategies and programmes;
- Promote and maximize productive employment and utilization of resources of the region;
- Achieve sustainable utilization of natural resources and effective protection of the environment; and
- Strengthen and consolidate the long-standing historical, social and cultural affinities and links among the peoples of the region.

In 2001, the SADC restructured the 21 sectors that were under the region's programme of coordination into clusters under four directorates at the secretariat. The clusters were as follows:

- Trade, Industry, Finance and Infrastructure (TIFI);
- Infrastructure and Services (IS);
- Food, Agriculture and Natural Resources (FANR); and
- Social and Human Development and Special Programmes (SHDSP).

Instead of sector coordination at country level, it established SADC national committees to coordinate member State interests to the SADC. In this way it would be able to have country as well as region's coherent and coordinated strategy, which would enhance efficiency and effectiveness (SADC, 2003). The SADC developed the Regional Indicative Strategic Development Plan (RISDP) as a framework of integration agenda to provide strategic direction and align all sector policies, programmes and priorities. Trade, Industry, Finance, Mining and Investment were clustered together because "they are intrinsically related and can easily influence development and poverty reduction in the region" (SADC, 2013). Mining was thus placed in an ideal cluster where the initial thrust of the cluster was to improve the SADC investment climate and promote the region as an investment destination.

Table 1 shows some selected indicators of the SADC. The population of the region is approximately 281 million. The average growth rate is 3.8% as compared with a planned SADC rate of 7%. Only one country (Mozambique) was able to meet the target. The average annual inflation is at 7.4% and compared with the maximum target of 10%, which is reasonable apart from three countries that are slightly over 10%. There is thus scope for consensus that if the region follows up with competitive targets, it could in all probability attract the necessary investments, if other factors are also considered.

Table 1: Selected indicators for SADC member States, 2011

Member State	Population (Mid-Year, '000)	GDP (at current prices, millions USD)	GDP Per Capita (USD)	Real GDP Growth Rate (%)	Annual Inflation Rate (%)	Average Exchange Rate (Per USD)	Exports of Goods & Services (millions USD)	Imports of Goods & Services (millions USD)	Total External Debt (millions USD)	International Reserves (excl. gold, millions USD)
Angola	17,992	104,044	5,783	3.9	11.4	95.27	67,088	20,228	16,204	27,684
Botswana	2,025	17,727	8,754	5.1	8.5	6.80	6,820	7,725	4,007	8,824
DRC	75,259	23,700	315	6.9	12.6	919.44	10,133	11,501	4,518	1,273
Lesotho	1,879	2,366	1,259	4.3	5.0	7.30	1,157	1,986	786	1,344
Madagascar	20,696	10,025	484	0.5	9.5	2,025.10	2,657	4,110	2,637	1,263
Malawi	14,389	5,811	404	4.3	7.6	156.50	1,421	2,432	1,081	190
Mauritius	1,286	11,251	8,749	4.0	6.5	28.80	6,086	7,463	1,367	2,577
Mozambique	23,049	12,259	532	7.3	6.1	29.06	3,453	5,659	6,337	2,304
Namibia	2,105	12,704	6,035	4.9	5.1	7.15	5,499	6,643	4,385	1,775
Seychelles	87	1,014	11,602	5.0	2.6	12.38	478	876	461	279
South Africa	50,586	406,063	8,027	3.1	5.0	7.30	117,033	119,501	111,462	42,595
Swaziland	1,068	3,860	3,614	1.3	6.1	7.26	2,643	2,965	382	576
Tanzania	44,485	23,850	536	6.4	12.7	1,573.69	7,460	14,004	8,960	3,761
Zambia	13,459	19,207	1,427	6.6	8.7	4,797.00	9,047	7,637	3,648	2,167
Zimbabwe	12,754	10,068	789	9.3	3.5	1.00	3,645	7,047	14,317	n.a
SADC	**281,119**	**663,948**	**2,362**	**3.8**	**7.4**		**244,620**	**219,778**	**180,550**	**96,611**

Source: SADC, 2012

The SADC mining sector

The SADC region is rich in mineral resources. These include chromium, coal, cobalt, copper, diamonds, gold, platinum group metals, titanium mineral sands, bauxite, vanadium, gemstones and a variety of other industrial minerals. Consistent with this mineral wealth the region is a significant exporter of gold, chromium, platinum group metals, uranium, vanadium, cobalt, diamonds, copper, and nickel.

The mining industry plays a significant role in the economies of a number of SADC countries. Regionally, the sector contributes approximately 10% to Gross Domestic Product and 60% of total foreign exchange earnings. The sector also contributes about 5% to total employment. In general, the mining sector has played a major role in the development of infrastructure and has been a nucleus for the growth of major towns and cities (UNECA, 2009).

In 2005 the SADC through TIFI developed and adopted a framework for harmonisation of mining policies, standards, legislative and regulatory frameworks in Southern Africa (UNECA, 2004). This document, which was developed through consultation with governments and industry, benchmarked SADC practices against a competitive environment that was compiled from global competitive developing countries. The benchmark was termed the Competitive Investment Framework. Each member State could work towards the CIF at its own will as a sovereign state, in which case if all countries do or are motivated to do the same they will eventually have similar legal provisions. This can be used as a basis for a harmonised framework to attract investment and compete globally, while at the same time fulfilling the desire for regional integration. Of course individual states would make choices while moving towards the CIF due to differences in the history of mining, mineral endowment and the development level.

As expected, since this was a consideration by the mining sector, the following themes formed the harmonised framework:

- *Political, economic and social environment*, which deal with general macro-economic policy issues and not mining industry specific, but important to it;
- *General investment regulations*, dealing with state participation and exchange controls;
- *Mining fiscal environment*, dealing with international, national and local/regional government tax issues;
- *Mineral administration and development systems*, dealing with rules for licensing;
- *Artisanal and Small-scale Mining*, dealing with appropriate legislation for the promotion and management of the same;
- *Research and Development,* dealing with creation of new knowledge and innovation;
- *Human Resources and Skills Development*, dealing with skills shortages; and
- *Gender,* dealing with women participation in mining

Table 2 is an extract of the mining fiscal regime component from the CIF and shows progress between two time periods.

Table 2: SADC Mining Fiscal Regime.

Mining Fiscal Regime Parameters	2004 SADC Range	2011 SADC Range	2004 SADC Average	2011 SADC Average	2004 CIF Average	2010 CIF Average
Tax stability agreements	Yes/No	Yes/No	No	No	Yes	Yes
Corporate tax rate (national)	15% - 60%	25% - 40%	33%	32%	31.8%	23
Branch office tax	20% - 60%	25% - 40%	36%	33%	31.8%	25
Income tax credits for foreigners	Yes/No	Yes/No	No	Yes	Yes	Yes
Corporate tax on oil and gas	42% - 58%	35% - 65.75%	Not specified	Not specified	38.8%	37%
Minimum corporate tax	0% - 15%	0% - 15%	4%	4%	0.7%	1%
Additional profits tax	0% - 25%	0% - 25%	5%	5%	1.3	3%
Tax holidays (years)	0 – 10	0 – 10	3	5	0	0
Tax treaties	Yes/No	Yes/No	Yes	Yes	Yes	Yes

Deduct exploration/development costs (years)	1 - 5	1 – 5	2	100% deductible in year incurred	Yes	NA
Ring fencing	Yes/No	Yes/No	Yes	Yes	No	No
Forward carry of losses (years)	2 – indefinitely (25)	3 – Indefinitely	18	Indefinitely/ 16years (calculation)	Yes	Yes
Backward carry of losses	No	Not allowed	No	No	No	No
Maximum cost deduction	Unlimited	25% - Unlimited	Unlimited	Unlimited	NA	Yes
Depreciation (years)	1 – 25 (LOM)	1 – 25	9	20% SLD method over 5years	SL	SL
Capital gains tax	0% - 40%	0% - 40%	14%	24.9%	25.4%	24
Tax on assets	Yes/No	Yes/No	No	No	Yes	Y
Value added/sales tax	0% - 20%	0% - 30%	14%	15.6%	17%	17%
Fuel tax	Yes	Yes	Yes	Yes	Yes	Yes
Repatriation/dividend /withholding tax	0% - 25%	10% - 20%	14%	14%	1.3%	3%
Import duties	0% - 15%	0% - 90%/Mining exempt	3%	Discretionary exemption for Mining	0	0
Export duties	0% - 10%	0% - 10%/Mining exempt	1%	Discretionary exemption for Mining	0	0
Payroll tax	Yes	Yes/No	Yes	Yes	Yes	Yes
Land tax	Yes/No	Yes/No	Yes	Yes	Yes	Yes
Provincial (State) taxes	No	Yes/No	No	No	No	Yes
Municipal taxes	Property/Services	Property/Services	Services	Services	Services	Yes

Source: Mtegha and Oshokoya (2011)

From table 2, a few trends in parameters can be discerned. The 2004 SADC corporate tax rate range narrowed by 2011 and tended to average what was then the global practice CIF of 31.8%. Similarly the variation of branch office tax in the region behaved like the corporate tax. There were no changes in the minimum corporate tax and additional profit tax showing the desire for constant revenue inflows to governments. The same would be said about the increase in average capital gains tax from 14% to 24.9% close to the CIF level of 25%. Tax holiday periods remained static expectedly due to the countries' desire to attract investment. These reflected progressive movement towards the same goal, implying a harmonised outcome showing non-competitive behaviour. This would create a uniform environment for mineral sector investment community. There has been an upsurge of mineral activity in the region over the last few years in exploration and development. Undoubtedly there are many factors attributed to this, but certainly the sector environment predictability and improved macro-economic performance have contributed to this in some way.

An implementation plan has since been developed (UNECA, 2008). The implementation plan leaves out the broader requisites for attracting mineral investment, naturally because the mining ministries do have the necessary mandates over the areas. The themes are restricted to the ambits of the mining sector administrators and are:

- *Geological and mining information systems*, essentially working together to generate and disseminate information to potential investors;
- *Value Addition, Innovation and R&D*, concerning the promotion of these activities for linkages to other sectors of the economy;
- *Artisanal and Small-scale Mining*, concerning developing common strategies to promote a viable sub-sector;
- *Safety, Health and Environment*, dealing with working through common provisions to adopt similar principles;
- *Human Resources and Institutional capacities*, dealing with strategies to address the skills shortages;
- *Policy, regulations & administration*, dealing with adoption of similar provisions;
- *Social Issues and Gender*, dealing with common approaches to improve the same; and
- *Investment promotion*, essentially advocating several initiatives as a region and particularly the continuation of SADC Mining Investment Forums.

Integration into Trade, Industry, Finance and Investment cluster

Some initiatives by the TIFI cluster were of direct benefit to enhancement of the mining sector. Among these initiatives include the following:

- Finance and Investment whose main activities included –
    - Improving investment climate, whose aim is to "encourage movement towards regional macroeconomic stability and convergence through prudent fiscal and monetary policies" (SADC, 2003). This was indicated in the first

three items in the harmonisation framework of the mining sector and could not be included in the implementation plan as indicated above. Table 1 has these elements.

    - Development of SADC investment portal, information database on investment climate and opportunities. This is ideal for promotion of the region's mining sector, prospects and conditions.
    - Establishment of SADC Investment Promotion Agency (SADC IPA Forum) is appropriate as a first point of call for potential investors.

- Industrial Development Policy Framework
    - Under SADC industrial upgrading and modernisation programme, there were several initiatives including agro-processing, mineral processing and beneficiation, and pharmaceutical sectors as focus areas for pilot stage development. The aim of this initiative is to facilitate diversification and growth by the promotion of value chain production. In the mineral sector this includes both upstream and downstream opportunities, which would in turn provide the necessary job creation opportunities and hence poverty reduction.
- Infrastructure Development
    - Energy initiatives, which aim to assure availability in sufficient quantity and at least cost energy services. This goes a step further by aiming for environmentally sustainable use of energy resources. Energy is key to the mining sector and critical when processing facilities are encouraged in the SADC. The aluminium processing facility in Mozambique is a case in point which uses low cost local energy with imported raw material (bauxite). Strategies that are implemented include cross border transmission projects to facilitate distribution of power from generation to demand areas. This would enable development of stranded mineral deposits if constrained by lack of energy.
    - Transport initiatives, which aim at facilitating mobility and reduction of production costs. In this regard, addressing the problem of access to cost effective and efficient networks. The SADC agenda aims at facilitating inter-trade as well as exports. This fits snugly with the requirements of the mining sector, where issues of high import costs and remoteness of deposits (like energy above) tend to raise the required rates of return on projects way beyond global practices. The other opportunity afforded by transport initiatives is the identification of transport corridors. Two are on the programme so far (Nacala Development Corridor and the North South Corridor encompassing several countries). These have accorded opportunities for identification of mining projects which would not normally have been considered for development, because they were initially stranded.

Another critical element related to the mineral sector is the SADC Environment and Sustainable Development initiative within Food, Agriculture and Natural Resources. The initiative focusses on harmonisation of policies, mainstreaming environment, monitoring and reporting and at the same time addressing climate change and regional programming issues. Additionally it provides opportunities to develop codes of best practice for environmental planning, social requirements and reporting requirements and working in conjunction with the RISDP it is delivering benchmarking data particularly as it relates to mine closure and rehabilitation.

Lessons

The progression from project approach of mineral development from the 1980's to integrated approach is a story of learning from each experience and applying the lessons to the next set of challenges and opportunities. Using international best practices as frameworks provides opportunities for regions to benchmark their practices, as well as at individual country level, for competitiveness. The RISDP provides a very good opportunity for a cross-sectoral approach to mineral resource development and provides solutions to challenges that are not necessarily unique to the sector. This emphasises that the mining sector is only part of a national economy and cannot be considered in isolation, neither can the sector viably be developed with the input of minerals professionals only. This initiative adds value to mineral resource development and links sectors.

Conclusion

For developing countries with a myriad of challenges, there is scope to enhance mineral development through a regional approach. The SADC is showing that critical challenges can and are being addressed. Through a combination of discipline, specific activities that focus on the extractive industries coupled with regional attention to economic linkages through programs such as the RISDP the benefits imagined can be realised whilst at the same time minimising the potential negative consequences. The results are likely to be enhanced investment, which should contribute to sustained economic growth and socio-economic development.

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