POLICY BRIEFING 86

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Mining and Development: Lessons Learnt from South Africa and Beyond

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RECOMMENDATIONS

- Policy stability and legislative clarity are prerequisites for ensuring sustained, inclusive growth. Governments have much to gain from achieving this.
- At a country level, research is required to inform policy to better understand the context-specific incentive structures generated by historical institutional formation.
- Mining and labour policies should be coherently integrated to reflect development objectives that result in mutual gain for all stakeholders.
- In each mining jurisdiction in Africa stakeholders must build trust between business, labour and the state. Multi-level efforts tailored to encourage this trust are imperative.

EXECUTIVE SUMMARY

Africa is blessed with an abundance of mineral resources, yet it remains poor by most measures. Recent high growth rates have yet to translate into inclusive development. The continent must harness its mineral wealth to build human capital and industries that allow it to diversify away from commodity concentration. Commodity-dependent economies are susceptible to price volatility in global markets, which makes long-term planning difficult. Mineral resources are also finite. Diversification through immediately available mineral wealth is critical to long-run wellbeing. However, diversification funded by mineral wealth requires material improvement in the institutions governing mineral extraction. A better understanding of the incentives generated by formal and informal institutions is critical for successful implementation of resource governance initiatives on the continent. Reflections on South Africa's mining governance and industrial relations frameworks demonstrate how important context-specific understanding is for crafting policies that gain meaningful development recognition.

INTRODUCTION

This briefing reflects on the lessons learnt over three years of study by the Governance of Africa's Resources Programme (GARP) on the relationship between mining and development in Africa, using the South African experience as a prism through which to do so. Prevalent in the discourse since the independence of many African states is the charge that mining has created enclave economies, benefiting neither the country nor near-mine communities in terms of its potential contribution to sustainable development outcomes. However, many well-intentioned governance initiatives in this respect have struggled to gain acceptance. Evidence increasingly points to the importance of understanding incentive structures generated by country-specific institutions for formulating development policy that optimises a country's natural resource wealth. This briefing therefore argues that governance initiatives need to examine more closely evidence and insight gained from research, to better understand underpinning institutions and the incentives they generate.

The analysis begins with a brief overview of the relationship between mineral dependence and development outcomes. Second, it reflects on the importance of institutions for understanding this relationship. Third, it explores in greater depth the country-level insights emanating from the last three years of GARP's work on mining and development in South Africa. This discussion highlights specific, relevant lessons towards ensuring that extractive governance initiatives gain both policy traction and achieve practical development outcomes in the broader continental context.

MINING AND DEVELOPMENT

Sub-Saharan Africa is heavily dependent on mining for spurring economic growth: the average ore and metal exports (as a percentage of total merchandise exports) is 18.9%. Its human development score (different from the more common United Nations' Human Development Index) is, however, only 54.6 (where 100 is excellent and 50 is weak).[2] Botswana scores 80.3 (with mineral exports at 8.4% of total merchandise) and Zimbabwe 51.8 (with mineral exports at 39.5% of total merchandise). That the region is closer to Zimbabwe, on average, than Botswana suggests room for improvement. Arbache and Page contend that 'governance indicators have declined since 1996 for the region as a whole and for the resource-rich economies compared with non-resource-rich economies during growth accelerations . . . suggesting the possibility that in mineral-rich economies booms are accompanied by adverse governance outcomes that may eventually reduce further growth.'[3] They find that Africa's growth accelerations have generally not been accompanied by improvements in variables correlated with long-run growth, concluding that growth recovery on the continent remains fragile. This is a crucial insight, as it moves beyond the 'resource curse' literature that, since 1995, has focused on the paradoxical relationship between resource abundance and slow growth. It recognises fast growth in mineral-wealthy countries, but focuses on the importance of governance in determining the ultimate quality of this growth for meaningful development.

BEYOND THE 'RESOURCE CURSE': INSTITUTIONS ARE CRUCIAL

A prominent strand of the 'resource curse' literature contends that resource wealth is not deterministic of either positive or negative development outcomes. Some resource-wealthy countries developed institutions[4] that upheld the rule of law, protected property rights and placed self-enforcing limits on the exercise of executive power;[5] all of which are essential to catalyse sustained investments in human and physical capital, and bring about economic diversification and sound economic performance. A major *research lesson* is that analysts have been asking the wrong question. The question should not be 'why does resource abundance appear to be correlated with underdevelopment?', but rather, 'why do some countries succeed and others underperform, given similar levels of resource wealth?' The literature has increasingly emphasised the importance of institutions at the time of discovering resource wealth and their key role in shaping development outcomes.

Robinson, Torvik and Verdier argue that 'the political incentives that resource endowments generate are the key to understanding whether or not they are a curse'.[6] The major *policy lesson* is that resource wealth can be a blessing by strengthening institutional quality, as institutions mediate political incentives. The focus on institutions obviates the idea that natural resources are inherently detrimental to a country's development prospects. Countries with strong institutions tend to harness their resource wealth more optimally. The lesson for policymakers is that institutions are flexible and can be improved in relatively short periods through learning from the relevant experience of these countries.

SPECIFIC INSTITUTIONAL LESSONS

Africa has recently seen growing attention and specific responses to the perception that mining has failed to contribute to development in mineral-rich countries. Despite a recent episode of sustained growth, ordinary people perceive that they have not benefitted from the commodities boom. In reflecting on a new generation of mining codes from across the continent, Besada and Martin observe an effort to formulate policy that coheres with the African Mining Vision[7] *on paper*. In reality, however, they find that contracts are secretly negotiated on terms that do not fit the relevant code:[8]

> Corruption and patronage in the contracting and licensing of mining concessions impede efficient tax administration and undermine the popular legitimacy of foreign-owned mining operations. Yet even policy mechanisms like the [Extractive Industries Transparency Initiative] EITI, which explicitly target transparency, are unlikely to reduce rent-seeking behaviour without more fundamental institutional changes in African countries, including respect for the rule-of-law, independent judiciary and legal systems, and an informed and engaged citizenry.

Both institutional change and institutional persistence are equilibrium outcomes of the interaction between beliefs, culture, norms and historical path-dependence. Corruption and patronage will not disappear overnight because a new mining code has been developed. This is not an argument against robust laws on paper, but a policy lesson that more research is required to understand country-specific institutional arrangements and the incentives they generate. Better research may increase the likelihood of formulating mining legislation (one of the most critical institutions) that is incentive-compatible with the distribution of political power, and credibly builds inclusive development. The external imposition of best-practice governance initiatives without credible co-operation between all stakeholders at country level is likely to fail.

SOUTH AFRICA: LESSONS LEARNT

South Africa scores relatively well on the World Bank's Governance Indicators for rule of law (58.2%) and control of corruption (58.8%). Its share of ore and metal exports as a proportion of its total merchandise exports is high for a middle-income country at 35.1%. It scores relatively highly on human development (76.6%), but its economic growth performance has been weak in the regional context. In the wake of the Marikana tragedy of August 2012 in which police killed and injured striking mineworkers, the relationship between mining and development has been brought into sharp focus.

South Africa has performed poorly in the Fraser Institute Survey that measures the relative exploration–investment attractiveness of global mining jurisdictions, being placed 61st in 2009 (out of 72 jurisdictions surveyed) and 64th (out of 112) in 2013. Its mining industry contracted at a rate of 1% per year during the 2001–2008 commodity boom, while its top 20 competitors grew at a rate of 5% per year. Mining companies have also been accused of not paying workers a living wage.

In exploring the underperformance of South Africa's mining industry and its potential to contribute to inclusive sustainable development, GARP's research has revealed four crucial lessons.

First, policy stability and legislative clarity are crucial for attracting private investment. South Africa's mining law, the Mineral and Petroleum Resources Development Act 28 of 2002, has failed to provide this clarity. It was criticised for containing excessive ministerial discretion. The Mineral and Petroleum Resources Development Amendment Bill (MPRD-AB, 2013) also met with criticism; for instance, the specific process and conditions under which rights will be granted remain unclear. An Occasional Paper by Bello *et al* provides an assessment of various options for mineral rights allocation by the Department of Mineral Resources.[9] The major policy lesson, applicable in the continental context, is that clear rules enshrined in legislation are preferable to executive policy discretion. While discretion may appear beneficial in the short run, especially to stimulate certain developmental outcomes, it could produce unintended negative consequences over time, such as discouraging investment, and undermining transparency and accountability. Rights allocation processes are one of a mining jurisdiction's most important micro institutions. Whichever system is to be employed (or some combination of first-in-first-assessed and competitive bidding) should be clearly articulated in law. Institutional discretion may generate incentives for unproductive rent-seeking.

Second, labour legislation should be crafted through inclusive public participation processes, especially in labour-intensive sectors such as mining. South Africa's Labour Relations Act 66 of 1995 is fundamentally undemocratic. In particular, balloting is not required before embarking on strike action, which allows union aristocracy power over its rank-and-file members as their preferences are not formally gauged. Enshrining balloting rights into labour law is a fundamental pillar of stable industrial relations and, by extension, a stable extractive sector.

The South African mining industry is caught in a type of prisoners' dilemma where workers are coerced into striking for lengthy periods and mining companies refuse to accede to unaffordable wage demands. To escape this mutually destructive current outcome, a focal point from which to arrive at a more mutually beneficial outcome must be established.[10] More broadly, the major policy lesson is that labour unions and mining companies should consider establishing employee share ownership schemes and profit-sharing arrangements in every new and existing mining project.[11] This would ensure that unions value co-operation over violence, and mining companies contribute more directly to development. In policy terms, governance initiatives should consider how to align incentives between stakeholders with differing interests.

Third, each country in Africa has unique institutions that reflect a level of historical path-dependence. Migrant labour, for instance, portends relatively unique challenges in South Africa because of its colonial and apartheid past interacting with the minerals–energy complex as the backbone of the economy. Policies should be crafted based on a solid understanding of historical institutional formation. Changing incentive structures is more nuanced than sweeping recommendations suggest.

Fourth, building trust between business, labour and the state is crucial for realising the overarching policy goal of harnessing mineral wealth for more inclusive development. In South Africa, and at continental level, reorienting the rules of the game to become clearer and more democratic is a crucial first step. Commitment to transparency in revenue flows, for instance, is critical to overcoming the unproductive rent-seeking that threatens to undermine the potentially positive welfare effects of mining in Africa. Country-specific institutional understanding is a prerequisite.

CONCLUSION

Mining has the potential to contribute positively to Africa's economic wellbeing through economic diversification, and investments in human and physical capital. The current correlation between mineral wealth dependence and poor governance indicators requires a simultaneous continent-wide and country-level effort to reverse. To realise inclusive development, policymakers need to develop a nuanced understanding of each country's specific institutional arrangements and the relative incentives they generate for the state, labour and business. The lessons learnt from examining the relationship between mining and development in South Africa specifically contribute to this end.

ENDNOTES

1 Ross Harvey is a Research Fellow with GARP at SAIIA.
2 World Bank, 'World Development Indicators', databank, Washington, DC: World Bank. http://databank.world bank.org/data/views/variableSelection/selectvariables.aspx?source=world-development-indicators, accessed 21 March 2014.
3 Arbache JS & J Page, 'How fragile is Africa's recent growth? *Journal of African Economies*, 19, 1, 2009, p. 21.
4 In the tradition of Douglass North and others, 'institutions' are conceptualised as 'the rules of the game', or the humanly devised constraints on the exercise of power. Organisations are then players within the game, and thus distinct from institutions.
5 Acemoglu D & J Robinson, 'The colonial origins of comparative development: An empirical investigation', *The American Economic Review*, 91, 5, 2001, pp. 1369–1400.
6 Robinson JA, Torvik R & T Verdier, 'Political foundations of the resource curse', *Journal of Development Economics*, 79, 2, 2006, pp. 447–468.
7 Designed by the African Union as a continent-level vision that would inform country-level visions. See Africa Mining Vision, website, http://www.africaminingvision.org/index.htm.
8 Besada H & P Martin, *Mining codes in Africa: Emergence of a "4th generation"?*, research report. Ottawa: The North–South Institute, May 2013.
9 Bello O, Benkenstein A & R Harvey, 'Assessing Competitive Resource Tenders as an Option for Mining Rights Allocation in South Africa', Occasional Paper 159, October 2013. Johannesburg: SAIIA, http://www.saiia.org.za/occasional-papers/assessing-competitive-resource-tenders-as-an-option-for-mining-rights-allocation-in-south-africa, accessed 28 March 2104.
10 Harvey R, 'Marikana as a Tipping Point: The Political Economy of Labour Tensions in South Africa's Mining Industry and How Best to Resolve Them', Occasional Paper 164, November 2013. Johannesburg: SAIIA, http://www.saiia.org.za/occasional-papers/marikana-as-a-tipping-point-the-political-economy-of-labour-tensions-in-south-africas-mining-industry-and-how-best-to-resolve-them, accessed 28 March 2014.
11 Harvey R, 'Releasing the Prisoners from their Dilemma: How to Resolve Labour Tensions in South Africa's Mining Sector', Policy Briefing 81, December 2013. Johannesburg: SAIIA, http://www.saiia.org.za/policy-briefings/releasing-the-prisoners-from-their-dilemma-how-to-resolve-labour-tensions-in-south-africas-mining-sector, accessed 28 March 2014.

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