

## MINING IN AFRICA

# Improved governance crucial for better natural resources management – Norwegian ambassador

Picture by: SAIIA

TIM HUGHES Artisanal mining contributing to Africa's natural resources challenges

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### **Africa's natural resources are both a blessing and a curse, with good governance remaining an ongoing Holy Grail.**

While current Botswana President Festus Mogae uses the country's natural resources to educate and improve the health of its citizens, former Liberian president Charles Taylor is being tried in the World Criminal Court for doing the exact opposite.

Elsewhere in Africa, the illegal exploitation and irresponsible management of natural resources continue to finance wars and to fuel conflict.

Norway has agreed to fund an initiative that is designed to assist the continent of putting its natural resources to good use. That is the Governance of Africa's Resources Programme, which being conducted by South Africa's Institute of International Affairs (SAIIA).

Motivating his country's important gesture, Norwegian ambassador to South Africa Christian Hildan points out that Norway has been blessed by its natural resources and would like to see natural resources being a blessing for Africa as well.

Hildan makes the point, however, that improved governance is crucial for the better management of natural resources.

This has to take the form of anticorruption programmes and proper legislation, underpinned by external financial support and the political will of host governments.

Among the tools that are being used to rid Africa of its resource curse is the Extractive Industries Transparency Initiative (EITI), which aims to defeat poverty, corruption and conflict through transparency and accountability.

Implicit in EITI's effectiveness are sound governance systems and adequate capacity to monitor extraction.

SAIIA chairperson Fred Phaswana agrees that that Africa's resource wealth often correlates with low human development indices, high levels of corruption, acute inequality and, far too frequently, conflict and war.

He believes that key challenges facing Africa are better understanding and management of natural resources in order to propel the continent on to a new path of development.

"So pernicious has been the resources curse for millions of Africans that serious scholars have sometimes questioned whether it would be better for African countries to rather leave the resources in the ground," Phaswana says.

### **A MIX FOR WAR**

More than 60 metals and minerals – 30% of the world's mineral reserves, 40% of its gold, 60% of its cobalt and 90% of its platinum – are produced by African countries, along with diamonds,

uranium, manganese, chromium, nickel and bauxite. Africa's oil resources are growing in importance, as are its tropical rain forests.

SAIIA calculates that, with every 5% increase in an African country's mineral dependence, military expenditure increases by at least 1,7%, leaving less for social welfare, poverty alleviation and a reduction in child mortality rates.

While Angola ranks 151st out of 155 countries in the world's country-corruption rankings, its petroleum, gas and diamond extractions were 20% up in 2005 and 14,6% up in 2006.

Currently the embodiment of challenge and opportunity lies within the Democratic Republic of Congo (DRC) – the country with the world's second-largest forest resources and enormous agricultural potential, but one that has suffered four million deaths to civil war.

DRC remains the world's poorest country with a per capita gross domestic product of only \$120, stunted by continuous rebel infiltration and conflict, despite being the prettiest girl on the mining block.

Likewise, Africa's largest country, Sudan, has substantial oil reserves, but also a loss of two million lives to resources-driven civil conflict.

At the root is poor resource governance that ignores making use of windfall incomes to pay off debt, rehabilitate infrastructure, capacitate the state sector, invest in education and health, and promote the diversification of African economies away from commodity dependence.

"The concomitant threat of high commodity prices, however, lies not only in the perpetuation and deepening of the resources curse, but the increased potential for civil, national and international conflict over the continent's increasingly prized resources," Phaswana warns.

Stressing the ever-increasing complexity of the matrix in which Africa's resources are being exploited, he emphasises that good governance, environmentally sound and sustainable policies have to be at the core of the ethos, planning and operation of all mining companies.

## **WHO'S THE BOSS?**

The governance of Africa's natural resources is one of global relevance because it is the global market that consumes most of Africa's resources.

Phaswana says the corporate sector thus has a key responsibility in the governance of natural resources.

"The reality is that the major multinationals are able to attract and pay for the best and the brightest, placing them in an extraordinarily powerful relationship to African governments themselves, often stripped of their brightest and best by the lure of a better life in the north," he says.

Organised civil society, including most particularly, researchers, think tanks, activists, trade unions and the media are also placed at the forefront of responsibility.

"Organised civil society is often closest to events on the ground, and so, must be at the heart of considerations when planning new projects in the resources sector. Civil society serves as the political and economic eyes and ears of any country, particularly those suffering from unrepresentative or corrupt government. Civil society is uniquely placed to probe, question, challenge and lobby without fear or favour.

"However, more than this, civil society must be seen as a key partner in the development of any

programme or project in the resources sector in Africa. Although trade unions are generally weak in Africa, they can still play an important role in negotiating better and more sustainable conditions of the extraction of Africa's natural resources.

"But only governments make policy, pass laws, have a monopoly on the legitimate use of force, can issue mining licences, oil blocks and logging concessions. And, only governments have the power to tax and spend public monies. Consequently, it is critical that governments, in resource-rich African States, carry out their mandates and responsibilities with the broad public interest in mind," he says.

Above all else, he stresses how important it is that governments ensure a stable, open, honest and sustainable legal framework for the exploitation of resources.

"They must assiduously ensure that contracts are both transparent and secure, that resource revenues are equally transparent and expended in a manner that ensures the sustained growth of the country as a whole, rather than that of kleptocratic elite.

"Windfall revenues should be used to build up long-term reserves for revenue smoothing during downturns in the commodity cycle. Investment must be made in programmes of economic diversification. We must bring to an end, once and for all, the era of boom and bust of resource rich African economies and most of all, we must root out in all its forms of greed, corruption and short-sighted selfishness of the all pervasive rent-seeking behaviour characteristic of some African governments," he states.

## **DIAMONDS, A MAN'S WORST FRIEND?**

Diamonds, among others, have been the cause of major African wars, and the death of millions and, therefore, initiatives such as the Kimberley Process (KP) and the Diamond Development Initiative (DDI) has become key instigators of furthering peace among countries and stronger regulations of the extraction of diamonds.

Governance of Africa's Resources Programme head Tim Hughes describes the KP as work in progress, as it still is unable to halt the igniting civil wars over natural resources, but he praises the process for ensuring that wars in Angola, Liberia and Sierra Leone are a thing of the past.

"Countries such as the DRC and Côte d' Ivoire still pose many challenges, but even though civil war is rife in these countries, progress has been achieved," he says.

According to the Global Witness and the Partnership Africa Canada (PAC), Venezuela is the only country that has not invited a review by the KP, and Brazil was in the possession of a fraudulent KP certificate, and thereafter found itself suspended from exporting diamonds since 2006. Ghana also found itself suspended in 2006 from the KP as it was not KP compliant.

At the KP's fifth plenary session in Brussels, action was taken on Venezuelan noncompliance and on strengthening control of rough diamond trading and manufacturing.

Nongovernmental organisations (NGOs) welcomed a Brussels declaration that calls on trading and manufacturing countries to carry out effective enforcement measures to ensure adequate government oversight of trade in rough diamonds.

"Weak controls and enforcement in major trading and manufacturing centres are undermining the effectiveness of the KP and allowing conflict and illicit diamonds to enter the legitimate trade," says Global Witness campaigner Annie Dunnebacke, who urges countries to move quickly to strengthen internal controls.

"Many KP member governments are not meaningfully engaging civil society organisations in KP

implementation in their home countries. The KP has everything to gain from broadening, deepening and financing civil society participation,” says Association of Environmental Lawyers of Liberia (Green Advocates) president and founder Alfred Brownell. “We in West Africa are a long haul away from prosperity diamonds.”

NGOs are calling on India, as the incoming KP chair to close loopholes in cutting and polishing centres, of which it has the world’s largest.

Hughes stresses that many KP challenges remain, as small-scale artisanal extraction of diamonds from alluvial deposits still remain a large contributor to conflict diamonds.

He puts artisanal alluvial diamond production at 15% of Africa’s total production and an employer of 700 000 in DRC, 120 000 in Sierra Leone and tens of thousands in Angola, Cote d’Ivoire and Liberia.

Artisanal alluvial diamond mining occurs mostly in countries with uneconomic consequences for most producers.

“While large diamond mining companies are financially stronger than many African governments, and thus operate in a relatively unequal power dynamic, the converse also holds that large mining houses are subject to close public and media scrutiny, codes of corporate governance, shareholder and stakeholder activism as well as industry-wide codes, such as those of the International Council on Mining and Metals. By contrast, small-scale and artisanal miners in Africa generally operate in a twilight zone of no regulation and little accountability.

“For as long as diamonds, and in particular diamonds produced by artisanal diggers in African countries, remain a form of parallel, grey or shadow currency, bypassing the formal banking system, the greater the likelihood that unlawful and criminal activity will flourish,” he stresses.

Hughes says that tax evasion is rife when diamonds are used as a parallel grey currency.

“Given that most alluvial artisanal diamond mining in Africa takes place in three countries devastated by civil war, Angola, the DRC and Sierra Leone, any form of tax evasion or bypassing of the formal economy threatens the state’s ability to govern, let alone embark on sustainable reconstruction and development programmes.

“Encouragingly, however, the KP has not only curbed the sale of conflict diamonds but has also helped to force out illicit diamond production. As a result, diamond revenues in Sierra Leone rose from a mere \$1-million in 2000 to \$142-million in 2005.

“In the DRC, diamond revenues are now close to \$1-billion each year. In more practical and micro-economic terms the informal and grey market operation of artisanal diamond mining means that small scale miners are unbanked and fall outside of the formal financial system and are thus, unable to access or secure microloans to develop their own operations or purchase equipment to make them more independent and less exploitable. The implications of the continuation of these chains of financial dependence are profound as it ensures the production and reproduction of acutely exploitative dependency relations between mine owners, the tributor system and diggers,” he says.

The second area of challenge is to improve the regulatory framework governing artisanal alluvial diamond mining.

“There is a jagged, unpredictable and unclear governance, regulatory and licensing regimes of Africa’s natural resources by African governments. Basic land tenure, property ownership and usage rights are often ill defined or contested, which is predominantly challenging given the geographically diverse environment of alluvial diamond mining.

“Existing land registry records are often out of date as well as being scantily examined and defined in rural West and Central Africa. Land ownership and usage is often subject to numerous claims from traditional leadership, local authorities, and commercial claims. For example, no geological examination of Sierra Leone’s alluvial diamond fields has been performed since the 1960s. Even in South Africa, the Richtersveld judgement in favour of local residents forcibly removed from their land in the 1920s holds consequences for the South African State-owned diamond miner Alexkor,” he adds.

He remarks that even though there has been nominally sound mining policy and legislation in some cases, ministerial capacity shortages still remain a norm, which reduces the policy and legislation, masking the reality of the impact artisanal diamond mining has on the industry.

“Even in situations where supposed sound mining policy and legislation has been passed, ministerial lack in capability remain the norm thereby reducing policy and legislation to a fig leaf covering the often severe reality of artisanal diamond mining. Transparency continues to add highly problematical issues to the implementation of good governance as African governments remain notoriously guarded on matters of mining, minerals and revenues,” he says.

He notes though that with the exclusion of Botswana, South Africa and Namibia, other resource rich African countries rank extremely poorly on the annual transparency international perceptions index.

Even though peace has been established between warring factions in many diamond-rich countries throughout the continent, he stresses that the warlords have reinvented themselves as landlords, labour brokers and criminal entrepreneurs controlling more than one facet of artisanal alluvial diamond mining.

“The artificially low prices paid to local producers by middlemen, in countries such as Sierra Leone and the DRC, also incentivises producers to bypass these channels and smuggle rough diamonds illegally, but more profitably,” he adds.

He continues by adding the dearth of relevant information, technology and infrastructure to the structural challenges faced in artisanal alluvial diamond mining that may be able to improve economic and working conditions for these miners.

“Artisanal diamond labourers typically lack even the most basic equipment and are ‘loaned’ equipment by suppliers in the tributor system, which in turn is paid off by labourers handing over their diamond finds. The miners do not comprehend the true worth of the stones and typically receive a pittance in lieu of payment,” he says.

He accents the fact that even though these labourers work rigorously, they receive extremely low wages and their working conditions are highly exploitative, and many of these miners are children.

Artisanal mining also contributes largely to the ever-growing global ecological problems, as the ecosystem gets deleterious, because legislation and regulatory monitoring does not exist.

Even though mining companies are increasingly scrutinising the impact mining has on the environment, artisanal miners are not.

“The geographically and topographically diverse and often casual nature of artisanal mining makes the governance of such undertakings extremely taxing. The post-mining restoration and rehabilitation of artisanal alluvial mining hardly happens. Communities are being dislocated, disrupted and conflict, environmental degradation and underdevelopment are inflicted upon local communities,” he says.

Criminal activities plague areas where artisanal alluvial diamond mining takes place.

“Criminal systems permeate West, Central and Southern Africa and persistently use natural resources, with diamonds being a currency of choice, to fund their activities. This is not to deny the existence of criminal networks in well regulated, governed and policed jurisdictions such as South Africa.

“These networks typically also have regional and international dimensions and linkages and continue to use diamonds as a fungible currency for the purchase and exchange of weapons, drugs, vehicles, property, legitimate businesses, or simply cash.

“These criminal networks subvert local policing and customs officials through pervasive bribery and corrupt practices, chains of nepotism and cronyism, and the economic, financial and logistical linkages between criminal networks and terrorist movements is now well-documented and the social economy around the production of alluvial artisanal diamond mining in West and Central Africa in particular, make it an ideal link in such a criminal or terrorist helix.

“Although many challenges are still faced, DDI and KP are showing progress. Civil war and conflict on the African continent are at their lowest ebb since the 1960s. More particularly peace, albeit sometimes fragile and tenuous, has returned to the significant alluvial diamond regions of producing countries such as Angola, Sierra Leone, the DRC and Liberia. Although far from consolidated, electoral democracy in these countries shows signs of taking root, with the prospect of improved political and economic governance to follow.

“The task lies with governments to govern, take responsibility for establishing and maintaining an environment conducive to the success of the DDI rests principally and ultimately on governments themselves,” Hughes says.