



*Strengthening Africa's Economic Performance*

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## Case Studies on the Impact of South African Mining Investment in Africa

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### Executive Summary

Mining has always been an important economic activity in Africa, but especially since colonial times, large volumes of minerals have been mined and processed for international markets. From the first diamond rush in South Africa in the early 1870s, Africa's mineral economy has grown significantly, and the continent has become a strategic producer of precious raw materials. Today, mining makes the largest contribution to the gross domestic product (GDP) of many African states.

Africa produces more than 60 mineral products, including several of the world's most lucrative and important minerals such as gold, platinum and diamonds. Although still under explored and underexploited, Africa is estimated to hold 30% of the world's total mineral reserves, including 40% of its gold.

Current mineral exploration and extraction of precious metals in Africa are primarily centred on diamonds and gold. These sectors are poised to grow in importance and size because of new discoveries and improving global prices. Countries such as Botswana, Mali, Senegal, Ghana, Angola and the Democratic Republic of the Congo hold the greatest potential for untapped gold and diamond deposits.

Although European mining companies have historically dominated the majority of foreign direct investment (FDI) into Africa, South Africa is emerging as an increasingly dominant and important foreign investor, especially in the Southern African Development Community region and increasingly in West Africa. Over the last decade, South African gold and diamond mining companies have made important contributions to the national economies of a number of African nations. Companies such as AngloGold Ashanti, Goldfields, De Beers and Randgold Resources are now operating on a large scale throughout Africa.

South African gold- and diamond-mining companies bring with them a high degree of technical expertise and large amounts of capital for new explorations and mining ventures. Due to a well-established mining sector at home; the ability and willingness to take risks; a good understanding of regulatory frameworks, mining laws and business practices in the countries where they operate; and South African government support for mining ventures outside the country, South African mining companies have been largely successful in their operations across the continent.

### Introduction

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A substantial number of South African mining companies are involved in operations across the continent. Mining activity is the largest source of revenues and hard currency earnings for many African states. Activity in this strategic sector not only contributed significantly to the GDP of many African states, but also to local economic development. Key areas of importance are infrastructure development and employment, but involvement in poverty alleviation programmes benefit local communities long after the ceasing of mining operations in these areas. This study will assist mining companies wishing to expand their operations in other parts of the continent and will provide guidance to African governments on how to work with the mining industry to ensure sustainable development on the continent.

In so doing, it attempts to shed light on the constraints and challenges faced by South African and other multinational mining companies in the precious metals industry across the continent. Thus, it hopes to contribute to a greater understanding of the successes and shortcomings of African countries in attracting and retaining FDI in the mining sector by evaluating the effectiveness of existing regulatory regimes, including concessions and incentives. More importantly, it seeks to analyse the extent to which FDI in the mining sector has led to economic development and poverty alleviation in some countries whereas in others it has resulted in ecological degradation and worsening social conditions.

This research paper is based on a series of interviews conducted principally with South African and to a lesser extent, other multinational mining companies operating in the gold and diamond sectors of Africa. The research gathered from these interviews laid the foundation for the case studies dealing with the impact of South African mining companies doing business in Ghana, Mali, Botswana and Namibia. These four case studies identify some of the positive and negative impacts of South African mining investments in these states as a point of departure for continued work focusing on the constraints and challenges facing foreign investors who are doing or planning to do business in these countries.

## **Namibia**

In Namibia, diamonds have had a strategic importance to the national economy since the South African company De Beers made the first discovery in Luderitz in 1908. In 1931 the company ventured into Namibia and became the sole mining producer through its wholly owned Consolidate Diamond Mines of South West Africa (CDM). However, by independence in 1990, the newly elected government had begun to open the market up to international investment and greater competition. Four years later, CDM's operations in the country were renamed NamDeb Diamond Corporation (NamDeb) and the company entered a 50–50 partnership with the Namibian government.

The government retains 70% of NamDeb's pre-tax profits through both taxes and shareholder dividends. It also enjoys a royalty tax of 10% and a high corporate tax of 55%. However, it has given DeBeers an export processing zone status, waiving exports taxes and duties. Both parties had signed a sales agreement that determined the share of profits that each received on a yearly basis. This agreement was confidential; hence, the results were not made public. In 2004, the parties engaged in negotiations to draw up a new five-year sales agreement to replace the one that expired at the end of 2005.

At the same time, the Namibian government has sought to diversify and attract other sources of FDI into the mining sector. Canadian mining group Diamond Fields International commenced exploration activities in Namibia in 1998, and has since started mining off the Namibian coast. In the same year, the Leviev Group, through its subsidiary Sakawe Mining Corporation, brought out the shares of the Namibian company Namco, which had gone bankrupt.

Three years later, South African Trans Hex Group began producing diamonds in Namibia. However, NamDeb continues to be the dominant foreign investor and largest diamond producer in the country, producing more than 80% of all rough diamonds.<sup>2</sup> In 2002, a joint venture between Diamond Fields and Trans Hex was abandoned, and since the end of 2004 Trans Hex has sub-contracted for NamDeb. This consolidation was expected to give NamDeb close to 90% control of Namibian diamond production by mid-2005. Even though Namibia's Samicor has been mining diamonds in the country since 2004, its market share is expected to not exceed 10%, with an annual production of approximately 150,000 carats.

NamDeb's contribution to Namibia's national economy is of great importance. In 2004, diamond mining contributed approximately 10% of the country's GDP. The contribution to government tax and non-tax revenues is even higher, because, over and above the tax and dividends paid by NamDeb, diamond-mining companies pay a tax of 55% of taxable income, a 10% royalty and the usual 10% non-resident shareholders' tax.<sup>3</sup> The Namibian authorities collected US\$119 million from NamDeb in after-tax profits in 2002. The government has benefited enormously from the confidential sales agreement with De Beers.

In sum, diamond mining's contribution to government non-tax and tax revenues almost tripled from 5.7% in 1990/1991 to 14.7% in 2002/2003. Diamond mining has also been strategically vital in contributing to the country's balance of payments. In 2002 it comprised 50% of Namibia's export portfolio, and is currently the largest generator of hard currency earnings for the country. Even though mining contributes tremendously to the national economy and GDP, it employed only 3,295 people in 2002, down from 5,708 in 1992. According to the Chamber of Mines of Namibia, the reduction is a result of the consolidation trend in the industry, technological improvements and the growth of marine mining.

Marine mining has become the important development in the diamond-mining industry. The technology, perfected by De Beers Marine, involves mining on the ocean floor. Since Namibia's independence in 1990, NamDeb has been the forerunner in marine diamond mining. Studies show that Namibian onshore diamond deposits are nearly exhausted, following a century of consistent mining. However, mining exploration also shows that the country has extensive deposits of alluvial diamond resources off its coast. In 1990 De Beers started marine operations and produced approximately 29,000 carats. In 2002, 55% of the total NamDeb production was sourced from offshore mining.

With increased offshore diamond mining, Namibia has become the world's sixth-largest diamond producer by value after Botswana, Russia, South Africa, Angola and Canada.<sup>4</sup> Since 98% of the country's diamonds are of gem quality, the value of Namibia's annual production is put at approximately US\$450 million. Namibian diamonds are among the

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<sup>2</sup> Boer, S. (2003) 'Namibia, De Beers and the Arrival of Lev Leviev', Windhoek: Institute for Public Policy Research.

<sup>3</sup> Ibid.

<sup>4</sup> Statistics Canada, 2004.

world's finest, with an average value of US\$321 per carat. In comparison, Angolan diamonds have half the average value per carat of those of Namibia.

Indicator	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Carats mined (millions)	1.55	1.14	1.30	1.34	1.36	1.42	1.44	1.64	1.55	1.50	1.55
% Onshore	83%	73%	69%	66%	65%	62%	49%	44%	43%	50%	45%
% Offshore <sup>5</sup>	17%	27%	31%	34%	35%	38%	51%	56%	57%	50%	55%
No. of employees	5,708	4,634	4,645	4,448	3,933	3,758	3,414	3,569	3,335	3,246	3,295
Contribution to govt. revenues (N\$ millions <sup>6</sup> )	209	296	272	216	294	704	361	412	680	1,051	1,493
% of total revenues	5.9%	6.9%	5.7%	3.7%	3.6%	12.4%	5.8%	5.7%	8.2%	11.5%	14.5%
Value added, current (N\$ millions)	775	598	872	763	1,169	1,251	1,358	1,697	1,934	2,854	2,989
% of GDP	10.7%	7.9%	7.5%	6.0%	7.8%	7.5%	7.2%	8.2%	8.2%	10.5%	9.8%
Value added, constant (N\$ millions)	1,045	762	708	763	783	782	793	908	847	803	838
% of GDP	22.6%	27.1%	9.2%	7.8%	2.6%	0.1%	1.3%	14.5%	6.7%	5.1%	4.4%
Diamond exports (N\$ millions)	1,350	1,522	1,489	1,767	2,318	2,495	2,161	3,022	4,245	4,507	5,604
% of merchandise exports	36%	36%	32%	34%	37%	40%	32%	41%	46%	46%	50%

### Diamond Mining in Namibia, Industry-wide Figures, 1992–2002

Source: Auditor-General's Reports, budget documents, Central Bureau of Statistics and the Chamber of Mines of Namibia

### Botswana

Since diamond mining began in 1971, Botswana has posted consistent economic growth, which averaged 5–7% over the last decade, and has one of the most robust and competitive economies in Africa. Diamond mining has helped transform Botswana from one of the poorest countries in the world to a middle-income country with a per capita

<sup>5</sup> In Namibia there are three types of mining, 'onshore', 'offshore in deep waters', and 'shallow water' operations closer to the beach. At present, the figures for 'offshore in deep waters' and 'shallow water' operations are combined in the 'offshore' category.

<sup>6</sup> In April 2005, the exchange rate was US\$1:N\$6.26.

GDP of US\$8,800 in 2003.<sup>7</sup> Diamond mining contributes approximately 50% of the country's tax revenues, 70% of its export revenues and 34.2% of its GDP. This is a dramatic shift from the time of independence, when the industry contributed a mere 1% to GDP. The growth in the diamond-mining sector is attributed to the discovery and subsequent development of mines, principally by the biggest mining firm, Debswana. The company's operations have brought about work opportunities and development to rural communities that would otherwise have few employment opportunities. It is the largest private sector employer in the country, employing some 6,300 miners.

Debswana, a 50–50 joint venture between the Botswana government and De Beers, operates four mines spread throughout the country. Debswana has a history going back to the formation of the De Beers Botswana Mining Company (DBBMC) and the subsequent Orapa diamond mine operation in 1969. With the company's formation, De Beers had a 75% stake in the company, while the government owned the remainder. During the initial phase of mining at the Orapa pipe, two smaller pipes were discovered by De Beers, which were later named the Letlhakane mine. With the opening of the mine in 1975, the Botswana government increased its share in the company to 50%. Two years earlier, De Beers' geologists discovered the Jwaneng pipe. This pipe would eventually become the richest diamond mine in the world, with production starting in 1982. In 1991, DBBMC was renamed Debswana. In October 2002 the company's Damtshaa mine started production.

On 20 December 2004 the Botswana government renewed De Beers' mining licence for another 25 years for 7.5% of its own equity, worth approximately US\$500–800 million. In addition, the government will keep the existing diamond rates with De Beers in place. At the moment, the Botswana government receives 70% of the profits from its joint venture with De Beers. De Beers also pays a royalty tax of 10%, but a low corporate tax of 25%. This comprehensive legislation will help ensure that the company continues to be the leading foreign investor in the country's diamond industry for at least another two decades. Not only was the company able to renew its mining licence, it also managed to do this in the midst of tremendous commercial, national and political developments in the country. Local beneficiation has been spreading in Botswana, as in other parts of southern Africa.

Even though diamond mining has greatly contributed to the country's impressive economic growth and sustainable development over the past three decades, critics have questioned whether Botswana is enjoying the full benefits of its diamond export earnings. Until the renewal of De Beers' mining licences in December 2004, practically all of Botswana's rough diamond production was off-loaded to De Beers Diamond Trading Company (DTC) in London, contributing close to 70% of DTC's total annual rough diamond intake. Recently, domestic industry advocates are increasingly supportive of the concept of establishing a domestic diamond-manufacturing industry that would leverage off the country's diamond production.<sup>8</sup>

Debswana's selective treatment of high-quality ore at its mines; cost recovery measures during the last decade, such as retrenchments and quality control mechanisms at all its plants; and the introduction of highly innovative mining equipment enabled Botswana to be the world's largest diamond-producing country in terms of value (put at US\$2.48 billion) in 2003. The country was also second only to Australia in carats mined, which amounted to 30.4 million carats in 2003, compared to 25.9 million in 2001.

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<sup>7</sup> Central Intelligence Agency, *CIA Factbook*, 2004.

<sup>8</sup> At <http://www.diamonds.net/news>.

Debswana's contribution to the country's national economy has allowed Botswana to experience one of the highest growth rates anywhere in the world for over three decades. As a result, the country has transformed itself from one of the world's poorest nations to a middle-income developing nation with a vibrant and booming economy with great potential for growth today. Debswana made the growth of the country's diamond mining industry possible through its exploration and subsequent mining activities since independence, at a time when few international investors were present.

Botswana's government has properly utilised diamond revenues for the provision of good health services and clean water, the improvement of telecommunication systems and transport networks, gradual development of human resources, the provision of better-quality education, poverty alleviation programmes and the general improvement of living standards. Currently, the country has one of the best telecommunications systems in the developing world. For the 2002 financial year, the government set aside 38% of the annual budget for education and adult literacy programmes. The country now boasts one of the best infrastructures on the African continent, possesses foreign capital reserves equal to three years of imports and has no foreign debt.

Over and above the government's proper utilisation of diamond revenues for economic development objectives, infrastructure development and poverty alleviation programmes, Debswana has also contributed to the country's sustainable development through its own operations and also by direct investment. The company has ensured that all its mines are ISO 14001 certified.<sup>1</sup> This certification aims to minimise mining impact on the environment and local communities. With regard to good governance issues, the company has gone into a joint venture with Peo Holdings, a venture capital company whose mandate is to help foreign investors in the country to uphold good governance practices and entrepreneurship initiatives.

In terms of the development of secondary industries, Debswana established Masedi farms in 1998 to contribute to the growth of the agricultural industry by establishing a model operation. The project introduced sustainable large-scale dry land farming to help encourage the farming of cash crops. The company allocated the necessary capital for the purchase of downstream processing equipment for farmers. In the tourism sector, Debswana led a P630 million<sup>10</sup> upgrade of infrastructure at the world-renowned Chobe National Park. On the education front, the company has built schools in both the capital city and mining towns. It subsidised school fees for the children of mine workers. The company runs a university bursary programme of up to P20 million annually for students wishing to study at the University of Botswana or abroad. It also runs leadership development, skills upgrading and apprenticeship programmes at technical colleges across the country.

The positive experience of De Beers in Botswana confirms the country's status as one of the best performing economies on the continent. The company has generally expressed strong confidence in the ability of the government to manage the economy well into the foreseeable future. Even though De Beers is welcomed in the country and is generally well received by the population and government, there is a strong emphasis on partnership with the local communities. The company expects to remain in Botswana for at least another decade, during which time it hopes to cement its position as the leading foreign investor in the country, not only in terms of total investments or its contribution to the national economy, but also its contribution to sustainable development.

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<sup>1</sup> ISO standards are international standards established by the International Standardisation Organisation, which companies voluntarily apply.

<sup>10</sup> In April 2005, the exchange rate was US\$1:4.56 Botswanan pula.

## Ghana

Ghana has had a history of mining going back to the Ashanti kingdom in the 17<sup>th</sup> century. Today, the country has a variety of mineral resources, including diamonds and gold. However, it witnessed a significant increase of FDI in its gold industry following the launch of the World Bank/International Monetary Fund (IMF)-led Mineral Sector Refund in Ghana in the mid-1980s and the reform of mining legislation in the late 1980s.

In 1983 the Ghanaian government gave priority to the mining industry to help boost the ailing industry, which had seen production levels plummet due to the lack of FDI, low global commodity prices, ageing mining infrastructure and equipment, and a lack of competitiveness and skills during the previous two decades. In 1986 the government passed a new Mineral and Mining Law, with two additional amendments regarding profit tax laws and minerals royalty regulations in the following year. In 1989 it passed another law establishing the Minerals Commission as a key institution to provide foreign investors with a one-stop mining investment centre to gear for their needs.

In doing so, it created a business environment conducive to attracting FDI. South African investors, such as Goldfields, were attracted to the investor-friendly policies, such as a flexible labour policy, tax breaks for up to five years, cheap asset transfers and unregulated repatriation of profits. For example, the government reduced corporate income tax to 35% in 1994, down from 45% in 1986. Initial capital allowance to assist investors to recover some of their capital expenditures invested in the early stages of their operations was increased to 20% in 1995, up from 15% for subsequent annual allowance back in 1986. The royalty rate was reduced to 3% in 1987, from 6% of total value of minerals won in 1975. The government scrapped all other duties during the early 1990s, such as the foreign exchange tax of 22–75%, the mineral duty of 5% and import duty of 5–35%.

Furthermore, mining companies were exempted from paying customs import duties on imported machinery and accessories for use on their mines in Ghana. Employees at these mines did not have to pay income tax related to furnished accommodation while living on the mine site. They were also exempted from paying any taxes on personal remittance transferred overseas from Ghana. Apart from these benefits, holders of mining leases could be permitted by the Bank of Ghana to retain a minimum of 25% of their foreign exchange earnings in an external account for the purpose of acquiring equipment, spare parts and raw materials, and also for dividend payment and remittance in respect of goods for expatriate personnel, among others.<sup>11</sup> More importantly, the government privatised the state-owned gold mining companies and the mineral sector.

These laws, accompanied by the government's tax incentives, formed the framework within which fiscal policies were passed and managed in the mining sector. They allowed for the approval of flexible labour policies, tax breaks, unregulated repatriation of profits, flexible labour policies and cheap asset transfers by foreign direct investors. Thus, these policies created an attractive business climate encouraging FDI into the sector. As a result, the country witnessed a massive FDI of over US\$2 billion into the mining industry between 1993 and 2003, with over 80% going to the gold-mining sector. The mining sector is now the leading foreign exchange earner, and contributes approximately 41% of Ghana's foreign exchange.

Gold mining remains the focus of growth in Ghana's industrial sector. It earns the country over US\$600 million and makes up almost 90% of its mineral production. It has since replaced cocoa as the country's leading foreign exchange earner. Total gold production

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<sup>11</sup> At [http://www.saprin.org/ghana/research/gha\\_mining](http://www.saprin.org/ghana/research/gha_mining).

increased by 1.4% in 2003, and earnings increased by 20.5%, as the world market price remained relatively high. Ghana is currently Africa's second-largest gold producer after South Africa. Production is expected to rise, with renewed interest in gold mining in Ghana by mining giants like Newmont Mining and AngloGold Ashanti.

At present, foreign investors in the country's gold-mining sector come from diverse national origins, including the United States, Canada, South Africa, the United Kingdom and Australia. These companies control approximately 70% of gold shares, with the government holding a 10% stake, with the option of acquiring an additional 20%. South African mining companies are the dominant foreign direct investors in Ghana's gold industry, owning a 60% market share of total investment. As mentioned earlier, in April 2004, the South African company AngloGold merged with Ghana's Ashanti Goldfields in a deal worth US\$1.4 billion. The resulting consortium has become one of the most important foreign investment giants in the country, and one of the world's leading gold producers. Based on their calculations of a combination of Ashanti's growth potential and gold reserves, and AngloGold's technical and financial expertise, analysts forecast sustainable growth in gold production in the coming years.

To date, the company has paid over US\$7 million in royalties. It has also paid 700 million cedi<sup>12</sup> in property rates over the same period. AngloGold has announced that its paid royalties would be directed towards the communities in which it operates. The company hopes that this will lead to a positive impact on the people and livelihoods in these communities. Apart from royalties and taxes paid to the local communities, the government has embarked on a series of infrastructure development projects such as the construction of electricity grids, schools, water reservoirs and other amenities in the surrounding communities. In another development, Daniel Owiredu, chief operating officer of AngloGold Ashanti, stated in October 2004 that the company had offered to help increase the salaries of teachers in the local rural communities by 10% to help retain them and attract more qualified teachers from urban areas. He also stated that his company had commissioned a junior secondary school and an early childhood development centre for Iduaprim and Bibiani communities. It hopes such projects will help promote corporate social responsibility in the area for the benefit of future generations.

In Bibiani, AngloGold Ashanti has established community farms to help farmers produce passion fruit and pawpaw. It has also established business-training programmes such as the EMPRETEC programme for the youth of the community to provide them with the necessary education and skills to help them find employment. The company's Obuasi Mine has implemented HIV/AIDS awareness programmes to help educate miners and their families about the disease and to provide them with treatment. It has also started to replicate in Ghana the successful malaria control programme it operates on its mines in Mali.

The other large South African investor in the country is Goldfields. Operating in Ghana since 1993, this mining firm has become one of Ghana's leading foreign direct investors, with investments totalling more than US\$500 million. The company hopes to increase its gold production from its current 800,000 ounces annually to over a billion ounces per year.<sup>13</sup> The company is expected to expand its Tarkwa and Damang mines further in the light of its good profit margins.

Although the role of South African and other foreign direct investors in Ghana's mining industry and its promotion of growth in the country's foreign exchange and exports cannot

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<sup>12</sup> In April 2005, the exchange rate was \$1:9,125 Ghanaian cedi.

<sup>13</sup> At [http://miningwatch.ca/publications/Cdn\\_Cos\\_in\\_Ghana.html](http://miningwatch.ca/publications/Cdn_Cos_in_Ghana.html).

be disputed, the sector has yet to make a meaningful impact on the local mining communities and the economy as a whole. Gold mining contributes only 4.5% to the nation's GDP, compared to 36% from the agricultural sector. More importantly, there is no link between the gold mining sector and the country's internal economy. South African and other foreign investment into the gold industry has not resulted in a significant rise in employment opportunities. South African mining companies employ approximately 15,000 people in their Ghanaian operations, while small-scale mining companies employ twice as many people.

Foreign investors and donor countries have urged the Ghanaian government not to rely on foreign investment to help create the necessary employment the country needs. The government has been called upon to speed up the diversification of the economy to move away from a reliance on gold and cocoa exports as a way to generate employment for the thousands of university graduates who come into the work force every year, as well as for the 4.2 million unemployed. Today, most Ghanaians rely on either government or informal employment for their livelihoods.

Most of the gold produced in the country is exported overseas, which limits the development of secondary processing of gold and denies the country value-added employment opportunities. The country does not have industries that contribute to value-added beneficiation to gold been produced by foreign mining firms. Legislation allows foreign companies to hold high levels of foreign exchange earnings outside the country, and therefore only 10% of the value of gold production goes back to the national economy, despite its position as Ghana's largest source of foreign exchange earnings. AngloGold Ashanti and Goldfields, among other foreign mining firms, have been charged by some members of the government and public with impeding the growth and sustainability of the mining sector, which employs 60% of the work force and contributes over 36% of GDP. Over the last decade, the agricultural sector has witnessed large numbers of farmers leaving their profession, hoping for better wages in the mining sector. However, many of these farmers have come to realise that the mining companies can only accommodate so many individuals, preferably those with some mining experience.

**Composition and Value of Ghana's Mineral Exports (US\$ millions), 1995–2002**

	1995	1996	1997	1998	1999	2000	2001	2002
<b>Total mineral exports</b>	47.2	42.1	42.5	40.0	41.4	45.2	43.3	42.0
Of which: Gold	45.0	40.2	40.1	38.3	39.3	42.0	38.7	38.6
Diamonds	1.0	0.9	0.8	0.6	0.5	0.7	1.3	1.2
Bauxite	0.7	0.5	0.7	0.4	0.4	0.8	1.0	0.8
Manganese	0.4	0.5	0.8	0.7	1.2	1.7	2.3	1.4

Source: Customs Excise and Preventive Service (CEPS), Bank of Ghana and the Ghana Export Promotion Council databases, 2002

**Mali**

Mali's mining industry has been dominated by gold mining and to a lesser extent diamond mining since the 1400s. In the early to mid-1990s, the government implemented changes to the fiscal and legal framework for investment to help spur investment into its gold industry. The mineral law, which was based on French civil law,

was revised in 1991 with the passing of the new Mining Act. Although the act stipulates that the government owns all mineral rights, it calls on the government to comprehensively state all the conditions and requirements that will go into the exploration for, and subsequent discovery and mining of, gold. The act handles all legal requirements pertaining to reporting, duties, state equity participation, duty free arrangements, work obligations and taxes. Prospecting licences are given to foreign investors for a period of two years, which can be renewed by the mining licensing authorities.

The act also stipulates that foreign mining firms are exempted from paying corporate tax for the first five years of production. At the end of this period, they are required to pay tax of 27.5%, or less when dividends are reinvested into the industry. Foreign firms are completely free to repatriate any amounts of dividends or capital out of the country whenever they so wish. They can also import mining equipment duty free during the exploration phase and for up to three years during mining operations. Mining companies are required to pay a 3% royalty on the value of production and a 3% service tax to the revenue service. The clearly defined and stipulated requirements by government and foreign companies will reduce discrepancies and misunderstanding in the event of an incident in the future. The requirements also reduce the instances of corruption and uncertainty that occurred previously in the mining sector.

The new law has helped attract FDI into the country's mining sector. Gold has come to play an important role in Mali's mining industry, accounting for over 95% of all exploration and mining activities. South African mining investments have greatly expanded into Mali. Currently, AngloGold Ashanti has investments of up to US\$250 million in the southern and western part of the country. It operates three gold-mining operations: one with Randgold at Morila mine, which is 200 km south of Bamako; at Yatela in the southwest of Mali; and at Sadiola near the town of Kayes in the extreme western part of the country. In the south, Randgold has invested more than US\$140 million in its Morila operation. The government of Mali maintains a share of 18% in Sadiola and 20% in Yatela.

This has resulted in the boosting of the gold-mining industry to become Mali's largest income earner ahead of cotton and livestock, and it has been promoted by the IMF and the World Bank as a key driver of the country's national development. Mali is now Africa's third-largest gold producer, following South Africa and Ghana. In 2002, gold exports contributed 15.1% of Mali's GDP, up from a mere 2.0% in 1996.

South African mining firms have also been credited with a number of social and economic projects around the country through their investments in the country's gold industry. For example, the Sadiola mine, a joint mining venture of AngloGold, the Malian government and the International Finance Corporation (IFC), began production in 1991 with the passing of the country's new Mining Act. Soon after operations started, local inhabitants complained to AngloGold about the prospects of a potential withdrawal of groundwater with the opening of the mine. The company sought to resolve the problem by constructing a 56 km pipeline to pump water from the Senegal River to carry water through the mine and into the neighbouring lands inhabited by the local communities. In response to a lack of security in the area and the concerns of Peul nomadic herdsman who feared that the pipeline would affect the movement of their livestock, AngloGold decided to place the pipeline underground. The company gave boreholes used in the construction of the pipeline to local communities to help supply them with an accessible supply of fresh water.

In addition to the social and economic projects that South African mining companies have been credited with around the country, these firms have maintained high environmental standards on all their mines. AngloGold has implemented an environmental, health and safety policy based on ISO 14001 throughout its three mines in the country. It employs five employees to oversee the company's commitments to environmental protection, as well as to address social and good corporate governance issues. In its Sadiola mine, AngloGold has a strong environmental management programme in place, where the executive officer for the environment reports directly to the chief executive officer of the company.

However, in a country ranked by the UN as 164 out of 172 on its Human Development Index, and with over 90% of the population living on less than US\$2 a day, many Malians are yet to feel the effects of the growth in the gold industry and South Africa's increased investments into the sector over the last decade. The government has been roundly criticised by some circles of the population and donor countries for not doing enough to curtail corruption within its mining sector. The government has not been completely effective in channelling income generated from the mining industry into sustainable development projects. Foreign investors in the country have routinely pointed out that the government is ultimately responsible for implementing sound macroeconomic reforms and for properly using earnings from its mining sector to alleviate poverty on the ground.

In addition, there is no shortage of critics of and resentment regarding South African mining investments, particularly over the negative impact of mining on the social welfare of local mining communities and on the environment. The most criticised and politicised South African investment in Mali to date has been Randgold's Syama gold mine, which closed down in 2001 after operating for more than 11 years. Throughout the operational life of the mine, the IFC and the Malian government were minority partners. In spite of the area's immense mineral wealth, the social indicators show that standards of living worsened with the opening of the mine. Notwithstanding the involvement of both the IFC and the Malian government, this mine operated with little adherence to environmental regulations, and no proper system of monitoring was in place. As with other mines in rural settings in developing countries, Randgold basically operated according to a system of self-regulation. The mine contaminated surface waters and the local ground. Over the years, a combination of toxic substances degraded the quality of local soils. Due to inadequate worker safety and health monitoring programmes, and exposure to cyanide-laden dusts and metal, mine workers' health deteriorated considerably. Randgold made this information public before the closure of the mine. By September 2001, Randgold finalised care and maintenance procedures at the Syama mine in Mali with a complete plant clean up.

Furthermore, the opening of the Syama goldmine resulted in a large influx of people from rural areas looking for work on the mine. The situation had negative implications for the social values and conditions of local communities. For example, conflicts about access to local resources such as land arose; there was an inflationary increase in the price of basic foodstuffs in local markets; HIV/AIDS cases caused by the migration of population to mining communities increased; there was an erosion of cultural and Islamic norms, including the rise of alcoholism and prostitution, due to the settling of mine workers (most of them single) with better incomes at their disposal; land was lost through its use for the construction of housing for foreign mine workers and managers and the relocation of local communities to make way for the construction of mine facilities on pasture land; and cultural conflicts emerged due to the settlement in the country of migrant workers from other regions who differed culturally, linguistically and ethnically from the members of the local communities.

However, even Malian critics point out that Randgold's investment in the Syama gold mine had some positive social and economic effects on both the national economy and the local population. Studies have shown that the Syama mine provided the means for macro- and microeconomic development and integration. From 1995 to May 2000, Randgold's direct financial contribution to the Malian national economy was put at US\$110,000,116, which included benefits, taxes, local purchases of natural resources and salaries for its mineworkers. At the national level, it helped to increase the country's exports; to raise the country's foreign currency revenues, which contributed to Mali's balance of payments; to cut the country's trade deficit; and to strengthen the national bank's financial and fiscal stability; and also helped to improve, construct and develop the country's infrastructure.

The economic impact of the Syama goldmine resulted in the increase of financial and commercial activity in surrounding towns and cities, especially in Sikasso, Zegoua and Kadiolo. For example, Sikasso became a bustling trading centre because of the commercial activities emanating from mining on the Syama gold mine. In addition to tax revenue that afforded improvements in sanitation and education in the region, funds that were directly injected into the Sikasso regional economy by the Syama mine affected many domains, including the supply of safe drinking water; the improvement and construction of sports fields; the strengthening of the capacity of civil protection and public services; the construction of roads, bridges, clinics, hospitals and schools; the provision of support for HIV/AIDS screening and counselling programmes; and the local training of officials in conflict management and decentralization skills.<sup>14</sup>

At the community level, even critics concede that the Syama mine had a significant positive impact on the local mining communities. In 1996 the Syama mine employed a total of 514 miners, of whom 447 were Malians. By 2000 this figure rose to 1,211 miners, of whom the vast majority were indigenous Malians. Wages on the mine were among the highest in the country, making Fourou the wealthiest district in region. The district moved from a subsistence agricultural economy to a monetary one. The increase in disposable income among the local population was manifested in the establishment of shops, schools and clinics to cater for people's needs.

The information above points to the positive impact of the mine and its contribution to the sustainable development of the local communities and national economy at large. However, the overall positive economic effects of the Syama mine fell short of the community's expectations, especially at the community level. The company's investments, which were put in place during the latter stages of its operations, came too late to effectively contribute to the development of the mining communities. Randgold's contribution to the sustainable development of the local population was limited to the construction of mosques, clinics, schools and electrical power plants; the provision of water reticulation; the paying of teachers' salaries; and sewerage removal. The monetary restrictions imposed on the company by the need to leave the mine in a sound monetary state before the closure curtailed its ability to expand other community projects. Critics contend that the company could have done more to help communities, and could have engaged in sustainable development projects that would have created employment after the end of the mine's lifecycle.

If the effects at the macro level are perceptible in places, the effects on the lower end of the economy are virtually non-existent, and the strengthening of infrastructure and human resources was modest and usually limited to communities in zones close to the

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<sup>14</sup> Randgold Resources Ltd., October 2001.

mining site.<sup>15</sup> For example, access to the Fourou clinic was only open to mine workers and their close relatives. Thus, though primary effects such as revenues to the national budget, salaries, employment opportunities and taxes to government have been easily quantified over the years, the mine's impact on development and human resources is more difficult to evaluate over a long period of time.

**Gold Exports as a Percentage of Mali's GDP, 1996–2002**

1996	1997	1998	1999	2000	2001	2002
2.0%	5.4%	6.3%	6.8%	7.5%	12.7%	15.1%

Source: [www.oxfamamerica.org/newsandpublications/publications/research\\_reports/pdfs/syama\\_report.pdf](http://www.oxfamamerica.org/newsandpublications/publications/research_reports/pdfs/syama_report.pdf)

## Conclusions

The main findings of the research conducted on the experiences of South African and other multinational gold and diamond companies operating in Africa, include the following:

- South African companies have expanded into Africa for strategic reasons and high profit margins. African mines are viewed by South African and other multinational mining companies as some of their most lucrative ventures globally, offering on average the highest returns on investments despite the high risks associated with political turmoil, civil unrest and economic upheaval. Indeed, the survey outlines a clear consensus among South African and other foreign gold and diamond mining companies that their investments justify the risks associated with doing business in Africa. In comparison to the mining sector in South Africa, profit margins have tended to be higher in the rest of Africa due to the lower costs of mining at limited depths of around 1000 metres and less, as opposed to the South African norm of 3000 metres.
- South African gold mining companies are involved in mining activities across the continent including in Mali, Burkina Faso, Senegal, Ghana, Ivory Coast, Guinea, Namibia, Botswana, Angola, Lesotho and Tanzania. In addition, mining companies are also conducting exploration activities in the DRC and Congo.
- In terms of the nature of investments, most gold and diamond mining investments into Africa by South African companies are joint ventures and acquisitions (especially of under-performing mines). There has also been a surge in the number of Greenfield entries such as in the case of African Rainbow Minerals, Randgold Resources and AngloGold Ashanti. Because of the strategic importance of the mining sector to many African states, a number of governments require foreign investors in this sector to enter into joint ventures where the government holds the golden share, either directly or through local partners.
- With few exceptions, the majority of South African gold and diamond mining companies confirmed their intention of maintaining and/or expanding their African operations in the coming years. They are optimistic about future mining prospects on the continent due to the development of more investor friendly mining legislation by African states, most notably in the DRC, Namibia, Ghana, Tanzania and Botswana. Mali, Senegal and Angola also offer important new opportunities following the discovery of new gold and diamond deposits.

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<sup>15</sup> Keita, S. (2001) *The Impact of Gold Mining on the Malian National Economy*, Cambridge: Associates for International Resources and Development.

- On the negative side, continued unfavourable conditions linked to investor-unfriendly policies, or a lack of application, or partial implementation of mining legislation constitute the biggest business constraint facing South African and other multinational diamond and gold mining companies operating in Africa, including South Africa. Several examples exist where even though there are good mining laws on the statute books, they are not implemented by government. The right to repatriate returns on investments is often affected. In Angola and Guinea, the government has introduced mining legislation that hampers further investment in diamond mining.
- Political and security uncertainty in some parts of Africa poses a serious problem for gold and diamond mining firms in Africa. Many companies have had to invest in security companies and security networks to protect their mines and exploration activities from theft and destruction as a result of civil war and political unrest. In Angola, the legacy of civil war has had a negative impact on mining companies, which had to increase their expenditure to clear landmines for mining exploration and infrastructure development. In the absence of central government control in eastern DRC, mining companies have had to rely on South African and other foreign security companies to protect mines from rebels.
- Some companies find a lack of infrastructure in many areas of Africa as a business constraint. Following successful mining tenders, these companies have had to invest heavily in infrastructure development, such as access roads, electricity, water drainage, and bridges before any mining explorations are undertaken. The absence of basic infrastructure in the rural areas where mining explorations tend to be located have restricted smaller mining companies from expanding their operations because of budget limitations and a lack of start up capital. In countries such as Mali, Guinea, Angola, Tanzania and the DRC, governments have asked mining companies to inject capital in infrastructure development as a prerequisite for mining concessions. In general, the larger mining companies have been able and keen to contribute to the social development of local communities where mining explorations take place as part of their corporate responsibility policies.
- Corruption is an ever-present reality for many South African and other multinational gold and diamond mining companies operating across Africa. It threatens the financial sustainability of foreign investments, especially that of small to medium-sized companies. In some countries, it is strongly evident even at the higher echelons of government. For example in Angola, mining companies are often asked to give bribes as a means of securing mining contracts. Gift giving is present in a number of other countries as a means of facilitating business transactions, especially in the DRC and Guinea.
- A weak legal system is also a problem for gold and diamond mining companies in Africa. In many instances, the judicial system is heavily under the influence of government. For example in Mali, judges often come to decisions on cases affecting multinational mining firms only after consulting with government. The system is not as independent and free from government scrutiny as in the case of South Africa. In other places, such as in Ghana, the process of arriving at judgements pertaining to business disputes is extremely slow. This is primarily due to an inefficient judicial system, corruption, lack of a computerised court system and government red tape.
- Access to, and the cost of, finance constitute one of the most important business constraint faced by mining companies, especially smaller to medium sized firms. The lack of affordable finance in certain countries impedes the ability of potential foreign and local investors to finance future exploration and mining activities, especially

where the profit margins are not particularly high, as is the case in Angola. Even in those countries where capital are available, foreign companies have to meet demanding prerequisites. Once granted, the loans are subject to high interest rates as for example in Ghana.

- It is not all doom and gloom. Most South African mining companies have found that the business environment in which they have operated during the past decade has improved with the spread of democracy and increasing good governance in Africa. In Ghana, Tanzania and Mali, in particular, South African companies have been able to earmark needed capital for further exploration activities because of improved regulatory regimes, increasingly investor-friendly policies, political and macro-economic stability and the achievement of higher returns on their investments.