



Extractives Hub
Deepening Knowledge about Oil, Gas and Mining



Centre for Energy, Petroleum
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Au-dacious Ethiopia



Above: a tailings dam at the Lega Dembi gold mine, Ethiopia



(Ethiopia)

Co-authored Insight

The Extractives Hub project supports enhanced energy and mining sectors governance, in particular in Ethiopia, Zambia, Uganda, Kenya, Sierra Leone, Ghana, Nigeria, Liberia, Afghanistan and Lebanon. This blog examines the gold mining sector in one of these countries, namely Ethiopia.

This blog is written collaboratively between Mr Daniel Gilbert, a member of the above project team at the University of Dundee (UK), and Professor Asebe Regassa Debelo, Researcher and founder of the Institute of Indigenous Studies, Dilla University (Ethiopia), where is also served as the Director of the university's research and dissemination office.

This blog focuses on two major themes.

On the one hand, there is an increasing demand for gold at global market, which in turn – given the country's geological natural endowment of rich gold ores, still mostly untouched - makes Ethiopia one of potential destinations for investors.

On the other, Ethiopia's highly contested and fluid mineral rights landscape, its lack of underpinning clear policy frameworks and attendant uncertainty regarding stakeholder dynamics, environmentally friendly and socially inclusive sustainable development, all naturally elicit caution from potential investors.

Building on both empirical evidence and in-country knowledge, the blog aims at providing useful insights for the benefit of government in Ethiopia, both at the Federal and subnational level, to assist the State pursue socially inclusive, harmonious, and efficacious mineral development objectives.

The authors of this blog express the intention that this blog, in however small a way, provide evidence-based insights that help move forward mineral rights governance conversations in Ethiopia. Conflict can be avoided through open and constructive dialogue. Foreign investors must be treated fairly and equally, as must indigenous peoples, and the rights of each fully respected under the law. Further, the concept of good governance also implies stewardship, not least with respect to our shared natural environment.

As a full signatory to both the UN's Sustainable Development Goals (SDGs),¹ the Ethiopian Federal Government commits to ensure that Ethiopian industrial development is consistent with these SDGs, and hence mineral sector governance in Ethiopia is, indirectly but specifically, also concerned with the environmental performance of the sector.

The specific context to the blog is gold mining and prices.

Geologically, Ethiopia is a very attractive investment choice for international investors. For example, the title of the following 2018 *Geology Today* journal article leaves little doubt as to its main finding: "*The Asosa region of western Ethiopia: a golden exploration opportunity*"² (link). Somewhat prosaically, the authors note that: "Historical workings and anomalous gold concentrations in rock, soil and stream sediments point to a potentially significant untapped gold resource". Particularly in the current fevered gold-investment climate, investors could easily be forgiven to describe such opportunities in balder and more forthright terms. After all, the Egyptian mining company ASCOM announced a maiden resource of 48 tonnes of gold at its Asosa-located concession, as reported in 2016 by *Newsweek*³, and elsewhere in the country the Tulu Kapi gold prospect, of equivalent resource size, was acquired by Cypriot mining group KEFI Minerals⁴.

In mining, risk is not limited to that of geographical extraction alone, but also encompasses so-called "above ground" risks linked to governance issues.

Encouragingly, significant improvements to Ethiopia's governance climate have also been discerned by respected international think-tank commentators; Chatham House Research Fellow Ahmed Soliman and Dr Abel Demissie, co-authors of April 2019 published Chatham House "expert comment", provide the following, glowing reference to the country's new prime minister:

*"It has been a whirlwind year for Ethiopia since Abiy Ahmed became prime minister. He has initiated a raft of reforms to overhaul Ethiopia's authoritarian government structure, significantly improved relations with neighbours and received widespread international acclaim ... to date, his accomplishments far outweigh his shortcomings."*⁵

Another very encouraging development relates to the gold price, regarding which mine company profits are highly leveraged to. Currently, the gold price is experiencing a dramatic bull market: trading (spot) at over \$1,500 per troy ounce compared to either side of \$1,200 just eleven months ago, in September 2018. As international investor risk appetites abate in the face of stock market raised volatility, and the (US) Dollar Index stabilises after a sustained period of strengthening, gold once more is an increasingly in-demand, and hence expensive, investment commodity.

However, very visibly and very significantly, the recent experience of Ethiopia's single developed, large-scale gold mine, Lega Dembi, provides a cautionary tale for would-be investors, not least with regards the suspension, in May 2018⁶, of the mining license for Lega Dembi. From consideration of Lega Dembi, the mineral sector governance challenge facing the new Federal Government is clear and present.

The suspension of the Lega Dembi mining license can be traced back to bitter community – mining company tensions, tensions that spilled into direct conflict and the tragic fatalities of four anti-mine

¹ <https://sustainabledevelopment.un.org/memberstates/ethiopia>

² <https://onlinelibrary.wiley.com/doi/full/10.1111/gto.12217>

³ See page 16 of <https://enterprise.press/wp-content/uploads/2016/06/newsweek-ethiopia-special-report.pdf>

⁴ <https://theconversation.com/ethiopia-could-be-sitting-on-one-of-worlds-great-untapped-gold-deposits-90408>

⁵ <https://www.chathamhouse.org/expert/comment/can-abiy-ahmed-continue-remodel-ethiopia>

⁶ a suspension made immediately after the current political transition was set in motion, and still in force now, after it.

protestors in May 2018. Reflecting in simple and direct terms the popular outrage felt widely, fairly or unfairly, against the foreign (Saudi) mining company, Bacha Faji, spokesman for Ethiopia's Ministry of Mines, Petroleum and Natural Gas, observed simply that: "the suspension is in response to the demands of the people".⁷

The grievances against the miner operator were both serious and apparently credible; for instance, regarding water pollution. Indeed, the main reason for the suspension of the license was related to public protest against renewal of the license for another 10 years amidst widespread media reports on possible health and environmental impacts of the operation. The sources revealed disabilities, birth defects and miscarriage possibly due to water pollution by the toxic chemicals released from the mining site.⁸ In this regard, an article in the peer-reviewed Journal of Environmental Geology provides an evidence base for the broad extent of environmental degradation in a contiguous area to the mine:

"The tailings dam of the Lega Dembi Primary Goldmine (LPGD) is the most important sink for a number of metals. This is attributable to the high pH condition in which most metals tend to be absorbed by co-precipitated clays and Fe-Mn oxyhydroxides. Even within this condition some metals (e.g., As, Cu, Ni) seem mobilized out of the actual mining area.

Sediments from the surroundings of the primary gold deposit show appreciable accumulation of the metals As, Ni, W, Cu, Cr and Co. While placer sites show excess concentration of Sb, W, Zn, Ni and Cr.

Arsenic, Ni, Pb, Sb, Mn, Fe and Al in water from the surroundings of LPGD exceeded the drinking water guideline values of WHO (World Health Organisation)."⁹

More widely, the lack of a clear mining policy, perceived exclusion of local communities from economic benefits from the mining, public health impacts as a result of lack of environmental compliance obligation and absence of a corporate social responsibility framework are among the major causes fomenting mining sector public discontent in Ethiopia. The evidence from this mining dispute is that opposition to Lega Dembi extended beyond environmental concerns to also encompass dissatisfaction regarding lack of local and shared economic benefits delivered by the mine.

As the single gold mine to date in Ethiopia, Lega Dembi has a particular prominence in national mineral sector public policy debate in the country, and the suspension of its operations has a wider and outside impact on the economic performance of the mining sector of the country as a whole. A key challenge, made harder by the Lega Dembi case, is to dramatically boost foreign direct investment into the mining sector in general, and gold mining in particular.

It is a challenge that the Federal Government of Ethiopia is well aware of: Ethiopian Minister of Mines and Energy Samuel Urkato Kurke is now leading an export-led review of the country's mining laws further to the establishment, in January 2019, of a new committee within the Ethiopian Investment Commission (EIC) tasked specifically to recommend reforms regarding the mining sector.¹⁰

⁷ <https://www.voanews.com/africa/ethiopia-agrees-suspend-midroc-gold-mining-after-protests>

⁸ <http://addisstandard.com/news-ethiopia-suspends-license-of-largest-gold-mine-in-southern-ethiopia-after-at-least-two-protesters-were-killed-by-regional-security-forces/>

⁹ Metal contamination of the environment by placer and primary gold mining in the Adola region of southern Ethiopia, Environmental Earth Sciences, 2006, Worash Getaneh and Tamiru Alemayeh, Journal of Environmental Geology, Volume 50, Issue 3, pp.339-352.

¹⁰ <https://ihsmarkit.com/research-analysis/ethiopia-mining-regulatory-review.html>

Such an export-led review is keenly needed. The Ethiopian financial year (FY) runs from early the 8th July to the 7th July, and during FY2018/19 the country generated just \$49m USD of mineral product exports, against a target of nearly \$800m and a 2012/3 figure of \$654m¹¹, whilst the mine was still fully operational.

The mining sector's challenges, as identified in July 2019 by the Ethiopian State's newly created mineral sector National Steering Committee include: "lack of access to markets and market linkages, unreasonable prices offered by the government to buy the minerals, contraband, failure of policy and institutional frameworks, lack of human and technological capacity and lack of infrastructure". The Committee still side-lined issues of community-company relations, participation and benefit, which were at the core of public dissatisfaction on Lega Dambi mine. The suspension of gold mining at Lega Dambi, ongoing through the recent period of fast appreciating gold prices, can be seen as both particular to that mine but also symptomatic of the above challenges, e.g. environmental compliance regulatory failure in the years ahead of the mining license suspension.

In response to this long-term downward trend, the Ethiopian Government is taking clear and decisive action to reverse this decline: 2018/9 also saw the award of new 24 mining licenses, a record high, and the creation of the minerals sector National Steering Committee, referenced above, comprising 12 individual members drawn from the national geological survey, the Ministry of Mines and Petroleum and from the State-owned Mining, Oil and Biofuel Corporation, with the purpose of increasing mineral sector exports back up to \$265m for FY 2019/2020.¹²

However, good governance matters too, not just the issuing of new licenses. Good governance necessarily extends to both how indigenous communities are meaningfully and seriously engaged with, the environment respected; and policy and legal frameworks articulate the national ambitions that exist for the country's mineral sector.

Achieving win-win outcomes for international investors and for Ethiopia as a nation requires mutual respect from investors and government alike: respect for national sovereignty, for communities and for properly utilised and legally granted mining rights.

¹¹ <https://addisfortune.news/committee-emerges-to-rescue-mining-sector/>

¹² <https://addisfortune.news/committee-emerges-to-rescue-mining-sector/>