



Hidden Treasure?

In search of Mali's gold-mining revenues



Oxfam
America



Authors

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FRONT COVER: Niama Makalu, 22, and her nephew, Amidou Dembelle, working in a field of groundnuts against the backdrop of a waste dump area for the Sadiola Hill Gold Mine in Mali. Their families were among the many people displaced when mining began in the area in the mid-1990s. Makalu, who is married to the chief of Sadiola, is now—like many others—forced to cultivate food for her family on land in close proximity to mine waste. What's more, since the Sadiola Hill Mine now occupies much of the area's former agricultural land, local people have no viable alternatives to farming on these few remaining sites.

Above: Sign and fence on the border of the Sadiola Hill Mine, barring trespassers from land that has been conceded to the mining company.

Executive Summary

History of gold mining in Mali

Over the last 10 years, gold has become the most economically significant resource in Mali, accounting for more than half of the country's exports (US\$927 million as of 2003). In 2002, gold mining contributed a mere 2.9 percent to Mali's GDP, but by 2004, it had increased to 12.7 percent. Gold is now the single largest source of Malian revenue, outpacing the former revenue giant, cotton. From 1996 to 2002, exports of gold increased from 18 percent of Mali's total exports to 65.4 percent. During the same period, cotton exports declined from 61 percent to 22.4 percent.

The current context for large-scale industrialized gold mining in Mali can be traced to 1991, when introduction of a new Mining Code coincided with other broader economic and political changes, including the end of the Traore dictatorship and of Soviet financial support.

The Sudanese Republic and Senegal became independent from France in 1960; they separated within a few months of their independence, and the Sudanese Republic became the Republic of Mali. From that time until 1991, industrial mining was primarily the state's domain. After privatization reforms of the early 1990s, the Malian government used its option to own shares in the emerging industrial mining enterprises.

The transition to democracy in 1990 and the subsequent changes to the Mining Code to encourage foreign investment led to more extensive exploration and industrialized extraction activities during the 1990s. Over the course of the last decade, there have rarely been less than 60 companies with exploration or production projects in Mali.

Public information and the Mining Code

The newspapers in Mali are the principal source of information on mining revenues. Local press coverage appears to report principally the data that mining companies provide. The result is – not surprisingly – a largely favorable presentation of mining as a benefit to the country.

The six laws and regulations that constitute the Mining Code have resulted in a complex set of taxes, fees, and license charges that are effectively incomprehensible to those without some technical background. Mali's low literacy rate, poor physical infrastructure, and inadequate electronic communications combine to make it nearly impossible for citizens to get clear and complete information about revenues and how they are spent to benefit the public.

There is no way for local community officials to know whether they are receiving the full amounts of mining revenues to which they are entitled. Officials who were interviewed

during the preparation of this report did not always know what the law said about the proportions of the various taxes that they should be receiving in their budgets.

Based on the publicly available information, it is impossible to determine how much money is actually received by the government of Mali (GOM), when compared to the amounts paid by the mining companies. Anyone who attempts to tally the publicly available numbers finds the accuracy of their calculations constrained by the many different taxes, fees, and charges that the government collects. This difficulty in monitoring is further compounded by the fact that published reports on mining revenues tend to provide aggregate figures rather than the numbers associated with particular types of taxes.

Because there is not enough information provided in a comprehensible form by the Malian government, citizens and civic groups cannot determine whether they are benefiting from mining revenues as they should according to current law in Mali. While such data may be available within the GOM, they are not publicly accessible. Additionally, there is not the capacity, without additional training, for interested citizen groups to participate fully in the revisions to the Mining Code.

Oxfam's recommendations

The World Bank should require that data about revenues received and expended be made public regularly. Since the World Bank has begun a project in 2005 that will involve revisions to the current Mining Code in Mali, it is essential that nongovernmental organizations (NGOs) and other citizen groups engage in this process.

The Mining Code could, in a revised form, require both the government and mining companies to report on benefit streams. Final arrangements between the GOM and the companies should be made public. In this way, citizens would be able to participate in the decision-making process as well as hold elected officials accountable for their decisions.

The law governing disbursement of revenues should be simplified by establishing percentages that relate not to a particular type of tax (as in the current policy), but to total mining revenues received from a given region. This would permit citizens to track how well their local representatives are spending regional mining revenues.

Since the complex set of taxes, fees, and duties are impossible for civil society groups to understand, international donors could support greater capacity building in this area and provide access to the experience of other countries. Simplification of mining taxes and reporting would permit the GOM both to track its mining revenues and expenditures more effectively and to report on those figures in ways that are meaningful to Mali's citizens.

Smaller group consultations should be conducted where specific interest groups can be heard and there is the opportunity to discuss issues and concerns in depth. Small group discussions with women's groups and others—conducted in the local language(s), in safe

settings, and where participatory techniques are used – are more likely to generate feedback to which the government and mining companies will respond.

Transparency is a key first step, but figures are not very meaningful if most people are unable to understand them or their significance. Steps should therefore be taken to strengthen the capacity of NGOs and other citizen groups to participate actively in achieving useful transparency. This means they must be able to understand the law in Mali and their rights under the existing law.

The GOM must publish the tax amounts received by type of tax – especially if the tax is a type where a percentage goes to a region or other decentralized unit – and it must publish the percentages of tax earnings to be redistributed as required by law to mining areas and to those areas without mining.

Foreword

In few countries are the challenges of development and poverty reduction as stark as in Mali. Landlocked and comprised 70 percent by the Sahara desert, Mali ranks 174th out of 177 countries in the UN's Human Development Index. Despite receiving decades of development assistance since gaining independence in 1960, Mali's poverty rates remain stubbornly high. One reason: The country's cotton sector, traditionally its largest foreign exchange earner, cannot compete in US and European markets where producers are subsidized.

Given these conditions, it is understandable that the country's extensive gold reserves have generated considerable expectations. Since exploration and development of its gold resources in the mid-1990s, gold is now Mali's leading export in terms of revenue, displacing cotton in 2002.

Gold has been part of the history and culture of Mali since the 14th century when it was the engine of a thriving empire. The recent rise in gold prices (trading at 25-year highs at this writing) has only generated greater hope that Mali's future may again be paved with gold.

Unfortunately, natural resource wealth (whether gold, diamonds, oil, or other minerals) has too often been a curse rather than a blessing for developing countries. As Oxfam America has demonstrated in previous reports¹, countries that depend on natural resource wealth tend to perform more poorly on a number of poverty-related indicators, including health and education levels, and on governance issues, including corruption. The reasons for this include limited unskilled job growth in resource industries, as well as lack of investment in manufacturing and agriculture, which provide greater benefits to the poor. Most ominously, studies have also demonstrated that dependence on natural resources can dramatically increase a country's propensity toward civil conflict.

One key potential remedy to the "resource curse" that has emerged in recent years is increasing the transparency surrounding the management of natural resource revenues. Proponents of transparency argue that by increasing the publicly available information on oil and mining companies' payments to host-country governments (and related contracts), and on how these governments spend that money, citizens will be empowered to hold governments accountable for using these funds wisely. Disclosure of this information will thus make it less likely that extraction-generated funds will be diverted to nonproductive uses that do not reduce poverty, or siphoned off into corruption.

Oxfam America strongly supports the principle of greater extractive revenue transparency. This report describes in detail the information that is currently disclosed by mining companies operating in Mali and by the Malian government, and how that information is presented to the Malian public. We believe that this is a particularly critical issue in Mali, given the relatively quick transition of the country's export base from its previous overwhelming dependence on cotton to now having gold as its leading export. If Mali's citizens are to profit in any real sense over the long term from its gold, the revenues that gold generates must be transparently managed and equitably distributed.



Information disclosure alone, however, is not enough. An important counterpoint to better information on mining revenues is a strong civil society that is informed and can hold its government accountable for using these revenues appropriately. We hope that this report will help support greater Malian civil society engagement with the mining industry and the government on these issues. Through support for our partner organizations in Mali and our ongoing advocacy with the corporations and financial institutions involved in Mali's mining sector, Oxfam America seeks to play a constructive role in this discussion.

It remains to be seen whether Mali will avoid the pitfalls that other countries dependent on natural resources extraction have encountered (notably, and most recently, Mali's neighbor Chad) and will convert its gold into true wealth for its desperately poor population. There is no magic formula; a multiplicity of factors may ultimately end up determining the outcome. Transparency and civic engagement on the use and distribution of mining revenues will, however, be a critical component of the equation.

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Inside the Sadiola Hill Mine, sulfide ore from the pit is transported to the processing plant. The plant operates 24 hours a day, generating \$20 million in profits annually (based on 2004 figures).

8 Recommendations

Our nine recommendations focus on upcoming changes, especially the anticipated revision of the Mining Code, and steps that will both increase transparency and strengthen the capacity of citizens to take advantage of information that is disclosed, to analyze it, and to take action in their own interest.

1. Revision of the Mining Code

The World Bank should require and support the government so that data about revenues received and expended are made public on a regular basis. Analysis is difficult with only one information source. We recommend that the World Bank requirements reflect the intent of the EITI, which is to disclose data from both companies and the government in forms that citizens can understand, and have third-party verification. Without such information, it will be impossible for civil society to participate effectively in any consultative process, no matter how extensive.

Since the World Bank has begun a project this year that will involve revisions to the current Mining Code, it is essential that NGOs and other citizen groups are able to engage in that process. While there is a stated intent to consult extensively with civil society on the revisions of the Mining Code, there is nothing to help them to understand the issues and to participate with full information. This is especially the case for artisanal and small-scale miners. The only open information is from the companies themselves, principally AGA. However, any information that derives from only one source is always open to question.

As this report has shown, laws and regulations relating to revenues from mining and their distribution among the local population rest in at least three ministries of the government. Thus, at a minimum, any effort to revise the Mining Code with an aim to ensure benefits to Malian people must also consider consultations that are interministerial in nature. At a minimum, the ministries of finance, mining, and decentralization must be involved, as these ministries receive revenues, disburse revenues, and determine/administer the formula by which revenues are distributed to local levels.

The Mining Code alone is not a sufficient legal framework within which to understand mining as it relates to poverty in Mali. The laws that govern the management of revenues and its disbursement to local people are as important. All these need to be considered in the revisions of the existing Mining Code if these revisions are, as stated by the World Bank, intended to benefit the Malian population. The Mining Code could, in its new form, obligate both the government and companies to report on benefit streams.

2. Implementation of the current Mining Code

The space provided within the current Mining Code for personalization of each *Convention d'Établissement* must be studied to identify the scope for negotiations beyond the articles of



the Code. When new mines are started, public consultations can inform these negotiations. In addition, final arrangements between the GOM and the companies as articulated in each specific *Convention d'Etablissement* should be made public. In this way, citizens are able to participate in the decision-making process as well as to hold elected officials accountable for decisions taken.

The requirement for early citizen participation is particularly important with respect to mining (and other EI), as a plant or pit cannot be moved once mining has begun. In addition, mining operations often continue for long periods of time.

3. Distribution of revenues

We recommend a simplification of the law with respect to disbursement of revenues, such as establishing percentages that relate not to a particular type of tax as in the current policy, but to total mining revenues received from a given region. This would make it easier for members of civil society to monitor whether the right amounts have been distributed to local levels. Similarly, it would permit citizens to track how well their local representatives are spending revenues from mining. Such an approach would also

Dala Bissoko serves as the coordinator of one of Oxfam's local partner organizations, a women's development program in a non-mining community outside Bamako. Greater dialogue among civil society groups like Bissoko's organization, the government, mining corporations, and international financial institutions could increase the flow of information about the costs and benefits of mining to the people of Mali.

5. Community engagement

Although the companies make periodic efforts to hold open discussions and to inform the public, these efforts are not sufficient. In the case of Sadiola, for example, PowerPoint slides are presented in English and French. These already exclude the majority of the population. Meetings also tend to be large, partly because the company wants to be inclusive. However, it is not possible for a majority of the population to challenge and to engage as equal partners in a context where a large number of ministers and high-level officials are gathered. Even if they could, they do not have the information about laws to give them authority to question.

We recommend smaller group consultations where specific interest groups can be heard and there is the opportunity to discuss issues and concerns in depth. Small group discussions with women's groups and others in the local language(s), in safe settings, and where participatory techniques are used are more likely to generate feedback to which government and companies can respond. International donors as well as the companies themselves could co-fund such engagement through a widespread consultation in mining and non-mining areas of the country to ensure appropriate citizen input. Such a process would also inform the World Bank in its influential role to facilitate representation of the voices of the poor in any enhancement of Malian public administration or revision of the Mining Code.

Information from the smaller discussions can be brought to bear at larger forums where decision makers meet. Companies would benefit from forums where they are able to hear the concerns of citizens, to address them to the best of their ability, and to seek out collaborative relationships with other sectors of society on issues they are not able to address. A stronger local engagement strategy also puts pressure on different levels of government to take action in the public interest.

Similarly, relationships need to be strengthened between the civil society sector and public institutions, all of which claim ultimately to be concerned about poverty reduction and good governance. This implies more sharing of information, attending each other's events, and participating in good faith. Senior World Bank officials have attended communications events sponsored by the large mining companies, but they did not attend informational events sponsored by civil society. Indeed, international donors may be well positioned to support periodic discussions of the mining industry from the civil society perspective, similar to the Mining Dialogue but where civil society takes the lead in articulating issues.

6. Capacity building

Transparency is a key first step, but figures are not very meaningful if most people are not able to understand or make any sense of them. Perhaps the most important recommendation for this report is the need to strengthen the capacity of NGOs and other citizen groups to participate actively and from a position of strength. This means they must be able to understand the law in Mali and their rights under the existing law.

Lessons from countries that have had a longer history of EI need to be brought to discussions in Mali. Information from the experience of mining around the world, especially the experience of companies now operating in Mali, will help groups to position themselves so they can make effective contributions to discussions of mining in Mali.

As a country relatively new to industrial gold mining, the government of Mali can show leadership by making its own commitment to the EITI and promoting greater debate about mining in Mali.

Low literacy rates need not hinder this understanding or the capacity to have informed opinions and to act upon them. Members of the development industry, including those who aim to represent the interests of the poor, need to overlook their tendency to lean toward technocratic approaches and solutions. Not only do these approaches isolate people who have not had much formal education, they preclude opportunities for alternative types of knowledge, such as practical knowledge, to inform solutions to seemingly intractable problems. International development agencies can support processes that facilitate community-level contributions to discussions about mining.

7. Public information

Mali has the benefit of many newspapers and radio stations. It is not difficult for the GOM to commit to report on revenues in ways that show that the decentralization laws are being followed by publishing the numbers. This means that the GOM must publish the amounts received by type of tax (especially if the tax is a type where a percentage goes to a region or other decentralized unit), and it must publish the percentages to be redistributed as required by law to mining areas and to those without mining. The EITI reporting guidelines provide a starting point.

The World Bank must require all companies and governments that receive World Bank or IFC support, or Multilateral Investment Guarantee Agency (MIGA) guarantees, to disclose revenues and expenditures in a form that is accessible to citizens. While transparency itself is not the solution, without the requirement of transparency, neither the citizens of Mali nor the international agencies concerned with poverty are able to ensure that extraction of the country's natural resources is indeed benefiting the people of Mali as they have envisioned.

8. The EITI

The GOM should support the EITI as a minimum first step toward ensuring easy access to information about mining revenues. EITI is at best a starting point for promoting

transparency in the mining sector, covers only certain revenue streams. Additional steps will need to be taken beyond EITI to ensure transparency of government expenditures and the rights of the public concerning access to that information.

As a country relatively new to industrial gold mining, the GOM can show leadership by making its own commitment to the EITI and promoting greater debate about mining in Mali. The GOM should participate in the EITI and create a multistakeholder working group to develop a plan of action to implement the initiative before Jan. 1, 2007. Once the GOM has decided to implement the EITI, it should closely follow the implementation criteria, including ensuring opportunities for civil society participation in an EITI working group. In addition, the GOM should sponsor a mass education campaign about EITI with companies working in Mali and adjust the legal framework to compel company disclosure if necessary.

In addition to publication of data in newspapers, the GOM could create or support centers to educate the public about mining—its revenues, benefits, and risks to the people of Mali. These centers, located in mining areas, should support forums (like the mining dialogue) in which civil society, rather than the companies, may take leadership. In Bamako, the GOM should consider expanding the current mining dialogue process to more fully incorporate civil society.

9. Artisanal mining

Artisanal and small-scale miners must be brought into capacity-building activities that help citizens understand the current Mining Code and laws about distribution of revenues. They should also participate in discussions pertaining to revisions to the current Mining Code. As noted in the text, the livelihoods of artisanal miners are threatened as industrialized mining expands. There is currently no policy, apart from the requirement that they must leave when industrial mining begins in areas where artisanal miners have been working.

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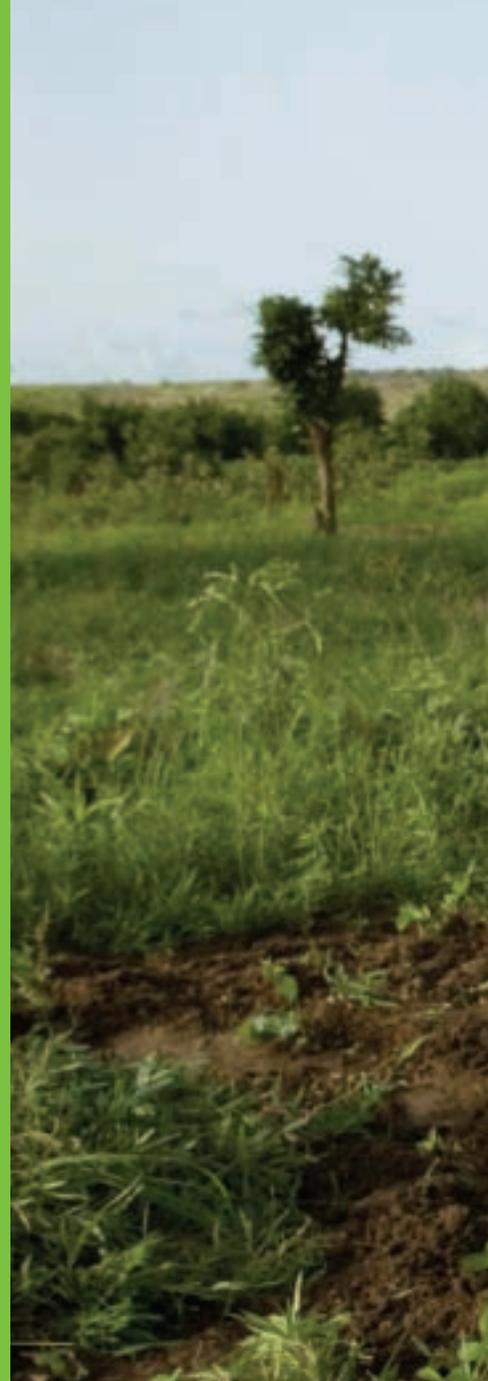
“ We need to...share information. People need to understand mining better: the objectives and interests of those who are promoting mining and...the problems that people near mines are facing.

“How can they profit from the exploitation of mineral resources? After all, these are national resources, so how can these benefits be shared with people?”

Yaya Touré, NGO coalition of the Kayes region

Hidden Treasure?

Gold is now Mali's leading export. If the country's mineral wealth is managed wisely, it holds the potential to contribute to economic development and poverty reduction. Increasing the transparency of mining revenue management is a critical part of this equation. This report examines current laws and practices relating to mining revenue management in Mali and presents a series of recommendations for improving transparency and information disclosure.



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