

MINISTRY OF MINES AND ENERGY OF THE FEDERAL DEMOCRATIC
REPUBLIC OF ETHIOPIA

**THE EXTRACTIVE INDUSTRY IN ETHIOPIA
AND
EFFORTS MADE TO JOIN & IMPLEMENT THE EXTRACTIVE
INDUSTRIES TRANSPARENCY INITIATIVE (EITI) IN
ETHIOPIA**

PRESENTATION TO THE PUBLIC DIALOGUE ON GOVERNANCE AND TRANSPARENCY
IN EXTRACTIVE INDUSTRIES AND NATURAL RESOURCE MANAGEMENT

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Abstract

Despite the fact that Ethiopia has a long mining history, the development of the mining industry and its contribution to the national economy stayed at lower level. The government led economic policy for about two decades and the existence of low level geological data have contributed for the under development of the mineral sector. The change in policy to market oriented economic policy has brought the promulgation of mining legislations aimed at promoting and attracting private investment to the mining sector of the country.

The private investment in the sector is rising from time to time and the sector's contribution to the national economy in the form of foreign currency earnings, revenue generation, job creation and input to the construction and other industries is also growing.

Mineral resources being non-renewable natural resources require sound systems of governance to bring sustainable development. It is also very important to establish transparency and accountability in the management of revenue generated by extractive industries through active participation of stakeholders including civil society organization. Ethiopia is committed and has started a process to join the extractive industries transparency initiative (EITI), a global initiative that works to strengthen good governance by improving transparency and accountability in the management of revenue generated by the extractive industry. A National Steering Committee comprising representatives from government, company and civil society organizations was formed to oversee the implementation of EITI in Ethiopia and application for candidacy status has been submitted to the EITI Board.

1. Introduction

Ethiopia is located in East Africa occupying a land area of 1.14 million km² with a population of over 70 million. Geographically the country is located between latitudes of 3⁰ N to 15⁰ N and longitudes of 33⁰ E to 48⁰ E. and bounded with Kenya to South, Djibouti & Somalia to the East, Sudan to the West and Eritrea to the North.

Ethiopia has adopted federal administrative system with nine National Regional States & two City Administrative Councils. Addis Ababa is the capital city of Ethiopia having about 3 million residents and is the center of business & Industry. The head quarter of African Union (AU), the United Nations Economic Commission for Africa (ECA) and other International Organizations are located in the capital.

The main economic basis of the country is Agriculture. Over 80% of the population is engaged on Agriculture & related activities. The major export of the country also comes from this sector. The mining sector is becoming a significant source of foreign currency earnings. Gold, tantalum, gemstones and dimension stones are the export minerals of Ethiopia.

After a major policy change in 1991, the government adopted a free market economic policy, limiting the role of the public sectors in economic activity. In accordance with the new economic policy, mining proclamations are promulgated to permit & encourage the investment of private capital in the development of the mining sector. Growth rates of double digit are recorded for the past seven consecutive years.

2. Potential of the Extractive Industry in Ethiopia

Geo-scientific works for academic and mineral prospecting purposes in Ethiopia began in the late 1890's by foreign scholars and private companies. Until the Mid - 1960s most of the exploration activities were conducted in different parts of the country in a generally unorganized manner. Modern and systematic mineral exploration started in 1968 with the establishment of the Ethiopian Geological Survey as a department within the Ministry of Mines and Energy. Since the establishment of the geological survey, various geological mapping and mineral exploration projects have been undertaken in different parts of the country with the aim of discovering mineable mineral deposits and upgrade the geo-scientific information. UNDP-Mineral Survey in two selected areas (1967-1971), Omo River Project Ethio-Canada (1976-1978), Bulbul-Ageremariam-Moyale Mineral Exploration Project (Ethio-Soviet), Bure-Aberegele Mineral Exploration Project, Asosa-Kurmuk Mineral Exploration Project, Guba-Oda Godre Integrated Mineral Exploration Project, Adola Gold Exploration Project- AGEP (1985), UNDP- Training for Mineral Exploration Project (1984-1994) and Western Tigray Mineral Exploration Project, Ethio-Nor Mineral Exploration Project are worth to mention. Most of the exploration works for petroleum were conducted by private petroleum companies except the Soviet Petroleum Exploration Expedition in the Ogaden Sedimentary Basin.

2.1. Geology

51% of the landmass of the country has been covered by basic geological mapping at a scale of 1:250,000 and about 20 % by geochemical Survey in the search for minerals and to support development activities in other sectors with basic geoscience information. Ethiopia is underlain by geological formations that range in age from Precambrian to recent. 25% of the country's land is occupied by Precambrian metamorphic rocks, 25% by Mesozoic sedimentary rocks and 50% by Cenozoic volcanics & sediments.

Precambrian basement rocks outcrop in the northern, western and southern parts of the country comprising high grade gneiss & low grade volcano-sedimentary rocks intruded by a range of pan-African granite and syenite bodies and a number of gabbroic, noritic and ultramafic intrusions. Paleozoic formations are poorly represented by some glacial deposits and some Permian to Triassic sediments occurring at the base of the Ogaden Basin and correlated with the Karroo sediments elsewhere in Africa. Mesozoic sediments outcrop over extensive areas mainly in Eastern Ethiopia overlaying Precambrian rocks. Tertiary volcanic rocks underlie the Rift Valley and much of the highland mainly in the South West, North West and Central parts of the country. Quaternary volcanic and sediments occur mainly within the Rift Valley.

The geological and mineral exploration activities undertaken have demonstrated that Ethiopia has a rich and diverse potential for mining. The geological setup of the country is favorable for the occurrence of metallic, industrial, and construction minerals, dimension stones, and precious and various types of gemstones.

Fig. 1. Summarized Geological and Mineral occurrence map of Ethiopia (After BGS 2007)

2.2.Mineral

Many prospective areas for gold, platinum, base metals, rare metals such as columbo- tantalite, potash, salt, limestone, marble, granite, iron, bentonite, diatomite, phosphate rock, coal, gypsum, clay, opal, mineral water and construction minerals are revealed through the exploration works conducted so far. Three prospective belts known as the Northern, Western and Southern green stone belts consisting of low grade meta- volcano sedimentary sequences with associated intrusive rocks are found to be the main host for the mineralization.

The southern green stone belt comprises the primary gold deposits & occurrences of Lege - Dembi, Sakaro, Wollena, Kumudu, Megado - Serdo, Dawa Digati, Okote, Moyale & Ababa River, the columbo-tantalite of kenticha & Meleka and the Adola nickel deposit. The Western greenstone belt contain the primary gold of Dul, oda - Godere, Chamo (Akobo), Baruda, Bekuji-motish & Kalaj; Yubdo Platinum, base metals of Azali - Akendeyu, Abetselo & Kata, Fakushu Molybdenite and the iron deposits of Bikilal, Chago, Gordana & Korre. The Northern green stone belt in Tigray, comprises the primary gold occurrences of Terakemti, Adi Zeresenay and Nirague as well as the base metals of Tsehafi Emba. Known placer gold deposits and occurrences are also mostly associated with the prospective belts. The Melka Arba iron ore, the Chercher Malachite and the Enkafela Manganese deposit are found to occur outside the three belts.

The Tertiary to Quaternary volcanics and sediments host most of the construction materials (basalt, trachyte, rhyolite, Ignimbrite & pumice). Sediments of the rift include sandstone, limestone, shale,

gypsum, anhydrite & other evaporites. Potash, rock salt, gypsum, bentonite, diatomite, pumice & sulfur are also found in Cenozoic volcanics and sediments. High quality limestone, clay, gypsum and pumice which are the basic raw material for cement are found to occur in several parts of the country. Chemical raw materials of considerable reserve and satisfactory grade amenable for mining, such as salt, sulfur and potash are well known in the Afar depression.

Phosphate deposits and occurrences are known at Bikilal in western Ethiopia and Melka Arba in Bale hosted by gabbroic intrusive rocks associated with Fe - Ti minerals. The prefeasibility study on the Bikilal phosphate has revealed a low grade high tonnage deposit that is technically viable for mining. More than 12 diatomite deposits and/occurrences have been identified in the main Ethiopian Rift Valley and in the Afar Depression where deposits of relatively better quality are confined to the central part of the rift valley. Large volume of bentonitic clay resources occur in the Afar and lakes region where some beds could be used for drilling mud and for iron ore pelletization and part of it if upgraded may have foundry application.

Coal and oil shale deposits and/ occurrences are found to occur within the Cenozoic volcanics. Among the wide occurrences of coal & oil shale, the best deposits occur at Yayu, Delbi & Moye areas in south western part of the country.

Exploration for geothermal resources conducted in the rift valley has indicated high potential of the resource. Detailed studies have revealed to fields, the Aluto - Langanoo geothermal field with potential of as high as 30 Mwe and the Tendaho geothermal field having a potential of 20 Mwe. The life of the resource is estimated to be for 30 years for each field. The Ethiopian Electric Power Corporation had overtaken the field for electricity generation and has erected a pilot plant to produce 7 Mwe.

The exploration works for oil & gas in Ethiopia were mainly over the five sedimentary basins that cover significant portion of the country; the Ogaden, Blue Nile, Mekelle, Gambella and Southern Rift basins. The relatively intensive exploration activities carried out over the Ogaden basin have resulted in the discovery of Calub Gas field and the Hilala gas condensate pool with a total of 4TCF.

2.3. Mining

Even though various metallic, industrial and construction minerals, gemstones and Natural oil and gas deposits and occurrences have been discovered only few of them are being mined. The main minerals being mined are gold, tantalum, platinum, gemstones, mineral water, construction minerals, industrial minerals and dimension stones like marble, granite, limestone and ignimbrite.

The history of gold mining in Ethiopia dates back to biblical times. Gold has been traditionally mined from placer deposits. Semi-mechanized gold mining began in 1930's after the discovery of placer gold in Bedakessa valley in the Adola belt. Since then a substantial amount of placer gold deposits have been discovered and mined in the Adola belt, western and northern parts of the country by government enterprise and artisanal miners employing semi-mechanized and traditional mining methods respectively. Studies have revealed that more than 3 tons of gold is mined and illegally exported. As a result of the coordinated efforts of the ministry and the stakeholders more than 2800kg of gold mined by artisanal miners has been purchased by the National Bank of Ethiopia. The placer gold deposit in Akobo area within the western green stone belt has been licensed to a private company and will commence mining soon.

The only large scale primary gold mine in the country is the Lege Dembi gold mine that started production in the late 1980s with an annual production capacity of 3 tons of gold. The Lege Dembi Gold Mine was privatized in 1996 and is upgraded to produce about 4 tons of gold per year. The company has explored the underground potential of the mine and carried out detailed exploration work on the Sakaro and Warseti prospects west and south west of Lege Dembi mine respectively. The Company has planned to produce about 70 tons of gold from these areas (Midroc Newsletter Special issue # 28, February 2008) in the coming years. Currently, the company has started underground mining at Lege Dembi and Sakaro gold deposits. The upcoming of both resources into production will increase the annual production to an average of 5 tons of gold.

Placer Platinum has been mined since 1926 at Yubdo in the western green stone belt. Even though the deposit has still contained 12 tons of platinum, mining was closed for long time due to recovery problem. However, mining has commenced after the deposit is licensed to a private company.

State owned Share Company is operating the tantalum deposit in Kenticha within the Adola belt. The mine started production at pilot stage in 1990 with a production capacity of 20 tons per year. The capacity of the mine has been upgraded to increase the annual production to more than 200 tons. The company has produced 210 tons during the current budget year (July8, 2009- June 2, 2010). The same company is also producing quartz, feldspar, kaolin and dolomite in the same region.

A resource of soda ash at Lake Abiyata and surrounding lakes in the rift valley whose reserve exceeds 460 million tons of sodium carbonate is under production by a government development enterprise. The plant is producing about 20,000 tons soda ash per year at semi industrial scale and is providing its product for the caustic soda factory, soap and detergent manufacturers.

The huge salt reserve, both a rock salt and brine in the Dallol salt plain and in the brine lakes of the Afar Depression is in operation by traditional and modern exploitation methods by private companies and the local inhabitants from artisanal to large scale. Large Scale Mining license was issued to a foreign company to produce the potash resource in Danakil Depression.

A number of local and foreign companies are licensed to explore for opal and other gemstones in different parts of the country. Gemstones such as emerald, sapphire, peridot and opal are mined artisanally and exported through legal channels.

A number of local and foreign companies are producing dimension stones such as marble, granite, amphibolite, limestone, sandstone, gneiss and volcanic rocks - ignimbrite in different parts of the country. Some of the dimension stones like marble are of export quality and are being exported to foreign markets.

The major industrial minerals being mined & utilized by local industries are silica sand, coal, diatomite and the cement raw minerals input for the cement factories that utilize high quality limestone, clay, gypsum and pumice. There is also significant input of construction minerals like sand, gravel, scoria, crushed stones & aggregates etc to the construction industry for the construction of roads, dams, bridges and other structures.

More prospects are being revealed in Western, Northern and Southern parts of the country from the exploration works of private companies for gold, base metals, and industrial minerals. The discoveries in Western Wellega, Metekel area and Northern Tigray are the main ones and exploitation for gold in these areas is expected to commence in the near future.

2.4. Contribution of the extractive industry to the national economy

Even though the mineral industry isn't yet well developed and its contribution to the GDP still remains below 1%, the extractive sector is playing a role in poverty reduction and making significant contribution to the economy of the country through foreign currency earnings, job creation and contribution to the livelihood of citizens in Artisanal and Small Scale mining. Gold, tantalum, platinum, gemstones and dimension stone are the major export minerals. More than half a million people in the rural area are engaged in artisanal mining of minerals mainly gold & gemstones. Some of the reasons for the low GDP data are; the GDP calculations have taken into consideration mainly the export minerals ignoring the local contribution in the construction and industrial sector and the lack of well organized minerals production data. It is evident that the investment in the mining sector and the contribution of the sector to the national economy is on the rise. Based on the licenses issued and administered by the Ministry of Mines and Energy, the achievements in the mining sector during the July 8, 2005 to July 7, 2010 five year strategic period are summarized below:-

- Investment has increased from 62 million birr to 12.7 billion birr;
- The licenses given to private investors is increasing from time to time and currently the number of active licenses under the regulation of the ministry are 172 of which 52 are mining licenses for gold, raw minerals for cement, mineral water, construction minerals, industrial minerals, energy minerals like coal. 120 licenses out of the total are prospecting and exploration licenses for various minerals;

- The income from mineral operations was 18 million birr at the beginning of the strategic period and has increased to 69 million birr at the end of the strategic period out of which royalty accounts for 68.5 million birr;
- There was no income tax paid by the mining companies at the beginning of the period. However, at the end of the strategic year the income tax paid has reached 224 million birr a year (July 8, 2009-July 7, 2010);
- The job opportunity for professionals in the small scale and large scale mining has increased to more than 3000 from less than 1000 and a significant number of citizens (in tens of thousands) have got temporary job opportunity for unskilled and semi-skilled labour. More than half a million people are engaged in the artisanal mining sector. The artisanal mining sector which was an illegal operation prior to 1991 is becoming a means of livelihood for more than 5,000,000 people after its legalization;
- The gold and tantalum export which was 3,439 kg and 92.5 tons respectively in the year July 8, 2005/July 7, 2006 has increased to 4500kg and 220 tons respectively at the end of the strategic period (July 7, 2009/July 8, 2010). The foreign currency earnings from the export of gold, tantalum and gemstones has reached about 295 million USD;
- Prior to 1991, only few companies were undertaking petroleum operations in the country. Till the end of the strategic period 22 licenses are issued to eleven petroleum companies. During the strategic period, investment in petroleum operations has increased from 18.9 million dollars to 238.7 million dollars and income from 370 thousand dollar to 104 million dollars;
- The export of gemstones which was less 1000kg at the beginning of the strategic period has increased to 3100kg a year at the end of the strategic period;
- Artisanal mining for precious minerals such as gold was illegal activity and the minerals like gold & gemstones produced by ASM were exported illegally through border and other ways. The Mineral operations proclamation No. 52/1993 has recognized ASM as a formal mineral operation activity. Proclamation No. 651/2009 was also promulgated to promote and regulate the transactions of precious minerals. Due to the coordinated effort of the stakeholders the National Bank of Ethiopia's purchase of gold has increased from about 850Kg a year to more than 2800kg a year at the end of the strategic period;
- A significant amount (billion of tons) of industrial and construction minerals including dimension stones that are input to the local industries and the construction sector include salt, limestone, marble, granite, coal, soda ash, kaolin, feldspar, quartz, silica sand and aggregates are under production enhancing the contribution of the mining sector to other economic sectors;

3. Governance of the extractive industry in Ethiopia

3.1. Regulatory Framework

The mining industry in Ethiopia has stayed at lower level of development for a long period. Records do indicate that foreign companies had obtained mining concessions as early as 1900 during the reign of Emperor Menlik II. Limited exploration and mineral production by foreign private companies took place during the Imperial period. They were unplanned and unregulated till 1971 and didn't result in an integrated mining sector. The Mining Proclamation of the Empire of Ethiopia No. 282/1971 was

enacted in 1971 to regulate mining operations. Any person, registered as a trader in accordance with the 1960 Commercial Code of Ethiopia was eligible to be granted exclusive exploration and mining licenses.

Proclamation No.39/1975 of the Socialist Government of Ethiopia has restricted private sector to the exploration and mining of construction minerals like quarrying. The operation for metallic and industrial minerals was reserved for joint state and private sector participation whereas mining of precious metals, radioactive minerals, commercial scale salt production, and thermal power were exclusively reserved for the state. This government led closed economic policy of the country coupled with poor geological data has stuck private investment for about two decades and resulted in the low level of development of the mineral industry.

With the change of government in 1991, there began a fundamental shift in policy from government led economic policy to a free market economic policy. Major economic reform programmes were initiated with the objective of establishing a market economy and creating the legal, institutional and policy environment to increase private sector involvement.

Accordingly, The Mineral Operations Proclamation No. 52/1993, The Mining Income Tax Proclamation No.53/1993, The Mining Regulation No. 182/1994 were enacted to attract private investment in the sector, to guarantee the rights of the private national and international investors, and to administer and regulate the mineral operations in Ethiopia. The Petroleum Operations in the country are administered by The Petroleum Operations Proclamation No.295/1986, The Petroleum Operations Income Tax Proclamation No. 296/1986. Proclamation No. 651/2009 was also promulgated to promote and regulate the transactions of precious minerals. The role of government is restricted to regulation and promotion, including the provision of basic geoscience information and reconnaissance exploration data to assist investors and other development programmes. According to the legislations, royalty and production share are both negotiable, tied on production rate, income tax is 30% and government participation in production is negotiable for petroleum Operations while for minerals other than petroleum; the income tax is 35%, royalty varies from 3-5% depending on the mineral type and the government free equity is 2%. The legislations also encourage giving preference to the employment of Ethiopian nationals and the use of domestic goods and services required for mineral operations. Taxes on income from mining operations, royalty and land rental are levied and collected according to Article 97 sub article 8 and Article 98 sub article 3 of the Constitution of the Federal Democratic Republic of Ethiopia; i.e.

- Article 97 sub article 8 “Consistent with the provisions of sub article 3 of article 98, states shall levy and collect taxes on income derived from mining operations, and royalties and land rentals on such operations;
- Article 98 “The federal government and states shall jointly levy and collect taxes on incomes derived from large scale mining and all petroleum and gas operations, and royalties on such operations”;

The Mining proclamation invites private investment in all kinds of mineral operations and provide a one year exclusive prospecting license, three years exclusive exploration licenses with two renewals of one year each, an exclusive mining license for twenty years with unlimited renewals of 10 years each and requires adequate health and safety of employees and environmental protection and environmental impact study depending on type & nature of a project. The proclamation recognized artisanal mining as mineral operation activity for the first time in Ethiopia. Artisanal mining license is granted for one year and may be renewed indefinitely for like periods. The holder of mining license is granted the right to sell minerals locally or abroad and to open and operate a foreign currency account in bank in Ethiopia; retention of portion of foreign currency earning and remittance of profits, dividends, principal and interest on a foreign loan etc. out of Ethiopia. It also provides exemption from customs duties and taxes

on equipment, machinery and vehicles necessary for the mining operations. Disputes may be settled through negotiation & international arbitration.

Any person that satisfies the requirements of licenses has the right to acquire a license provided that has/she is qualified to carry on trade under the provisions of the Commercial Code and possessing the required financial resources, technical competence, professional skill and experience to fulfill the obligations under the license. Financial resource, technical competence, professional skill and experience are not required to get artisanal mining licenses.

The proclamations require the licensee to conduct the operations in such a way to ensure the health and safety of employees and other persons, and to minimize damage or pollution to the environment and pay compensation if damages or destroys any property of another legitimate occupant. It also requires taking proper precautions not to hamper the right of other legitimate occupants of the license area and adjacent land. However, if the operations require the displacement of the occupant, the licensee shall attempt to negotiate regarding the compensation payable to the occupant. If the occupant refuses to be displaced or to agree on the amount of compensation, the licensing authority may get involved to resolve the issue.

Operations in the extractive industry that require environmental studies and management plan are processed and evaluated according to the Environmental Impact Assessment Proclamation No. 299/2002 and guidelines of the Ethiopian Environmental Protection Authority. The EIA proclamation encourages public participation on EIA studies before it is approved i.e;

- The authority or the relevant regional environmental agency shall make the EIA Study Report accessible to the public and seek comments on it;
- Ensure that the comments made by the public and in particular by the communities likely to be affected by the implementation are incorporated into the study report as well as in evaluation;
- Any person dissatisfied with the authorization or any decision regarding the project may submit a complaint notice to the head of the authority or relevant environmental agency and the decision on the notice shall be issued within 30 days following the receipt.

Environmental impact assessment serves to bring about administrative transparency and accountability, as well as to involve the public and in particular, communities in the planning and decision taking on development projects which may affect them and its environment. The Authority or the relevant regional environmental agency shall approve or refuse the project after evaluating the Environmental impact study report taking into account any public comment and experts opinion.

The proclamations were amended at different times in favor of investors and were influential and competitive in attracting private investment to the extractive industry. The proclamations weren't based on formally written mineral policy due to the fact that mineral sector policy wasn't formulated. However, the mineral sector policy has been formulated and awaiting government ratification. The mineral sector policy is formulated to address the national challenges such as increasing the contribution of the mineral sector to the national economy, foreign currency earnings and to support the national agricultural led industrialization policy, programmes and strategies. It also gives due emphasis on enhancing the mining contribution of mining operations to social development (inclusion of social development plan in the agreements) and on ensuring environmental protection and management, on the integration of the mining sector with other economic sectors.

3.2. Institutional Framework

New institutional setup aimed to enhance the development of the mineral industry in Ethiopia, to implement the proclamations, and render efficient and effective services required by private investors was also put in place. In Ethiopia, the mineral industry is administered at two levels (the federal and regional). The Federal Ministry of Mines and Energy is mandated to issue and administer minerals operation licenses for foreign investors and those under joint venture. Large scale mining operations by local or foreign investors except for construction minerals are under the jurisdiction of the Ministry. All petroleum operation licenses are issued and administered by the Ministry. The Geological Survey of Ethiopia, a semi- autonomous institution under the Ministry of Mines and Energy, is responsible for basic data generation and as a repository for geoscience data in the country.

The National Regional State's Mines and Energy Bureaus/Agencies are responsible to issue and administer artisanal mining, small scale mining, and large scale mining for construction minerals, prospecting and exploration license for national investors.

The Ministry of Mines and Energy has also established Environmental Unit in accordance to the Environmental Protection Organs Establishment Proclamation No. 295/2002. EPA has delegated the ministry to evaluate and approve EIA studies for the sectoral development projects and to monitor the implementation of an authorized project in order to evaluate compliance with all commitments made by, and obligations imposed on the proponent during authorization. The unit also deals with social development issues nearby the operations. According to international practice, the investors in the petroleum sector include community development funds in their project since long time, the amount to be allocated to be defined through negotiation between the investor and the licensing authority. This trend of including community development funds in agreements of mineral operations is also being exercised very recently. However, the investors/companies operating in the mineral sector were used to participate financially and technically on various community development projects and activities.

The Ministry of Mines and Energy in collaboration with the National Regional States Mines and Energy Bureaus is working to promote the mineral industry of the country and to attract private investment to the sector. The issue of strengthening good governance through establishing transparency has been given considerable attention. The Ministry has undertaken a Business Process Re-Engineering Study aimed at giving efficient and effective service to the investors and is already under implementation. As per the study, prospecting and exploration licenses are issued in less than 5 days and mining licenses in less than twenty days after receipt of application. All the requirements to get service from the licensing and license administration sections of the ministry and the time required to deliver the required service are clearly stipulated in the study. Such information is accessible for the customer/public so that any service requiring person could act accordingly in a transparent manner. The Ministry with the assistance of the World Bank has also established a modern and computerized license data management system whereby the Federal licensing authority and the regional bureaus will communicate all the license information through the mineral cadastre data management system transparently. The system will abolish the time spent to get information through letter and will establish transparency in the licensing process that would be influential for the realization of first come first served principle.

The extractive companies are paying royalty, income tax, and land rentals, license fees etc. to the licensing authorities as per the agreement and the legislations. The revenue being generated from the ongoing mining operations in the country needs to be managed in a transparent way and be open to the public scrutiny. The Ministry of Mines and Energy is also making efforts to join and implement the extractive industries transparency initiative and has established a coordinating office for its realization.

3.3. Extractive Industries Transparency Initiative

The extractive industry, more specifically the mineral industry generates tremendous wealth for more than 50 countries around the globe. However in many of the countries, especially in the developing nations the revenue generated from this sector is unable to bring long term growth to improve the well being of the citizen. Over 3.5 billion people in resource rich countries are living under poverty. In such countries resources are becoming a curse rather than opportunity. The Extractive Industries Transparency Initiative (EITI) is a global standard that promotes good governance through improving transparency and accountability in the management of revenue generated by the extractive industry in countries rich in oil, gas and mineral resources. The initiative was launched by the PM of U.K. Mr. Tony Blair at the World Summit on Sustainable Development in Johannesburg in 2002. At the global level the initiative is led by EITI Board and International EITI Secretariat.

Implementing EITI will help countries to efficiently collect the revenue generated from the extractive industry, supports anti-corruption and good governance agendas of countries, affirms commitment to fighting corruption and establish citizen trust in public institutions and extractive companies. Citizens would be able to hold government accountable in the use of revenues collected from the extractive companies. It also demonstrates country's commitment to transparency, promotes accountability, improves credit worthiness for government and companies, enhances international credibility, reduces conflict and attracts investment by creating conducive investment environment.

The Implementation of EITI at a country level starts with candidacy status that would be followed by compliant status. A country that has fulfilled the four sign up indicators; issue unequivocal public statement of commitment to implement EITI, commitment to work with stakeholders, appoint senior government individual to lead EITI and publish fully costed agreed upon work plan can apply to the board for candidacy status. A country accepted as **EITI Candidate** will implement EITI for two years as per the criteria and principles of the initiative after which should undergo a validation. The validation will be conducted by international consultants recognized by the international EITI. A country successfully passed the validation will be **EITI Compliant** and will be re-validated after 5 years. Out of the 31 candidate countries only three, Azerbaijan, Liberia and Timor Leste have acquired EITI compliant status.

The Extractive Industries Transparency Initiative (EITI) requires extractive companies to publish what they pay to government and governments to disclose what they receive from the companies operating in a country. At country level EITI is governed and run by a multi-stakeholder Group (National Steering Committee) that comprises representatives from government, civil society and extractive companies. An independent Auditor will reconcile the payments disclosed by the companies and government. The whole process will be overseen by the National Steering Committee and an agreed upon report will be publicized nationally and internationally. The day to day activity of the initiative is run by Implementation Secretariat.

3.4. Efforts made and status of Ethiopia in Joining EITI

The Government of the Federal Democratic Republic of Ethiopia noting the implementation of EITI in Ethiopia as an additional and critical part of the government's ongoing commitment to establishing good governance, transparency and accountability is committed to join and implement EITI in Ethiopia and started the process in late 2008.

To date, several activities have been accomplished to fulfill the four sign up indicators required to apply for candidacy status;

- The government has delegated the Ministry of Mines and Energy to be the government organ responsible for the implementation of EITI and the Minister of Mines and Energy to lead the implementation.

- The Public statement that shows the government’s intention and commitment to join and implement EITI in Ethiopia was issued to Ethiopian Television and Radio in Feb.2009 and announced on the 4th EITI meeting held in Doha Feb. 16-18, 2009 by the Minister of Mines and Energy. The public statement was communicated to the EITI Board, the World Bank and other national and international organizations and published on the website of the Ministry (www.mome.org.et). An implementation secretariat was established and hosted in the Ministry;
- The Ministry has held meetings with companies and civil society organizations to create awareness, introduce EITI, discuss on the role and representation of stakeholders and to show the government’s commitment to work with stakeholders and implement EITI in Ethiopia.
- A launching conference with the technical and financial assistance of the World Bank aimed at establishing a National Steering Committee and approve a draft work plan was held from July 28-29, 2009 in Adama German Hotel, Adama. More than 100 participants from civil society organizations, government, extractive companies and international organizations were officially invited to the conference out of which about 80 have attended the conference.

The Launching Conference has enabled to publicize EITI to the stakeholders and the public at large, to establish a 17 member National Steering Committee, and to develop and approve implementation strategy and work plan. The Minister and State Minister of Mines and Energy are the chairperson and deputy chairperson of the committee respectively. The conference was concluded by signing a memorandum of understanding by the NSC.

Partial view of the launching conference

Upon successful completion of the four sign up indicators, an application for candidacy status was submitted to the EITI Board in Early August 2009. The EITI Board has deferred the application on two of its meeting. The reason given by the board to defer the application is “the new law on the registration and regulation of Charities and Societies in Ethiopia is restrictive to the free participation of civil society organizations in the EITI process”. Regardless of the board’s decision, the government and the National Steering Committee especially the civil society are under discussion with the board on the possibilities of implementing the initiative under the new law and to secure the candidacy status.

4. Constraints /Challenges in the extractive industry

Despite the fact that Ethiopia has a very long time mining history and endowed with a wide range of occurrences and mineral, the development of the sector is still at infant stage providing little

contribution to the national economy. The major constraints/ challenges to the development of the extractive industry in Ethiopia that should be acted on are:-

- Lack of clear mining policy for long time till very recent time
- The relatively recent history of integrated mineral exploration activities and availability of very limited and inadequate geoscience information.
- Lack of capacity to frequently revise, update, prepare and disseminate promotional documents.
- Lack of local and foreign investment towards the development of a strong mineral industry.
- Poor coordination between the industry and higher education institutions in the development of human resource requirement of the sector
- Capital and technology intensive nature of the mineral operation activities and the lack of these inputs.
- More environmental degradation at artisanal mining sites
- Lack of trained and skilled manpower to regulate and conduct mineral operation activities.
- Low level of development of infrastructures.
- Lack of coordination between mineral consuming industries and mineral developing institutions and even more, lack of awareness of the availability of numerous raw material resources.

5. Role of Stakeholders in the mineral development

The mineral wealth of a country belongs to its people. Mineral resources are non-renewable natural resources that require sound management during their development in such a way that the country and the community should get the most benefit out of the revenue generated during the life of a mine. Mining can also have serious impact on the environment if the necessary environmental studies and mitigation measures aren't performed on time. Coordinated endeavor of all the concerned stakeholders is vital for sustainable development of the extractive sector. The Major champions in the development of the sector are government, private sector, citizens (local community), civil society organizations and intellectuals that have stake in the sector.

Government has got custodianship over the mineral wealth of a country on behalf of the people with a responsibility to regulate and administer the mineral operations to foster sustainable development in the mining sector for the benefit of the people. To fulfill its obligation as a custodianship, the government should:-

- Develop and establish competitive mining legislations, promote the mineral wealth, maintain an efficient licensing and license administration system;
- Ensure that the mineral operation activities are conducted in efficient and optimal method and are in accordance to the agreement entered, the international practice employing the art of the state.
- Ensure that the mineral operations takes place in an environmentally and socially responsible manner
- Develop and establish the human resource and institutional framework required to enhance and encourage the development of the mineral industry
- Recognize and encourage the participation of all stakeholders in formulation of policies, mining legislations, strategies and development programmes

The active participation of the stakeholders in the development of policies, implementation of programmes, and regulation of mineral operation activities is often important because it will help to establish transparency in the sector and creates trust among government, the community, extractive companies and other stakeholder. Civil society organizations and medias should work strongly in

creating awareness on issues in the sector in such a way that the public can have a say on the development agenda and activities in the sector. The community is very near to the mineral operation activities and is the one who will be more affected positively and or negatively. The community has got a potential and indigenous knowledge that can be contributed to development activities either run by government or private. Hence the role and participation of the community is very influential for the success of development activities and should be encouraged.

The common practice in Ethiopia in this respect is modest to adequate taking into account the current low level development of the sector. All the concerned stakeholders including the civil society and the community are participating in public dialogue on mining policies and legislations at different levels before they are passed by the parliament. The government is also working in close collaboration with the community, regional and local administration during the implementation of mining operations. The commitment of the government to join EITI is among the roles of the government that is supportive to a participatory approach in the development of the extractive sector and to get the maximum benefit out of the mining operations in Ethiopia. More work with stakeholders is being done more specifically regarding the development of artisanal mining. The media is also working in close collaboration with the regulatory authorities and is giving wide coverage to new developments in the sector.

However, with the development of the sector, the involvement of the stakeholders should be more strengthened and coordinated. The existence of mining chambers may also have significant role & contribution towards the establishment of transparency and strengthening good governance that are key elements for the development of the extractive industry. Thus, the private companies engaged in the sector should be encouraged and supported to establish mining chamber. The other important issues to enhance the role of stakeholders is to establish a regular forum or advisory council that will work with government offices in charge of minerals development on all matters. The forum or the council may include representatives from the mining industry, intellectuals in the industry, civil society organizations and the affected parties including the community.

6. Conclusion and recommendation

The geological setup and the limited exploration activities conducted so far indicate Ethiopia's endowment in minerals, oil and gas and the opportunity for the development of the extractive industry is significant. The mining legislations and the conducive investment environment in the country are able to attract considerable private investment, both national and international to the sector. There is also a growing trend in the revenue generated, employment opportunity created and foreign currency earnings from the mining sector.

The recognition of artisanal mining as a formal mining activity has played a role in enhancing the sector's contribution to the national economy. The ASM is becoming an alternative livelihood for large number of peoples in rural parts of Ethiopia and a potential source of foreign currency earnings. The job opportunity of ASM is also the other contribution of the sector. Therefore, the government should reinforce its ongoing efforts of assisting the artisanal miners technically and financially.

Strengthening good governance through the establishment of transparency and accountability in the management of revenue generated by extractive industry is very important in creating a forum for stakeholders' participation in the development of the mineral industry, in the proper management of the mineral wealth of the country and to enhance the benefits of the mineral development for the peoples of Ethiopia and bring sustainable development. The efforts being made to join the extractive industries transparency initiative should be continued in a more strengthened and coordinated way.

Most of the current investment in the sector is in the exploration for metallic and industrial minerals while most of the mining undertakings are in the construction and industrial minerals with few for metallic minerals. It is very important to work to attract investment in the mining of high value metallic minerals and be engaged in an aggressive campaign to promote the mineral potential of the country.

Meaningful stakeholders' participation and consultation, more specifically the affected community in the approval of EIA studies of mining projects is of enormous value for successful implementation of the projects, environmental protection and community development in order to bring sustainable development in the sector. Therefore, such processes need to be promoted and encouraged.

The mining sector has been able to attract private investment since the change in policy of the government. Taking into consideration the current trend of private investment, the extractive sector will be one of the major revenue generating sectors in Ethiopia. The capacity building of the institutions in the mining sector at both levels, regional and federal to enhance the regulatory and basic data acquisition capacity of the sector should be given due emphasis. The existing competitive and transparent regulatory and fiscal regimes should be strengthened in order to attract more investor interest and keep hold of the existing investment.

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