Ethiopia’s Mining Sector: a Developmental Approach

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Two Relevant Anecdotes

  1) The need to be syncretic by turning to examples from within and outside the continent. 
  2) The importance of making sure that capacity and sophistication of the state apparatus/bureaucracy keeps apace with developments in a country’s extractive sector.

• Example of the quintessential non-developmental state. Resource rich. Per capita GNI equivalent to Hungary; but social-sector indicators consistent with low-income sub-Saharan African states (e.g., life expectancy of 53; infant mortality rate of 69 infants per 1000)
Developmental Underpinnings of Policy

● “The main development agenda of the Ethiopian government is poverty eradication. All the country’s development policies and strategies are, therefore, geared towards this end.” Foreword to Ethiopia’s Growth and Transformation Plan (GTP) by Sufian Ahmed, Minister of Finance and Economic Development

● “to become a country where democratic rule, good governance and social justice reign, upon the involvement and free will of its peoples, and once extricating itself from poverty to reach the level of a middle-income economy as of 2020-23.” GTP, p. 21

● “For the mining sector, the government’s main focus is to create a favorable environment for private investors for exploration and development of mineral resources...Policies, laws and new regulations that create an institutional framework conducive for the development of the sector’s contribution to the economy will be put in place during the plan period...Paramount importance will be given to ensuring this institutional framework is enabling, encourages competition and takes account of the international situation and national interests.” GTP, p. 64
The objectives of this Proclamation are to:
1) give effect to the principle of the custodianship of the country’s mineral resources by the Government
2) promote socio-economic growth of the country;
3) promote employment and advance the social and economic welfare of all Ethiopians;
4) provide for security of tenure for all investors in respect of exploration and mining operations; and
5) ensure that the country’s mineral resources are developed in an orderly and sustainable manner.

The Mining Sector’s Contribution to Ethiopia’s Developmental Goals

• Bolstering the mining sector by attractive increased private investment considered as a means to achieving developmental aims, including:
  1) Promoting growth in other sectors through mutually reinforcing backward and forward linkages
  2) Diversification of the economy (coffee still remains the largest generator of export revenues, generating 26% of export revenues ($866 million) in 2012)
  → And, as per Proclamation No. 678/2010–
  3) Augmenting revenue for state coffers
  4) Increased employment
  5) Community development in resource rich areas

• Ambitious targets for enhancing investment in the mining (as well as petroleum) sector have been set in Ethiopia’s Growth and Transformation Plan (GTP). The first in a series of five year plans aimed at turning Ethiopia into a middle income country by 2023.
### GTP Targets for Mineral and Petroleum Investment Expansion

<table>
<thead>
<tr>
<th>Description of Targets</th>
<th>2009/10</th>
<th>2014/15</th>
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<tbody>
<tr>
<td>1. Increase the volume of mineral investment (mln ETB)</td>
<td>12.7</td>
<td>20</td>
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<tr>
<td>2. Increase revenue from royalties and other licenses (mln ETB)</td>
<td>69</td>
<td>150</td>
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<tr>
<td>3. Increase annual revenue from mining tax (mln ETB)</td>
<td>230</td>
<td>250</td>
</tr>
<tr>
<td>4. Increase foreign currency earnings from minerals (mln USD)</td>
<td>108</td>
<td>277.3</td>
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<tr>
<td>5. Increase production of gold (kgs)</td>
<td>3,907</td>
<td>8,700</td>
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<tr>
<td>6. Increase production of tantalum (tons)</td>
<td>202</td>
<td>300</td>
</tr>
<tr>
<td>7. Increase exports of marbles (m³)</td>
<td>99.34</td>
<td>140</td>
</tr>
<tr>
<td>8. Increase investment in the petroleum sector (mln USD)</td>
<td>238</td>
<td>538.7</td>
</tr>
<tr>
<td>9. Increase total number licenses issued to the petroleum sector</td>
<td>22</td>
<td>29</td>
</tr>
<tr>
<td>10. Increase number of international extractive industry transparency initiatives member companies</td>
<td>10</td>
<td>310</td>
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Long-term/2024 goals for the Mineral Sector

<table>
<thead>
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<th>Description of Target</th>
<th>2010</th>
<th>2024</th>
</tr>
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<tbody>
<tr>
<td>1. Contribution of mineral sector to the economy as percentage of GDP</td>
<td>1%</td>
<td>10%</td>
</tr>
<tr>
<td>2. Contribution in terms of corporate income tax and royalties to the state’s coffers</td>
<td>~ $19 mln</td>
<td>$100-500 mln</td>
</tr>
<tr>
<td>3. Total export earnings</td>
<td>$618 mln</td>
<td>$1.5 bln</td>
</tr>
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- Precious, metallic, and industrial minerals have considerable promise. In addition, active prospecting for oil continues in several regions. Moreover, Ethiopia aims to export natural gas via a $4 billion pipeline passing through Djibouti beginning in 2017. The Calub and Hilala fields have deposits of 4.7 trillion cubic feet and 13.6 million barrels of associated liquids.
Government Policies to Attract Increased Levels of Private Sector Investment

- Continued political stability
- Continued security
- **Regulations providing attractive fiscal/investment incentives**
- **Improve infrastructure and power supply**
- Enhance transparency by becoming a member of EITI and by signing up to Publish What You Pay
- Capacity building of bureaucrats tasked with interaction with investors
- Increasing the number of engineers who can be involved in the mineral sector (70/30 education scheme).
“Any equipment, machinery, vehicles and consumables that any holder of a small scale, small or large scale mining license or his contractor may import into Ethiopia and required for mining development period in accordance with the mining agreement and the agreed work program shall be exempted from custom duties and taxes; provided, however, that the right to import equipment, machinery and vehicles free of customs duties and tax may not be applicable after five years starting from the date of production.”

“Except the holder of artisanal mining license or special small scale mining license that produce gold or silver, any holder of mining license shall be entitled to export free of custom duties and taxes minerals produced according to the license.”
Regulations Providing Fiscal Incentives

• Corporate income tax rate for large scale mining projects lowered from 35% to 25%.

• Royalties calculated ad valorem and charged at 7% for precious minerals, 5% for metallic minerals and 4% for industrial minerals.

• State is given a 5% share (free carry) in all large scale mining projects (with possibility to negotiate additional equity participation by agreement).

“Without prejudice to its right to undertake mining operations under Article 8 of this Proclamation, **the government shall acquire without cost a participation interest of 5% of any large scale or small scale mining investment.** An additional equity participation of the government may also be provided by agreement, which shall specify the percentage, timing, financing, resulting rights and obligations and other details of such participation.” Procl. No. 678/2010
Ethiopia’s Fiscal Incentives in the Mineral Sector vis-à-vis other African Countries

- Ethiopia’s fiscal incentives for private sector investment compare favorably with other African countries. Royalty rates in Ethiopia are similar to African counterparts; whereas corporate tax rates and equity participation are lower (in some cases, significantly lower) than other African countries.

<table>
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<th>Country</th>
<th>State ownership in mining companies</th>
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<tr>
<td>Ethiopia</td>
<td>5%</td>
</tr>
<tr>
<td>Angola</td>
<td>10%</td>
</tr>
<tr>
<td>Zambia</td>
<td>Plans announced to increase interest from 20% to 35%</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>51% ownership by indigenous Zimbabweans (not necessarily the state)</td>
</tr>
<tr>
<td>Namibia</td>
<td>Plans for 100% of mining projects to be awarded to state owned companies going forward</td>
</tr>
<tr>
<td>DRC</td>
<td>Proposed revision of mining code to increase shareholding of the state in a mining company to 35% (from existing 5%)</td>
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Electric Power Generation in Ethiopia

• In 2002, Ethiopia’s electric power generating capacity was a mere 501 MW.

• Hydroelectric dams completed since then: Tekeze (300 MW), Beles (460 MW), Gilgel Gibe I (180 MW), Gilgel Gibe II (420 MW), Gilgel Gibe III (1,870– completion this year), Gilgel Gibe IV (2000 MW– 2016), Grand Ethiopian Renaissance Dam (6,000 MW in 2018)

• Wind farms: 120 MW Ashegoda Wind Farm, 51 MW Adama 1 Wind Farm

• Result: By 2018, Ethiopia will be producing over 10,000 MW. Electricity already available at some of the lowest rates on the continent (Kenyan and Tanzanian commercial electric tariffs are approximately double of that charged in Ethiopia)
Infrastructure Development

- Massive expansion of the road network and railways is underway given the recognition that their development can facilitate growth and investment in key economic sectors— including mining.

- In the 2010-15 period, the government has continued its investment in the road network. In 1995, Ethiopia’s road network (including asphalt, gravel, and local roads) stood at less than 23,000 km, grew to 37,000 km in 2005, over 49,000 km in 2010, and is projected to reach 136,000 km by 2016.

- Although the first railway in Ethiopia has been operational intermittently since 1901, railway development has stalled. The government plans to construct a 5,000 km network in two phases. Adequate attention is paid to the mineral sector with certain portions of the network geared towards facilitating exports (e.g., exports of potash via Tadjoura port).
Areas for Improvement

**Regulations**
- Ambiguities in licensing provisions: first-come-first-served vs. evaluation of financial and technical abilities vs. competitive bidding
- Inconsistencies related to transfer pricing between the general and mining tax laws
- No clear definition of “market prices” for arm’s length transactions
- Public-Private Partnership proclamations

**Other**
- Value-chain analysis per mineral
- Capacity building of Ministry of Mines staff
- Better coordination/streamlining efforts of different govt. institutions (Ministry of Mines, Ministry of Finance and Economic Development, Customs)
- Enhanced provisions for community development