Burkina Faso must choose Tambao operator with the best socio-economic plan

Executive Summary

The recent unrest in the mines of South Africa and calls for greater transparency on oil revenues in Angola hold lessons for Burkina Faso, one of the poorest countries in the world. Burkina Faso must be more transparent and encourage long-term socio-economic development when exploiting natural resources.

Recent plans by the Burkina Faso government to develop manganese deposits in the northeast provide the latest test case. The project is located in the Sahel region that is dry, cut off from its neighbors Niger and northern Mali, poor and underdeveloped. What is more, the region is under further strain as 107,000 Malian refugees flee into Burkina Faso, most of them staying in the north. Security risks are also mounting as extreme Islamist insurgents migrate into the region, adding new-found urgency to develop the rich Tambao manganese deposits and kick-start development.

Plans to develop the mine in the past six years have been the subject of several legal disputes. The government has launched three tenders to select a company to develop the mine. A Namibian/Dubai consortium, Weatherly/Wadi, signed an agreement in 2007, and subsequently launched an arbitration procedure with the International Chamber of Commerce in Paris, which is ongoing. Then the government launched a second tender, awarded to Indian/Hong Kong company General Nice Resources (GNR), which signed an MoU in 2010 and an additional protocol in 2011. A third tender was then issued by the government, in which GNR participated under protest. The tender ws awarded to Pan Africa Ltd. GNR plans to file an arbitration procedure by mid-December 2012 with the ICC and is seeking a mutually agreeable solution.

To date, it is GNR that has provided the most comprehensive socio-economic plan to develop the communities near Tambao and the regional economy. It was the first bidder to propose paving a road, to stimulate cross-border trade with Niger and Mali; a self-sustaining city for affected residents; a wide-ranging plan to develop local industry; support farmers by providing irrigation; start a local market for livestock; and introduce skills training for women.

If the Burkina Faso government is to continue its efforts to restore trust among its citizens, who have been battered by rising living costs and falling cotton prices, the government must be clear and transparent in its plans to develop Tambao. **It must choose the operator that provides not only the best plan to exploit the mine and build the necessary infrastructure, but also participate in developing the regional economy and so increase the stability and prosperity of the country.**

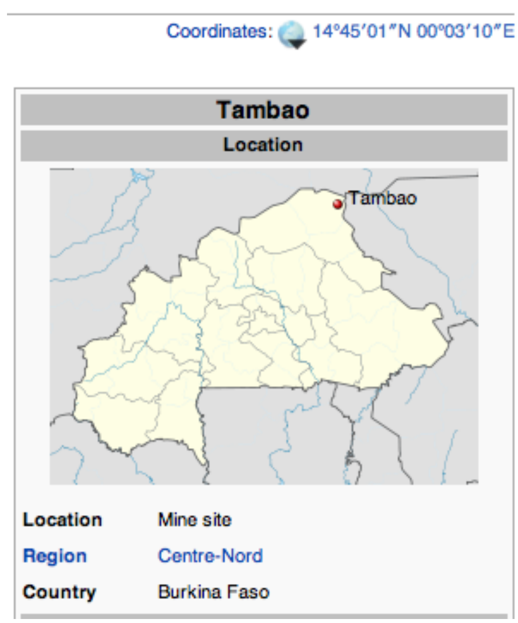
FAST FACTS

Burkina Faso

- Burkina Faso – poised to develop its mining sector, facing major challenges in rising living costs
- Two million people considered food insecure out of a population of 16 million
- A least-developed country with a per-capita income of $670
- Vulnerable to external shocks in grain prices
- Current price of its largest export, cotton, expected to fall 40% in 2012
- 80% of the population relies on subsistence agriculture

Tambao

- Located 340 kilometers north of the nation's capital of Ouagadougou
- Manganese deposits discovered in 1959
- Estimates of manganese reserves range from 20 million tonnes to 50 million tonnes
- Area underdeveloped and isolated from neighbouring Niger and northern Mali



Timeline of tenders

- April 2007 Burkina Faso government signs MoU with Weatherly/Wadi consortium
- September 2008 Burkina Faso government issues second tender
- September 2010 Burkina Faso government selects GNR in second tender
- October 2010 GNR signs MoU
- March 2011 GNR signs second MoU
- Early 2012 BF government launches new tender
- August 2012 Pan African Mining awarded third tender

Timeline of disputes

- Sept 2012 Paris-based International Chamber of Commerce gives partial award to Weatherly/Wadi Al Rawda Investments on arbitration over claims on Tambao deposits.
- Oct 2012 Burkina Faso delegation misses two meetings in arbitration over claims by GNR to the Centre d'Arbitrage et de Mediation in Ouagadougou. Minister of Mines inquires about GNR's expenses for carrying out MoUs.
- Dec 2012 GNR files second arbitration claim with ICC.
- 2014 ICC to provide second decision on Weatherly arbitration.

Background

Political, economic and social background

Burkina Faso is a land-locked country with 16 million inhabitants and is classified as least-developed, low income, and in food deficit (USAID Aug. 21, 2012). The United Nations Development Programme (UNDP) ranks Burkina Faso as one of the least developed nations, 181st out of 187 countries.

Around two million people are said to be food insecure, and the situation has been aggravated by some 107,000 Malian refugees, who have fled, mainly southward into the north of Burkina Faso, into the isolated Sahel region where the potentially lucrative Tambao manganese mine is poised for development.

About 80% of the population depends on subsistence agriculture and the country has been plagued by droughts and poor soils; lack of infrastructure; and has one of the least-developed telecommunications infrastructures in the world.

The country remains highly vulnerable to external shocks, such as spikes in cereals prices and steep falls in its mainstay export, cotton. Burkina Faso is the largest cotton producer in sub-Saharan Africa.

The country has an extremely high youth unemployment rate and, despite a respectable economic growth averaging 5.4% from 2000 to 2010, per-capita income remains very low at about $670. The work force is made up of the poor, the unskilled, the young, and the rural population.

Mineral wealth possibilities

Burkina Faso is just beginning to aggressively develop its minerals sector, which is crucial to lift its citizens above extreme poverty and narrow subsistence. In 2011, gold became the country's top export commodity and is now the country's largest source of foreign direct investment, with around 30 exploration companies working in-country. Burkina Faso is now the fourth-largest gold producer in Africa.

The country has made progress on improving its business climate, notching up five places in the IFC's Doing Business 2010 report. Burkina Faso made a number of changes, dropping dividend and corporate tax rates.

But Burkina Faso's performance on governance has moved in the other direction, dropping to 100 out of 182 countries in Transparency International's perception of corruption index. This backsliding roughly coincides with the country's ramp-up in gold mining.

While the government has improved conditions for investing in mining, working conditions have not kept pace in gold mining, which harbors lessons for the development of other mines, like Tambao. In 2011, miners at several gold-mining sites staged protests, at times violent, over wages and alleged unsafe practices.

Corruption persists and threatens growth

While Burkina Faso requires that social and environmental impact assessments be conducted, civil society has raised questions on whether mitigation measures mentioned in these assessments are rigorously and consistently carried out. The public has questioned unsafe practices, such as the use of cyanide by some gold mining companies.

Analysts say Burkina Faso must take bigger strides to boost its formal private sector and grapple with corruption. Most non-farm jobs remain in the informal sector. Next to the simmering instability on its northern border with Mali, corruption is the largest obstacle to the country's sustainable growth and stability.

Burkina Faso was the scene of a series of popular revolts in cities and towns across the country in 2011: soldiers protested unpaid wages; citizens protested over bad roads; others took to the streets over the rising cost of living, which was mostly driven by a poor harvest that year, and strong increases in cereal prices. In April of that year, the country's President dissolved the government, fired most of the military's leaders, and subsequently took steps to address corruption.

Discontent with the 25-year-rule of Blaise Compaore lingers, and mistrust is rife over whether the two-term limit of the presidency will be safeguarded when presidential elections are called in 2015.

Tambao: A timeline of non-development

Chronology

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Manganese deposits were first discovered in 1959 in Tambao, 340 kilometers north of the capital of Burkina Faso, Ouagadougou. The estimated reserves are around 20 million tonnes with a mineral grading of 52%.

Since 1968, a series of presidents pronounced an interest in developing the mine in the national interest but it was the current President, Compaore, who stood in front of Tambao in 1996 to announce the official start of development. Several trucks of manganese were seen leaving the mine, according to local news reports, but no mine construction took place.

From 2009 to 2010, researchers for Indian/Hong Kong firm, General Nice Resources (GNR), conducted extensive social and environmental impact studies. The company also held public meetings, in which local people actively participated, in towns stretching from Tambao south to the nearest transport hub, of Gorom-Gorom, building up widespread local support and engagement. GNR previously demonstrated its commitment to put its sustainable development principles into practice in Burkina Faso by supporting flood disaster recovery and carrying out other social projects.

Shortly afterwards, the government announced a tender would be launched for the mine. (No public information on the tender could be located.) In January 2012, the government then announced on television that another company, Pan African Burkina, was the winner. Pan African Ltd. is a unit of Groupe Timis. The principal, Frank Timis, has stakes in mines and exploration blocks in countries throughout the sub-Saharan region, including Sierre Leone and Ivory Coast.

The fraught relationships between workers, the community and an iron ore mine in Sierra Leone, as exhibited in a recent investigation by the Human Rights Commission of Sierra Leone, do not demonstrate a willingness with Groupe Timis to make local development concerns and community relations a high priority from the inception. The investigation into alleged human rights violations, that took place the same year from April 16 to 18 2012 in Bumbuna, during a worker protest at the mine that spiralled into a broader community uprising. The Commission ruled that police used disproportionate force and presented testimony from villagers questioning the relationship between the police and the mining company.

Workers were protesting poor working conditions, casual or short-term contracts, and arbitrary termination of contracts, long working days, and poor treatment by expatriate staff, among other issues. The investigation found evidence of communications problems between the company and low-level staff, and an 'ambivalent' relationship between the company and the community that was 'cause for concern'.

The Minister of Mines, Quarries, and Energy of Burkina Faso signed an agreement with Pan African Minerals (Groupe Timis) in August 2012.

A litany of conflicting claims

Tambao has been the subject of numerous claims and disputes over development rights in recent years.

In September 2012, the International Chamber of Commerce gave a partial award to the Namibian/Dubai consortium of Weatherly and Wadi Al Rawda Investments LLC, which claimed rights on the deposits since April 2007, which Burkina Faso since awarded to other parties. A subsequent decision is expected from the ICC arbitration panel in 2014 regarding a second claim to damages.

General Nice International Mining Co. also lodged a suit against Burkina Faso, after it signed a MoU in October 2010 that was revised in March 2011, which is under examination by CAMCO, the Centre d'Arbitrage et de Mediation in Ouagadougou. The Burkina delegation did not show up for two meetings, the last held on 15 October. Then on 23 October, a letter was received from the Minister of Mines enquiring about GNR's expenses to date for carrying out the studies.

Agreements must be honoured

GNR is not interested in being compensated for expenses it has made so far, it wants the government to fully honour its contractual agreements on development of the Tambao manganese reserves, and to honour its agreements with private sector parties in general.

GNR in November 2012 hired French law firm Fidal Direction Internationale to represent them in arbitration with the ICC Tribunal in Paris. The case will be filed by early December 2012. GNR continues in parallel to seek ways to reach a settlement agreeable to both sides that benefits all stakeholders.

Other companies have previously expressed interest in bidding for Tambao, including Japan's Mitsui Mining, Brazil's Vale, France's Eramet and Australia's Territory Resources.

At a Council of Ministers meeting in November, the government reiterated that development of Tambao would begin in December.

GNR plan for Tambao would create over 100,000 jobs in undeveloped Sahel

GNR is the first company that was been willing to undertake an ambitious socio-economic development project as a part of the Tambao mine that would comprise tarring a road, extending a railway, and building a self-sustaining city for the residents who would be affected by the mining activities. These and other projects would be funded with $5 million in earnings annually accrued from the mine and rolled out progressively.

The company envisions building a separate town, that would include a school, hospital, stadium, and computer center, and a water tank that would sustain up to 200 families, with an irrigation system for farming.

The dry climate of the Sahel region is suitable for cultivating gum acacia, which the company would provide support for, including the construction of collection centers where farmers could bring their crops, a buying center, and advice on best growing practices to boost crop yields. The crop is currently not being cultivated in the region.

To lend support to farmers growing millet and corn, the company would build three to four storage areas and provide corn milling machines to add value to the crops.

For herders of cows, sheep, and goats, the company would build a slaughterhouse in Gorom to create a local market so the herders don't have to travel long distances to the regional capitals of Accra, Abidjan, and Ouagadougou to sell their livestock.

GNR also aims to promote milk production, by setting up a cooperative dairy facility with manual milk churning, pasteurizing facilities, and a chilling plant.

The company was the first to propose tarring a 113-kilometre road extending from Dori to Gorom to Tambao, to stimulate cross-border trade with Niger and Mali, and which will help local people to develop businesses such as hotels and restaurants. The modern link would also dramatically lower transport costs and stimulate increased bus service. The company aims to maintain the roads.

GNR also plans to lay alongside the railway extension a fibre-optic cable to provide Internet and telephone service for millions of local inhabitants by setting up a computer at each railway station hooked up to the telecommunications system.

Once the railway extension from Ouagadougou to Tambao would be up and running, GNR plans to build an inland depot in Dori, which would create jobs, and a better system to transport cargo, in what is now a region currently completely cut off from neighbouring Niger and Northern Mali.

For communities 100 to 150 kilometers away from Tambao, the expected radius from which men will migrate to apply for jobs at the mine and much further outside the perimeter of affected villages, the company plans to build a series of training centres for the women who are left behind, for them to learn nursing and crafts and to then teach these skills to other women in the community.

Northern Burkina at security risk, Tambao development urgently needed

The risk of further social unrest, due to continued widespread discontent, continued high food prices, and an expected year-on-year falloff in cotton prices of around 40% in 2012 could stoke further social malaise.

Burkina Faso is also at risk from deepening insecurity spilling across its borders from surrounding countries in the Sahel region, notably Mali, Niger and Nigeria, especially since the country is leading mediation discussions in Mali by the Economic Community of West African States (ECOWAS).

Northern Burkina, the locality of Tambao, is considered the most at risk, since it harbors many of the Malian refugees and the border sees a lot of movement of extremist Islamist groups.

Security risks are growing in the north of the country, where it is feared that foreign mining workers and NGOs could be kidnapped by extremist Islamist groups. Burkina Faso's high jobless rate for youth and its failure to improve living standards are seen as providing the conditions for Islamists in northern Mali to extend their influence. In October, President Compaore moved 1,000 combat troops into the northern region bordering Mali to help prevent kidnappings.

At the same time, the UN staff is accompanied by armed escorts throughout Burkina Faso and international staff have been taken out of many areas.

However, it should be restated that at present no major security threat has emerged.

What's at stake? Northern region at crossroads amid Mali insurgency

Bringing the Tambao mine on-stream could completely change the fortunes of Burkina Faso. Worrying concerns have surfaced already on the plans elaborated by Timis, the principal of the chosen company. He has announced he will start a feasibility study for infrastructure projects, including a plan to build a hydro-electric plant on the Beli River north of Tambao. The UN studied the hydro project in the 1970s and declared only sufficient for local farmers and herders, not for major industrial activity. These are top-down projects, and only promises at this stage, that are not compatible with sustainable development.

Building Tambao would be the first major pillar to kick start sound industrial development in the area. The new infrastructure built (road, railway, communications, distributed renewable energy systems) for Tambao will allow further development of manganese deposits in the northeast and create thousands of jobs in this, one of the poorest and most remote regions of Burkina Faso. Creating well-paid and skilled jobs in the mining sector is crucial to stability in northern Burkina Faso, a Sahel region which is highly vulnerable to drought and on the borderline of a spreading tide of extreme Islam.

The current Islamist insurgency in northern Mali has given new-found urgency to develop northeast Burkina Faso. If ECOWAS mobilizes 3300 troops into Mali as announced, tensions could rise in northern Burkina Faso, adding further immediacy to make the region's development a high priority.

Spur further mining development

Once the road and railway are built for the Tambao project, development of deposits of limestone and gold in the northeast region would also become economically feasible.

Burkina Faso has proven itself to be a good development partner, according to the US State Department. It has provided a set of incentives attractive to international mining companies.

But to develop Tambao and other large commercial ventures, Burkina Faso must continue to make progress on governance and transparency to ensure fair and equitable development and environmental protection, which continues to be a major weakness throughout the mining sector on the African continent. The government of Burkina Faso must show it is fully committed to the rule of law, in order to develop an effective investment climate. To boost much-needed foreign investment, it must also show respect for international agreements signed with private sector companies.

The necessary pre-conditions may already be in place: Burkina Faso has already published this year revenues and payments from mining activities as a part of its membership in the Extractive Industries Transparency Initiative (EITI), a necessary step to be considered compliant by next year. High priority must be given to the mining concern that offers not only the best plan to develop the mine, but the best plan to develop the region. GNR is the only company so far that has demonstrated it is fully capable and committed to make Tambao a success. The government of Burkina Faso and GNR should begin a dialogue with the goal of getting GNR to start mine operations as soon as possible, for the benefit of society. Other companies that have signed legal agreements must receive compensation, either through other mining concessions or financial reimbursement.

Carlos Lopes, executive secretary of the Economic Commission for Africa has said it best:

"In the last 10 years, commodity prices have hit a super-cycle, yet Africa's share of windfall earnings have been miniscule ... Embedding long-term development objectives firmly into the processes for extracting natural resources is essential. In mining, the current focus seems to be mainly on collecting taxes, whereas it should be on using the sector and its resource rents to drive socio-economic development. This involves investment in infrastructure, research and human capital development, through conditionality for local content. It is what other regions have done; it is what Africa needs to do."

End.