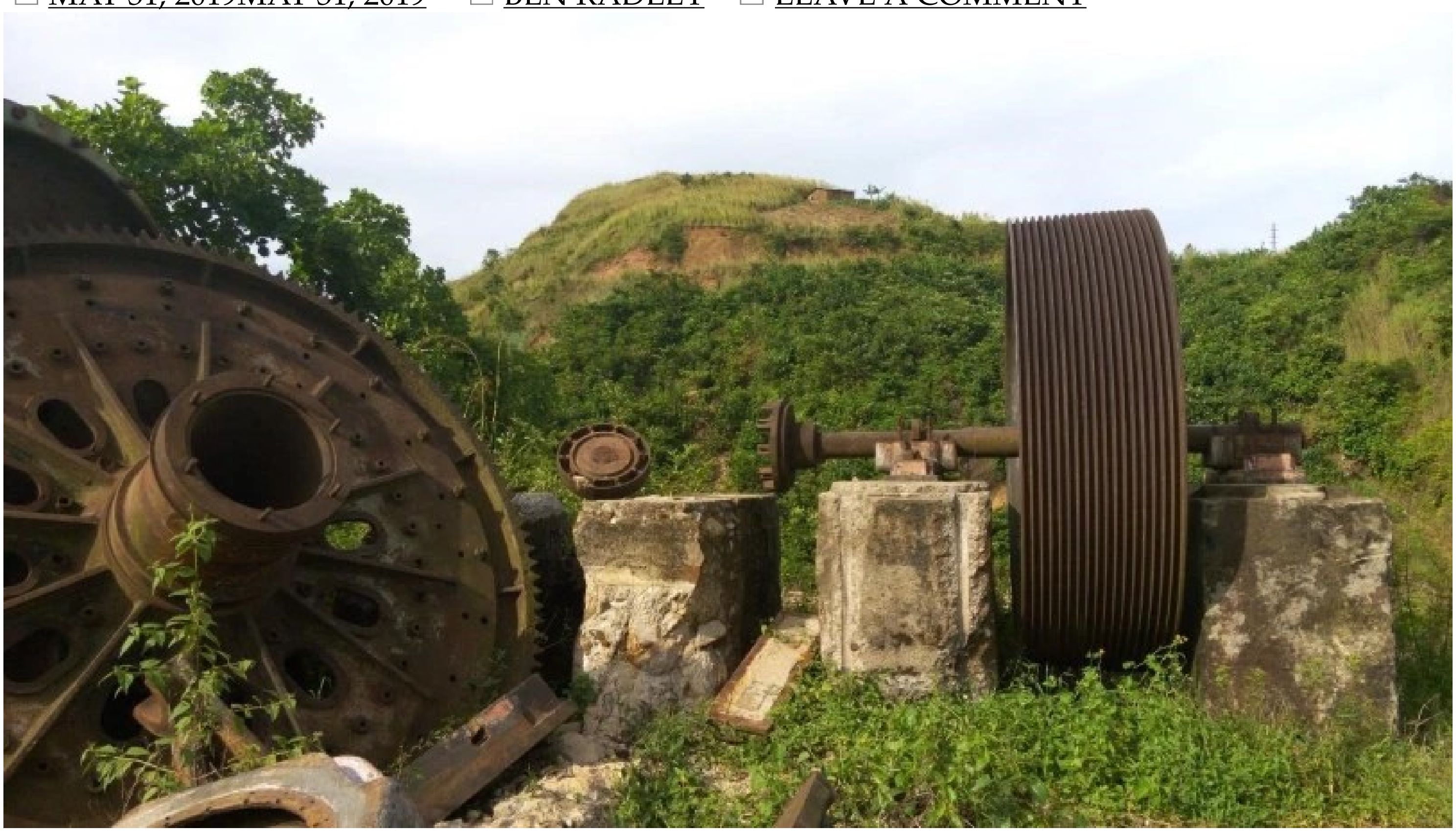
Developing Economics

A Critical Perspective On Development Economics

AFRICA / COMMODITY CYCLES / FDI / INDUSTRIALIZATION / INSTITUTIONS / INTERNATIONAL ORGANIZATIONS / POLITICAL ECONOMY

Rethinking the Failures of Mining Industrialisation in the African Periphery

MAY 31, 2019MAY 31, 2019 BEN RADLEY LEAVE A COMMENT



The remains of one of SOMINKI's industrial gold mines (author photo).

The World Bank interpreted the failure of mineral extraction to drive structural transformation in the early decades of African Independence as due to badly managed state-owned enterprises (SOEs), excessive state intervention in the economy, and government corruption. To right these wrongs, since the 1980s, the Bank has loaned hundreds of millions of dollars to the governments of mineral-rich (and mostly low-income) African countries to privatise and liberalise their mining sectors. Spurred on by the most recent commodity super-cycle beginning in the late 1990s, foreign direct investment poured in, and for many low-income African countries today, "the mining sector represents one of the most crucial sources of investment and income in their economies" (Farole and Winkler 2014: 177). A major theoretical assumption underpinning this process has been a belief in the superior expertise and efficiency of experienced transnational corporations (TNCs) compared to corrupt and mismanaged SOEs. In this post, I unpack and question the validity of this assumption, by drawing on some of the findings from my doctoral thesis on mining reindustrialisation in South Kivu Province of the Democratic Republic of the Congo (DRC).

Corporate Inefficiencies in the Face of Severe Price Volatility

South Kivu is located in the eastern DRC, where it borders with neighbouring Burundi and Rwanda. Established by the Belgian firm *Groupe Empain* in the 1900s, industrial mining in South Kivu escaped the nationalisation of the mining sector that took place elsewhere in the DRC following Congolese Independence in 1960. Instead, *Groupe Empain* retained majority ownership of *Société minière et industrielle du Kivu* (SOMINKI), which through a series of mergers in the 1970s became the only mining company operating in the province. At this time, tin accounted for around 75 percent of SOMINKI's revenue. Between 1980 and 1985, and encouraged by a rising tin price, the firm's shareholders invested around 300 million Belgian francs to modernise production, as easily exploitable tin and gold deposits had become increasingly scarce.[1]

Yet in late 1985, the international tin price more than halved, from $5.40 per pound to $2.50 per pound, as the International Tin Council – formed in 1931 – fell apart (Mthembu-Salter 2009: 3). With gold production failing to cover the lost revenue, SOMINKI ran at a loss from 1986 onwards (Kibwe-Kasongo 1994: 33). From 1986 to 1996, SOMINKI's annual tin production decreased from 3,805 tons to less than 1,000 tons, and annual gold production dropped from 530 kilograms to less than 300 kilograms. The subsidiary entered liquidation in 1997, triggered by the onset of the First Congo War in 1996.

SOMINKI's assets were then acquired by a group of British-Canadian investors, led by British mining tycoon Algy Cluff, for $3.5 million. By the official end of the Second Congo War in 2002, the Canadian corporation Banro had secured full ownership of SOMINKI's major gold deposits under a 30-year mining convention. Ten years later, in 2012, Banro entered commercial production at its flagship Twangiza mine, at a time when the gold price had been rising year-on-year from $279 per ounce in 1999 to $1,669 per ounce in 2012. In 2011, encouraged by the rising price, Banro invested an initial $100 million to expand productive activity through the construction of a second gold mine, Namoya, in neighbouring Maniema Province.

Banro's Twangiza mine (author photo).

Yet construction costs were eventually to spiral to $250 million. According to the then General Director of Banro's Congolese subsidiary, Twangiza Mining, this was in part due to underestimating the industrial machinery required to process gold at Namoya. Yet a 2012 third-party audit of Twangiza Mining suggests a general level of corporate inefficiency and mismanagement was likely an additional contributory factor. The audit highlighted a number of key issues negatively affecting corporate performance, noting: "significant inventory and procurement systems inadequacies; …systems management, ownership and required structures do not exist or inadequate; …project structure and ownership appears ineffective, [and]; systems alignment with business processes poor".[2] Interviews with Banro procurement officers supported this general impression, with a former Twangiza Mining procurement manager observing that when he arrived at the mine in 2012, exclusive suppliers were as much as 150 per cent more expensive than alternative options.

Then, between 2012 and 2015 – as Namoya was being constructed – the gold price collapsed by around one third. According to Banro's CEO at the time, John Clarke, overspend on the Namoya construction combined with the gold price collapse led the corporation into financial difficulties. Banro's long-term debt increased from zero in 2011 to $159 million in 2013, and from 2013 onwards Banro entered a year-on-year negative working capital position.[3] In March 2017, the repayments on $175 million of debt financing taken in 2012 became due. On the brink of bankruptcy, Banro was forced to enter Canadian government creditor protection in December 2017, from which it emerged – following a major financial restructuring – in March 2018. At the time of writing, the corporation remains in a position of financial ill-health, and its medium-term survival heavily dependent upon the vagary of the gold price.

Banro's financial descent was further exacerbated by corporate rent-seeking. A small group of 17 company directors, domiciled for the most part in Canada, South Africa and the UK, accrued at least

$54.6 million in salaries, exercised shares, fees, incentives and bonuses over the 20-year period from 1997 to 2016, including $36.6 million before production began (Table 1). The real earnings were likely considerably higher, as not all the converted share options are accounted for (given the beneficiaries of options are under no reporting obligation when they exercise them).[4]

Table 1 Banro senior director income, 1997 to 2016 (in USD)

Five-Year Period	Number of Directors	Salaries	Identified Shares Exercised	Fees, Incentives & Bonuses	TOTAL	Average Annual Income per Director
1997-2001	4	967,945	0	497,092	**1,465,037**	**73,252**
2002-2006	7	2,570,320	10,577,781	894,786	**14,042,887**	**401,225**
2007-2011	8	6,533,812	8,411,646	6,121,362	**21,066,820**	**526,671**
Pre-Production Subtotal	–	**10,072,077**	**18,989,427**	**7,513,240**	**36,574,744**	–
2012-2016	9	10,234,251	0	7,820,794	**18,055,045**	**401,223**
Post-Production Subtotal	–	**10,234,251**	**0**	**7,820,794**	**18,055,045**	–
TOTAL	–	**30,378,405**	**37,978,854**	**22,847,274**	**54,629,789**	–

Source: Banro Management Information Circulars, 2004 to 2016.

Crucially, as the data in Table 1 demonstrates, Banro's senior directors continued to accrue approximately equivalent incomes from 2012 onwards – after the corporation had entered financial difficulties – as they had done previously. In other words, the speed of Banro's financial deterioration was hastened by senior director compensation, which continued apace even as Banro was increasing its indebtedness and the noose of bankruptcy began to tighten. This is little different in nature and effect to the forms of rent-seeking for which African states and SOEs were so heavily criticised following the failure of the earlier African developmentalist era, but in this instance flowing to the managers of a foreign-owned, private corporation.

What Does This Mean for African Mining Strategies?

The evidence presented undermines the assumption that modern TNCs will be more efficient and effective at leading mineral-based processes of industrialisation than the forms of state-led developmentalism that preceded them. Foreign-led corporate failure has occurred not once in South Kivu, but twice. Both SOMINKI and Banro responded to rising prices by investing in the expansion of productive activity, and then failed to control costs following price crashes. This history suggests that foreign corporations are no more immune from debilitating inefficiencies and exposure to severe price volatility than the SOEs that preceded them. Given this, we might ask if the apparent difficulty of using mining industrialisation to drive structural transformation in the African periphery might be less related to the ownership and management structures in place, than to the inherent constraints and limitations of the sector itself.

References

Farole, T. and D. Winkler (2014) 'Making Foreign Direct Investment Work for Sub-Saharan Africa: Local Spillovers and Competitiveness in Global Value Chains (https://openknowledge.worldbank.org/handle/10986/16390)'. Washington: World Bank.

Kibwe-Kasongo, V. (1994) 'Analyse financiere de la société minière et industrielle du Kivu (SOMINKI) 1986-1990', Masters Thesis. Bukavu: Université Catholique de Bukavu.

Mthembu-Salter, G. (2009) 'Social and Economic Dynamics of Mining in Kalima, DRC (https://www.academia.edu/6129644/Social_and_economic_dynamics_of_mining_in_Kalima_DRC)', Working Paper No. 185. Pretoria: Institute for Security Studies.

[1] SOMINKI Annual Reports, 1980 to 1984.

[2] Twangiza Mining External Audit Report, Nubian Africa, 2012.

[3] Banro Consolidated Financial Statements, 2007 to 2016.

[4] The real figure is likely a multiple of the $54.6 million identified, given Banro's stock peaked at around $14 per share in 2007, from $0.5 per share in 2001.

Ben Radley (https://developingeconomics.org/author/brad01111/) is a Teaching Fellow in International Development at the University of Bath in the UK, and a final-year PhD student at the International Institute of Social Studies (ISS) in The Hague, the Netherlands. His research interests centre on the political economy of development in low-income African countries, with a focus on industrialisation, production networks and related labour dynamics. @RadleyBen (https://twitter.com/RadleyBen).