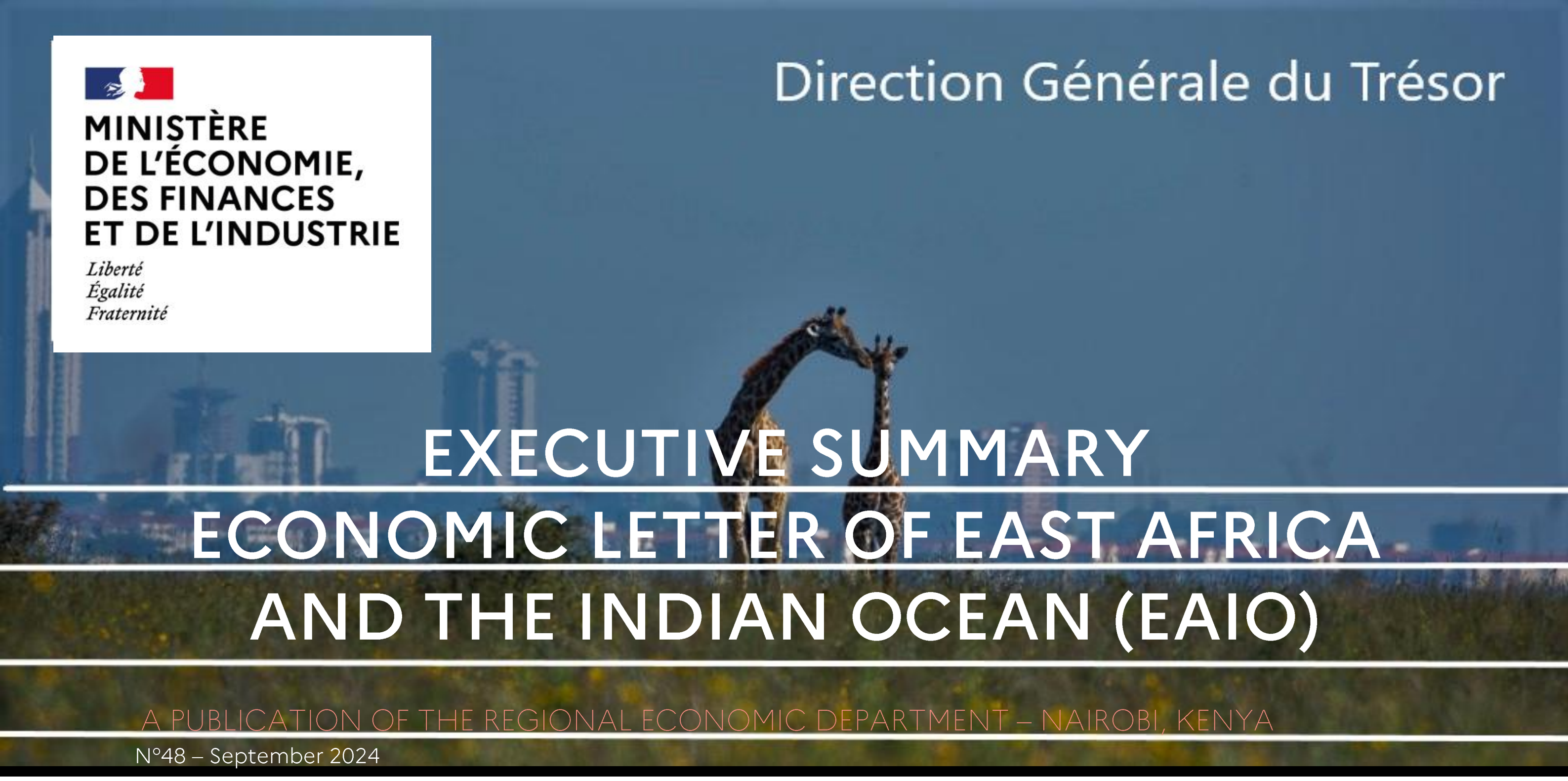

MINISTÈRE DE L'ÉCONOMIE, DES FINANCES ET DE L'INDUSTRIE
Liberté Égalité Fraternité

Direction Générale du Trésor

EXECUTIVE SUMMARY ECONOMIC LETTER OF EAST AFRICA AND THE INDIAN OCEAN (EAIO)

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Mining Sector in EAIO

Key numbers

- **Mineral resources are a major source of revenue and foreign currency for the region's countries**, with mining exports reaching nearly 9 bn USD by 2021, mainly in gold
- The mining sector in EAIO is predominantly informal and artisanal**,** accounting for 80 % of production in **Uganda** and **Sudan**, and 60 % and 66 % respectively in **Kenya** and **Rwanda**
- Some countries impose mandatory shareholdings in mining companies**,** with rates of 16 % in **Tanzania**, 40 % in **Eritrea**, 15 % in **Uganda**, 10 % in **Burundi** and 5 % in **Ethiopia**
- **Significant mining sector growth goals** – Several EAIO countries have ambitious targets for the mining sector's contribution to GDP, including Kenya (10% by 2030), Ethiopia (14% by 2030), Rwanda (15% by 2024) and Tanzania (10% by 2025).

In summary…

A region rich in mining potential, but still largely under-exploited, which is striving to increase its attractiveness to foreign investors.

The EAIO region possesses significant mineral resources that are often poorly explored, with countries such as Madagascar, Rwanda, Kenya and Sudan ranking among the world's leading producers. In 2021, the region's mining exports reached nearly 9 bn USD, mostly in gold. To attract investment, EAIO countries are revising their regulations and seeking to formalize the artisanal sector, despite persistent structural challenges. Significant progress is expected in improving working conditions and protecting the environment.

In detail...

Rich and varied mineral resources, but under-exploited potential for EAIO's economic development

EAIO has a rich diversity of mineral resources, although knowledge of quantities is often limited due to a lack of updated research. In 2022, countries such as Madagascar (3rd global graphite producer), Rwanda (3rd tantalum, 4th tungsten, 5th niobium), Sudan (10th global gold producer and the region's leading producer) and Tanzania (17th gold and 12th diamond), stand out, while Kenya ranks among the leaders in zircon (7th) and titanium (8th). With the exception of Madagascar, the Indian Ocean islands have no significant resources or mining activities (and are therefore not covered by dedicated chapters in this publication).

These resources are a major source of revenue and foreign currency for the region's countries, with mining exports reaching nearly 9 bn USD by 2021, mainly in gold. In Burundi, mining exports accounted for 10 % of total exports. In 2021, salt and its derivatives were Djibouti's second largest export item (15.7 % of exports), while in Eritrea, minerals accounted for 60 % of exports, the only sector to really attract foreign investment, particularly from China. In Sudan, gold is the leading source of foreign currency, accounting for over 2 bn USD, or 48 % of total exports, to which should be added a considerable proportion of illicit, unofficially recorded exports. In Madagascar, the mining sector accounted for 47 % of exports in 2023, while in Rwanda, gold accounted for 74 % of the 1.1 bn USD in mineral exports, which in turn represented almost three-quarters of the country's total exports.

Most authorities in the region see the mining sector as a pillar of economic development, although some targets seem highly ambitious or even unrealistic: Kenya is aiming for a mining contribution to GDP of over 10 % by 2030 (currently 0.8 %), Uganda is seeking to achieve middle-income status with a mining sector contribution currently below 2 % of GDP, and Rwanda is aiming for 1.5 bn USD in mineral exports by 2024 (15 % of GDP). In Tanzania, mining's contribution to GDP was 9.1 % in 2022, with a fairly attainable target of 10 % by 2025. Ethiopia is aiming for a contribution of 14 % by 2030 (currently below 2 %), while Madagascar posted 5 % in 2022.

The development of mining activity is hampered by various structural factors such as the absence of reliable data, the lack of financial support and “derisking” for exploration, the need to strengthen institutional capacity and manpower training, the prevalence of the informal sector and illicit trade, as well as inadequate energy and transport infrastructures.

Despite the prevalence of the informal and artisanal sector, foreign multinationals dominate large-scale extraction and processing activities

The mining sector in EAIO is predominantly informal and artisanal, accounting for 80 % of production in Uganda and Sudan, and 60 % and 66 % respectively in Kenya and Rwanda. Although artisanal mining also predominates in Tanzania and Ethiopia, formalization efforts are underway in these countries, as well as in Rwanda and Kenya.

Foreign multinationals are involved in large-scale mining projects in EAIO. **Australian** companies such as Rio Tinto and Base Resources (via Base Titanium) are active in Madagascar, Rwanda and Kenya, respectively, while **Canadian** groups such as NextSource and Twiga Mineral (Barrick Gold) operate in Madagascar and Tanzania. **South African** (AngloGold Ashanti) and **British** (Shanta Gold, Petra Diamond) companies are present in Tanzania, and Rainbow Rare Earths in Burundi. **China** has a strong presence in Eritrea with Zijin and Sichuan Chinese Co. and is investing in mineral processing and refineries in Kenya (H-Nuo Company) and Uganda (Wagagai Ltd). Rising commodity prices, exacerbated by the war in Ukraine, and growing demand linked to the energy transition, are rekindling the interest of multinationals in mining exploration in the region.

No European mining company has a key role in the region, but French companies are indirectly involved as subcontractors for major projects like the Ambatovy nickel project in Madagascar. **Opportunities exist for French companies in peripheral sectors such as renewable energy supply, transport and logistics, telecommunications, catering and security.** In addition, the Bureau de recherches géologiques et minières works with a number of countries in the region, providing studies and technical assistance.

Recently renewed regulatory frameworks to encourage private and foreign investment

Many countries in the region have recently revised their regulatory frameworks to attract mining investment, with mineral resources owned by states in all countries in the region, or in rare cases by decentralized authorities. **Revisions of mining codes** have recently taken place in countries such as Kenya, Djibouti (2016) and Burundi (2013), while Rwanda adopted a new mining law in June 2024, to strengthen state control over strategic minerals, while offering tax incentives. In Tanzania, legislative changes in 2017, 2018 and 2022 increased royalties, imposed mandatory government participation in mining projects and planned revelation campaigns over at least 50 % of the country by 2030. In Somalia, a new mining code is being drafted with the support of the World Bank, but its publication remains uncertain, and in Madagascar, the overhaul of the Mining Code, adopted in June 2023, raised mining taxes from 2 % to 5 % of company sales, but is still awaiting implementing decrees.

Attractive tax incentives have been put in place by some governments, notably in Rwanda, where mining companies enjoy tax exemptions. In Eritrea, measures such as accelerated depreciation of all capital and pre-production assets, no tax on dividends and fuel supply facilities make the sector even more attractive. In Ethiopia, new regulations grant duty exemptions for equipment imports to exploration licensees.

Some countries impose mandatory shareholdings in mining companies, ranging from 5 % to 40 % depending on the country, with rates of 16 % in Tanzania, 40 % in Eritrea (via the National mining company (ENAMCO), 15 % in Uganda (via the Uganda National Mining Company), 10 % in Burundi and 5 % in Ethiopia. **A system of royalties on the gross value of minerals is in place for mining licensees**, redistributed according to the country between the central government, local authorities and communities close to extraction sites, in addition to taxes on the income of companies and individuals in the sector. **Some mining laws impose local content requirements on companies**, encouraging the use of local labor and subcontractors, although these requirements are not always linked to defined thresholds (Kenya, Burundi, Uganda, Djibouti).

The sector's significant social and environmental impact, with social and environmental regulations unevenly adopted or applied

In this sector (as in others), transparency is key for effective governance, and several countries, including Madagascar, Seychelles, Tanzania, Uganda and Ethiopia (suspended for non-compliance with the reporting deadline), have committed to strengthening this transparency by **joining the Extractive Industries Transparency Initiative (EITI)**. This international organization, governed by Norwegian law, requires accessible and understandable data on i) company payments and government revenues from the extractive industries, ii) the regulatory framework, iii) exploration activities, iv) allocation of revenues from the extractive sector; and v) the sector's social, economic and environmental impacts. While Rwanda has been suspected of illegally importing minerals from the Democratic Republic of Congo, Kigali committed to improving the traceability and sustainability of its mining production, signing a Memorandum of Understanding with the European Union in 2023, while participating in the International Conference on the Great Lakes Region's (ICGLR) raw materials certification mechanism.

Despite the introduction of restrictive regulatory frameworks that are not always enforced, the mining sector, particularly the artisanal sector, continues to cause significant damage. On the **environmental front**, for instance, there is soil impoverishment, water contamination, loss of biodiversity and increased deforestation. Additionally, **working conditions in artisanal mines are often dangerous**, exposing workers - sometimes including children - to the risk of collapsing and to chemicals. Although the use of mercury for gold extraction is prohibited by the Minamata Convention, it continues to have harmful effects on the environment and public health, particularly in Sudan and Uganda, while Sudan also imports cyanide for the treatment of mining waste. These degradations and dangers have forced the authorities to close mines or halt exploration campaigns (Kenya, Rwanda).

It's worth noting that several governments in the region are adopting measures to reduce the socio-environmental impact of the mining sector: Rwanda imposes an environmental consultant and a plan to limit the impact for each mine, Ethiopia is in the process of drawing up a mining policy for the sustainable use of resources, and in Madagascar the project led by Quebec Iron and Titatium Madagascar Minerals (QMM) provides for an investment of 100 MUSD over 25 years for social and economic initiatives.

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