

# Understanding the landscape of extractive industries in Malawi: a listening exercise



University of Dundee and Scotland Malawi Partnership

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## Summary

A recent study from the University of Dundee (UoD), commissioned by the Scotland Malawi Partnership (SMP), consulted key stakeholders in Malawi (from government, industry, donors and civil society) to get different perspectives on the current state of extractive industries (EI) in the country. The research comprised of thirty-two semi-structured, in-country stakeholder interviews with forty different interviewees (Gilbert 2015). Of these interviewees, twelve were from civil society, twelve were from the EI sector (including cooperatives and private companies), nine were from donor agencies, and seven were (former and current) Government of Malawi (GoM) employees.

The findings demonstrate that the range of views, and level of consensus amongst stakeholders, varies across the different EI sectors. The petroleum (oil and gas) sector is contentious, not least because it is still in the exploratory stage with the potential hydrocarbon reserves being located under Lake Malawi. This heightens the risks associated with extracting these potential reserves, particularly with respect to impact on the environment and livelihoods. Despite mixed experiences on Malawi's large scale mining investment to date, there is a general consensus amongst the stakeholder groups that the mining sector should be developed, but only if it is done in a responsible, sustainable and transparent way.

Analysis of these findings suggests that there are significant risks associated with developing EI sectors in Malawi, in particular environmental and social risks. At the moment these risks are assessed by most stakeholders to be too great for the petroleum sector. Aside from petroleum, Malawi is rich in natural resources, for example rare earths and gemstones. There is evidence that in their different ways, large and small scale mining could be developed into a much needed source of sustainable economic development for Malawi. While significant investment, regulation and capacity building would be required, there appears to be the motivation, support, and potential for this to happen, provided it was approached in such a way as to: (1) minimise environmental impact; (2) protect workers' rights; and (3) effectively and fairly manage how generated resources are utilised and distributed.

It is suggested here that for this potential to be realised the GoM would need to take a consultatory and inclusive approach to developing EI related policy and regulation and also attract significant investment in the mining sector. (e.g. equipment, facilities and training). In this respect there could be a partnership role for Scotland / Scottish organisations to:

- develop the existing advisory relationship between GoM and UoD, for example in the further development and implementation of new EI related policy;
- continue to work in partnership with GoM toward developing capacity in departments linked to EI, for example the department of mining;
- ensure that the voice of civil society is adequately represented in all consultations;

## Background

### Malawi's economy

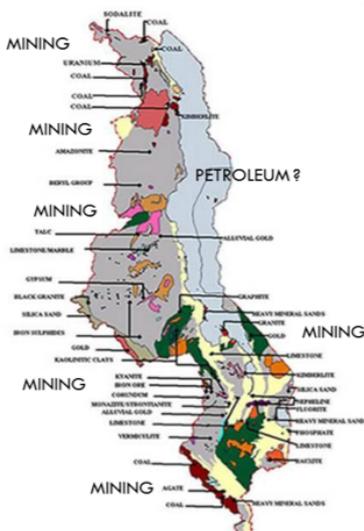
Malawi is one of the least economically developed nations in the world with more than half of its 16m population living below the poverty line (US\$1.25/day). Currently ranked 174 (out of 185) in the UN Human Development Index, Malawi is the poorest 'peaceful' country in Africa.

Malawi is heavily reliant on foreign aid (40% of the national budget) and its economy is principally dependent on agriculture, which accounts for over 37% of GDP and 85% of total exports. Currently Malawi is operating with a trade deficit of US\$600m (imports of US\$1.1b versus exports US\$500m) and within this exports are highly dependent on tobacco (US\$300m), which is the main contributor to Malawi's foreign exchange (forex) revenue.

The GoM's strategy is to adopt a "private sector led development path" towards achieving the priorities set out in the Malawi Growth and Development Strategy II (MDGSII).

### Landscape of EI in Malawi

Within Malawi EI represents a relatively underdeveloped sector, partially due to the strong national focus on agrarian development and partially due to the high investment capital required for most EI sectors. However, given Malawi's rich natural resources (see Figure 1) the GoM have, at different stages, sought to develop the petroleum (i.e. oil and gas) and mining sectors.



**Figure 1:** Nature Resource Map of Malawi, courtesy of Malawi's Geological Survey Department in Zomba.

In broad terms EI in Malawi can be grouped into three main sectors: petroleum (i.e. oil and gas); large scale mining (LSM) and artisanal and small-scale mining (ASM). Despite its very high profile, the petroleum sector remains in the exploratory stage in Malawi, and has divided opinions. To date LSM has focused on coal mining, in the north and south, and uranium mining, in the north. Smaller scale mining, uniquely in this EI context, is commonly pursued through labour rather than capital intensive approaches. Therefore ASM is the one part of EI that has developed in Malawi despite the fact that national economic development priorities were mainly agrarian.

## Findings

### Petroleum

The petroleum sector in Malawi is still in the exploratory, rather than production, stage. In line with petroleum finds elsewhere along the same Rift Valley in east Africa, there are predictions that Malawi may have hydrocarbon resources located under Lake Malawi.

Based on this the lake has been divided into a number of 'oil blocks' and the GoM have awarded exploratory licenses for these blocks to a number of foreign oil companies. As yet no reserves have been found.

Lake Malawi not only dominates the geography of the country but also plays a central role in Malawian life and consciousness; critically, it is vital for the nation's tourism industry, food production, and freshwater. The location of potential petroleum resources under Lake Malawi, implies there would be a significant financial cost of extraction (whether via offshore installations or through onshore-located directional drilling) and potentially dire costs for the environment and society should there be an oil spill.

Unsurprisingly these concerns were prominent amongst the interviewees across all stakeholders, but particularly in civil society. For example, while clearly recognising the importance of such reserves (e.g. for achieving fuel security) and the potential economic benefits of oil for Malawi, NGO representatives stressed the importance of managing this resource properly and responsibly to avoid falling foul of the 'resource curse'.

### The 'Resource Curse'

- The term 'resource curse' was coined by Gelb (1988), who looked at oil profits and the impact they had on the countries where the oil was extracted from.
- Essentially it can be defined as: "the idea that natural resources have a negative or neutral impact on growth and development, despite the astronomical revenues that can be generated" (Jacobsen 2013).
- There are well documented examples of countries that have avoided the 'curse'. In his paper: "The 'Resource Curse' and How To Avoid It", Stevens (2005) cites Botswana, Chile, Indonesia and Malaysia as positive case studies of EI. He suggests a key factor was that all these countries had state intervention, i.e. a 'developmental state', rather than a completely free market approach.

### Large Scale Mining (LSD)

The uranium mine at Kayelekera, a public-private venture between the GoM and Australian energy company Paladin, is easily the largest mining investment in Malawi to date (~US\$800m). The Fukushima nuclear disaster of 2011 led to a rapid reduction of price for uranium oxide, resulting in the mines entry into (non-producing) care and maintenance during 2014. The initiative divides the opinion of interviewees. Some recognise its potential, which clearly must have been there for such an investment, but there is strong criticism from civil society in terms of relationships with local communities and allegations of mismanagement of revenues, aimed at both GoM and Paladin.



**Figure 2:** Kayelekera mine, courtesy of Paladin.

Coal could currently be classed as medium scale but is identified by some of the interviewees as having considerable domestic demand within Malawi. Through expanded production, it also has the potential for import substitution and increased exports, both of which would reduce stress on stretched foreign exchange reserves. Gilbert (2015) cites Malcoal's Nkhachira area coal exploration results indicating "a combined total in situ coal resource for the project at 38.4-million tonnes". Key issues in the coal debate centre around power requirements and environmental concerns in using

it as fuel in Malawi. Despite being a fossil fuel coal is still seen as being a better alternative than charcoal - currently estimated to be used as an energy source by over 90% of the population and the cause of massive deforestation in the country.

Niobium is an example of a 'rare earth' element that could induce mining sector growth in Malawi and which has experienced stable pricing over the past five years. The GoM is currently negotiating the mining development agreement for the proposed Kanyika niobium mine in northern Malawi. Also encouraging for Malawi's nascent rare earth mining subsector are the pre-feasibility study results announced for Songwe Hill Rare Earth Project by Mkango Resources, indicated a net present value of US\$293-million with an 18-year mine life. A definitive feasibility study should now follow, with mine construction scheduled to commence in 2017.

### Artisan and Small-scale Mining (ASM)



**Figure 3:** ASM limestone miners in southern Malawi

Smaller scale mining, formal and informal, is well-established in Malawi. Where it is informal, it is referred to as ASM, the constituent parts 'small' and 'artisanal' of which term are used interchangeably. However, ASM definitions are contested, and the interviews indicated that formally organised mining cooperatives are often considered part of the ASM sector. ASM is an important sub-sector in Malawi, a fact recognised by the 2014 draft ASM policy issued by the GoM. Estimates put the number of Malawians involved in ASM at somewhere between 22,000 and 40,000 (Gilbert 2015). ASM is important in Malawi with respect to both livelihood issues and environmental degradation, and is the subject of sustained debate about its net positive or negative development impacts (see Kamlongera 2011). Key issues in this debate include: gender issues; child labour; revenue accountability; occupational health and safety; and smuggling.

## The Future of EI in Malawi

### **An opportunity for sustainable economic development?**

Analysis of the findings from the UoD study suggest that, while there are significant risks associated with developing EI sectors in Malawi, in particular environmental and social risks, the sector also offers Malawi a much needed potential source of sustainable economic development.

At the moment there seems to be broad agreement between most stakeholders that the risks associated with the petroleum sector, in particular due to the potential location of the reserves, are too great, making extraction and production unfeasible. This is compounded by the falling price of oil on the world market.

Aside from petroleum, Malawi is rich in natural resources, for example rare earths and gemstones. While significant investment, regulation and capacity building would be required, there is clear evidence here of support among stakeholders for the mining sector (at both large and small scale) to be developed. For this to generate economic development that was both sustainable and ethical any mining sector development, including policy and

regulation, would need to be approached in a holistic way as to: (1) minimise environmental impact; (2) protect workers' rights; and (3) effectively and fairly manage how generated resources are utilised and distributed.

### **A role for Scotland?**

Scottish work with Malawi on EI to date has primarily been through recent engagement of the UoD Centre for Energy Petroleum, Mineral Law and Policy (CEPMLP), to support the GoM at Ministerial and Principal Secretary-level. This has focused on: comprehensive EI sector legal reform; drafting of replacement laws for the country's existing EI Acts; and sharing of best practice.

Given the potential, but also challenges, associated with development of the EI sector in Malawi there could be a partnership role for Scotland / Scottish organisations to continue this relationship in terms of: (1) further development and implementation of new EI related policy; (2) building capacity in GoM departments linked to EI (e.g. the department of mining); (3) ensuring that the voice of civil society is represented in the consultations; and (4) investing in the development of the industry itself (e.g. scientific testing laboratory).

## Further Reading

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## Credits

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