



# Corporate Social Responsibility Practices in Small-scale Mining on the Copperbelt

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## BACKGROUND

Zambia is known world-wide for its production of Copper and Cobalt. The country has been exporting these commodities to the rest of the world since the 1930s for copper and the 1970s for cobalt. Mineral products contribute about 70% of the total foreign exchange earnings. Mining has been large-scale, concentrating on copper, cobalt and coal, while small-scale mining is concentrated in a variety of gemstones such as emeralds, amethyst and aquamarine, tourmaline and garnets. Emerald mining is however the most dominant form of small-scale mining.

The variety of minerals available offers a great potential for providing resources for national development. However, the mining deposits are located in remote parts of the country which are poorly linked. Consequently, there is need for development of access roads, telecommunication and other social infrastructure to mine these precious resources. There is also need to

service the gemstone areas with social infrastructure such as clinics or health centres and recreation facilities.

Mining, especially when diversified to small-scale mining, is critical to poverty reduction as well as to economic development of the country. Currently, mining contributes between 6 – 9 % of GDP and contributes about 40,000 jobs to the 470,000 in formal employment. The mining sector also provides forward and backward linkages to other sectors of the economy. The gemstone sector, if fully developed, can also contribute to generation of employment both in the mines as well as the factories established to process these gems. Mining also links effectively to the agricultural sector. It can provide essential agricultural inputs, such as lime which is essential in neutralising soil acidity. It also has the potential to support cottage industries that are related to pottery making, brick making and to increase the demand for skills and essential mining equipment and machinery.

## RESEARCH OBJECTIVES

This baseline study concentrates on small-scale mining with a bias to the gemstone sector. The main objectives of the study are to investigate the operations, profitability and Corporate Social Responsibility Practices of small-scale mines in existence, with a particular focus on the following thematic areas:

- Employment and Labour marketpractices
- Environmental practices
- Land rights of local citizens and their traditional authority structures
- Transparency and accountability practices; and

## ■ The role of traditional leaders

The specific objectives of the research are:

- To determine employment and labour market practices in small-scale mining;
- To determine the company's policy on workers' occupational health and safety and how the policy is implemented in practice;
- To determine the company's policy on workers' welfare and that of their families by reference to company policy on the provision of education and health services, including welfare services such as recreation and social security in general;
- To determine whether there is any written statement expressing company commitment to CSR and the company's understanding of corporate social responsibility;
- To determine the company's policy on the negative environmental consequences of their operations and measures put in place to mitigate the negative impacts;
- To determine the company's policy on compensation or any form of restitution to local land owners (individuals and institutions);
- To establish whether the local residents and their leadership e.g. traditional authority structures are consulted in matters of land expropriation, and the extent to which local populations benefit from their land being taken away;
- To determine whether the Privatization Programme so far carried out met its intended goals.

## INTRODUCTION

This study covers the emerald protected mining area of Ndola Rural. This is the most organised area of Ndola Rural in terms of gemstone mining. The protected area is demarcated into more than five hundred plots of land on the basis of which mining licences are issued. Before the demarcation in 1984, the area was mined illegally by thousands of artesinal miners using small implements.

Small-scale mining is commonly associated with informal, unregulated, undercapitalised and under-equipped operations where technical and management skills are lacking. They are also believed to erratically produce limited amounts of minerals from uncertain reserves. Small-scale mining is particularly labour intensive and thus provides employment and incomes to large numbers of people who are generally uneducated, poor and live in remote areas where no opportunities exist for formal employment.



The small-scale mining sector in Zambia is dominated by the mining of gemstones namely emeralds, amethysts, aquamarines, beryl and garnets. Gemstones are mainly produced in rural areas from three provinces: emeralds from Ndola Rural (or Kafubu) area, Aquamarine from the Lundazi and Nyimba areas and amethyst from Siavonga, Kariba area.

There are many Acts of Parliament which deal with mining and mining related work. The primary Act is the Mines and Minerals Act No. 31 of 1995, Cap 213 of the Laws of Zambia. This is supplemented by the Medical Examinations of Young Persons (Underground Work) Act, (Cap 216) and the Pneumoconiosis Act, (Cap 217). The Mines and Minerals Act makes provision with respect to prospecting for and mining minerals.

Ferrelletal (2004) defines social responsibility as “an organisation’s obligation to maximise its impact on stakeholders and minimise its negative impact” (Ferrell et al. 2004, P4). The Stakeholders are defined as customers, owners, employers, community, suppliers and the government. Ferrell et al also make four classifications of social responsibility: legal, ethical, economic and philanthropic. The CSR standards hinge on many aspects of life such as human rights, treatment of labour, the environment, consumer protection, health, fighting corruption and transparency in reporting.



## RESEARCH METHOD

A research method was developed to achieve the aim of investigating the operations, profitability and Corporate Social Responsibility Practices of small-scale mines in existence.

The study area covers the emerald protected mining area of Ndola Rural. Entry into the protected area is by permit obtained from the Ministry of Mines and Minerals Development. There is, however, need to obtain permission to enter particular mine sites from particular operators. Since not all parcels of land are actively being mined and since some parcels have undergone consolidation to make them economic to mine, the researchers visited some operating mines. Being a protected area the period given to the area was restricted. The distances between the mines also dictated the number of mines that could be visited. Some plots are larger than others, ranging from 1.5 ha to 45 sq km. Others have undergone subdivision while others have been consolidated. Thus the number of plots cannot be precisely estimated.

Primary data was collected mainly through the utilisation of a structured questionnaire, although it could only be used discretely. This was supplemented by interviews with the various stakeholders. Secondary data was obtained by reviewing existing literature. Information was obtained from published sources, government documents, the various websites for the major operators and from unpublished sources. A limitation to the research was that secrecy surrounds the operations of the gemstone mines and therefore data is difficult to obtain. Fieldwork took place between April 2006 and July 2006.

*The old school at Lufwanyama*



## OUTCOMES

Three major case studies are presented. They include the case of Grizzly Mining Ltd, Gemfields Resources Plc. and Kagem Mining Ltd. These are some of the most significant mining operators in the Ndola Rural Emerald Restricted Area. The fourth case is that of the Emerald and Semi-precious Stones Mining Association of Zambia (ESMAZ). As can be seen, this is not a specific case study. It is a case of an

organisation that represents many small-scale operators. We adopted this approach to reduce the number of visits to the numerous small-scale mines.

### 1. Grizzly Mining

Grizzly Mining Limited was incorporated in 1997 but started full-scale operations in 1999. The mine is located in Lufwanyama District and is involved in mining and exporting gemstones.



*The new school at Lufwanyama*

Grizzly Mining Limited is involved in some community projects as social responsibility practice. In 2003, the company donated blankets and mattresses to Kitwe Central Hospital, Mufulira Home for the Aged and Luanshya Hospital. It has also built a community school in Lufwanyama, sunk boreholes, built a clinic for its employees and is now involved in a joint project to build a road from Pirala area to Kalulushi road, a distance of about 30 Km.

## 2. Gemfields Resources Plc

Gemfields Resources Plc is a company incorporated and operating gemstone and amethyst mines in Zambia. Gemfields is a new company. Its corporate social responsibility policy is not yet well known. The company is, however, building a clinic in chief Nkana's area. The company is in talks with the Mineworkers Union of Zambia (MUZ) to have its employees unionised. Currently, MUZ is optimistic that a recognition agreement can be signed. This needs to be speeded up as the conditions of service for mine workers can only be safeguarded and improved once the process is formalised.

## 3. Kagem Mining Limited

Kagem Mining Limited is currently the largest gemstone mining operation in Zambia. It is owned by Hagura, an Israeli-Indian consortium, and the government of the Republic of Zambia. This is a London based company with plans to list at the London or Toronto Stock Exchange. The company has an onsite clinic and ambulance and does transport workers to work. Some of its workers are unionised even though the salaries for the lower ranked worker are still very poor.

## 4. Emerald and Semi Precious Stones Mining Association of Zambia (ESMAZ)

The ESMAZ was chosen as a case study in its capacity as a representative of many small-scale operators. The Emerald and Semi Precious Stones Mining Association of Zambia (ESMAZ) has a membership base of 400 owners of emerald mines. The structure of the companies involved in gemstone mining range from the highly formal such as Grizzly Mining, Kagem and Gemfields to the highly informal whose owners can hardly be found at the mine sites.



*A typical mine house in Nkana*

This development, however, where large private companies are becoming permanent and influential players in gemstone mining has unsettled some local entrepreneurs who believe that the foreign companies may eventually take over their operations. Consequently, the local operators suggested a two tier legal system to protect the interests of the local mine operators. They further suggested that foreign companies should be compelled to have local participation in their shareholding.

Most workers in emerald mines are not on long term employment contracts because of the seasonal nature of emerald mining. Most operators claim to have not set up structures for accommodating workers at their mines due to the extra tax that this would attract in property tax from local authorities. It was reported and confirmed that workers are usually given protective workplace clothing. As emeralds are found close to the surface, open pit mining methods are used which means that there are generally few accidents. Because of the small size of the mind plots, some accidents do, however, still occur.

There are no hospitals in the emerald protected mining area. It was reported that Gemfields has a clinic in Chief Nkana's area. The field survey however revealed that the clinic is under construction and it is not operational yet. Kagem Mining has a clinic and an ambulance used to transport the sick or injured to the nearest hospital, which is approximately 30 km from the protected gemstone mining area. Some mine operators have also contributed towards the building of primary schools in communities near the mines.

The protected emerald mining area falls under two chiefdoms: Chief Nkana and Chief Lumpuma of the Lamba tribe on the Copperbelt. Mine owners in these areas have been working on improving the road networks to their mines, which is likely to benefit the communities. However, the field trip revealed that most of the reconstruction is taking place in the restricted area.

There are other corporate social investment activities the mine operators have been involved in. Through the Emerald and Semi-Precious Stones Association of Zambia (ESMAZ), workshops have been conducted for its members on accountability, basic geology and accounts and book-keeping. The Association has also conducted workshops on HIV/AIDS and it is now training the trainers to strengthen the sensitisation program.

## 5. Problems facing small-scale miners

There are many problems facing small-scale miners in the protected area. These problems range from taxation, information, planning, marketing and land ownership.

The small-scale mining sector has bemoaned the numerous taxes and levies that they have to pay to either the central government or the local government. The other challenge that emerald mine operators face is that there is little geological information on the occurrence of the minerals underground. As such, people's decisions to start mining emeralds are based on speculation. The allocation of mining plots by the Ministry of Mines is another issue that has posed a great challenge to mine operators. Most of the plots are too small for mining of emeralds that are located deeper in the ground.

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*A portion of the road in Chief Nkana's area requires work. This picture shows the state of the road. Good corporate social responsibility practice would demand that this portion be maintained as a way of ploughing back into the community. In fact, this portion of the road requires to be tarred as the dust causes many ailments in the area.*



The marketing of gemstones has been liberalised since the 1990s. In some instances, it has been discovered that buyers form cartels to offer a uniform price. As a result, mine operators fail to obtain value for their products. The operators suggested that the auction of gemstones should be done under the umbrella of one large company and the marketing should be done locally. If this was done the producers will also form a cartel and this will most likely lead to an improvement in the price Zambian gemstones have been fetching. All land in Zambia is vested in the Republican President. The allocation of land in the protected area is now being done by the Ministry of Mines and

Minerals Development (MMMD). Most of the operators have licences to engage in mining operations but they have no leases for the plots of land they are operating on. As a consequence, the mine operators consider themselves tenants and not land lords.

Most of the small-scale mine operators in the Ndola Rural Emerald Restricted Area suffer from lack of finance. The small-scale mine operators cannot access bank loans for lack of collateral. Access to finance is also made worse by the reputation the gemstone mining sector has, it being regarded as being based on pure luck, especially as regards emeralds. There have

been attempts to increase access to loans through the European Union Loanable funds. However, even these funds continue to be inaccessible to the small-scale miners because of the conditionalities.

In an effort to increase accessibility, one million Euros has been transferred from the MSDP to be managed by a microfinance institution. Under the new arrangement it is expected that accessibility will improve.

## **6. Issues of CSR in small-scale mining on the copperbelt**

The issues arising from the study can be summarised under the different dimensions of corporate social responsibility. These are legal, ethical, philanthropic and economic dimensions.

From a legal perspective, mining has complex negative environmental impacts which include water, air and dust pollution, siltation and sedimentation of river beds and landscape disfigurement. In this survey nearly all mining operations were causing some environmental damage of one form or the other.

Belonging to a union is not only a legal requirement for organised labour but a human right. Many employers in Zambia do not respect the rights of employees to have trade union membership. Under section 5(1) of the Industrial and labour relations Act, CAP 269 of the laws of Zambia, every employee has the right to take part in the formation of a trade union and be a member of the trade union of their choice. Only through unionisation will the right to a living wage be realised.

From an ethical perspective, it is up to corporations or companies to see to it that

negative impacts are ameliorated before they affect society. From this perspective the issues of the road condition, sensitisation on HIV/Aids, the export of jobs, issues of low pay and housing arises. The road that passes through Chief Nkana's village is gravel and therefore requires regular maintenance. It is expected that this road be tarred, which will reduce the dust emissions that are a major health hazard to residents in that area.

The mine operators must also consider another ethical problem; that is the problem of HIV/AIDS in the villages near the mines. The main reason for the spread of HIV/Aids is the concentration of men working in the mines, who in some cases have travelled long distances from their homes, leaving behind wives and children. This is the most vulnerable group requiring sensitisation. The workshops on HIV/AIDS must also be extended to the people living in the villages near the mining areas.

Small-scale mining can generate many jobs in the Province. Gemfield Resources intends to create a forward linkage by developing the gemstone cutting, polishing and distribution operations in Jaipur, in India, which amounts to exporting the greatly needed jobs. It will be desirable that these facilities be established in Zambia and preferably on the Copperbelt. It should also be understood that the Copperbelt Province lost many jobs through privatisation and liberalisation.

It has been discovered that the pay to employees in the small scale mine is very little. In an earlier study, Lungu and Mulenga (2005) observed that some of the employees working for the larger small-scale mines such as those in Kagem are

unionised. It is not expected that other non-unionised companies are paying better than Kagem. However, when we subjected this pay range to the JCTR Basic Needs Basket of May 2006, we found that Kagem pays well below what is necessary to meet the basic food basket, although they meet the government monthly minimum wage.

Under the philanthropic activities it should be mentioned that there are few companies involved in this. These are Grizzly Mining Limited, Gemfields Resources Plc and Kagem Mining Limited. The activities of the other mine operators are still very insignificant. The small-scale mine operators can, however, help the communities by pooling resources together and investing in the various social sectors.

Worries expressed by some small-scale mine operators centred around the buying of licences from the small-scale operators. They fear that this practice would result in a reduction of the presence of Zambian entrepreneurs in the area. From the economic point of view, creating economies of scale is an important development. It would, however, be desirable if, instead of being paid off completely, the various plots were valued so that these small operators can start holding shares in the larger companies. This will ensure that long-term benefits of emerald mining are internalised within the country.

The marketing of gemstones in Zambia has been liberalised. This means that the various mines can sell their gemstones anywhere they want. The market is fragmented and as a result the very small companies cannot get value for their products because they cannot negotiate effectively with the buyers who appear to

have formed cartels. As a corporate social responsibility activity, it would help if the large companies marketed the gemstones for the smaller operators. It is required to form a cartel of producers to improve on the price. Unless this is done, even the GEMEX will not operate properly.

## CONCLUSIONS

In concluding this study, it is important first to take note of the problems of small-scale mine operators relative to corporate social responsibility activities. Generally, the small-scale mining companies operate in very uncertain conditions and circumstances. Many of them operate in areas where geological surveys have not been done and so they are not sure of what they will find underground. They operate by sheer luck. This is compounded by the problem of lack of access to finances leading to lack of appropriate equipment to carry-out mining operations. As a consequence very few are successful. From this perspective, this study on Corporate Social Responsibility in the small-scale mining sector also concludes that there are few companies who are involved in making visible and tangible corporate social investments. It also concludes that some other companies may not be involved because they are operating at a scale so small that, even if they were involved in making corporate social investments, these would be negligible.

The corporate social investment so far made by the sector are in the areas of health, the clinic being built in Chief Nkana's area by Gemfields Resources Plc and the one being operated by Kagem Mining Limited and the transport service. The schools that have been built by Grizzly Mining in

Chief Nkana's area; that is Grizzly Mining School and Satiya-Sai school. Pupils to these schools have also been provided with uniforms. It is hoped that this latter activity will be continued and also supplemented with the provision of other requisites such as books. There is also the unfulfilled promise of building teachers' houses.

Another activity so far undertaken has been the road maintenance and rehabilitation of the road leading to the protected area. This is a gravel road which requires attention because of the high dust levels which affect the health of the people living along the road. It is recommended that this stretch of the road be tarred. This will reduce the dust levels and improve the health of the population and will be in line with CSR expectations of reducing the impact of negative externalities. Overall, it is concluded that there are very few corporate social responsibility activities taking place and these are being carried out by very few operators.



## RECOMMENDATIONS

- The Ministry of Mines and Minerals Development needs to carry out sensitisation programmes to educate the mine operators on the need to work harmoniously with the local district council to reduce unnecessary litigation. This education can centre on understanding the rights and obligations of mine owners.
- The study also sees the need to strengthen the Environmental Council of Zambia and the Ministry of Mine so that they can carry-out regular inspections to ensure that standards on the environment and mine safety are adhered to.
- There is a need to bring on board the other operators through ESMAZ.

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The Zambia Congress of Trade Unions (ZCTU) represents the views and interests of workers and vulnerable groups in Zambian society. the ZCTU represents 30 affiliated national unions operating in various sectors of the economy, with a membership base of about 270,000 workers.

