An assessment of state gold mining enterprise in the Democratic Republic of the Congo

A case study of Kilo-Moto

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ABSTRACT

A major challenge of State Owned Enterprises in the Democratic Republic of Congo is lack of leadership and good managerial skills. Office des mines d’or de Kilo-Moto (OKIMO) is one of the state’s gold mining enterprises which demonstrate managerial failure in gold production. This situation is not only found amongst the state mining companies, but also in different public enterprises. The reason for this is bad governance and political interference by Congolese politicians, especially those in positions of power. Before the country became independent on 30 June 1960, most of the mining organisations were well-managed, but this government tried to control the entire production of the mining industry across the country. The production of state mining companies declined in the entire sector. It has been claimed that nepotism during the second era of independence is one of the major causes of OKIMO’s bankruptcy. Instead of changing the corporate governance of the company, the government has remained in this position of stasis until the present day.

The company has completely collapsed and solicits a strong recommendation that the senior management and the board members should develop good culture to manage a state gold mining company. It means the objectives of chief executive must be accepted by the board member and all the staff within the company. Senior managers need a strategic plan to increase the production of gold in the company and this will have an impact on the financial viability of the SOE.

INTRODUCTION

The mining industry in the Democratic Republic of the Congo (DRC) is one of the key sectors in terms of the annual government budget. A poor performance in the mining sector always has a negative impact on the national treasury. According to the DRC government (2008),
the mining sector itself provides 13% of the national revenue. For more than two decades all public enterprises involved in the mining sector have been virtually bankrupt.

This situation is not only found amongst the state mining companies, but also in different public enterprises, the reason for this being bad governance and political interference by Congolese politicians, especially those in positions of power. Before the country became independent on 30 June 1960, most of the mining sector institutions were well-managed, but the post-independence government tried to control the entire production of the mining industry. The degradation of the state gold mining industries started in 1980 when the tonnage of gold production started to show a sharp declined. This study focuses on an assessment of the state gold mining company in the DRC in reference to the case study of OKIMO. This study is based on an empirical study conducted in 2009 in the Itury region in the Oriental Province to evaluate the problem of the state owned public enterprise called OKIMO. This study used primary and secondary data to collect information. The technique used to collect data included interviews, focus group discussion and official reports from the company and non-governmental organization based in Bunia (Ituri region).

BACKGROUND OF THE COUNTRY

The DRC has a surface area of 2 344 845 square Km (905 365 square miles) and shares borders with nine other countries. In the North with the Central African Republic, Sudan, and South Sudan, and in the eastern part with Uganda, Rwanda, Burundi and Tanzania, the western part of the DRC is bordered by the Republic of Congo, and the South by Zambia and Angola. The DRC is Africa’s second largest country after Sudan in Sub-Saharan Africa. Despite its size, it lacks any particular noteworthy point of relief, affording it a considerable natural advantage. Lying across the equator, the DRC enjoys an equatorial climate. Normal temperatures range from 26 degrees Celsius in the coastal and basin area to 18 degrees Celsius in the rainy season. In the North (Uele) the winter season is dry, as is in Katanga in the South.

This article aims to elucidate the management of gold exploration in the oriental province of the DRC. The period of the research will be divided into three eras, namely the colonial period, independence, and the Kabila regime. The reason for dividing this section into three phases is because each period represents different realities within the country.

The researcher spent a period of three weeks in the Ituri region of the DRC during May 2009 in order to analyse the problems facing the former workers of the Office des mines d’or de Kilo-Moto (OKIMO). The empirical findings obtained through the former employees will offer some guidelines in terms of good governance in the state-owned gold mining companies. The problem encountered at OKIMO is similar to that found in other state-owned public enterprises across the DRC.

BACKGROUND OF GOLD MINING IN THE ORIENTAL PROVINCE

The most gold mining in the DRC started in the Ituri region. In 1903 two Australians by the names of Hannam and O’Brien, sent by King Leopold II of Belgium, discovered gold in the
river of Agola. This discovery was made in the locality of chief Kilo. Three years later gold was discovered in the Moto river (General Moutaert, 1940:15), leading to the colonial power naming the mining company Kilo-Moto. During that time the local people did not know how to mine gold. The mining of gold only started with the arrival of the Belgium colonial power in the Congo.

First era: The colonial period (1903 to 1960)

The industrial mining of gold started in 1905 under the government of the Belgian colonial rule. This was established by the Government de l’Etat Independent du Congo (EIC) and the company’s name was mines d’or de Kilo-Moto “KILOMINES”.

In 1906, KILOMINE was transferred to the personal foundation of King Leopold II which meant that the King’s family controlled the company’s management until his death in 1908.

This situation changed only in 1908 when the EIC came under the control of the Belgian government, a period during which the government decided to appoint a director-general Emile Braive (OKIMO, 1980).

Ten years later, in 1919, the colonial power changed the name of the company to Regie industrielle des mines or Regie des mines d’or de Kilo-Moto (RIM). The company had limited autonomy, but contributed significantly to the Belgian national revenue budget.

Another change occurred in 1926 through the establishment of the Societe des mines d’or de Kilo-Moto (SOKIMO). This was a Congolese company with limited responsibility, but still under the management of the Belgian government.

The production of gold facilitated the development of infrastructure around the Ituri region, and also across the country as a whole. It also provided job opportunities for local people and the surrounding communities. Upon closer analysis of this recruitment trend, it became clear that it was driven by force in that region. The people who refused to work in the mine were under threat of having their hands amputated by the colonial power. Other mine workers came from neighbouring countries such as Rwanda and Burundi and many of these foreign workers died as a result of different diseases. The mining site is not far from the equatorial forest and mosquitos are found in the area causing malaria and other related diseases (General Moutaert:1945).

In addition, the company had an obligation to apply for a mining license before any mining could start within the concession. Any concession that SOKIMO found not to be profitable as far as gold production was concerned, would be returned to colonial regime (General Moutaert 1940:15). After this period the company experienced many transformations to benefit the Belgium government. The statistics show that during these periods the production of gold was higher. The data will be presented in this article.

Second era: Independence (1960 to 1997)

After independence was gained on 30 June 1960, the DRC went through political instability. Also, OKIMO’s performance in terms of gold production started to decline. One of the major reasons was that many of the foreign experts had left the country after independence. Another reason for the decline was political instability and the civil war in different provinces. In 1966, the Mobutu government decided to nationalise OKIMO as a state-owned company
through presidential *Act No 66-419 of 15/07/1966*. OKIMO thus became a public enterprise for the DRC government.

**Legal framework**

With the implementation of *Act No 66-419 of 15/07/1966* regarding the nationalisation of OKIMO, the company lost its mining licence and other licences with the *Bakajika* law. The company was requested to apply for a new mining license in accordance with *Act No 66/413/08/07/1966*. The following mining laws concerning OKIMO were passed. The short titles are in French, to reflect the correct format in which they were proclaimed by the DRC Government:


2. La concession 39 accrédé par le meme arrête et decoulant du titres miniers (P.E 72). Elle constitue pour ainsi dire la reconduction de l’ancienne concession minière de KIBALL.


The DRC government gave OKIMO these three mining concessions for a period of 30 years from 1968 to 1998. After this date the company would have been entitled to renew its mining licence with the Ministry of Mines. The same procedure is still applicable under the current government.

The management of OKIMO was ineffective in terms of gold production output during this second era. Many changes occurred within OKIMO as regards the change of chief executive officers. A new person would take over the helm of the company every one or two years during the Mobutu regime. These bad appointments caused the company’s downfall (interview with OKIMO union member, 2009). It has been argued that the nepotism during the second era is one of the major causes of OKIMO’s bankruptcy. Instead of changing the corporate governance of the company, the government has remained in this position of stasis until the present day.

**OKIMO’s decline**

A multitude of factors pushed the company into bankruptcy; *firstly* was the major departure of foreign experts after the independence. Most Europeans left the country during the period 1960 to 1964. Some were killed during the rebellion, as were some of the local experts. This situation left a very big vacuum within the company in terms of steering the company in the right direction.

*Secondly* the theft of 12 445 kilograms of gold by the local authorities and the rebellion movement during the period 1960 to 1965 affected the viability of the mine. This large amount of gold has not been recovered until today.
Thirdly, the transfer of all foreign currency for gold sold in Europe into the national treasury in Kinshasa further caused OKIMO’s demise. The central government never returned the money to OKIMO for the operation of the company. This situation put the mine in an invidious situation with regards to purchasing new material for gold mining. This decrease in gold production led to the fourth of these factors, namely the closure of various mining shafts. The result was that much of the gold mining equipment became old and defunct.

The fifth and last characteristic concerns the mine workers. Most these people were not getting their salaries and some were left unpaid for up to ten years (AEMAPRI, 2006:9), thus causing them to become demotivated. The mine thus closed and the central government did not set positive objectives for the state-owned enterprise to allow it to develop. Furthermore, the government in Kinshasa could not bail OKIMO out because of its lack of foreign reserves. The case of OKIMO is a general case for many state-owned companies in the DRC today in the mining sector (OKIMO’s Union 2009).

**Stabilisation of OKIMO from 1980 to 1990**

In 1980, together with government, the senior management structure of OKIMO introduced a new strategy with which to stabilise the company and to increase gold production. The strategy aimed to renew the company’s infrastructure and to purchase new equipment for gold exploration at the different sites. The following companies attempted collaborating with the state owned company OKIMO to increase the production of gold:

- In 1982, OKIMO signed a contract with an engineering consultancy called Enterprise Generals d’Auxeltra Beton (EGAB) for civil engineering work.
- In 1984, the company hired Price Waterhouse and Associes Afrique (PWAA) to perform an audit, and also to assist with the company’s financial matters.
- In 1986, OKIMO obtained the expertise from a consulting firm called TRACTIONNEL Engineering International S.A.
- In the same year, the Belgian government provided OKIMO with financial aid (amount unknown).
- In 1987, a private company called ORGAMAN, based in Kinshasa, loaned OKIMO a large amount of money for OKIMO’s Plan stand by programmes.
- During 1988 the Brazilian government assisted OKIMO, and in return the state-owned company worked with a Brazilian company called ANDRADE GUTTIEREZ on the exploration of the D7 KANGA site.

In 1990, OKIMO entered into a joint venture with Mindev, under which a DRC register corporate entity, KIMIN was formed. The purpose was a mining concession 40, in terms of a mining agreement entered into between the DRC government and KIMIN. The mining agreement is complemented by a lease agreement (contract d’Amodiation), between OKIMO and KIMIN which makes provision for mining that is, in addition to exploration activities by KIMIN within an area of 2 000 Km² within concession 40. Ashanti Goldfield purchased half of the shares of KIMIN owned by Mindev in April 1996. The remaining portion of the shares of Mindev in KIMIN was acquired by Ashanti Goldfield in 1998. The company’s name was then changed to Ashanti Goldfield in 1998 and Ashanti Goldfield Kilo (Societe commerciale a responsibilite limite “SCARL” (AGK). In addition, following the merger of Anglo Gold and Ashanti in 2004 the property became part of the assets of Anglo Gold Ashanti which
currently owns 86,22% and OKIMO owns the remaining 13,78% (Anglo Gold Ashanti:2011).
This percentage was reviewed by the elected government in 2008 and 2009 in consultation
with the members of Parliament. This decision was taken in Parliament because most of
the non-government organisations and other members of Parliament opposed the proposed
partnership. The outcome of the reviewed contract was Anglo Gold Ashanti was awarded
60% instead of 82,22%, and OKIMO as SOE was awarded 40%. Many organisations still
saying this contract is linked with a corruption practice.

The OKIMO ultimately received financial aid from the African Development Bank
(AFDB). The financial assistance was for the renewal of the company's infrastructure
material (AEMAPRI 2006:10). The board of management of OKIMO failed to stabilize
the company production. According to OKIMO's 1991 annual report, gold production
declined to less than 100 kilograms in that year. From this time onwards the state-owned
company continued to decline to the point of zero production. The question that Congolese
people asked today is: What went wrong? The simple answer to this question is probably
mismanagement by the leaders of parties, Namely OKIMO and the autocratic regime of the
time. Figure 1 below presents OKIMO's gold production statistics from 1905 to 1934. Figure
2 provides the relevant figures for 1935–1965 and Figure 3 represents the production from
1966 to 2009.

Figure 1 shows that in 1905 to 1934 when the gold production increased under the
Belgium management. The gold production kept on rising in terms of productivity. The
company started with a lower production capacity but production increased significantly.
Only in 1923 that the company did not release the production data of that year. It will be
very difficult for the article to speculate on the gold produced by OKIMO in that year. It
could be stated that the three decades of gold production at OKIMO from (1905–1934)
demonstrated that the colonial powers managed the mine effectively for the production of
gold. The increased of gold production shows that good leaders were in the management of
the company. The figure below shows similar pattern at OKIMO from 1935 to 1965.

Figure 1 OKIMO’s gold production from 1905 to 1934

![Gold Production Chart](image-url)
Figure 2 reflects the period 1935 to 1965 regarding the company (OKIMO) continued producing gold, but the productivity was fluctuating. It could be observed that the company had some problems in terms of productivity of gold in the fourth period of gold production. That period is linked with the demand for political and economic independence from the Congolese government. Moreover, OKIMO had the privilege to produce an acceptable amount of adequate gold. The production capacity started to change when the DRC attained independence in 1960. The figures illustrate how the gold production dropped during that particular period. The next figure indicates the situation from 1966 to 2009.

Analysing the data in Figure 3 above illustrates that gold production during the time of colonial rule was higher in comparison with the production after the DRC had gained its independence. It shows that since the country attained independence the gold production dropped to its lowest level since production started. Reasons could be quoted for the decreased of gold production by OKIMO after the Belgians left. One of the major factors occurred during the civil war after the independence.
The Oriental province where OKIMO is based, was part of civil war that erupted after independence. Many Europeans were killed and infrastructure destroyed OKIMO was targeted for a particular attack. Another important factor was that many engineers who worked in gold mining left or were killed by the rebel movement. The decrease in gold production in that particular period could be limited to the events following independence.

There is an important factor which must be taken into consideration i.e. the management of the state gold mining company when the Belgians left. The government during that period could not manage the state owned company effectively. Most of the Congolese individuals appointed as chief executive officers (CEO) were appointed to serve the personal interest of the President of the country. Very few succeeded in improving the capacity to produce gold.

The best the Congolese government could do, was to maintain gold production at a particular level. However, this strategy did not materialise due to differences between OKIMO and the DRC government. The DRC government was the main shareholder in the company. The situation is currently worse because the DRC government signed mining contracts with different companies after the civil war.

The deterioration of the mining sector started in the second half of 1980 and deteriorated from the beginning of 2000. This decline could be linked to the influence of misdirected economic and financial policies, corruption and lawlessness and more precisely in 1990, where political and ethnic divisions, erupted in Katanga province. A major influence in the mining sector which contributed to its decline, included: low world prices for copper and other minerals in the first half of 1980; and poor management in most of the state owned enterprises (SOE) in the DRC (IMF:2005). The impact of mismanagement within the SOE in different sectors are still found today. Most of the SOE’s in the mining sectors are lacking a vision to transform the company to become economically competitive in the production of mineral resources.

Third era: The Kabila regime (1996 to 2010)

The focus of this era was the signing of a mining contract between the transitional government and the elected governing authority by the late president Laurent Desire Kabila. Most of these mining contracts are associated with corruption by many politicians and government officials. The elected Parliament and the civil society organisation decided to request the government in power at the time to review the contract for the benefit of the country. According to Journal le Potentiel (2010), the government decided to review 57 mining contracts obtained by the private companies. These private companies signed partnerships (Joint-venture) with different government mining companies. Most of these partnerships were less profitable for the Congolese public enterprises.

It was decided by Parliament to review the contract and suggest which contracts should be considered or rejected, based on the findings of the committee established by the government. This committee was established in July 2007.

The revision of the mining contract started in September 2008. The findings were available at the end of March 2009. The outcome of the exercise was that 37 contracts were renegotiated and 20 of the contracts were cancelled by the government. The government also recovered 325 million dollars for most of the mining contracts which were associated with corruption (Journal le Potential 2010). The current government revised these contracts,
but the situation did not change. Most of the state companies are struggling to pay their employees’ monthly salaries. The state of affairs occurs across the board for many public enterprises in the DRC. A critical change is needed in the way the Congolese government appoints senior executives within public companies. This situation calls for a new mechanism which needs to promote productivity in the mining sector especially at KILOMOTO. A strong leadership is needed within the government for the eradication of the bad management culture which is found amongst senior executives as well as personnel in the middle and lower management structures of the company.

PRIVATE COMPANIES IN THE GOLD MINING SECTOR

The participation or the invitation of private companies to invest in the gold mining sector was one of the government’s objectives to improve the production of gold, copper and other types of minerals. In the case of KILOMOTO many international gold companies approached the government to invest in the SOE. According to the Catholic Agency for Overseas Development (CAFOD) (2010:51) the value of the DRC gold mineral deposits creates a strong incentive to invest in gold mining in the Itury region. The Canadian Banro Corporation is carrying out exploratory drilling of the Twangiza-Namoya gold belt in the South-Kivu region of the DRC. AngoldAshanti has been conducting exploratory work in the north eastern Itury region, near the town of Mongbwalu. Moto Goldmines is also carrying out exploration work in the north east of the Itury region. It could be stated that in spite of the involvement of private companies in the gold sector it is still not producing positive results as the government projected.

Most of these companies some of them are still requesting funding to start producing gold. Some have started, but their production is limited. The contributions by the national treasury is too small to assist. According to the former Minister of Finance Matata Ponyo who is the current Premier Minister in the new government after 2011 election.

In the eastern part of the DRC the national government is still struggling to restore peace because of rebel fighting in some of the towns. The limited capacity of the DRC government places a great responsibility on the company to make sure that they operate in a stable economic environment and does not re-ignite conflict (CAFOD: 2010).

CORPORATE GOVERNANCE AS A TRANSFORMATION

Corporate governance is been defined as “exercise of authority over and responsibility for corporate entities” (Mallin 2002). Another author defined the concept of corporate governance as “systems recognise the inherent conflict among objectives of owner-shareholders and manager, and establish institutions, policies, and procedures to keep shareholders interest” (McCarty&Puffer: 2002). The initiative to introduce corporate governance in the DRC SOE is to try to change the management culture of the senior executive across different public companies.

For corporate governance to be implemented in the DRC SOE there is a need for transparency, responsibility, accountability, and effectiveness. Most of these factors
of corporate governance were not applied in the way the company was managed up to the present time. According to Shkolnikov and Wilson (2008:8), corporate governance is important for a public company. Not only could good governance practices increase productivity and competitiveness of the state-owned enterprise, it will also assist to ensure that public funds invested in these companies are well-managed and effectively spent.

The rationale for corporate governance is that gold mining is a strategic sector for the government. High-level performance on the part of OKIMO will stabilise the country’s economy and also promote job opportunities for many communities in the Ituri region.

Corporate governance in the Ituri gold mining industry will require the eradication of the culture of corruption and the promotion of productivity and efficiency. Furthermore, there is a need to promote transformation within the company in order to improve its productivity.

When OKIMO improves its transparency, internal control, and reporting, corporate governance practices will reduce the corruption. For this to be achieved the company will need investment capacity, because there is currently insufficient money for such endeavour. Furthermore, by implementing good governance values, corporate governance creates clear lines of accountability. Members of the board of directors will have a clear focus in terms of what government expects from them. It is also argued by Shkolnikov and Wilson (2008:12) that a more proactive form of corporate governance is associated with positive drivers, which should include a search for investment, increased competitiveness, and efforts to combat corruption. If all these principles are put into practice at OKIMO, there is a possibility to see change occurring within the Congolese public enterprise.

**LEADERSHIP IN THE DRC SOE**

It has been observed during the past five decades that in the management of public enterprise in the DRC good leadership (or manager) is lacking in most of the state companies. Most of the SOE’s in the DRC currently are deteriorating or bankrupt because of mismanagement or bad decision making by the leaders of the company. One argument could be that most of these leaders who managed KILOMOTO was influenced by political appointments. Most of them did not have a long term vision for the company to increase gold productivity which could maintain the operation of the company. What happened at OKIMO is government failure which had as consequence resulted in managerial failure. According to Basu (2008) managerial failure invariable follows from incapacity of governments to adopt sound policies on investment, prices, financing, as well as on new projects which are invariably delayed and several other areas affecting the management of the SOE. The managerial failure at OKIMO is mainly based on the political involvement. One of the serious cases of abuse by the DRC government was not reinvesting the return on gold after being sold on the international market. For any transformation at OKIMO there is a need to have strong leadership within the company and also in the government.

*Firstly*, the chief executive and the board members should have a positive culture to manage a state gold mining company. It means the objectives of the chief executive must be accepted by the board members and all the staff within the company. Senior managers should compile a strategic plan to increase the production of gold in the company. This will have an impact on the financial viability of the SOE.
Secondly, government should refrain from politicising the appointment of CEOs because it will have a negative effect on SOEs. Experiences on managing the mining company need to be taken into consideration, the government can suggest someone from private sector to be appointed as managing director. Given a corporate form, OKIMO must be managed by a board of directors. The selection of senior managers in the company could be undertaken as in other countries, such as India, France, Philippine, and Iran. These countries have a Central Administrative Pool and the Industrial Management Pool for senior government appointments. In addition, an incentive could be made for most of the senior management teams to have a salary package like in the private companies. This is a problem which needs to be addressed in the DRC SOEs. This should be based on the performance contract signed between the CEO, member of board and the government who is the main shareholder.

CONCLUSION

The article demonstrated that the mining of gold by a former Belgium colony from 1905 to 1955 had a very successful production. The company had a stable gold productivity as the statistics illustrate until DRC obtained independence. It is been shown that since the country acquired independence the gold production dropped to its lowest level. Some factors could be linked to the situation concerning the decrease in gold production by OKIMO after independence. One of the major causes during that time is linked to the civil war after the independence. Another factor, which could be taken into consideration, is the departure of European expertise who worked at OKIMO which had a negative impact of the gold production.

The study indicated that there are other important factors which should be taken into consideration i.e. the management of the state gold mining company. The government during the period after independence could not manage the state owned company effectively. Most of the Congolese appointed as (CEOs) served the personal interest of the President of the country. Very few were able to redress the lack of capacity to improve gold production.

This situation calls for a new mechanism which needs to promote productivity in the mining sector especially at KILOMOTO. A strong leadership is needed within the government to eradicate a bad management culture which is found amongst some senior executives as well as among personnel in the middle and lower management structures of the company.

Considering the company currently, it completely collapsed. A recommendation will be that the senior management and the board members should have a positive culture to manage a state gold mining company. It means the objectives of the chief executive should be accepted by the board members and the staff within the company. Senior managers should provide a strategic plan to increase the production of gold in the company and this will have an impact on the financial viability of the SOEs.

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