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Mining in Southern Africa – Some Comparisons

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Introduction

The development of the mining industry in Southern Africa (excluding the Republic of South Africa) has been patchy and uneven. In this article we seek to discover any underlying themes which might suggest the factors behind successful development. These are beyond the global themes affecting the development of the mining industry today, most notably the downward curve for commodity prices (although possibly that is about to change) and, particularly in the emerging markets, resource nationalism. For purposes of the analysis we will look at Angola, Botswana, Mozambique, Namibia and Zimbabwe. Zambia is excluded on the basis that mining already makes a very significant contribution to the overall economy and has been written about extensively.

Angola

The country has a relatively under-developed mining industry, having historically concentrated on oil & gas as the major commodity under exploitation. The steep decline in energy prices has placed the domestic economy under stress, with support from the IMF and the international financial community being sought. As a result the government has been encouraged to initiate policies designed to diversify the economy. While the mining industry only currently accounts for a small percentage of GDP it is potentially a key driver. For example, Angola is already the world's fourth largest diamond producer by value and sixth largest by volume.

A recent report in Hellenic Shipping News Worldwide speculated that the mining industry in Angola might generate revenue in the region of US$ 7.5 billion by as soon as 2018. Less that half of the country has been explored to date, albeit the legacy of mining of a different type might still present barriers to exploration activity in certain regions.

The mining industry in Angola is currently growing at an average rate of 5.3% per annum. Potential minerals for exploration include phosphate, copper and iron ore although diamonds are expected to be the major contributor to the industry in the foreseeable future (in 2014 diamond exploitation generated around US$1.6 billion in revenue). The potential for expanded activity is illustrated by the fact that one joint venture, including partners such as Odebrecht and Alraosa, is responsible for around 75% of all diamond production.

A new Mining Code was enacted in 2011 with a view to encouraging international investment in the industry. In particular the new law sought to establish security of tenure - where successful exploration results in the ability of the exploration licence holder to exploit the relevant deposit. The free carried interest maintained by the government in mining projects was also reduced to 10% - more in line with industry norms; particularly in Africa (although there is also an option for the government to participate in actual production). Royalties and taxes were also reduced. The code emphasises the importance of local communities. Engaging with those communities in connection with the development of any mining project is made a mandatory obligation. In addition 5% of revenues accruing to the government are required to be invested in the area where any project is located. Where price competitive, local content is to be preferred.

Botswana

Botswana already has a successful mining industry - particularly in connection with diamonds (where it is the world's largest producer) and coal. Botswana is also home to the world's biggest rough diamond sorting and valuing company - Diamond Trading Company Botswana. Much of the recent news in connection with the local coal industry though has been dominated by news of Anglo American's disposal of non-core assets - in this case the transfer of its interest in the Morupule mine and closure of the Mmamabula coalfield. The need for power across Southern Africa though has increased the focus on Botswana's coal and coal bed methane resources and the potential for the development of associated power stations. Beyond diamonds and coal mining activity also takes place in connection with gold, copper, nickel, cobalt and other minerals. Taken as a whole the mining sector accounts for approximately 20% of Botswana's GDP.

In addition to its prospectivity Botswana is a highly attractive location for international investment. Politically it is a stable democracy with an open economy. There are virtually no restrictions on foreign ownership of local enterprise and no exchange controls. Dividends, etc can be remitted offshore with no restriction (subject, of course, to payment of any local tax - withholding tax in the region of 7.5% is currently assessed). There is a stable and reliable legal system, including court processes. In the most recent Fraser Institute Annual Survey of Mining Companies Botswana was ranked fifth of all African countries in the index for investment attractiveness (Morocco ranked first, followed by Burkina Faso, Ghana and Namibia). Contributors to the survey noted that, in contra-distinction to several other African countries, Botswana has moved to improve the local fiscal regime for investors during the current depressed environment for commodity prices.

All minerals in the ground belong to the State with the right to explore and exploit those minerals being granted under a well understood and defined licensing system. Licences (other than with respect to diamonds) are granted for a period of up to twenty five years. The government also has the right to acquire a carried ownership interest in mining projects in an amount of up to 15%. Royalties are levied at the rate of 5% (for precious metals), 3% (for base metals) and 10% (for precious stones).

Mozambique

Mozambique is richly endowed with commodities. In addition to substantial energy fields it possesses diverse mineral deposits such as coal, heavy sands, graphite, gold, phosphates, rare earths and precious stones. Until recently it had been one of the success stories on the African continent, enjoying economic growth above 7% per annum for almost ten years. Required investment in infrastructure has also been forthcoming (for example the construction of railways and port facilities to access the stranded coal deposits in Tete province). The major story in Mozambique in recent times though has been in the political and financial arenas.

As in Angola, steeply declining energy prices have put pressure on the Mozambique economy. Following an IMF financing it transpired that almost US$1 billion of previously undisclosed debt had been raised by the government. Ostensibly raised by the state-owned tuna fishing company to finance a new fleet it appears that the loan proceeds were used for other purposes. Following the discovery government access to international financial markets has been constrained and Moody's downgraded the country to B3. International perception remains poor. The country is ranked 180 (out of 188) on the UN's human development index. Mozambique ranks in the bottom quartile of African countries for investment attractiveness in the Fraser survey.

On the other hand the abundance of natural resources in Mozambique remains a given. The legal and regulatory regime applicable to mining is also perceived to be quite helpful (it ranks relatively well for this factor in the Fraser survey). There has also been some good news recently with the announcement of the raising of funds to complete the Balama graphite project and the signing of offtake contracts in connection with the same. However, going forward much will depend on the view taken by the international financial community in relation to the country and its government.

Namibia

Of all the countries in the Southern African region Namibia arguably has the most attractive story to tell when seeking to attract investment in the mining industry. The country is highly prospective for minerals with uranium, copper, gold, phosphate and diamonds all being present. The country offers a stable political system, a reliable and functioning legal system and a positive approach to the regulation of the mining industry. In the Fraser survey Namibia ranks fourth among African countries in the investment attractiveness index. In particular the country ranks very highly for certainty in connection with the implementation and administration of mining and environmental regulations.

The mining law in Namibia though is quite old - having been originally enacted in 1992. However it does provide the critical security of tenure required to encourage exploration activity. Recent BEE legislation will mean that ownership structures may need to be adjusted although the final form of the legislation and associated regulations may yet be further amended. Subject to these considerations foreign ownership of mining companies is generally unrestricted.

Zimbabwe

If Namibia is the most advantaged jurisdiction in this brief survey then Zimbabwe is surely the least. In the 2013 World Bank Doing Business Survey Zimbabwe ranked 172 out of 185 countries. While richly prospective - with substantial gold, platinum, chrome, diamond, coal and nickel deposits - the current political and economic background acts as a substantial barrier to any foreign investment. Large mining companies have been invested in Zimbabwe for many decades but several - seeing no prospect for improvement in an economic environment where performing assets are key - have started to depart. Rio Tinto left in 2015. Many who remain are doing do purely defensively to protect existing investments. Government demands for increased participating ownership interests to be granted to the State and for the funding of beneficiation and other infrastructure are obviously not assisting. By way of example, the government recently ordered licence holders in the Chiadzwa diamond field to leave the region with production being taken under the control of the government.

The significance of the industry for Zimbabwe remains obvious though. Just last month it was reported that the export of platinum by Zimplats accounted for 9.7% of the country's total export earnings. A further 3.8% was accounted for by exports from Mimosa. Exporters are supposed to have been incentivised by virtue of a 5% bonus payment on funds generated but this is payable in local bond notes and the absolute value of the notes is far from clear - particularly in the longer term. Sceptics fear that this is simply the re-introduction of the failed Zimbabwe dollar by another name.

Conclusion

Many of the countries in the Southern Africa region have taken great strides to adjust the environment for mining activity in a manner which brings the same closer to global industry standards. However, putting aside those issues impacting the mining industry on a global basis it is clear that by far the greatest single factor in determining the success of the industry across Southern Africa is political. While capital for investment in new projects is certainly available from a variety of sources it is also easily mobile. Competition for that capital across the globe is intense and, in making the long-term decisions required for investment in new projects, investors are bound to prefer countries where stability and transparency are the norm.