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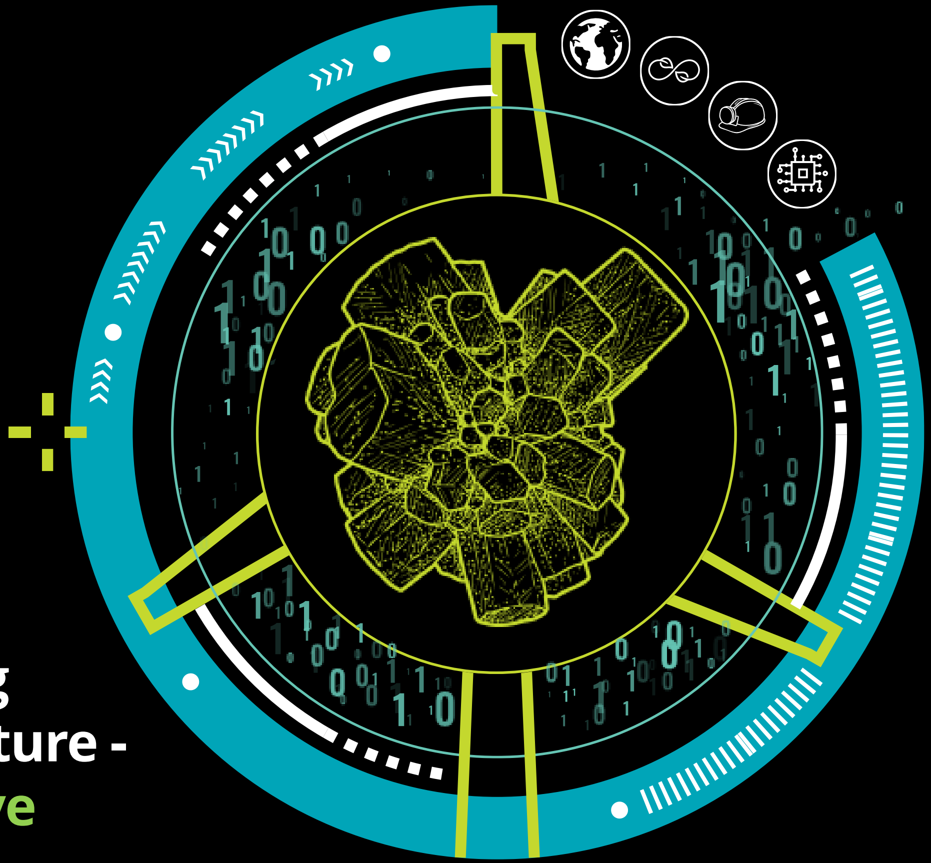

The role of the mining industry in Africa's future - Changing the narrative

CEO Roundtable

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MAKING AN IMPACT THAT MATTERS since 1845

Moderators

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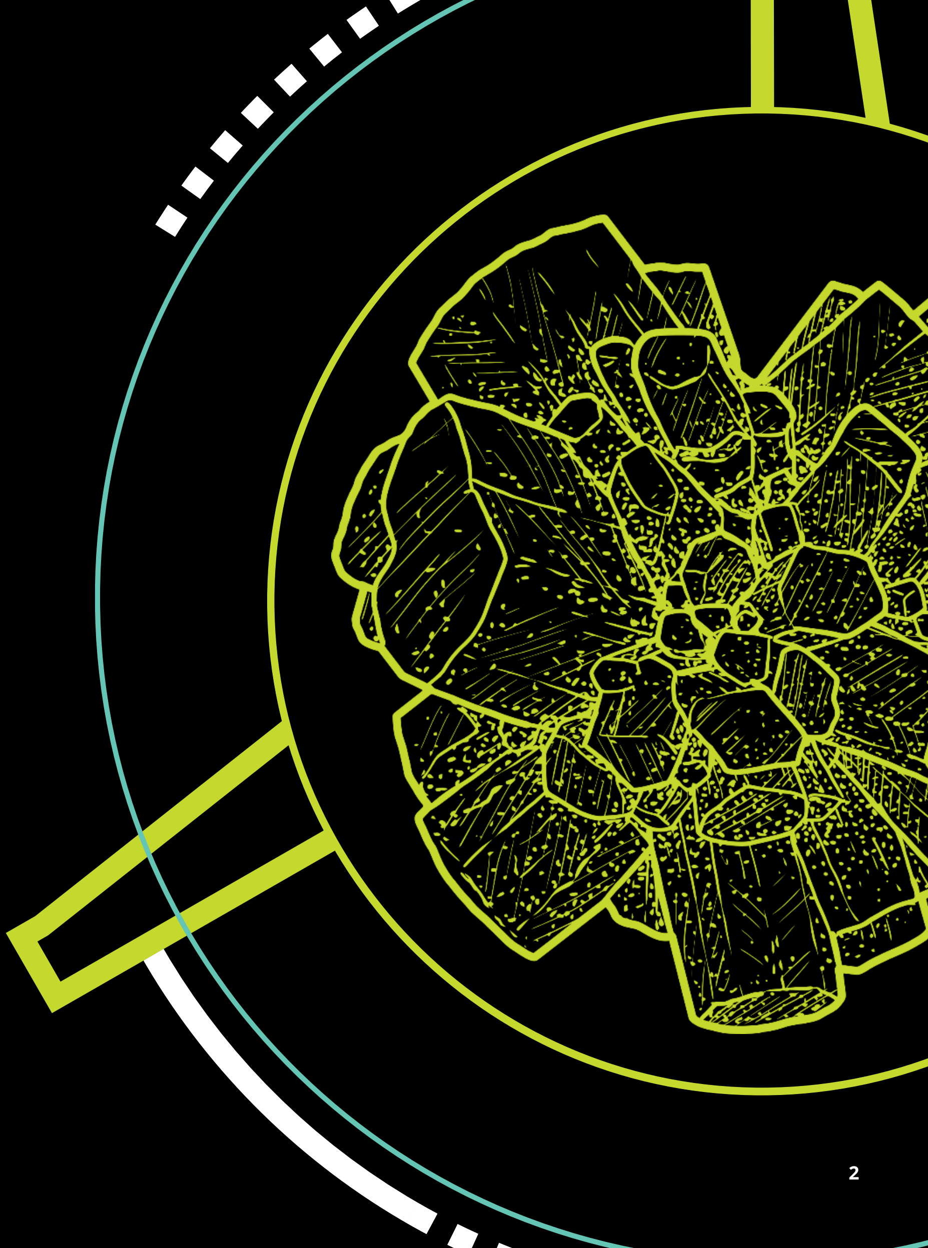
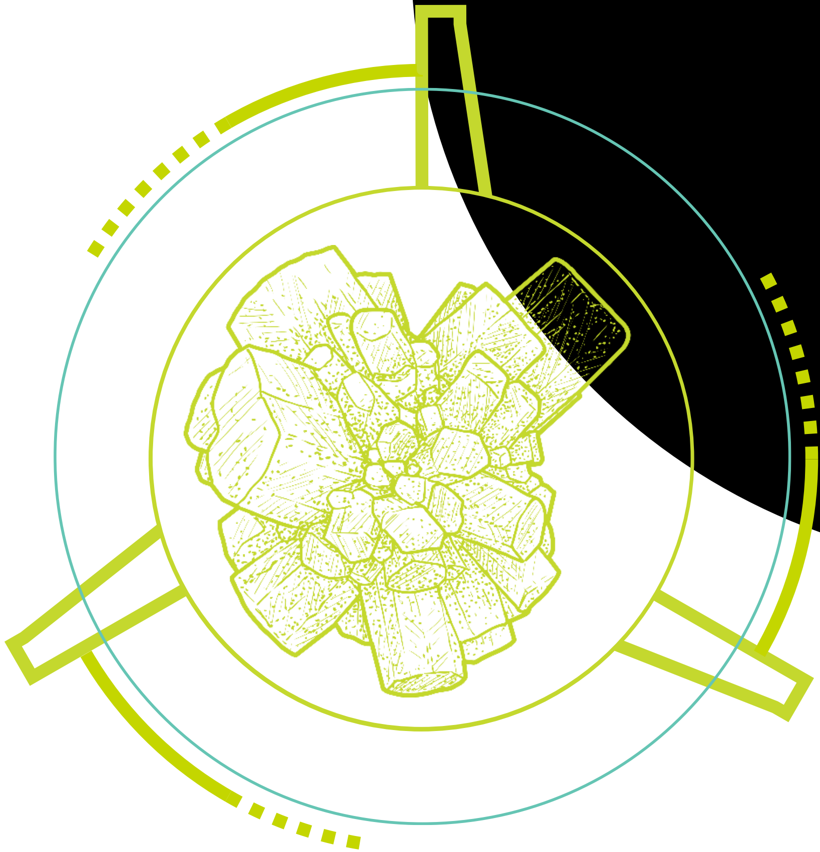


Amid the global clean energy transition, imminent supply shortages of critical minerals, and what some have worryingly termed “a new scramble for Africa,” the continent faces several questions. Can Africa leverage this mining opportunity for its development? Will Africa be able to move beyond the pit-to-port model of the past, to one where the continent produces value-added products like batteries? Having missed out on commodity booms before, will the mining industry miss the next one? What problems must be solved for the industry to reach its full potential?

Several themes and issues emerged in the roundtable discussion, summarised below.



Security of supply

Increasingly, governments from key regions are looking for security of supply. To this end, they have engaged with the private sector rather than with African governments. While this might help with security of supply in the short term, more is needed to solve more significant issues and the root causes of low investment in Africa.

At the same time, African economies must look to their own developmental needs and decarbonisation processes. Countries such as South Africa must first overcome energy poverty, which will require access to minerals.

Upping exploration to unlock critical minerals

Critical minerals are the opportunity of our times. However, Africa is underrepresented in terms of global exploration spend (only about 10% of the global total); and current exploration pipelines are limited on the continent. Exploration spending on critical minerals will need to boom to unlock this potential.

The major miners traditionally undertake significant exploration, largely brownfield. However, a boom in exploration spending requires greenfield exploration, with more junior miners active in Africa. However, juniors demand good pre-competitive information. If prospecting rights are not issued quickly, they move on, with the country or region missing out on the exploration opportunity. In Botswana, it can take 20-40 days to get a prospecting right with reasonable security of tenure. In South Africa, this process amounts to 340 days. These timelines do not support the juniors' business model, which is to find deposits quickly and sell these to the majors. Changes in policy and regulations are desperately needed for Africa to exploit this exploration bubble.

Creating an enabling environment

While exploration spending is one challenge, mining investment has declined since 2004. Attracting investment into Africa's mining sector requires a conducive framework, which could include an effective cadastral system, standardisation of mining laws, better regional policy coordination, and general policy certainty and stability. It also requires policy that looks to build a broader ecosystem around mining.

An attractive investment environment requires an interconnected system of infrastructure and services that enables an economy to function. With this system, African projects that have the potential to attract investment would be able to compete with other mining jurisdictions. However, failing state-owned entities like Eskom and Transnet are eroding any competitiveness in South Africa specifically. Prescribing a developmental state will not attract investors.

Leveraging local markets

While every country wants to beneficiate, having the comparative advantage of resources in the ground does not equate to having a competitive advantage. When considering value addition, Africa should first focus on its domestic needs, particularly renewable energy in homes – a mass market.

Another strategy could be to produce batteries for motorbikes locally, together with a prominent OEM. After all, successes like M-PESA or Sasol were businesses that were built on meeting local needs first, before growing them and going global. Another local market for renewable energy is the industry sector itself.

Strengthening collaboration

The theme of collaboration has been strong across forums with government and the mining industry, at a regional and national level. Collaboration to spur better policy coordination will inspire investor confidence. Regional centres of excellence and processing plants could be opened based on comparative and competitive advantages, which would determine processing or manufacturing activities along the value chain. Such collaboration would see countries sharing parts of the value chain, rather than attempting to cover it all themselves.

There will also need to be collaboration between mining and manufacturers – players downstream the value chain. While miners are not manufacturers, mining can develop other industries along the value chain. Small businesses and startups can contribute to innovation and positive socioeconomic outcomes.

Engaging with government

Collaboration between the private sector and government remains challenging. Part of the challenge is ideological, particularly with centrally-planned economies. Another is timing mismatches, where four to five-year political terms fail to match decade-long investment horizons.

One meaningful mining industry-government collaboration could be offering a holistic solution to problems governments cannot solve, such as the just energy transition. This approach may invite government's attention.

The ideological challenge also includes African government's distrust of private-sector business, which they regard as exploitative. Changing this view will require establishing a social agreement, where business helps governments to achieve their KPIs, and government realises that business is not the enemy.

Overcoming indifference

Another challenge is the issue of indifference in parts of government, where leaders are perceived as not caring about the greater citizenry and development of the continent. Unlike incompetence, indifference is harder to tackle. The public sector is crying out for new approaches and commercial experience, which requires escalating accountability and assessing the performance of politicians and leaders. It also requires attracting top talent into the public sector, akin to the Kingdom of Saudi Arabia (KSA), where top business leaders are hired for public sector positions, rather than bureaucrats.

Indifferent capital is also part of the problem. Private sector funders need to learn to invest in apparent high-risk projects. For example, beneficiation projects (including smelters) come at high risk, with large amounts of capital and long pay-off times required. While governments must work to attract this capital, the private sector has a role in derisking the capital to enable more willing investment to fund new growth projects.

In summary, business needs to continue to engage with governments, communities and society on the economics of the sector, and the importance of mining to economies. As noted, if "SAA happens to Transnet, there will be no mining industry." Without investment, neither mining nor beneficiation of resources can occur; and without regional collaboration, processing or manufacturing from this resource base will be limited. A concerted effort and more hard work to engage government and have the right enabling environment in place is required.

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