

Communities to benefit from mining through “social licences to mine”

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Mining Review Africa

The mining sector cannot be looked at in isolation – it is the “engine room” of every economy in a country with substantial mineral resources.

The mining sector in these countries is also a good indication of whether or not the economy is healthy.

In countries with substantial mineral resources, the mining sector plays a critical role in transformation and development.

Where the mining sector is not performing, this manifests itself in various forms including the failure to deliver on socio-economic expectations, the rise of resource nationalism (and in some cases, the call for nationalisation of the mining sector, i.e. complete control and ownership of the mining sector by government), community unrest, and often in undemocratic and unconstitutional attempts to drive through unsustainable changes to mining laws, creating policy and regulatory uncertainty, and the consequences that flow from this – a downturn in investment, and socio-economic upheaval.

The mining sector generally operates within the wider context of infrastructure development (ports, rail, water and roads), agriculture, telecommunications, construction and engineering.

When the mining sector is performing, these related sectors generally also perform well, with the broader benefits that flow from this, including increased investment, socio-economic development, and consumer spend on aspects such as housing.

Even at the most basic level, the mining sector has an impact, whether good or bad.

In the mining sector, generally, every mine worker supports or provides a form of income for up to ten other people, including direct dependants, extended families, artisanal and micro businesses (such as transportation and food), and the medium to large consumer-focused entities that have taken their business to mining towns and communities.

The key trends for the mining sector in 2018 impacted on each of these dimensions that have

the mining sector at their core.

The Africa-rising narrative

Africa remains a mineral-resource rich continent, providing not only the "usual" minerals such as gold, copper and platinum group metals, but also, for example, those minerals that are absolutely key to a sustainable future where energy is not entirely dependent on fossil fuels – the "battery minerals".

This, on its own, means that Africa should be a key investment destination. Add to this Africa's growing working-age population and its developing consumer base, and it is a perfect mix for investment.

Within this context, it is completely understandable that foreign direct investment into Africa is increasing year on year.

While South Africa may have lost out on this increased investment activity, in the short term, due to several factors, including policy and regulatory uncertainty, the costs of doing business, the "red tape", corruption and licencing delays, other African countries are benefitting.

These countries include Ghana, Uganda, Angola and Namibia. Where countries provide a business framework that is investor-friendly, capital will naturally flow to these countries.

2018 saw a substantial increase in mining sector investment in Africa, and this is likely to continue in 2019 with the emphasis on those countries with highly-sought after minerals, and more investor-friendly policies focused on ease of doing business, efficient and effective licencing regimes, security of tenure, flexible exchange control regulations, and where the governments are seriously committed to rooting out corruption and irregular practices.

Accessing alternative and innovative funding

The age of mining monopolies seems to be over, with exploration, the lifeblood of the mining sector, often being carried out by single project and asset companies that require access to capital that will allow them to explore and develop the assets up the value curve.

The mining sector and its related and satellite industries and sectors rely heavily on small and medium enterprises (SMEs).

The SMEs are critical for the growth of emerging economies and increasing employment, but access to finances is one of their greatest obstacles.

According to the World Bank, formal SMEs contribute up to 60% of total employment and up to 40% of gross domestic product in emerging economies. This is significantly higher when informal SMEs are included.

The need and opportunity for power and infrastructure development in Africa is enormous. In

sub-Saharan Africa only approximately a third of its people have access to electricity.

The demand for more exploration and energy requirements have opened up opportunities for alternative lenders to fund across the value chain, from power producers, commodity traders and producers, to other energy infrastructure and logistics services.

In 2018, there has been a strong focus on innovative funding mechanisms, with borderless crypto-capital and metal streaming arrangements also under serious consideration.

Unconfirmed figures suggest that over US\$200 million was raised through crypto-capital mechanisms. 2019 is likely to see an increase of reliance on alternative and innovative funding mechanisms.

Policy and regulatory certainty

Creating policy and regulatory certainty, on its own, is not enough to make a country investment-friendly.

It is the holistic framework of good law, access to an independent judiciary, a solid banking and finance structure and a commitment from all stakeholders in the mining sector, to achieve this.

South Africa has moved a long way towards creating the much-needed stability in the sector with the extensive consultation process and subsequent publication of Mining Charter 2018, and the withdrawal of the contentious amendments to South Africa's primary mining law, namely the Mineral and Petroleum Resources Development Act 28 of 2002.

Other jurisdictions have also taken the opportunity, such as the Democratic Republic of the Congo, which amended its Mining Code, to include stability provisions (but negotiations seem to be stagnating, and this may impact on the positive view of the DRC).

Tanzania, on the other hand, is in a quagmire of litigation after its legislative amendments.

The formation of the African Continental Free Trade Area (ACFTA) may provide further opportunities for growth and development that have, until now, been lacking.

The agreement concluded to establish the ACFTA has the potential to significantly change the way that trade is conducted in Africa. Once ratified by the 22 signatories, the agreement will establish the ACFTA, which aims to create a continent-wide common market for goods and services. The ultimate aim is to create an Africa-wide customs union.

Where African countries have moved in 2018 towards creating a more stable policy and regulatory framework, this has opened up opportunities.

Safety and security

Safety and security of personnel has become a key consideration in the mining sector, with many multi-national companies taking extra precautions when deploying personnel.

In countries where threats to safety and security have increased in 2018, this has impacted on decision-making, with more and more decisions being taken to focus on safer jurisdictions.

Business integrity, corruption and irregular processes

Actual or perceived corruption has played a significant role in investor decisions in 2018, and more and more companies are focusing on compliance, anti-bribery and corruption measures.

Whether this is driven by listings requirements, legislation, reputational risk or moral grounds, compliance and monitoring programmes have increased in complexity, with a strong emphasis on acknowledging the current borderless world of crypto currency, the slippery slope of the first "facilitation payment" made to expedite and facilitate the licencing process, and socio-economic realities in several mineral-rich countries.

The Fourth Industrial Revolution

The Fourth Industrial Revolution is a reality, and the mining sector is embracing its components, including the Internet of Things, artificial intelligence, mechanisation, automation and block chain.

The move towards mechanisation, and ultimately, automation is not necessarily an easy one – there are a number of concerns, particularly the potential loss of jobs.

While there has been an acknowledgement that the move to automation provides the potential for upskilling, fears remain of large-scale job losses.

The energy mix

While some countries, such as Canada, are moving towards total electrification of mines, and are moving away from costly and often ineffective diesel power, Africa seems set, in the short to medium term at least, to generate the bulk of its energy, from fossil fuels.

Renewable sources of energy will play a significant role in a sustainable mining sector, and while progress has been made towards diversifying the energy mix, in 2018, 2019 is likely to see a strong focus on renewable and sustainable energy.

Transparency

There have strong calls for greater transparency, from several stakeholders in the mining sector, so that there can be increased accountability and improved accessibility, to basic information such as where minerals are located, who holds the licences in respect of these minerals, and when licences expire.

The digital age has provided several opportunities for irregular practices, and it has been interesting to see the progress being made on the Tracr Diamond Industry Block Chain Traceability platform.

While diamonds have been the subject of several traceability and authenticity programmes, the principles of traceability are likely to receive further focus in 2019, for minerals, other than diamonds.

There has been a strong move towards conscious decision-making by investors, in 2018, and programmes that provide assurance of tracking from production to end use could impact significantly on investment decision-making in 2019.

Where to in 2019?

The themes and trends, some of which have been addressed in this article, are likely to continue in 2019 with a strong focus on developing frameworks for accountability in relation to environmental and other incidents, implementing frameworks to facilitate compliance and root out corruption and irregular activities, and developing stakeholder models which ensure that communities benefit from mining activities on their doorstep, and the growing importance of the "social licence to mine".

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