# Africa – It's always complicated, but in a good way

**November 2018**
*Without Prejudice*

The mining and natural resources sector in South Africa, like all countries that have vast natural resources, is a good barometer of South Africa's economy. The well-being of this the sector impacts all aspects of the economy. It is also a good indicator of how South Africa is performing on broader social and socio-economic deliverables.

Several commentators have expressed the view that South Africa's mining and natural resources sector prevented South Africa from sliding into a recession in the second quarter of 2018.

South Africa's mining and natural resources sector is also critical to transformation, growth and development in the country. Despite this, this sector has been plagued by policy and regulatory uncertainty, which has impacted, significantly, on investment in the sector, including the life blood of future mining development – exploration and prospecting.

The publication of the Broad-Based Socio-Economic Empowerment Charter for the Mining and Minerals Industry 2018 (Mining Charter 2018) has gone some way to addressing policy uncertainty about key elements, such as ownership of South Africa's mining assets. The fact that black economic empowerment is not required for prospecting rights, in terms of Mining Charter 2018, has generally been welcomed as an acknowledgement of the high cost and low return nature of prospecting, and the importance of facilitating more prospecting so that mining operations can be developed, ultimately for the benefit of all South Africans. The announcement of the withdrawal of the much-criticised amendments to the Mineral and Petroleum Resources Development Act 28 of 2002 (MPRDA) has contributed to some positive sentiment, and possible regulatory certainty.

South Africa's mining and natural resources sector has been grappling with roller-coaster commodity prices and cyclical demand, and policy and regulatory uncertainty, which has impacted on investment. Many investors have therefore been considering, more positively, investment in the rest of Africa with countries such as Namibia, Ghana, DRC, Angola, Uganda and Ethiopia in the spotlight.

Some of these countries have committed to and implemented investor-friendly environments. Direct foreign investment in Africa has increased, and published figures seem to suggest that South Africa's mining and natural resources sector may have lost out, to some extent, as an investment priority jurisdiction.

South Africa, like other resource-rich countries, is in a competition for investment. It is said that capital, like water, finds its way around obstacles. It is also said that capital is extremely scared – it runs at the first sign of trouble. Countries that are able to cut through the "red tape", and provide an investment-friendly environment, including policy and regulatory certainty and stability, are likely to attract better quality investment.

To create an investment-friendly environment, however, extends beyond policy and regulatory certainty. Not all exploration and development of mining and natural resources can be carried out by the majors – to the contrary, some of the biggest exploration spend is by single-project and asset companies that require access to cost effective capital to allow them to explore and develop the assets up the value curve.

It is not only the exploration and development companies that require access to capital – mining ventures go hand in hand with parallel industries and sectors, such as infrastructure development (ports, rail, electricity and roads), telecommunications and agriculture.

Mining and natural resources, and the related and satellite industries and sectors, rely heavily on small and medium enterprises (SMEs). SMEs are critical for the growth of emerging economies and increasing employment, but access to finances is one of the biggest obstacles for SMEs to grow. This SMEs funding gap is well documented. The World Bank Group has conducted a number of studies, with estimates that the gap globally for formal SMEs is as high as US$1.2 trillion, with half of formal SMEs having no access to formal credit.

Approximately 70% of all SMEs in emerging markets lack access to credit. The gap is particularly wide in sub-Saharan Africa. This has, however, provided opportunities for alternative non-bank lenders to both lend and have a developmental impact across the continent.

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, and this is significantly higher when informal SMEs are included. With more access to finance, SMEs can play an even bigger role in economic growth and development of the region. 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 need for power across Africa has opened up specific opportunities for SMEs in, for example, the energy sector and for alternative lenders to fund across the value chain from power producers, commodity traders and producers, to other energy infrastructure and logistical services. Alternative and innovative funding mechanisms seem to be necessary, with borderless crypto-capital and metal streaming arrangements also under serious consideration.

In addition to creating country-specific investment friendly environments, the formation of the African Continental Free Trade Area may provide further opportunities for growth and development that have, until now, been lacking. On 21 March, 44 senior government officials from across Africa met in Kigali, Rwanda, to sign the Agreement Establishing the African Continental Free Trade Area. This agreement has the potential to change the way trade is conducted in Africa. Once ratified by the 22 signatories, the agreement will establish the African Continental Free Trade Area (ACFTA). The ACFTA aims to create a continent-wide common market for goods and services. The ultimate aim is to create an Africa-wide customs union.

The two-phased approach to implementation contemplates that in phase one, 90% of tariffs on intra-African trade will be eliminated, and in phase two, various protocols will be implemented on investment, competition, and property. An increase in intra-African trade through the establishment of the ACFTA can only assist in creating an investor-friendly continent.

With the publication of the Mining Charter, the withdrawal of the amendments to the MPRDA, the announcement by President Ramaphosa of the stimulus package, and continent-wide initiatives such as the ACFTA, Africa looks in good shape to attract quality investment.

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