Leveraging on the Mining Sector for Economic Stimulation in Zimbabwe

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The mining sector will be the centrepiece of our economic recovery and growth. It should generate growth spurts across sectors, reignite that economic miracle which must now happen… Quote from the President’s speech

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Geology of Zimbabwe
Zimbabwean Mineral Wealth

A perspective on attracting the right investment for mining companies in Zimbabwe

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Mineral commodities that have historically been produced (USGS, 2012)

- Chromite
- Copper
- Gold
- Iron & Steel
- Nickel
- Cobalt
- Silver
- PGMs
- Coal & Coke
- Industrial Minerals

The Great Dyke is a phenomenal geological feature which is being well-mined and exploited

Industrial minerals include tantalite, tungsten and mica among many other minerals

Great coal reserves, with significant opportunities

More than 6000 discoveries, 15 of which have delivered +1Moz of gold

Relatively good infrastructure
Zimbabwe - proud history in exploration and mining

Historically dominated by “Mining house” system

Concept of independent exploration not well established in Zimbabwe to date – need to focus

Limited mainstream investor interest in Zimbabwe – most juniors are foreign (misconception that ease money is in mining)

Aussies and Canadians most active in developing the sector

In recent times the Chinese and the Indians have also joined the space
Contribution of the Mining Industry to GDP
There is big growth across the continent, however, it has shifted into the mid-section of the continent.

Regional GDP Growth %

GDP Contribution 2013

FDI Growth 2011 to 2012

Real GDP Growth (2012-2016 forecast)

Sources: Business Monitor International, www.momentuminv.co.za, "Nationalisation in South Africa: A debate that will persist". The Economist, BMI, UNCTAD @012, IMF, Economic Intelligence
Mining no longer dominates the South African economy

- Mining's contribution to the national GDP has fallen from **21% in 1970** to **5.2% in 2013**.
- It still represents almost 60% of exports, however.
- In Zimbabwe, only the platinum and the diamond sectors are in a slightly better position and all the other sectors are in intensive care.

• Mining Contributes approximately 55% of the country foreign earnings
• Zimbabwe’s manufacturing sector has been hamstrung over the past 15 years, therefore capacity for manufacturing beneficiation is limited
• Agriculture has also not performed as anticipated.
Key Issues in Mining
Key issues across Mining in Africa

- Declining Ore Grades
- Lack of FDI
- Heightened Sovereign Risk
- Critical Infrastructure Shortage
- Social License to Operate
- Balancing National Economic & Investment Interest (Policy)
- Human Capital
- Rising Costs of Production
- Finding Funding
- Innovation Imperative
Our research shows three main factors are impacting the industry over all others at present:

- **Balancing National Economic & Investment Interest**
  - General trend across Africa that governments will benefit from a % ownership of all mineral companies.

- **Huge Capital Requirements**
  - Many countries in Africa lack the capital requirements to develop the mineral wealth they have in their countries mainly due to Policy Risk.

- **Critical Infrastructure Shortage**
  - Many countries are currently producing only 50% of power required for the development of mining projects across Africa.

- **Rising Costs**
  - Wages over the past decade have increased by levels way in excess of the Consumer Price Index.
  - Wages account for between 40% & 60% of costs in the mining industry.
Striking A Balance – Governance & Tax

Democratic Republic of Congo

Upon award of an exploration permit, the holder automatically transfers title of the land in the registered capital of the company to the state.

Konya

At least 25% of shareholders in mining companies must be Kenyan nationals.

Uganda

A proposal to review and regulate ASM to prevent for a quick Exploitation or land and for all assessment projects.

Tanzania

Gemstone mining licences should be issued to Tanzania. However, in certain cases holders can be issued for foreign owned licence holders or foreign owned licence holders where Tanzania has at least 50% ownership.

Minister for Energy mineral announced a massive increase in fee for application of various licence, including annual fees, licensing fees and other fees. Some of the amounts have increased by over 500%.

Mozambique

There must be between 5% and 20% local shareholders in every major exploration or big mining project.

Zambian companies need to be 30% of what they purchase locally.

Zimbabwe

Government has declared a list of strategic minerals in which the state owned mining company should monitor. Only 10% must be under local control.

Zambia

Taken the lead in privatization. Outstanding ZCCM and the action back at a holding company for the country's mining investments.

In the next two years, Zambia plans to implement an improved capacity in the monitoring and reporting of mineral resources in order to avoid situations are returning to planned.
• Infrastructure in the form of electricity and transport are precursors to the development of mining in Africa
• In 2013 there were approximately 330 infrastructure projects to the value of $ USD223bn across Africa
• 48% of the planned investment is not in normally recognized mineral resource economies
Lack of exploration

- Little or no exploration has been occurring in the country
  - The need for major investment in understanding our mineral wealth.

None Complaint mineral resources

- Mineral resources are not compliant with international mineral resource standards (JORC, SAMREC & NI 43-101, SME Guide 7)
  - Understand our mineral wealth and keeping an audit trail of the geological information

High capex requirements

- Stay-in-business capex and on-going replacement capex requirements are significant
  - Nature of the business, continuous recapitalisation projects required

Lack of Consistent Power Supply

- Power is a problem affecting most African countries
- Affects most of the beneficiation projects
  - Need for new power solutions or IPPs specifically for mining

Indigenization

- Nationalisation of mineral assets is a global trend and is not peculiar to Zimbabwe
- Challenge is that the indigenisation in Zimbabwe is not clearly understood by some investors
Five Key Success Factors in Mining

In mining, when we consider what success looks like, it is our experience that five key factors set any mining project or operation up for a successful outcome. These are:

• A good mineral deposit
• The deposit is located in an economic region with good governance and consistent application of civil and tax law
• Infrastructure in the form of roads, rail, ports, electricity and communications to support the mine should be available and functioning
• A well understood inbound and outbound supply chain supporting the mine and points to market
• A competent and cohesive team which safely works together.

• You rank the above on a scale of 0 to 5 (zero being poor and 5 being excellent)
• Can we rank our projects above 20. Lets have a poll
Economic Development & Competitiveness Model
Deloitte’s Model and Approach

Deloitte’s Economic Development and Competitiveness Practice assists national and local governments, government institutions, development partners, and foundations to develop and execute strategies for accelerating economic growth and competitiveness.

Deloitte’s approach for accelerating economic growth is based on the concepts of competitiveness and productivity, building heavily from Monitor co-founder Michael Porter’s theory of Competitive Advantage and the Competitive Advantage of Nations. Monitor Deloitte strategies to enhance competitiveness can be developed for countries, regions, or municipalities, and can be cross-sectoral or industry-specific.

Accelerating economic development and enhancing competitiveness require that nations, regions, provinces or cities make difficult strategic choices at multiple levels. Deloitte assists them in developing a theory of change which translates to a theory of action.

Application of the Model and Approach

- **Ethiopia Agricultural Transformation Agency** – Attracting Foreign Direct Investments, Govt Capacity Building (Ensure Institutional Performance)
- **USAID** – Government Capacity Building (TOM, Strategy, Transformation, Change Mgmt Designing Institutions for Growth and Ensuring Institutional Performance), Attracting Foreign Direct Investment, Promoting Value Chain Efficiency, Public Health Project
- **DFID** – Government Capacity Building (Building Human Capacity, Ensuring Institutional Performance) Fostering Entrepreneurship
- **World Bank/IFC** – Attracting Foreign Direct Investment, Defining Competitive Economic Strategy, Upgrading Business Environment
- **Alliance for Green Revolution in Africa (AGRA)** – Defining Economic Strategy, Promoting Value Chain Efficiency
- **Rockefeller Foundation** – Defining Economic Strategy, Understanding and Engaging Constituencies
- **Bill and Melinda Gates Foundation** – Promoting value chain efficiency, defining a competitive economic strategy
- **Various South African Based Firms** – African Market Entry Strategies
- **Various MNCs** – African Market Entry Strategies

“Accelerating economic development and enhancing competitiveness”

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Way Forward
Making Mining the Cornerstone of Economic Growth in Zimbabwe

With the new thrust of mining as the cornerstone of economic growth, it’s imperative to:

1. Review the mineral policy, mining taxation and policy consistency
2. Resuscitate existing mining operations
3. Develop new mines
4. Beneficiate mineral output
5. Establish linkages between the mining sector and other sectors of the economy, particularly manufacturing
Resuscitation of Existing Mines

Gold Production (kg), 1980-2012

Source: COMZ 2012 and RMG 2012
Resuscitation of Existing Mines

*Coal Production (tonnes), 1980-2012*
Development of New Mines

- Capital - Knowledge - Innovation

**Feasibility Studies**
- Exploration & evaluation
- Design, planning & costing

**Shaft sinking**
- Drill, blast, clean, support
- Equip

**Development**
- Footwall off-reef and on-reef
- Drill, blast, clean, support

**Stoping**
- Drill, blast, clean, support
- Underground rail transport

**Transport**
- Shaft hoisting
- Surface rail transport

**Concentrator**
- Mill
- Flotation

**Smelter**
- Drying, smelting
- Converting

**Refineries**

Required for all Stages

**Exploration**
Conclusions
Conclusions

Zimbabwe is endowed with abundant mineral resources

How do make mining become the cornerstone of an economic turnaround

- We need to resuscitate existing mines on care and maintenance to pre-1998 levels
- We need to invest in exploration and new mining development
- We need to focus on value addition and beneficiation
- We need to focus on linkages been mining, and secondary and tertiary sectors

To achieve this, we need to address the following issues:

- A common national vision between all stakeholders
- Policy consistency. Mining Policy in progress. To now focus on economic & Industrial Policies.
- Competitive fiscal regime
- We need to attract investment to the sector
- Improve critical infrastructure, i.e. electricity, roads and water supply
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