



## Leveraging on the Mining Sector for Economic Stimulation in Zimbabwe

Godknows Njowa Pr Eng



# Contents of the Presentation

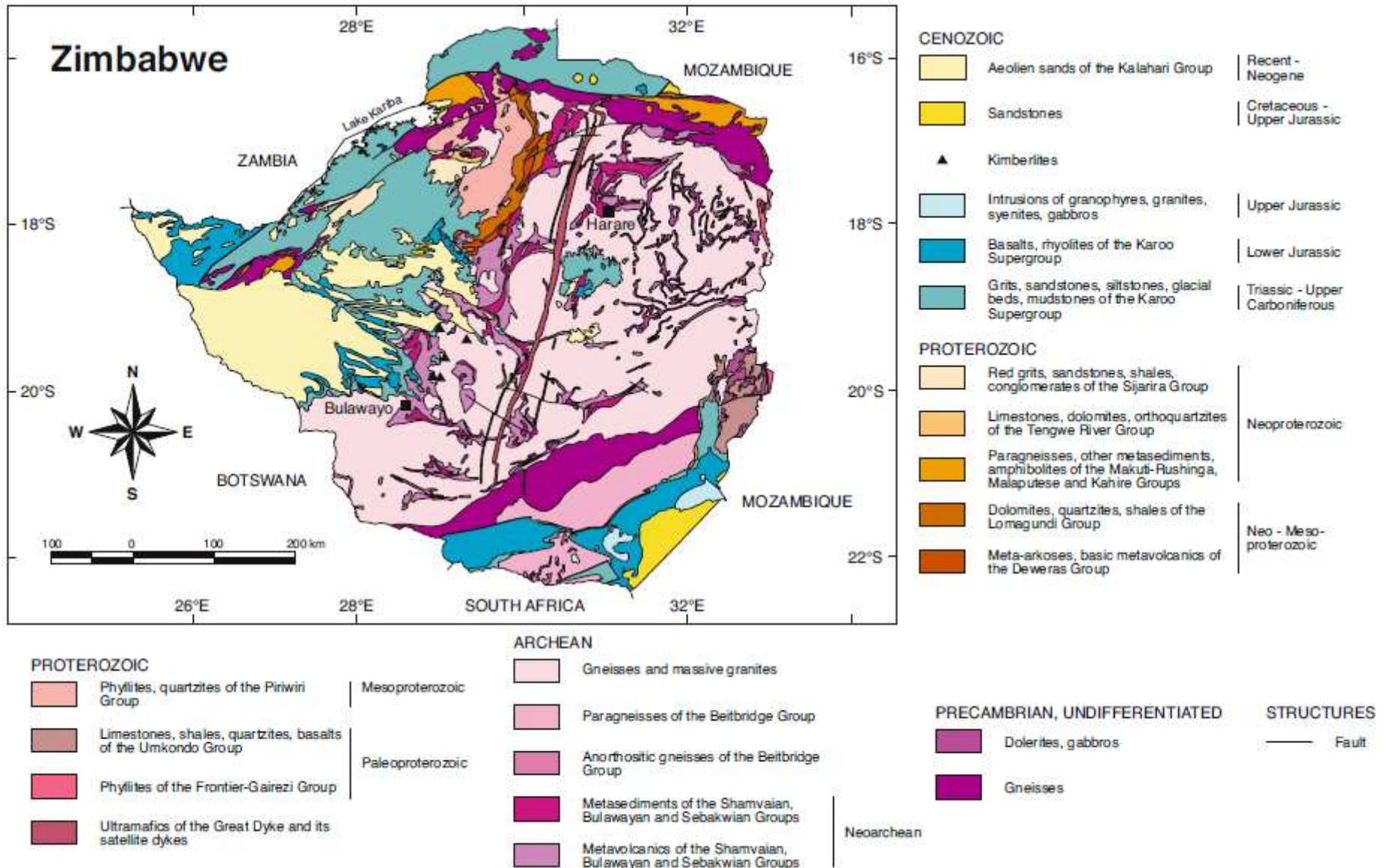
*The mining sector will be the centrepiece of our economic recovery and growth. It should generate growth spurts across sectors, reignite that economic miracle which must now happen...* Quote from the President's speech

- Introduction
- Geology of Zimbabwe
- Zimbabwe's Mineral Wealth
- Contribution of the Mining Industry to the National GDP
- Key Issues in Mining (Africa Focus)
- Economic Development & Competitiveness Model
- Way Forward
- Conclusions and Recommendations

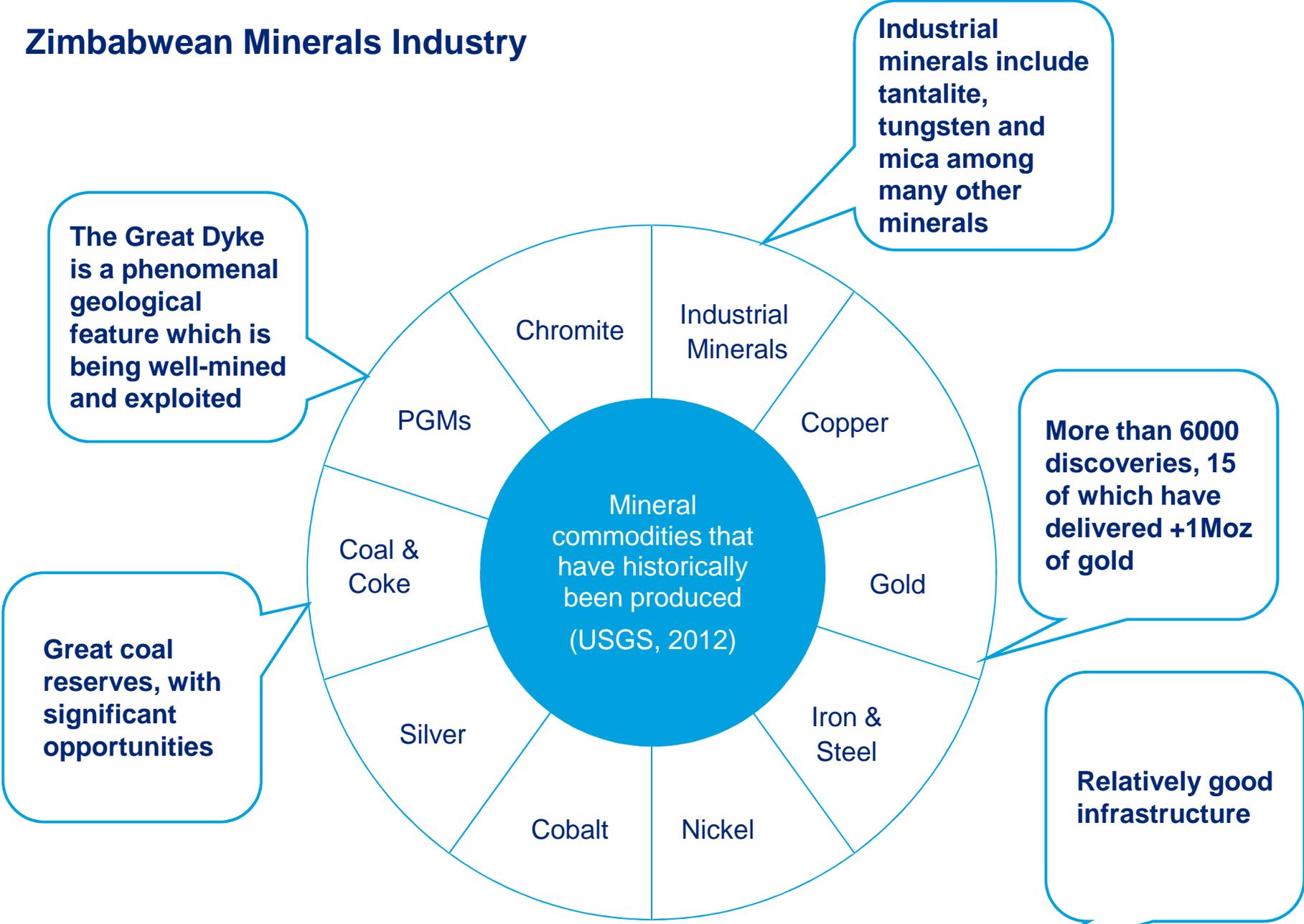


# Geology of Zimbabwe

# Zimbabwean Mineral Wealth



# Zimbabwean Minerals Industry



# Exploration and Geological Information (Critical Success Factor)



Building an exploration sector in Zimbabwe

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**)

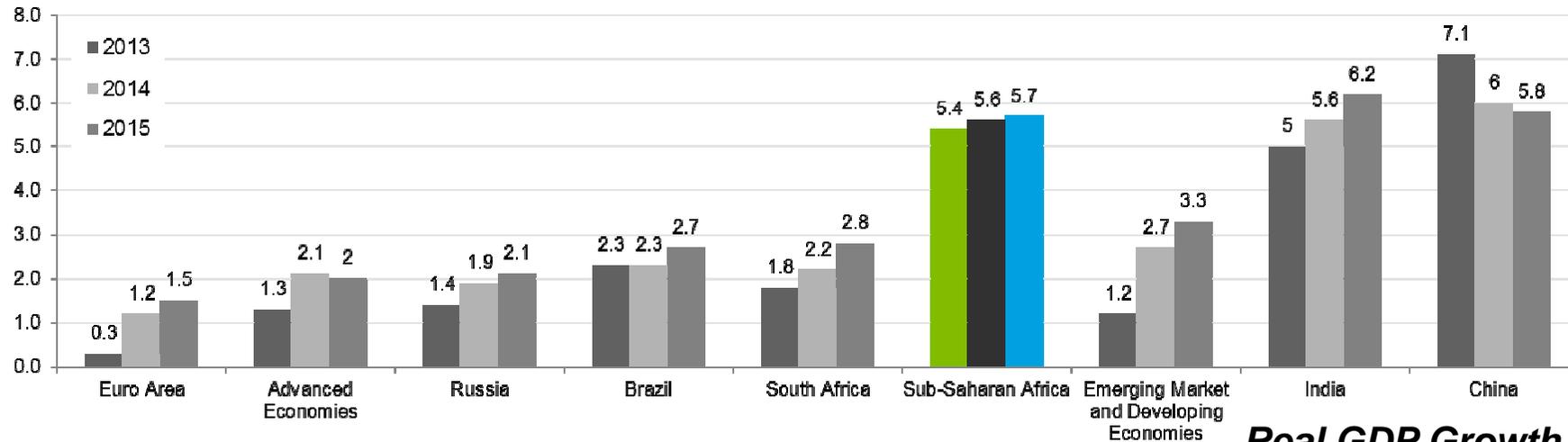
Aussies and Canadians most active in developing the sector

In recent times the Chinese and the Indians have also joined the space

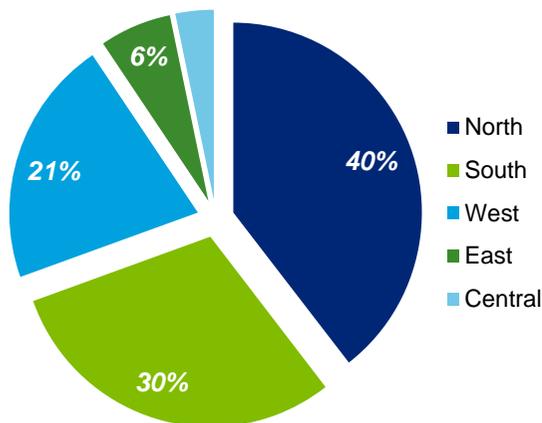
# Contribution of the Mining Industry to GDP

There is big growth across the continent, however, it has shifted into the mid-section of the continent.

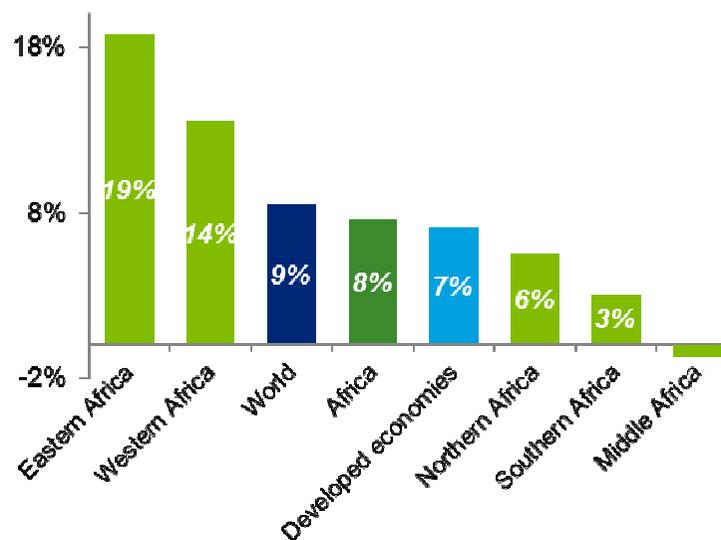
**Regional GDP Growth %**



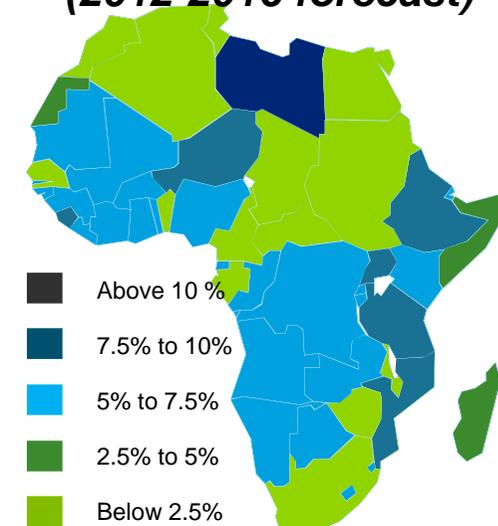
**GDP Contribution 2013**



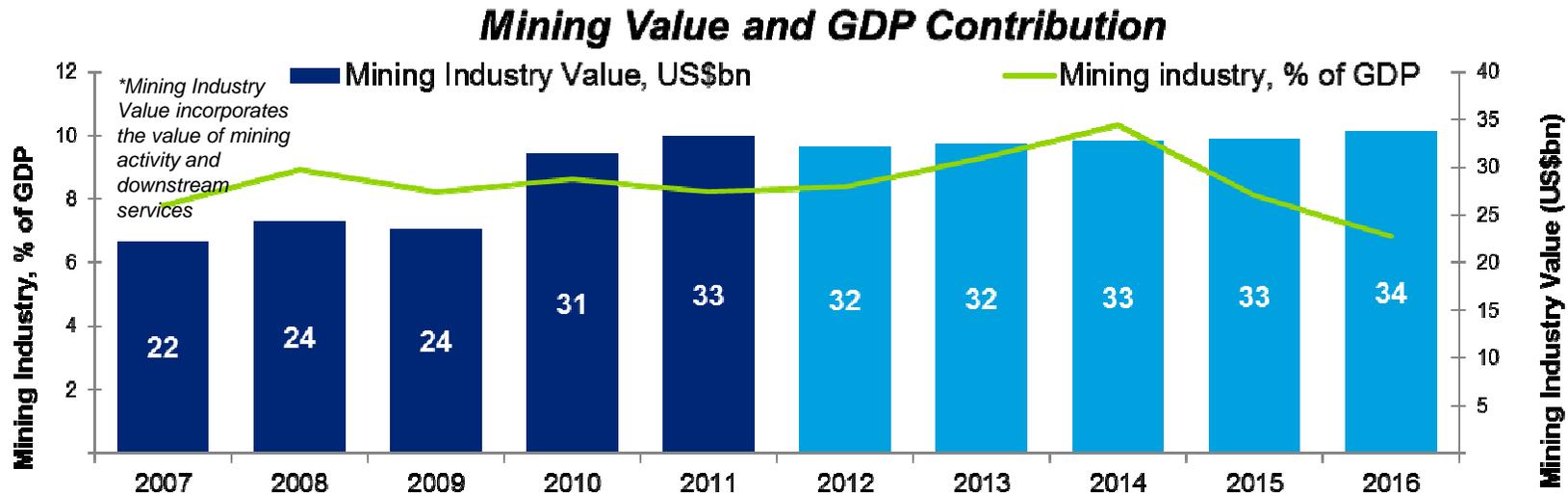
**FDI Growth 2011 to 2012**



**Real GDP Growth (2012-2016 forecast)**



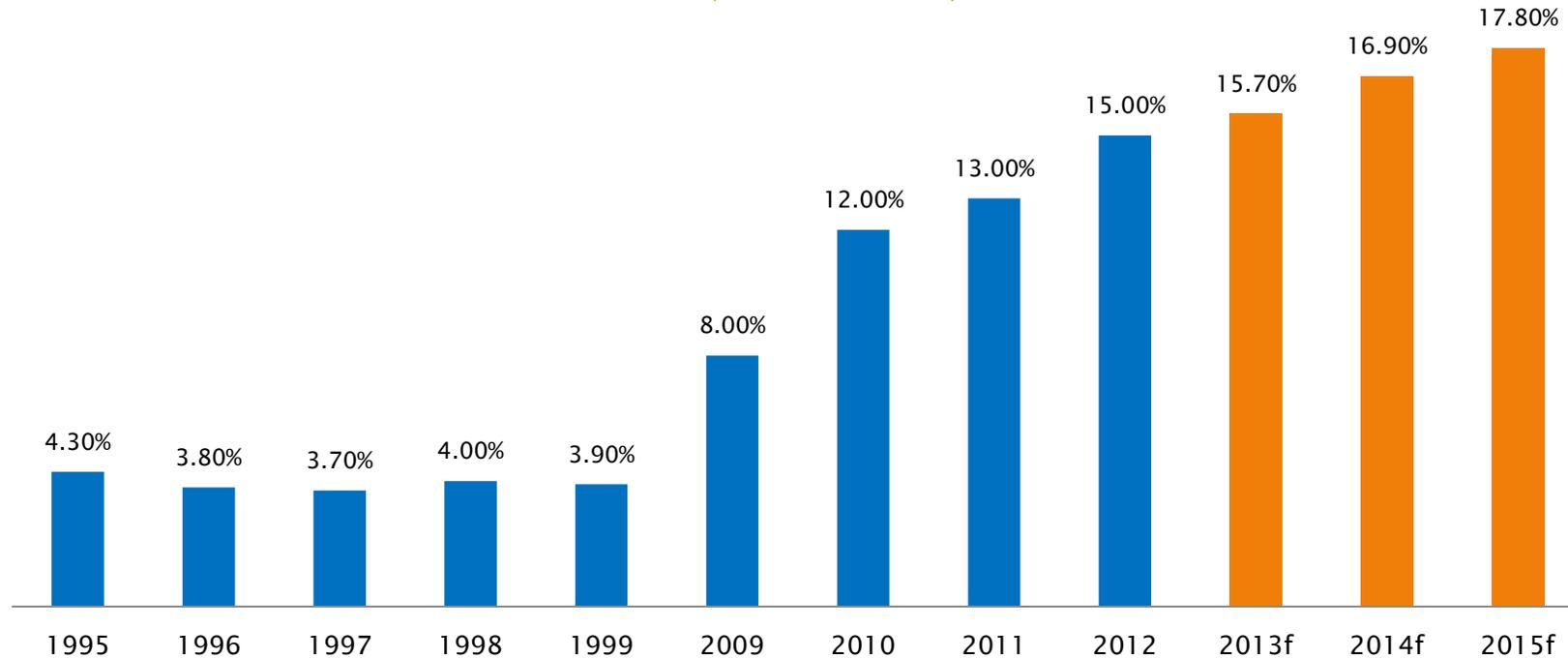
# Mining no longer dominates the South African economy



- 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.

# GDP Contribution to the Economy

## Zimbabwe's Actual and Estimated Mining Contribution to GDP (1995–2015)

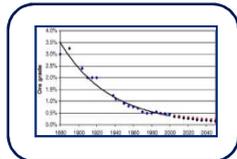


- Mining Contributes approximately 55% of the country foreign earnings
- Zimbabwe's manufacturing sector has been hamstrung over the past 15 years, therefore capacity for manufacturing beneficiation is limited
- Agriculture has also not performed as anticipated.

# Key Issues in Mining



# Key issues across Mining in Africa



**Declining Ore Grades**



**Balancing National Economic & Investment Interest (Policy)**



**Lack of FDI**



**Human Capital**



**Heightened Sovereign Risk**



**Rising Costs of Production**



**Critical Infrastructure Shortage**



**Finding Funding**



**Social License to Operate**



**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 lacks 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

## Policy, law and ownership across Africa

For a view on Policy, law and ownership, we have drawn on a broader set of countries and provide a snapshot of current thinking from a government perspective. It provides a snapshot view of some of the current practices or policy changes. Of the list of 11 countries, we provide example where 9 of the countries are currently taking some level of action to alter current mining policy or law.

### Burkina Faso

2003 Mining code amendments are expected imminently

State to benefit from an automatic 10% stake in a company

### Ivory Coast

Companies are exempt from taxes on business profits, which represents 25% of the result, for the first 5 years

Reduced the size of exploration permits from 400km to 100km in 2013

### Ghana

It takes five days to register a new company & one month to process a mining permit

- State to benefit from an automatic 10% stake in the company
- Mining companies need to lease the land from Traditional Authorities first and then also obtain the license from the Minerals Commission before starting operations

### Namibia

It takes six weeks to register a new company

Government has declared a list of strategic minerals in which the state owned mining company, Epangelo (Pty) Ltd, must have a share of any investments or mineral licences issued in these strategic minerals

### Zimbabwe

Zimbabwe is planning to introduce a new mining law, that amongst a number of changes includes a "use it or lose it" policy on exploration licenses as well as rules that will ensure some level of mineral beneficiation before export.

Any mineral asset in development or production to be 51% owned by indigenous Zimbabweans

### Democratic Republic of Congo

Upon award of an exploitation permit, the holder automatically transfers 5% of the shares in the registered capital of the company to the state

From 2014 all businesses registered in the DRC will have to adhere to the requirements of OHADA (Organisation pour l'Harmonisation en Afrique du Droit des Affaires) or the "Organisation for the Harmonisation of Business Law in Africa"

### Kenya

At least 35% of shareholders in mining companies must be Kenyan nationals

Mining secretary through his position as the chairman of the Southern and Eastern Africa Mineral Centre (SEAMIC) is pushing for reforms that will see East African countries embrace one legal framework and a standard approach to paying out royalties

### Uganda

There is a proposal to review land regulations so as to provide for a quick compulsory acquisition of land for all government projects

Minister of Energy has plans to review the mining law and regulations by 2015

### Tanzania

Gemstone mining licences should only be issued to Tanzanians. However, in certain cases licences can be issued to foreign owned mining companies but only where Tanzanians have at least 50% ownership

Minister for Energy and Minerals announced an increase in fees for application of various licences, including annual rents, transfer charges and renewal fees. Some of the amounts have increased by over 250%.

### Mozambique

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

Foreign companies need to buy 30% of what they purchase locally

### Zambia

Taken the final step in privatization by putting ZCCM on the auction block as a holding company for the countries' mining investments

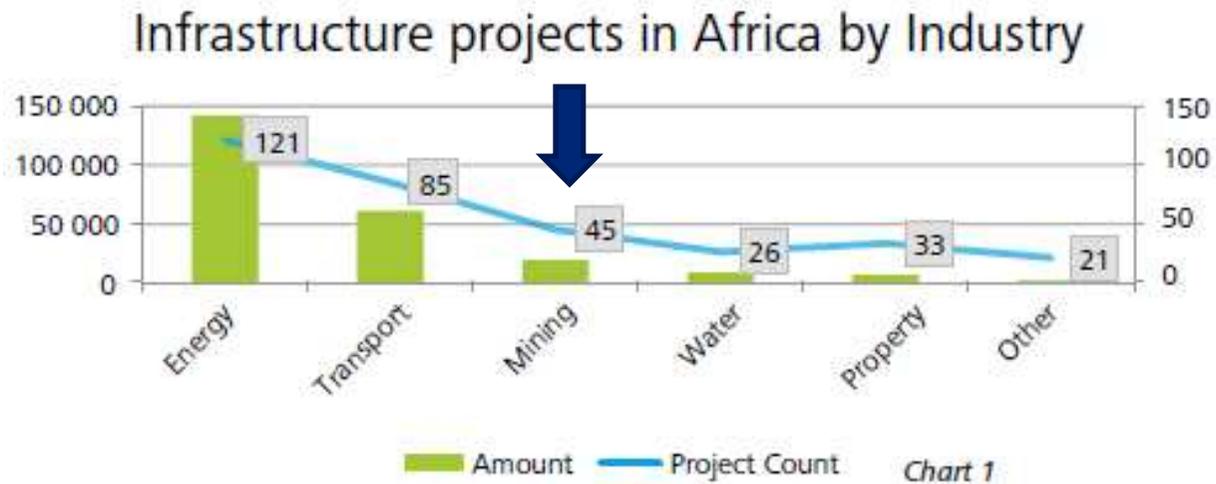
In the next two years, Zambia plans to implement an improved capability in the monitoring and reporting of mineral production in effort to assure tax structures are returning as planned



# Striking A Balance – Infrastructure

Deloitte

State of Mining in Africa  
Striking a balance



- 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

# Challenges in the mining industry in Zimbabwe, CAPITAL, CAPITAL

## Lack of exploration

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

## None Compliant 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 indegenisation 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

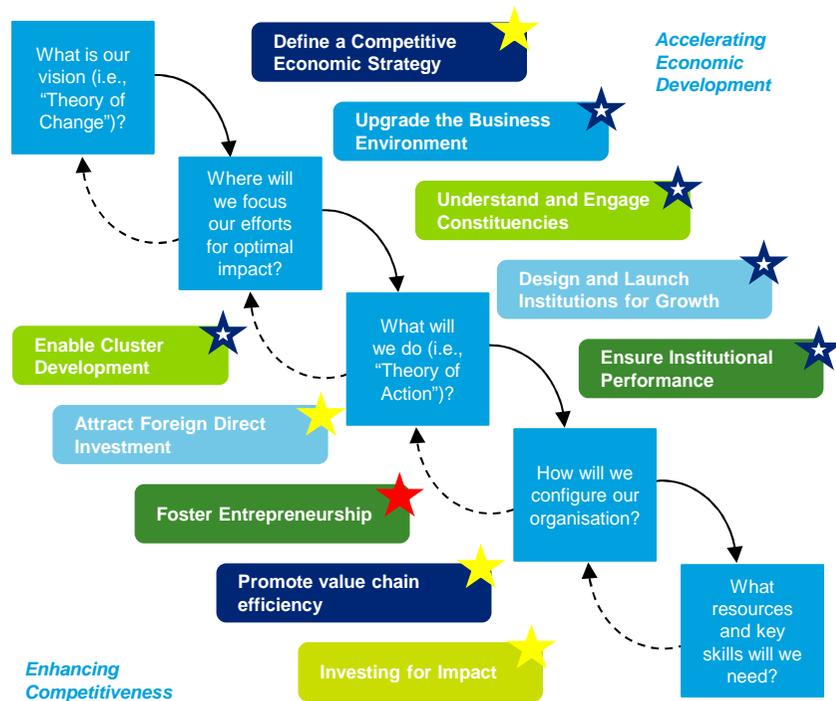
# Economic Development & Competitiveness

## 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.



Carlton Jones, Associate Director, [carjones@deloitte.co.za](mailto:carjones@deloitte.co.za), +27 71 904 0477

## Application of the Model and Approach

Public Sector (South Africa and Africa)	<p><b>Governments of Ethiopia, Kenya and Ghana</b> – Defining Competitive Economic Strategy, Upgrading Business Environments, Attracting Foreign Direct Investments, Govt Capacity Building (Design and Launch Institutions for Growth, Ensure Institutional Performance)</p> <p><b>Ethiopia Agricultural Transformation Agency-</b> Attracting Foreign Direct Investments, Govt Capacity Building (Ensure Institutional Performance)</p>
Donors (Bilateral, Multilateral and DFIs)	<p><b>USAID-</b> 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</p> <p><b>DFID-</b> Government Capacity Building (Building Human Capacity, Ensuring Institutional Performance) Fostering Entrepreneurship</p> <p><b>World Bank/IFC-</b> Attracting Foreign Direct Investment, Defining Competitive Economic Strategy, Upgrading Business Environment</p>
Foundations	<p><b>Alliance for Green Revolution in Africa (AGRA)-</b> Defining Economic Strategy, Promoting Value Chain Efficiency</p> <p><b>Rockefeller Foundation-</b> Defining Economic Strategy, Understanding and Engaging Constituencies</p> <p><b>Bill and Melinda Gates Foundation-</b> Promoting value chain efficiency, defining a competitive economic strategy</p>
Corporates	<p><b>Various South African Based Firms-</b> African Market Entry Strategies</p> <p><b>Various MNCs</b> – African Market Entry Strategies</p>

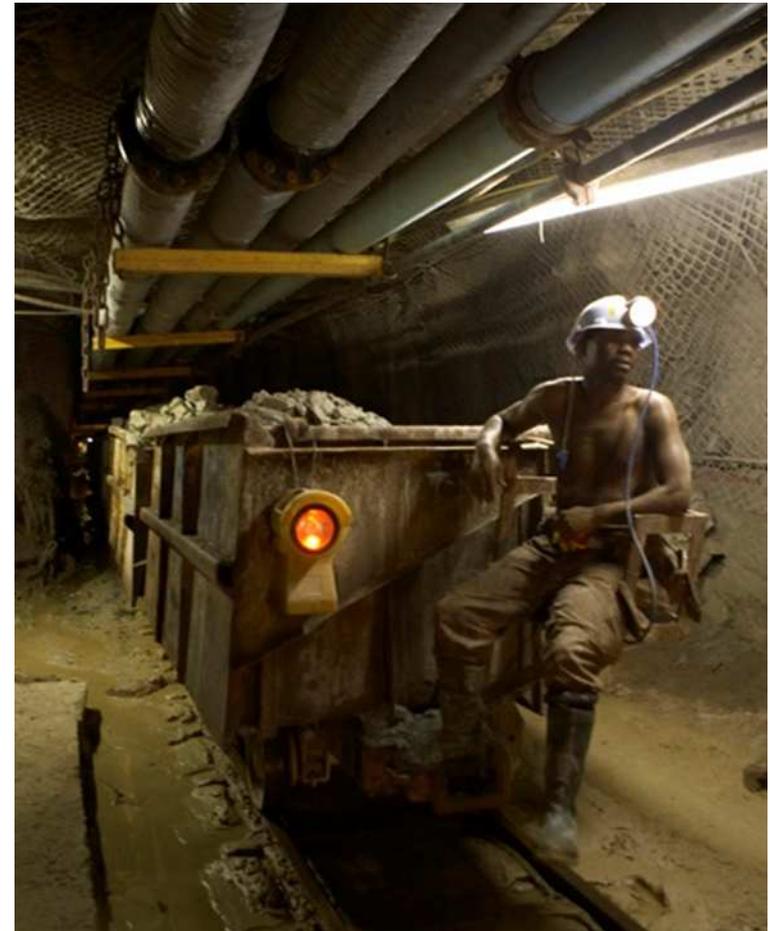
“Accelerating economic development and enhancing competitiveness”

# Way Forward

# Making Mining the Cornerstone of Economic Growth in Zimbabwe

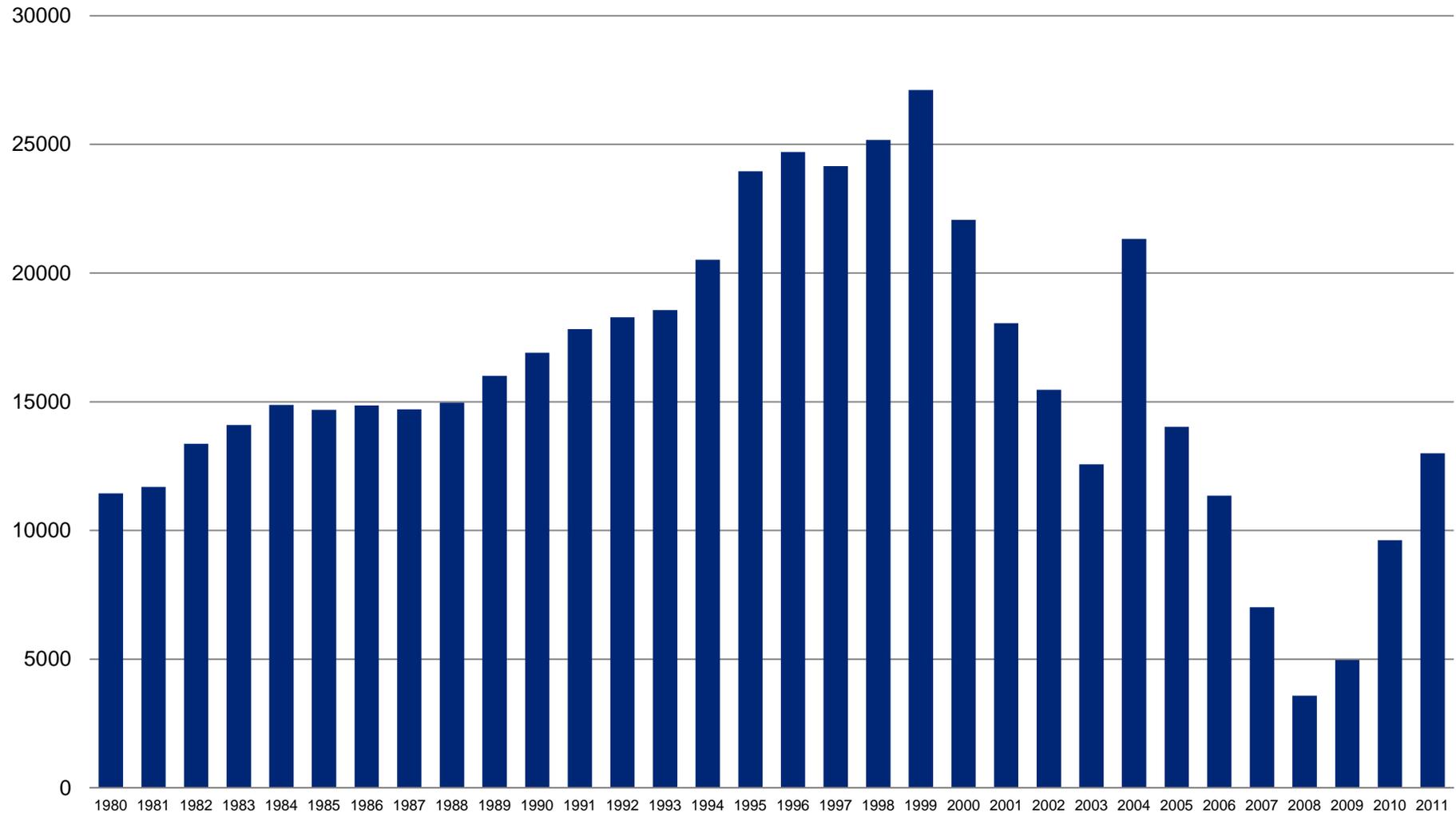
With the new thrust of mining as the cornerstone of economic growth, it's imperative to:

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

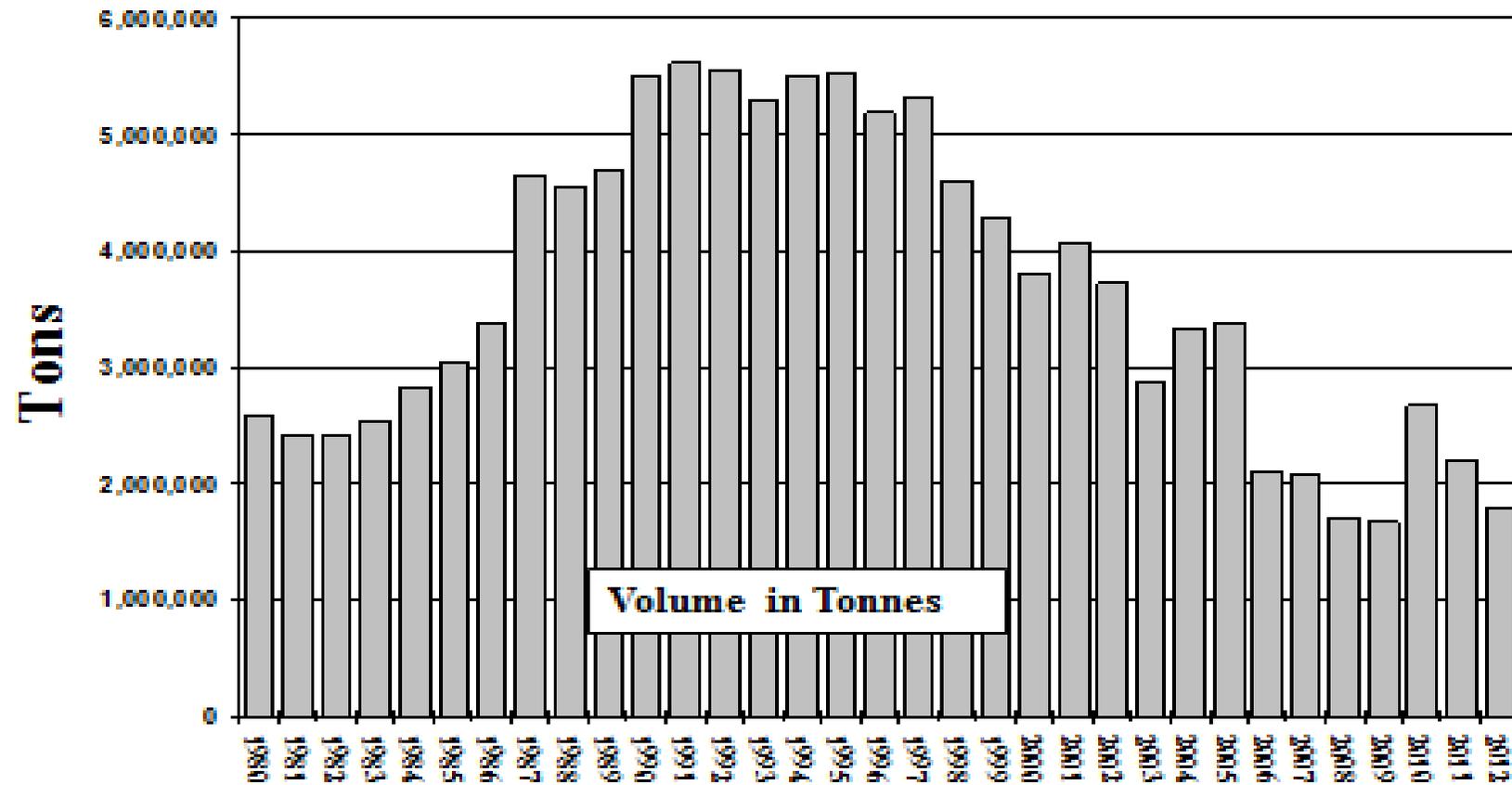
*Gold Production (kg), 1980-2012*



*Source: COMZ 2012 and RMG 2012*

# Resuscitation of Existing Mines

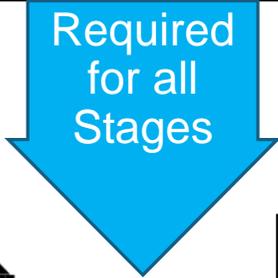
*Coal Production (tonnes), 1980-2012*



# Development of New Mines

## Exploration

- Capital - Knowledge - Innovation



**Feasibility Studies**

- Exploration & evaluation
- Design, planning & costing



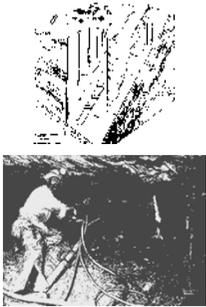
**Shaft sinking**

- 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



**Refineries**



**Smelter**

- Drying, smelting
- Converting



**Concentrator**

- Mill
- Flotation



# Conclusions

# Conclusions

Zimbabwe is endowed with abundant mineral resources

How do we 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 between 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



Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited (DTTL), a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity.

Please see [www.deloitte.com/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.](http://www.deloitte.com/about-for-a-detailed-description-of-the-legal-structure-of-Deloitte-Touche-Tohmatsu-Limited-and-its-member-firms)

Deloitte provides audit, tax, consulting and financial advisory services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 150 countries, Deloitte brings world-class capabilities and high-quality service to clients, delivering the insights they need to address their most complex business challenges. Deloitte has in the region of 200 000 professionals, all committed to becoming the standard of excellence.

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively, the "Deloitte Network") is, by means of this publication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on this communication.

© 2013 Deloitte & Touche. All rights reserved. Member of Deloitte Touche Tohmatsu Limited