2019 Investing in African Mining Indaba Ministerial Symposium
Summary Report
February 2019
Opening remarks

The *Mining Indaba* is the only meeting of its kind. It has been bringing together the world's most influential stakeholders and decision makers in African mining for 25 years.

The prestigious *Ministerial Symposium* – now in its seventh year – is the only African event of this magnitude to engage industry leaders. It aims to strengthen public cooperation, to encourage the highest level of development planning.

The platform is intended to drive the industry forward, most notably around the common interests of investment, safety and sustainability.

A total of 110 C-level mining executives and government officials attended the symposium, including 15 Mining and Energy Ministers (Angola, Côte d'Ivoire, the Democratic Republic of the Congo, Ethiopia, Ghana, Kenya, Malawi, Mali, Niger, Sierra Leone, South Africa, Zambia and Zimbabwe) and 36 mining company CEOs.
Welcome and introduction

This year, the Ministerial Symposium is held against the backdrop of global themes such as a changing strategic decision-making environment, specifically relating to the rate of innovation, and the need to achieve greater environmental and social sustainability.

In this context, we may ask whether or not the minerals we mine today will be relevant in the future, as raised in Deloitte’s Tracking the trends 2019 report.

With the predominant role of technology in the industry, cost curves have started to decline, and, coupled with the changing nature of work, a further question is how the industry will retool its existing workforce, and deal with the social outcomes of potentially hiring differently skilled employees.

Business plays a central role in society, and mining in particular has a huge impact on communities and the environment. However, companies need to move away from a compliance-driven mentality (which sees misspent resources) towards delivering value beyond mere compliance.

This is especially the case as a negative correlation between resource dependence (as a share of country exports) and the level of human development remains.

Relationship between commodity concentration and human development for African countries

Commodity-producing peers score higher than Africa in terms of HDI, and attracting FDI

Sources: Deloitte analysis based on United Nations Conference on Trade and Development, United Nations Development Programme, and the Financial Times FDI Markets
Opening address

Home to 30% of global resources, Africa is well-endowed with vast quantities of mineral resources, ranging from the largest platinum reserves to gold, metals and various other minerals that are mined and exported.

While many countries depend on the windfalls from these mineral resources, they often are ‘pit to port’ economies – extracting and exporting raw materials. However, these resources should serve as a catalyst for industrialisation in Africa – to build sustainable and inclusive economies.

It is time for Africa to overcome the resource curse. The African Union’s (AU) Vision 2063 of achieving an integrated, prosperous and peaceful Africa, reinforces this.

While Africa and South Africa’s economic growth prospects are interlinked, the Southern African Department of Mineral Resources (DMR) is working with counterparts on the continent to share best practices, and support investment initiatives.

Collaboration towards the success of the industry in Africa is particularly pertinent in the current era of the Fourth Industrial Revolution (4IR) – an opportunity that should be embraced in order to accelerate socio-economic progress and eradicate unemployment and poverty across Africa.
Keynote address

Africa’s historical emphasis on mining will continue for a long time to come. The vast mining and natural resources context has, however, given rise to key challenges that need to be addressed.

**Overdependence on mining.** Many African countries need to reduce their dependence on mining, transform economic activity, and foster competitiveness to achieve greater resilience and overcome the resource curse.

**Limited resource benefit for populations.** Africa’s people need to fully benefit from their resources. However, the resulting label of “resource nationalists” can threaten possible investment.

**Illicit financial flows from Africa.** Estimated as high as US$100bn last year, and with mining accounting for a fair share of this, the scale of ever-increasing illicit financial flows and their adverse impact augment the problem of poverty.

**Resource windfalls for the future.** The mining activities of yesterday and today need to also benefit future generations. How many countries are investing their resources in sovereign wealth funds (SWFs) for future generations?

**Environmental sustainability.** While not always the first priority for many mining companies, the environmental impact and associated threats should not become the burden of future generations.

These challenges cannot be addressed without reaching common consensus. Great strides have already been made with the African Mining Vision (AMV), the pan-African policy framework established by the AU in 2009 to focus on harnessing the continent’s wealth for equitable, broad-based development. AMV implementation is coordinated by the African Minerals Development Centre and there has been great progress towards turning the vision into tangible results along its six pillars.

Looking ahead, the establishment of the African Continental Free Trade Area (AfCFTA) will play a strategic role for the mining sector and related value addition. The development of a Regional Value and Supply Chain Strategy under the AfCFTA is in process.
Panel discussion:  
Breaking the resource curse to unlock mining-induced development

There is a growing recognition of the importance of mining and the role that Africa plays in the global mining industry. Given Africa’s mineral endowment, the continent plays a central role in the global industry. Mining products drive other sectors to such an extent that half of the world’s economic activity depends on the extractive sector.

How should we break the resource curse? How will mining-induced development occur? How can we tap into the real potential of the industry?

Policy certainty to drive investment. An important element is policy certainty. Investors need to be confident that an investment will generate sufficient returns. Despite improving political and regulatory environments across Africa, and the recognition of the importance of the mining sector, more needs to be done in this regard.

Recognising the multipliers of mining. Although mining has been able to drive productivity in other sectors, the real potential of mining is yet to be released. For rural areas in particular, the potential for development is sizable given that mining drives services, logistics, education, health and other sectors.

- H.E. Albert M. Muchanga, Commissioner for Trade and Industry, African Union
- Hon. Gwede Mantashe, Minister of Mineral Resources, Republic of South Africa
- Christopher Sheldon, Practice Manager, Energy & Extractives, World Bank
- Mark Cutifani, Chief Executive, Anglo American
- Moderator: Andrew Lane, Energy, Resources & Industrials Leader, Deloitte Africa
Investing mining windfalls. Mining rents must be spent effectively and invested for future generations. Furthermore, there needs to be a focus on value addition, linked to value and supply chain strategies, including a focus on market access and infrastructure development.

Partnerships, collaboration and dialogue. Real partnerships are key to building a more efficient sector, and to co-operating on infrastructure development and planning. Dialogue and consultation between government, the private sector, shareholders, communities and labour unions in South Africa has been important, recognising that the right balance must be struck between multiple stakeholders.

Clarifying roles and responsibilities. The industry will only succeed if all partners bring their best qualities to the table. Thus a more collaborative style of policy creation that allows the private and public sectors to work together more cleverly is needed. This requires a mindset shift and co-ordination towards policy goals, as well as clarity on the role of governments and the responsibilities of companies.

Uplifting communities. When planning the life of mine, more time needs to be invested in understanding the specific requirements of communities. For example, a mine’s direct benefits to a community include jobs, services and basic infrastructure. Yet some of the benefits (such as higher wages for a small share of the community employed in the mine) may actually have negative consequences for the majority of the community, as increased demand by the better paid mineworkers may drive up the price of goods and services.

Changing the model. Current mining methods need to be adapted urgently as they will become too expensive and unsustainable in the future.

Impact of technology. The current ‘no jobs’ narrative around technology needs to change. Technology will create new and different kinds of jobs, also for women and the youth.

Future of work. The mining industry is likely to exist for a long time. Investments to skill and reskill workers will be required. With the future of work likely to be more centred around entrepreneurship and self-employment, working with the youth will be critical.
**Topic 1#: Resource Nationalism**

What is the root cause of resource nationalism?

Although various agreements have been put in place in the mining sector, there is an ongoing perception that ordinary citizens are not receiving a fair share of the resource windfalls.

This is not unique to Africa, but is reinforced in Africa by the high incidence of extreme poverty and the slow pace of poverty eradication. People and communities are frustrated, premised on their perception that mining companies are not sharing their wealth.

Also, while mining companies are paying royalties and taxes, and while government reinvests these revenues, historical colonial exploitation has created mistrust between governments, the private sector and communities, evoking an emotional, not a rational response.

Greater access to information through social media has furthermore increased pressure on governments, not just to demonstrate greater revenue collection from mining companies, but also to increasingly demonstrate the positive impact these companies are making. Coupled with the desire to address inequality and key structural imbalances, government is called to satisfy many constituencies.

While there may be competing interests, a win-win-mindset and honest conversations will result in favourable outcomes for all stakeholders. For example, while certain agreements might not have been unfair when made, changing circumstances demand structural revisions.
What mechanisms do companies and governments need to put in place to protect their rights and returns?

There is a need for robust policy frameworks, as well as the development of mechanisms to achieve **greater transparency** in terms of how the industry operates, similar to the Extractive Industry Transparency Initiative (EITI).

Government and the private sector need to go the extra mile in demonstrating the costs and risks, the impacts and profits, and communicating what is reinvested into communities. If this cannot be done, allegations that companies are taking an unfair share will continue. Thus **communication, truthful information sharing** and dissemination to all stakeholders is important.

Building **trust and good relationships** is key. Fair deals based on trust need to be structured for the benefit of the community, as has been the case in Mali in the gold sector. The deal demonstrates the company going the extra mile, beyond the Mining Code of that country. Thus, when government and community involvement is required to benefit the people, resource nationalism should be seen as a positive phrase.

Although increasing procurement from communities will be important, mandating **local participation** and partners in mining might, however, not always be the solution to eradicating poverty, as it is generally only the elite who participate.

**Stabilisation clauses** are also important tools to help the industry and government make changes in taxes, legislation or policies. If there is flexibility on both sides, rather than the industry being forced into something, a more positive perception can be created.

**Stakeholder responsibilities** also need to be better defined. For example, where does the work of government end in a community, and where does the work of the private sector start? Basic infrastructure needs should be met by the government and industry could supplement this based on their location of operations. Yet, companies should not be providing basic services. In West Africa, for example, Community Development Agreements – a compact between government, mining companies and communities, similar to the SLPs in South Africa – are mandatory for getting mining licences.

Greater **stakeholder engagement, expectations management and collaboration** are required. Government and rural villages need to work together. Regional visions should also be formulated, with collaboration between mining companies on a commodity by commodity basis in a particular region (as has been the case in the Northern Cape, South Africa), and the respective municipalities. Such an extraordinary success story where a community, government and private mining company have worked well together, could inspire others to collaborate. At the same time, however, communities are not homogenous in their needs.
Topic 2#: Taxation, revenue management and transparent governance

What are the issues with current regimes?

A key issue is the lack of transparency around the contribution by mining to the overall tax revenues and how such funds are used for national development. Taxes are raised nationally and distributed vertically, thus communities do not see the direct impact of these funds. Funds are not earmarked for specific development initiatives, but rather enter the same national ‘revenue pot’.

A further challenge is that poor drafting of tax legislation in some countries, create uncertainty and lead to tax disputes. Delays in the payment of VAT refunds to companies need to be addressed as working capital is adversely affected. There is also a lack of co-ordination between finance and mining ministries in some jurisdictions.

Certain jurisdictions require significant corporate social investment (CSI) spend in addition to legislated taxes. This can effectively serve as additional or hidden taxes, with mining companies becoming ‘surrogate governments’ (i.e. required to build schools, clinics and roads). Similarly, small-scale illegal mining can lead to substantial tax leaks.

Overall, government faces the challenge of educating communities to understand that the resources belong to everyone in the country. The inability to communicate this effectively places greater pressure on the mining company to do more.

By resorting to higher royalties, for example, to show that governments care about their communities, investing companies are adversely affected, as they negotiate project terms based on certain assumptions of price, royalties and corporate taxes. Given the long payback period for investors in gold projects in West Africa, for example, a higher gold price might trigger a demand for greater returns in communities and by national government; however commensurate increases in input cost actually reduce investor returns. Thus, a balance needs to be found between national and community development, and return on investment (ROI).
What good practices can be identified for designing and implementing effective fiscal regimes across regions?

Successful regimes undertake extensive consultation with various stakeholders. Governments need to learn from one another on the best regimes and not repeat the same mistakes.

Government and the private sector, together with labour unions, need to better communicate powerful and positive messages, including how revenues are used to fund development initiatives. This will in turn address the disconnect between public governance and impact investment and help to change the perception that mines are hiding information.

Furthermore, modernising tax collection systems is important. For example, government should be flexible about changing laws and regulations. A tax system’s considerations could include a sliding scale for royalties that tracks a commodity or ring-fencing funds.

There also needs to be a general balance between long-term focus and short-term gains. Governments are not always capable of the investment necessary to achieve long-term gains, and resort to quick fixes. While mining companies might perhaps only look at shorter-term returns, they should assist with this thinking and should be a catalyst for such developments. This could be, for example, through creating a foundation that invests in small projects that serve as catalysts for entrepreneurs; or, at the national level, through creating SWFs that set aside funds for use in the longer term.

Accountability and trust are needed from all parties involved, as well as company transparency to deliver on promises made. This requires companies to be managed properly. Where companies are not able to deliver, royalties should be increased.

There needs to be a shift from government revenue maximisation to value maximisation along the value chain. Maximising value will bring greater benefits than royalties: if more people are employed along the value chain, greater tax revenues will be earned. Maximising value should not focus solely on beneficiation, but also on increasing investment along the entire value chain to create more wealth for citizens. Then the onus is not only on companies. This requires greater regional co-ordination among jurisdictions, but also between national, provincial and local spheres of government.
Topic 3#: The Fourth Industrial Revolution

What is the role of new technologies and what are the issues involved?

The role of mining and which minerals will be mined is going to change over the next 20 to 30 years. And if the industry continues to employ current mining methods, then mining in Africa will be a dying industry.

However, if the industry starts mining differently, enabled by technologies, the continent could have huge potential, specifically as previously (economically) unviable resource deposits could become viable.

Technologies such as remotely piloted aircrafts (RPAs), drones, remote operations, and robotics help mitigate safety risks. Artificial intelligence (AI) could augment the workforce. Advances in technology can result in better quality exploration data and improved data management, which will reduce exploration risk and costs. This will benefit the viability of projects.

There has been significant innovation in electronic payment technology and title administration. Blockchain technology could also help reduce illicit financial flows. Technology application could see longer-term gains in efficiency, productivity and safety.

As a result, the nature of jobs in mining is changing. The impact of technology and creation of alternative employment opportunities must be communicated. This requires training, as jobs shift away from the pit, and along the value chain.

Countries, companies and communities need to ready themselves for this inevitable technology shift. Countries that will push back on automation and digitisation will lose out.
How do we ensure that policies and governance frameworks change and adapt in line with corporate innovation?

The impact of 4IR should already be discussed during the negotiation phase of mining agreements, allowing for early discussions of the future. This would facilitate a readiness plan of action on advancing education and skills transfers in communities. Agreements between mining companies and governments should cater for investing in technology and reskilling. So too, at the national level, rethinking educational curricula and understanding what skills the workforce of the future needs will be required by training institutions.

A better institutional approach towards collaboration is required. This requires the private sector and government to have a shared national vision – one that is collaborative and strategic in approach and that countries can buy into at a continental level. The visions need to show how the mining industry will be taken forward in a sustainable way. This is particularly linked to creating a vision of how to survive the potential of large-scale unemployment – a genuine fear of labour movements. There is an opportunity for mining companies to invest in reskilling, including in community schools that focus on digital transformation.

Optimising value along the value chain, and building regional value chains requires an understanding of which countries and companies are good at what. Having an integrated value chain in one country is often difficult as African countries still do not always consume what their neighbours produce. Adjacent sectors should be enabled to facilitate linkages between mining and other industries to harness the power of technological innovations. Regional markets and value chains, enabled by agreements such as the AfCFTA, support the reduction of input and transaction costs.
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