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**Mining Masterclass conference**

**Investment Opportunities in the Mining Sector in  
Southern Africa**

**1 November 2018**

Taste and Tell  
DESTINATIONS

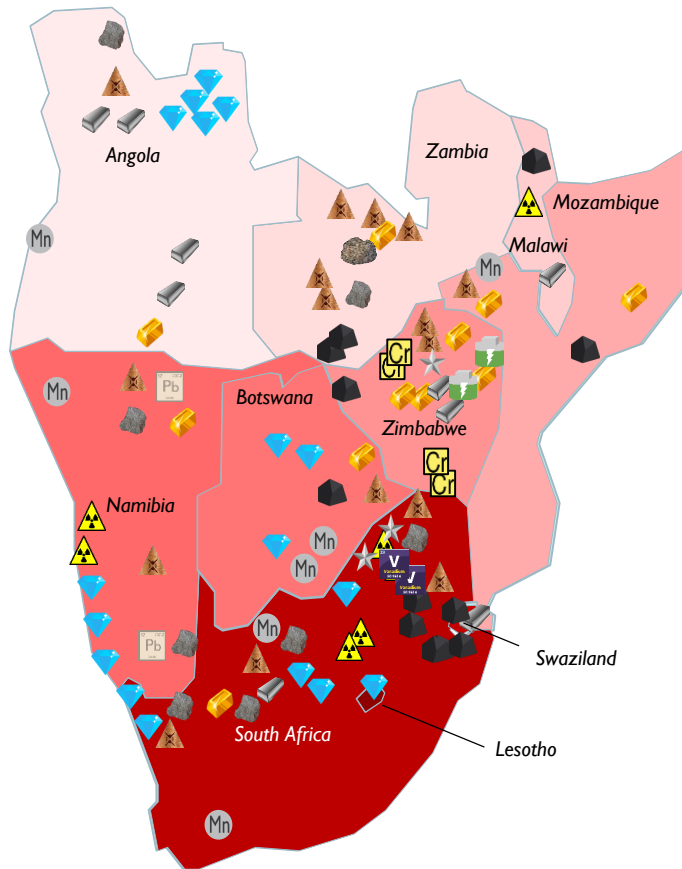
# Southern Africa Mineral Map

Mining is a strategically important sector in a mineral-rich African economy

## Ranking by prodn. volume

<b>Angola</b>	<b>Global Rank</b>
Diamond	6
<b>Zambia</b>	<b>Global Rank</b>
Copper	7
<b>Mozambique</b>	<b>Global Rank</b>
Tantalum	4
Aluminum	16
<b>Zimbabwe</b>	<b>Global Rank</b>
Platinum	3
Diamond	8
<b>Botswana</b>	<b>Global Rank</b>
Diamond	2
<b>Namibia</b>	<b>Global Rank</b>
Uranium	4
Diamond	9
<b>South Africa</b>	<b>Global Rank</b>
Platinum	1
Diamond	7
Gold	7
Coal	7
Iron Ore	7

## Mineral Map



## Commentary

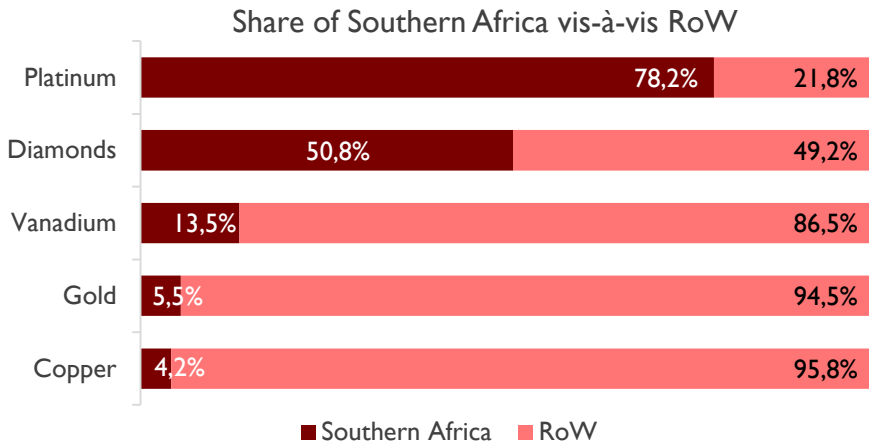
- Southern Africa has a lot of “hot” resources and global leadership in production for most
- South Africa still a key producer for coal and a major supplier for India and China
- Resources that can extend over 100 years
- South Africa, host to the highest grade primary vanadium resources, accounts for 13.5% of global resources and high grade manganese resources
- The Copperbelt region, 2<sup>nd</sup> largest global copper reserve, is the main copper mining area in Africa and is situated in Central Africa running through Zambia and the Democratic Republic of Congo
- Land locked Botswana has great coal deposits but lack of affordable transport to port has seen the country’s miners becoming innovative
- Zimbabwe has good shallow deposits that remain unexplored or not mined
- Mozambique has seen investment into coal and gas and enjoys proximity to ports



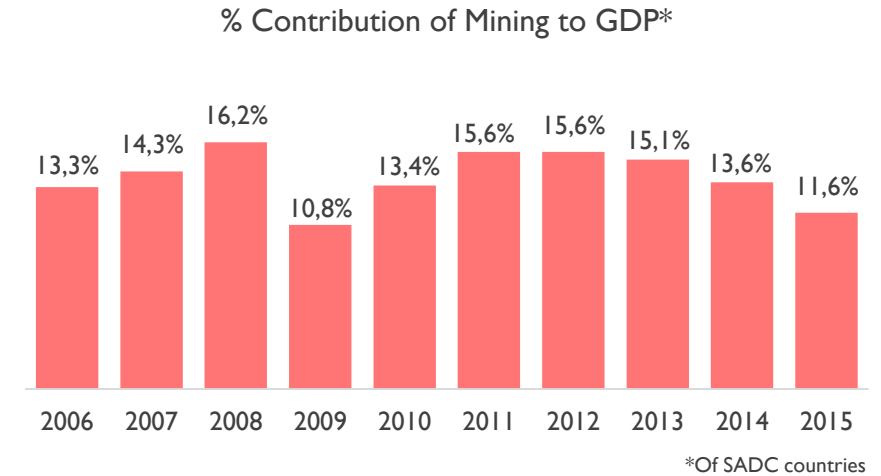
# Mining in Southern Africa – Overview

Southern Africa is emerging as the world's premier mining destination

Southern Africa is a key contributor to global mineral production<sup>1</sup>

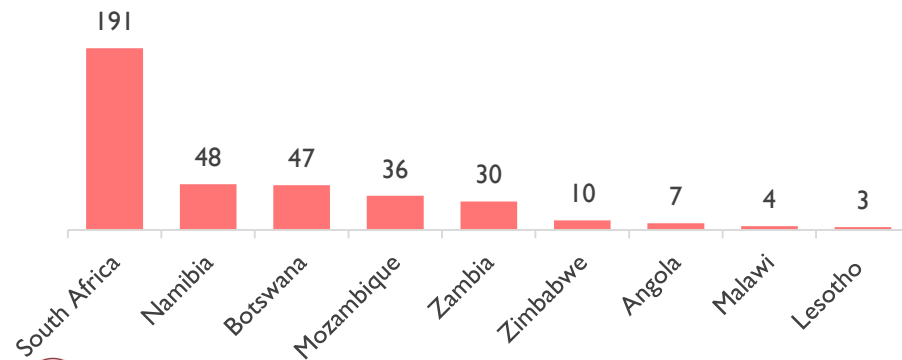


...and mining remains a big contributor to Southern Africa GDP<sup>3</sup>



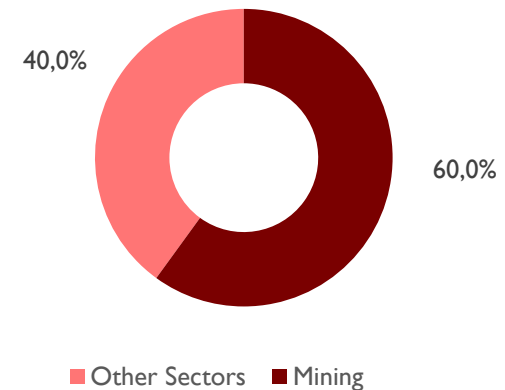
Southern Africa has a host of mining projects under operation<sup>2\*</sup>

Mining Projects as of Jan'17



Mining is also a large contributor to exports<sup>4</sup>

% Contribution to Foreign Exchange Earnings\*



\*Includes both operating assets and exploration projects

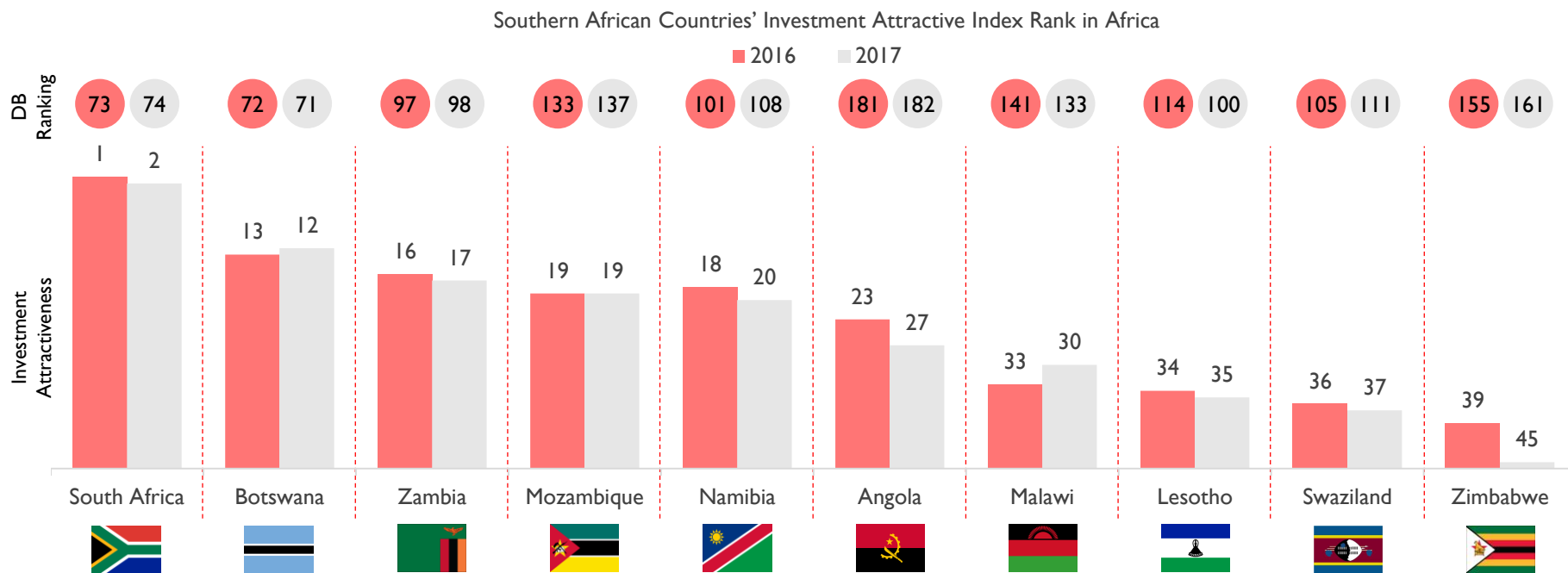
\*Of SADC countries



# Country Rankings

## South Africa and Botswana highest amongst other Southern African nations

Rankings as per Ease of Doing Business and Investment Attractiveness Index <sup>1,2</sup>



- According to RMB's "Where to Invest in Africa 2018" report, South Africa was rated 2<sup>nd</sup> as the most attractive African country to invest in Africa
- Countries such as Botswana and Namibia are considered as investment grade economies due to their improved infrastructure allowing narrow transport routes between themselves and that of advanced economies such as SA

The RMB Investment Attractiveness Index considers two factors to determine the level of investment attractiveness in a country, such as:

- Economic activity, expressed as a weighted average of market size and forecasted levels of GDP growth
- The operating environment, depicted as a weighted average of four international surveys that measure the ease of doing business

The Doing Business Ranking uses 11 indicator sets to measure the aspects of business regulation that matter for entrepreneurship such as starting a business, getting a location, getting credit, among others, and is given a score between 0-100

Sources: 1. Where to Invest in Africa 2018, RMB  
Inclusive Prosperity

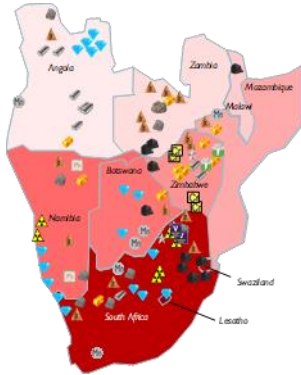


# Determinants of Investment

Capital inflow is a function of availability of natural resources, macroeconomic performance, investment and regulatory environment

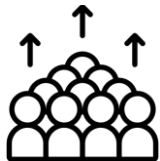
## Availability of natural resources

- Possession of natural resource reserves is a major factor that affects investment into Southern African countries, especially in resource rich countries such as South Africa and Namibia<sup>1</sup>



## Macroeconomic performance

- Macroeconomic factors such as economic growth, population, urbanization and rising income levels play an important role in attracting foreign investment as these factors indicate the level of consumption expenditure<sup>1</sup>



Population Growth Forecast (2030-35)<sup>3</sup>:  
2.3%



Real GDP Growth Forecast (2019)<sup>2</sup>:  
2.4%



Average Urbanization Level (2030)<sup>3</sup>:  
44.6%

## Investment climate

- World Bank places four Southern African countries in the top 10 countries in Africa in its Ease of Doing Business Ranking Report, namely Botswana, South Africa, Zambia and Lesotho<sup>4</sup>

DB Score For Southern Africa\*



\*Ease of Doing Business Scored Between 0-100

## Regulatory environment

- Governments are increasingly realizing the potential for Foreign Direct Investment (FDI) to achieve not only economic growth, but developmental objectives as well, as reflected in their efforts to improve the regulatory environment<sup>5</sup>.
- Some have already been completed
  - South Africa
  - Botswana
  - Zambia



Sources: 1. Determinants of FDI in Sub-Saharan Africa, Utrecht University ([Link](#))  
 2. Southern Africa Economic Outlook 2018 ([Link](#))  
 3. Demography, IFR, 2015-16 ([Link](#))  
 4. Africa Investment Report 2017, FT ([Link](#))  
 5. Rise of Sustainable FDI, SAIIA ([Link](#))

# South Africa



## Lags in terms of investment attractiveness, mainly as a result of the perception of regulatory uncertainty



### Opportunities

- As one of the most mineral rich countries in the world, there are many mining business opportunities to be found in South Africa as its total mineral reserves are estimated to be worth \$2.5 trillion (R20.3 trillion)<sup>1</sup>
- The Mining Charter has been resolved and mining industry bought into by industry, government and labour
- New Dawn with Ramaphosa leadership
  - requested pledges of investment of US\$100 billion over the next 5 years in February 2018 and already have half the pledges

- Uncertainty on next elections for the country in 2019 poses a big halt to investment
- High unemployment rate
- Labour has bargaining power with strong labour parties
- Infrastructure – rail, ports and electricity
- Foreign exchange fluctuation

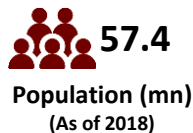


### Challenges



### Outlook

- Real GDP growth was 1.3% in 2017. The 2018 estimate and 2019 projections show GDP growth of 1.5% and 1.8%, respectively<sup>7</sup>
- It is expected that revenues will continue to increase in 2018, on the back of higher prices and marginally higher production volumes across mining businesses



# Broad-Based Black Economic Empowerment

## Mining Charter III – Key highlights

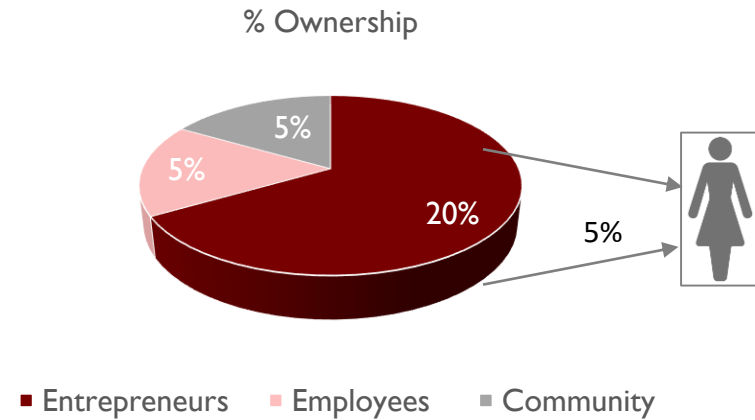


### Ownership

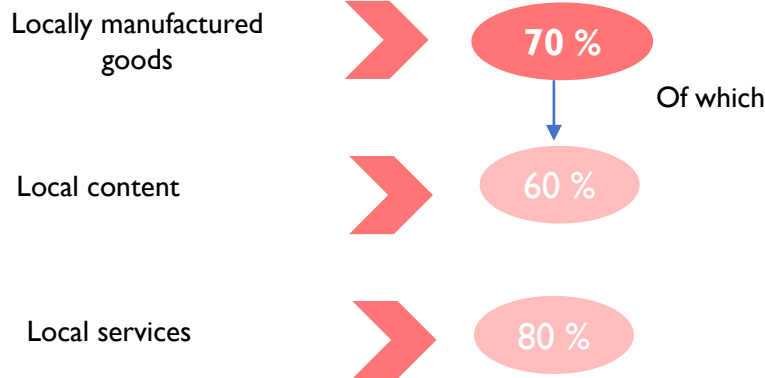
- Increase to 26% with mining companies given five years to comply
- Once empowered, always empowered principle remains



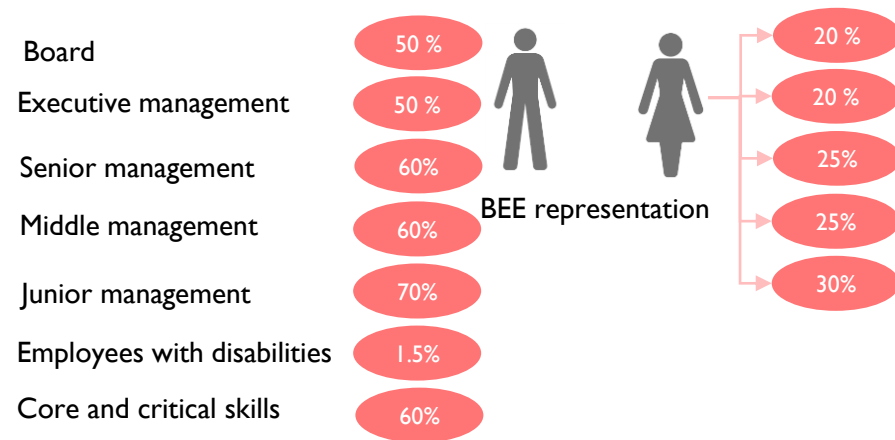
### Ownership - breakdown



### Inclusive procurement, supplier and enterprise development



### Employment equity





## Fixed investments in the mining and energy sectors reached N\$43 billion over the period 2011-16



### Opportunities

- The Namibian mining sector offers various investment opportunities including, provision of services and joint ventures with state companies and processing of precious and semi-precious stones amongst others<sup>2</sup>
- Namib Lead and Zinc mines are expected to start production in January 2019<sup>6</sup>
- Mining regulation (regulated by the Minerals (Prospecting and Mining) Act of 1992) has been consistent over the years
- Mining licences given for LoM or 25 years

- Unemployment and inequality remain Namibia's biggest challenges, with about 37.0% of the working population unemployed in 2017<sup>3</sup>
- Changes for strategic minerals regulation
  - Epangelo Mining Company – issued all new exploration licences to strategic minerals for the company to JV with internationals - uranium, gold, copper, coal, diamonds and rare earth metals
- Market oversupply of minerals remains to be a huge challenge as big companies continue to produce in large quantities to drive out competitors, resulting in them not being viable<sup>4</sup>



### Challenges



### Outlook

- Namibia has a positive growth outlook with investment potential despite no longer boasting a unanimous investment-grade rating<sup>1</sup>
- The mining sector contributes 12.5% to the country's GDP and is expected to rise to 15.2% by 2022, according to the National Planning Commission<sup>5</sup>
- Open for business for mining



# Zimbabwe

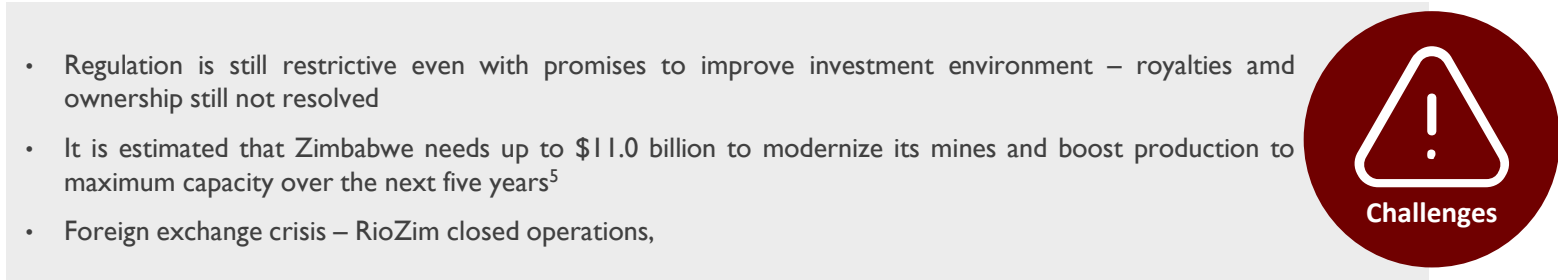


## A recovering economy which is mineral rich, having potential for further discoveries



### Opportunities

- Strategic location makes it a regional gateway, hence making it a viable investment location<sup>1</sup>
- FDI into Zimbabwe is set for exponential growth spurred by bulging confidence in the new government, and investor comfort after the Reserve Bank of Zimbabwe put in place security guarantees to protect foreign investments under \$1.5 billion<sup>2</sup>
  - The country has sealed major investment deals in railways (\$1.7 billion), lithium (\$1.4 billion), platinum \$4.2 billion amongst others<sup>3</sup>
- A Cypriot investor signed a \$4.2 billion deal to develop a platinum mine and refinery in Zimbabwe, showing the country was “open for business”<sup>4</sup>



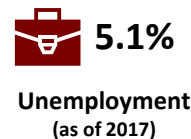
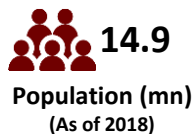
### Challenges

- Regulation is still restrictive even with promises to improve investment environment – royalties and ownership still not resolved
- It is estimated that Zimbabwe needs up to \$11.0 billion to modernize its mines and boost production to maximum capacity over the next five years<sup>5</sup>
- Foreign exchange crisis – RioZim closed operations,



### Outlook

- Real GDP growth was 2.9% in 2017. The 2018 estimate and 2019 projections show GDP growth of 0.9% and 1.1%, respectively<sup>7</sup>
- Zimbabwe’s capital intensive mining sector is bullish about the outlook with the projected overall Mining Business Confidence Index (MBCI) expected to be at 21.6 in 2018 from (6.6) in 2017 on the back of the new Government<sup>8</sup>



Sources:  
Inclusive Prosperity

1. InvestZim ([link](#))
2. Zimbabwe Situation ([link](#))
3. Zimbabwe Situation ([link](#))

4. Club of Mozambique ([link](#))
5. Reuters ([link](#))
6. Zimbabwe Situation ([link](#))

7. AFDB ([link](#))
8. Newsday ([link](#))

# Botswana



GDP from mining to grow from BWP2,520.4 million in 2016 to BWP2,705.0 million in 2020 at 1.8% CAGR



## Opportunities

- One of the best places to do business in Africa
  - According to the Fraser Institute Annual Survey of Mining Companies, Botswana remains the preferred mining and minerals investment destination in Africa<sup>1</sup>
- Botswana has large untapped resources of semi-bituminous coal in various parts of the country, estimated at 212,868.0 million tonnes

- The mining industry of Botswana faces a variety of challenges such as increasing costs, ageing assets, increasing water and energy requirements, as well as unfavourable mine closure legal requirements<sup>3</sup>
- Infrastructure challenges



## Challenges



## Outlook

- According to IMF estimates, the country's GDP is expected to grow at 4.8% in 2018, on the premise of a recovery in the demand and prices of diamond<sup>4</sup>
- BMI's research indicates that Botswana's coal sector has a strong growth potential since it has the largest coal reserves in Africa, yet it is largely undeveloped<sup>5</sup>



**GDP Growth Rate**  
(As of 2017)



**Population (mn)**  
(As of 2017)



**Inflation**  
(as of 2017)



**Unemployment**  
(as of 2017)



**Ease of Doing Business**  
(Ranking as of 2018)



**Mining Sector**  
(% of GDP as of 2017)



Sources:  
Inclusive Prosperity

1. Mining, GoBotswana ([Link](#))
2. Botswana Mining Investment Review, World Bank, 2016 ([Link](#))
3. Innovation future of mining industry, Weekendpost, Aug'18 ([Link](#))

4. Botswana Economic Snapshot, 2017, KPMG ([Link](#))
5. Outlook on Botswana's Mining, WorldCoal, Aug'15 ([Link](#))

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# Zambia



## Fast growing economy with favorable growth expected in the mining sector

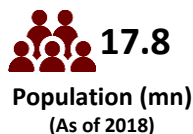


- Zambia is one of the premier investment destinations in Africa because it has a stable political system, macroenvironment & investment protection guarantee<sup>1</sup>
- FDI inflows in 2017 grew strongly by 64.0% to \$1,091 million<sup>2</sup>
- The Zambia Development Agency Act provides incentives to companies investing substantial amounts (currently the threshold is investments of \$500,000) in the mining sector<sup>3</sup>

- Policy uncertainty is expected to remain a concern for mining companies looking to enter the country<sup>4</sup>
  - This is reflected by the Government's latest decision to change royalty rates on the production of minerals for the third time in only two years
  - Zambia plans to introduce new mining duties, which is expected to hit mineral exploration and production in Africa's second-biggest copper producer



- Macroeconomic growth is projected to strengthen to above 4.0% in 2018 and over the medium-term<sup>5</sup>
- The Zambia mining sector is expected to grow at a CAGR of 5.5% between 2017-21, as compared to a decline of 5.4% experienced between 2012-16<sup>6</sup>
- Favourable global copper prices and rising cobalt demand is expected to attract foreign investment, which is expected to lead to an increase in the number of mining projects in the country<sup>7</sup>



# Malawi



## Malawi's mining sector is expected to grow by 2.3% in 2018, supported by demand for uranium and coal



### Opportunities

- The Government passed the Investment and Export Promotion Act in 2012, which provides tax benefits to investors and pioneer industries in agriculture, agro-processing, manufacturing, tourism, fisheries, forestry and mining<sup>1</sup>
- Following the construction of nuclear reactors in China, India, Russia and the Middle East, global demand for Uranium is expected to increase and lead to a pick up in the uranium price, and production in Malawi is expected to increase in order to feed global demand<sup>2</sup>

- In terms of the investment climate, the country faces several challenges such as high transportation costs, unreliable supply of water and electricity, high import duties, high corruption along with unpredictable factor and product prices<sup>2</sup>
- FDI flows to Malawi accounted for \$277.0 million in 2017, a decrease of 17.9% from \$326.0 million in 2016<sup>3</sup>



### Challenges



### Outlook

- Real GDP growth is expected to be moderate at 3.5% in 2018 due to a weaker agricultural harvest resulting from erratic rains<sup>4</sup>
- The mining sector is projected to grow by 2.3% in 2018<sup>2</sup>
- Coal production, which is one of the country's natural resources, is expected to rise due to increased production of flue cured tobacco which requires coal for processing<sup>2</sup>



**GDP Growth Rate**  
(As of 2017)



**Population (mn)**  
(As of 2017)



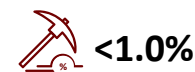
**Inflation**  
(as of 2017)



**Unemployment**  
(as of 2017)



**Ease of Doing Business**  
(Ranking as of 2018)



**Mining Sector**  
(% of GDP as of 2014)



# Swaziland



## Middle-income country with a favorable investment climate and a resurgent mining sector



- Recent indications show that gold mining in Swaziland is undergoing a resurgence after decades of stagnant activity<sup>1</sup>
  - A gold mine tailings retreatment plant, near Barberton, is expected to facilitate the further growth of the sector by encouraging the reopening of the long-abandoned gold mines, many of which were compelled to close because of processing challenges<sup>2</sup>
- Lufafa has Swaziland's richest gold deposits, estimated at 1,652,700 tons. The king of Swaziland announced that they would reopen the country to gold mining, as there now exists technology that would allow previously unrecoverable or unknown deposits to be excavated<sup>3</sup>

- Swaziland has experienced sluggish GDP growth in the last two decades, averaging just over 2.0% per year, due to lack of competitiveness, fiscal challenges, low investment, and the high cost of doing business<sup>4</sup>
- Swaziland has struggled to attract new foreign investors, who prefer to invest in South Africa. In 2017, the net FDI flow was negative (\$137.0 million) after reaching \$21.0 million in 2016<sup>4</sup>



- Real GDP growth was 2.3% in 2017. The 2018 estimate and 2019 projections show GDP growth of 3.2% and 3.6%, respectively<sup>7</sup>
- The Government has set a goal of minerals contributing 4.0% to the country's GDP by the end of 2018<sup>5</sup>
  - To achieve this, four new quarry mines have been established near Lavumisa, Nhlanguano, Pigg's Peak, and Sicunusa
  - There have been plans to reopen several inactive mines for coal, diamond and gold



# Mozambique



Mozambique has been one of the 'fastest-growing economies' in Africa over the last two decades



- External factors are likely to play an important role in raising foreign investors' interest in the mining sector<sup>1</sup>
  - Strong and sustained demand for coking coal in India, the uncertain socio-economic environment in Zimbabwe and the expected increase in mining costs in South Africa, all place Mozambique at a regional competitive advantage in the mining sector<sup>2</sup>
- Mozambique has experienced sustained FDI since 2011, reaching more than \$6.0 billion in 2013 and over \$4.9 billion in 2014<sup>2</sup>

- The contribution of the mining sector is relatively low at 4.1% of the GDP, as compared to other Southern African nations
- The current lack of infrastructure and energy is one of the key bottlenecks hampering the development of mines in remote areas<sup>3</sup>



- The country's coal as well as natural gas reserves have attracted growing investor interest<sup>3</sup>
  - It is estimated that by 2032, natural resources, in particular coal and gas, could contribute up to \$9.0 billion in revenues, as the demand from India and China continues to grow<sup>3</sup>
  - Exploration projects in the natural gas sector are expected to drive overall FDI to over 40.0% of the GDP<sup>4</sup>

**YoY 3.7%**  
GDP Growth Rate  
(As of 2017)

**29.5**  
Population (mn)  
(As of 2017)

**17.2%**  
Inflation  
(as of 2017)

**25.0%**  
Unemployment  
(as of 2017)

**138<sup>th</sup>**  
Ease of Doing Business  
(Ranking as of 2018)

**4.1%**  
Mining Sector  
(% of GDP as of 2017)



Sources: 1. Mapping gemstone spots, Mining Tech., May'18 ([Link](#))  
2. White & Case : Mozambique 27<sup>th</sup> September'18([link](#))

3. Mineral Exporting Countries: Mozambique, 2017, OECD ([Link](#))  
4. African Development Bank Group ([link](#))

# Angola



## Angola is making great strides in becoming a leading mining destination in Southern Africa

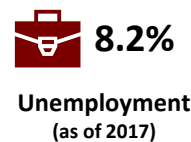
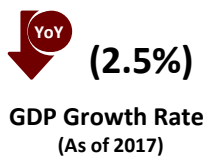


- Foreign investors are attracted to Angola due to its abundance of oil and other natural resources, and the country received the second largest amount of foreign investment in Africa, worth around \$16.0 billion, in 2015<sup>1</sup>
- The Government has re-launched iron and manganese mining operations in the country<sup>2</sup>
  - Other mining opportunities include the revitalization of the Cassinga mining project in the southern part of Angola, which contains gold and other minerals which, if fully developed, is expected to shell out \$320.0 million per year<sup>2</sup>
- At present, Angola only exploits 40.0% of the total potential of its diamond sector, leaving much still to be tapped into<sup>2</sup>

- Although there is an abundant supply of unskilled labor, particularly in the capital Luanda, however, skilled professionals require additional training<sup>3</sup>
- The investment climate is heavily hampered by rampant corruption, and a complex, opaque regulatory environment along with dominance of the state owned enterprises in the industry<sup>3</sup>



- The economy is expected to recover in the next two years owing to a positive outlook in oil prices, as the real GDP is expected to grow at 2.2% and 2.4% in 2018 and 2019 respectively<sup>4</sup>
- Extractive activities in diamonds and metallic minerals are expected to grow by 4.4% in 2018, up from 0.5% in 2017, driven to a large extent by an increase in diamond production at the Luaxe mine and the exploitation of iron and ornamental rocks<sup>4</sup>



Sources: 1. GLA, 2016 ([link](#))  
2. Afrif News, 2018 ([link](#))

3. Investment Climate: Angola, US Dept of State ([Link](#))  
4. 2018 Angola Economic Outlook, AFDB ([Link](#))



## Lesotho's mining & quarrying sector is expected to increase by 7.8% in 2018



- Preliminary results of the ongoing coal explorations in Qhalasi, in the district of Moleleke, suggest that Lesotho could soon have its first coal mine<sup>2</sup>
- The Government plans to increase the contribution of mining to 10.0% of GDP by 2025, raising diamond production to about 1.5 million carats a year<sup>3</sup>



- The minerals sector in Lesotho suffers from challenges such as insufficient human and institutional capacities, scarcity of mine financing capital and inadequate infrastructure (road, rail, power, telecommunications)<sup>4</sup>



- According to Central Bank of Lesotho, the mining & quarrying sector is expected to grow at 7.8% in 2018 and 3.6% in 2019<sup>1</sup>
  - The growth in the mining sector would further be bolstered by the commencement of commercial production at Mothae Mine in the second half of 2018<sup>1</sup>



**GDP Growth Rate**  
(As of 2017)



**Population (mn)**  
(As of 2017)



**Inflation**  
(as of 2017)



**Unemployment**  
(as of 2017)



**Ease of Doing Business**  
(Ranking as of 2018)



**Mining Sector**  
(% of GDP as of 2017)



# Conclusion

## Key takeaways

### Opportunities

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- Southern Africa is still mineral rich
- Ample opportunities in some of the “hot” mineral resources
- Legislature has been resolved in some of the main hubs
- Leadership looking for FDI and therefore creating better environment for investment

### Challenges

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- Southern Africa still faces infrastructure challenges
- Foreign exchange fluctuations remain
  - Limited due to commodity linked to US\$ and most country's supplies
- Labour challenges
  - Unionisation in some countries
  - Lack of skilled resources in others

Sources:



Thank you

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