

Africa mining industry could benefit from encouraging local junior exploration industry

CHANTELLE KOTZE | FEATURES REPORTER

There are various challenges facing the African mining industry that could be overcome by supporting the junior exploration industry to drive growth in the industry, says Africa-focused business development and marketing company MineAfrica president **Bruce Shapiro**.

“There is no local junior mining sector to speak of in South Africa and it is ultimately this sector that drives growth in the mining industry,” he says.

Shapiro advocates that the perception of investment communities needs to be changed through a long-term, consistent and well-managed investor attraction programme.

To develop this industry, Africa should establish a framework for juniors in which to operate. This framework must include, among others, tax incentives, investment funds and specialised banking facilities.

Shapiro, who is also the Canada–Southern Africa Chamber of Business president, notes that out of about 330 foreign-listed companies operating in Africa’s mining industry about 175 are listed in Canada and these are mostly juniors.

Challenges

“Different factors, such as the global financial crisis, slower growth in China, labour unrest, resource nationalisation through additional taxes and royalties, corruption,



Source: Bloomberg

JUNIORS NEEDED

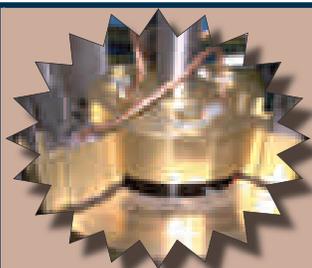
To develop its mining industry, Africa should establish a framework for juniors in which to operate

as well as competition from more investor-friendly countries, are some of the challenges that need to be dealt with in Africa,” says Shapiro.

He notes that, although each area needs to be dealt with separately, they are ultimately

interlinked. With the current uncertainty of the financial markets and slower growth in China, which mining companies can do little about, only the best opportunities in the most stable countries are successfully

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attracting the interest of Western investors, says Shapiro.

The source of capital, usually from investor countries like Canada, the UK, Australia and the largest investor in Africa, China, plays a significant role in the ultimate outcome of a project when measured in terms of the benefits to the local communities, businesses and host countries, he says.

Further, resource nationalism, in the form of taxes and royalties, can create an uncertain operating environment for investors if it is not finalised and clarified.

“Corruption and the need for transparency are becoming major concerns for Western investors. Several high-level prosecutions of corrupt individuals, with serious penal outcomes, would go a long way in establishing transparency and, therefore, improve the confidence of investors and financial institutions,” says Shapiro.

Despite the challenges facing the mining sector in Africa, several African countries are becoming more mining and investor friendly, while investors are becoming more transparent when working in these countries.

“Investment works on a risk and reward basis. Therefore, investors generally seek investment certainty and investor-friendly conditions, transparency, good labour relations, lower overall crime rates and no corruption when identifying potential investments,” says Shapiro.

However, there is no fail-safe risk protection and there are various insurance policies that cover political risk and loss of investment when conducting business in high-risk countries, says Shapiro.

There are also particular legal structures in different countries, where agreements are in place to make investing a little safer and the chances of recovering an investment a little more likely, he says.

However, when there is an expectation of a significantly high reward, investors will take greater risks.

Shapiro notes that the Democratic Republic of Congo (DRC) is an example of this.

Despite the civil war in the DRC from 1994 to 2003 and the conflict in the eastern part of the country between Rwanda and the Kinshasa government, which continued

until the end 2008, the DRC is still an exceptionally rich mining country with gold, copper, diamonds and many other valuable metals and minerals.

Although the regional war between national government forces and rebels is continuing, which is largely supported by the trade in conflict minerals by armed groups, often sourced directly, or from artisanal miners who are under duress, there are laws and regulations to ensure the supply of nonconflict minerals.

Mining Weekly reported in November 2012 that the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act, which made it compulsory for companies to report on their use of minerals from the DRC and adjacent countries, and the World Gold Council Conflict-Free Gold Standard, which is an industry-led approach to combat the potential misuse of mined gold to fund armed conflict and ensure the supply of nonconflict gold in the DRC, was put in place to prevent the trade and supply of conflict minerals.

Besides being competition for South Africa, investment in other African countries will also benefit South Africa’s economy as the country is regarded as the gateway into Africa by many investors, says Shapiro.

A big challenge for Western investment in the African mining industry is that many countries do not meet the criteria for investment by the World Bank and its associate funding organisations. These are multilateral development banks such as the African Development Bank, the Asian Development Bank, the European Bank for Reconstruction and Development and the Inter-American Development Bank. Shapiro adds that these countries also do not qualify under the Equator Principles funding standards for determining, assessing and managing social and environmental risk in project financing.

This investment situation creates the perfect opportunity for the less transparent Asian countries to make investments that are perhaps less favourable for the interest of the host countries than they could be, he says.

Shapiro believes a country cannot be turned into a “Western investment-grade country” in the short-term and suggests



LACK OF INVESTMENT

The current uncertainty of the financial markets, and slower growth in China means that only the very best opportunities in the most stable countries are successfully attracting the interest of Western investors

that some of the current legislation and requirements for lending employed by the UK and the US should be modified so that the West is not precluded from investing in some African countries.

Western investors are cognisant of the need to improve the communities and countries in which they operate and Canada’s corporate social responsibility initiatives, which make it a desirable investment partner, are a good example of this, says Shapiro.

MineAfrica, as a company that provides a platform through its seminars for mining companies, service providers, advisers to the mining industry and African governments, will host various events this year.

Its eleventh yearly Investing in African Mining seminar in Toronto, Canada, will be held between March 3 and 6 this year in conjunction with the Canada–Southern Africa Chamber of Business’s fourteenth yearly mining breakfast, at the Prospectors and Developers Association of Canada (PDAC) Convention, which is the largest African-focused mining event in North America.

In 2012, the event drew 335 participants and featured 22 presenters, including project updates by public and private mining companies, country overviews by African mining ministers and technical presentations by expert advisers on doing

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VOCATIONAL SKILLS FOCUS

In Africa, specifically, there is a shortage of vocational skills by artisans such as welders and electricians

adding that it will be used to coordinate the implementation of the AMV and the action plan associated with it. The centre will identify any gaps and areas of need within the member States and network expertise from various sources to tackle these gaps.

The AMDC will coordinate policy research to develop policy

strategies to realise the AMV, develop and implement continuous advocacy and disseminate information about the vision. The centre will also monitor and evaluate activities, suggest corrective action in terms of the AMV and provide think-tank capacity for the vision.

The AMSI will be aligned with the cluster that deals

with human and institutional capacity development within the AMV.

Traditionally, mineral skills have been defined quite narrowly and generally, that is, as they pertain to engineering and geology. However, as we move into the future, the skills required to deal effectively with an increasingly complex world extend far beyond only engineering and geology.

“This is why it is vital to adopt a broader and more holistic view of the skills needed to effectively grow and administer the minerals industry in Africa. These include strategic planning, law, finance, fiscal policy, the environment, community affairs and human rights,” says Duffy.

The AMSI aims not only to focus on developing skills in and for the private sector, but also to develop skills in and for host governments and communities to enable them to more efficiently administer their own natural resources and their own resources sectors to make these more competitive and likely

to deliver a better outcome for all, he explains.

“As part of AngloGold Ashanti’s regional engagement strategy, the company has chosen to align with the AMV, as it believes that the AMV articulates a clear vision for the continent and also provides for the role that mining and minerals can play in delivering that vision,” says Duffy.

AngloGold Ashanti has also committed an initial \$1-million to the AMSI, which is earmarked for integrating the AMSI into the AMDC. The funding will also ensure that the AMSI is able to develop and flourish going forward.

Duffy believes that the grant will enable the AMSI to deliver early successes but he also hopes that it will attract other partners and potential donors, mining industry partners and agencies.

AusAID has also committed A\$5-million over the next two years towards the AMSI’s integration into the AMDC.

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business in Africa’s mining industry.

With inspection, verification, testing and certification company SGS as a premier sponsor, this year’s seminar will feature opening breakfast speaker Deputy Mineral Resources Minister **Godfrey Oliphant** and keynote speaker Ivanplats executive chairperson and founder **Robert Friedland**.

On March 3, at the PDAC Convention, MineAfrica will host the Africa’s Mining Industry: The Perceptions and Reality seminar, which will focus on regulatory uncertainty, a debate on the nationalisation of mines and other factors that are contributing to uncertainty in mining investment in South Africa and the rest of Africa.

At the seminar, participants will have an opportunity to learn firsthand about the reality behind these challenges and

the perceptions surrounding them from senior partners of mining law firm Webber Wentzel.

In June, MineAfrica will hold its second EnergyAfrica seminar in Toronto, Canada, which focuses on oil and gas and other energy sources. The seminar will be sponsored by the Toronto Stock Exchange and international law firm Norton Rose.

MineAfrica will also host the half-day Focus on West Africa seminar, in London, UK, on October 3, with premier sponsor commercial law firm Herbert Smith Freehills.

The seminar will feature updates by mining companies that have projects in West Africa and technical presentations by expert advisers and service providers on doing business in West Africa’s mining industry. The seminar is organised in partnership with the Association of Mining Analysts UK.

In 2012, the seminar drew a senior-level financial and mining audience of 155 delegates.

In late November or early December, MineAfrica will host its seventh yearly Investing in African Mining seminar, in London, UK. Last year, the

seminar featured 17 presentations and a sophisticated Africa-friendly audience of about 155 people. Investing in African Mining will be sponsored by the Toronto Stock exchange and Haywood Securities.

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Contact **Nico Plenaar** on
Tel: +27 11 791 3327
Cell: 083 419 0010
email: office@aspasa.co.za
or nico@aspasa.co.za
Unit 8 Coram Office Park,
Ferero Road, Randpark
Ridge, Randburg,
Gauteng
South Africa,
PO Box 1983
Ruimsig 1732
www.aspasa.co.za

