

AFRICA'S MINING INDUSTRY

A Canadian perspective

Fifty seven percent of the world's listed mining companies are listed with the Toronto Stock Exchange (TSX). Foreign mining investment does not come knocking on the door – it has to be courted. **BY BRUCE SHAPIRO**

Canada is a global mining powerhouse. Like Africa, it is primarily a natural resources country and is home to Barrick, the world's largest gold company, Cameco, the world's largest uranium company and the Potash Corporation, the world's largest potash company. Fifty seven percent of the world's listed mining companies are listed with the Toronto Stock Exchange (TSX) and TSX-listed companies hold 10 000 mineral projects, of which 50% are outside Canada. Of these, 1 322 or 26,5% are in South Africa. Approximately 140 TSX-listed mining companies have projects in Africa valued at US\$15 billion.

At the same time, South African mining companies are among the biggest foreign investors in the Canadian mining sector. Both countries are world leaders in mining and best practices and Canadian mining companies operating in Africa source over 40% of equipment and services from South African companies. Foreign assets held by Canadian mining companies rose from US\$25,8 billion in 2001 to US\$64,4 billion in 2006 and the proportion of total investments in Africa has risen from 11 to 13% in the same period. Ninety two percent of Canadian mining assets in Africa are concentrated in eight African countries.

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governance, with the possibility that lower geological risk can compensate for political risk. In 2007, Canadian mining assets in Africa amounted to US\$14,7 billion. This figure is expected to rise to between \$20 and \$22 billion by 2010. Some of the major recent Canadian investments on the continent are CIC Energy's Mmamabula Project in Botswana, Homeland Energy, Platinum Group Metals (PTM) and First Uranium projects in South Africa, Banro in the DRC, MagPotash in the ROC and Forsys Metals in Namibia. New investments planned in 15 African countries amount to US\$15 billion over the next four to five years. Export Development Canada (EDC), Canada's export credit agency, is currently considering in excess of US\$400 million of project financing and political risk insurance (PRI) for mining in Africa. In addition, Canadian companies contribute expertise in financing, exploration, construction, mining and corporate social responsibility (CSR). Canada's EDC, amongst others, provided support for Barrick's Bulyanhulu mine, Tanzania's largest gold mine. The EDC also provided significant PRI capacity to meet financing requirements of US\$234 million, as well as playing a leading role in underwriting, due diligence and policy negotiation in this deal.

Corporate social responsibility

CSR is of critical importance in developing countries. The funding of hospitals, medical services and support, social upliftment, education and

92% of Canadian mining assets are concentrated in eight African countries

South Africa	26%
DRC	18%
Madagascar	14%
Zambia	10%
Tanzania	10%
Ghana	6%
Burkina Faso	5%
Mauritania	3%
Source: Michel Miron, Natural Resources Canada	

infrastructure helps to improve the living conditions in the communities where exploration or mining projects are located. This may involve building or upgrading of medical facilities and schools, providing preventative medical care, building or rehabilitation of roads and bridges and many other initiatives that contribute to a sustainable development of disadvantaged communities.

Political and social stability, transparency and the general rule of law are vital criteria that influence the decision to invest in a particular country. For example, the environment that currently prevails in Zimbabwe is extremely hostile to investment. The lawlessness, violence perpetrated by the Mugabe regime, collapsing infrastructure and bankrupt economy, combined with the total lack of security of tenure, both for individuals and companies, and an inflation rate in excess of 10 million

Between 2001 and 2006 foreign assets held by Canadian mining companies have risen to US\$64,4 billion of which 13% or US\$8,4 billion was invested in Africa



Michel Miron, Natural Resources Canada

per cent (and rising) almost guarantee no foreign investment.

The DRC is still in a state of political uncertainty. The granting of a mining licence may actually not guarantee that the licence holder will be able to mine. Nevertheless, it appears that the political leaders have realised that a stable political and legal environment will lead to economic benefits for the country and they are working towards that end. In the mining industry, “ministerial discretion” in granting licences opens the way to corruption and is of great concern to the industry and investors in all countries where it is the law.

South Africa is increasingly being discredited by erratic and often irrational political manoeuvring. Crime is South Africa’s Achilles’ Heel and is a deterrent to investment and immigration while it promotes emigration. The World Economic Forum reported

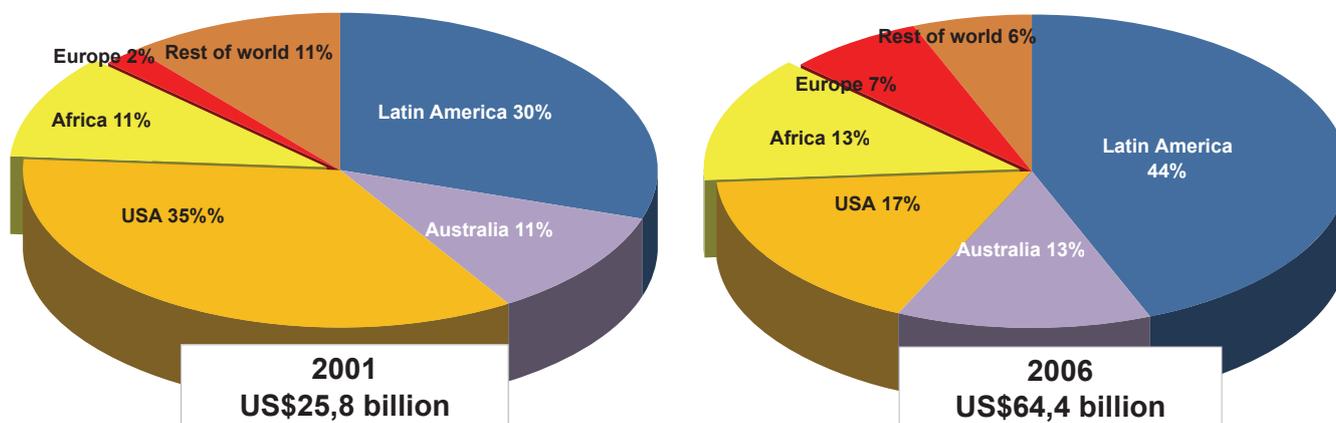
that South Africa was the second most violent country in the world, after Colombia. Botswana, on the other hand, is generally seen as one of the most stable countries in the world. In 2007, the Australian publication Resource Stocks rated the country as having the seventh lowest country risk for mining globally. Transparency International rates Botswana as having one of the lowest corruption indexes in the world. The Fraser Institute, a Canadian-based global think tank, ranks Botswana higher than the US, Australian and Canadian state and provincial averages for mining investment based on 13 policy factors.

Canadian investors can take their money elsewhere

All governments, especially those where there is political instability, need to understand that investors are under no obligation to pour money

into their country. No doubt Africa is underexplored and has enormous potential, but investors have to consider the political risk as well as the geological risk. In North America and Europe, investors must also pay attention to how their shareholders view an investment into a particular country. In fact, there have been shareholder actions which have resulted in Canadian companies being forced to sell assets in a particular country. Security of tenure is also of pivotal importance. International uncertainty prevails over the next South African president’s policy on foreign investment. Additionally, the extreme crime levels, the energy crisis, looming water crisis and skills shortages are being compounded by immigration difficulties and the government’s push towards local beneficiation, which often is not necessarily economically viable. Other challenges include the high rate

Canadian investment in Africa has grown from 11% in 2001 to 13% in 2006. During the same period Canadian investment in Latin America has grown from 30 to 44%. This shows clearly that investors are looking for opportunities with a reduced political risk



of HIV/Aids, unemployment, the delays in the processing of exploration and mining rights and the resolution of land claims. Furthermore, there is a lack of consistent promotion of investment opportunities and of South Africa as an investment destination and there seems to be a general slowness in addressing foreign investors' concerns. There must be no doubt that the greater the uncertainty

Canada itself, which encompasses geological terrains not un-similar to those found in Africa. South America has significant potential and is also closer geographically. Last, but not least, there is Russia with its huge and largely untapped potential.

In order to attract investments, particularly in the high-risk mineral exploration field, governments have to process licences in a timely manner

partner. A JV partnership may provide Canadian expertise both in exploration and operation with the potential for financial benefits arising from dual listings at the JSE and TSX.

Money can be found even in the most difficult circumstances, with a case in point being the New Dawn Mining Corporation, which is positioning itself to become a pre-eminent gold producer with properties in Zimbabwe and, more recently, in South Africa. New Dawn Mining started out as a private company, with sustainability and cash flow management resulting in a very streamlined and productive team. The company has been trading since mid-June on the TSX. Accessing the capital markets allowed for a faster growth pattern than self-funded development. Credentials were earned through the establishment of a successful mining business in a challenging fiscal regime like Zimbabwe and through the ability to export the business model to other regions. New Dawn was also able to identify an under-developed, small-scale mining operation, the Blue Dot Mine, near Schweizer-Reneke in the North West Province of South Africa. New Dawn is extremely well positioned to take advantage of any normalisation of the economy in Zimbabwe.³⁵

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experienced or perceived, the longer it takes and the more difficult it is to attract foreign investment. On the other hand, it has to be noted that what happens in South Africa happens elsewhere as well. Examples include the Ontario diamond royalty bill or the mineral licensing process in north-western Ontario. Double standards are being applied – if something undesirable happens in Canada, nobody seems to notice, but if there is a similar situation in Africa, it immediately attracts negative media interest.

There are solutions to these problems

There is significant competition from other jurisdictions for exploration and investment. First and foremost is

and must treat foreign investors in an equitable manner. There should also be clearly defined projects and objectives in place, both for governments and the private sector. One has to realise that mining investment does not simply flow to a country. Rather, such investment has to be courted. This can be achieved through improved and consistent promotion of projects, as well as by the implementation of new mining legislation and a competitive mining environment.

A company looking for investors must have something to sell, at the very least a business plan, geological information, proof of title and a clearly-defined idea of whether it is looking for money or a joint venture (JV)