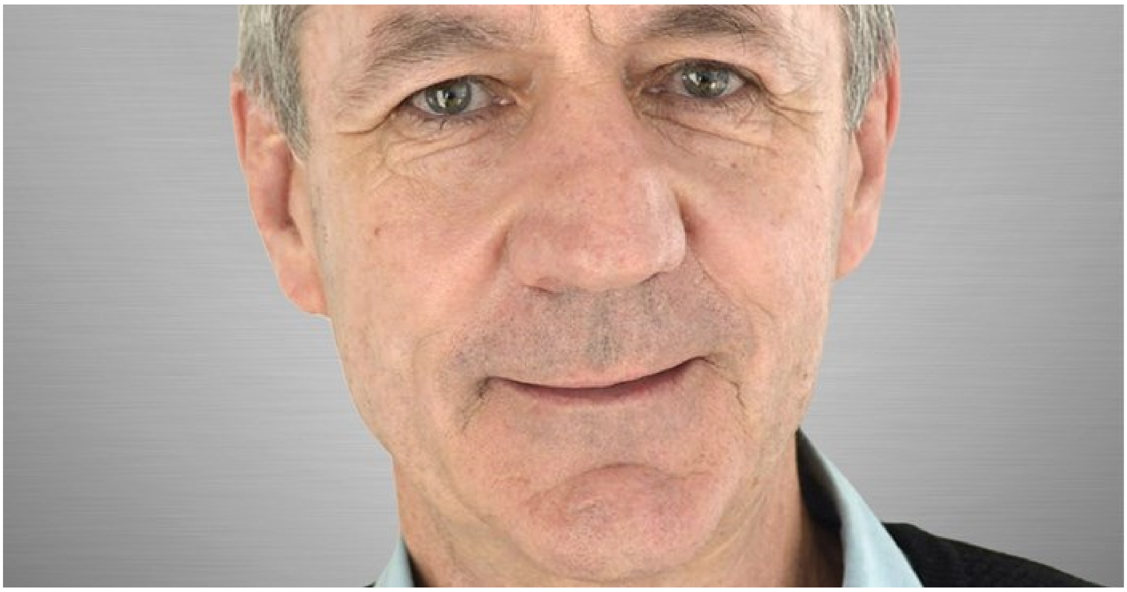
Bold steps needed to boost the junior mining sector

By Owen Murphy

20 Mar 2019

The Institute of Race Relations recently commented that: "South Africa's neighbours have thrown aside resource nationalism and it has to be asked why the South African government is not able to accept the good-practice lessons of these experiences and do the same?"



Owen Murphy, Africa Desk leader, BDO

The neighbours referred to are Namibia, Botswana and Zimbabwe, which have all abandoned compulsory state carry provisions in the mining sector. Instead of focusing on restrictive measures, we would suggest that the South African government should follow the lead of its neighbours and rather concentrate on policies that encourage investment in the mining sector, whether this is foreign investment or local investment.

Stay-in-business capital and new investment

An increase in restrictive government regulation will most likely lead to a decrease in new investment, and this will in time lead to a reduction in employment levels. Mining constantly needs new investment, even in maintaining existing operations. This is called stay-in-business capital expenditure, and refers to costs to maintain the mine’s existing production capacity at a certain level. It is required to develop new areas of production as the old areas are mined out and these decisions need to be made on an ongoing basis.

If a prospective project is sufficiently large, then the investors may be prepared to invest in the cost of applying for all the various government approvals required. South Africa's junior mining sector is at a big disadvantage when it has to fund these costs, as well as the actual exploration costs.

New investment decisions to expand existing production will be negatively affected if the cost of compliance with the regulatory environment affects the investment hurdle rate at which these projects are approved.

Regulatory constraints

A report by the Minerals Council entitled *Developing a viable emerging and junior mining sector in South Africa* said that at “virtually every workshop with emerging miners the Department of Mineral Resources is raised as a challenge in the development of mining projects. The key issues raised are delays in issuing mining rights, misinterpretation of the law and in some cases duplicating mining rights.”

These barriers have been recognised and lobbied for some time now. Bernard Swanepoel, chairman of the Small Business Initiative, in a *Business Day* report on 18 April 2018 asked for junior companies to be excluded from provisions in the Mining Charter, stating that: "The cost of compliance, red tape, lack of finance, the time it takes to get a mining permit and lack of infrastructure makes it difficult for junior miners to enter and stay in business."

There have been some encouraging signs that the regulatory burden is being eased, such as the recent withdrawal of the Mineral Resources Development Amendment Bill and the earlier draft of the revised Mining Charter.

State participation

A policy review in the sector could be designed to ease the barriers to investment in key areas, especially those that constitute barriers to entry, such as the issuing of exploration permits and the transfer of mining rights. In particular, the discretionary power to transfer a right should be removed, as the delays in transferring rights delays transactions, creates uncertainty and inhibits investor appetite for these deals.

There have been calls for more state participation in the mining sector, such as setting up and expanding of a state mining company. However, South Africa’s recent experiences with state-owned enterprises in terms of governance and procurement issues are well documented and this does not bode well for the idea of launching large-scale state funded mining ventures.

Decisions around capital allocation decisions are difficult ones for state-owned enterprises, bearing in mind that the investments have long lead times to produce returns and state-owned enterprises may not have the long-term time horizons required for these types of ventures.

The capital allocation decisions of a state-owned enterprise are likely to be skewed towards financing decisions that favour the creating jobs and this will result in balance sheet strain if investment in stay-in-business-capital is compromised. This could in turn result in the ability to fund the ongoing capital required to sustain the current level of production being compromised. This will also apply to the investment required for the expansion of “brownfields” projects which in turn will lead to pressure being exerted on employment levels.

New mindset

What South Africa needs is a completely new mindset to be developed in mining policy formulation, and we need to develop policies which create an environment that frees up the sector in such a way that positive actions are encouraged, rather than ones which impose regulatory hurdles that are difficult and costly to attain.

This will require a big shift in the current debate that government is engaged in, and will have a political dimension, especially among those that are lobbying the government to impose more state control and participation in the sector.

The focus of regulation needs to change from creating an environment that deters investment to looking for ways to encourage investment.

ABOUT THE AUTHOR

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