MINING IN AFRICA TOWARDS 2020
BACKGROUND AND INTRODUCTION

The African continent is richly endowed with mineral resources. The US Geological Society ranks Africa as the largest or second-largest reserve of bauxite, cobalt, industrial diamonds, manganese, phosphate rock, platinum group metals and zirconium. The products produced from these minerals are found in everyday life.

Africa has a history of acting as a feedstock for the world’s mineral hunger. British, Belgian and Portuguese colonies produced precious metals and gems since the early 1800s while the majority of private foreign capital invested on the continent between 1870 and the Second World War was channelled into mining. By the early 1990’s, however, the continent was still only receiving some 5% of global exploration and mining development expenditure. A study by the World Bank on the shortcomings of African territories in the eyes of miners revealed a need for infrastructure, stable legal systems, a predictable fiscal regime, profit repatriation guarantees, and access to foreign exchange. The remarkable changes that took place in Africa from 2000 to 2011 resulted in the continent receiving 15% of global exploration expenditure and mining investment during 2012.

The outlook for Africa’s mining sector remains bright. Huge tracts of Africa remain largely unprobed.

KEY MINERAL RESOURCES

AFRICA MINING TODAY

The African continent contributed 6.5% of the world’s mineral exports during 2011 from mining 20% of the world’s land area. From a regional perspective, members of the Southern African Development Community (SADC) produce two-thirds of Africa’s mineral exports by value. The biggest player in the region is South Africa.

The East African Community (EAC) has several mineral belts that produce (amongst other commodities) tanzanite and gold, with Tanzania being the biggest regional gold producer. Burundi has some gold reserves along with copper, cobalt, nickel and uranium deposits. Exploration activity in western Kenya has increased significantly over the past few years. Central and West Africa are increasing being seen as boom areas for iron-ore exploration and mining. The area is seeing a significant increase in railway construction in order to transport ore to ports and this has led to the opening of mines in Guinea, Liberia and Sierra Leone. The Economic Community of West African States (ECOWAS) exported US$150-bn worth of goods during 2011. The biggest challenge faced by the burgeoning mining sector in the region is country-specific political risk.

Around 85% of global phosphate reserves are located in North Africa. The majority of the area’s mined phosphates are used in the production of fertilizer. The pricing outlook for phosphate is positive. There is no effective substitute for this raw material when used for making fertilizers.
CHINESE DEMAND AND INVESTMENT

China accounted for almost 17% of the world’s mineral imports by value in 2012. 16% of Africa’s exported commodities by value were shipped to commodity-hungry China. China is the world’s second-largest economy and has the largest import bill of all countries. It purchased US$100-bn worth of minerals during 2012 from 100 countries, including 23 from Africa.

Chinese demand for African commodities and investments continues to grow largely due to the Chinese attitude of limited political interference as well as value-added investments (e.g. the building of hospitals, schools, roads etc.) associated with mining projects.

RISING RESOURCE NATIONALISM

Resource nationalism is defined as the drive by governments and communities to proclaim control over natural resources (and the benefits thereof) located within their sovereign borders. In Africa’s context, resource nationalism is a drive to increase the benefit obtained by Africans from minerals mined and exported (often by foreign companies). Resource nationalism is the primary risk for mining companies worldwide. Dealing with resource nationalism requires a multi-faceted approach, including partnering with state-owned enterprises and local communities to ensure that the benefit of mining is transferred to citizens. Also important is educating governments about the importance of mining to the entire economy as well as encouraging direct public sector participation in mining projects.

AFRICAN MINING TOMORROW – OUTLOOK TOWARDS 2020

FUTURE DEMAND FROM KEY TRADING PARTNERS

Africa’s export-oriented mining and quarrying is driven primarily by the commodity hunger of the world’s largest economies. The world economy is projected to grow by almost 3.5% p.a. during 2012-13. Of particular interest to African mining activities is the positive growth outlook for its key trading partners. The growth outlook towards 2020 is better than the current expansion in real GDP for all Africa’s largest trading partners (excl. Japan).

GEOGRAPHICAL BRIGHT SPOTS

The following indicators (amongst others) can be used to illustrate a countries ability to capitalise on the positive demand for African minerals:

- The World Bank Ease of Doing Business Index
- Transparency International Corruption Perception Index
- World Economic Forum Global Competitiveness Index

These indicators are relevant to large-scale investments in labour-intensive extractive industries where government regulation is most often quite rigorous. They include considerations about government interaction, infrastructure quality, investment and trade regulations, as well as labour relations.

POTENTIAL AFRICAN MINING DESTINATIONS

Botswana: Botswana is the largest diamond miner in the world. The country also has well-known coal reserves, and coal production is likely to become of increasing value to the country. The country is estimated to have more than 200-bn tonnes of coal reserves and the development of the coal sector has become a key priority.

Ghana: Gold is the most important mining sector. The mining landscape is dominated by foreign-owned firms. Ghana is the second-largest gold producer on the continent after South Africa. Production growth over the long-term is very favourable. Companies including Perseus Mining Ltd. and Endeavour Mining Corporation invested US$20-bn in Ghanaian gold mines during 2011-12.

Mozambique: The mining sector’s contribution to overall economic activity is expected to increase significantly over the medium- to long-term on the back of a sharp projected increase in global coal production. According to the IMF, megaprojects have the potential to make a contribution of 18% of total value added in the economy by 2016. Coal production could reach beyond 100-million tonnes p.a. within the next five years.

Namibia: Mineral exports constitute half of the country’s total export earnings, with the country producing diamonds, uranium, copper, magnesium, zinc, silver, gold, lead, semi-precious stones and industrial minerals. Namibia is the fourth-largest exporter of non-fuel minerals in Africa. The mining sector is expected to post a real expansion of 12.5% p.a. towards 2017.
**Tanzania:** The mining industry remains relatively small but is exceedingly important as a significant source of export revenues. The sector contributed approximately 3.2% to GDP in 2012. It is estimated that about 90% of Tanzania’s minerals have yet to be exploited. The construction of a nickel mine is set to start in 2014 and large-scale uranium mining is likely to commence over the coming year.

**Zambia:** The country has a wide spectrum of mineral resources including copper, cobalt, zinc, gold, manganese, nickel and gemstones. The country remains dependant on the extraction and processing of copper and cobalt for export. Copper and cobalt account for approximately 10% of GDP and around 80% of export receipts. The sector is expected to expand by 2% - 4% p.a. over the next five years.

Other countries of interest include Angola, Cameroon, DRC, Kenya, Liberia, Mali, Rwanda and Sierra Leone.

**Potential African Mining Destinations**

![Diagram showing operating environment ranking and political risk assessment]

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