The Financial Gazette



# Indigenisation: No one size fits all

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The 74th Annual General Meeting (AGM) of the Chamber of Mines was fortuitous as it occurs while we are currently fashioning a new mining po
Minerals Act. This policy seeks to ensure the sustainable development of the mining industry and its contribution to the economy.

The current Mines and Minerals Act is clearly now an archaic piece of legislation which is in dire need of upgrading to bring it up to date with m
the country's current and future aspirations. More specifically and accurately, the current Act is a colonial law that empowers the investor at the
is working on having this Act repealed in its entirety and have it replaced by a totally new Mines and Minerals Act that caters for the dynamic m
historical institutional injustices.

Extractive mining in itself is clearly not sustainable, as it depletes finite national assets. However, mineral extraction can indirectly become susta
economic activity in other sustainable sectors, through maximising the economic linkages whilst the resource is still in existence. Strategies to d
are therefore key elements of the new mining policy. Mining proceeds must be used to develop secondary industries linked to the minerals, and

Schools, hospitals, roads and community housing must also be spearheaded by mining activities. This way, when the mineral resource is exha
communities can continue to flourish.

In re-designing the mining policy and laws in Zimbabwe we seek to achieve sustainable exploration, extraction, utilisation, management, mark
objective is to understand the status quo, and then fashion a framework for developing and managing the mineral wealth of Zimbabwe for post

The foundational objective is to ensure sustainable, shared and inclusive economic development of the country. A key reform of the mining law
payment for the value of the un-mined asset.

As the State, we must know the value of each mineral claim. This requires comprehensive knowledge of our geology and mineralisation. Quant
should be done before engaging investors. New technologies such as aero-magnetics, big data, and cloud computing must be deployed. The
exploration

The difference between working capital and equity capital must be understood and factored into all mining deals. The value of the unmined as
the investor must acknowledge and match this. The investor's contribution to equity must not be confused with the working capital they deploy.
addition to contribution to equity capital.

The situation where the value of the unmined asset is not reflected on the balance sheets of corporates is not acceptable. Unmined assets hav

How can mining claims have no value, and yet corporates list them on foreign stock exchanges and raise billions?

In some cases, the investor goes on to sell the claims (they got for free) to other investors for tonnes of cash. Moreover, when claims (green fie
cash is demanded.

How is this possible if claims have no value or their value is said to be difficult to determine?

Discovery of a mineral resource should not mean ownership. In fact, once a country has established its geology and mineralisation, the mining
correct market value of the unmined asset.

The management of natural assets can be improved within a given political system by both domestic and international actions. In setting the ta
internal agency problem. The government must delegate the negotiation to a small group of its members and resource extraction companies h
individuals.

To protect itself, the government needs to adopt a process that is transparent. Secret negotiations are ideally suited to corruption. The agency
problem. The government has considerably less knowledge as to the true value of its natural assets than does the company. This is called info

A solution to both the agency and the information problem is to auction the extraction rights, inviting bids on the royalty rate that companies wo
conditioned on any observable features such as the basic geology, world price, and accumulated past volume of extraction.

An auction is a way of forcing companies to reveal the true value of a right to extract by placing them in competition. Thus, once a country has
auctioning of claims is the way to go.

There are two distinct commitment problems; one concerned with extraction companies and the other with future governments. If governments
resource extraction companies, one solution is to establish national extraction companies.

Listing on stock exchanges of unmined assets is global best practice as done in Australia, Canada, and Norway. However, companies getting
value has been a problem. Listing of unmined assets to raise money on stock exchanges without consent of the real owners of the asset has le
recently demonstrated in the Court system in India. Zimbabwe together with other African countries must address this matter head on.

In Zimbabwe's 51 percent indigenisation programme, shares must be ceded for value. In the mining sector, payment for the shares by the Stat
asset. There should be no model or agreement where the government of Zimbabwe (GOZ) will pay for its shares from dividends. Payment sho
asset. Dividends are neither guaranteed nor contractual. In any case, given the vast nature of the value of the unmined resource, the dividend

Green fields, that is, unexploited and unimproved claims, obtained without payment for value will be given back to GOZ for free. We should no
government will not engage consultants to implement simple indigenisation GOZ regulations and policies.

Internal capacity must be built within government technical teams. Where it is absolutely necessary to hire consultants, there must be total tran
independence, clear mandate letters, corporate governance, and reasonable fees.

In this scenario, the corporates being indigenised must never pay consultants hired by GOZ as this will result in conflict of interest, leading to s
interest.

On indigenisation and empowerment, we must avoid baseless and unintelligent binaries: equity versus supply side empowerment; we need bo
versus royalties/taxes; we need both classes of benefits.

Indigenisation versus FDI; they are not necessarily mutually exclusive as evidenced in India, Norway, Australia, SA, Botswana, and Canada. Th
no one size fits all; we can stick to the 51 percent regulation, while creatively applying it in and between different sectors. Empowerment vs. jo
reinforcing.

Policy formulation and implementation requires innovation and creativity. We must reject all these false and unimaginative choices arising from

The effective harnessing of natural assets for development raises complex economic issues.

Further reforms of the mining sector we should pursue must include the following: All mining companies in Zimbabwe must have their primary
keep their deposits from mining companies in the country. Mining companies must bank locally. Banks must lend to agriculture, indigenised m
miners and MSMEs broadly.

By way of illustrating the magnitude of the opportunity, a 2012 McKinsey report showed that in Africa, banks stand to reap over US$350 billion
The banks just need to know how to service these sectors that are at the bottom of the pyramid. This requires volume-driven strategies rooted i

distribution networks, and cost structures; from conventional ones used at the top of the pyramid.

In the new mining policy framework, special attention must also be given to the empowerment of women miners and their institutions, not as ch bring different but complementary skills and competences to the mining sector.

Furthermore, there is need to embrace and capacitate artisanal miners and de-criminalise the so-called makorokoza. Empowerment in the min enabling ordinary Zimbabweans to be participants, not just as workers and managers, but as owners of small mining operations.

The financial resources accrued by the State in the dispensation of the new mining law must be channelled into setting up a Sovereign Wealth investment fund of financial assets such as stocks, bonds, property, precious metals or other financial instruments. It is a means of empowerin globally.

As we reform our natural resource laws, there is no need to reinvent the wheel. What we want is that in a resource rich country, there must be e learn from countries that have carried out this empirical demonstration, such as Saudi Arabia, Botswana, Angola, and Dubai.

In particular, the right to mine must be linked to payment for the value of the unmined mineral asset.

Putting value to the unmined natural resource asset is global best practice as practiced in Norway Canada and Australia. What's good for the g

To ensure that the country maximises the benefits from its mineral resources in terms of value, employment creation, skills and technology trans the mining industry needs to promote local beneficiation and value addition. Currently, there is very limited local beneficiation and value additio 90 percent of the minerals being exported raw or semi-processed, and this is cause for concern.

As a measure to promote the growth of the local diamond industry, the government introduced a quota system where 10 percent of all locally-p local cutting and polishing industry. This quota will be reviewed from time to time as the industry grows.

In the Platinum Group Metals (PGMs) sub-sector, the government is pursuing measures and policies that encourage investment in a refinery pl two years, tangible deliverables in local PGM refining should be achieved.

Beneficiation in mining cannot be achieved by a business as usual industrial mindset. It requires the development of backward and forward ind linkages, in turn, allow movement up the regional and global value chains (GVC). Provided their resource-processing industries are internationa exporting countries can move into higher-rent value-chain links and extract the benefits of moving up value chains. Forward integration confers countries producing primary commodities to price fluctuations and thus yield dynamic skills-migration and cluster benefits of linkage developm

By developing backward linkage supply firms to the commodity sectors and resource-processing industries, Zimbabwe can help to diversify its deepening their industrial structure.

Moreover, the natural resource sector's need for infrastructure, to extract and transport the commodities, enhances the potential for linkages. Li maximise positive externalities derived from clusters.

Supplier and resource-processing industries' closeness to the extraction location generates agglomeration effects. Efficiency gains for firms in specialist labour and networks of suppliers.

The government should continue to formulate and implement policies that direct local and foreign investment into the mining sector. The gover projects in mining between ZMDC and foreign investors.

The objective of government participation is to ensure that the nation realises meaningful benefits from mining operations as evidenced by a nu accruing to the State from the joint ventures in Marange.

GOZ in consultation with its valued stakeholders, will continue to come up with policy initiatives and reforms that provide win-win solutions for b

The Zimbabwe government has a duty and obligation to create a conducive and enabling economic environment and business climate. In part respect for the rule of law, and provision of an enabling policy framework that encourages and facilitates sustainable mining activities including

**– Professor Arthur G.O. Mutambara is the Deputy Prime Minister of the Republic of Zimbabwe. This article was developed from excerp of Mines AGM held in Nyanga last week.**

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