



Sector Watch – Mining

Summary of the 2019 Survey

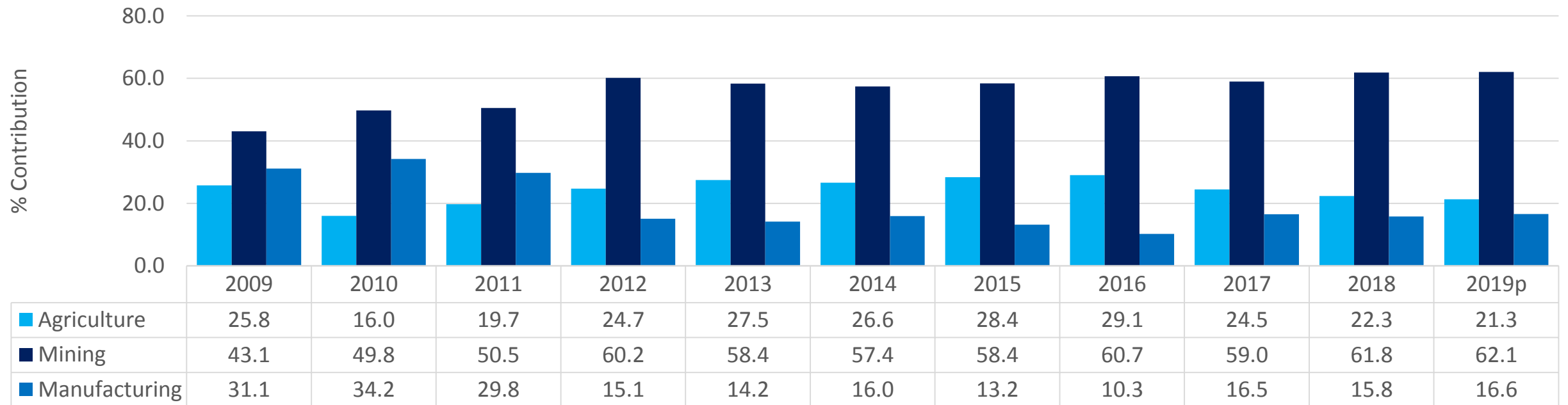
December 2019

Overview



- The Chamber of Mines of Zimbabwe “CoMZ”, in November 2019, released the 2019 mining sector survey.
- The sector comprises large scale, as well as artisanal and small scale miners - especially in the gold and chrome subsectors.
- The mining sector is endowed with more than 60 minerals, 40 of which have been commercially exploited.
- However, production is concentrated in 6 key minerals, namely gold, Platinum Group of Metals “PMGs”, diamonds, nickel, chrome and coal.
- In fact, according to the CoMZ, these 6 minerals accounted for 95% of the value of mineral output in 2019. Nevertheless, the sector remains a major contributor in terms of the country’s export earnings - in Fig. 1 below.

Fig. 1: Export Earnings’ Contribution



Source: RBZ and Chamber of Mines

Declining industry capacity utilisation and low business sentiment for 2020

Fig.1: Average Capacity utilization (%)

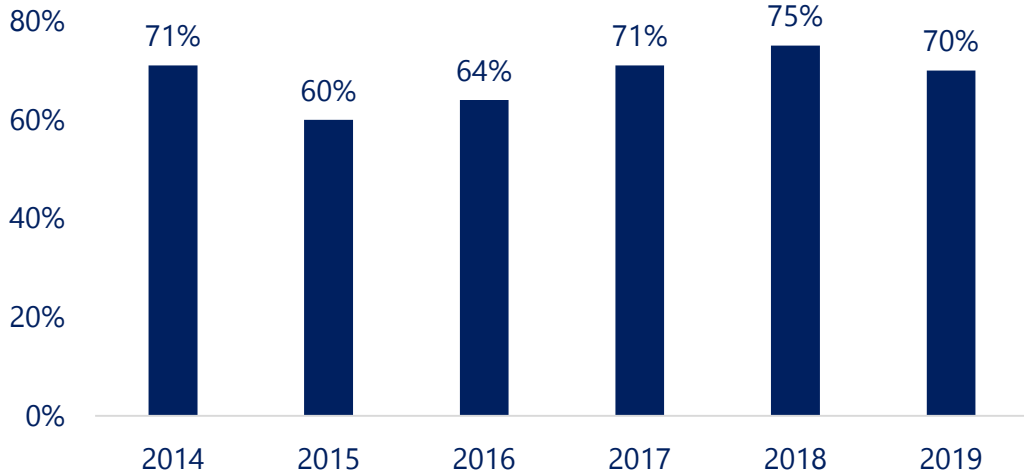
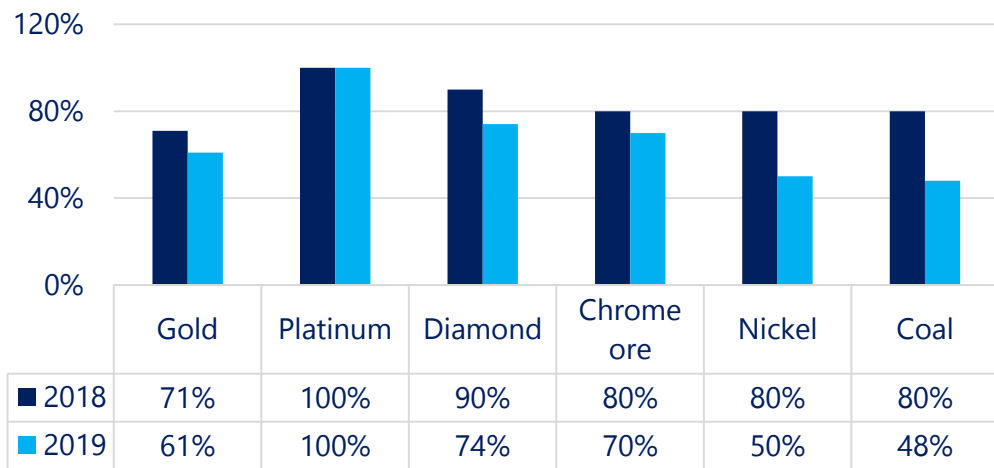


Fig.2: Sub-sector capacity utilisation



Source: Chamber of Mines Survey 2019

- According to the CoMZ, the sector's **average capacity utilization** fell from 75% in 2018 to 70% in 2019 – Fig.1 across - due to the following constraints (*ranked in order of severity*);
 - ✓ Regular and prolonged power outages,
 - ✓ Inadequate foreign exchange retentions,
 - ✓ High cost of production,
 - ✓ Discounted mineral prices, and,
 - ✓ Capital shortages.

- With the exception of platinum, all key minerals as reflected in Fig.2 across, recorded declines in capacity utilization.

- Meanwhile, the **Mining Business Confidence Index** “MBCI”- which measures mining business sentiments about the prospects of the industry in the next twelve months is anticipated at +2.2 in 2020.

- This is markedly lower than the (+8) level that was recorded in 2019. The decline in the index reflected investors’ negative sentiments with regards access to capital, political & country risk and economic prospects.

Artisanal and Small Scale Miners “ASSM” Subsectors

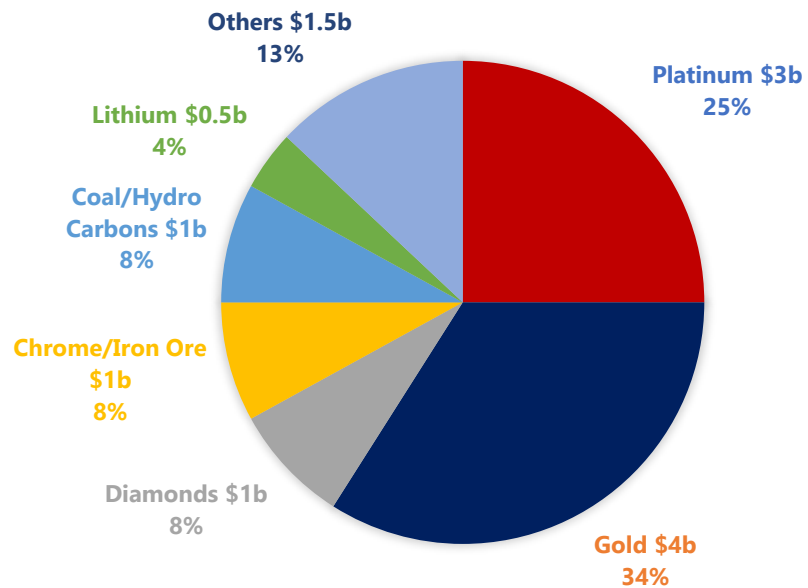
- The CoMZ further noted that ASSM faced a number of challenges and therefore made specific recommendations to address the identified challenges, as listed below.

Challenges	Recommendations
Inadequate FX retentions	Government should allow ASSM to retain all their FX proceeds to restore viability
Rampant power outages, fuel and high cost of production	Zesa should improve power supply to ASSM
Discounted gold and chrome ore prices	Government should liberalize the marketing of gold and chrome in order to restore viability as well as plaguing leakages
Outdated legislation on semi-precious stones	Government should finalize the Gold Trade Act and the Precious Stones Trade Act to facilitate efficient trading of semi-precious stones
Capital shortages	Government should ring-fence lines of credits for ASSM
High informal activities and environmental degradation	Government should facilitate access to land for ASSM
Poor safety records and high incidences of fatal accidents	n/a
Low application of technical skills and technology	n/a
Perceived leakages	Government should decriminalize the possession of gold by ASSM.

Outlook:

- In spite of the ongoing short term challenges, the Government expects to grow the sector into a **US\$12 billion industry by 2023**, from the 2017 figure of US\$3 billion.
- This will be achieved through enhanced exploration, enhanced investment and capacity building, increased productivity and employment, greater value addition as well as increased exports and foreign currency generation.
- The traditional top 6 minerals are expected to continue driving activity, led by gold and platinum as shown in **Fig 3**.
- Lithium, a key mineral in the electric vehicles industry, is expected to become a key mineral over the same period.

FIG.3: MAJOR CONTRIBUTORS FOR 2023



- The CoMZ cited the following as critical success factors for the attainability of the 2023 targets:
 - ✓ Adequate capital for expansion of current production, reopening of closed mines and development of new ones.
 - ✓ Adequate infrastructure and competitively priced electricity, rail, water and ICTs.
 - ✓ Attracting and retaining critical skills to match the rapid expansion of the mining industry, and,
 - ✓ Aligning the fiscal and monetary frameworks to the new growth targets through optimal tax and foreign exchange framework that sustain mining operations.

Our Views

- The State of the Mining Sector report came at a time when the mining sector in particular, and the overall economy in general, are facing significant headwinds emanating from the ongoing structural adjustment programs.
- Whilst the sector's short term growth prospects remain inhibited as a result ongoing challenges such as shortages of electricity and fuel, as well as constrained and shifting demand for other minerals, the sector continues to exhibit significant upside potential and opportunities in the medium to long term.
- Some of the notable opportunities include investment towards exploration, investment in alternative energy, new mine development, resuscitation of closed mines and investment in minerals of the future such as lithium, among others.
- It is, therefore, imperative for policy makers to consistently develop, implement and pursue policies that enable investors to pursue and unlock the above mentioned opportunities.

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