S&P Global
Market Intelligence

Ep. 182 - Critical minerals in sub-Saharan Africa

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Alisa Strobel

Hello, everyone. My name is Alisa Strobel, and I'm a Senior Economist at S&P Global Market Intelligence, and I will be your host for today's Economics & Country Risk podcast. In today's episode, we will be discussing sub-Saharan Africa's role in the global supply chain of critical minerals in context of the green energy transition.

I am delighted to speak today to my team. A very warm welcome to Thea Fourie, director for the sub-Saharan African region; Lange Malimela, head of the Sub-Saharan Africa country risk team; and my fellow colleague, Archbold Macheka, Senior Economist.

Team, in our recent analysis, we see that sub-Saharan Africa has a potentially important role in the global supply chain of critical minerals needed for the green energy transition, given the region's very sizable reserves. However, development of critical minerals, extractive industries on the continent is often constrained by weak infrastructure, unhelpful regulatory frameworks and narrow financial markets. And perhaps not to forget the increasing scrutiny over the compliance with environmental, social, and governance standards, in short, ESG.

Question and Answer

Alisa Strobel

Perhaps we could deep dive into these aspects a bit more, starting maybe with ESG. African countries often find it difficult to monitor but also comply with ESG objectives. Are there any countries in the sub-Saharan African region which have made more progress regarding ESG objectives compared to others?

Thea Fourie

Yes. Hello, Alisa, and thank you very much for that warm welcome. There's definitely a few countries in sub-Saharan Africa that stands out that made some progress on ESG. And the first one I would like to mention is South Africa who's made some progress especially on the G within ESG. We are now seeing more requests for a rigorous reporting coming from stakeholders, large stakeholders regarding diversity, equity and inclusiveness progress within the South African environment.

We're also seeing a greater focus on water stewardship as well as biodiversity. And as listeners probably know, just recently, the South African government has lifted the licensing threshold for self-generation of electricity by companies operating in South Africa. And this ultimately could unlock around ZAR 160 billion of renewable energy projects within the mining sector over the next 10 years. So a lot of potential in that regard.

Another country that I would like to highlight is Gabon. Gabon is the first country in Africa to receive payments for reducing carbon emissions. And this payment is part of agreement bridge between the Gabon authorities and the Central African Forest Initiative in 2019 and ultimately will unlock USD 150 million of payments over the next 10 years. Gabon will be rewarded for the reduced deforestation and forest degradation, initiatives that has been taken by the Gabon authorities.

I think another country that has got the potential for achieving this objective of reduced carbon emissions and being financially rewarded for it is, of course, the DRC as well.

Alisa Strobel

Thanks, Thea. Speaking of the DRC and Gabon, Archie, as you're covering both economies in your work, besides the data findings showing that the DRC is the largest global producer of cobalt and Gabon the second largest producer of manganese in the world, have there been any other interesting findings in our analysis to highlight to our listeners?

Archbold Macheka

Thank you, Alisa. As you rightly mentioned, the DRC and Gabon are indeed major players in cobalt and manganese mining, respectively. Rising global demand for these critical minerals is increasing pressures for the development of mineral deposits. And the DRC and Gabon have large reserves of these critical minerals needed for the green energy transition.

However, the hope to benefit from investment in critical minerals extraction and fully exploit mining potential for these countries faces blockages. Looking at the DRC, for instance, we are speaking about a country where you really have a deficit of infrastructure, particularly in the energy and transport sectors. Fast rising demand for power and aging infrastructure mean that power blackouts and electricity shortages occur frequently, presenting major problems to several mining companies operating in the country.

The vast size of the country, coupled with the absence of road infrastructure and unreliable means of transport also make access to most of the country extremely difficult and costly. Improving Gabon's transport infrastructure will be key to effectively exploiting the country's various mineral reserves. The country's lack of sufficient modern infrastructure such as all-weather roads connecting major economic centers makes doing business across the country costly and time consuming, especially in more remote areas.

Electrification of these remote areas is no easy task, given the terrain and dense forest that characterize the country. However, these challenges are not only unique to the DRC and Gabon but are quite common within the continent. Countries such as South Africa, Zambia and Zimbabwe boast of very high reserves of critical minerals, but they continue to face significant electricity and water shortages, which are hindering investment in the mining sectors.

In South Africa, transport and logistical limitations such as rail and harbor bottlenecks and electricity supply problems combined with policies adverse to business development have been significant constraints to the mining sector. In Zambia, strong reliance on hydropower often leaves the country without electricity for prolonged periods during times of drought. Zimbabwe also faces challenges from dilapidated infrastructure compounded by vandalism and climate- and weather-related risks which have, in the past, destroyed infrastructure.

Alisa Strobel

So the lack of adequate infrastructure seems to be indeed the Achilles heel holding these countries back from fully exploiting their mining potential. Are we seeing any efforts in trying to reduce these infrastructure deficits?

Archbold Macheka

So it's not all doom and gloom, Alisa. There are major infrastructure projects being undertaken across Africa that are changing mining industry in several ways that we can imagine. Considerable efforts are being made to rehabilitate and modernize the DRC's basic infrastructure. The country, together with Gabon, have secured major development funding as well as infrastructure for minerals deals with China.

Private enterprise is also playing a key role with mining companies investing in roads. In Zambia, President Hichilema has allocated more resources to address the country's infrastructure deficit ever since coming into office in 2022. We have seen increased funding in development of new renewable energy generation projects to lessen Zambia's strong reliance on hydropower.

Zimbabwe is also making strides in delivery of impactful infrastructure projects, such as the Hwange 7 and 8 expansion project to increase electricity supply. We have also seen the modernization of airports and road infrastructure and also the revamp of the Beitbridge border post, which is the biggest port of entry in sub-Saharan Africa, linking Zimbabwe to South Africa.

Alisa Strobel

Thanks, Archie. Besides infrastructure bottlenecks constraining the critical minerals industry, sub-Saharan Africa faces fiscal challenges combined with debt sustainability for one. Thea, what measures can governments take to help alleviate these constraints for the critical minerals sector?

Thea Fourie

Alisa, I think in the future, many governments in sub-Saharan Africa will start to diversify their debt instruments to address some of these infrastructural bottlenecks, particularly electricity supply. And they can use traditional environmental, social and governments or ESG debt instruments not only to meet these climate objectives through the development of green infrastructure projects but also strengthens governments and unlocks some of these infrastructure bottlenecks.

ESG debt instruments include green bonds, blue bonds, Sustainable Development Goal, or SDG bonds, and also other ESG type of bonds. Just recently, we have seen Benin, for instance, launch a EUR 500 million SDG bond, with the money being used to address 15 of the 17 SDG objectives of the United Nations. So these type of financings, we think, will continue to unlock some of the potential and address some of the fiscal constraints.

The green bonds have a bit of a premium to the positive side and therefore makes financing much more attractive for governments. There's also the debt for nature swaps that is possible and has the potential to reduce the debt burden for countries in sub-Saharan Africa and meet climate goals. But their scale has been very limited in recent years and will continue to be so in coming years.

Alisa Strobel

That's right, Thea. Speaking of financing, an interesting finding in our study has been that Mali had the largest copper and lithium exploration budgets within the region last year. However, with ongoing uncertainty over geopolitical developments this and into next year, global exploration spending is likely to continue to focus on lower risk, lower cost exploration mine sites and perhaps favor more advanced projects.

Our study shows that mineral exploration budgets grew in absolute terms last year, but the region's share of global spending on exploration declined, suggesting a deterioration in competitiveness. Lange, from your perspective covering country risk developments, we touched up on some policies already today. But what are some of the broader ways in which governments in the region are adjusting their policies and regulations to take advantage of the global focus on critical minerals? Can you give us some examples?

Langelihle Malimela

Thanks, Alisa. We're certainly seeing various sub-Saharan African countries that have begun to modify their mining codes in order to include tax incentives for investors. Gabon and Namibia come to mind. In Gabon's case, manganese is Gabon's second largest export product, which accounts for roughly 11% of total exports. And so in a bid to attract more investment, expand exports, diversify away from oil, which is again a regional trend you're seeing governments amend their mining codes, and this was the case in Gabon in 2019.

And that modified code includes attractive tax legislation, which will benefit investors, but also clarifying and giving more detail in terms of regulatory frameworks and giving more transparency and efficiency into their systems, particularly when it comes to collection of taxes and royalties. And as I mentioned, Namibia is another country where for example, you have sizable lithium deposits and a government that is now pressing mining companies to invest in local processing and refining capacity.

And Namibia is in the fortunate position that it tends to attract higher levels of foreign direct investment, particularly recently in the mining sector, certainly in comparison to some of its peers. And that's partly because of better infrastructure, such as more stable electricity supply. So it's also a place where the risk of sudden changes to regulatory environment where expropriation risks may suddenly occur is significantly lower than perhaps some of its peers in the region.

If we look at West Africa, Mali's interim government announced on March 29 this year that it would review all mining contracts. And this was following an audit, which suggested major systemic irregularities in the sector, which were depriving the government of substantial revenue. And so you have that announcement, which is for us, the latest in several indicators of West African governments again seeking to review mineral, oil and gas, even agricultural contracts in order to obtain greater control and extract an increased share of revenues.

Alisa Strobel

Right. How do they balance the need to attract investment into the sector while making sure that there are tangible benefits locally?

Langelihle Malimela

Indeed, so the politics is obviously driven by local interest. Critically, the outlook from a policy and regulatory point of view needs to be looked at in the context of declining electoral support in certain important cases. We know that in such an environment, ruling parties, the governments that they control tend to lean towards more populous policies in order to appease constituencies and key power brokers.

We look at the ANC in South Africa, that's a party that's probably in quite steep electoral decline, multiple crises, including not least the energy issue. And we know already that there are often high levels of frustration, even confusion amongst investors where local content requirements, Black economic empowerment are concerned, where it seems to be under constant review.

And so it's our expectation that a gradual sort of tendency is likely to tighten regulation even further in this regard in a country like South Africa over the coming years. Zimbabwe is another that stands out for a need to develop its regulatory framework. Zimbabwe imposed a moratorium on the export of lithium in December 2022, and this is ostensibly to allow for government more time to develop adequate fiscal capture arrangements on taxation and royalties.

And so there's very likely to be a significant overhaul of mining regulation in Zimbabwe during the course of 2023. And of course, there's a crucial election coming up there in August. But this is especially likely to affect critical minerals. Government also putting in place measures to ensure that in the future, the beneficiation of lithium takes place inside the country before such products are exported.

But again, these tend to be heavily influenced by special interest often towards the seniority of ruling parties and governments themselves. There's little doubt then that in our assessment, at least, the political considerations in terms of who the primary beneficiaries are locally will influence how these regulations are formulated and enforced. Suffice it to say that it's the more stable governments that are more likely to create the most attractive conditions for investments into the sector.

Alisa Strobel

Thank you, Lange. This is really interesting. That's all we have time for today. Stay tuned as we continue to publish new analysis on this theme. Team, thank you for your contribution today, and thank you very much for listening to our podcast.

Operator

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