Address by the Deputy Minister of Mineral Resources,
HE Mr Godfrey Oliphant, MP at the
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Capital Raising, Funding and Investment
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Ladies & Gentlemen

Allow me to thank the organizers for inviting me to this auspicious conference. It is certainly a good time to reflect on the subject of capital raising and funding of the mining projects. The commodity price cycle is bound to revive and normalize in line with the global economic activity.

I come from a country that has well over 150 years of mining and mining finance experience. We have seen a number of ebbs and flows over the decades in the willingness of the financial markets to commit funding for mining projects. At present, with the end of the super cycle of commodity prices, the financial markets are understandably far more circumspect in funding mining projects. So, the mood has swung from easy access to capital during the commodity boom years to the current difficulties facing the industry in accessing finance worldwide. Whilst that might be true as a general statement, the reality on the ground is a great deal more complex. I would like to elaborate on some of these underlying complexities that have considerable bearing on capital raising and financing of mining projects.

Of course, as we all know, the mining industry has different and distinct operational segments that tend to attract different types of finance. For example, prospecting or "exploration projects" have a completely different risk profile than "mine development projects". Likewise, operational ore extraction activities during the initial 'ramp up' phase have a different level of risk than during the end of mine's economic life, or during the mine closure. Raising capital for these different types of activities faces varying challenges.

Super imposed on these generic technical geological and operational issues are the other project-specific challenges that commonly compound the financial calculations. Moreover, the regulatory and compliance requirements add further elements of risk and burden on the expected returns on investments in this sector.

Within such a stylized general framework, funding of different activities, or projects, needs to be matched by different market segments in the financial markets each of which has a different risk appetite and time-preference. Broadly speaking mining projects are commonly capital intensive and mining projects require patient capital. Seldom can a project reward the investors in the short term. As such in the capital markets different specialized funds target different phases of mining projects. Of course, large mining houses replicate such division of funding in-house. Nonetheless, the logic of funding arrangements remain similar.

In this context, a well-developed financial market is an important prerequisite for sustainable access to funding for the mining industry. In my own country, with a 150 years of mining industry, a major success factor has been the emergence and expansion of the financial markets soon after the discovery of diamond and gold in the latter half of the 19th century. It was during SA's first gold rush that the Johannesburg Stock Exchange (JSE) was established in 1887. As it is well known, stock exchanges are critical instruments of channeling national savings to the medium to long term investment projects. Modern economies can hardly function without a well-regulated and properly functioning stock exchange. Mining projects, industrial projects, and national infrastructure projects are all long term projects, and as such they require long term funding within a sound and reliable investor relations framework.

Ever since the late 19th century, the relationship between the mining sector and the financial sector in South Africa was mutually reinforcing for at least the first 50 years. Understandably, in the first few decades of its formation, the JSE was dominated by the mining stocks.

The mining industry in South Africa was furthermore the platform for the diversification of the economy both in downstream and upstream industries ranging from the water sector and energy supply, on the input side to the emergence of iron-steel industry, and the establishment of a world-class petrochemical complex on the downstream side of the beneficiation value chain. As the economic diversification took roots, the economy further helped the deepening of the financial markets in the country, which in turn further underpinned the availability of long-dated funding as well as other forms of finance for the mining projects.

In this context, the establishment of the Johannesburg Stock Exchange was the beginning of the systemic evolution of a financial system which is able to raise long-dated equity alongside all other forms of structured finance in the form of long-dated debt, mezzanine and short-dated bridging finance. The nature of complex projects, be they in the mining sector or elsewhere in the economy, is such that all kinds of funding instruments are required at different stages of the evolution of the project. Sustainable capital raising and funding of the mining sector therefore requires a well-developed financial market with the full range of financial instruments. This has also been the empirical requirement of the sustainability of access to finance during the industrialization revolution, and more recently during the post-industrial era, or the age of digital revolution.

Whilst the aforementioned framework has been true historically, and it will remain relevant going forward, the globalization of socio-economic and financial markets together with the digital revolution have brought new challenges. Increasingly, capital raising and financing of mining projects are intertwined with socio-environmental sustainability, issue of social justice and the delicate balance between the competing needs in the use of scarce resources, be they land or water.

I would like, therefore, to suggest that given that mining is a long term investment, in our approach to funding and finance we need to take a long term view. To this end, and conscience of my limited time, I like to briefly underscore a few critical worldwide issues that have assumed growing significance in the recent years.

In the light of the deteriorating state of our ecological environment, the mining industry's success in the long term will, to a large extent, depend on the degree to which it adopts 'green technologies' and sound environmental practices. It is a fact that all over the world, the mining industry is synonymous with the destruction of the environment. A cursory examination of mining sites the world over highlights the fact that neither the industry was much concerned about the environmental impact, nor did the regulators place adequate emphasis on the need for environmental sustainability. At best, many regulators demanded some form of financial commitment to post-mining rehabilitation of the mining sites. More often than not, environmental collateral damage was much wider than the mining site per se. For example, the damage to the underground water systems and reservoirs, or the harm caused to the eco-system and the like were seldom taken into account. As such nowadays in many mining jurisdictions there are countless old and derelict mining sites that remain a historic reminder to us all that environmental considerations cannot and should not be an after-thought in mining design and finance. In the absence of such full and comprehensive financial structuring of mining projects, the national fiscus ends up with the liabilities and the communities in the region

inherit the full cost of poor regulation and inadequate financial provisions.
Increasingly, the instantaneous access to information has elevated the need for financial institutions putting in place a range of fiduciary and risk-mitigation measures to ensure that their finance does not lead to environmental adverse effect which would entail negative publicity and other forms of social pressures.

Related to the environmental issues, is the world-wide debate on the trade-offs between mining operations and the land potentially useable for agriculture and food production. This dichotomy has to be managed carefully and responsibly via sound and concurrent environmental rehabilitation management practices. In the developing economy context, this trade-off is even more sensitive from a socio-political point of view. Because more often than not, the poverty is concentrated in the rural regions where subsistence agriculture is the sole means of livelihood. The use of land for mining operations in such social setting means a further dislocation of communities, and a serious disruption in the subsistence and livelihood of the surrounding communities. Unless careful mitigation policies are in place, commonly such mining projects tend to intensify poverty and compound structural unemployment.

Closely linked to the use of land is the utilization of water resources. Often mining projects are water-intensive and therefore a trade-off arises between water allocation to the human settlements in the region, other economic activities such as agriculture and the imperative of meeting the water needs of a mining project. Much the same may be said about the use of some or other key infrastructures and communal resources. Access to roads, land for housing, and transportation logistics are examples in this regard.

In effect, in many developing countries, there has been a complex direct and indirect tension between mining and socio-political setting within which mining operations take place. The result of these tensions is an implicit risk for the funding of mining projects. With an ever-widening access to information, thanks to the digital revolution, it is becoming clear that societies in general, and the communities in the mining regions in particular, are getting more and more involved in ensuring that "social justice" prevails. No longer are they silent around these issues, nor are they satisfied that compliance with regulations is necessarily optimal for them. This is particularly true when the mining regulations are outdated and overtaken by modern technologies or 21st Century issues of socio-environmental nature.

So, the concept of "social licence to operate" is gaining growing popularity. In this context, "green finance" is becoming a proxy for the funding of environmentally compatible finance. Not only is the ecological environment critical, but also as important is compliance with socio-political sustainability of mining projects- and indeed all other long term projects. Capital raising and financial structuring of mining projects cannot ignore these vital issues. After all each and every one of these issues is a source of potential risk to the project. If not adequately mitigated, it is certain that such factors over time will have material impact on the effective rate of returns of the initial investment.

Mining has been and will continue to be a critical economic activity with much potential socio-economic benefits. Different mining regions or jurisdictions offer varying degrees of upstream and downstream beneficiation opportunities. And, the rapid pace of the digital revolution is fast changing the technical possibilities in this regard too. For example, the pace of mechanization is bound to reduce the labour-intensity of mining operations to a large extent. In many mining jurisdiction, particularly in the developing countries, these labour-saving trends are the opposite of what the socio-political conditions need. So, for the long term stability of the social environment where mining operations take place, it is critical that an integrated approach to mining design is considered, maximum supply chain localization, concurrent rehabilitation and post-rehabilitation enterprise promotion are combined to increase the business and economic benefits to the surrounding communities.

With financial institutions, pension funds, and other sources of capital becoming more and more sensitive to public perception and social forces, it is important that the mining industry responds to these new dimensions of "doing mining in the 21st Century" carefully. The more the technical operational issues are balanced with socio-environmental factors, the less the mining project will embody risks, and hence the easier will it be to raise capital for its funding.

Ladies and gentlemen; I have attempted to summarize the challenges we face nowadays in securing capital for the funding of the mining projects. Whilst some basic principles of long term finance remain applicable, some new issues have emerged in our modern day globalized societies. Raising capital and the financial structuring of mining projects, I submit, need to take full cognizance of these powerful socio-environmental factors so as to ensure access to sustainable funding.

As the commodity cycle gradually turns, it is important that we, the stakeholders in the mining industry, reflect on the best ways of designing a funding framework that would strike a healthy balance between these competing demands on the mining projects.

I thank you.