Projected infrastructure spend tied to mining in Africa in 2016

African infrastructure spend will reach US$180 billion per annum by 2025 according to a study by PwC. This sizeable sum represents a commitment from national governments throughout the region, to address regional development. The mining sector in Africa has historically played an important role as a catalyst for infrastructure development. Traditionally mining in Africa has taken a 'build your own' approach when it comes to infrastructure. Increased projected public infrastructure spend in transport and energy infrastructure will be of great value to the mining sector, and will be of huge benefit to mining companies in stimulating new mine development particularly in times of turbulent commodity prices and increased volatility in commodity markets.

The infrastructure that supports a mine is both diverse and intrinsic to ensuring profitability, regardless of market outlooks. Indeed, with current mineral prices, many mining companies are beginning to understand the importance of improving basic infrastructure as a means to secure future profits. Whether this is through direct investment in infrastructure or by gaining benefits as a secondary beneficiary, mining companies cannot ignore the importance of infrastructure for the future. Linsey Dyer, Business Development Manager (Infrastructure) at DRA Global, explains that, "In many cases infrastructure costs represent more than 50% of the project value for a mine. Historically mine owners have ignored the fact that their infrastructure capital expenditure was more than their mining and processing capital expenditure. However, with the mining crunch at the moment, the time of that happy ignorance is now over."

While mining companies and project stakeholders have a vested interest in investing in infrastructure on site, these same players stand a chance to greatly benefit through public/private partnerships on infrastructure spend. Moe Shaik, General Executive: International Finance from the Development Bank of Southern Africa (DBSA) assures that African governments are onboard and open to discussion. "Private-Public Partnerships (PPPs) will lead the increased investments into infrastructure," says Mr Shaik, "And governments require the capacity to be able to ensure that they provide the proper oversight that is necessary for mega projects."

If indeed public and private partnerships are the future for fast-tracking infrastructure projects, both public and private bodies will no doubt need to revaluate how infrastructure is perceived on the continent, and how partnership projects will ultimately be the most conducive force behind both regional development and profitable business for the private sector.

Furthermore, the DBSA recently made a commitment to accelerate infrastructure projects in sub Saharan Africa along with the US Trade Development Agency (USTDA). These large-scale projects will be prioritized towards the bankability phase through project preparation grants, capital funding, and other funding mechanisms. While power, transport and information and communication technology infrastructure projects will be given preference, the infrastructure acceleration will benefit mining by increased energy availability, and of course, by opening passages for mineral transport by road and rail.

Beyond the DBSA, the International Development Corporation (IDC) in South Africa is looking to provide funding for a number of infrastructure projects related to mining across Africa in 2016. Lizeka Matshekga, Head: Industrial Infrastructure SBU at the IDC says, “We are working alongside the Mining and Metals Value Chains and analysing how we can best help to prepare for the future. We are a long-term partner, and in terms of commodity prices we feel we need to invest now and consolidate infrastructure in order to prepare for the upswing, and the way we do this is to look ahead with long term partnerships with our clients.”

Linsey Dyer explains, “We need to be asking why and then develop shared visions based on sustainable values.” DRA, a mining EPCM company that has diversified into infrastructure projects was recently invited to become a part of the continental business network of Programme for Infrastructure Development in Africa (PIDA). Spearheaded by the New Partnership for Africa’s Development (NEPAD), the overall goal of PIDA is to promote socio-economic development and poverty reduction in Africa through improved access to integrated regional and continental infrastructure networks and services. While the mining sector is not expected to be a primary beneficiary of PIDA, the regional and continental infrastructure boost to transport, energy, trans-boundary water and ICT, will benefit the sector substantially down the line.

Within the rest of Africa, memorandums have been signed by the governments of Botswana and Namibia to build the Trans Kalahari Railway. The 1900km railway line will link Botswana’s coalfields to port in Walvis Bay, improving the future viability of new coal project opportunities. . The proposed venture would also offer the opportunity to carry Botswana’s copper and nickel exports resulting in improved operating margins. Beyond this multiple railway and road projects are currently planned and underway in Zambia, Zimbabwe, Mozambique, the DRC, and up into East and West Africa.

Large-scale infrastructure projects loom large, and investing in such projects, or planning investments around such projects, is where mining companies could begin to improve profitability. Roger Baxter from the South African Chamber of Mines make it clear that, “We need to make sure that our infrastructure is available, especially with regards to electricity and rail transport. Progress (in South Africa) is being made to resolve these challenges, but they have to be cost effective and they have to be manageable. There is no point in having the infrastructure available if it becomes too expensive.”

In terms of energy, it is no secret that mining across Africa has been hampered by shortages in electricity production. The Africa Progress Report projects that national governments across the regions need to invest $55 billion USD annually in order to get the continent back on track. The problem is widely understood, and a number of different power projects are underway that will ultimately aid the mining industry.

South Africa is making giant leaps in the renewable sector. With some new power stations online, the country is now experiencing a relief as Eskom; the state owned energy provider appears to be getting back on track following a turbulent year of load shedding. South Africa is also making headway with investments into fuel cells, hailed by energy experts as the future of power for mining. Countries such as Zambia and Tanzania are making significant headway to addressing power shortages by developing new energy projects. Botswana is expanding current capacity at the Morupule power station, and Namibia has plans to significantly expand into renewables. There are furthermore a number of plans to expand nuclear plants in South Africa, and inaugurate nuclear power in Nigeria and Kenya. However, whether or not these projects will survive international scrutiny and ever pass planning phases remains to be seen.

Beyond energy, it goes without saying that mining across Africa will benefit from increased rail infrastructure spend by the public sector. Transnet have already allocated a R33 billion (USD $2 billion), for 2016. Industry experts such as Andries Rossouw Director at PwC, expect this capital to be invested into new rolling stock as well as maintenance projects to service tracks and eventually enable a network to service the mining industry.

“Throughout Africa,” explains Andries Rossouw, “Diversification is key and investments into road, rail, and electricity projects will be essential for the future of mining. We are debottlenecking in order to make the mining sector work and infrastructure is the driver to get that right.”