

Maximizing the Potential of the Gold Industry

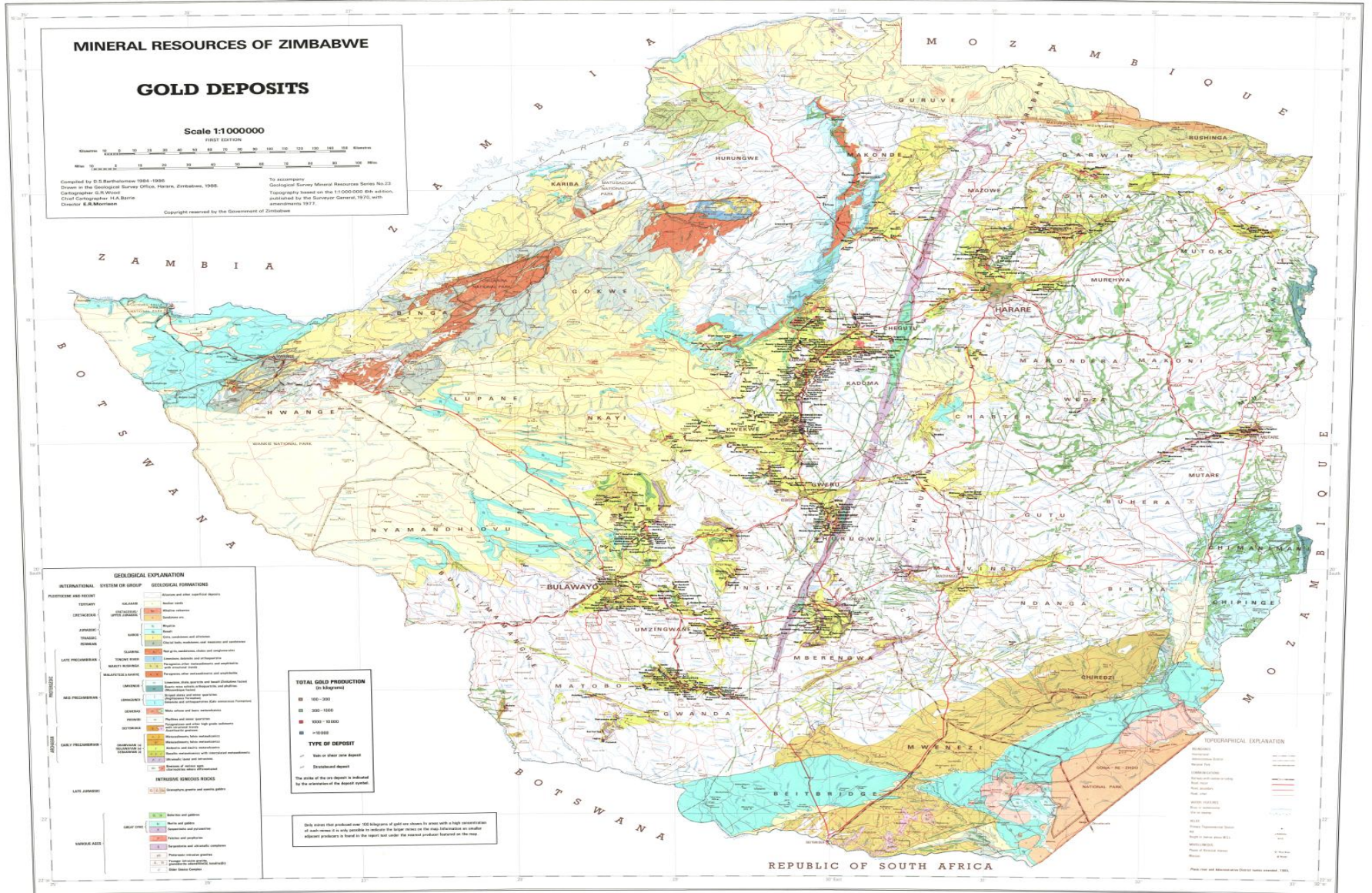
Growth Strategies for the Gold Industry

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Background

- ▶ The country is endowed with huge amounts of mineral deposits.
- ▶ More than 40 known minerals.
- ▶ However, the sector has lost its diversity and as of 2015 four minerals (gold, platinum, palladium, nickel and diamonds) accounted for 83% of total mineral revenue.
- ▶ Gold alone accounted for 40% of the total mineral revenues in 2015.

Gold deposits map of Zimbabwe



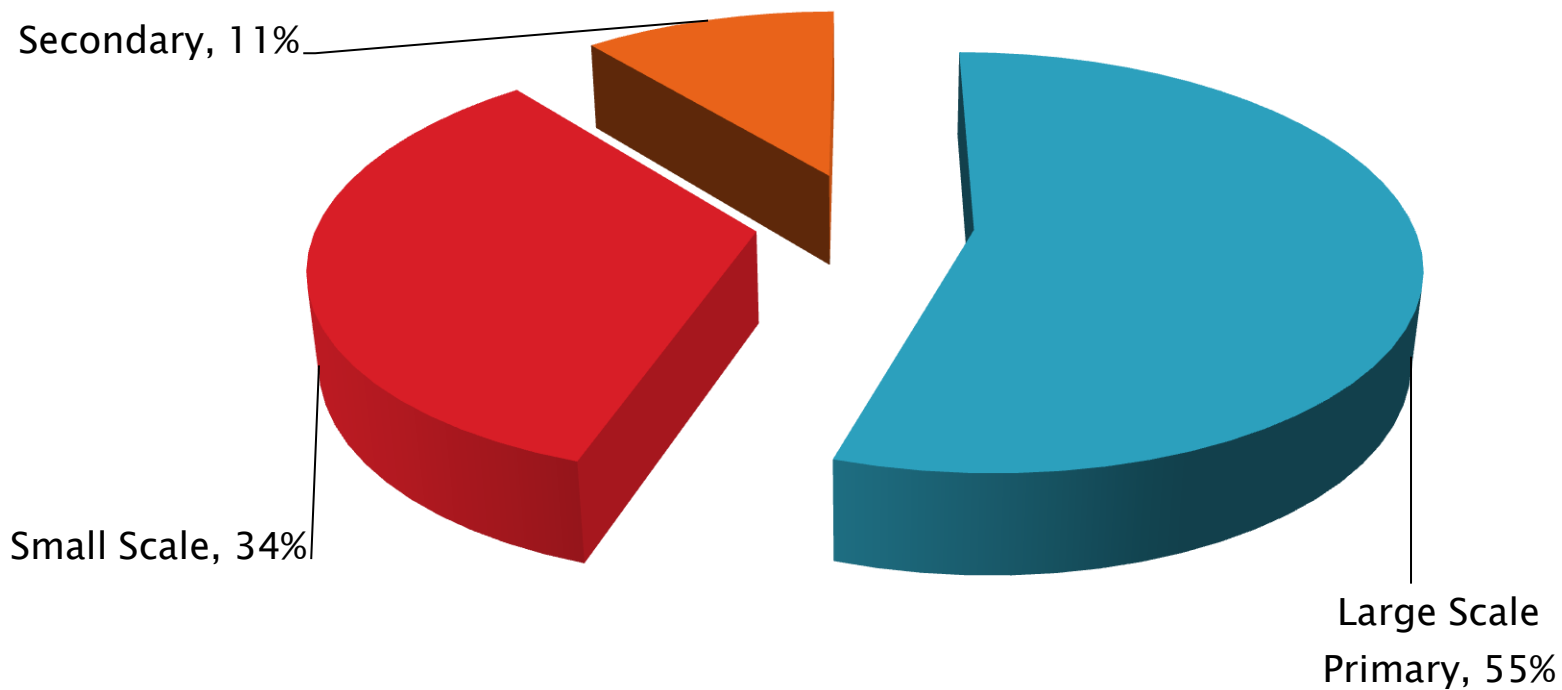
Zimbabwe rich in gold deposits

- ▶ The country is rich in gold, with an excess of 4 000 recorded gold deposits;
- ▶ In terms of gold productivity per square kilometer, the country is ranked above the traditional big producers including USA, Canada, Australia and Brazil;
- ▶ The country has, however, remained largely underexplored, impacting negatively on grades due to limited new discoveries. (the last major gold discovery was Freda Rebecca in 1984 and started producing in 1988).

Structure of the gold industry

- ▶ There are three (3) broad categories of producers;
 - Large scale primary producers;
 - Small scale and artisanal producers; and
 - Secondary producers – (by-product largely from PGMs).

2015 % contribution to 20 tons of gold output by category

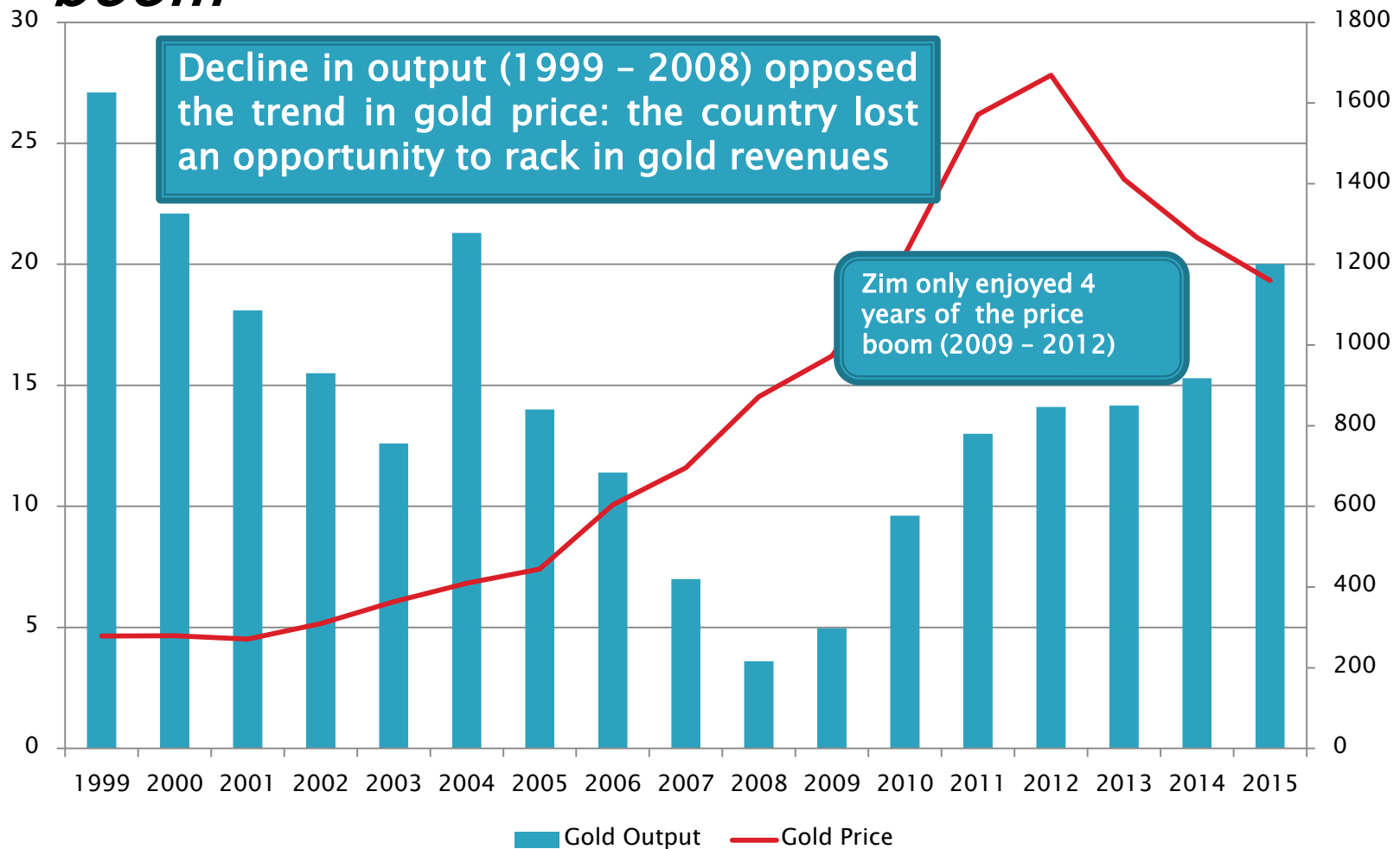


Current status and performance of the gold industry

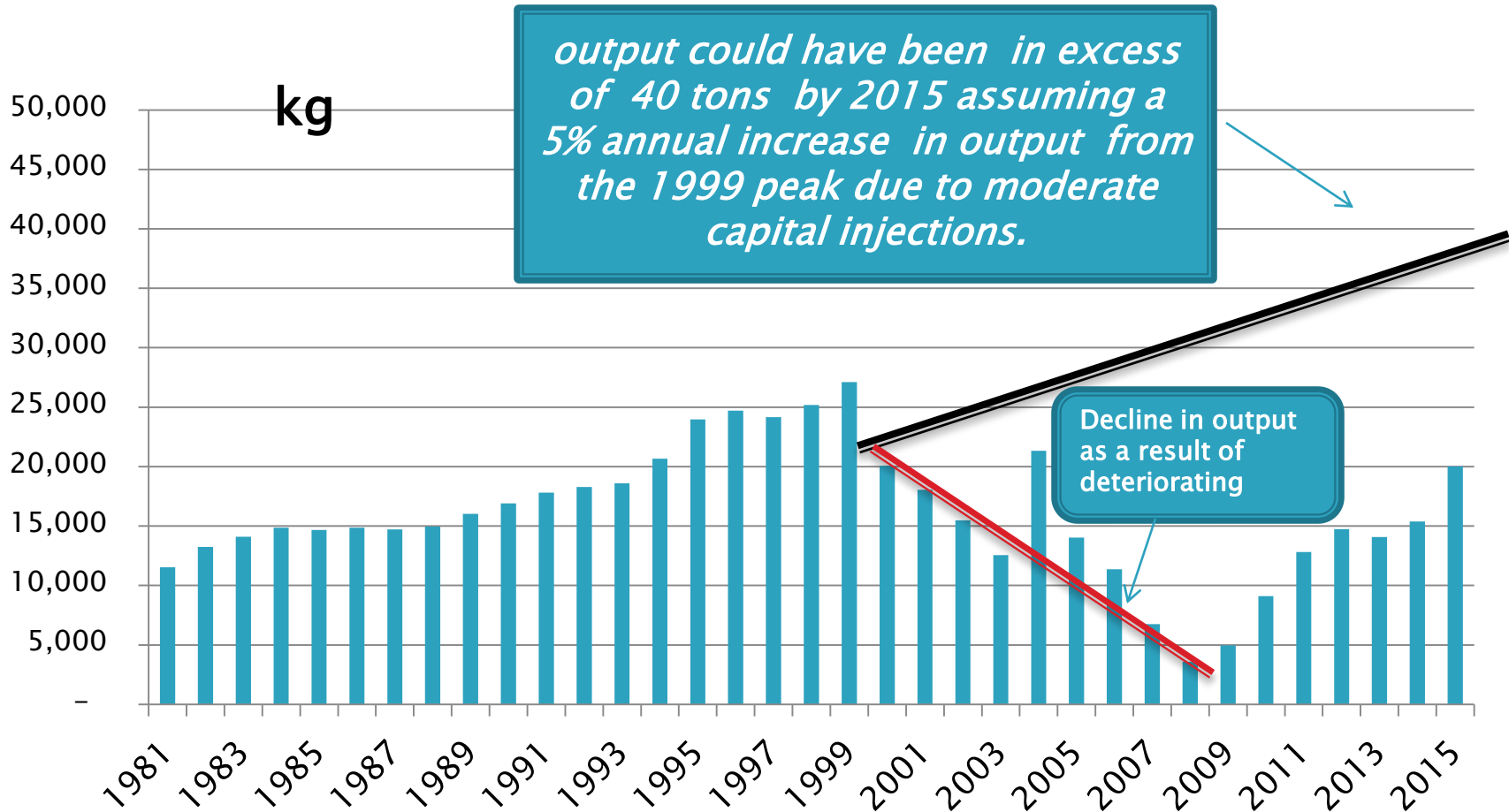
Gold Production

- ▶ Despite attaining a peak of 27.1 tons in 1999, gold output levels progressively declined to reach a historic trough of 3.6 tons in 2008, before recovering to back 20 tons by 2015.
- ▶ The industry continues to operate below installed capacity at around 77% in 2015.

The country' failed to leverage on the price boom



Gold Output – Zim’s lost decade +

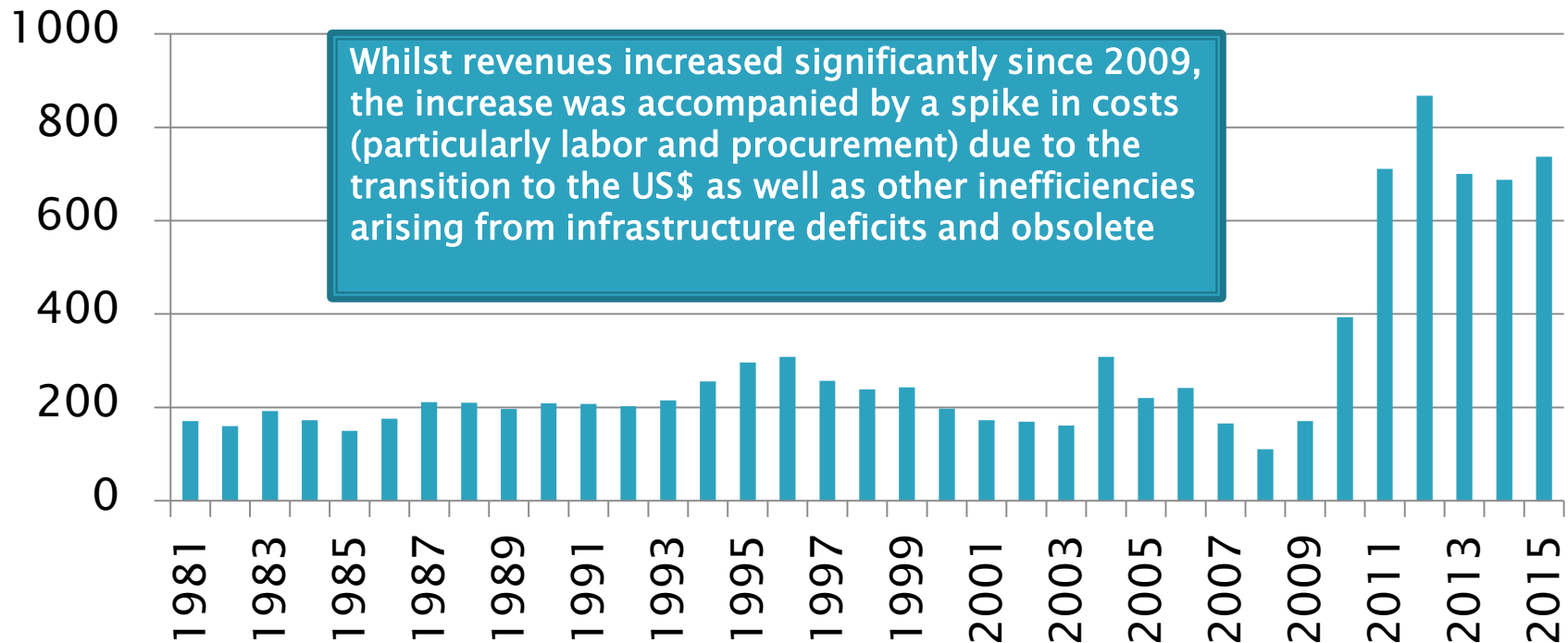


The sector remains strategic to the country

- ▶ Notwithstanding the lost decade +, the gold industry remains important in the socio-economic development of the country through its contribution to export earnings, government revenue and employment, among other contributions.
- ▶ It is the largest contributor to mineral export earnings at around 40%.

Gold revenues – increased albeit with disproportionate increase in costs

US\$ million



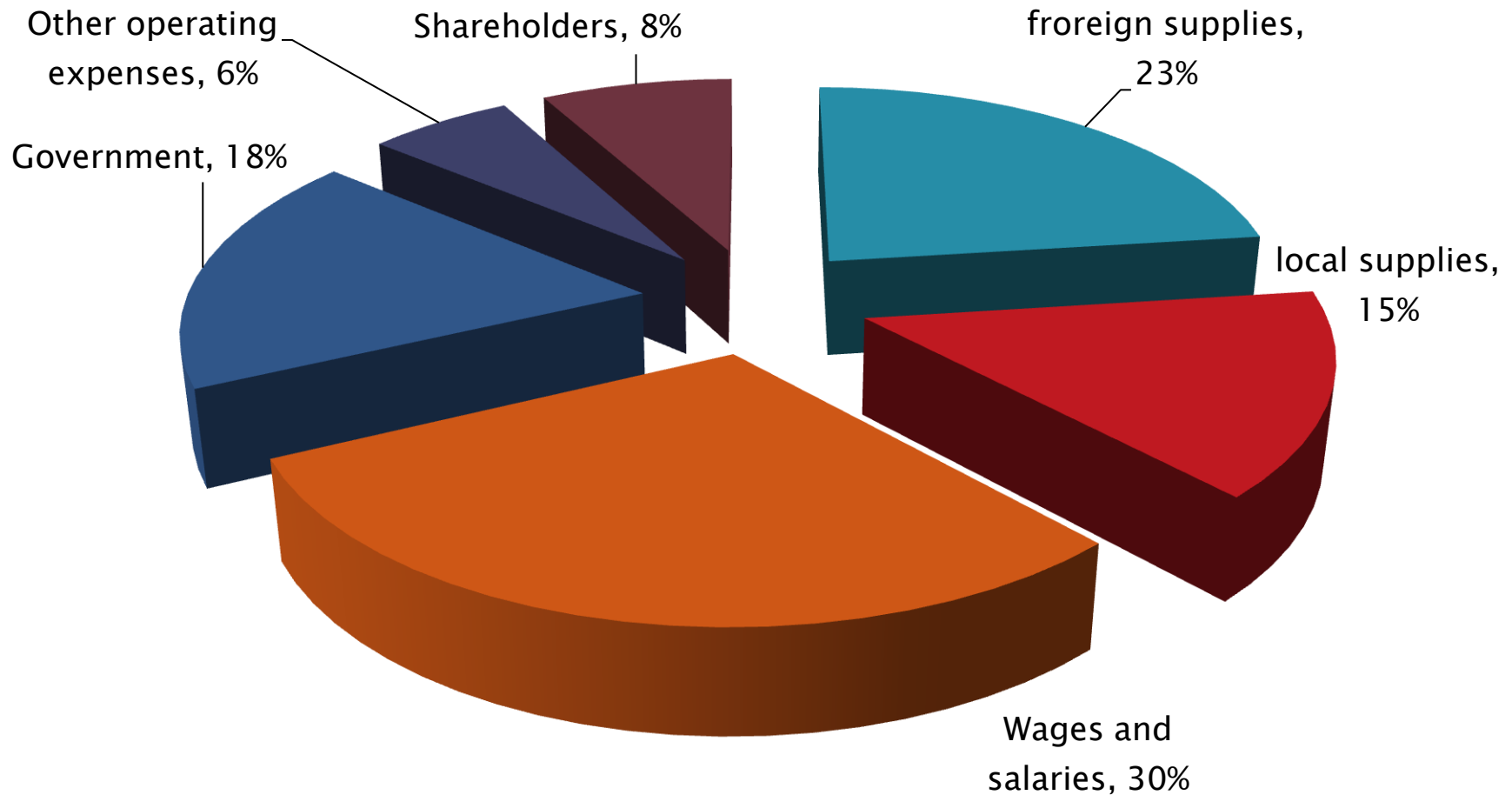
Gold receipts increased from US\$155 million in 2009, to reach a peak of 868 million in 2013 and was at US\$737 million in 2015. For the period 2012 – 2015, the industry generated US\$2.7 billion

Sharing the US\$2.7 billion gold cake generated between 2012 – 2015

Category	US\$ million	% Share
Foreign supplies	621	23%
Local supplies	405	15%
Wages and salaries	810	30%
Government	486	18%
Other operating expenses	162	6%
Shareholders	216	8%

For this three year period, 79% of gross revenues was consumed locally

Distribution of the US\$2.7 billion generated between 2012 and 2015



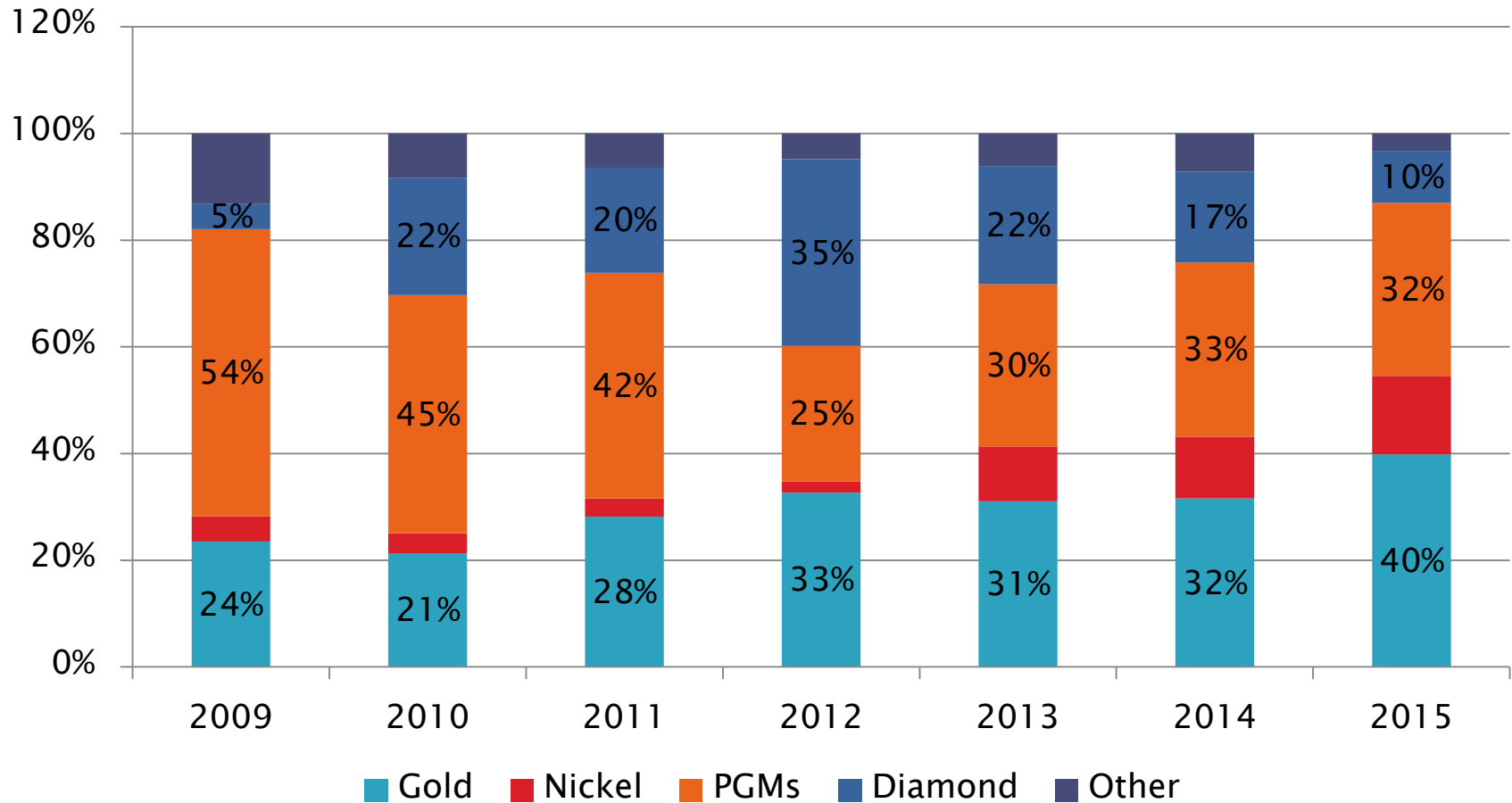
Contribution of the gold sector to the economy

	Direct Contribution of the gold Sector to the economy	Total Contribution of the gold sector (direct plus indirect)
Contribution to GDP	4%	7%
Contribution to Total Exports	22%	22%
Contribution to Fiscal Revenue	4%	8%
Formal employment	11 500	44 500
Informal employment	200 000	800 000
Contribution to Foreign Direct Investment	28%	28%

Gold output and multipliers

- ▶ For every dollar created in the gold industry an estimated 79cents will be created in other sectors of the economy arising from the multipliers. The indirect multipliers include the indirect and induced impacts of the mining sector to the economy [backward linkages (e.g. transport, supplies, professional services) and forward linkages (e.g. electricity generation) etc]

Gold's contribution to mineral exports has been increasing since 2009, and is currently the largest contributor



Contribution to employment

- ▶ The formal gold industry has created in excess of 11 000 direct jobs (25%) of total formal mining employment of around 40 000 and an additional 33 000 in indirect jobs.
- ▶ Further, the artisanal and small scale sector is estimated to absorb in excess of 200 000 people.

Contribution to fiscal revenue

- ▶ Gold is currently contributing around 4% to the fiscus through Government taxes and other fiscal charges, and an additional 4% is generated in the value chain.

Contribution to community development

- ▶ Activities by gold producers through their corporate social investment (CSR) budgets has contributed significantly to community development.

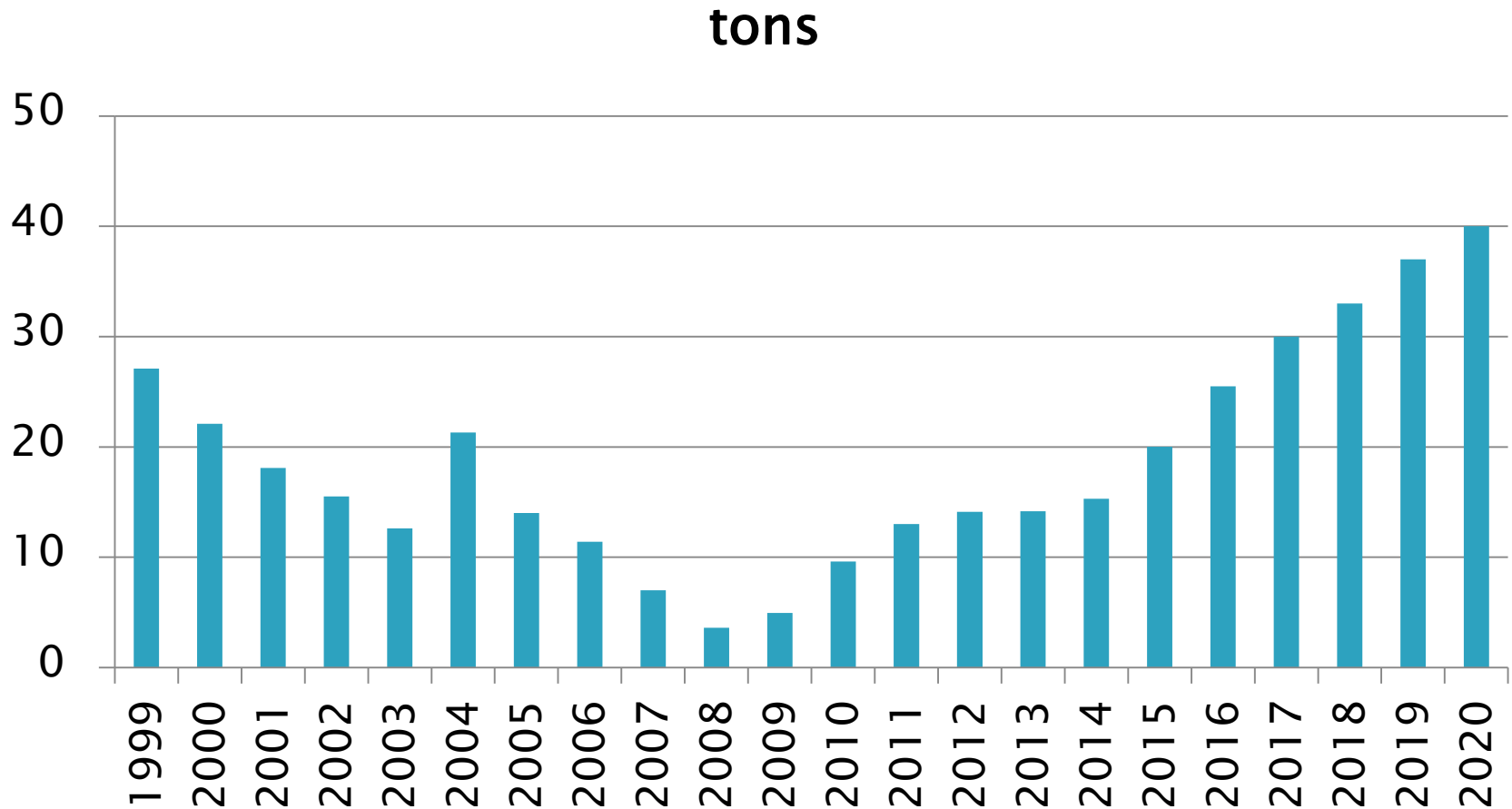
Linkages

- ▶ The industry's linkages with the entire value chain upstream (suppliers), downstream (beneficiation and value addition) and side-stream (demand for services – power etc) generates further impetus for economic activities.

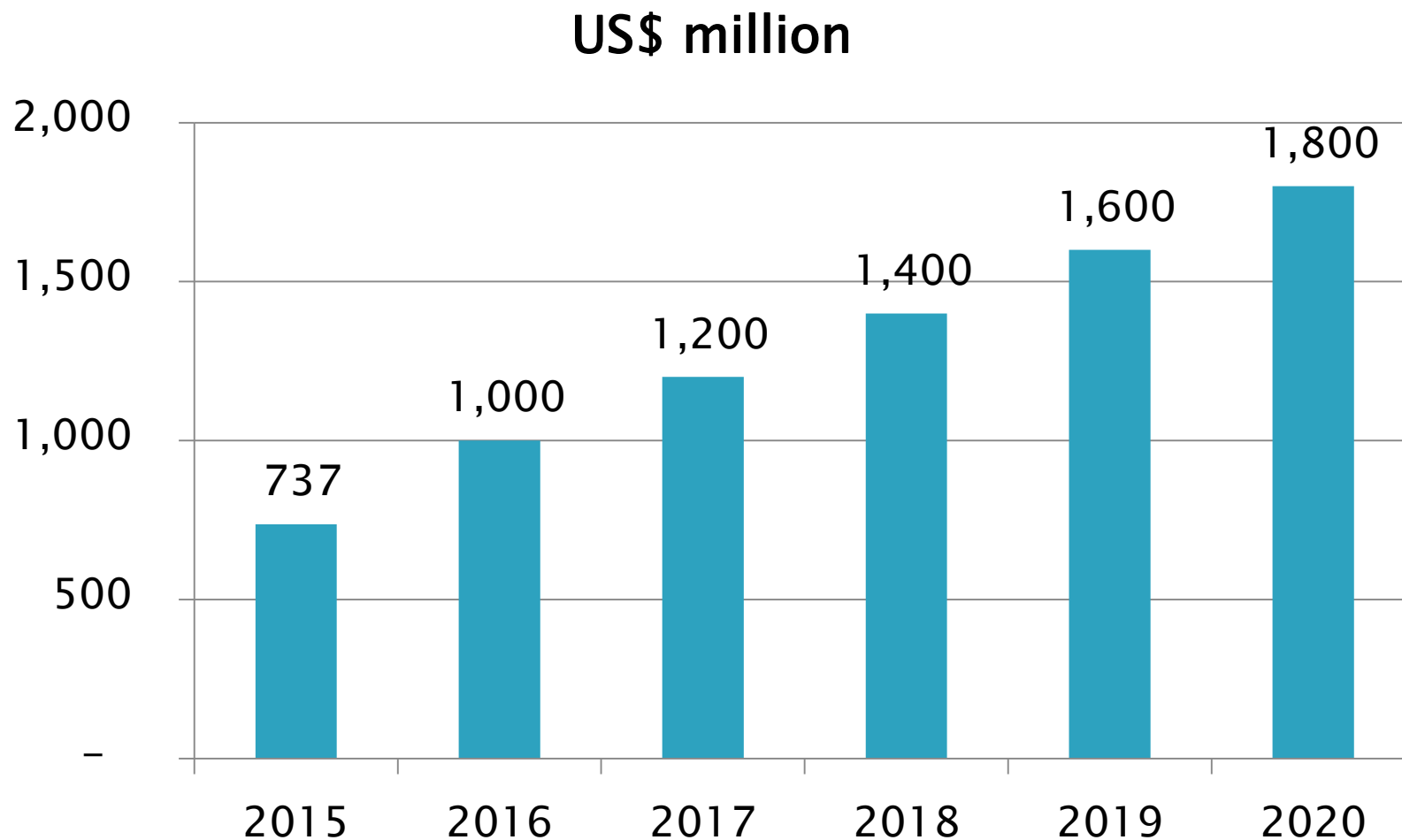
Potential growth of the gold industry sector

- ▶ The presence of extensive gold deposits coupled with idle capacity presents an opportunity for the gold sector to increase output to over 50 tons by 2020.
- ▶ Existing producers have potential to increase output to 50 tons through improved efficiencies and expansion of current operations
- ▶ In line with output growth, gold revenues will reach US\$1.8 billion by 2020.

Existing gold producers can rump up production to 40 tons plus in the next 5 years



..gold receipts to increase to US\$2 billion by 2020, up from US\$737 million in 2015



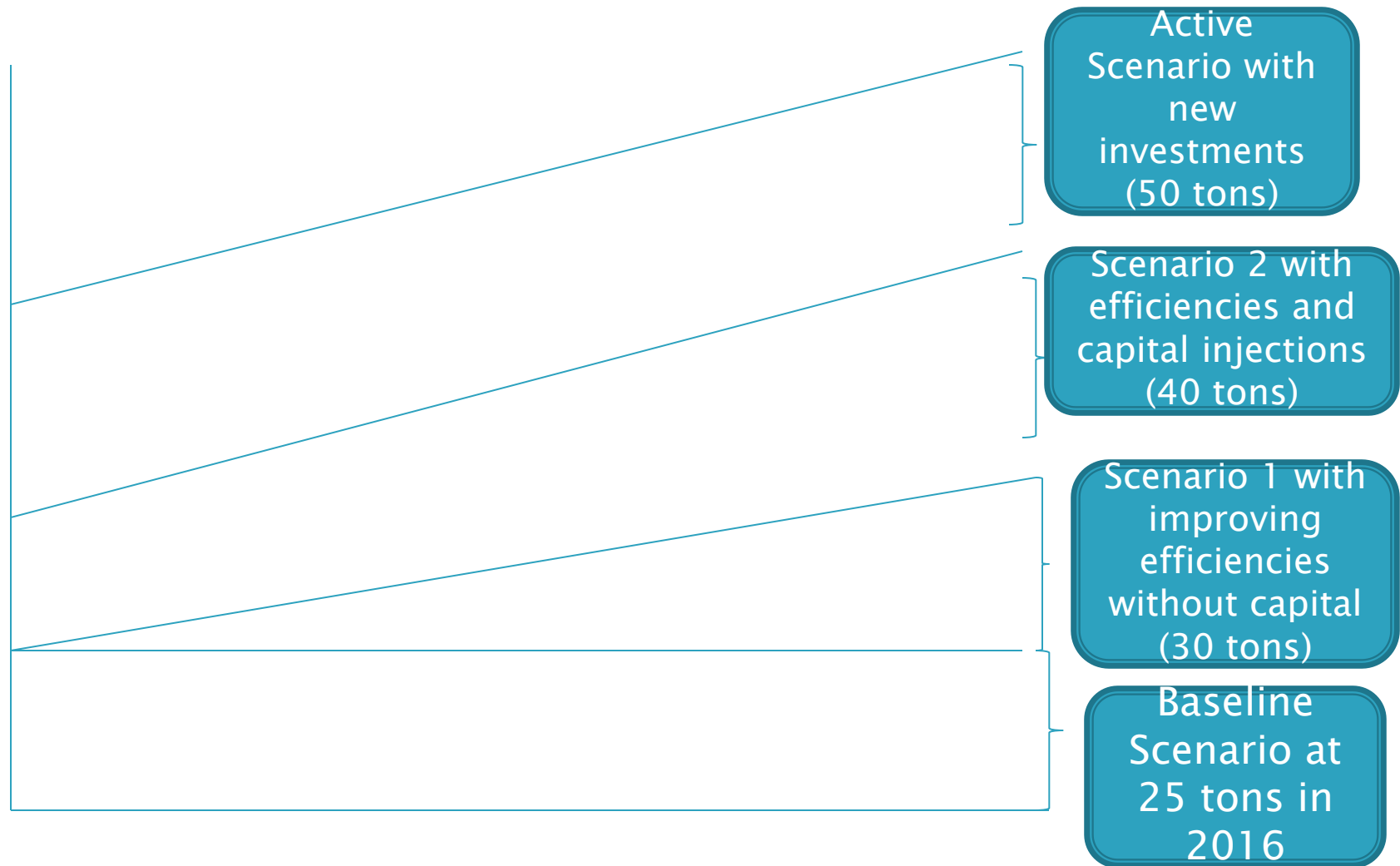
Potential contribution of the gold sector to the economy

	Current contribution of the gold Sector to the economy	Potential Contribution of the gold sector to the economy
Contribution to GDP	7%	15%
Contribution to Total Exports	40%	55%
Contribution to Fiscal Revenue	8%	12%
Formal employment	46 000	70 000
Informal employment	800 000	1 00 000
Contribution to Foreign Direct Investment	28%	31%

Critical success factors

- ▶ Critical success factors for sustained growth and development include:
 - Resuscitation of closed mines;
 - Increasing installed capacity;
 - Develop new mines;
 - Improve efficiencies and reduce costs
- Capital;
- Infrastructure;
- Skills and technology;
- Conducive business environment

Four levels of Strategic Growth



Role of the industry

Resuscitating closed mines, improve efficiencies and reducing costs

Level 1,

- ▶ Resuscitation of closed mines;
- ▶ Improving efficiencies through use of new technology and optimising the use of inputs.
- ▶ Manage costs through aligning labour costs to productivity, optimal power usage and negotiating with suppliers for reduced prices.
- ▶ These initiatives may improve output to 30 tons in 2016, compared to the projected 25 tons.

Level 2

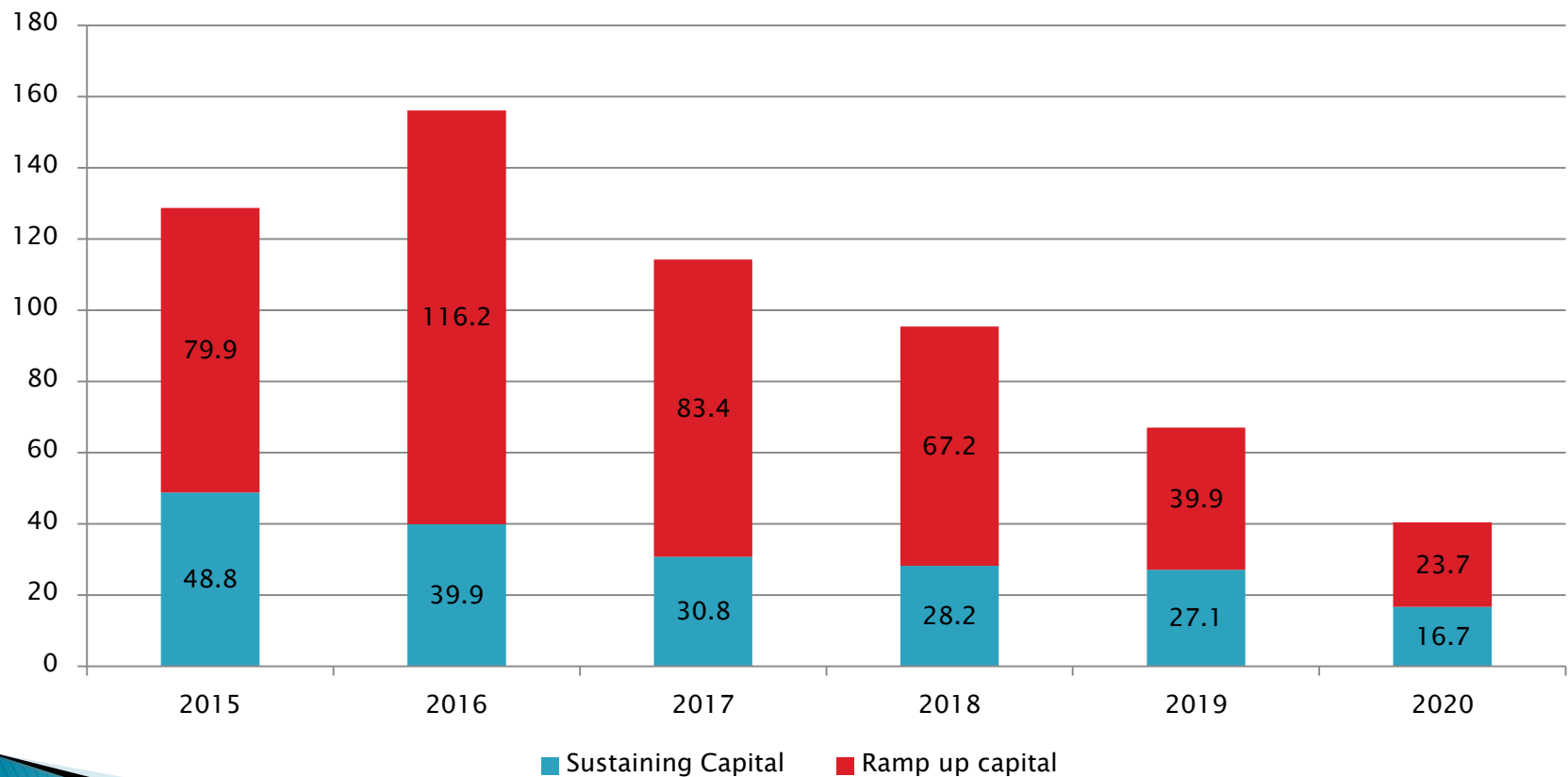
- ▶ Capital injections by existing entities – current producers require around US\$600 million to increase output to 50 tons in the next 5 years.

Level 3

- ▶ This involves maintaining improvements plus new capital injections in new (green-field) projects.
- ▶ This scenario generates additional productive capacity and therefore would result in improved employment levels and, thus, output would exceed 50 tons;

Capital

- ▶ The gold industry requires US\$600 million in the next 5 years to optimise production, of which 410 million relates to ramp up capital, while 190 million is for sustenance of operations

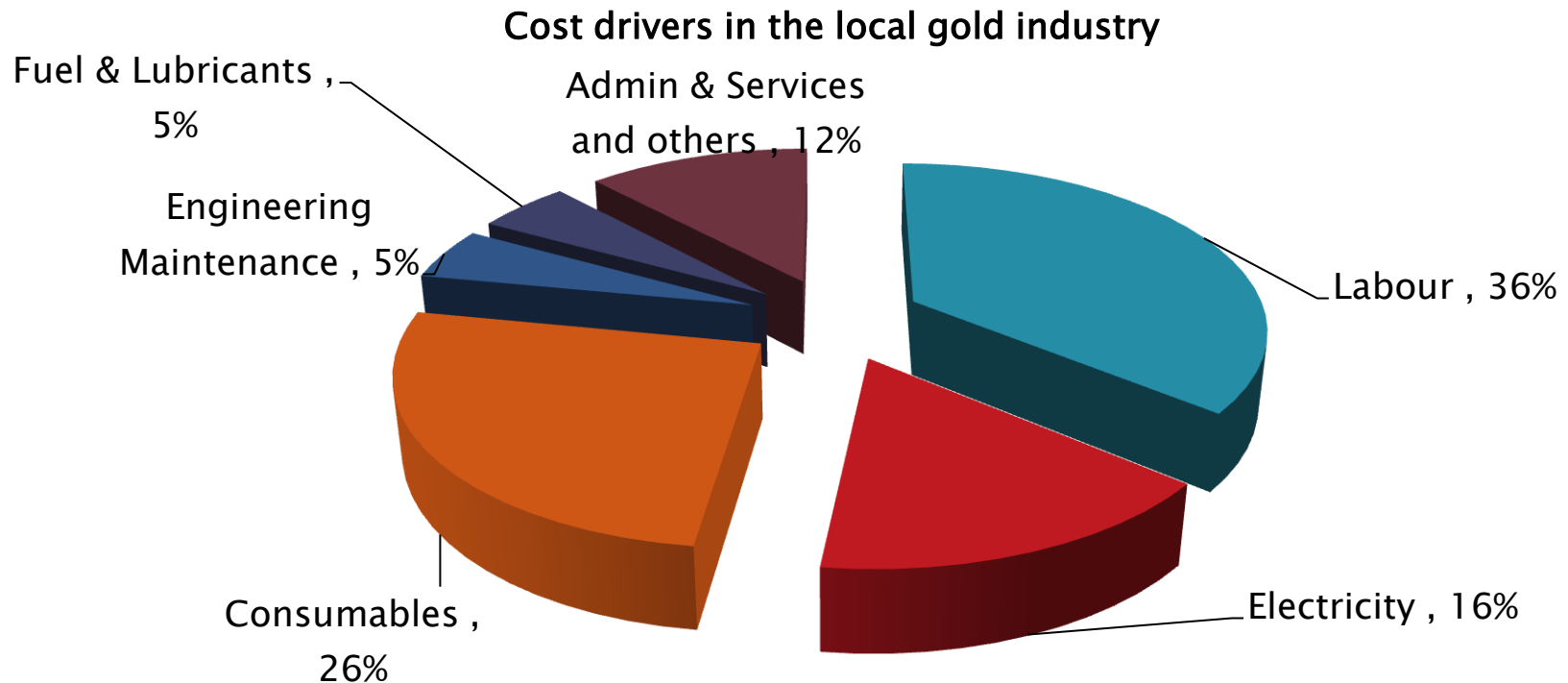


Infrastructure

- ▶ The mining industry requires an estimated 120 MW at current capacity utilisation levels of which around 30 MW relates to gold.
- ▶ The existing electricity tariff for the gold industry is at USc12.8/KWh, significantly higher than the regional average of USc8/ KWh
- ▶ Roads & Rail
- ▶ Water

Costs

- ▶ The cost structure remains high, compounded by high royalties and a suboptimal fiscal regime.



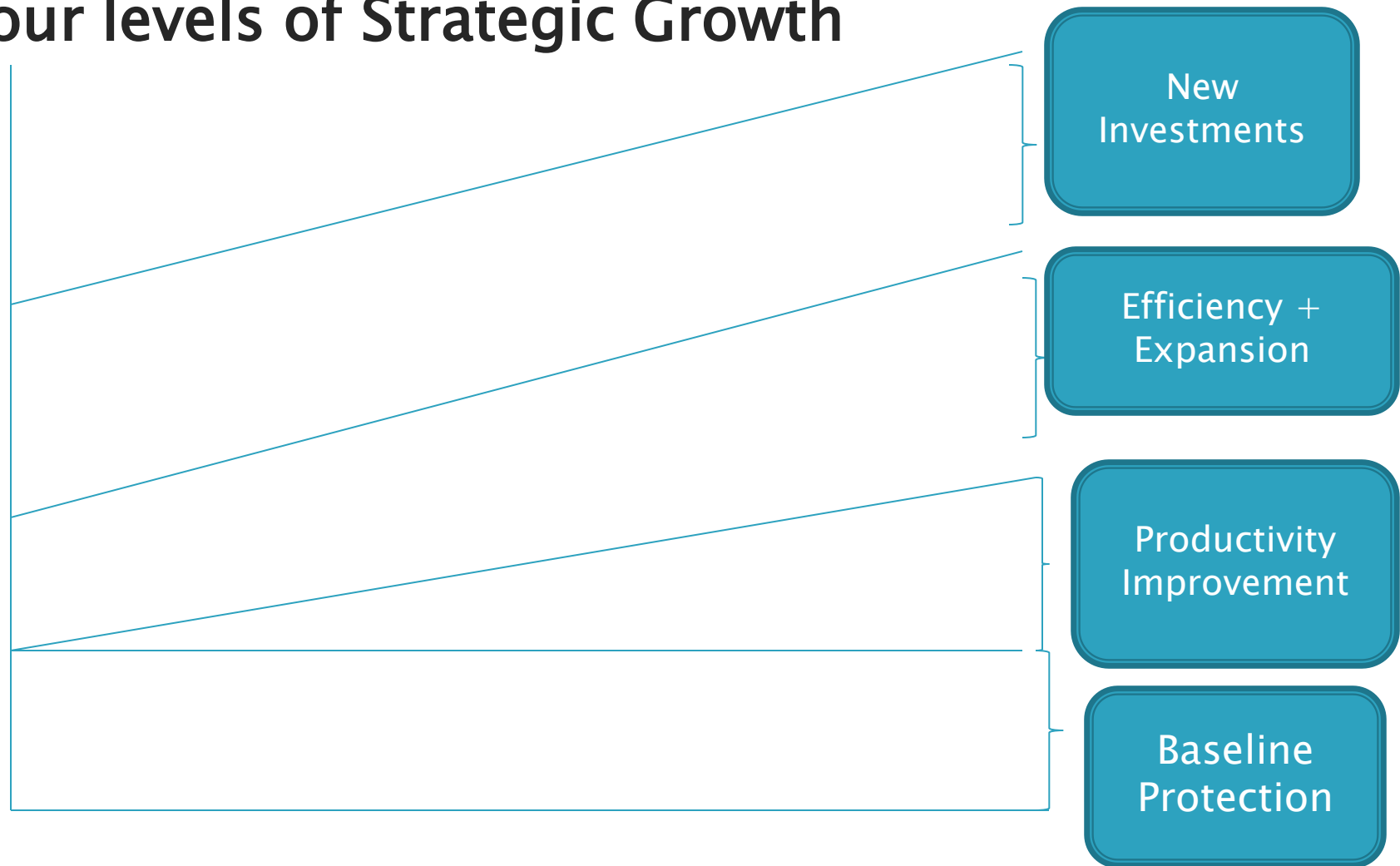
Labour, power and consumables constitute around 78% of production cost per ounce of gold

Role of Government & its Agencies

- ▶ Government should continue working on the following:
 - Reduce the cost of doing business (on-going doing business reforms are a welcome development);
 - Improve the investment climate (recent pronouncements a step forward);
 - Need for an optimal properly benchmarked fiscal framework (current Government efforts to have a new framework are welcome);
 - Address infrastructure deficits (issue of power supply and cost, road network, rail network and water infrastructure (independent power producers to improve power supply)
 - Finalise amendments to the Mines and Minerals Act

Summary

Four levels of Strategic Growth



Conclusion

- ▶ Opportunities for sustained growth are abound;
- ▶ There is need for a collective effort from all stakeholders;
- ▶ A committee (Chamber of Mines, RBZ, Ministry of Mines, Ministry of Finance) should be constituted to spearhead the development of the gold industry

Thank You