Leveraging Mineral Rents to Accelerate Investment in African Infrastructure

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Objective

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Introduce a **practical strategy** for a resource-rich developing nation to **leverage the mineral rents** earned from the sustainable and responsible mining of it's mineral resources to **accelerate investment** in mine-related infrastructure.

Sustainable and Responsible Mining

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"Through the presentation of trends and patterns of various indicators, this paper shows that in addition to economic growth, countries rich in minerals other than oil have experienced significant improvements in their Human Development Index (HDI) scores that are on average better than those experienced by countries without minerals. The same is true for the education and health components of the HDI. Improvements in attaining the Millennium Development Goals (MDG) were strong and similar to countries without mineral resources. While improvements in governance have been small, there has not been a widespread deterioration as predicted by the natural resource curse."

The Contribution of the Mining Sector to Socioeconomic and Human Development, Extractive Industries for Development Series #30, April 2014, World Bank, Oil, Gas, and Mining Unit Working Paper, page v.

Mineral Rents

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- Surface rental fees (reconnaissance fees, prospecting fees, mining leases)
- Mineral royalties
- Corporate tax
- Dividends/dividend tax
- Indirect taxes, value-added tax, and any other relevant taxes
- Property rates
- Land rents/fees
- Production-sharing agreements
- Windfall charges
- Equity participation
- Capital gains
- Subnational government payments

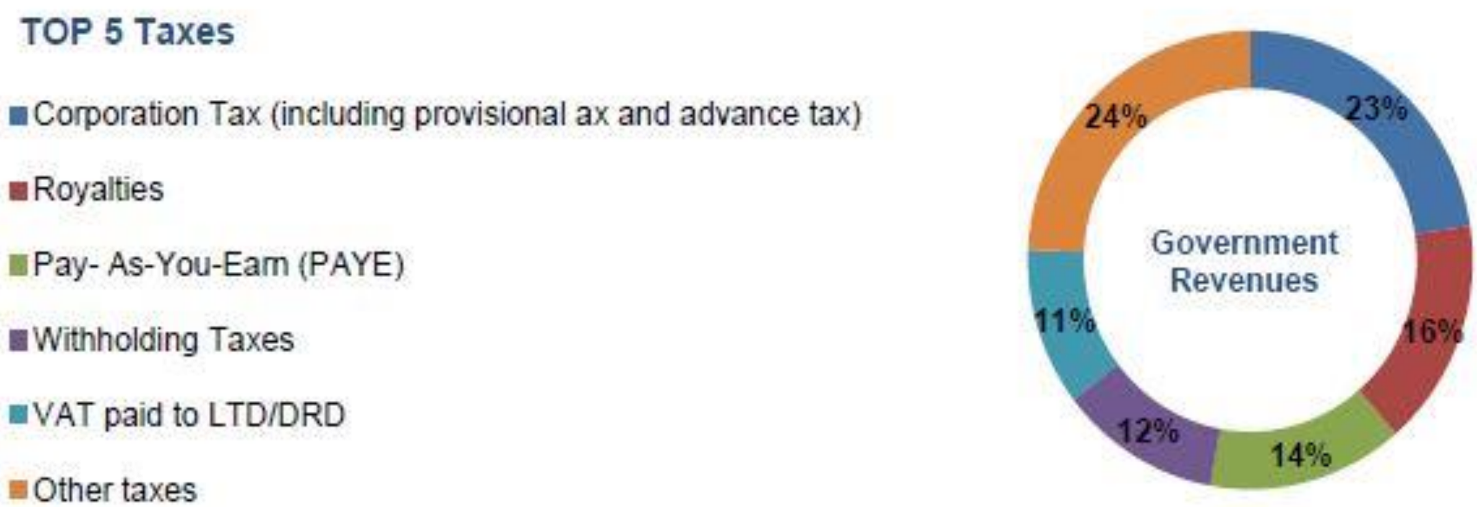
Implementing EITI for Impact: A Handbook for Policy Makers and Stakeholders
World Bank, 2012

Striking the Balance: Tanzania

Total extractive sector	761,375,712,044	100%

8.1.2. Analyses of payments by flows contribution

The analysis of the payments by flow contribution shows that the TOP 5 Taxes contributed towards 75% of the total Government extractive revenues and are collected jointly by Tanzania Revenue Authority and by Ministry of Energy and Minerals. We also note that Corporation Tax accounts for a significant portion of total government revenues (23%).



Tanzanian Extractive Industries Transparency Initiative (TEITI) Reconciliation Report for the Period 1 July 2011 to 30 June 2012. June 2014

Mineral-Related Infrastructure

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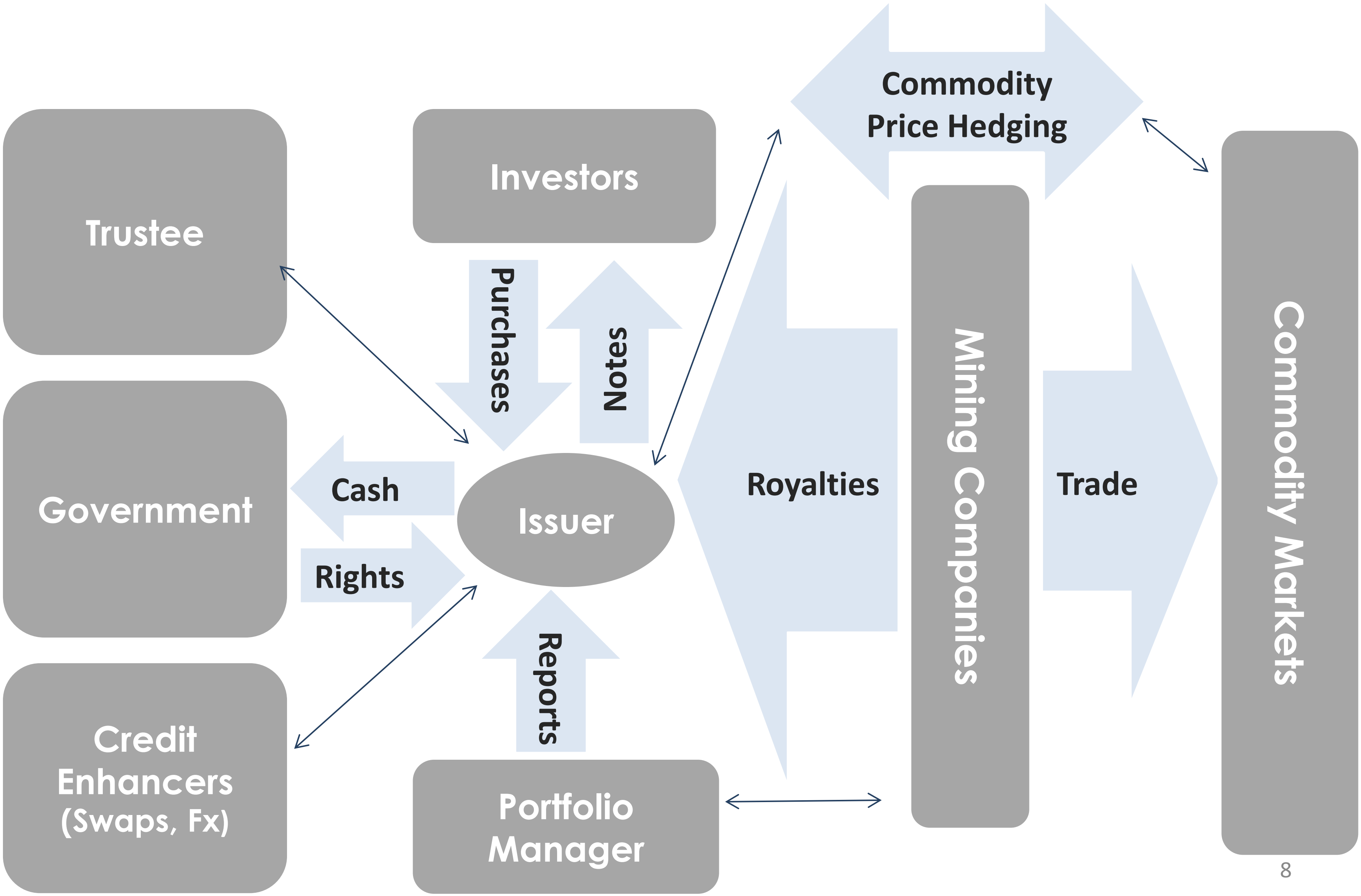
- Energy: power generation, geothermal, hydropower, solar power and wind power plants, transmission lines
- Transport: road and railway networks, ports, maritime and river routes, air transport
- Water: water supply, treatment and sanitation plants, water pipelines
- ICT: telecommunication networks, submarine internet cables, satellite-based infrastructure

Mineral Royalty Backed Securities

- Mineral Royalty Backed Securities™ (MRBS) are modelled on the asset-backed securitisation (ABS) financial structure.
- In 2014, US$225bn of ABS issued in US market (up from$288bn in 2007), €216bn in the EU (down from €594bn in 2007).
- With an MRBS, a government will sell to a third party security issuer the right to collect mineral royalties from all or part of a country’s mining activities for a set period of time.
- By using an MRBS, a government can receive upfront cash for the sale of a future revenue stream, reduce it’s exposure to fluctuating commodity prices and avoid the need to incur additional sovereign debt.

MRBS™: Financial Structure



Setting the Price: Ghana

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- In 2012 and 2013, Ghana generated more revenue from **corporate tax** ($405m, $229m) than **royalties** ($199m, $194m).
- 97% of royalties, and 66% of total gold production, derived from 8 multinational gold mining companies and 12 mines; 34% of total gold production by ASM.
- **Royalty rate is set at 5%,** and divided 80/20 between Consolidated Fund (CF) and Office of the Administrator of Stool Lands and Mineral Development Fund.
- 26/02/15 **Ghana received $1bn** from IMF to "shore up an economy hit by falling gold and cocoa prices, rising debt and growing trade and fiscal imbalances."

Year	Metal	Au Oz/Yr	$Au/Oz Avg	Royalties Paid	CF	Total
2012		4,324,255	$1,669	$199,271,441	80%	$159,417,153
2013	**Gold**	4,396,987	$1,411	$184,968,480	80%	$147,974,784
2014	**(Au)**	4,360,621*	$1,265	$158,410,069*	80%	$123,728,055*
2015		4,360,000*	$1,150	$146,735,152*	80%	$117,388,122*

Realizing Value: Ghana

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Amount paid to Government from Issuer backed by Mineral Royalties based on:

- **Market Assessment** of future commodity prices
- **Length of time** Issuer can collect Royalties
- **Stability and predictability** of a Government's fiscal regime
- **Sustainability** of a country's mining and mineral sector
- **Credit worthiness** of Mining company making payments
- **Credit worthiness** of the Issuer
- **Risk tolerance** of the purchasers of the MRBS
- **Political risk assessment** of Government's support for Issuer

Description	Term	Base Royalty	Discount	S&P Rating	Example	Total Value
Book Value to Ghana	10	$117,388,122	8.13%	B+	Ghana 10 yr $1.0B closing 2024	$783,000,000
Market Value - 80% of Baseline: Low	10	$93,910,498	5.95%	BBB-	Kinross 10yr $500M closing 2024	$692,000,000
Market Value -80% of Baseline: High	10	$93,910,498	2.85%	A-	Rio Tinto 10yr $1.0B closing 2022	$808,000,000

Mineral Royalties for Infrastructure

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- The proceeds for a Government from an MRBS is cash - **debt is the burden of the Issuer**.
- Government's can use this cash to **leverage investment in infrastructure**.
- Between 2007-14, EU Africa Infrastructure Trust Fund's €574m grants supported €6.2bn of infrastructure investment – **a 13.5 multiplier.**
- Applying this to Ghana, $117m/yr. in Royalties over 10 years could leverage between **$9.3bn and $10.9bn** of investment in infrastructure – **a 9 to 1 return**.

Conclusion

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- Resource rich developing nations are **richer than they think.**
- They ***can*** realize **near-term benefits** from **long-life mining projects**.
- They ***can*** use underground, non-renewable mineral resources to encourage **above ground, lasting investments in infrastructure**.
- And, most importantly, they ***can*** do so **without mortgaging their country's future.**

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