Mining Industry Prospects for 2024

incorporating

The State of the Mining Industry Suvery Report

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THE CHAMBER OF MINES OF ZIMBABWE

The Chamber is established for the purpose of promoting, encouraging, protecting and fostering the mining industry and doing everything necessary and advisable for those objects.

Contents

Sponsor's Memo

The Chamber of Mines is once again proud to sponsor the State of the Mining Industry Survey Report, a data-driven empirical inquiry into the performance and prospects of the mining industry.

The State of the Mining Industry Survey report has emerged to become a prominent evidence-based study that has been useful in assessing the state and prospects for the mining industry. Most stakeholders have confirmed that the report is rich in information and that they are using the survey findings in informing their decision making.

The mining industry continues to be an important sector in the Zimbabwean economy. The government's economic blueprint, the National Development Strategy 1 (NDS1), accords the mining industry a central and important role. Working under the guidance of the Ministry of Mines and Mining Development, we remain committed to enhancing the contribution of the mining industry to the economy. Currently the mining industry contributes 70% to Foreign Direct Investment, 80% to exports, 19% to government revenues, 3% to direct formal employment, and 13.5% National Income (GDP and GNI). These levels of contribution are on the upper end of the contribution ranges for Middle Income and Low-Income economies.

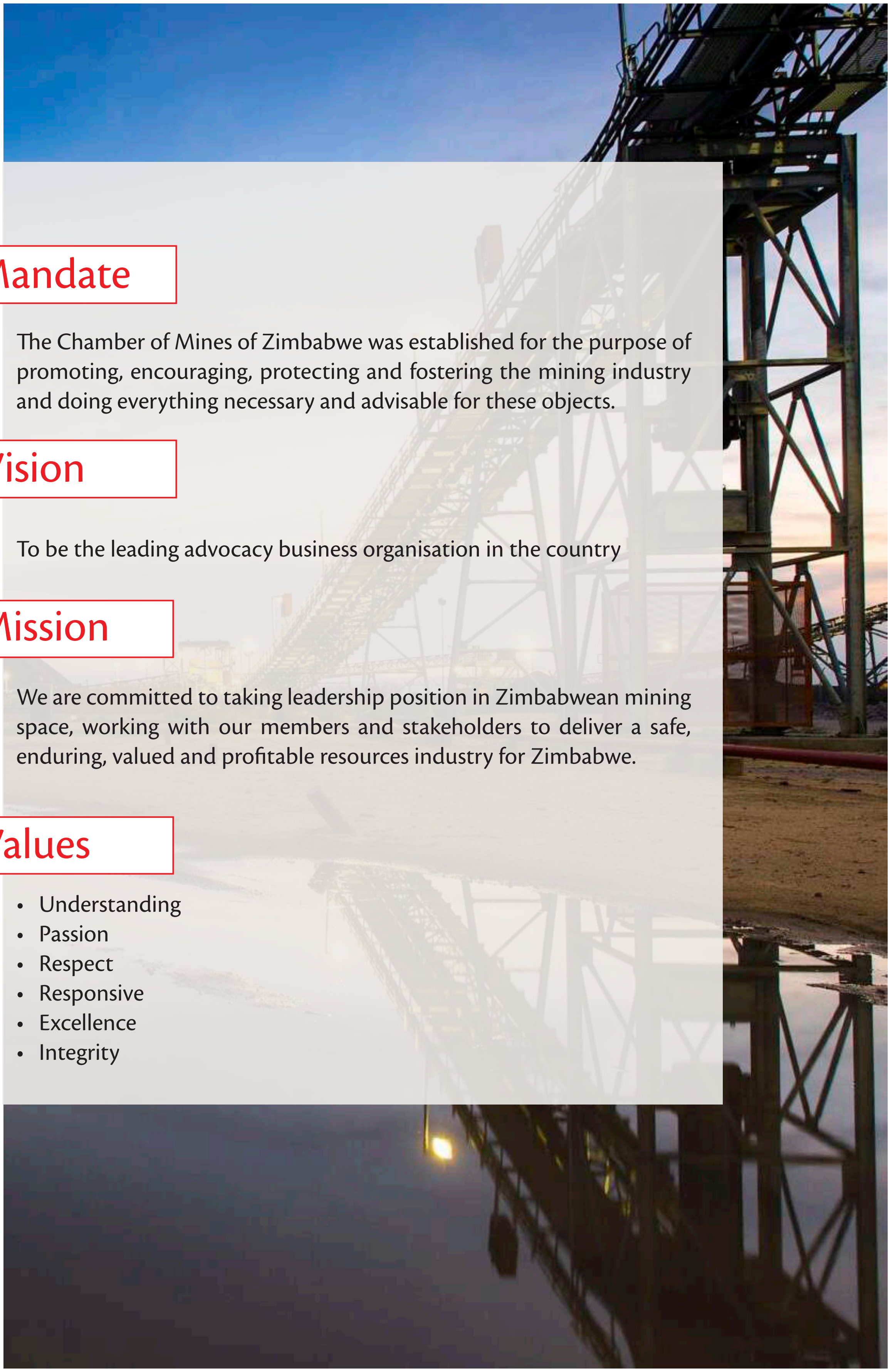
As per tradition, independent research Consultants were engaged to conduct the survey, covering the whole spectrum of research from the research design to the presentation of findings. The role of the Chamber of Mines was restricted to sponsoring and facilitating access to privileged information and data from our members who formed the greater part of the respondents. The Chamber remains committed to meeting the information needs of all stakeholders.

It is my hope that the information in this Report will be valuable to all stakeholders. We continue to urge stakeholders to provide feedback to the Chamber of Mines secretariat to improve the coverage of issues that they believe is important and to improve the quality of the document. We would like to thank the Survey Consultants led by Professor Albert Makochekanwa of the University of Zimbabwe for working hard to produce this report. We welcome stakeholder feedback on this report for improvement of future editions.

My best regards,

Thomas Gono
President

Mission Statement



Our Mandate

The Chamber of Mines of Zimbabwe was established for the purpose of promoting, encouraging, protecting and fostering the mining industry and doing everything necessary and advisable for these objects.

Our Vision

To be the leading advocacy business organisation in the country

Our Mission

We are committed to taking leadership position in Zimbabwean mining space, working with our members and stakeholders to deliver a safe, enduring, valued and profitable resources industry for Zimbabwe.

Our Values

- Understanding
- Passion
- Respect
- Responsive
- Excellence
- Integrity

Executive Summary

Executive Summary

Mining business confidence declines
Mining executives are generally pessimistic about prospects of their business in 2024. Notable variables that weigh down their confidence include depressed commodity price outlook, gloomy investment environment, inadequate foreign exchange and infrastructure bottlenecks.

Profitability of mining projects to decline
Most mining executives are expecting profitability of their business to decline, largely weighed down by subdued commodity prices and high-cost structure.

Mineral Revenues to decline

Most mining executives expect their mineral earnings to decline on the back of softening commodity prices and high-cost structure. While mining companies plan to ramp up production to compensate revenue losses due to low prices, the increase in production will be more than offset by a disproportionate decline in prices.

Mining industry cost of production set to increase
Mining executives expect their cost of production to increase by an upwards of 10% due to anticipated electricity tariff increase, high cost of funding and high royalty and taxes.

Commodity market conditions expected to worsen
Mining executives are expecting commodity market conditions to remain generally subdued as was the case in 2023. They expect mineral prices to further soften in 2024.

Infrastructure and energy prospects weighed down by fragile and expensive power
Mining executives are expecting power supply to remain fragile on the back of increasing demand and prospects for an increased tariff in 2024.

Investment environment expected to worsen
Mining executives expect the investment environment to worsen in 2024 citing unstable fiscal regime, removal of mining companies from Special Economic Zones, and uncertainty on mining policy and legislation as major factors.

Taxes and fiscal charges expected to undermine production in 2024.
Most mining executives expect the tax regime to worsen in 2024 citing increased royalties, beneficiation tax and other charges as well as the possibility of unresolved problematic tax issues to persist.

Access to foreign currency expected to worsen
Mining executives are expecting the access to foreign currency situation to remain challenging in 2024 as was the case in 2023. They reported that they are facing foreign currency shortfalls and expect the situation to worsen in 2024.

Mining policy environment to remain challenging
Mining executives expect the mining policy and legislative environment to remain challenging in 2024 citing frequent policy reversals and unresolved legislative and policy matters as environment for the mining industry as key areas of concern.

Mining sector employment to grow.
Formal employment in the mining sector is expected to increase to 57,000 in 2024 compared to 53,500 in 2023.

Capacity utilization set to reach 90%
The average capacity utilization for the mining industry is expected to reach 90% in 2024, up from 84% in 2022 in line with planned production targets. Key sectors anticipated to drive the improvement in capacity utilization are gold, ferrochrome, and coal.

Mining industry foreign exchange retentions down by 30%
The amount of foreign exchange available to mining companies has declined by approximately 30% due to falling mineral earnings and rapid dollarization of the economy.

Background and Methodology

Mining Industry Prospects for 2024

Rationale and justification

The State of the Mining Industry Survey and Business Confidence Reports were conceived in 2015 to provide a detailed account of the state of affairs in the mining industry vis-à-vis key performance opportunities, prospects and challenges in the mining sector. Since its inception, the report has become the main reliable source of the state of affairs on the performance and prospects of the mining industry.

The survey reports have assisted to bridge the information gap and provide leverage for government policy as well as strategic planning for other key stakeholders that include mining houses, investors, financiers, suppliers, labour and communities.

Methodology

The survey report is based on both primary and secondary data. The cluster sampling method was used to draw a sample from the population of mining operators and related institutions. Both qualitative and quantitative data were collected using administered questionnaires, interviews, secondary data reviews and field trips. The general response rate was around 90%, with the sample results representing to a large extent the general behaviour of the whole mining industry.

Mining Business Confidence Index (MBCI)

The mining business prospects are measured by the Mining Business Confidence Index (MBCI) which gauges the mining business sentiments (optimism or pessimism) about the prospects of the mining industry in the next 12 months. The 2024 MBCI was computed based on the sentiments of mining executives and investors based on the following variables:

1. *Mineral output growth prospects*
2. *Expenditure on capital projects prospects*
3. *Commodity Market Outlook*
4. *Profitability prospects*
5. *Employment prospects*
6. *Investment competitiveness*
7. *Access to and cost of capital prospects*
8. *Mining fiscal regime prospects*
9. *Access to foreign exchange*
10. *Mining policy environment*
11. *Economic growth outlook*
12. *Infrastructure and energy prospects*

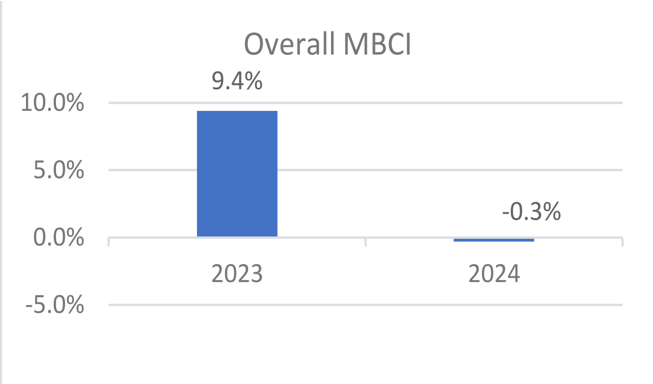
Interpretation of the Mining Business Confidence Index

The MBCI is interpreted from a scale ranging from-100 to +100, with the lowest score representing the least level of confidence and the biggest score representing the highest level of confidence. A score of 0 to +100 indicates that mining executives are optimistic about the prospects of their businesses while a score of 0 to -100 indicates that mining executives are pessimistic about the prospects of their businesses.

The Mining Business Confidence and Prospects For 2024

Mining Industry Prospects for 2024

The Mining Business Confidence Index (MBCI) gauges the mining business sentisements (optimism or pessimism) about the prospects of the mining industry in the next 12 months. The 2024 prospects for the mining industry, as measured by the MBCI are negative and lower than that recorded for 2023. This means that mining executives are generally not confident (pessimistic) about the prospects for their businesses in 2024.



Source: 2023 Survey Data

Notable variables that weighed down the MBCI for 2024 include depressed commodity price outlook, gloomy investment environment, inadequate foreign exchange and infrastructure bottlenecks.

Findings on measured variables

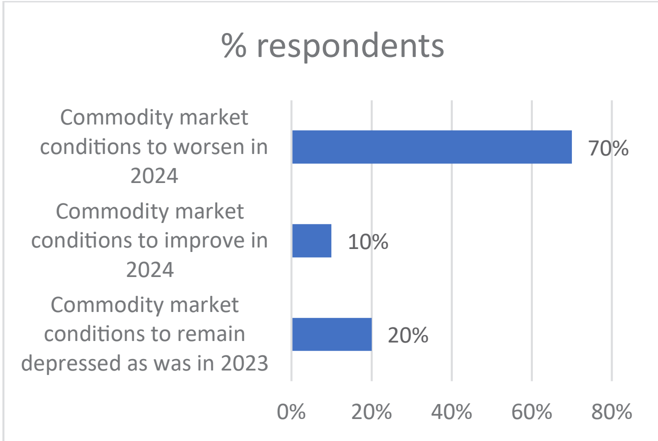
	2024	*2023*
Overall MBCI	**-0.3**	**9.4**
Mineral output growth prospects	49.0	46.2
Expenditure on capital projects prospects	3.0	43.0
Commodity Market Outlook	-1.0	24.0
Profitability prospects	-1.2	21.0
Employment prospects	3.6	3.3
Investment competitiveness	-8.3	-4.4
Access to and cost of capital prospects	-5.0	-2.8
Mining fiscal regime prospects	-7.2	-2.8
Access to foreign exchange	-4.2	-1.8
Mining policy environment	-4.1	-3.8
Economic growth outlook	1.3	3.0
Infrastructure and energy prospects	-29.0	-12.0

Source:2023 Survey Data

1. Commodity market outlook

Most mining executives expect the commodity market conditions to worsen in 2024. They are anticipating **commodity prices to further slowdown in 2024, mostly for PGMs and base metals** citing geo-political tensions and weak global economic outlook.

Commodity price prospects



Source: 2023 Survey Data

PGMs producers are expecting PGM prices to slow down with platinum price expected to fall by (-5%), rhodium (-15%) and palladium (-10%). Gold producers are expecting gold prices to fall by an average of -8%, while lithium producers and nickel producers are expecting price declines averaging-14% and-10%, respectively.

Price forecasts for key commodities

Mineral	2022	2023f	2024f	% Change (2023-2024)
Gold (($/troy oz)	1,801	1,900	1,750	-8%
Platinum (($/troy oz)	962	1,000	950	-5%
Palladium ($/troy oz)	2,114	1,396	1,256	-10%
Rhodium	14,310	5,700	4,845	-15%
Nickel (($/mt))	25,834	22,000	19,800	-10%
Coal ($/mt)	344.9	200	155	-22%
Lithium($/mt)	37,000	33,200	28,550	-14%

Source: World Bank, Kitco, Chamber of Mines

2. Mineral revenue prospects

Analysis of survey responses shows that mineral revenue for 2023 is set to decline by approximately -20% and is expected to further decline by an average of -10% in 2024 due to softening commodity prices. Despite most mining companies planning to ramp up production to compensate for revenue losses due to low prices, the production increase will be more than offset by the decline in prices.

Mining Industry Prospects for 2024

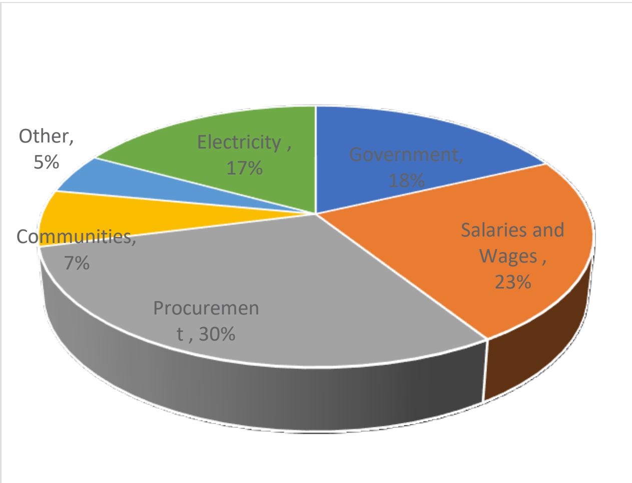
Mineral revenue prospects by sector

Mineral	2022(us$m)	2023 (us$m)	2024 (us$m)	2023-2024 % Change
Total	**5,571**	**4,450**	**4,000**	**-10%**
Gold	1,998	2,006	2,184	9%
Platinum	750	544	541	-1%
Palladium	920	712	582	-18%
Rhodium	950	320	250	-22%
Diamonds	147.9	94.7	110	16%
Other	805	773	333	-57%

Source: Minstry of Mines, RBZ, Chamber of Mines

In terms of distribution of mining companies' revenue, payments to suppliers, electricity bills, Government and employees are consuming approximately 88% of mining companies' revenues.

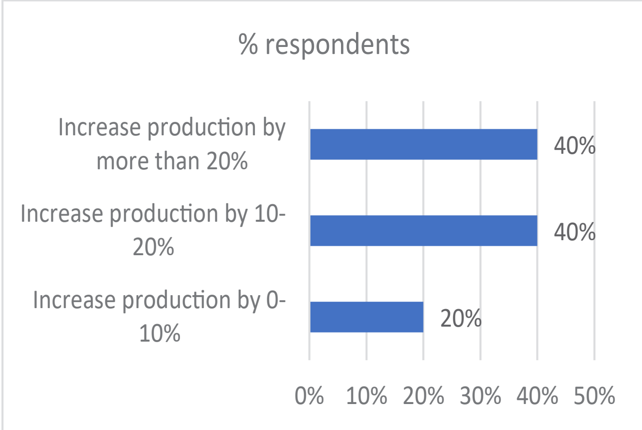
Distribution of 2023 mineral revenue



Source: 2023 Survey Data

3. Mineral output growth prospects

Survey findings show that prospects for mineral output growth for 2024 are generally higher than those recorded for 2023. Most of the mining executives (95%) are planning to ramp up production in 2024 to compensate for anticipated revenue losses due to prevailing and expected softening mineral prices. Only 5% indicated that production for 2024 will be the same as 2023.



Source: 2023 Survey Data

Respondent mining executives also indicated that the projected 2024 production targets will be largely supported by ongoing expansion projects. Analysis of production projections across mineral subsectors shows the following average output growth rates for selected minerals.

Projected Output performance for selected mineralS

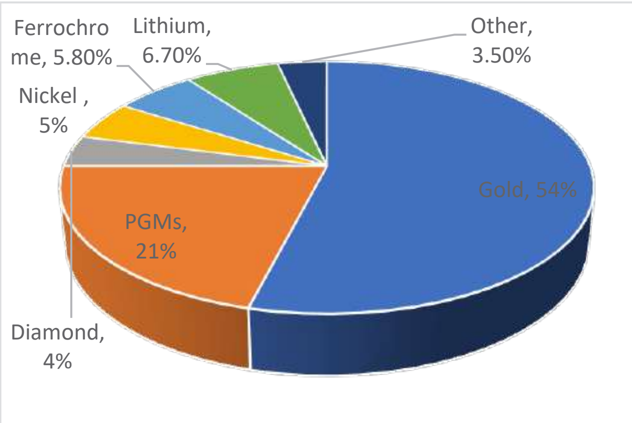
Mineral	**2023**	**2024**	**% Change**
Gold (Kg)	33,000	39,000	18%
Platinum (Kg)	17,000	17,800	5%
Palladium (Kg)	13,700	14,500	6%
Rhodium	1,520	1,610	6%
Diamonds (Cts)	5,000,000	6,500,000	30%
Nickel (Mt)	19,000	21,000	10%
Coal (000t)	5,480	7,000	28%
Chrome (Mt)	1,596,000	2,500,000	57%
Lithium (Mt)	100,000	200,000	100%

Source:2023 Survey Data

Further analysis of the above projections shows that mining industry output is expected to grow by a weighted average of approximately 12% in 2024. Gold and PGMs are the major growth drivers for the mining industry in 2024 as shown in the following pie chart.

Mining Industry Prospects for 2024

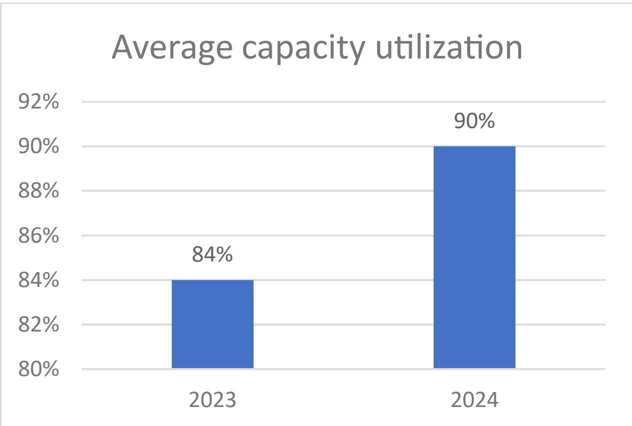
% Contribution to 2024 mining sector projected output growth



Source:2023 Survey Data

4. Mining Industry Capacity Utilization

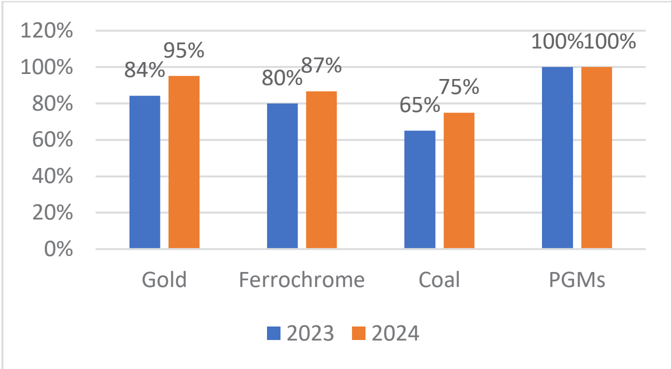
In line with the projected mineral output growth for 2024 survey findings show that average capacity utilization is expected to reach 90% in 2024 compared to 84% in 2023.



Source: 2023 Survey Data

Key sectors anticipated to drive the improvement in capacity utilization in 2024 are gold, ferrochrome and coal.

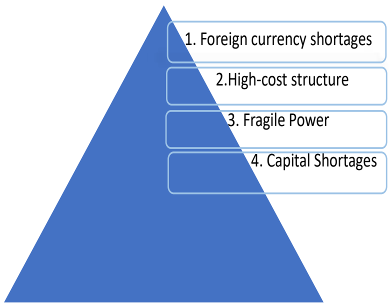
Projected average capacity utilization for selected minerals



Source:2023 Survey Data

Constraints to full capacity utilization

Respondents cited the following constraints to full capacity utilization (by order of severity).



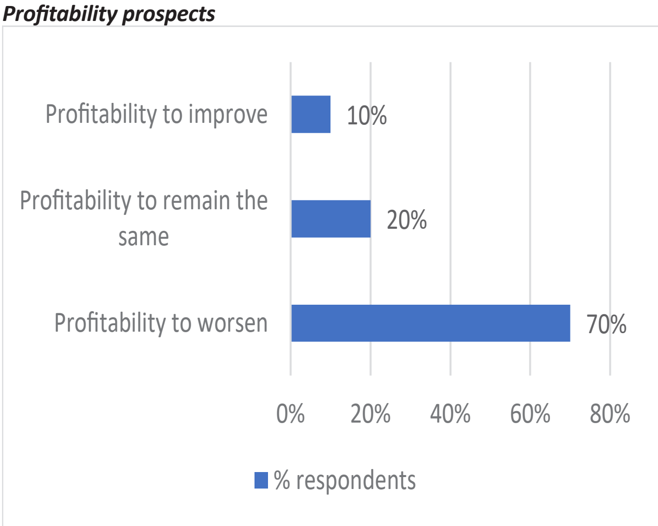
Source: 2023 Survey Data

5. Profitability prospects

Survey findings show that profitability for mining companies declined by an average of 15% in 2023 **due to softening commodity prices and high-cost structure.** Approximately 50% respondents reported that they were now struggling to break even. When interrogated on profitability prospects for their businesses in 2024, most respondents (70%) indicated that they are expecting their profitability to worsen compared to 2023. **Those that are expecting profitability to remain the same are mostly in the gold sector.**

Mining Industry Prospects for 2024

Profitability prospects



Source: 2023 Survey Data

Cost of production

Survey findings show that in general, most mining executives expect the overall cost of production to increase in 2024 citing the following:

1. High cost of electricity - respondents noted with concern ZESA proposal to increase electricity tariff by 2 cents.
2. High royalty and taxes
3. High labour costs
4. High financing costs

All in production cost/ unit

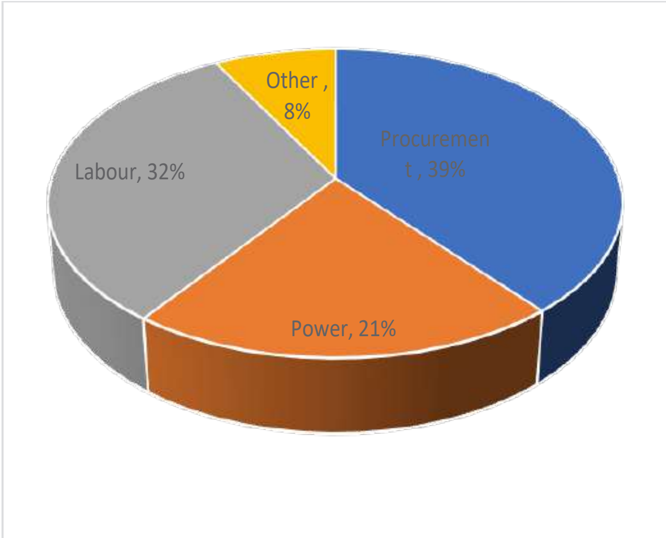
Mineral	2022	2023	2024
Gold($/oz)	1,320	1,350	1,380
PGMs($/oz))	1,027	1,085	1,107
Ferrochrome ($/ton)	914	1019	1060
Coal ($/mt)	38	42	42
Diamonds ($/ct)	21.48	22.03	30.15

Source: 2023 Survey Data

Analysis of survey responses show that most key minerals subsectors including PGMs, ferrochrome ,gold and diamond sectors are expected to experience increases in their cost of production in 2024 citing high electricity charges as the major cost driver.

Mining industry cost drivers

Further analysis of survey responses shows that the major cost drivers are procurement (39%), labour (32%), electricity and diesel (21%). Other costs include administration expenses.



Source: 2023 Survey Data

Electricity Tarriff

All mining executives expressed concern on the new approved tariff of US$14.21/ KWh indicating that the tariff is too high and unaffordable.

Impact of tariff increase on electricity costs

Analysis of survey responses show that the upward tariff review from USc12.21/kwh to US$14.21/ KWh will result in the proportion of electricity costs to 24%, from 21% at US$12.21/ KWh. The overall cost of production is set to increase by between 7 to 10%.

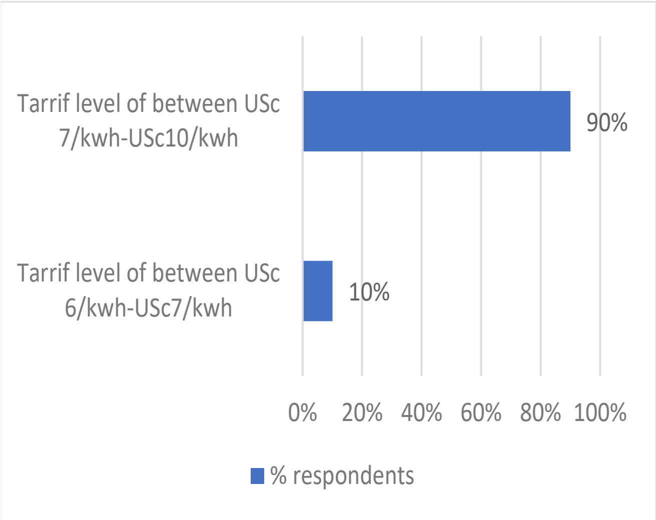
Sub-sector	Electricity cost as a proportion of total production cost		
	Tariff at USc9.86/KWh	Tariff at USc12.21/kWh	Tariff at proposed USc14.21/ kWh
Gold	15%	19.50%	22.60%
PGM	9%	12%	14%
Coal	6%	7%	8.12%
Diamonds	5%	6.70%	7.77%
Industry average (excluding Ferrochrome)	8.25%	10.60%	12.29%
Ferrochrome	32.83%	49.95%	53.02%
Industry average (including Ferrochrome)	16%	21%	24%

Tariff tolerance levels for mining companies

Analysis of tariff tolerance levels by mining executives shows that on average the mining companies can tolerate a tariff level of around USc9/kwh cents per kwh. 90% of mining executives indicated that they would accommodate a tariff of between USc7/kwh to USc10/kwh while 10% indicated that they would accommodate a tariff of between USc6/kwh to USc7/kwh.

Mining Industry Prospects for 2024

Electricity tariff tolerance level



Source: 2023 Survey Data

Payment Modalities for electricity bills

In terms of electricity bill payment modalities, the majority of mining executives (90%), indicated that payment of electricity bills must be done in line with the prevailing foreign currency retention framework while those in the coal sector recommended payment wholly in ZWL as they receive most of their payments for coal deliveries in local currency.

Taxes and royalty

Most survey respondents indicated that they were expecting an unstable fiscal regime in 2024 citing recent royalty increases for PGMs and platinum as precedence for fiscal policy inconsistencies. Executives in the PGMs and lithium sectors reported that the new royalty was high and unaffordable and worsened their viability challenges.

Impact of royalty increase on overall cost structure.

Executives in the PGMs sector indicated that they experienced a 5% average increase in overall production cost as a result of the 180% royalty increase from 2.5% to 7% royalty while those in the lithium sector reported a 4% increase in the overall cost of production on the back of the 150% royalty increase from 2% to 5%.

Beneficiation tax on PGMs concentrates

Mining executives in PGMs sector expressed their concern on the anticipated implementation of the export tax effective 1 January 2024 arguing that it will impact negatively on the viability of their projects. They reported that as agreed with Government, they signed commitment letters with Zimplats to utilize their facilities once they finalize construction of additional smelters and refurbishment of their Base Metal Refinery.

Rural District Council (RDC) levies

Mining executives indicated that RDC levies were high compared to regional averages and varied with rural district council.

Environmental levies

Mining executives also reported that the Environmental Impact Assessment levy was high and undermined the implementation of capital projects. They also raised concerns about the unaffordable 2% Environmental Rehabilitation levy.

Mining fees and charges

Respondent mining executives reported that some mining fees and charges were high and unaffordable, impacting negatively on viability of mining projects.

Measures to minimize decline in profitability

When interrogated on measures being undertaken to minimize decline in profitability, most mining executives reported that they are taking the following cost cutting measures:

- Rationalize and optimize on procurement,
- Freezing hiring and multi-task where necessary,
- Defer some capital spending.

6. Mining industry capital requirements

Survey findings show that on average all mining companies are injecting capital to ramp up and sustain their operations. Analysis of capital requirements by mining companies show that the industry requires around US$2 billion in the next 12 months to ramp up and sustain their operations.

Mining Industry Capital Requirements (US$ million)

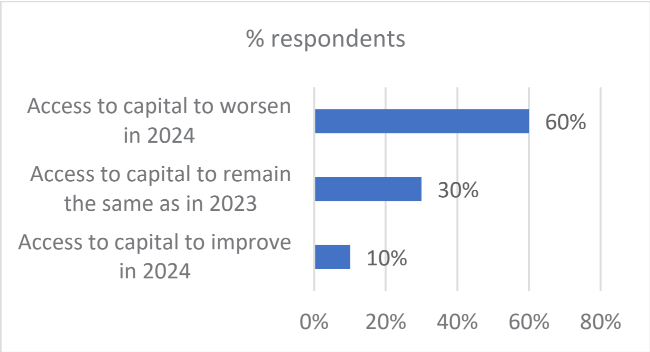
	Ramp Up	Sustenance	Total
PGMs	US$350	US$380	**US$730**
Gold	US$180	US$230	**US$410**
Lithium	US$200	US$260	**US$460**
Ferrochrome	US$150	US$120	**US$270**
Coal	US$80	US$60	**US$140**
Total	**US$960**	**US$1,050**	**US$2,010**

Source: 2023 Survey Data

Access to capital

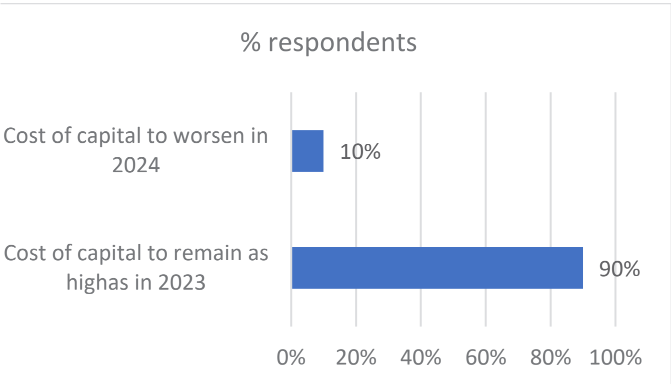
Survey findings show that prospects for access to capital are subdued in 2024 compared to 2023 with 60% respondent executives excepting worsening access to capital.

Mining Industry Prospects for 2024



Source: 2023 Survey Data

In general, most executives indicated that they are partly funding their capital requirements from retained earnings. Those that indicated that access to capital will worsen cited anticipated subdued profitability in 2024 therefore reducing retained earnings available for reinvestment. When further interrogated about the prospects for cost of capital in 2024, the majority (90%) of the mining executives are expecting the cost of capital (specifically offshore funding) to remain high in 2024 as was the case in 2023.



Source:2023 Survey Data

None of the executives are expecting the cost of capital to improve in 2024.

Capital Projects in the Mining Industry

Almost all survey respondents indicated that they were spending on capital projects which are at various stages of implementation. Some of the projects are outlined below.

Exploration

Analysis of survey responses show that about 90% of mining houses are undertaking exploration activities around their mines. The aggregate exploration budget for 2024 is approximately US$50 million.

Capital Projects in the PGMs Sector

1. Zimplats

   In the past 2 years, Zimplats have spent around more than US$570 million on capital projects related to stay-in-business, replacement mines and expansion projects. Of the total, US$300 million has been spent in the current year. The projects include the replacement of depleting mines, establishment of a new concentrator plant, refurbishment of the mothballed BMR, construction of a 35MWAC solar plant at SMC, construction of a 38MW furnace, as well as an SO_2 abatement plan. Zimplats is also planning to inject US$190 million to refurbish its mothballed Base Metal Refinery. The projects are expected to be finalized by between 2024 and 2028.

2. Mimosa Mining Company

   Mimosa Mining Company are spending more than **US$200 million** on their North Hill Project and developing tailings storage facility for life-of-mine extension.

Capital Projects in the Gold Industry

1. Blanket Mine

   Blanket Mine are spending **US$12.7 million** on their tails storage facilities which they plan to complete by 2025.

2. Freda Rebecca Mine

   In the past 24 months, Freda Rebeca has spent around US$29 million on exploration, mine development and tailings storage projects to sustain their operations.

3. Dallaglio

   Dallaglio is spending around **US$25 million** on their Pixton Peerless transition to underground mining targeting completion timelines of mid-2024. Once fully commissioned, the project is expected to add another 7% into their production.

4. Shamva Gold Mine

   Shamva Gold Mine are spending more than **US$7 million** in exploration activities around their mine to ensure the availability of mineable resources to achieve 200,000 tons of ore per month.

5. Pan African Mining

   Pan African Mining are injecting around **US$13 million** on exploration and shaft deepening to sustain their operations.

6. Bulawayo Mining Company

   They are spending more than **US$7 million** on exploration, shaft sinking and deepening as well as tonnage ramp up to sustain their operations.

7. Golden Reef Mining

   In the next 12 months, Golden Reef Mining are planning to spend more than **US$700,000** on their heap leaching and CIP/CIL to increase production capacity by more than 10%.

8. Falcon Gold

   Falcon gold are planning to spend more than **US$400,000** on exploration and development at their mine to sustain and ramp up production.

Mining Industry Prospects for 2024

Capital Projects in the Lithium Sector

1. Bikita Lithium Mine

   Bikita Minerals have invested over 300 million over exploration work and expansion of their operations over the past two years. The mine has constructed and commissioned a dual lithium processing plant (including Spodumene Project), Flotation Separation Plant and a New Smelter Plant. Expected production is up to 300,000 tons of spodumene concentrate and 480,000 tons of petalite.

2. Acadia Lithium Mine.

   The company has spent in excess of US$300 million in Capex over the past 3 years. It commissioned its plant and commenced production in the first quarter of 2023. At full capacity, the company will be producing 400,000 tons per annum of lithium concentrate.

3. Sabi Star Lithium project.

   Sabi Star commissioned its concentrator in August 2023. The concentrator has an ore processing capacity 1,000,000 tons per annum with lithium concentrate output of 300,000 tons per annum.

4. Zulu Lithium and Tantalite project.

   Zulu lithium mine started production in the first quarter of 2023 and has since commissioned a 50,000 ton per year pilot plant valued at $35 million.

Capital Projects in the ferrochrome sector.

1. Zimasco

   Over the past two years, Zimasco have spent around **US$6,800,000** on upgrading and rebuilding their furnaces as well as developing their mines to sustain production. When the projects have been fully commissioned Zimasco production capacity is expected to increase by 120% by year 2025.

2. Jinyi

   Over the past two years Jinyi has spent US$**7,100,000** on power plant, transport, furnaces, and sintering plant to increase production capacity by more than 20% by the end of 2024.

7. Infrastructure & energy prospects

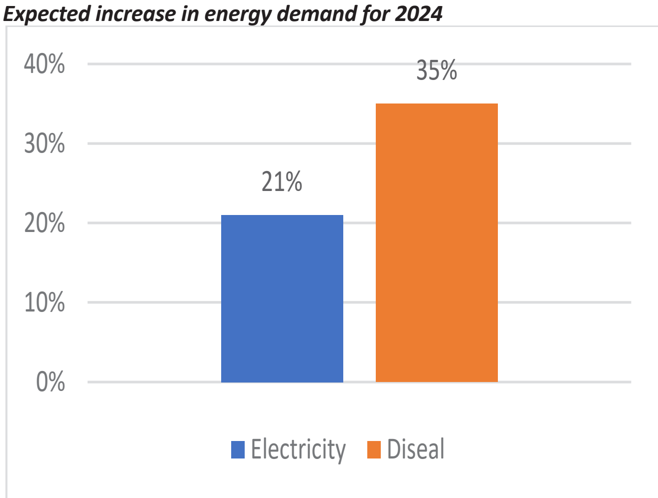
Power supply

Survey respondents reported that the power supply situation remained predominantly fragile with some unscheduled power supply outages. They expect the power supply situation to worsen citing emerging demand from new and expansion projects that will result in power shortages in the outlook.

Energy Usage

On average, mining executives are expecting their operations to consume more power in 2024, compared to 2023. Analysis of survey data shows that electricity demand is expected to increase by around 20% in 2024 while diesel consumption is expected to increase by 35%. Most respondents cited ongoing capital projects as the major drivers of energy usage in 2024.

Expected increase in energy demand for 2024



Source: 2023 Survey Data

8. Access to foreign exchange

Foreign exchange retentions

Survey findings show that in general, the amount of foreign exchange retained by mining companies has declined by more than 30% over the past 12 months. The decline is largely on the back of falling mineral earnings (due to softening prices) and rapid dollarization of the economy. Analysis of survey data show that the effective retention is now around 45%, compared to the 75% announced by RBZ.

The PGMs and Lithium sectors are the most affected with the PGMs sector's amount of foreign currency retained mining companies coming down from as high as US$1.5 billion in 2022, to around US$1 billion for 2023. The PGMs producers reported that the available foreign currency is now acutely inadequate to meet their operational requirements including funding of expansion and beneficiation projects. Most mining executives are also expecting the situation to deteriorate in 2024.

Survey respondents also indicated that the current retentions were also under pressure from the following:

- Payment of electricity wholly in foreign currency – pressure for a tariff review to further worsen the situation,
- Increase in the price of diesel payable wholly in foreign currency,
- Most suppliers of goods and services now demanding payment for goods and services exclusively in foreign currency, and
- Increase in royalty specifically for platinum and lithium (the amount of foreign currency payable on royalty has increased).

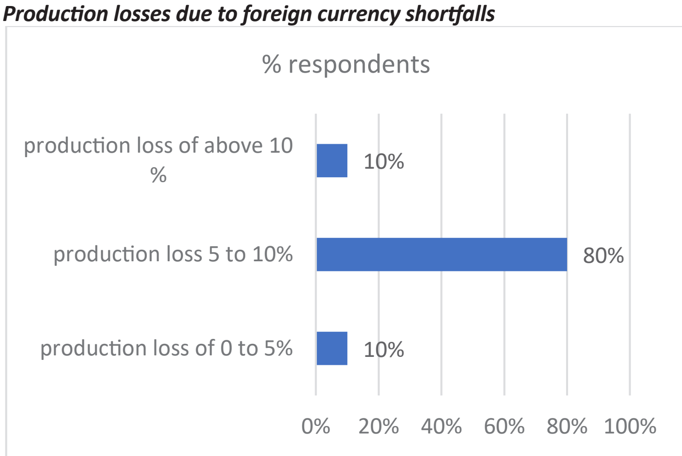
Further analysis of survey responses shows that the average foreign exchange retention that meets the mining industry's foreign currency requirements is at least 90%.

Impact of foreign currency shortfalls on production

Analysis of survey responses shows that foreign currency shortfalls resulted in production losses averaging 7%.

Mining Industry Prospects for 2024

Production losses due to foreign currency shortfalls



Source: 2023 Survey Data

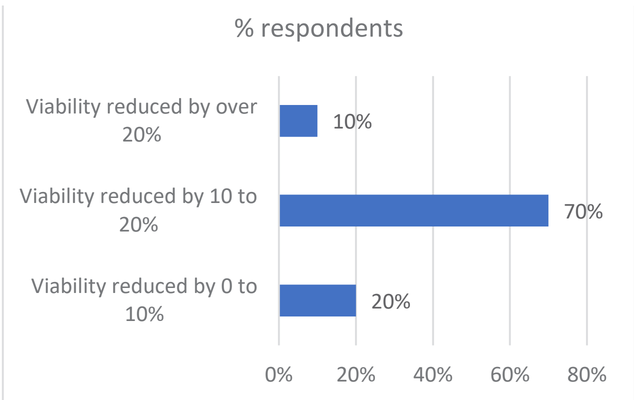
Loss of value on surrender portion of export proceeds

Almost all survey respondents reported that for the greater part of the year they were facing loss of value on the surrender portion of export proceeds due to exchange rate disparities with parallel market premiums of up to 100%, while in some instances premiums exceeded 100%. All respondents indicated that they were facing market costs priced at the hugely depreciated parallel market rate at a time the surrender portion of export proceeds was being liquidated at the official exchange rate that continue to lag behind the parallel market.

Analysis of survey responses shows that mining companies are losing up to 50% of their surrender portion of export proceeds due to exchange rate disparities with their mineral earnings discounted by up to 12.5%. Their effective mineral earnings are approximately 87.5% of the world price.

They further reported that the situation is impacting the viability of their operations.

Impact of exchange rate disparities on viability of mining companies

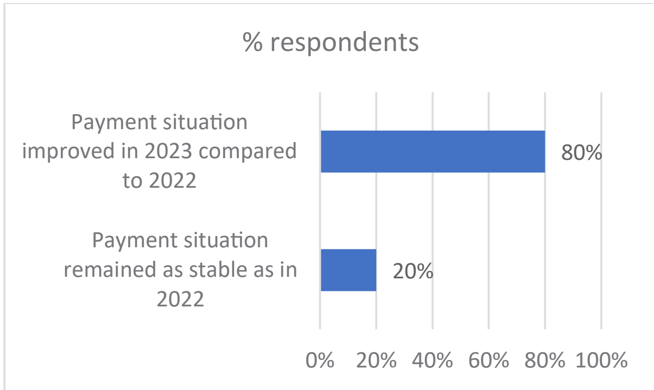


Source: 2023 Survey Data

Payments situation for gold deliveries

Most respondent gold producers reported that the payment situation for gold deliveries to Fidelity Gold Refiners was predominantly timeous. About 80% of gold producer respondents reported that the payment situation improved in 2023 compared to 2022 while 20% indicated that the situation remained as stable as was the case in 2022. Almost all respondent gold producers are looking forward to timeous payments for gold deliveries to FGR in 2024.

Payment situation for gold deliveries to FGR



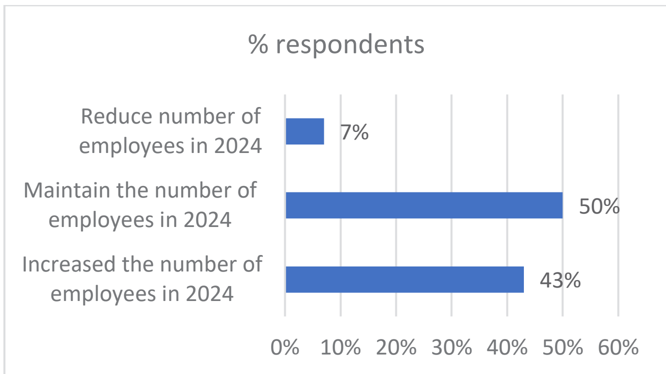
Source: 2023 Survey Data

Payments for coal deliveries to ZESA

Respondents in the coal sector reported that they were facing payment delays for coal deliveries to ZESA. They further indicated that this situation is impacting negatively on their working capital. Coal producers also reported that they were receiving a portion of their coal deliveries to ZESA in USD, however, they indicated that the foreign currency allocations were inadequate to meet their operational requirements.

9. Employment prospects

Survey findings show that in general, employment in the mining industry is expected to increase in 2024. Approximately 43% of mining executives indicated that they plan to increase the number of employees in 2024 citing ongoing expansion projects to drive increased hiring. About 50% are expecting to maintain the same level of employment in 2024. Analysis of respondent employment plans shows that formal employment in the mining sector is expected to increase by 7%, i.e., **from 53,500 in 2023 to 57,000 in 2024.**

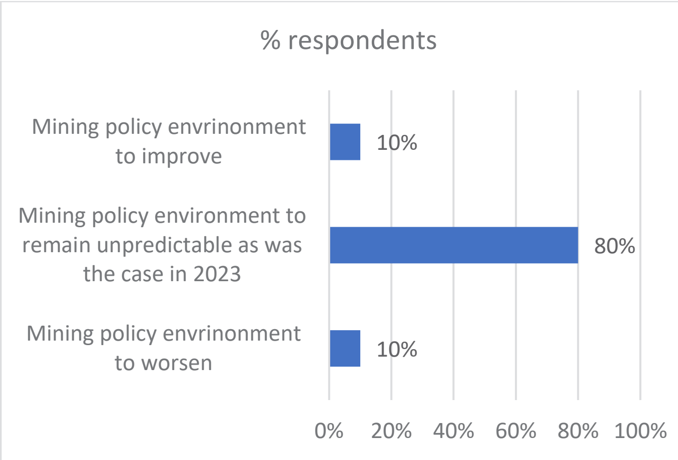


Source: 2023 Survey Data

10. Mining policy and legislation

Mining executives are generally pessimistic about prospects for an improved mining policy and legislative environment in 2024. Most respondents cited frequent policy reversals and uncertainty surrounding the finalization of amendments to the Mines and Minerals Act as key areas of concern for the legislative and policy environment for the mining industry.

Mining Industry Prospects for 2024



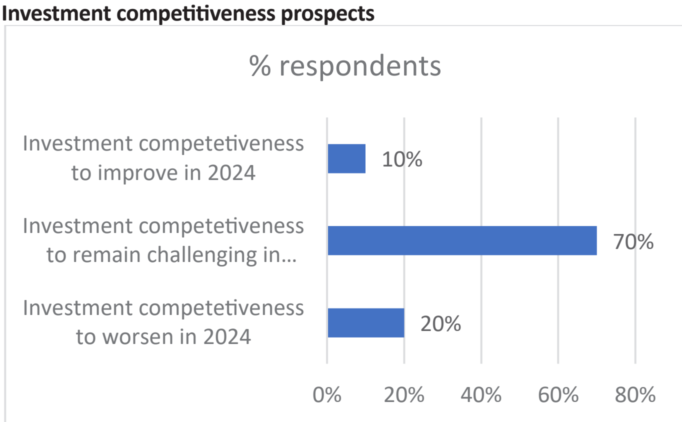
Source: 2023 Survey Data

11. Investment Competitiveness

In general, mining executives expect the investment environment to remain challenging in 2024 as was the case in 2023. Survey respondents cited the following constraints as undermining investment competitiveness in the mining sector:

- Unstable fiscal regime
- Removal of mining companies from Special Economic zones, and
- Uncertainty on mining policy and legislation.

Investment competitiveness prospects

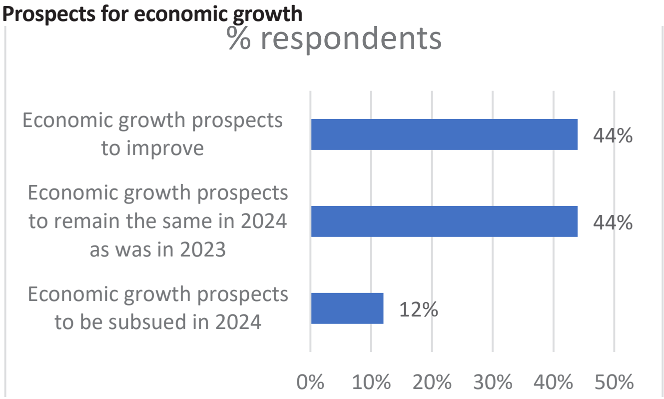


Source: 2023 Survey Data

12. Economic growth prospects

In general, mining executives are positive about the prospects for economic growth in 2024. Approximately 88% of the respondents are anticipating the economy to either maintain the same growth trajectory or improve in 2024 while 12 % expect the economy to contract in 2024.

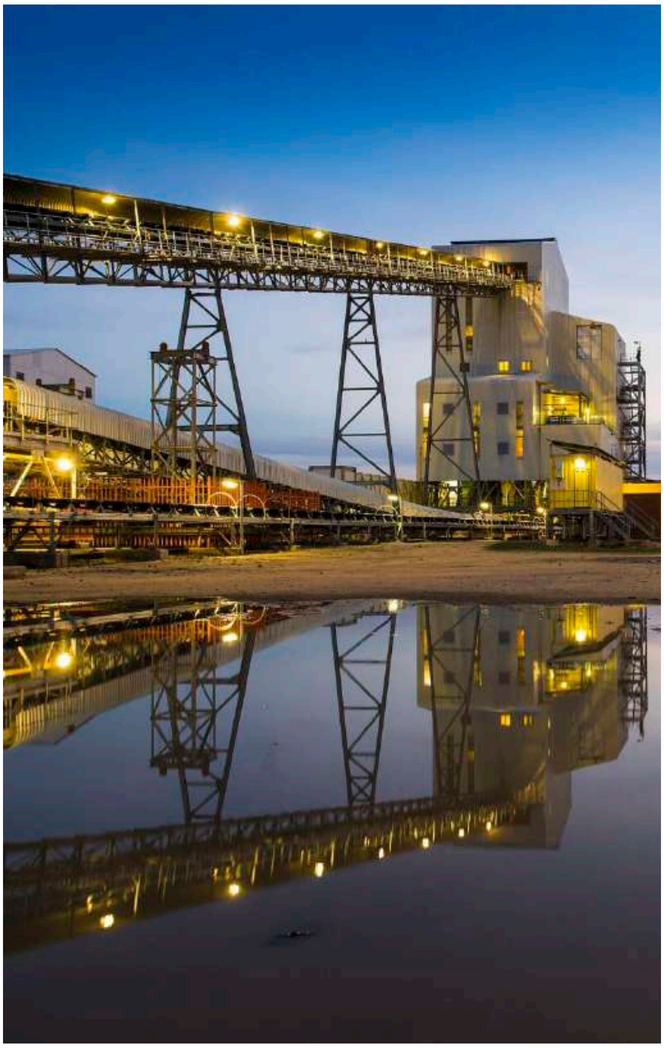
Prospects for economic growth



Source: 2023 Survey Data

Mining executives cited the following risks to the economic outlook for 2024:

- Infrastructure deficits.
- foreign currency shortfalls,
- Foreign exchange volatility and High inflation pressure.
- Capital constraints.



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Beneficiation and Value Addition

Beneficiation and value addition in the PGMs sector.

Information gathered from platinum producers indicate that Zimplats agreed to process other producers PGMs materials once they finalize construction of their additional smelters and refurbishment of their base metal refinery. The producers have since signed commitment letters with Zimplats to regularize the arrangement. This position was also agreed with Government.

Beneficiation and value addition in the lithium sector.

Survey Information show that all lithium producers are constructing processing facilities and concentrators to process their materials. They are currently exporting concentrates as per Government policy. Some of the lithium producers have signed an MOU with the Government to participate in the Mines to Energy Park. The Energy Park project includes:

- Construction of two 300 megawatts power stations for power generation
- A Coking Plant with a capacity of 1.2 million tons of coke per annum,
- A 130,000 tons per annum of Lithium Salt Plant
- A Graphite Processing plant
- Nickel Chromium Alloy Smelter and Nickel Sulphate.

Local Content in the Mining Industry

Survey findings show that most mining companies are undertaking various projects to support local content and local enterprise development. Analysis of survey responses shows that approximately 15% of procurement in the mining industry was on locally produced manufactured products. Other initiatives to promote local content which were cited by respondent executives include:

- Local enterprise development programs (Offtake agreements and letters of Support).
- Mining businesses procuring from local suppliers (Exploration, Drilling, Blasting, Loading, Haulage).
- Systematic employment of local community members.

Issues on local content development

Mining executives cited the following as undermining local content in the mining industry:

- Poor quality products,
- Long delivery timelines,
- High cost,
- Lack of credit facilities, and
- Lack of after sale backup.

Responsible Mining &

Environmental, Social & Governance Matters

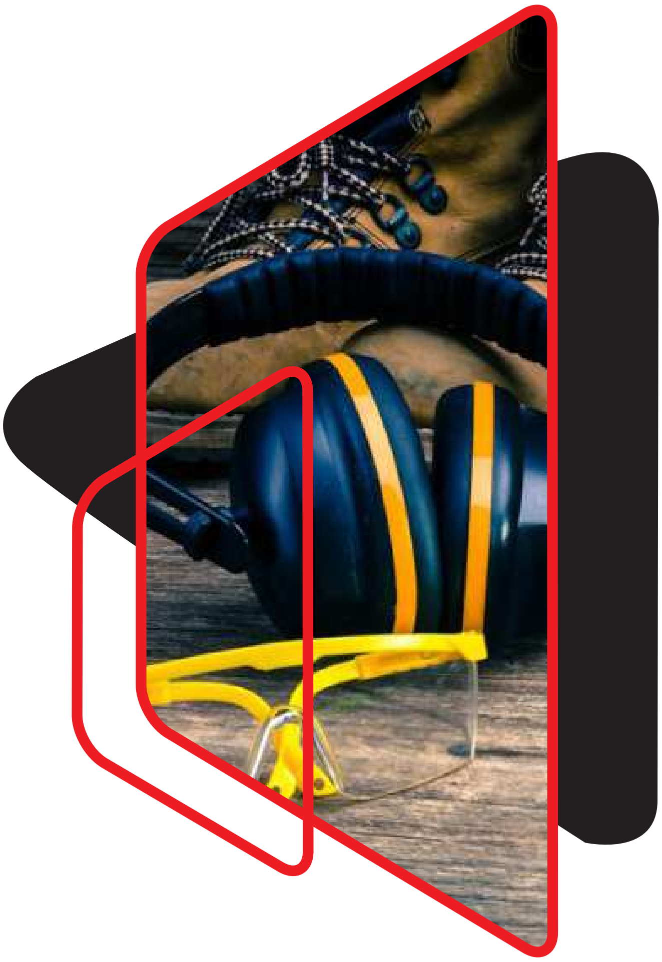
Survey findings show that mining companies are spending on average approximately 7% of their revenues on Environmental Social Governance (ESG) matters including the following:

- Cleaner production technology,
- Investment in renewable energy, and
- Reforestation and rehabilitation programs averaged.

Community Development Initiatives & Corporate Social Investment Programs

Survey findings show that mining companies are spending on average approximately 2% of their revenues on community development through their Corporate Social Investment budgets in the following areas:

- Infrastructure development (Roads, bridges, dams, boreholes).
- Support for education programs (building and rehabilitating schools, procurement of books and learning materials and payment of fees for disadvantaged members of society).
- Support to the health sector (refurbishing and building health delivery infrastructure and equipment support)
- Support to agriculture (irrigation infrastructure, input support schemes, and other initiatives).
- Support to sport (soccer e.g. FC Platinum, Ngezi F.C, Hwange Colliery FC, and Manica Diamonds FC.
- Small miners' development and training



Safety, Health and Environment

Accidents

The mining industry reported 110 fatal accidents during the period January to July 2023, compared to 106 fatal accidents during the same period last year. The 110 fatal accidents resulted in 120 fatalities. 92% of the accidents reported during the period under review occurred underground. Below is the table of accidents reported in 2023.

Fatal accidents for the Period January to July 2023

Category of Mineral Producer	No. of Accidents	Fatalities	Underground	Surface
Large scale	20	20	16	4
Small-medium scale	66	72	62	4
Illegal Operations	24	28	23	1
Total	110	120	101	9
Contribution of large-scale accidents to total	18%	17%	16%	44%
Contribution of illegal mining accidents to total	22%	23%	23%	11%

Source: Ministry of Mines and Mining Development

Large-scale operations contributed 18% to total accidents reported in the period under review. Of the 20 accidents reported for large-scale mines, 80% were in underground operations. Illegal mining operations contributed 22% to total number of accidents. The small-scale mining industry contributed 60% to the total number of fatal accidents.

Mining Industry Initiatives to Promote Safety at Mines

Occupational Safety

Most Mines have adopted Zero Harm initiatives which include occupational safety and health accidents promotion and environmental protection. Collaboration between the Chamber of Mines and other mining organisations is expected to entrench the zero harm initiatives to reduce fatal accidents and other negative impact of mining on society.

The mining industry under the Safety Health and Environment Committee of the Chamber of Mines also conducts initiatives to promote continual improvement of safety performance. These include:

- SHE audits,
- First aid competitions,
- Mine rescue competitions, and
- SHE seminars and workshops.

Occupational health

The mining industry is also actively engaged in the regional initiative to reduce the burden of TB in mines under the TB in Mines initiative supported by the Global Fund. The Chamber of Mines Safety Health and Environment Committee is also spearheading awareness campaigns in other health areas including HIV and Cancer awareness programmes.

The Policy Brief

Mining Industry Prospects for 2024

Introduction

This policy brief responds to the key findings of the State of the Mining Industry Survey and accordingly must be read in conjunction with the Main Report. The main objective of this brief is to inform policy on strategic issues emanating from the Survey. The Brief is also meant to stimulate debate among key stakeholders on relevant matters that promote growth, development, and sustainability of the mining industry.

Mining Sector Perception on Policy Environment

Responses from key stakeholders reveal the mining industry policy as predominantly uncompetitive, unpredictable, uncertain and inconsistent. All respondents indicated that the mining policy environment is uncompetitive and unpredictable, while 83% of respondents viewed the policy environment as inconsistent and uncertain, respectively.

Respondent mining executives are generally agreeable to the principles that guide key policies such as beneficiation and empowerment policies. Concerns, however, were raised particularly on the failure to regularise the Government policy stance to exempt the mining industry from the equity model of the Indigenisation Act.

Issues by policy category

Respondents identified the following major legislative and policy matters that influence mining sector performance.

1. Energy and infrastructure
2. Foreign exchange and monetary policy
3. Fiscal and tax policies
4. Beneficiation policy
5. Indigenisation and empowerment policy
6. Local content policy
7. Investment policy
8. Mining policy
9. Labour policy
10. Legislative matters
    a. Mines and Minerals Act
    b. Gold Trade Act
    c. Precious Stones Trade Act

1. Energy and infrastructure policy

All respondents raised concerns over infrastructure bottlenecks including fragile power supply, high cost of electricity, poor rail, road and water infrastructure services which are undermining the performance of the mining industry.

1.1. Electricity supply

Current situation

All respondents reported that power supply was generally fragile with reports of unscheduled power outages resulting in production stoppages and output losses. They expect the situation to worsen in the outlook due to increased demand for power on the back of new and expansion projects.

Recommendations

Respondent mining executives recommended the following:

- Prioritize mining companies for available power.
- Incentivise private power projects including tax incentives to support investments in Independent Power Projects that supplement available power.

1.2. Cost of electricity

Current situation

Almost all respondent mining executives expressed concern on the new electricity tariff of USc14.21/ KWh, indicating that the increase in electricity tariff from USc12.21/ KWh will result in the cost of production increasing by between 7% - 10%. Respondents also noted with concern that the tariff is paid wholly in foreign currency.

Recommendations

Respondent mining executives requested for a downward tariff review and recommended a tariff ranging from around USc7/ KWh for ferrochrome producers with a cap of USc10/ KWh for the rest of the mining industry. They further recommended that the electricity tariff be paid in line with foreign exchange retention level.

Mining Industry Prospects for 2024

2. Foreign exchange and monetary policy

2.1. Foreign exchange retentions

Current situation

All respondents reported that the current foreign exchange retention of 75% is inadequate to meet their operational requirements. The retentions are under pressure from rapid dollarisation that has seen most suppliers including Government departments e.g. ZESA demanding payments exclusively in foreign currency. Resultantly, mining companies are now experiencing build-up in ZWL balances which they are struggling to utilise.

Recommendations

Survey respondents recommended a minimum foreign exchange retention of 85% which is in line with mining companies' operational requirements as well as funding for capital projects. With regards build-up of ZWL balances, mining executives appealed to Government to secure home for the ZWL balances including ensuring that all taxes and electricity bills be paid in local currency.

2.2. Loss of value on the surrender portion of export earnings

Current situation

Respondents reported that their companies were losing value on the surrender portion of export proceeds due to exchange rate disparities. Local suppliers that accept payments in local currency are charging their goods and services at parallel exchange rates which, in the recent past, have ranged between 150% to 200% of the official exchange rate. As a result, mining companies lose up to 50% of the surrendered portion that they receive in ZWL from the RBZ. This has translated to an implicit 12.5% to 20% tax on gross revenue being levied on exporters.

Recommendations

Mining executives recommended the following:

- Fair compensation of the surrender portion of export proceeds through price incentive schemes.
- Allow payment of statutory obligations including payments for electricity bills in local currency at the prevailing official rate.

3. Fiscal policy

Current status

Almost all respondents indicated that the current fiscal regime for the mining sector is generally uncompetitive. The following tax matters were identified as undermining the performance of the mining industry.

- High royalty
- Beneficiation taxes
- High RDC levies
- High environmental levies

3.1. High royalty

Current status

Respondents in the PGMs, lithium and diamond industries indicated that their royalties of 7% (from 2.5% in 2022) for platinum, 5% (which was increased from 2% in 2022) for lithium and 10% for diamond were high, unaffordable and weighing down viability of mining projects.

Recommendations

Respondents recommended the following:

- Platinum royalty of 2.5% with a cap of 5% in line with price movements.
- Lithium royalty of 2% with a cap of 3% in line with price movements
- Diamond royalty of 7% in line with prevailing diamond prices.

3.2. Beneficiation taxes

Current status

Executives in the PGMs sector reported that they were concerned by the beneficiation levy on PGMs concentrates which is expected to take effect from 1 January 2024, indicating that the tax will further worsen the viability situation in the PGMs sector. The PGMs producers reported that they had signed commitment letters with Zimplats for processing of their materials in-country once Zimplats complete the construction of additional smelters and refurbishment of their base metal refinery. This position was also agreed with Government.

Mining Industry Prospects for 2024

Recommendation

Platinum producers recommended deferment of the beneficiation tax on concentrates to align with Zimplats timelines as agreed with Government.

3.3. Mining fees and charges

Current situation

Mining executives reported that some mining fees and charges were high and unaffordable, impacting negatively on viability of mining projects.

Recommendation

Reduce the high fees to align with regional best practice.

3.4. Rural District Council Levies

Current situation

Almost all respondents are concerned by the high RDC levies which they also said vary with District. The high RDC levies are weighing down on the viability of mining projects.

Recommendation

Mining executives appealed for reduction and unification of RDC levies to restore viability of mining projects.

3.5. Environmental levies

Current situation

Mining executives raised concern on high Environmental Impact Assessment fee (0.8% to 1.2% of the total project cost) which they feel is discouraging investments in mining projects. They further indicated that the 2% environmental rehabilitation levy was increasing the cost of mining projects.

Recommendation

Mining executives recommended the reduction in EIA levies as an administration cost and align to regional averages with South Africa with a cap of ZAR10,000 as a typical example. They further recommended the removal of the 2% environmental rehabilitation tax and replace it with the environmental rehabilitation insurance alternative proposed by the Chamber of Mines.

4. Indigenisation and empowerment policy

Current status

Mining executives indicated that they are fully supportive of the Government thrust to entrench local empowerment as a broad-based development strategy. They noted with appreciation the current Government efforts to replace the equity model of Indigenisation and the ongoing consultations to develop an empowerment-based model.

Recommendations

The following were recommended:

- Regularise the Government policy thrust of exempting mining companies from the equity model of indigenisation to bring clarity on the matter.
- Expedite the finalisation of the empowerment framework to replace the Indigenisation Act to attract investments in the mining sector.

5. Mining policy

Most mining executives expressed concern on the frequent reports of disputes arising from overlapping claims which have resulted in disruptions at operations. They also noted the delays in finalising the mining cadastre.

Recommendations

Finalise the cadastre system to minimise disputes at mining operations.

6. Local content policy

Current status

In general, mining executives are supportive of the Government's Local Content Strategy. Most mining houses are already undertaking initiatives to increase local content in the mining industry through local enterprise development programs (Offtake agreements and letters of Support), mining businesses procuring from local suppliers (Exploration, Drilling, Blasting, Loading, Haulage) and systematic employment of local community members.

Recommendations

The mining executives underscored the need to align the local content implementation framework for the mining sector in line with ongoing local content initiatives.

7. Investment Policy

Current status

Respondent mining executives indicated that the investment environment for the mining sector is predominantly uncompetitive, characterised by high cost of doing business, frequent policy reversals and lack of clarity on indigenisation and economic empowerment. They however noted fiscal incentives including deductibility

of all capital expenditure incurred exclusively for mining operations at a rate of 100% and indefinite carry over of tax losses as welcome incentives to promote investments in the sector.

Recommendations

The following were recommended:

- Reduce the cost of doing business in the mining sector.
- Minimise policy reversals.
- Bring finality to the indigenisation matter.

8. Labour Policy

Current status

Executives raised concerns on some provisions of the new Labour Act including the following:

- Removal of notice period during termination of employment
- Maternity leave- no more waiting period
- Absence of minimum package on retrenchments

Recommendations

Mining executives recommended review of these provisions in line with best practice and International Labor Law.

9. Legislative matters for the mining industry

Current status

Respondent mining executives expressed concern on delays in finalising review of important pieces of legislation for the mining industry including amendments to the Mines and minerals Act, amendments to the Gold Trade Act and review of the Precious Stones Trade Act.

Recommendation

Mining executives recommended that the finalisation of the amendments to the above legislative matters must be expedited to facilitate the growth and development of the mining sector.

Mining Industry Prospects for 2024

Key matters that require Government attention

The following are key areas of concern raised by respondents that require Government attention to guarantee sustained growth of the mining sector.

Thematic area	Current situation	Impact on mining projects	Responsible Authority	Support Government Department
1. Foreign exchange matters	• 75% retention inadequate to meet mining companies' operational requirements and funding of capital projects. • The retentions under pressure from increasing demands for payments in foreign currency including electricity bills wholly paid in forex, some taxes and statutory payments paid in forex and increased royalty and electricity bills	• Slowdown in project implementation • Working capital constraints (input shortages resulting in production disruptions)	• Reserve Bank of Zimbabwe	• Ministry of Finance, Ministry of Mines
	• Loss of value on the surrender portion of export proceeds due to exchange rate disparities	• Reduced (discounted cash flows)- surrender portion liquidated at official rate and actual cost indexed to the parallel market rate. • Reduced viability	Reserve Bank of Zimbabwe	Ministry of Finance, Ministry of Mines
2. Fiscal and tax matters	• High royalty for platinum, lithium, and diamond	• Increase in cost of production impacting on the viability of mining projects.	• Ministry of Finance	• Ministry of Mines
	• Export tax on PGMs concentrates	• Increase in cost of production impacting on the viability of mining projects.	• Ministry of Finance	Ministry of Mines
	• High RDC levies	• Increase in cost of production impacting on the viability of mining projects.	Ministry of Local Government	Ministry of Mines

Mining Industry Prospects for 2024

Thematic area	Current situation	Impact on mining projects	Responsible Authority	Support Government Department
	• High environmental charges	• Increase in cost of production impacting on the viability of mining projects.	EMA	Ministry of Environment, Ministry of Mines
3.Infrastructure and energy matters	• Fragile power supply coupled with increasing demand from new and expansion projects that will demand additional power	• Risk of power outages resulting in production stoppages and output losses	• ZESA	Ministry of Energy, Ministry of Mines
	• New electricity tariff of 14.21/ KWh is high and unaffordable.	• High cost of production impacting negatively on viability of mining projects	ZESA	ZERA, Ministry of Energy, Ministry of Mines
4.Indigenisation and Economic Empowerment	• Regularisation of emption of mining sector from equity model yet to be regularised. • Proposed empowerment model remains outstanding	• Lack of clarity on indigenisation impacting negatively on capital inflows. • Slowdown in project implementation.	Ministry of Industry	Ministry of mines
5.Local Content Policy	• Local Content Implementation Framework for the mining industry remains outstanding	• Lack of clarity on local content thresholds	Ministry of Industry	Ministry of Mines
6.Legislative matters	• Amendments to Mines and Minerals Act, Gold Trade Act and Precious Stones Trade Act remain outstanding.	• Outdated pieces of legislation not supportive of the growth and development of the mining sector.	Ministry of Mines	Parliament of Zimbabwe

Notes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