Do We Want Mining Investment Or Not?

• ROBIN SHERBOURNE

NAMIBIA CAN MAXIMISE how it benefits from mining investment by reducing uncertainty, eliminating corruption, enhancing the competitiveness of its mining environment, and designing the mining tax regime so that it benefits both investors and the fiscus.

Namibia's mineral resources belong to the people. The Constitution clearly says they belong to the Namibian state.

But that is not the question. The question is who is going to put in the money to discover and develop the resources so they can contribute to the growth of the economy, the creation of employment, and can generate foreign currency earnings and tax revenue?

The bottom line is that mining is hugely capital intensive, requiring huge amounts of money from beginning to end: from exploration through to the building, operation and maintenance of a mine, and finally the closure of the mine at the end of its useful life.

How much money are we talking about? Mines in Namibia mostly involve hundreds of millions, or even billions, of Namibia dollars.

No one in Namibia has this kind of money, so we have to incentivise the people who do – serious mining investors who have the skills, expertise and capital to find and develop mineral deposits – to come and invest in our country.

And these investors will only come if they think they can make a return on their money that justifies the risks they are taking. Mineral exploration costs a fortune and investors run the risk of not finding anything at all.

If they find something worth developing they may go ahead and build a mine only for the price of the mineral being produced to suddenly plummet on global markets leaving them with losses rather than profits. Mining is full of risk.

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THE RISKS

No investor would put their millions in a risky mining venture only to earn a return they would otherwise get from a bank or from other risk-free investments, such as government bonds.

No investor would put in the millions required to finance the full cost of a mine in exchange for only a fraction of the profits from it.

No investor would put millions into a mine if they know the profits they will make will be so heavily taxed that they come away with only a small return.

No investor is going to invest millions over a period of 10 or 20 years if they believe the government is going to change the taxes on the mine so they walk away with only a small return.

The government's challenge is to set mining taxes in a balanced way so that investors are encouraged to take risks and invest, earn a decent (risk-adjusted) return on their money, and at the same time pay tax on the profits they make.

Namibia can structure its tax system so that if any company earns super profits – in cases where mineral prices rise far more than expected – the country receives a decent share of these too.

OPTIONS

International mining investors always have options, and they will compare the return they think they will get in Namibia with what they think they will get in other countries they have interests in.

Like every other country, Namibia is in competition for scarce mining investment dollars. If we are not attractive, investors will go elsewhere.

But we can create so many advantages to positively influence mining investors by ensuring political stability, building good infrastructure, levying predictable taxes, training a skilled and motivated workforce, and administering a liberal profit repatriation regime – that they are prepared to pay higher taxes in exchange for these advantages.

And yes, we must check carefully that companies obey the law and pay the correct amount of tax. Mining companies are certainly no angels and we need to keep them honest by checking their operations and their financial accounts. The Directorate of Mines in the Ministry of Industries, Mines and Energy and the large taxpayer unit in the Ministry of Finance are charged with doing just that.

That includes ensuring mining companies do not transfer profits out of the country by cooking their books. Companies are obliged to share their accounts with the government and can lose their licences if they get up to any funny business.

Successful mining investment policies will lead to a win-win outcome for both investors and the government. Namibia can embark on a journey where revenues from mining can be used to create an economy which becomes steadily more diversified and therefore less dependent on mining.

At the same time Namibians should be encouraged to develop the skills and the risk appetite to build a junior mining industry and stock exchange, like those of Australia, Canada and the United Kingdom.

Over time this could then mean Namibian investors could go abroad to discover and develop the resources of other countries.

So, if Namibia wants to encourage mining investment, they know what has to be done.■

Robin Sherbourne is an applied economist with a master's degree from the London School of Economics. He has a wide range of experience in government, policy research and advocacy, central banking, stock broking, asset management and banking, as well as teaching and journalism both in the United Kingdom and Namibia.