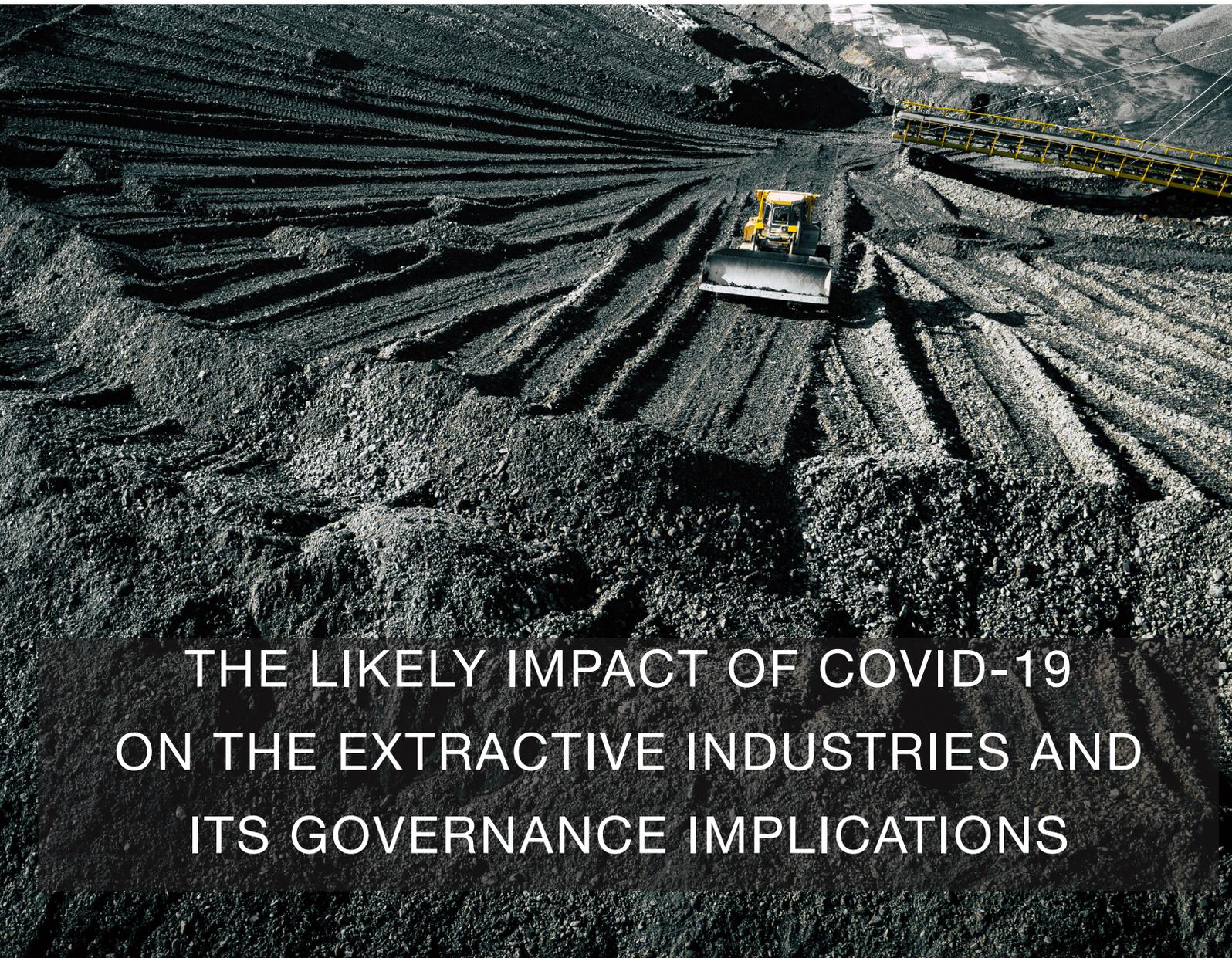


COVID-19

A GGA RESPONSE

MAY 2020

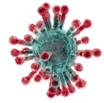


THE LIKELY IMPACT OF COVID-19 ON THE EXTRACTIVE INDUSTRIES AND ITS GOVERNANCE IMPLICATIONS

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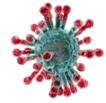
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INTRODUCTION

COVID-19, the disease caused by the SARS-CoV-2 virus, has been declared a pandemic by the World Health Organization (WHO). Global policy responses have shut down economic activity in attempts to flatten the curve – to prevent a stiletto-type impact on the capacity of healthcare systems to provide care for COVID-affected patients. Recent projections from the Asian Development Bank suggest that resultant global economic losses could amount to between \$5.8tn and \$8.8tn (Asian Development Bank 2020). African countries appeared, initially, to be particularly susceptible to the negative social and economic consequences unleashed by COVID-19 (*The Economist* 2020). However, the demographic profile of many developing countries, not only in Africa, entails a ‘youth bulge’, and the elderly – most susceptible to contracting severe forms of the virus – tend to live at home rather than in concentrated spatial locations (Cash and Patel 2020). Though a lack of data and testing capacity is a governance concern throughout the continent, African countries thus far have relatively low numbers of recorded infections. Nonetheless, the global figures make for gloomy reading. Total cases at the time of writing stand at 5,462,447; recorded deaths amount to 344,503 (Johns Hopkins University 2020).

A looming governance question is how countries will respond to the economic contraction and address looming fiscal deficits in the wake of vastly reduced tax bases (Roubini 2020). For many African countries, dependent on natural resources for exports and foreign exchange revenue, economic recession will have a devastating effect on livelihoods. The World Bank estimates that, globally, 49 million more people will be pushed into ‘extreme poverty’, with sub-Saharan Africa likely to suffer disproportionately (Gerzon Mahler et al. 2020). Extractive industries are particularly susceptible to the worst impacts of the economic downturn as they are capital-intensive businesses deeply connected to global supply chains.





This paper examines the likely impact of governance responses to COVID-19 on the extractive industries across African countries. It analyses what the pandemic means for the mining sector and its future and what kind of contribution the mining sector can make to mitigate the worst effects of COVID-19 and forge a new future for itself and the countries in which it operates. The gold mining industry has an important role to play, as gold is an irreplaceable ingredient in some of the most reliable testing units now developed (Harvey and Ngqwaba 2020). However, the demand for most minerals and metals will remain flat for some time, along with the demand for oil. This is largely because even if China is the first major global economy to recover, it will be some time yet before it begins to consume African resources on a similar scale to pre-lockdown levels. Moreover, China alone does not have the kind of demand power required to drive global commodity prices up to pre-COVID-19 levels, especially as it transitions away from manufacturing-led export growth towards a more services-orientated economy.

1. THE LIKELY IMPACT OF GOVERNANCE RESPONSES TO COVID-19 ON THE MINING INDUSTRY ACROSS AFRICAN COUNTRIES

At the beginning of March 2020, the Houndé mine in Burkina Faso reported that at least one employee had tested positive. The company implemented a 14-day quarantine period (now standard practice) for any employees or contractors who had been on the site. An employee at AngloGold Ashanti's Obuasi Gold Mine in Ghana also tested positive for COVID-19. The company increased its safety measures and required all non-essential staff to work from home. By 28 April, South Africa's mining industry had recorded nine cases of COVID-19. Sibanye-Stillwater, Anglo American and Gold Fields – prominent mining houses operating in South Africa – have also taken steps to increase safety measures to prevent the spread of the disease as they return to production. These include intensive screening of all employees and the provision of personal protective equipment (PPE). On 24 May, however, AngloGold Ashanti reported that 164 employees at its Mponeng Mine – the deepest gold mine in the world – had tested positive. This has forced the temporary closure of the mine, despite the majority of cases detected being asymptomatic (Stoddard 2020). It is relatively good news that so many positive cases are asymptomatic (among 650 tests conducted), suggesting high levels of immunity among miners and the communities in which they live. Mine closures, however, are an expensive and risky business, as ore bodies move when not actively mined, meaning that extra precautions have to be taken when production resumes.

Policymakers have largely agreed that disruptions to South Africa's economic equilibrium – with the mining industry still a major single employer (accounting for over 400,000 of the country's jobs) – are necessary to flatten the curve and provide the health sector necessary time to prepare hospitals for COVID-19 treatment. These disruptions, however, exacerbate pre-existing structural challenges.

Before lockdown measures were announced in March 2020, the economy was heading towards a recession – growth contraction for more than two quarters successively – with growing unemployment from an already-high base. Lower oil prices have driven down the risk of import-driven inflation (most of the country's oil is imported), though, which has allowed the Reserve Bank's Monetary Policy Committee to reduce the repo rate. Commercial banks have followed suit and lowered interest rates. This brings reprieve to indebted middle-class homeowners and consumers. It simultaneously drives currency depreciation, as large volumes of capital search for higher yields elsewhere. For exporters of commodities priced in US dollars, this is potentially positive news, but at this stage tempered by the sheer lack of demand for anything other than gold.

Because the South African economy is deeply dependent on mining and tourism to sustain its formal economy, and these two sectors are disproportionately affected by COVID-19, South Africa's growth projections have been repeatedly lowered over the last few months. Standard and Poor S&P was the last of the three major global rating agencies to relegate South Africa's sovereign debt to the third tier of non-investment grade on 29 April 2020. It expects the economy to shrink by 4.5% this year alone. This projected contraction is, surprisingly, still smaller than the Reserve Bank's own expectations, which suggest a 6.1% contraction (Cronje 2020).

Africa's resource-dependent economies were generally not prepared for a major global economic recession. They were already susceptible to volatile commodity prices, many of which were flatlining before the pandemic struck.

The International Monetary Fund, for instance, has revised Nigeria's growth forecasts down from 2.5% to 2%, given the lower oil prices (sitting at about \$35/barrel at the time of writing). Nigeria is unhealthily dependent on high oil prices to sustain its economy and the government's budget. Oil accounts for over half of government revenue and 94% of the country's foreign exchange revenue (Munshi and Cotterill 2020). The country refines very little of its own crude, selling the majority of it to traders who sell it on to refineries all over the world. It then imports the refined fuel back and heavily subsidises the consumption thereof. Even at high oil prices, this dynamic is unsustainable. At low oil prices, analysts are concerned that the economy will be brought to its knees (Munshi and Cotterill 2020).

Global oil demand contraction has been compounded by a collective action failure. Major producers have failed to agree to production cuts. Making history, oil prices traded in the US at negative prices on 20 April 2020 – traders were paying buyers to take oil off their books as they had exceeded storage capacities (Brower, Sheppard, and Raval 2020). Part of the underlying problem is that Saudi Arabia and Russia, two of the world's major producers, continued to expand production as neither trusts the other and therefore neither wants to lose market share to the other. This has resulted in a typical prisoners' dilemma, with mutually destructive outcomes for both parties and all other oil producers.

Having said that, it is clear that in African countries, oil wealth tends to be correlated with poor governance indicators such as corruption and lack of adherence to the rule of law. This is largely because oil rents accrue to powerful elites who find it less costly to repress than to reform in the direction of building a more open political settlement and ensuring broad-based economic benefit distribution (Ross 2015). Oil wealth has further removed the incentive to build a broad tax base through the allocation of credible, secure property rights. This lack of property rights and a tax base removes a crucial variable from the citizen-state accountability chain. Depressed oil prices for the foreseeable future may provide the necessary governance incentives required to engage in the deep structural transformations promoted by, for instance, the Africa Mining Vision (African Union 2009).

For African resource-dependent economies, over-reliance on Chinese consumption of these raw materials was problematic before rolling lockdowns were implemented. Trade between China and Africa only grew by 2.2% in 2019 compared to a 20% increase the year before (Munshi and Cotterill 2020). COVID-19 has simply exacerbated the pre-existing challenges of a US-China trade war (Roach 2020), inflamed by mistrust



on behalf of both parties, with the US accusing China of manipulating its currency to give it an unfair advantage in trade relations, and China accusing the US in turn of unfairly imposing tariffs on Chinese imports. This spat between the world's two largest economies is compounded by an international trend towards nationalism and away from the established post-Cold War liberal order that COVID-19 appears simply to have accelerated (Haas 2020).

The depressed global oil price, combined with decreased demand from China for natural resources, and lockdowns, present a potential perfect storm for African economies that were already susceptible to global trade and commodity price volatility. As indicated earlier, a resumption in Chinese economic activity is not necessarily good news yet, as its trading partners – on which it depends for generating revenue from its exports – are unlikely to be opening their borders to trade with China before the end of 2020.

Production increases may create surpluses without an immediate market. Moreover, global supply chains, on which the mining and oil and gas industries are dependent for sourcing best-value inputs such as industrial components and other manufactured goods, have been severely disrupted both by pre-COVID-19 factors and the governance responses to it (Monga 2020).

Mining and oil and gas companies have primarily been concerned about containing the spread of the virus within their operations. As global lockdowns start to ease in the aftermath of peak death rates having been reached, but with COVID-19 likely to be a prominent part of the near to medium term future, they will have to define new strategies of production and find new means of sourcing or manufacturing critical supplies.



Miners queue to board a company bus en route to the evening shift at the Sibanye-Stillwater platinum mine in Marikana, Rustenburg, on May 15, 2020 after having had their temperature checked. PHOTO: MICHELE SPATARI/ AFP

2. THE IMPLICATIONS OF COVID-19 FOR THE FUTURE OF THE MINING SECTOR IN AFRICAN ECONOMIES

Mining operations are likely to start resuming in the near future despite various lockdown scenarios, especially those that supply critical minerals, metals or hydrocarbons without which the global economy could not return to production. Employee availability will be a function of travel restrictions within and between countries, and employee health (or levels of contact with COVID-infected people).

In South Africa, coal mining companies have operated even during the strictest lockdown levels to ensure the continuation of electricity supply. As the economy resumes, the long-run lack of reliability of the country's electricity supply will again be highlighted. There is a governance opportunity for South Africa to move away from coal and instead expand the procurement of electricity from renewable energy independent power producers. The opportunity is also ripe for mining sector expansion of metals such as chrome and manganese, critical ingredients in wind turbines (Harvey 2018).

Other mining operations, besides coal, have returned to 50% of their operating capacity, with strict regulations in place, which include rigorous screening and testing as employees return to work. Quarantine facilities must be provided for those who test positive. Mining companies have also been instructed to make transport arrangements to ensure that employees can travel safely from home to sites of operation. Safety matters unrelated to COVID-19 will also have to be addressed.

Production standstills can leave shafts unstable due to shifting ore bodies and gas accumulation. The integrity of support structures designed to prevent rock falls may also become compromised, which renders it crucial for mines to conduct preparatory work before full production can be resumed. It is also apparent that mining companies across the continent are providing resources to address the most immediate impacts of COVID-19 on already-stretched healthcare systems.

AngloGold Ashanti has handed over two of its hospitals to fight the spread of COVID-19. These fully equipped medical facilities, with a 270-bed hospital near Orkney in North West and the mothballed 300-bed hospital near Carletonville in Gauteng, form part of AngloGold's \$300m asset sale to Harmony Gold. The loan of the hospitals to the state is part of the mining industry's response to the crisis, which involves making onsite healthcare facilities available to provincial medical departments.

AngloGold has also donated R20m to the Solidarity Response Fund set up by the state to combat COVID-19, as well as masks, intensive-care hospital beds, water tanks, food parcels and mobile toilets. Across Botswana, South Africa and Namibia, the De Beers Group has contributed \$5 million towards relief support for the public health emergency split between national relief funds and community and logistical support (De Beers Group 2020).

In the Democratic Republic of Congo (DRC), Barrick Gold Corporation, operator of the Kibali gold mine, has announced a \$1.5 million support programme to help combat and contain the COVID-19 pandemic within the DRC. Barrick has structured a detailed COVID-19 support programme for the country, which was communicated to the government at the beginning of April 2020 by Barrick president and CEO Mark Bristow. Barrick's DRC country manager said that they have measures in place to ensure continuity of



its operations and to protect workers and their families living around the mine. This programme is being managed by the mine's own doctors and health workers, who are experienced in dealing with deadly infections such as Ebola. This new package was an addition to those efforts and includes the supply of critical equipment to the value of \$632,000 at the national level, \$488,000 at the provincial level and \$380,000 at the local level (Mining Review Africa 2020).

3. SURPRISING OPPORTUNITIES FOR SOME SECTORS OF THE EXTRACTIVE INDUSTRIES

While there has been much commentary, understandably, concerning the impact of COVID-19 on businesses, there has been less focus on how the mining sector may contribute to mitigating the impact of the disease. Gold, for instance, is an irreplaceable ingredient in the most promising new wave of lateral flow assay (LFA) Covid-19 rapid antibody tests, which identify biomarkers from the body's immune response instead of testing directly for the virus itself (though some do this too). Gold particles in LFA tests are used to detect a colour change in the blood and give a reliable result in under 20 minutes in any environment. They are inexpensive and easy to use.

With the exponential demand for testing kits that is already under way, gold producers stand to gain large windfalls. The gold price has climbed to current levels of close to \$1,700/oz from \$1,458/oz six months ago, as gold is typically a store of value in uncertain times. It now has another reliable future demand driver as LFA test production scales up. Higher prices mean previously marginal mines can viably resume production. In the South African context this is especially good news as it combines with long-term currency weakening to generate higher export revenues.



Taxes on these exports may help to plug the deficits created by the costly responses to COVID-19.

As lockdowns ease but the risk of epidemiological transfer of COVID-19 still exists, the need for quick and accurate diagnostic testing could not be more urgent. Repeated testing will have to become an integral part of the strategy for global economic recoveries. According to Paul Romer, a former chief economist at the World Bank, more routine and regular testing could help to smooth a return to work, in turn serving to rebuild economic confidence (Romer 2020). If his governance advice is heeded, it could yield an immediate demand for millions of tests per day. There is already a large range of diagnostic tools available to governments around the world, but these can be limited by two key parameters: speed and cost. Almost all of them require samples to be taken and sent off to a centralised laboratory for analysis which can be slow and expensive, especially during times of crisis. Gold has been the material of choice in the LFA diagnostics space for 40 years because of its unique physical properties, and gold particles are likely to be at the centre of many of the new COVID-19 LFAs. These diagnostics will help to complement lab-based testing, and further equip healthcare professionals and scientists to understand and track the pandemic across a broad range of settings. In contexts where centralised laboratory systems are labouring under severe results backlogs, the acquisition of gold-based LFA test kits should be rapidly scaled up.

4. RECOMMENDATIONS

- African countries that have been overly natural resource dependent (especially on oil) have an opportunity to implement governance reforms towards greater protection of property rights and the formation of a broad tax base that will reduce reliance on oil and mineral rents;
- Mining companies should employ the lessons learned across the continent in addressing other major infectious diseases such as HIV and AIDS, TB and Ebola and continue to be at the forefront of providing resources where possible to complement governments' responses;
- Over-reliance on Chinese demand for African raw materials has exposed vulnerabilities in the structures of a number of African economies. COVID-19 has exacerbated these vulnerabilities and at the same time presents an opportunity for structural transformation. Countries with abundant resources to fuel global energy and transport revolutions (such as chrome, manganese, copper, cobalt and lithium) should embrace the opportunity for governance reform now to reduce dependence on hydrocarbons and develop global markets for other materials, preferably with some level of value-addition prior to export.

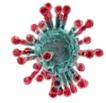
5. CONCLUSION

COVID-19 has disrupted the business-as-usual equilibrium. This briefing has shown that the economic impact will differ from place to place. African countries that are overly dependent on natural resource extraction for economic growth have been left vulnerable, especially in light of the oil supply glut due to a lack of global demand.

The collective action required to cut production has also not materialised. Even if China resumes production soon, a question remains as to which countries it will be selling its manufactured goods to, as few will be able to afford consumption in the short run.

The key to fighting COVID-19 without extreme disruptions to economic wellbeing is to rapidly improve and scale up testing to enable more optimal public policy decision-making. Aside from the direct contributions that mining companies are making to prevent socio-economic collapse, a silver lining is that gold is a critical ingredient for the best available LFA test kits.

African economies appear to be particularly ill-equipped to deal with the impending onslaught of COVID-19. However, with smart decision-making, they can both supply the gold required for test production and, in the process, produce their own testing kits. This will enable context-specific and appropriate public health responses at the same time as earning foreign exchange revenue. The policy recommendations above also highlight the opportunities for governance reform that the COVID-19 pandemic has introduced.



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