Minerals Council supports B4SA initiative to revitalise SA economy

August 2020
Today’s briefing

• What if?
• Overview of new economic deal for South Africa:
  • Delivering an accelerated economic recovery strategy
• Revitalising the mining sector after COVID-19
• Next steps
• Questions
The possibility

What if?

The policy and regulatory environment was clear and workable?

The industry was modernised?

Energy supply was reliable and affordable?

Rail and port infrastructure was adequate and reliable and able to meet the demands of a growing economy?

There was greater collaboration between government and industry to support communities?

Exploration was encouraged and increased?

Government and industry collaborated more to fast track key projects?

SA mining was attractive to investors?
Post COVID-19

A New Economic Deal for South Africa
Delivering an Accelerated Economic Recovery Strategy
A New Economic Deal for SA: The COVID-19 crisis and the partnership created to respond, provides an opportunity to rethink SA’s future

COVID-19 has had a devastating impact on SA’s already weak economy

We need a compelling and stable environment to attract investment and drive growth & employment

Requires a social and economic compact between all partners with the focus on shared prosperity

The outlook is extremely challenging
- Estimated funding shortfall of R3.4 trillion over the next 3 years
- Budget deficit and SOE shortfall of R2.4 trillion
- Private sector funding requirement adding c.R1 trillion

Restoring business and consumer confidence is key to:
- Accelerate GDP growth
- Protect and add jobs

The private sector can help to:
- Access local and foreign investment
- Implement national projects
- Create new businesses and jobs
- Grow tax base to strengthen the fiscus

Key success factors that will inform SA’s future:
- A shared vision with agreed targets
- Strong leadership
- A focus on inclusive growth and jobs
- Regulatory certainty and consistency
- Public / private sector collaboration

SA in 2020
- GDP outlook: $330bn
- Debt:GDP: 82%
- S&P Rating: BB-
- Gini co-efficient: 63
- Unemployment: 29%
- Business confidence: 5/100
- Global Competitiveness: 60/141
- Ease of doing business: 84/190

We need an unambiguous and compelling new narrative focused on inclusive growth and investment to persuade capital providers to invest in South Africa

SA in 2030
- GDP outlook: $550bn
- Debt:GDP: 60%
- S&P Rating: BBB+
- Gini co-efficient: 43
- Unemployment: 15%
- Business confidence: 70/100
- Global Competitiveness: 25/141
- Ease of doing business: 20/190

Working together to build the economy and tackle poverty, inequality and unemployment
We need to work together to tackle constraints and challenges and deliver an inclusive and accelerated economic recovery strategy.

South Africa will have to compete for capital against all other emerging markets.

Fiscal discipline essential to reduce cost of capital.

We need an unambiguous and compelling new narrative focused on inclusive growth and investment to persuade capital providers to invest in South Africa.

Improving SA’s global competitive position is key.
The circumstances facing South Africa have changed dramatically even though the issues are similar

1. COVID-19 has had a devastating impact on the South African economy adversely affecting both lives and livelihoods.

2. Q2 GDP has declined by 30% and over 1 million jobs have been lost, which demands a coordinated and bold response.

3. An opportunity exists to reset the course for South Africa but this requires decisive leadership and urgent delivery.

4. To build a better South Africa requires a shared national vision with a focus on inclusive growth and job creation.

5. SA’s economic strategy urgently requires a new social and economic compact among all role players to deliver decisive leadership, inclusive growth and prosperity.

The COVID-19 crisis presents an opportunity to rethink the future of South Africa and work together on an accelerated economic recovery focusing on inclusive growth and prosperity for all citizens.
The economic impact of COVID-19 exacerbates the challenges with B4SA’s own economic analysis being consistent with the SARB

Q2 GDP growth expected to decline 30.6%

Over 1.1 million job losses in the last month

Declines expected across nearly all sectors

Direct impact of lockdown on Q2 GDP Growth

GDP not expected to return to original trajectory

Potential GDP

Sources: Stats SA and SARB

Sources: SARB

2015Q3 770.6
2020Q2 770.1

May 2020 MPC
Jan 2020 MPC
From 1994 to 2008 South Africa thrived

- GDP doubled in US$ terms to $287bn
- Debt:GDP almost halved to 27.8%
- SA secured an investment grade rating in 1999
- Foreign Direct Investment grew 30 fold to $12bn
- Tax revenues grew by 550%
- However growth was not inclusive as unemployment remained a problem and the Gini coefficient grew

Over the last 10 years South Africa has stumbled

- Debt:GDP has more than doubled record levels
- SA’s Rating is now lower than in 1994
- Foreign Direct Investment has declined
- Unemployment and inequality continue to rise
- South Africa entered a recession prior to COVID-19

COVID-19 unravels much of progress since 1994

- GDP is expected to decline by more than 10%
- Debt:GDP expected to exceed 100% by 2023
- All key metrics have declined in the last 3 months

South Africa needs to embrace a more accelerated growth path

- Requires strategic choices and courageous leadership

In just a few months, COVID-19 has unravelled much of the progress made over the last 25 years and exacerbated the weakness of the last 10 years

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<td>27.8</td>
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<td>1 notch</td>
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<td><strong>JSE total market</strong></td>
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<td></td>
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<td><strong>Foreign Direct</strong></td>
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<td><strong>Unemployment</strong></td>
<td>%</td>
<td>20</td>
<td>23%</td>
<td>+6%</td>
<td>29%</td>
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<td></td>
<td>+6%</td>
<td>35%</td>
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<td><strong>Gini coefficient</strong></td>
<td>%</td>
<td>59</td>
<td>63</td>
<td>-4%</td>
<td>63</td>
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<td>n/a</td>
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</table>
We must address key issues which undermine our relative competitiveness and impede our growth potential

1 South Africa’s growth potential has been on a downward trend...driven primarily by a drop in total factor productivity growth1

A country’s potential growth is a combination of productivity growth and the accumulation of both productive investment and human capital

Factors relating to competitiveness and ease of doing business that undermine our growth potential

SA is not sufficiently competitive to attract foreign investment (ranks 60 out of 141)

Key concerns include:
- Security (135th)
- Labour market flexibility (111th)
- Hiring foreign labour (123rd)
- Poor Transparency (62nd)
- Government adaptability to change (100th)
- Low business dynamism (60th) is inhibited by:

SA dropped from 35th in 2008 to 84th in 2019 (out of 190)

Key areas of concern include:
- Electricity supply
- Difficulty starting a new business
- Dealing with construction permits
- Registering property
- Credit availability
- Cross border trade red tape
- Enforcing contracts

1 TFP refers to how efficiently and intensely inputs are used in the production process
To build a better South Africa requires a shared national vision with a focus on inclusive growth and job creation and a culture of delivery.

**Key Opportunities presented by the crisis**

- A social and economic compact focused on growth: Must build on recent positive cooperation to now tackle SA’s economic issues.
- Infrastructure investment: Implementation must be accelerated.
- Rapid acceleration of SMMEs: Focus must be on improving SA’s:
  - Global Competitiveness ranking
  - Ease of Doing Business ranking
- Unlocking sector opportunities: Business is ready to partner Government.
- Digital economy acceleration: Digital migration and spectrum allocation is key.
- A new global paradigm: Nations that adapt quickly will find new opportunities, but SA must compete for capital.

**Key Constraints and Challenges to inclusive growth**

- Inequality & transformation: Regulations should enable incremental new investment.
- State capability & capacity: Public/private partnership will enhance capability.
- Corruption & crime: Must urgently implement a zero tolerance policy.
- Inefficient and redundant SOEs: Inability to supply sufficient and uninterrupted electricity is a major impediment to growth.
- Funding constraints: Unsustainable government finances lead to a high cost of capital and inhibit project funding.
- Policy certainty: Simplify Codes and eliminate Charters to attract investors.
- Innovation & entrepreneurship: SMMEs drive the greatest number of new jobs and taxes.
- Education outcomes: Should encourage business to invest more in upskilling.
- Health & wellness: Partner the private sector and embrace digital tools.

Together we must address.
**Key iterative steps:** All stakeholders need to partner across key areas and focus on ensuring delivery and accountability

- Greater labour flexibility is key to new investment
- Need inclusive growth with balanced regulation
- Potential opportunity for a paradigm shift with all players

- Need urgent and effective interventions by sector with support and alignment from SOEs
- Private sector can assist with access to funding
- Must reprioritise state spending

- Need a catalyst to drive new investment
- Focus on inclusive growth and job creation

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*Given the limits on State and SOE capacity and funding, a social and economic compact with business, labour and society is key to SA’s success*

**State:** guide strategic initiatives and provide an enabling environment with policy certainty and consistency

**Business:** focus on sourcing capital and investing in projects and initiatives to create inclusive economic growth and jobs

**Labour:** focus on ideas to create new jobs and ensure greater labour flexibility and fair working conditions rather than just protecting existing jobs

**All social partners must focus on ensuring shared prosperity to address poverty, inequality and unemployment**
Overview of the work done by B4SA

1. **B4SA** assembled a team of industry experts to analyse challenges and consider potential opportunities.

2. Focus has been on sectors and projects with strong multipliers that can scale quickly to create jobs and GDP growth.

3. We have identified key challenges that inhibit investment and priority actions to accelerate inclusive growth and job creation.

4. Regulatory obstacles and policy interventions have been identified that require Government action to unlock.

5. Funding key projects is critical given limited capital availability and reduced foreign investment support.

“**We must do whatever it takes to limit the damage to our society and people and get our economy back onto a path of recovery**”

President Ramaphosa
Immediate actions: that will improve consumer and business confidence and require no policy changes

1. A “Zero-based” reconstruction budget
2. Ensure Government and big business pay SMMEs on time
3. Support additional lending
4. Mobilise immediately business mentorship / support programmes modelled on TAMDEV
5. Fast-track construction of additional capacity
6. An industry / Government workshop to align on next steps
7. Use SIDSSA platform to finalise project pipeline
8. Promote and use the Proudly South Africa platform
9. Introduce lower port fees on exports
10. Backstop emergency farm financing by commercial banks and ensure sustainability of the Land Bank
11. Private/Public partnership into network industry infrastructure
12. Resource ICASA to enable the completion of the spectrum auction and re-energise digital migration to free up spectrum
13. Stimulate domestic and regional tourism
14. Gain market share on international restart via protocols and new source market approach
15. Fast-track digital migration of degrees and school syllabuses

We need decisive leadership, together with appropriate capacity and expertise, to implement these immediate actions.
Global liquidity and funding will be increasingly constrained, placing pressure on SA’s fiscus

COVID-19 will increase global demand for funding for which emerging markets will compete.

Unsustainable government finances set a high cost of capital which could render projects unviable.

Public and private sector cooperation is critical to making South Africa globally competitive.

1. SA entered the crisis in a recessionary environment. COVID-19 will amplify the lower GDP outlook and, as a result, a materially higher budget deficit and debt:GDP.

2. Aggregate funding requirement is estimated to be R3.4tn over three years, of which R2.4tn is public sector (including SOEs).

3. Traditional SA based funding sources will be insufficient, as a result a substantive portion will need to be sourced internationally, constrained by SA’s sub-investment grade.

4. SA will be competing for capital against all other emerging markets and public and private sector coordination will be a critical enabler.

5. Fiscal discipline, regulatory certainty, market stability and well structured viable infrastructure projects are imperatives to attract capital and funding at a reasonable cost.
Macro economy: Given the medium term economic outlook, fiscal discipline and structural reforms are national imperatives

### GDP growth outlook

<table>
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<tr>
<th>Scenario</th>
<th>2020/21</th>
<th>2021/22</th>
<th>2022/23</th>
<th>2023/24</th>
<th>2024/25</th>
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<tr>
<td>Base</td>
<td>5.0%</td>
<td>6.0%</td>
<td>4.0%</td>
<td>5.0%</td>
<td>4.0%</td>
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<tr>
<td>Reform</td>
<td>2.5%</td>
<td>2.5%</td>
<td>2.5%</td>
<td>2.5%</td>
<td>2.5%</td>
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Expected to decline by 8.3 – 10.6%

Sustainable GDP growth of at least 4% p.a.

### Required reforms: assumptions

- **Virtuous circle pursuant to fiscal discipline of reduced debt and increased investment resulting in lower cost of funding, increased growth and higher tax revenues**
  - **✓ Zero-based budgeting by National Treasury.**
  - **✓ Most expenditure items growing slower than inflation, except for investment in infrastructure to stimulate economic growth.**
  - **✓ Consistent reduction in the real wage bill for Government over the entire period.**
  - **✓ Reduction in the funding requirements of local government and SOEs.**
  - **✓ Achieving long term real sustainable economic growth of at least 4% per annum.**
  - **✓ No increases in tax rates, but improvement in tax collections through higher growth and improved administration.**

### Estimated Budget Deficit and Debt: GDP Scenarios

<table>
<thead>
<tr>
<th>Scenario</th>
<th>2020/21</th>
<th>2021/22</th>
<th>2022/23</th>
<th>2023/24</th>
<th>2024/25</th>
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<tr>
<td><strong>Budget deficit pre Covid (R’bn)</strong></td>
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<tr>
<td>Annual</td>
<td>454</td>
<td>432</td>
<td>423</td>
<td>444</td>
<td>473</td>
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<tr>
<td>Cumulative</td>
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<td>886</td>
<td>1,309</td>
<td>1,753</td>
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<td><strong>Additional Budget shortfall (R’bn)</strong></td>
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<tr>
<td>Reform</td>
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<td>412</td>
<td>437</td>
<td>314</td>
<td>41</td>
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<tr>
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<td>662</td>
<td>1,072</td>
<td>1,528</td>
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<td>1,298</td>
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<td><strong>Budget Deficit as % of GDP</strong></td>
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<tr>
<td>Reform</td>
<td>13.3%</td>
<td>10.8%</td>
<td>8.3%</td>
<td>5.9%</td>
<td>3.5%</td>
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<tr>
<td>Baseline</td>
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<td>14.2%</td>
<td>13.6%</td>
<td>14.0%</td>
<td>14.2%</td>
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<tr>
<td><strong>Total Debt as % of GDP</strong></td>
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<tr>
<td>Reform</td>
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<td>88.2%</td>
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<td>94.6%</td>
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<td>90.3%</td>
<td>97.9%</td>
<td>106.7%</td>
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- The baseline projections assume GDP to contract by 9.6% in 2020, with a recovery off a lower base in 2021 and 2022 and muted growth thereafter.
- The baseline projects the economy to recover to pre Covid-19 levels within 3 years, with an upside scenario of 2 years and a downside scenario of 5 years, depending on the spread of the virus.
- A combination of lower GDP growth and lower tax collection post COVID-19, will result in unsustainable fiscal strain. In the absence of structural reforms:
  - **✓ Budget deficit will remain above 13% of GDP** (Deficit of 6.6% in 1994 and surplus of 1% in 2008)
  - **✓ Debt will continue to increase**, exceeding 100% in 2023 (49% in 1994 an 28% in 2008). Total government debt (including SOEs) could exceed R8tn by 2025
  - **✓ Private and public sector cooperation and public sector structural reforms** will reduce the strain on the fiscus, and increase GDP growth, thus stabilising public finances and reducing funding cost over time. The budget deficit could normalise at 3.5% in 2025

1 Medium term outlook per Feb’20 budget
2 Excluding refinancing of debt that are due for redemption (R220tn and R385tn over 3 and 5 years respectively)
We must work together to ensure an accelerated economic recovery and a shared national vision

1. SA has wasted time and resources over the last decade, and given the impact of COVID-19 we must now work together and make compromises and sacrifices.

2. Leaders in all areas must focus on securing an accelerated economic recovery in the national interest, not just their own specific interest groups.

3. We urgently need a social and economic compact, a cohesive plan and bold leadership to implement rapid economic and inclusive growth and create a more equitable society.

4. Properly capacitated task teams (sector and policy) combining public and private sector experts reporting to the Presidency.

5. Short-term compromises will be required in order to achieve longer term strategic goals and objectives.

Business is ready to help address the economic challenges in South Africa working in partnership with Government, labour and communities.
Mining
Revitalising the mining sector after COVID-19
SA mining in aggregate is in structural decline, with 50,000 direct jobs lost in mining since 2010.

SA mining faces challenges, with ~65% of output in high cost half of the cost curve and very little exploration.

COVID-19 is likely to reduce 2020 output by 15-25% and slash CAPEX, exacerbating existing challenges.

Urgent action is required on 8 prioritised initiatives, all requiring Government, industry and labour cooperation.

If the right actions are taken ~70,000 jobs can be saved by 2024, noting that a net decline is still highly likely.

Summary of findings

1. SA mining in aggregate is in structural decline, with 50,000 direct jobs lost in mining since 2010.
2. SA mining faces challenges, with ~65% of output in high cost half of the cost curve and very little exploration.
3. COVID-19 is likely to reduce 2020 output by 15-25% and slash CAPEX, exacerbating existing challenges.
4. Urgent action is required on 8 prioritised initiatives, all requiring Government, industry and labour cooperation.
5. If the right actions are taken ~70,000 jobs can be saved by 2024, noting that a net decline is still highly likely.
South African mining has been in structural decline

1. Driven primarily by decline of Gold output
2. 2018 data not yet available
Source: DMRE & Minerals Council South Africa

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Change</th>
<th>Year 1</th>
<th>Year 2</th>
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<td>Real Production Output ($)</td>
<td>-10%¹</td>
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<tr>
<td>Total Direct Employment</td>
<td>-50 000</td>
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<tr>
<td>Annual Mining CAPEX</td>
<td>-45%²</td>
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Six structural constraints to South African mining

- **Electricity supply**: Reliability and cost of electricity holds back production.
- **Logistical bottlenecks**: Capacity of bulk mineral production capped.
- **Regulatory uncertainty**: Constantly evolving regulations inhibit investment.
- **Cost competitiveness**: Relative lack of modernisation drives up costs.
- **Geological factors**: Complexity of geology drives up mining costs.
- **License to operate**: Tension with communities and organised labour.
SA mining unlikely to fully recover without intervention

SA Mining value outlook ($Bn, constant 2018 prices)

Assumptions with COVID-19

2020 core assumptions
- 15-25% of 2020 output lost due to lockdown and phased ramp-up
- Significant reductions in 2020 CAPEX

2021 core assumptions
- Depressed global demand conditions for various bulk minerals
  - Increased demand for gold
- Portions of SA production cut due to positioning on cost curve
- CAPEX recovers, but not fully

2022-2024 core assumptions
- Portions of SA manganese production cut due to positioning on cost curve
- SA production follows in line with global demand and production forecasts for key commodities

Note: Model assumptions are based on stakeholder inputs from senior South African mining stakeholders. These analyses represent only potential scenarios based on discrete data from one point in time (May 2020).
Source: BSA Analysis

SA Mining jobs outlook ('000 people)
Our eight top priority actions

All eight actions are interlinked and need to be implemented together to realise full impact

Regulatory Reform
Overhaul regulations & legislate

Industry Modernisation
Improved productivity & inclusivity

Reliable Energy Supply
Permit self/3rd party generation & fix Eskom supply

Infrastructure Development
Invest in rail & port capacity expansions

Community Investments
Jointly develop community plans & track progress

Exploration Strategy
Improve mapping & exploration strategy

Gov-Industry Task Force
Expedite highest-impact projects

Investment Promotion
Promote SA as investment destination
Potential of $3.6B & 70K jobs by 2024 with right actions

SA Mining value outlook ($Bn, constant 2018 prices)

SA Mining jobs outlook ('000 people)

2024 impact of the taking the right actions

$3.6B increase in 2024 primary mineral sales

$0.3B additional 2024 tax contribution from SA mining

26K increase in direct SA mining employment by 2024

47K additional indirect employment by 2024

Note: Model assumptions are based on stakeholder inputs from senior South African mining stakeholders. These analyses represent only potential scenarios based on discrete data from one point in time (May 2020)
Source: BSA analysis
Effective collaboration with Government is essential

1. **BSA proposal submitted**
   - Clear set of recommendations, with industry alignment
   - To be completed shortly

2. **Alignment between Gov, BSA & Labour**
   - In-principle agreement with Government to reform for growth

3. **Agree detailed plan of action**
   - Highly structured, action-oriented outcomes with clear KPIs

4. **Establish task force to implement**
   - Gov-Industry task force to track and enforce rapid implementation

*Significant industry project management and execution capacity required*
What if?

**Regulatory environment is reformed?**
- Immediate increase in brownfield and sustaining capex, impact by 2023/2024
- Increased investment in exploration, creating jobs and new long-term growth potential

Benefits by 2024
- Jobs: ~ 20,000
- Output increased by: $640m

**Industry is modernised?**
- Improved cost efficiency and productivity, increasing economically viable resources
- Increased production and jobs from positioning on cost curve

Benefits by 2024
- Jobs: ~ 3,500
- Output increased by: $590m

**Energy supply is reliable?**
- Overall increase in production from reduced load shedding losses
- Improved long term cost competitiveness of South African mining

Benefits by 2024
- Jobs: ~ 14,000
- Output increased by: $410m

**Infrastructure is adequate and reliable?**
- Immediate increase in brownfield and sustaining capex, impact by 2023/2024
- Increased investment in exploration, creating jobs and new long-term growth potential

Benefits by 2024
- Jobs: ~ 26,000
- Output increased by: $1.9b

**Government and industry collaborate more to support communities?**
- Building strong license to operate by empowering local communities
- Further repositioning the mining industry as socially responsible corporate citizens

Benefits by 2024
- Jobs: critical enabler
- Output increased by: critical enabler

**Exploration increases?**
- Increased investment in exploration, creating immediate jobs in exploration
- Creating long term growth potential by finding and evaluating new deposits

Benefits by 2024
- Jobs: ~ 7,000
- Output increased: exploration is critical to ensure future projects

**Government-industry task force is established to tackle critical issues?**
- Fast tracking projects to enable job creation and flow of investment
- Attracting additional investment by further positioning SA as ‘open and keen for business’

Benefits by 2024
- Jobs: critical enabler
- Output increased: critical enabler for all other elements

**SA mining was attractive to investors?**
- Attracting additional investment by further positioning SA as ‘open and keen for business’

Benefits by 2024
- Jobs: critical enabler
- Output increased: potential for significant inflows of capital for new and current projects and operations
Next steps

• Engagement with government and other stakeholders
• Collaboration to secure early wins and medium and long-term game-changers
Thank you