Alternative financing mechanisms set to secure Africa's mining future

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"Renewed growth sentiment among miners' management teams, and the rise of streaming and royalty financing globally over the past ten years, suggests that these increasingly competitive alternative transactions are set for significant expansion over the next decade, particularly in Africa," says Alchemy Law partner Morne van der Merwe***, ahead of the Investing in African Mining Indaba being held in Cape Town from 6 to 9 February.***

In Africa, metals streaming and royalty financing programmes have a pivotal role to play in shaping the future of the mining industry and bringing about sustainable economic reform on the continent. This as emerging markets transition economies and political and economic risks make it difficult to obtain funds in the traditional manner.

Growth in emerging markets and an increase in demand for special metals and related commodities are driving the need for capital funding. For many junior miners, the more traditional forms of debt and equity financing are difficult to secure to meet their development requirements, and they are also not sustainable. Volatility and uncertainty in the sector, combined with low commodity prices in recent years, have also made financing more challenging.

Alternative financing structures such as metals streaming and royalties provide unique and mutually beneficial opportunities for both investors and mine operators. They also promote higher returns and continued growth, consequently securing the future of the industry.

"Traditional funding transactions are complex, restrictive, officious and can take over a year to finalise. Streamers, on the other hand, work differently and will buy the commodity as and when it gets to market, encouraging smaller-scale miners to get up and running quickly without all the bureaucratic red-tape that often hinders production start-up," comments Morné.

These bespoke financing transactions are rapidly gaining popularity and traction, particularly in the junior mining sector where funding is needed to bring new product into the market. They have grown consistently in the last decade and are attractive to investors, as they provide commodity price leverage and exposure to pre-existing product and price movements. At the same time, delivery payments are predetermined and made only when they occur. Financing, in these instances, is only applied to a single asset.

"These types of contracts sell future production or revenue in return for an up-front cash payment, and since their inception have grown readily. We have seen them changing the face of the industry globally by increasing available capital resources and promoting further production to meet growing demand," says Wildu du Plessis, another partner at Alchemy Law.

"Decision makers and business owners in the smaller mines need to start considering their options - not only for themselves but for the growth of the sector and continued support of the economy. They need to find the best interplay between their equity, their stream and their lending sources," he adds.

"If you're a licensed junior miner and thinking about new opportunities - starting to break ground or building a new processing plant for example, consider streaming as a possible and credible funding option to get mining or to expand," Wildu concludes.

We, at Alchemy Law, have a proven track record of providing exceptional legal advice to the mining industry. Our offering is also designed to assist smaller industry players in navigating and setting up the legal instruments for much-needed alternative funding to bring metals streaming into the market. In partnership with financial doyens, we can advise on these types of transactions in this increasingly competitive field.