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Mining critical minerals will depend on creative funding solutions

By Rudi van Blerk and Tycho Möncks

8 Jan 2024

The global mining industry has been grappling with a range of operating challenges in the past few years, which are expected to persist. These include resource nationalism; cost inflation; an imperative to curb environmental effects and carbon emissions; labour safety and skills shortages; and community protests.

However, there are fundamental changes under way. Over the next decades, demand for a new category of resources – “critical minerals” – will alter not only the focus of exploration and mining but also the way that mining companies fund their operations.

Critical minerals include battery minerals such as lithium-ion, cobalt, nickel, manganese and rare earths, which are essential not only to make the global transition to green energy but for a range of essential modern tools such as smartphones, computers and aeroplanes.

Supply chains of critical minerals are still being developed, which can make prices extremely volatile. China was one of the first countries to realise the importance of these minerals. It moved rapidly to secure access to them and invest in processing infrastructure.

This presents a strategic risk, particularly to the US. For example, China, which refines 90% of the world’s graphite, in October flexed its muscles by imposing export restrictions on graphite, an essential item in almost all EV battery anodes.

50 critical minerals

Over the last few years, the US government has identified 50 critical minerals. It has set out a strategy to identify new sources of these minerals and stimulate investment in developing them to avoid disruptions. Other major economies in the West are similarly playing catch-up to secure supply.

Several African countries possess significant deposits of these minerals, including Zambia, the Democratic Republic of Congo, parts of West Africa, and South Africa. However, these deposits are still largely undefined, and require more investment in exploration and development.

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Traditionally, funding exploration required equity raises while funding for new mines was sourced from a combination of debt, equity and project finance. For critical minerals, different funding models are being developed by offtakers – both private and governmental agencies - eager to secure supply.

One of those models is streaming, where a loan is repaid not in cash but in delivery of a specified annual volume of the minerals produced at a predetermined price. The lender may use those minerals or sell them. Another financial arrangement is one where a financier will extend a loan based on the security of cash flows from an offtake agreement, or where an offtaker will extend finance in return for preferential offtake.

> *"Offtakers may also be willing to take the risk of a direct equity injection."*

Creative financing

Mining companies should aim to fully leverage these financing options, which allow them to access previously unavailable sources of finance. However, they should not rely on a single funding arrangement and should carefully evaluate how to balance country interests with the ease and proximity of cashflows.

These new funding arrangements offer the potential for mutually beneficial partnerships, but this is not always the case. The terms and conditions being offered by any nation or private offtaker should be evaluated holistically and carefully.

Data-driven decision-making will ensure Africa gets its fair share of value. Both countries and mining companies looking to develop their critical minerals deposits should be clear about their goals and consider all the implications of the funding being offered.

ABOUT THE AUTHOR

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