Kuyasa Mining: South Africa's first black owned and managed mining company

by R. Scott*

Synopsis

This article describes and evaluates the establishment of Kuyasa Mining including the search for a suitable deposit, the ongoing lack of finance, and market constraints. Despite the dramatic initial growth and success of their Ikhwezi Colliery near Delmas, Mpumalanga, Kuyasa's experiences offer some sobering arguments for significant changes to mineral rights ownership, the attitude of financial institutions and government policy if South Africa is to have a dynamic and successful junior and small-scale mining sector.

Introduction

In March 1997 Kuyasa Mining, the first black owned and managed mining company in South Africa, began production from its Ikhwezi Colliery situated approximately 25 km from Delmas in Mpumalanga. Through lengthy negotiations Kuyasa obtained from Ingwe a mineral lease agreed over a small area on the edge of their Delmas Colliery, an area that was not suitable for Ingwe's underground Delmas Colliery. In addition, Kuyasa have a life-of-mine marketing arrangement with Delmas Colliery for the sale of most of their coal production.

Unlike the nearby underground Delmas Colliery, Kuyasa Ikhwezi Colliery is open cast. The geology of the deposit consists of three seams. The 2 seam and 4 lower seam are mined and sold exclusively to Ingwe. The lower quality 4 upper seam is also being exploited and an agreement to supply this to Eskom was ratified on 15 April 1998. Kuyasa Mining manages Ikhwezi but contractors and subcontractors conduct the earthmoving. A total of approximately 85 people are employed and the mine operates 24 hours a day.

The operation has been growing dramatically from when it was first developed in March 1997. Within three months production rose to 75 000 tonnes of coal per month and this production has peaked as high as 146 000 tonnes in October 1997 with the rise in production being absorbed by Ingwe. At the outset the operation aimed for a peak output of 1 million tonnes per year but they are already exceeding this target and have revised their original forecasts of the coal in the present area being mined lasting until 2001. They now expect this area to be exhausted as early as February 1999. Plans are afoot to develop an adjacent area, the rights to which were also obtained from Ingwe. Land access is presently being negotiated with the farmer concerned.

Getting started

The idea of starting up the first black owned and operated mining company in South Africa was born in 1995 as an initiative of three middle-level managers at Ingwe. The reception they received was varied: the mining houses were sceptical of their potential for success, but funding organizations, including the World Bank, were supportive of the idea and the Department of Minerals and Energy set up a task force to help the group find a suitable state-owned deposit. Simultaneously, Ingwe started investigating the notion of assisting an affirmative action mining initiative. Ingwe's motivations included a desire to assist in black economic promotion and improvement for previously disadvantaged communities.

In early 1996 the masterminds behind Kuyasa left Ingwe to commit themselves fully to the dream of establishing South Africa's first black owned and operated mining company. They are Ayanda Bam, Executive Chairman of Kuyasa, formerly an on-site middle level information technology manager with Ingwe; Thabo Sibeko, a qualified electrical Engineer and Joseph Ngaba, a long-standing

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middle management employee of Ingwe in the finance department. The total shareholding in the proprietary company is held equally between the three founders.

Their first tasks, as a new mining company, were identifying a suitable resource, attracting finance for the operation and turning the dream into reality. Unfortunately no suitable state-owned deposit was found so Kuyasa began to approach mining companies in the hope that they would be able to take over the rights to mine a portion of an existing lease, a section that may not be suitable for a larger company to exploit. Most leads were thwarted by Kuyasa's lack of capital and inability to get financial backing.

Finally in July 1996 Ingwe offered the company a portion of its lease at Delmas Colliery. The Kuyasa team fitted Ingwe's criteria and also allowed Ingwe to keep their affirmative action recruits in the industry if not in their direct employ. Ikhwezi would, in fact, have been a viable deposit for Ingwe but the operation does not suit the core competency of the corporation, namely large scale mining. The portion is small but the seams are uplifted making the resource perfect for exploitation by the open cast method. Despite it being a greenfield site Kuyasa felt that potential funders would look more favourably at a deposit that had previously been held by a conglomerate. Ingwe and Kuyasa forged an agreement whereby Delmas Colliery would purchase the bulk of the raw coal production, with Ikhwezi operating from a standalone perspective.

The operating arrangement consisted of three contracts. The first contract was an enabling arrangement which provided for limited bridging funding and technical assistance including managerial input, geological assistance, mining layout plans and environmental management capacity. Ingwe financed the Environmental Management Programme Report and the purchase of the farmland on which the present operation is situated on behalf of Kuyasa, with a per tonne mined payback arrangement. The second contract concerned the mineral rights arrangement. The right to exploit the minerals on the Ikhwezi lease would remain vested in Ingwe; however, Kuyasa were required to pay a royalty to Ingwe for their use. Ingwe has established a trust fund from the proceeds of royalties for the funding of future black advancement mining initiatives. The final contract concerned marketing. Kuyasa had to provide a minimum of 75000t/month to Ingwe to be marketed through their Delmas Colliery. This is a requirement for the life of the Ikhwezi mine. Despite the initial impression that Kuyasa are constrained to operate as subcontractors to Ingwe, this is in fact incorrect. Kuyasa have complete management control over Ikhwezi including responsibility for health and safety, environmental management, public relations issues and surface access negotiations.

The rocky road to financial liquidity

Despite having agreements with Ingwe on mineral rights and marketing plus a proven reserve of 10 million tonnes of coal and a report from a mining consultancy attesting to the viability of the deposit, funding for the project was still not forthcoming. Financial institutions that had indicated strong support for the venture in theory, rated it as very risky when approached for money. The coal deposit was not accepted as collateral and any funding offered was either at excessive rates of interest or else involved some form of equity arrangement, a scenario that the company founders were completely against.

However the Kuyasa team went ahead with plans for development and production expecting that finance would eventually materialize. Negotiations with contractor Basil Read led to an arrangement whereby the contractor agreed to begin work and await payment until the first coal was produced and sold. Thus in March 1997 the box cut was developed and Kuyasa began mining coal at Ikhwezi Colliery. By November 1997 Kuyasa had advanced 3 strips from the box cut, increased their monthly production and were looking at an adjacent site for development.

Despite these obvious indicators of success, lending institutions at the time of writing will still not consider loan finance without an equity share. Short-term overdraft finance offers have not been acceptable to Kuyasa. Without finance Kuyasa's growth will be stifled and their future plans will have to be tempered.

The financial potential of Kuyasa is reflected in their rapidly decreasing debt to Basil Read. Operating debt at its peak was only about one-third of the anticipated level and in mid-January 1998 the amount owed was declining steadily. Kuyasa are expected to be cash positive within 2 years despite not having access to suitable finance.

Kuyasa are presently pursuing Commonwealth Development Corporation funding. However, at present, such funding is conditional on the mineral rights for Ikhwezi being ceded to the Commonwealth Development Corporation along with the trust fund earmarked by Ingwe for further black economic advancement initiatives. These are conditions that neither Ingwe nor Kuyasa are willing to abide by and Kuyasa are unsure if they wish to pursue this funding route.

The finance-seeking experiences of Kuyasa, a mining company composed of well-qualified people with mining experience, who have both the entrepreneurial determination to succeed and a viable, credited mineral deposit, highlight the fact that access to finance for non-conventional mining companies is a major hurdle to be overcome. The Small, Medium and Micro Enterprise sector, which has been heralded as a vehicle for widespread economic empowerment, will only be truly viable and dynamic if financial institutions devise innovative means of providing finance to committed and resourceful entrepreneurs.

Thwarted by environment legislation

Kuyasa are committed to maintaining high environmental standards at their operation and, moreover, believe high health and safety standards to be crucial to overall productivity and operational performance. However, their funding difficulties were further compounded by environmental legislation that is not designed to deal with the operating practicalities of small-scale mining. Firstly, there was the issue of drawing up an Environmental Management Programme Report for the Ikhwezi operation, a requirement even before authorization for mining could be guaranteed. Ingwe assisted with the financing of this as part of the enabling agreement forged with Kuyasa. Secondly, the need for Kuyasa to post a rehabilitation bond of R2 million was a major stumbling block due to their lack of finance. Non-traditional means suggested by Kuyasa to fund the bond were not acceptable to the DME as they involved paying the bond over time once mining had commenced and verbal guarantees from Ingwe that they would rehabilitate the land in the event that Kuyasa were unable to do so. The situation was resolved when the mining contractors, Basil Read, agreed to post a R2 million bank guarantee. Without this intervention Kuyasa's dreams would have been thwarted.

Kuyasa's commitment to strict health and safety standards has seen them produce in excess of 1 million tonnes of coal without a single lost time injury.

Market restrictions

At present Ingwe are absorbing all the production from the number 2 and 4 lower seams, which are currently being mined at a rate in excess of the contractual amount. Recently Kuyasa, with assistance from Ingwe, secured a contract with Eskom for 40 000 tonnes per month of production from the lower quality 4 upper seam. This arrangement was formalized on 15 April 1998.

The South African coal market is constrained by several issues that make market access for new suppliers difficult. At present the coal market is depressed and the margins are thin. The size of the South African domestic market is determined largely by the electricity generating sector, which demands vast quantities of low cost, lower grade coal. It has traditionally protected its security of supply interests through forward contacts with existing suppliers who have economy of scale advantages. There is no scope for growth in this market in the short term as the generating capacity of South Africa is sufficient to meet projected near term future demand. The remainder of the higher paying domestic market is highly contested. The export market is constrained by factors such as the capacity of the privately owned Richard's Bay coal loading facility which is capable of handling 60 million tonnes of coal per annum and the excessive cost of rail haulage to public terminals at Durban and Maputo. Neither the coal at Delmas Colliery or at Ikhwezi is of high enough quality to warrant export. The Kuyasa situation has highlighted the difficulties that new market entrants will face in a market that is traditionally characterized by high volume, low margin and long-term contracts. Without openings for new coal market entrants, emerging competitors may be stifled even before they are able to sell their first shipment.

Future plans

In the longer term Kuyasa would like to expand into the export coal market and make a name for themselves in the coal industry by exploiting small deposits all over the country that larger coal mining companies would not consider suitable due to their high operating overheads. In 10 years time they hope to be producing 12 million tonnes of coal a year, using businesses that Kuyasa has developed and fostered with the view to achieving more demographically representative ownership within the South African mining industry. Whether this happens will depend on the response of government and others to financial, environmental regulation and marketing constraints that at present make it difficult for new entrants such as Kuyasa.

Lessons from the Kuyasa experience

The Kuyasa experience offers timely caution to government and organizations committed to the promotion of small-scale mining. There are many issues that need to be resolved before small-scale mining can genuinely be seen as a dynamic platform for economic empowerment in South Africa.

The actions and attitudes of large mining companies will have a role to play. Establishing a market is likely to remain a major constraint on small-scale mining operators simply because attempts to capture market share through price undercutting has the potential to attract retaliation from established suppliers and increase the risks that make small-scale mining unattractive to financial institutions. However, options exist for large mining companies to look at subcontracting type arrangements or the selling off of deposits that may lie outside their core business competency. This would lead to benefits including more mining on commercial terms and opportunities for skills transfer. Through such initiatives companies will be able to play a direct role in growing the pool of skills able to develop new, independent black owned mining businesses. It is only when companies are able to gain expertise and proven track records that their risk profile will be reduced, making them more able to secure finance.

Finally, in particular, policy issues around barriers to entry especially through marketing and financial constraints must be discussed within a context of optimal mineral rights access. The review of mineral policy currently under way is attempting to find solutions to these issues.

The fact that Kuyasa have come so far in realising their dream of being the first black owned and operated mining company is evidence of their determination to succeed in the South African mining industry despite all odds. Hopefully this is just the beginning of a dynamic junior mining sector in South Africa.

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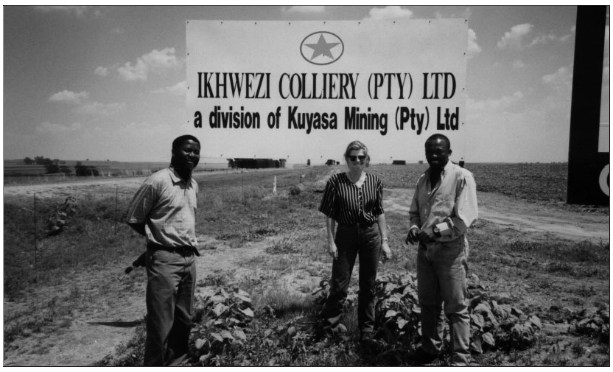

Figure 1—Thabo Sibeko (Manager-operations) left, Wendy Gobey (Manager-corporate affairs) centre, Ayanda Bam (Chairman) right

Figure 2—Ikhwezi Colliery. After eight months of operation

Figure 3—Removal of topsoil in preparation for developing a further strip of Ikhwezi Colliery

Figure 4—Ikhwezi Colliery

Women on the move at Chemical Engineering Department UCT*

The University of Cape Town has appointed Associate Professor Sue Harrison as Head of the Department of Chemical Engineering. She takes up the post next month.

Professor Harrison is believed to be the first woman to hold this position at a South African university.

Currently head of the Department's Bioprocess Engineering Research Group, Professor Harrison sees her future role as that of facilitator.

'My primary aim will be to provide an environment in which members of the Department can do good research and be excellent teachers,' she said.

'We will continue to teach a classical and integrated chemical engineering degree, striving to keep our course content up to the minute with what is happening in engineering elsewhere. Another of our strengths is our internationally recognised research in which we concentrate on areas of benefit to South Africa,' she said.

One of three women academic staff members in the Department, Professor Harrison says here gender will not play a role when she takes up the reins as Head of Department on October 1.

At present nearly 30% of the students in the Department are women and approximately 70% of the undergraduate students are black.

A UCT graduate, Professor Harrison worked for AECI in Johannesburg after graduating with B.Sc. (Honours) in Microbiology in 1984. She later moved to the UK to complete her Ph.D in chemical engineering at Cambridge University. Professor Harrison joined the staff of UCT's Department of Chemical Engineering in 1991 where her research into bioprocess engineering bridges the disciplines of microbiology and chemical engineering.

Professor Harrison's research centres on kinetic analysis of bioprocesses, from pharmaceuticals through to food products and environmental processes. The Bioprocess Engineering Research Group focuses on the biological response to hydrodynamic, thermal and physiochemical environments. 'This work, which is multidisciplinary in nature, and the Group of some 10 researchers, relies on input from engineering, physical and life sciences,' said Professor Harrison.

A mother of three very small children, Professor Harrison says her new appointment will require some innovative balancing of roles. 'Already common in USA and UK, this is becoming more usual in South Africa.' ◆

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