

## Mining can only succeed in stable environment

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Mining by its nature is typically a very expensive, very time consuming and very risky business which requires a certain level of long- term financial stability and legal certainty.

As it stands today, the current Mining Bill does not offer long- term financial stability or legal protection to investors in Kenya's mining sector.

In an industry that is new and untested in Kenya, this is not the right approach to encourage new long term investment.

As regards specific mining related matters such as royalty rates, local equity participation and free carried interest, these matters should remain stable and fixed when a new mineral licence for exploration or mining is agreed and granted by the government.

Otherwise, investors will always be at the whim of government to change and increase the fiscal burden on mining companies whenever they seem to be making money.

As regards the chances of making money, mining is arguably the world's riskiest industry to invest. Approximately only 10 per cent of exploration projects ever reach the mining stage, and many mining projects that start are never completed.

The high failure rate in the mining business is due to the uncertainty of the actual results achieved from exploration and mining where the discovery and extraction of the desired mineral is often not as quick or easy as originally expected.

This is why when a mining venture does succeed, investors expect very high returns.

If the government wishes to impose uncertainty and restrictions on an investor's ability to realise these possibly very high returns, the initial investment will never occur.

Therefore, stability and certainty on mining specific fiscal matters should be a part of the general Mining Act and applied to all exploration and mining ventures in Kenya.

Investors, no matter how small, will not invest in the mining industry unless they can plan and invest in an environment of certainty.

Lenders will also not finance a mining investment without a certain degree of stability and certainty. Anyone who has negotiated a loan agreement with a bank knows this.

Also, if a mining venture does do very well, the government will make good money along with the mining venture via royalties, income tax, VAT, PAYE and other means.

The writer is the CEO, Kestrel Capital, member of Nairobi Securities Exchange.

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