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Investors in African Mining Ventures Must Refresh Their Risk Management Processes

By Baba Freeman

Despite the spread of democracy in the post-Soviet era, there is a substantial threat of military takeovers in frontier economies. The frequency of coup d'etats in the Sahel region is troubling and calls for mining investors to refresh their political risk assessment processes. The recent coup in Niger and the sudden outbreak of war in Sudan, both in 2023, bring the risk of political instability and a breakdown of law and order into sharp focus. These events are more troubling when viewed within the continuum of recent military takeovers in Mali (2020), Guinea (2021), and Burkina Faso (2022), countries that produce important minerals such as manganese, zinc, uranium, bauxite, iron ore, and gold. Niger, the latest arena for military takeover is an emerging producer of oil and gas as EU countries seek out non-Russian sources of hydrocarbons. Its stability as a host nation is also essential to the success of the proposed Trans Sahara Gas Pipeline (TSGP) which was conceived to carry gas from the Niger Delta to Western European markets.

Military takeovers can dampen return on investment and discourage FDI.

The recent trend of militarization must surely prod investors to further assess the likelihood and possible impact of military interventions and incorporate key takeaways from current events into their risk management tools and processes. While the risk of a total loss of capital due to outright warfare can be assessed deterministically, subjective measures of political instability can substantially impact the "country risk" premium that mining investors must pay over and above the risk-free cost of capital. At present, the African region has the highest risk premium among the regions of the world. At about nine percent, it is more than double the global average risk premium of about four percent ex-U.S. It is likely that the threat of political instability from militarization contributes immensely to this situation.

Furthermore, the possibility of sudden, undemocratic changes to governments increases political risk insurance premiums that investors must pay as the risk of breach of contract, arbitrary changes to tax and royalty rates, political violence, and force majeure disruptions to contracted supply increase. The recent case of the Canadian miner, Global Atomic Corp., (TSX: GLO) which has substantial exposure to uranium operations in Niger, shows how political risk can impact business outcomes over short periods. Its market capitalization dropped by about 50% within two weeks of the military coup in Niger.

Common factors across recent events can be indicative of future coup d'etats.

Given the potential for substantial commercial losses, investors must identify if there are commonalities across Sahelian countries where coups and military takeovers have recently occurred. One visible attribute that cuts across the latter countries is that their armed forces have played an increasing role in public life. Political scientists such as Svolik (2012) had earlier noted that military takeovers are more likely to occur when a country's political elite increases its reliance on the military to retain political power. In Sudan, the paramilitary Rapid Support Forces (RSF) was the instrument that the Sudanese government used to assert its power over the Darfur region in Western Sudan in the past. The refusal of the RSF leadership to accept incorporation into the Sudanese army was the immediate cause of the outbreak of war in Sudan.

In Mali, Burkina Faso, and Niger, the profile of the armed forces also rose steadily in the last decade as they were deployed to quash separatists and insurgents that took up arms against national governments across the region. The technical capabilities and the political standing of these militaries may also have been bolstered by military aid flowing steadily from Western countries.

Investors must commit to a deep understanding of political-military interactions and strengthen their risk management tools and processes.

There are several implications of these insights. The first is that an understanding of the politics of military intervention can enhance investors' assessments of risk outcomes and lead to improvements in risk management. Hence, investors must develop predictive analysis capabilities to address non-trivial questions relating to the possibility of military interventions in a country's affairs and the potential for diffusion across international boundaries within a subregion. Going by the thesis above, countries such as Cameroun, Ivory Coast, Nigeria, and Benin which are increasingly reliant on their armed forces to battle insurgents, face an elevated risk of military takeovers. It should be noted though that even where some factors may be pointing towards militarization, the potential for such to occur may be equally dependent on other prevailing factors such as the geographic concentration of fighting men and the ideological orientation of a country's military leaders. For example, while the Pakistani army has controlled political power for long periods, neighboring India has never experienced a military coup. Investors must also note that it is plausible that a prolonged military conflict may also lead to a reduction in a country's overall risk profile by raising the warfighting proficiency and professionalism of its armed forces. Hence, current conflicts may ultimately raise a country's ability to provide security to its citizens and enhance its ability to attract foreign direct investment.

Secondly, because of the often-feeble resistance of the Sahelian countries' populations to military takeovers, investors with long-term commitments in the region should seek opportunities to partner with NGOs, civil society groups and development agencies to strengthen democratic processes, increase government accountability, and boost society-wide preference for democracy over military takeovers.

In conclusion, the benefits of better assessment and management of risks coming from military takeovers cannot be overemphasized. Therefore, investors in extractive industries should consider increasing their capability for geopolitical risk assessment and embrace sustained board-level focus on the character of military-political relationships in the countries where they operate or are planning to operate.

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