



EXTRACTIVES HUB POLICY BRIEF FOR NIGERIA

“Reforms in the Mining Sector of Nigeria”

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1. Historical Perspective

At an earlier period, mining contributed significantly to the industrialisation and development of Nigeria's economy. The development of the mining sector was catalyzed largely by the commissioning in 1903 and 1904 of mineral surveys in each region by the then British colonial authorities. The Royal Niger Company undertook the first mining activity in 1905 which was the mining of tin. The next formalised mining occurred in 1924 in Kogi and Niger States which was the mining of Gold followed by the mining of Coal in Enugu (Federal Republic of Nigeria, Report of the vision 2020 National Technical Working Group, 2009).

In 1972, the government reviewed its minerals policy, opting for direct participation in mining. This also led to the institution of the Mining Act in 1999 and its replacement in 2007. Fast forward to 2016, a Multi-stakeholder group was set up to develop a roadmap for the transformation of the minerals, mining and metals sector. The roadmap was established outlining the short, medium and long-term goals to be achieved with a major goal: to grow the mining industry's contribution to GDP to over 10% by year 2026. (Nigerian Mining Sector Road Map, 2016).

1.2 Nigeria's Mining Sector

In comparison with other countries with similar potential, Nigeria's mining sector is still largely underdeveloped. This situation has risen despite the sectors promising performance a few decades ago, and despite the huge proven deposits of valuable minerals across the country, the potential is still low compared to other moderately to highly endowed nations. Until recently, where there has been a slight improvement, the sectors contribution to Nigeria's Gross Domestic Product (GDP) had not been more than 0.5%. This contribution is a reversal from the historically higher percentages of about 4-5% in the 1960s and 1970s.

The mining sector is currently picking up from its ailing status. Currently, the mining industry is responsible for about 0.33% employment, 0.02% of exports, and 0.3% of the country's GDP. (NEITI Occasional Paper Series, Issue 4. February 2019) This contribution is considerably lower than other African countries like Cote-d'Ivoire, South Africa etc. also taking into consideration, an equally comparable level of actual mineral endowment in these countries.

The Nigerian Minerals and Mining Act is the principal legislation that regulates the mining sector. The Act vests the control, regulation and ownership of all mineral resources in the Federal Government of Nigeria (FGN). The Minerals and Mining Regulations and the National Minerals and Metals Policy also govern the sector. The Ministry of Mines and Steel Development ("MMSD" or "the Ministry") oversees the mining sector in Nigeria and administers the provisions of the Nigerian Minerals and Mining Act. The Minerals and Mining Regulations specifies the royalties, fees and compensation payable by holders of the mining rights.

2. Sector Barriers & Challenges

The sector faces several challenges including inadequate geosciences data and information, industry participants, poorly understood institutions & limited enforcement of regulations, deepening a business-friendly enabling environment and limited engagement & leverage of industry stakeholders amongst other challenges faced. In addition to these challenges listed, undue interference by communities and

state government with expectations outside the provisions of the law/regulations also cripple investments and the development of the mining sector.

The challenge of the existence of multiple regulations is one of the main factors that is reducing investor confidence in the mining sector as the requirement to adhere to these regulations have contributed to a seemingly lack of interest in the industry.

One of the major challenges experienced in the sector particularly by the miners in raising funds is the ability to establish a worthy collateral for the intending financiers. The previous government had achieved 100% aerial geo-physical survey of the country, with data existing at the ministry of mines and steel development for the would-be miners. However, this does not provide reliable details of the estimated quantity of the nation's solid minerals which can only be achieved by more detailed geo-science data gathering (MMSD MinDiver publication, August 2019, Vol 1 No 1). In addition, funding challenges have also been identified as the reason for the inability to embark on detailed geo-science data gathering.

The development of the solid minerals sector is also hampered by the lack of adequate funding to cater for the different stages of the life cycle of a typical mining operation. Before returns can be generated from a mining operation, the activities need to go through the five stages of exploration – development – mining – processing – marketing, a cycle which takes between two to ten years or more. Most mines in Nigeria are typically green fields (in the exploratory phase), thus not necessarily attractive for funding by the traditional commercial banks.

Despite the reconstitution of the Solid Minerals Development Fund (SMDF) for the development of the mining sector, the impact is yet to be felt at the industry. On the other hand, commercial banks remain skeptical and continue to assess the industry as high risk.

The establishment of a solid mineral development bank will provide investor friendly loans, specifically designed to cater for the various stages of the mining life cycle.

3. Mining Growth Roadmap & Action Plan

In 2016, a multi-stakeholder committee was set up to develop the roadmap for the transformation of the minerals, mining and metals sector. To address the reduction in the contribution of the sector to the country's GDP, the multi-stakeholder committee began a process to deepen reforms, attract new investors and collaborate with a wide network of partners and stakeholders to build an attractive mining sector.

The MSG developed a coherent strategy to rejuvenate the mining sector which is summarised as follows:

- Nigeria's ambition should be to create a globally competitive sector capable of contributing to wealth creation, providing jobs and advancing our social and human security;
- Nigeria can achieve this by focusing on using its mining assets to drive domestic industrialisation initially, and then migrate to winning in global markets; and
- Nigeria should pursue this strategy through a value-chain based growth plan. (Nigerian Mining Sector Road Map, 2016).

To ensure that the perspective represented by the roadmap is integrative of the many stakeholders around Nigeria, the ministry shared the roadmap with state governors, the National Economic Council and other key stakeholders.

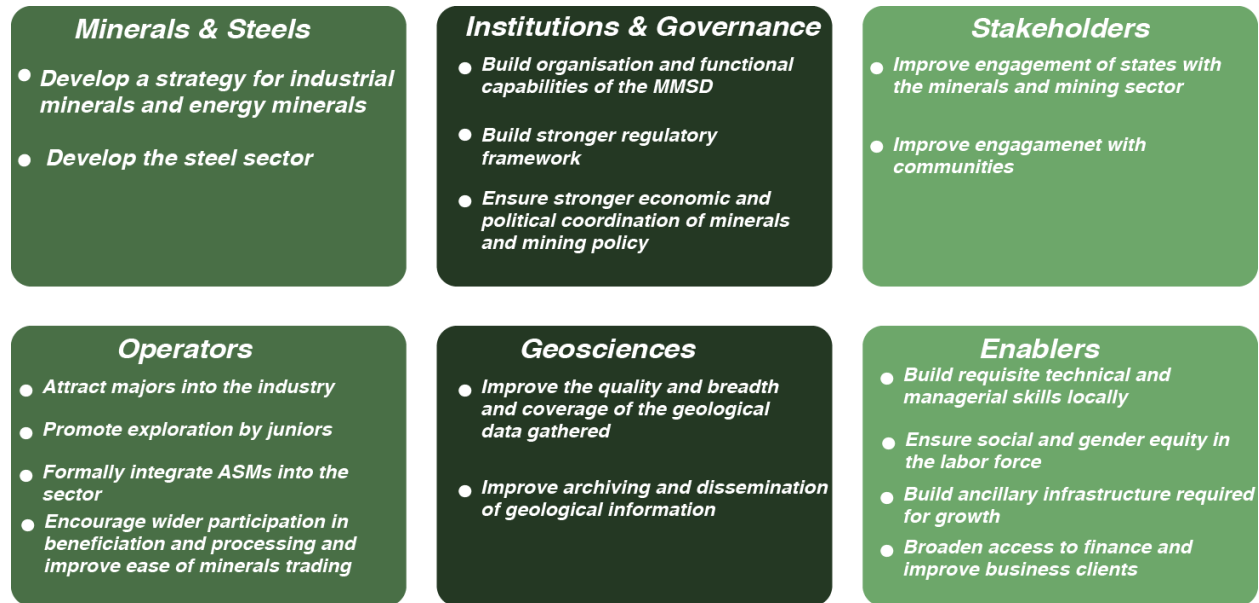


Fig 1: MINING SECTOR ROADMAP OBJECTIVES

In addition, the MMSD established an implementation team; Mining Implementation & Strategy Team (MIST) to coordinate the work of delivering the roadmap’s short, medium- and long-term items.

4. Government Position & Intervention

4.1 Government Position

The mining sector is one of the most promising sectors that can facilitate the diversification efforts of Government and reposition the Nigerian Economy. To this end, the government is continuously aspiring to diversify the nation’s economy using solid minerals as one of the strategic pillars. This is evident by the improvement in the most critical challenge facing the sector which is poor funding. To demonstrate this, the sum of Naira 30bn was approved as an intervention fund for exploration projects, to generate the needed geosciences data and to provide the necessary regulatory framework to enable sectoral growth (MMSD press briefing, 2019)

Under the soon to be released Mineral Export Guidelines, the lingering issue of evading payment of royalties has been dealt with and all mineral exports are now being inspected by Government appointed independent pre-shipment inspection agents. In addition, to promote and encourage more mineral exporters to go into mining, royalties for mineral trading exporters is set at a reduced rate to between 2.5% and 4.5%.

As part of the Government’s aspirations also to ensure that coal-fired power plants generate 30% of the nation’s electricity by 2020, the government set up a Project Delivery Team (PDT) for the invigoration of

the coal sub-sector. In addition to these positions of the government in improving the sector, the Foreign Investment Promotion and Protection Agreement (FIPPA) was signed between Nigeria and Canada to promote investments in the developments in the gold mining value chain, building of an ISO certified standard geochemical laboratory in Nigeria and the establishment of a USD \$1bn Nigeria-Canada Solid Mineral Investment Fund. (MMSD press briefing, 2019).

4.2 Government Intervention

There have been efforts to improve the sector's regulatory framework with the enactment of new laws and establishment of national council of mining and mineral resources development. Notably, the Nigerian Institute of Mining and Geo-sciences, Jos Act was established for training of manpower for the sector. In addition, the Federal Government in 2018 presented a roadmap for the "Development of Nigeria's Industrial Minerals" developed by the World Bank assisted Mineral Sector Support for Economic Diversification (MinDiver) Project. The MinDiver project was conceived as a strategic driving force that will help in midwifing the growth and development plan for a sustainable mining industry. (MMSD MinDiver procurement, 2018)

The Federal Government offered mining companies a three-to-five-year tax holiday, duty and tax free importation of equipment, full ownership of their businesses and the ability to take profits out of Nigeria and according to the Nigerian Mining Cadastral Office (MCO), the government has awarded 2,502 current exploration licenses 2,597 quarry leases, and 1,522 small scale mining leases. MCO is also working to make the process of obtaining mineral licenses faster and easier by creating an online portal to facilitate applications for mineral titles and payments. (MMSD press briefing, 2019)

The Ministry of Mines and Steel Development and the British Geological Survey have concluded plans to commence the process of retrieving about 7,000 old colonial geological reports on the mining industry from the United Kingdom for proper storage in a new national digital archive. This digitalized archiving will create an integrated geological information infrastructure for the mining sector. (MMSD MinDiver publication August 2019 Vol.1 No. 1).

There are clear efforts on the part of the government to make the sector more attractive for investment by putting in place clear regulatory policies and operationalising hitherto existing ones.

5. Milestones Achieved

There have been notable achievements in the implementation of the mining roadmap and in the mining sector in general. Illegal mining poses as one of the challenges of the sector and in a bid to curb this challenge, the government have made efforts in improving the provision of surveillance vehicles for the mines inspectorates across the country and increased inter-agency co-operation. In addition, the government also established mining cooperatives to encourage artisanal miners bid for legal licenses.

Investors are now taking notes of the improvements in the sector evidenced by Hudson Mining, a subsidiary of Globelink China Investment Group and its plans to invest \$30m in processing mainly tin and columbine in the central Nigerian city of Jos. The firm plans to invest an initial \$3m and later scale it up to \$30m at the first phase of the project. (Cyril Azobu, PWC Advisory outlook, 2019)

Canadian mineral exploration firm Thor Explorations is also working to develop the

Segilola Gold Project, located at 120km northeast of Nigeria’s commercial hub of Lagos. Thor Company, which has operations in Senegal and Burkina Faso, secured \$78m in funding from the Africa Finance Corporation to help it carry out construction of the project which is expected to begin this year and last for up to 18 months. The project comprises an open pit mine and a new 650,000 tonne yearly gold ore processing plant. The project is expected to produce 80,000 ounces of gold per year with an initial mine life of five years. (Cyril Azobu, PWC Advisory outlook, 2019)

An Australian mining company; Symbol Mining also has operations in Nigeria and holds 60% of the 500sq km Imperial Joint Venture in Nigeria’s Upper Benue Trough and another 60% in the 7sq km Tawny Joint Venture. Both ventures are thought to contain significant deposits of lead and high-grade zinc. Last year, Symbol Mining began construction of a USD \$225,000 density separation processing plant at its high-grade zinc and lead Macy Project in the Benue Trough.

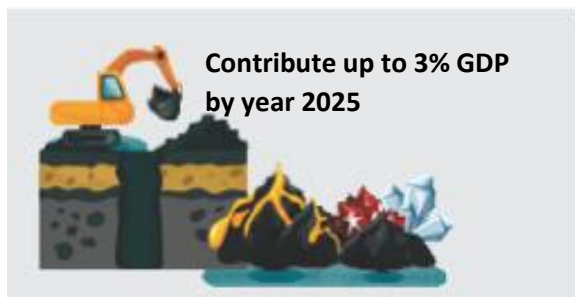
Through the MinDiver program, the Ministry of Mines and Steel Development entered into two contracts that are integral to attracting private sector investment into mineral exploration and mining as well as building a strong exploration and mining operations in Nigeria.



The Federal Government continues to make efforts to improve the sector regulatory framework with the enactment of new laws and establishment of the National council of mining and mineral resources development.

6. What needs to be done?

If the momentum of the implementation of the mining sector roadmap is maintained and the right choices are made, the solid minerals sector can contribute up to 3% of the country’s GDP by 2025 as predicted in the current roadmap up from a current contribution of just about 0.5%. (MMSD Mining Growth Road Map 2016).



In achieving this increase in GDP, the following are proposed recommendations:

The Solid Minerals Development Fund (SMDF) needs to be adequately supported and strengthened to enable it to perform its role. There should be an element in the fund that will support data gathering and a structure that assists miners achieve bankable status. The criteria for accessibility of the fund also needs to be clear, unambiguous and achievable. (Cyril Azobu, Developing the Solid Mineral Sector 2015)

Efforts should be made for the resolution of the Country's security challenges and should include initiatives specific to mining and within zones with high mining activities to ensure a conducive atmosphere for the operations of the miners.

There are about forty different kinds of solid minerals and precious metals buried in Nigeria

soil and waiting to be exploited and processed. One of such minerals is Bitumen. Processed Bitumen plays an important role in many everyday applications and is one of the most used solid mineral resources. The FGN needs to expedite the bitumen resource development process in Nigeria as a matter of urgency. This will create investment opportunities in harnessing the potentials of the important resource.

In addition to this, the strategic nature of the seven minerals identified in the 2016 Mining roadmap needs to be continuously reassessed. This will prevent the country from investing so much in a resource, and at the point of harnessing the investment, the value of the resource becomes low due to diminished global relevance.

The government needs to focus on practical implementation of the mining roadmap. The functions and powers of the Mining Implementation and Strategy Team (MIST) also needs to be properly articulated and the MIST should be supported in carrying out its functions.

Nigeria's State governments should also consider mining as a business and focus on the returns to the state while acting as investors. Assets already in possession by the states in form of land can be used as equity, while also ensuring security and ease of mining operations for the investors.

The expected development of the solid mineral sector from the consideration of the recommendations will have full impacts on the economy, environment and society.

7. Conclusions

In Africa, the mining sector makes a very important contribution to foreign exchange earnings, government revenues, employment, whether direct, indirect or induced, and of course, gross domestic product. These positive outcomes of solid mineral extraction are however seen as being only one side of the story of the solid mineral extractive industry in Africa.

One of the non-oil opportunities that exist in Nigeria is the mining sector. The global volatility in the oil sector can only be contained by Nigeria through economic diversification and mining is a major way to go. Nigeria needs to take decisive steps in ensuring the reforms in the Nigeria are geared towards improved governance and transparency in the mining sector.

In the light of this, the following suggestions are advanced as a guide in charting a way forward for the mining sector:

- The SMDF needs to be adequately supported and strengthened to enable it to perform its role;
- Included in the SMDF/BOI fund should be an element that supports data gathering and a structure that assists the miners achieve bankable status;
- Focus on practical implementation of the roadmap needs to be emphasized. The functions and powers of the MIST need to be properly articulated;
- Improved transparency and accountability in the utilisation of the funds allocated for data gathering and publicising of achievements so investors can begin to explore how best to key-in to the sector;
- The strategic nature of the seven minerals identified in the mining roadmap needs to be continuously reassessed;

- Consideration of expediting the bitumen resource development processes as a matter of urgency;
- Resolution of the matters stalling the recommencement of operations of Ajaokuta Steel company ltd and Delta Steel company ltd needs to be resolved;
- State Government should consider mining as a business and focus on returns to the state while acting as investors;
- Efforts to align relevant regulations need to be fast tracked to crystallise value within the shortest time possible. Draft of these should be open to reviews by industry stakeholders to ensure quality and acceptance before being passed into law; and
- Efforts to restore the country's security challenges need to include initiatives specific to mining and mining zones.

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