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Time for change in Nigeria

By Doye Balogun

Which is Africa's largest oil-based economy? Few would miss out on the points if that came up as a pub quiz question, but a lesser known fact is that Nigeria is blessed with commercial deposits of about 37 different minerals scattered across the country and was a major exporter of coal, tin, columbite and other minerals until the early 1970s.

That was until the end of the civil war, (which had led to several mines being abandoned), with further growth also hampered by the oil boom of that decade.

Fast forward to 2016, with crude oil prices having dropped to as low as US$27 a barrel from near US$120/bbl in June 2014 and the domestic currency, the Naira, hitting an all-time low of ₦400:US$1 on the parallel market last month. The result is a stage on which to reignite the age-old debate on the need to diversify Nigeria's economy.

On examination of the legal framework surrounding Nigeria's mining industry, there appears at least one industry capable of providing this much needed economic diversification. Converting this potential, however, faces serious challenges.

The legal framework of Nigeria's mining industry is relatively well-established. At its heart is the Nigerian Minerals and Mining Act 2007. As with many mining jurisdictions, property rights in land are vested in the Nigerian government, which grants concessions to investors to carry out mining activity. The licensing regime under the act is varied and includes:

- A reconnaissance permit carrying non-transferable rights of access to mining land for the purpose of searching for mineral resources and removing surface samples in small quantities (one year; renewable annually)
- An exploration licence carrying exclusive rights of exploration (three years; renewable for up to two terms of two years each)
- A small scale mining lease carrying exclusive rights to carry out mining operations on an area not exceeding 3km² (five years; renewable for further terms of five years each)
- A mining lease carrying exclusive rights to carry out mining operations within a mining lease area not exceeding 50km² (up to 25 years; renewable for further terms of up to 24 years)
- A quarrying lease (five years; renewable for further periods of five years)
- A water use permit, which remains valid to the extent the underlying mining lease, small scale mining lease or quarrying lease to which it relates, remains valid.

The application fees for the above concessions are very modest and licence holders enjoy generous tax incentives. The government has no free-carry rights and royalties range from 3-5% depending on the type of mineral (and may be reduced or waived where minerals are exported solely for experiment or analysis in reasonable quantity).

One might expect these features to provide an attractive landscape for mining investors. However, the reality is somewhat different.

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According to Central Bank of Nigeria reports, the mining sector accounts for only 0.14% of GDP, and 3.8% of non-oil export revenue – a surprising statistic given the volume of known mineral deposits in the country.

By contrast, crude petroleum and natural gas account for up to 15% of the country's GDP, though they generate over 90% of Nigeria's foreign exchange revenues and typically 75-85% of its government revenues. While the slump in oil price has forced attention to shift to other industries, there are a number of practical challenges to overcome in order to achieve any meaningful development of the mining industry.

First, significant investment in transport infrastructure will be required in order to move products from mines to market. There is already some limited rail infrastructure (for example into the port of Warri) and the location of some projects may mean that waterways can be used (as with the Agbaja iron ore project), but a lot more investment, particularly into rail and road facilities, is required. As has been widely reported, Nigeria's power deficit would also need to be addressed to provide continuity to projects.

Accredited laboratory testing would also require investment so mining companies can make decisions about exploration using reliable data. Nigeria reportedly has 84 accredited laboratories to test locally manufactured products for international standards, compared with 340 in South Africa, over 300,000 in China, and about 13,000 in the USA, making it necessary to carry out accreditation outside of Nigeria at both a financial and time cost.

Finally, it is no secret that the volatile security situation in the north of the country (home to many of Nigeria's minerals) is another reason for the cautious approach to foreign investment. President Buhari has made crushing Boko Haram one of the central tenets of his new term and announced towards the end of last year that the group had been "technically defeated" (bonus points in that pub quiz for those able to elucidate that phrase).

Speaking to a French trade mission in 2015, President Buhari said: "Our government came into office at a time when many people had abandoned the country's manufacturing, agricultural and mining sectors.

"We are doing our utmost best to encourage diversification into these sectors, which can employ a lot of people and we will welcome your support in this regard."

But while Nigeria's mining industry has the potential to become the mainstay of the economy, in order for it to achieve that status the government will need to pay more than lip service to the development of the industry this time around.