

# Nigeria's Solid Minerals Sector: Alternative Investment Opportunities

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## HE Dr Kayode Fayemi

### Protocols and introduction

It gives me great pleasure to be here today to address this august audience that I consider important partners in the progress of Anglo-Nigerian relations. I must say that this trip is something of a homecoming for me. More than two decades ago, I sojourned here as a student and an academic. I lived in London for over a decade during which time I honed my political consciousness, actively participating in politics at the municipal level. This city was also my refuge in exile during the 1990s, when I and many other democracy activists rallied friends of freedom at home and abroad against a brutal dictatorship that had seized power in my home country. To me, London stands as a shining city upon a hill and a bastion of liberal values. Indeed, much has changed in Nigeria since my days here in exile, same as here in the United Kingdom, and my return here at this time as a representative of my country is significant of how far we have come from those days when I was officially declared a persona non grata by the then military administration.

### Competition or cooperation

One of your esteemed poets, John Donne, famously said, "No man is an island, entire of itself; every man is a piece of the continent, a part of the main." This short statement may well be the definitive verse for the age of globalization. We recognize that the imperative of cooperation has never been more urgent as we pursue maximal growth. The economic fortunes and aspirations of sovereign countries in the world are now so interconnected as to be virtually inseparable. In Nigeria, we consider it imperative to go beyond our borders to engage ever more intensely with the matrix of global commerce. In an interconnected world, no nation can pursue its economic interests as an island.

It is true that the spread of markets erodes cultural, political and economic boundaries and seeds a competitive and disruptive dynamic into local economies. However in a globalized world, the pursuit of national prosperity is not the zero-sum game that it once was. When properly harnessed the forces of globalization not only unleash the positive dynamics of competition; they also unleash higher dimensions of cooperation. The expansion of markets spreads innovation and creativity; it not only erodes borders, it also builds bridges instead of walls. Our mutual prosperity is predicated on our ability and willingness to create economic and allied synergies. Globalization therefore enables the cross-pollination of ideas, wealth and opportunities on a scale unprecedented in the annals of human civilization.

It is in this context of the global village that we are seeking to write a new chapter in the history of the relations between our two nations. Nigeria and Britain have a longstanding history of commercial, cultural and diplomatic links built up over the course of two centuries. British investments bestride the Nigerian economic landscape while Britain remains a top destination for Nigerian students that want to further their academic pursuits. Many people of Nigerian descent are doing well in various facets of British public life ranging from governance and public service to sports and popular culture. The UK is also a favourite holiday destination for many Nigerians. The health of Anglo-Nigerian relations is evident not just in our active membership of the Commonwealth but also in the numerous instances of high-level cooperation on issues of regional, global and geostrategic significance.

At present, Nigeria is the UK's second largest trading partner in Africa after South Africa. In 2015, the volume of trade between Nigeria and Britain hit the £6 billion mark. As the UK's Under Secretary of State for International Development Nick Hurd MP once pointed out, this is an important relationship and the potential remains huge. A testament to the huge potential inherent in Anglo-Nigerian trade relations are

the efforts of organizations such as the Nigerian London Business Forum and the Nigerian-British Chamber of Commerce. From our perspective in Nigeria, we want to deepen this relationship and we perceive new possibilities and frontiers of opportunity for doing so particularly in the form of emerging investment opportunities.

#### **Brand Nigeria and challenges of perception**

In advertizing our wares in the global marketplace however, brand Nigeria faces certain challenges. She is not favourably positioned on the international perception index. Systemic frailties and individual lapses have over the years contributed to eroding our reputational equity. Admittedly, this is an area we have not managed as deftly as we should. Our administration has candidly acknowledged these deficits. However, we must also acknowledge that perception has often been skewed in favour of convenient negative stereotypes and diverges considerably from the reality on the ground.

What we have sought to do in recent months is to turn the tide of popular but exaggerated (and sometimes inaccurate) narratives and shine a light on the other positive facts that are seldom taken into account. For example, last year, Nigeria accomplished an epochal alternation of power with a ruling party acquiescing to an opposition party. This signalled the deepening of our democratic experience. Democracy is a journey, not a destination and Nigeria continues to make significant progress on her journey. As we continue to strengthen our democratic institutions, we are also enhancing accountability, transparency and the rule of law. We are now taking steps to create and strengthen the institutional frameworks that will, for example, improve the ease of doing business, address corruption and graft especially in the public sector, foster a culture of free enterprise, and boost the capacity of security institutions. We recognize that a liberal socio-political environment is often a precursor to a world class business environment.

Our president has particularly been at the forefront of vigorous strategic diplomatic engagements around the world to give Nigeria a new image and demonstrate that we are open for investments. Our administration is actively leveraging the treasure trove of goodwill and good reputation we enjoy, which borrows largely from the widely acknowledged personal integrity of Mr President himself, to project Nigeria in a more positive light as a worthwhile investment destination.

#### **British legacy in Nigerian mining**

Incidentally, the trajectory of the Nigerian mining sector bears the pioneering stamp of Britain's colonial economic legacy dating back to 1902. The city of Jos in central Nigeria became a centre of tin-mining under British rule. By the 1930s, a world map showing the distribution of tin production would have basically highlighted six regions – Malaya, Bolivia, Dutch East Indies, Nigeria, Siam and China. Nigeria, China and Siam accounted for 15 to 25 per cent of global tin production.<sup>1</sup> Up till 1960, Jos was the sixth largest producer of tin in the world. Similarly, the eastern Nigerian city of Enugu became known as coal city due to robust mining activities introduced under British rule. From these early operations led by the then British colonial government, we went on to a more private sector-focused model and then moved to the era of government-controlled companies with heavy investments in steel and coal. During this period, mining was a major contributor to Nigeria's revenue base and was a leading employer of skilled and unskilled labour until it was progressively eclipsed by the discovery of oil starting about fifty years ago.

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<sup>1</sup> "World of Tin," *Time*, May 7, 1934.

In addition, part of Britain's legacy in the Nigerian mining sector is a veritable wealth of data in the form of geological surveys which we are now updating. It seems only fitting that on the cusp of a revolution in this sector, we should be inviting British concerns to participate in what we believe is a renaissance of mining in Nigeria.

### **The state of the Nigerian mining sector**

In Nigeria today, the Muhammadu Buhari administration has as one of our strategic priorities the diversification of the Nigerian economy's revenue base from overdependence on crude oil which historically has been her mainstay. We are now looking to grow other promising sectors such as the mining and agriculture sectors. As the federal minister in charge of the former, I am pleased to share insights into what I believe to be Nigeria's next frontier of opportunity.

Our decades-long fixation on hydrocarbon resources has obscured the immense scale of riches we have in the solid minerals sector and its potential to power a new age of economic growth. Nigeria's minerals and mining sector is still largely underdeveloped despite its glorious past and abundance of mineral resources for development. These minerals can be broadly categorized according to use, into five groups:

- Industrial minerals (such as barite, kaolin, gypsum, feldspar, limestone)
- Energy minerals (such as bitumen, lignite, uranium)
- Metallic ore minerals (such as gold, cassiterite, columbite, iron ore, lead-zinc, copper)
- Construction minerals (such as granite, gravel, laterite, sand)
- Precious stones (such as sapphire, tourmaline, emerald, topaz, amethyst, garnet, etc.)

These mineral assets are available across the federation in varying mixes and proven reserves. No corner of Nigeria today is lacking in solid mineral assets. It is significant to note that among the minerals which occur in significant commercial quantities in different parts of the country are limestone - for which annual national demand is 18 million metric tons and which has driven the growth of Nigeria's cement industry; talc - over 40 million metric tonnes of talc deposits have been identified; gypsum - over a billion metric tonnes of gypsum are spread across the country; bitumen - Nigeria has the second largest deposit of bitumen in the world; coal - there are over 1 trillion metric tons of coal resources on our soil. There are also significant quantities of several other minerals in Nigeria's natural resource portfolio of at least 44 known mineral assets.

Our most promising mineral assets however are gold, iron ore, barite, bitumen, lead, zinc, tin, coal and limestone.

### **Challenges and possibilities**

Today, the Nigerian mining industry faces external and internal challenges. The sector has underperformed since the 1970s, initially as a result of poor policy choices which subsequently became compounded by deterioration in the fiscal regime, infrastructure, and the shortage of investment quality geosciences data. Stretched over two decades, these challenges have since become a growth limiting constraint on the sector's full potential.

We can categorize the sector's challenges broadly into internal and external challenges. Our internal challenges can be further categorized into five groups, as follows.

### Internal challenges

**Geosciences data and information:** We still have weak mechanisms for gathering, disseminating and archiving critical geological data required by investors and policy makers. Insufficient data has created certain opaqueness about Nigerian mining which needs to be addressed. We are not generating sufficient data, nor are we making it readily available to the market and operators.

**Industry participants:** Operators across the mining value chain have historically faced a range of challenges from insufficient infrastructure to policy uncertainty that together constrain investment confidence. Whether artisanal or large global miners like Vale or BHP, or Nigerians like Dangote or Ibeto, we need to create conditions that encourage various investors to commit to the market.

**Stakeholders:** Decline of industry reduced the focus and leverage of key stakeholders, hence flows into the sector e.g. resources, talent and partnerships have declined. Key institutions such as the Mining School Jos will need support to become fit for purpose again and train the next generation of mining specialists, innovators and entrepreneurs.

**Institutions & governance:** Our ministry's organizational design needs to be refined to ensure clear enforcement of its own rules. We will be focused on creating a true career path for mining specialists and regulators to ensure the required knowledge and priorities are on the table.

**Key enablers:** Ancillary requirements for the proper functioning of the minerals and mining ecosystem such as infrastructure – e.g. railroad, competitive financing systems, mine and asset security, and related support services – are missing. We need changes in legislation – e.g. the passage of an amendment to the Nigeria Railways Corporation Act to break NRC's monopoly and enable miners to set up private transport networks to move bulk minerals around the country for processing.

### External challenges

Chief among the external challenges we face, besides the negative perceptions about the Nigerian investment environment, is the turmoil besetting the global commodities market as key sources of demand that supported decent prices over the past two decades have steadily declined. This has put mines and mining houses under immense pressure which is reflected in the sharp decline in the share prices of major industry players such as Glencore, Anglo-American and Rio Tinto. Naturally, as the prices of metals and their assets plunge, many of the top mining houses are pulling back from investment planning, shutting down mines and optimizing current operations. All mining now has to be cost and process efficient.

In spite of the abovementioned challenges, we have resolved to overcome them and fulfil our mandate. As things currently stand, in 2015, the sector contributed approximately 0.33 per cent to the gross domestic product of the country. This contribution is a reversal from historically higher percentages (about 4-5 per cent in the 1960s-70s). Our policy goal is to return to a contribution level of 5 per cent – 7 per cent over the next 10 – 15 years, and the recently approved Medium Term Expenditure Framework (MTEF) and the Fiscal Strategy Paper (FSP) is very supportive of this aspiration.

Our mandate at the Ministry of Solid Minerals Development is to deterministically scale-up the capacities of this sector by transforming it into a strategic catalyst for domestic growth, in terms of the creation of jobs and increased revenue, while achieving a high level of global relevance.

The foregoing challenges provide unique opportunities in the Nigerian mining space. Consider Nigeria's iron ore and steel sector for example, steel is the world's most important engineering material and is

indispensable to any country's industrialization. Nigeria is the 12<sup>th</sup> richest country in the world in terms of iron-ore deposits – with over 2 billion metric tonnes – and yet she imports an estimated \$3.3 billion worth of processed steel and associated derivatives. Despite the country's relatively robust iron ore reserves, only 18 of the paltry 30 steel rolling mills are actually operational, producing 2.8 million metric tons per annum using 100 per cent scrap metal. These figures represent a gross underutilization of our iron ore resources, and are vastly inadequate to sustain our industrial ambitions. In addition, there is the opportunity for import substitution as the \$3.3 billion of much needed foreign exchange spent on steel imports annually could be judiciously deployed.

The steel sector is weak due to factors such as poor infrastructure for extracting, processing, and transporting bulk material e.g. freight rail transport, access roads to mines, electrical power. That said, we believe that the Nigerian steel industry can be attractive to investors due to the large untapped demand potential similar to what obtained for cement in the 1990s. The current market size of \$3.3 billion per annum has the potential to grow to \$15 billion per annum with increased industrialization driven by our domestic feedstock which as indicated earlier constitutes the second largest iron ore reserves in Africa.

We are cognizant of the worldwide slump in commodity prices occasioned by the slowdown in economic growth of resource-hungry giants like China and India, the two biggest markets for commodities over the past ten years. We are also conscious of the economies of scale that shape the dynamics of the global commodity markets, just as exemplified by Tata Steel's recent experience in the UK. We appreciate that this trend makes attracting the large houses in the current time frame quite challenging. We have therefore crafted a strategy to reflect a need to jumpstart market growth using a blend of domestic mining houses, mining companies and junior global miners.

We project a steady increase in demand for steel in Nigeria in the coming decade, driven by increased industrialization that will ignite a surge in building construction, power, automotive construction, agriculture, road and bridge building, military technology and infrastructure development, refinery investments, and other heavy duty machinery. This ever-widening vortex of hunger for steel and iron ore is an opportunity for local and international investors to participate in the consolidation and expansion of Africa's largest economy. Our optimism is also informed by the fact that current local producers are meeting less than 25 per cent of demand.

### **The proposed growth strategy to unlock our full potential**

Before now, the sector has witnessed some positive developments since 1999. Successive administrations have conducted reforms based on an important philosophical principle: government as an administrator-regulator, and the recognition of the private sector as owner-operator. Key elements of the reformist platform include but are not limited to the following:

- Development of the Nigerian Minerals and Mining Act, 2007
- Development of the National Minerals and Metals Policy, 2008
- Development of the Nigerian Minerals and Mining Regulations, 2011
- Establishment of the Mining Cadastre Office (MCO) for mineral rights management
- Establishment of the Nigerian Institute of Mining and Geosciences (NIMG)
- Enhanced geoscience data collection across Nigeria
- Establishment of control departments for Mines Environmental Compliance (MEC) and Artisanal and Small Scale Mining (ASM)

The Act and the supporting body of regulation have been designed to give Nigeria a competitive legal and regulatory framework for the sector. For example, in the design and set-up of the Mining Cadastre Office as the sole issuer of mineral titles today, a great deal of effort went into understanding the best practices globally. The cadastre's predecessor had overseen a cumbersome process fraught with unclear licenses, limited control, inefficiency, opacity and long delays. For this reason, the reformed Mining Cadastre Office adopted a "first-come-first-served" and non-discretionary granting of mineral titles rule. Today, the MCO issues 6 types of licenses and permits to cover all activities from exploration to mineral production. Licenses can be granted in 30 – 45 days using transparent rules and regulations.

To build on the progress made so far and position the sector to unlock its full potential, the ministry is pursuing a focused strategic agenda. That agenda was recently articulated in a draft roadmap that will guide how we grow the industry over the next two decades. The draft document is currently undergoing a feedback process from key stakeholders before being finalized and ratified by the cabinet. We will provide an electronic copy of the draft roadmap for the All Party Parliamentary Group (APPG) secretariat, which can be shared with anyone interested in getting more information. I will however briefly share highlights as follows:

**Aspiration:** Our aspiration is to build a world class minerals and mining ecosystem designed to serve a targeted domestic and export market for minerals and ores.

**Where to play:** We will achieve this by focusing on Nigeria's minerals, mining and related processing industry over a three phase period:

### *Phase 1*

Nigeria will seek to rebuild market confidence in its minerals and mining sector and win over domestic users of industrial minerals that are currently imported. During this Phase, Nigeria will also seek to expand use of its energy minerals. This phase will likely last about two to three years.

### *Phase 2*

Nigeria will focus on expanding our domestic ore and mineral asset processing industry. This phase will last about five to ten years.

### *Phase 3*

Nigeria should seek to return to global ore and mineral markets at a market competitive price point. We expect this to coincide with the next commodity upswing.

**How to win:** We intend to win by building a minerals and mining sector initially focused on using its industrial mineral endowment to support its industrialization. Government policy should seek to support private industry by building overall competitiveness (e.g. quality, price, loss ratios) and improving the ease of doing business. Nigeria should seek to create domestic demand by competing to replace ores and minerals currently imported. Over time, with an expansion in domestic processing, Nigeria should seek to build a cost led sector, as well as production expertise in select non-industrial minerals.

**Key enablers:** Finally, strategy without the appropriate set of enablers will remain just a plan. Working alongside the private sector, other MDAs and in partnership with the legislative branch, we will facilitate investment in a range of enablers including bulk handling terminals, railroad and rolling stock capacity, technical and engineering capacity, regulatory reform, reorganization of the Ministry itself, and expansion of access to financing to drive sector transformation.

### Key success factors and implementation plan

Rebuilding Nigeria's mining sectors is a function of success on six key dimensions. These are:

**Clear minerals & steel focus:** We need to ensure that our industrial and energy minerals strategy prioritizes domestic utilization of our assets, including getting our steel sector to provide a solid backbone for the manufacturing and industrial economy. The recent comments by the Vice President in Kwara State regarding the revival of our steel sector is an example of this. We are working assiduously to resolve once and for all the Ajaokuta situation.

**Institutions and governance:** We are rebuilding the organizational and functional capabilities of the supervising ministry, and ensure the regulatory framework is enforced. That means for example that we revive and use the Mining Police to protect mine sites and our reserves.

**Stakeholder engagement:** We need to improve the engagement of states with the minerals and mining sector, particularly around financial participation, revenue sharing, and recognizing the oversight of the federal government. We also will work hard to ensure that all parties recognize their social responsibilities so we avoid issues similar to the oil sector.

**Industry participants:** We are working to attract a diverse portfolio of participants from artisanal miners to junior explorers to mining majors into the industry. Our goal is to build a sector that is competitive and supportive of our overall job creation aspirations for Nigerians.

**Geosciences data and information:** Improving our collection and dissemination of geosciences data is also a critical enabler of success. Nigeria needs to know what it has and in what grades and quantities in order to plan more effectively.

**Access to finance:** We have commenced a systematic effort to build knowledge and confidence among Nigerian financial institutions to support mining projects. In addition, we are establishing the Nigerian Solid Minerals Investment Fund, structured as a private sector oriented investment outfit to provide financing to private sector-led projects in the mining sector.

**Enabling environment:** Finally, we must also create the appropriate environment to support enterprise. That will require building technical and managerial skills, and capabilities locally to ensure the steady supply of talent required by the sector in the future, as well as investing in infrastructure, gender equity, and improved access to finance.

We now have a Mining Investment Strategy Team (MIST) in the Ministry to oversee the work required to deliver success. The team is drawn from a mix of the ministry and outside talent to ensure we stay focused on execution and results without distracting from the core regulatory role of government. We will be providing quarterly updates on our successes and challenges, with an initial focus on getting domestic industrial demand on track again.

Should Nigeria successfully implement the proposed recommendations, growth is expected to return to the sector in the form of new exploration activity, operations and production from active mining, functional (and expanded) processing and refining capacity, and higher value-addition in exports. The net outcome will be the creation of thousands of direct jobs and potentially hundreds of thousands of indirect jobs. We anticipate contribution to mining GDP to exceed \$25 billion by 2026 as industries are better able to use the output of the sector, substituting for imports. Analysis conducted by major stakeholders in the



solid minerals sector, the Association of Metal Exporters of Nigeria, also indicates that we can generate at least N5 trillion annually from mining and exporting of its vast solid mineral deposits.

### **Towards a new paradigm in natural resource management**

We are open for business but it is no longer business as usual. More than half a century of oil exploration activities in Nigeria has yielded painful and costly lessons on the necessity of sustainable resource management and ecologically-friendly, socially-responsible extractive endeavours. We are determined not to repeat the tragic errors of the past.

This is why ecological justice is one of the major planks of our approach to the repositioning of the solid minerals sector. We will ensure that investors comply with global best practices in resource extraction by integrating all relevant protocols on environmental conservation in the conduct of mining and all related business. This approach is informed by our belief that the environment itself is a resource and has to be safeguarded even as we unearth its more obvious treasures. Our goal is to provide a better deal for the local communities where these minerals are located, ensuring communal buy-in and benefit.

Transparency is also a key consideration in how the mining industry will be run. We intend to foster a culture of openness which will, in turn, engender trust between all stakeholders. For me as the chairperson of the Nigerian Extractives Industries Transparency Initiative (NEITI), this is an obligation and not a favour to stakeholders. As you may all be aware, only last week, President Muhammadu Buhari joined Prime Minister David Cameron, and other leaders to commit to open governance and transparency principles - transparency in the extractives industry is particularly key to that commitment.

We do invite and certainly expect British investors to come in to take advantage of this new frontier of opportunity. However there is also room for cooperation in other areas. For instance, our parliaments could work together on frameworks of regulation and oversight for extractive activities. Civil society organizations in Britain and Nigeria could work together to enhance transparency and accountability in the sector.

Our ambition goes beyond just extraction and exportation. We aim to create a globally competitive sector capable of contributing to wealth creation, jobs creation and the advancement of our social and human security. It is also to create a new culture of sustainable natural resource management that results in a win-win situation for all of us – communities, partners and investors at home and abroad.

Thank you for listening.