

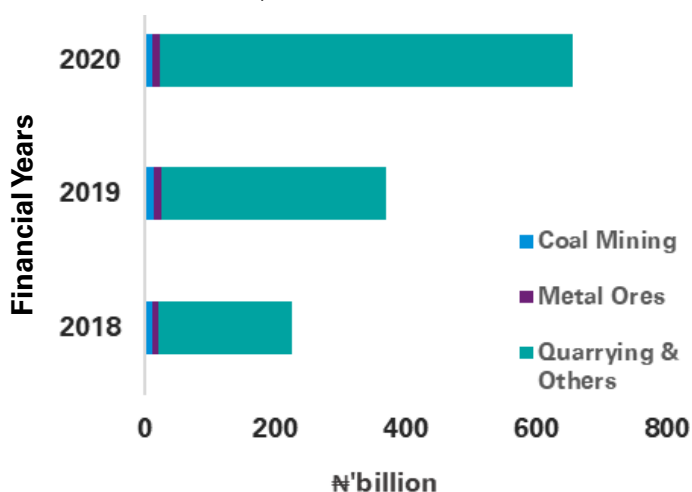
# Nigerian Mining Sector Watch

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## INTRODUCTION

Globally, the Mining Industry suffered negatively from the impact of COVID-19 Pandemic (the Pandemic) in 2020. Although the sector was classified as “essential services” in many countries, the rapid outbreak of the novel Corona Virus at mining sites forced many mines to suspend operations for extended periods of time. While the industrial metals sector was more impacted due to limited production, the precious metals sector recorded better fortunes, especially Gold. This was largely due to the uncertainties around global crude oil prices and capital markets.

In Nigeria, despite the wide spread economic impacts of the pandemic, the Mining Sector (the Sector) exceeded budgeted revenue of the Federal Government (FG) in 2020 by about 10% (₦2.09billion as against ₦1.9billion)<sup>1</sup>, and increased its contribution to the Nation's Gross Domestic Product (GDP) by about 23% (2020: ₦656.18 billion; 2019: ₦369.00 billion<sup>2</sup>). The trend of the Sector's contribution to GDP in the last three years is shown in the chart below:



From the chart, it is evident that the significant growth of the Sector's contribution to the Nation's GDP is attributable to Quarrying activities which comprise sand, gravel and crushed rocks e.g. Limestone (for producing cement). This may be indicative of an increase in construction activities across the country as well as increase in the export of clinkers manufactured from Limestone.

Furthermore, the FG prioritised the Sector in the Economic Sustainability Plan (ESP) which was developed in response to the impacts of the Pandemic on the economy. Specifically, the FG allocated ₦6 billion in the ESP to support artisanal and small-scale miners to further enhance job and value creation. In addition to this, the Central Bank of Nigeria (CBN) also introduced a targeted credit facility of **₦50 billion** to support households and micro, small and medium enterprises (MSMEs) affected by COVID 19, to enable MSMEs to expand their productive capacity through equipment upgrade, research and development.

The CBN intervention is scheduled to end by 31 December 2024. The interest rate under the scheme is 5% per annum (p.a) (all inclusive) up to 28 February 2021 and thereafter, the interest on the facility shall revert to 9% p.a. (all inclusive) as from 1 March 2021. The repayment is to be made on instalment basis by the beneficiaries depending on the nature of enterprise and the repayment schedule/work plan provided at the application stage<sup>3</sup>.

<sup>1</sup>Source: Public presentation of the 2021 Approved Budget by the Honorable Minister of Finance, Budget & National Planning

<sup>2</sup>[https://nigerianstat.gov.ng/elibrary?queries\[search\]=Gross%20Domestic%20Product](https://nigerianstat.gov.ng/elibrary?queries[search]=Gross%20Domestic%20Product)

<sup>3</sup><https://www.cbn.gov.ng/Out/2020/FPRD/N50%20Billion%20Combined.pdf>

## KEY EVENTS IN 2020

Some projects expected to come on stream in 2020, which would have further improved the contributions of the Sector to GDP and the Nation's revenue, were delayed as a result of the Pandemic. However, the Sector recorded some key events in 2020 as follows:

### (i) CBN purchased its first locally sourced Gold bar from local miners

The CBN, through the Presidential Artisanal Gold Mining Development Initiative (PAGMDI), purchased its first locally sourced Gold bar in July 2020. The Gold bar, which weighed 12.5kg was purchased for ₦268 million. This transaction signified the commencement of the FG's National Gold Purchase Programme. The Gold purchased by the CBN under this programme is meant to build Nigeria's Gold reserve and to manage the perennial local foreign exchange volatility.

### (ii) Launch of Dukia Gold & Precious Metals Refining Company Limited and Gold buying scheme

In June 2020, the Dukia Gold and Precious Metals Project (DGPMP) was launched. DGPMP plans to acquire Gold locally and process the Gold to meet the highest international standards, thereby enabling fair pricing and value for precious metals sourced and produced in Nigeria.

Furthermore, the DGPMP, through the provision of reliable support infrastructure, aims to provide holistic solutions to the transactional challenges in the Sector.

### (iii) Aggressive Clampdown on Illegal Mining

The Government demonstrated more aggression and purpose in the fight against illegal mining in the country. Several suspects were arrested and publicly paraded, especially during the FG imposed lock down period.

Hopefully, the FG would soon establish special courts in each region to expedite the prosecution of illegal miners that are arrested.

Specifically, the FA introduces a progressive CIT regime wherein,

- start-ups and small enterprises (SEs) with annual gross turnover of not more than ₦25 million would be completely exempted from paying CIT;
- Medium scaled companies (MSCs) whose gross turnover exceeds ₦25 million but is less than ₦100 million will be subject to CIT at 20%.

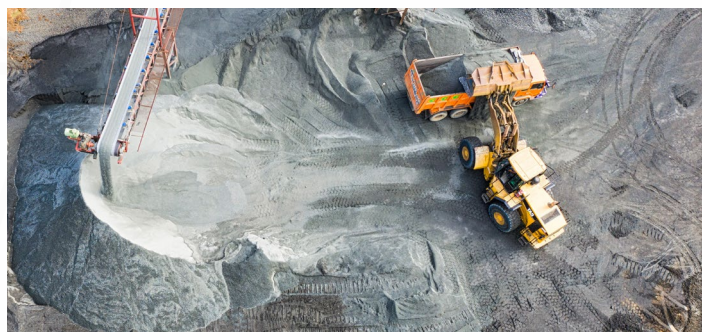
The FA also exempts SEs from payment of minimum tax. Furthermore, the FA introduced a VAT compliance threshold to exempt SEs (as defined above) from registering for the tax, charging VAT, rendering a monthly return of its sales and purchases and from the penalties prescribed by the Act for non-compliance with the administrative provisions.

Given that more than 80% of the operators in the Sector are artisanal and small-scale miners i.e. they fall within the SE- MSC bracket; these incentives would go a long way to encourage the legalisation and / or formalization of the teeming illegal miners.

### (ii) Local Content Bill

This Bill seeks to repeal the Nigerian Oil and Gas Industry Act (NOGIDA) 2010. This Bill has passed the second reading in both the Senate and House of representatives. Some of the highlights of the Bill are:

- a. The Bill stipulates that first consideration is to be given to Nigerian indigenous companies and firms in the award of licences and leases.
- b. The Bill introduces a Nigerian Solid Minerals and Metallurgical Content Development (Special) Fund (the Fund) that would be exclusively administered by the Directorate and utilized for the execution of projects that will enable artisans acquire equipment and technologies for the exploration and exploitation of mineral resources, undertake mutually beneficial public-private partnerships (PPP) for the development of the mining sector and partner with indigenous Nigerian companies for the establishment of Minerals Buying Centers (MBCs).



## FISCAL AND REGULATORY CHANGES

### (i) The Finance Act 2019

The enactment of the Finance Act (FA) 2019 brought about amendments / new introductions to various tax legislations including the Companies Income Tax Act, Value Added Tax Act, Withholding Tax Act, Petroleum Profits Tax Act, Excise Tariff Act, Stamp Duties Act, etc. The FA, amongst other objectives, sought to promote small and medium scale businesses with incentives.

The Fund will comprise:

- a 2% surcharge on “every contract awarded to any operator, contractor, subcontractor, alliance partner or any other entity involved in any project, operation, activity or transaction in the Nigerian Solid Minerals and Metallurgical Sector”
  - 30% of the royalties payable by operators who own mineral rights;
  - 30% of amounts accruing from Nigerian electronic transactions;
  - fees and fines paid as a result of the administration of the Bill;
  - budget allocations;
  - donations, gifts and grants; and
  - interest and earnings accruing to the Directorate from its savings.
- c. The Bill requires the CBN to promote the establishment and operation of MBCs by partnering with the CBN to grant credits for the purchase of minerals that the Directorate identifies as marketable and commercially viable.
- d. Require the Directorate to establish plans, programmes and training facilities that would enable Nigerians develop skills and technical knowledge needed for the construction, repairs, maintenance

and operation of solid minerals processing plants with facilities that would be capable of refining and processing standardized quality of solid minerals

It is important that a proper sector impact analysis of the Bill is conducted by the Ministry of Mines and Steel Development and other Stakeholders to ensure that its provisions are not onerous for the Sector. For instance, while the prescription of a minimum Nigeria shareholding for licence holders may discourage much needed foreign investments into the Sector, the special intervention programmes of the CBN in the Bill are a welcome development. Therefore, the FG should ensure that the final provisions of the Bill would sustain the positive growth trajectory of the Sector.

## CONCLUSION

Obviously, there is a renewed interest in the Sector considering the number of new projects announced in 2020, especially in Gold mining. Therefore, the FG needs to build on the small victories recorded so far in the areas of improved monitoring and vigilance and some regulatory reforms. Also, there is need for greater synergy and cooperation among the industry stakeholders to sustain the current trajectory.



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