

INVESTMENT IN SOLID MINERALS PROGRESS AT LAST!

Between the 3rd and 5th of September, 1996, an international seminar/workshop was held under the auspices of the Ministry of Solid Minerals at the Nicon Noga Hilton Abuja, Nigeria. The theme – Investment in Solid Minerals.

Was it an overdue re-appraisal of the Sector? Or was it a ritualistic exercise in hypothetical discourse? In a sector with 32 solid minerals so far discovered and a potential of up to \$1 billion in export revenues, one clearly cannot ignore the huge potential of the Nigerian Solid minerals sector.

The enactment of the Nigerian Investment Promotion Commission Decree No.16 of 1995, which abrogated the prescribed minimum on investments by Nigerians of 60% in this sector, could be viewed as a watershed in an industry, which had hitherto presented no incentive to the foreign investor.

The budget of 1996 allocated to the newly formed Ministry of Solid Minerals, the sum of N586 million and N211.5 million to the Nigerian Mining Corporation (NMC) and the Nigerian Coal

Corporation (NCC). A list of incentives to investors were enumerated, for instance; increases in the rate of capital allowances from 30% to 95% and tax free holidays from year 1 to year 3 of operation of new companies.

Given the staggering level of investment required to make a mining concession viable, one must at this juncture question how far the government is willing to go to advance this sector as a viable revenue earning alternative to the oil and gas sector.

In a changing world where global competition for investible equity remains ever increasingly competitive and debt financing continues to be more and more difficult to obtain, perhaps it is not enough for the government to evince a desire for private participation in the solid minerals sector, without preparing the requisite atmosphere.

The commercialization of the NMC and NCC though laudable objectives still may not go far enough. The NMC's wide economic mandate is comparable with that of the Nigerian National Petroleum Corporation (NNPC) but the comparison ends there. Inadequate funding and running of its subsidiaries like civil service institutions rather than commercial ventures

have hampered its transition to commercialization; not to mention the perennial operational inhibition of poor infrastructural links between mining centers and marketing and delivery outlets.

In order to show the requisite conviction to drive this sector forward, the NMC and NCC must be privatized immediately and publicly listed on the Stock Exchange with the government retaining no share holding interest or at best a token/nominal interest of not more than 2% - 3%. Examples of this are Zambia, with Zambian consolidated Copper Mines and more particularly, Ghana with its much-publicized sale of shares in Ashanti Goldfields Company.

The conference further touched upon two key issues.

The first is the proper investment vehicle with which to enter the industry. The structure of the oil and gas industry serves as a useful guide in this regard, where wholly owned subsidiaries of foreign firms can be set up to enter into contractual joint ventures with local entities. Such ventures could take the form of Joint Venture interest and operations over a specific mining concession or Production Sharing or

Service Contracts. In this regard rules will have to provide, in the Joint Venture and Production Sharing Contract scenarios for assignments of interests or portions thereof by the mining concession holder to the foreign investor.

The second is that of minimum guarantees and spreading of risk. Again in line with the oil industry, the following should be made available: A Memorandum of Understanding, which guarantees the mining company a prefixed minimum return on the mining concession. The ability to amortize the costs of a failed concession against a successful one and as an adjunct to this the ability to farm in to more than one concession in order to spread the risk of entering into what is clearly a frontier area. The legal environment clearly permits this level of flexibility (unlike in the oil and gas sector where it was painstakingly implemented) and in this regard it is hoped that full advantage is taken of it.

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