



Base Titanium manager for external affairs Simon Wall samples titanium at the Kwale mine. In 2016, the company contributed Ksh1.4 billion (\$13.5 million) in direct taxes and royalties to the government. Picture: File

In the mining sector, Kenya is headed in the right direction

Kenya's Mining Cabinet Secretary Dan Kazungu was recently quoted as saying that mining is the next economic frontier for the country and asking companies to get on board and benefit from the expected boom.

Following the enactment of the Mining Act, 2016, Mr Kazungu has been leading a national and international charm offensive to attract investment in the mining sector while also advocating the interests of small-scale miners.

One would expect these efforts to be reflected in positive movement in various data points. The Fraser Institute's annual mining survey — which assesses how mineral endowment and public policy factors, such as taxation and regulatory uncertainty affect investment in various jurisdictions — ranked Kenya 120th out of 122 surveyed mining jurisdictions in 2014. Now, Kenya has steadily moved up to 86 out of 104 in the 2016 report. This shows improved confidence resulting from a more settled and predictable legislative environment.

The 2017 Kenya National Bureau of Statistics annual economic survey has recorded a slight decline in the value of the country's mineral output, from Ksh23.8 billion (\$229 million) in 2015 to Ksh23.3 billion (\$224 million) last year. This was mainly as a result of global forces that saw the value of Kenya's fluorspar decline by Ksh560 million

COMMENTARY JOHN NGUMI



(\$5.4 million) as international prices dropped, forcing suspension of local production.

On a positive note, the value of gemstones rose nearly 20 per cent while mineral sands products from Base Titanium's Kwale mine rose to Ksh13.3 billion (\$128 million) — a 46 per cent increase from 2014. The Kwale mine contributed close to 60 per cent of the value of Kenya's total mineral output in 2016.

As an export-orientated industry, mining plays a significant role in generating foreign exchange. According to the KNBS Economic Survey, the value of Kenya's exports to China in 2016 was Ksh10



Mining is the next economic frontier for Kenya, so get on board and be part of the boom."

Dan Kazungu, Mining CS

billion, with the Kwale mine accounting for over half of the revenues.

The mining sector's potential to drive economic growth, create jobs and improve living standards is huge. A well-managed and sustainable sector will deliver significant multiplier benefits to other sectors of the economy through the supply of goods and services, notably in the areas of logistics, energy, consumables and other services.

A further benefit derived from investment in mining is development of the infrastructure required to support operations, which subsequently serve the public good, such as roads, power and water supply.

Tax revenues

These economic and social benefits in turn create jobs and economic activity and growth and tax revenues for the government.

In 2016, Ernst and Young undertook an independent assessment of the Kwale mine's total economic output, and two of their findings were relating to employment and public finances, which demonstrate the value of a mining project to the economy.

In 2016, Base Titanium directly created 642 jobs. On top of this, E&Y calculated that nearly 1,400 jobs were supported in Base's supply chain through the purchase of local goods and services — indirect jobs.

Additionally, consumer

spending (induced benefits) by those filling these direct and indirect jobs supported an additional 1,400 jobs.

Base Titanium's operations, therefore, created nearly 3,450 jobs. Put another way, every direct job in the mine supports a further 4.4.

With regards to public finances, in 2016, Base contributed Ksh1.4 billion (\$13.5 million) in direct taxes and royalties while indirect and induced taxes contributed an additional Ksh500 million (\$4.8 million) to government revenue.

Where do we go from here?

The Ministry of Mining envisages that the mining sector will contribute 10 per cent to GDP by 2030.

With a modernised regulatory framework and the ongoing update of geological data, Kenya has some of the potential to attract more large-scale investment in mining to meet that target.

The Cabinet Secretary has laid the groundwork: He has recognised that a stable, predictable and competitive regulatory framework is the only way to attract investment. He is leading the way in formulating a harmonised and attractive fiscal regime for the extractives sector, which will soon see Kenya climb further up on the Fraser Institute rankings.

In mining, Kenya is heading in the right direction.

John Ngumi is a director of Base Titanium Ltd.