



Concept Paper for a Presidential Workshop on Mineral Sector Reform

Context

This Government has taken a keen interest in the development of the mineral sector. This is evident through its initiative to review all mining agreements and the adoption of the White Paper on the Jenkins-Johnson Report. However in order for the Government and people of Sierra Leone to derive greater benefits from its mineral wealth a concerted effort must be made to address the constraints affecting the sector's growth and management.

Before the Government can develop an effective strategy for the sector's development it must be well informed of the current state of affairs, constraints and reform options. There is concern that currently, Government knowledge about key technical, financial and other factors characterising the sector is inadequate. This gap will weaken its ability to manage the sector effectively, and negatively impact the quality of dialogue with stakeholder in agreeing on key reforms.

The following paper presents some of this information and proposes that Government convene a dedicated high level workshop to discuss these issues and develop a consensus on a reform agenda for the mineral sector.

The Importance of Mining to the National Economy

It is important to recognise the mining sector's current contributions to **government revenue**, export earnings and **foreign exchange**, as well as direct and indirect **employment**. Estimates are that only 5% of Sierra Leone's Government revenues in 2006 (around Le 30bn) were generated from the mineral sector. Arguably the most significant impact of the mineral sector is in employment where it is estimated that over 250,000 people derive a livelihood from mining related activities which represents nearly 15% of the total labour force.

It is even more important to understand the directions in which the sector is heading. While the mining sector currently accounts for well over 90 percent of export income, this is expected to decline to 70 percent within a decade in the absence of new mineral sector investments. In this instance, the country would continue to rely heavily on aid inflows to meet foreign exchange needs.

Before being able to improve upon the above noted facts it is important to understand what our sector looks like.

In 2006 Sierra Leone's mineral exports were close to \$175million; \$125million of which were from diamonds.

Clearly diamonds are important to Sierra Leone however with Sierra Leone only supplying about **1% of the world's diamonds**; Sierra Leone is not a significant player in the global

market.¹ The other distinguishing feature within the diamond sector in Sierra Leone is the extent of artisanal mining. The vast majority of the world's diamonds are produced in large industrial mines; in Sierra Leone nearly 80% of diamonds are hand dug by artisanal miners. Beyond diamonds the country produces Rutile and Bauxite and there are indications that the country will soon start exporting iron ore and gold.

Impact of Reform

If the Government are able to implement an appropriate reform strategy, the mining sector has the capacity to serve as an engine of economic growth, generating up to an extra 1.2 percent GDP growth per year between now and 2020. With new investment in the sector, GDP per capita could be 5 percent higher in four years than it would be without new mining investment, and up to 17 percent higher in 2020. This would equate to up to an **additional US\$ 100 GDP per capita**. A 17 percent increase in GDP has the potential to bring about an 18 percent reduction in the share of the population living below the national poverty line, meaning some **900,000 people would be lifted out of severe poverty**. Even with the more modest growth gains expected by 2011, some 190,000 extra people could be lifted out of poverty, representing 3 percent of the population.

With new investments facilitated by comprehensive reform of the sector the value of official mineral exports could rise from around \$175 million a year in 2006 to around \$1.2 billion a year by 2020. Following the commissioning of new mines, mineral exports per capita can be expected to more than double within five years and rise from only \$34 per capita today to \$170 by 2020.

With a well-administered and balanced fiscal regime, it is reasonable to expect that Sierra Leone could substantially increase its revenues from the mining sector. If Government revenues were, through a combination of improved fiscal terms and greater institutional capacity, to rise to 7 percent of the value of mineral exports, new investments could provide **revenue to Government of over Le 110 billion annually within four years** (in real terms) - enough to finance the provision of free anti-malarial bed nets for all Sierra Leoneans not currently provided for under existing free distribution initiatives; or the salaries of 30,000 new health care professionals. Revenues would rise up to Le 200 billion annually by 2020 – enough to finance a 75% increase in the volume of all poverty expenditures; or 50,000 new school teachers. This would represent a more than trebling of revenues available to the Government from the mining sector within four years and a roughly seven-fold increase by 2020.

Constraints & Issues

Reflecting on the current state of the sector it is clear that mineral exploitation is an important contributor to Sierra Leone's economy, however in order to realise the sector's potential and address the development requirements of the country more needs to be done to grow the sector and leverage this growth for the broader benefit of the country.

¹ According to Kimberley Process Statistics, Botswana produces 27%, Russia 21%, Canada 12%, South Africa 11%, Angola 9% (percentages are based on export value, not number of carats)

In line with the Core Mineral Policy (CMP) the Government must play a leading role in creating an attractive environment for private investment as well as managing its development in such a way that maximises returns. Unfortunately there are a number of issues that need to be addressed in order for this to happen. These include:

- The fiscal regime; there is an inconsistency in rates and conditions offered to companies, where some companies are given more favourable conditions (i.e. paying less tax than other investors) thus created an imbalanced playing field. Giving some companies more concessions than others makes Sierra Leone unpredictable for investors and leaves the impression that companies can use unsavoury methods to influence their terms.
- The legislative and regulatory framework governing the sector needs to be improved and tightened. The lack of clear rules, procedures and criteria associated with issuing licenses, operating mines and dealing with communities has made it very difficult to monitor and enforce compliance. This lack of clarity has arguably led to the disputes and legal challenges that Government and individual companies currently find themselves in.
- The institutions tasked with supporting and managing the sector lack the capacity to stimulate, foster and oversee the necessary investment in mineral exploration activity. This includes geological information, technical skills required to make informed decisions and monitoring personnel and systems required to ensure compliance.
- Relationships between communities, companies and government, need to be improved in order to ensure all stakeholders understand the issues and concerns; so that confrontation and problems can be prevented and avoided. The recent incident at Koidu resulting in injury and death demonstrates the importance of ensuring community concerns are addressed as early as possible.
- Revenue collection from the sector; particularly from exporters and traders needs to increase. Additionally, communities and those affected by mining need to experience increased benefits rather than the negative effects of mining. (Improved social services and infrastructure decreased environment and social impacts)
- At the moment only a small number of companies are involved and control the development of the sector. Most of these companies actually only operate in Sierra Leone and have limited international experience. In order to attract large multinational mining companies, who have greater financial and technical capabilities, more exploration and mining opportunities need to be created.

Reform Agenda

The Government's current initiative to review all mining agreements and licences is an important step in addressing some of the issues listed above; however this review cannot be expected to address all the issues. The review will primarily inform Government of how to improve the existing licenses and contracts, ensuring greater financial return from current operations.

However a much more comprehensive process of reform is required to address issues associated with the legal framework, management of the sector and the profile of companies operating in Sierra Leone.

Within Government the Ministry of Mineral Resources (MMR) plays a leading role in managing the sector however MMR itself faces a number of challenges that can only be addressed through a coordinated effort from Government. Sector constraints and have been well studied both internally and externally and now the task at hand is to make clear decisions and implement reforms. The Government more broadly will need to consider the following:

- **Reforming the institutions** managing the sector; strengthening MMR, developing appropriate agencies, compliance monitoring mechanisms and deploying sufficient financial resources.
- Building on the Government's Core Mineral Policy and the Law Reform Commission's review of the Mines and Minerals Act, pass a **new law** and develop the relevant and **appropriate regulations**.
- Developing **clear procedures and decision rules** for administering the law and regulations.
- **Improve communication and coordination** within government and between the various stakeholders.

The country has and continues to receive external support from DFID and the World Bank in this sector however in order to implement the necessary reforms the Government must develop and adopt its own coherent strategy.

Proposed Workshop

Clearly the mineral sector has the potential to contribute to economic growth and poverty reduction. The Presidential Workshop on Mineral Sector Reform would provide Government an opportunity to better inform itself of the issues preventing Sierra Leone from reaching its potential. The overall objective of the workshop is for Government to **agree upon a strategy for implementing mineral sector reform**.

The workshop will be a one day session attended by Ministers, select senior government officials and technical experts. The agenda for this high level internal workshop would include the following sessions.

1. Introduction and statement of objectives.
2. Overview of the mineral sector in Sierra Leone, international experiences and lessons.
3. Presentations and discussion on current constraints facing growth & increasing benefits.
4. Working group discussion on fiscal, institutional, and legal reform options.
5. Presentations by working groups on specific reform action plans.

6. Plenary discussions; formulating an overall strategy for mineral sector reform and mechanisms for implementation and monitoring.

Under the leadership of the President and with support from the Ministry of Mineral Resources the workshop provides an opportunity for Government to define how it can implement its vision for the sector's development and achieve its potential.