1. Key development issues and rationale for Bank involvement

The recipient’s objective is to turn around its mineral sector in order to increase the government’s share of revenues from mining and improve benefit sharing at the local level. Sierra Leone, a world leading producer of diamonds, has a rich endowment of precious, base and ferrous metals, and rutile and other industrial minerals. The mining sector in Sierra Leone is an important contributor to national economy, accounting for 20% of GDP and providing 90% of registered exports. It is estimated that mining and quarrying provide livelihood for over 250,000 people, and employ about 14% of the total labor force, directly or indirectly. However, while Sierra Leone’s national resources continue to be exploited the fiscal revenues, from their peak of about 8% of GDP in 1990, have been declining steadily to less than 2% in 2000s.

In addition to country-specific challenges, the mining sector in West Africa is trans-boundary, as prospective mineral belts that host large deposits trend across border areas. In addition to historical ties, smuggling of diamonds and gold lead to economic interconnectivity among Sierra Leone, Guinea and Liberia within the Mano River Union, and neighboring Ghana. The countries in the region are in very different position vis-à-vis mineral sector reform, with Sierra Leone and Liberia lagging behind. In this regard, while it is acknowledged that mining sector reforms would benefit from a regional approach, prior country-specific interventions would be required to build receptive capacities in the lagging countries, including Sierra Leone.

Main challenges in front of the government of Sierra Leone include: (i) a fiscal regime that has not attracted and retained a large number of quality investments into the sector; (ii) a regulatory regime that allows for non-transparent, discretionary authority in granting mineral rights; (iii) existence of large numbers of unlicensed, informal artisanal mining\(^1\) leading to smuggling of diamonds and gold, thus reducing revenues to the country; (iv) a disproportionate distribution of

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\(^1\) A 2006 World Bank poverty assessment identifies artisanal mining, despite hard working conditions, a vocation to lessen poverty, and thus there is continued strong demand for mining jobs.
environmental and social impacts onto the community and a corresponding inadequate sharing of benefits.

With the help of the international donor community, in 2003 the government launched the initial stages of mineral sector reform. The activities that took place to-date included: (a) a core mineral policy has been developed with assistance from DFID; (b) basic geo-data collection and dissemination were carried out with the assistance from UNDP and private firms; (c) administration and management of mineral rights in Kono were improved on a pilot basis through budget support programs\(^2\); (d) improvement of productivity, safety and environmental mining conditions was initiated through extension services and capacity building / training through budget support programs; (e) Diamond Area Community Development Fund is being run with the assistance of Peace Diamonds and US AID; (f) improvement of mining services through cadastre system, and improvement of fiscal regime for mining were started through a budget support and UNDP\(^3\); and (f) a strategic environmental and social assessment for the mining sector supported by the World Bank, to be completed in spring 2007. In June 2006, the Government has also confirmed its commitment to commence the implementation of the Extractive Industry Transparency Initiative (EITI).

While positive results were achieved as a result of the above actions, including increase in diamond exports since 2003; major reforms are needed to improve sector governance, increase transparency, and mitigate against corruption. To support this continued effort, the proposed MTAP will focus on government’s reform to strengthen institutional and regulatory framework for mining, support institutional reform, offer uniform and non-discretionary mineral cadastre system, and support sustainable development on local level.

The proposed project will support the CAS objective “To improve governance, security and peace” by focusing on transparency of mineral rights regime, strengthening capacity of the government to monitor the extractive industries sector, and enforcement of anti-corruption measures applicable to mining sector. MTAP will form a nexus of ongoing complementary activities by: (i) being coordinated with a broader reform framework in the country (including the PGRGG), (ii) continuing to build upon and align with other donors’ efforts, most notably in the implementation of a five-year institutional reform and capacity building plan developed by DFID, and (iii) ensure that mineral sector reform fits within the regional context and is aligned with the regional objectives (such as Mano River Union, and, on a broader scale, ECOWAS).

2. Proposed objective(s)

The principal **development objective** of the project would be to accelerate sustainable development of extractive industries through strengthening the policy, fiscal and regulatory framework and thereafter to attract investments for continued sector growth.

The project is expected to yield the following **outcomes**: (i) increased payments receipts from the extractive industries to the government; (ii) mitigation of poor licensing practices through non-discretionary administration of all mineral rights nation-wide; (iii) improved understanding

\(^2\) PGRGG – Programmatic Governance Reform and Growth Grant,

\(^3\) Sierra Leone Information System Program (SLIS)
of the extractive industry by the public through increased transparency of transactions and improved sector governance and regulatory enforcement; and (iv) building capacity in enforcement of environmental and social compliance.

Primary beneficiaries will be the Government of Sierra Leone through increased revenues; mining communities through policies for the equitable sharing of benefits; the international investment community through improvements to the fiscal / regulatory regime, and the Ministry of Mineral Resources and the National Revenue Authority through institutional reform and capacity building.

3. Preliminary description

Project Components. The project is expected to be financed through IDA Grant of US$6 million equivalent. The project will focus on:

A. Increasing of Sector Revenues through (a) improved fiscal regime and improved regulatory enforcement of payments from small and large-scale mining; (b) establishing a framework and appropriate regulations for auctioning (tender) of appropriate mineral assets; and (c) strengthening assessment and collection of royalty payments.

B. Strengthening of Mineral Rights Regime by building on the PGRGG policy trigger relating to mineral licensing. The project will (a) strengthen and build technical capacity of an independent cadastre office to international standards; and (b) improve monitoring and enforcement of health and safety regulations, and enforcement of environmental and social compliance.

C. Improving Mineral Sector Governance through (a) institutional reform and capacity building of key agencies and their staff; (b) formulation and implementation of a comprehensive national mineral policy based on the guiding principles defined within the Core Mineral Policy, (c) developing new regulations for operation of the minerals sector in line with international practices; and (d) support of the Extractive Industries Transparency Initiative to introduce transparent monitoring and reporting of sector revenues.

D. Mining Sector Development through (a) follow-on work based on findings of the Strategic Environmental and Social Assessment (SESA, to be completed in April 2007) relating to communities and small-scale mining; and (b) mineral sector promotion through the establishment of a mineral resource information center in Freetown.

4. Safeguard policies that might apply

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4. Tentative financing

Source:  ($m.)
BORROWER/RECIPIENT  1
INTERNATIONAL DEVELOPMENT ASSOCIATION  6
Total  7

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