

# POLICY BRIEF

## THREE LESSONS FROM THE EBOLA CRISIS FOR SIERRA LEONE'S GOVERNMENT AND INVESTORS

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## **ACKNOWLEDGEMENT**

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## **ABOUT BUDGET ADVOCACY NETWORK**

The Budget Advocacy Network (BAN) is a Network of Civil Society Organisations in Sierra Leone committed to work on budgets and budget policies to enhance policy making and implementation for sustainable and equitable development. BAN was established in 2006. BAN consists of local and international organizations such as the Transparency International (TISL) Campaign for Good Governance (CGG) Network Movement for Justice and Development (NMJD), Western Area Budget Education Network (WABEAN), Actionaid International Sierra Leone (AASISL), Search for Common Ground (SFCG), and Christian Aid (CA).

# INTRODUCTION

The current Ebola crisis has killed or infected thousands of people and caused massive disruptions to peoples' lives and Sierra Leone's economy. This briefing argues that the crisis offers three main lessons to the government and companies working in Sierra Leone.

- The first is that insufficient spending on health has left the country vulnerable to the spread of Ebola.
- The second is that the government is giving away too much revenue in tax incentives to foreign investors that should be spent on promoting the health of the country's people.
- The third is that companies in Sierra Leone receiving those generous tax incentives should now recognise that these are short-sighted and that their own self-interest lies in contributing greater tax revenues and championing better public services.

# THE EBOLA CRISIS

## The human toll

Sierra Leone reported its first case of Ebola in May 2014 and by early August the government declared a state of emergency. By Christmas 2014, there were 7,106 confirmed cases and 2,655 deaths.<sup>1</sup> Possibly several thousand more people are unknowingly harbouring the disease. More women than men have contracted the Ebola since they are the primary caregivers in families, comprise the majority of nurses and because they engage more in informal trading in crowded open markets.<sup>2</sup> The other impact is the as yet unquantified effect on the provision of health care for conditions other than Ebola, which is expected to be substantial.

In his Budget Speech in November 2014, Finance Minister Kaifala Marah said that Ebola was also disrupting health and education projects and halting the implementation of water and sanitation programmes. In particular, it has 'eroded the gains achieved in the country's healthcare services, especially the flagship Free Healthcare Initiative'.<sup>3</sup>

## The economic impact

*'The Ebola crisis weakens the capacity to optimally generate revenues and puts pressure on public expenditures. It reduces revenues through cuts in economic activities and employment and a reduction in tax compliance. It also increases expenditure, especially through awareness raising and sensitisation, logistics and supplies, sanitation and incentives to health workers as well as social protection responses from governments. Arising from the widening gap created between declining revenue and rising expenditures, public debt increases and the ability of these countries to grow out of aid is further weakened'.*

United Nations Development Programme<sup>4</sup>

Ebola is having serious economic impacts:

- Food prices are rising.<sup>5</sup> Farmers are reporting difficulties in finding farm labourers and, in one recent survey, most said that they expect reduced farm yields in 2014. Food production and supply has also been affected by the measures adopted to stem the spread of Ebola, such as the closure of markets and restrictions on travel. The price of rice, the staple food, has risen by up to 30 per cent in Ebola-affected areas, exacerbated by the country's dependence on

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<sup>1</sup> '2014 Ebola Outbreak in West Africa - Case Counts',

<http://www.cdc.gov/vhf/ebola/outbreaks/2014-west-africa/case-counts.html>

<sup>2</sup> Budget Statement by Kaifala Marah, 14 November 2014, p.2, [www.mofed.sl](http://www.mofed.sl)

<sup>3</sup> Budget Statement by Kaifala Marah, 14 November 2014, p.2, [www.mofed.sl](http://www.mofed.sl)

<sup>4</sup> UNDP, 'Ebola virus disease outbreak', *UNDP Africa Policy Note*, 24 October 2014

<sup>5</sup> Budget Statement by Kaifala Marah, 14 November 2014, p.2, [www.mofed.sl](http://www.mofed.sl)

imported rice.<sup>6</sup> In October 2014 a bag of rice which sold for Le130,000 (\$30) before the Ebola outbreak was now selling at Le170,000 (\$40).<sup>7</sup> Rising food prices are likely to increase poverty since the majority of the poor, including farmers, are net buyers (rather than sellers) of food.

- Economic production is stalling. Cocoa and coffee production, which account for 90 per cent of agricultural exports, has stalled due to people abandoning their farms. The mining sector has been disrupted due to repatriation of staff and travel restrictions.<sup>8</sup>
- Government revenues are falling. The government said in the budget speech in November 2014 that domestic revenue collection is expected to fall by Le390 billion (\$90 million) in 2014.<sup>9</sup> This decline in revenues is caused by the closure of businesses, loss of jobs, reductions in sales of goods and services, and restrictions on movement.<sup>10</sup>
- Economic growth is slowing. The government said in November 2014 that economic growth was expected to reduce from the original projection of 11 per cent to 4 per cent due to Ebola.<sup>11</sup>

The costs of responding to Ebola are also massive. By November 2014, the government said that it had contributed Le90 billion (\$21 million) to combat Ebola while donors had pledged to spend \$842 million.<sup>12</sup>

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<sup>6</sup> World Bank, 'The Economic Impact of the 2014 Ebola Epidemic: Short and medium term estimates for Guinea, Liberia and Sierra Leone', September 2014, p.12

<sup>7</sup> Christian Aid, 'Ebola outbreak in Sierra Leone', October 2014, p.1

<sup>8</sup> UNDP, 'Ebola virus disease outbreak', *UNDP Africa Policy Note*, 24 October 2014

<sup>9</sup> Budget Statement by Kaifala Marah, 14 November 2014, p.2, [www.mofed.sl](http://www.mofed.sl). The UNDP gives a figure of \$58 million as the tax shortfall as a result of the Ebola outbreak. UNDP, 'Ebola virus disease outbreak', *UNDP Africa Policy Note*, 24 October 2014

<sup>10</sup> UNDP, 'Ebola virus disease outbreak', *UNDP Africa Policy Note*, 24 October 2014

<sup>11</sup> Budget Statement by Kaifala Marah, 14 November 2014, p.1, [www.mofed.sl](http://www.mofed.sl). The World Bank suggests that growth will reduce from 11.3 per cent to 8 per cent. World Bank, 'The Economic Impact of the 2014 Ebola Epidemic: Short and medium term estimates for Guinea, Liberia and Sierra Leone', September 2014, p.1

<sup>12</sup> Budget Statement by Kaifala Marah, 14 November 2014, p.3, [www.mofed.sl](http://www.mofed.sl). The figure derives from adding up the individual donors commitments.

# THE STATE OF HEALTH IN SIERRA LEONE

There is little doubt that the spread of Ebola has been exacerbated by the poor health infrastructure in Sierra Leone and the existing disease burden. Before the Ebola crisis hit, some 45 per cent of children under 5 were stunted (low height for age) and 1 in 5 were wasted (low weight for age). Moreover, Sierra Leone holds four appalling world records, according to World Bank statistics<sup>13</sup>:

- It has the lowest life expectancy in the world – 45 years for men and 46 for women
- It has the worst infant mortality rate in the world, with 1 in 9 children dying before reaching age 1.
- It has the worst child (under 5) mortality rate in the world, with 1 in 6 children dying before reaching age 5.
- It has the highest maternal mortality rate in the world, with 1 in 91 women dying in labour.

**Table 1: Health statistics**

Life expectancy at birth (male)	45 (2012)
Life expectancy at birth (female)	46 (2012)
Malnutrition prevalence (height for age, children under 5)	44.9 (2010)
Malnutrition prevalence (weight for age, children under 5)	21.1 (2010)
Maternal mortality rate (per 100,000 live births)	1,100 (2013)
Mortality rate for infants (per 1,000 live births)	117 (2012)
Mortality rate for age 5 and under (per 1,000 live births)	182 (2012)
Access to improved sanitation <sup>14</sup>	13% (2012)
Access to improved water	60% (2012)
Births attended by skilled health staff	63% (2010)
Prevalence of HIV/AIDS (age 15-49)	1.5% (2012)

Source: World Bank, <http://data.worldbank.org/indicator/SE.PRM.TCAQ.ZS/countries/MW-ZF-XM?display=default>

There are, however, recent signs of progress in some indicators, with the rates for maternal mortality, infant mortality and child mortality all recording falls from 2010 to

<sup>13</sup> World Bank, <http://data.worldbank.org/indicator/SE.PRM.TCAQ.ZS/countries/MW-ZF-XM?display=default>

<sup>14</sup> Improved sanitation facilities include flush/pour flush (to piped sewer system, septic tank, pit latrine), ventilated improved pit latrine, pit latrine with slab, and composting toilet.

2012.<sup>15</sup> But the health sector in Sierra Leone faced numerous challenges before Ebola. The Agenda for Prosperity (see box) noted, for example, the inadequate health infrastructure, shortage of skilled personnel and weak supervision in the health system, in addition to the country's high disease burden. Sierra Leone suffers in particular from the insufficient prevalence of trained doctors and nurses<sup>16</sup> while the WHO records that the whole country had only 132 community health workers in 2010<sup>17</sup>. In addition, Sierra Leone has suffered, like other African countries, from the flight of trained staff: there are more Sierra Leonean doctors working in OECD countries than in Sierra Leone itself.<sup>18</sup>

#### **Challenges in the health sector outlined in the Agenda for Prosperity<sup>19</sup>**

- Poor health infrastructure including drug and equipment supply
- Inadequate health financing resulting in most health spending being out of pocket
- Low coverage of water and sanitation provision
- High burden of communicable diseases and increasing non communicable diseases
- Shortage of healthcare workers and weak human resource and health sector management

The International Monetary Fund may have contributed to the crisis in Sierra Leone. In its lending Sierra Leone since 1990, the conditions attached to loans have required the government to prioritise debt repayments and reduce domestic spending. This included obligations to not increase the salaries of public sector workers, which has been associated with the emigration of health care workers.<sup>20</sup>

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<sup>15</sup> The maternal mortality has fallen from 1,200 in 2010 to 1,100 in 2012; the infant mortality rate has fallen from 125 in 2009 to 117 in 2012; the under 5 mortality rate has fallen from 198 in 2009 to 182 in 2012. World Bank, <http://data.worldbank.org/indicator/SE.PRM.TCAQ.ZS/countries/MW-ZF-XM?display=default>

<sup>16</sup> There are no up to date figures. Figures from 2006 are that there was an average of 1 doctor for 50,000 people across the country. <http://www.who.int/gho/countries/sle.pdf?ua=1>

<sup>17</sup> <http://apps.who.int/gho/data/view.main.TRADS>, accessed 9 December 2014

<sup>18</sup> Robtel Pailey, '2014 Ebola outbreak exposes large gaps in financing adequate healthcare in West African countries', *Development Viewpoint*, School of Oriental and African Studies, October 2014; OECD, 'International Migration of Health Workers', *Policy Brief*, February 2010, p.5

<sup>19</sup> Government of Sierra Leone, *The Agenda for Prosperity, 2013-2018*, p.66

<sup>20</sup> A.Kentikelenis et al, 'The International Monetary Fund and the Ebola outbreak', *The Lancet Global Health*, 2014, (14), 13–14

# GOVERNMENT POLICY ON HEALTH

The government has signalled its intention to improve health in the country. The Agenda for Prosperity notes that improving the health of the poor, especially women and children, is an investment in economic and social growth and development and a priority for reducing poverty. It adds that research shows that substantially improved health outcomes of a population are a prerequisite for developing countries to break out of the cycle of poverty.<sup>21</sup> The government is committed to providing primary, secondary and tertiary health services, rehabilitating the peripheral health units in rural communities and achieving MDG goals 4 and 5 (reduce child mortality and improve maternal mortality rate) and 6 (combat HIV/AIDS, malaria and other diseases).

Most importantly, the government has put a number of strategies and policies in place to improve health services, notably the National Health Sector Strategic Plan (2010-15) of 2009, the Free Health Care Initiative and the Basic Package of Essential Health Services, the latter both introduced in 2010 and also supported by donors. These policies have had some important impacts:

- In the Free Health Care Initiative, the Government is targeting three categories of vulnerable groups - pregnant women, lactating mothers and children under five – and has abolished healthcare costs for these groups, which has increased the number of people visiting health centres.<sup>22</sup> In the first year of the Initiative, there was a tripling in the number of consultations with children under 5 and a 60 per cent drop in the number of fatalities from maternity complications managed in health facilities.<sup>23</sup>
- The government's Basic Package of Essential Health Services aims to rapidly scale up the provision of health services with a particular aim of reducing maternal and child mortality rates. This has contributed to falls in these rates since 2010, as noted above.
- The Government is also recruiting more medical practitioners, has increased the salaries of health workers in the Ministry of Health and has increased the total workforce in the public health sector from 7,164 in 2009 to 8,125 in 2010, an increase of 13 per cent.<sup>24</sup>

In 2001, Sierra Leone, along with other African governments, committed itself to spend at least 15 per cent of its national budget on health in the World Health Organisation's Abuja Declaration. However, even this goal is not sufficient to adequately address Sierra Leone's health problems. The Government noted in 2010, for example that even

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<sup>21</sup> Government of Sierra Leone, *The Agenda for Prosperity, 2013-2018*, p.65

<sup>22</sup> Health Poverty Action, 'Sierra Leone's Free Healthcare Initiative: Responding to emerging challenges', November 2010, p.1

<sup>23</sup> DFID, 'Evaluation of the impact of the Free Health Care Initiative on maternal and child mortality in Sierra Leone: Business Case', [iati.dfid.gov.uk/iati\\_documents/3782711.doc](http://iati.dfid.gov.uk/iati_documents/3782711.doc)

<sup>24</sup> WHO, 'Analytical Summary',

[http://www.who.int/profiles\\_information/index.php/Sierra\\_Leone:Analytical\\_summary\\_-\\_Health\\_workforce](http://www.who.int/profiles_information/index.php/Sierra_Leone:Analytical_summary_-_Health_workforce)



spending 15 per cent of the budget on health 'will be grossly insufficient to finance the effective implementation' of the Basic Package of Essential Health Services.<sup>25</sup>

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<sup>25</sup> Government of Sierra Leone, Ministry of Health and Sanitation, *Basic Package of Essential Health Services for Sierra Leone*, March 2010, p.15

# THE PROBLEM – LOW HEALTH SPENDING

## Government health spending before Ebola

*'While the countries most affected [by the Ebola outbreak] have been urged in the past to prioritise conventional macro-economic policies of liberalization privatisation and deregulation, they have not been similarly supported to build strong public health systems as a development imperative'. Robtel Pailey, School of Oriental and African Studies, London<sup>26</sup>*

Despite Government commitments to substantially improve health services, and evidence that these commitments have had positive impacts, budget expenditure has still been relatively low. The Government allocated only 6.8 per cent of the national budget to health in 2012 and 7.5 per cent in 2013.<sup>27</sup> Thus before Ebola, the government was only half way towards the 15 per cent Abuja target. The Agenda for Prosperity, drawn up in 2012, states that the Government will 'advocate for the attainment of the Abuja target', but set no timeline for actually reaching it.<sup>28</sup>

According to figures from the WHO, government spending on health – measured per person – was slowly rising in the years before Ebola, from \$8 per person in 2008 to \$16 per person in 2012. However, these figures are somewhat misleading since they are based on government budget allocations not actual spending, which is much lower. For example, in 2012, the government allocated Le 118 billion (\$27 million) to health but spent only Le 64 billion (\$15 million).

**Table 2: Government allocations and spending on health (Billions of Leones)**

2010		2011		2012	
projected	actual	projected	actual	projected	actual
104.4	63.0	134.7	77.7	118.4	64.3

Source: Annexes in Budget Speeches, 2011, 2012 and 2013

Actual spending of Le 64 billion (\$15 million) in 2012 means that the government spent only around \$2.5 per person on health.

<sup>26</sup> Robtel Pailey, '2014 Ebola outbreak exposes large gaps in financing adequate healthcare in West African countries', *Development Viewpoint*, School of Oriental and African Studies, October 2014

<sup>27</sup> *Government Budget and Statement of Economic and Financial Policies for FY 2012*, November 2011, <http://mofed.gov.sl/annualbudgetrep.htm>

<sup>28</sup> Government of Sierra Leone, *The Agenda for Prosperity, 2013-2018*, p.68

## The 2015 budget for health

In the 2015 national budget, announced in late 2014, the government has outlined a budget allocation to health of Le 253 billion (\$58 million). Of this, Le 152.5 billion (\$35 million) is being allocated by the government and Le100.4 billion (\$23 million) by donors. According to the government, this amounts to 9.7 per cent of the government budget.<sup>29</sup> However, it still amounts to only \$9.5 per person per year.

**Table 3: Sierra Leone’s budget allocation to health, 2015**

<b>Total health budget</b>	<b>Le252.9 billion</b> (\$58 million)
<b>Total Government health budget</b>	<b>Le152.5 billion</b> (\$35 million)
Ministry of Health and Sanitation	Le97 billion
<i>Of which:</i>	
<i>Basic and tertiary health services</i>	<i>Le52.0 billion</i>
<i>Contingency fund to combat Ebola</i>	<i>Le 45 billion</i>
National Pharmaceutical Procurement Unit	Le 35.2 billion
Transfers to Local Councils for health services	Le20.3 billion
<b>Total Donor allocations to health</b>	<b>Le100.4 billion</b> (\$23 million)

Sources: Budget Statement by Kaifala Marah, 14 November 2014, p.14, [www.mofed.sl](http://www.mofed.sl); Annual Budget Reports, Government of Sierra Leone Budget Profile for FY 2013-2017, [www.mofed.sl](http://www.mofed.sl)

## Private spending on health

The people of Sierra Leone spend far more themselves on health than the government. According to figures from the World Health Organisation, over 80 per cent of total spending on health in the country is private spending, mainly ‘out of pocket’ expenditure. In 2012, for example, Sierra Leone spent a total of \$96 per capita on health, but of this figure \$80 was spent by people themselves.<sup>30</sup>

## Required spending levels

It is clear that Sierra Leone needs to spend far more on health to meet the country’s health care needs. The National Health Sector Strategic Plan, drawn up in 2009,

<sup>29</sup> Annual Budget Reports, Government of Sierra Leone Budget Profile for FY 2013-2017, [www.mofed.sl](http://www.mofed.sl)

<sup>30</sup> WHO Global Health Expenditure Database, <http://apps.who.int/nha/database>

estimated that Sierra Leone needed to spend \$344 million in 2010 and over \$400 million in subsequent years, to provide health services to its population.<sup>31</sup> These figures are over six times greater than the budget allocation for 2015.

In 2001, the WHO Commission on Health and Macroeconomics recommended that governments should spend a minimum of \$34 per capita per year to provide essential health services.<sup>32</sup> Sierra Leone's 2015 budget allocation – which amounts to \$9.5 per person, even including donor funding – is less than a third of the way towards this target.

### **Weak health infrastructure exacerbates the Ebola crisis**

*'The current Ebola virus disease outbreak in western Africa highlights how an epidemic can proliferate rapidly and pose huge problems in the absence of a strong health system capable of a rapid and integrated response. ... At the time the outbreak began, the capacity of the health systems in Guinea, Liberia and Sierra Leone was limited. Several health-system functions that are generally considered essential were not performing well and this hampered the development of a suitable and timely response to the outbreak. There were inadequate numbers of qualified health workers. Infrastructure, logistics, health information, surveillance, governance and drug supply systems were weak. The organization and management of health services was sub-optimal. Government health expenditure was low whereas private expenditure – mostly in the form of direct out-of-pocket payments for health services – was relatively high.*

*The last decade has seen increased external health-related aid to Guinea, Liberia and Sierra Leone. However, in the context of Millennium Development Goals 4, 5 and 6, most of this aid has been allocated to combat human immunodeficiency virus infection, malaria and tuberculosis, with much of the residual going to maternal and child health services. Therefore, relatively little external aid was left to support overall development of health systems. This lack of balanced investment in the health systems contributes to the challenges of controlling the current Ebola outbreak'*

Bulletin of the World Health Organisation, 2014<sup>33</sup>

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<sup>31</sup> Government of Sierra Leone, Ministry of Health and Sanitation, *National Health Sector Strategic Plan 2010-2015*, November 2009, p.50

<sup>32</sup> WHO, Commission on Macroeconomics and Health. *Macroeconomics and Health: Investing in Health for Economic Development*, Geneva, 2001

<sup>33</sup> Marie-Paule Kieny et al, 'Health-system resilience: reflections on the Ebola crisis in western Africa', *Bulletin of the World Health Organization* 2014, <http://www.who.int/bulletin/volumes/92/12/14-149278/en/>

## THE OTHER PROBLEM - TAX INCENTIVES

While Sierra Leone spends insufficiently on health for its population, vast amounts of money are being given away to foreign companies operating in the country. The government of Sierra Leone has in recent years introduced a range of tax incentives for investors in the agriculture, mining, manufacturing, tourism and infrastructure sectors to attract foreign direct investment into the country. The major incentives provided include exemptions on customs duties, payments of the Goods and Services Tax, and reductions in the rate of income tax payable by corporations.

The revenue losses are staggering.

### Revenue losses in the mining sector

The Budget Advocacy Network's recent report, *Losing Out*<sup>34</sup>, which used figures obtained from the National Revenue Authority, estimated that the government lost revenues from customs duty and Goods and Services Tax exemptions alone worth Le 966.6 billion (\$224 million) in 2012, amounting to an enormous 8.3 per cent of GDP. In 2011, losses were even higher – equivalent to 13.7 per cent of GDP. The annual average over the three years 2010-12 was Le 840.1 billion (\$199 million).

Most of these tax exemptions were granted to foreign mining companies, notably African Minerals and London Mining. There has been a massive rise in revenue losses since 2009 - the result of tax incentives granted to the mining sector in relation to the major investments that took place during 2010-2012, notably concerning the huge imports of capital equipment and petroleum products.

These tax 'expenditures' could instead be spent on improving health services. Yet in 2011 the government spent more on tax incentives than on all its development priorities (agriculture, roads, health, education, energy, water and transport), and in 2012 spent nearly as much on tax incentives as on its development priorities. In 2012, tax expenditure amounted to an astonishing 59 per cent of the entire government budget, and **over 8 times the health budget**.

### Revenue losses in the agriculture sector

The government is also offering all agribusiness investors time-limited exemptions on corporate income tax payments and some import duties. But it has gone even further, giving individual foreign investors special tax deals which offer them still more concessions. For example:

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<sup>34</sup> Budget Advocacy Network, *Losing Out: Sierra Leone's massive revenue losses from tax incentives*, April 2014

- Addax Bioenergy Sierra Leone Ltd, which is establishing a sugarcane plantation, has been given a corporate income tax exemption for 13 years, reductions in withholding tax and the ability to write off some other expenditure against tax.
- Socfin, a Luxembourg-based company which is establishing an oil palm plantation, has been given (slightly different) extended reductions in corporate income tax, withholding tax and import duties.
- Goldtree, which is also establishing an oil palm plantation, has been given special deals on withholding taxes.

Researchers working for Sierra Leone's Action for Large-Scale Land Acquisition Transparency recently calculated that the tax revenue losses to the country from the deals signed with these three companies concerning three taxes alone (corporate income tax, import duties and withholding taxes) amount to \$188.1 million or \$18.8 million a year over a ten-year period. The latter figure amounts to **over half the government's spending on health in 2015**.

## Company responsibilities

A key question is whether tax incentives are needed to attract foreign investment. A report by the African Department of the IMF, focusing on tax incentives in East Africa, notes that 'investment incentives – particularly tax incentives – are not an important factor in attracting foreign investment'.<sup>35</sup> The report argues that countries that have been most successful in attracting foreign investors have not offered large tax or other incentives and that providing such incentives was not sufficient to attract large foreign investment if other conditions were not in place. It also notes that in 'specific circumstances, well-targeted investment incentives could be a factor affecting investment decisions' but that 'in the end, investment incentives seldom appear to be the most important factor in investment decisions'.<sup>36</sup> This conclusion is supported by a large body of literature showing that more important factors in attracting foreign investment are good quality infrastructure, low administrative costs of setting up and running businesses, political stability and predictable macro-economic policy.<sup>37</sup>

Two of Sierra Leone's major mining companies in receipt of recent large tax incentives - African Minerals and London Mining – are both in major financial trouble. London Mining went into administration in October 2014 and its Marampa iron ore mine was bought by the Timis Corporation.<sup>38</sup> African Minerals, which is also owned by the Timis Corporation, has also suspended production at its Tonkolili iron mine.<sup>39</sup> Both companies

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<sup>35</sup> IMF, *Kenya, Uganda and United Republic of Tanzania: Selected Issues*, 1 December 2006, p.11

<sup>36</sup> IMF, *Kenya, Uganda and United Republic of Tanzania: Selected Issues*, 1 December 2006, p.11

<sup>37</sup> See, for example, IMF, OECD, UN and World Bank, *Supporting the Development of More Effective Tax Systems*, Report to the G-20 Development Working Group, 2011; IMF, *Kenya, Uganda and United Republic of Tanzania: Selected Issues*, 1 December 2006; Bethuel Kinuthia, 'Determinants of Foreign Direct Investment in Kenya: New Evidence', University of Nairobi, August 2010

<sup>38</sup> <http://www.londonmining.com/media/corporate-press-releases/2014/11/03/london-mining-plc-in-administration-update-2-%281%29/>, accessed 9 December 2014

<sup>39</sup> <http://www.african-minerals.com/media/press-releases/financing-and-operations-update>, accessed 9 December 2014

have suffered as a result of the dramatic fall in iron ore prices, which plummeted to five-year lows in September 2014, from around \$100 per tonne to around \$80<sup>40</sup>, making their operations uneconomic. Thus ordinary Sierra Leoneans have lost out twice over – first by the massive tax incentives granted to these two companies and second by their closure of operations as a result of the world price falls.

Some might argue that this experience shows that the tax incentives were necessary for the mining companies to have a chance of operating profitably. Yet this is not clear since mining company financing tends to be shrouded in secrecy in Sierra Leone, and tax incentives are granted in an untransparent manner. The real blow to the companies is from the fall in iron ore prices and Ebola. For example:

- In June 2014, share prices in London Mining and African Minerals tumbled in London after the companies said they were imposing measures to protect staff and operations in Sierra Leone from Ebola: share prices in London Mining declined 14 per cent, the lowest since it first sold shares in 2009, and African Minerals dropped 8 per cent to its lowest level since 2009.<sup>41</sup>
- In August 2014, before it was forced into administration, London Mining was reporting lower than expected production and increased production costs due to the impact of Ebola.<sup>42</sup>
- After London Mining announced it was going into administration, one of the investors in the company, BlackRock, said that London Mining had been hit with a 'confluence of events that happened incredibly quickly'. It pointed to the 40 per cent fall in the iron ore price over the year, London Mining's failure to ramp up operations quickly enough, and the spread of the Ebola virus, which hampered the company's attempts to find an investor.<sup>43</sup>

Indeed, mining companies across West Africa have also reported restrictions on travel of their staff and the evacuation of expatriate staff as a result of Ebola. Oil company Canadian Overseas Petroleum announced a delay in drilling in August 2014 while Arcelor Mittal announced the suspension of work at its iron mine in Liberia.<sup>44</sup>

It is not only mining companies which are receiving such tax incentives in Sierra Leone but investors across many other sectors. The Ebola crisis should make them think again about where their self-interest really lies. The result of using potential revenues for tax

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<sup>40</sup> <http://www.indexmundi.com/commodities/?commodity=iron-ore>, accessed 9 December 2014

<sup>41</sup> Thomas Biesheuvel and Jesse Riseborough, 'London Mining, African Minerals Drop on Sierra Leonean Ebola', 3 June 2014, <http://www.bloomberg.com/news/2014-06-03/london-mining-african-minerals-decline-on-ebola-in-sierra-leone.html>

<sup>42</sup> London Mining, 'Financial results for the half year ended 30 June 2014', <http://www.londonmining.com/media/corporate-press-releases/2014/08/21/financial-results-for-the-half-year-ended-30-june-2014/>, accessed 10 December 2014

<sup>43</sup> Frik Els, 'BlackRock blames Ebola for London Mining mess', 15 October 2014, <http://www.mining.com/blackrock-blames-ebola-for-london-mining-mess-83284/>

<sup>44</sup> Cecilia Jamasmie, 'West Africa Ebola outbreak forces miners to lock down operations, delay projects', 10 August 2014, <http://www.mining.com/west-africa-ebola-outbreak-forces-miners-to-lock-down-operations-delay-projects-69246/>

incentives rather than for public investments has exacerbated Sierra Leone's unpreparedness for, and vulnerability to, Ebola. This has impacted on all Sierra Leonean people and companies.



## RECOMMENDATIONS

The Budget Advocacy Network believes that the Government should comprehensively review its policy on tax incentives with a view to radically reducing them and at the same time significantly increase expenditure on health. In addition, it should:

- Ensure that it implements, and is held to account for, the commitments made on health in the Agenda for Prosperity (see box)

### **Government commitments on health in the Agenda for Prosperity**

These are laid out on pages 66-9 of the document and include:

- Reducing high infant, under-five and maternal mortality
  - Providing nutrition services
  - Strengthening mental health programmes
  - Strengthening health services for the physically-challenged
  - Accelerating the provision of water and sanitation services
  - Preventing and controlling communicable and non-communicable diseases
  - Improving human resources for quality health care delivery
  - Improving the availability of drugs and medical technology supply
  - Strengthening health sector governance for quality health care delivery
  - Strengthening health care financing
  - Strengthening monitoring and supervision through health care information management
  - Strengthening infrastructural development for service delivery
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- Ensure that it meets the 15 per cent Abuja commitment on health spending and sets a timetable for doing so
  - Ensure the universal provision of essential services
  - Finance the health budget adequately and not resort to imposing user fees
  - Establish a comprehensive data/information system, including monitoring health inequity and the social determinants of health, to guide decision-making towards more effective policies, systems and programmes for improved health delivery.
  - Ensure that there is equitable distribution of health resources across the country, with priority given to under-served areas