

MINING REVENUE AS A SOURCE OF FUNDING OF UNIVERSAL HEALTH COVERAGE IN SENEGAL

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A collective project carried out by researchers affiliated to Cheikh Anta Diop University, Dakar, (UCAD), to Assane Seck University, Ziguinchor (UASZ), and to the Centre interdisciplinaire de recherche en développement international et société (CIRDIS) at the Université du Québec à Montréal.

ABSTRACT

This Policy Brief demonstrates the considerable potential of the Senegalese mining sector for funding public services using the example of an intergenerational investment: Universal Health Coverage (UHC). In 2019, if half of the budgetary income from the mining sector had been allocated to the financing of health, it could have provided funding for all of Senegal's free health care initiatives for up to five years: free health care for children under five years and people 60 years of age or older, free of charge caesarean sections and free dialysis for the entire population. However, the lack of transparency in mining revenue allocation, the absence of a mining policy focusing on national development objectives and the persistence of regulatory and fiscal frameworks favourable to extractive companies are but some of the obstacles standing in the way of mobilising mining revenues to finance the health sector. This Policy Brief concludes with a series of recommendations that include revising the fiscal regime, improving mining sector governance, and harmonising government interventions.

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WHAT ARE THE ISSUES?

Mining (gold, phosphate, zinc) is an economic pillar in Senegal, but it is proving difficult to extend the sector's economic benefits to the population. The regulatory frameworks for the mining sector that have prevailed until now are based on a sectorial approach with few links to the economy and weak socioeconomic development goals.¹

In recent years, the government has sought to redefine its approach and to harmonise it with the Africa Mining Vision (AMV), as well as the provisions of the Economic Community of West African States (ECOWAS) and those of the West African Economic and Monetary Union (WAEMU). This alignment led to the drafting of a Sectoral Development Policy Letter (SDPL) and the revision of the mining code in 2016. As outlined in the Plan for an Emerging Senegal 2035 (*Plan Sénégal Émergent à l'horizon 2035*), the mining sector has a decisive role to play in public policies of national development.

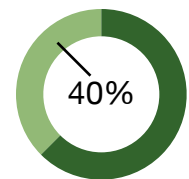
In this context of reform, it is useful to reflect on the developmental role that this sector could play. The links between the mining sector and development are generally considered through the prism of *maximising revenues* and synergies with other economic sectors.

The issue of the allocation and redistribution of these revenues is just as fundamental to optimise the contribution of the mining sector to the country's development.

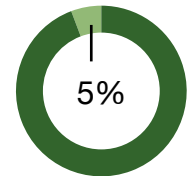
Using a case study approach that sought to be illustrative rather than prescriptive, this research programme assessed the potential of the Senegalese mining sector for funding public services using the example of UHC. The current pandemic highlights the necessity of having resilient health systems in place and emphasises the importance of funding the health sector.²

Extractive sector contribution to the national economy in 2019

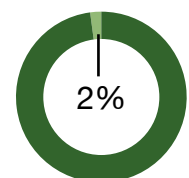
Contribution to exports



Contribution to state revenues



Contribution to GDP



Source : EITI, 2019
Senegal report

UHC is at the heart of the Plan for an Emerging Senegal, which was adopted in 2014. The following year, the government created the Universal Health Coverage Agency (*Agence de la Couverture Maladie Universelle* – hereafter CMU Agency) to oversee its implementation. Its objective is to increase access to medical risk coverage for the most vulnerable populations, i.e., those not covered by other social security regimes, through the development of health mutuals and four free care policies (people 60 years of age or older, children under five years, caesarean sections, and dialysis). Despite this strong political will, more than half of the Senegalese population still does not have access to any health coverage.³

In Senegal, health care is primarily funded by households (56 per cent). In comparison, the government only pays for a quarter of health expenditure. These sums account for a marginal portion of government spending (4 per cent), which is significantly less than the 15 per cent of the national budget it agreed to allocate to the health sector when it signed the Abuja Declaration in 2001. The remaining financing is provided by external sources (14 per cent) and private insurance plans (5 per cent).⁴ In light of the free care initiatives managed by the CMU Agency, health expenditure will increase more rapidly than state revenues, raising questions about the sustainability of the method of funding. It appears increasingly necessary to find innovative financing strategies and the use of mining revenues is a promising route to explore.

THE RESEARCH PROJECT

Funded by the Social Sciences and Humanities Research Council (SSHRC), the objective of the **Access to Health Care, Mining Resources and Public Policies in Senegal** (*Accès à la santé, ressources minières et politiques publiques au Sénégal*) project was to identify the challenges of mobilising mining revenues and their funding potential for UHC. While the study focused on a specific public policy, it does not in any way advocate for the prioritization of certain objectives or political instruments, nor does it recommend that additional financing from mining revenues be awarded to health care as opposed to other sectors such as education and agriculture. Rather it sought to identify the best strategies and contexts to mobilise additional resources and maximise the developmental contribution of the mining sector using the example of the mining/health nexus.

The research project took place between December 2017 and May 2021. It involved two teams of researchers affiliated with Assane Seck University of Ziguinchor (health) and Cheikh Anta Diop University of Dakar (mines) who worked in conjunction with international researchers specialised in public policies in the health and the mining sectors. The study is based on three research methods:

1. Conducting a literature review of the mining revenue mobilisation strategies implemented by other sub-Saharan African countries;
2. Studying the regulatory and institutional frameworks of Senegal's mining and health sectors;
3. Conducting 45 interviews (25 for the mining sector and 20 for the health sector) in Dakar and the Kédougou region with:
 - Representatives of government (mining, health and finance) and the public administration;
 - Decentralised authorities (mayors, municipal councillors);
 - Representatives of non-governmental organisations and civil society;
 - Agents from the CMU Agency;
 - Managers of mutuals;
 - Representatives of technical and financial partners (TFP);
 - Researchers who specialise in these sectors.

MAIN FINDINGS

1. The National Health Financing Strategy (*Stratégie Nationale de Financement de la Santé* - hereafter SNFS), which was adopted in 2017, clearly expresses the political will to promote the mobilisation of additional financial resources to fund UHC in Senegal, notably through the extractive sector.⁵

- The fourth strategic orientation of the SNFS has as its objective an increased mobilisation of financial resources, notably through a substantial increase of the state's contribution (to reach the objective of 15 per cent of the national budget, pursuant to the Abuja Declaration) and the development of innovative financing strategies.
- The SNFS provides for the creation of a National Health Sector Support Fund (*Fonds National de Soutien au secteur de la Santé*) to be funded by revenues from mineral wealth.

2. Mining revenue from a single year would constitute a significant source of financing for free health care initiatives.

- According to official sources, mining revenue contributed 127.14 billion CFA francs to the national budget in 2019.⁶
- By comparison, between 2015 and 2020, the cost of free UHC initiatives totalled 52.9 billion CFA francs.⁷
- This means that 40 per cent of mining revenue from the 2019 national budget could have funded all the free health care initiatives for five years, including: caesarean sections, dialysis, Plan Sésame (free health care for seniors 60 years of age or older) and health care for children under five years of age.
- This theoretical scenario shows the sector's considerable potential for funding UHC, while underlining at the same time that mining revenue could also be increased.

3. UHC funding through mining revenue has yet to materialise

- The health care funding potential of mineral resources is undeniable, but the main issue is how to reconcile mining companies' strategies, which are usually short term and typically concern nearby communities, with UHC objectives, which are medium and long term and focus on equality and social integration.
- The prevailing approach to using mining revenue for health care funding is based on transfers from mining companies to local communities. This approach is not optimal as such contributions are time limited, make the populations' access to health dependent on the presence and vitality of mining activities, and do not necessarily correspond to the health sector's public policy orientations as defined by the State.

What are the challenges to mobilising mining revenue for funding UHC?

4. Poor transparency and lack of guiding principles in the allocation and redistribution of mining revenue

- Since joining the Extractive Industries Transparency Initiative (EITI), Senegal has made significant progress with regard to the traceability of mining revenue. However, transparency in the allocation and redistribution of these revenues remains a problem. Because the majority of revenues are attributed to the national budget, it is impossible to know if and how these funds are used as public expenditure and investments. There is currently no guiding principle on how to use these revenues.
- As health falls under the jurisdiction of local authorities, redistribution mechanisms for mining revenues could have been a reliable source of financing. However, the Equalization and Support for Local Communities Fund (*Fonds de Péréquation et d'Appui aux Collectivités Locales*), which provides for the redistribution of 20 per cent of mining revenues to local authorities) has not yet come into effect and its redistribution criteria do not guarantee regional fairness.

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- For its part, the Local Development Support Fund (*Fonds d'Appui au Développement Local*, which provides that 0.5 per cent of the turnover of mining companies be allocated to the local authority where operations take place) is not yet effective. The terms relating to the financing and use of this fund are unknown to local governments due to the fact that certain mining contracts signed by the State are not available on the EITI Senegal platform. Such agreements are not all available to the public and local authorities are usually excluded from the negotiation process.

5. Lack of a policy or mining governance tailored to national development objectives

- The experts consulted and the Network of Parliamentarians for Good Governance of Mineral Resources (*Réseau des parlementaires pour la bonne gouvernance des ressources minérales*), regret the fact that there is no mining policy with a long-term vision incorporating fiscal, environmental, and developmental dimensions.
- The spaces for intersectorial and interministerial consultation which exist (ex: the Technical Committee Charged with Environmental Evaluations, *Comité technique sur les évaluations environnementales*) are not fully functional. Moreover, they do not provide a sufficient place for the health sector. This limits dialogue between ministries and the emergence of a shared global vision on the potential role of the mining sector in development, notably to finance health.

6. Precedence of highly attractive fiscal regulatory frameworks that deprive the state of significant sources of revenue

- Even though the 2016 Mining Code increases mining royalties and removes several fiscal exemptions that previous codes granted mining companies, the latter are still exempt from customs duties during the research and investment phases.

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- Because the 2016 Mining Code does not contain a retroactivity clause, the scope of the fiscal reforms is considerably limited. Out of 25 operating permits, only one is subject to the provisions of the 2016 code and some permits regulated by the 1988 code have a validity period that extends until 2060.⁸
 - The 2016 Mining Code guarantees a stable fiscal and customs regime to companies for up to 12 years. While this duration is less than what previous codes offered (up to 30 years), it remains generous. According to the International Monetary Fund, gold mining operations generally provide a return on investment relatively early in the mine life cycle, averaging five years after the beginning of activities.⁹

RECOMMENDATIONS

1. Revise the fiscal regime to maximise mining revenues

A. Revise stability clauses

- Retroactively reduce the stability period provided by the 2016 Mining Code of all other mining contracts.
- Determine the duration of fiscal stability on the basis of the duration of the mine operator's investment allowances.
- The size of the fiscal advantages which will accrue to the State will depend on the formula which is selected but this measure will without a shadow of doubt have very positive and lasting implications for maximizing fiscal revenue.

B. Favour a fiscal regime regulating mining activities as a whole rather than specific fiscal arrangements defined in bilateral agreements with mining companies

- In the longer term, limit exploration and exploitation provisions that are open to negotiations with mining companies and defined by bilateral agreements, particularly with regard to the fiscal regime that regulates them. This recommendation would simplify regulatory frameworks, increase the predictability of mining revenue, and guarantee greater transparency with regard to the conditions under which mining activities are undertaken.

2. Implement more inclusive and transparent governance to manage the redistribution of mining revenue

A. Include legislative bodies and local authorities in decision-making processes

- Give greater authority to the National Assembly (ex: Network of Parliamentarians for Good Governance of Mineral Resources) in decision-making processes concerning mining operations and mining revenue management.
- Include the authorities which have jurisdiction over the territory where mining operations take place in negotiations with mining companies, particularly regarding the use made of the Local Development Support Fund.
- Encourage those in charge of the local development plan to focus on funding of health and align Corporate Social Responsibility (CSR) initiatives with public health policy objectives for which the CMU Agency is responsible.

B. Publish mining contracts and disclose payment flows for each mining project

- Comply with the 2020 plan to publish mining contracts and make as of yet unpublished mining contracts available to the public.
- Implement a mechanism for the disclosure of payment flows for each mining project in order to monitor the amounts provided by companies to the State and local authorities via the Equalization and Support for Local Communities Fund and the Local Development Support Fund.
- Implement a mechanism to monitor the use of funds transferred to local communities.

C. Define guiding principles for the use of mining revenue from the national budget and implement a transparent management system

- As exists in Botswana, guiding principles for mining revenue management should be established so that revenues are reinvested and converted into human, social and economic capital, taking intergenerational equity into account.¹⁰ This would require the creation of a tool to trace the allocation of these revenues by the State and to monitor their use.

Botswana's Sustainable Budget Index (SBI)

SBI consists in using mining revenue to cover investment expenditure and recurring (i.e., non-mining) revenues to finance recurring expenditure. As health and education spending is a human capital investment, it is funded by mining revenue. From 1983 to 2016, 87 per cent of mining revenue was used for physical and human capital investments. However, one of the shortcomings of Botswana's approach is that only a small portion of mining revenue is allocated to savings which, given the finite nature of mineral resources, undermines intergenerational equity and makes public services vulnerable to mineral prices.

Source: African Natural Resources Center and The African Development Bank (2016), *Botswana's Mineral Revenues Expenditure and Savings Policy*.

3. Harmonise government interventions

A. Adopt a mining policy which has as its objective reaching the development goals of the SDPL

- In concertation with the legislative bodies, draft a mining policy which will succeed the 2017-2023 SDPL and which will innovate compared to the latter by promoting an inclusive approach (synergies between different economic sectors) and by defining principles and conditions for the mobilisation and allocation of mining revenues.

B. Encourage interministerial initiatives involving the mining and health sectors

- Reinforce the capabilities of existing interministerial initiatives, notably in the area of the environment, in order that they be fully functional and encourage a more concerted management of the mining sector.
- As well, because these initiatives do not concern the health sector, create a working group with members of the ministries concerned (mines, health, finance, territorial authorities), researchers and civil society actors to identify funding priorities for the health sector and financing mechanisms to manage funds from the mining sector. For example, such a group

could study the potential of introducing a special tax (such as the one on cement) to fund programs managed by the CMU Agency.

C. Create the National Health Sector Support Fund

- As called for in the SNFS, create the National Health Sector Support Fund which could be funded by some of the mining revenue allocated to the national budget.
- The involvement of civil society organisations which favour mobilising mining revenue to fund UHC could be a way to overcome barriers among actors. Such organisations could contribute to determining the ways in which the National Health Sector Support Fund could be articulated with the Equalization and Support for Local Communities Fund to ensure as equal a distribution as possible of revenues stemming from mining and improved management of mineral resources.

CONCLUSION

Senegal has abundant mineral reserves but, because of their non-renewable nature, the management of public revenue from the mining sector should be steered by guiding principles to ensure that these revenues are reinvested and converted into human, social and economic capital. The mining sector represents a unique opportunity for domestic and sustainable UHC funding that would reduce health care spending for households and dependence on external financing sources.

This Policy Brief therefore proposes a change in perspective in public policy orientations to articulate the objective of mining revenue maximisation, as set out in the 2016 Mining Code, with the financing requirements of key public services.

Its aim is in line with the Plan for an Emerging Senegal 2035 in promoting a bold vision in favour of transformative change to speed up Senegal's progress towards achieving its sustainable development goals and universal health.

NOTES

1 The current study focuses solely on the industrial mining sector.

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3 Agence de la Couverture Maladie Universelle, <https://agencecmu.sn/> (accessed August 25, 2021).

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