SIERRA LEONE

2014

Jamal Zayid / j.zayid@afdb.org

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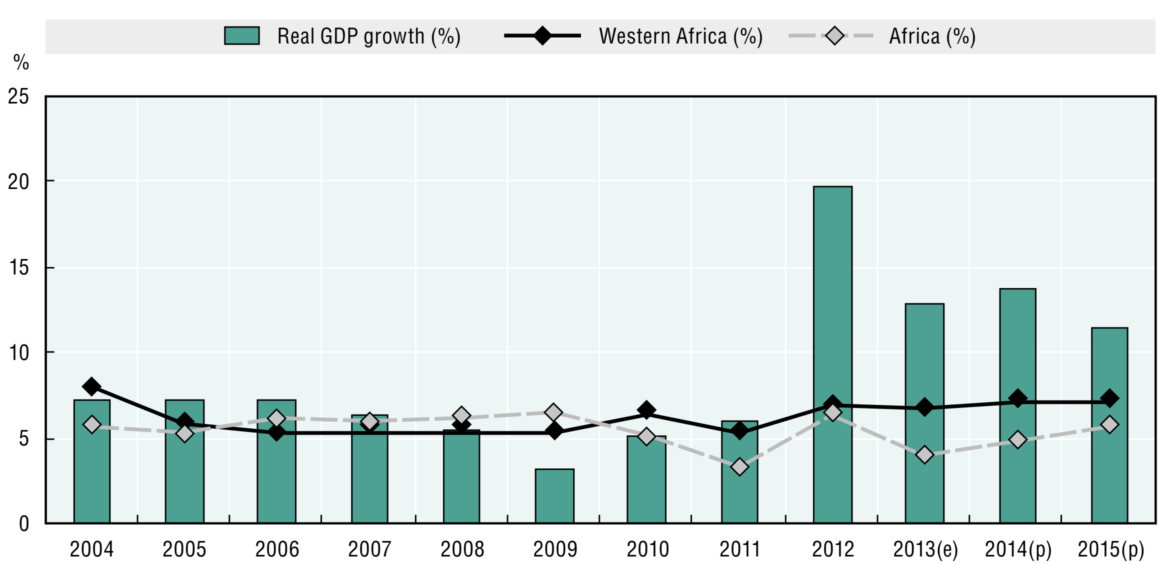
- **The outlook for the Sierra Leone economy remains positive in the current and medium terms, with sustained economic growth, falling inflation and improved fiscal and external positions.**
- **Sustaining the gains achieved requires enhanced service delivery and job creation.**
- **The policy focus needs to be on achieving inclusive growth through accelerated human development and good governance.**

Overview

The authorities in Sierra Leone have made reasonable progress since the end of the civil conflict in 2002, albeit under challenging economic and social conditions. The economy continues to record impressive growth rates; domestic revenue is gradually improving despite the historically low revenue effort; the deficit has been falling as a share of GDP; inflationary pressures are trending down, following a surge that had been reinforced by the global crises. Despite increased external borrowing to finance infrastructure projects, Sierra Leone's risk of debt distress remains moderate, amidst recent fiscal consolidation. The external position is also (marginally) improving following a surge in export of minerals and a growing volume of cash crops. The exchange rate is market determined and has remained relatively stable over the past few years. The socio-political situation continues to remain peaceful and social indicators are steadily improving, as poverty headcount and inequality generally declined. The outlook for the economy in the medium term is favourable with sustained economic growth, low inflation, and improved fiscal and external positions. Real GDP growth is projected in the double digits for 2014 at 13.8% and is estimated at 16.3% for 2013. This will follow from continued increases in iron-ore production and export, increased productivity in non-mineral sectors, especially agriculture and construction, and continued public investment.

The authorities will face some economic and social challenges mainly in the governance area. They need to sustain economic growth and entrench macroeconomic stability, create jobs and improve social indicators, support private sector development, develop social policies and enhance programmes designed to protect the most vulnerable segments of society and, above all, continue the fight against corruption.

Figure 1. **Real GDP growth**



Source: AfDB, Statistics Department AEO. Estimates (e); projections (p).

Table 1. **Macroeconomic indicators**

	2012	2013(e)	2014(p)	2015(p)
Real GDP growth	15.2	16.3	13.8	11.6
Real GDP per capita growth	16.9	10.2	11.0	8.8
CPI inflation	13.7	9.9	8.0	6.6
Budget balance % GDP	-5.6	-2.1	-4.6	-4.1
Current account balance % GDP	-39.4	-17.2	-11.2	-15.9

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Recent developments and prospects

Sierra Leone has recently shown strong macroeconomic fundamentals including an accelerated economic growth, declining inflationary pressures, stable exchange rate, sustainable public-debt level and improved current account position.

The shift in the composition of principal drivers of growth – away from activities in agriculture, construction, manufacturing and services sectors to an iron ore led-growth – has characterised developments in recent years. Prior to the commencement of iron-ore mining and export, growth rates, driven by increased activities in agriculture, construction, manufacturing and services sectors, averaged 5.7% per annum during 2010-12.

However, as two large mining projects commenced iron-ore production and export, real GDP grew by an impressive 15.2% in 2012, reflecting increased iron-ore production, from 137 000 tons in 2011 to 6.6 million tons in 2012. Real GDP growth for 2013 is estimated at 16.3%.

In agriculture, growth has been sustained since 2010 with the introduction of the government- and donor-supported Small Holder Commercialization Program (SHCP), which provides smallholder farmers with improved inputs, tractors and processing equipment, and also encourages them to work under organised Agriculture Business Centers (ABCs). Nearly 500 farmer-based organisations and around 300 ABCs are now in place. Over 4 000 inland valley swamps were rehabilitated between 2008 and 2012. Thousands of kilometres of feeder roads now link ABCs to production centres and markets. As of end-June 2013, over 1 350 km of feeder roads had been completed to support agricultural production. With support from development partners, around 60 Financial Services Associations and 20 community banks have been established throughout the country to help with financial intermediation.

Building on this recent progress, the government needs to reduce poverty and create job opportunities through sustained and inclusive growth guided by the implementation of the new PRS, the *Agenda for Prosperity* (A4P 2013-2018). Under the A4P, it is realised, understandably, that economic growth is of fundamental importance for poverty reduction and that growth-promoting policies must be environmentally, socially and economically sustainable. Moreover, it highlights the importance of effective management of natural resources as the key to unlocking wide-ranging environmental and socio-economic opportunities for the country. It is very important that the government implement the A4P steadfastly. Although plans and agenda are important in their own right, what really matters is implementation

The overall picture of the major exports appears to be upscale. Projected exports will be driven largely by increased output in mining and agriculture. Preliminary modeling by the government and IMF indicates that iron-ore mining sector could generate an NPV of USD 9 billion in the next 20 years. Turning to imports, there is growing evidence that imports would moderate over the medium term because of a slowdown and shift from the iron-ore-investment-led driven imports to production phase by the two large-scale iron projects of African Minerals and London Mining. Import drivers will be mainly consumer and intermediary goods, fuel and lubricants and less of machinery, plant and equipment.

The outlook for Sierra Leone's economy is good in the medium term, with sustained economic growth, low inflation and improved fiscal and external positions. The economy is expected to grow in double digits during 2013-15. Excluding iron ore, real GDP is expected to increase by an average of 6% annually over the medium term, with output expanding across all major sectors. As mentioned earlier, inflation is estimated to have returned to single digits by the end of 2013 and remain at that level in the medium term. The current account is expected to improve further as exports of, especially, minerals and agricultural produce increase while imports stabilise. The exchange rate of the Leone to international currencies will remain stable, and public debt will remain sustainable in the medium term as exports increase and domestic output expands.

The main downside risks to Sierra Leone's economic outlook are the continued sluggish global economic recovery and negative shocks in international markets for minerals, which may adversely affect domestic output, exports and public finances. Governance and corruption are important issues as well.

Table 2. **GDP by sector (percentage)**

	2008	2013
Agriculture, hunting, forestry, fishing	56.3	52.7
of which fishing	8.9	10.2
Mining	3.7	11.6
of which oil		
Manufacturing	2.6	2.1
Electricity, gas and water	0.2	0.2
Construction	1.7	1.3
Wholesale and retail trade, hotels and restaurants	9.2	9.1
of which hotels and restaurants	0.4	0.4
Transport, storage and communication	6.7	4.6
Finance, real estate and business services	7.9	6.6
Public administration, education, health and social work, community, social and personal services	3.6	4.9
Other services	8.0	6.9
Gross domestic product at basic prices / factor cost	**100.0**	**100.0**

Source: Data from domestic authorities.

Macroeconomic policy

Fiscal policy

The authorities have implemented a restrictive fiscal policy during the past two years, preceded by a post-recovery expansionary fiscal policy. Hence, the overall deficit widened to -5.6% of GDP in 2012 from -3.1% of GDP in 2011 but it improved to -2.1% in 2013 despite infrastructure spending. It is projected at -4.6% in 2014 and -4.1 in 2015.

Domestic revenue performance has been good over the last couple of years, reflecting largely the mutually reinforcing revenue enhancement reforms and measures implemented by the authorities. Its performance for the first half of 2013 indicated an increase to 6.4% of GDP from 5.5% of GDP for the same period in 2012. The increase in revenue-to-GDP ratio from around 10% of GDP in 2009 to about an estimated 13% of GDP in 2013 was in part attributed to tax policy reforms. Notable among those reforms was the introduction of the Goods and Services Tax (GST) in early 2009 to broaden the tax base[1].

In addition to monitoring of revenue collection and tax compliance through weekly Cash Management Committee meetings, the authorities have taken steps to streamline and develop a policy guideline on duty waivers, including a legislative ceiling of 3% of GDP annually.

On expenditure, the authorities adopted a tight fiscal envelope in recent years, as gains on revenue performance remain very limited. The rate of expenditure expansion in the past two years has declined and shifted in favour of capital spending, scaling up government investment in roads, electricity and water supply to support sustainable economic growth and poverty reduction.

In the medium term, domestic revenue is projected to change from 12.5% of GDP in 2014 to 12.2% of GDP in 2015. Government expenditures will continue to be re-oriented towards capital investments. Total expenditure will average over 20% of GDP and capital expenditure will marginally increase from 8.1% of GDP in 2012 to 8.3% of GDP in 2015. Given there has been no legislation or policy indicating a fiscal rule guiding the management of revenues from natural resources, the authorities are preparing a public financial management (PFM) bill to adopt a fiscal rule based on a non-resource fiscal balance.

Table 3. **Public finances (percentage of GDP)**

	2005	2010	2011	2012	2013(e)	2014(p)	2015(p)
Total revenue and grants	**16.3**	**16.7**	**17.8**	**13.8**	**13.1**	**12.5**	**12.2**
Tax revenue	8.3	9.9	11.8	11.3	9.9	9.1	8.8
Grants	7.5	5.5	5.8	2.3	3.0	3.2	3.1
Total expenditure and net lending (a)	**17.6**	**20.7**	**20.9**	**15.2**	**13.1**	**11.7**	**11.1**
Current expenditure	13.2	12.7	11.5	10.9	9.2	8.0	7.2
Excluding interest	10.5	11.1	9.5	9.1	7.5	6.3	5.7
Wages and salaries	4.9	5.4	5.6	5.8	4.8	4.0	3.6
Interest	2.7	1.6	2.1	1.7	1.7	1.7	1.5
Capital expenditure	4.4	8.0	9.4	4.3	3.9	3.6	3.9
Primary balance	**1.4**	**-2.4**	**-1.1**	**0.4**	**1.7**	**2.6**	**2.6**
Overall balance	**-1.3**	**-4.0**	**-3.1**	**-5.6**	**-2.1**	**-4.6**	**-4.1**

Note: a. Only major items are reported.
Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Monetary policy

The proactive monetary policy witnessed in 2012 focusing on price and financial stability, remained in force through 2013. The surging inflationary pressures recorded during 2010 and 2011, as accelerated by the global food, fuel and financial crises, and a one-time effect of the introduction of the Goods and Services Tax (GST) in 2010 started to decline in 2012, continuing in 2013, amidst stable exchange rates, increased domestic food supply and proactive monetary policy. The inflation rate declined from 13.7% in 2012 to 9.9% in 2013 and is projected to continue the trajectory at 8% in 2014 and 6.6% in 2015.

Broad money (M2) which accelerated by 23.1% in 2012 is anticipated to decelerate to 14.8% in 2013. Private sector credit growth accelerated in 2013, following a crowding out in 2012 due to considerably higher government borrowing from commercial banks in the securities market. Interest rates remained relatively stable in much of 2012. While the average rate on savings stood at 6.5% and lending rates around 20-30%, the one-year Treasury bond and 91-day Treasury bill rates remained unchanged at around 20 and 23%, respectively for much of the year. However, these two latter rates have dropped significantly to single digits during 2013 due to the drastic hold up in government borrowing from the securities market. During 2013, the Monetary Policy Committee (MPC) reduced the monetary policy rate (MPR) on two occasions so as to benchmark it with lower interest rates in the government securities market.

The Leone remains market determined. It depreciated severely in 2009 as a result of the adverse effect of the global financial crisis on mineral exports, but regained its strength in 2010 and stayed relatively stable until now (although it slightly depreciated by 8% in 2010 and 4% in

2011). This was on account of increased FDI inflows associated with the new iron-ore projects, and a rise in especially iron-export receipts and inward remittances. Given the potential associated with the significant rise in iron-ore exports, Sierra Leone needs to take caution against the so-called Dutch disease phenomenon.

Economic co-operation, regional integration and trade

Total export receipts increased by 56.9% from USD 1 065.47 million in 2012, reflecting improvement in earnings from mineral exports, namely diamonds, rutile and iron ore together with the huge jump in earnings from other exports. Comparing the first halves of 2013 and 2012, export grew by 68%. The country's major trading partners include China, India, the United Kingdom, the United States, South Africa and Belgium.

The trade balance improved from -55% of GDP in 2011 to -24.6% in 2013 and is projected to stabilise around that through 2015 (Table 4).

The current-account deficit is estimated to narrow down from 25.9% of GDP in 2011 to -17.2% of GDP in 2013, reflecting especially the moderation in the level of imports related to mining and construction. The external current-account deficit was mostly financed by significant FDI inflows in 2011 and 2012. The overall balance of payments recorded a surplus in 2012, representing 3-months of imports cover of foreign reserves. In the medium term, exports will continue to surge and mining-related imports slow down, and the current account deficit, including official transfers will contract to 11.2% and 15.9% of GDP in 2014 and 2015, respectively.

Sierra Leone is applying the Economic Community of West African States (ECOWAS) Common External Tariff (CET), which some countries have yet to comply with fully due to issues relating to the compensation for loss of revenues. The country's performance under the WAMZ Convergence Criteria is impressive in 2013. For instance, Sierra Leone is now on track for the criteria on single digit inflation after it has fulfilled the criterion for growth.

Table 4. **Current account (percentage of GDP)**

	2005	2010	2011	2012	2013(e)	2014(p)	2015(p)
Trade balance	-9.1	-20.4	-55.0	-27.0	-24.6	-24.0	-25.0
Exports of goods (f.o.b.)	13.2	9.3	6.5	12.4	11.2	9.6	9.5
Imports of goods (f.o.b.)	22.2	29.7	61.5	39.4	35.9	33.6	34.5
Services	10.4	10.9	21.5	30.4	19.3	14.5	14.5
Factor income	-3.9	-2.0	-1.3	-3.7	-1.9	-5.9	-9.6
Current transfers	8.4	8.5	8.9	5.9	5.2	4.8	4.1
Current account balance	**5.8**	**-3.0**	**-25.9**	**-39.4**	**-17.2**	**-11.2**	**-15.9**

Source: Data from the Central Bank and domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Debt Policy

Government debt policy is to ensure sustainability in the medium to long term. The 2011 Public Debt Management Act (PDMA), which aims to strengthen the existing legal framework and improve transparency and accountability of public debt management in Sierra Leone, is a reflection of this policy. The results of a recent Debt Sustainability Analysis (DSA) for low-income countries conducted jointly by the IMF and World Bank in October 2013, indicate that the risk of debt distress to Sierra Leone remains moderate with an external-debt-to-GDP ratio of 29% in 2012, having declined from 142% in 2005 just before achieving HIPC status in October 2006.

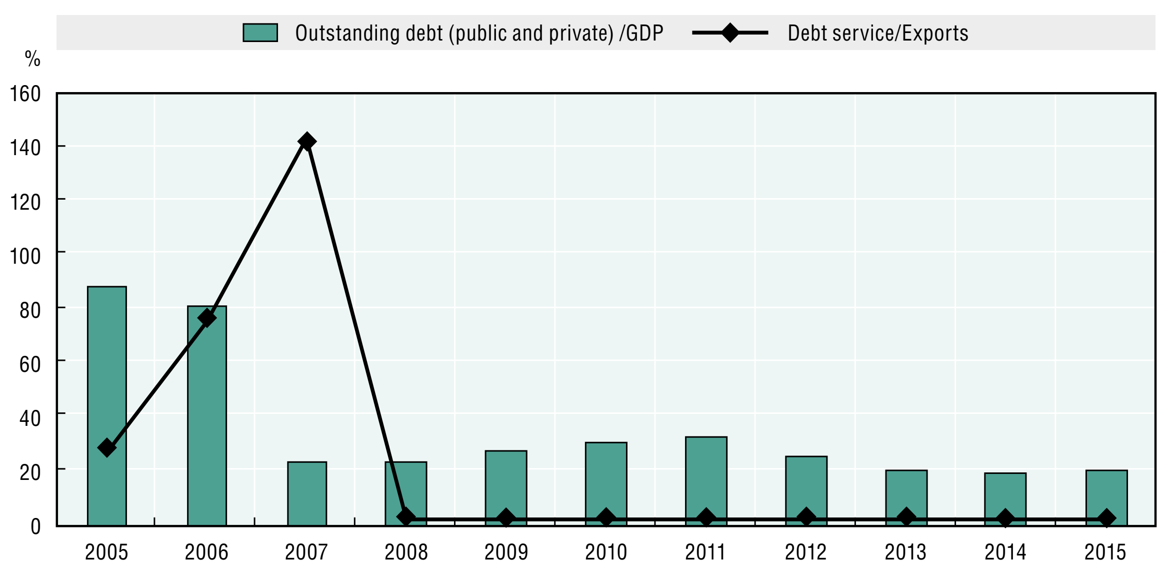
The country's external debt was estimated at 27.3% of non-iron ore GDP during 2013, showing a slight improvement over the 27.8% of non-iron ore GDP recorded at end-2012. About 64% of this debt is owed to multilateral creditors, 13% to bilateral creditors, and 23% to commercial creditors. Public domestic debt stock was expected to amount to 12.7% in 2013, which compared less favourably with 11.6% at end-2012, although it has declined significantly compared to 18.4% in 2007.

The stock of total public and publicly guaranteed (PPG) external disbursed and outstanding debt (DOD) amounted to USD 980.68 million as at end-December 2012, which was a 10.2% increase over the USD 890.11 million recorded at end 2011[2]. This growth in debt stock reflects increased disbursement from multilateral creditors, mainly the World Bank (USD 37.42 million); ECOWAS Bank for Investment and Development (USD 29.44 million); African Development Fund (USD 5.6 million); Islamic Development Bank (USD 5.9 million) to name a few. In relative terms, the World Bank accounted for 35.6%; the IMF 19.4%; AfDB 13.7%; IDB 8.5%; BADEA 6.5%; EBID 4.9%; IFAD 4.7%; OFID 4.6%; and EEC/EIB 1.8%.

Despite the increase in the public-debt stock, partly to finance infrastructure projects, the ratio of debt-to-GDP has shown a downward trend, which is being driven down by the GDP growing more than the debt stock. External debt as a percentage of GDP declined to 28.5% as at December 2012 from 30.8% in 2011[3].

The medium-term debt strategy anticipates a decline in the stock of domestic debt over time. Accordingly, grants and highly concessional loans should be a priority for the authorities so as to ensure debt sustainability in the medium to long terms. On this note, the government's recent resort to non-concessional lending may put debt sustainability at risk.

Figure 2. **Stock of total external debt (percentage of GDP) and debt service (percentage of exports of goods and services)**



Source: IMF (WEO & Article IV).

Economic and political governance

The private sector

The authorities are making some efforts to improve the country's investment climate, generate more foreign and local investment and build government capacity to enter into sustainable and beneficial Public-Private Partnerships. This is in addition to establishing a fast-track commercial court to expedite commercial cases, including insolvency proceedings. Other recent regulatory and business climate reforms include enacting a new law dealing with access to credit information from the newly established credit reference bureau at the BSL and digitising records at the Ministry of Lands, reducing the time needed for property registration by 19 days. The authorities are also putting in place a Public-Private Partnerships Act.

Sierra Leone's formal business sector is relatively small and gradually evolving but the country is rated as one of the world's top ten business reformers, moving from 156/185 countries to 140/185 within a five-year period. Notable business reforms include starting a business (ranking 76/185); it takes 12 days (improved from 300 days) to start a business. The country has witnessed significant private-sector inflows as foreign direct investment (FDI) has increased three-fold during the past five years. However, despite these gains, the MCC growth diagnostics study concludes that the most binding constraints for Sierra Leone's growth are linked to the critical infrastructure gaps in energy and road transport which, if not addressed adequately, will severely limit private sector growth.

The business environment could improve in the medium term given the tax and other incentives introduced in the Finance Act 2013 to attract investment, ease tax administration and enhance revenue uptake. However, the Local Content Policy which restricts use of foreign services, even though it may be based on good intentions, could potentially discourage prospective investors and cause discontent among those already in business. However, government has recently agreed on a Local Content Compact with business as a way of easing the implementation of the policy.

Financial sector

Though the financial sector witnessed rapid expansion in recent years, it still remains rather underdeveloped. It comprises mainly banks and non-bank financial institutions such as insurance companies, community banks, housing finance companies, finance and trust corporations, discount houses, foreign exchange bureaus and microfinance institutions. There are 13 commercial banks as of end-2013, having increased from 8 in 2006. The banks controlled over 80% of all assets (about 22% of GDP) in 2013. Although their assets and deposits have tripled since 2006, they remain relatively small and highly concentrated. For instance, the two largest banks carry 37% of about USD 64 million in assets held within the financial system and 49% of the aggregate loan portfolio. Apparently, very limited inter-linkages exist between the banks and other financial institutions, as reliable data on these issues remain lacking. The economy is mainly cash based with very limited use of electronic payment methods – credit cards, internet payment, or ATMs. Manual data entry is still used for clearing and payment system, and the process of settlements across the banks is yet to be automated due to the inadequate IT system and power supply. However, the authorities are in the process of developing an electronic, large-value national payments system with technical and financial assistance from the African Development Bank and the West African Monetary Zone,

Banks are engaged mostly in retail business, carrying out their basic traditional banking activities with very limited insurance services or securities trading. In 2012, there were 89 bank branches in Sierra Leone; up from 57 in 2008, roughly equivalent to three branches per 100 000 persons. Despite their expansion, access to financial services is still limited. According to the household survey data of 2011, only 1% of around 14% (one in seven) with deposit accounts in commercial banks are borrowers. A number of factors, including structure of the market, business environment, and infrastructure of the financial sector affect financial intermediation. Banks largely invest in short-term government treasury bills and extend short-term credit at high rates, as markets for trading of longer-term securities or bonds are still lacking.

Public sector management, institutions and reform

With a score of 48, and having been ranked 10th out of 16 West African countries and 31st out of 52 African countries by the 2013 Ibrahim Index of African Governance (IIAG) which shows that there are some improvements in governance in Sierra Leone between the period 2007 and 2011 when the ranking was worse.

Government, with the support of donors for its civil service reform programme aimed at improving governance and civil-service performance and restoring efficiency and increased service delivery in the public service, was able to undertake some projects, including management and functional reviews of MDAs; a diagnostic study of the architecture of the Government of Sierra Leone and an improvement in records management.

The Medium-Term Expenditure Framework (MTEF) now links annual and medium-term forecasts of MDA expenditure to policy or plans. Non-state actors also actively participate in the budget discussions of MDAs, making process more open, transparent and credible. Expenditures in the budget system are broken down by priority areas outlined in the agenda for prosperity.

The introduction of the IFMIS has enhanced the accuracy and timelines of financial reporting and some key aspects of the internal control system, including the automation of bank reconciliation statements where possible, and more timely public-debt reconciliation and verification. However, some issues, including the manual nature of some MDA accounting systems, still represent challenges that have to be dealt with.

The government multi-year pay reform plan (2011-15) aimed at bringing the wages of public servants to more acceptable levels, looks at payroll clean-up, regrading and rightsizing of the public sector, including filling critical technical positions and instituting stronger performance management systems. The government has already announced a substantial increase of the minimum wage for all public workers.

Corruption, however, is a challenge, as the most recent Transparency International ranking shows. Out of 273 cases investigated in 2012, only 22 led to convictions. The 2013 Corruption Perception Index (CPI) of Transparency International ranks Sierra Leone 119 out of 175 countries with a score of 30 out of 100. This is a signal for government to exert considerable efforts to curb corruption, which according to some, “is gradually becoming a prevalent norm in society”.

Natural resource management and environment

Sierra Leone’s abundant natural resources in minerals, fisheries, forestry, land and water and prospects for oil and gas, offer economic and other opportunities. In particular, the Agenda for Prosperity ascribes natural resource management to be the initial driver of rapid growth to transform the country into an inclusive, green, middle-income country by 2035. A recent marked development in the mineral sector is the advent of two large-scale iron-ore mining projects by African Minerals and London Mining companies, which have generated windfall revenues and some employment.

Iron ore of 40 000 tons shipped in November 2011 by African Minerals was the first of its size from Sierra Leone in over thirty years. Similarly, exploration and assessment by Anadarko and African Petroleum reveal that the prospects for oil are good.

However, mining and petroleum exploitation also distort the natural environment in many ways; including through deforestation, land degradation, soil erosion, siltation and contamination of river systems, displacements of villages. Several provisions in the Mines and Minerals Act 2009 and Environmental Protection Act 2009 seek to address these issues. The formation of the National Mineral Agency in 2013 to regulate the mining sector and to ensure that the country benefits from exploitation, minimising negative impacts will go a long way in this direction. With support from the IMF, the authorities have also prepared and submitted to parliament an Extractive Industries Revenue Bill with a new regime bringing all extractive industries tax and non-tax rules into one legal instrument and introducing a resource rent tax on windfall profits. The foremost challenge now is to succeed in achieving EITI compliant status, which the country has not yet been able to obtain.

Political context

With a current population of over 6 million, Sierra Leone lost lives in the armed conflict that raged between 1991 and 2002. At least 2 million others became displaced and sought refuge outside the country. The international community awakened to the realities of this conflict after seeing the use of child soldiers, the systematic amputation of limbs, and the use of so-called "blood diamonds" to finance the armed groups within the Mano river sub-region.

With a stable socio-political situation now, the country has made some political gains from transitioning out of conflict status to the conduct of recent successful and peaceful national, parliamentary and local elections in November 2012. This marked the third elections since the end of the conflict. Although there were fears that sporadic incidents of violence might increase in the run-up to the last two presidential and parliamentary elections, there were no significant incidents of politically motivated damage or threatening electoral violence, despite little skirmishes from political parties' supporters. For IIAG 2013, Sierra Leone's strongest 6-year change was in peace and stability. Sierra Leone continues to be classified as a "fragile state" based on several assessments, including the Multilateral Development Bank's framework for assessing fragility as well as the country-led fragility assessment conducted in 2012. Two key indicators that point to the country's positive transition from fragility are: *i*) the winding down of UNIPSIL in March 2014; and *ii*) the steady rise in Country Policy Institutional Assessment (CPIA) scores over the last few years. Given this context, there is emerging consensus among the international development community that Sierra Leone has turned the corner and is now in a positive trajectory towards transforming into a resilient stable country.

Building human resources

Sierra Leone's social indicators continue to be appallingly low by all standards, although they are gradually improving thanks to increased investment in the social sectors by development partners and government. The country's 2013 Human Development Index (HDI) of 0.359 ranks it 177th place out of 187 countries. It is amongst the lowest in the world and below the regional average of 0.463. Similarly, the country's life expectancy at birth of 48.1 years and under-five mortality of 174 deaths per 1 000 live births also fall below the regional levels. Sierra Leone also has one of the worst maternal mortality rates worldwide with 890 deaths per 100 000 live births. Physicians stand at 1.6 per 100 000 in 2011 while birth attended by skilled health staff was 42.2%. The recently launched free-health-care programme for lactating mothers and children below five years is facing some challenges.

However, progress has been made in the achievement by 2014 of MDG 4 and MDG 5 related to child mortality and maternal health, respectively, reflecting gains from the free-health-care initiative (FHCI) and other government efforts. Salaries for health workers were improved in 2010, and are being extended to other sectors through a general minimum-wage increase. The number of children sleeping under insecticide-treated bed nets increased three-fold. The proportion of deliveries taking place in health facilities increased from 17.8% in 2008 to 55% in 2011 and further to 60.9% in 2012. The percentage of children immunised against common childhood diseases increased from 54.6% in 2008 to 83.8% in 2011 and further to 87% in 2012. Equally, the HIV/AIDS component of MDG 6 will be achieved by 2014, given the HIV prevalence rate stabilising at 1.5%. Strong efforts have also been exerted in the prevention and treatment of malaria and tuberculosis, including through the completed AfDB Health Districts Services Project.

Educational standards, especially the completion rate are low by international standards and it is unlikely that the MDG 2 targets will be achieved by 2015. According to the 2011 Household Survey, 56% of all adults over 15 years of age have never attended school. The 2013 *Human Development Report* indicates an adult-literacy rate for age over 15 years to be 42.1% while the gross enrolment ratio in primary education is 125% and junior high 54.5%. Higher-level education indicators are reported to have improved, though, as more students are now attending junior, secondary and post-secondary education. In line with the Agenda for Prosperity, the government has scaled up its budget allocation to health and education so as to accelerate human development in Sierra Leone through improved education quality and access, and the provision of far-reaching healthcare services delivery. The A4P advocates for the attainment of the Abuja target of 15% of GDP allocation to health but it is currently much below that at 1.9% of GDP for health and 2.3% for education totalling only 8.2% for all social sectors.

Poverty reduction, social protection and labour

Although fostering broad-based growth and poverty reduction remain challenging for the authorities, the sustained growth of the economy over the post-conflict period is translating into a reduction in the incidence of poverty in the country. The most recent household survey, the Sierra Leone Integrated Household Survey conducted in 2011 estimated a declining poverty headcount from 66.4% in 2003 to 52.9%. On the whole, this reduction was on account of strong growth in rural areas, where the incidence of poverty decreased to 66.1% in 2011 from 78.7% in 2003, although this figure is still higher than the urban poverty rate. Urban poverty declined from 46.9% in 2003 to 31.2% in 2011. This decline is in spite of an increase in poverty in Freetown from 13.6% in 2003 to 20.7% in 2011.

Except for the Western area where it increased, poverty declined in the three provincial regions, namely, Northern, Eastern and Southern between 2003 and 2011. Poverty declined from 86.0% to 61.3% in the Eastern region, from 80.6% to 61.0% in the Northern region, and from 64.1% to 55.4% in the Southern region. Poverty increased in the Western region from 20.7% to 28.0%. This could be explained by the migration of rural youth, moving to the Western region, in particular Freetown, seeking economic opportunities.

At district level poverty, analysis shows that by 2011 most districts had converged to poverty levels between 50 and 60%, with the exceptions being Freetown at 20.7% and levels above 70% in Moyamba and Tonkolili. Urban households with less education are more likely to be poor and those in non-farming activities less likely.

The country witnessed a general drop in inequality between 2003 and 2011. Except for other urban areas, Freetown and all rural areas showed a decrease in inequality. The Gini coefficient, calculated for per capita consumption, decreased from 0.39 in 2003 to 0.32 in 2011. The 2011 levels of inequality vary substantially across districts; Bombali District had the highest value (0.42) and Tonkolili the lowest (0.21). Inequality is also relatively low in the capital of Freetown, with a Gini coefficient of 0.27. The drop is considerably driven by pro-poor growth.

There is a lack of up-to-date labour-market data and an inadequate understanding of markets, product quality, investments and technical knowledge. Employment information and communication are not effective due to a dearth of employment centres. Obsolete labour laws and the not-yet-implemented National Employment Policy have further compounded the problem. There is also a dissonance between the skills in demand in the changing labour market and those produced by existing educational and training institutions. Adult literacy remains low throughout the country. Out of 35 ILO conventions ratified by Sierra Leone, 30 are in force including all eight fundamental conventions, two of four governance conventions, and 25 of 177 technical conventions. The most recent conventions ratified include Minimum-Age Convention and Worst Form of Child Labor Convention both ratified on 10 June 2011 and both in force. No new conventions have been ratified in the last 12 months. Sierra Leone has a young population, with 63% below the age of 25 years. Due to the civil war, a large proportion of this population has limited education or vocational skill levels, thereby adding further challenges to their absorption into the small formal labour market in Sierra Leone. With youth unemployment projected to reach over 70% during the next five years there is a need to create over 300 000 jobs to engage different categories of unskilled and skilled youths. In 2013, the AfDB completed a skills-gap analysis which suggests ways of increasing youth employment.

Government programmes, such as the Small Holder Commercialization Program (SHCP), (providing smallholder farmers with improved inputs, tractors and processing equipment; free health services for children, pregnant women and lactating mothers; free primary school education; payment of examination fees for NPSE, BECE and WASSCE; cash transfer to aged and vulnerable persons; and social development programmes undertaken by the National Commission for Social Action (NACSA) have all contributed to this noticeable reduction in the incidence of poverty.

Gender equality

The government recognises the importance of gender issues. To this end, it not only mainstreamed gender into the A4P but added a dedicated gender pillar to the A4P. The Government of Sierra Leone has signed a range of policy declarations and enacted legislations reflecting the Convention on the Elimination of All Forms of Discrimination against Women. A fund for women and youth empowerment was established recently. The component of the MDG3 relating to primary education is on track, although the other on Gender Equality and Women's Empowerment remain low and unachievable by 2015.

In spite of these efforts, significant gender-based disparities still exist. Sierra Leone's 2013 Human Development Index rank on gender inequality is 139 out of 187 countries. Only 9.5% of the country's adult women attained secondary or higher level of education compared to 20.4% for males. Women's share in public and private decision making is below 30%. Only 12.9% of parliamentarians and 19% of local councillors are women. According to the 2011 SLIHS, more females are involved in non-economic activities in the home than males. The recent school census report (2010/11) states that 48% of all school-going children in Sierra Leone were girls, although their enrolment number and percentage decreases as educational levels increases: 51% pre-school; 49% primary; 45% junior secondary and 38% senior secondary). Girls face serious barriers, including child marriage, teenage pregnancy, child initiation rites, poverty, sexual exploitation and harassment in accessing education. More than half of violence on women cases are to reported domestic and 30% sexual abuse.

Thematic analysis: Global value chains and industrialisation in Africa

Overall appraisal of the country's participation in global value chains (GVCs)

Plagued by ten years of civil conflict that inhibited commodity production and trade capacity and weakened market systems including the country's infrastructure, it would be understandable that during and immediately after the conflict period, the country's level of participation in global value chains were quite weak and limited. However, following a successful post-conflict recovery in the early 2000s supported by interim and full poverty reduction strategies (PRSPs) in 2001 and 2003 respectively, the country was on track in building the foundation for its participation in global value chains through policy reforms and institutional strengthening.

Due to consistent economic and trade policy reforms the country achieved two significant milestones that enhanced its global and productive competitiveness in 2006. These were: *i)* qualifying for debt relief under the Heavily Indebted Poor Country's Initiative (HIPC) that did not only wipe out the country's debt stock but provided space for robust policy reforms including productive-sector-related reforms; *ii)* developing and implementing an action-oriented Diagnostic Trade Integrated Study (DTIS) that included an extensive productive-sector-based action matrix aimed at prioritising and sequencing trade related policy reforms and rendering the productive sectors such as agriculture and fisheries more competitive. These two milestones set the pace for the country's gradual participation in global value chains especially at the sub-regional level.

However, despite these milestone achievements, the country is expected to undertake extensive and holistic supply- and demand-side reforms in the trade and production sectors for it to be fully integrated in the global value chain network, especially in commodities in the production of which it has a comparative advantage. Implementation of the 2006 DTIS action matrix – which includes around 100 actions covering 8 areas – indicated considerable progress including legislative and regulatory changes to improve the overall business climate and expanding institutional capacity for formulating and executing trade policies. The updated DTIS finalised in November 2013 builds on progress made on the 2006 action matrix by complementing its achievements and drawing on useful lessons learnt.

Description of the GVC participation in the country context – Historical and futuristic

The updated DTIS provides deep insight and analysis on prioritised productive sectors such as agriculture, tourism and fisheries and sets the country's trade-enhancement agenda for the next five years by giving special emphasis on some cross-cutting issues such as trade facilitation and logistics in order to reduce supply-side barriers to trade and global competitiveness. The updated DTIS also effectively mainstreams trade issues in the governments A4P (2013-18).

An evaluation of the 2006 DTIS action matrix indicated that while notable progress has been made such as the adoption of regulations and strategies, these actions have not necessarily translated into lower trade costs, value added exports and reliable supply chains. Therefore Sierra Leone can be assessed to be at the entry point of becoming fully integrated in GVCs. Implementation of the updated DTIS is expected to accelerate the country's integration in the GVCs.

The analysis in the updated DTIS indicates that the key sectors involved in global value chains are the agriculture sector with a focus on four cash crops namely cocoa, cassava, rice and palm oil; the fisheries sector with a focus on limiting illegal, unreported and unregulated fishing; the tourism sector enhancing tourist-related infrastructure and tourist-related employment. As a country richly endowed in base and precious minerals, the mining sector is part of the integrated GVC network especially from the perspective of primary production and the export of raw materials. The diamond sub-sector (Kimberlite and Alluvial) has also been a key player in the GVC network and accounts for a fair share of mining exports. Due to the country's fragile status, value chain operations are mainly conducted at the primary level.

For instance most base metals are exported as raw materials to industrialised countries for further refinement and processing into higher-value products. In 2012, the country exported 7.5 million tons of iron ore mainly to China and Europe but imports of finished mineral products for the same year amounted to 32.4% of total imports. Special stones such as diamonds are also exported mainly as raw materials.

The same holds true for cash crops such as cocoa, coffee and palm-oil, produced and exported to regional countries. In essence the key activity performed in Sierra Leone along the value chain is to produce or extract the commodity and export to other countries for value addition. With very poor infrastructure especially in energy supply and in its roads network – only 12% of the population has access to electricity and 8.9% of trunk roads are paved – the country lacks the necessary conditions for its participation higher up in the value chain.

While the final markets for the exports of mining commodities have a global dimension – such as China and Europe for iron ore/ bauxite/titanium oxide, Belgium and Israel for diamonds and gold – the final markets for food commodities are still local or to a limited extent regional in nature, probably with the exception of cocoa and coffee. The country's marine products still cannot access EU markets. However, due to illegal and unregulated fishing, most of the country's marine resources find their way to the EU market with the country losing out on much needed revenue from the sector.

There are some opportunities for the country to enhance its positioning in GVCs especially in the diamond mining sub-sector and cassava (agriculture) sub-sector. For instance, the updated DTIS indicates that production of cassava and processing it into gari is a highly profitable venture for farmers, traders and processors and the overall production cost is lower due to limited application of inorganic inputs. The finished product (gari) currently attracts significant demand in countries in the sub-region. Sierra Leone has huge potential in participating in GVCs in cassava given its comparative advantage and favourable production conditions.

Opportunities and potential for GVC participation

Sierra Leone also has potential in diamond cutting and polishing into higher value commodities given its status as a key producer and exporter of both alluvial and kimberlite diamonds. The country has two large-scale kymberlite diamond projects and a huge alluvial mining community in both gold and diamonds and a fair share of diamond exports. The opportunities for enhancing Sierra Leone's participation in the diamond industry value chain are imminent and the country should provide the right conditions for this to happen.

Opportunities to broaden the scope of value addition participation to other sectors such as iron ore within the mining sector and cocoa in the agriculture sector require huge investments in infrastructure.

Limiting factors for GVC participation

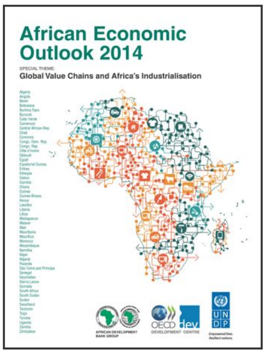
As a state in transition out of fragility, there are numerous limitations that inhibit the country's full participation in GVC's or advancing to higher levels in the value chain as identified in the evaluation of the 2006 DTIS. The most limiting factors include the high production costs and sub-optimal levels of productivity. Other factors include inefficient commodity-assembly and processing methods used by farmers with little scope for specialisation as farmers combine various functions along the chain. In some cases, for instance, production, assembly and processing are all combined as one. High input costs due to low technology use create inefficiencies that increase production costs. Labour-intensive production methods are a further barrier to GVCs. For instance, the updated DTIS indicates that the country has a comparative advantage in rice production. However, imports are substituted due to labour-intensive methods of production and relatively low yields per hectare. In the cocoa sub-sector, an analysis of the value chain shows that approximately 43% of costs come from farming, 27% from assembly and 30% from processing and exporting stages, reflecting low productivity as a result of poor agronomic practices and the use of old plantations. In addition, assembly functions, sorting and local transportation of the commodity are very inefficient. Palm-oil trade competitiveness is affected by high costs incurred at the processing and logistic trading stages. Cost elements at the processing stage include packaging, energy provision, vehicle operations and maintenance. At the assembly stage, cost elements include vehicle depreciation costs, and overheads and levies and fees. However, despite these inherent limitations, there have been numerous national policies and strategies focused on creating a more conducive business environment consistent with global value chain integration. The country is part of regional bodies such as ECOWAS and MRU that facilitate tariff harmonisation efforts. Infrastructure deficits in water, energy and roads/sea/air transport are the most binding barriers to upgrading along the value chain. Weak domestic SME participation along the value chain and low skills and systemic weak capacity in critical sectors are also inhibiting factors for GVC participation.

National policies and strategies

The two medium-term strategies for facilitating GVC participation include the updated DTIS adopted in December 2013 and the programmes and practices articulated in the Economic Diversification Pillar in the Agenda for Prosperity (A4P). As mentioned earlier, both strategies are complimentary and mutually reinforcing. Implementation of the 2006 DTIS indicated useful lessons for updating the actions in the 2013 DTIS taking cognizance of the changing global and regional context.

Notes

1. Despite the gains of improved revenue performance made from ongoing tax policy reforms, the revenue-to-GDP ratio still remains below the SSA average and even below fragile state comparator countries, signifying a low revenue effort.
2. DOD end 2011 was revised to USD 890.11 million from USD 868.49 to capture delayed disbursement figures.
3. The GDP figure for 2011 was revised from Le 9.024 trillion to Le 12.586 trillion.



From:
African Economic Outlook 2014
Global Value Chains and Africa's Industrialisation

Access the complete publication at:
https://doi.org/10.1787/aeo-2014-en

Please cite this chapter as:

African Development Bank/OECD/United Nations Development Programme (2014), “Sierra Leone”, in *African Economic Outlook 2014: Global Value Chains and Africa's Industrialisation*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/aeo-2014-55-en