43133

SIERRA LEONE

Adding Value through Trade for Poverty Reduction

Diagnostic Trade Integration Study

November, 2006

SIERRA LEONE
DIAGNOSTIC TRADE INTEGRATION STUDY

TABLE OF CONTENTS

List of Tables

List of Boxes

List of Figures

CURRENCY EQUIVALENTS

Currency unit	=	Leone
US$1.00	=	Le2,957 (May 31, 2006)

ABBREVIATIONS AND ACRONYMS

ACV	Agreement on Customs Valuation (WTO)
AfDB	African Development Bank
AGOA	African Growth and Opportunity Act
BoSL	Bank of Sierra Leone
CED	Customs and Excise Department (NRA)
CET	Common External Tariff
CGF	Credit Guarantee Fund
DfID	Department for International Development (United Kingdom)
DTIS	Diagnostic Trade Integration Study
EBA	Everything But Arms (agreement)
ECOWAS	Economic Community of West African States
EITI	Extractive Industries Transparency Initiative
EPA	Economic Partnership Agreement
EPRU	Economic Policy Research Unit (Ministry of Finance)
ERRC/G	Economic Rehabilitation and Recovery Credit/Grant
ETLS	ECOWAS Trade Liberalization Scheme
EU/EC	European Union/European Commission
FASP	Financial Sector Assessment Program
FAST	Fast Anti-Smuggling Team
FFS	Farmer Field School
GDD	Gold and Diamond Department (NRA)
GDP	Gross Domestic Product
HIPC	Heavily Indebted Poor Countries
HS	Harmonized System (of tariff lines)
IMF	International Monetary Fund
ITA	Information Technology Agreement (WTO)
ITC	International Trade Center
MAFS	Ministry of Agriculture, Forestry and Food Security
MCS	Monitoring, Control and Surveillance
MFI	Microfinance Institution
MFMR	Ministry of Fisheries and Marine Resources
MMR	Ministry of Mineral Resources
MOF	Ministry of Finance
MTI	Ministry of Trade and Industry
NCCT	National Coordinating Committee on Trade
NCDB	National Cooperatives Development Bank
NDB	National Development Bank
NPA	National Power Authority
NRA	National Revenue Authority
PPRD	Policy, Planning and Research Department (MTI)
PRGF	Poverty Reduction and Growth Facility (IMF)
PRSP	Poverty Reduction Strategy Paper
PSB	Postal Savings Bank
PSI	Pre-shipment Inspection
SAFE	Secure and Facilitate Global Trade (framework of standards to)
SLEDIC	Sierra Leone Export Development and Investment Corporation

SLMA	Sierra Leone Maritime Authority
SLNTB	Sierra Leone National Tourism Board
SLPA	Sierra Leone Port Authority
SLPMB	Sierra Leone Produce Marketing Board
SLRA	Sierra Leone Road Authority
SLRTA	Sierra Leone Road Transport Authority
SLSB	Sierra Leone Standards Bureau
SME	Small and Medium Enterprise
SPS	Sanitary and Phytosanitary (standards)
SSL	Statistics Sierra Leone
STCP	Sustainable Tree Crop Program
TBT	Technical Barriers to Trade
UNAMSIL	United Nations Peacekeeping Mission in Sierra Leone
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
WAEMU	West African Economic and Monetary Union
WCO	World Customs Organization
WTO	World Trade Organization

PREFACE

The Sierra Leone Diagnostic Trade Integration Study (DTIS) has been prepared under the Integrated Framework (IF) for Trade Related Technical Assistance to Least Developed Countries in response to a request from the Government of Sierra Leone.[1] The ultimate objective of the study is to build the foundation for accelerated growth in Sierra Leone by enhancing the integration of its economy into regional and global markets.

A preliminary mission was held in July 2005 to discuss the objectives and priorities of the study with the authorities. Terms of reference were then prepared and transmitted to the Government for approval. The main mission, consisting of national and international consultants, visited Sierra Leone in October 2005. During the mission, a national workshop was held to build understanding and ownership of the Integrated Framework process and goals. The workshop was sponsored by the Ministry of Trade and Industry, UNCTAD, and UNDP.

The members of the main mission, and their areas of responsibility, were as follows: Philip English (World Bank, task team leader), Dirck Stryker, (lead consultant, macro, finance, agriculture), Paul Brenton (World Bank: trade policy and institutions), Alan Hall (World Customs Organization, customs), Peter Jaeger (agricultural marketing), Jan Ketelaar (mining), Richard Lacroix (agro-industry), David McEwen (tourism), Rene Meeuws (transport and trade facilitation), Tom Roberts (agricultural production), and Gert Van Senten (fisheries). The team was ably assisted various public officials and local consultants: Edison Borbor (MTI, trade policy and institutions), Mussa Randy Kabia (transport), Abu Kamara (fisheries), Raymond Kamara (NRA, customs), Aiah Koroma (forestry), Lovetta Fatmata Sesay (EPRU, macroeconomics) and Danial Siaffa (tourism).

All the draft chapters of the report were then presented to technical staff in the ministries as well as other interested stakeholders during a technical review meeting in May 2006. The report was then revised to take into account the various comments received. The study has been reviewed internally within the World Bank, and among the IF agencies and selected donors. The report and its Action Matrix were discussed during a three-day workshop organized by the Ministry of Trade and Industry in October 2006. After the inclusion of proposed revisions, the Action Matrix was validated.

The study team wish to thank the Government of Sierra Leone and notably the Minister of Trade and Industry, Honorable Kadi Sesay, and the Director of Policy, Planning and Research, Beatrice Dove-Edwin, for their wholehearted and most competent support to the DTIS process. We also thank all the members of the national steering committee who enriched the study through their active participation in various meetings and workshops. Finally, we owe a special word of thanks to Josette Percival for her dedication and professional administrative support throughout the entire process.

1The IF is a multi-agency, multi-donor program established to promote the integration of the least developed countries into the global economy. The participating agencies are the IMF, the ITC, UNCTAD, UNDP, the World Bank and the WTO. For additional details see http://www.integratedframework.org/.

EXECUTIVE SUMMARY AND ACTION MATRIX

1. Sierra Leone is once more at peace and its people are ready to tap the bountiful resources bestowed on them by nature to rebuild their economy and society. Its mineral wealth is legend, though it goes well beyond the rather infamous diamonds. The seas are still full of fish of various species, some stocks actually replenished when the war years disrupted the fishing industry. One visit to Freetown, and the majestic hills rising above pristine sandy beaches easily evoke visions of a thriving tourism industry. And perhaps most important of all, plentiful rainfall and good land suggest a variety of agricultural exports, bringing cash directly into the hands of rural households. How many countries might envy Sierra Leone's good fortune, were it not for its troubled past?

2. Unfortunately, Sierra Leone's period of violent civil conflict from 1991 to 2001 wreaked havoc on the country's social fabric and its economy, exposing its people to extreme hardship and vulnerability. Today the country is ranked among the world's least developed countries and second-to-last on the Human Development Index. Infrastructure has been destroyed, institutions have disintegrated, people have fled. The country is almost starting over again, putting the pieces back together again.

3. The country has had to start with the most basic needs – re-establishing food supply, ensuring peace and security, rebuilding essential government services. Progress has been rapid, assisted by the donor community and by the significant inflow of cash from the artisanal diamond sector. But it is time to focus on a broader strategy of economic growth to generate much needed employment and revenues to pull people out of poverty and to finance public services. And in a country with only six million people of minimal purchasing power, it is clear that the domestic market is too limited to drive that growth and that exports must therefore play a major role. Happily, the country has many options. The question is where to start, how to make the most of the limited human and financial capacity currently available to kick-start a virtuous cycle of growth?

4. The time frame for this study is the next five to ten years. In this period, Sierra Leone's comparative advantage lies in a number of agricultural, agro-industrial, fishery, mining, and tourism activities. Over the longer term, exports of manufactures and other services should also be encouraged, and an update of this report would be useful to explore such options. Fortunately, many of the actions taken to increase exports in the areas covered by this study will also contribute to building capacity for trade in these other sectors.

5. This study is not intended to provide a growth strategy or a poverty reduction strategy. Rather, it aims to identify the role which trade might play in such a strategy, by (1) analyzing the key constraints to expansion of trade, (2) providing a sense of priorities for maximum impact of trade on poverty reduction, and (3) developing a targeted Action Matrix of policy and regulatory reforms, technical assistance and investment projects. It is primarily about export development, as Sierra Leone has already adopted a relatively liberal import regime – one which is now determined on a regional basis. After validation by the Government and a broad spectrum of stakeholders, multilateral agencies and the donor community will support the Government as it implements the Action Matrix. The study will also serve to strengthen the trade and growth dimension of the PRSP and ideally contribute to building a consensus on the way forward.

Macroeconomic Context

6. Though trade is ultimately about products and sectors, it depends critically on a sound macroeconomic environment if it is to flourish. The foreign exchange rate is arguably the most important price in the economy, followed closely by the domestic interest rate. The tax structure, whether it is be for imports, sales, or income, is another critical dimension. This study highlights three macroeconomic concerns:

(1) the potential overvaluation of the Leone resulting from heavy dependence on mineral exports and foreign assistance – at present there would not appear to be a problem, but future movements of the real exchange rate need to be monitored;

(2) fiscal deficits leading to inflation, increased public borrowing, higher interest rates, and crowding out of private sector borrowing – the Government must avoid the situation which prevailed in 2004 where public borrowing pushed the interest rate on treasury bills above the prime lending rate, undermining the incentive to lend to the private sector;

(3) the heavy dependence on taxes collected by customs for public revenue – with customs duties comprising almost 50% of government revenues, trade policy and customs administration is likely to be driven by fiscal considerations. This may be weakening commitment to the ECOWAS free trade area and may reduce the focus of Customs on trade facilitation.

Trade and Poverty

7. Increased trade can have *direct* impacts on the poor by affecting their levels of income and employment, and the prices they face as both consumers and producers. Trade can also affect poverty *indirectly* by stimulating economic growth and its linkage effects and dynamic processes, and through the impact on government revenues and expenditures that affect the poor.

8. Artisanal diamond exports have been the main avenue for direct poverty reduction through trade in the last five years, and they will continue to play this role for the next five. However, output in this sector is probably close to its peak, and employment is expected to fall as diamonds become more difficult to find and mechanization becomes increasingly necessary. The focus here must therefore be on better management of the existing level of production, better distribution of the benefits in favor of the poor, and a plan for orderly exit for surplus labor.

9. Large, modern-sector mining is about to take off once again, with the promise of significant fees, taxes and royalties for government. This could have a major indirect impact on poverty if these resources are properly managed. This depends on improved public expenditure management and governance which is beyond the scope of this study but the justified preoccupation of many others. It also requires a sophisticated regulatory regime which ensures that an appropriate fiscal regime is in place, and properly enforced.

10. The industrial fishery presents similar if even more complex challenges to those of modern mining, as the main players are very mobile and hard to reach. Here again, the medium-term contribution will be indirect through government revenues, and the immediate priority must be to establish a sound regulatory framework. In the longer-term, the sector should be in a position to generate significant direct benefits, as national artisanal and small to medium-scale

fishermen gradually replace the foreign industrial fleet. However, to achieve this goal, the fishery stock must be managed so as to ensure its sustainability.

11. There was a small but thriving holiday tourism industry in the 1980s and there is every reason to believe that it can be rebuilt. However, the country faces a major image problem due to its troubled past, so it is going to take time to bring back both the investors and the tourists in significant numbers. When they do come, skilled and unskilled jobs will be created, primarily near Freetown in the Western Peninsula and at Lungi, with further benefits through linkages to suppliers of goods and services. The impact on the rural poor will only be modest.

12. Agricultural exports offer the most important potential for a major increase in incomes in rural areas, where the majority of the poor reside. Sierra Leone used to export a wide range of agricultural products, albeit in modest quantities, and many of the trees are still there, albeit in poor condition. Cocoa holds particular promise for fairly rapid growth in the next ten years which could bring direct benefits to more than 140,000 households, many of them very poor. It is already the most important agricultural export, in spite of negligible support. The experience of Cote d'Ivoire and Ghana offers ample proof of the potential. International market conditions remain sufficiently robust to absorb whatever Sierra Leone might produce for the foreseeable future, providing reasonable quality standards are met. And cocoa expansion could help absorb some of the labor which will be released from artisanal mining over the next ten years. As the Government's capacity to drive agricultural export production is extremely limited for the moment, this study's first and most important message is: ***get the cocoa sector working again***.

Table ES-1:
Export Potential for Key Agricultural Crops by 2015

Crop/Product	Current Exports (tons)	Exports at Producer Price (US$mil.)	Potential Exports (tons)	Gain in Revenue (US$ mil.)
Cocoa	6,500	4.0	30,000	14.8
Cashew	0	0	10,000	7.3
Palm Oil	n.a.	n.a.	5,000	3.7
Palm Kernel Oil	0	0	5,000	3.1
Gari	10,000	3.3	20,000	3.3
Ginger	0	0	1,000	1.0
Total				33

13. This recommendation is based on a comparative assessment of cocoa with various other options, and some of these also warrant support. Oil palm, cashew nuts, ginger, gari (cassava), and rice have potential and should be encouraged to the extent possible. Palm oil, gari and rice exports will be largely confined to the sub-region, with modest growth potential, while cashew nuts and ginger will benefit a smaller number of farmers. Coffee is one alternative export crop that could reach similar numbers, but the international market for robusta coffee is not promising. Prices have been very weak over the last five years and are expected to remain so. Farmers have understood and some are uprooting their trees. Export horticulture is too demanding in terms of logistics, standards, and marketing to be a viable option in the immediate future. Table ES-1 summarizes a proposed package of export crops, headed by cocoa, which deserves priority attention. If the predicted levels of exports are achieved, the total annual income gain to rural producers could be 463 billion Leones, benefiting as many as 250,000 households across the country – at least one-quarter of all rural households.

14. The case of rice is more complicated. Rice is being exported to neighboring countries, but some observers feel it should be diverted to Freetown to reduce imports. However, since local rice is actually preferred by consumers, but normal market forces result in exports, this must

be because the traders can obtain a better price this way. This is not surprising since the transaction costs are undoubtedly lower when transporting across the border than when navigating the poor road infrastructure to sell in Freetown. Transaction costs inevitably get passed on to the farmer in whole or in part. Lower transaction costs will generally mean a higher price for the farmer. Thus the option of exporting rice to neighboring Guinea translates into better incomes for Sierra Leonean rice farmers. Rather than block exports, a better policy would be to reduce transaction costs to Freetown and improve productivity and processing of local rice production so that it can eventually compete with imported rice.

Agricultural Exports

15. With its very limited capacity, it is vitally important that Government focus its energies on areas which no one else can do. These include formulation of an overall agricultural strategy; establishing an enabling environment for NGOs, private sector investment, and farmer organizations; assuring plant and animal protection; supporting agricultural and livestock research; and providing for the acquisition, multiplication, and dissemination of new and improved plant and animal material. NGOs have proven particularly effective at disseminating information on new techniques and technologies. Farmer organizations also have an important role to play in this dissemination, as well as in helping to develop markets, storage, finance, and other ancillary services. The private sector should be encouraged to build its capacity to deliver a wide range of services.

16. A better knowledge of market conditions must be obtained by investigating the regional market for gari, rice, palm oil, palm kernel oil, and cashews to see what quantities can be offered and what are the quality specifications. Another priority is a tree crop survey of the distribution, demography, and condition of the major tree crops: cocoa, oil palm, cashew. Farmer Field Schools (FFS) and other stakeholder organizations should be supported through the development of a protocol. FFS should serve as the principal vehicle for the multiplication and distribution of improved plant material, and technical advice regarding planting, maintenance, and rehabilitation. They should be encouraged to establish regional buying centers and be federated into Marketing Associations. The media should be used to disseminate best practices. With the need to import new varieties of plant material, it is imperative that a strong phytosanitary policy and a quarantine system for imports be established.

Cocoa

17. The overriding concern in the cocoa industry is decreasing productivity, especially due to the high incidence of black pod disease. Although chemical control is possible, cultural techniques are another option. In addition, it is important to introduce high-yielding hybrid cocoa varieties used in Ghana and Côte d'Ivoire. The operations of the experimental seed gardens need support. Another short-term priority is quality improvement. Cocoa exports currently suffer a large price discount due to the prevalence of mould. Drying techniques need to be improved either through farm groups or through investment in small-scale fermentaries. A pricing system which offers an incentive for farmers to supply better quality cocoa would help. The number of inspections of cocoa must be rationalized, and the Ad Hoc Committee disbanded. The Sustainable Tree Crop Program based at IITA in Ghana could bring valuable experience from neighboring countries while helping coordinate and catalyze the various initiatives underway in Sierra Leone. Most importantly, there needs to be a consensus across Government that the cocoa sector is a top priority so that everyone will play their part.

Oil Palm

18. The highest short-term priority is rehabilitation of existing plantations, both estate and village. This may require a redistribution of estate land to individual farmers or groups of farmers. Technical assistance should be provided to these farmers, and in some cases replanting with improved seedling varieties promoted. Entrepreneurs should be encouraged to invest in small-scale mills for processing. The Marika plant should be supported with its test export shipments of palm kernel cake and other products. Improved plant material should be obtained from Malaysia or other countries within West Africa, where oil palm has been extensively developed.

Cashew

19. Raw cashews should be exported until the level of local production justifies processing. Production and distribution of another set of cashew seedlings by the Kamcashew Enterprise should be approved and funded. A five-year plan for seedling production and sales should be prepared. Workshops on cashew crop production and processing management should be conducted and the information disseminated to farmers. Seed nuts of high yielding cashew varieties, probably from Guinea-Bissau, should be obtained

Gari

20. The profitability of making small-scale equipment available for processing cassava into gari should be assessed under village conditions. Gari stores well, is easily transported, and quickly prepared, and is thus ideal for urban consumption and for export. A study is required to improve the present system of marketing, including the establish-ment of one or more markets that could act as entrepôts for more efficient distribution.

Ginger

21. The main priority for ginger is to monitor carefully the varieties that have recently been introduced and to assess any potential damage to the local crop. Local varieties should be tested to see how well they might respond to export market requirements. Workshops should be conducted on ginger processing and quality control.

Milled Rice

22. The introduction of small rice mills should be supported and expanded. It is important to test different models of rice mills under local conditions in Sierra Leone to see which are most suitable. Support for provision of spare parts and servicing is also critical. Purchase of the rice mills by a leasing company and the leasing of these mills to local entrepreneurs may be the most effective way of transferring title of the mills and assuring their repair and maintenance.

Forest products

23. Forest resources are being depleted through the spread of shifting cultivation, excessive logging, and fuelwood harvesting. There is little effective regulation of the use of forests, and no policy of reforestation. Some timber is being exported and this activity, although illegal, appears to be expanding. The closed high forest from which most timber is extracted accounts for only 5% of the land area of Sierra Leone. Given the many advantages to maintaining forest cover, including for eco-tourism and non-wood exports, it would seem unwise to promote timber exports. There is an urgent need for a proper plan for the management of forest resources, and the control of logging.

Mining

24. Sierra Leone's export sector has traditionally been dominated by mining, and will remain so in the immediate future even as it pursues the essential diversification of its economy. Export revenues from mining reached $143 million in 2005, regaining the previous peak achieved in 1991. With the reopening of rutile and bauxite mines, and the prospect of new modern gold and diamond mines, annual mineral export revenues could exceed $370 million. The Government of Sierra Leone, however, faces several challenges. In the modern, large-scale sector, it must attract more foreign investment – and keep that which has already been attracted – while extracting a fair share of the rents, and using them for the benefit of the wider population. The Government and the private companies also need to ensure that the communities in the immediate vicinity of the mines receive their fair share of the benefits.

25. In the artisanal mining sector, the focus needs to be on increasing the share of revenues going to the poor and their communities, improving working conditions, reducing the environmental impact, maximizing the total output of the sector, and managing the transition to mechanized operations. The Ministry of Mineral Resources must extend its extension services on diamond identification, sorting and basic techniques used in valuation to enhance miners' knowledge and bargaining power. Similar services are required for improved reclamation of mined-out sites.

26. The increasing competition between the modern, large-scale mining companies, artisanal mining, and the emerging small-scale mechanized sector has become critical. The geological extension services should be used to identify known and new alluvial deposits appropriate for exploitation by artisanal methods, while deeper deposits are reserved for small scale mechanized or industrial mining operations. The development of a Mining Cadastre is the corner stone of a secure mineral rights system, and is fundamental in developing investor confidence and administering the artisanal mining sector. A Mining Cadastre is now being developed on a trial basis. It needs to be extended to all the main mining areas and, starting in 2007, all mineral rights should be issued using the Cadastre system on a first-come first-serve basis to reduce the potential for discretionary intervention and improve transparency.

27. Transparency is critical. Large sums are at stake in the mining sector and everyone needs to know what the laws are, and why they are considered fair, and be reassured that they are being respected. The Government is establishing a Public Information Unit. This is a welcome initiative and it should be made operational immediately. The Extractive Industries Transparency Initiative (EITI) supports improved governance in resource-rich countries through the full publication and verification of company payments and government revenues. This should be incorporated into the legal framework for mining.

Fisheries

28. Sierra Leone has two different fisheries – industrial and artisanal – and most of the current exports come from the former. Furthermore, there are three designated transshipment zones in port where the licensed vessels normally do transshipments and local landings. Despite this, some transshipments are reportedly done which is illegal and these are not captured in the official statistics. Sierra Leone must learn to manage the resource rents inherent in the fishery, collect its fair share, and expand its share over time. Expansion of fish exports should be pursued not only in terms of expanding volumes, but particularly through greater value-added. In the long-term, the sector's contribution will be maximized through its transformation into a locally owned artisanal-cum-semi-industrial fishery. However, to achieve this vision, measures must be

put in place immediately to prevent over-fishing and ensure the sector's sustainability. A program to build the capacity of the private sector will also be essential.

29. The short-term strategy will support the sustainable expansion of the industrial fishery. This must start with an assessment of the true status of key fish stocks; improvements in monitoring, surveillance and control; a cautious increase in the number of licenses for industrial vessels; investment in port and processing infrastructure; and satisfaction of EU food safety standards. As this will be expensive, financial resources must be attracted through the negotiation of one or more fisheries agreements and/or donor support. However, the former should only be pursued after careful preparation and consultation with other countries in a similar position.

Tourism

30. There should be no doubt that tourism has the potential to generate significant economic benefits for Sierra Leone. The degree of leakage through imports is comparable to other industries in the modern sector, and like them, incomes can be earned if a competitive product can be provided. Jobs will be created, local food and other supplies purchased, excursion and taxi services hired, and government taxes paid. But the government must be careful not to over-invest public resources in the sector, depending instead on private initiative for the bulk of expenditure.

31. That said, government has a critical role to play in planning and promoting the sector. A strategic plan, with regional master plans, is urgently required to lay out the parameters for private sector development. Otherwise irreversible investments may be made which end up restricting the sector's potential. The Aberdeen/Lumley Beach area requires urgent attention, followed by the Western Peninsula. Small-scale beach hotels offer the best opportunity in the short-term, but if the right large-scale hotel operator could be attracted it could send an important signal to the industry and kick-start the sector in Sierra Leone. Until such time, a low-cost but persistent campaign is needed to convey the message that Sierra Leone is at peace and open for business.

Customs

32. While the Customs and Excise Department has started to reform since the creation of the National Revenue Authority, the approach has been tactical and reactive rather than strategic. This is understandable given the limited experience of its senior management. There has been no skills and knowledge development around international standards such as the Revised Kyoto Convention, WTO Agreement on Customs Valuation (ACV) or the Framework of Standards to Secure and Facilitate Global Trade (SAFE). In meeting these standards, Customs must introduce concepts of risk management, client segmentation, sound technical ability, ready access to management information and a high degree of automation. These elements are largely inter-dependent, which means developments in isolation are of limited value. And Customs must learn to balance its revenue-generating, trade facilitation, and regulatory functions.

33. The current valuation system is unfair to genuine traders, increases the already high cost of trade, lacks transparency, and contravenes WTO rules. Yet, the ACV has proven difficult for most sub-Saharan African countries to implement, even those with much stronger customs services. Sierra Leone does not have the capacity to implement it, and will have to rely on the pre-shipment inspection service currently in place for another two years or more to improve valuation and other procedures. But that service contract needs to be better managed so that the company fulfils its original mandate to build national capacity and works itself out of a job.

34. Other priorities include work on tariff classification, revision of the customs legislation, simplification and automation of procedures, introduction of Fast Anti-Smuggling Teams, differentiation among traders depending on their record of compliance, management and staff training, better consultation with stakeholders, partnerships with other Customs administrations, and strategic planning.

Infrastructure

35. Infrastructure suffered badly from the war, most notably in the rural areas. The road system is in poor shape, adding considerably to the cost of bringing agricultural exports to the port, and discouraging tourists from venturing into the interior. Roads are now being rehabilitated but there is much to do. The road maintenance budget is seriously deficient and priorities are often distorted by emergency requests. Greater attention needs to be paid to the requirements of the export sector, beginning with the Eastern cocoa-producing region. This will help generate additional funds which can be ploughed back into road maintenance. These priorities should be captured in a new National Transport Strategy and Investment Plan.

36. An enabling regulatory framework should be introduced to promote public-private partnerships in the building and operation of ports, dry ports, terminals, and handling and storage facilities. The clearing and freight forwarding market would benefit from opening to entry by foreign companies. Dialogue between the various stakeholders in the private and public sectors could be improved through the establishment of a National Working Group on trade facilitation.

37. Electric power services are seriously deficient, very expensive and unreliable, posing major problems for the competitiveness of commercial and industrial enterprises. They generally find that it is cheaper – and safer – to rely on their own diesel generators. Considerable effort is being put into increasing supply for the national grid, but it is proving difficult even to keep up with demand in Freetown. Hence, this study assumes that agro-industrial enterprises will furnish their own power in the foreseeable future.

38. Telecommunications coverage and quality are very poor. Sierra Leone has one of the lowest tele-densities in the world. To the extent that there is any regulation, this is done by Sierratel, the state-run landline telecommunications company, which is also a major player in internet service and potentially for cellular service. The Government needs to look at the possibility of introducing an independent telecoms regulator. Insofar as trade is concerned, cell phones are the main means by which farmers, processors, traders, and exporters communicate and receive information on prices, orders, specifications, and the like. Extension of these wireless networks is a high priority.

Financial services

39. Experience in Sierra Leone and elsewhere suggests some directions along which the financial sector should evolve to meet the needs of the export sector. It is vital that interventions be undertaken that support broad-based development of the financial sector in general and rural finance in particular. This approach is in contrast to the subsidized, directed credit schemes of the past, which undermined financial sector development.

40. The experience with the National Cooperatives Development Bank (NCDB) and microfinance institutions (MFIs) suggests the importance of group lending based on credit history for the development of the financial sector in rural areas. Although the initial size of loans is often insufficient for SMEs, those with a good credit history should be able to move ahead as

individual borrowers over time. Eventually, commercial banks may become interested in working with the MFIs.

41. Commercial banks should become more involved in lending to processors, traders, and exporters, perhaps through structured finance (letters of credit, warehouse receipts). Competition in the banking sub-sector can be increased by moving ahead with the privatization of the two state-owned banks, and by facilitating the entry of reputable new banks (e.g.Ecobank). The BOSL needs to disengage from the Community Banks and a private sector apex organization established to oversee and work with these banks.

Trade Policy and Institutions

42. An effective trade policy process requires a) a clear trade and export strategy, b) effective consultation with the private sector and civil society, c) successful inter-ministerial coordination, d) access to accurate trade information, d) capacity for analysis of trade policy issues, and e) effective trade support institutions – standards, export promotion, customs. In all of these areas, capacity in Sierra Leone is very weak.

43. The Ministry of Trade and Industry (MTI) needs to move away from its old structure. The existing Trade Division should be abolished and in its place, an Industry and Commerce Division and an International Trade Division should be established to operate alongside the existing Administrative and Co-operative Divisions, and the Policy, Planning and Research Division (PPRD). The PPRD, which is now the heart of trade policy making, is totally dependent on external funding. This must change. Provision must be made in the national budget for salaries and expenses, and a senior civil servant must be nominated to overlap with the current Director before she leaves. The government and donors need to make a longer term strategic commitment to trade policy, beginning with the provision of a larger and more permanent staff for the PPRD, and a medium-term program to build their capacity.

44. The PPRD must work with other relevant ministries and stakeholders to formulate and implement a detailed trade and export policy for Sierra Leone. Both the Ministry of Finance and the Bank of Sierra Leone have economic policy research capacity which must be tapped. It will also be necessary to promote policy-relevant research in the university or research centers. Such independent analysis can also serve to build public understanding of and support for action on key trade issues. The National Coordinating Committee on Trade (NCCT) will play an important role in implementing such a strategy, but it will require a stronger PPRD to support its work.

45. Export promotion and development is the responsibility of the Sierra Leone Export Development and Investment Corporation (SLEDIC). It is currently being restructured. Success will depend on its new mandate, its private sector focus, the quality of its staff, and the resources that are provided. The initial priority should be to serve as an advocate for exporters across the various agencies of government. It should focus on the constraints placed upon exporters by a hostile business environment. As these constraints are alleviated, the agency may be able to turn to the provision of services to exporters that enhance their competitiveness on world markets and allow them to enter new markets and introduce additional products. But it will need to remain very modest and focused in its ambitions given the limited resources available.

46. The capacity to meet commercial quality requirements and comply with standards is increasingly important. Quality and standards are closely related, but they are not identical. A product may not face any mandatory standards, yet it may suffer serious quality issues – the case of cocoa. Other products may be of sufficient quality yet the mechanisms are not in place to

prove their compliance to the satisfaction of the importer – witness the case of fish exports to the EU. Sierra Leone should concentrate at present on the most basic functions. Development of broad awareness and promotion of the adoption of 'good' agricultural and manufacturing practices and quality management systems will set the stage for later developments. Initial efforts should focus on particular higher risk/higher gain export-oriented sub-sectors that require specific regulation and institutional structures. Fish and cocoa are clearly the main products demanding attention at present, together with maintenance of the integrity of the Kimberley process for diamonds. The Government should proceed slowly with investment in expensive testing and laboratory services.

47. Finally, the study provides some advice on the various trade negotiations facing Sierra Leone. In particular, it is recommended that more attention be devoted to the Economic Partnership Agreement being negotiated between ECOWAS and the EU, to determine how best to approach these negotiations. Sierra Leone should also work to improve the implementation of the ECOWAS free trade area.

Action Matrix

48. The Action Matrix that follows was developed to sequence and prioritize the detailed recommendations of the individual chapters of the DTIS. For each action, it specifies the Objective, Action to be Undertaken, Party Responsible, Timing, and Performance Indicators. Timing is assigned in terms of the period of months in which the action should be initiated and completed, after the DTIS is approved by Cabinet. Choice of actions to be included and their timing is predicated on the following criteria:

- Importance of the Objective in terms of its contribution to trade, growth, and poverty reduction.
- Importance of Action to be undertaken in terms of its contribution to the Objective.
- Urgency of Action in terms of its necessarily preceding other Actions
- Priority of Action relative to other Actions. Higher priority Actions are undertaken first.
- Period of time required for implementation of Action.

49. The specific Action Matrix presented, and especially the Timing of Actions, is only suggestive. Elaboration of a final Action Matrix will depend on further discussion within Sierra Leone, including the deliberations of the Validation Workshop. The criteria presented here should provide useful guidelines for this discussion.

Action Matrix

OBJECTIVE	ACTION TO BE UNDERTAKEN	PARTY RESPONSIBLE	TIMING IN MONTHS	PERFORMANCE INDICATORS
Agriculture and Agro-Industry				
General				
Gain understanding of regional market	Conduct survey of regional market for gari, rice, palm oil, palm kernel oil, and cashews, including size, structure, quality specifications, rural/urban, etc.	MTI	12-24 mo	Regional market survey completed.
Gain understanding of tree crop situation	Undertake survey of distribution, demography, and condition of major tree crops: oil palm, cocoa, cashew.	MAFS	0-12 mo	Tree crop survey completed and results published.
Facilitate establishment and operation of farmer organizations.	Develop protocol for managing farmer and other stakeholder groups, including minimum size requirements, location needs, etc.	MAFS	0-12 mo	Protocol developed and approved by government authority.
Facilitate use of the media to improve crop management.	Develop protocol for use of the media to disseminate best practices regarding IPM, agronomy, and crop husbandry.	MAFS	0-12 mo	Protocol developed and approved by government authority.
Create legal environment necessary for leasing.	Introduce legislation required to establish and regulate leasing companies. Encourage establishment of companies to lease rice mills and other equipment.	BOSL, Parliament	0-60 mo	Leasing legislation enacted. At least one leasing company established that handles agricultural equipment.
Reform and update phytosanitary policy and import quarantine system.	Conduct review of the existing phytosanitary policy and import quarantine system, as well as proposals for reform. Enact and implement legislation along lines of proposals for reform.	MAFS	0-24 mo	Report of review and proposals for reform published.
Build capacity of Produce Inspectorate for grading and sealing of quality produce for export.	Conduct staff and farmer training and provide grading, sealing and certification equipment and materials.	MAFS, SLSB	0-24 mo	Number staff and farmer training sessions conducted. Produce Inspectorate and SLSB fully operational.
Improve quality control and reduce transactions costs in marketing.	Farmers organizations (e.g. Farmer Field Schools) establish buying centers where members can bring their crops either for direct sale to exporters or for sale to the local Marketing Association. FFS federated into Marketing Associations, and their management and financial capacity strengthened.	NGOs, MAFS	12-60 mo	At least five buying centers are established and functioning. At least five Marketing Associations are established and functioning.
Improve quality control and reduce transactions costs in processing and marketing.	Encourage processors to invest in local buying centers.	MTI, NGOs, Private Sector	12-60 mo	At least five local processors are established and operating in buying centers.
Improve quality control.	FFS introduce grades and standards into buying centers.	NGOs, Private Sector	12-60 mo	Grades and standards introduced into five buying centers.

OBJECTIVE	ACTION TO BE UNDERTAKEN	PARTY RESPONSIBLE	TIMING IN MONTHS	PERFORMANCE INDICATORS
Improve credit availability	Test use of warehouse receipts.	NGOs, private sector	12-60 mo.	System of warehouse receipts tested in 2 buying centers.
Improve market information.	Establish market information system.	MAFS, private Sector	12-60 mo	Market information system functioning with weekly radio broadcasts of prices.
Reduce business risk.	FFS trained in use of formal and informal systems of managing disputes.	NGOs	12-60 mo	10 FFS trained in use of formal and informal systems of managing disputes.
Cocoa				
Increase knowledge of how to combat black pod and other cocoa pests.	Short training courses for extension workers in non-chemical treatment and prevention of black pod and other cocoa pests.	MAFS, NGOs	0-12 mo	Numbers of participants in training courses.
Increase knowledge of fermentation and drying.	Short training courses in post-harvest treatment of cocoa for proper fermentation and drying.	MAFS, NGOs	0-24 mo	Numbers of participants in training courses.
Extend knowledge of pest control and post-harvest treatment of cocoa to farmers.	Schedule and carry out routine farmer group visits to monitor protection against cocoa pests and control of quality, and assure farmer awareness of techniques for maintaining this protection as well as of treatment of cocoa for proper fermentation and drying.	MAFS, NGOs	0-60 mo	Number of farmers visited. Pest infestation declines. Quality of cocoa improves.
Introduction of high yielding hybrid varieties of cocoa into Sierra Leone.	Trip by MAFS officials, agricultural researchers, and others involved with cocoa in Sierra Leone to Ghana and Côte d'Ivoire to explore the possibility of importing hybrid cocoa tree seedlings into Sierra Leone .	MAFS, Njala University College	0-12 mo	Trip undertaken and trip report produced. Review undertaken and report produced.
Rehabilitate clonal seed gardens for improved, high-yielding cocoa seedling trials and first-stage multiplication.	Improve status of clonal seed garden facilities for replanting using budded materials, irrigation, tools and materials, and trained nursery technicians	MAFS	0-12 mo	Clonal seed gardens rehabilitated and equipped with modern facilities for seed multiplication.
Expand production, distribution, and planting of high-yielding hybrid cocoa seedlings.	Reinforce capacity of clonal seed gardens to engage in first stage of multiplication. Work with FFS to establish system of farmer multiplication for subsequent stages. Extension agents work with farmers on replanting.	MAFS, NGOs	12-60 mo	At least 200,000 seedlings of high-yielding hybrid varieties of cocoa produced per year.
Consolidate sales of cocoa to improve quality control and reduce transactions costs.	Work through local cooperatives or other farmer groups to establish small-scale fermentaries, localized in areas of production, where cocoa pods can be delivered and output	MAFS, MTI	12-36 mo	Report produced.

OBJECTIVE	ACTION TO BE UNDERTAKEN	PARTY RESPONSIBLE	TIMING IN MONTHS	PERFORMANCE INDICATORS
	consolidated at the earliest stage.			
Improve quality control and reduce transactions costs in cocoa processing and marketing.	FFS establish buying centers for purchasing cocoa either for direct sale to exporters or for sale to local Marketing Association. MAFS monitor differential pricing of cocoa in relation to quality.	MAFS, NGOs, FFS	12-60 mo	Three buying centers operating in the cocoa region. Some differentiation of pricing in relation to quality.
Encourage greater competition in cocoa exports.	Organize cocoa buyer visits in Sierra Leone. Facilitate expansion of volume of cocoa purchases by world cocoa buyers.	MAFS, MTI	12-60 mo	At least three world cocoa buyers operating in Sierra Leone.
Streamline and make more efficient the inspection process for cocoa exports.	Disband Ad Hoc Committee. Constitute a Task Force to study the inspection process for cocoa exports and to make specific recommendations,	MTI	0-60 mo	Task Force recommendations fully implemented.
Strengthen role of private sector in cocoa marketing.	Establish private sector association in cocoa marketing, with an office and secretariat. Association introduces differential pricing of cocoa in relation to quality; serves as source of information and effective lobbying.	Private Sector	12-60 mo	Private sector association established. At least two policies in cocoa marketing reviewed and reformed as a result of its activities.
Oil Palm				
Redistribute land within oil palm estates to smallholders.	Undertake a cadastral survey of land within existing oil palm estates. Enact and implement legislation providing for redistribution of some of the land within oil palm estates to smallholders.	MAFS, Parliament	0-36 mo	Cadastral survey undertaken and recommendations made for redistribution of land. 12,000 ha of oil palm estates redistributed to smallholders.
Assist in rehabilitation of oil palm plantations,.	Short training courses for extension workers in oil palm rehabilitation. Dissemination to farmer groups, FFS.	MAFS, NGOs	0-12 mo	Number of farmers visited.
Encourage investment in small-scale oil palm mills.	Investigate most desirable small-scale oil-palm mills available on world market. Work with importers, traders, and financial institutions to make these available within Sierra Leone. Disseminate information	MTI, NGOs, Donors	0-60 mo	At least 5 small-scale oil palm mills established.
Encourage exports of palm kernel cake and other oil palm products.	Assist but not subsidize Marika Company in testing export shipments of palm kernel cake and other oil palm products overseas and regionally.	MTI	0-12 mo	At least two test shipments made.
Introduction of high yielding improved varieties of oil palm into Sierra Leone.	Trip by MAFS officials, agricultural researchers, and others involved with oil palm in Sierra Leone to Malaysia or Côte d'Ivoire to explore the possibility of importing improved oil palm seedlings.	MAFS, Njala University College	0-12 mo	Trip undertaken and trip report produced.

OBJECTIVE	ACTION TO BE UNDERTAKEN	PARTY RESPONSIBLE	TIMING IN MONTHS	PERFORMANCE INDICATORS
Cashew				
Encourage planting of cashew trees by smallholders.	Fund production and distribution to smallholders of 200,000 cashew seedlings by the Kamcashew Enterprise. Prepare five-year plan for seedling production and sales in collaboration with Kamcashew and the national extension and tree crop research services.	MAFS, Kamcashew Enterprise, NGOs	0-24 mo	200,000 cashew seedlings produced and distributed. Five-year plan for seedling production and sales prepared and published.
Improve cashew crop production and processing management.	Hold workshops and disseminate information via farmer group visits and FFS, on cashew crop production and processing management.	MAFS, Kamcashew Enterprise, NGOs	0-60 mo	Numbr of workshop participants. Number of farmers visited.
Upgrade quality of cashew production.	Establish parent-stock orchards using high-yielding, sizable nut-grafted materials.	MAFS	0-36 mo	Size and number of parent-stock orchards established.
Investigate feasibility of cashew processing.	Conduct feasibility study of processing and exports of cashew kernels and by-products such as Cashew Nut Shell Liquid (CNSL).	MTI	12-36 mo	Feasibility study conducted and results published and disseminated
Improve processing of cashew at Kamcashew.	Arrange for practical hands-on training of the core staff either at, or by, staff from processors in Guinea-Bissau.	MTI	0-12 mo	Improved performance of Kamcashew processing plant.
Milled Rice and Gari				
Develop small-scale processing of rice and cassava.	Support on-going efforts to encourage investment in small-scale rice mills and equipment for gari processing. Test different models under local conditions. Provide support for purchasing of mills and provision of spare parts and servicing (e.g.leasing).	MTI	0-60 mo	Number of small-scale rice mills and gari processing equipment that are operational.
Improve marketing of domestic rice and gari.	Undertake study of constraints on rice and gari marketing for export and domestic consumption.	MAFS, MTI	12-60 mo	Study completed and results published and implemented.
Ginger				
Investigate best varieties for export	Monitor and test new and established varieties of ginger for the export market	MAFS	0-12 mo	Monitoring and test results published
Promote continuous seed multiplication to maintain sustainable supply of ginger to market.	Strengthen regular extension field supervision by provision of mobility, field equipment and incentives to extension workers in the ginger producing areas.	MAFS	0-24 mo	Extension agents equipped for regular field visits and interacting with ginger farmers. Ginger production increased.
Build capacity of ginger farmers to process dried ginger for export.	Conduct training workshops on processing, quality assurance, sanitation and handling. Make available community drying platforms, concrete drying floors, stoves and water.	MAFS	0-24 mo	Training sessions conducted. Drying yards, community drying platforms, and stoves constructed.
Encourage production of ginger for export.	Prepare viable interventions in the ginger sub-sector to promote production for export; include an Action Matrix.	MAFS, SLEDIC	12-60 mo	Interventions prepared and included in Action Matrix.

OBJECTIVE	ACTION TO BE UNDERTAKEN	PARTY RESPONSIBLE	TIMING IN MONTHS	PERFORMANCE INDICATORS
Other crops				
Encourage diversification of export crops	Support private sector initiatives in other high-value crops without diverting government resources from priorities	Private sector, MAFS	24-60 mo.	Number of other private sector export operations launched
Forestry				
Improve forest management and control logging	Conduct survey and inventory of forest reserves, and develop a program for exploitation. Stop illegal chain saw operations. Design and enforce reforestation policy.	Environment Commission	0-36 mo	Strategy for forest exploitation in place. Illegal operations stopped.
Fisheries				
Develop a fisheries strategy in collaboration with the Strategic Partnership.	Complete initial assessment of status of fish stocks; update and define fishing effort of standard vessels by assessing typical catching capacity of selected categories of vessels. Reach internal and donor agreement on short- and long-term sector strategies, and define roles of donors in supporting and implementing such strategies; initially focus short-term strategy on MCS, port development and standards compliance – develop long-term strategy for small-scale fisheries and aqua/mari-culture.	MFMR MFMR, Ministry of Finance, Ministry of Planning, donors	0-24 mo	Assessments completed. Strategies developed and donor roles defined.
Improve fishery infrastructure	Prepare detailed design alternatives for the fishing port in Freetown and temperature controlled fish export facilities in Lungi airport, and reach agreement with donors on procurement, construction and funding.	MFMR, SLPA, donors	0-24 mo	Design alternatives prepared. Agreement with donors reached.
Prepare for negotiation of fisheries agreements.	Study existing fisheries agreements. Interview staff from Ministry of Fisheries in Morocco, Senegal, Namibia and Mauritius about negotiation process and strategy. Prepare for and train negotiating team – possibly with external negotiating coach/assistance.	MFMR	0-24 mo	Report on fisheries agreements prepared. Negotiating team prepared and trained.
Establish preconditions for conclusion of fisheries agreements.	Approve creation of the Joint Monitoring Authority, and arrange for sustainable funding. Study and finalize selection of Vessel Monitoring System; obtain donor support for implementation (EU or other donors). Ensure that EU agreement includes mid-term evaluation that enables review and adjustment of the agreement.	MFMR Ministry of Finance, donors	0-24 mo	JMA approved and funded. VMS selected, donor support obtained. Mid-term evaluation included.
Prepare for improved access to foreign fish markets. Complete EU access conditions List 1.	Approve and gazette Sierra Leone Fisheries Product regulations. Finalize funding, organization and operating procedures for the Competent Authority, and the Food Unit, within the Environmental Health Division of the Ministry of	MFMR, Ministry of Health, Ministry of Finance, donors	0-24 mo	Regulations approved and gazetted. Funding, organization, and operating procedures finalized.

OBJECTIVE	ACTION TO BE UNDERTAKEN	PARTY RESPONSIBLE	TIMING IN MONTHS	PERFORMANCE INDICATORS
	Health. Obtain additional equipment and consumables for the Ramsy Medical Laboratory in Freetown. Include Sanitary Certification and approval of industrial vessels as a condition for industrial fishing licenses.			Donor agreement obtained. Certification and approval included.
Develop a private sector support program.	Appoint a local fishery business consultant. Develop an outreach program for the Ministry of Fisheries and Marine Resources. Create a support program to assist local companies to merge, develop joint ventures with foreign companies, expand and obtain commercial funding (e.g. IFC).	MFMR MFMR	12-36 mo	Fisheries Business Consultant appointed. Program developed. Program created.
Make MCS system effective.	Strengthen MFMR with Human Resource Development and logistics	MFMR, Office of the President, Parliament	12-36 mo	MFMR strengthened.
Construct fishing port.	Prepare tender documents, and procure contractor and supervising engineers. Organize autonomous port authority, with its own rules and regulations, in cooperation with SLPorts Authority.	SLPA, MFMR, Office of the President, Parliament	12-36 mo	Contractor and engineers procured. Port authority organized.
Evaluate effectiveness of fisheries agreements.	Conduct external, independent analysis two years after agreements have been reached;	MFMR, donors	24-48 mo	Analysis conducted and report published.
Improve sector governance.	Create effective National Dialogue Platform among stakeholders by utilizing the expanded scientific and technical committee in DFID review and by restructuring of MFMR.	MFMR	12-36 mo	Expanded scientific and technical committee operational.
Develop aquaculture	Restore basic public sector services (hatcheries, extension services, etc.) Support commercial aquaculture.	MFMR	12-60 mo.	Extension services functional. Commercial aquaculture firms established.
Develop action plan for next five years	Review results of the actions proposed in this matrix. Hold a workshop, with interested parties, to discuss results so far and to develop guidelines for an action matrix for the next 5 years. Create new action matrix, with supporting documentation, and submit all workshop participants for comments and suggestions.	MFMR, MTI	24-36 mo	Report prepared. Workshop held. New action matrix created and submitted to participants.
Mining				
Clarify legal rights to mining areas in an equitable and transparent fashion.	Extend Mining Cadastre System across all mining regions, and issue all mineral rights on a first-come first-served basis using the cadastre system.	MMR MMR, LRC	0-24 mo	MCS in place in all mining regions. Mineral rights issued on first-com first-served basis.

OBJECTIVE	ACTION TO BE UNDERTAKEN	PARTY RESPONSIBLE	TIMING IN MONTHS	PERFORMANCE INDICATORS
	Ensure that any changes required in the Mineral Act to support the operation of the Cadastre system are made. Review and clarify procedures for registering exploration & mining companies, along with the policy on awarding artisanal licenses inside other mineral rights. Develop laws and regulations for underground mining in cooperation with LRC.	MMR MMR, LRC		Mineral Act amended as necessary. Procedures and policy reviewed and clarified in a published report. Laws and regulations enacted
Separate regulatory and revenue collection functions of GOSL.	Responsibility for valuation and export of gold transferred from MMR to GDD/NRA.	MMR, GDD/NRA	0-12 mo	Transfer made.
Increase transparency in mining sector.	Establish and make operational a Public Information Unit. Make public the membership and terms of reference of the Mineral Advisory Board, as well as the licenses awarded by the Board. Develop guidelines for investment in the minerals sector and create capacity for background checks on investors. GoSL to develop and agree on an EITI implementation framework Publish information on allocations to Community Development Funds	MMR	0-24 mo	PPU established and operational. Membership and TOR made publicly available, along with licenses awarded. Guidelines issued. Capacity created. Implementation framework finalized.
Reduce environmental impact	Re-establish environmental committee to review applications for mining licenses	MMR, SLCEF	0-12 mo.	Committee meets regularly
Improve functioning of the Ministry of Mines and Mineral Resources	Develop a program of work designed to implement the recommendations of the Management & Functional Review.	MMR	0-24 mo	Recommendation implemented.
Tourism				
Change image of Sierra Leone.	Develop tourism marketing program.	SLNTB	0-12 mo	Marketing program developed and being implemented.
Develop long-term tourism plan.	Elaborate a Strategic Plan for Relaunching the Tourism Sector, 2006-15	Ministry of Tourism	0-24 mo	Strategic Plan elaborated.
Develop detailed plans for Key Areas.	Develop detailed Tourism Master Plans for Key Areas	Ministry of Tourism	12-36 mo	At least two detailed Tourism Master Plans developed.
Build capacity for tourism planning and implementation	Build human resource and administrative capacity within the Ministry of Tourism and the SLNTB.	Ministry of Tourism, donors	0-24 mo	Number of qualified tourism human resource planners and administrators increased

OBJECTIVE	ACTION TO BE UNDERTAKEN	PARTY RESPONSIBLE	TIMING IN MONTHS	PERFORMANCE INDICATORS
Build tour guide capacity.	Design and implement Tour Guide Training Program	SLNTB	12-24 mo	Number of qualified tour guides increased by 100%
Improve information on attractions in Sierra Leone	Develop Museum in Freetown with a greater emphasis on disseminating tourism orientated information.	SLNTB	12-36 mo	Establishment of Museum as interpretive center.
Expand range of tourist attractions	Elaborate and implement Tourist Attraction Development Programs in key cultural, heritage and ecotourism sites (e.g. Tacugama, Tiwai, Bunce Island, Outamba – Kilimi National Park).	SLNTB	12-60 mo	At least five Tourist Attraction Development Programs elaborated and implemented.
Develop beach tourism	Conduct feasibility studies of Joint Venture Beach Resorts, involving the private sector, down the Western Peninsula.	Ministry of Tourism, private investors	12-60 mo	At least five feasibility studies conducted.
Rehabilitate existing hotels and guesthouses.	Develop program for refurbishment and improvement of existing hotel accommodation and guesthouses	Ministry of Tourism, SLNTB, private investors	12-60 mo	Program developed.
Customs				
Reduce clearance costs	Introduce an integrated Customs/Port automated system based on business process re-engineering (BPR), with decrease in number of steps and introduction of one stop shop for customs. Seek alternatives to reduce or eliminate container scanner fees.	NRA, SLPA, SLSB, private sector NRA, SLMA, Intertek	0-12 mo 0-12 mo	Integrated Customs/Port automated system in place. . Container scanner fees reduced.
Increase transparency	Revise and publish the Customs Law and Customs Tariff.	NRA, MoF, Parliament	0-12 mo	Customs Law and Customs Tariff published.
Inform traders and transporters of existing customs and trade regime.	Hold workshops, display posters and other means of education regarding applicable tariff rates and customs procedures.	NRA	0-12 mo	Number of workshops held, number of posters displayed.
Improve valuation procedures	Review the inconsistencies and lack of transparency of current valuation practices, and move toward implementation of the WTO valuation agreement.	NRA	0-24 mo	Report issued and recommendations implemented.
Build capacity of Customs service	Establish new Customs training facility with program based on the recommendations of a comprehensive training needs analysis and an expatriate training manager. Hold a series of workshops to enhance the technical skills and knowledge of Customs officers and their private sector counterparts.	NRA, donors NRA	12-24 mo 0-24 mo	New training facility and program established. At least three workshops held.

OBJECTIVE	ACTION TO BE UNDERTAKEN	PARTY RESPONSIBLE	TIMING IN MONTHS	PERFORMANCE INDICATORS
Transfer PSI knowledge to nationals	Put in place measures that will enable retirement of the PSI contract with Intertek; involve MTI in regular appraisal meetings of PSI contract	NRA	0-36 mo	Intertek contract terminated
Improve Customs-to-Business cooperation and communication	Ensure regular meetings of Customs Consultative Committee, to provide advice to the Commissioner, including key stakeholders representing major traders and excise payers, clearing and forwarding agents, shipping agents, SLPA and MTI.	NRA	0-60 mo	Committee meets quarterly.
Maximize Customs-to-Customs cooperation	Develop a series of MOUs with the Customs services of chief trading partners.	NRA	12-60 mo	At least 10 MOUs developed and signed
Reduce cross-border smuggling	Establish flexible anti-smuggling teams (FASTs) to enhance border controls. Obtain equipment and support for the enforcement function (vehicles, equipment and running costs). Recruit an expatriate FAST expert.	NRA	12-60 mo	At least five FASTs established, equipped, and fully operational.
Infrastructure				
Upgrade transport infrastructure.	Develop new National Transport Strategy and Investment Plan (2006-2010), consistent with needs of priority export sectors. Complete road network to facilitate transport of cocoa and other key agricultural exports Improve capacity to maintain roads including better coordination with local government and participation of the private sector.	MTC SLRA MTC	0-24 mo 0-60 mo	National Transport Strategy and Investment Plan (2006-2010) developed and published. Roads in Eastern Region improved
Encourage private participation	Introduce enabling regulatory framework to promote and facilitate public-private partnerships in the building and operation of (dry) ports and terminals, handling and storage facilities at terminals and ports.	SLPA, SLMA, Freetown International Airport authority	0-24 mo	Regulatory framework established.
Increase planning capacity and improve co-ordination between various ministries and related agencies.	Capacity building for the staff of the Ministry of Transport and Communications and related transport institutions. Clarify division of responsibilities with other agencies, (e.g.Ministry of Works and Sierra Leone Road Authority). Set up network of transport information systems to monitor developments in the sector	MTC, Ministry of Works, SLRA, SLRTA, SLPA	0-24 mo	Number of technically qualified staff members increased by 200%. Areas of overlap eliminated. Information network established and incorporated into planning.
Train private sector transport actors.	Set up short courses and practical experience training for transport operators and drivers, logistic managers, freight forwarders, clearing agents, and terminal operators.	SLRTA, SLPA, IFFFA, donors	0-24 mo	At least 200 people trained

OBJECTIVE	ACTION TO BE UNDERTAKEN	PARTY RESPONSIBLE	TIMING IN MONTHS	PERFORMANCE INDICATORS
Strengthen public-private dialogue in transport and trade facilitation, transit and border crossings.	Create capacity at the MTC to carry out monitoring of transport, trade facilitation, transit and border crossings, promote dialogue between the private sector and the public sector on trade and transport facilitation issues and establish a National Working Group on trade facilitation with all important stakeholders involved.	MTC	0-36 mo	Capacity created and tested. National Working Group established and holding regular meetings.
Develop cheap transport alternatives	Investigate potential for low-cost inland water transport	MTC, SLMA	0-36 mo.	Study conducted.
Improve electricity supply	Accelerate provision of adequate and reliable energy to reflect private sector needs (e.g. agro-processing, tourism)	NPA, MEP	0-60 mo.	Electricity available in Freetown and major towns
Extend cellular phone service and broad-band internet connection	Adopt a liberal policy of issuing licenses for cellular phone service and broad-band internet connection. Use licensing agreements to encourage establishment of service in rural areas.	MTC	0-36 mo	Number of licenses issued. Coverage indicators.
Improve telecom regulatory framework.	Ensure effective implementation of new regulatory authority in the telecom sector.	MTC	0-36 mo	Regulatory authority functioning well.
Improve water supply	Address urgently the water supply needs of Freetown, including tourist areas	MEP, SALWACO, GVWC	0-24 mo	No more water rationing.
Financial Services				
Promote the development of financial intermediation in rural areas	Promote existing MFIs, and encourage new ones by simplifying the registration process. Encourage commercial banks to lending to processors, traders, and exporters, perhaps through structured finance. Restructure the NCDB in ways that allow it to work more directly with groups of borrowers such as the barrays. Establish private sector apex organization so BOSL can gradually disengage from Community Banks	BOSL, FSAP, donors BOSL, FSAP commercial banks BOSL, FSAP, NCDB BOSL, FSAP	0-12 mo 0-36 mo 0-12 mo 0-36 mo 12-24 mo 12-36 mo	Number of MFIs operating. Increased lending by commercial banks to processors, traders, and exporters. Restructuring takes place. Apex organization established. BOSL fully disengaged
Increase banking competition	Continue to promote new entry by reliable banks, and privatize 2 state-owned banks	BOSL, FSAP	0-24 mo	Incorporated into FSAP report.
Improve legal, regulatory, and judicial environment for	Enact legislation regarding property and collateral, particularly use of land for collateral in rural areas	BOSL, FSAP, President's office,	0-24 mo	Legislation enacted Commercial courts established.

OBJECTIVE	ACTION TO BE UNDERTAKEN	PARTY RESPONSIBLE	TIMING IN MONTHS	PERFORMANCE INDICATORS
financial services.	Expedite the setting up of commercial courts.	Parliament	0-12 mo	
Improve functioning of non-bank financial institutions.	Assist in education and dissemination of importance of regulations and requirements regarding non-bank financial institutions, as well as the implications of non-compliance. Train staff of these financial institutions.	BOSL, FSAP	0-24 mo	Information disseminated. Staff trained.
Improve banking information.	Encourage the establishment of a credit rating bureau.	BOSL, FSAP	0-12 mo	Credit rating bureau established.
Adopt leasing legislation.	Enact leasing legislation to the extent required beyond what is already covered in the Other Financial Services Act.	BOSL, FSAP, Parliament	0-24 mo	Legislation enacted.
Promote lending to SMEs	Explore regulations to encourage commercial banks to lend a certain minimum amount to SMEs	BoSL, MoF	0-12 mo	Lending to SMEs increased
Trade Policy				
Restructure the MTI	Disband the Trade Division and establish a new Industry and Commerce Division and an International Trade Division. Attach the PPRD to Office of the Minister,	MTI	0-12 mo	MTI restructured.
Build capacity within the MTI	Hire senior civil servant to head PPRD, recruit additional qualified staff, and establish a capacity-building program, including support for IF implementation	MTI, donors	0-12 mo	Staff recruited.
Improve access to data	Build and maintain a reliable data base on trade and trade-related issues in collaboration with other agencies	MTI, BoSL, SSL, MF	0-24 mo	Data base available and being updated
Develop trade and export strategy	Build on DTIS to design a trade and export strategy that has buy-in from all stakeholders	MTI and relevant stakeholders	0-12 mo	Strategy designed and adopted
Improve export and investment promotion	Restructure SLEDIC, establish realistic strategy for export and investment promotion focused on solving problems of exporters	MTI, SLEDIC, ITC	0-12 mo	SLEDIC restructured, strategy in place
Increase participation in trade negotiations	Make strategic assessment of priorities for Sierra Leone and focus more on EPA negotiations	MTI, MDEP, EU	0-24 mo	EPA capacity-building project designed and implemented
Clarify mandate and strengthen capacity of the SLSB	Develop strategy for exports focused on awareness raising, assessment, accreditation, and certification of enterprises and products. Transfer budget and some staff from Ad Hoc Committee. Establish reference laboratory and provide equipment to Fourah Bay College.	MTI, SLSB, donors	0-24 mo	Strategy developed, budget and staffing increased, laboratory established.
Strengthen trade research capacity	Establish PPRD documentation center. Develop work program with BoSL and EPRU. Identify suitable academics and consultants. Obtain funding to contract out.	MTI, EPRU, universities, BoSL, donors	12-24 mo	Documentation center established; funding obtained; Four research papers produced.

1. Introduction and Socio-Economic Background

INTRODUCTION

Sierra Leone is once more at peace and its people are ready to tap the bountiful resources bestowed on them by nature to rebuild their economy and society. Its mineral wealth is legend, though it goes well beyond the rather infamous diamonds. The seas are still full of fish of various species, some stocks actually replenished when the war years disrupted the fishing industry. One visit to Freetown, and the majestic hills rising above pristine sandy beaches easily evoke visions of a thriving tourism industry. And perhaps most important of all, plentiful rainfall and good land suggest a variety of agricultural exports, bringing cash directly into the hands of rural households. How many countries might envy Sierra Leone's good fortune, were it not for its troubled past?

Unfortunately, Sierra Leone's period of violent civil conflict from 1991 to 2001 wreaked havoc on the country's social fabric and its economy, exposing its people to extreme hardship and vulnerability. Today the country is ranked among the world's least developed countries and second-to-last on the Human Development Index. Infrastructure has been destroyed, institutions have disintegrated, people have fled. The country is almost starting over again, putting the pieces back together again.

The country has had to start with the most basic needs – re-establishing food supply, ensuring peace and security, rebuilding essential government services. Progress has been rapid, assisted by the donor community and by the significant inflow of cash from the artisanal diamond sector. But it is time to focus on a broader strategy of economic growth to generate much needed employment and revenues to pull people out of poverty and to finance public services. And in a country of only five million people of minimal purchasing power, it is clear that the domestic market is too limited to drive that growth and that exports must therefore play a major role. Happily, the country has many options. The question is where to start, how to make the most of the limited human and financial capacity currently available to kick-start a virtuous cycle of growth?

The time frame for this study is the next five to ten years. In this period, Sierra Leone's comparative advantage lies in a number of agricultural, agro-industrial, fishery, mining, and tourism activities. Over the longer term, exports of manufactures and services should also be encouraged, and an update of this report would be useful to explore such options, perhaps five years hence. Fortunately, many of the actions taken to increase exports in the areas covered by this study will also contribute to building capacity for trade in these other sectors.

This study is not intended to provide a growth strategy or a poverty reduction strategy. Rather, it aims to identify the role which trade might play in such a strategy, by (1) analyzing the key constraints to expansion of trade, (2) providing a sense of priorities for maximum impact of trade on poverty reduction, and (3) developing a targeted Action Matrix of policy and regulatory reforms, technical assistance and investment projects. It is primarily about export development, as Sierra Leone has already adopted a relatively liberal import regime – one which is now determined on a regional basis. After validation by the Government and a broad spectrum of stakeholders, multilateral agencies and the donor community will support the Government as it implements the Action Matrix. The study will also serve to strengthen the trade and growth dimension of the PRSP and ideally contribute to building a consensus on the way forward.

The next section provides a review of the socio-economic background to the DTIS, including the current profile of trade flows, and a discussion of some macroeconomic constraints on trade and

growth. This is followed in Chapter 2 by an analysis of the links between trade and poverty, including an assessment of the impact of some of the key recommendations of the study on poverty reduction. Chapters 3-6 look at the particular sub-sectors that were analyzed in detail – agriculture and agro-industry; fisheries; mining; and tourism. The cross-cutting policy, infrastructural, financial and institutional constraints on trade are presented in Chapters 7-10. These include customs and trade facilitation, infrastructure and financial services. The last chapter discusses Sierra Leone's trade policy and institutional framework.

SOCIO-ECONOMIC BACKGROUND

Sierra Leone covers an area of 71,740 km^2, the combined size of Belgium and the Netherlands, with a population estimated in 2006 at five million. Thirty-four percent live in urban areas. The population growth rate is 2.0 percent per annum, which is relatively low by African standards, partly because child mortality is very high (see Table 1-1). Average life expectancy is estimated at only 37 years. About 70 percent of the total population lives under the poverty threshold of $2.00 a day, a figure which rises to 79 percent in rural areas. The poverty profile has been exacerbated by the displacement of about two million people during the civil war. Adult literacy is much lower than the sub- Saharan African average, as is per capita income. School enrollment and access to safe drinking water, on the other hand, are similar to African norms.

Table 1-1: Sierra Leone – Selected Social Indicators
(2002 unless otherwise noted)

Indicators	Sierra Leone	Sub-Saharan Africa	Developing Countries
Under-five Mortality (per 1,000 live births)	284.0	174.0	88.0
Life Expectancy at Birth (years)	37.0	46.3	64.6
Adult Literacy Rate (% ages 15+)	36.0	63.2	76.7
Combined Gross Ratio for Primary, Secondary & Tertiary Schools (%)	45.0	44.0	60.0
Population Without Sustainable Access to Improved Water Source (2000)	43.0	43.0	22.0
GDP per Capita (PPP US$)	520.0	1790.0	4054.0

Source: UNDP, *Human Development Report 2004*; UNESCO Institute for Statistics (2002).

Sierra Leone has a rich and diversified natural resource base comprising diamonds, rutile, bauxite, gold, and other mineral resources; ample rainfall and land, with a variety of agro-ecological conditions; a significant maritime fishery; and good tourism potential. Economic growth is largely dependant on the mining and agricultural sectors. Diamonds are the main mineral product and export, while agriculture engages about two-thirds of the working population, currently reduced to basically subsistence production.[2]

After growing at 4 percent annually in the 1960s, the economy deteriorated sharply during the next two decades as a result of poor macroeconomic and fiscal policies, massive state intervention, concentration of state spending on the non-poor, dismantling of local government,

[2] World Bank, Sierra Leone – Country Brief.

rampant corruption, and economic policies that held back overall economic activity and heavily taxed agriculture and the rural population. Real GDP per capita peaked in 1970. Between 1971 and 1989, it dropped 37 percent, and, by 1990, 82 percent of the population lived below the poverty line.

In late 1989, given the continuous decline and deterioration in living standards, the Government initiated a comprehensive economic recovery program. During 1992-1994, Sierra Leone implemented a structural adjustment program supported by the IMF and the World Bank. However, by 1991, the civil war in Liberia had spread into the eastern part of Sierra Leone, and sporadic attacks by the Revolutionary United Front gradually expanded throughout the country. Multi-party elections were held in 1996, but the government was overthrown in a violent coup the following year. Although the elected President was reinstated in 1998 with the help of ECOWAS peacekeeping forces, the situation remained unstable until 2001. Tremendous damage was inflicted on Sierra Leone by this protracted civil war. More than two million people, nearly half the population, were displaced, farms were abandoned, large-scale mining ceased, and infrastructure was destroyed.

RECENT EFFORTS AT MACROECONOMIC REFORM

Following the signing of the Lomé Peace Accord in July 1999, the Government, in collaboration with multilateral and bilateral donors, elaborated an economic recovery program. The program was aimed at re-establishing macroeconomic stability, rehabilitating the economic and social infrastructure, and rebuilding capacity for policy formulation and implementation.

By late 2000, the security situation had improved. In September 2001, the Fund approved a three-year Poverty Reduction and Growth Facility (PRGF) arrangement. An Interim Poverty Reduction Strategy Paper was issued in 2001, and its final version (PSRP) was ready in March 2005. The PRSP provides a medium-term framework to address the socio-economic challenges facing Sierra Leone. Tax and tariff reforms are also being undertaken, while privatization is just beginning. Since 2001, steps have been taken to combat corruption and improve governance by revising the regulatory framework and creating an Anti-Corruption Commission. From 2002, Sierra Leone has been eligible for, and benefited from, assistance under the enhanced Heavily Indebted Poor Countries Initiative (HIPC).

The government has pursued structural and institutional reforms since 2002 to improve economic management and promote growth. The reform areas include strengthening public financial management, promoting good governance, enhancing domestic revenue mobilization, and supporting private sector development, notably in the mining sector. The reforms have been supported by Sierra Leone's development partners including the IMF under the PRGF, the World Bank's Economic Rehabilitation and Recovery Credits (ERRC I-IV), the African Development Bank's Economic Rehabilitation and Recovery Loans, the United Kingdom's Poverty Reduction Framework Arrangement, and the European Union's Post Conflict Budgetary Support.

RESULTS TO DATE

General Economic Conditions

As shown in Table 1-2, economic conditions improved substantially after successful completion of the disarmament and demobilization program and with rapid resettlement of the displaced population. The end of the war officially opened the entire country to the free movement of goods and services, although destruction of roads and bridges during the war seriously impeded

this movement. Nevertheless, agricultural and artisanal mining production increased rapidly as the rural population returned to its communities. Although real GDP growth accelerated sharply from 2000 to 2002, and remained in excess of 7 percent thereafter, this growth remained fragile. Much of the post-conflict recovery was a "bounce-back" effect due to large-scale resettlement and reconstruction activities, land being brought back into cultivation, the peace-keeping operation and other donor-funded programs. Fundamental constraints remain in place: the very poor state of infrastructure (notably roads and power), the limited capacity of the government, and continued uncertainty among investors over the sustainability of peace.

Table 1-2: Key Economic Indicators for Selected Years (1994, 2000-04)

(US$ millions)	**1994**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**
	Actual	Actual	Actual	Est.	Est.	Est.	Proj.
Growth of real GDP (%)	3.5	3.8	17.9	27.5	9.3	7.4	7.3
Gross domestic investment/GDP (%)	8.5	8.0	7.6	10.1	13.9	10.6	17.2
Gross domestic savings/GDP (%)	3.3	-8.1	-10.0	-9.4	-7.4	-5.0	-1.4
Current account balance/GDP, including official transfers (%)	-14.8	-9.8	-17.4	-4.8	--7.6	-4.9	-7.3
Government fiscal balance/GDP, including grants (%)	n. a.	-9.3	-10.6	-8.3	-6.7	-3.5	-2.7
Growth of exports (% U.S.$)	-0.1	22.3	6.1	48.9	27.4	17.1	22.8
Growth of imports (% U.S. $)	0.8	100.3	20.6	54.4	15.6	-15.7	36.0

Source: IMF

Foreign Trade

There are substantial weaknesses in Sierra Leone's trade data. Data on cross-border trade to neighboring countries are especially inaccurate, and smuggling continues to be a problem. However, the Bank of Sierra Leone has been working with the trade data for a number of years and their adjusted figures, which are shown in Tables 1-3 and 1-4 for 1994-2005, are probably the best that are available.[3]

The data on exports in Table 1-3 show the overwhelming dominance of diamonds, which account for 94 percent of all exports, excluding re-exports. This was not always the case. Diamonds comprised only 36 percent of exports in 1989-90, while bauxite, rutile and other metals accounted for another 42%, and fish, cocoa and coffee made up most of the remainder. During the years of civil war, diamond mining persevered due to its reliance on small-scale miners and the ease with which diamonds were traded. Indeed, it helped finance the rebel movement. On the other hand, all modern large-scale mining ceased, while fishing and cash crop production were drastically curtailed. Now that peace has been restored, some of these other exports will soon resume their historic place.

[3] "Mirror" data from Sierra Leone's trading partners were analyzed to see what light they could shed on Sierra Leone's trade. The results were frequently very unrealistic, so the BOSL's data are presented here instead. They should, however, be used with caution.

Among agricultural exports, the value of cocoa has rebounded since 2001, although that of coffee has been much more sluggish.[4] Exports of fish and shrimp are much lower than they used to be, although here the data is especially misleading. Since most of the fish is exported directly at sea, they easily escape measurement. Interviews with the industry suggest that fish exports totaled some $18 million in 2004, making this the second largest export category. In addition, there are also substantial unrecorded exports of gari (processed cassava), rice, and palm oil, which appear to be increasing rapidly. The value of gari exports is estimated currently to be about $3.5 million, or two-thirds that of cocoa.

Turning to imports, as summarized in Table 1-4, mineral fuels and lubricants are the largest component, and the most rapidly growing – even before the recent rise in petroleum prices. Also growing rapidly are machinery and transport equipment. Food imports, of which close to one-half is rice, are significant, at 15% of total imports, but falling in relative and even absolute terms as domestic production expands. Overall, the value of imports is more than double that of exports.

Looking at the direction of trade, using mirror data from trading partners, most diamonds are exported to the European Union, more specifically Belgium. The EU is also the main market for Sierra Leone's non-diamond exports, accounting for 70.5 percent of non-diamond exports in 2002/03 while another 8.6 percent was destined for the US market. Nineteen percent of these exports were shipped to low-income countries in this period, nearly 8 percent to South Asia and 4.6 percent to other Sub-Saharan countries.

[4] Official data on cocoa exports for 2005-06 suggest a fall in volumes, but interviews with exporters indicate that this is erroneous.

Table 1-3: Value of Exports, 1994-2005 (thousand US dollars)

Period	Diamonds	Bauxite	Rutile & Ilmenite	Gold	Coffee	Cocoa	Piassava	Fish and Shrimps	Tobacco	Others	Total
1994	25,557	16,440	58,808	741	2,650	2,877	95	1,012	1,584	3,581	113,345
1995	22,002	0	0	38	4,458	2,190	118	1,824	1,518	7,246	39,394
1996	28,307	714	2,287	168	1,418	2,475	99	1,842	1,164	6,642	45,116
1997	7,554	1,426	0	0	2,024	2,041	23	1,080	288	2,190	16,626
1998	1,785	0	0	6	1,055	1,455	144	78	132	1,562	6,216
1999	1,245	0	1,320	0	730	569	72	0	7	533	4,475
2000	10,067	0	0	0	639	302	18	8	3	1,005	12,042
2001	26,273	0	0	1	23	266	8	16	0	1,740	28,327
2002	41,732	0	0	0	272	1,219	26	22	0	3,090	46,362
2003	76,666	0	0	0	40	2,573	3	23	0	4,650	83,954
2004	126,330	0	0	162	53	5,260	2	24	0	4,056	135,887
2005	142,202	0	0	264	504	5,659	0	76	0	3,168	151,873

Source: Bank of Sierra Leone

Table 1-4: Value of Imports, 1994-2005

Period	Food	Beverages And Tobacco	Crude Materials	Mineral Fuels and Lubricants	Animal and Vegetable Oils	Chemicals	Manufactured Goods Classified by Materials	Machinery and Transport Equipment	Miscellaneous Manufactured Articles	Other	**Total**
1994	52,020	3,847	3,427	28,713	3,096	10,955	16,365	26,899	5,349	0	150,671
1995	66,441	4,108	2,845	21,775	4,285	11,324	6,608	11,415	4,632	29	133,462
1996	109,652	5,630	4,714	23,274	3,973	19,829	14,602	23,611	5,474	14	210,773
1997	40,551	2,438	2,738	15,466	1,966	9,729	6,104	11,601	1,874	0	92,467
1998	36,048	3,874	2,691	23,184	2,157	7,611	8,474	8,614	2,886	0	95,537
1999	27,782	3,183	2,899	19,680	1,075	8,047	5,871	7,541	3,277	0	79,354
2000	45,280	4,810	4,738	39,447	2,277	12,719	13,266	18,560	4,843	0	145,940
2001	51,917	4,869	5,755	43,335	1,601	8,479	21,501	37,240	8,924	0	183,619
2002	70,783	11,320	9,212	51,729	2,827	18,303	35,901	50,217	13,986	0	264,277
2003	74,511	11,049	6,880	78,211	2,221	19,266	42,186	56,396	12,964	0	303,686
2004	57,059	11,123	7,578	94,866	1,967	17,534	31,844	50,861	13,634	0	286,465
2005	53,115	9,920	8,754	115,597	1,307	22,747	40,674	71,824	17,125	0	341,063

Source: Bank of Sierra Leone

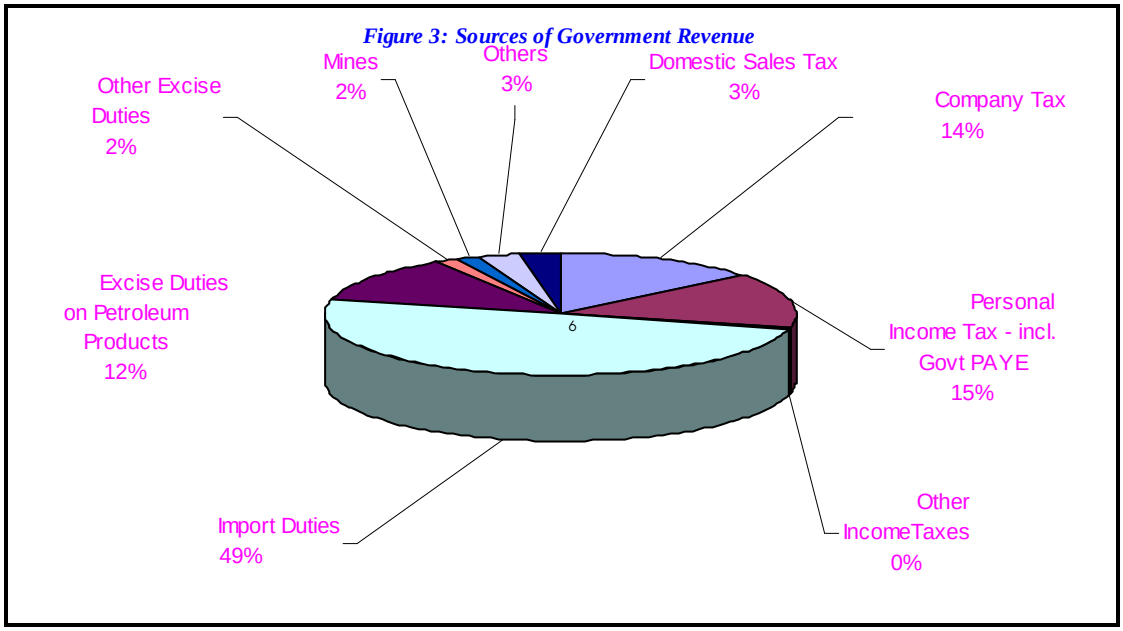
Comparing the periods before and after the civil war, exports to high-income economies have decreased, while the importance of developing country markets has risen. On the other hand, the concentration on the EU market has increased, while the importance of the US market has declined dramatically, with the demise of non-diamond mineral exports. Exports to Latin America have nearly disappeared, while the share of exports going to South Asia and other Sub-Saharan African countries has increased. However, as recovery continues and capacity in activities such as mineral mining is restored, one can anticipate higher exports to the US and somewhat less reliance on the EU.

Nearly two thirds of imports into Sierra Leone are now coming from the European Union, with another 4 percent from high income countries in Asia and 6 percent from North America. While imports from the EU have nearly tripled in absolute value and the share of EU imports has actually increased, imports from these other two regions have stayed relatively constant, with their share in total imports falling to less than half the levels of 1989/1990. On the other hand, imports from low-income countries have risen substantially, increasing their share from about 16 percent in 1989/90 to 26 percent in 2002/03. The most important region of origin within this group is not surprisingly Sub-Saharan Africa with 11 percent, though its share as a supplier has decreased slightly.

Government Finances

Government revenue is derived mainly from customs and excise duties, income taxes, mines and road user charges, and grants. Sierra Leone has a weak tax base, in part, because up to 70 percent of the economy is in the informal sector. Therefore, as shown in Figure 1-1, import duties comprise almost 50% of total tax revenue.

Figure 1-1: Sources of Government Revenue:



Although government revenue increased from 7 percent of GDP in 1999 to 12 percent by 2002, as shown in Table 1-5, its relative size has not increased since then. Meanwhile budgetary management has been made difficult by delays and shortfalls in donor inflows. Monetary policy has reflected this fiscal performance. Increases in bank credit to Government in 2003 contributed

to a rapid increase in broad money. Average annual inflation rose to 14.2 percent in 2004. The rise in prices of petroleum products and the depreciation of the exchange rate also contributed to this inflation. Domestic interest rates on 91 day treasury bills rose to 28 percent in 2004 from 20 percent in 2003, reflecting increased Government borrowing as well as inflation.

In 2004 domestic revenue collection exceeded the PRGF program target. Total revenue in the first half of 2005, however, was below the Government's target by 46.8% because of low domestic collections and delays in disbursements of grants from external donors. One reason for the low tax collection was the shift towards lower tariff rates under the ECOWAS common external tariff. Another was the falloff in imports resulting from the reduction in the size of the UN peacekeeping force (UNAMSIL), which began in 2004 but extended into 2005. Collection of income tax revenue was below target as parastatals continued to be in arrears. The ability to recoup mineral revenues continued to suffer from lack of clear mineral rights and security in the alluvial diamond mining areas. Recurrent expenditures were higher for 2004 than programmed because of overruns in wages and salaries, goods and services outlays, and domestic interest payments. As a result, poverty-related expenditures were cut in order to control the primary fiscal deficit.

Table 1-5: **Sierra Leone Fiscal Performance, 2001-04**

(% of GDP)	**2001**	**2002**	**2003**	**2004**	**2005**
	Actual	Estimated	Estimated	Estimated	Projected
Government Domestic Revenue	13.0	12.1	12.4	12.3	11.9
Total expenditure and net lending	29.5	28.6	26.9	24.8	24.6
of which: recurrent expenditure	24.8	24.2	22.1	20.2	n. a.
Overall fiscal balance					
(commitment basis, including grant)	-10.6	-8.3	-6.7	-3.5	-2.7
(commitment basis, excluding grants)	-16.5	-16.5	-14.5	-12.5	n. a.
Domestic primary fiscal balance	-7.7	-7.0	-5.6	-2.8	-3.1
Program grants and loans	6.8	6.7	3.3	6.9	n. a.
Project grants and loans	5.1	4.9	3.9	4.1	n. a.
Domestic financing	3.2	0.9	4.3	-0.1	1.2

Sources: Sierra Leonean Authorities; IMF staff estimates.

The wage bill posed a challenge to the 2005 budget because it was increased substantially due to demands from labor unions.[5] Implementation of the agreement was projected to lower domestic revenues by 0.2% of GDP while the wage bill was projected to increase by 0.9 percent of GDP. This weakened the government's ability to meet poverty related expenditure targets. As a result, the budget deficit grew in 2005, though substantial donor grants received in the fourth quarter helped to reduce the deficit inclusive of grants. Domestic financing of the overall deficit increased in 2005, mostly from commercial banks and non-bank sources. The net result was some crowding out of the private sector from access to domestic credit as Government borrowing increased relative to that of the private sector.

Foreign Assistance (Budget support)

Sierra Leone is undergoing a reform program that involves strengthening public financial management, promoting good governance, enhancing domestic revenue mobilization, and supporting private sector development. This process is encouraged by development partners

5 In January 2005, workers staged a two-day strike that threatened the state security in a fragile, post conflict environment, leaving the government with little choice but to concede to the demands of labor unions to increase workers' allowances and thresholds on taxable benefits.

through general budget support. However, delays in disbursement of this support have hindered public finance management. For example, external support for financing the budget deficit was considerably lower during the first part of 2005 than in 2004. One reason for this delay was the multiplicity and complexity of conditions, which were exceeded the limited monitoring capacity of Government.

Sierra Leone has been eligible for, and benefited from, assistance under HIPC since 2002. Ten out of eleven Paris Club creditors have agreed to provide debt relief on Naples terms."[6] In June 2005, the IMF approved an additional interim assistance under the HIPC initiative which is projected to reduce and help smooth out Sierra Leone's repayments obligations to the IMF. Sierra Leone's HIPC Initiative Completion Point triggers relate to disarmament and demobilization, decentralization of government functions, education, and health. The country could reach the Completion Point by late-2006, after one year of successful implementation of the full PRSP.

Trends in Money Supply, Inflation, and Interest Rates

As shown in Table 1-6, increases in bank credit to the Government led to a substantial increase in the money supply from 2001 to 2005. Partly as a result of this expansion, the rate of inflation rose to 14.2% by 2004. Although some responsibility for this increase must be assigned to higher costs of rice and petroleum product imports, decline in the growth of real output, and shortages in the supply of essential commodities, it is clear that Government recourse to bank credit was an important contributing factor. This trend persisted in 2005 as the Consumer Price Index (CPI) continued to rise by 13.1 percent in Freetown, and between 8.4% and 13.3% in the other major towns – only slightly lower than in 2004[7]

Table 1-6: **Money Supply, Inflation, and Interest Rates, 2001-04**

	2001	**2002**	**2003**	**2004**	**2005**
	Actual	Estimated	Estimated	Estimated	Projected
% Change in Broad Money	33.7	30.1	26.2	18.9	32.8
% Change in Reserve Money	29.4	24.9	22.4	12.6	24.3
Treasury Bill Interest Rate (end of period)	14.7	15.0	20.2	28.0	16.0
% Change in CPI	2.6	-3.7	7.5	14.2	12.1

Source: IMF

One result of fiscal imbalances and rising inflation was an increase in interest rates after the end of the war. The nominal, end-of-period rate on treasury bills was 15% in 2001-02, 20% in 2003 and close to 28% in 2004. Thereafter, as shown in Table 1-7, interest rates on treasury bills fell rather steeply, but deposit and lending rates continued to rise for awhile and then were much slower to come down.

Table 1-7: Average Interest Rates: June 2004 to December 2005

	Jun-04	**Dec-04**	**Jun-05**	**Dec-05**
Treasury Bills (3-months)	24.85	27.31	24.68	20.41
Treasury Bearer Bonds (1-year)	25.00	22.00	20.00	19.00
Savings Deposits	7.83	8.14	8.57	7.63

6 World Bank, IDA Program Document for Fourth Economic Rehabilitation and Recovery Grant.
7 Bank of Sierra Leone, Annual Report 2005.

12-month Time Deposits	13.30	13.42	13.83	12.83
Lending Overdraft Rate	23.30	23.31	25.31	24.30

Source: Bank of Sierra Leone

Table 1-7 also shows that commercial bank lending rates are generally at least twice as high as borrowing rates. This is a significant difference with the potential to discourage domestic borrowing by the private sector and limit growth and investment by private investors (see Chapter 9 on the financial sector).

Foreign exchange

Sierra Leone maintains a flexible exchange rate regime that is supported by weekly foreign exchange auctions conducted by the Bank of Sierra Leone. Foreign exchange is also available from commercial banks, forex bureaus, and the parallel market. As shown in Table 1-8, differences between these markets are not great.

After remaining relatively stable during 2001-2002 and the first half of 2003, the exchange rate depreciated by about 15 percent from an annual average of Le 2,348/ $US in 2003 to Le 2,691/$US in 2004. This was due to increased demand for foreign exchange as economic activities expanded, combined with a significant reduction in the supply of foreign exchange following the scaling down of UNAMSIL and NGO Activities.[8] This downward pressure on the exchange rate was also influenced by external price shocks such as rising petroleum prices, with concurrent increases in rice prices and delays in external financing. Exchange rates continued to depreciate, albeit more slowly, in most of 2005 as demand for foreign exchange increased relative to its supply, but this situation was reversed at the end of the year with increased donor assistance. Overall, the real exchange rate appreciated during 2005 but the gap between the parallel and official rates widened.

Table 1-8: Average Monthly Exchange Rates May 2004 – December 2005

Leone to the Dollar (Le/$)	May-04	Sept-04	Jan-05	May-05	Dec-05
Auction	2743.12	2825.38	2931.34	2910.82	2922.49
Official	2686.69	2761.74	2889.60	2892.05	2932.52
Commercial Banks	2682.92	2746.71	2885.04	2900.03	2932.57
Bureaux	2710.24	2756.14	2842.37	2883.59	2964.17
Parallel Market	2951.10	2847.43	2924.26	2927.24	3019.00

Source: Bank of Sierra Leone: Monthly Economic Review May 2005 and Annual Report 2005.

MACROECONOMIC CONSTRAINTS ON INVESTMENT, TRADE, AND GROWTH

From this discussion, we can identify a number of macroeconomic constraints that exist in Sierra Leone on investment, trade, and economic growth. These include (1) heavy dependence on taxes collected by customs for public revenue; (2) fiscal deficits leading to inflation, depreciation of the Leone, and crowding out of the private sector in financial markets; and (3) potential overvaluation of the Leone resulting from heavy dependence on mineral exports and foreign assistance. Each of these constraints is examined here in more detail.

[8]World Bank, IDA Program Document for Fourth Economic Rehabilitation and Recovery Grant.

Dependence on Customs Taxes

Almost two-thirds of total government revenue is derived from taxes collected by the Department of Customs and Excise. Most of these taxes fall on imports. Import duties comprise 49%, excise duties on petroleum and other products account for 14%, and domestic sales taxes make up 3% of total government revenue.

This has a number of adverse consequences. First, it means that the revenue base is very dependent on foreign trade. If there is a decline in imports, this has an adverse impact on resources available for financing the public budget.

Second, heavy dependence on revenues from foreign trade either reduces the freedom of policy makers to use tariff policy to influence domestic prices – and thus production, consumption, and trade – or it means that revenue risks being jeopardized by tariff policy. Since Sierra Leone is a member of the Economic Community of West African States (ECOWAS), which has adopted a common external tariff and the establishment of a free trade area within the ECOWAS region, customs duties are determined independently of revenue needs (see Chapter 10). However, sales and excise taxes are collected on imports, but to a much lesser extent on domestically produced goods, and this results in further price distortions. The net effect of all the taxes collected on imports is a bias against exports and in favor of production of goods that compete with imports for the local market.

Third, because of the heavy dependence of Government on the taxes collected by Customs, the administration of Customs is likely to be biased towards generating revenue and away from facilitating trade. This issue is explored further in Chapter 7.

Impact of Fiscal Deficits on Inflation, the Exchange Rate, and Interest Rates

The cumulative effect of sustained fiscal deficits led to annual expansions of the money supply of between 19 and 34 percent during the period 2001-05. Excess supply of money led to inflation in excess of 14% by 2004. Furthermore, in order to cover the fiscal deficit, the Bank of Sierra Leone intensified open market operations in the primary treasury bill market by selling newly issued government securities in 2004, which pushed interest rates on treasury bills to as high as 28%. In addition, the Leone continued to depreciate (though the rate of depreciation was reduced in 2005 thanks to large inflows of donor funds).

Although the rate of inflation in Sierra Leone is not high compared to some developing countries, it exceeds that of most other countries in the region. It is a cause of concern because of the heavy dependence of the country on donor financing of public expenditures and the unpredictability of these flows. As noted earlier, this financing has been interrupted from time to time, posing fiscal management problems. High and/or varying rates of inflation and depreciation of the currency act as a disincentive to investment because of the uncertainty that results for future planning.

More immediately worrying are the high rates of interest on treasury bills and bonds. These securities compete with potential bank borrowers for available bank resources. They have the advantage over private sector borrowers in that holding of government securities is relatively risk free, at least insofar as risk of default is concerned. During the latter half of 2004 and until June 2005, the interest rate on 3-month treasury bills was in excess of the prime lending rate of the banking system, which offered little incentive for banks to lend. Since then, the rate on T-bills has fallen, so that by February 2006 it was 18.62 percent in comparison with the prime rate of 24.30 percent. An important reason for maintaining fiscal balance is to avoid disrupting financial markets in this fashion.

Overvalued Exchange Rate

One issue of concern is whether the Leone is overvalued in relation to the equilibrium real exchange rate (ERER), or the real exchange rate that would prevail if all the variables determining that rate were at their long-run equilibrium levels.[9] These variables might include Sierra Leone's degree of openness, terms of trade, level of government expenditure, and transfers and capital flows.

Table 1-9: Balance of Payments of Sierra Leone (billion SLL)

	2001	2002	2003	2004
Exports				
Goods	58	126	260	416
Non-Factor Services	103	80	155	166
Factor Services	9	38	4	11
Imports				
Goods	(328)	(535)	(729)	(682)
Non-Factor Services	(220)	(170)	(220)	(242)
Factor Services	(29)	(44)	(39)	(192)
Current Account Balance, exclusive of transfers	**(407)**	**(505)**	**(569)**	**(523)**
Net Transfers to Government	199	145	138	211
Other Net Transfers (including remittances)	14	206	237	111
Current Account Balance, inclusive of transfers	**(194)**	**(154)**	**(194)**	**(201)**
Net Capital Transfers (primarily debt forgiveness)	0	106	167	220
Loans				
To Monetary Authorities	92	31	61	210
To General Government	128	173	227	148
Errors and Omissions, Other Balancing Items	(26)	(156)	(261)	(377)
Total Exceptional Financing	-	298	212	341

Source: Bank of Sierra Leone

Table 1-9 presents relevant data on the balance of payments in Sierra Leone from 2001 to 2004. The table shows the large imbalance between exports and imports, resulting in a current account deficit, exclusive of transfers, of 523 billion Leones (190 million US$) in 2004. This imbalance was covered, in the first instance, by 211 billion Leones in transfers to Government. In addition, there were 220 billion Leones in capital transfers (primarily debt forgiveness) and 358 billion Leones in loans to the Bank of Sierra Leone and to the General Government.[10] The total amount of exceptional financing is estimated in 2004 to have been 341 billion Leones, or almost two-thirds of the current account deficit exclusive of transfers. If this exceptional financing is unsustainable over the longer run, this means that there will have to be an adjustment in the real exchange rate (RER) in order for balance to be achieved. In this sense, then, the RER is overvalued in relation to the ERER.

In addition, Sierra Leone is heavily dependent on mineral exports, especially of diamonds, and now reinforced with the reopening of bauxite and rutile mines. This result in an RER which is overvalued relative to the exchange rate that would prevail if those diamond exports did not exist.

[9] For a full discussion of the issue of overvaluation in relation to the ERER, see. Dirck Stryker and Kathryn Nash, "Impact of Exchange Rate Movements on Uganda's Export Sector Competitiveness", June 7, 2002.

[10] Although the Net Errors and Omissions line item in Sierra Leone's balance of payments is quite large (e.g., 322 billion Leones in 2004), this does not diminish the importance of these aid flows relative to the size of the current account balance.

This leads to lower prices being paid in local currency for other exports, such as cocoa, gari, and palm oil, which in turn makes it more difficult to encourage their production. The extent of this overvaluation depends on the objectives of Government policy with respect to sustainability and distribution effects. If mineral reserves are very substantial and will last a long time, then the problem of sustainability is less acute than if they are quite limited. The former appears to be the case in Sierra Leone. On the other hand, there may be strong reasons for avoiding excessive dependence on mineral reserves that have nothing to do with sustainability. In particular, one must ask what kind of export sector will most effectively contribute to the widespread increase in income and employment in rural areas that is necessary to achieve a substantial reduction in poverty. As explained in Chapter 2, this is likely to be smallholder agriculture, as opposed to large-scale mining. These benefits may be lost if rising mineral exports from large-scale mining result in appreciation of the RER, which acts as a disincentive to the agricultural export sectors.

How important is the problem of overvaluation? Precise data are not available for Sierra Leone, but we can look at the case of Uganda, which has similarly large inflows of foreign assistance. There the impact of overvaluation (from 10% to 30%) on the profitability of several of the most important agricultural exports was estimated for the year 2001.[11] Although at 10 percent overvaluation, profitability was not much affected, at 30 percent it became quite negative for a number of crops. One could expect similar orders of magnitude in Sierra Leone.

As long as the Government of Sierra Leone cooperates actively with the donors in its program to regain macroeconomic stability and to move towards a sustainable level of balance of payments and government budget support, the level of assistance is likely to be sufficient to avoid the need to undertake rapid balance of payments adjustment – for example, through depreciation of the real exchange rate. At the prevailing RER, the agricultural, fishing, mining, and tourism activities identified for interventions in the report appear to be profitable based on an assessment of costs or the prevalence of ongoing exports. Should there be a depreciation of the real exchange rate, these activities would become even more profitable. However, should a rapid expansion of mineral exports result in a further appreciation of the RER, this could pose severe problems for these other sectors. Thus it will be important to analyze the relationship between the existing RER and the ERER, and to monitor future movements of the RER in relation to the ERER.

[11] Stryker and Nash, 2002.

Trade & Poverty in Sierra Leone

INTRODUCTION

Sierra Leone's period of violent civil conflict, which started in 1991 and continued through mid-1999, wreaked havoc on the country's social fabric and its economy, and thereby exposed its people to extreme vulnerability and hardship. Today Sierra Leone is ranked among the world's least developed countries with a 2004 per capita gross national income of $200 (157 out of 163 countries reporting such data)[12] and sits second-to-last at the bottom of the 2003 Human Development Index.

After the signing of a peace accord in July 1999, Sierra Leone pacified, stabilized, and began to resume a positive economic growth trajectory. The country drafted an interim poverty reduction plan in 2001 and published its complete poverty reduction strategy paper or PRSP in 2005. Entitled the National Program for Food Security, Job Creation, and Good Governance, it is based on three pillars: Pillar One promotes good governance, peace, and security; Pillar Two encourages pro-poor sustainable economic growth; and Pillar Three targets human development. As part of Pillar Two, support to agriculture, fisheries, mining, and tertiary activities is envisioned. This coincides with the key areas of focus under this DTIS.

The PRSP underscores that "poverty reduction still remains a major challenge for the Government and the people of Sierra Leone," acknowledging "the need to pursue accountable, transparent and corruption-free policies for stability as well as to ensure a carefully sequenced opening up of investment and trade to deliver economic growth."[13] Greater export diversification is viewed as an important component of the medium-term economic growth framework in order "to help Sierra Leone better exploit its comparative advantage in international trade".[14] In addition, the economic growth framework targets a flexible exchange rate regime and a liberal trade system.

This chapter continues with a summary description of poverty in Sierra Leone, exploring who the poor are, where they live, and the primary economic activities that comprise their livelihoods. A conceptual framework is outlined that identifies the various mechanisms by which trade impacts the poor. Estimates are made of the multiplier effects on income and employment of poor households that may result from increased integration of Sierra Leone's economy into world markets.

POVERTY IN SIERRA LEONE

Poverty is a daily constant for seven out of every ten Sierra Leoneans nationwide. As in many other developing countries, poverty in Sierra Leone is most pervasive in rural areas, where two-thirds of the country's population resides and where eight out of ten are considered poor. While living conditions in Freetown are crowded, and life is difficult, poverty levels are actually much lower in the capital than in rural areas and secondary towns.

Poverty levels in Sierra Leone were assessed using 2002/03 household and individual-level survey data on a range of social and economic indicators. The PRSP distinguishes "food poverty"

[12] World Bank, World Development Indicators, 2005.
[13] National Program for Food Security, Job Creation, and Good Governance, 2005, p. 5-6.
[14] Ibid., p. 60.

– i.e. the level of expenditures needed to reach the minimum nutritional requirement of 2700 calories per equivalent adult – from "total poverty," which is the income required to purchase this food plus basic necessities (safe water and sanitation, shelter, health, education). The incidence of food poverty in Sierra Leone is 2% in Freetown, 20% in other urban areas, and 33% in rural zones, for a national average of 26%. The total poverty rate is much higher, i.e. 15% in Freetown, 70% in other urban areas, and 79% in rural zones, for a national average of 70%. It has also been estimated that the depth of poverty is greater in rural Sierra Leone, such that it will take a larger improvement in incomes to raise rural households above the poverty line. Detailed breakdowns by district of food and total poverty are shown in Table 2.1.

Table 2-1: Food Poverty & Total Poverty by District
(% of population below the poverty line)

(Ordered by total poverty)	**Food Poverty**			**Total Poverty**		
	Urban	**Rural**	**Total**	**Urban**	**Rural**	**Total**
Kailahun	25.7	54.9	45	86.2	94.6	92
Bombali	25.1	69.6	63	83.4	90.0	89
Kenema	19.5	52.4	38	77.5	95.0	88
Bonthe	39.9	33.1	35	88.7	83.5	85
Tonkolili	36.4	31.0	32	87.7	84.2	84
Port Loko	12.7	22.6	20	71.9	85.0	82
Koinadugu	28.6	29.2	29	81.1	76.3	77
Kambia	--	11.6	9	75.6	67.7	69
Moyamba	11.1	17.4	16	59.0	70.1	68
Kono	9.2	35.2	22	52.9	79.6	66
Bo	27.3	24.3	25	59.9	66.8	64
Pujehun	7.7	16.3	14	58.5	58.6	59
Western Rural	--	26.3	15	--	70.1	45
Western Urban	3.2	--	2	17.1	--	15
National	***14.7***	***32.8***	***26***	***54.3***	***78.9***	***70***

Source: Sierra Leone Integrated Household Survey, 2003/04, as per PRSP
Note: -- Not available or does not apply

Sierra Leone's largely rural population is engaged in a variety of economic activities. Agriculture is the key source of livelihood for about 70 percent of the population. Small-scale artisanal mining, especially of diamonds, is a major source of income for poor households in some districts of the interior plateau. Artisanal fisheries, both coastal and inland, provide employment for a significant number of rural households. Population pressure on the land is not a major problem except in a few limited areas. In fact, the years of war reduced the rural population in some areas to such an extent that there are too few agricultural workers in relation to the land that is available.

In Sierra Leone, poverty is associated with larger households, households with older heads, those that are headed by a female, and those engaged in subsistence agriculture. As stated in the PRSP, "most of the rural working population is underemployed and its productivity is very low with

most of the production being home-consumed and in most cases inadequate to meet the basic daily caloric requirements".[15]

A number of the recommendations of this study would have a direct impact on some of the poorest parts of the country. For example, two of the three poorest districts in the country – Kailahun and Kenema – are also the main sources of cocoa production. Oil palm is also prominent in these districts, although it is found throughout the country. The expansion of gari exports would favor three of the poorest Northern districts, Bombali, Tonkolili, and Koinadugu, where cassava is a major component of the typical mixed farming system.

IMPACT OF TRADE ON THE POOR

In the short term, food crop production will certainly be the main driver of agricultural growth and poverty reduction. The food crop sector accounts for 60% of rural non-mining GDP, and there is still significant potential to meet unsatisfied latent demand as well as replace imports. In 2004, rice production was equivalent to two-thirds of the national requirement. The Government objective is to close this gap by 2007. Cassava supply, on the other hand, is already close to meeting if not exceeding national demand. Whether or not rice self-sufficiency is achieved in 2007, it is clear that the growth in rice, cassava and other food crops to supply the domestic market must soon slow down to roughly the rate of population growth plus a little extra to reflect any additional consumption that results from rising incomes – probably not more than 3% p.a. Demand for livestock and fish products will grow somewhat faster as they are more sensitive to growth in incomes. Over the medium to long-term, the strong growth in the agricultural sector which is necessary for rural employment creation and poverty reduction will require penetrating export markets where the market constraint is virtually absent. The examples of Ghana and Uganda in Box 1 underline the relative importance of cash crop exports in reducing poverty in those countries.

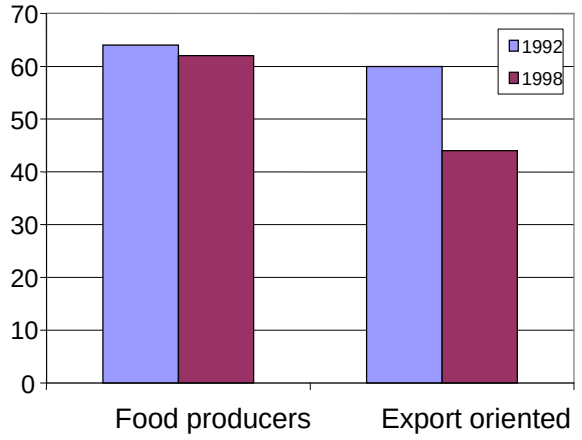
The broad linkages between increased trade, economic growth, and poverty reduction have been explored extensively. The research literature generally finds a strong positive relationship between trade and growth, and between growth and poverty reduction, although the evidence linking trade and poverty is less abundant. Analyses of growth and poverty suggest that the relationship is strong and negative, that is for every percentage point increase in economic growth there is a roughly equal percentage decrease in poverty. The relationship between trade and poverty is more complex, and less well understood. Sometimes there is confusion between the impact of trade liberalization and the impact of expanded trade flows.

There are three ways that increased trade and openness to trade can affect the poor. In the first instance, increased trade can have *direct* impacts on the poor by affecting levels of income and employment of the poor, and the prices they face as both consumers and producers. Second, trade can also affect poverty *indirectly* by stimulating economic growth and its linkage effects and dynamic processes, and through the impact on government revenues and expenditures that affect the poor. Third, greater involvement in trade may raise or lower the degree of *risk and uncertainty* faced by the poor.

[15] Ibid., p. 46.

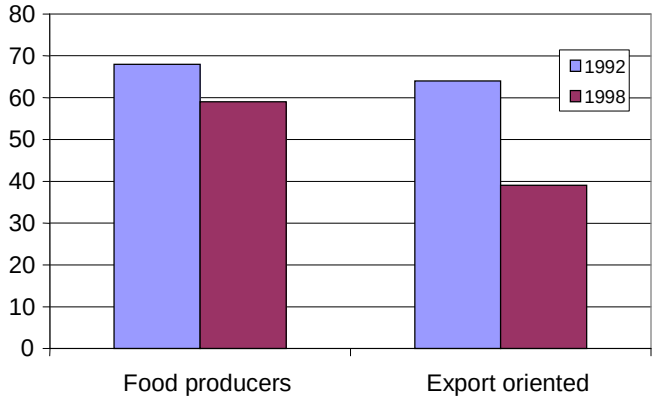
Box 1-1: Trade and Poverty - A Comparison of Food and Export Crop Producers

Ghana



Uganda and Ghana provide two examples of how participation in export production has helped reduce poverty. Comparable household surveys in 1992 and 1998 have found that rural households involved in export crop production enjoyed significant reductions in the incidence of poverty. In the case of Uganda, the main crop was coffee, in Ghana it was cocoa. Furthermore, the improvements were much more dramatic for export-oriented producers than for food crop producers who produced almost exclusively for own consumption and the domestic market.

Uganda



Christiaensen, L. Demery, and S. Paternostro, "Growth, Distribution and Poverty in Africa: Messages from the 1990s", World Bank, p. 28.

DIRECT EFFECTS AND MULTIPLIERS

Several pathways exist by which increased openness to trade may introduce positive or negative effects directly on the poor, as suggested by Winters et al. (2004). Direct effects include:

Product market effects: Increased integration with global and regional markets provides new or expanded opportunities for output and employment for the poor in the cultivation, processing, and export of goods and services

Price Effects: In addition to its impact on output, trade integration may also have an influence on the prices of tradable goods produced and consumed by the poor. This in turn may also influence output and employment as producers and processors respond to these price changes. In general, opening to trade results in increased prices of exportables and decreased prices of importables.

Production and Processing Technology Effects: Efforts to export new products or to maintain competitiveness, or exposure to imports, can lead to the introduction of new technology which results in higher productivity and lower costs per unit of output. This will increase the incomes of producers and processors and/or reduce prices to consumers. This in turn also influences output and employment as producers and processors respond to these changes in profitability.

Labor market effects: Increased openness to trade can change the forms of employment, wages, and working conditions of poor workers. In Sierra Leone, this pathway is of less critical importance because such a small percentage of Sierra Leoneans work in formal, wage-based employment, and most of these are not classified among the poor. (The one exception may be in the tourist industry, which is fairly intensive in its use of lower skilled labor, which may be poor.)

Multiplier effects: Changes in real income generated by changes in output, employment, and/or prices for producers and consumers gives rise to changes in demand for a range of goods and services, which is turn generates a second round of income and employment effects.

Sierra Leone has already adopted a fairly liberal tariff regime, and one which is in any case now determined on a regional basis through ECOWAS, and therefore not amenable to unilateral action. Thus, the focus of this chapter, and indeed of this study, is on export development. In particular, we concentrate on the direct effects in agriculture, the key source of livelihood for the majority of poor Sierra Leoneans, through product market and production and technology effects, as well as the resulting multiplier effect. Next, we offer some observations for the other sources of export growth identified in this report – mining, fishing, and tourism. We then turn to the price effects which might ensue from lower transport and transaction costs, before concluding with a few comments on possible indirect effects and the issue of risk and uncertainty.

Product Market, and Technology Effects

The most obvious way to use trade for poverty reduction is to expand output and employment. This can be done in a number of ways. More area can be brought into cultivation, thereby engaging a larger number of households in the export activity. This avenue holds significant potential in Sierra Leone since there is abundant land and most traditional cash crop production was severely curtailed or halted completely by the war.

Another way to increase output and employment is through the introduction of better farming practices or new technology, which improve farmer productivity and increases the range of options regarding production. Where the bottleneck is at the processing level, better processing

technologies not only raise the incomes of the processors but also are likely to increase demand for primary product production as an input into processing. Reliance on low-productivity varieties and techniques for producing cocoa, oil palm, and cashew – as well as the advanced age of many of the trees – has resulted in extremely limited participation by Sierra Leone in export markets for these commodities. However, as demonstrated later in this report, opportunities exist for introducing new, high-yielding varieties and improved processing technology, both of which can contribute to a substantial expansion of exports. Other countries in West Africa, such as Ghana and Côte d'Ivoire, have replanted their cocoa farms with higher-yielding, hybrid varieties, and reaped huge benefits. Countries such as Guinea-Bissau have benefited from widespread planting of cashew as a new export crop.

There is also considerable scope for improved production and processing of annual food crops. Cassava is a major food crop, but its availability is limited less by production technology than by processing. In its raw form, cassava tubers have limited storability, so processing is key. Currently, Sierra Leone exports substantial quantities of *gari*, a storable and transportable processed food made from cassava, which is trucked to neighboring countries. Most of this processing is done by women using manual techniques, but simple equipment is available that could substantially increase processing productivity. Rice is another product which is already being exported on a small scale to neighboring countries and could enjoy expanded trade and/or substitute for imports if more processing were done with small rice mills. Improvements in technology will result in both higher incomes for processors, many of whom may be poor, and in lower costs to poor consumers. This in turn will likely increase demand for paddy, which will expand farmers' incomes and employment.

The analysis on agriculture in Chapter 3 of this report suggests that rehabilitation and investment in the production, processing, and marketing of cashew, cocoa, *gari*, ginger, and milled rice offer the best opportunities for expanded agricultural exports in Sierra Leone. Table 2.2 summarizes the direct employment and income effects of the projected expansion of cashew, cocoa, *gari*, and oil palm – the four most important crops, for which projections of exports to the year 2015 are presented in Chapter 3.

If the export potential of these four crops is realized over the next ten years, the positive income and employment effects would be substantial, with over 168 billion Leones of additional income and nearly 30,000 person-years of additional employment being generated. In addition, there will be multiplier effects. Because these crops are produced and processed primarily by smallholders and small business enterprises, most of the additional income generated is likely to expand the demand for local goods and services, which will result in secondary rounds of additional income and employment. Although no precise estimates can be made given limited data availability, there are a number of studies that have found the rural income multiplier to be on the order of 1.5 – that is an initial injection of income will result in secondary increases in income on the order of 1.5 times the initial increase.[16] This implies a total income gain of over 420 billion Leones, and total employment gain of over 72,000 person-years, mostly by the poor. If one assumes that each person so employed supports 4 dependents, then close to 300,000 people would benefit. The spread effects would in fact be much greater. Whereas we have reasoned in terms of full-time employment, in fact most of the gain in employment would be part-time. Rough estimates suggest that perhaps 250,000 households, or one million people, might benefit overall. This can be compared with the total rural population of about four million. Nor does this include the many additional jobs created in the process of transporting, storing and shipping.

[16] D. Stryker and L. Salinger, "Guide to Commodity-Based Export Diversification and Competitiveness Strategies for African Countries.", 2004, p. 57.

Table 2-2: Direct Income and Employment Effects of Increased Agricultural Exports

	Cashew	Cocoa	Gari	Oil Palm*	Total
Labor inputs per hectare	273	137	223	34	
Labor cost at L6000/day	1,636,800	822,000	1,338,000	204,000	
Yield per hectare (kg, except MT for oil palm)	800	600	2000	9	
Producer price (L/kg)	2175	1760	917	535,200	
Gross revenue per hectare (L)	1,740,000	1,056,000	1,833,333	4,816,800	
Net revenue per hectare (L)	103,200	234,000	495,333	4,612,800	
Gross revenue per ton (L)	2,175,000	1,760,000	916,667	535,200	
Current level of exports (tons)	-	6,500	10,000	-	
Potential exports (tons)	10,000	30,000	20,000	180,000	
Increased exports (tons)	10,000	23,500	10,000	180,000	
Increased gross income (million L)	21,750	41,360	9,167	96,336	168,613
Increased employment (days)	3,410,000	5,365,833	1,115,000	680,000	10,570,833
Increased employment (years)	9,342	14,701	3,055	1,863	28,961

Sources: *Crop budgets are derived from agricultural sector reviews in neighboring countries, e.g. World Bank (1986). Source of rural wage, yields, and producer prices: mission estimates.*

Notes: ** Smallholder only. Oil palm figures are in fresh fruit bunch (FFB) equivalents, based on the following conversion factor assumptions: 1 ton of FFB yields 6% palm kernels, of which 46% is palm kernel oil, and 20% palm oil, by weight. The producer price for FFB assumes that 1 gallon of oil weighs 7.7 pounds (USDA NASS 2004).*

*Gross revenue per hectare = Yield * Producer Price.*
Net Revenue = Gross Revenue – Labor Costs.
Gross revenue per ton = Gross revenue / Yield in tons, or producer price per ton.
Increased exports = Potential – Current level of exports.
*Increased gross income = Increased exports * Gross revenue per ton.*
*Increased employment = Labor input per hectare / Yield * Increased exports.*
[a] *According to the FAO, 100 kilograms of cassava yields 22 kilograms of gari. See http://www.fao.org/documents/show_cdr.asp?url_file=/docrep/x5415e/x5415e05.htm*

The other export sector for which we have been able to make some estimates is tourism. Under our high-growth scenario shown in Table 2.3 (see Chapter 6), additional full-time job creation has been estimated at only 6,600 (not including construction jobs), but additional income to the local economy could be as high as 135 billion Leones, not including any multiplier effects. If we add indirect income effects, using a smaller multiplier of 1.0, employment would increase by a total of 13,200 jobs and income could grow by as much as 270 billion Leones.[17] These jobs would be concentrated in the Western region (rural and urban), so they would benefit the least poor region, but they would help respond to the urgent need for stable employment in the greater Freetown area. If the less ambitious medium growth scenario is preferred, the gain in incomes would still be 114 billion Leones.

Table 2-3: Growth in Tourism Employment and Income to 2015

	Scenario 1 - Low	**Scenario 2 - Medium**	**Scenario 3 - High**
Additional rooms	600	1000	2200
Number of holiday tourists	15,000	25,000	50,000
Foreign exchange earnings (US$mil.)	15	31	75
Local incomes (US$ mil.)	9	19	45
Jobs (full-time job equivalents)	1,800	3,000	6,600

Price Effects

Better integration into the world economy can also benefit the poor by improving the price that farmers earn for a given level of output. In fact, this will not only improve current incomes but also encourage increased output, and thus still higher incomes. The combination of inadequate infrastructure and institutional inefficiencies results in high costs of domestic transactions – marketing, storage, processing, and trade – that drive a wedge between world and local commodity prices. If these costs can be reduced, then the prices of exportables will rise and those of importables will fall.

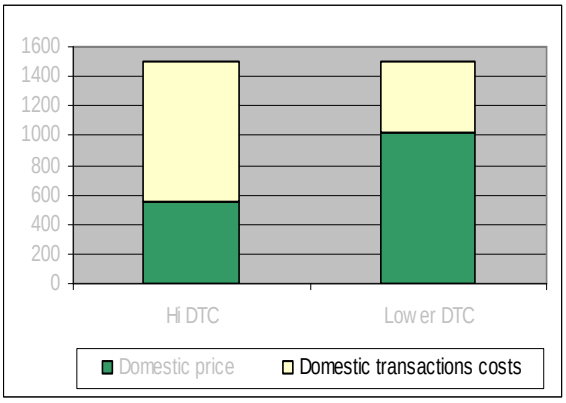
This can be illustrated in the cases of cocoa (an exportable) and rice (an importable). In the case of an exportable commodity, high transactions costs serve to depress the local price relative to the world FOB price. The goal of trade integration is to lower those costs, minimize the wedge, and raise the farm-level equivalent of the export price. On the other hand, in the case of an import-substitution commodity, high transactions costs raise the local price relative to the world CIF price. In this case, better integration into the global economy reduces those costs, minimizes the wedge, and lowers the farm-level equivalent of the import-substitution price.

Figure 2.1 shows the effect of lowering transaction costs on the producer price of cocoa. The price of cocoa on the London terminal market in 2005-06 was about $1500 per ton. This is the reference price for good quality cocoa sold in Europe. There are legitimate transactions costs – collecting beans from farmers, drying, bagging, transporting, inspecting, loading, and unloading – that intervene between the world market price and the producer. However, the magnitude of the transactions costs in Sierra Leone also reflects inefficiencies in the value chain, including a large discount for mould and moisture content. In the presence of high domestic transactions costs (Hi DTC), the DTC wedge intervenes between the border price and the price to producers, and serves

[17] There is reason to believe that the multiplier effect will be smaller due to the higher import content (leakage) of urban as compared to rural demand.

to depress the domestic producer price to its current level of 750 Leones per pound, or $550 per ton. This is substantially below the average international FOB price.

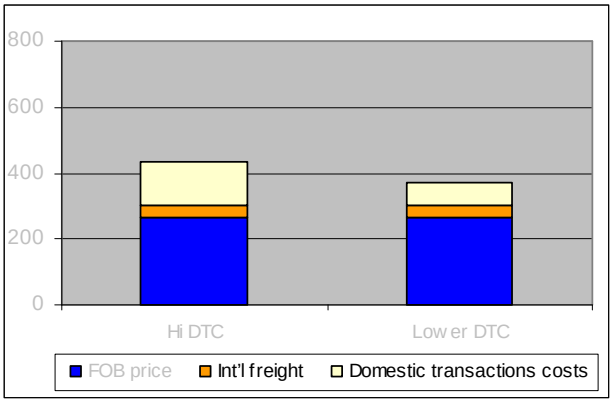
Figure 2-1: Exportable (Cocoa)



Improvements in processing, transport, inspection, and other trade-related services would help Sierra Leone's cocoa to become more competitive by improving quality and reducing the wedge of domestic transactions costs, resulting in an increased price paid to producers. As an example of the potential returns to improved quality, the largest buyer of cocoa in Sierra Leone is prepared to pay 950 Leones per pound for cocoa with less than 5% mould. Improvements in road infrastructure, fewer inspections, and increased competition in transport services could easily raise the producer price to 1050 Leones, or $780 per ton. This would result in an additional 17 billion Leones in direct income and 43 billion Leones in total income over and above the gains from expanded production and exports estimated in Table 2.2.

Figure 2.2 illustrates the case of rice, an import-substitution crop. The world FOB price is $264 per ton, which with the addition of international freight and insurance costs rises to about $304 per ton (CIF) when imported. This is the price at Sierra Leone's border. However, the high domestic transactions costs associated with importing push the domestic price much higher (in this simulation, to almost $440 per ton). With improvements in the efficiency of Sierra Leone's port handling, customs clearance, storage, and transportation, the DTC would fall, and the result would be a lower domestic price.

Figure 2-2: Import Substitute (Rice)



The rise in domestic prices of exportable products and the decline in domestic prices of products that compete with imports will have a number of direct effects on the poor. To the extent that the poor are producers of exportables, they will benefit; to the extent that they are consumers of exportables, they will lose. An increase in the domestic price of cocoa will have overwhelmingly favorable effects on the poor since they consume little or no cocoa. On the other hand, a decline in the price of rice due to a lowering of domestic transactions costs will help the poor as consumers and hurt them as producers.

The analysis of rice prices in Chapter 3 suggests that local rice and imported rice are not very close substitutes. The price of local rice is consistently 15-35 percent higher than the price of imported rice, and the differential is highest in Freetown. This is due primarily to taste factors since less polished local rice is preferred over imported rice. In Freetown, local rice is considered to be something of a luxury good, whereas in rural areas, local rice is primarily what is available, especially if it is grown by the consumer.

If transaction costs, including those of the port and for transportation within the country, were to fall, the price of imported rice would certainly decrease in Freetown and adjacent areas. This would benefit poor people in these areas. But the cost of getting local rice to Freetown would also decrease. Consequently, it is unclear as to whether the decline in the price of imported rice in Freetown would mean that prices to rice producers up country would fall. If more of this local rice were processed with small-scale mills, thereby improving its appearance, this would further improve its ` ompetitiveness with imported rice. Finally, if improved infrastructure increased access to neighboring countries and therefore expanded demand for Sierra Leone rice, its price might actually rise.

This analysis has implications for the on-going debate over the rice exports already going to neighboring countries. Some observers feel this rice should be diverted to Freetown in order to reduce imports. However, if local rice is actually preferred by consumers, but normal market forces result in exports, this must be because the traders can obtain a better price this way. This is not surprising since the transaction costs are undoubtedly lower when transporting across the border than when navigating the poor road infrastructure to sell in Freetown. Furthermore, the price of competing imported rice in up-country Guinea will be higher due to the higher transaction costs it faces in penetrating the interior.

Transaction costs inevitably get passed on to the farmer in whole or in part. Lower transaction costs will generally mean a higher price for the farmer. Thus the option of exporting rice to neighboring Guinea translates into better incomes for Sierra Leonean rice farmers. Somehow restricting this flow, and redirecting it to Freetown, would ultimately penalize poor rural farmers. (It would also run counter to the ECOWAS policy of free trade between member countries in

primary products – a sound policy which is unfortunately often ignored by many members.) Any benefits would accrue to consumers in Freetown, where poverty is much less widespread or deep than in the rural hinterland.

Rather than block exports, a better policy would be to reduce transaction costs to Freetown and improve productivity and processing of local rice production so that it can eventually compete with imported rice. Given Sierra Leone's historical record as a rice producer and existing taste preferences, this approach would appear imminently feasible.

INDIRECT EFFECTS

In addition to the direct effects of price and cost changes induced by opening to trade and introduction of new technology, there will also be a number of indirect effects aside from the multiplier effects discussed earlier.[18]

.**Forward and backward linkages:** Rising exports create increased demand for inputs into the export industries and downstream processing, transport, and marketing. This then gives rise to a secondary round of income and employment generation.

Scarce resource linkages: New and expanded activity associated with growth in exports generates scarce, new skills linked to production, processing, marketing, and trade. Foreign exchange is acquired, which can be used to purchase equipment, technology, and other scarce resources.

Government revenue: Growth of exports leads to greater government revenue, which creates the possibility of raising public expenditures. This increases income and employment and could be used to expand services to the poor.

Induced investment and technology: Access to foreign markets gives rise to new opportunities for investment and technological change, which were not present in the absence of trade. This can increase the rate and efficiency of investment, and thereby the overall rate of growth of the economy.

The importance of these indirect effects depends on the particular products being produced and exported, as well as the modes of production, processing, and marketing being employed. Smallholder production of tree crops such as cocoa, oil palm, and cashew is not likely to have very large backward linkages, given the limited use of inputs. However, forward linkages to downstream processing may be quite significant in the case of oil palm and ultimately cashew, but are not likely to be very important for cocoa. On the other hand, the transport of cocoa to the port and the handling of bags and loading of containers for shipping are quite intensive in their use of unskilled labor. Skill acquisition among smallholders is fairly rudimentary but widespread. Growth of foreign exchange earnings is important, but government revenue generated by these activities is not likely to be very great. Finally, there may be some dynamic effects associated with enhanced opportunities for investment and technology transfer, especially if primary production is extended into value added activities, such as those described for oil palm in Chapter 3.

Improvements in processing of cassava and rice will also lead to some increase in final demand because of widespread growth of income and employment. More important, perhaps, will be the

[18] For more details see Stryker and Salinger (2004).

backward linkage effects associated with repair and maintenance of the equipment being used. In addition, mechanization of these processing activities will generate some new skills, though generation of government revenue is likely to be minimal.

Outside of agriculture, artisanal fishing and small-scale mining tend to closely resemble smallholder production in that the effects are relatively widespread, but backward and forward linkages are not great, and there is little gain in government revenue. Large-scale mining and industrial fishing, on the other hand, are more concentrated in their direct impact. Much of the income generated may go abroad, but significant government revenue is generated as compared to artisanal mining and smallholder agriculture. There will also be more skill acquisition, especially higher-level skills.

The indirect effects of tourism lie somewhere in between. It is more labor-intensive than large-scale mining or fishing, but many of the jobs require more skills and education than in agriculture. However, perhaps half of the jobs in hotels may be accessible to the unskilled, and there are linkages to providers of food, fish, handicrafts, taxis, guides, and other services. There will also be significant revenues for government through tourist visas, hotel room taxes, import duties, profit taxes, and airport landing fees.

IMPACT OF TRADE ON RISK AND UNCERTAINTY FACED BY THE POOR

In addition to the direct and indirect benefits outlined above, trade integration presents a number of potential risks for the poor. The biggest risk faced by poor rural households is not that they will be adversely affected by trade integration, but that they will not be involved in it at all. As demonstrated in the wake of structural adjustment reforms (Sahn et al. 1996), trade reforms during the 1980s and 1990s helped to reduce rents and inefficiencies, reduce export taxes, and shift relative prices in ways that would have helped the poor in Africa.[19] But any positive impact of the reforms on their income and employment depended on their access to markets as sellers of agricultural surplus or as providers of labor to those growing export crops. This access was often very weak due to their limited capital or skills. It is therefore crucial that trade integration in Sierra Leone is designed so that it includes an emphasis on improving the connections of poor rural households to markets, technology, storage, and transportation.

Another important constraint for poor rural households is the size of their landholdings. Fortunately, cocoa production is conducive to smallholder production and that is the way it is currently organized in Sierra Leone. In order for oil palm and cashew production to provide maximum benefit to poor households, smallholder or outgrower cultivation must be specifically targeted for interventions. The best alternative is estate plantations, where the poor may participate as wage laborers. This may or may not be an adverse outcome for poor farmers. If the costs of investing in tree crops – either due to the burden of start-up costs or the delay in productive harvests – are too onerous, poor households may prefer that the cost of tree crop renewal or development be assumed by others, while they take advantage of greater wage employment once the plantation is up and running. Rural labor for these estates is typically drawn from the poorest households which do not have adequate land or other resources to support themselves, so the creation of some plantation employment would be helpful.[20]

---

[19] D. Sahn, P. Dorosh, and S. Younger, "Exchange Rate, Fiscal and Agricultural Policies in Africa: Does Adjustment Hurt the Poor?", 1996, World Development 24, 4: 719-747.

[20] N. McCullogh and M. Oka, "Export horticulture and poverty in Kenya", 2002.

Poor households with insecure tenure to land may find their traditional access to farming, grazing, or forestry lands is at risk if public or even large-scale private plantation development takes precedence over usufruct rights to land. Examples exist around the world of local peoples' loss of access to land when commercial development accelerates. Fortunately, at present land availability does not seem to be a major problem in Sierra Leone, but this issue must not be ignored.

While "new export market opportunities" are indeed a net positive, taking advantage of these opportunities may be difficult. Whether poor rural households choose to stay in agriculture and diversify into higher yielding varieties and new export crops, or members of poor households opt to seek new non-agricultural livelihoods, the poor may not have the skills or knowledge with which to successfully navigate such a transition. Increased openness to trade typically is associated with a higher premium paid in the local labor market for those with more advanced skills in production, manufacturing, and services, although this is largely attributed to skills-biased technical change rather than to trade reforms specifically.[21] Education, technical training (including in agriculture), and workforce skills development may be required to assist those who seek to participate in new trade-related livelihoods.

Another concern stems from the fact that export commodity prices tend to fluctuate widely over time, especially for cocoa, and this can expose farmers to considerable uncertainty. This is particularly problematic if these farmers rely on cash crop income in order to buy food or pay for purchased inputs. Although, ultimately, price risk may be managed through cooperative buying schemes and hedging in futures markets, this is not likely to benefit farmers for some years to come. However, the risks associated with small-scale cocoa and other cash crop production are mitigated by the fact that these activities tend to provide supplementary income alongside on-farm food production, so that that the farmer's food security is not usually in jeopardy from fluctuations in cash crop prices. Furthermore, most of the crop-techniques being advocated use relatively few purchased inputs, so the farmer is not exposed to the same degree of risk as for commercial agriculture.

Trade integration can also pose a risk in the sense that producers may face increased competition from imports. Sierra Leone's rice farmers appear to enjoy some natural protection today resulting from high transportation costs. If these costs were to be reduced, they could find their farm gates prices decreased, though the earlier analysis indicates that this is by no means certain. To compensate for this, it is important to invest in new technology to raise productivity, which will help to offset any adverse impact of lower barriers to trade.

CONCLUSION

Increased integration of the Sierra Leonean agricultural economy into regional and global markets can help the poor in a number of ways. New market opportunities may be created, new varieties and technologies may become available, and prices may become more advantageous for poor farmers and consumers. But the benefits to trade integration will not be realized simply through policy changes at the border. Investments will have to be made both at the producer level, to increase productivity, and at strategic points along commodity value chains, in order to improve the efficiency of the string of transactions that occur between producers and the border. And attention must be paid to product, labor, and land market structures in the relevant commodity

[21] B. Hoekman, L. A. Winters, "Trade And Employment: Stylized Facts And Research Findings". World Bank, 2005.

sectors to ensure that a minimum degree of competition, infrastructure, and institutional capacity exists so that the benefits of trade extend all the way to the poorest households in Sierra Leone.

Agriculture, Agro-Industry and Forestry

INTRODUCTION[22]

In the past, Sierra Leone was actively involved in global trade in a number of agricultural commodities: cocoa, coffee, palm kernel, piassava, rubber, and ginger were all important earners of foreign exchange. Today, the situation is dramatically changed with only cocoa appearing with any significance in the international trade statistics, although there are also regional exports of gari (cassava flour), palm oil, and rice.

Sierra Leone has the physical resources in terms of cultivable land, water, and climate to develop again as an agricultural exporter, but the civil war was a disastrous blow to an already ailing sector. Now the infrastructure is decrepit, there is chronic rural poverty and food insecurity, and the private sector lacks the confidence to undertake long-term investments. Furthermore, the war accelerated the exodus of young men from agriculture, leaving a shortage of manpower in rural areas. The challenges of reconstructing the agricultural export sector so that it can compete in the global marketplace are therefore severe, but they are not insurmountable if efforts can be focused on a few key products with substantial potential and if these efforts can be coordinated across a range of implementing institutions.

While the mining sector may be most important in terms of the value of exports, the economic benefits of agricultural exports could be more widespread. It is estimated that 75% of the population is directly or indirectly involved with agriculture. The development of agricultural exports will be critical in determining the growth of rural livelihoods and moving farming communities into the market economy.

At the same time, forestry plays a very important supportive role. A number of Sierra Leone's potential exports are tree crops, the management of which needs to be coordinated with the management of forest resources since the two are highly complementary from an environmental perspective. Second, forest reserves are an important element in building a tourism industry in Sierra Leone, which is one of the key sectors that have been identified for export development.

AGRICULTURAL PRODUCTION, PROCESSING, AND MARKETING

Tree Crops

The data on tree and other export crops are somewhat less complete than those for food crops. Those that exist for more recent years are presented in Table 3-1. Tree crops supply the bulk of Sierra Leone's recorded agricultural exports, as well as its domestic palm oil consumption. Cocoa and coffee are the two major cash crops historically, with some palm oil also being exported to neighboring countries. Available data suggest that about 67,000 hectares are devoted to coffee, 42,000 hectares to cocoa, and 18,000 hectares to estate oil palm. In addition, there is a substantial amount of land in smallholder oil palm production, perhaps 32,000 ha. These data are very unreliable, however, and a tree survey for these crops is very much needed.

---

22 This chapter draws extensively on the Agricultural Sector Review and Agricultural Development Strategy undertaken for the Ministry of Agriculture, Forestry and Food Security (MAFS) and Ministry of Fisheries and Marine Resources (MFMR) in 2004. In addition, a variety of other written sources were consulted and interviews were conducted with government officials, private traders, agro-processors, and individual farmers.

Table 3-1: Tree Export Crop Production (metric tons)

Agricultural Crop	2000/01	2001/02	2002/03
Cocoa	6,000	6,000	8,000
Coffee	1,500	1,000	4,500
Ginger	200	250	450
Kola Nuts	2,000	2,000	3,500
Palm Kernels	500	750	1,500
Oil Palm (ffb)	175,000	235,000	245,000
Piassava	2,000	1,800	2,500

Source: Ministry of Agriculture, Forestry & Food Security

Tree crop farming currently provides employment opportunities for an estimated 100,000 rural producers. Almost all production currently takes place on smallholder plantations averaging 1 to 2.5 hectares in size. However, many of the orchards are elderly and the war caused wide-scale abandonment as witnessed by the minimal output of coffee. About 85% of cocoa is grown in the Kenema and Kailahun Districts in Eastern Sierra Leone. The distribution of coffee is similar. Oil palm is much more widely distributed.

The Agricultural Sector Review indicates that the demise of the tree crop sector commenced long before the war, which only exacerbated the situation. Production at that time was constrained by several factors. Distortions of producer prices by the Sierra Leone Produce Marketing Board (SLPMB), which had a monopoly on buying and exporting cocoa and coffee, acted to discourage production and encourage smuggling. Even though the producer price was guaranteed and relatively stable, producers only received 55 percent of the world market price for cocoa, because of the imposition of an export tax of 35 percent. Furthermore, an overvalued exchange rate depressed crop prices in local currency, and fostered growth of the parallel market. All of these barriers contributed to a decline and subsequent stagnation of the cocoa and coffee economy.

Market liberalization reforms between 1986 and 1990 ensured the involvement of the private sector in agricultural export marketing. Private sector companies participated in the buying and exporting of produce. They offered better service to farmers than the SLPMB through price premiums, pre-financing, and barter systems that provided essential goods in exchange for produce. The reforms contributed significantly to the stimulation of production in the late 1980s and early 90s. However, lack of a stable, guaranteed price for cocoa and the abandonment of quality controls were constraints on continued expansion. Subsequent intensification of the civil war severely affected cocoa and coffee production as thousands of farmers fled their farms and homes.

The untimely and sudden transfer of ownership and management of farms from an older generation after the war also acted as a major constraint because of the impact this had on traditional training and tutelage by which skills and knowledge are transferred between generations. The new generation of farmers often consisted of women and a few youths with little experience in tree crop production.

Cocoa

Recent discussions with exporters and their representatives put current cocoa exports at about 6 to 8 thousand metric tons. This is below the maximum of 12,000 tons, which Sierra Leone attained

in 1991,[23] and far below the performance of other West African countries such as Côte d'Ivoire and Ghana (1.3 mil. tons and 440,000 tons, respectively).

Yields of cocoa trees were reported to average about 400 kg/ha in 1985, but these have since declined due to neglect and aging of the trees. Most cocoa is planted in the traditional West African Amelonado variety. Some of these trees are 60 years old. Upper Amazonian varieties were introduced in the 1960s, but many of these are over 30 years of age. Estimates place current yields in the neighborhood of 100-200 kg/ha, in comparison with average yields within West Africa of about 300 kg/ha, and a potential yield of 1-1.5 mt/hectare with the new hybrid varieties grown in Ghana and Côte d'Ivoire. It is estimated that about 25,000 ha of cocoa need to be replanted while 17,000 ha could be rehabilitated. In addition to the age of trees, cocoa farms are subject to widespread infestation of pests and diseases, primarily the cocoa black pod (CBP), despite efforts at rehabilitation. CBP infestation alone is estimated to reduce cocoa production by more than 60%.

Capacity for tree crop research and development does not currently exist in Sierra Leone. As a result, appropriate and improved planting materials, soil analysis, recommended fertilizers, application rates, and other specific research to improve tree crop productivity are non-existent. Tree crop research focused on varietal improvement was at one time the domain of Njala University College, which maintained the West African Institute for Cocoa Research (WAICOR). In addition, the MAFS had a clonal garden at Pendembu and outstations in Kpuabu and Belebu in the Kenema District. All of this was abandoned as the cocoa research network established in the colonial period all but disappeared. Nevertheless, there are agricultural scientists in Sierra Leone who could resume this research under the right conditions.

Replanting is inhibited by the lack of availability of improved tree stock. There are no private sector input suppliers, linked to research institutions and participating in extension activities for cocoa and other tree crops. Farmers lack instruction on the appropriate fertilizers and pesticides to use, when to use them, and in what amounts. Local availability of inputs is also a concern, with some farmers depending on cross border markets for these inputs. Even if inputs were available, lack of financing is a major issue, especially because of the long gestation period involved in planting cocoa trees. Many farmers do not have assets that are acceptable as collateral to the financial sector.

Cocoa is subject to the most rudimentary processing. The beans are fermented for 5-6 days, either on the ground under banana leaves or in closed fermentation boxes, which protect against theft but make it more difficult to ensure that the fermentation process is even. Subsequent drying is done by exposing the fermented beans to the sun on the ground or, at best, on a cement floor. Both fermentation and drying are often incomplete, resulting in mould and a low quality product. This may be partly because of pressure to sell and reimburse loans from traders, and partly for fear of theft. The first harvest of the new crop now takes place during the heavy rains[24] and the cocoa, which is stored in plastic bags, is difficult to dry. As the season progresses, it is easier for the farmer to dry the cocoa and the problem of mould decreases. Given the ability in the past to prepare cocoa properly, it is unlikely that the technological know-how has disappeared, but there is little incentive to dry the cocoa properly since, until recently, the price

23 According to FAOSTAT data.

24 Anecdotally the harvest is starting earlier than used to be the case and the rains are continuing for longer.

was the same for all qualities, and the farmer could actually be paid more by selling cocoa with a higher moisture content, due to its higher weight.[25]

The cocoa harvest in Sierra Leone may start as early as August. The major exporters all operate collection points in centers such as Kenema. The beans are either sold from the village to the buying agents who travel through the producing region, or are taken to a local buying station. If the farm is near one of the major centers, such as Kenema, the farmers may take the product to town and sell directly to the exporter. However, poor infrastructure discourages cocoa traders buying directly from farmers to ensure consistent quality. Rather they are forced to buy from local assemblers, who in turn find it difficult to procure adequate quantities of good quality cocoa from numerous producers. The exporters generally dry the cocoa again before bagging it in export sacks, passing inspection by MAFS, and transporting it to the stores in Freetown.

All the exporters sell on a fob basis, and in recent years most cocoa has been bought by ED & F Man Cocoa. The cocoa, once sold, is rebagged if necessary, inspected three more times, fumigated, stuffed into containers, and moved to the port. The cost of port handling from the exporter's warehouse to the ship's rail is a significant charge, which ultimately is paid by the farmer. The external marketing of cocoa from Sierra Leone is highly concentrated, with FM Stores controlling over 60% of exports in 2004 and four or five other exporters sharing the balance. More competition would encourage keener pricing, but this is difficult to attain until export volumes increase.

West African cocoa is always in demand for the relatively hard butter it produces. Cocoa beans from Sierra Leone are considered to be high fat beans with a liquor content equivalent to Nigerian cocoa. However, the cocoa from Sierra Leone is discounted because of problems with mould. Man Cocoa buys cocoa in Freetown at around £180 to £250 below the terminal market price in London. Sierra Leone cocoa incurs an automatic £70 discount in value in the London market and may be discounted further for inferior quality, perception of risk, and difficulty in dealing with Sierra Leone as an origin. In fact, the aspiration of exporting at 15% mould is rarely achieved, and Man frequently finds offers well in excess of 30-40% mould.

The continuing mould problem is particularly unfortunate in view of the frequency of inspection by agencies that are supposed to be maintaining standards. The cocoa is inspected up-country by the MAFS produce inspection service, which checks it again at the port for export clearance, where it is also inspected by the Standards Board and by representatives of the Ad Hoc Committee. Despite these inspections, Man Cocoa finds it essential to have their own inspector report on the cocoa too. All this inspection adds to the delay and cost of exporting cocoa, as shown in Figure 3-1 by the large buyers' margin in Sierra Leone compared to other West African cocoa exporters.

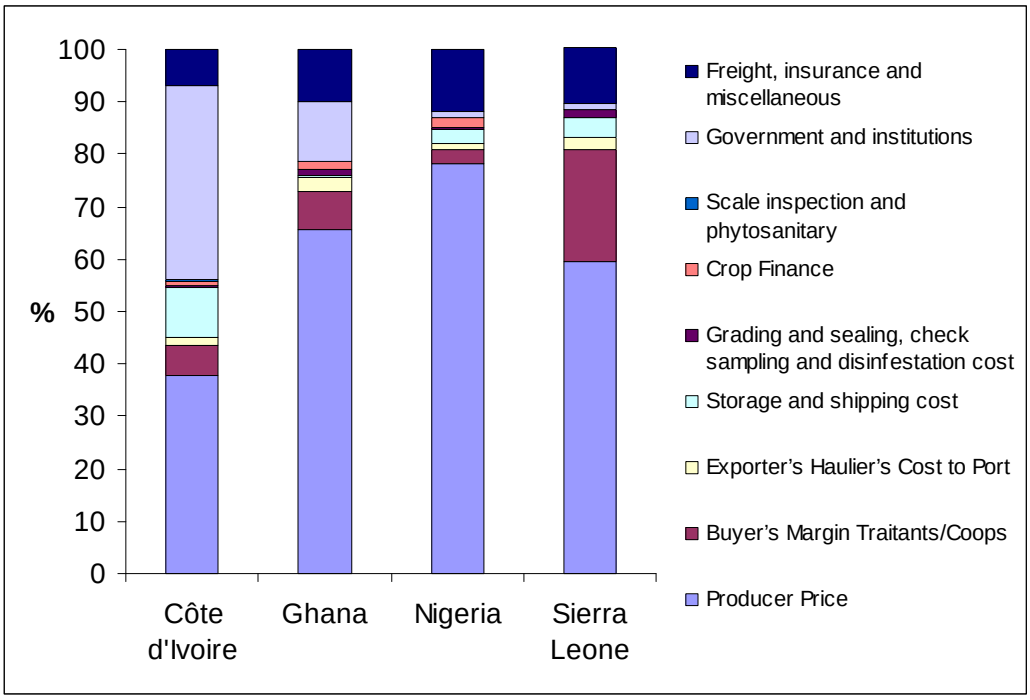
Figure 3-1 indicates that the farmer receives about 60 % of the cif value of the cocoa and perhaps 67% of the fob value[26]. Government levies of 2.53% on exports are comparatively small in relation to other exporting countries, but exporter costs are very high. This relates to the cost of drying, transport, and port charges. In previous seasons, there was a financing cost, too, but there seems to be little pre-financing now. Exporter margins are a continuing point of argument and the business is perceived as lucrative, but Man Cocoa's recent decision to withdraw its resident agent reflects the frustrations involved.

---

25 In 2005, the largest buyer tried to introduce a new system with a higher price for cocoa with less than 5% mould, and then a discount of Le15 for every 1% of mould above that level. However, they could not get enough quantity so they were obliged to drop the discount to Le5 per 1% mould, which may not be sustainable given world market conditions.

[26]This calculation assumes a moisture content of 16% and a buying price of Le800/lb

Figure 3-1: Comparative Cost for Cocoa from Farm Gate to CIF N Europe



Source: Traders and authors' estimates

Coffee

Over the years, cocoa and coffee vied with each other as Sierra Leone's most important agricultural export. Though the data are very unreliable, it appears that coffee at one time was more important than cocoa. More recently, however, anecdotal evidence suggests that farmers are much less interested in coffee than cocoa, to the extent that they are uprooting their coffee trees because prices are so low. Certainly, many of the existing farms are quite overgrown and have yet to be cleared after years of abandonment during the war. With rural labor largely focused on food crops in the aftermath of war, and coffee requiring a fairly high labor input, coffee has largely been ignored. There are still up to 2,000 tons of production annually but exports declined to only 118 metric tons in 2004. They rose somewhat in 2005, due to unusually high prices on the world market, but this increase is expected to be temporary.

Current coffee yields may be as low as 100 kg/ha. About 50 percent of the coffee area is planted with old unknown and low-yielding material, whereas plantations established from 1982 onwards were planted with improved Robusta clones introduced from Ivory Coast. Of the total 67,500 ha under coffee, only about half merit rehabilitation, and then only if prices were to remain strong.

Oil Palm

Although Sierra Leone lies within the natural range of the African oil palm, a formal industry was not developed until the mid 1950s, at which time the government, through the Sierra Leone Produce Marketing Board (SLPMB), planted 5,700 ha of the Deli Dura variety, and a further 800 ha of private plantations were also established. Mostly this was in the southern and western regions, where the railway line gave access to Freetown. The Deli varieties were higher yielding than the native Dura varieties, but the former were superseded in the 1960s by the introduction of the Tenera variety, which has an even higher yield but is not as well appreciated as the Dura for its taste.

From the late 1960s onward, a further 14,000 hectares of the newer Tenera variety were added in the south and east. Current estimates suggest that there are over 50,000 ha total in production, though many of the orchards are elderly now and the war caused wide-scale abandonment. Very little production takes place today under plantation conditions. The yield of oil palm grown in the traditional upland farming systems is only about one-half of the yields achievable in monocrop plantations. Data for 1985 on plantations reported fruit yields of 8t/ha and oil yields of 1.5 t/ha. There are no reliable data on production, but more recent FAO estimates suggest current fruit production at around 200,000 tons per year. This is consistent with a relatively low average yield of about 4t/ha FFB, including village as well as plantation production.

The war resulted in widespread neglect and abandonment of both estate and smallholder oil palm plantations. The major constraint on oil palm today is the poor condition of these plantations. There is also uncertainty regarding access to land within the estates. There is a need to define the conditions under which farmers are able to rehabilitate oil palm trees on the estates and then to benefit from the fruits of their labor.

New planting of oil palm will require a substantial effort to obtain desired plant material from Côte d'Ivoire or elsewhere, multiply and distribute the seedlings, and provide technical advice regarding planting and maintenance of the trees. The former West African Institute for Oil Palm Research (WAIFOR) is no longer functioning and will need to be re-established.

Fruit bunches from oil palms have traditionally been processed in households. This processing is tedious and time-consuming, and results in very low recovery rates of only about 10% of the FFB yield. The fleshy part of the fruit between the outer shell and the kernel is separated from the kernel and is mashed and boiled with the addition of some water so as to be able to roam off the resulting oil. Sometimes, palm kernels are crushed in the traditional wooden mortar and the palm kernel oil is separated in a way similar to that of the oil from the fruit. Palm oil is widely traded throughout Sierra Leone and is exported to neighboring countries as a cooking oil. The Dura oil is preferred to that from the higher yielding Tenera because of flavor and the physical properties of the oil in remaining liquid at ambient temperatures.

In the history of the industry, some 13 mills were established to extract the oil from the fruit bunches. All are now defunct. The kernels, which were removed from the fruits in processing, were dried and exported for oil extraction to the UK. In the early 1960s, some 50,000 tons per year of kernels were exported[27]. By the early 1970s, a palm kernel extraction industry had been established and palm kernel oil exports reached 9,000 tons per year.

The Marika Palm Kernel Oil Mill, which is operational today, was built with new equipment on the site of a defunct oil mill belonging to the former Sierra Leone Produce Marketing Board (SLPMB). This mill produces soap in competition with imports using locally purchased palm kernels, which are crushed by the mill to obtain the oil. The mill also sells palm kernel oil and cake, which is used as animal feed. The kernels are furnished by traders, who collect them from the villages as a by-product of the extraction of oil from the palm fruit.

Cashew

Cashew cultivation in Sierra Leone was started in the late 1980's, when a 600 hectare cashew plantation was established in the Kambia district by the Magbema Cashew Farmers Association, with additional trees being planted by one hundred or so outgrowers. As of January 2005, about 3,600 hectares of cashew trees existed, mostly in the Northern and Western parts of the country,

[27] All data FAO

of which about 1,200 hectares were bearing fruit. Since cashew trees start bearing at 4 to 5 years, this implies that two thirds of the acreage under cashew was planted recently.

The Magbema Cashew Farmers Association has obtained financing for the production and distribution of almost 300,000 cashew seedlings since the year 1990. It appears that cashew is seen as a potentially attractive cash crop even in the traditional cocoa areas in the eastern part of the country. The 1,200 hectares of fruit bearing cashew trees could potentially produce about 940 tons of raw cashew nuts at the world average yield of 700 lbs/acre,[28] though rough estimates put actual production at only about 500 tons.

The Kamcashew Agro-Processing Enterprise in Kambia District was established recently with funds from the Commonwealth Secretariat. It is mostly a manual process equipped with some Indian machinery. Staff at the enterprise, which is associated with the Magbema Cashew Farmers Association and is located next to the 1,500 acre plantation in Kambia district, reports total supply to the plant of not more than about 50 tons, or no more than 10% of reported total annual cashew nut production of 500 tons The difference of about 450 tons of raw nuts is capable of generating about 112 tons of saleable kernels. This is most likely currently being processed locally at the village level. This volume, plus sales of imported nuts in Freetown, indicates an existing local market, including possibly exports to neighboring countries, of 100 to 125 tons of cashew kernels.

Annual Crops

Annual agricultural production started to decrease in the early 1990s, but this was exacerbated by the war as support infrastructure deteriorated and services declined. Post-war activities focused on rehabilitation of agriculture, this being the main support of rural communities, and its restoration was paramount in improving household food security and developing the country's ultimate potential for export. Table 3-2 shows production of the major food crops for selected years from 1989/90 to 2004/05.

Table 3-2: Trends in Food Crop Production (selected years, 1989/90 -2004/05)
('000 tons)

Crop	1989/90	1994/95	1999/00	2000/01	2001/02	2003/04	2004/05
Paddy	518	445	198	311	422	445	527
Maize	12	9	10	10	13	16	12
Cassava	174	244	241	314	400	480	901
Sweet Pot	36	44	28	21	25	28	39
Groundnuts	28	40	15	49	98	34	57

Source: MAFS Special Program for Food Security, National Program Document & FAO/MAFS crop Surveys 2000-2005.

Rice is Sierra Leone's most important traditional food crop, grown all over the country using a variety of different production techniques. Production started to decrease in 1991/92, but the decline was precipitous during the last part of the decade because of dislocation caused by the war. With the cessation of hostilities, rice production began to revive – reaching 552,000 metric tons by 2005, which was back to pre-war levels. Furthermore, there are grounds for optimism based on the introduction of new production technology, such as the NERICA variety, which can easily double returns to upland rice farmers.

[28] Yields vary from as low as 270 lbs/acre in Brazil, where cashew is native, to as much as almost 2,500 lbs/acre in Vietnam, currently the world's top producer with about 28% of world production. [Cashew was introduced in Vietnam less than a decade earlier than in Sierra Leone and by the same source, FAO.]

A similar story was experienced with other food crops, with the exception of cassava – a relatively robust "insurance" crop, which did not suffer the same falloff in production. In fact, cassava's importance has increased significantly in recent years, with an average of 54% of farming families currently growing the crop. Groundnuts have also recently grown in importance, with total production in 2004/05 double that of a decade earlier.

Processed cassava (gari), rice, and some vegetables are exported to neighboring countries. Although there are only scanty data on these exports, casual observation in markets close to the frontiers suggests that they are substantial, particularly gari.

Rice

In addition to its importance in production, rice plays a central role in food consumption and trade. Large quantities of white rice are imported into Freetown,[29] where much of it is also consumed, though some imported rice makes its way up country, where it competes with local rice. Despite its lack of polishing, local rice commands a price premium, primarily for its taste. Relatively little local rice is found in Freetown, and that which exists is considered something of a luxury good. The internal trade of rice is further explored in Appendix 3.1.

Local rice is also exported to neighboring countries, notably Guinea which is just across the border from some of the main rice growing areas. As argued in the previous chapter, this reflects market realities and undoubtedly makes sense to the individuals concerned – both traders and farmers – and therefore should be reflected in national policy. As is now well-understood internationally, food security does not imply food self-sufficiency.

That said, local rice production is rebounding strongly with the help of a number of production initiatives. However, rice paddy is still largely processed by hand pounding. This is laborious and produces a product that, though appreciated for its taste, is not well suited to urban demand for a convenience staple food. Displacing imported rice depends critically on meeting its specifications for cleanliness, color, and rapid preparation. This can only be accomplished with improved processing technology.

In the mid-1970s, there were over 350 small rice mills operating in Sierra Leone, concentrated mostly in the small towns. They processed between 60 and 70 percent of the paddy that was milled annually, producing rice that was 20-40% broken, which would compete well with imports.[30] These small mills are no longer operational.

Small rice mills are found widely throughout the rice growing regions of West Africa. There appears to be no reason why modern versions of these smaller rice mills should not be made available for sale and servicing throughout Sierra Leone. This not only would contribute to the processing of rice that could compete with imports in Freetown but also would help to encourage rice exports to neighboring countries. At present, close to 400 rice mills and hullers are to be supplied by donors. At issue is how these mills will be distributed and paid for. In principle, they should be sold rather than donated, to ensure that they go to those most likely to establish viable commercial ventures. It will also be important that spare parts supply and servicing networks be established to maintain these mills. One option might be leasing, with the leasing company purchasing the mills and providing repair and maintenance services.

[29] Rice imports in 2004 were estimated at 180,000 metric tons (MAFF, 2005, p. 10).
[30] Pearson, Stryker, and Humphreys, 1981, pp. 211-12).

Cassava (gari)

Cassava is grown throughout the country in uplands and inland valley swamps. It is the principal staple starch when rice is not available, and the second most important crop after rice in terms of production and consumption. Cassava production increased during the war years as it is a low risk crop, needs few capital inputs, and requires little husbandry. Improved cassava varieties yield 20-30 percent more than local varieties, and their adoption has increased, though pests and disease continue to be major problems. Most cassava is processed into gari before being commercialized. Much of Sierra Leone's gari has a reputation of high quality, and there are significant exports to Guinea, The Gambia and Côte d'Ivoire.

Cassava tubers are perishable and potentially toxic. They need to be processed, both to improve shelf life and to remove the toxic substances. The main steps are peeling, washing, heating, grating, pressing, fermenting, frying and drying, and finally milling and sieving. Grating can be done manually, which is a tedious labor-intensive process, or it can be done using a mechanical rasping machine driven by a small diesel engine. Custom mechanical grating is now common in the cassava producing region. The grated cassava is then pressed and fermented. This can either be done by hand or using a manual press to extract water and juices, recovering starch as a by-product.

Gari is easily transported, and with a long shelf life and almost ready to eat, it is ideally suited to urban consumption. Marketing of gari is dispersed with traders traveling through the regions collecting product and bulking up volume. This may be taken to export staging points, such as Bamoi in the north, or to the Freetown urban retail market.

Ginger

Sierra Leone was the major West African ginger exporter in the first half of the twentieth century, with exports of dried ginger rising to over 2,000 tons in the late 1930s. The ginger that was exported was very pungent, with high volatile oil and extractive content. This was of particular interest to the distillation and extraction industries, for example those supplying flavoring to drink manufacturers. By the mid-1970s, however, exports had declined to quite nominal levels. Today, small quantities are still exported, but the crop is mostly grown to be sold as a fresh product in domestic markets.

Piassava

Piassava is a tough fiber produced from the stalks of palm trees. In the past, piassava was a major export from the Bonthe region of Sierra Leone, where the palms still grow and are harvested. The Sierra Leone grade is well recognized in the market as a hard fiber, which is a cost effective alternative to higher grades from, for example, South American producers. Total exports are estimated at around 200-250 tons. The UK is an important destination, importing up to 60 tons per year for use in heavy duty brushes and brooms such as road sweeping equipment.

POTENTIAL FOR EXPANDED PRODUCTION AND EXPORTS

Comparative Advantage

The analysis of the competitiveness of the country's main agricultural commodities in Table 3-3 indicates that domestic producers of rice have a significant comparative advantage in supplying domestic demand (domestic resource costs consistently less than 1.0). However, they have only a limited comparative advantage in exports at current levels of technology. Exports of NERICA to neighboring countries are probably profitable, though exports overseas are not. Production of lowland rice using high-yielding varieties and fertilizer is more profitable. Similar data is not

available for gari but the existence of significant flows today proves its competitiveness at least in the sub-region. This will be further strengthened with improvements in processing.

Table 3-3: Comparative Advantage of Major Crops in Sierra Leone (2003)

Crop	Net Financial Return		Domestic Resource Cost	
	('000Le/ ha)	(Le/person day)	Import Parity	Export Parity
Rice				
Upland Traditional	726	5,299	0.96	-
Upland NERICA	1,617	13,942	0.49	1.09
IVS31 Traditional	1,457	10,190	0.47	-
IVS HYV32 + Fertilizer	1,981	14,460	0.20	0.72
Boliland Traditional	1,611	11,187	0.66	-
Boliland HYV + Fertilizer	1,683	12,286	0.56	-
Boliland HYV + Fertilizer + Mechanization	1,538	-	0.73	1.33
Mangrove Traditional	1,410	10,295	0.68	-
Mangrove HYV + Fertilizer	1,923	14,036	0.53	1.16
Riverine Traditional	1,643	11,992	0.85	-
Riverine HYV + Fertilizer	2,312	15,211	0.61	-
Riverine HYV + Fertilizer + Mechanization	2,100	-	0.72	1.31
Cocoa Traditional	1,688	12,318	-	1.27
Cocoa Rehabilitated	3,388	20,656	-	0.68
Coffee Traditional	1,089	7,948	-	1.16
Coffee Rehabilitated	3,214	19,597	-	0.74
Oil Palm Traditional	951	6,941	-	1.51
Oil Palm Rehabilitated	2,013,448	13,982	-	0.45
Ground nut	2,273,545.0	16,595	-	-
Cassava	1,721,045	12,562	-	-

Source: Governent of Sierra Leone (2003) Agricultural Sector Review

The domestic resource cost estimates for tree crops are much more encouraging, providing rehabilitation is undertaken. Estimates are not available for improved varieties, but they would certainly be even more promising. The experience of Ghana and Côte d'Ivoire with improved hybrid varieties of cocoa has been very favorable. There is no reason why Sierra Leone cannot duplicate this performance on its good cocoa land. Rehabilitated oil palm looks even more competitive – although Southeast Asian palm oil continues to make inroads in the West African market.[33] Coffee also appears to have continued potential, though as explained below international demand conditions are a serious concern.

Demand and Supply of Potential Exports

Cocoa

With global demand for cocoa in excess of 3 million tons per year and underlying growth in the global market of some 2% per annum, the market needs an annual increase in output of 60,000 tons and a variety of sources of supply. In addition, uncertainty regarding the political situation in Côte d'Ivoire may mean that there will be an opportunity to capture some of its market.

[31] Inland Valley Swamp
[32] High Yielding Varieties
[33] There is mounting pressure in Cote d'Ivoire for protection from imported palm oil.

The prospects for expanding cocoa exports from Sierra Leone are very good. If the beans are handled correctly to avoid deterioration, there will be strong demand on the world market. The land available for cocoa production is estimated at 45,000 to 75,000 hectares. The areas in the south and southeast present the best opportunity for developing cost effective and profitable cocoa production. Perhaps 60,000 to 100,000 households, many of them very poor, could be favorably affected

With the cessation of the war and resettlement of communities, post-war initiatives comprising mostly rehabilitation of tree crops were undertaken by several multi-lateral and international non-governmental organizations,[34] as well as the Ministry of Agriculture, Forestry and Food Security, over a period of three years. Notwithstanding, a good proportion of cocoa farms still lack under-brushing, shade manipulation, and farm sanitation. These farms are threatened by pest and diseases, coupled with old age of the trees, resulting in significant reduction in quality and productivity. Continued efforts at rehabilitation offer one source of output growth. Replanting with high-yielding hybrid varieties from Ghana or Côte d'Ivoire offers another.

In the absence of a reliable agro-chemical supply system because of lack of availability and access to inputs, emphasis has been placed on bio-control for cocoa, especially against black pod disease and cocoa capsid. Chemical spraying has not been undertaken by any of the farmers/farmer groups involved in the rehabilitation. The cocoa clonal garden in Pendembu has been used to produce cultivated seedlings from the existing amelonado cocoa variety for gap filling/replacement by farmers.

There are several on-going and pending investments that will support tree crop production in Kono, Kailahun and Koinadugu during the next five years.[35] These include the CORAD LINKS Program in Kono and Kailahun, the German-funded Cocoa Program through FAO, the IFAD Rehabilitation and Community–Based Poverty Reduction Project (RCBPR), the ADB-funded Agricultural Sector Rehabilitation Project (ASRP), and IITA/STCP revitalization of the cocoa sub-sector.

The CORAD LINKS program will provide training in improved husbandry and integrated pest management to control cocoa black pod (CBP). The training will include bio-controls, farmer-led research, and genetic selection, side grafting, and testing of clonal varieties. Cocoa quality improvement will be sought through the introduction and testing of an improved cocoa fermentation process and private sector sponsorship of cocoa quality messages and farmer initiatives. CORAD LINKS partners will liaise with other donors on cocoa investment projects, and will promote commercial investment opportunities and strengthen access to micro finance for small farmers/entrepreneurs.

The IITA initiative will focus on the 14 districts of Kailahun and will establish a sustainable framework for cocoa production and marketing. Lessons learned in the process will be transferred to other districts and other crops. This strategy is based on IITA's experience with the implementation of the Sustainable Tree Crops Program (STCP).[36] The STCP is a global development initiative primarily funded by United States Agency for International Development (USAID) and the Global Issues Group of the Cocoa Traders and Manufacturers of the US and Europe (see Box 1). All of these projects will implement an Integrated Pest and Production Management training program using the Farmer Field School (FFS) methodology aimed at increasing farmer innovation, productivity, and market access.

---

[34] Food and Agriculture Organization , World Food Program, World Vision, and Sierra Leone Consortium for Relief and Development (CORAD) with funding from USAID.
[35] See Annex for details.
[36] http://www.treecrops.org

Box 3-1: The Sustainable Tree Crop Program (STCP) for Cocoa Exports

Traditional smallholder tree crop systems can play an important role in increasing rural welfare, but under-investment, combined at times with weak policy support, has meant that this potential has not been realized. A public-private assessment, initially led by USAID and Mars Inc., culminated in the launching of the Sustainable Tree Crops Program (STCP) in May 2000 to improve smallholder agricultural systems based on tree crops in West and Central Africa. The International Institute of Tropical Agriculture was asked to host the Program and provide strategic leadership. New partners have since joined the alliance focused particularly around cocoa systems, and today it unites organizations and entities including, farmers and producer organizations, the global chocolate industry and cocoa trade, donors and development agencies, the public sector and policymakers, and research institutes.

These partners, bringing their different perspectives to the table, have shaped a consensus around addressing three common concerns:

- Promoting the production and marketing of quality cocoa;
- Improving market access and income for small-scale producers; and
- Creating systems that are environmentally friendly, socially responsible, and economically sustainable.

With high-quality, inexpensive and relevant training materials, in 2003 and 2004, 139 trainers have been trained, 8,500 farmers have experienced Farmer Field Schools (FFS), and 17,000 additional farmers have benefited through assisted farmer-to-farmer diffusion of knowledge. Farmer Field School plots (land contributed by participating farmers for a season of group experimentation and instruction) in Ghana and Cote d'Ivoire produced 30% more pods than their surrounding fields. In Cameroon, where black pod disease has long ravaged cocoa farmers' crops, FFS participants registered productivity gains with average reductions by 20% in the amounts of fungicide applied.

STCP is also working to strengthen 15 large farmer cooperatives through training and technical support for outreach to over 31,000 farmers in 4 countries. Having thereby become more effectively organized, farmers have come to leverage group sales and negotiation, while demanding more transparent and direct transactions. These efforts have already led to farmers receiving 5-15% higher farm-gate prices for their cocoa, building individuals' trust and confidence in robust cooperative structures and facilitating access to private-sector funds for cocoa marketing. For example, ADM Cocoa is purchasing cocoa directly from pilot cooperatives in Côte d'Ivoire, providing better prices and short-term financing, while receiving better quality beans in return.

In addition, research on new solutions for key production constraints are being supported by STCP, i.e. the biological control of black pod disease, the characterization of the genetic diversity of cocoa germplasm, and the new establishment/rehabilitation of diversified cocoa agroforests.

Coffee

Sierra Leone grows the robusta type of coffee. World coffee prices have been in long-term decline: after 1970, prices for robusta coffees experienced an average fall of 5% per year until

early 2002, when the London futures contract started to rise from below $400/ton. In the final quarter of 2005, prices were nearing $1000/ton but this was still less than half the levels of ten years ago. Allowing for further quality discounts, coffee prices in Sierra Leone are scarcely remunerative, particularly in view of the high labor requirement. Globally, robusta coffees are in surplus and only the most efficient producers can survive. The prospects for growth are not encouraging – given the cyclical nature of the coffee market, it is likely that any improvements in returns are temporary.

A number of coffee producers in other countries have addressed the difficult trading conditions by moving away from the commodity markets and seeking to differentiate their product. Several specialty types have emerged based on issues that might resonate with consumer demand such as organic, eco-friendly, fair trade, gourmet, and single origin or estate. However, these niches are small, and there is a risk of increasing supply diminishing the premia that they currently attract. There is also a paramount requirement to maintain quality, consistency, and reliability in trading. They are therefore better suited to the well developed coffee exporting countries. It is unlikely that in the near term Sierra Leone could be considered as a reliable origin for these specialty types.

Oil Palm

Oil palm plantations established during the mid-fifties to the mid-sixties were all planted with Deli Dura, which is very low yielding. These plantations cover an area of more than 6,000 ha and, to a large extent, are government owned. They need total replanting. The estates planted with the hybrid Tenera seed cover about 13,000 ha, of which 65% are publicly owned. Only 45% of this planted area has a sufficient economic life ahead to justify rehabilitation. As a result, within the oil palm plantations, not more than 6,000 ha of oil palm plantations are available for rehabilitation while 13,000 ha need replanting.

None of the 13 oil mills that were once operating in Sierra Leone is currently in business. If rehabilitation and replanting are to occur, there will be a need to invest in new mills. This is best accomplished, for the most part, with smaller-scale mills. This facilitates the transport of fruit bunches to the mills in a relatively short period of time, thus avoiding the problem of rancidity. The problem of transport is especially acute given their poor condition of most of Sierra Leone's transportation infrastructure. The optimum pattern would be for several such mills to be located on the former estates, as well as a few being located in small towns to serve the village plantations

The MAFS currently plans to import 600,000 improved oil palm seedlings from Malaysia, which will be multiplied by community nurseries and distributed to farmers in the region of Matru. Small-scale mills will be established to process the fruit. Nucleus estates will assure quality control, training of farmers, input delivery, and even throughput to the mill.

Sierra Leone is not likely to compete internationally with the massive output from the low cost Far East producers in a global market of some 23mn tons of crude palm oil per year. However, there exist good opportunities for palm oil, palm kernel oil, and palm kernel cake in domestic and regional markets, where transport costs are low in comparison with those of imported oil. Furthermore the Dura variety provides a preferred cooking oil from a taste perspective. Management of the Marika Palm Kernel Oil Mill also believes that good export prospects exist for laundry soap in the markets of Guinea, Senegal, and Mali – all countries with little oil production appropriate for soap manufacture – as well as in Portugal and Spain.

Marika also plans to expand into processing of Dura fruit bunches so as to produce an expensive, high quality oil that should have good export potential, especially within West Africa but possibly

also with the West African diaspora overseas. High quality oil would be produced as a first "cold" pressing of fruit. Subsequent pressing at higher pressures and temperatures of the same raw material would then yield a palm oil that would be a good ingredient in soap when mixed with palm kernel oil. Further plans are for the acquisition of hydrogenation equipment, which will allow MARIKA to produce margarine from its palm kernel oil.

Cashew

Local farmers seem to be keen to start or expand cashew production, as evidenced by the sale of seedlings and by reported plantings in the MAFS's crop station at Kpuuwabu – Kenema. The older plantings of cashew can be expected to yield around 500 tons of raw cashew nuts per year and a further 1,000 tons per year might be expected from the younger trees once they reach full bearing. This is not sufficient to support a processing industry for export of kernels internationally, nor is it enough to attract raw nut buyers from India and elsewhere to Sierra Leone, but it is sufficient to serve local and regional demand in the medium term while linkages with the export market for raw nuts are being developed.

The long-term prospects for cashew are very good. Long-term consumption trends on the world market have been up for years, with no sign of abating, notably because of demand from the Chinese market, where cashew is sought as an ingredient in traditional cuisine. Production is limited by the agronomic demands of the cashew tree, essentially requiring climatic conditions similar to those found in the western part of Sierra Leone. However, tolerance to the local conditions should be investigated: much of Sierra Leone has a high annual rainfall, albeit concentrated in five months, and cashew is usually susceptible to anthracnose and other fungal problems.

Guinea, Guinea-Bissau, and Senegal all grow and market cashew. Guinea-Bissau is the largest of these producers, with annual production of about 90,000 tons of raw nuts on more than 100,000 hectares. About 85% of Guinea-Bissau's cashews are produced by smallholder farmers rather than by large plantations. All three countries export raw cashew nuts, foregoing the added value that might be obtained from local processing. Efforts have recently been made in all three countries to start a local processing industry based on relatively small sizes of plants, operating essentially with locally made equipment and employing largely manual, labor-intensive methods. Exports of raw nuts continue, however, since the local processing industry is not yet sufficiently large to absorb total local production, notably in Guinea Bissau. However, early indications are that local processing can compete with exports, i.e. the local processor pays the export price for raw nuts and is still able to sell profitably on the local and regional market. In the case of Guinea Bissau, it also sells to Europe and the USA.

The lesson from this experience and that in other African countries is that Sierra Leone certainly has a comparative advantage in the production of raw cashews for export. There may also be a potential for small-scale, largely manual processing of cashews for export, but this industry must be very competitive to survive. Fortunately, the scale of these plants is such that limited investments can be made after raw nut exports have already been developed to test the feasibility of exporting processed nuts. The more immediate challenge is how to attract international buyers of raw nuts given the small size of the existing crop. To do this, growers should aim for a large nut with good kernel yield. This may require the importation of planting material, which means that the phytosanitary and quarantine issues must be resolved.

Cassava (gari)

The major potential for improvement in the cassava sub-sector lies in gari processing. Here the innovations are already well known. They involve the introduction of mechanical grating

machines, manual screw presses, sieves, and other simple equipment. One of the reasons for the considerable expansion of cassava production in the last few years is the introduction of such simple processing equipment. Itinerant custom mechanical grating is already very common. Other types of equipment are available and need to be tested under field conditions. UNIDO's project to establish a number of agro-food processing growth centers throughout the country is based on this demand for processing equipment.

Although the agro-industrial analysis for the DTIS indicates that one gari processing plant at Bo is not profitable, this may be because the facility is used for many purposes, and its cost structure is not clear. Discussions with the Gari Traders Association suggests that actual exports are about 10,000 tons per year, which currently should be worth $3.25mn, of which $1.24mn would go to farmers. This is approximately 60% of the value of cocoa exports. There appears to be no reason why the level of gari exports could not be at least doubled over the next ten years.

Ginger

Growth in global demand for ginger over the last 15 years has been almost wholly in the fresh ginger market. This is almost all supplied by very competitively priced high quality material from China. African countries are unlikely to achieve commercial yields of product with the required specification. The ginger on sale in the Freetown markets would be unacceptable to the European trade.

There are opportunities in the dried ginger market for new suppliers. In particular, dried African ginger have always been of interest to grinders and extractors. With a product that is more pungent than the Chinese ginger, there is the potential to regain market share.

There are two concurrent initiatives to increase the output of ginger in Sierra Leone. A local NGO, Cotton Tree Foundation, is working with farmers throughout the country, partly supported by Dutch funding, while the other initiative is organized through the MAFS and SLEDIC with support from the International Trade Centre in Geneva. Both approaches are using imported Chinese material to distribute to the farmers. The crop budgets and yields have not yet been established, nor have the results of drying tests. Both initiatives have sent people to India to look at technology for drying and processing.

It is not entirely clear why material was imported. Ginger production did not cease when exports faded away, though there was much less grown. The local material, which had once been popular on the international market, could probably have been multiplied. Instead there is now a situation where an untried variety (or several varieties) is being quite widely grown as a substitute for the local variety that is adapted to local conditions. In addition, most Chinese material is grown for the fresh market and is therefore a larger rhizome with a high water content, which is much harder to dry.

The NGO reports that there are problems with the cultivation of the imported ginger because of yellowing and necrosis of the leaves, leading ultimately to a rotting of the rhizome. Either the imported ginger is succumbing to local diseases that are perhaps better tolerated by the local varieties or, alarmingly, the imported variety has brought fungal rot with it. This situation highlights the imperative for a strong phytosanitary policy and a quarantine system for imports. The ginger situation must be monitored carefully to assess the potential damage to the local crop.

Horticulture

Of all the potential exports, horticulture is probably the most difficult: from the moment of harvest, the product is deteriorating and all handling must be focused on protecting the product

while moving it as rapidly as possible towards its final destination. Even the more durable products, such as pineapples, cannot tolerate poor handling if they are to arrive in a marketable condition.

At present, there are no international commercial exports of fresh produce from Sierra Leone. A smooth flow of product from the field through the pack house and out through the port is essential to the success of export operations. Currently, that cannot be guaranteed in Sierra Leone, with sea and air port operations being unpredictable. In addition, although Sierra Leone grows a wide range of products for its own internal market, there is little exporting to neighboring markets since there is little advantage in terms of season, climate, or cost of production to justify the transport costs. Realistically, then, the development of a significant horticulture export industry is likely to be risky and unprofitable until transport by sea and air is substantially improved.

Over the longer term, the potential for horticultural exports is greater. However, countries such as South Africa, Kenya, Morocco, Cameroon, and Côte d'Ivoire have already captured a significant share of this trade. In addition, there are important market access restrictions, such as seasonal tariffs and tough phytosanitary requirements. Furthermore, horticultural products face exacting requirements in terms of quality and supply reliability. Meeting these requirements will require a whole series of investments in production, processing, transportation, and storage, and will probably require some foreign investment. Most of these investments should be undertaken by the private sector, especially since this sub-sector is not likely to have much immediate impact on employment and poverty reduction when compared with some other sectors.

Piassava

The prospects for Sierra Leone piassava exports are mixed: the war and increasing difficulties with suppliers have encouraged end users to switch to synthetic alternatives. The synthetic fibers are cleaner and easier to handle from a manufacturing perspective, but there remains a niche for piassava in certain traditional markets such as stable brushes. This is a small market with little scope for government intervention, but it may be of interest to NGOs, farmers, and traders as a supplementary source of income.

Rubber

Rubber was once an important crop for Sierra Leone. There is little prospect of this sector reviving to any extent, though there are still some exports from the southern part of the country. African producers generally can no longer compete with the Far East, and, although natural rubber demand is rising, it is unlikely that this will have sufficient impact to warrant bringing this crop back to Sierra Leone.

Role of Forestry

Sierra Leone's vast forests and wildlife resources are capable of providing a wide range of benefits. Forestry products include fuelwood and charcoal, timber, sawn wood, fibers, construction materials, medicinal plants, edible plants, ornamental plants, bush meat, honey and beeswax, and genetic biodiversity. In addition, the preservation of the forest has important environmental effects and serves as the habitat for birds and other wildlife. Although the sector currently accounts directly for only a small share of GDP and its export potential is probably small, the indirect benefits of proper forest management are especially significant, while the risks of mismanagement are high.

Forest resources are being increasingly encroached upon in Sierra Leone. The major problems are the spread of shifting cultivation, excessive logging, and fuelwood harvesting, all of which are

said to destroy about 6000 hectares per year, though there is no inventory of forest resources against which to judge this claim. Mining has also resulted in some destruction of forest land, as did the civil war. There is little effective regulation of the use of forests. There are about 4,000 hectares of Protected Forest Plantations to produce sawn wood, but these plantations have been harvested for fuelwood and are being cleared for agricultural cropping.

While official statistics do not show any exports of timber, fees are being collected on chain saw operations which have reported sales of some 1,200 m^3 of timber to 11 different countries in 2005-06. This activity appears to be expanding as security returns to the forest regions. However, many if not all of these operations are considered "illegal" and there is no plan or regulatory framework in place to manage the exploitation of forest reserves, nor is there any policy of reforestation. The closed high forest from which most timber is extracted accounts for only 5% of the land area of Sierra Leone.

The synergies between forests and exports are multiple, even without the export of timber or sawn wood. Agro-forestry contributes to the sustainability of the annual cultivation of rice, cassava, and other crops, by controlling water run-off and wind erosion. Forests provide fuelwood for fish drying and smoking, making gari, and palm oil processing. Maintenance of forest is important for ecotourism. And there are many non-wood forest products which offer sustainable export opportunities, albeit on a small scale. Given the many pressures on the forests, and the advantages to maintaining forest cover, it would seem unwise to promote timber exports. There is therefore an urgent need for a proper plan for the management of forest resources before it is too late.

CHOICES TO PROMOTE TRADE, GROWTH, AND POVERTY REDUCTION

Table 3-4 attempts to quantify the scale of the return to the farmer or the factory owner from increases in output directed at exports. The figures are approximations of what might be achievable by 2015, given the production capacity and the ability of the market to absorb the exports. Current prices are used, though in the case of cocoa, simultaneous improvements in quality could also lead to an increase in price. For example, if the cocoa from Sierra Leone were to be improved to the standard grade, thereby eliminating the automatic £70/tonne discount, the return to producers on 6,500 tons of export would be at least $800,000 per season. It would in fact be more than this since the discount is often higher, and the handling costs of the exporter would also be reduced. This increment would become all the more important as national output increases.

Table 3-4: Gain in Annual Revenue from Pursuing Alternative Activities

Crop/Product	Current Exports (tons)	Producer Price	Unit	Exports at Producer Price (US $)	Potential Exports (tons)	Gain in Revenue (US $)
Cashew	0	725	$/ton	0	10,000	7.3mn
Cocoa	6,500	800	Le/lb	4.0mn	30,000	14.8mn
Gari	10,000	55000	Le/60kg	3.3mn	20,000	3.3mn
Ginger	0	1000	$/ton	0	1,000	1.0mn
Palm Oil	0	42000	Le/5gal	0	5,000	3.7mn
Palm Kernel Oil	0	35000	Le/5gal	0	5,000	3.1mn
Total						33 mn

From this table, it appears that cocoa offers the single best return. But while cocoa represents a profitable opportunity for increasing the value of exports from Sierra Leone, there also needs to be diversification into other crops. The world price of cocoa is highly variable because the

industry is very competitive and supply adjusts only slowly to changing world prices. Also, cocoa grows only in the eastern districts of Sierra Leone, and other regions need to develop income-generating crops.

Cashew also offers excellent opportunities for raising farm income over the medium term. Cocoa and cashew are complementary in terms of their agro-ecological demands and therefore have the potential of covering a significant portion of the country.

Extending production increases to gari, rice, ginger, and oil palm would substantially expand this area. Although the far north would not be directly served, increased income in the rest of the country would stimulate demand for products such as groundnuts, livestock, and fruits and vegetables, which are grown in the far north.

The expansion of gari exports is not likely to be very closely linked with interventions on the side of production. Cassava is a major food crop, as is rice, and exports can be expected to be only a small share of total production. However, innovations in processing of gari could have a more important role to play in making this product available for consumption in urban areas and in export markets. The same may be said with respect to small-scale milling of rice. So the focus of this report is on the production and processing of cocoa, oil palm, cashew, and to some extent ginger, as well as the processing of gari and rice. These are the activities that will have the most important effects on trade, growth, and poverty reduction.

CONSTRAINTS INHIBITING ACHIEVEMENT OF POTENTIAL

In order to develop strategies for promoting exports, the major constraints on the potential for growth need to be identified. Here we concentrate on where there are major deficiencies impeding the development of production, processing, and marketing of export-oriented agriculture. Other sections of this report deal with macroeconomic constraints, customs and trade facilitation, infrastructure, and financial services.

Weak Governance and Ineffective Producer Organizations

A key issue is what should be the respective roles of Government, NGOs, and producer organization. With its very limited capacity, it is vitally important that Government focus its energies on areas in which it has an essential role. These include formulation of an overall agricultural strategy; establishing an enabling environment for NGO activity, private sector investment, and farmer organizations; assuring plant and animal protection; supporting agricultural and livestock research; and providing for the acquisition, multiplication, and dissemination of new and improved plant and animal material. NGOs have proven particularly effective at disseminating information on new techniques and technologies. Farmer organizations also have an important role to play in this dissemination, as well as in helping to develop markets, storage, finance, and other ancillary services.

The need for farmer groups, as business units, co-operatives, or similar structures, is the best way to consolidate volume and work towards improving the quality of cocoa. Extension work with a myriad of smallholders is too difficult. Yet many of these organizations do not function very effectively in the interest of their members.

Farmer field schools (FFS) are being developed, which offer technical training, access to inputs, and markets for cocoa beans and other crops, but registration options for rural enterprises, including farmer groups, are not clear under the existing legislative structure. They are unprotected by the law, limiting access as well as ability to engage in formal commercial activities. Current policies make it difficult to formally register farmers groups as anything but

cooperatives or associations, and the designation of "cooperative" has negative connotations in rural communities.

Governance is a key issue with the democratization process and has been a focal point in the community capacity building process of most NGOs and some multilateral funded initiatives. CORAD LINKS partners consider the use of internal governance through development of democratic principles in farmer groups an important aspect of group development. Governance and advocacy are currently part of the FFS methodology as the federation of FFS into market associations evolves. This institutional structure will be vital for the dissemination of market and technical information.

Poor Policy and Regulatory Environment

Other parts of this report deal extensively with the poor policy and regulatory environment in Sierra Leone. Areas where this impacts particularly on export–oriented agriculture include inefficient and duplicative pre-shipment inspections, high port and handling charges, weak customs administration, excessive harassment by police, and poor transport regulation. If a diversified agricultural export base is to be built, long term investment will be needed. Growth and diversification cannot rely only on the activities of rural smallholders but will require entrepreneurs to invest in larger scale production, processing, and trading in order to drive the sector forward. This will require a far better enabling environment.

It is ironic that the largest investors in the cocoa sector at present are the exporters (with dryers and trucks, for example), who, because of their Lebanese origins, are generally held responsible for all the difficulties. Realizing the very considerable potential of the cocoa sector will require substantial additional investments in cocoa trees, seed gardens, and a host of other areas.

Growing public sector initiatives support agriculture, but coordination and cooperation are absent. As a result, technical messages on best practice for cocoa and other tree crop production and post-harvest handling may be inconsistent, and dissemination of research and improved technologies is limited.

Lack of Market Access and Information

Lack of market access is primarily due to lack of information regarding markets, their prices, and their standards. Farmers and traders depend mostly on word-of-mouth transmission of market information. Their knowledge of overseas or even regional markets and trade practices is minimal. Farmers have no knowledge of the world market price for cocoa and other export crops. They know almost nothing about grades and standards.

Forward planning, strategies, and prioritizing of actions requires a foundation of reliable information not only of markets but also of the capacity to supply those markets. Information gathering, from tree stock surveys to understanding regional export markets, needs to be developed. Initially, this must be a government function but in time the private sector should formulate its own plans based on information within the trade.

Insufficient Intermediate Technologies and Input Supply

Intermediate technologies exist for production and processing of rice, cassava, oil palm, cashew, and other products, but they are not used very extensively in Sierra Leone today. Yet there are vestiges of these technologies evident in the rusted and dilapidated equipment that is found throughout the countryside. What is needed is delivery systems for making this equipment

available, providing access to servicing and spare parts, and giving producers and processors the financial means to purchase or lease it.

The same is true for intermediate inputs. There are almost no input delivery systems in existence in Sierra Leone today. Other than through donor financed and NGO projects, there are almost no fertilizers, chemicals, and other agricultural inputs available outside of Freetown.

Poor Infrastructure

The appalling state of the roads in the interior not only impacts directly on the marketing cost of agricultural products but also has significant indirect consequences in adding to the cost and difficulty of supplying food and agricultural inputs in rural areas. The amount of time taken to get products and inputs to and from market takes away from the time that might otherwise be used for cash crops.

Port activities and costs are a major constraint on exports. They not only add to the cost of marketing, which precludes the export of lower value goods, but also prevent the export of perishable produce because of risk of delay.

Lack of Access to Agricultural Credit

Some years ago, subsidized agricultural credit was available through specialized banks, projects, and other institutions. This credit was generally rationed and went disproportionately to large producers and processors. Much of it was never repaid. The result was a collapse of these institutions and a restructuring of the banking system along sounder financial principles. Today this system is relatively sound but credit is scarce and expensive. It is beyond the reach of most rural enterprises, which need access to finance in order to modernize agriculture. This area is explored further in Chapter 9.

With little credit available to farmers, the question arises as to how they may be expected to invest in the planting of cocoa, oil palm, and cashew trees, which are relatively long-term investments. Even if the financial situation in rural areas were much better, most of this credit would be working capital for traders and perhaps a bit of medium-term credit for a few larger producers. Almost none of it would be available for planting trees. We should recognize, however, that most of the investment in tree crops is made on quite small areas of land, where the farm-household invests some of its surplus labor during the time of year when it is not otherwise needed. Thus lack of credit is not as much of a constraint as might be perceived. Furthermore, the farmer purchases few inputs, given the biological means of plant protection currently in vogue, so there is little need for cash for this purpose. The major cash need is to buy seedlings, which could initially be paid for by the donors, though this has to be done in a way that will not discourage the development of a seed multiplication industry.

Lack of Capacity for Agricultural Research

Although at one time agricultural research in Sierra Leone was highly respected, today there is very little of this capacity that remains. Yet increasing farmer productivity and incomes will depend critically on introducing new technology, plant materials, and other elements of modern agriculture. This will require rebuilding agricultural research capacity. Fortunately, a number of the scientists previously involved with research are still around and could form the nucleus of a research base. To be effective, this research needs to be closely linked with various kinds of extension agents (MAFS, NGOs), with farmer organizations, and with input suppliers. Introduction of new materials will also require appropriate quarantine facilities and regulations, which protect plant and animal health but do not unduly restrict research. There may be

important economies of scale that can be exploited by operating regionally. The West Africa Rice Development Association (WARDA) and the Sustainable Tree Crop Program (STCP) are two such examples.

Lack of Recognized Interdependency

The climate of mistrust in the cocoa trade needs to be tackled if Sierra Leone is going to regain its position as a good quality origin. This applies to other export products as well. It is important that a forum is found for bringing all the interests in the export sector together: this must include producers, buyers, exporters, transporters and shippers. Until there is a common responsibility for solving problems, rather than a proclivity to blame, expansion of exports will not move forward. Such clusters are difficult to establish and will need support, but serve also to collate and disseminate information and guide the sector and liaise with government.

PRIORITY ACTIONS

Agricultural exports today are valued at roughly $10 million, if one includes estimates of regional as well as international trade. Potential agricultural exports could in ten years be four times this amount, contributing in an important way to growth of income and employment and reduction of poverty, especially in rural areas. However, numerous constraints to production, processing, and marketing inhibit the realization of this potential. Overcoming these constraints will require careful prioritization of actions in both the short and medium term.

Short-Term Priorities (within 1 year and beyond)

General

One of the steps needed to develop this prioritization is to gain a better knowledge of market conditions, especially within the region, as well as of potential sources of supply. One of the first steps to be undertaken is to investigate the regional market for gari, rice, palm oil, palm kernel oil, and cashews to see what quantities can be offered and what are the quality specifications. To what extent is this essentially an urban market, with a growing demand for processed food?

Another priority is to undertake a tree crop survey to gain an understanding of the distribution, demography, and condition of the major tree crops: cocoa, oil palm, cashew.

Farmer and other stakeholder organizations should be supported through the development of a protocol for managing groups, minimum size requirements, location needs, etc. The Farmer Field Schools are an effective instrument for implementing this protocol as a means of transferring needed technology and information. Use of the media should also be encouraged to disseminate best practices to improve crop management through integrated pest management (IPM), agronomy, and improved husbandry.

With the need to import new varieties of plant material, it is imperative that a strong phytosanitary policy and a quarantine system for imports be established. This should be adequately protective but should not unnecessarily impede technological progress. A first step would be a thorough review of the existing system and proposals for reform.

Cocoa

The overriding concern of actors in this industry is the decreasing productivity, especially due to the high incidence of black pod disease. Although chemical control of black pod might be possible, the chemicals may be washed off in the rains and use of these chemicals will destroy

any possibility of cocoa from Sierra Leone being marketed as organic cocoa. Cultural techniques are another option. These would involve shade reduction, regular harvesting, and frequent weed control, as well as improved air circulation within the canopy.

In addition, it is important to investigate the possibility of Sierra Leone adopting the high-yielding hybrid cocoa varieties used in Ghana and Côte d'Ivoire. An initial step might be a trip by MAFS officials, agricultural researchers, and others involved with cocoa in Sierra Leone to Ghana and Côte d'Ivoire to explore the possibility of importing hybrid cocoa tree seedlings into Sierra Leone for testing in the seed gardens. The operations of the experimental seed gardens also need to be supported.

Another short-term priority area for action is quality improvement. There will be no incentive to pay a better price unless an improvement in quality on the scale of a commercial consignment can be demonstrated. With the production of cocoa atomized among numerous smallholders, consolidating a load of higher quality is difficult. The options are either to work through farm groups such as the co-operatives or to invest in small-scale fermentaries, localized in areas of production, where pods could be delivered and output consolidated at the earliest stage. There is an urgent need to give a refresher course on post-harvest cocoa processing to extension staff of Government and NGOs, and to equip extension staff appropriately to bring processing knowledge to farmers.

To offer an improved price for quality the buyer must be able to trust the supply and believe that further shipments will conform to expectations. Since the present system of controlling quality is not reliable, it may be appropriate to use an independent agency or control organization. In order to strengthen the role of the private sector in cocoa marketing, a private sector association should be established. This association should introduce differential pricing of cocoa in relation to quality.

The possibility of reducing the number of inspections of cocoa being exported should be investigated very soon. The Ad Hoc Committee should be disbanded and its personnel transferred to the Sierra Leone Standards Bureau. A plan must then be developed to streamline, and strengthen, the export inspection process while providing adequate certification of sanitary and phytosanitary conditions. Certification options should be explored. Consideration should be given to the possibility of grading cocoa in order to introduce price incentives for quality improvement, after consultation and agreement among traders and exporters.

While the challenges are many, some donor programs are now supporting the cocoa sector. In addition, an innovative new public-private partnership has developed a regional cocoa program and it is considering expanding into Sierra Leone (See Box 2). The Sustainable Tree Crop Program could bring valuable experience from neighboring countries while helping coordinate and catalyze the various initiatives underway.

Oil Palm

The highest short-term priority in the oil palm sector is rehabilitation of existing plantations, both estate and village. This may require a redistribution of estate land to individual farmers or groups of farmers. The first step should be a cadastral survey of the estates to find out how and by whom the land is currently being used, as well as the traditional rights to the land.

Entrepreneurs should also be encouraged to invest in small-scale mills for the processing of this production. The old estate mills are not worth rehabilitating.

The Marika plant should be encouraged with its test export shipments of palm kernel cake and other products. This has the potential to increase farmer income and employment through the purchases made by the plant.

Improved plant material should be obtained from Malaysia or other countries within West Africa, such as Côte d'Ivoire, where oil palm has been extensively developed An initial step might be a trip by MAFS officials, agricultural researchers, and others involved with oil palm in Sierra Leone to Malaysia or Côte d'Ivoire to explore the possibility of importing improved oil palm seedlings into Sierra Leone for testing in the seed gardens. In addition, the operations of the experimental seed gardens need to be supported. This work should be closely coordinated with the existing projects summarized in this report.

Cashews

Raw Cashew Nuts should be exported until the level of local production justifies processing. Processing and exports of kernels and by-products such as Cashew Nut Shell Liquid should be the subject of a detailed feasibility study.

Production and distribution to smallholders of another set of cashew seedlings by the Kamcashew Enterprise should be approved and funded. A five-year plan for seedling production and sales should be prepared in collaboration with Kamcashew and the national extension and tree crop research services.

Workshops on cashew crop production and processing management should be conducted and the information disseminated to farmers.

Milled Rice

Small rice mills are being introduced by the MAFS and a few donors. This effort should be supported and expanded. It is important to test different models of rice mills under local conditions in Sierra Leone to see which are most suitable. Support for provision of spare parts and servicing is also critical. Purchase of the rice mills by a leasing company and the leasing of these mills to local entrepreneurs may be the most effective way of transferring title of the mills and assuring their repair and maintenance.

The present system of marketing milled rice and gari should be improved by developing one or more markets that could act as entrepôts for more efficient distribution. A central point where processors could deliver bulk would improve the flow of the product, not only domestically but also for export. As a first step, the constraints on milled rice and gari marketing need to be explored.

Gari

There is an urgent need to assess the profitability of making small-scale equipment available for processing of cassava into gari. There is a considerable amount of equipment available, but it needs to be tested under village conditions. It is quite possible that this equipment could be purchased by small enterprises or farmer associations at the village level, where it would be used for custom processing.

One of the advantages of producing gari is that it stores well, can be easily be transported in bags, and is quickly prepared. Thus it is an ideal staple for urban consumption and for export. However, the present system for marketing should be improved based on the results of a study of

existing constraints on the marketing of milled rice and gari for export and for domestic consumption.

Ginger

The main priority for ginger is to monitor carefully the varieties that have recently been introduced and to assess any potential damage to the local crop. At the same time, local varieties for ginger should be tested to see how well they might respond to export market requirements. Workshops should be conducted on ginger processing and quality control. Physical investments should include drying platforms, storage and water.

Medium-Term Priorities (1-5 years)

General

Farmer Field Schools (FFS) should serve as the principal vehicle for the multiplication and distribution of improved plant material to farmers, along with technical advice regarding planting and maintenance of the cocoa, oil palm, and cashew trees, and the rehabilitation/rejuvenation of old plantations using approved techniques.

FFS should be encouraged to establish buying centers where members can bring their cocoa beans, palm fruit or kernels, cashews, and other crops either for direct sale to exporters or for sale to the local Marketing Association, which can undertake some processing and bulking in order to sell in larger volumes direct to exporters. For this purpose, the FFS should be federated into Marketing Associations, and their management and financial capacity should be strengthened. They should provide technical assistance to farmers regarding post-harvest handling. Processors should be encouraged to invest locally to complement the marketing activities of the Associations.

FFS should assist in establishing grades and standards in the local buying centers. Over time, the Marketing Associations may explore the possibility of establishing warehouse receipts as collateral for bank lending. Market information systems should be established to collect and disseminate market price and other information at the international, regional and local levels. This should be a joint public-private effort.

FFS should be trained in the use of formal and informal systems of managing disputes (contracts, mediation, and/or arbitration) to reduce business risk.

Cocoa

Routine farmer group visits to monitor protection against cocoa pests and assure farmer awareness of techniques for maintaining this protection should be carried out at regular intervals. The same applies to visits to monitor and inform farmers regarding treatment of cocoa for proper fermentation and drying.

To prepare the way for replanting of cocoa farms with high-yielding hybrid varieties, the capacity of clonal seed gardens to engage in first stage of multiplication should be reinforced. The MAFS and NGOs should also work with the FFS and other farmer groups to establish a system of farmer multiplication for subsequent stages. Extension agents should work with farmers on replanting the new, improved seedlings.

Buying centers established in major cocoa producing areas should begin purchasing cocoa either for direct sale to exporters or for sale to the local Marketing Association, which will process and

bulk the cocoa for sale to exporters. For this purpose, processors should be encouraged to establish small-scale fermentaries at the buying centers.

The Ad-Hoc Committee should be disbanded and a plan developed to streamline and make more efficient the inspection process for cocoa exports.

A private sector association on cocoa marketing should be established, which should disseminate information on the world cocoa market, as well as on prices and marketing conditions within Sierra Leone. It should also act as a lobbying group regarding market reform, including the streamlining of the inspection process.

The Sustainable Tree Crop Program should be encouraged to expand into Sierra Leone.

Oil Palm

Legislation providing for redistribution of land within oil palm estates to smallholders should be enacted and implemented. This should be coupled with technical assistance to these farmers in the rehabilitation of the plantations, and in some cases in their replanting with improved seedling varieties.

To prepare the way for replanting of oil palm plantations with high-yielding hybrid varieties, the capacity of clonal seed gardens to engage in first stage of multiplication should be reinforced. The MAFS and NGOs should also work with the FFS and other farmer groups to establish a system of farmer multiplication for subsequent stages. Extension agents should work with farmers on replanting the new, improved seedlings.

An investigation should be conducted regarding the most desirable small-scale oil-palm mills available on world market. The Government and NGOs should disseminate information on these opportunities, as well as work with importers, traders, and financial institutions to make these available within Sierra Leone. The mills should be established both on the previous estates and in small towns in the oil palm regions.

The Government and private sector should work together to assist the Marika Company in a series of test export shipments of palm kernel cake and other oil palm products overseas and to regional markets.

Cashew

Smallholder production of cashew should be encouraged through the distribution of seedlings by Kamcashew Enterprise, the MAFS, and NGOs. Initially, 250,000 seedlings should be distributed from the existing tree stock, but seed nuts of high yielding cashew varieties, in the first instance from Guinea-Bissau, should be also be obtained within the context of the five-year plan for seedling production and sales.

Milled Rice and Gari

Efforts to re-establish small-scale rice mills and the use of small-scale equipment for gari processing in Sierra Leone should be continued. The results of the study of marketing of milled rice and gari for export and domestic consumption should be incorporated into the Action Matrix. This might call for the establishment of wholesale entrepôts.

Ginger

Based on the results of monitoring and testing of new and established varieties of ginger, a series of interventions should be formulated and incorporated into the Action Matrix.

Forestry

The following priority actions are proposed to arrest the decline of forest resources:

- National inventory of Forest Reserves
- Strategy for forest exploitation
- Reforestation policy
- Termination of illegal chain saw operation

Fisheries

CURRENT SITUATION

Fisheries

Sierra Leone has considerable resources of shrimp, cephalopods (cuttlefish and octopus), lobster, demersal species (snappers, catfish, groupers), small pelagic species (herring-like species) and large pelagic species (tunas, barracudas). These species have well-established global markets and – with the exception of small pelagics and some tuna - command high prices reflecting strong international demand. Reluctance of foreign and locally chartered vessels to fish in the Sierra Leone Exclusive Economic Zone (EEZ) during and following the war substantially reduced levels of industrial fishing on local fish stocks, which appear to have substantially come back from the impact of years of excessive fishing during the 1980s. Little is known about foreign illegal fishing in the EEZ, but DFID has estimated the losses to Sierra Leone at US$28.7 million. While the fishery may at present be in fairly good shape, this could quickly change due to the serious shortage of resources for its proper management and more general governance problems.

The two major fisheries in Sierra Leone – industrial and small-scale (artisanal) -- differ from a trade perspective in one fundamental way. Industrially caught fish is mostly frozen on board. Depending on the year, the catch which is landed and marketed locally varies widely, from 0-60%; the rest is trans-shipped (directly transferred from fishing vessels to refrigerated reefer vessels, without the use of port facilities) and exported.

The catch of artisanal maritime fishermen is hot-smoked and salted, and then almost entirely distributed through a well-established system of mostly female processors and traders within Sierra Leone. About 15,000 additional tons is caught in inland waters, lakes, rivers floodplains and swamps, and is processed and consumed locally. Women are mostly involved in fishing in inland waters. Past efforts to culture tilapia, catfish, and oysters were technically successful before the war, but the economic profitability and market access are questionable. Production of cultured fish currently is very limited.

Current reported catches of the industrial fleet (for which 66 licenses were issued in 2004) are on the order of 14,000–22,000 tons. On average, some 30,000 local artisanal fishermen annually produce about 48,000 tons. The gross value of average annual production of the industrial fishery is about L60-75 billion (US$20-25 million); the artisanal fish catch is worth (at the landing site) about L42-54 billion ($14-18 million).

Most of the foreign exchange earned by the foreign fleet does not enter the country, and most of its exports are not captured in official statistics. Official recorded estimates for 2005 were only US$120,000, while total exports were estimated at US$13.6 million by the FAO in 1999, and at US$18 million by the DTIS mission for 2004 (excluding illegal fishing). The only foreign exchange that is captured by Sierra Leone is from license payments, fines and royalties, as well as payments for local staff and supplies for the vessels. Interestingly, the first category generated revenues averaging US$1.55 million in 2004 and 2005 – well above the total value of declared exports.[37] (Payments for local staff and supplies are surely less.) As long ago as 1993, the AfDB estimated that licenses and royalties should generate US$10 million per annum. The discrepancy between official statistics and actual exports is due in part to the transshipment process, but it also

[37] A shrimp trawler should typically pay 10-12% of the gross value of its catch in licenses and royalties.

reflects the weak capacity of the Ministry of Fisheries and Marine Resources (MFMR) to manage the sector.

After transshipment, the bulk of the high value species is shipped mainly to Las Palmas – Sierra Leone has not yet satisfied the EU requirements to become part of the harmonized trading system of the EU, and officially cannot export fish directly to the EU. However, it is common knowledge that a substantial part of the fish transshipped off Sierra Leone and shipped to Las Palmas is ultimately consumed in Europe. Other transshipped or locally landed industrial fish is reportedly sold in middle-eastern markets (Lebanon, Egypt), East Asia (some cuttlefish) and regional markets (Ghana, Nigeria). An unknown quantity of smoked fish may be sold to neighboring countries; small amounts of fish are exported frozen to the USA.

Sierra Leone, which in Freetown has the third largest natural harbor in the world, has virtually no fishing port infrastructure enabling industrial vessels to land their fish. Most industrially caught fish is transshipped at sea or in the harbor mouth off Freetown. Offloading of industrially-caught frozen fish for local processing and marketing takes place with small canoes, and is highly time consuming and costly. Modest amounts of fresh fish are exported by air from Lungi airport. At present, however, the airport has no facilities to properly handle temperature-sensitive fresh fish shipments.

Local fishing companies buy the fish that the foreign fleet is obliged to sell locally, mostly at relatively low prices. Some companies distribute the frozen fish locally; others process the fish and target local and regional markets. However, the lack of fishing port infrastructure, modest processing and cold-storage capacity, and inability to export directly to the EU are substantial constraints on operations of local processors. Of the 14 local companies, less than half have the size and equipment to effectively operate abroad, and few appear sufficiently strong to self-finance a substantial expansion of their operations.

Institutional Structures

The Ministry of Fisheries and Marine Resources (MFMR), formerly the Directorate of Fisheries of the Ministry of Agriculture, was elevated to Ministry status in 2002. Perennially under-funded, it has particularly concentrated in the past on development of artisanal fisheries, strengthening of the legal and regulatory framework, managing industrial fisheries licenses, monitoring artisanal fisheries and creating a more effective Monitoring, Control and Surveillance (MCS)system. During the war most of its facilities, files and equipment were destroyed. It is considered by independent observers to be one of the more effective ministries, even compared to similar institutions in neighboring countries.

The fisheries law, introduced in 1995, is a rare example of a practical and modern law; after 10 years, it still satisfies the country's need for an effective legal framework. In addition, it is one of the most pragmatic and effective laws dealing with MCS operations, including detailed rules and procedures on how to deal with offenders, levels of fines and penalties, and use of those fines in a special fund: The Monitoring, Control, Surveillance and Enforcement Unit Fund, which the Director of Fisheries can use at his or her discretion to finance surveillance operations and other activities of the Ministry, including training and research.

The country's MCS capabilities - at one time well developed and effective - are currently modest, but steps have recently been taken to improve the situation. The Government has made detailed plans to create a Joint Maritime Administration (JMA), which will pool the surveillance and interception requirements and financial resources of five Government agencies. It will jointly operate the available coastal and deep-sea craft for surveillance, and also cooperate with international projects (see section on donor aid) that may provide air surveillance.

Previous attempts to negotiate a fishery agreement between the EU and Sierra Leone have failed. Recently the Government informed the EU it would be interested in resuming negotiations. The EU told the Government it would consider such negotiations but that its procedures required that Sierra Leone satisfy certain requirements that would re-assess the current status of fish stocks, define and establish fish export procedures, ensure quality control of the entire fish production chain, and establish an effective MCS system.

Donor Aid to the Sector.

The country has been the beneficiary of considerable aid over the years. Most aid has been targeted at artisanal fisheries. At present DFID, FAO, UNHCR and the AfDB support the artisanal sector. The EU is currently funding (or about to fund) three initiatives that will directly affect industrial fisheries and fish trade:

- ***Certification.*** The EU is currently implementing a regional project to improve the access of fisheries products of The Gambia, Ghana, Sierra Leone and Liberia to the world markets (and the EU) by improving the sanitary conditions and by generating a sustainable system of sanitary controls and surveillance of fishery production and trade.
- ***MCS***. The EU is in the process of approving a project to support the regional cooperation of six countries in West Africa (Cape Verde to Sierra Leone) to improve the MCS of fisheries in the region.
- ***Research.*** To provide a more reliable assessment of the status of fisheries resources as a basis for future fisheries agreement negotiations, the EU is funding an assessment of the status of local fish resources in Sierra Leone.

POTENTIAL FOR IMPROVEMENT AND ITS CONSTRAINTS

Given Sierra Leone's surprisingly healthy marine fish stocks, it could export more fish in volume terms. It could also capture a considerably larger share of the value added than the 15-20% currently obtained through licenses, royalties, wages, and supplies.

Significant revenues are foregone due to a range of interrelated factors including:

- Illegal, unreported and unregulated fishing (theft by unlicensed vessels, licensed vessels fishing in restricted areas, destructive fishing practices etc.)
- Poor access to lucrative markets and associated cost penalties.
- Offshore-based economy of a largely unfettered industrial fleet.
- Lack of value-added onshore processing
- License-based revenues based on vessel tonnage rather than catch volumes and value.
- Rent-seeking behaviour and corruption.
- Declining productivity (catch per unit effort).

Hence, improvement of trade in fish products should not be pursued only in terms of expanding volumes, but should particularly ensure that a larger share of the natural resource rents from the

fishery is returned to Sierra Leone. In the long-term, the sector's contribution will be maximized through its transformation into a locally owned artisanal-cum-semi-industrial fishery. However, to achieve this vision, measures must be put in place immediately to ensure the sustainability of the sector, avoiding a decline into overfishing and reduced productivity.[38] Increasing fuel costs in this energy intensive sector, combined with an absence of controls and difficult market access provide strong incentives to fish hard to maintain profitability.

Box 4-1: Dealing with Natural Resource Rents

Natural resource (NR) rent is a key concept in fisheries exploitation and management. On the one hand, it is the driving force behind the widespread overexploitation of fisheries; on the other, it determines the potential economic and social benefits that may be derived from well-managed fisheries. The transition from natural resource dependency to sustainable and balanced growth requires "a set of institutions that are capable of managing NR, collecting NR rents, and directing these rents into profitable investments. Resource policy, fiscal policy and political economy all have a role to play in this transformation". Managing fisheries rents represents a major institutional challenge especially in fragile states, but failing to deal with them will lead to the despoliation of a resource essential to pro-poor growth.

Sources:

1. *Fiscal reforms in fisheries – DFID Keysheet: http://www.keysheets.org/fisheries/fisheries_2.html*
2. *'Where is the Wealth of Nations? Measuring Capital for the 21st Century', World Bank, 2006*

Long-term Strategy

In the long term, Sierra Leone plans to develop a fishery sector in which the number and capabilities of small-scale and intermediate technology boats, operating mostly in coastal waters, would expand gradually and supply both the local market and, increasingly, export markets. The speed of such expansion will depend on many variables. One critical requirement will be the development of effective resources management systems – based on local co-management of fishing effort – that should be in place *prior to* major expansion of the artisanal and intermediate technology fleet. The expanding coastal fleet will over time partly replace the current industrial fleet. Such development will require considerable local infrastructure along the coast (Freetown fishing port, landing jetties, ice supply, chill-rooms, effective road or carrier vessel transport, local processing plants, and air and sea transport to foreign markets). It will also require effective systems to monitor and maintain the quality of fish, and strengthen the ability of local entrepreneurs to increasingly focus on exports. This will require improvement of the business climate, financial services and tax regime that will encourage local investment in fish processing, marketing and export. The experience of countries that have actively supported a sector strategy favoring expansion of small-scale fisheries as part of export-led development suggests that such a strategy takes considerable time.

Under such a scenario, the role of the industrial fleet will gradually refocus on those activities and species that cannot be more effectively caught by small-scale and intermediate size boats. With local processing capacity expanding, an increasing share of industrial catches may be processed locally, although for some species (e.g. deep-sea shrimp), processing on board and transshipment may remain most effective. This will require adjustment on the part of the domestic fishing companies, but the nature and speed of this adjustment is uncertain. Whether or not local companies will acquire their own (industrial or intermediate technology) vessels will largely

[38] Already there are warning signals in the (Korean and Chinese dominated) shrimp trawl sector.

depend on the rate of expansion of small-scale fisheries, the speed of expansion of local infrastructure for the industrial and small-scale fleet, fish collection costs, the quality of artisanal fish, and the relative profitability of operating locally owned vessels compared to leased and/or licensed ones.

Short-term strategy.

The short-term strategy will initially support expansion of industrial fisheries as a precursor to the long-term expansion of small-scale fisheries. It will also mobilize the necessary funds to support the long-term expansion in a sustainable way. To increase foreign exchange earnings and benefits from industrial fisheries in the short-term, a number of actions are suggested that will not only lead to an increase of license fees and deliveries of fish for local processing but also attract substantial additional financial and other support for construction of basic port infrastructure and public services.

Development of sustainable industrial fisheries. This program will include efforts – some of them ongoing - to ascertain the true status of key fish stocks; further improve the effectiveness of monitoring, surveillance and control (MCS); and cautiously increase the number of licenses for industrial vessels in line with the proven sustainable potential yield of fish stocks. These licenses could be provided in part to foreign licensed vessels and in part to domestic vessels and/or foreign vessels chartered by local companies. This program will also cover action to address key sector weaknesses: construction of critical local port and processing plant infrastructure, installation of temperature controlled airfreight facilities at Lungi airport, economy-wide efforts to enhance the business climate and create effective financial services, and support for consolidation and restructuring of domestic fishing companies. In addition, increasing the value of the exported fish products will require that Sierra Leone satisfy certification, quality control and other administrative requirements of the EU and other major fish product importers.

Attract additional financial support to implement these key components of the sector strategy. This program will rely on: (a) attracting financial compensation payments and technical assistance that could be included in a fisheries agreement with distant water fishing nations, including the EU, and (b) maximizing donor support to the sector, possibly through the Strategic Partnership for a Sustainable Fisheries Investment Fund in Sub-Saharan Africa ('Strategic Partnership).[39]

Negotiation of a fisheries agreement with one or more distant fishing nations (including the EU) would provide direct access to financial support for the sector, in the form of license and compensation payments, as well as technical and financial support to introduce certification programs and further improve product quality control, MCS activities, continuation of critical fish stock assessments and improved fisheries management. However, entering into such agreement is not without controversy; it also involves risk. Many fisheries agreements in other countries in the past were based on overly optimistic assessments of the status and productivity of local fish stocks. Effective domestic monitoring and control over EU and other foreign fishing fleets has often proved difficult. In many cases, foreign fleet activities have created disappointing levels of

[39] The Fund, established in 2005 and operated with support of the World Bank and FAO, as well as several bilateral donor countries, encourages country-level investments that will enable individual coastal countries in Sub-Saharan Africa to undertake the necessary governance (i.e. policy, legal, and institutional) reforms and sector adjustments to sustainably manage their fisheries and husband the marine ecosystem and maintain bio-diversity in a way that ensures a distribution of benefits that will contribute to poverty reduction. In addition it provides – through donor coordinated and supported activities - direct financial support to the fisheries sector in order to meet the sector's sustainable development objectives and reduce poverty levels.

local value added. Substantial financial compensation payments linked to fisheries agreements have often led to a reduction of the pre-eminence of the fisheries ministry in the governance of the sector.

Thus far, little experience has been gained with the EU's new fisheries agreement policies focusing on encouraging cooperation between private local and EU fishing companies. Hence, Sierra Leone should carefully prepare itself for negotiation of such agreements, consult countries that have recently negotiated EU agreements, and consider alternatives to standard EU agreement covenants to address the above concerns. Namibia is just one country whose experience would be instructive as it achieved major improvements when facing threats similar to those confronting Sierra Leone (See Box 4). Above all, before concluding such an agreement, it should develop its own long-term strategy based on an accurate assessment of existing fish stocks and sustainable yields, as well as the full range of Government objectives.

Box 4-2: Namibia's success story in fisheries management

Namibia provides an excellent example of how developing countries can benefit far more from effective management of their natural resources. After Independence, the new state effectively asserted jurisdiction over the rich off-shore fishing grounds that had hitherto witnessed an international free-for-all. Innovative management and government commitment led to the contribution of fisheries to GDP rising from very low levels at independence to 10% in 1998. The total value of the Namibian fishery rose to $530 million by 2000, and the sector employs some 14,000 people, half of whom are in onshore processing. The requirements that all companies be majority Namibian-owned and that all fish be landed and processed in the country were important components of the new policy.

Donor funds already support improvement of selected aspects of sector development and governance, including MCS, quality control and research. However, more is needed to invest in key port and airport infrastructure and fish handling facilities, support strengthening of the domestic industrial fishing and processing industry, develop viable local financial intermediation, and provide continuing support for public sector services such as quality control. In addition donor support is needed for the implementation of the long-term development strategy for small-scale fisheries.

Sierra Leone has the option to approach multiple donors individually to support one or more components of a package of measures to realize the development of the sector, but that approach appears cumbersome, and has sometimes failed; it also does not guarantee that all critical components of the strategy get the necessary funding. Alternatively the country could ask the 'Strategic Partnership' to assist in developing a detailed longer-term strategy and in arranging funding for that strategy from external donors, including the World Bank. This would bring a desirable balance in the search for external financial support, and create a flexible framework for detailed sector strategy development and funding.

Implementation of the two programs outlined above will enable the industrial sector to initially play a pivotal role in sector development, notably to:

- Increase domestic foreign exchange earnings from fish exports,;
- Increase public income – a larger share of resource rents - from the sector,
- Strengthen public management of the sector, including research, resources management, and MCS,

- Encourage investment in critical infrastructure and public services,
- Increase local deliveries of fish for local processing and consumption,
- Enhance the effectiveness and competitiveness of domestic and foreign industrial fisheries, and
- Create the sector infrastructure and governance system necessary for implementation of key components of the long-term sector strategy to expand the role of small-scale fisheries.

Probably the most critical parameters that will determine the likelihood of successful implementation of this trade expansion scenario will be the ability of the Government to direct the sustainable development of the sector, effectively define its external support requirements, and to carefully negotiate, monitor and direct international fisheries agreements and external assistance.

SHORT-TERM ACTIONS

The following short-term actions are needed to address key immediate constraints:

- A realistic first assessment of the status of stocks is planned for 2006. Once the status of the stocks has been determined, and average catch rates of licensed vessels are available, an assessment can be made of how many vessels could be safely allowed to fish under a precautionary approach management regime; fine-tuning of the number of licenses can be done by continuing stock assessments – and annually adjusting the number of licenses – during subsequent years.
- To create a well-functioning MCS system, action is needed immediately to establish a Joint Management Authority and reach agreement on funding. This requires decisions at the highest levels, parliamentary approval, and action at various levels to secure staffing and funding.
- With EU support, further progress is needed in the following areas to enable Sierra Leone to export directly to the EU.
    - The Sierra Leone Fisheries Product Regulations need to be approved and gazetted;
    - Arrangements on the Competent Authority need to be approved and implemented;
    - Much additional work is needed in terms of creating the necessary local infrastructure (fishing port; processing and cold-store facilities; air terminal facilities) to safely export high-quality fish, and satisfy EU SPS requirements for exports as part of its harmonized trade system.
    - Sierra Leone has two options to create sufficient port infrastructure to satisfy the requirements for fish exports to the EU and other markets, as well as the needs of the licensed industrial fleet and local processing and exporting industries.
        - ③ A short-term, temporary solution, using flat-bottom barges and modest jetty (costs possibly less than $10 million); and

③ A scaled down port proposal, omitting some of the peripheral components of the current proposals, estimated at $22-27 million

- The short and long-term strategies to improve fish exports and increase local earnings from fish trade assume that the private companies in Sierra Leone will play an increasingly important role in such development. They are hardly in a position to play such role at present. Private sector companies could be strengthened through a:

  - Private sector support program.
  - Improving the business climate. A local business specialist is needed to act as a 'consultant/lobbyist' - to advise the Minister on business requirement, and develop an outreach program to inform the private sector of Ministry initiatives and assist them in their dealings with the Ministry. It is suggested that the country request specific IFC assistance (as part of the Strategic Partnership) to assist the private sector in attracting funds and improve operations.

- Sector governance could benefit from a more structured and regular dialogue between sector stakeholders – industrialists, fishermen, traders – and the public sector. In many other countries national fisheries councils have a proven track record in improving such policy and regulatory dialogue. While fisheries councils are no panacea, they enable the government to invite comment, reduce misunderstanding and improve consensus on important policy decisions and regulations.

- To support the development of aquaculture, short-term measures may be limited to restoring basic public sector support functions (hatcheries, extension services) and focusing on those species and areas where local marketing (road access to Freetown) and/or export marketing may offer the best short-term potential. The long-term strategy to develop a local aquaculture industry should focus on attracting private local and foreign investors to create a core of several medium-scale aquaculture farms, which could be used to expand into small-holder supported estate operations providing the basic infrastructure and institutional support to enable small-holder culturists to get involved and expand activities.

Mining

INTRODUCTION

Sierra Leone is first and foremost a mining country, and it will remain so in the immediate future even as it pursues the essential diversification of its economy. Its combination of artisanal and modern, large-scale mining has provided both substantial employment and fiscal revenues. The ease of artisanal diamond mining has meant significant cash flow into the economy even during the worst war years, but unhappily it also fed the rebellion. It is now helping speed the recovery, finance imports, and generate needed employment. Yet it also draws labor power away from agriculture and into a highly speculative activity which holds the promise of wealth for a few, but continued poverty for the majority. One can not discuss trade and poverty in Sierra Leone without understanding the mineral sector.

Sierra Leone is well endowed with mineral resources, and has produced diamonds, rutile, bauxite, gold and small amounts of iron ore and ilmenite. Other identified minerals include platinum, chromite, lignite, clays, and base metals (copper, nickel, molybdenum, lead and zinc). The mining sector contributed around 20% of GDP and fiscal revenues equal to 8% of GDP until the closure of the bauxite and rutile operations in 1995. It continues to supply 90% of exports due to the thriving artisanal diamond component. Mining and quarrying employs between 200,000 and 300,000 people, directly or indirectly, or about 14 percent of the total labor force.

The mineral sector in Sierra Leone is made up of three sub-sectors: a) large-scale production of non-precious minerals – rutile and bauxite; b) large scale production of precious minerals – diamonds; and c) artisanal and small-scale production of precious minerals – mainly diamonds, and to a much lesser extent, gold. The first sub-sector closed down in 1995 due to the civil war, but was restarted in 2006. Large-scale diamond production was fully state owned from 1984 to 1992, when poor performance forced the liquidation of the National Diamond Mining Company (NDMC)[40]. One private diamond company began operations in the early 2000s, and others are starting up. Between 1995 and 2005, the mining sector consisted essentially of artisanal diamond mining which generated significant revenues for the private operators running the industry, but little by way of fiscal revenues.

Export revenues reached $142.9 million in 2005, thereby returning, at least in nominal terms, to the previous peak achieved in 1991. However, as outlined in Table 5.1, the composition of the sector is very different, with diamonds replacing rutile and bauxite. Now that production in these latter two minerals has begun again, export revenues will rise well above historic levels. With the prospect of new modern gold and diamond mines opening in the next 3-5 years, it is estimated that annual mineral export revenues could exceed $370 million.[41]

[40] Most of the assets of NDMC were sold by 1994, but it remains as a dormant company in the public portfolio.

[41] World Bank, Sierra Leone: Tapping the Mineral Wealth for Human Progress – A Break with the Past, February 2004.

Table 5-1: Evolution of Mining Output - 1981-2005

	1981	1988	1991	2000	2005
Rutile*	20.8	47.0	86.2	0	0
Bauxite	11.6	22.4	24.6	0	0
Diamonds	66.1	4.1	31.0	10.1	141.9
Gold	1.7	0.6	0.2	0	1.0
Total	**100.2**	**74.2**	**142.1**	**10.1**	**142.9**

*Includes ilmenite
Source: Ministry of Mineral Resources

The figure for 2000 is certainly an underestimate as most of the diamond trade was taking place through informal channels. Since then the Government has made impressive progress in bringing this business back into formal channels, partly through the reduction in export taxes, but in particular due to the Kimberley Process Certification Scheme. This scheme was introduced in 2000 to discourage trade in diamonds used to finance rebel movements, the so-called conflict diamonds. As diamonds can only be sold internationally if they have a Certificate of Origin authorized through the Kimberley process, it is likely that some diamonds from Liberia and Cote d'Ivoire are now included in the export figures for Sierra Leone.[42] When Liberia qualifies under this scheme, its own diamonds will once again flow out through that country. In addition, Sierra Leone diamonds, many of which originate in regions close to Liberia, may also be diverted through Monrovia, especially if export taxes are less onerous. Thus, an apparent decline in diamond export figures may be anticipated for these reasons.

On the other hand, some Sierra Leone diamonds are probably being smuggled out through Guinea due to the better infrastructure in that country. In addition, there may be some smuggling of high-quality stones. The average value of diamond exports is lower than might be expected when compared with historical averages, after taking into account recent world price trends. There is undoubtedly significant smuggling of gold as well. This reality calls for caution in interpreting the official data, and must be taken into consideration when setting mineral policy. Indeed, it is critical that Sierra Leone coordinate its policies with those of Guinea and Liberia.

There is also reason to expect a real decline in diamond production in Sierra Leone, as well as a change in the structure of the industry. Diamonds are becoming increasingly difficult to find, and artisanal miners are having to dig deeper and deeper. In fact, the total volume of exports actually decreased between 2004 and 2005, though the value of exports continued to rise due to higher prices. As a result of this increasing difficulty, and the improvement in security in the rural areas, a new medium-scale mechanized diamonds sub-sector is beginning to emerge. This may serve to maintain current export volumes for a while, since this technology is more efficient than traditional artisanal mining, and can capture a much higher percentage of the available diamonds. However, it also means increased competition for land and eventually a significant drop in demand for labor.

INDUSTRIAL LARGE-SCALE MINING

Consequently, the Government of Sierra Leone faces several challenges in the management of the mining sector. In the industrial, large-scale sector, it must attract more foreign investment – and keep that which has already been attracted – while extracting a fair share of the rents, and using

[42] It is likely that some diamonds are also coming in from Guinea, due to a tightening of regulations for the importation of cash by diamond exporters in Guinea in 2005.

them for the benefit of the wider population. Since the sector creates relatively few jobs, but significant profits, it should be expected to generate substantial fiscal revenues as it did in the early 1990s. But the Government of Sierra Leone will need to follow trends in the industry to ensure that it does not price itself out of the market. And it will need to strengthen the governance of public revenues, drawing lessons from such success stories as Botswana. Mineral wealth can have a huge indirect effect on poverty reduction through the good stewardship of its rents by the state. It can also be profoundly corrosive. The broader agenda of good governance, and sound budget and public expenditure management, therefore becomes critical.

The Government and the private mining companies also need to ensure that the communities in the immediate vicinity of the mines feel they are duly compensated for any disruption they may suffer, but also that they receive their fair share of the benefits. This can obviously be interpreted differently by different people, but as the experience in the Niger Delta of Nigeria continues to underline, it must not be ignored. The principles of Corporate Social Responsibility are now fairly well defined and there is a wealth of positive experience in the mining sector.

A general lack of skilled staff is causing problems in the minerals sector. Exploration and mining companies presently working in the country have already absorbed the small number of qualified Sierra Leonean engineers and geologists available. These companies and any new ones have to recruit expatriate labor to fill many of the vacancies for technical positions in their operations, and there is much poaching between them. The government needs to develop training programs with the University of Sierra Leone as well as encourage company training programs and the transfer of skills.

ARTISANAL MINING

The Government faces other challenges involving the direct participation of the poor in artisanal mining, and the evolving nature of that sector. Here the impact on the poor is through direct employment and revenue generation rather than taxation. The Government's share of the rents should be limited as any significant taxes are likely to impact negatively on the price paid to miners, and/or lead to smuggling out through neighboring countries. Instead, the focus needs to be on increasing the share of revenues going to the poor and their communities, improving working conditions, reducing the environmental impact, maximizing the total output of the sector, and managing the transition to mechanized operations.

Few if any artisanal license holders pay the royalties which are legally due: 5% for precious stones, 4% for precious metals and 3% for all other minerals. Detailed analysis is needed to determine the optimum tax and licensing regime that should be applied in Sierra Leone. A study based upon accurate and reliable data that could be used to model the effect of changes caused by raising or lowering licensing fees and tax rates would be helpful in determining the optimum rates for license fees, taxes and royalties. Any proposed tax and licensing regime should consider the effect of the regimes in neighboring countries as they will affect both inward investment and the smuggling of gold and diamonds.

At present, there is no distinct set of regulations for the new mechanized operations. They merely obtain artisanal licenses, and often they represent foreign investors who arrange with a Sierra Leonean to apply for the license. Given the much higher profits that can be expected from this type of operation, it would seem appropriate to have a different regulatory framework and fee scale.

A major difficulty faced by many artisanal miners when selling their diamonds to a diamond exporter or dealer is that they have little access to equipment or expertise that can be used to verify the likely value of their production. The value of larger stones (often found in Sierra Leone), and special colored stones found in some deposits, also present significant challenges in valuation. Access to independent expertise in diamond identification and valuation would remove some of the mystery surrounding the process of diamond trading and improve the confidence of artisanal miners and their ability to negotiate realistic prices for their production. The Ministry has begun extension services on diamond identification, sorting and basic techniques used in valuation. These need to be extended throughout the artisanal diamond mining areas.

These and other initiatives would aim to establish a trading system where: (i) the returns to mine-workers and to miners are maximized through a competitive, open and transparent system of trade in diamonds and gold; (ii) the bargaining position of miners and the productivity of their workers is enhanced through greater access to finance, on reasonable terms and from sources other than traders and exporters; and (iii) a liberal regime is established in relation to direct taxes and financial controls, to ensure maximum transparency in the trade, and to encourage a more open and competitive market, which would benefit artisanal and small-scale miners and their workers.[43]

Very few artisanal miners make any effort at reclaiming or rehabilitating their mining sites. The soils overlying sands and clays are mixed in a way that reduces the opportunity for any meaningful rehabilitation other than a simple refilling of the holes created during the mining process. Artisanal miners regularly alter the course of rivers and streams and use crude cofferdams to gain access to river gravels. Little has been done to assess the effect of mining on the hydrology in mining areas. This problem is growing in significance as larger companies using mechanized equipment regularly dam rivers and alter watercourses to gain access to riverbed, swamp and terrace alluvial deposits. This activity is also causing problems with artisanal miners who find their workings being flooded due to the activities of a neighboring mechanised operation. The technical extension services provided by the MMR should encourage artisanal miners to store top-soils separately and develop methods of working with other license holders that will result in the waste from adjacent pits being used to fill those that have been worked out. These environmental problems will only increase with the growth of small-scale mechanized mining.

COMPETITION FOR RESOURCES

A third set of issues revolves around the increasing competition between the modern, large-scale mining companies, artisanal mining, and the emerging small-scale mechanized sector. Peace and security have led to a rapid expansion in activity at a time when the Ministry of Mineral Resources is scrambling to rebuild its capacity to manage the industry. The number of artisanal licenses has grown from 800 to over 2000 in the last few years, while there are 43 companies holding 102 prospecting and exploration licenses and another 8 with 16 mining leases. The Ministry needs to develop a strategy for dividing up the mining areas between those that are still suitable for genuine artisanal operations, those which now require small-scale mechanized approaches, and those which hold potential for modern, large-scale mining.

The sector is often subject to uncontrolled rushes of artisanal miners into areas that have been found to be rich in diamonds. Typically, these areas have not been fully explored nor had their

[43] See World Bank, Sierra Leone: Tapping the Mineral Wealth for Human Progress, for more details.

potential determined by the Geological Survey. The uncontrolled exploitation of newly discovered deposits usually results in the mining of the richest areas, while the remainder is rendered uneconomic for exploitation by larger companies that would be technically and financially able to exploit it. There are also many artisanal mining operations that occur in areas of thicker overburden where the relatively haphazard mining methods currently employed result in low recovery rates and the 'sterilization' of areas of gravel that lie between artisanal mining pits.

The geological extension services should be used to clearly identify known and new alluvial deposits so that areas of relatively shallow overburden can be identified and reserved for exploitation by artisanal methods. Deeper deposits should be exploited by small scale or industrial scale mining operations. The sieves and semi-mechanized jig washing plant used by most artisanal miners at present ensure that many of the diamonds and much of the gold is lost. The technical extension services should encourage miners to use more efficient mining and processing methods.

The Republic of Sierra Leone owns all minerals, but citizens have the right to mine on their own land. The Ministry of Mineral Resources issues licenses, which require the applicant to have come to an agreement with the landowner, and leases, where it is the Ministry's responsibility to inform the landowner. It can and does issue artisanal licenses in the same location as licenses for prospecting and exploration companies. The latter sometimes find a significant number of artisanal mining operations inside their license area at the same time that they are trying to assess the mineral potential of their leases.[44] Mining companies may be granted a mining lease only to find that the affected communities and landowners have not been informed by the Ministry and do not want to negotiate access agreements, or the demands for compensation are inappropriate. The resolution of conflicts involving land and mineral rights has become one of the major stumbling blocks in the development of the mining sector.

The development of a Geographical Information System based land ownership cadastre is the corner stone of a secure mineral rights system. It would record the geographical location, ownership and duration of a mineral right, in addition to the holder's compliance with fee payment schedules and financial and technical reporting requirements needed to maintain the validity of the mineral right. A Mining Cadastre is fundamental in developing investor confidence as well as enabling the successful administration of the artisanal mining sector. Prospecting and exploration companies will be assured of their security of tenure provided that they adhere to their submitted work plans. A Mining Cadastre is now being developed on a trial basis in one region. It needs to be extended to all the main mining areas and, starting in 2007, all mineral rights should be issued using the Cadastre system. This should be done on a first-come first-serve basis to reduce the potential for discretionary intervention and improve transparency. The Mineral Act also needs to be amended to support its operation, notably in the context of the transfer of mineral rights.

A further complication is the total absence of laws and regulations dealing with underground mining. There are likely to be at least four underground mines in the next five years – two for diamonds and two for gold. Consequently, appropriate laws need to be developed as a priority, in collaboration with the Law Reform Commission.

[44] Some companies need to begin mining surface deposits in order to generate cash flow to finance their main operations.

The technical and financial performance of the minerals sector is directly related to the technical and financial performance of the Ministry of Mineral Resources. The Ministry of Mineral Resources is short of technical capacity, qualified human resources and equipment. The skilled professionals in the Ministry are approaching retirement age and there are no young graduates ready to step in. These deficits reduce the ability of the Ministry to manage, monitor and inspect mining activities and its ability to negotiate on equal terms with potential investors. During 2005, the Governance Reform Secretariat carried out a Management Functional Review[45] (MFR) of the Ministry of Mineral Resources. The review highlights the reorganisation, training and other improvements required to bring the Ministry to a satisfactory professional standard. The implementation of all of the recommendations in the review could take as long as five years. A work program needs to be developed to begin implementation of the MFR recommendations.

In the medium and longer-term the Ministry of Mineral Resources will need to develop closer working relationships with other government departments and institutions. For example, on environmental issues in the mining industry, MMR will need to co-operate with the newly formed Environmental Commission. The MMR will need to work closely with the Ministry of Finance and the National Revenue Authority to address the commitments made to the Extractive Industries Transparency Initiative. To reduce smuggling, the MMR will need to work more closely with the Sierra Leone Police, Customs and Excise and the Office of National Security.

A CASE FOR TRANSPARENCY

Transparency is critical. Large sums are at stake in the mining sector and everyone needs to know what the laws are, and why they are considered fair, and be reassured that they are being respected. Otherwise recriminations, illegal activity, even violence, are inevitable. The Government is establishing a Public Information Unit. This is a welcome initiative and it should be made operational immediately. A useful first task would be to clarify and publicize in a revised Mining Code the fees, taxes and other charges that operators in the mining sector are liable to pay. In addition, the membership and mandate of the Mineral Advisory Board, and all the licenses which it awards, should be made public on a regular basis.

Another early task should be to explain the functioning of the Diamond Areas Community Development Fund. The fund is designed to spread the benefits of diamond mining to communities, by paying part of the diamond export duty (0.75% of the export value) back to local communities based on the number of licenses granted in their region. Public disclosure of the amounts transferred to the Chiefdoms would help ensure their proper use for community programs.[46]

Separation of the regulatory and revenue collection functions is another important way to improve governance and transparency. The involvement of the National Revenue Authority (NRA) in collecting all non-tax revenue has been an important step in this direction, and it has improved the efficiency of the revenue collection system. The responsibility for the valuation and export of gold should be transferred to the Gold and Diamond Department of the NRA, as should the issuance of licenses for exporters, agents and dealers in both gold and diamonds. Gold exports are likely to increase significantly in the coming years.

---

[45] Governance Reform Secretariat, 'Management Functional Review of the Ministry of Mineral Resources.', October 2005

[46] On the other hand, the amount should be based on production levels rather than the number of licenses as the current approach encourages reworking exhausted areas.

The Extractive Industries Transparency Initiative (EITI) supports improved governance in resource-rich countries through the full publication and verification of company payments and government revenues from oil, gas and mining. In June 2004, the Minister of Mines of Sierra Leone expressed interest in implementing the EITI, and requested technical assistance to delineate a comprehensive and integrated program of mineral sector development. The merits of EITI appear to be understood by civil society. However, there still does not appear to be a consensus within Government about the merits of EITI. The Government leadership is therefore encouraged to build consensus within key institutions (Ministry of Finance, Ministry of Mineral Resources, and the National Revenue Authority) and choose a "champion" to begin actively leading the implementation of the EITI. A good first step would be the incorporation of EITI principles into the planned revisions to the legal framework for mining.

POTENTIAL FOR VALUE-ADDED

Several companies are showing an interest in beginning the cutting and polishing of diamonds in Sierra Leone, and there is justifiably considerable interest in encouraging such value-added initiatives. However, this is a far different business from mining and requires specialized, skilled labor which is generally lacking in Sierra Leone at present. Having a comparative advantage in mining by no means guarantees a similar advantage in the processing phase. The cutting and polishing business is already highly competitive, as well as being risky. Calls for restrictions on the export of diamonds in order to promote domestic processing should certainly be avoided. This would inevitably lead to a reduction in the price paid to miners, as well as smuggling. The current policy of encouraging prospective cutting and polishing initiatives within the constraints of market forces should be maintained. Botswana is now entering the diamond cutting business, but for decades it concentrated on mining and enjoyed major benefits from its careful management of the industry and the revenues it generated.

TOURISM

Sierra Leone is a beautiful country with sea, mountains, islands, lush vegetation, interesting wildlife, and a special culture and history - all the ingredients for a considerable tourism potential. Building on these attractions in the 1980s, Sierra Leone developed a small but thriving holiday tourism industry. The end of conflict in 2002 has led to renewed arrivals by business travelers (including the aid community), as well as members of the diaspora visiting friends and relatives. This in turn has stimulated considerable investment in the hotel and guest house infrastructure in Freetown. However, it is holiday/leisure tourism, which can legitimately be characterized as a separate export sector, and which is amenable to development as such, which is the focus here. That component of the industry is virtually non-existent at present. The questions which must be posed at this point are i) should tourism even be considered as a priority sector for the development of Sierra Leone? ii) how significant is the potential for a tourism industry? and iii) if the Government does chose to proceed, what are the key steps needed to relaunch the sector?

TOURISM AND DEVELOPMENT

The tourism industry is arguably the largest industry in the world today, and one which continues to enjoy enviable growth prospects as disposable incomes rise and the relative, if not the absolute, cost of transport falls. It is also the principal foreign exchange earner for a large number of developing countries, and indeed the backbone of the economy for many small ones. And yet, its value as a source of growth and development is still questioned by many, frequently resulting in neglect or even resistance by some governments.

The most common criticism of tourism is that it leaves little in the host country due to the high import content of the industry, the prominence of foreign investors and managers, and even the mode of payment whereby package deals are fully paid overseas in advance. However, there is a wealth of research available which clearly documents the degree to which local labor and capital benefits either directly or indirectly from the purchases made by tourists for food and lodging, transport and excursions, souvenirs, and other services. Certainly, the degree of 'leakage' depends on the capacity of the local economy to provide inputs into the sector, so that countries like Mexico or Morocco fare much better than small islands like Antigua or Fiji. The range of estimates is summarized in Table 6-1 below.

Table 6-1: The Economic Impact of Tourism

Country	Import leakage %
Mexico	3
Philippines	11
Morocco	19
Kenya, Sri Lanka	27
Senegal	36
Aruba	41

Source: Philip English, The Great Escape? An Examination of North-South Tourism, 1986, p. 26.

Even a small West African country like Senegal captures significant economic benefits from tourism. It has been estimated that roughly two-thirds (64%) of the expenditures incurred by tourists for goods and services they consume after they arrive in the country remain there. Furthermore, this is understandable given the amount of labor employed in the sector, the variety of food, beverages and other supplies available locally, and the taxes paid. While this estimate dates from 1979, the current figure should if anything be even better today as the economy has developed and nationals have moved into management and ownership. This degree of leakage is also quite comparable to that of other industries in the modern sector. In short, the tourism industry is like most other segments of the modern economy; incomes can be earned if a competitive product can be provided.

Again, as with any other sector, the extent of the economic gain will depend on how it is managed. The capacity of local farmers and fishermen to supply the hotels can be assisted, and training programs can accelerate the process of replacing expatriate staff with nationals. Perhaps more importantly, the state must be careful not to invest too heavily in infrastructure beyond what is justified by its economic returns, and to rely on private investment to provide the necessary hotel facilities. Indeed, one of the advantages of the tourism sector is that, under the right circumstances, the private sector can contribute much of the necessary investments.

However, it is precisely the possibility for rapid private sector-led development that can lead to significant non-economic costs – social, cultural and environmental – and it is these problems which may be more serious than the supposedly limited economic impact. Some cultures are better prepared than others to cope with the challenge posed by thousands of well-off, but not always well-traveled, foreign visitors, and many governments have tried to limit the negative impact, with mixed results. And although the pristine environment is often one of the main tourism attractions, the private sector is not always good at coordinating itself to protect that environment.

THE POTENTIAL IN SIERRA LEONE

Sierra Leone enjoys several definite advantages which bode well for the development of a leisure tourism sector:

a) Outstanding white sand and golden beaches with dramatic tropical and mountainous backdrop,

b) Tropical environment and scenery (mountains, forests, rivers, coastline, islands) and nature (birds, flora and fauna). Sierra Leone has interesting wildlife, and could tap into the rapidly growing bird-watching tourism market.

c) Proximity to Northern Europe – a 5-6 hour flight, which puts it closer than the Caribbean, the Maldives and Mauritius.

d) Warm and fairly dry weather during the European winter,

e) Interesting heritage and tribal history which can be built into an attractive ‘story’ for Europeans, African-Americans and the Diaspora, perhaps with a focus on the return of freed slaves.

f) Diamonds, which offer a special ‘story’ as well as a potential buying opportunity.

The private sector recognizes the potential which exists in Sierra Leone and they demonstrated keen interest in the sector at the Investors' Forum held in March 2006. Given the urgent need for employment creation and the limited capacity of modern mining and manufacturing to generate jobs in the Sierra Leonean context, Sierra Leone would do well to diversify its economy through the promotion of a strong tourism industry.

Despite its proximity to Europe, tourism in West Africa has developed relatively slowly, partly as a result of the relatively changeable political environment that has existed in much of the region. However, substantial holiday tourism sectors have developed in Senegal and Ghana, and Senegal has set an ambitious target of 1.5 million tourists by 2010. The Gambia has a leisure tourism business of around 100,000 tourists, mostly on package tours from the UK and Benelux source markets.

The future potential for tourism in Sierra Leone will be driven by new investment in tourism accommodation, in particular down the Western peninsula. The key opportunity is in well-run personal hotels offering a combination of beach/ocean activities along with excursions to attractions up-country. Additional growth will come from improvements in the current tourist accommodation stock. Three alternative scenarios to the year 2015 can be envisaged.

Scenario One – Slow Growth

This first scenario would involve a slow rehabilitation of the tourism industry, but without substantial redevelopment of the beach tourism. Uncertainty for tourism investors and an economy struggling with post-conflict rehabilitation would characterize this scenario. The emphasis would be on adventure/heritage/nature tourism, with a few small locally owned and operated beach hotels.

Scenario Two – Medium Growth

A second scenario would involve the re-establishment of the beach tourism industry particularly in the Western peninsula within five years with some sizeable hotels (40 - 200 rooms plus). But the 'take-off' would be constrained by the limits of the entrepreneurship that exists within the country and the difficulties in putting together all the elements that make up a successful tourism industry. The development of larger hotels would come after three to five years. The scale of new development in the Western peninsula would involve 250 rooms by 2015 and perhaps a further 200 rooms in Lungi.

Scenario Three – Rapid Growth

The third scenario would involve the re-establishment of the beach tourism industry with sizeable hotels (40 - 200 rooms), particularly in the Western peninsula, which allows the industry to 'take-off', primarily in European markets. Sierra Leone puts together all the elements of a successful tourism industry. Hotel/resort/lodge development could reach 850 rooms by 2015 in the Western Peninsula and 350 rooms in the Lungi area, with a total investment of $150-200 million.

Table 6.2 outlines some hypothetical numbers for each of these three scenarios – additional rooms required, number of tourists, revenues earned and employment generated. The local income generated by the high growth scenario - $45 million – is significant, and the numbers involved are not out of the question. But unless a few major hotel projects can be attracted in the next five years, the medium growth scenario is probably more realistic.

Table 6-2: The Economic Potential of Tourism in Sierra Leone in 2015

	Low Scenario	Medium Scenario	High Scenario
Number of additional rooms	600	1000	2200
Number of tourists	15,000	25,000	50,000
Nights per tourist	8	10	10
Number of tourist-nights	120,000	250,000	500,000
Expenditures per night (US$)	125	125	150
Foreign exchange earnings (US$ millions)	15	31	75
Local incomes* (US$ millions)	9	19	45
Jobs (full time job equivalents)	1,400	3,000	6,600
*assumes import leakage of 40%			

OPTIONS

The main choice revolves around the scale of accommodation that can be considered for new beach facilities.

Option One – Large Hotels and Charter Flights

One option is to go for larger hotels/resorts (200+ rooms) supported by major European tour operators with charter flights, following the approach taken by The Gambia. This option offers a certain scale that could attract foreign investment and a foreign management company with name recognition in the industry. This option has the attraction of relying on established firms with the required expertise and market connections. However, it may be hard to put together the necessary financing or find an established company at this early stage in the rebuilding process. On balance, the view from the travel trade is that large scale investment in new large beach hotels/resorts is probably premature at this time.

Option Two – Medium Size Personal Hotels

This Option puts more emphasis upon smaller hotels/resorts/lodges (40-60 rooms), which can be managed on a more personal basis. In this option, there is greater reliance upon scheduled flights, local management, and probably local capital. It is a more difficult way to achieve significant tourism volumes, as it requires a larger number of entrepreneurs and tour operators, and it will entail greater risks of small-scale disruptions, as the different players learn their roles. However, the overall risks may be lower, since business will be spread out over a larger number of facilities, whose owners may be more resilient in the face of short-term obstacles.

The view from the travel trade is that this can probably be achieved quite quickly. One new 25-room lodge of this type is already planned at Kent at the southern end of the Western Peninsula. This process would be assisted if the Government were to develop clear physical plans for the locations of new beach hotels together with the infrastructure that will enable them to perform competitively.

These two options are not necessarily mutually exclusive. Indeed, success through Option Two would send a signal that larger hotel projects should also be considered. These questions would have to be further evaluated as part of a Strategic Planning Exercise.

CHALLENGES

Given Sierra Leone's recent history, there are naturally a number of challenges that have to be addressed in re-launching the tourism sector. Arguably, the principal challenges are:

a) Perception in the source markets of Sierra Leone as a conflict zone
b) Uncertainty over Government intentions for tourism and the direction of tourism policy;
c) Lack of unique attractions that put Sierra Leone on the 'tourism map';
d) Mismatch between quality of available accommodation and likely demands from the source markets; and
e) Inadequate infrastructure and public services.

PRIORITIES FOR MOVING FORWARD

A series of intervention are proposed that will help address the key challenges.

Addressing the perceptions

1. Marketing Program by the Sierra Leone National Tourist Board (SLNTB).

This will need to be a subtle and cost-effective program building on what has already been achieved by the Tourist Board under difficult circumstances. The "travel trade" in the source markets has to become aware of the new potential that exists in Sierra Leone.

Addressing the 'uncertainty'

2. Strategic Plan for Re-launching the Tourism Sector 2006 -2015.

Bring together the Government and the private sector in a realistic strategy so that all parties work towards common goals.

3. Detailed Tourism Master Plans for key areas:

a) Western Peninsula

b) Aberdeen/Lumley Beach

c) Lungi Coastline

d) Up-Country attractions such as Tiwai, Outamba-Kilimi National Park.

While covering all the usual aspects of a Tourism Master Plan, the project must cover the detailed physical planning of these key areas with the objective of saving them from physical misuse so that their economic potential can be optimized.

4. Human Resource and Administrative Capacity-building within the Ministry of Tourism and The Sierra Leone National Tourist Board'

It is essential that the Ministry/National Tourist Board can both encourage and regulate the tourism industry. Regulation could be in the Ministry while promotion would rest with the Tourist Board. The shortage of 'tourism professionals' within the Ministry and the Tourist Board is widely acknowledged. Such professionals are needed in order to coordinate tourism activities throughout the country.

Addressing the lack of unique attractions

5. Tour Guide Training Program

Given the deficiencies in the current product, a mechanism for overcoming these deficiencies is to have excellent Sierra Leonean tour guides who can make the entire trip for a tourist an outstanding experience.

6. Interpretive Centre (at Museum in Freetown)

Little is known about the tourist attractions in Sierra Leone both on the part of would-be tourists in the source markets, and on the part of the local people in Sierra Leone. There is a need to address this through further development of the Museum in Freetown with a greater emphasis on disseminating tourism orientated information.

7. Tourist Attraction Development Program - Tacugama, Tiwai, Outamba - Kilimi National Park, diamond experience – other attractions that may be suitable.

This would follow on from the development of the Strategic Plan (No. 2) and be linked to the physical planning studies (No.3). If possible Sierra Leone should develop attractions that become known in the tourism industry, and ideally have some iconic value (e.g. the Gorillas in Rwanda).

Stimulating investment and addressing the mismatch between supply and demand

8. Joint Venture Beach Resorts (private sector) down the Western Peninsula – a feasibility investigation

The major opportunity for Sierra Leone is in the development of beach tourism. While there is considerable local entrepreneurship, there is a lack of capital for larger hotel projects, and a lack of recent experience in managing/marketing leisure hotels. Such resources would probably have to involve some overseas investment. Such investment could be stimulated by joint ventures in which the Government would develop the site (the Western Peninsula offers the best prospects), the local private sector would provide some equity capital and local knowledge, and a foreign partner would bring expertise and additional capital, including the credibility needed to attract loan finance.

9. Program for refurbishment and improvement of existing hotel accommodation

The substantial stock of existing hotel accommodation remains an issue for the future development of tourism. Much of the stock requires improvement. Tax breaks, classification schemes and regulatory standards will help improve the stock, as well as taking some of it off the market.

10. Program for improving standards for guesthouses and other small hotels.
There is a substantial stock of small accommodation units, many operating with very low occupancies. There is a need for a scheme to help such units improve their standards, bring some of them together to gain economies in marketing, and help them appreciate where potential market segments exist, where they can be reached and what product they need to offer.

Addressing the infrastructure and public service deficiencies

After many years of economic decline and civil war, there is a wide range of needs. The airport is in poor shape, the transfer to Freetown is problematic, the road network has badly deteriorated, power and water utilities are unreliable and expensive, and waste disposal systems are very poor. Some of these are gradually being improved as part of the general recovery program, while others will have to be managed by private investors. Beach hotels will undoubtedly have to rely on their own generators for the short- to medium-term.

However, it will take a long time to tackle all the infrastructure problems, and in the meantime priorities have to be set. If the Government endorses the recommendation to promote the tourism sector, its needs will have to be reflected in the investment and maintenance programs of the relevant Ministries. To give just one example, the road along the Western Peninsula has yet to receive attention, but it is a top priority for the tourism industry. These aspects are largely out of the control of the tourism industry. They probably require an Inter-Ministerial Committee on which the Ministry of Tourism and Culture (MOTC) has a key role in bringing to the attention of other Ministries the issues of concern to the tourism sector.

IMPLEMENTATION

These ten project proposals have been costed in Annex? which also includes a possible calendar. These are public sector interventions and do not represent a comprehensive plan for tourism development, which must await the proposed Strategic Plan and Tourism Master Plan. These plans would of course involve a substantial investment by the private sector. These interventions and their subsequent implementation need to follow an orderly sequence to achieve the desired results. The Ministry of Tourism and Culture along with the Sierra Leone National Tourist Board have to take a leading role in getting these intervention projects off the ground.

Customs and Trade Facilitation

CURRENT SITUATION

Since July 2003, the Customs and Excise Department (CED) has comprised part of the National Revenue Authority (NRA). It is one of four component departments, but is responsible for the collection of more than 70% of government revenues. CED is headed by a Commissioner for Customs & Excise assisted by a deputy Commissioner and three Assistant Commissioners.

The pre-NRA legacy consisted of slow and outdated procedures, lowly paid and under-qualified staff, virtually no technology and widespread corruption. The repositioning of CED has provided much more administrative flexibility, but the response has been limited by insufficient funds for capital expenditure, a continued lack of technology, skills and knowledge development, and limited recognition of the wider purpose of Customs, giving management and staff a blinkered concept of their role. The costs associated with bringing CED up to the desired level of performance are high

The burden of change is considerable, as Customs faces three different sets of challenges which are sometimes competing:

1. Minimizing cost and delay in the clearance of imports and exports is vital to trade and economic development.

2. Maximizing revenues is vital to the Government to finance its programs.

3. Applying regulatory controls effectively is vital for protecting the community, providing a level playing field for trade and business, and meeting international obligations.

.

After more than two years under the NRA, there have been some improvements:

- Clearance times reduced from weeks to as little as one day.
- Process steps reduced by 60%.
- Progress in introducing WTO Valuation Rules and a valuation unit established.
- New provisions included in draft revised Customs Law.
- Training conducted.
- Introduction of ECOWAS tariffs according to agreed timetable.
- Scanning of all containers to identify shipments for Customs inspection.
- Overt anti-corruption activity.
- Reduction in the number and misuse of exemptions and discretionary applications.

- Substantial change in the employee profile, with 70% of staff having high school or tertiary education qualifications.
- Highly motivated senior and middle managers.
- Improved salaries.

Whilst CED has started along the road to reform under the NRA, and improvement is evident, the approach has been tactical and reactive rather than strategic. This is understandable when it is realized that many executive and senior managers are relatively inexperienced in the regulatory functions of Customs. They lack formal development in some critical areas of the business, supported only by on-the-job experience and isolated information provided by managers and colleagues. For example, there has been no management development and no skills and knowledge development around standards such as the Revised Kyoto Convention, WTO Agreement on Customs Valuation (ACV) and the recently adopted Framework of Standards to Secure and Facilitate Global Trade (SAFE). On the positive side, most of the managers encountered during the study are well educated and well motivated, and expressed a desire to improve their personal abilities and CED's performance.

In meeting these standards, CED must introduce concepts of risk management, client segmentation, sound technical ability, ready access to management information and a high degree of automation, including electronic data exchange, none of which are yet in place to any significant degree. It is important to note also that these elements are largely inter-dependent, which means developments in isolation are of limited value.

The key focus must be to create the conditions for improving Sierra Leone's trade while maintaining an effective Customs regulatory capability. The scale of the task is large, but mitigated by the relatively small size of the department and the fact that most of the staff and facilities are located in and around Freetown.

PRIORITIES

Valuation

The current valuation system is driven by maximizing revenue collections. It is applied inconsistently, lacks transparency and contravenes WTO rules. The pre-shipment value assessment is second guessed, not on its merits but based on doubtful minimum values, ostensibly to prevent undervaluation, but primarily to achieve revenue targets. It is unfair to genuine traders, increases the landed cost and the cost to consumers, and adds to the already high cost of trade in Sierra Leone, especially through Freetown. The minimum values list itself is problematic. The database in use, provided originally by Intertek in 2004 and updated monthly, gives sparse coverage, contravenes ACV rules, and is misused to the extent that it is arbitrary. At the same time, it must be recognized that the ACV has proven difficult for most sub-Saharan African countries to implement, even those with much stronger customs services than Sierra Leone.[47]

CED is blocked from proceeding with ACV because it lacks the technical knowledge, management know-how and infrastructure to make it work, and in those circumstances would risk

[47] See A. Goorman and L. de Wulf, "Customs Valuation in Developing Countries and the WTO Valuation Rules", in L. de Wulf and J. Sokol, Customs Modernization Handbook, World Bank, 2005.

revenue losses by changing. Apart from technical issues, there are practical organizational and procedural requirements for the effective management of ACV, which include post-clearance audit, reduced physical examinations (physical examination has little bearing on establishing the value), intelligence-led risk management and profiling.

At present, Sierra Leone Customs does not have the capacity to meet these requirements. Neither is there sufficient knowledge or experience on either side of the Customs counter to value goods under ACV. As in the case of tariffs, discussed below, the lack of technical development in the area of valuation is partly due to neglect in favor of deferring to the assigned expertise of the PSI contractor. However, it is also true that the ACV has proven difficult for most sub-Saharan African countries to implement, even those with much stronger customs services.

The long-range solution will need to address all of these technical, organizational and procedural issues, with concomitant customs-wide benefits. In the interim, CED needs to mobilize what exists now and apply other short-term measures to cover the gaps. As long as Customs lacks the information sources and skills necessary to properly assess values, they will remain dependent on pre-shipment inspection. Therefore CED must continue to rely on PSI-based information and plan for a future that eliminates that dependence. They should begin preparation for a change to ACV using a more rigorously managed PSI contract to bridge the change.

Pre-Shipment Inspection

Pre-Shipment Inspection should be seen as a short-term measure while national capacity is built up to assume its responsibilities. While PSI services should be retired as soon as possible, CED does not at present have the capacity to fill the void, lacking technical knowledge, information support and enforcement capability. It will take time and effort to bridge the gap, especially if the ACV is to be adopted and properly implemented. It is recommended that CED develop a plan to enable the PSI contract to be retired. The obligation of the PSI contractor, Intertek, to provide training and information technology equipment must be activated in support of a broader development program, with a view to retiring the contract by the end of 2008.

Intertek was obliged to have conducted a training needs analysis within six months of the effective date of the agreement (26 March 2004). It is recommended that the training needs analysis be reviewed and activated. It is also recommended that the use of the escrow account be more carefully scrutinized to ensure that it is accessed for its intended purpose. A more robust third party reference database should be used to monitor Intertek's valuations and Intertek should be made accountable for discrepancies.

Assistance will be needed to provide on-site advice on the management of the PSI contract, help to design and deliver training (the Intertek component will be insufficient by itself) and guide the short and long-term introduction of ACV.

OTHER KEY ISSUES

Tariffs

Customs role is not to set tariff rates, but rather to ensure that the rates that are set through trade policy and agreements are reflected in tariff schedules and are properly administered.

Examination of the present tariff schedules and discussions with those responsible for making and checking goods classifications, indicates that there is a serious lack of knowledge and skill in

tariff classification. According to training records, there has been no training provided in this area, at least since the inception of the NRA.

The SL Customs tariff is based on the WCO's Harmonized System, but the HS2002 version is not yet in place. In the tariff schedules used by Customs, the detail beyond the six-digit level does not follow the HS classification principles, resulting in ambiguous references and dubious application of duty rates. This problem is exacerbated by a lack of technical knowledge of classification rules by CED officers and perhaps in the Ministry of Trade and Industry.

It is recommended that:

- The present tariff schedules be reviewed for consistency with HS rules and with trade policy and agreements, and published in a consolidated format to include all duty rates, levies and taxes payable on imported goods.

- Tariff classification be included in a curriculum for all Customs operational staff as part of a comprehensive training strategy.

Legislation

A contract to reform the Customs legislation of Sierra Leone was awarded to Pricewaterhouse Coopers (Ghana) Ltd (PwC) in April 2004. The Draft Act was being prepared for passage through the parliamentary process at the end of 2005.

The draft is not fully consistent with the standards indicated in the PwC memorandum and does not resolve all the limitations identified.

- Much of the language remains antiquated and not easily comprehensible.
- Structure and internal consistency are lacking.

- Some important best practices have not been covered.

- Provisions added to comply with treaty obligations are not complete.

It was considered by the DTIS team at the time of the mission that having identified these shortcomings, relevant Ministers and Heads of Ministries should be informed so that full consideration of the issues and options could be given before proceeding with enactment. A report was prepared by the consultant for presentation to the Minister of Finance and the Minister of Trade and Industry. It is recommended that a full review be undertaken under the DTIS action plan.

Processes & Procedures

Processes and procedures need to be re-engineered and automated. Central to the majority of dealings with Customs is the import clearance process. For the majority of imports, importers must also deal with the Sierra Leone Ports Authority and a number of other agencies and entities.

Customs processes are entirely manual. The extent to which the non-Customs processes are automated is not known but appear to be also mainly manual. There is virtually no data sharing

even though there is much to share. This consumes time, adds cost and, in the case of Customs, diverts resources away from more productive work.

End-to-end clearance is time consuming, costly and corrupted. Manual and excessive processes, poor infrastructure and corrupt practices ("speed money" payments) are crippling port competitiveness. Conakry, in neighboring Guinea, is Freetown's main competitor. Costs are considerably lower, there are no PSI requirements or port charges and controls are minimal. Increasing numbers of shipments destined for Sierra Leone, and Freetown in particular, are shipped through Conakry and moved overland through inland borders to save on costs and to avoid controls.

Clearances at the border are rudimentary. Lack of reliable power, examination facilities and communications add to the difficulties faced by these remote locations. The post can only control the official border crossing, being logistically unable to cover the hundreds of kilometers of unmanned border with its many unofficial crossing points. Two stand-alone personal computers and a dedicated Customs generator would enhance capability considerably. Kambia is a logical base to develop Flexible Anti-Smuggling Teams (FAST) mobile units.

The Customs clearance process for exports is limited to ensuring that documents required by other agencies are presented. The overall export process is more demanding for exporters. Customs presently does not control exports to the extent that will be necessary to meet future obligations under the SAFE Framework of Standards to which it is committed. As processes are revamped, new requirements will need to be included.

Compliance Management

The principle behind compliance management is to create the conditions that will influence the compliance behavior of those dealing with Customs. Its purpose is to provide choices for clients about their compliance behavior and to allow Customs to choose from a range of treatment options according to risk.

Essential supporting mechanisms such as an intelligence database and risk profiles need to be developed and disincentives for non-compliance need to be applied. In the case of unintentional errors of a relatively minor nature, a system of administrative penalties should be introduced. In addition to the recovery of revenue not paid, a penalty of a certain percentage, set by law, can be applied automatically.

Widespread application of this concept will be dependent on readily available client performance information through an automated Customs system. Limited application to a small number of larger clients could be introduced sooner. Initially, without the benefit of an automated processing system, limited trials could be started. This concept was discussed with some of the high volume importers and transport operators, and they would welcome the opportunity to participate in such trials with Customs. Technical assistance from a donor Customs administration or specialist consultant will be required.

Management Development

The managers recruited since the inception of the NRA are better qualified academically than in the past, but there is a lack of management expertise evident from discussions and observations during the study. There is little understanding of strategic Customs issues and their impact on

trade and economy, planning, goal setting, performance management, etc. A management development program for middle and senior managers focusing on these issues would help to prepare the administration for a greater degree of delegation of responsibilities and accountabilities.

Management of finances, administration and human resources is controlled through NRA headquarters. Base grade officers are paid less than $100 per month, with average salaries for inspectors at around $200, four times the average salary before the NRA was established, but considerably less than what was promised. Expectations were raised in 2002 to attract professional staff and it was expected at the time that the 3% of revenues promised as running costs would be sufficient to cover higher salaries. However, after the unexpected deduction of capital expenditures from these revenues, promised salary levels could not be funded.

The limited budget for running costs and capital expenditure also severely limits the allocation for staff training. There has been no formal technical or management training and generally officers and managers are under-equipped in knowledge, skills and technical support. Approval has been given for a new training school; however, the dimension of the requirement for training is currently underestimated. Recommendations emanating from this report should influence the planning for the infrastructure, manning, equipping and curricula of the school. It is recommended that an expatriate training specialist be recruited from a developed country Customs administration. The cost-free E-learning program available from WCO is recommended to supplement training requirements.

Infrastructure

To be fully effective, Customs relies on easily accessible information: manifest and declaration data; commercial and enforcement intelligence; historical performance data; and management information. CED has virtually no information technology, very little communications equipment apart from mobile phones, and if they could access these tools, an unreliable power supply would disrupt their use.

A few isolated border posts, each guarding hundreds of kilometers of porous borders operate with very basic inspection facilities, patchy communications, bad road access and very little mobility. Any situation that does not present itself immediately adjacent to the manned border points has little chance of being discovered or dealt with.

Sierra Leone's border management would be significantly enhanced through the introduction of Flexible Anti-Smuggling Teams (FAST's), which have been introduced in many other countries with radical results. Increases in revenue recoveries, seizures of prohibited goods and voluntary compliance have been dramatic. These teams, including in some cases multi-agency teams led by Customs, have been most effective in curbing Customs, VAT and intellectual property infringements and organized crime.

An X-Ray scanning system for containers has been in use at Freetown port since April 2005. Aside from meeting an obligation, benefits appear very few compared with the costs to users in fees and time. The inspections regime is excessive with pre-shipment inspection, destination X-ray and physical examinations by Customs and several other agencies. And there is no evidence of significant interceptions.

It is politically and contractually difficult to dismantle the container scanning operation, and to do so would dispense with Customs' only piece of modern enforcement technology. However the

cost burden on traders needs to be transferred, ideally through a donor grant to meet the container scanner cost.

Stakeholder Relationships

Two meetings were convened during the study to consult with main stakeholders. One group represented clearing and forwarding agents and traders; and the other the SLPA, other regulatory agencies and shipping company representatives.

Issues raised included:

- High costs associated with inflated valuations, PSI charges and excessive verifications and inspections, which raise the cost to the importer and ultimately to the consumer. This results in lower demand and therefore diversion through Conakry, where such costs are considerably lower.
- Inability to reconcile the use of PSI plus compulsory scanning plus Customs inspection plus standards inspection, together with their associated fees.
- Lack of transparency and consistency in tariff classifications.
- Desire that Customs distinguish between "illegal" agents and those who wish to have a professional relationship with Customs.
- Many raised the idea of having MOU's with Customs.
- The Clearing and Forwarding Association wants to build relations with Customs.
- There are too many entities involved in the clearance process – 20 separate steps.
- There are ad hoc consultative meetings but they need to be regular and formalized.

Customs should act quickly to mobilize the positive energy from these groups. Providing opportunities to discuss issues of common interest such as port development, business process reengineering, and partnerships can only benefit the administration. An open and transparent relationship would also bring better communication and understanding of the obstacles that are faced on both sides of the Customs counter. Customs should initiate discussion with key players with a view to instituting an MOU program, as well as the formation of an industry consultative group.

Interviews conducted with traders and transporters in markets near Sierra Leone's borders revealed widespread ignorance of the rules and regulations regarding applicable tariff rates and customs procedures. There is virtually no knowledge of the changes being introduced as a result of Sierra Leone's adherence to the ECOWAS common external tariff and free trade area. There is a major need for workshops, display of posters, and other means of educating these people regarding the current customs and trade regime.

Information Technology

Lack of information technology is an obstacle to CED progress. Fast and efficient processing and effective controls are compromised by time-consuming paperwork and a lack of readily available information. IT also enables other best practices to be introduced, such as:

- Electronic lodgment;
- Compliance management;
- Risk analysis;
- Timely and accurate trade and management statistics.

There are a number of off-the-shelf software solutions available, including UNCTAD's Automated System For Customs Data (ASYCUDA), Crown Agents Customs and VAT system, TRIPS, and the system currently used in Kuwait and Pakistan (MicroClear). Ghana's LAN-based system called GCNet has attracted the interest of NRA, perhaps because of its integrated port management capability.

At this point, the critical issue is not software selection, but needs assessment. A thorough business process re-engineering (BPR) project is essential before any consideration of solutions. The BPR needs to examine current processes and project the needs that are identified in line with recommended best practices. It should not be restricted to Customs, but should include all users of the clearance processes in Sierra Leone. A specialist business analyst, with experience in the Customs clearance process is essential. The primary output of the BPR should be a business specification to be used as the blueprint for software selection.

Customs-to-Customs Partnerships

The challenges facing CED are common to those faced in many other Customs administrations. There is much to be gained from relationships with Customs counterparts, particularly those in the region or who are already well along the path to reform and modernization. Collaboration in extending the ECOWAS common external tariff between Sierra Leone Customs and customs services in other West African countries is a step in the right direction. The pressures on Customs to combat smuggling and undervaluation, facilitate trade, access information, automate systems, increase revenues, and work within limited resources are not new to other countries' administrations. Furthermore, sharing data with other administrations can reduce clearance times, help validate declaration data and create more opportunities to dispense with PSI. The WCO's Nairobi and Johannesburg Conventions on mutual administrative assistance provide excellent platforms for Customs-to-Customs agreements.

Strategic Planning

There is currently no mission or strategic plan defined specifically for Customs. The NRA has a published mission statement that centers on revenue collection. Customs' wider role of regulating trade and security rules needs to be explicit and understood by staff and stakeholders alike. Furthermore, executive and senior managers will need to understand the dimension of, and how to apply, the changes necessary to meet best practice standards and government expectations. They also need to achieve these changes while maintaining business as usual.

A CED strategic planning workshop is recommended. Outputs should include a Customs mission statement, performance measures, a detailed and prioritized action plan and a business case to attract Government and donor support, specifying the rationale, justification, priorities, benefits and costs.

Infrastructure and Public Services

This chapter provides a brief review of the key issues related to the major types of infrastructure and public services that impact on trade. These include transport, electrical power, and telecommunications.

TRANSPORT

Logistics and transport are underdeveloped in Sierra Leone. Support services are very limited. The major share of transport operations takes place through the Port of Freetown. There is a very large imbalance in freight flows: in 2004, 762,926 metric tons of commodities were imported against 94,014 metric tons exported through the Port of Freetown. Most incoming cargo has Freetown as its final destination and is not transported to other regions of Sierra Leone. As the export of agricultural products is still in its infancy, there is very little transport out of the country. Import-export operations are dominated by a few traders in Freetown with limited impact on the hinterland. Distant regions are more often served by cross-border trade.

Roads and Road Transport

The official public road network of Sierra Leone totals about 11,000km, of which some 8,000km are classified in the National Road System (NRS) and the remaining 3,000 km are made up of local networks and unclassified roads and tracks.

Of the NRS, 26 percent is part of the trunk road network (primary), 23 percent comprises secondary roads, and 51 percent is classified as feeder and rural roads (tertiary). Overall, 25 percent of the roads are classified as good, 31 percent as fair, and 44 percent as poor.

Costs of Road Transport

The costs of road transport are relatively high. This is mainly due to low volumes of cargo, imbalanced trade flows and long travel times. There is a modest amount of transport across international borders, primarily between Conakry and Freetown and between Freetown or Kanema and Monrovia in Liberia.

The trip from Conakry to Freetown is 190 miles. Moving from the border to Conakry takes about two hours. The road from the junction at Rogberi to the border via Port Loko and Kambia will be rehabilitated with EU funding, which will reduce the travel time. However, there are still considerable bottlenecks at the border with Customs because of lack of harmonization with Guinean procedures as well as long and costly checks and control procedures. Few Sierra Leonean trucks actually cross the border. Rather, trucks from Guinea unload their cargo at Bamoi, where local traders or transporters pick up the load and transport it in smaller vehicles to Freetown and other destinations. The trip from Monrovia to the border with Sierra Leone at Malema takes only two hours; but from Malema to Freetown it can take up to two days.

The domestic road transport market is also not very well developed, since subsistence agriculture prevails and the production and marketing of cash crops is still in its very early stages of development. What does exist is road transport to supply the population of Freetown with domestic produce. The main products transported from the provinces to Freetown are wood,

which is cut within 80 kilometers of the capital; charcoal, which is sourced from an area within a distance of 160 kilometers from Freetown; and cassava, also within a radius of 160 kilometers from the capital.

There are two types of vehicle used for this transport: trucks with load capacity between 3 and 15 tons; and vans, minibuses and taxis. The trucks operate, for example, between Freetown and Makeni, which is about 160 kilometers. They carry general merchandise to Makeni and bring wood, charcoal, cassava (gari) and other goods back to Freetown. It normally takes three days to arrange for a return trip Makeni-Freetown with a reasonable use of the load capacity of the vehicle.

A special form of combined transport is carried out by vans, minibuses and taxis. Both freight and passengers are transported by the vehicle. The prices are comparable with those charged by the larger trucks. Upon entering Freetown, a 2,000 Leones facilitation fee is usually paid to the road police.

The most important product for export in terms of volume is cocoa, which is mainly grown in the Eastern Region of the country. The cocoa is trucked out to Freetown, a trip which takes 4-5 hours. The cost of road transport in the Eastern Region are high because of the bad state of the road infrastructure, in particular the feeder roads.

Rehabilitation and Maintenance

There is a huge backlog in maintenance, as the scarce resources for road maintenance are spent on emergency works. A radical approach has to be adopted by the Government of Sierra Leone, and notably the Sierra Leone Roads Authority (SLRA), in order to prevent the deterioration of maintainable roads into roads which require extensive rehabilitation. The National Transport Strategy and Investment Plan 2003-2007 identified a core “life-line” network for routine maintenance because of the lack of funds originating from the Road Fund. The total amount necessary for road maintenance in 2005 is estimated to be USD 13.5 million. The actual budget of the Road Fund for 2005 is USD 6 million, or 44 per cent of the needs.

The National Transport Strategy and Investment Plan 2003-2007, and subsequent donor commitments, have not sufficiently taken into account the specific needs of the economic sectors in Sierra Leone: transport infrastructure needed for exploitation of the mining sector and not likely to be furnished by private companies, export of cash crops, marketing of food products, and agro-processing and industrial activities. An integrated approach is needed to come to a more efficient and effective expenditure plan for construction, rehabilitation and maintenance of the road network with special emphasis on the linkages between the trunk network and the feeder roads.

In order to better connect important agricultural zones, mining areas, population centers and transport nodes, some missing links in the core network need additional investment: Matotoka-Koidu; Robol Junction-Mile 91; Lungi-Port Loko; Moyamba-Gbangbatok; Gbangbatok-Mano-Taiama; and Makeni-Kabala. The SLRA needs to give higher priority to road maintenance and rehabilitation in the Eastern region in order to support the expansion of the key cocoa sector. This in turn will generate higher revenues for the road fund.

Organisation of the Road Transport Sector

The road transport sector is badly underdeveloped. Professional road transport related to imports, exports or transit hardly exists, and the fleet is obsolete. The main reasons for the non-existence of a professional road transport sector are:

- The economy has just started its recovery process after more than ten years of instability and civil war.
- Registered export volumes are very low, perhaps 10,000 MT.
- The majority of imports remain in the capital, Freetown.

A Motor Drivers and General Transport Workers Union does exist. In 1989, they used to have 6,000 members. Today, the road transport industry has to start from scratch with an obsolete fleet of vehicles. The main problem it faces is lack of financing opportunities. Banks are not willing to provide loans, and interest fees can reach up to 35 per cent. There are about 1,500 trucks circulating in Sierra Leone, of which 80 per cent are in the Freetown area. Of these, about 1,200 trucks are operated by Lebanese, which form their own closed alliance with Lebanese importers, exporters and traders.

Regulation and Management

The management of all public roads in Sierra Leone has been the responsibility of the SLRA, which was created by an Act of Parliament in 1992. The Act makes provision for SLRA to delegate its responsibilities for certain roads to local government bodies. Local authorities are to develop capacity to prioritize interventions in their own rural and feeder network and manage the regular maintenance of these roads. It is expected that some 3,000 km, now determined as being outside the NRS, will be delegated to these bodies when they have acquired this capability, although responsibility for rehabilitation will still remain with the SLRA. This is very important in order to guarantee co-ordination and integration of the entire road network, especially since local government is unlikely to acquire these required skills very soon.

Maintenance of the road network is financed through a Road Fund, whose receipts come from a user levy attached to the price of fuel, plus fees collected by the Sierra Leone Road Transport Authority (SLRTA) for vehicle and driver licensing and registration. The Road Fund is intended to finance only routine, periodic and emergency road maintenance, not backlog maintenance, rehabilitation or reconstruction. The funds are first used to pay the administration costs of SLRTA and SLRA, which amount to 25-35% of the revenue collected, before the balance is directly managed by the SLRA. This administrative percentage is very high.

Since 2003, a large portion of Road Fund resources have been allocated to “emergency” maintenance works implemented by force account, which has effectively prevented implementation of the maintenance program. This situation has been aggravated by the low level of available resources in the Road Fund, which has been sufficient to maintain only about 1,000 km of the core network. Inadequate funding is partly due to the fact that the fuel levy, which constitutes about 60 per cent of the road fund resources, had not been increased by Government for many years. Even though an initial increase in the levy was declared in November 2003, with provision for quarterly increases to bring the amount up to levels sufficient to maintain the 2,000 km primary core network, no funds have been released.

One of the constraints on the construction, rehabilitation and maintenance of roads is the fact that construction equipment and construction materials like bitumen have to be imported. The local construction industry is still in its infancy and lacks knowledge and skills. In consequence, the SLRA will establish a training center for road administration and the contracting industry.

Further development of the regulatory framework in the form of licensing regimes for transport operations will serve primarily the interests of the licensing authorities, which consider these regimes as the main source of income without providing any service to the operators. The costs for licensing should not exceed the administrative costs.

Ports and Maritime Transport

Port Infrastructure

The port infrastructure in Sierra Leone is mainly concentrated in the Port of Freetown at the Queen Elizabeth II Quay. Although Sierra Leone used to have some smaller ports, they are no longer operational. The port of Nitti does not have any port facilities, but is used for loading bulk rutile with cranes on incoming barges, which transfer the rutile onto larger vessels in the open sea. Dredging works are necessary to facilitate the approach of these vessels. There also are some smaller ports like Sulima in the southeast, but most of the facilities are destroyed or obsolete.

The Port of Freetown has an overall length of 1133 meters with six berths. Two berths are bulk, break bulk and general cargo berths; four other berths are for containers. The total storage capacity is 85,000 m2. The port has 5 warehouses and a container stacking area of 32,000 m2, part of which has just been resurfaced. The port does not have operational gears or cranes. Although there are some container handlers, trucks and trailers, there is still a huge need for handling equipment such as reach stackers, forklift trucks, etc. Privatization of the port cargo handling services may eventually result in new investments in port handling equipment.

Port Operations

Cargo traffic doubled from 433,000 tons in 1994 to 857,000 tons in 2004. The traffic flows are extremely unbalanced: 90 per cent consists of imports and only 10 per cent exports. Almost half of the imports are foodstuffs; one-third is industrial raw goods, mainly oil products. The major export by weight is scrap metal using the idle capacity of the empty containers going back to their country of origin. The port has ample capacity to handle a major expansion in export volumes of cocoa and other agricultural products.

The average cost of transport of a 40 foot container from Europe to Freetown or vice-versa varies between USD 2,250 and 2,500; from the USA to Freetown the price is USD 4,000-5,000, depending on the weight and the type of commodity transported. There is hardly any inland container transport. If cargo has an inland destination, the container will usually be stripped and transshipped to trucks for further transport.

The port charges are of the same magnitude as those in other countries in West Africa. However, the Sierra Leone Ports Authority acknowledges that while port charges are an important cost for the shippers, the bigger problem is the overall cost including turnaround time and the low efficiency of gang labor. Clearance times in the Port of Freetown vary, but considerable progress has been made. Containers are now typically cleared in less than 24 hours, and some move even

faster through a 'super green channel'. However, significant delays can occur if documentation is not correct or when food products or dangerous goods have to be inspected.

Port Regulatory Framework

The Sierra Leone Ports Authority is still governed by the Ports Act of 1964 as amended in 1991. A new act is needed in order to include the proposed changes in the management of the port. In 2003, a new comprehensive Merchant Shipping Act was adopted.

The port sector is managed by the Sierra Leone Port Authority (SLPA). The SLPA is responsible for the control of all ports and maritime activities in Sierra Leone, excluding the regulatory duties attributed to the Sierra Leone Maritime Administration (SLMA); to operate the Port of Freetown; and to oversee the ports of Nitti and Pepel which are managed and operated by private mining companies.

The broad aims of their 'Strategic Plan 2005-2009' are to:

- Improve working relations with shipping lines by reducing turnaround times and making discharge operations more efficient;
- Restructure port operations to increase their efficiency;
- Invest in staff development;
- Develop Freetown port as a suitable transshipment port and;
- Develop a free trade zone, in the longer term.

The SLPA is in the process of reorganization. SLPA has a permanent staff of 1,545, and studies are under way to resolve its staff redundancy problem. The privatization of stevedoring and port cargo handling services is to be completed in 2006. These will be assisted by the establishment of a Dock Workers Labour Company which will provide labor to these private stevedoring and cargo handling firms.

Sierra Leone does not have a merchant fleet of its own. The main shipping lines calling in Freetown are Delmas, Grimaldi and P&O. The main local shipping agent is the Sierra Leone Shipping Agency, with a share of 40 per cent of all shipping operations in 2004 in terms of the number of vessels served.

In 2000 the SLMA was established for the regulation and development of shipping in inland waterways, maritime and coastal transport; registration of ships; maritime personnel certification; training recruitment and discharge of seagoing personnel; protection of the marine environment; safety of navigation in territorial seas; flag state and port state responsibilities; and maritime search and rescue.

Airports and Aviation

Freetown (Lungi) International Airport is Sierra Leone's only gateway airport. It is situated across the Sierra Leone River in the flat plains of the Bullom peninsular. It has the following cargo facilities**:** 747 Freighter Dock, Bonded Warehouse, Transit Zone, Mechanical Handling, Health Officials, Very Large/Heavy Cargo, Terminal Handling, Clearing & Forwarding. There are urgent needs to undertake extensive repairs and modernization of the international airport's

visual and navigational aids, security equipment, pavements, passenger terminal and cargo buildings, and perimeter fencing, as well as the provision of a fire and rescue vehicle, a sea rescue boat and training of personnel for sustainability

There is a second small airport in Freetown at Hastings for domestic flights, which was rehabilitated by UNAMSIL. This airport is presently not being used. Neither are 12 regional airports, all which need rehabilitation. It is important to define a strategy for the development of regional airports to enhance national territorial integration; to promote trade and industry; and for tourism development and emergency operations. Hastings Airport could function as a hub for domestic flights.

The World Bank intends to finance physical investments at the Freetown (Lungi) International Airport within the framework of a new Infrastructure Development Project. The envisaged investments are needed to meet internationally accepted aircraft and passenger security and safety standards.

The location of the Freetown (Lungi) International Airport has long been the subject of discussion. The connection between Freetown and the international airport is very complicated and costly. By road a detour of about 160 km has to be made. The alternatives are to go by helicopter, hovercraft or ferry crossing the bay. A feasibility study is being carried out for the construction of an 8 km bridge between Freetown and Tagrin. The alternative of constructing a new international airport, near Songo or Waterloo, deserves further consideration.

Sierra Leone does not have its own fleet of aircraft. Sierra Leone National Airlines has leased aircrafts in the past to carry out flights to Europe, but now they only collect revenues from their ground handling services at Lungi International Airport. International flights are being offered by Brussels Air (Belgium); Astraeus Airlines (UK); Bellview (Nigeria); Slok Airlines (Gambia); Gambia International (Gambia); WEASUA (Liberia); and First Line Air (UK), which recently started as a charter company and has the ambition to grow into a regular airline. Eleven of 42 airlines banned from the European Union airspace are registered in Sierra Leone. These are airlines that are either deemed to be unsafe or have been involved in dubious activities like gun running.

The number of international air transport passengers has increased substantially from 57,521 in 1999 to 157,029 in 2004. There is some seasonal variation, in particular in the months of April, August and December, providing room for the emergence of charter companies. The volume of cargo handled by Freetown International Airport is very small - 1,422 tons in 2004 – and mostly consists of imports.

The airport charges at Freetown International Airport are rather high. The reason is the low level of traffic, which has to generate sufficient revenues to finance the operations of the airport and the aviation facilities. To facilitate private partnership in investment, operation and management, present legislation needs to be adapted.

Forwarding and Clearing Services

There are many very small clearing and forwarding companies in Freetown. Some of them have a license, other do not. Many of those smaller companies are owned by Customs officials or former Customs officials. The clearing and forwarding industry is regulated by 'The Cargo (Clearing and Forwarding) Act, 2005 which stipulates the licensing regime for persons engaged in these

activities. The Act does not allow foreign companies or foreign individuals to carry out clearing and freight forwarding activities in Sierra Leone. It is recommended to open up the clearing and freight forwarding market for foreign companies as well.

ELECTRICAL POWER[48]

Sierra Leone is reasonably well endowed with energy resources in the form of potential hydroelectric power, biomass energy, and solar energy. However, there are major difficulties with the provision of commercial energy supplies, particularly electrical power. During the civil war, much of the country's infrastructure was damaged, destroyed, or neglected. Existing power infrastructure was deeply affected: projects under implementation, including a major hydropower development at Bumbuna, were halted and power sector assets fell into disrepair. Now that peace has been restored, this infrastructure is being repaired and extended.

Electrical power services in Sierra Lone are provided mainly by the National Power Authority (NPA) within an interconnected system, centered around the capital city of Freetown in the western part of the country. The installed generation capacity of the system is 27 MW. However, much of this capacity is obsolete, and the capacity that is available for power generation has now declined to around 18 MW. Even this can not be fully utilized because NPA can not afford to buy fuel. The area is subject to daily massive blackouts, high tariffs, high technical and non-technical losses, and low rates of tariff collection. There are also a number of isolated systems serving provincial centers and mining areas in the east, but available generating capacity in these centers is small and subject to erratic supplies of high cost diesel fuels.

Total grid electricity supply in the western interconnected system was 50 GWH in 2005, which accounted for about 85 percent of the electricity that was publicly provided throughout the country. This translates to a per capita electricity consumption of around 18 KWH, compared to an average of 495 KWH within the region and 8,503 KWH in OECD countries. The total suppressed demand for electricity is estimated at 86 GWH, in addition to the power that is already being used.

Sierra Leone is one of a small number of countries in West Africa with the highest costs of electricity generation and delivery in the world. At present, the cost of electricity generation, transmission, and distribution is 29 US¢/KWH, with average tariffs set at 22 US¢/KWH, and an industrial tariff of more than 30 US¢/KWh,. The difference is supposed to be paid for by a subsidy from Government, but the availability of this financial support is intermittent at best, and the IMF has instructed the government to discontinue these subsidies. Even with varying degrees of subsidies, these high costs translate into very high tariffs relative to regional and global benchmarks. Together with unreliable service and poor quality of supply, these tariffs pose major competitive problems for commercial and industrial enterprises. However, since very few industries rely on the NPA grid power, the tariff is probably not as important as the unavailability of grid power and the high cost of own generation.

With extremely low coverage, access confined largely to the capital city, high costs and poor cost recovery, equity issues loom large in the sector. Up to a consumption level of 30 KWH, for example, residential customers only pay about 10 US¢/ KWH. Industrial and commercial users pay much more. The relatively few urban poor have little access to electrical power. The more

[48] Much of this section is taken from the World Bank Project Appraisal Document for the Completion of the Bumbuna Hydroelectric Project.

significant challenge, however, is to expand access substantially beyond the 5 percent of the population, largely in the Freetown area, that now enjoy it to the rest of the population in other urban areas and in the countryside.

The Ministry of Energy and Power is responsible for sector policy and coordination. However, the wider energy sector comes under several ministries. The Ministry of Agriculture, Forestry, and Food Security is responsible for biomass energy, especially fuel wood. The Ministry of Trade and Industry (MTI) handles petroleum marketing and sales. Petroleum exploration and extraction comes under the purview of the Presidential Petroleum Commission. Coordination between the various ministries on energy matters is poor. There is no central institution capable of assessing potential energy resources, making projections of energy demand and supply, and designing an energy development and investment plan to meet overall economic objectives. The Ministry of Energy and Power is in the process of establishing a coordinating unit with the financial support of IDA under the Power and Water and project.

The NPA is the vertically integrated monopoly supplier of electrical power in the Western Region. It is also responsible for the operation of electricity supply in the provinces. The Bo-Kemena Power Services is a semi-autonomous division of NPA responsible for the supply of electricity to the townships of Bo and Kenema.

NPA has incurred losses for the last ten years. The utility has experienced very poor technical and financial performance, mainly due to weak management. Routine maintenance is not performed and there are fundamental weaknesses in billing and accounting procedures. The Government has poor coordination and oversight of the power sector and is unable to provide regular financial support when NPA is cannot cover its costs.

The Government's strategy for the sector recognizes the need for the following actions.

1. The efficiency and effectiveness of the management and operations of the western interconnected system need to be improved through the introduction of best practices. This can best be done by establishing a management contract.
2. The system's physical deficiencies, after years of deferred maintenance, are a key bottleneck to large improvements in performance. Overcoming these deficiencies will require substantial donor support.
3. The completion of the project at Bumbuna, which has been delayed by conflict, needs to be resumed. This project will provide a relatively large addition to available supplies as well as dramatically transform the structural cost of electricity supplies in the country.
4. The expertise on best practices and power utility management, as well as a critical share of the capital needed to meet the challenges of reviving and expanding the sector, will have to come from the private sector. Yet, the negotiations for the Bumbuna Partial Risk Guarantee have shown that the private sector is not so eager to participate in the Sierra Leonean power sector. This will require the passage of legislation and the formulation of sector policies and regulatory instruments to create an enabling environment for private participation in the sector and a clear policy on cost recovery issues (better country risk management instruments provided by donors would also help).

The World Bank and Sierra Leone's other development partners have started to support Government's efforts to implement these four key actions. The World Bank, along with other donors, is participating in upgrading the Kingtom power station in Freetown, rehabilitating the

electrical grid, and establishing a management contract for the NPA through the Power and Water Project approved in July 2004. The project will also facilitate the drafting of a new electricity law (Electricity Code/NPA Act) and the formation of an independent regulatory authority to promote private participation in power generation.

This project is establishing the foundation for the Government to proceed with the completion of the 50 MW Bumbuna Hydroelectric Project, which is expected to come on line in 2008. This first phase of exploitation of the country's hydrological resources has the potential to reduce underlying weighted costs of supply to between 13 US¢/KWH and 16 US¢/KWH, or one half of current costs. Older diesel generators are also being rehabilitated, which will add an additional 30 MW of generating capacity, most of which will be owned by the private sector. Subsequent stages of development at Bumbuna could result in total electricity generated of up to 300 MW.

Although electrical power generating capacity is being increased, most of this will be confined to the western part of the country, and even there the supply of electricity is barely expected to keep up with demand. Furthermore, most of this power will be available only in Freetown and a few other adjacent urban areas. There is little likelihood that most agro-processing enterprises will be able to use electrical power from any kind of NPA grid. Consequently, the analyses in this report assume that agro-industrial enterprises will have to furnish their own power for many years to come.

TELECOMMUNICATIONS

At the national level, telecommunications coverage and quality are very poor. Telecommunications infrastructure was severely damaged during the war. The state-run landline telecommunications company, Sierratel, is only effectively functional in Freetown. In Bo and Kenema, services are limited, and linkage of the three centers is sporadic at best. Sierra Leone has one of the lowest teledensities in the world, with only one landline for every 250 people.

The expansion of the cellular network by two private companies, Celtel and Milicom, which now cover and link Freetown, Bo, Makani, and Kenema, has considerably improved the situation in these areas. These have recently been joined by Lintel. A fourth operator, Comium, also holds a license. Celtel's current expansion into the Northern Region will improve the geographical range of services.

Until recently, a government parastatal, Sierra Tel, was the only internet service provider in the country. It was over-subscribed, over-extended, and over-priced. Interruption of power supply was a major problem, as were broken facilities, poor management, and slow speed. No broadband network existed until January 2006, when a telecom company from Israel, Sierra-Com, set up broadband, wireless internet and voice-over IP communications services that permit telephone calls to be made over the internet. This promises to substantially improve information flows. Opening up the sector to further broadband competition is an important priority.

The telecommunications sector comes under the Ministry of Transport, Communication, and the Environment, which is responsible for policy and the issuing of licenses. The Ministry is responsible for regulating the sector, but it is assisted by Sierratel, which is also a major player not only for landlines and international service but also potentially for cellular service. Increased activity in the wireless sector, and the danger of having one of the players also regulate the sector, has prompted Government to start looking at the possibility of introducing an independent

telecoms regulator. It is also concerned about the high cost of pre-paid cellular phone cards, which are far beyond the reach of the poor.

Insofar as trade is concerned, the most important prerequisite of the telecommunications system is the ability of farmers, processors, traders, and exporters to communicate and receive information on prices, orders, specifications, and numerous other variables critical to exporting activities. At present the most reliable way of doing this is with cell phones. But this restricts the geographic range over which these activities can take place. Extending this range will require extension of these wireless networks, which is a very high priority

Financial Services

This chapter provides a brief review of the financial services sector, with an emphasis on the services and access problems that are most important for farmers, processors, traders, exporters, fishermen, tourist operators, and others involved in the export sub-sectors that form the principle targets for intervention discussed in this report. The chapter relies heavily on the World Bank Financial Sector Review (December 2004) and the World Bank/IMF Scoping Note for the Sierra Leone: Financial Sector Assessment Program mission which took place in May 2006. It also makes extensive use of the financial section in the recent Agricultural Sector Review and Agricultural Development Strategy, prepared for the Government.

BRIEF REVIEW OF EXISTING SITUATION

The Sierra Leonean financial sector is relatively small, with broad money (M2) and private sector credit accounting for 17 percent and 5 percent respectively of GDP. The system consists of seven commercial banks,[49] one development banks, one cooperative bank, one post office savings bank, eight insurance companies, two discount houses, three housing finance companies, a state pension fund, sixty-one foreign exchange bureaus, and a growing range of microfinance institutions (MFIs). There is a nascent capital market involving over-the-counter transactions, and plans are in place to establish a formal stock exchange. The money market is dominated by government securities, mainly treasury bills and treasury bearer bonds.

Banking System

Despite this array of financial intermediaries and instruments, the financial system is highly concentrated, with the banking sub-sector representing over 95 percent of total financial assets. Many financial intermediaries are inactive. The largest commercial bank is 100 percent government-owned and holds 31 percent of total bank assets. Commercial banking is limited chiefly to taking deposits, granting short-term loans, investing in government securities, and acting as exclusive broker for purchases of foreign exchange and government securities through the Bank of Sierra Leone. Combined, the seven commercial banks have 31 branches, but only 11 of these are outside of Freetown and almost all of them are in Bo, Kenema, and Kano.

The banking sector also comprises several specialized banks, including the National Development Bank, the National Development Cooperatives Bank, and the Post Office Savings Bank. Their operations are primarily limited to savings and loans. There used to be a number of rural banks, but these were destroyed during the war. Partly to compensate, the Bank of Sierra Leone has established a number of community banks.

The banking sector in Sierra Leone is highly profitable, partly because almost 50 percent of its assets are invested in government securities, which have yielded a return of up to 28 percent and are essentially riskless. While the situation may be good for the shareholders, it is not good for other potential borrowers in the private sector. Furthermore, these borrowers are dominated by a few larger, “blue chip” firms. This is primarily because of the reluctance of banks to lend to SMEs, which would require them to strengthen their credit appraisal systems and to shift their attention away from government securities. They are reluctant to do this in part because the weak legal system makes it difficult to recover defaulted loans.

[49]Two state-owned banks, four foreign banks and one private-domestic bank. Plans are advanced to license Ecobank, a West African regional bank.

Overall the banking system is well capitalized with an average capital adequacy ratio above 30 percent, which is much greater than the required minimum of 15 percent of risk weighted assets enforced by BOSL. On the other hand, many banks, and particularly those that are state-owned, are faced with high costs and a number of non-performing loans. Margins between lending and borrowing rates are very high.

Sierra Leone is largely a cash-based society and only limited transactions take place via checks. Other modes of payments such as debit or credit cards are nonexistent although some commercial banks have made investments in upgrading their technology and a few have introduced ATMs. The central bank has also taken an initiative to introduce automated check clearing for faster processing and settlement of in-town and out-of-town checks. This is a positive development, as certainty of payment and security of these transactions will assist in gradually shifting away from cash transactions.

The two majority-owned state banks-- the Sierra Leone Commercial Bank and Rokel Commercial Bank -- are on the list for privatization. Implementation of this decision is in the hands of the National Commission on Privatization.

The National Development Bank (NDB), also owned by the Government, is in a precarious financial position. The bank used to undertake project financing with a credit line from the African Development Bank, but high costs and a large number of non-performing loans resulted in severe liquidity problems. The NDB was given a commercial banking license in 1988. However, the institution was unable to do well and closed its banking operations in 1997. Its banking license was subsequently revoked. Its main portfolio currently comprises microfinance loans. The bank is currently on Government's list for privatization, but sale of its assets appears to be a better strategy, given its current insolvency and lack of any deposit base.

The National Cooperatives Development Bank (NCDB) is owned by the Government and in the pre-war days was providing financial services to a large number of cooperative societies across the country for their short-term funding needs. It was established in 1971 under the Cooperatives Act. The bank has remained undercapitalized throughout its history, but the situation became worse during the war. The bank is currently being managed by a consultant appointed by the Ministry of Trade and Industries.

The Postal Savings Bank (PSB) was established in 1990. It has recently applied for a license under the Savings & Loans umbrella of the BOSL. Its operations comprise mainly savings from small depositors, and it also maintains salary accounts for employees of small businesses who have their salaries directly transferred to their accounts by their employers. The PSB provides loans to its depositors, primarily salaried individuals who bank with it. The loans range from Le 1 to 2 million and are for a period of one year at a rate of 30 percent. PSB operates out of the offices of Postal Services. Although a large part of the network was destroyed, there are still 30 offices country wide with 12 district offices and a provincial headquarters in each of the three provinces. There are also private agencies that provide services for the Post and PSB under a bonded agreement. If managed properly, the Postal System could be an effective vehicle for delivery of basic financial services, particularly in rural areas. This option needs to be explored further.

The Government at the end of 2003 introduced a National Policy on Microfinance as part of its poverty reduction drive and to expand access to financial services across the country, particularly in rural areas. The approach used by the Government appears consistent with international best practice. The old Social Action and Poverty Alleviation program was converted into the current

program. More than 40 NGOs are part of the program working directly with community based organizations extending loans to groups for a period of 3 to 6 months. In addition, the Chiefdom program was developed in 2001 with Chiefdom Micro-credit Committees consisting of the paramount chief and representatives from the community. The program is overseen by SAPA loan monitors. There is not much information available on these programs to assess their performance and impact.

There are four Community Banks that have been established with the support of the central bank; two more are planned to be established shortly. These banks operate essentially as commercial banks but with financial products suitable for rural areas. They also have a microfinance window. Interest rates charged on loans are 15-30 percent; savings deposit rates are 6-7 percent. BOSL has provided soft long-term loans to these institutions to assure that they have the required capital. It has also provided them with fixed assets, equipment and training in banking operations. This is to be a pilot effort, with funding support from the central bank as a temporary measure to encourage private sector entry. Disengagement of the BOSL from the existing Community Banks needs to be carefully monitored and evaluated before a decision is made on further expansion. In addition, the Community Banks need to be transformed into companies limited by share capital rather than by guarantee.

Financial Markets

The Government has taken significant steps during the last few years to improve and strengthen the legal environment, including the financial sector. Key legislation comprises the Bank of Sierra Leone Act 2000, the Banking Act 2000, the Insurance Act 2000, the Other Financial Services Act 2001, and the Anti Money Laundering Act 2004. A few other important laws are currently under preparation and are expected to be in place soon, including the revision of the Companies Act and new Acts for Bankruptcy and Securities Markets. However, there are other areas such as property, collateral, and foreclosure, which have not been given the same attention but are critical for stability of the financial sector and sustainable credit growth.

The capacity of the judicial system is also an area of concern. Enforcement of financial contracts at present takes on average nearly five to six years. One of the reasons is that all financial disputes are processed by the civil courts in the absence of a commercial court system. There is a proposal for the setting up of commercial courts. This should be expedited.

There are two discount houses in the private sector that are registered with BOSL. One of them has only recently commenced operations. The other – First Discount House Limited -- has been in operation for nearly five years. These could play an important role in the development of the capital market through their over-the-counter and brokerage services.

The insurance sector is reasonably well developed. In addition to government securities, most of the insurance companies, like in many other countries, have a large part of their funds invested in real estate. Along with the national pension fund – the National Social Security and Insurance Trust (NASSIT), established in 2001 – insurance is an important potential source of medium and long-term capital. At present, however, NASSIT's entire asset portfolio is invested in government securities.

A venture capital fund has been proposed for Sierra Leone. This could have an important role in supporting investment and innovation, especially for new SME businesses, but it is a high risk and specialized business. While it is important for the Government and the central bank to

facilitate this initiative, it should be encouraged as a private sector operation. With professional management and qualified personnel, a venture capital fund could play a very positive role.

Unlike the banking sub-sector, which is well regulated by the BOSL, the majority of other financial institutions are not following the guidelines laid down by the central bank. There is need to educate and disseminate the importance of regulations and requirements under the law, as well as the implications of non-compliance. There is also a need for training of the staff of these other financial institutions, particularly the institutions that have been in existence for some years and state owned institutions that have been outside any regulation in the past.

FINANCIAL CONSTRAINTS TO EXPANDED TRADE AND GROWTH

There are a number of important financial constraints to expanded trade and growth.[50]

1. **High banking spreads discourage saving and investment**. Rates of interest on savings are negative in real terms, and the main reason for deposit growth appears to be security of funds. At the same lending rates of close to 30 percent discourage investment despite excess liquidity in the banking system.

2. **The banking sub-sector is characterized by lack of strong competition.** Banking spreads are high partly because of lack of competition in a sub-sector characterized by substantial state ownership and a high degree of concentration. Privatization of state-owned commercial banks and other specialized financial institutions would go a considerable way towards creating a more competitive and market-based financial environment.

3. **A substantial proportion of businesses are SMEs, with little access to formal credit.** Accounting practices are often inadequate and firms have little banking experience. Banks find it easier and safer to hold government securities and lend to "blue chip" customers. They can make substantial profits in this way without incurring much risk. Microfinance is at present not a solution because the amounts available from this source are generally insufficient to meet SME needs, especially for term loans.

4. **Banking presence outside Freetown is thin**. In addition to the physical absence of banking outlets, the small size of the financial system and the dysfunctional state of most non-bank financial intermediaries have combined to limit the range of financial products available and restrict access of households and enterprises to financial services.

5. **Most banks are willing to lend only against certain fixed assets that serve as collateral or that provide sufficient guarantees**. Typically, banks require collateral such as real estate that is easy to sell or liquidate in the event of default. On the other hand, the collateral that farmers, processors, and traders can offer, such as inventories, may be difficult to sell, especially where markets are located

[50] Some of this section is taken from Dirck Stryker and Grace Kibuthu. 2006. "Module 5: Commodity Finance and Risk Management for Developing Countries," prepared for the UNCTAD Virtual Institute.

abroad or the commodities are not well graded. Even when borrowers are able to provide collateral, the banks may impose fixed repayment schedules that do not reflect cash flows and cash flow risks in agriculture.

6. **Scarcity of land for development and issues of registration and titling are affecting long-term investment.** Nearly two thirds of the land is owned by provincial chiefs and their families, and is not freely marketable. This impedes use of land for collateral. In addition, more than fifty percent of the remaining land in Freetown and its surroundings is owned by the State and the Military.

7. **Credit information is lacking.** There is little sharing of credit histories. As a result, each lender has to establish its own credit appraisal. Credit information services could play a vital role in expanding credit and outreach of financial services particularly to the SMEs. Availability of formal mechanisms for information sharing, such as the credit bureaus, is an essential element for development of well functioning and sustainable credit markets.

8. **A leasing sub-sector is non-existent.** SMEs have little access to term lending for the purchase of equipment. Leasing companies could play an important role in assisting SMEs to acquire equipment without having to purchase it. Leasing legislation is a prerequisite.

9. **Importers and their banks perceive substantial risk of default**. The *risk of default* concerns credit suppliers such as banks, trading houses, and buyers, whether they will be reimbursed or whether the products they pre-paid will even effectively be delivered. Credit providers are extremely wary of supplying funds to producers, processors, and exporters in Sierra Leone because they perceive the risk of default as being high.

10. **The poorer are producers, processors, and traders, the more constrained they are in their ability to obtain finance**. This is because they have little land and few capital resources to fall back on in the event of emergency. Their vulnerability makes them poor credit risks.

As a result of these financial constraints, it is difficult to organize production and processing efficiently. Cash flow is always a problem. The most profitable techniques are unavailable because the machinery cannot be purchased. This results in lack of competitiveness, especially in export markets. Exporters are unable to effectively trade with large buyers and users because they do not have sufficient capital to provide deferred payment terms on their own account as required by these users. Lack of investment in processing and storage also leads to high losses and the inability to meet standards. Without working capital, farmers are forced to sell at harvest time, when prices are low. Thus it is difficult to break the cycle of poverty since lack of capital leads to low income, which contributes to lack of capital.

OPTIONS FOR OVERCOMING FINANCIAL CONSTRAINTS

Extending financial services to SMEs and the rural sector, each of which is critical for expanded trade and growth, is a fundamental problem in many developing countries, and especially in those

such as Sierra Leone that are least developed. A number of different approaches have been tried but most have not been successful. This section examines some of these approaches; the last section suggests an alternative that offers more hope for success.

Subsidized Lines of Credit

For a number of years until the early 1990s, Sierra Leone ran subsidized credit schemes through agricultural projects and the National Development Bank (NDB), often with the support of the donors under their Integrated Rural Development projects. Loans were offered to farmers or firms at less than market rates of interest. Amounts of capital available for lending were determined by government lending targets and credit quotas. Since demand for loans generally exceeded their supply at those interest rates, credit was rationed. This favored larger and more influential enterprises over smallholders.

Experience with this type of lending was unfavorable. Interest rates were insufficient to cover administrative expenses. Borrowers often were not serious about repaying the loans, so default rates were high. Projects and their credit programs were unsustainable without continuing donor support. Participating banks, such as the NDB, suffered severe financial difficulties. Last but not least, development of the financial sector in rural areas was severely inhibited.

Guarantee Schemes[51]

A Credit Guarantee Scheme was launched in 1974 to encourage the commercial banking sub-sector to direct part of its portfolio of loanable funds to small borrowers, especially in the agricultural sector. The objective was to augment the supply of credit to priority sectors while providing the participating financial institution some degree of protection against possible losses.

Funds were provided from the Credit Guarantee Fund (CGF) comprising appropriations from the Bank of Sierra Leone's profit and guarantee fees of 1 percent of each loan approved under the scheme. The Fund guaranteed 80 percent of commercial bank loans to agricultural and agro-allied projects, subject to the requirement that all other collateral and legal means of recovery had been exhausted.

During the first 10 years, most of the loan guarantees went to the trading sector, with only 22 percent allocated to the agricultural sector. The allocation to agriculture shifted in the period 1984 to 1994, with agriculture receiving 61 percent of the guarantees compared to 24 percent for the trading sector. This was a time when the rural banks and NIDFO were actively involved in the CGF.

The Export Credit Guarantee Scheme (ECGS) was followed the CGF with the objective of encouraging financial institutions to provide credit to individuals or groups in the export business, particularly exporters of non-traditional products such as pineapples, horticultural products, gari, and batik. This scheme was broad-based, covering all private and public sector exporters. The ECGS guaranteed participating commercial banking institutions 66⅔ percent of any amount in default by the exporter(s) because of insolvency or protracted default.

The scheme was innovative at the time of its conception, but it did not receive the support of the commercial banking community. The scheme was scrapped because of lack of participation of the

[51] Taken from MAFS and MFMR. 2004. *Agricultural Sector Review and Agricultural Development Strategy*, Volume 1: Main Report. P. 65.

commercial banks, which argued that the costs of lending small amounts to numerous and widely dispersed enterprises were too high. The guarantee fee of 1 percent was seen as a disincentive because it was considered as a cost.

Community Banks

The establishment of the Community Banks as a substitute for the former Rural Banks was an effort by the Bank of Sierra Leone to develop the rural financial market. The Rural Banks had previously been seen as replacements for the Integrated Agricultural Development Projects, which had come to the end of their funding cycles, while the commercial banks were reluctant to become very much involved in rural areas. Like the projects before them, the Rural Banks were highly dependent on subsidies, with salaries of most of the managers and a substantial share of their operating costs being paid by the BOSL. It remains to be seen whether the Community Banks will be able to survive without continued subsidization.

Microfinance Institutions

Microfinance institutions (MFI) are an important channel for credit in rural areas. They charge relatively high rates of interest to cover their costs, and they generally have excellent repayment records because of the group guarantees that stand behind most loans. Prior to 2002, different MFIs were administered by the Ministry of Finance and NGOs without much supervision or coordination. In 2002, the National Microfinance Policy was instituted, with a Memorandum of Understanding signed by the donors to centralize funding within the Microfinance, Investment, and Technical Assistance Facility (MITAF). This provided for capacity building along with the disbursement of funds to five MFIs plus the Community Banks.

The five MFIs are located in Bo, Macena, and Freetown (3). The MFIs headquartered in Freetown reach out beyond the city as well. At present, most of the MFIs are dependent on donor funds. One goal of the MITAF is to create the capacity within the MFIs that will allow them to hold savings deposits, at which point they will add to their resources and come under the regulatory authority of the BOSL. Other MFIs run by NGOs are supposed to register with the Ministry of Development and Economic Planning and to be monitored by the BOSL.

Interest rates charged within the microfinance community currently vary from 22 to 36 percent. The MFIs deal directly with both groups and individuals. The size of loans varies from Le 200,000 up to Le 1 million, with a few individual loans up to Le 5 million, based on past performance. Individual borrowers must have co-signers or property as collateral. The plan is for the MFIs to increase their capacity to the point that they are able to serve SMEs and eventually become microfinance banks, regulated under the Banking Act. At this point they will serve their clients via intermediaries.

National Cooperatives Development Bank (NCDB)

The National Cooperatives Development Bank (NCDB) was established in 1971 with Le 47,000 in paid-up capital, which was subscribed by various Cooperative Societies -- about 300 in all, scattered around the country. It was to serve as a central financing institution for the cooperative movement, helping to provide financial services for the short-term needs of the cooperatives. Although the Ministry of Trade and Industry helped to establish the Bank, the Government has not been a shareholder and has not provided any regular subsidies. Legally, the NCDB was established not as a bank but as a cooperative society registered under the Co-operative Societies

Act 1977. Only recently has it come under the supervisory umbrella of the BOSL as a non-bank financial institution.

From the beginning, the NCDB was undercapitalized in relation to its objectives. Even before the war, the bank was essentially insolvent, and unable to cover its customers' deposits. Part of the problem was that the NCDB had to compete with the subsidized credit lines of a number of integrated agricultural development projects, which virtually blanketed the country. In addition, civil servants unfamiliar with basic banking principles were involved in the management of the NCDB. The war compounded this adverse situation.

The original Cooperative Bank had six branches located in provincial towns and major cocoa and coffee producing districts. Most of these eventually collapsed because of mismanagement. The NCDB was reconstituted in 1993 under new management but, because of the civil war, restricted its operations to the Western (urban and rural) Area, where it provided financial services to market women, some artisinal fishing groups, and a few small-scale businesses. The number of clients serviced for the year ending December 2001 was over 10,000 with deposits totaling about Le 200 million. At the end of the 2002 financial year, the bank had a loan portfolio totaling almost Le 400 million.

For a time, the NCDB experimented with various approaches to providing effective financial services to micro and small-scale enterprises. For example, it copied the Grameen Bank in Bangladesh by forming groups of up to 36 persons referred to as *barrays*. NCDB initially provided overdraft facilities or advances up to Le 300,000, with maturities of between 6 and 12 months, rates of interest of 23-30 percent, and weekly repayment schedules. Larger loans were also provided in a few cases to well-established clients with good credit histories. Perhaps most important was the business counselling that NCDB included in its group loans. This involved a week of intensive training on basic business practices, including book-keeping, and it emphasized the importance of loan management and timely repayment.

NCDB used a variety of instruments to secure loans to individuals or groups. One of the more important instruments was the use of group savings as lien for sizeable loans (Le 200-300,000). Other forms of collateral were accepted for larger loans in the form of real estate, treasury bills, etc. However, some unsecured advances were also extended, mostly to market women, traders, and cooperative societies.

NCDB differentiated its lending to the barrays, depending on their maturity and record of repayment. New groups could borrow up to Le 250-300,000; those with good credit history after two years could borrow up to Le 1 million; those with good credit history after four years could borrow over Le 1 million. The barrays were carefully monitored and evaluated before they graduated to the next loan level. This intimate involvement with the barrays and their group responsibility for repayment resulted in very low default rates. Loan recovery from the barrays has consistently been above 90 percent, and no loans were ever written off. As an example, a US$ 3.8 million line of credit was established to support all the important fishing centers in the Western Area and Southern Province over a four-year period. However, the interest rate on these loans has been 15 percent, which is well below the market rate of about 25-30 percent.

Loans to the cooperatives were administered in a two-tiered fashion. The NCDB acted as an intermediate lender to the cooperatives, who in turn provided loans to their members. The cost of loan administration and delivery was borne by the cooperatives. In contrast to the barrays, a number of loans to cooperatives had to be written off.

Unfortunately, the changes in management that were instituted by the Board to redirect NCDB's activities towards working directly with the barrays inadvertently laid the seeds of discord, which still plague the Bank. Coming essentially from the private sector, the new managers had a more commercial approach and a broader vision, which conflicted with the vested interest of many of those in the cooperative movement. This conflict remains unresolved.

Trade Credit

Trade credit is an important way in which larger firms with access to credit from importers, the banking system, or non-bank financial institutions are able to channel at least some of this credit to their suppliers, who in many cases do not have access to these sources of capital. Trade credit is especially important for financing export crop campaigns, such as for cocoa. In Sierra Leone, there appears to be a substantial amount of pre-harvest credit offered by traders to cocoa farmers. This is repaid when the crop is sold. Exporters, who often finance the working capital needs of smaller traders, appear to get a substantial amount of their working capital needs from their import operations. Whether this will sustain a much larger volume of exports is unknown. More likely, as exports increase, exporters will have to obtain financing either from importers or the commercial banks.

Trade credit is extremely important for financing working capital needs, but it is not a solution to the term credit required by farmers for planting tree crops. However, an increase in trade credit could ease the financial situation of farmers to the point where they might be able to provide some of their own financing. This has certainly been important historically for the expansion of tree crop production in West Africa.

VISION FOR THE FUTURE

The experience in Sierra Leone and elsewhere suggests some of the directions along which the financial sector should evolve to meet the needs of the export sector. First, it is vital that interventions be undertaken that support broad-based development of the financial sector in general and rural finance in particular. This approach is in contrast to the subsidized, directed credit schemes of the past, which undermined financial sector development. The Financial Sector Assessment Program led by the World Bank and the IMF is an important step in this direction.

Second, the experience with the NCDB and MFIs suggests the importance of group lending based on credit history as the pathway to the development of the financial sector in rural areas. Although the initial size of loans is often insufficient for SMEs, those with a good credit history should be able to borrow increasing amounts over time. Experience elsewhere has shown that credit history eventually is sufficient to sustain the amounts being lent without the backing of the group.[52] This permits more entrepreneurial borrowers to move ahead unencumbered by the group, at the same time that the group does not have to incur the extra risks involved. Eventually, commercial banks may become interested in working with the MFIs, allowing them to remain on the front line of marketing to their borrowers, whom they know best, while the banks provide the financing. More ambitious commercial banks may even go so far as to issue bonds and securitize the MFIs' loan portfolios. This area should be explored in the Financial Sector Assessment.

[52] "From Charity to Business" and "Giants and Minnows", *The Economist*, November 3, 2005.

Trade Policy and Institutions

INTRODUCTION

The key elements of an effective trade policy process are:[53]

- A clear trade and export strategy, developed with and supported by stakeholders, based upon careful identification of the key constraints to trade;
- Effective consultation with the government, private sector and civil society;
- Successful inter-ministerial coordination;
- Collection and timely dissemination of accurate, easily accessible trade information;
- Capacity for analysis of trade related information and provision of advice on all major trade issues;
- Effective trade support institutions – standards, export promotion, customs.

In all of these areas capacity in Sierra Leone is very weak, which severely limits its ability to define and pursue its trade policy interests. Given limited absorption ability and resources, it will be necessary to identify clear priorities among all the institutional capacity-building which could be done, and all the issues and negotiations which could use attention. In this chapter, we examine all the above elements of trade policy, as well as they key negotiations currently confronting the Government of Sierra Leone.

CAPACITY TO DEFINE, NEGOTIATE AND IMPLEMENT TRADE POLICY OBJECTIVES

The capacity of the Ministry of Trade and Industry (MTI) for trade policy making and implementation desperately needs strengthening. Lack of capacity to analyze key trade issues, to define trade objectives and to formulate and implement effective trade policies is a major limitation in Sierra Leone. This weakness limits the ability of MTI to motivate and co-ordinate inter-ministry cooperation, to organize effective dialogue with the private sector and other stakeholders and to effectively represent the interests of Sierra Leone in regional and multilateral institutions and negotiations.

The MTI needs to move away from a structure dictated by the previous approach of import substitution, price controls and extensive state ownership. This has been supported by a major review of the Ministry undertaken by the Commonwealth Secretariat in December 2002, which proposed a structure consistent with the role of a trade ministry in a more open and outward-oriented economy, with much more limited state involvement in commercial activities. Progress has been very limited, prompting a subsequent review funded by DFID in July 2004. The existing Trade Department should be abolished as its original function is no longer required in a market-based economy. In its place, an Industry and Commerce Division and an International Trade Division should be established to operate alongside the existing Administrative and Co-operative Divisions, and the Policy, Planning and Research Division (PPRD).

The PPRD, which is now the heart of trade policy making in Sierra Leone, was established in March 2004. It currently has a full time director, complemented by an ODI fellow and two

[53] OECD (2001) 'The DAC Guidelines: Strengthening Trade Capacity for Development, OECD, Paris

recently recruited research officers. However, it is totally dependent on external funding as there is still no line item in the national budget to cover its staff or expenses. The Director of the Division is funded by the Commonwealth Secretariat until March 2007. After that, much of the experience gained over the last three years will be lost.

The resources devoted to the PPRD are clearly inadequate given the vital importance of trade policy, and the fact that this unit tends to support the Ministry's needs in industrial policy too. Building trade policy capacity in Sierra Leone is a long-term challenge that can not be met by piecemeal support. The government and donors need to make a longer term strategic commitment, beginning with the provision of a larger and more permanent staff.[54] An experienced government official needs to be assigned to work with the current Director to ensure a smooth handover. The PPRD should be directly attached to the Office of the Minister, and then work closely with other Ministries and agencies.

Perhaps more than any other issue, trade policy suffers from a fragmented policy-making process because a wide array of government ministries develops policies that affect international trade. Most constraints on integration into the international trading system stem not from traditional trade policy issues (import duties or other countries' market access policies) but rather from domestic weaknesses in transportation and port infrastructure, customs procedures, and domestic business climate. In this light, an important function of the trade ministry is to serve as a champion for trade issues, pushing other officials to address such constraints. To do this effectively, the PPRD will need to formulate a detailed trade and export policy for Sierra Leone

A strategy for trade policy and a supporting program of capacity building must recognize the importance of competencies outside of the Ministry. This applies to the Ministry of Finance for issues of tariffs and customs; various technical ministries responsible for such areas as agriculture, fisheries, mining, and tourism; and other ministries or agencies dealing with the regulation of service sectors such as telecommunications, financial services and transport. Both the Ministry of Finance and the Bank of Sierra Leone also have economic policy research capacity which must be tapped. It will also be necessary to promote policy-relevant research in the university or research centers. Such independent analysis can also serve to build public understanding of and support for action on key trade issues.

Due to the current paucity of statistics, and the unreliability of what does exist, it is difficult to gain an accurate picture of trade or the other economic variables which must inform trade (and industry) policy. The Ministry of Trade and Industry requires a database of trade related statistics from across Government. The establishment of the database would ease pressure on Statistics Sierra Leone, and create additional lines of communication across Government. A proposal to build this capacity, with support from the IMF, should be actively pursued.

Recently, the Ministry established a National Coordinating Committee on Trade (NCCT) as a forum for the discussion of trade policy issues. The Committee comprises all relevant ministries as well private sector and academic groups. The NCCT has generated a formal sub-committee to oversee the Integrated Framework, though it has failed thus far to convene subcommittees on EPA and WTO negotiations. A Public-Private Forum has also been created where trade issues can and have been discussed. But limited staff and other resources mean that there is little de facto private sector participation in trade policy discussion and formulation, and that there are limited formal interactions within the government, or between the government and other stakeholders. Logistical support to the NCCT and efforts to raise the capacity of private sector

[54] The Ministry has recently been strengthened by DFID recruiting a specialist to coordinate the barriers to investment project paid for by DFID and FIAS. Later in the year it is expected that a DFID funded private sector development coordinator will be in place, assisted by two staff.

and civil society organizations to participate in trade policy is an important ingredient in pushing forward the trade policy process in Sierra Leone.[55]

Currently, sub-committees of the NCCT are set up according to areas of negotiation: WTO, ECOWAS, AGOA, EPA, NEPAD. This approach does not facilitate using trade negotiations to advance a country's trade strategy. Modern trade agreements—whether multilateral, regional, or bilateral—typically encompass the same issues, such as market access for goods and services, intellectual property rights, standards, subsidies, trade remedies, and dispute resolution. Each topic is distinct and complex and the various trade agreements should be used to pursue a coherent approach in each case. There is a huge need to develop and enhance capacity in these functional specialties, which would be facilitated by a more rational structure that organizes staff by these functional specializations. This should also make it easier to attract sector specialists from either the public or private sectors to the meetings.

There is a need to strengthen private sector capacity for and involvement in trade policy. There is an exporters association as well as the Chamber of Commerce, but the export sector in Sierra Leone is currently very thin, with few firms participating in export activity. Nevertheless, as actual and potential exporters emerge, it will be important to ensure that their interests are properly reflected in national policy making.

Although donors can help, what is most important is greater commitment from the Government to trade as a key element of development policy. On the one hand, this must be realized in terms of allocation of government resources, but equally important is explicit support from the highest levels of the Government for the trade agenda and a willingness to move forward to create a supportive business environment and resolve bottlenecks. Donor assistance to build trade capacity will have little impact in the absence of a genuine commitment of the government to seriously support the trade agenda and confront the difficult policy decisions that may arise, which, though in the national interest, may lead to losses for well connected special interest groups.

SIERRA LEONE AND MULTILATERAL TRADE NEGOTIATIONS

Sierra Leone's membership in the WTO gives the country several avenues to advance its trade agenda. Not the least of these is the ongoing Doha Development Agenda negotiations. At the same time, these negotiations are time consuming and the Government of Sierra Leone has very limited capacity and many competing priorities. Furthermore, its own impact on the negotiations is necessarily limited and, to an extent, it can rely on others, such as the Africa Group or the Least Developed Countries block, to defend some of its interests. Ultimately, the Government of Sierra Leone must weigh the costs and benefits of active participation in the WTO as it would for its other trade agreements and objectives.

With this proviso, there are several ways in which the Government of Sierra Leone might exploit the Doha Round. Sierra Leone can use it to gain better access to foreign markets, particularly in large fast-growing—but often heavily protected—developing country markets in Asia and South America. Lower trade barriers on products of interest to Sierra Leone will have a positive impact even if there is no direct impact on its own export volumes, by increasing world demand for these products with the consequent impact on world prices. For this reason, it is also important to consider protection on final products that use inputs exported from Sierra Leone. The WTO is the most efficient and effective forum for achieving tariff reductions across a range of overseas markets.

[55] UNDP has recently pledged funds to support the NCCT

There are three ways in which lower duties in Asia or Latin America may support Sierra Leonean export prospects. First, the Doha Round may reduce tariffs on products that Sierra Leone currently exports or that are the focus of export diversification efforts. Markets in Asia are very large, but products of importance to Sierra Leone face high tariff barriers. Tariffs on cocoa are 30% in India and above 20% in Sri Lanka and Thailand.

Second, for traditional commodities such as cocoa, even if the reduction in tariffs in Asia and South America does not lead to new exports there will be a positive effect through the impact on world prices. Reductions in tariffs in India and China that raise the demand for imports could lead to higher world prices for cocoa. Third, it is important to consider the tariffs on the final products that use inputs exported from Sierra Leone. Reducing the protection on chocolate will expand the demand for cocoa. Tariffs on chocolate are typically higher than those on cocoa.

Sierra Leone has undertaken significant tariff reform in recent years, as it has aligned its external tariffs with those of the ECOWAS Common External Tariff or CET. The maximum tariff has been reduced to 20% and there are only three other tariff rates - 0%, 5%, and 10%. Sierra Leone has bound all of its tariff rates at the WTO, which already provides a degree of predictability. As with most developing countries, there is a large gap between the bound rates and the rates that Sierra Leone actually applies. The average of the bound rates is close to 50 per cent while the average applied rate is less than 11.5 percent. Large gaps between bound and applied rates are sometimes viewed as a form of strategic insurance or "policy space". However, this comes at the cost of deterring investment by undermining the perception of the government's commitment to reform and maintaining the risk of policy reversal and hikes in duties on key imported intermediate products. Furthermore, Sierra Leone's policy space has been substantially diminished through its adoption of the ECOWAS CET.[56] The "locking-in" of applied tariff rates through commitments to lower bound rates, closer to the applied levels, as part of an aggressive tariff cutting round at the WTO, would increase the credibility of reform and enhance certainty regarding investment conditions in Sierra Leone. Sierra Leone should also seek to ensure that the across the board bindings that it has already accepted are recognized and taken into account in the negotiations.[57]

The WTO negotiations on trade facilitation offer important opportunities for Sierra Leone. The benefits of improved trade facilitation accrue to both developed and developing countries but due to the relative inefficiency of their current systems and procedures, developing countries such as Sierra Leone stand to gain the most. Sierra Leone should be ready to express concerns about implementation capacity and costs as well as to ensure that technical assistance and capacity building needs are adequately addressed.

[56]The WTO does provide the flexibility to use safeguard measures in response to sudden surges in imports that cause, or are likely to cause, injury to domestic producers.

[57] For example, it could be used in bilateral discussions regarding requests for technical assistance for Sierra Leone.

Box 10-1: WTO Information Technology Agreement (ITA)

Sierra Leone could enhance the environment for investment and support the development of the information and communications technology (ICT) sector by joining the WTO Information Technology Agreement (ITA). The ITA covers computers, telecommunications equipment, semiconductors, semiconductor manufacturing equipment, software, and scientific instruments. It is a tariff cutting mechanism with three basic principles: (1) all products listed in the Declaration must be covered, (2) all must be reduced to a zero tariff level, and (3) all other duties and charges must be bound at zero. This agreement is optional for WTO members.

The benefits of joining the ITA would arise: (1) from a more transparent and efficient way of providing such exemptions (by avoiding the administrative costs and uncertainty in implementing an exemptions scheme); (2) by extending access to lower cost IT products to all producers and investors in Sierra Leone, especially to small businesses who may not have been able to avail themselves of exemptions from duties; and (3) by guaranteeing access to IT products at world prices and so providing a strong signal to investors, especially international investors, of Sierra Leone's commitment to an open ICT environment. However, now that Sierra Leone is part of a customs union, all the ECOWAS members would have to agree to sign up together.

MARKET ACCESS ISSUES: EXPORTS TO THE EU AND THE US

Preferential Access Regimes

Sierra Leone has preferential access to its current main overseas markets. The EU offers full preferences on all products under the Everything but Arms (EBA) scheme for an indefinite period. Access to the US is governed by the African Growth and Opportunity Act (AGOA), which offers duty free access for most, but not all products, until 2015. However, these preference schemes are currently of little value because Sierra Leone exports few products that are eligible for preferences. Exports remain dominated by diamonds and cocoa beans, for which no duties are levied in the main preference granting markets. They could play a role in promoting Sierra Leone's fish exports, however, once the problems in meeting EU sanitary standards have been addressed. Hence, preferences are not an important mechanism for stimulating greater exports of the products that Sierra Leone currently sells abroad. The main issue is whether they could help to promote exports of new products and facilitate the shift to a more diverse export base.

The opportunities for Sierra Leone are currently hindered by restrictive rules of origin under AGOA and EBA. The basic rule of origin under AGOA requires that 35% of the price of the product be due to activities in Sierra Leone or other AGOA beneficiaries. This may preclude the export of final products derived from processing inputs imported from non-AGOA countries, and there is limited scope for sourcing competitive inputs domestically or even regionally. A relatively high value added requirement makes it particularly difficult for countries with low labor costs, such as Sierra Leone.

AGOA does have a non-restrictive rule of origin for apparel produced in the least developed countries, which allows these countries to use third-country fabrics (for example, from China and India) and qualify for preferences in the US. This more flexible approach to rules of origin for apparel has contributed to a substantial increase in exports countries such as Lesotho, Kenya, Swaziland, and Madagascar. However, this third-country fabric provision is due to be removed in

September 2007, so it is probably too late for Sierra Leone to exploit this opportunity unless the provision is extended.

EU rules of origin are product specific and complex. For example, the rule for apparel disqualifies products produced from fabrics imported from outside of Africa and the EU. The EU is currently reviewing its rules of origin and has accepted that the current rules have been a constraint in meeting its development objectives.[58] Within this review and in the negotiations for the Economic Partnership Agreement (see below), Sierra Leone should strongly push for simple and non-restrictive rules of origin.

Another area concerning the rules of origin, which is of specific interest for Sierra Leone, is that pertaining to fish and fishery products. The current rules of origin that are applied by the EU under the Cotonou Agreement and the EBA have been heavily criticized as favoring EU vessels. Essentially, the rules state that preferences are only granted to fish caught by EU or ACP-registered, owned and manned ships. A more liberal rule of origin would mean that fish caught by any vessel in the waters of Sierra Leone's exclusive zone would be eligible for EU preferences. With regard to processing under more liberal rules, processed fish from any ship legally fishing in Sierra Leone's or any other ACP countries exclusive zone would receive preferences.

Sierra Leone should lobby for less restrictive rules of origin under the EBA and AGOA. An appropriate rule of origin would be a value-added requirement of 10% for all goods, including apparel, together with the option of satisfying a change of tariff sub-heading requirement. Sierra Leone should also push strongly for the extension of the third country fabric rule under AGOA**.**

Economic Partnership Agreement with the EU

Sierra Leone is involved through ECOWAS in negotiations with the EU on an Economic Partnership Agreement (EPA). The 2000 Cotonou Agreement calls for establishing EPAs between the EU and regional groupings of ACP members by 2008, largely in order to correct the WTO incompatibility of the Lome/Cotonou agreements. The EU intends these agreements to be tools for economic development, and negotiations will cover a broad range of trade and trade related policies beyond tariffs. A key element will be that countries such as Sierra Leone will have to offer duty free access to most imports from EU countries. This will have a significant effect on tariff revenues[59] and may have important impacts on domestic import competing farmers and industries. Consequently, the EPA will have a more significant impact on Sierra Leone, and all other members of ECOWAS, than will the WTO Doha Round negotiations. However, Sierra Leone has not yet had the capacity to prepare for these negotiations and ECOWAS is also struggling to cope.

The EPA will bring Sierra Leone no new market access in the EU for goods since producers in Sierra Leone are already eligible for duty and quota free access to the EU under the Everything But Arms agreement. Market access conditions will only be improved if the EPA negotiations lead to much less restrictive rules of origin and if the EPAs are effective in stimulating regional integration in Africa. They do appear to have played some role in pushing Nigeria to liberalize by adopting the ECOWAS common external tariff, but it is less clear how the EPA can help deal with the practical obstacles which continue to block effective regional free trade. It will be critical to define benchmarks and triggers to be reached with regard to regional integration before Sierra Leone is required to reduce tariff barriers against imports from the EU. Otherwise,

[58] http://europa.eu.int/eur-lex/en/com/cnc/2003/com2003_0787en01.pdf

[59] For example, Neilson, L (2005) "ECOWAS Fiscal Revenue Implications of the Prospective Economic Partnership Agreement with the EU", mimeo, IMF, Washington, estimates revenue loss from an EPA as a share of total government revenue to be 8.5% for Sierra Leone.

ECOWAS countries may end up providing better access to the EU than they provide to each other.

Box 10-2: Coping with the Economic Partnership Agreement

Here are 8 elements that might help Sierra Leone and other ECOWAS members move forward with this difficult agenda in the remaining time available.

1. Simplify the agenda by identifying priority issues and resisting pressure to negotiate on the full range of issues initially laid out.
2. Develop a realistic calendar and action plan for genuine regional free trade including detailed proposals for trade facilitation.
3. Commission analysis on the choice of tariff lines to be excluded from the agreement, taking into account concerns for both revenue and domestic protection; about 20% of ECOWAS trade can probably be excluded and still achieve WTO compatibility.
4. Prepare tax and customs reform to replace the lost tariff revenues.
5. Use the negotiations to promote improvements in the investment climate (e.g. through the harmonization and reduction of administrative barriers).
6. Negotiate improved access for temporary workers in the EU.
7. Improve the rules of origin through a 10% value-added rule, or else, cumulation rules which allow ACP producers to use lowest-cost inputs from all developing countries.
8. Additional "aid for trade" in the form of technical and financial assistance to deal with supply side constraints.

REGIONAL INTEGRATION THROUGH ECOWAS

Sierra Leone has embraced regional trade integration through the 15-country Economic Community of West African States (ECOWAS) as an element of its reconstruction. It was the first member outside of the West African Economic and Monetary Union (WAEMU) to adopt the Common External Tariff (CET), which is based on the WAEMU tariff. Sierra Leone will move over 3 years from a regime of seven duty rates and a maximum rate of 30%, to only 4 duty rates with a lower maximum (0%, 5%, 10%, 20%). In 2005, Sierra Leone aligned about 1,000 of its tariff lines with those prevailing under the ECOWAS CET, with an additional 1,000 harmonized in January 2006 and the remainder to be phased in by the end of 2007. When fully implemented, the average tariff will therefore fall from 16.9% to 13.3%. This represents an important improvement in the level and simplicity of the tariff structure.

While the ECOWAS CET replicates the tariff bands of the WAEMU, each country has the option of identifying a few products for which they would like to change the tariff rate currently assigned under the WAEMU system. Sierra Leone has only proposed one change, and that is for rice. Currently its tariff on rice is 15%, while in WAEMU it is only 10%. Out of concern for its rice producers, and supported by its impact study, Sierra Leone has proposed that the rate be raised to 18%. Such a proposal seems unlikely to succeed, as well as being unwise, since it would mean creating a new tariff band, and hence a step backward in terms of simplifying the tariff structure. However, it is possible that other members may agree to a rate of 20%. Before accepting this option, however, Sierra Leone should do a more complete study of the impact of such a tariff, which would consider the effect on consumers as well as producers, and the implications for poverty.

Another important dimension of the ECOWAS customs union is internal free trade, which is much further away from completion than the CET. The ECOWAS Trade Liberalization Scheme (ETLS) aims to promote intra-regional trade through the elimination of duties on all primary products as well as industrial goods from approved factories which meet a minimum value-added criterion. Sierra Leone has had two companies (T. Choitthrams and Sons and Chellerams Chemicals) and three products (bubble gum, biscuits, and laundry soap) approved for duty-free treatment within the ETLS. However, Choitthrams ceased operations during the war, and because of imperfections in the ETLS, it is unclear whether Chellerams products are in fact accepted for duty-free import by other ECOWAS member countries.

Trade in primary products is still not free in the sub-region. Nigeria has bans on several such products, though they are due to be removed. Various countries place unofficial barriers on trade for food security reasons which may seem to increase local availability when neighbors suffer shortfalls, but can backfire when one's own country is in need. Indeed, concern is often expressed in Sierra Leone over prevalence of cross-border trade in food products. Not only is this inconsistent with the spirit of the ECOWAS agreement, but, more importantly, it is contrary to the interests of Sierra Leone. Cross-border trade means better prices for Sierra Leonean farmers and hence higher incomes. But it also means greater incentives for them to expand production. As discussed earlier in this report, food security is not best achieved through attempts to achieve food self-sufficiency.

EXPORT PROMOTION AND DEVELOPMENT IN SIERRA LEONE.

Export promotion and development is the responsibility of the Sierra Leone Export Development and Investment Corporation (SLEDIC), an autonomous institution under the supervision of the Ministry of Trade and Industry. Recent analysis conducted by FIAS through its Administrative Barriers Study concludes that SLEDIC "has had little discernable impact on increasing the flow of investments into, and exports from the country", reflecting a number of "debilitating constraints", including an ineffective Board of Directors, inadequate staffing levels and limited technical capacity, lack of focus on specific objectives due to the dual investment and export mandate, and insufficient funding.

Clearly a crucial element in moving to more effective export promotion and development will be the mandate that is given to the new export development agency, the structure of the board of the agency and the resources that are provided to achieve key objectives. The FIAS study concentrates more on international best practices for investment promotion. Hence, this section briefly reviews the lessons from other countries experiences with export promotion and what these suggest as the key factors that may contribute to a successful export promotion agency.

The initial priority of the export promotion and development agency should be to serve as an advocate for exporters across the various ministries and agencies of government. It should focus on the constraints placed upon exporters by a hostile business environment and the lack of appropriate trade supporting infrastructure, especially with regard to the port and transport, telecommunications and access to finance. Implementation of the Action Matrix produced by this study should be a top priority.

As these constraints are alleviated, the agency may be able to turn to the provision of services to exporters that enhance their competitiveness on world markets and allow them to enter new markets and introduce additional products. But it will need to remain very modest and focused in its ambitions given the limited resources available. Management should be required to demonstrate impact, possibly with the help of a results-based salary structure. Commission-based marketing consultants in importing countries, with better knowledge of local demand, should be used as much as possible.

Box 10-3: What is Required for Successful Export Promotion

The following seven factors have been identified as important for a successful export promotion effort:[60]

1) There must be an appropriate enabling environment for exports. An anti-export bias is likely to arise when there is an overvalued exchange rate, a tariff structure that leads to high nominal and effective rates of protection, significant non-tariff barriers to trade due to costly customs procedures, inappropriate quality controls, excessive administrative barriers, lack of trade finance, and weak trade supporting infrastructure.

2) The export promotion/development agency should be autonomous but needs high level government support. This is important to gain the confidence and trust of the business community while having sufficient political clout to influence policy making.

3) The strategy of the export promotion agency must be demand-driven, with a board comprising mainly experienced exporters and headed by a respected business leader.

4) *Strike an appropriate balance between offshore and onshore objectives and activities*. Trade promotion organisations have tended to focus on offshore activities such as market research and information gathering, trade representation and trade fairs, but such activities will be ineffective unless appropriate attention is given to the onshore objective of enhancing competitiveness by assisting firms on issues such as pricing, quality, standards, access to appropriate inputs, and applying relevant business models.

5) *Proper staffing is crucial*. An effective trade promotion organisation requires staff with commercial experience from the private sector and so must be able to offer salaries and conditions that will attract such staff.

6) *Adequate funding must be made available*. While donor financing can initially be useful, the agency must be sustainable, which requires adequate funding from domestic sources. Charging for services through user fees, probably on a cost-sharing basis, is one important source of revenue and discipline to ensure that the services are relevant and of value to clients. Other activities with important externalities, such as those which enhance the country's reputation for quality, should be covered through a line item in the government budget and member dues.

7) *Ensure monitoring and evaluation of results*. The effectiveness of trade promotion activities must be monitored and periodically evaluated to ensure that lessons are learned, strategies are refined and best practices are applied.

[60] De Wulf, L (2003) 'Why have trade promotion organizations failed, and how can they be revitalized?, paper presented at the conference on 'Maximising the Benefits of Globalisation for Africa, Dakar.

DEVELOPING STANDARDS MANAGEMENT CAPACITY TO SUPPORT EXPORT DIVERSIFICATION

Introduction

The capacity to meet commercial quality requirements and comply with standards is increasingly being seen as a core competence for effective participation in international trade. Yet, in many developing countries, there is only an incipient 'culture' of quality, plus only limited and isolated capacity to manage food safety, agricultural health, and environmental risks. This is certainly the case in Sierra Leone where the underlying capacities for standards management, both in the public and private sectors, are very weak. A strategic approach is needed, which gauges near and longer term challenges and opportunities, within the context of extremely scarce public resources.

Quality and standards are closely related, but they are not necessarily identical. A product may not face any mandatory standards, yet it may suffer serious quality issues. This is the case of cocoa in Sierra Leone, which receives a lower price as a result of poor quality, though it can still be sold. Other products may be of sufficient quality but the mechanisms are not in place to prove their compliance to the satisfaction of the importer. This characterizes the situation for fish in Sierra Leone. It was also the case for diamonds until Sierra Leone qualified for the Kimberley certification process. Still other products may require action on both fronts.

Only slightly different is the distinction between official standards and private sector norms. Some standards are imposed by national or international authorities, while many others are driven by the private sector and the demands of the market. In the latter case, a range of norms is likely to exist, and failure to meet high norms restricts access to some markets but not others. Private sector norms are becoming increasingly important and, where they exist along with official standards, they are typically higher.

Equally crucial is the need to distinguish between the roles of the private and public sectors. There are various crucial regulatory and risk management functions that are normally carried out by the public sector, and importing countries may require that particular functions be performed by governmental entities. However, the private sector also has fundamentally important roles to play—in the process of standard-setting and in the actual compliance with quality, food safety and agricultural health requirements. Capacity building in the private sector can complement (or even substitute for) public sector capacity, as in the development of certification and testing services. Industry 'codes of practice' may go a long way in assuring self-regulation.

Compliance with standards involves costs which may include up-front investment in new infrastructure, equipment, management systems, and human capital. They may also include various recurrent costs—for inspection, testing, etc. The level of these 'compliance costs', and their distribution between the public and private sectors, must be compared to the expected benefits, as with any other policy decision. Compliance should not be sought 'at any cost'.

In moving forward, both the Government of Sierra Leone and the private sector need to recognize the importance of improved standards and quality management, and develop a strategic approach with some consensus on priorities and the respective responsibilities of different official and private entities. As already described in this report, raising quality is a key issue for the main agricultural products exported by Sierra Leone, especially cocoa. A number of different institutions are involved in monitoring and seeking to raise the quality of agricultural products. Cocoa is inspected up-country by the Ministry of Agriculture and then again by the Standard Bureau, together with the Ad Hoc committee, at the port. However, this approach has not been successful in raising quality and prices and these inspections merely add delays and extra costs to exports.

The other immediate priority is clearly the certification of fish exports to comply with EU standards. There, measures are being taken and the "competent authority" has already been identified as the Ministry of Health. It will be important that other entities such as the Ministry of Agriculture, Fisheries, and Food Security, and the Standards Bureau accept this decision and do not undermine the competent authority.

The case of new, imported varieties of ginger presents yet another, and different, example of the trade and standards issue. In this case, the quality of the imported seeds needed to be tested in order to ensure that they would not introduce any new diseases that might be detrimental to the existing varieties. This is the function of the Plant Health Inspection unit in the Ministry of Agriculture, although it was SLEDIC which was responsible for importing the new varieties. Overall, the number of agencies involved in the quality and standards agenda is clearly large and the challenge of coordination, significant.

The foundation of any quality and standards management system is not sophisticated equipment and accredited laboratories. The true foundation of a functioning system is broad awareness among participating stakeholders about the relevance and importance of consistently high quality, food safety, agricultural health and other standards to the competitiveness of their country/sector/firm and recognition of their own role in this system. Where this awareness is especially weak, any system of regulatory enforcement will almost certainly be overwhelmed, and advanced testing will only serve to demonstrate that one has serious, systemic problems with the supply chain.

A useful framework in the development of priorities is the concept of a hierarchy of standards management functions (Figure 10-1). Functions towards the base of the pyramid represent the foundation stones, while those towards the top add value and sophistication to the entire system of standards management and gain in importance as export sectors mature and encounter increasingly complex technical, administrative and even political challenges.

Figure 10- 1: Hierarchy of Trade-Related Standards Management Functions[61]

[61] "Food Safety and Agricultural Health Standards", World Bank, 2005, p. 129.

Awareness of major standards and quality challenges is needed at several levels: (i) senior agricultural and trade officials, in order to assign appropriate priorities for public programs and expenditures; (ii) owners and managers of producing/exporting firms and their industry organizations as these people make pertinent investment, personnel and other decisions; and, perhaps most importantly, (iii) large numbers of farmers, and farm and industry workers, who produce and handle agricultural raw materials on a day-to-day basis. If there is not strong awareness at all of these levels, the system's foundations will be weak.

Another core set of building blocks that proceed from broad awareness is the application of basic and recognized risk and quality management practices at the farm and processing levels of supply chains, including HACCP, 'good manufacturing practice' (GMP) and 'good agricultural practice' (GAP). With broad awareness and common application of good practices, many potential risks can be effectively managed at the enterprise (or farm) level. Yet other risks cannot be fully controlled on such a decentralized basis. These are more systemic in nature and require broader oversight or collective action, requiring basic research, risk analysis surveillance systems and quarantine and emergency management systems. In such contexts, even if individual farms and firms apply good practices, they may not be able to control all hazards, thus the need for scientific testing and verification systems. Many of these higher-order functions require particular technical skills, often specialized equipment and well-defined procedures, supported by recurrent funding. Some of these functions need to be mandated by law in order to ensure that they are implemented appropriately. An effective regulatory framework and transparent institutional structures is therefore placed in the middle of the pyramid.

At the top of the pyramid is so-called 'standards diplomacy', which includes the international obligations of individual WTO members but also relates to engagement in the technical and political realm of official and private international standard setting, negotiations with bilateral trade partners and with regional integration partners on matters dealing with harmonization, equivalence, joint programs, special considerations, etc.

Sierra Leone should concentrate at present on the bedrock functions. Development of broad awareness and promotion of the adoption of 'good' agricultural and manufacturing practices and quality management systems will set the stage for later developments. Initial efforts should focus on particular higher risk/higher gain export-oriented sub-sectors that require specific regulation and institutional structures. Fish and cocoa are clearly the main products demanding attention at present, together with maintenance of the integrity of the Kimberley process for diamonds.

Enhancing Structures and Capacities

Sierra Leone has only rudimentary institutional capacity for management of standards and quality. The Sierra Leone Standards Bureau (SLSB) is the coordinating body for all standards issues in the country, but many other institutions are, or must be, involved. The SLSB is an autonomous body under the supervision of the Ministry of Trade which became effectively operational only in 2000. The general mandate of the Bureau is to ensure the safety of products consumed in Sierra Leone. The SLSB develops and adopts standards, is responsible for inspection of goods and provides testing and quality control services. The Bureau is currently financed from three sources: subventions from central government, a 0.03% levy on all imports and exports; and funds from international donors. The levy on imports and exports is fixed at a given level for all transactions. As the standards body develops, this levy should be replaced by a fee directly related to the services provided.

Given its relatively short operational life and severe funding constraints, the SLSB has very limited capacity and current efforts are focused on consumer protection. It would be worthwhile for Sierra Leone to consider separating the task of consumer protection from that of export

facilitation. Then the challenge for Sierra Leone would be to facilitate the emergence of a standards infrastructure over the medium term that supports export diversification into new, higher value-added products, where standards are often a key factor influencing market access.

Moving Towards Compliance with the WTO TBT and SPS agreements

Sierra Leone is a member of the WTO and needs to take further steps to meet the requirements of the Technical Barriers to Trade (TBT) and Sanitary and Phytosanitary (SPS) Agreements by making its technical regulations transparent to trading partners and establishing both SPS and TBT enquiry points for its trading partners. The SLBS has been nominated as the enquiry point for both SPS and TBT issues. An effective notification and enquiry point requires trained staff and the resources to undertake inter-agency and inter-ministerial contacts and coordination and to manage the necessary flow of information.

The government should seek technical assistance from its developing partners to provide appropriate training and to set up the necessary systems and internal lines of communication necessary for the notification and enquiry roles for both SPS and TBT to be effectively undertaken. At the same time, Sierra Leone, together with donors, should explore the opportunity to build onto this structure an information centre for Sierra Leonean exports regarding information on standards in overseas markets.

Developing Testing and Laboratory Services.

Laboratory capacity in Sierra Leone is extremely weak. The SLSB does not have its own laboratory and currently uses the services of a private laboratory. The facilities of the hospital have also been used in the past but these are currently being refurbished. Thus an important issue is how to build capacity in testing services. Again, it will be useful to separate out the activities of the SLSB in providing protection for domestic consumers from its role in facilitating access to overseas markets for exports. With regard to the former, there are a number of opportunities that the Government together with donors might explore. The SLSB wishes to develop testing capacities on its own premises. There is, however, some concern about the suitability of these due to the heavy passing traffic and air conditions that arise from being located on an access road close to the port. Other options that could be investigated include the University of Sierra Leone, which has infrastructure that would require relatively limited upgrading but which is completely devoid of equipment. An advantage of developing capacity at the university is that the facilities could also be used to improve teaching through practical laboratory experience (which is currently not available to students). An increase in the number of scientists with practical experience would be of relevance in the longer term to firms that wish to develop their own testing capacities and to private laboratories that may emerge as the economy develops and diversifies.

Exporters of new products will typically require internationally recognized conformity assessment services for testing, inspection and certification. Sierra Leone should carefully assess which conformity assessment services can best be imported, especially from neighboring countries. The communication process with overseas laboratories is relatively simple for testing and calibration work.[62] In the current context of limited demand, the use of foreign product certification facilities is also the most suitable solution. As demand grows, further analysis will be required to illustrate the benefits of developing a specific conformity assessment mechanism for a particular product or sub-sector.

[62] An exception might be organic samples, particularly microbiological testing, where transportation and deterioration of samples make it less feasible to rely on tests undertaken in neighbors.

Donors and agencies have indicated an interest in supporting the standards infrastructure in Sierra Leone. The first step should be the development of a strategy which defines the roles of the different institutions, focuses initially on awareness raising and the diffusion of good agricultural and manufacturing practices, distinguishes between the contributions which can be made by the public and private sectors, separates out the functions of consumer protection and trade facilitation, and takes into account the regional options. In the meantime, programs to improve cocoa quality, and certify fish exports for the EU market must proceed urgently.

wb159149
C:\Documents and Settings\wb159149\My Documents\JOSETTE\Africa\AFTM5\Sierra Leone\SLDTIS\SIERRA LEONEjUNE 2006.doc
06/14/2006 1:05:00 PM