Sierra Leone

2011

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Sierra Leone

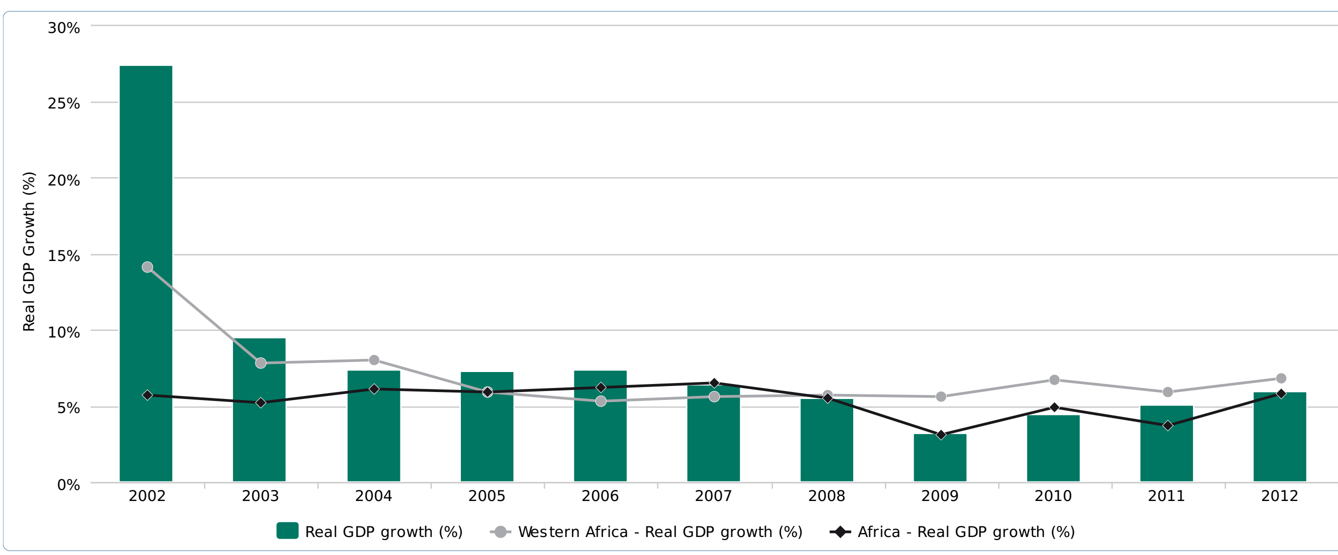
Overview

Having recorded 4.5% in 2010, growth is projected to rise to 5.1 in 2011 and to gradually recover to 6.0% in 2012. The medium-term outlook for the Sierra Leonean economy is positive, but even more could be done on the structural reform side to help bring the country on a path of high growth with the job creation needed for significant improvements in people's living standards. Growth is being driven by exports of minerals and cash crops due to the global recovery, the expansion of the service sector, increased agricultural productivity, and continued investment in infrastructure. The recent completion of the Bumbuna power station has already started to yield benefits. The government has undertaken key reforms (e.g. in the financial sector, tax reforms) that will bring benefits only later but bode well for the country's future.

Sierra Leone is one of the poorest countries in the world. Its gross domestic product (GDP) per capita was estimated to be only slightly more than 300 US dollars (USD) in 2010. The country faces major development challenges as evidenced by its very low rank on the Human Development Index (HDI) (third from the bottom rank after Afghanistan and Niger) and staggering rates of youth unemployment. Even though Sierra Leone weathered the economic crisis well, the 6% growth forecast for 2012 will still be below pre-crisis growth rates. This points to the need for further growth acceleration if the country is to overcome its economic fragility and reduce the income gap with more advanced economies. Macroeconomic policies can help in this regard by *i)* gradually moving towards a rule-based, counter-cyclical framework; and *ii)* making achievement of high growth a key policy priority.

Inflation started to decline in 2011 after rising to 18% in September 2010 due to fiscal expansion and the "one-off effect" from the introduction of goods and service tax (GST). On the supply side, expanded domestic food production is expected to offset rising food prices. Supported by appropriate monetary and fiscal policies and a stabilised nominal exchange rate, average inflation is expected to decline to upper single digits in 2011 and ease further by the end of 2012. Additional pressures to raise public sector wages, a weakening of the exchange rate, and higher than expected increases in food and fuel prices constitute the main risks to the inflation outlook.

Figure 1: Real GDP growth (W)



Source: IMF and local authorities' data; estimates and projections based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

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According to the 2011 budget, fiscal space will be created and expenditures reprioritised to raise capital and social spending. These will be financed by a combination of higher tax revenues, the proceeds of privatisation and external grants (such as EUR 52.5 million from the EU to finance roads and agriculture, etc.) as well as by savings from cutting non-essential current outlays. The authorities are expected to further improve tax administration and minimise discretionary tax exemptions in order to meet revenue targets. Due to higher capital spending, the budget deficit is projected to expand from 4.6% of GDP in 2010 to 5.9% of GDP in 2011; in 2012, it is expected to decline to 5.3% of GDP.

Following the successful implementation of the previous economic reform programme, the International Monetary Fund (IMF) in June 2010 approved a new three-year programme for Sierra Leone, supported under the Extended Credit Facility (ECF) arrangement, amounting to USD 45.4 million. This new programme has been designed to support the government's efforts to enhance economic growth by increasing investment in infrastructure and developing an accessible financial sector, while maintaining macroeconomic stability. Care needs to be taken to support the programme as it progresses with the right macroeconomic policies. Specifically, given the country's enormous development needs, future macroeconomic policy will need to steer clear of overly tight stances that would bring about short-term stability at the expense of longer term growth. Flexible macroeconomic policies need to be accompanied by reforms to improve the business environment, training programmes to create job opportunities, especially for young people entering the labour market, and the building of a social safety net for the most vulnerable.

Table 1: Macroeconomic indicators

	2009	**2010**	**2011**	**2012**
Real GDP growth	3.2	4.5	5.1	6
CPI inflation	9.2	17.8	9.6	8.2
Budget balance % GDP	-3.2	-4.6	-5.9	-5.3
Current account % GDP	-8.7	-9	-9.6	-9.2

Source: National authorities' data; estimates and projections based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

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Recent Economic Developments and Prospects

Table 2: GDP by sector (in percentage)

	2005
Agriculture, forestry, fishing & hunting	48.4
Agriculture, livestock, fishery, forestry and logging	-
of which agriculture	-
of which food crops	-
Mining and quarrying	7.2
Mining, manufacturing and utilities	-
of which oil	-
Manufacturing	2.5
of which hydrocarbon	-
Electricity, gas and water	0.4
Electricity, water and sewerage	-
Construction	2.6
Wholesale and retail trade, hotels and restaurants	13.8
of which hotels and restaurants	-
Transport, storage and communication	6.9
Transport and storage, information and communication	-
Finance, real estate and business services	9.6
Financial intermediation, real estate services, business and other service activities	-
General government services	8.6
Public administration & defence; social security, education, health & social work	-
Public administration, education, health	-
Public administration, education, health & other social & personal services	-
Public administration, education, health & social work, community, social & personal services	-
Public administration, education, health & social work, community, social services	-
Other community, social & personal service activities	-
Other services	0
Gross domestic product at basic prices / factor cost	100

Source: National Bureau of Statistics.

Figures for 2010 are estimates; for 2011 and later are projections.

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In 2010, the real GDP grew by 4.5% (up from 3.2% in 2009), helped in part by expansionary fiscal policy. Sierra

Leone was shielded from the initial impact of the global financial crisis through the financial channels, but it was hit through the real ones – in particular through falling export proceeds and remittances. With the onset of the global recovery in 2010 though, exports have started to pick up. The 2010 growth also reflected the improved performance in agriculture, mining and services as well as some rebound in domestic manufacturing due to private investments into these sectors. Increased public outlays on infrastructure also played a positive role and should help remove long-term structural bottlenecks.

Looking forward, GDP growth is projected to accelerate to 5.1% in 2011 and to 6% in 2012, as the global economy recovers and generates demand for Sierra Leone's exports. Despite this cyclical boost, Sierra Leone remains a fragile state with trend growth constrained on the supply side by glaring gaps in physical and economic infrastructure. High and sustainable growth thus hinges on massive infrastructure investments. Structural transformation is also needed to move the economy from a concentration in low productivity activities in the agricultural sector towards activities with higher value added in industry and services (Table 2).

The authorities have announced that monetary policy in 2011 will aim at maintaining price stability in order to support high and inclusive economic growth. Coupled with expanding domestic food production, such a stance should offset inflationary pressures. Inflation is thus projected to return to single digits – from 17.8% in 2010 to 9.6% in 2011 and 8.2% in 2012. The Bank of Sierra Leone (BoSL) continues to be constrained in reaching its inflation goals by the limited range of instruments – it practices monetary rather than inflation targeting and does not have a policy rate in its toolkit. The BoSL is thus mostly left with the use of open market operations to manage money supply. With the recovery under way, the Central Bank needs to steer clear of monetising the government deficit as such measures tend to raise inflation.

According to the latest debt sustainability analysis carried out by the IFIs, Sierra Leone's risk of debt distress is moderate. The government needs to continue to borrow externally only on concessional terms in order to avoid an increase in the risk of debt distress. It is encouraging that the Comprehensive National Debt Law, which may help ensure that public debt management is brought in line with best practices, is now being considered by the Parliament for enactment. Government agencies are striving to strengthen the quality of debt data and reporting, in order to better monitor commitments, disbursements, and debt service obligations. Moreover, the government plans to electronically link the Commonwealth Secretariat Debt Recording and Management System (CS-DRMS) with IFMIS. To further improve on debt management, the government is developing a comprehensive Medium-Term Debt Management Strategy (MTDS).

Table 3 below depicts demand composition through 2012. Especially notable is the modest contribution of public capital formation and public consumption to GDP composition and growth; this reflects the low level of fiscal revenues that are collected. The domestic saving rate was negative following the war (2002) and remains near zero at present, which partially explains why Sierra Leone uses external finance to finance recurrent government expenditure. Massive investments are needed to reach high and sustained growth and help the country exit from fragility. One cannot emphasise enough the role to be played by FDI and donor support in filling the savings-investment gap. The government has conveyed to all donors, including non-traditional partners such as China, India, and the Islamic Development Bank, that it welcomes closer co-operation especially in supporting investments in infrastructure.

Table 3: Demand composition

	Percentage of GDP (current price)		Percentage changes, volume			Contribution to real GDP growth		
	2002	**2009**	**2010**	**2011**	**2012**	**2010**	**2011**	**2012**
Gross capital formation	8.9	13.7	10.9	8.6	9	1.3	1.1	1.2
Public	4.4	3.6	15	12	9	0.5	0.4	0.3
Private	4.5	10.1	9.5	7.4	9	0.8	0.7	0.8
Consumption	109.4	99.8	6.2	6.3	7	6.5	6.7	7.5
Public	16.4	1.4	7.9	6.8	8.4	0.1	0.1	0.1
Private	93	98.4	6.2	6.2	7	6.4	6.6	7.4
External sector	-18.3	-13.5	-	-	-	-3.3	-2.6	-2.7
Exports	16.3	17.5	0.4	1.2	2.9	0.1	0.2	0.4
Imports	-34.6	-30.9	10.4	8.3	8.8	-3.3	-2.8	-3.1
Real GDP growth rate	-	-	-	-	-	4.5	5.1	6

Source: Data from National Bureau of Statistics; estimates (e) and projections (p) based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

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Fiscal Policy

Sierra Leone is grappling with dismal social indicators and a vast infrastructure gap – estimated at USD 1.1 billion or 15% of GDP for 2011-13. The key challenge ahead for the government is to create fiscal space to finance outlays in these areas. In order to achieve this goal, the government has undertaken tax reforms. Due to the efficiency gains from introducing the goods and services tax, the tax-to-GDP ratio increased to 10.9% of GDP in 2010 (Table 4). However, more can be done to improve tax administration and eliminate or avoid tax exemptions, especially on new contracts granted to investors in the mining sector.

On the expenditure side, efforts to streamline non-essential current expenditures and shift the composition toward capital outlays are commendable and should continue. Total expenditure and net lending amounted to an estimated 23.5% of GDP in 2010 and is projected to remain at about the same level in 2011 and 2012. Following an increase in 2009, capital expenditure is expected to remain slightly above 7% of GDP throughout 2012. Given widespread poverty and the relatively low share of public wages in GDP, the government will need to strike a balance between succumbing to further pressures to raise public sector wages and allowing sufficient space for priority outlays on infrastructure, health and education. Similarly, it will be important to limit outlays related to the 2012 elections to levels that do not jeopardise macroeconomic stability and debt sustainability.

While the deficit is likely to widen in 2011 due to reduced external grants, it is projected to stabilise in 2012. Specifically, the overall balance – estimated at a deficit of 4.6% of GDP in 2010 – will rise to 5.9% in 2011 before declining to 5.3% in 2012. Nevertheless, as explained above, given the upcoming elections, pressures to raise wages and difficulties in improving the tax administration, risks to this outlook are on the downside.

As a new initiative, the government aims to extend the tenure of its debt instruments beyond the traditional maturity profile of less than one year to between two and five, or more, years. This would allow government to use these resources for longer-term activities including infrastructure and health.

The Constitution of Sierra Leone provides that no taxes shall be levied without the consent of Parliament. At slightly over 11%, Sierra Leone's revenue effort is among the lowest in the world. This is true even though the National Revenue Authority has implemented various acts and policy reforms aimed at improving resource mobilisation, including the introduction of a Goods and Services Tax that commenced in January 2010. Off-budget revenues collected by other government ministries, departments and agencies are to be brought into the consolidated revenue fund. Effort is also being made to make taxation less of a burden to firms that would otherwise remain outside the formal economy. Other policy reforms include the introduction of self-assessment for some categories of tax payers, the development of a Small Tax Payer Regime, customs law reform, and a study on the reform of tax incentives. The Ministry of Finance and Economic Development intends to initiate the implementation of the IFMIS revenue module and is considering strengthening its capacity to formulate tax policy.

The National Revenue Authority is benefiting from a major Modernisation Plan for the period 2008-11, supported by development partners. The plan consists of seven linked projects including customs modernisation, income tax modernisation, Goods and Services Tax implementation, gold and diamond office, non-tax revenue modernisation, tax payer identification number and integrated revenue information system. The plan was approved by Parliament in 2008 and implementation commenced in 2009. Progress has been made in a number of areas, such as the ASYCUDA++ database for customs administration and the tax identification number project.

Grants and concessional budget financing from donors are expected to decline to pre-crisis levels in the next few years. Efforts should therefore be stepped up to increase domestic revenue and strengthen the efficiency of public spending. Reflecting efficiency gains from the introduction of GST and improvement in tax administration, a reasonable and desirable aim would be to raise domestic revenue above 13.5% of GDP by 2012. To achieve this target, there is need for government to fully apply the fiscal regime stipulated in existing tax and customs legislations and significantly minimise issuance of discretionary tax exemptions. Containing non-priority spending, encouraging social corporate responsibility projects, and raising public sector efficiency, especially on project selection and implementation, can further create fiscal space. Government should continue its commitment to keeping domestic financing below 2.0% of GDP to maintain debt sustainability and prevent crowding out of the private sector.

Table 4: Public finances (percentage of GDP)

	2002	2007	2008	2009	2010	2011	2012
Total revenue and grants	20.4	42.8	16	19.7	18.9	17.8	18.1
Tax revenue	12	10.3	10.1	10.4	10.9	11	11.1
Oil revenue	-	-	-	-	-	-	-
Grants	8.2	32	4.5	7.9	6.6	5.5	5.5
Other revenues	-	-	-	-	-	-	-
Total expenditure and net lending (a)	28.6	17.6	20.7	22.9	23.5	23.7	23.4
Current expenditure	24.2	14	14.6	15.8	16.4	16.3	16
Excluding interest	18.8	11.8	12.5	14.2	14.1	14.4	14.6
Wages and salaries	6.4	6	5.7	6.4	5.8	5.7	5.5
Goods and services	10.8	3.1	4.9	5.5	5.7	6	6.2
Interest	5.3	2.3	2.1	1.6	2.3	1.9	1.5
Capital expenditure	4.5	3.6	6.2	7.1	7.1	7.4	7.3
Primary balance	-2.9	27.5	-2.6	-1.6	-2.2	-3.9	-3.9
Overall balance	-8.3	25.2	-4.7	-3.2	-4.6	-5.9	-5.3

a. Only major items are reported.

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

Figures for 2010 are estimates; for 2011 and later are projections.

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Monetary Policy

Monetary policy was tightened in 2010 with a view to reducing inflation. However, it is not clear that this was the best course of action given that inflation was mostly supply-driven and the recovery was still fragile. In the absence of a policy rate that would convey the central bank’s intentions, the Bank of Sierra Leone (BoSL) relied mostly on its open market operations (OMOs). Specifically, it utilised 74.7 billion of Sierra Leone government securities to mop up excess liquidity. Sales of foreign exchange through public auctions also complemented the OMOs during the period. Even though some room was left for the nominal growth of private sector credit, in real terms private credit grew by less than 10%, down from about 30% real growth in 2009. One could question whether the increase in foreign reserve coverage (from 4.4 months of imports in 2007 to 6.4 months in 2009 and 5.7 months in 2010) – in keeping with the pro-cyclical monetary policy – was the best strategy for Sierra Leone. The country was still grappling with post-conflict challenges and trying to mitigate a severe external shock in the form of global financial and economic crisis.

The BoSL practices managed the float of the exchange rate to facilitate adjustments to shocks while avoiding excessive volatility. Exchange rate stabilisation is also viewed as key for managing inflation, given the importance of the exchange rate as a transmission channel. The BoSL uses foreign currency sales and purchases to manage excess liquidity generated by foreign-financed budget spending. To appreciate the importance of this policy action, we have to note that Sierra Leone is one of the few countries where even recurrent expenditures are partly foreign financed. Foreign financing of the budget deficit amounted to SLL 105.3 billion as of the end September 2010 as stipulated in the 2011 Budget Speech.

Among the steps taken by the Bank of Sierra Leone during 2010 to promote rural financial intermediation, it licensed six microfinance institutions (MFIs) during the course of the year, including one deposit-taking institution. The commercial banking sub-sector has also introduced several new financial instruments including in the area of money transfer to further deepen financial intermediation. The introduction of financial products (mobile credit) such as ZAP and SPLASH, operated respectively by Zain and Comium mobile communication companies in collaboration with commercial banks, is expected to increase the number of people in rural areas with access to financial services. To address several instances of counterfeit attacks on various denominations of banknotes, the Bank of Sierra Leone introduced a family of resized banknotes, which was officially launched in May 2010

The Bank of Sierra Leone has finalised the Securities Bill and the Collective Investment Schemes Bill, which is expected to be submitted to Parliament for enactment early in 2011. It is another important development in financial regulation. The real test, however, is not only to prepare the right legislation as BoSL is striving to do but to implement policies and realise the intended results.

External Position

According to the IMF analysis, the real effective exchange rate of Sierra Leone is broadly in line with the economic fundamentals. This coupled with important structural measures such as easier business start-up and simpler tax administration has led to more competitive exports. Exports recovered in the first half of 2010, largely due to the recovery of mineral exports, which grew by 36% in the first half of 2010. Agricultural exports amounted to USD 28 million during the first half of the year.

The trade balance is estimated at -10% of GDP in 2010, with a slight increase to -10.8% expected by 2012. Likewise, the current account balance, estimated at -9.0% of GDP in 2010, will stay around -9% through 2012.

Sierra Leone continues to exhibit a moderate risk of debt distress, according to the external debt sustainability analysis (DSA) carried out by the IFIs. The delivery of the HIPC and MDRI relief by the international community contributed to a significant reduction in debt overhang. The implementation of these initiatives has also freed resources for critical programmes in support of growth and poverty reduction. The total stock of external debt stood at USD 722 million at the end June 2010 relative to USD 692 million at end December 2009. This increase was on account of increased disbursements from multilateral creditors, including the IMF. Going forward, it is important that the government continues to be prudent in its external borrowing strategy, while allowing sufficient room for growth-enhancing expenditures.

Table 5: Current account (percentage of GDP)

	2002	2007	2008	2009	2010	2011	2012
Trade balance	-13.8	-5.7	-10	-9.3	-10	-11.2	-10.8
Exports of goods (f.o.b.)	13.5	17	14	13.5	11.9	10.7	10.2
Imports of goods (f.o.b.)	27.2	22.6	24.1	22.9	21.8	21.9	21
Services	-4.5	-1.4	-3.3	-3.2	-2.9	-2.5	-2.2
Factor income	-1.5	-2.1	-3.8	-1.7	-1.2	-1	-0.6
Current transfers	17.9	5.7	5.7	5.5	5	5.1	4.4
Current account balance	-2	-3.4	-11.4	-8.7	-9	-9.6	-9.2

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

Figures for 2010 are estimates; for 2011 and later are projections.

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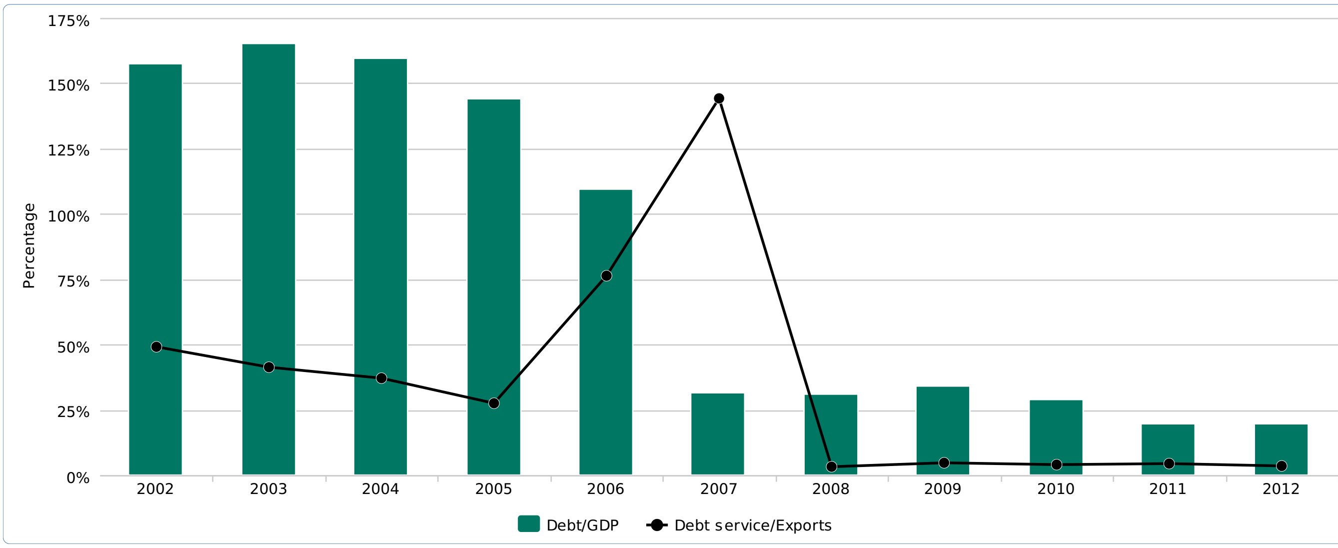
Figure 2: Stock of total external debt (percentage of GDP) and debt service (percentage of exports of goods and services)



Source: IMF and local authorities' data; estimates and projections based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

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Structural Issues

Private Sector Development

Most economic activity in Sierra Leone originates from the private sector, of which a sizeable part belongs to the informal sector. A key constraint to economic growth and job creation in the Sierra Leonean economy is the limited access to finance by businesses, especially small- and medium-sized enterprises (SMEs). A high interest spread leads to a high cost of credit, which characterises not only Sierra Leone but also the economies of the whole region. Against this backdrop, the country is embarking on structural policies aimed at developing the financial sector and improving the business environment. The establishment and operationalisation of a Credit Reference Bureau in 2011 is one example and will enable the banks to identify their customers for tracking and easy credit rating.

Other measures taken by the Bank of Sierra Leone to enhance the stability and soundness of the financial sector is the planned move towards risk-based supervision, including consolidated supervision of the banks and other financial institutions. The Banking Act (2000) and the Other Financial Services Act (2001) are to be amended to bring regulatory standards closer to international best practice. There are also plans to implement a National Switch as part of the deepening of the financial sector to minimise the use of cash. The Switch will provide a common platform through which all banks will interconnect their Automated Teller Machines (ATMs), Points of Sale (POS) and other financial products.

Sierra Leone lacks a conducive business environment, which constrains private sector development. Since 2007, there have been several policy-oriented government initiatives to improve the business regulatory environment and address administrative barriers to investment, aimed at improving the business climate and stimulating new investments. In 2009, the government launched the Private Sector Development Strategy, which seeks to unleash the potential of business enterprises to take advantage of investment opportunities. The notable presence of the private sector in a one-day forum during the Consultative Group meeting in London in November 2009 was a good indicator in that regard. However, the government needs to do more on the macroeconomic front, updating investment laws and regulations to effect a more conducive environment for private-sector activity.

Sierra Leone has moved up the rankings in the World Bank's *Doing Business* report in recent years, especially in the categories for ease of doing business and investor protection. However, the overall ranking – 143 out of 183 countries – shows that there is still vast room for improvement. With support from the Commonwealth Secretariat, the government prepared a National Export Strategy, launched in June 2010, to exploit the country's export potential over the period 2011-15. It calls for strategic interventions in the four priority sectors of Agriculture, Fisheries, Mining, and Tourism. If successful, it will increase and diversify the export base and boost employment. However, massive investments both domestic and foreign are needed to produce the growth needed to propel Sierra Leone's economy out of a state of fragility.

In 2010, parliament passed the Public-Private Partnership (PPP) law to encourage private sector participation in the delivery of public services and the implementation of major infrastructure projects. The devastated state of infrastructure and services is well beyond the resources of the public sector alone. Land tenure is also one of the constraints to private sector development. The government is planning a comprehensive National Land Policy to reform the regulations and administrative systems surrounding land tenure, ownership and sale.

In 2011, the government also intends to invest in a domestic private sector driven Venture Capital Fund that will be established to provide venture finance to small- and medium-sized enterprises (SMEs) in Sierra Leone. The Fund has many objectives with the most important being to promote the growth of SMEs to levels that will enable them to compete internationally. However, for SMEs to function properly the constraints of access and cost of credit have to be addressed first.

Other Recent Developments

Implementation of the Poverty Reduction Strategy Paper (PRSP) in an effective manner will require a skilled public service. Currently, most government ministries, departments and agencies (MDAs) are short of middle and senior level staff, especially those with technical skills. Moreover, many skilled staffs are near or past their retirement age. This shortage in the higher echelons contrasts with a surplus of staff at the lower grades of civil service. No formal study has been done yet on comprehensive civil service reform in Sierra Leone and hence detailed statistics are not readily available but more than 60% of public service employees are believed to be in the lower grades. To create a more effective public service, there is a need for more technically skilled workers in the middle level on the civil service grade scale. Project implementation units (PIUs), local technical assistants, and consultants do not provide sustainable solutions. To recruit skilled staff in a sustainable way will require comprehensive pay reform and opportunities for career development. It is important to emphasise that for pay reforms to be successful, action should also be underpinned by measures to improve the integrity of the payroll through credible systems and controls to minimise potential abuse.

In 2009, the governmentapproved a comprehensive public sector reform programme to improve the capacity and professionalism of the public service. The reform programme calls for the review of the pay structure for public servants, including teachers, with the aim of attracting and retaining highly skilled and competent staff in the public service. The major constraint in this regard is the weak capacity that constrains civil service. The reform measures undertaken by government to improve civil service performance will have to address the current discrepancies in qualifications and grade placements as well as the decompression of wages.

In order to improve public financial management, Sierra Leone launched the Integrated Public Financial Management Reform Project (IPFMRP) in February 2010 with support from development partners. This programme addresses a previously fragmented and unco-ordinated approach to public financial management. New mechanisms are being instituted to ensure transparency, accountability and probity in the use of public funds.

The Integrated Financial Management Information System (IFMIS) has been rolled out to 11 ministries, departments and agencies (MDAs) with two more in the process. Its Expenditure and Purchasing Modules have also been rolled out to other MDAs, including the Office of the President and the Ministry of Foreign Affairs and International Cooperation. The launch of the Non-state Actors (NSAs) component of the IPFMRP will assist in the development of the analytic and dissemination capacity of NSAs in exercising scrutiny over the use of public resources.

Sierra Leone appears committed to enhancing the planning, monitoring and evaluation process for investment projects to further strengthen the Medium-Term Expenditure Framework (MTEF). Starting in 2012, the government will fully integrate a three-year public investment plan into the budget process. Furthermore, the rollout of IFMIS to other Ministries, Departments and Agencies, along with appropriate training and support for the users of IFMIS, will ensure that public financial transactions are fully captured in the system.

The government plans to further strengthen the devolution of powers to local councils started in 2007. There are plans to implement a financial management information system for local councils in order to promote transparency and accountability in the use of resources generated by them. The rollout process, which is now underway, will be completed over the next two years. A review of the Local Government Act is envisaged to address the legal impediments to own-revenue mobilisation by local councils.

This section examines the state of infrastructure (energy, transport, drinking water and sanitation) in the country as well as recent reforms and investment programmes to promote its development. Access to electric power is one of the major constraints on economic activity and job creation. The situation improved when Bumbuna became operational in late 2009 but inadequate distribution capacity and the absence of a national grid limit the effectiveness of power generation. The government has started implementing the energy sector strategy launched in late 2009 and improving distribution capacity is a priority in the strategy. This will help as more power is generated in the future, including from the planned Addax Bio-energy Project with participation from the African Development Bank (AfDB). The existing network of roads is quite underdeveloped with hardly any maintenance since the end of the war. However, more than 4 000 km of roads are being rehabilitated with support from several donors including Chinese companies. Despite the abundance of surface and ground water in Sierra Leone, only 22% of the population has access to safe drinking water. The government is implementing a number of water supply and sanitation projects for both urban and rural areas with more projects in the pipeline. The AfDB is active in this area.

Agriculture contributes 45% to GDP, employs two thirds of the population and generates about a quarter of the export income of the country. When agricultural activity is broadly defined to include livestock and fisheries, the contribution to GDP exceeds 55%. However, the overwhelming majority of farmers are poor, mainly because agriculture in the country is subsistence farming. To address the problems in this sector, a National Sustainable Agricultural Development Programme (NSADP) has been established with a view to providing direction for the sector until 2030. The programme is consistent with the Comprehensive African Agriculture Development Programme (CAADP), the framework of Heads of States and Governments of the African Union and international partners.

Government has increased the budgetary allocation to the sector to nearly 10%. Public investment in agriculture has quadrupled since 2007. Ten thousand farmers have been brought together in Farmer-Based Organisations through the Smallholder Commercialisation Programme and offered a package of subsidised inputs, machinery and training. One hundred and fifty agricultural business centres are being built around the country. However, agriculture remains mainly in the traditional and informal sector and accordingly its contribution to growth will be limited until the sector is moved out of the informal sector and commercialised.

Sierra Leone has significant renewable and non-renewable natural resources including minerals. The possession of such riches has not been translated into tangible benefits for its people. The country's mineral sector lacks proper regulatory regimes, leading to non-transparent transactions, decreasing investor confidence and a failure to attract large-scale investment. To manage its mineral resources better, the government enacted a New Mines and Minerals Act in 2009 and with support from development partners began to renegotiate existing mining agreements. Already, government has successfully completed the review of the Koidu Holdings Agreement and is currently renegotiating the Sierra Leone Rutile and London Mining Company agreements. There seems to be enough capacity and expertise in the Ministry of Mineral Resources to implement the policy measures.

There has been an increase in government revenue from new mining investment in exploration and development, and from current mining operations. More recently, the government concluded two significant iron ore mining contracts with the African Minerals Limited (AML) and London Mining Company that are expected to give the Sierra Leone economy a boost in the medium term. The economic impact of the newly signed mining lease agreements for iron ore and the renegotiated mining lease agreements could be significant. Exports and tax revenue would increase substantially in the medium and long term if the planned investments and fiscal regimes are fully implemented. However, the iron ore projects are still in their infancy and the mining companies under review may need time to deliver on new business plans and financing. Substantial production volumes and revenue inflows may not be fully realised in the medium term. Going forward, in order to maximise benefits from future mining lease agreements, it is important for the government to take full advantage of the situation and apply the fiscal regime laid out in the Mines and Minerals Act (MMA) of 2009.

The government has not been active in the implementation of the Extractive Industries Transparency Initiative but intends to draft a law to strengthen its commitment to the initiative. The first EITI report was published in March 2010 and the final validation report, which was submitted in August 2010, recommended a number of improvements to the governance and management of mineral resources. The government needs to address the mining issues in a serious way without forgetting that mineral resource mismanagement was one of the sources of the 11-year civil war.

Emerging Economic Partnerships

Sierra Leone has maintained strong relationships with and continues to receive support from traditional bilateral and multilateral development partners. These include the United Kingdom of Great Britain and Northern Ireland, the United States of America, Germany, Norway, Italy, India, Kuwait, Japan, the United Nations, the European Commission, the African Development Bank, the World Bank, the International Monetary Fund, the Arab Bank for Economic Development in Africa (BADEA), and the Islamic Development Bank. China is increasingly becoming an important emerging partner in terms of investment and trade but other partnerships are evolving too.

The government is also expanding its relationships with countries such as Brazil, India, Cuba, Venezuela, South Africa and a number of Gulf countries including Kuwait and UAE. The country's international engagements have brought significant support for the government's development agenda. For example, the Cuban government has provided 32 medical doctors with support from South Africa. In 2010, Brazil offered a training package for 25 Sierra Leoneans in water irrigation, fish preservation and combatting HIV/AIDS. The Venezuelan government is going to award a total of 30 scholarships, 15 for medical students and 15 in other disciplines. The establishment of the China-Sierra Leone Malaria Prevention and Treatment Centre is a result of strengthened links between the Government of Sierra Leone and China. China is also currently supporting construction of a 100-bed hospital in Freetown. There is an agreement with the Chinese to support three hydro-electric projects in different parts of the country. Also underway are the construction of the new Ministry of Foreign Affairs Building at Tower Hill in Freetown as well as the Regent–Jui Road. The United States Peace Corps Programme has been resuscitated and volunteers sent to teach in schools all over the country. Within Africa, Nigeria has accelerated the Technical Aid Corps Programme, which has posted medical practitioners from that country to Sierra Leone to compliment the government's free health care delivery initiatives for vulnerable groups including under-fives, pregnant and lactating women. Of all the emerging partners, China is expected to become the leading one in terms of investment and trade. Sierra Leone is awarding construction contracts to Chinese companies, in particular in the transport sector.

Political Context

The political situation has remained stable since the end of conflict in 2002. The 2007 presidential and parliamentary elections led to a peaceful and democratic change of government. Since then, the National Electoral Commission (NEC) has successfully conducted a number of by-elections. Voters have chosen someone to fill 37 out of the 40 vacant Paramount chieftaincies as well as 84 town and village heads through free and fair elections conducted by the NEC.

Good governance is critical in its own right but also for investor confidence, which is a prerequisite for attracting much needed private capital flows and official development assistance (ODA). With support from development partners, the government is implementing measures to improve the country's international standing on governance. Governance assessment indicators show that Sierra Leone has made considerable progress with regard to improving its democratic institutions. Improvement in governance has been highlighted in the country's governance rankings. For example, according to the Global Peace Index, Sierra Leone is in the group of rather peaceful countries (rank 53 among 149 countries); the Mo Ibrahim Index record shows that Sierra Leone is one of five crisis-affected countries making significant progress towards democratic governance.

Social Context and Human Resource Development

Health care provision in Sierra Leone has been a challenge for years. User fees were primarily responsible for reduced access to services. When asked, nearly nine out of ten people gave the payment of fees as the primary reason for their low utilisation of health services. Thus, Sierra Leone's maternal and child health indicators were among the worst in the world. In the Agenda for Change, the government has set out a programme for accessible, affordable and quality health care for all Sierra Leoneans.

As part of this programme, the government launched the Free Health Care Initiative for pregnant women, lactating mothers and children under five in April of 2010. The result has been a massive increase in the utilisation of health services and improved health care access for nearly half a million women and over a million children. The number of health facilities has increased by around 30%. Various facilities, including maternity wards, basic emergency obstetric and newborn care centres, new referral hospitals and medical stores have been established or are being constructed in various parts of the country. The Free Health Care Initiative will need continued financing from government and other sources if it is to be sustained. The Ministry of Health and Sanitation will receive 31.9 billion Sierra Leonean leones (SLL) in 2011 under the non-salary recurrent budget to support health related activities. Of this, SLL 6.8 billion is allocated to support the Free Health Care initiative and SLL 3.7 billion goes to medical supplies, medical equipment and ambulances. An amount of SLL 32.1 billion is provided to the local councils for the provision of health services, including support to district hospitals. In addition, SLL 4.0 billion is provided under the domestic development budget for the refurbishment of government hospitals.

The number, pay and training of health workers have significantly improved, with over 500 additional health workers trained in basic emergency obstetric care and in neonatal and childhood illnesses. A midwifery school has been established at Makeni, over a thousand additional technical health staff recruited, and salaries for health care workers significantly increased. Despite the strong political zeal and emotions associated with the Free Health Care Initiative, there are serious challenges centered on its sustainability in the absence of cost recovery.

Sierra Leone has developed a five-year strategic plan to deliver a basic package of essential health services in the country. The country is progressing towards the long-term goal of abolishing all user fees and replacing them with a national health insurance scheme. Already nearly a million insecticide-treated bed nets have been distributed, and a million children vaccinated against polio. For HIV/AIDS treatment, there are now over 470 centres dedicated to preventing mother-to-child transmission and nearly 529 voluntary confidential and counseling centres. Sierra Leone's leadership in the fight against HIV/AIDs, malaria and other diseases has earned the country the Millennium Development Goal (MDG) award for 2010 with MDG 6 likely to be met in 2015. Regarding other health-related MDGs, the 2010 MDG Progress Report says that two other MDGs, reducing child and maternal mortality, could be met if current efforts are sustained.

Many Sierra Leonean children are out of school, too few complete their schooling and fewer get a quality education. In the Agenda for Change, the government is committed to improving access to education, raising the schooling completion rate, and improving the quality of education and teacher training. To this end, the government launched the Professor Gbamanja Commission of Inquiry in 2009 to review the educational sector, which produced a White Paper with recommendations for an overhaul of the education system. Those recommendations are now being implemented.

The government is allocating SLL 76.1 billion to the Ministry of Education, Youth and Sports under the recurrent budget. Grants to tertiary institutions amount to SLL 42.4 billion. An amount of SLL 15.2 billion is being allocated for grants to government boarding schools, payment of examination fees for the West African Senior School Certificate Examination (WASSCE) and support for the Girl Child programme in secondary schools. In addition, an amount of SLL 500 million is being allocated for the new Barefoot Solar Technicians Training Centre at Konta Line. SLL 1.0 billion is being provided for the operations of the newly established Youth Commission and SLL 1.7 billion for sports programmes.

A Teacher Service Commission is being established to ensure the effective management of the profession. Over 4 000 additional teachers have been recruited, based on a new National Policy on Teacher Training and Development, and resources have been secured for the construction of more schools and technical vocational institutions. Grants-in-aid have been awarded to all female students who gained admission to tertiary institutions to study science courses such as mathematics, physics, chemistry, biology and engineering, and for all disabled students who fulfilled admission requirements for tertiary institutions to pursue higher education. Tuition fees are paid for all girls in approved government-assisted junior secondary schools.

Steps are being taken to conduct National School Verification Exercises to weed out "ghost teachers" who do not work but are on the payroll. A National Policy on Technical, Vocational Education and Training have been formulated, and the construction and rehabilitation of eight technical vocational institutes in various parts of the country has been completed. The construction of additional Technical and Vocational Institutes costing USD 9 million is in progress throughout the country. The curriculum for technical and vocational institutes has been revised to include new trades that are attractive to women. Despite all these efforts, the 2010 Millennium Development Goals Progress Report states that it is not certain the Primary Education MDG will be met by 2015.