Strategy note

International Growth Centre

Executive Summary: Sierra Leone & Liberia Country Strategy Note

Sierra Leone

Following a ten-year internal conflict between 1991-2002, Sierra Leone's economy has experienced wild swings in GDP growth rates and only short periods of relatively stable growth. This has been driven largely by the agriculture and mining sectors that are subject to large external shocks. Immediately after the war, the agricultural sector was the main driver of GDP growth and exports were dominated by the mining sector from 2010-2014. The outbreak of Ebola in 2014 coincided with the slump in mineral prices and a drastic decline in prospecting for oil. In 2015, the economy virtually collapsed with a double-digit contraction in GDP growth. By 2018, GDP growth had recovered to 3.7 percent, largely driven by the agricultural and services sectors. The economy remains small, open, and largely undiversified. Agriculture accounts for over 50 percent of GDP and minerals provide over 60 percent of export earnings. Over this period, income inequality has significantly increased. In 2018, there was a Gini coefficient of 0.7 and a poverty rate of 56.8 percent**.**

The wide fluctuations in GDP may explain the inability to attract investment that can further propel growth and create employment opportunities. From a high of US$950million in 2011, FDI flows in 2016 dropped to US$138million. Sierra Leone operated a negative trade balance in 2018, contributing to inflation which hovered around 18 percent. Additionally, there is a substantial fiscal deficit, though there are signs of improvement through increased domestic revenue mobilisation and better expenditure controls. Binding constraints to growth include infrastructure and energy deficits, high transactions costs and limited access to capital.

Looking forward, both agriculture and mining will remain key sectors for economic expansion. As mentioned above, the agricultural sector accounts for over 50 percent of GDP and continues to be a priority sector for government with plans for increased investment to boost production and productivity. With the completion of the geo-physical survey, it is expected that the country will attract large investment into the mining sector leading to increased growth and revenue. It will be critical to enhance the enabling environment for private sector expansion to realise potential economic growth. This in turn is a function of the economic and political governance both for the sector and the economy at large.

While government efforts to complete geo-physical surveys could lead to a renewed surge in exploration and investment, there remains negative fall-out from the disputes with mining companies after the closure of the country's two largest mines in 2013. As a result, future investment in the sector is likely to be heavily-dependent on investor's perception of whether rules and regulations will be applied fairly and consistently. Without this, there is a risk that further investment in exploration and expansion will not materialize, leading to sluggish growth in the long-term.

A number of large existing investments in the agriculture sector are likely to increase agricultural productivity, diversify production and increase added value. These have the potential to become the primary source of sustained economic growth over the medium term. However, like the mineral sector, for these investments to be successful requires both predictability and fairness in the application of rules and regulations across the sector.

In a low-income country where the formal private sector is very limited, politics permeates all activities and businesses are vulnerable to changes in government. The positive news is that

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with rapid changes in political governance to ensure greater participation and inclusion, better reforms will become possible and policy decisions to change direction will become a reality. A key consideration will be how the country prepares for the African Continental Free Trade Area (AfCFTA). The AfCFTA is potentially a game changer for the country's businesses, with the possibility of either collapsing in the face of international competition, or domestic businesses using the opportunity to expand and supply the wider market.

There are huge opportunities for sub-regional exports with improvements in infrastructure connecting to foreign markets. Measures to promote exports where there is a clear case for industrial scale expansion and potential to capture the sub-regional market, such as the Cassava industry, must be given priority.

The country has conducted five relatively peaceful democratic elections and two peaceful transitions to the opposition party. Hence, the country can claim to have enjoyed relative political stability since the end of the war in 2002. Nevertheless, underlying political tensions remain high with accusations and counter accusations of corruption and abuse of power between the two main political parties still commonplace.

In the past, bi-elections have also been marred by violence. With civil society accusing the Government of using the state security apparatus to intimidate and harass the opposition. Some efforts are being made to reduce the tension. This includes the recent enactment of the Independent Commission for Peace and National Cohesion Act. It is expected that this Commission will be primarily responsible for promoting peace, national cohesion and development.

Liberia

After the end of the war in 2003, multi-party democracy was restored and the government's focus was primarily on rebuilding state institutions, the provision of basic services and infrastructure, ensuring good governance and the rule of law, and reviving the economy. Significant progress has been made as the country has conducted 3 presidential and legislative elections and for the first time since the inauguration of President William V. S. Tubman in 1944, observed a peaceful transition of power in 2017.

In 2013, the economy grew considerably, recording 8.7 percent in GDP growth. However, since the Ebola crisis in 2014, Liberia has experienced minimal to no economic growth, creating damaging consequences for citizens, and magnifying many of the country's problems. It also suffered a twin shock in the form of falling commodity prices, significant when the mining sector contributes over 70% to the economy. GDP growth plummeted to 0.7% in 2014 and then further deteriorated to a contraction of 0.5% in 2016. Liberia remains vulnerable to weak security and justice systems, a lack of resilience in the healthcare sector, high youth unemployment and crime rates, and political instability.

The country has prepared a long-term vision, labelled 'Liberia Rising 2030', with the primary objective to promote inclusive growth and economic transformation. Several short- and medium-term plans have been developed as steps to achieve this. In 2018, upon the inauguration of President George Manneh Weah, the administration sought to create a development agenda titled 'Pro Poor Agenda for Prosperity and Development' to address the country's economic challenges. This agenda consists of four pillars:

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1. **Power to the People**—Liberians empowered with tools to gain control of their lives
2. **The Economy and Jobs**— Economic stability and job creation through effective resource mobilization and prudent management of the economic inclusion process
3. **Sustaining the Peace**—Promoting a cohesive society for sustainable development
4. **Governance and Transparency**—An inclusive and accountable public sector for shared prosperity and sustainable development

Despite support from international partners, Liberia's economic development agenda has made limited progress. The economy is challenged with rising inflation of around 31 percent, largely due to the depreciation of the local currency. This, among other factors, have limited government's capacity to deliver services and meet other obligations. The country struggles with infrastructure deficits and issues of governance and the rule of law. Additionally, the lack of political will affects the implementation of the economic development agenda, as policy prescriptions often come at the cost of short-term political capital.

In 2019, the IMF warned that high fiscal deficits and an accommodative monetary policy could further erode the purchasing power of the poorest. Implicit in the warning is the fact that the economy will experience further contraction due to declining output. The mining sector is expected to grow by about 8 percent due to increase production of gold and iron ore, but manufacturing and services are expected to contract and the agricultural sector is weak. In addition to declining output, donor assistance to Liberia has been reduced from USD$624 million, equivalent to 19.3 percent of GDP in 2018, to USD$461 million, 14.3 percent of GDP in 2019.

Country Programme:

Overview

The International Growth Centre (IGC) commenced operations in Sierra Leone in 2008. Throughout this period, the IGC has made available the results of frontier research in specific subjects and areas to Government authorities, ranging from managing the economic repercussions of the Ebola outbreak, issues relating to internal and sub-regional trade, improving governance through better processes for selecting parliamentary candidates for elections, partnering with the Freetown City Council to implement the "Transform Freetown Initiative", and the provision of advice to political parties on key economic challenges to be faced in the short, medium and long term.

The country office has a memorandum of understanding with the Ministry of Finance and a close working relationship with the Ministries of Planning and Economic Development; Energy, Agriculture and Food Security, as well as Trade and Industry, Freetown City Council and Kono District Council.

In the absence of a permanent presence in Liberia, the focus is on subjects pertinent and common to the sustainable long-term growth of both Sierra Leone and Liberia. This includes the underlying causes of state fragility, economic governance including taxation, exploiting the opportunities offered by the African Continental Free Trade Area, artisanal mining and cross border trade.

The country office is led by a Country Director, Herbert P. M'cleod, supported by two Country Economists, Abou Bakarr Kamara and Niccolo F. Merrigi; and a Research and Operations

Manager, Marian S. Marrah. Additionally, the team has three Lead Academics: Kate Casey, Jonas Hjort and Eric Werker.

IGC Sierra Leone and Liberia: Recent work and impact

IGC Sierra Leone and Liberia has worked in close collaboration with multiple policy stakeholders to deliver research projects across all four of IGC's thematic areas. Under state capabilities, the country programme has been focusing on institutional arrangements, decentralisation challenges, and improving state capacity to deliver services. Long-term projects under this portfolio include engagements on the community health worker policy, how best to structure public service delivery and incentive to public servants, and on scaling up new work relating to election debates and party selection of members of parliament to improve the accountability of elected officials. The Elections Debate project was an intervention meant to solve the information deficit problem in the selection of parliamentary candidates in the 2018 elections. The intervention was successful in increasing voters' knowledge about aspiring candidates, and party leadership about voters' preferences.

For firms, the country programme has paid special attention to policies needed to encourage private sector growth, regional and international trade, as well as labour markets and job creation. This has included projects in small scale mining activities, monitoring large scale agricultural and mining concessions, dynamics of cross border trade, and the National Africa Growth and Opportunities Act (AGOA) Response Strategy. The country office has leveraged policy interest in themes related to job creation and inclusive growth. A key project under this portfolio includes developing a strategy for the Ministry of Trade to utilise AGOA. The primary objective of the strategy was to guide government interventions and programmes with a view to benefiting from the preferential treatment granted by AGOA.

Given the Government commitment to prioritize energy access, the country office has engaged in the evaluation of a high profile rural renewable electrification project and strategies for increasing the productive use of energy to stimulate economic growth. The project is a close engagement with the Ministry of Energy, UNOPS, and FCDO, and expected to deliver strong policy recommendations.

Under the cities theme, engagement of the country office has been extensive since 2018. The country office has been in engagement with Freetown City Council and become a key partner in the mayor's plan "Transform Freetown". The country office has been focusing mostly on revenue mobilization and assisted Freetown City Council with its property tax and business license reform.

IGC Sierra Leone and Liberia: Outlook

The **Sierra Leone programme** priorities and strategic focus moving forward are primarily drawn from the government's medium-term development plan, gaps in the literature, as well as potential high policy impact work that has emerged from previous research.

The **Economic Governance** theme will remain a central pillar of the portfolio, with a view to promoting sustainable growth and development and focusing on several sub-themes:

- **Taxation:** Sierra Leone's tax base is very narrow largely due to widespread tax evasion and a huge informal sector that is difficult to monitor and tax. Consequently, IGC will explore studies on tax policies and systems to increase revenue generation and welfare, how voluntary tax compliance can be improved, as well as how to minimize tax evasion.

- **Conflict and Fragility:** IGC previously supported two studies to identify the drivers and underlying causes of conflict and fragility. The programme will trend towards studies on the sub-regional dimension of fragility and resilience, as well as how to simultaneously promote growth and build resilience to shocks in fragile states.
- **Long-Term Plan:** Following the launch of the medium-term plan, the Government of Sierra Leone is planning to develop a 20-year long-term plan. We hope to support studies that will review the priority sectors (e.g. agriculture, mining, fishery) and offer policy options and recommendations for consideration.
- **Institutional Reform and Coordination:** Weak coordination among ministries, departments and agencies was identified as one of the major challenges faced during the implementation of the previous medium-term plan. Weak capacity combined with a silos approach to service delivery has resulted in very poor performance of public services. Various methods and practices have been used successfully elsewhere. The IGC will encourage the pilot and study of good practices that may apply in Sierra Leone.
- **Mining:** Large scale mining is relatively well regulated, whereas artisanal mining is more difficult. Both types of operations are monitored by Mines Compliance Officers (MCOs) who are responsible for reporting irregularities to the headquarters of the National Mineral Agency (NMA). IGC has been working with NMA in developing strategies for raising the productivity of MCOs by improving NMA's access to timely and detailed data on the location and activities of artisanal mines. In the next phase, IGC intends to test some of these proposed strategies.
- **Artisanal and Small-Scale Mining (ASM) and the Environment**: There are large concerns and discussions around the impact of ASM activities on the environment. There are claims of increased use of mercury for gold mining with implications on the environment. IGC will consider studies that will assess the magnitude and map the transaction and distribution dynamics of this hazardous metal.

Trade and Productivity remains an important priority as firms are less productive in Sierra Leone and exports remain below the country's potential. Within this theme, the country programme will look to:

- **Improving Export Performance:** Sierra Leone exports are very low and there exists no credible data on productivity. Potential studies could investigate innovative ways of improving export performance and identify realistic export opportunities, market inefficiencies that export promotion might address; and public sector measures for reducing credit constraints for potential exporters.
- **Trading Infrastructure**: Several studies have identified the lack of trading infrastructure as a major impediment to trade promotion and expansion. Areas for possible research include the type of physical and policy infrastructure needed to promote trade; as well as a review and analysis of the consequences of opening state-provided services to trade.
- **Impact of the African Continental Free Trade Agreement (AfCFTA):** At the time of writing, Sierra Leone was developing a trade and investment strategy that will guide the implementation of the AfCFTA. The implications of the agreement on small open economies like Sierra Leone are far reaching. Understanding what strategies such countries should adopt to maximize benefits from the agreement are extremely important and topical. IGC will encourage more detailed studies as a basis for policy reforms.

- **Firm productivity, value chains and market integration:** Promotion of private sector development, economic diversification and increases in agricultural productivity are amongst the most important strategic objectives in Sierra Leone. The transformation of raw commodities into products with higher value addition is limited, and in turn constrains economic development and the opportunities for trade and market development. The country programme will explore research on increased firm productivity and creation of value in the agricultural sector, as well as promote market integration.

On **Cities and Infrastructure**, the country programme plans to support studies in the following sub-themes:

- **Increasing Domestic Revenue**: Most development expenditures in cities are financed by central government or development partners. IGC will seek strategies that have proven successful elsewhere in increasing revenues for local authorities through voluntary compliance as well as innovative financing mechanisms.
- **Service Delivery**: With decentralisation, the provision of basic services has been devolved to local councils and cites. Several interventions are being rolled out to ensure that the devolved functions are effectively implemented. Evaluations of these current interventions and introducing innovative methods are possible areas for further studies.
- **Cities and Economic Growth**: Examining the link between cities and the various components/elements of economic growth as well as analysing the mechanisms through which cities can better contribute to inclusive growth and development.
- **Urbanisation Challenges**: Urbanisation is often associated with congestion and increased crime rates. Understanding the nature and magnitude of these risks will help the authorities to design and adopt appropriate strategies to address them.

Focusing on the theme **Energy and the Environment**, the country team intends to assess the effect of rural electrification on local structural change and economic growth. In addition, the country team intends to link this domain with “firm productivity” and assess how access to capital, inputs and innovation support can foster economic growth. This line of research could be expanded to explore the impact of access to cleaner energy on health and human capital accumulation. Additionally, the political economy of energy supply and redistributional effects of energy access are areas of interest.

For the **Liberia programme**, priorities and strategic focus are primarily drawn from the government’s medium-term development plan. This programme will be more limited in scope, emphasising issues pertinent in both countries. The research priorities will largely focus on:

- **Economic Governance:** supporting studies that will investigate the drivers of conflict and fragility and how to build resilience to shocks. In particular, the sub-regional dimension of fragility and resilience.
- **Trade and Productivity:** there are two main issues that the country programme will focus on:
    - **Impact of African Continental Free Trade Agreement (AfCTFA):** As in the case of Sierra Leone, the implication of this agreement might have a severe impact on the country’s growth and structural transformation. We will therefore support detail studies that that will not only assess the impact of the agreement

but also propose strategies the countries should adopt to maximize the benefits from the agreement.

- **Cross Border Trade:** To date, Liberia lacks a comprehensive and credible data on trade between the country and her neighbour. A recent study on the Sierra Leone side of the border has documented trade activities between Sierra Leone and Liberia. We therefore hope to support a study that will comprehensively document trade activities between Liberia and Sierra Leone. Specifically, looking to identify what is being traded, the volume and value of trade, and drivers of informal trade across land crossing points.

Partnerships, Policy Engagements and Collaborations

IGC Sierra Leone and Liberia have established strong relationships with policymakers (MOF, NRA, MOPED, MTI, MMR, NMA, MAF, MOE and FCC) development partners (UNDP, UNOPS, World Bank, ADB, MRU and FCDO) and civil society organisations (CGG, NACE, IGR, and LGF) . Additionally, we have very strong relationships with the private sector actors including the Sierra Leone Chamber of Commerce, Industry and Agriculture (SLCCIA). The country team will continue and build on these relationships as well as initiate new ones as our work demands.

Existing relationships with stakeholders and partners by theme

Theme	Relevant Stakeholders and Partners
Economic Governance	MOF, NRA, MOPED, MMR, NMA, APC, SLPP, NEC, PPRC, UNDP
Trade and Productivity	MTI, MAF
Cities and Infrastructure	FCC, KCC MOF, MLGRD, FCDO
Energy and Environment	MOE, UNOPS, FCDO
Economic Governance	MOF, NRA, MOPED, MMR, NMA, APC, SLPP, NEC, PPRC, UNDP

Country COVID-19 Strategy: Response and Recovery

Response

The COVID-19 crisis has now affected 210 countries and territories around the globe, and the number of cases is currently increasing, albeit at a slower pace in Sub Saharan Africa. The ramifications of the COVID-19 pandemic vary between developed and developing countries due to the vast differences in social safety nets and institutional capacity, and inexplicable differences in the effects of the virus in SSA so far. The dominant policy response has been to "save lives" and protect livelihoods - a health response and an economic palliative package. These policies aim at reducing transmission while treating the infected, and at the same time provide economic packages to compensate losses and stimulate economic activity. At the same time, they impose huge restrictions on economic activity, posing challenges for several businesses and potentially exacerbating precarious economic conditions for the poorest and more vulnerable segments of the population.

In response, the Government of Sierra Leone (GoSL) and partners developed a programme to respond to the economic downside stemming from the health crisis, called 'Quick Action Economic Response Programme (QAERP)'.The country programme together with associated researches were quick to engage with relevant stakeholders at the Ministry of Finance, the Ministry of Planning and Economic Development, and representatives from other organizations acting in advisory roles. As a result of the engagements, it became evident that the government needed more data and evidence on the impact of COVID19 to guide the response.

In an effort to assess the impact of the COVID-19 pandemic, IGC commissioned a project to track the impact of the pandemic on key socioeconomic indicators. All data were uploaded daily on a public dashboard, which is now being used to update the government's tracker on the impact of the pandemic.

As a result of the data collection work on the impact of the pandemic, UN Sierra Leone requested IGC to prepare a socioeconomic response plan that to guide the intervention of all UN agencies working within Sierra Leone, which was completed and delivered in 2020.

The data collected has also been used to produce thematic briefs and articles on:

- The impact of COVID globally
- The impact of COVID on female headed households
- The effect of increased access to electrification on resilience to COVID
- Acceptability of COVID-19 in Sierra Leone

Recovery

Moving forward, the country team is engaging with key government counterparts, including MoF, MoPED, and MoHS, as well as development partners to assess the need for evidence as the pandemic evolves. Based on initial conversations, the country will be focusing on:

- Assessing how the private sector, especially SMEs, are being affected by COVID-19 in the medium-term and what measures can be taken to mitigate these adverse effects
- Providing evidence on the acceptability of a COVID-19 vaccine in order to refine communication efforts and test the effectiveness of a vaccination campaign
- How to help local councils improve revenue mobilization and municipal financing in the midst of COVID-19
- Development and evaluation of social protection programmes