AFRICAN DEVELOPMENT BANK GROUP
GROUPE DE LA BANQUE AFRICAINE DE DÉVELOPPEMENT

COUNTRY FOCUS REPORT

SIERRA LEONE

Driving Sierra Leone's Transformation

The Reform of the Global Financial Architecture

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ACKNOWLEDGEMENT

The 2024 Country Focus Report for Sierra Leone was prepared by the Chief Economist and Vice-Presidency for Economic Governance and Knowledge Management Complex(ECVP), under the direction and supervision of Prof. Kevin C. Urama, Chief Economist and Vice-President, with support from Amadou Boly (Chief Assistant to the Chief Economist), and Amah Marie-Aude Ezanin Koffi (Executive Assistant).

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The team thanks (i) the Sierra Leone Country Team led by Lamin Barrow, Director General, RDGW, Joseph Ribeiro, Deputy Director General, RDGW; and Halima Hashi, Country Manager, Sierra Leone Country Office; (ii) the Macroeconomics Policy, Forecasting and Research led by Abdoulaye Coulibaly, Director, Officer-in-Charge; (iii) the Transition States Department (RDTS) led by Yero Baldeh, Director, (iv) the African Natural Resource Center (ECNR) led by Désiré Vencatachellum, Director, Officer-in-Charge; and (v) the Macroeconomics Policy and Debt Sustainability Division led by Anthony Simpasa, Division Manager, for their contributions.

The data in the report was compiled by the Department of Statistics led by Babatunde Samson Omotosho, Director, with significant contributions from Louis Kouakou (Manager of Socio-Economic Statistics Division, Department of Statistics), Ben Paul Mungyereza (Manager of the Statistical Capacity Building Division, Statistics Department), Anouar Chaouch (Senior Statistician, Division 1 of the Statistics Department) and Momar Kouta (Senior Statistical Information Systems Officer, Division 1 of the Statistics Department).

Peer-review comments were received from Nathaniel Agola, Chief Country Economist, ECCE; George Marbuah, Research Economist, ECMR; Alex Yeanay, COSL/RDTS, and Danlami Gomwalk, Principal Domestic Linkages Officer, ECMR. Country Team comments were received from Julius Chupezi Tieguhong, Chief Forestry Officer, ECNR and Harcel Nana Tomen, Operations Analyst, RDGW4. Dr Joseph Atta-Mensah, Senior Fellow from Africa Centre for Economic Transformation, acted as an external reviewer.

The cover of the report is based on a general design by Laetitia Yattien- Amiguet and Justin Kabasele of the Bank's External Relations and Communications. Copy-editing was done by the Bank's Language Services Department (TCLS) and layout was done by Ancre Consulting.

TABLE OF CONTENTS

LIST OF FIGURES

LIST OF BOXES

LIST OF TABLES

ACRONYMS AND ABBREVIATIONS

AfDB	African Development Bank
AfCFTA	African Continental Free Trade Area
ADF	African Development Fund
AFSM	African Financial Stability Mechanism
AU	African Union
AEO	African Economic Outlook
BSL	Bank of Sierra Leone
CAF	Capital Adequacy Framework
CLSG	Cote D'Ivoire, Liberia, Sierra Leone and Guinea
CRA	Credit Rating Agencies
DFIs	Development Financing Institutions
DSA	Debt Sustainability Analysis
DSF	Debt Sustainability Framework
ECOWAS	Economic Community of West African States
EDSA	Electricity Distribution and Supply Authority
FDI	Foreign Direct Investment
FQE	Free Quality Education
GCI	Generalized Capital Increase
GDP	Gross Domestic Product
GNI	Gross National Income
GoSL	Government of Sierra Leone
GST	Goods and Services Tax
HCI	Human Capital Index
HIPC	Heavily Indebted Poor Country
ICT	Information and Communication Technology
IFIs	International Financial Institutions
IMF	International Monetary Fund
MDBs	Multilateral Development Banks
MDRI	Multilateral Debt Relief Initiative
MHT	Medium and High-Technology Activities
MRU	Mano River Union

MTNDP	Medium-Term National Development Plan
MTDMS	Medium-Term Debt Management Strategy
MTRS	Medium-Term Revenue Strategy
NDC	Nationally Determined Contribution
ODA	Official Development Assistance
PFM	Public Financial Management
PPP	Public Private Partnership
SDGs	Sustainable Development Goals
SDRs	Special Drawing Rights
SLIEPA	Sierra Leone Investment and Export Promotion Agency
SL	Sierra Leone, Leone
SMEs	Small and Medium Enterprises
SOEs	State-Owned Enterprises
SPV	Special Purpose Vehicle
STEM	Science, Technology, Engineering and Mathematics
UA	Unit of Accounts
UNDP	United Nations Development Programme
US$	United States Dollars

EXECUTIVE SUMMARY

Sierra Leone's recent economic growth was strong despite the recurrent exogenous shocks. GDP grew by 5.7 percent in 2023 from 5.3 percent in 2022. Growth was driven on the supply side by recovery in iron ore production, agriculture, services sectors, and consumption and investment on the demand side. Recurrent external shocks have also triggered inflationary pressure with inflation in Sierra Leone reaching 46.6 percent in 2023, the second highest on the continent. Public debt has also increased significantly due to additional borrowing to address the impacts of the shocks and development needs, and the country remains at high risk of debt distress. The outlook for economic growth remains positive with growth projected to improve to 4.7 percent in 2024 and 5.2 percent in 2025, driven by the recovery in key sectors, on the supply side, and consumption and investment on the demand side. The government should implement reforms to anchor macroeconomic stability and fast-track structural transformation of the economy. Structural reforms should focus on boosting productivity and return to the balanced budget to ensure debt sustainability.

The economy exhibited resilience amid multiple external shocks, but its structural transformation has been slow. While real GDP grew by 2.5percent on average during the past four decades prior to the COVID-19 pandemic, real GDP per capita growth remained one of the lowest in the region (0.2 percent) on average per annum since the 1980s. Moreover, the economy has been characterized by marked deindustrialization over the past five decades with manufacturing value-added declining from 6 percent of GDP at independence to 2 percent in 2022. The key sectors that drive structural change, industry, and services, were characterized by low levels of labor productivity while reallocation of labor to more productivity enhancing manufacturing sector was limited, constraining structural transformation. The country must build institutional capacity to improve governance and enhance investment in infrastructure to foster structural transformation and close the financing gap to achieve its development goals. Policy actions are required at the country, regional and Multilateral Development Bank (MDB) levels to accelerate structural transformation in Sierra Leone.

Sierra Leone has prioritized the transformation of the agriculture sector to ensure food self-sufficiency in its new development strategy. It also identified investment in infrastructure, technology, and innovation to foster economic competitiveness and private sector development; and human capital development to generate the skills needed to drive structural transformation over the next seven years as key priorities. These priorities require massive investment. According to the government, the total Medium Term National Development Plan (MTNDP) 2024-2030 financing gap was estimated to be US$2.56 billion for seven years (a US$ 366 million average annual gap). This calls for radical reform and strengthening of the global financial architecture to ensure that it is fit for the purpose of mobilizing resources at scale and affordable terms for low-income countries such as Sierra Leone that are constrained by limited domestic tax base. However, the reform of the global financial system alone does not address structural weaknesses and slow economic transformation in Sierra Leone's economy. The government needs to improve efficiency of public expenditure and domestic debt management and enhance domestic resource mobilization.

GENERAL INTRODUCTION

Sierra Leone is a low-income country located in the west coast of Africa with per capita income of US$752 in 2023. It is a factor-driven economy, heavily dependent on natural resource endowment with low value addition and insufficient diversification. Economic growth remained volatile over the past four decades due to domestic and external recurrent shocks including a decade long civil war, the Ebola pandemic, and the sharp decline in iron prices in 2014-15, the COVID-19 pandemic in 2020 and the ongoing multiple shocks, and tight global financing conditions. The recent recurrent shocks precipitated rapid depreciation of the currency, higher inflation, higher fiscal deficits, and rapid increases in public debt. Consequently, structural transformation remained slow. The reform of global financial architecture will offer opportunities for Sierra Leone to mobilize resources to fast-track structural transformation. The country also needs to capitalize on its vast natural resources to mobilize domestic resources to finance structural change.

The rest of the report is structured as follows: Chapter 1 reviews the macroeconomic performance and outlook and the downside risks. Chapter 2 presents overview of recent progress in Sierra Leone's economic transformation and provides estimates of financing needs to fast-track structural transformation while chapter 3 deals with financing structural transformation in Sierra Leone focusing on the need for reforms of the international financial architecture.

1

MACROECONOMIC PERFORMANCE AND OUTLOOK

Key Messages

Sierra Leone's real GDP growth was 5.7 percent in 2023 from 5.3 percent in 2022. The better growth performance reflects the economy's resilience to multiple external shocks including tight global financial conditions, weak global demand for exports, the impact of climate change.

Real GDP growth is projected to rise to 4.7percent in 2024 and 5.2 percent in 2025. The projected increase in growth will be driven by the mining sector and the recovery in agriculture, manufacturing, construction, and tourism sectors on the supply side and consumption and investment on the demand side.

Annual average headline inflation in Sierra Leone rose from 27 percent in 2022 and reached 46.6 percent in 2023, the second highest in the continent. The increase is due to higher local food and fuel prices induced by multiple external shocks, domestic structural constraints, and the pass-through effects of currency depreciation against US dollar on the back of high interest rates in the US. Nevertheless, headline consumer inflation has declined to 35 percent in May 2024 due to tight monetary policy, stable exchange rate, and slowdown in global commodity prices.

Fiscal deficit is expected to narrow from 9.6 percent in 2022 to 8.7 percent of GDP in 2023, reflecting the narrowing of primary balance from 6.4 percent of GDP in 2022 to 2.8 percent in 2023. With the estimated public debt-to -GDP ratio above 90 percent in 2023, Sierra Leone remains at high risk of debt distress. Debt accumulation was driven by persistent high fiscal deficit, which was financed by increased domestic borrowing, as well as the rapid depreciation of the Leone, especially in 2022.

The current account deficit is projected to narrow from 6.1 percent of GDP in 2023 to 4.1 percent and 2.1 percent in 2024 and 2025, respectively. The projected decline in current account deficit reflects expected increases in official and private grants, and the decline in trade deficits due to higher expected exports.

The depreciation of the currency moderated to 17.2 percent between January and October 2023 compared to 39.1 percent in 2022. The exchange rate is currently hovering around 22 SLL per US$ and has remained stable at this level for over half a year owning mainly to tight monetary policy.

The main downside risks to the outlook include the following:

- The continuation of multiple shocks and geopolitical polarization and tensions.
- The continued decline in international financial assistance due to competing priorities in advanced economies.

- Persistently high inflation which caused persistent monetary policy tightening and high interest rates that could stifle private sector investment.
- Climate change vulnerabilities amid limited capacity to withstand climate shocks.
- To mitigate the risks, government could enhance domestic revenue mobilization, reprioritizing spending to create fiscal space and accelerate reforms to improve economic diversification to withstand recurring external shocks.

Potential upside risks include:

- The adoption of new MTDNP 2024-2030 which prioritizes investment in agriculture sector to ensure food security which could significantly reduce inflationary pressure and foster structural transformation.
- Commitment to fiscal consolidation measures by improving tax compliance and efficiency of public sector expenditure.
- The end of monetary policy tightening in advanced economies could boost economic growth prospects through lower costs of borrowing.

A mix of short-medium- and long-term policies are needed to address Sierra Leone's macroeconomic challenges and foster higher economic growth.

In the short-term:

To contain persistent high inflation, Bank of Sierra Leone should maintain a tight monetary policy stance without losing track of the impact of high interest rate on investment and economic growth.

Monetary policy measures should be complemented by structural reforms to enhance domestic production of consumer goods particularly food in line with the priority of MTNDP 2024-2030. Increasing agricultural productivity through modern inputs, technology, and better access to finance by smaller holder farmers will be critical to achieve national development objectives.

The government should also strengthen the implementation of its Public Financial Management (PFM) reforms particularly Medium-Term Debt Management Strategy (MTDMS) to ensure efficient use of borrowed financial resources.

In the medium- to long-term:

Reforming the global financial architecture could benefit Sierra Leone by lowering the cost of credit and improving its African Development Fund (ADF) allocations through increased ADF replenishments.

In addition, the country needs to accelerate domestic resource mobilization by creating an enabling environment to formalize the large informal sector and improving the tax compliance of the formal sector. The country should also ensure that it receives fair shares from the exploitation of its vast mineral resources.

Introduction

This section assesses the recent economic growth performance and other macroeconomic and social developments. It also investigates the medium-term macroeconomic outlook and identifies downside and upside risks to outlook. Finally, the section proposes policy options to foster high, resilient, and sustainable economic growth and support macroeconomic stability to anchor structural transformation.

1.1. Growth Performance

Sierra Leon's economic growth increased from 5.3 percent in 2022 to 5.7percent in 2023 despite the impacts of multiple external shocks which triggered rapid increases in commodity prices as well as tight global financing conditions. Sierra Leone conducted fiercely contested general elections on June 24, 2023, which engendered discontent. However, the implementation of the Agreement for National Unity between the government and the opposition in October 2023 diffused tensions and normalcy has been restored helping restore business confidence.

Growth was driven on the supply side by recovery in iron ore production, agriculture, and services sectors. Industry was the main driver of growth with the growth rate of 14.4 percent followed by services (4.7 percent) and agriculture (2.4 percent) in 2023.. Iron ore production was the main driver of growth in the industry sector with the growth rate of 130 percent in 2023. On the demand side, growth in 2022, the latest year for which demand side growth decomposition was available, was driven by private consumption which contributed 271 percent to growth, offsetting -380 percent contribution by net exports in the same period. Government consumption and gross fixed capital formation contributed 125.7 percent and 82.8 percent to real GDP growth in 2022, respectively.

1.2. Other Recent Macroeconomic and Social Developments

- ***Monetary Policy – Inflation – Exchange Rate***

TThe headline consumer price inflation accelerated from 27 percent in 2022 to 46.6 percent in 2023, driven by food and fuel prices due mainly to the impact of multiple shocks, removal of fuel subsidy, depreciation of the Leone, and supply side constraints. The Bank of Sierra Leone (BSL) adopted a tight monetary policy stance since end of 2021 to combat rising inflation, increasing policy interest rate from 14 percent to 23.25 percent in March 2024 (raising the rate by a cumulative 925 basis points). Although the growth in broad money supply (M3), the operation target of the BSL increased from 10.6 percent in 2013 to 27.2 percent in 2023, contributing to the inflationary pressures, authorities project the growth in M3 supply to decline to 13.6 percent and 13.5 percent in 2024 and 2025, respectively. The monetary policy tightening in US and Western Europe in response to the rising inflationary pressures, contributed to the weakening of the local currency.

- ***Fiscal Policy - Public Debt***

The fiscal deficit decreased to 8.7 percent of GDP in 2023 from 9.6 percent of GDP in 2022 due mainly to lower extrabudgetary expenditure needed to address the lingering impacts of COVID-19, and the ongoing multiple external shocks. Fiscal deficit remains significantly above the Economic Community of West African States (ECOWAS) macroeconomic convergence target of 3 percent of GDP or lower due to lower domestic revenue, higher development financing needs, and high debt service payments. Domestic revenue was estimated to marginally increase from 12.7 percent in 2022 to 13.1 percent of GDP in 2023, which was attributed to sound economic growth performance. Total interest payments accounted for 3.3 percent and 4 percent of GDP in 2022 and 2023, respectively. The Finance Act 2023 adopted by Parliament in April 2023 introduced new taxes including Minimum Alternate Tax at 3 percent of turnover/sales for all companies and a new tourism levy of 2 percent on accommodation, food, and drinks, among others, to increase domestic revenue.

Domestic primary deficit narrowed from 9.2 percent in 2022 to 2.5 percent of GDP in 2023. If tax revenue increases and interest payment declines, Sierra Leone might achieve primary balance surplus by 2025. The country should, therefore, focus on mobilizing revenues and containing expenditures in the medium-term while protecting social spending. According to the IMF (2023), the 3-year average primary balance adjustment is over 8 percent of GDP. This large adjustment need reflects large fiscal slippages partly due to exogenous shocks (delayed recovery from COVID-19 impacts, multiple shocks, and the cost-of-living crisis), and policy-related slippages, calling for a more frontloaded and urgent fiscal consolidation to keep debt on a downward path. The budget deficit is financed through grants, loans, and borrowing from the domestic banking sector. Sierra Leone is currently facing limited fiscal space and heightened debt vulnerabilities.

Sierra Leon's economic growth increased from 5.3 percent in 2022 to 5.7 percent in 2023 despite the impacts of multiple external shocks underscoring the resilience of supply side and demand side drivers of growth.

Public and publicly guaranteed debt more than tripled from 30.5 percent of GDP in 2013 to 98.8 percent in 2022, due to the sharp depreciation of the Leone (39.1 percent in 2022), and rising fiscal deficit, which was mostly financed through domestic borrowing, largely through T-bills and high interest rates. The public debt is estimated to decrease from 98.8 percent of GDP in 2022 to 90.5 percent of GDP in 2023 largely due to lower borrowing as well as prioritizing concessional loans to finance fiscal deficit. Nonetheless, the country remains at high risk of debt distress according to the November 2023 IMF Debt Sustainability Analysis (DSA). This is due largely to solvency and liquidity challenges caused by shocks to growth, exports and revenues following multiple shocks in 2022. The bulk of Sierra Leone's public debt is external, accounting for 66 percent of GDP while domestic debt accounted for 24.5 percent in 2023.

- ***External Position – External Financial Flows***

The current account deficit narrowed from 8.3 percent in 2022 to 7 percent of GDP in 2023 attributable to higher exports and increase in grants. This was underpinned by the trade deficit which narrowed significantly from US$404.9 million in the corresponding period in 2022 to US$ 309.4 million in the first half of 2023, reflecting mainly the strong growth in mineral exports. Minerals accounted for 61 percent of Sierra Leone's exports in 2021.

Table 1- Macroeconomic and Social Indicators

	2019	2020	2021	2022	2023(e)	2024(p)	2025(p)
Real GDP Growth	5.5	-1.3	5.9	5.3	5.7	4.7	5.2
Real GDP Growth per Capita	2.9	-4.3	1.8	1.3	0.5	2.6	3.1
Inflation	14.8	13.5	11.9	27.0	46.6	33.6	20.2
Overall Fiscal Balance, Including Grants (% GDP)	-3.2	-5.5	-7.4	-9.6	-8.7	-2.8	-2.4
Primary Balance (% GDP)	-0.6	-2.5	-4.3	-6.4	-2.8	-0.5	-0.3
Current Account (% GDP)	-18.7	-7.0	-7.9	-8.3	-6.1	-4.2	-2.1
Total Population (Millions)	8.0	8.2	8.4	8.6	8.8		
Life Expectancy at Birth (Years)	60.3	59.8	60.1	60.4	60.8		

Source: The AfDB Statistics Department April 2024

The current account deficit is financed by the financial account, particularly through net current transfers. In 2022, the net current transfers represented 12.5 percent of GDP. Official and private grants and remittances are also an important source of financing current account balance in Sierra Leone. Net Official Development Assistance (ODA) received was 11 percent of Gross National Income (GNI) in 2022. Personal remittances as a percentage of GDP grew consistently over the time reaching 5.8 percent of GDP in 2022 while net Foreign Direct Investment (FDI) inflows declined to about 6.3 percent of GDP in the same period. Gross foreign reserves amounted to US$432.9 million in October 2023 (equivalent to 3 months of imports). Foreign reserves are expected to stay above 3.0 months of imports cover in the medium-term, supported by official inflows and private transfers. The depreciation of the Leone moderated to 17.2 percent between January and October 2023 compared to 39.1 percent in 2022. The exchange rate is currently hovering around 22 SLL per US$ compared to 13 SLL per US$ at the time of the redenomination in July 2022.

- ***Social Developments***

Sierra Leone is characterized by high levels of poverty, income inequality, and high youth unemployment due to slow growth, low savings and investment, and heavy dependence on natural resources with low value addition, diversification, and structural transformation. The poverty headcount ratio stood at 56.8 percent in 2018 compared to 62.4 percent in 2011, while extreme poverty rate was 25 percent in 2023. In terms of the multidimensional poverty rate, 4.8 million people (59.2 percent) were multidimensionally poor in 2021. The Gini index was 35.7 percent in 2018. Poverty has been exacerbated by the rising cost of living due to rapidly increasing inflation and depreciating local currency triggered by multiple shocks. Poverty remains very high and is exacerbated by growing structural inequalities, including high youth unemployment, at 60 percent of the 15-35 population. Food insecurity has intensified due to the increase in food prices. Poverty remains disproportionally rural with 73.9 percent of the poor living in rural areas, more than double the rate of 34.8 percent in urban areas

Box 1.1: Impact of Tighter International Financial Conditions (Transmission Channels)

The monetary policy tightening in advanced economies particularly in the United States hurt the Sierra Leonean economy in several ways. First, the higher US interest rate led to rapid depreciation of the Leone. The depreciation of the currency led to increase in the prices of imported commodities, which were already high due to uncertainties and supply chain disruptions linked to multiple shocks, fuelling inflation. Consumer inflation increased to 27 percent in 2022 and further to 46.6 percent in 2023 due to the passthrough effects of currency depreciation. The removal of fuel subsidy in 2023 also contributed to higher inflation. Secondly, weaker currency also increased the public debt. About 66 percent of Sierra Leone's public debt is external. Therefore, the rapid depreciation of the Leone contributed to an increase in the debt-to-GDP ratio from 79.8 percent of GDP in 2021 to about 98.8 percent in 2022. Although debt-to-GDP ratio has since declined to about 90 percent, Sierra Leone remains at high risk of debt distress. To fight inflation, Sierra Leone tightened monetary policy raising the rate by 925 basis points since the end of 2021 to 23.25 percent by March 2024. And monetary policy tightening will continue until significant reduction in inflation is achieved and the currency is stabilized. Nevertheless, fiscal dominance and shallow financial markets continue to undermine the effectiveness of monetary policy in Sierra Leone.

while about 10 percent of youth were unemployed and unemployment/underemployment remains one of the highest in the West African sub-region compounded by skills mismatch.

1.3. Macroeconomic Outlook and Risks

Outlook for economic growth remains positive. Economic growth is projected to improve to 4.7 percent in 2024 and 5.2 percent in 2025, driven by the mining sector and the recovery in agriculture, manufacturing, construction, and tourism sectors on the supply side and consumption and investment on the demand side. In addition to this, less contractionary medium-term fiscal policy and lower inflation should bolster consumption, while foreign investment in the mining sector is set to fuel higher investment. The government has identified agriculture and food security as the top priority in the MTNDP 2024-2030 and an increase in investment is anticipated in the sector which will lead to higher output.

Inflation is projected to decline to 33.6 percent in 2024 and 20.2 percent in 2025, as the external shocks subside. The slowdown in inflation will also be driven by the continued tightening of monetary policy stance and higher expected agricultural output. The government has ended fuel subsidies. However, subsidies to the Electricity Distribution and Supply Authority (EDSA) will continue moderating the impact of fuel price increases.

The fiscal deficit is projected to narrow to 2.8 percent and 2.4 percent of GDP in 2024 and 2025, respectively, due to higher tax revenue. Fiscal deficit is expected to fall within the ECOWAS convergence target of less than or equal to 3 percent of GDP in the medium-term. The government introduced new tax policies in the 2024 budget and 2024 Finance Act which if fully implemented will raise tax revenue significantly.

The current account deficit is projected to narrow to 4.2 percent and 2.1 percent of GDP in 2024 and 2025, respectively, as official, and private grants are expected to increase, and trade deficits are expected to decline due to higher expected exports. Official foreign reserves are programmed to stay above 3.0 months of import cover in the medium-term, supported by official inflows and private transfers.

The government will continue to seek grant financing and borrow highly concessional loans to finance investments in key sectors of the economy, especially infrastructure. This will ameliorate debt accumulation and debt service burden in the medium- to long-term. It will also continue to explore non-debt-creating financing models such as Public Private Partnerships (PPPs) supported by thorough analyses of the potential fiscal risks (GoSL, 2023a). The government has established a Special Purpose Vehicle (SPV), the Mineral Wealth Fund Sierra Leone Limited, to manage the commercial and business interest of the government to maximize revenues from the mining sector and reduce dependence on the 3 percent royalty levied on mineral exports and collect revenues on the income earned by the SPV through its investments in key mining projects across the country (GoSL, 2023a).

1.3.2 Risks

-External risk factors: The main external risks that could affect the outlook include the likelihood of the global economic recession, the continuation of multiple shocks, and the continued decline in international financial assistance. The upside risk could include the decline in global inflationary pressures due to the expected easing in commodity prices.

-Domestic risk factors: The main domestic downside risks include climate vulnerabilities and high inflation which could aggravate social tensions.

- Risk mitigation measures could include enhancing domestic revenue mobilization, reprioritizing spending to create fiscal space, and accelerating reforms to improve economic diversification and structural transformation to withstand recurring external shocks.

1.4. Policy Options to Foster High and Resilient Growth; Supporting Macroeconomic Stability and Economic Transformation

A mix of short-medium and long-term policies are needed to address Sierra Leone's macroeconomic challenges and foster higher and sustainable economic growth.

In the short-term:

To contain persistent high inflation, the BSL should maintain tight monetary policy stance without losing track of the impact of high interest rate on investment and economic growth. If the current high interest rate is sustained, it could curtail access to credit by the private sector and harm economic growth objectives.

Monetary policy measures should be complemented by structural reforms to enhance domestic production of consumer goods particularly food in line with the priority of MTNDP 2024-2030. Increasing agricultural productivity through modern inputs, technology, and better access to finance by smaller holder farmers will be critical to achieve national development objectives. The BSL should continue to restrict its intervention in the foreign exchange market to build reserve buffers and manage exchange rate volatility while it is committed to developing macroprudential instruments to strengthen the financial system (see IMF, 2023).

The government should also strengthen the implementation of its PFM reforms particularly MTDMS to ensure efficient use of borrowed financial resources.

In the medium- to long-term:

Reforming the global financial architecture could benefit Sierra Leone by lowering the cost of credit and improving its ADF allocations through increased ADF replenishments.

In addition, the country needs to accelerate domestic resource mobilization by creating an enabling environment to formalize the large informal sector and improving the tax compliance of the formal sector. The country should also ensure that it receives a fair share from the exploitation of its vast mineral resources.

The country needs to deepen structural reforms including in the education sector to deliver free primary and secondary education by increasing access, quality, and governance in the education sector, reforms to strengthen tax policy and administration, public financial management, financial sector stability, and monetary policy independence

2

TAKING STOCK OF SIERRA LEONE'S STRUCTURAL TRANSFORMATION PROGRESS

Key Messages

Sierra Leone's economy exhibited resilience amid multiple external shocks, but its structural transformation has been slow. While real GDP grew by 2.5 percent on average during the past four decades prior to the COVID-19 pandemic, real GDP per capita growth remained one of the lowest in the region (0.2 percent) on average per annum since the 1980s. Moreover, the structure of Sierra Leone's economy has not changed significantly between the 1980s and 2019 and agriculture continued to drive growth despite the reallocation of sizable labor from the sector to mostly informal urban service sectors. However, according to the rebased GDP figures published in June 2024, there has been a significant structural transformation in Sierra Leone with services now the dominant sector contributing 42.2 percent of GDP followed by agriculture (29 percent) and industry (26 percent).

The economy has also seen marked deindustrialization over the past five decades with manufacturing value-added declining from 6 percent of GDP at independence to 2 percent in 2021. Lack of dynamism in industry and services sector were reflected in lower levels of labor productivity in these sectors compared to traditionally lower productivity agriculture sector despite the significant reallocation of labor from the latter to low productivity informal services sectors. Reallocation of labor to more productivity enhancing manufacturing sector was limited, thus constraining structural transformation.

Sierra Leone must build institutional capacity to improve governance and enhance investment in infrastructure and foster structural transformation. Good governance and strong institutions can provide a more conducive environment such as macroeconomic stability for accelerating structural change. Infrastructure deficit is one of the main structural bottlenecks and key drivers of fragility that is holding back the country from transforming the economy and fostering inclusive growth.

Sierra Leone needs to close annual financing gap of US$1.8 billion by 2030 to fast-track structural transformation according to the AEO 2024 data. The government has identified Big 5 Game Changer priorities in its MTNDP 2024-2030 including, feed Sierra Leone; human capital development; youth employment; infrastructure, innovation, and technology; and transforming public service architecture. The government has identified the financing gap of US$2.56 billion for the next 7 years to implement the national development plan. Investment in these priority areas will drive structural transformation and foster job creation and sustainable and inclusive growth.

To finance structural transformation, Sierra Leone needs to enhance domestic resource mobilization, strengthen PPPs to mobilize private capital, and limit its borrowing to concessional loans and grants to maintain debt sustainability.

Introduction

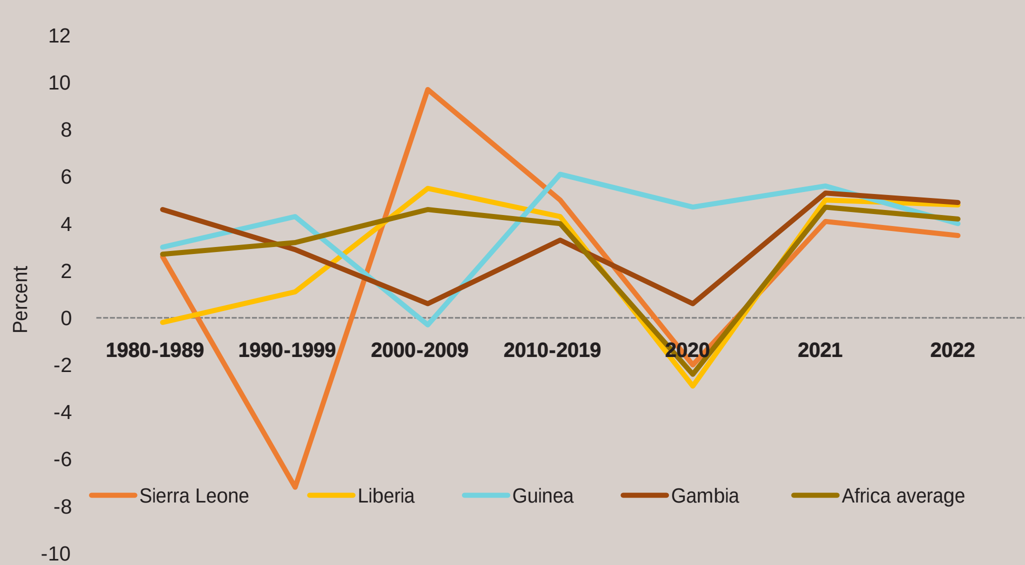
This chapter aims to present a comprehensive overview of recent progress in Sierra Leone's economic transformation amid a changing world, identify its key trends and outline its characteristics as well as estimate the financing needs to fast-track structural transformation. Structural transformation is understood as the shift of an economy's structure from low-productivity, labor-intensive activities to higher productivity, capital, and skill intensive activities. Sierra Leone has witnessed slow structural transformation due to low level of industrialization and mainly because of underdeveloped manufacturing activity. It will take both a historical perspective (what has been done so far) and a forward-looking approach (what can or should be done in the future to fast-track progress) on structural transformation, comparing Sierra Leone's performance with that of Africa and other peer countries, and drawing lessons for the future. The chapter will estimate the impact of a wide array of socio-economic, financial, governance, and external factors on Sierra Leone's structural transformation, as well as the financing needs and financing gaps, with the objective of highlighting the main pull and push factors and guiding both evidence-informed policymaking, and investment opportunities.

2.1. Taking Stock of Economic Performance and Transformation in Sierra Leone

Sierra Leone's economic growth performance was highly volatile over the past four decades. During 1980-1989, real GDP grew by 2.6 percent per annum on average. This decade was characterized by severe macroeconomic instability including declining per capita income, high inflation reaching 180 percent in 1987, low domestic revenue (about 5 percent of GDP in 1986), and weak fiscal and current account positions. During this period, Sierra Leone performed better than Liberia but worse than Guinea, Gambia, and the continental average in real GDP growth.

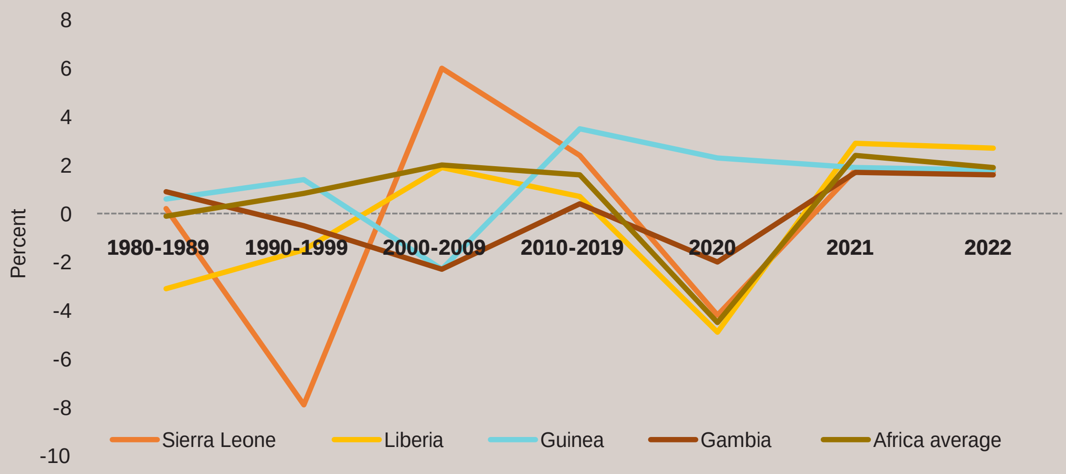
The next decade, 1990-1999, was characterized by the worst economic growth performance in the country. Real GDP growth collapsed to -7.2 percent on average per annum, reflecting the

Figure 2.1: Sierra Leone's real GDP growth compared to peer countries in Africa by decade (percent)



Source: AfDB Statistics Department, May 2024

Figure 2.2: Sierra Leone's real GDP per capita growth compared to peer countries in Africa by decade (percent)



Source: AfDB Statistics Department, May 2024

impact of the civil war shock which lasted from 1991 to early 2002. Sierra Leone performed worse than its peers in the region and the African average in economic growth during this period. The civil war killed over 20,000 people, maimed thousands, and displaced over 2 million people, 500,000 of whom fled to neighboring countries.

From 2000 to 2009, real GDP grew by 9.7 percent per annum on the average, supported by the post-conflict reconstruction efforts as well as peace and macroeconomic stability, and improved economic and public sector governance since early 2002. During this period, Sierra Leone's economic growth was robust and higher than those of the regional peers and the continental average.

Real GDP growth decelerated to 5 percent during 2010-2019 due mainly to the impacts of double exogenous shocks of Ebola pandemic and the collapse in iron ore prices in 2014 and 2015. Five years later in 2020, Sierra Leone was hit again with the COVID-19 pandemic which led to a severe recession with economic growth falling to -2 percent. The government intervened by adopting expansionary fiscal and monetary policies to mitigate the impacts of external shocks. Economic growth recovered in 2021 to 4.1percent before declining to 3.5 percent in 2022 due to multiple external shocks, primarily multiple shocks, and tight global financing conditions. Multiple shocks impacted Sierra Leone through higher food and fuel import prices leading to rapid increases in headline consumer inflation. Sierra Leone remains vulnerable to exogenous shocks due to lack of economic diversification and structural transformation.

However, in per capita terms, Sierra Leone's growth performance has been weaker and more volatile. Real per capita income grew by 0.2 percent on average during 1980-1989 due to structural weaknesses, the rate which could not make a dent on poverty. Growth in real per capita income collapsed to -7.9 percent during 1990-1999 due to the impact of the civil war, further aggravating poverty. Nevertheless, real per capita income growth recovered to a robust 6 percent on the average, per annum during 2000-2009 on the back of the end of the civil war in early 2002, the government's reconstruction efforts, and macroeconomic stability. Growth in per capita income decelerated to 2.4 percent per annum on the average between 2010-2019 due to the double exogenous shocks of Ebola pandemic, and the sharp decline in iron ore prices in 2014-2015. In fact, in 2015, the real GDP per capita growth fell to -22.4 percent, the lowest level in four decades. The COVID-19 pandemic exacerbated further, Sierra Leone's performance in real per capita income growth which fell to -4.2 percent in 2020 and 1.8 percent and 1.7 percent in 2021 and 2022, respectively.

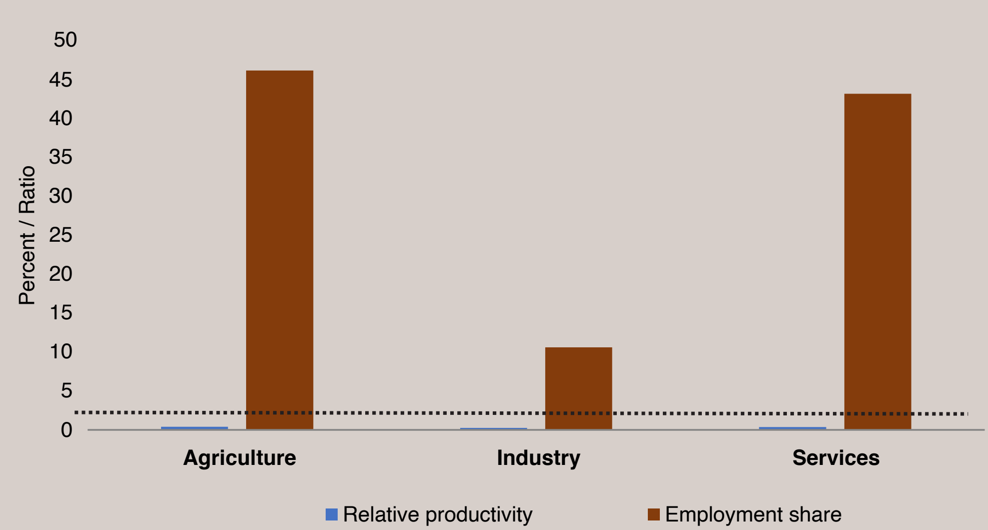
2.2. Sierra Leone's Structural Transformation: Drivers, Bottlenecks, Opportunities

(a) Sierra Leone's Structural/Economic Transformation

Labor productivity in Sierra Leone at the aggregate level has consistently been low and below the average for West Africa and Sub-Saharan Africa. Labor productivity is increasing globally over the years, reaching US$35,000 per worker in 2015. This can be attributed to the sophistication of manufacturing processes aided by high-level technology and innovation. In Sierra Leone, the manufacturing firms are labor-intensive, with low-level of technology, and little or no innovation and value addition. Labor productivity in Sierra Leone increased from US$ 1214.7 in 2002 to US$1966 in 2022 (AfDB, 2023b).

Figure 2.3 depicts relative labor productivity in Sierra Leone in 2018 for three main sectors, agriculture, industry, and services. Relative productivity is calculated as the ratio of each sector's labor productivity in 2018 to the average labor productivity of the economy. There are significant productivity gaps between the average labor productivity and the sectoral productivities. The largest gap is observed between the average economy wide productivity and the productivity in industry (80 percent) highlighting weaknesses in productivity driving industrial sectors, particularly weak technology driven manufacturing value addition activities. There is also a wider gap between the productivity of the service sector and the productivity level of the general economy (70 percent). Weak productivity in industry and services, does not bode well with the country's aspiration to transform the economy from low productivity agriculture sector to high productivity manufacturing and services driven economy.

Figure 2.3: Relative sectoral productivity in Sierra Leone, 2018



Source: World Bank; World DevelopmentIndicators, 2023.

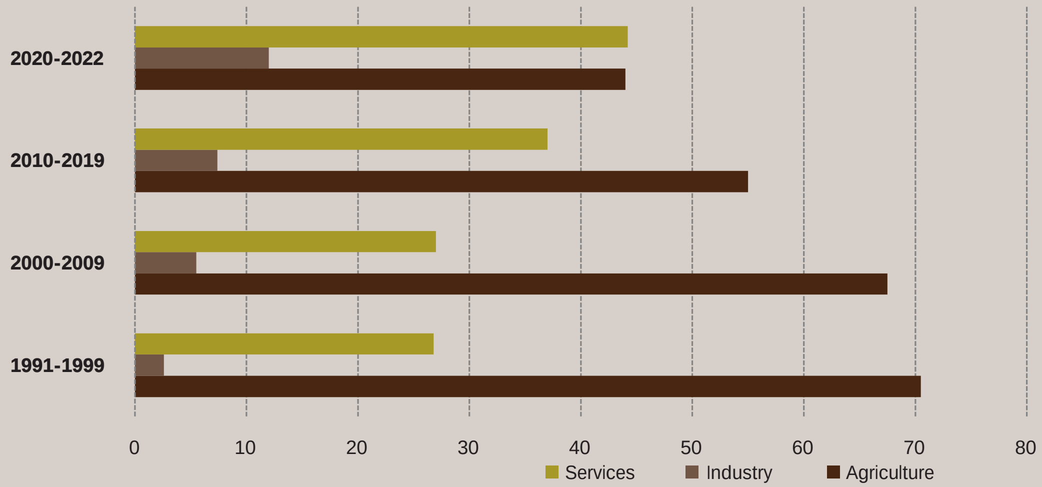
Agriculture accounted for over 70 percent of total employment in Sierra Leone in the 1990s compared to 2.6 percent for industry and 26.8 percent for services. The share of the agriculture sector in total employment declined to 67.5 percent during 2000-2009 while the share of employment in industry and services increased to 5.5 percent and 27 percent, respectively, during the same period, implying the reallocation of labor from agriculture to the industry sector (figure 2.3). The share of agriculture employment in total employment continued to decline in Sierra Leone in 2010s and 2020s reflecting structural change. By early 2020s, the services sector employed more labor force than the agriculture sector as it became the dominant sector in terms of its contribution to GDP.

Despite rapid reallocation of labor from agriculture to services and to some extent industry, the productivity growth in agriculture remained higher than those in industry and services during 2000s and 2010s. As highlighted in section (b) below, overall labor productivity growth during 2000s and 2010s was driven by labor productivity growth in agriculture, driven mainly by investments in post war reconstruction program and smallholder agriculture commercialization program in 2000s and 2010s, while productivity growth in industry and services was minimal or in the case of services, declining. This reflects the predominantly informal nature of the services sector in Sierra Leone. In fact, labor has relocated not from the traditionally low productivity to higher productivity sectors, but from informal subsistence agriculture with higher level of productivity to informal services sector in urban areas with lower level of productivity.

(b) Unpacking Sierra Leone's Structural Transformation Through Labor Productivity Decomposition

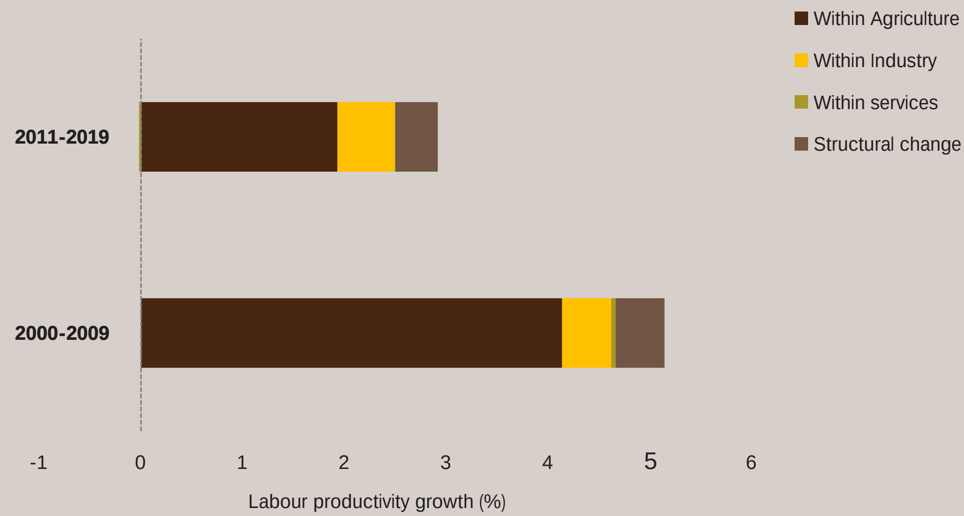
As in other African countries, Sierra Leone displays large gaps in labor productivity between sectors pointing to potential allocative inefficiency and highlighting the potential for growth through the reallocation of labor from less to more productive sectors (see AEO, 2024). According to the AfDB 2024 estimates, labor productivity grew by 5 percent from 2002-2010, likely boosted by end of the civil war in 2002, and peace and political stability. However, average annual labor productivity growth declined to 1.9 percent from 2010-2019, primarily due to slow implementation of reforms and recurrent external shocks. Growth

Figure 2.4: Sectoral employment share in Sierra Leone, 1991-2022 (%)



Source: World Bank, WDI, 2023

Figure 2.5: Labour productivity growth decomposition, Sierra Leone 2000-2019



Source: AfDB Statistics Department, May 2024

during these periods was primarily attributed to the productivity growth in agriculture which grew by 4 percent and 2.9 percent per annum during the 2000s and 2010s. Productivity growth within the non-agriculture sector played a limited role during these periods. Labor productivity in industry and services grew by 0.48 percent and 0.04 percent, respectively, during the 2000s and at similar magnitudes during the 2010s, highlighting lack of dynamism in the non-agricultural sectors which are prerequisite for structural transformation. If the current pattern of less dynamic productivity growth and large productivity gaps between agriculture and non-agriculture sectors continues, overall labor productivity growth will eventually stall in Sierra Leone. Policies aimed at boosting productivity within modern sectors such as manufacturing, and services are therefore imperative for driving and maintaining Sierra Leone's structural transformation (see AfDB, AEO, 2024). Moreover, since agriculture remains the backbone of the structural transformation process, there is the need to strengthen the government policies to foster the transformation of the agriculture sector, and agricultural value chain development.

(c) Rapid Growth in Income and Jobs Embodied in Services Export: New Evidence

Following the unsuccessful import substitution strategy in the earlier decades after independence, Sierra Leone embarked on more outward looking development strategy dependent on exploitation of natural resources, mainly the mining, and agriculture sectors. The country has established the Sierra Leone Investment and Export Promotion Agency (SLIEPA) to foster trade and aligned its trade strategy with the objective of the African Continental Free Trade Area (AfCFTA) to ensure comprehensive and mutually beneficial trade in goods. However, Sierra Leone's main exports are mineral resources, which generate fewer jobs compared to exports of manufactured goods. The government needs to strive to foster mineral beneficiation through the value addition of mineral raw materials including polishing diamonds which are exported as raw materials. The study by Mensah and de Vries (2024) calculated the domestic value-added and jobs embodied in exports using the hypothetical extraction method introduced by Los et al. (2016). Their study shows that the overall number of jobs linked to foreign demand in the eleven sub-Saharan African economies covered almost doubled, reaching 26.5 million workers in 2019 from 13.6 million 1990 and that the share of jobs embodied in manufacture exports was higher compared to those embodied in agriculture, and services exports. Therefore, adding value to mineral resources and agriculture output is a prerequisite for structural transformation, job creation, and poverty alleviation in Sierra Leone.

(d) Drivers to Accelerate Structural Transformation

To identify the main drivers of structural transformation, AfDB (2024) conducted an exploratory regression analysis on an unbalanced panel comprising 48 African countries from 2000-2019. The study finds that competitive exchange rate, well defined and functioning institutions, governance, fiscal reforms, and fixed capital accumulation are essential drivers of structural transformation while stringent labor market regulation is likely to impede structural transformation in African countries.

Good governance and strong institutions can provide a more conducive environment such as macroeconomic stability for accelerating structural change. Sierra Leone is implementing governance reforms to fight corruption and illicit financial flows and improve overall public financial management. Governance and accountability are identified as some of the key enablers of the Big Five Game Changers in the MTNDP 2024-2030. The MTNDP 2024-2030 places a great emphasis on strengthening PFM institutions and structures to sustain and consolidate improvements in public service delivery.

Sierra Leone pursues a flexible exchange rate policy where currency values are determined by the market forces of demand and supply. The country is also open to trade. Total trade (exports plus imports) represented 88 percent of GDP in 2022. If such level of openness leads to higher output and jobs, it will enhance structural transformation. The business climate is not fully conducive for the private sector. The country should effectively

Despite structural shift from agriculture dominated to services sector dominated economy, Sierra Leone displays large gaps in labor productivity between sectors pointing to a potential allocative inefficiency and highlighting the potential for growth through the reallocation of labor from less to more productive sectors.

Box 2.1: Learning from the successful experiences in supporting growth and structural transformation.

This box presents the experience of Mauritius in supporting growth and structural transformation. Mauritius is one of the most successful African countries that has achieved sustainable economic growth and structural transformation over the past four decades. It managed its economy so successfully that from a sugarcane-based, low-income country with a per capita income of $260 in the 1960s, it transformed itself into an upper-middle income country with a per capita income that now exceeds US$10,000 (Rahardja and Swaroop, 2024). Mauritius diversified its economy from a monocrop agriculture-based economy with agroindustry, manufacturing, financial services, tourism, retail trade and Information and Communication Technology (ICT) as main pillars. Mauritius is a typical example of a successful transformation from a low productivity agriculture sector to high productivity manufacturing, high value-added production, services, and information technology sectors. The country is also transitioning into ocean economy, renewable energy, knowledge center of excellence and medical hub as growth sectors, creating more remunerative employment for the labor force. The main drivers of the country's successes are good governance, political and macroeconomic stability, investment in human capital, infrastructure development and effective implementation of reforms to foster private sector development and support to export oriented industrial development strategy (see Rahardja and Swaroop, 2024). Although Mauritius is a small island, developing nation with a population of 1.3 million, its stellar economic performance over the past five decades is worth emulating by many countries in sub–Saharan Africa including Sierra Leone.

implement business regulatory reforms and support Small-and-Medium Enterprise (SME) development to foster sustainable and inclusive economic development. According to the 2023 World Bank Enterprise Survey, lack of access to finance and lack of access to land have been identified as the two top constraints to doing business in Sierra Leone by enterprises. The government has addressed the challenge to access land through the Customary Land Rights Act 2022, which allows land ownership by both men and women in any part of the country. This Act was significant in terms of economic empowerment of women. Labor market is characterized by high youth unemployment exacerbated by skills mismatch.

Sierra Leone is experiencing rapid unplanned urbanization mainly led by rural-urban migration by the youth. The urban population was 3.7 million (43.5 percent) of the total population in Sierra Leone in 2022. The capital, Freetown, has the population of 1.5 million and is the largest city in the country. The city contributed 25 percent to the national GDP in 2019 despite challenges of lack of proper urban planning. With proper urban planning, Freetown and other urban areas can become engine of growth and economic transformation. Urbanization presents immense opportunities to Sierra Leone to accelerate progress towards the 2030 Sustainable Development Goals (SDGs) and 2063 African Union's (AU) development agendas and for promoting the country's integration in the context of the AfCFTA. For Sierra Leone policymakers, it also entails very important challenges in planning, managing, and financing urban growth, both at the local and the national levels (see AfDB, et al. 2022).

Structural transformation generally entails a gradual transition from resource-based and low technology to Medium and High-Technology (MHT) activities. The MHT activities are also the high value addition manufacturing processes with higher technological intensity and labor productivity (AfDB, 2024). The share of high technology exports in total exports of goods in Sierra Leone was 0.05 percent in 2018. Sierra Leone's export is dominated by mineral products with low value addition and limited technological intensity. In 2021, the government adopted National Digital Development Strategy 2021 to foster digital services, and inclusive growth.

The infrastructure gaps remain high. Electricity access and consumption in Sierra Leone are among the lowest in Africa at about 36 percent of the overall population. Deficiencies exist in transport infrastructure and transport services in all four subsectors: roads, railway, air transport, and ports and only 8,700 km are functionally classified in the National Road System. In 2020, 85 percent of the population had access to mobile network while only about 17 percent of the population had access to the internet. Sierra Leone offers vast opportunities for investment in hydro, solar, wind, and other renewable energy sources to drive transition to address climate change and drive transition to green growth.

Sierra Leone is striving to achieve structural transformation by mainstreaming the High 5s i.e., Light UP and Power Africa, Feed Africa, Industrialize Africa, Integrate Africa, and Improve the quality of life for People of Africa, in its MTNDP 2024-2030.

Sierra Leone ranks 151 out of 157 countries on the World Bank's Human Capital Index (HCI). The HCI value is lower than the region's average, indicating significant challenges in human capital development (World Bank, 2024).

(e) Key Bottlenecks to Fast-Paced Structural Transformation

Demographic Challenges: Sierra Leone had a total population of 8.6 million in 2023. The age dependency ratio as a percentage of working age population has decreased from 89.8 percent in 2002 to 72.7 percent in 2022. On the other hand, working age population has increased by 81 percent from 2.7 million in 2002 to 4.9 million in 2022 over the two decades. Such fast rising

Box 2.2: Potential and existing opportunities (depending on countries- (i)non-renewable natural resources, (ii) potential in agriculture and agribusiness; and iii) investment opportunities in renewable energy; (iv) AfCFTA.

Sierra Leone is rich in non-renewable natural resources. Sierra Leone's value of non-renewable capital consisting primarily of minerals in 2018 was estimated the World Bank at US$ 1.6 billion in 2018 at constant 2018 US dollars, increasing by 92 percent over the past quarter of the century. Sierra Le-one's mineral endowments include iron ore, diamonds, rutile, bauxite, gold, platinum, limonite, chromite, coltan, tantalite, columbite, and zircon with petroleum potential. Sierra Leone receives meagre rents from its natural resources. Total natural resources rents decreased from 10.5 percent in 2010 to 7.8 percent of GDP in 2020, implying that Sierra Leone has not been able to maximize benefits from its vast mineral wealth and renewable resources. For natural resource wealth to derive economic development, Sierra Leone must ensure receiving a fair share of resource rents and effectively managing these revenues (AfDB, 2023).

The services sector is the dominant sector (42.2%) of GDP) followed by agriculture which contributed 29 percent to the GDP, and employing 43 percent of the workforce in 2023. Although the country is endowed with 5.4 million hectares of cultivable land, (1.6 million hectares of arable land (21.9 percent of the total land area in 2021), only 15 percent of it is cultivated and the country relies heavily on food import mainly rice for consumption. Sierra Leone imported 480,000 tons of rice for domestic needs in 2022 alone. Key challenges include limited use of modern inputs, archaic technol-ogy of cultivation, limited irrigation, and subsistence nature of food production with only about 2 percent of mechanization. To address these challenges and foster agribusiness value chains, the gov-ernment in 2023 launched a National Agricultural Transformation Plan (Feed Sierra Leone), which is expected to boost transformation of the sector. .

Investment opportunities also exist in renewable energy. Sierra Leone is endowed with several waterfalls for hydropower generation and abundant rainfall, abundant sunlight for solar power generation, as well as potential for wind energy. These will provide opportunities for private sector investments to provide alternative sources of energy from renewable sources thereby contributing to Sierra Leone's green growth objective.

The AfCFTA offers massive opportunities for trade for Sierra Leone. Sierra Leone signed and ratified AfCFTA. The National Trade Strategy of Sierra Leone is anchored around implementing the AfCFTA as a means for repositioning Sierra Leone's trade away from an overdependence on iron and other mining products, towards more diversified goods and services. To achieve these objectives the country must add values to its natural resources by investing in energy infrastructure and fostering manufacturing.

working age population offers an opportunity to foster savings and investment if the economy can create jobs for the labor force. The main challenges hindering the country from benefiting from the demographic dividend due to the rising youthful population are weak education and skills outcomes, poor health services, limited employment opportunities and non-conducive business environment. To create a better and higher productivity job for the fast-growing labor force, the government in its MTNDP 2024-2030 has prioritized investment in (i) education and skills development, (ii) good health, (iii) employment and entrepreneurship, and (iv) good governance.

Climate Change: Sierra Leone is highly vulnerable to the adverse impacts of climate change, with a growing number of people at risk to extreme events and significant impacts on the economy. Like other vulnerable countries, Sierra Leone has gradually experienced high temperatures, inconsistent weather patterns, recurrent storms, floods, mudslides, rising sea levels, coastal erosion, poor water quality and scarcity, changes in ecosystems, and biodiversity loss, among others. Sierra Leone ranks 47th among 181 nations recording high scores for vulnerability, susceptibility, and lack of coping capacities on the World Risk Index 2021. World Bank estimated that the total economic loss from the 2017 flooding was over US$ 31 million and recovery needs of over US$ 82 million affecting predictivity, and resource reallocations.

Informal Sector: TThe bulk of businesses in Sierra Leone operate in the informal sector. In 2023, only 45.5 percent of firms were registered in Sierra Leone when they started their businesses which implies that informality is at least over 54 percent in the country (see World Bank, 2023). Informality not only undermine economic transformation but also the government efforts to mobilize domestic revenues. In Sierra Leone, labor migrates from the agriculture sector which is characterized by low labor productivity to the informal services sector, which is characterized by lower productivity, and consequently, agriculture currently employs 43 percent of the labor force while services employ 45 percent and contributes the largest share to GDP.

Political Issues: On June 24, 2023, Sierra Leone conducted its fifth general election since the end of the civil war in 2002. However, the opposition rejected the outcome of the election and the post-election tensions between the ruling and opposition parties posed a risk to political stability. The intervention by regional organizations including the African Union (AU) and ECOWAS with the support from the Commonwealth, led to the signing of the Agreement for National Unity in October 2023 diffusing the tension. Sierra Leone has made improvements in fighting corruption and state capture in the past five years. The country's score in Transparency Internationals' Corruption Perception Index has improved from 33 in 2020 to 35 in 2023 and Sierra Leone ranked 108th out of 180 countries in 2023.

Financing Constraints: Financial intermediation is weak and lack of access to credit is the major constraint to doing business in Sierra Leone. One of the main constraints is the fiscal dominance. The government borrows heavily from commercial banks to finance the fiscal deficit, and this has crowded out access to credit by the private sector. Credit to the private sector grew by about 11 percent in 2022 and was estimated to grow at 18 percent in 2023, but from a low base.

2.3. Finance to Fast-Track Sierra Leone's Structural Transformation

a. Identify Structural Change Strategy in the National Development Plan

In its MTNDP 2024-2030, Sierra Leone identified 5 key prioritizes dubbed as Big Five Game Changers to foster economic diversification and structural transformation. These include: (i) Feed Sierra Leone; (ii) Human capital development; (iii) Youth employment scheme; (iv) Technology and infrastructure, and (v) Transforming the public service architecture. To drive the Big 5 Agenda, the government has identified 4 key enablers including (i) Scaling up efforts to diversify the economy; (ii) Governance and accountability for improved service delivery; (iii) Advancing climate resilience and environmental action; and (iv) Gender mainstreaming.

The Plan underscores that delivering a resilient economy for sustainable development requires economic diversification and adequate structural transformation. Under economic diversification priority, the government will focus on pursuing specific catalytic strategies under the following broad sectoral areas: (a) Transforming the tourism sector; (b) Strengthening the private sector for trade and sustainable development, putting into effective implementation of the AfCFTA; (c) Value addition and efficient management of natural resources; and (d) Financial inclusion for strengthened rural and informal economies.

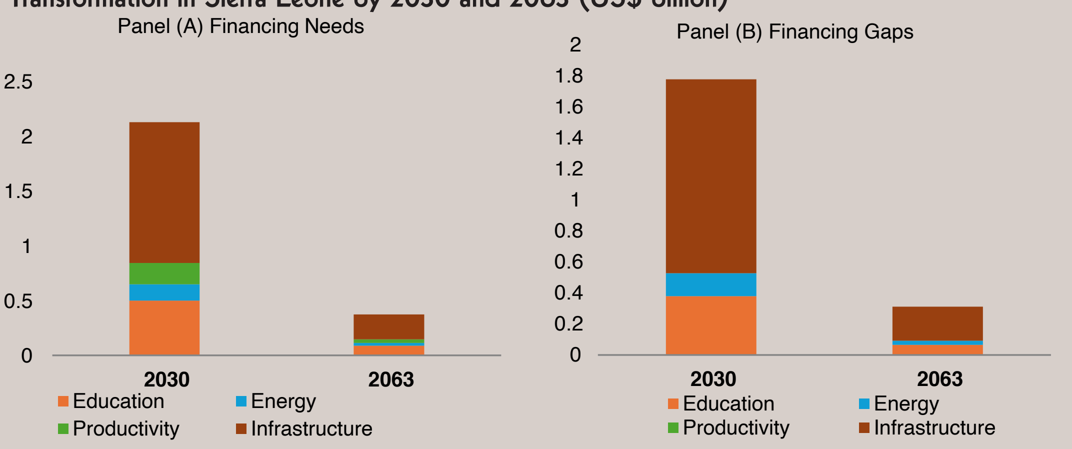
b. Financing Needs and Financing Gap

The total estimated cost of the Sierra Leone's MTNDP 2024-2030 is US$12.05 billion. Of this, US$6.62 billion represents direct project-related costs, while US$5.43 billion represents the government's statutory expenditures to support project implementation. The government projects to raise US$9.49 billion from both internal and already committed external resources, leaving a total financing gap of US$2.56 billion for seven years (a US$ 366 million average annual gap), for which funding will be sought from other sources to fully finance the National Development Plan. The annual financing gap is large, accounting for over 80 percent of the domestic revenue in 2023 and poses a major challenge for the implementation of the MTNDP. The situation is worsened by high level of public debt and debt financing costs. On the other hand, according to the AfDB (2024), financing gaps for structural transformation in Sierra Leone in 2030 and 2063 are estimated at 32.7 percent, and 5.7 percent of GDP, respectively (see figure 2.6). The bulk of the financing needs and gap in both 2030 and 2063 are for the infrastructure sector.

c. Closing the Financing Gap Through Domestic Resource Mobilization

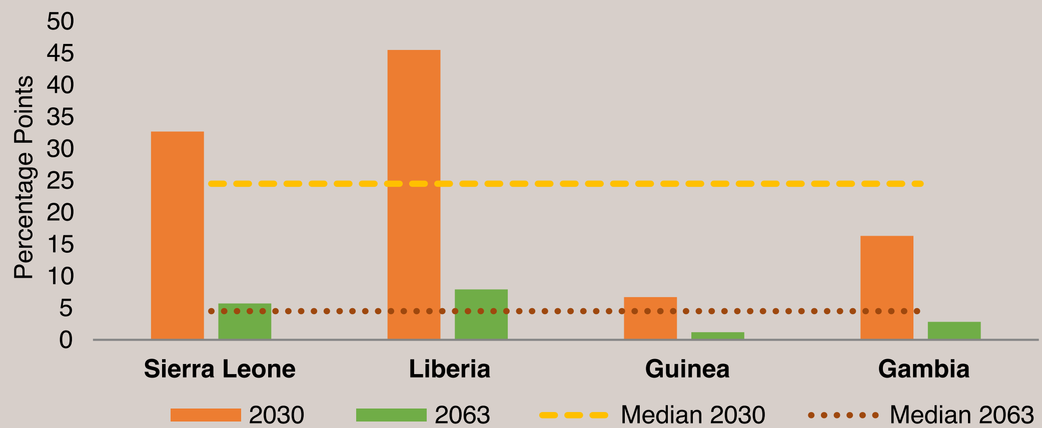
To enhance domestic revenue mobilization and expand the fiscal space, Government prepared the Medium-Term Revenue Strategy (MTRS), approved by Cabinet in April 2023. The implementation of the MTRS commenced with the Finance Act 2023, which was ratified in July 2023. The government has also introduced several tax policy measures in 2024 including harmonization of the final withholding tax rates for capital income comprising dividends, interests, and royalties at a rate of 15 percent; adjusting the GST registration threshold to SL 500,000 from SL 100,000; introducing various excise taxes, as well as a duty on import of rice to encourage domestic rice production, among others. In 2023, the government introduced a Minimum Alternate Tax at 3 percent of turnover for companies to address repeated claims of losses to evade tax and a 2 percent tourism levy which will contribute significantly to closing the financing gap until 2030. However, since the country's fiscal space is limited, the government needs also to

Figure 2.6: Estimated Annual Financing Needs and Gap to Fast-Track Structural Transformation in Sierra Leone by 2030 and 2063 (US$ billion)



Source: AfDB Statistics Department, May 2024

Figure 2.7: Required Increase in Tax-to-GDP Ratio to Close the Estimated Annual Financing Gap in Sierra Leone (%)



Source: AfDB Statistics Department, May 2024

pursue blended financing arrangements including PPPs to mobilize private capital.

2.4. Concluding Remarks and Policy Recommendations

Accelerating structural transformation in Sierra Leone will require an integrated approach at the country, regional, and MDB levels. Therefore, policy recommendations at country, regional, and MDBs levels are proposed on accelerating Sierra Leone's structural transformation:

1. The Role of the Government and Private Sector

a) The Role of the Government:

The government should strengthen the implementation of its MTNDPs, focusing on the activities that add higher values to natural resources, particularly agriculture and mining to foster structural transformation. Sierra Leone's natural resources driven growth model has not delivered economic transformation. The government needs to explore a manufacturing export led growth model by adding value to its natural resources, both agriculture and minerals, to foster structural change, considering market failure, policy distortions and socio-cultural impediments to the growth process. Adding value to natural resources will enable the country to effectively utilize the opportunity presented by the AfCFTA. Design policies to foster backward and forward linkages between the agriculture and industry sectors and the latter and services through high value addition investments and activities. The government should also strengthen institutions to foster service delivery and sound governance and implement critical measures to create conducive environment for accelerating structural change.

Scale up investment to build human capital to meet the skills demand by the domestic economy. The Free Quality Education Program introduced in 2018 should be expanded from primary and secondary levels to TVET and other tertiary education levels. Sierra Leone needs to prioritize scaling up skills in Science, Technology, Engineering and Mathematics (STEM).
Enhance domestic resource mobilization and improve efficiency in public expenditure. Fiscal

Box 2.3: Bank's Support to Economic Transformation in Sierra Leone

The AfDB has supported infrastructure projects including energy, roads and water and sanitation to foster the country's structural transformation. The Bumbuna hydroelectric power which generates 50MW at full capacity was funded by the AfDB and was approved in 1990. It was delayed for over 11 years due to the civil war that raged during 1991-2002. It was finally commissioned in 2009 and currently supplies 50MW during the rainy season and 10 MW during the dry season. The Bank also supported Cote D'Ivoire, Liberia, Sierra Leone, and Guinea (CLSG) Interconnection & Rural Electrification Project and Rehabilitation and Expansion of Bo-Kenema Distribution System Project. Under the transport sector, the Bank is currently supporting the Mano River Union (MRU) Rehabilitation of Bo-Bandajuma Road Project. This project that covers the Sierra Leone to Liberia segment of the Trans West Africa Highway, resulted in a 73 percent decrease in vehicle operating cost, and reduced travel time from 1hr to 0.39hr. In the water and sanitation sector, the Bank supported the Three Towns Water Supply and Sanitation Project, the Rural Water Supply and Sanitation Project and the Freetown WASH and Aquatic Environment Revamping Project which contributed to improved access to water supply and sanitation. In recent years, the Bank also supported Sierra Leone Agribusiness and Rice Value Chain development with 65 percent physical implementation rate, Emergency Food Production Project, and the Sierra Leone Rice Agro-Industrial Cluster development which are critical to transform the agriculture sector. Other supports include youth and women employment programmes, technical assistances to enhance domestic resource mobilization and fiscal consolidation, and public debt management.

policy should focus on enhancing the efficiency of public spending and tax collection to help Sierra Leone mobilize sufficient domestic resources to close part of its financing gap. The current domestic revenue-to- GDP ratio of 13 percent of GDP calls for more concerted efforts to improve tax and non-tax revenues. Sierra Leone could also aim at increasing non-tax revenues such as property income, natural resources royalties, fines, penalties, business permits, and others. Design policies to encourage formalization of the large informal sector in the country to accelerate structural change. This would entail, among others, regulatory reforms to improve the business climate.

Monetary policy should be designed in a manner that fosters macroeconomic stability and structural transformation. While combating inflation is the prime objective of monetary policy, it is important to balance this with the country's development needs while also ensuring exchange rate stability.
Build national markets for goods, services, capital, and finance, and deepen integration into the regional markets, utilizing the opportunity presented by affiliation to multiple regional blocks. Developing domestic capital and financial markets, and deepening integration into the regional markets will minimize Sierra Leone's vulnerability to recurrent external shocks.

Invest in entrepreneurship development programs to create jobs for the youth as prioritized in the MTNDP. Youth accounts for over two-thirds of the total population and reaping the benefits of the demographic dividend will depend on investing in human capital development and creating economic and job opportunities for the youth in the country.

(b) The Role of Private Sector in Driving Structural Transformation:

The private sector is the main driver of structural change. The government should adopt policies that foster private business climate through regulatory reforms and infrastructure investment, and implement policies that promote competition, technological change, and innovation to accelerate structural change. Sierra Leone has limited fiscal space and insufficient resources to finance its structural transformation. Therefore, the government should catalyze and attract the private sector investment and leverage new and existing innovative financing instruments to foster economic transformation.

By creating conducive business environment, Sierra Leone could stimulate the private sector, both domestic and external, into investing more in critical sectors to drive structural transformation.

Sierra Leone could also strengthen the use of blended financing such as the PPP to mobilize investment on infrastructure while ensuring the State-Owned Enterprises (SOEs) are run efficiently and contribute to the country's development goals.

2. The Role of Regional Institutions in Supporting Country's Structural Transformation Agenda

Sierra Leone can leverage its membership to regional institutions such as ECOWAS, AU, Mano River Union (MRU) to foster trade and investment needed to catalyze structural transformation.

While the country has aligned its trade policy with the objectives of the AfCFTA, it should create an enabling environment for the private sector to take the advantage offered by the continental platform.

3. The Role of Development Financing Institutions (DFIs) and Multilateral Development Banks (MDBs) in Supporting Country's Structural Transformation

Due to high risk of debt distress, Sierra Leone needs concessional and grant financing to close its development financing gap. MDBs and DFIs could provide to the country more concessional financing including climate financing.

They could also use innovative financing instruments to de-risk private sector investments in all sectors in Sierra Leone. Risks hindering private sector investment include microeconomic risks emanating from infrastructure constraints, policy, and institutional ineffectiveness as well as market failures, and macroeconomic risks including high inflation, fiscal imbalance, high public debt, weak external position, and exchange rate volatility.

3

FINANCING STRUCTURAL TRANSFORMATION IN SIERRA LEONE: THE NEED FOR REFORMS OF THE INTERNATIONAL FINANCIAL ARCHITECTURE

Key Messages

In its development strategy, Sierra Leone has prioritized to invest in transformation of the agriculture sector to ensure food self-sufficiency; infrastructure, technology, and innovation to foster economic competitiveness and private sector development; and human capital to generate the skills needed to drive structural transformation over the next seven years. The ongoing call for the reform of the global financial architecture offers an opportunity for the country to mobilize the resources needed to meet its development goals as well as the development goals stipulated in SDGs and the AU Agenda 2063.

The scale of resources needed to support Sierra Leone's structural transformation is large. This, therefore, calls for radical reform and strengthening of the global financial architecture to ensure that it is fit for purpose to mobilize resources at scale and affordable terms for low-income countries such as Sierra Leone with limited capacity to mobilize domestic resources to finance their development needs.

Sierra Leone is at high risk of debt distress due to increased borrowing to address the impacts of recurrent multiple external shocks, and finance development needs. However, the current G20 Common Framework for debt resolution remains slow to respond to the needs of the countries in debt distress and could be streamlined. Moreover, the current Debt Sustainability Framework (DSF) focuses only on the liabilities side of the government balance sheet and ignores government assets including the large natural capital endowments nor does it capture climate change and fragility risks which are critical for Sierra Leone. Therefore, the DSF should be reformed to account for emerging issues facing the country.

The reform of the global financial system alone does not, however, solve structural bottlenecks hindering the transformation of the county's economy. Sierra Leone needs to enhance its domestic resource mobilization through tax and non-tax revenues, for example, by implementing a regulatory reform to formalize the informal businesses to increase the tax base, and efficiently exploit its vast natural capital to foster structural transformation. It should also implement reforms to improve efficiency in public expenditure, fight illicit financial flows, and tax avoidance.

3.1. Introduction

Sierra Leone needs significant investment to fast-track structural transformation while dealing with the threat of climate change, and recurrent exogenous shocks and drivers of fragility. According to the AfDB (2024), Sierra Leone needs at least US$2.13 billion annually to meet SDG goals by 2030, and US$347 million per annum until 2030 to finance its climate change and green growth objectives. While a substantial part of the investment will be financed by the country itself, there is also a pressing need for increased external financing, from both public and private sources, including PPPs. This chapter assesses, using AfDB's estimates, Sierra Leone's capacity to increase the tax-to-GDP ratio to close the financing gap to fast-track structural transformation by 2030 and 2063, and motivate the needs for reforms to the international financial architecture.

3.2. Sierra Leone's Stand on the Need to Reform the International Financial Architecture

The scale of resources to support Sierra Leone's structural transformation implies the need for radical reform and strengthening of the global financial architecture to ensure that it is fit for purpose to mobilize resources at scale and affordable terms. The international calls for reforms therefore present an opportunity for Sierra Leone to ensure that the reformed global financial system is responsive to its needs, particularly to finance its structural transformation and the SDGs as well as climate action (AfDB, 2024). The country has been engaging with the IFIs and bilateral partners for decades, and despite multilateral borrowing constituting the largest share in the country's public debt, the need for more concessional debt and grants remains significant given that the country is at high risk of debt distress. The bulk of Sierra Leone's public debt (over 66 percent) is external, of which 80 percent consists of non-restructurable obligations to multilateral creditors including the IMF (26 percent), and the World Bank (24 percent). Sierra Leone will benefit from the reform of the international financial architecture in several ways. First, the country finances the bulk of its fiscal deficit by borrowing or through grant from external sources. As a result, public and publicly guaranteed debt more than tripled from 30.5 percent of GDP in 2013 to 98.8 percent in 2022 due to higher fiscal deficit, and the sharp depreciation of the Leone. Secondly, as the country at high risk of debt distress, Sierra Leone has no room to borrow from private commercial, and bilateral non-concessional sources. Therefore, Sierra Leone will benefit if reforms of the international financial architecture targets multilateral as well as bilateral and private commercial creditors.

Therefore, the reforms would be more beneficial to Sierra Leone if they help to: (1) mobilize more low-cost financial resources for structural transformation, through a reallocation of SDRs and reforms of the MDBs that allow for increased access to concessional financing; (2) create a platform for information sharing on the terms of loans, through a mutually agreed mechanism/platform that encourages voluntary disclosure to foster transparency and accountability among creditors; (3) provide quick and less onerous resolutions for unsustainable debt and avoid more future debt problems; (4) ensure adequate financing for climate action; (5) improve access to emergency financing to deal with exogenous shocks (AfDB, 2024). For instance, according to AEO 2022, based on the discounted social cost of carbon, the estimated carbon debt for Sierra Leone was US$ 5,060.90 on a per capita basis. This implies that the country is owed US$ 40.86 billion and compensated annually from 2022-2050, Sierra Leone should receive an estimated US$ 1.46 billion per year in climate change compensation under Paris Agreement's a "common but differentiated responsibilities" principle, accounting for historical climate damage. However, of its total climate finance of US$235 million in 2019, Sierra Leone received only about 9 percent from multilateral climate funds and 51 percent from multilateral DFIs, despite the country being extremely vulnerable to climate change risks. The reform of global financial architecture is, therefore, crucial to scale up climate finance to the country.

The reform should also focus on changing the governance structures of the IFIs. In addition, the reform should aim at increasing the sustainable limits of MDBs. A 2022 independent review of Capital Adequacy Frameworks (CAF) underlined the need to maximize MDBs funding capacity through the optimization of their balance sheet use and recommended strategic shifts in five areas: the definition of risk tolerance; the use of callable capital; expanding the use of financial innovations; improving credit rating agency assessment of MDB financial strength; and increasing access to MDB data and analysis (AfDB, 2024).

Furthermore, Sierra Leone faces challenges to mobilize international capital at affordable terms due to the perceived high risk as a fragile low-income country. Sierra Leone is not among the 33 African countries which are rated by major credit rating agencies which makes it impossible to borrow in international capital markets. Even if a country is rated, some global lenders require an investment grade credit rating to include a particular government security in their portfolio. A country's credit rating is also an indirect signal to potential equity investors considering foreign direct investment (FDI) (UNDP, 2023). Therefore, updating or reviewing of the credit rating methodology, technology, and criteria applied for risk profiling would be crucial.

3.3. Mobilizing Additional Resources for Sierra Leone's Structural Transformation

Sierra Leone needs to enhance structural transformation by increasing total factor productivity through two channels: technological improvements and physical and human capital investments to raise within sector productivity; and a shift of productive resources from sectors of low productivity to high productivity sectors which usually entails a reallocation of resources from agriculture to industry and services (see AfDB, 2024). The country needs to implement policy and regulatory reforms to enhance innovation and entrepreneurship, boost investments in infrastructure, human capital, and technology to increase labor productivity. Sierra Leone's MTNDP 2024-2030 identifies infrastructure and technology, and human capital as the two top priorities dubbed as the Big 5 Game Changers. The government aims to invest significant resources over the next 7 years to improve access to electricity, transport, water, and sanitation, and ICT as well as education and health to boost labor productivity and economic transformation. To enhance innovation, the government has established the Directorate of Science, Technology and Innovation and developed a National Innovation and Digital Strategy 2019-2029 to chart how the government, development partners and citizens can use science, technology, and innovation to achieve the National Development Plan, the AU's Agenda 2063, and the SDGs.

The government's strategic objective under human capital development is to increase equitable access to quality higher/skills education that promotes research, innovation, and entrepreneurship for growth, stability, and sustainable national development. The youth employment objective in the MTNDP aims to harness the energy and creativity of the youth to drive innovation, entrepreneurship, and social progress. This will be complemented by the implementation of institutional and business-friendly regulatory reforms that will foster private sector participation and increase FDI.

External financial flow to Sierra Leone has been erratic over the past two decades. Net ODA per capita increased from US$74 in 2002 to US$129 in 2015 but declined to US$82 in 2021. On the other hand, personal remittances have increased from US$ 21.8 million in 2002 to US$232 million in 2022, an 11-fold increase. FDI flows to Sierra Leone has declined from US$414 million in 2017 to US$250 million in 2022, while portfolio investment is limited due to weak domestic capital market. Not

Sierra Leone has vast natural resources, which could generate resources needed to drive its structural transformation. Therefore, to enhance domestic resources mobilization, the government should implement reforms to foster formalization of informal businesses and increase tax compliance by the formal sector while ensuring revenues raised are spent efficiently.

only are these external flows insufficient to finance structural transformation in Sierra Leone, but it is also unlikely that the ODA flows to the country will improve in the foreseeable future due to competing priorities and narrowing fiscal space in advanced economies. According to the (AfDB, 2024), in the short run, the best hope for significantly increasing ODA to African countries is the recycling of SDRs and the implementation of CAF reforms by the MDBs, coupled with an MDB Capital Increase (GCI) and an increase to the size of ADF replenishment which severely limits allocations for low-income countries like Sierra Leone.

Apart from the reforms of the international financial architecture, Sierra Leone should increase efforts to mobilize its domestic resources including leveraging its abundant natural capital and people, improving the collection of tax and non-tax revenues, enhancing public spending efficiency, and fighting illicit financial flows and tax avoidance. Sierra Leone's domestic revenues was 13.1 percent of GDP in 2023 and this is likely to fall below 8 percent following the rebasing of GDP to 2018 base year in June 2024. Compliance levels in income taxes, Goods, and Services Tax (GST) and customs and excise duties remain weak. Sierra Leone should strengthen its tax administration to enhance tax compliance and raise more revenues to finance its structural transformation. According to AfDB (2024), reforms of the global tax architecture can also help boost domestic resource mobilization in Sierra Leone and other African countries, and could include strengthening international tax norms, increasing the minimum international corporate tax, and ensuring greater tax transparency and international information sharing which could assist in combating base erosion, and profit shifting by multinational corporations.

3.4. Dealing with Sierra Leone's Debt

External debt helped finance development efforts in Sierra Leone particularly since the end of the civil war 20 years ago. At the end of the war in 2002, Sierra Leone had public and publicly guaranteed external debt stock amounting to US$ 1.2 billion. The external public debt stock reached US$1.9 billion in June 2022 due to high financing needs, an increase of nearly 60 percent over the past two decades despite the Heavily Indebted Poor Countries (HIPC), and Multilateral Debt Relief Initiative (MDRI) which provided large debt relief to Sierra Leone in the mid-2010s. However, the increased borrowing has led to elevated debt sustainability risks. According to the IMF's November 2023 DSA, Sierra Leone was classified as being at high risk of external and overall public debt distress. The external debt service-to-revenue ratio and the discounted Present Value (PV) of the public debt-to-GDP ratio exhibit large and sustained breaches of their thresholds. The total debt service-to-revenue ratio remains above 100 percent until 2028, while Gross Financing Needs (GFNs) are well above the 14 percent benchmark. Large fiscal overruns, together with the depreciation of the exchange rate, have increased the risk (IMF, 2023). Sierra Leone's external debt service has also increased from US$15.7 million in 2002 to US$104.6 million in 2021, limiting resources available to spend on development needs.

The IMF DSA underscores the importance of continued fiscal discipline and structural reforms, supported by technical assistance, and prudent financing choices. Accelerated implementation of the fiscal consolidation, together with the development of a deeper domestic debt market, will be critical in mitigating rollover risks and maintaining debt sustainability. Implementing measures to ensure debt sustainability over the medium-term remains a key priority for the government. To this effect, the authorities updated the medium-term debt strategy, and the arrears clearance strategy and continue to use the weekly cash forecast tool to support the effectiveness of the expanded cash and debt management committee (IMF, 2023).

The objective of Sierra Leone's MTDS 2023-2027 is to reduce the exchange rate and rollover risks in the existing debt portfolio and achieve a lower cost and risk of the debt stock by the end of 2027. The overall objectives of managing public debt in Sierra Leone, are to (i) ensure that government financing needs and its payment obligations are met at the lowest possible cost over the medium to long term, with a low degree of risk; and (ii) to promote the development of the domestic debt market (GOSL, 2023b). The government has adopted PFM Act 2016 and PFM regulations 2018 and have since then developed successive PFM reform strategies. The ongoing PFM reform strategy covers 2023-2027 and its various components are being funded by development partners including the Bank.

There are several gaps in the existing global financial architecture that need to be reformed to enable Sierra Leone access external resources at affordable costs to fast-track structural transformation. First, the current Debt Sustainability Framework (DSF) focuses only on the liabilities side of the government balance sheet and ignores government assets. Like many low-income countries, Sierra Leone has large natural capital that is not captured as part of its wealth in assessing the country's headroom for debt accumulation. Moreover, DSF does not include climate or other sustainability and fragility risks relevant for countries like Sierra Leone. Therefore, the DSF should be reformed to account for emerging issues facing Sierra Leone (see AfDB, 2024). Secondly, credit rating remains an important tool for countries in Africa to use to secure sufficient funding to achieve their development goals. Sierra Leone is not included among the African countries rated by major credit rating agencies. The country can benefit if it is included in credit rating by major rating agencies if the rating of African countries could include the value of natural capital and associated ecosystem services in assessing a country's headroom and debt risk profile in a manner that reduces perceived risk of private investment in the country. Moreover, the G20 Common Framework for debt resolution remains slow to respond to the needs of the countries in debt distress and could be streamlined.

However, the subjectivity and lack of transparency in credit rating has costed African countries large resources that could have been invested on development. For those African countries that are rated by credit rating agencies, the cost of credit ratings idiosyncrasies was estimated at US$74.5 billion in excess interest and foregone funding (UNDP, 2023). One criticism of the Credit Rating Agencies (CRAs) is that the Big Three Rating agencies receive payment from bond issuers which results in conflict of interest while at the same time there is a growing recognition of the oligopolistic industry structure of the credit rating industry, with these Big Three agencies controlling up to 90 percent of all ratings. Another concern is that CRAs tend to overemphasize short-term economic trends while undervaluing the long-term potential for technological advancements, social factors, and environmental mitigation (UNDP, 2023). The reform of the credit rating system and possible inclusion of low-income countries such as Sierra Leone could enable the country to mobilize more resources at affordable costs to finance its development needs.

3.5. Financing Climate Action

Sierra Leone's progress on structural transformation is affected by the impact of climate change. In addition to macroeconomic impacts, climate change has significant impacts on socio-economic outcomes. These include increased risk of mortality, morbidity, high risk of resource-related conflicts, internal displacement, and migration. Dependence on agriculture exacerbates Sierra Leone's vulnerability to climate change. In addition, heavy reliance on rain-fed farming methods increases the sector's vulnerability to rising temperatures, and extreme weather shocks. Sierra Leone is also significantly dependent on the mining sector. More frequent floods and drought due to climate change are likely to reduce the supply of water to the mining sites and disrupt the mining operations. At the same time, a shift in commodity demand towards those needed for low carbon technologies may impact the demand for iron ore, particularly low-grade iron ore, produced in Sierra Leone that also requires more carbon intensive processing. The mining sector, which contributes significantly to fiscal and export revenues, needs to adapt proactively to climate change (IMF, 2022).

Sierra Leone has adopted a National Climate Change Policy (NCCP) and National Climate Change Strategy and Action Plan (NCCS & AP). Sierra Leone's policy response to climate change is driven by the need to urgently address the adverse impacts of climate change on the country's economy, and society as well as its physical environment. This entails efforts to reduce vulnerabilities and strengthen adaptation to climate change in all sectors and at all levels, as well as to develop and implement mitigation initiatives for a low-carbon and high growth development path (GoSL, 2021). The NDC envisions achieving long-term goals for mitigation: a reduction in CO2 emission levels by 10 percent by 2030 from about 74,655 Gg of CO2 in 2020 (with an intermediary indicative mitigation target of 5 percent reduction by 2025 against the same baseline). In the longer term, Sierra Leone's mitigation ambition is to cut GHG emission by 25 percent in 2050 with the inclusion of additional sectors and gases in the successive NDCs with clear and measurable mitigation targets and specific actions (GoSL, 2021). Tackling the climate crisis will require significant investment in climate mitigation and adaptation infrastructure across multiple sectors including energy, and agriculture, water, health, infrastructure, and disaster prevention, and preparedness (AfDB, AEO 2024).

Over the 2020/2021 period, total climate finance in Sierra Leone amounted to US$235 million. The public finance allocated through the Government of Sierra Leone totaled US$209 million of which US$144 million was specified by fund sources. Of the latter amount, 68 percent came from multilateral DFIs and multilateral climate funds, and 32 percent came directly from domestic public finance sources. The private sector contributed US$26 million in climate finance accounting for 11 percent of the total climate finance in the same period. Sierra Leone will need about US$ 347 million (US$ 276 million equivalent to 8.3 percent of GDP or 54 percent of fiscal revenue in 2021 according to Government estimates) annually up to 2030 to meet its climate change and green growth objectives (AfDB, 2023a). Sierra Leone will continue to face challenges to mobilize international climate finance due to the current international financial architecture which is characterized by inequities, gaps, and inefficiencies that are deeply rooted in the system including (a) higher borrowing costs for developing countries in the financial markets, (b) Vast variation in countries' access to liquidity in times of crisis, with only a small share of SDRs allocated to developing countries; (c) Underinvestment in global public goods, including pandemic preparedness and climate action; and (d) Volatile financial markets and capital flows.

3.6. Policy Recommendations

To mobilize resource at scale and on affordable terms for the financing of Sierra Leone's structuring transformation the following reforms will be needed:

Scale up the mobilization of the long term and affordable concessional finance for Sierra Leone's structural transformation through reforms of the global financial architecture: The reform of the global financial architecture is needed to enable countries like Sierra Leone to mobilize external resources needed to meet their development goals. First, this could involve the generalized capital increase to MDBs by the shareholders to increase the size of resources available for lending to low-income countries such as Sierra Leone. Secondly, bilateral donors could ensure a strong replenishment for the ADF. Currently, Sierra Leone receives UA 33 million in upfront ADF 16 allocation which is small to make any significant impact on the development needs of the country. Given the importance of concessional financing for the country, increasing the size of the ADF allocation will be crucial. Thirdly, reforming the global tax architecture will be needed to increase the global minimum corporate tax, and avoid base erosion, and profit shifting.

Improving efficiency of domestic and international debt management: Sierra Leone has developed a MTDMS for the next five years. Nevertheless, the government needs to accelerate the implementation of the strategy by strengthening the oversight role of its cash management committee. On the global level, the G20 could streamline its common framework for debt resolution which currently remains slow in responding to the needs of countries in debt distress. MDBs need also improve their DSA framework.

Enhancing domestic resource mobilization: Sierra Leone has vast natural resources, which could generate resources needed to drive its structural transformation. Therefore, to enhance domestic resources mobilization, the government should implement reforms to foster formalization of informal businesses and increase tax compliance by the formal sector while ensuring revenues raised are spent efficiently. Moreover, the creation of an African Financial Stability Mechanism (AFSM) with the sole mandate of debt refinancing could complement the work of IFIs and ensure that Sierra Leone always has access to adequate and affordable financing.

Strengthen climate finance accessibility by Sierra Leone. Sierra Leone is extremely vulnerable to climate change. However, the complicated nature of the global climate finance and low institutional capacity in Sierra Leone limits the country's access to climate financing. There is the need to simplify the climate financing procedures to enable Sierra Leone to access climate finance at scale.

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