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SIERRA LEONE ECONOMIC UPDATE

JUNE 2018 | EDITION NO 1

Reviving Urban Development

The Importance of Freetown for the National Economy

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ECONOMIC UPDATE**
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The Importance of Freetown for the National Economy

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Foreword

The Sierra Leone Economic Update (SLEU) reports on and analyzes recent economic developments and policies within medium-term, regional, and global contexts and analyzes the implications of these developments and policies for the outlook of the economy. The report includes a special feature analyzing more deeply a special topic relevant to promoting inclusive growth and poverty reduction. The target audience for the SLEU includes policy makers, business leaders and organizations, analysts interested in Sierra Leone's economy, and representatives of civil society.

After recovering in 2016 from the twin shocks of the Ebola Virus Disease (EVD) epidemic and collapse of iron exports, Sierra Leone's economy witnessed sharp moderation in growth in 2017, reflecting weak recovery of mineral production, particularly iron ore. Economic growth remains volatile as a result of a lack of diversification in the economy due to a dependence on the mining sector. Macroeconomic imbalance also worsened in 2017 due to high levels of fiscal deficit and rising debts, inflationary pressure, a fragile banking system, and current account pressures. Stabilizing the macroeconomy is a precondition for inclusive growth and poverty reduction. Key macroeconomic and sectoral reforms will need to be implemented to reduce the imbalances and to avert downside risks to economic growth.

The special topic of this update report is an urban sector review of Sierra Leone's capital, Freetown, with a focus on the city's potential contribution to inclusive national economic growth. It has been demonstrated that cities are the places where significant economic development happens. The importance of Freetown to Sierra Leone's economy is clear, with the city creating 30 percent of the country's GDP despite having only 15 percent of its population.¹ Rapid urbanization is now Sierra Leone's biggest growth narrative for the 21st century. Freetown has the potential to power economic transformation for Sierra Leone by bringing together large numbers of workers and entrepreneurs, and by serving as a hub for large-scale production in services, agro-processing and retail trade that can complement and add value to existing mining and agricultural activities.

In this maiden edition of the SLEU, we are pleased to present a rich menu of policy options, including suggesting policy reforms for stabilizing the macroeconomy and presenting options for planning the urbanization of Freetown to contribute to inclusive national economic growth. The World Bank remains committed to working with the Government of Sierra Leone and other stakeholders to identify potential policy and structural issues that will restore macroeconomic stability and promote inclusive economic growth and poverty reduction.

We hope that this update report will inform and stimulate the policy debate and set an agenda for further development in Sierra Leone.

Henry G. R. Kerali
Country Director for Ghana, Liberia, and Sierra Leone
World Bank

¹ Data from Oxford Economics database.

Acknowledgements

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Executive Summary

Sierra Leone's economic growth rate moderated in 2017 despite a broad upturn in global and regional growth prospects. After growing at 6.3 percent in 2016, and recovering from the twin shocks of Ebola and the iron export collapse, economic growth moderated to 3.7 percent in 2017 reflecting weak recovery of mineral production, particularly iron ore. Industry, dominated by iron ore mining, was subdued by persisting low commodity prices, higher domestic prices of energy (fuel and electricity), and lower investment. Excluding iron ore, the economy grew by only 3.6 percent in 2017, compared to 4.3 percent in 2016, due largely to a slowdown in construction following the reduction of public investment in infrastructure. Agriculture and fisheries continued to show signs of resilience following improved support to farmers, while the service sector benefitted from increased tourist arrivals and a recovery in commerce. Inflationary pressures eased in 2017 although the rate remained high, declining to 15.3 percent from 17.4 percent in 2016. This reflected the relative stability of the exchange rate, reinforced by the tight monetary policy stance of the Bank of Sierra Leone (BSL). Monetary policy remained tight throughout 2017 as the BSL raised the monetary policy rate (MPR) on four consecutive occasions, in March, June, September, and December, respectively, to contain inflationary pressures. The tighter policy stance of the BSL has led to tight liquidity conditions in money markets, with some commercial banks facing increased liquidity constraints. This underpinned the slowdown in private sector credit growth, which worsened due to the general slowdown in economic activities. However, credit to the government remained high, underpinned by the huge borrowing inclination of the government to finance the persistent fiscal deficit.

The government's fiscal stance in 2017 was expansionary, reflecting a shortfall in revenue mobilization and spending overruns in all the major expenditure categories. The overall budget deficit, including grants, deteriorated to 8.4 percent of Gross Domestic Product (GDP) compared to a target of 5.9 percent of GDP. The increase in total government expenditure was driven by spending overruns in wages, transfers of goods and services, and domestic capital expenditures. Revenue mobilization failed to keep pace with the rapid growth in expenditures in 2017 as the enactment of the 2017 Finance Bill was delayed, fuel price liberalization remained unimplemented, and excessive duty waivers continued. The deficit was financed by external loan disbursements and grants as well as by domestic borrowing, mainly from the banking system, which exceeded the limit of 2.0 percent of GDP on which the government's medium-term fiscal program is anchored. To ease cash constraints arising from commercial banks' undersubscription to domestic treasury bills, the government undertook foreign exchange swaps operations with commercial banks totaling US\$41.0 million. The worsening fiscal position of the government and the underperformance of domestic revenue mobilization has led to a sharp rise in the stock of public debt. However, the most recent Debt Sustainability Analysis (DSA) (June 2017) indicates that Sierra Leone remains at a moderate risk of debt distress.

The external position remained weak, reflecting the worsening of the trade and current account deficits. The rise in the current account deficit was driven by increased private consumption of imported items, which also worsened the trade deficit. The current account deficit was financed by increased inflows to the financial account and a slight draw down of reserves. Specifically, inflows to the capital and financial accounts improved because there was an increase in long-term portfolio flows and in foreign direct investment, especially in agriculture and mining.

Economic growth is expected to reach 6.5 percent in the medium term, driven by increased private sector investments in agriculture and mining coupled with improved spending on road construction and energy, as well by reforms in the investment climate. The fiscal deficit is expected to narrow to 3.8 percent of GDP by 2020 on account of fiscal consolidation, implementation of the government's medium-term revenue mobilization strategy, and new public financial management reforms. BSL is expected to continue tightening its monetary policy stance, complemented by fiscal consolidation, to bring down inflation to 9 percent over the medium term. The current account deficit is projected to steadily decline to 15.1 percent by 2020 due to a positive outlook for commodity prices, which are expected to support export growth.

Nonetheless, there remain significant downside risks which could impede growth. The main risks to Sierra Leone's growth outlook are the persistent fiscal deficit, adverse debt dynamics, weaknesses in the banking sector, and the volatility of economic growth. First, the near-suspension of the Extended Credit Facility (ECF) program, along with a weak revenue outlook, may hinder fiscal consolidation, which could lead to higher fiscal deficits, and the financing of the deficit could limit monetary policy efforts to contain inflation. Second, the government signed a new loan agreement of US\$318 million with the Export-Import Bank of China (China Exim Bank) for the construction of a new airport, which coupled with new borrowings to finance the persistent fiscal deficit, including high debt interest payments, could put the country at high risk of debt distress. Third, the large buildup of suppliers' arrears, a type of forced financing of the deficit, is weakening the loan portfolio of commercial banks because nonperforming loans of the banking industry remain high at 15 percent. This, combined with the preexisting weaknesses in the two state-owned banks, may undermine financial stability and increase the fiscal costs of resolution. Finally, there have been large swings in growth due to volatility in commodity prices. Medium-term growth could fall short of expectations if the outlook for commodity prices, especially iron ore prices, becomes unfavorable, which would hurt the mining sector.

Stabilizing the macroeconomy is a precondition for inclusive growth and poverty reduction. Key macroeconomic and sectoral reforms will reduce the imbalances and avoid the downside risks. First, a robust and sustained fiscal consolidation program is needed to lower the fiscal deficit, reverse the trend of rising public debt, and stabilize the economy. The government should reduce the public sector wage bill by reforming and aligning the compensation structure in the public service and eliminating ghost workers. It should also optimize and prioritize public investments, improve spending efficiency, and clear-out the huge stock of arrears. Additional steps to support the fiscal consolidation process would involve strengthening domestic resource mobilization by improving the efficiency of revenue administration through modernization, automation, and integration of the tax collection system, and restructuring the National Revenue Authority (NRA) to radically change staff incentives. Second, the government should implement debt management strategies that discourage nonconcessional borrowing and reprofile the debt stock to enhance debt sustainability. Government should readjust the public debt portfolio to replace short-term debt carrying high interest rates with longer-term debt at lower interest rates. Third, the BSL should continue to maintain a tight monetary policy stance to control inflation and to support fiscal consolidation. Furthermore, the BSL should continue to discourage bridge financing to the Ministry of Finance. Finally, the weaknesses in the banking sector must be quickly addressed to enhance financial stability, particularly with the two troubled state-owned banks. BSL should enhance corporate governance at a sectoral and bank-specific level and conduct independent Asset Quality Reviews.

Special Topic: Reviving Urban Development

The special topic in this update report is an urban sector review of Sierra Leone's capital city, Freetown, focusing on its potential contribution to economic growth. Policy choices made now will determine whether Freetown becomes an engine or an obstacle for economic transformation in Sierra Leone. At its best, Freetown could provide a hub for West African exports, and a platform for Sierra Leone's young and rising middle-class to form productive industrial clusters. At its worst, it risks being a congested bottleneck that fails to generate jobs and keeps Sierra Leone closed to the global economy.

The difference between these two trajectories ultimately depends on whether Freetown can create an attractive environment for firms. Firms create the incomes and tax revenues that make the city both productive and livable. At a minimum, a productive firm needs both reliable access to electric power and physical connectivity to enable it to access workers, customers, and other firms to trade with. Currently Freetown provides neither; consequently firms do not generate productive jobs. Freetown's firms are predominantly small in scale and offer only low-value services, such as informal retail. As Freetown has grown, Sierra Leone has actually deindustrialized, with manufacturing now only 2 percent of national GDP, down from 10 percent in 1994. This stands in stark contrast to the export-led, large-scale industrial growth that characterized the successful urbanization experience in East Asia.

This report discusses practical policy options for a new government to improve the city's physical connectivity. While providing electricity depends in large part on national policies that are relatively straightforward to implement, connectivity depends on effective urban planning that is liable to go badly wrong if there is no active public policy.

A city can provide connectivity in two ways: (i) through dense development that clusters firms and workers together, and (ii) through transport connections between locations. Freetown performs poorly on both of these fronts, even relative to other sub-Saharan cities:

- Regarding development density, the city is relatively dense with people, but not with economic activity. Population density is achieved not through efficient land use that clusters productive commercial activity but through overcrowded informal settlement. Only 4 percent of land near the city center is used for commercial or industrial purposes, compared to 24 percent in other African cities. This comes at the expense of productivity and livability.
- Regarding transport, road space is very low relative to other low-income cities, and high levels of congestion result in average traffic speeds in some central urban areas reaching just 3km per hour. Furthermore, insufficient external transport links, such as the airport, port, and road infrastructure, frustrate the city's ambitions to become a regional trade hub.

Effective urban planning is fundamental to addressing both of these barriers to connectivity. To improve the city's density of land use, the first priority is to clarify urban land ownership by registering secure and marketable land rights. Without security, land owners will not make substantial investments in building structures, and without marketability, land use cannot change to reflect the changing economic activities of the city.

Improving the city's transport links will require complementing substantial infrastructure investment with smart, enforceable regulation to use existing infrastructure more effectively. Restrictions on private vehicles in the city to reduce congestion, for example, can create quick wins needed to build up public support for further reforms. Other developing cities have implemented dedicated bus lanes and frequency requirements for minibuses and ferries to great effect.

Over the next 20 years, many more people will go to Freetown, and the city is expected to double its population. But once people have settled on land, it becomes very difficult to retrofit infrastructure and clarify land ownership. These obstacles can be avoided, but only by adopting policies that anticipate settlement. This report outlines a range of options for very low-cost investments that register plots of land and install basic services, providing sites on which the expanding population can settle.

In the past, in part due to rapid urbanization during the civil war, Freetown did not put in place policies that can attract productive firms and lift living standards for its citizens. The result was not only a wasted opportunity to harness the productive potential of urbanization, but the creation of an active bottleneck to the entire country's exports. The new government has the opportunity to change this with focused, purposive investments that shape Freetown into a city that works.



Part A: *Economic Development in Sierra Leone*

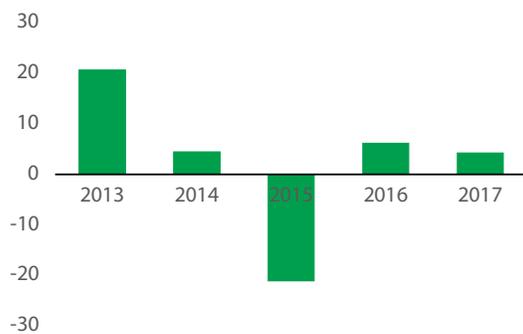
1. Recent Economic Development

At the beginning of this Sierra Leone Economic Update (SLEU), a series of charts and figures in Figure 1.1 below tell a comprehensive story of recent economic trends in Sierra Leone, including subjects such as GDP growth, inflation, depreciation, the exchange rate, private credit growth, monetary policy rates, fiscal deficits, public debt, capital spending, and domestic revenue mobilization.

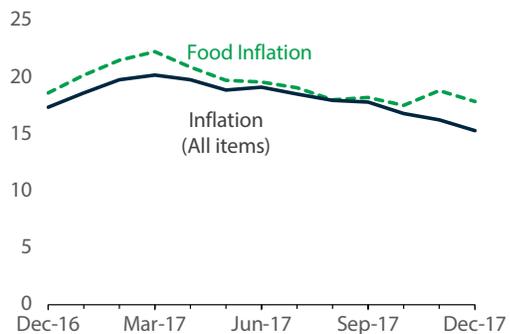
These figures can help inform the analysis in the subsequent sections.

Figure 1.1: Recent Economic Trends

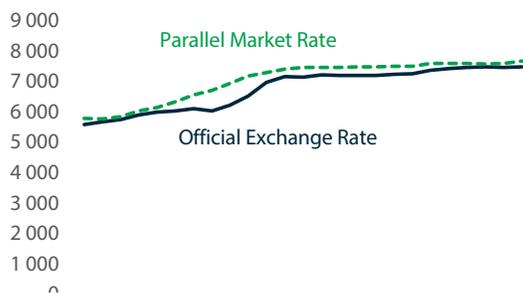
GDP growth (%) moderated in 2017....



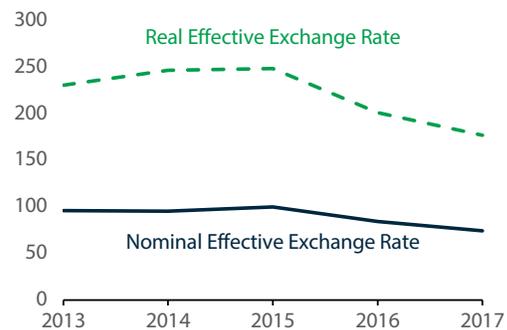
.....and inflation (%) remained high though declining.



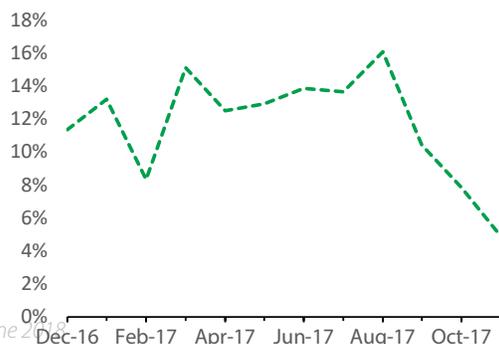
Leone/US\$ stabilized in 2017 after significant Depreciation....



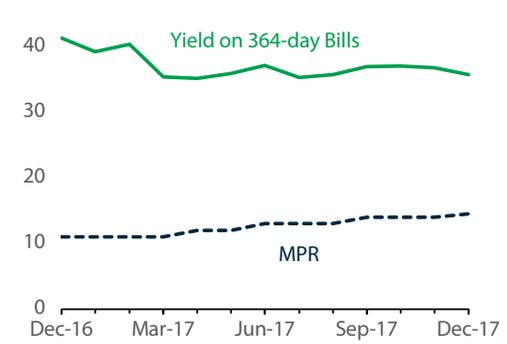
...and the real exchange rate is overvalued.



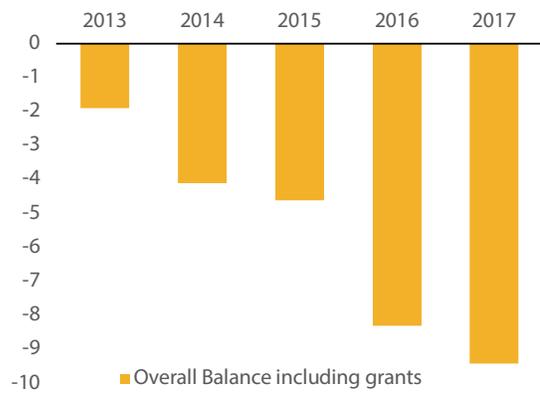
Private credit growth decelerated in late 2017...



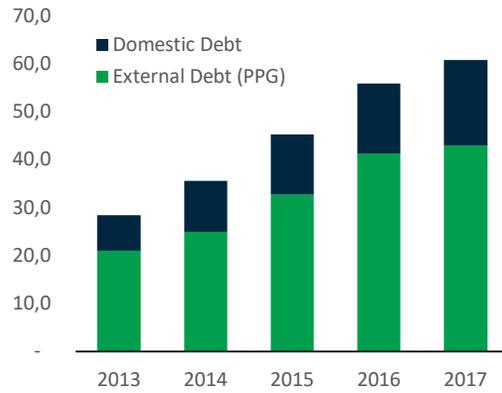
...and monetary policy rate increased but yield on the 364-day Paper declined.



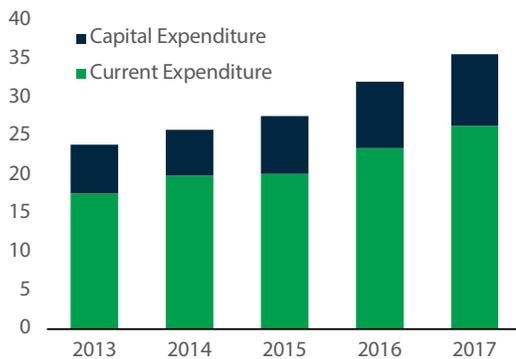
Fiscal deficit (percent of GDP) widened in 2017 due to spending overruns...



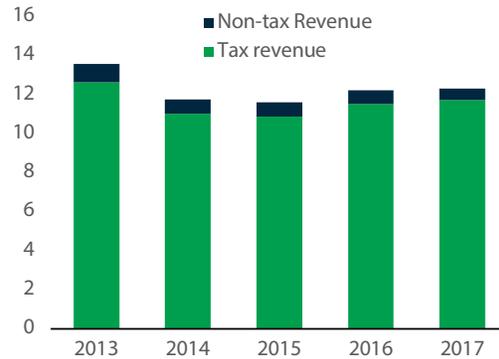
...and public debt (percent of GDP) is increasing rapidly.



Both current and capital spending (% of GDP) increased in 2017....



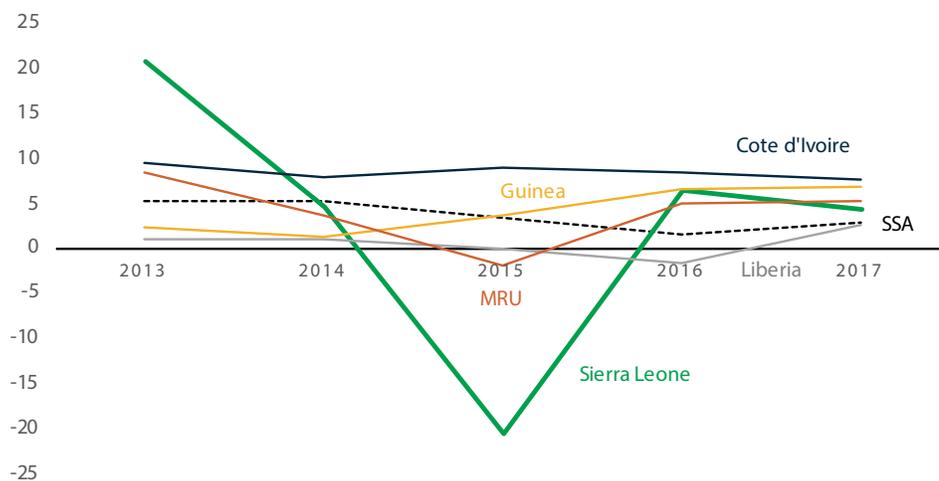
...and domestic revenue mobilization (% of GDP) remains weak.



1.1 Broad-based Upturn in Global Economic Growth²

1. Global economic growth recovered in 2017, reflecting a rebound in investment, manufacturing activity, and trade against the backdrop of favorable global financing conditions, generally accommodative policies, the firming-up of commodity prices and rising business confidence. Global GDP growth is estimated to have increased to 3 percent in 2017 from 2.4 percent in 2016. The upturn is broad-based, with growth increasing in more than half of the world's economies.
2. In advanced economies, growth is estimated to have rebounded to 2.3 percent in 2017, driven by a pickup in capital spending, a turnaround in inventories, and strengthening of external demand (Figure 1.2). The improvement was noticeably stronger than expected in Euro areas, although growth accelerated in all major economies. In emerging market and developing economies (EMDE), growth is estimated to have accelerated to 4.3 percent in 2017, reflecting firming activity and continued solid growth among commodity importers. Most EMDE regions benefited from a recovery in exports as key economies such as Brazil and the Russian emerged from recession. China's economic performance was robust, with growth reaching 6.8 percent in 2017 reflecting continued fiscal support and the effects of reforms, as well as a stronger-than-expected recovery of exports and a slight positive contribution from net trade.

Figure 1.2: Regional Economic Growth, in Percent



Source: IMF's World Economic Outlook Database

3. Sub-Saharan Africa's (SSA) growth rebounded to 2.4 percent in 2017, after slowing sharply to 1.3 percent in 2016. Overall growth was driven by an uptick in metals prices, which supported the increase in metal exports, recovery in the agricultural sector, and a slowdown in inflation, which lifted household demand. Growth was stable in nonresource-intensive countries as infrastructure investment continued. Despite these improvements, regional growth in 2017 remained negative in per capita terms. Africa's largest economies—Angola, Nigeria, and South Africa—also recorded modest growth due largely to recovery in the oil sector. Nigeria witnessed a decline in militants' attacks on oil pipelines, which helped to boost oil production. The region is projected to see a moderate pickup in activity, with growth rising to 3.2 percent in 2018 and to an average of 3.6 percent in 2019-20, turning slightly positive in per capita terms.

² Global Economic Prospects, January 2018.

- Although above the average for SSA, Sierra Leone's economic growth slowed significantly in 2017 and fell below the average of its neighbors in the Mano River Union (MRU), including Cote d'Ivoire, Guinea, Liberia, and Sierra Leone. In the MRU, Cote d'Ivoire and Guinea are the high growth performers, growing by 7.6 percent and 6.7 percent respectively in 2017, underpinned by robust exports of commodities. After recovering to 6.3 percent in 2016 from a sharp contraction in 2015, economic growth in Sierra Leone moderated to 3.7 percent in 2017, reflecting the slowdown of mining activities. Within the MRU, only Liberia has a lower growth rate than Sierra Leone.

1.2 Real GDP Growth Moderated

- Sierra Leone's economy grew by 3.7 percent in 2017, down from 6.3 percent in the previous year (Table 1.1). The slowdown can be explained by weak recovery of mineral production, especially iron ore, which grew by only 12.6 percent to 6.5 million metric tons, compared to an anticipated 9.0 million metric tons. Iron ore production was subdued by persisting low commodity prices, higher domestic prices of energy (fuel and electricity), and lower public investment (Figure 1.3). The largest iron ore producer (Shandong Iron and Steel Group) resumed activity in early 2016, but production in 2017 remained at less than half its level in 2013 (543,418 tons on average per month in 2017 compared to 1.2 million tons on average per month in 2013).
- Excluding iron ore, the economy grew by 3.6 percent, compared to 4.3 percent in 2016, due largely to a deceleration in the growth rate of construction following the slowdown in public investment in infrastructure. Agriculture and fisheries continued to show signs of resilience following improved support to farmers, while the service sector benefitted from increased tourist arrivals and a recovery in commerce following the end of the Ebola Virus Disease (EVD) epidemic (Figure 1.4).

Figure 1.3: Contributions to Economic Growth

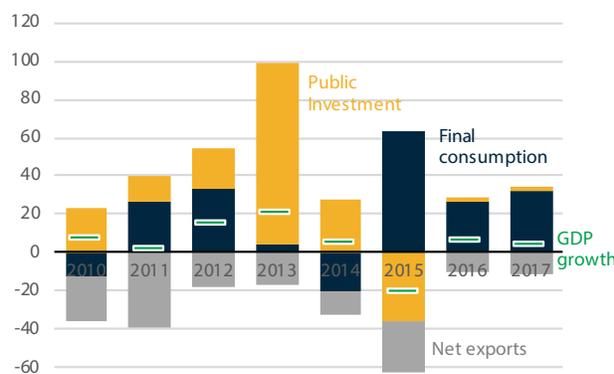
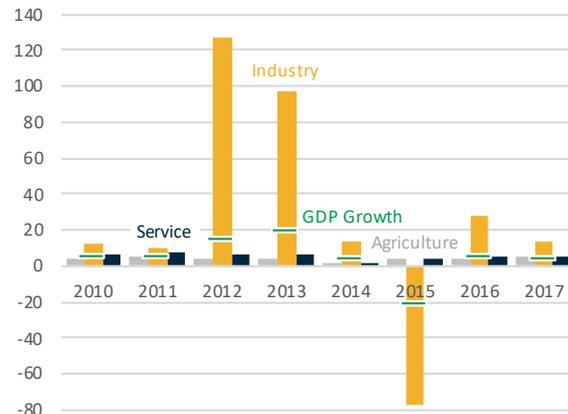


Figure 1.4: Economic Growth by Sector



Sources: Statistics Sierra Leone (SSL) and World Bank (WB) Staff Estimates

- Agriculture grew by 4.5 percent, up from 3.8 percent in 2016, driven by a robust growth in crop production, livestock, forestry, and fisheries because of improved foreign direct investment in the agricultural sector. The production of rice (paddy), the country's main staple food, reached 1.4 million metric tons in 2017, up from 1.2 million metric tons in the previous year. Investment in poultry largely explains the 3.5 percent growth rate of livestock, while increased exports of timber supported a similar growth rate of forestry. Fisheries grew by only 1.3 percent despite improved surveillance of the sector following the introduction of vessel monitoring systems (VMS) as well as observers aboard fishing vessels.
- The performance of agriculture was countered by a 5.9 percent contraction in the growth rate of industry compared to 27.4 percent in 2016, owing largely to weak recovery in mineral production and a 50.1 percent

reduction in diamond production. The production of iron ore, the country's chief export, grew by only 12.9 percent due largely to the relatively low price of iron ore in global markets, as well as by daunting challenges confronting the principal ore mining company, Shandong Iron and Steel Group. The company was beset by series of strikes by employees and contractors between May and July 2017 and continues to record huge operational losses, which triggered a shutdown of operations in November 2017. As a result, the growth rate of mining and quarrying fell by 14.5 percent in 2017, compared to a 52.4 percent increase in 2016. However, the growth in construction continued to be robust at 5.1 percent compared to 6.7 percent in 2016, supported by public investment on roads. The growth of manufacturing improved slightly to 4.9 percent from 4.5 percent in 2016, supported largely by the increase in electricity generation from 4.8 percent in 2016 to 6.6 percent in 2017. However, energy constraints and other bottlenecks in the business environment remained as binding constraints to manufacturing firms (see Box 1.1).

9. Improvement in transportation, commerce, and tourism occasioned by the end of the Ebola epidemic in 2016 underpinned the 5.4 growth rate in services in 2017, up from 5.0 percent in the previous year. Trade and tourism, communications, and banking services were the largest growing subsectors, increasing in 2017 to 5.2 percent, 6.4 percent, and 6.6 percent, respectively, from 4.8 percent, 5.8 percent, and 4.3 percent in the previous year. This reflected a strong demand for mobile communication services by households, and the recovery of commerce following the end of the Ebola epidemic. Other subsectors, apart from public services, also recorded solid performances. However, the growth rate of public services decelerated to 4.5 percent in 2017 from 6.1 percent in 2016 due largely to the slowdown in expenditures for some services.
10. On the demand side, the slowdown in growth was mainly a result of a slack in domestic demand. Both government and private consumption increased by 21.5 percent and 11.1 percent, respectively, in 2017 compared to 37.6 percent and 9.4 percent in the previous year. Government consumption was underpinned by spending on goods and services and transfers to local councils and statutory organizations, while private consumption was supported by relatively stable exchange rates and declining prices, particularly in the second half of 2017. The growth rate gross investments decelerated to 1.6 percent from 5.2 percent in 2016 due mainly to the slowdown in private investment in mining and agriculture precipitated by uncertainties related to March 2018 presidential and parliamentary elections. Public investment increased due to increased government spending on capital projects. External demand was squeezed by larger import growth. Exports grew by 20.2 percent year-on-year driven largely by mineral exports, while imports increased by 24.3 percent, reflecting increased importation of food items, manufactures, and machinery.

Box 1.1: Doing Business 2018: Sierra Leone's Ranking Declines

Sierra Leone's ranking for ease of doing business declined to 160 in 2017 from 148 in 2016. In terms of the distance-to-frontier (DTF) indicator, Sierra Leone's score decreased to 48.18 in 2018, down from 50.23 in the previous year. The key areas responsible for the slump in Sierra Leone's ease of doing business ranking are weak institutional arrangements for property registration and construction permits, low access to finance and credit, huge energy deficits, obstacles to cross-border trade, and a weak insolvency regime. The rankings for property registration and construction permits declined to 165 and 182, respectively, from 163 and 132 in 2016, largely reflecting weaknesses in institutional arrangements. Access to credit declined to 159 from 157 in 2017 due to only a few commercial banks continuing to dominate the financial landscape. The ranking of access to electricity also declined to 178 from 176, underscoring the weak energy infrastructure and huge energy deficit. The process of resolving insolvency is still protracted and costly, reflected by a worsening of the ranking from 148 in 2016 to 159 in 2017, falling behind the regional average. Resolving insolvency in Sierra Leone takes on average 2.3 years and costs 42 percent of the debtor's estate. The most likely outcome of insolvency in Sierra Leone is that the company is sold as a piecemeal sale.

With regards to the ranking in starting a business, Sierra Leone recorded improvement, moving in the opposite direction to 83 in 2017 from 87 in 2016. The number of days it takes to start a business changed to 11 from 10 in 2016, while the number of procedures to start a business improved to 5 from 6 in 2017. The business registration process until 2016 had been fragmented and required coordination between the Corporate Affairs Commission (CAC), the National Revenue Authority (NRA), and the Office of the Administrator and Registrar General, a process which was often suboptimal. A new procedure which centralized the business registration process under the CAC was introduced in 2017 and has served to ease the registration process for businesses. The CAC now collates all relevant information on behalf of other agencies such as the NRA. The new process is divided into three steps online: name search; submission of signed memorandum; and submission of articles of incorporation together with the application forms and proof of payment.

The report underscores the fact that Sierra Leone is not doing enough to improve the business regulatory environment, as reflected through a comparison with regional comparators. Similar to previous years, Sub-Saharan African (SSA) countries implemented a greater number of reforms in 2016/17 than those in any other region, with a total of 83 reforms recorded in all the areas measured by *Doing Business 2018*. Furthermore, SSA also recorded remarkable progress in terms of the DTF indicator, with the average SSA country improving by 1.23 percentage points, compared to the global average of 0.76 percentage points. Malawi, Nigeria, and Zambia were among the top ten reformers worldwide, with Malawi and Nigeria joining this list for the first time. Mauritius and Rwanda (the two SSA economies in the top 50), have made significant upward strides, with Mauritius ranking in the 25th place and Rwanda in the 41st place.

Source: Doing Business 2018 – Reforming to Create Jobs

Table 1.1: Growth Rate, Percent

	2013	2014	2015	2016	2017
GDP growth	20.7	4.6	-21.1	6.3	3.7
Production Side					
Agriculture	4.6	0.8	3.5	3.8	4.5
Crops	5.1	0.7	4.1	4.4	5.3
Livestock	4.5	0.8	1.9	2.9	3.5
Forestry	3.3	0.9	2.1	2.2	3.5
Fisheries	2.6	1.1	2.1	2.7	1.3
Industry	97.5	13.5	-77.3	27.4	-5.9
Mining and Quarrying	134.1	16.8	-88.0	52.5	-14.5
Manufacturing	2.4	-7.1	0.4	4.6	4.9
Construction	6.2	-7.6	5.1	6.7	5.1
Services	6.3	5.5	3.7	5.0	5.4
Trade and Tourism	9.3	-4.6	-0.8	4.8	5.2
Transport and Communication	4.8	-2.8	1.7	5.3	5.2
Finance Insurance and Real Estate	2.9	1.6	4.7	4.3	4.6
Other Services	6.2	3.9	4.6	4.1	2.9
Net taxes	5.6	0.9	3.2	4.5	3.6
Demand Side					
Government Consumption	0.3	-19.3	24.2	37.9	21.5
Private Consumption	29.6	-15.1	-0.2	9.4	11.1
Investment	-15.8	-5.3	-15.2	5.2	1.6
Net Exports	-9.45	27.09	-22.38	-2.89	-3.76

Source: SSL and WB Staff Estimates

1.3 Declining but High Inflation

11. Inflationary pressures remained elevated throughout 2017, due mainly to the depreciation of the exchange rate late in 2016 and during the first half of 2017 and the enduring impact of the upward adjustments in utility tariffs and fuel prices in November 2016. The year-on-year inflation (all items) peaked at 20.2 percent in March 2017 but moderated to 15.3 percent in December 2017 due to the relative stability of the exchange rate in the second half of 2017, reinforced by the tight monetary policy stance of the Bank of Sierra Leone (BSL). Subdued domestic demand, including the slowdown of public investments, also help to explain the slight moderation of consumer prices (Figure 1.5).

Figure 1.5: Consumer Prices, Annual Changes

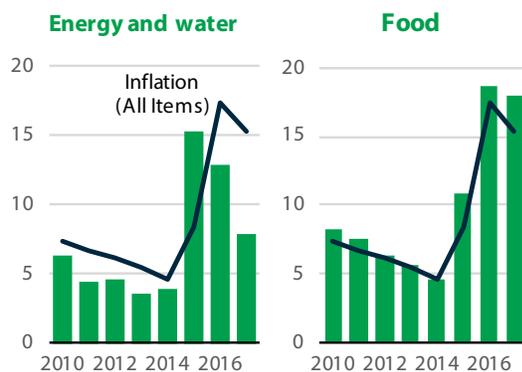
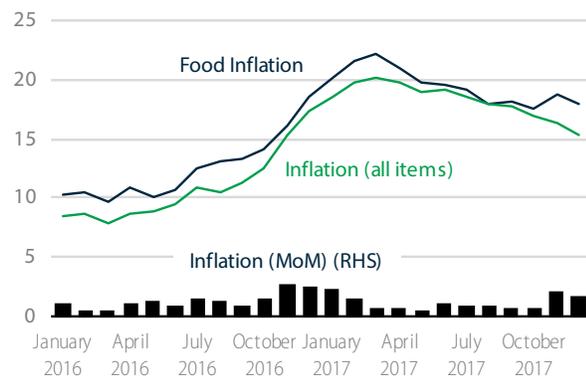


Figure 1.6: Monthly Inflationary Trends



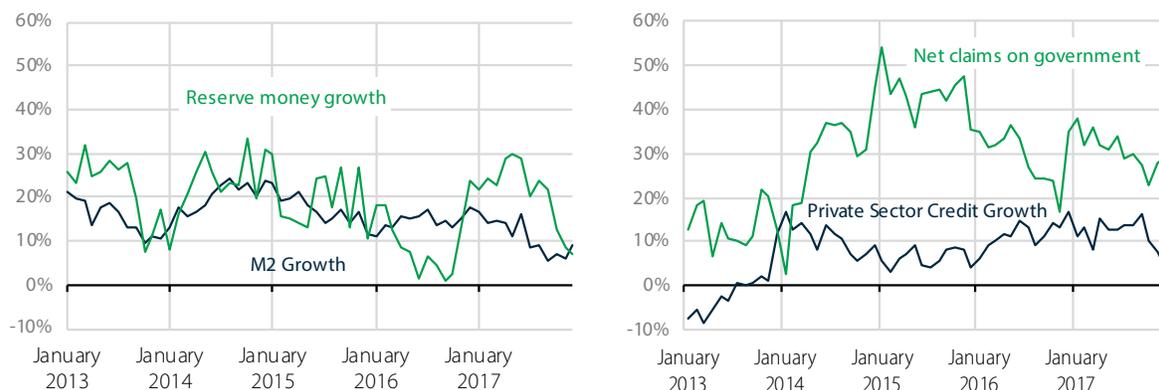
Sources: BSL, SSL and WB Staff Estimates

12. Food inflation, which constitutes 42 percent of the weight of the consumer price index (CPI) basket, declined only marginally to 17.9 percent in 2017 from 18.6 in the previous year, as the price of most basic food items (bread and cereals, meat, milk, cheese and eggs, oils and fats, and so forth) remained elevated due to supply side bottlenecks, low yield of locally produced food crops, and poor transportation networks (Figure 1.6).

1.4 Tight Monetary Policy and Stable but Fragile Banking System

13. The Bank of Sierra Leone (BSL) maintained a tight monetary policy stance throughout 2017 to contain high inflationary pressures. The monetary policy rate (MPR) was increased by 100 basis points on three consecutive occasions: from 11 percent in December 2016 to 12 percent in March 2017; further to 13 percent in June 2017; and later to 14 percent in September 2017. The MPR was further increased by 50 basis points to 14.5 percent in December 2017. In addition, the Standing Deposit Facility was adjusted from 400 basis points to 450 basis points below the MPR, while the Standing Lending Facility was adjusted from 300 basis points to 450 basis points above the MPR, in line with the new interest rate corridor system that was introduced in 2016. However, the MPR has yet to provide a clear signal to the financial market, since most money market rates are not properly aligned with the policy rate.
14. Interest rate trends were generally mixed over the period. The interest rate on government securities generally declined, while interbank rates followed an upward trend. The yield on the 91-days treasury bills decreased from 9.38 percent in December 2016 to 8.22 percent in December 2017, while the yield on the 182-day Treasury bills decreased from 16.17 percent to 9.68 percent. Similarly, the 364-day treasury bills decreased from 30.22 percent in December 2016 to 21.17 percent in October 2017. On the other hand, the interbank rate increased from 9.82 percent in December 2016 to 14.04 percent in October 2017. Despite the increase in the MPR, the average savings and lending rates remained flat at 21.35 and 2.38 percent, respectively.

Figure 1.7: Monetary Aggregates, Annual Changes



Sources: BSL and WB Staff Estimates

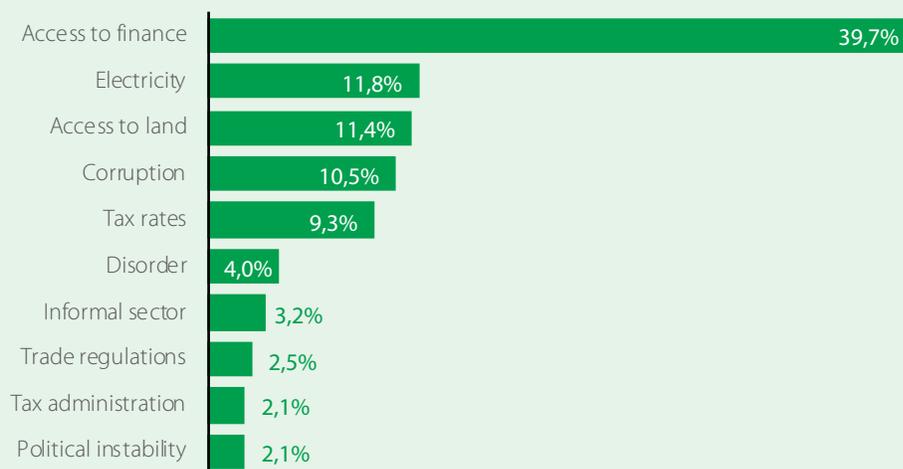
15. There was slowdown in the growth rate of monetary aggregates reflecting the policy stance of the BSL (Figure 1.7). Broad money (M2) growth narrowed to 7.0 percent in 2017 from 17.9 percent in 2016 due mainly to the contraction in the Net Foreign Assets (NFA) of the banking system, which was counterbalanced by the increase in the Net Domestic Assets (NDA). NFA fell by 10.7 percent (Le 261.5 billion) because of significant outflows, including payment for electricity projects, operating expenses of embassies, and a drawdown on the foreign deposits component of local liquid assets. NDA, on the other hand, grew by 18.8 percent (Le 687.6 billion) largely reflecting increased government borrowing and a slight increase in private sector credit. Credit to the government increased by 28.7 percent (Le 1,140.8 billion) underpinned by huge borrowing by the government to finance the fiscal deficit. Private sector credit grew by a mere 4.9 percent (66.6 billion) reflecting both liquidity constraints faced by banks and the general slowdown in economic activities.

Box 1.2: 2017 Enterprise Survey: Financial Access Constraints Top Challenges Facing Small- and Medium-size Enterprises (SMEs)

SMEs rank access to finance as the foremost binding constraint to competitiveness, with 65.1 percent of respondents citing access to finance as a major impediment in Sierra Leone compared to the 38.3 percent Sub-Saharan average. Accessing affordable finance is a major impediment to the growth of private sector companies, with commercial banks loans attracting an interest rate of 18 percent (up to 22 percent in 2014) per annum. The challenge of accessing affordable finance is compounded for agribusinesses due to the dire lack of agri-financial products being offered by banks, given the relatively underdeveloped financial sector.

Ranking of the Top Business Environment Obstacle for Firms

Percentage of firms choosing each factor as the biggest obstacle



On the use of financial services by private firms, only 67 percent of small firms have a checking or savings account while 90 percent of medium-sized firms operate bank accounts to manage their liquidity and payments needs. In addition, only 8 percent of SMEs have received a bank loan compared to 42 percent of large firms, indicating a limited pool of funds for firms. The total amount of credit offered by the banking sector to the private sector is less than 5 percent of the GDP, and the largest share of that credit constitute loans to the five largest borrowers. Access to credit is vital for expansion and growth by SMEs, especially those in the agriculture sector, but this is virtually impossible for firms in Sierra Leone.

Source: Enterprise Survey – Sierra Leone 2017

16. On the liability side, the deceleration in the growth rate of M2 also reflected a moderation in the growth rate of reserve money. The growth rate of reserve money (RM), BSL's primary operating target, moderated to 9.0 percent from 23.9 percent in 2016 due mainly to a slowdown in the growth rate of quasi money caused by a significant drawdown in foreign currency deposits. Foreign liabilities increased due mainly by exchange rate losses arising from the use of IMF funds, as well as a significant drawdown of Local Liquid Asset Requirement (LLAR) deposits by commercial banks.

Figure 1.8: Leone/US\$, Jan13-Dec17

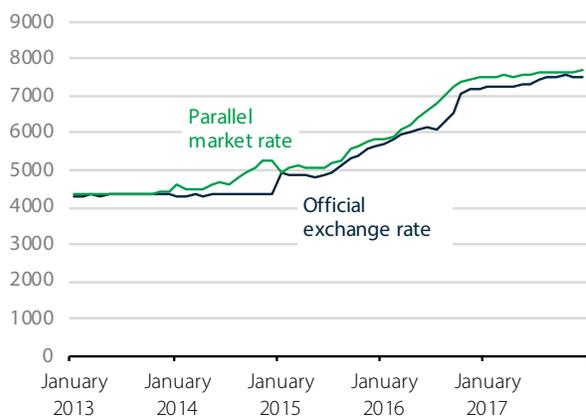
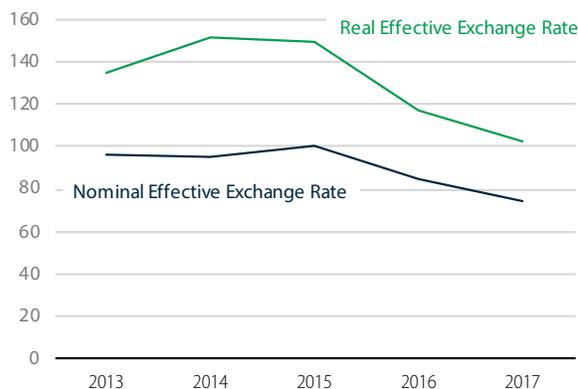


Figure 1.9: Nominal and Real Rates



Sources: BSL and WB Staff Estimates

17. Despite pressure on the current account, the exchange rate remained relatively stable in 2017, reflecting the tighter monetary policy stance of the BSL, inflows to the financial account and suspension of the weekly foreign exchange auction, which reduced speculation in the market (Figures 1.8 and 1.9). The exchange rate between the Leone and the U.S. dollar depreciated by 4.2 percent and 2.7 percent year-on-year (YoY) at the official and parallel market windows, respectively. The annual average exchange rate depreciation against the U.S. dollar slowed to 17.4 percent in 2017 from 21.6 percent in 2016. However, the real effective exchange rate appreciated by 12.2 percent in 2017, down from 15.7 percent in the previous year. According to the most recent International Monetary Fund (IMF) assessment, Sierra Leone's real effective exchange rate was overvalued by about 17 percent. The BSL has sought to promote more flexibility of the exchange rate in order to improve external balance. It suspended the weekly foreign exchange auctions in May 2017, which significantly reduced its interventions in the foreign exchange market and helped to offset short-run volatility in the exchange rate and to maintain external reserve buffers.
18. The tighter policy stance of the BSL has led to tighter liquidity conditions in money markets with some commercial banks facing increased difficulties in meeting their liquidity needs on the interbank market. The BSL intervened by providing liquidity support through proactive open market operations, which allowed a few commercial banks to meet their liquidity needs. Nonetheless, credit conditions remained tight as bank credit growth slowed to 4.9 percent from 17.9 percent, reflecting the tighter policy stance of the central bank and a slowdown in economic activities. The domestic banking system faced significant challenges due to a combination of the effects of the twin shocks (the contraction of the economy in 2015 due to the Ebola epidemic and the collapse of iron ore prices) and preexisting weaknesses (see Box 1.2). The two state-owned banks, Rokel Commercial Bank (RCB) and Sierra Leone Commercial Banks (SLCB), continue to be key players with 28.6 percent of assets, 36.2 percent of deposits, and 23.8 percent of credit. Both state-owned banks had to recognize large and long-standing asset problems in 2014, which caused an erosion of their capital base and resulted in measures being taken by the authorities to initiate their restructuring. A large share of the loans of RCB and SLCB are unauthorized overdrafts, indicating weak corporate governance arrangements.

19. Overall, the financial sector remains broadly stable, but significant risks persist. Total assets of the banking system increased by 17.4 percent to Le 7.43 trillion in 2017, funded mainly by increases in deposits and shareholders' funds. The total deposit base expanded by 4.0 percent to Le 5.27 trillion in 2017, while shareholders' funds grew by 42.6 percent to Le 1.05 trillion, accounting for 11.6 percent of total liabilities in 2017. The average capital adequacy ratio of the banking industry increased from 30.7 percent in 2016 to 34.1 percent in 2017, indicating a strong capacity for loss absorption (Figure 1.10). Although capital adequacy appears high, it does provide significant buffers because credit risk is not adequately captured and situations vary widely across banks. The stress of the two largest banks in the system represents a significant strain on the financial system and a challenge for the authorities. Profitability improved in 2017 from its lull in the previous year as both return on assets (ROA) and return on equity (ROE) increased to 5.3 percent and 25.6 percent from 0.03 and 0.22 percent, respectively in 2016 (Figure 1.11). Overall liquidity moderated to 66.9 percent in 2017 from 71.8 in 2016, driven largely by the increase in foreign currency deposits in total deposits and the sharp depreciation of the Leone in 2016. However, foreign exchange liquidity has become scarce. Several banks (particularly private and state-owned local banks) are increasingly facing challenges to clear U.S. transactions, a source of significant risks. As a result, the net foreign currency open position to capital widened to -6.9 percent in 2017 from -2.0 percent in 2016.

Figure 1.10: Capital Adequacy and Asset Quality

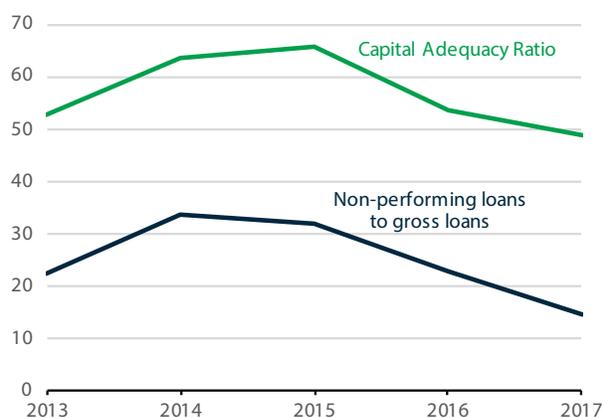
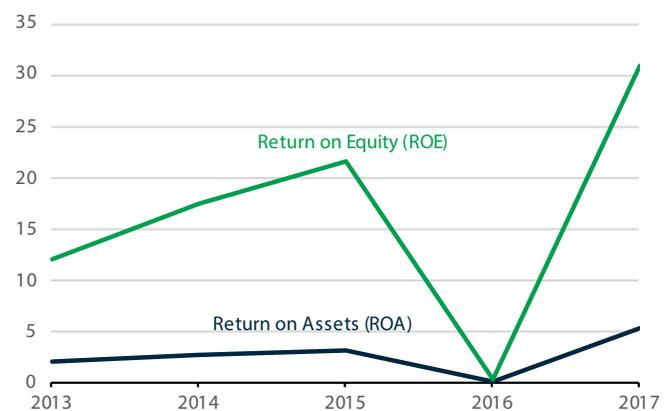


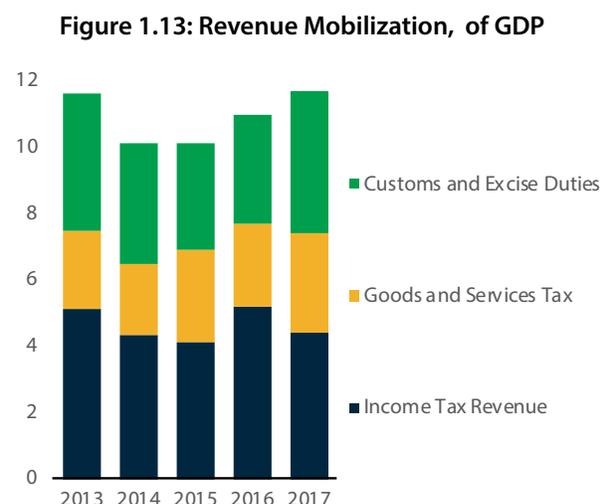
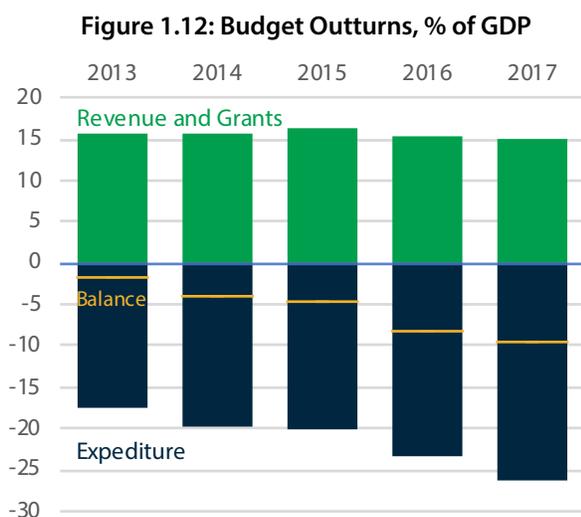
Figure 1.11 Profitability Indicators



Source: BSL and WB Staff Estimates

1.5 Fiscal outturns continue to deteriorate

20. Fiscal outturns deteriorated in 2017 as the overall budget deficit, including grants, rose to 8.4 percent of GDP compared to a target of 5.9 percent, and to a 2016 deficit of 7.3 percent, due largely to a shortfall in revenue mobilization and to spending overruns in all the major expenditure components (Figure 1.12). The share of total government expenditures in GDP rose to 22.4 percent (Le 6.4 trillion) in 2017 from 20.5 percent (Le 5.4 trillion) in the previous year and to 17.6 percent three years earlier. The rising trend of government consumption expenditure, an important driver of growth, represents a key fiscal risk. The increase in total government expenditures was driven by spending overruns in wages (0.2 percent of GDP), goods and services (0.1 percent of GDP) and capital expenditure (0.8 percent of GDP). Development spending, especially domestically financed capital spending, has been the main driver of total expenditures in recent years, followed by growing wages and by transfers of goods and services.
21. Recurrent expenditures increased slightly to 14.4 percent of GDP from 13.4 percent in 2016, reflecting both spending on civic registration and 2018 election preparations as well as the sharp rise in interest payments on debt, as a result of the rising cost of borrowing in the domestic market. Recurrent spending absorbed almost all total revenue, leaving limited fiscal space for development. Interest payments increased sharply to 2.1 percent of GDP from 0.9 percent in 2016 driven mainly by a rise in domestic interest costs that followed increased government borrowing from the banking system. Expenditures on goods, services, and transfers fell to 3.8 percent of GDP from 4.3 percent in the previous year, due mainly to the reduction in the purchase of goods and services. Wages and salaries accounted for almost half of all recurrent spending, although it declined slightly to 6.6 percent of GDP in 2017 from 6.6 percent in the previous year. However, wages and salaries increased by 4.0 percent to Le 1.9 trillion in nominal terms, due largely to unanticipated payments of severance benefits to outgoing members of parliament following the dissolution of parliament.
22. Capital expenditures have been increasing over the past five years owing largely to the government's desire to upgrade public infrastructure in line with the Agenda for Prosperity. In 2017, development spending increased to 8.0 percent of GDP from 7.1 percent in the previous year, owing to the increase in foreign-financed capital projects reflecting increased spending on roads and energy. Foreign-financed capital expenditures remained largely unchanged at 4.4 percent of GDP in 2017 compared to 3.9 percent of GDP in 2016, while domestically-financed capital spending remained at 3.8 percent of GDP between 2016 and 2017. However, the increase in development spending in recent years has not translated into increased productivity gains due to inefficiencies in public investment management, especially with regards to procurement and project appraisal, selection, and implementation.



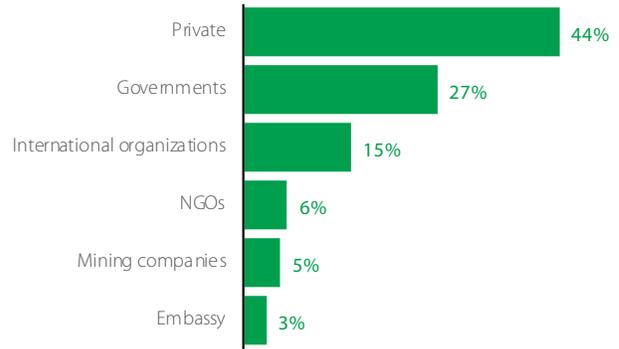
Source: Ministry of Finance and Economic Development (MoFED) and WB Staff Estimate

23. Revenue mobilization failed to keep pace with the rapid growth in expenditures in 2017 because the enactment of the 2017 Finance Bill was delayed, fuel price liberalization remained unimplemented, and excessive duty waivers were continued (Figure 1.13). The slowdown in economic growth compounded the sluggishness of revenue mobilization. Total domestic revenue increased 11.7 percent of GDP in 2017, up slightly from 10.9 percent of GDP in 2016. Despite the improvement, total revenue was 3.0 percent short of the 2017 target of Le 3.4 trillion. Grants fell to 2.4 percent of GDP in 2017 from 2.7 percent, due largely to both the reduction in program grants, and to the shortfall in external budget support.
24. Tax revenue increased marginally to 11.2 percent of GDP in 2017 from 11.0 percent in the previous year because of the increase in customs and excise duties which outweighed the reduction in income tax revenue (Figure 1.14). Income tax revenue declined to 4.2 percent of GDP from 4.8 percent in 2016, attributable to the decline in personal income tax and in corporate tax, which reflected increased tax arrears accrued by state-owned enterprises. Personal income tax declined slightly to 3.4 percent of GDP in 2017 from 3.5 percent in the previous year, while corporate tax fell to 0.8 percent of GDP from 1.2 percent in 2016. On the other hand, goods and services taxes remained at 2.5 percent of GDP in 2017 as it had in 2016. Customs and excise duties also increased from 2.1 percent of GDP in 2016 to 3.2 percent of GDP, due mainly to the sharp increase in petroleum excise duties. Excise duties on petroleum products increased by 0.8 percentage points of GDP to 1.4 percent in 2017, reflecting stability of the exchange rate and the maintenance of fixed pump prices. Import duties increased from 1.4 percent of GDP in 2016 to 1.7 percent, owing to increased collection.

Figure 1.14: Tax Exemptions by Category
(Le Billions)



Figure 1.15: Institutions receiving Exemptions



Source: National Revenue Authority (NRA) and WB Staff Estimate

25. Weakness in tax collection via excessive duty exemption increased in 2017 despite the government’s directive to eliminate all duty and tax waivers, except those covered by the Vienna Convention, international bilateral agreements, donor funded projects, and contracts or memorandums of understanding (MOU) approved by parliament. Total exemptions approximated 2.0 percent of GDP in 2017, comprising import duties of 1.1 percent of GDP and goods and services taxes of 0.9 percent of GDP (Figure 1.15). Private sector entities accounted for 43.7 percent of all exemptions granted in 2017, consisting of bilateral agreements and contracts or MoUs approved by parliament. Government agencies received the second largest exemptions (26.7 percent) followed by public international organizations (14.7 percent), nongovernmental organizations (6.3 percent), mining companies (5.2 percent), and embassies (3.4 percent).

Table 1.2: Fiscal Operations, in Percent of GDP

	2013	2014	2015	2016	2017
Total revenue and grants	15.6	15.8	16.2	13.6	14.1
Domestic revenue	13.5	11.7	11.6	10.9	11.7
Tax revenue	12.6	11.0	10.9	15.5	11.2
Nontax revenue	0.9	0.7	0.7	0.2	0.5
Total Expenditure	17.5	19.9	20.1	20.5	22.5
Recurrent Expenditure	12.1	13.2	13.0	13.4	14.4
Wages and Salaries	5.9	7.2	7.4	6.8	6.6
Goods, Services & Transfers	4.6	4.9	4.7	4.3	3.8
Interest Payments	1.7	1.1	0.8	0.9	2.1
Development Expenditure	6.3	6.0	7.5	7.1	8.0
Foreign Financed	4.0	3.1	4.5	3.9	4.4
Domestic Financed	2.3	2.8	2.9	3.8	3.7
Overall Balance incl. grants	-1.9	-4.1	-4.6	-7.3	-8.4
Primary Balance	0.8	-5.4	-5.3	-6.7	-3.8
Total Financing	1.9	4.1	4.6	7.3	8.4
External Financing	1.6	1.3	1.6	1.4	3.6
Domestic Financing	0.3	2.6	3.0	4.3	3.8
o/w Bank	1.6	3.1	3.0	3.7	3.7
Non-Bank	-1.4	-0.6	0.0	0.5	0.1
Float (Unpaid Checks)	-1.2	-0.1	0.1	1.6	2.2
Memorandum Items:					
Nominal GDP (Billions of Leones)	21317	22689	21582	24287	26881

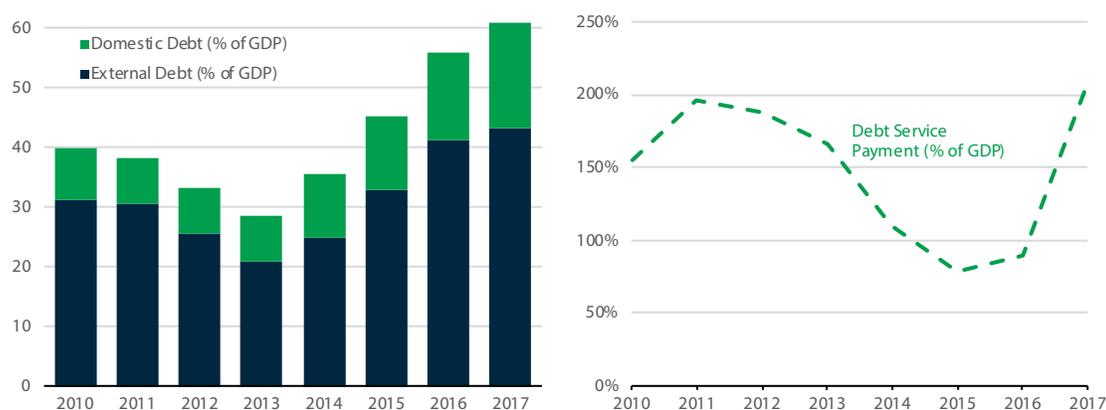
Source: MoFED and WB Staff Estimate

26. Net external financing of the fiscal deficit increased to 3.6 percent of GDP from 1.4 percent in 2016 following an increase in loans disbursement (Table 1.2). Domestic financing stood at 3.8 percent of GDP, comprising bank financing of 3.7 percent and nonbank financing of 0.1 percent. Domestic financing continued to exceed the 2.0 percent of GDP limit on which the government's medium-term fiscal program is anchored. The float comprised mostly suppliers' arrears and unpaid checks, which were not cleared in 2016 and further accumulated in 2017, totaling 2.2 percent of GDP in 2017 compared to 1.6 percent of GDP in the previous year. To ease cash constraints arising from commercial banks' undersubscription to domestic treasury bills, the government undertook foreign exchange swaps operations with commercial banks, totaling 1.3 percent of GDP (US\$41.0 million).

1.6 Public Debt increased sharply

27. The worsening fiscal position of the government and the underperformance of domestic revenue mobilization has led to a sharp rise in the stock of public debt (Figure 1.16). The total public debt stock has increased from 44.3 percent of GDP in 2015 to 55.9 percent in 2016 and further to 60.8 percent of GDP in 2017. The overall surge is explained by rapid depreciation of the exchange rate between 2015 and 2016 (27.5 percent) and by new borrowings (both domestic and external) to finance the high fiscal deficits. However, the most recent Debt Sustainability Analysis (DSA) (June 2017) indicates that Sierra Leone remains at a moderate risk of debt distress. The stress tests nonetheless highlighted distinct vulnerabilities in both domestic and international conditions, with substantial breaches of the threshold occurring for most debt indicators.

Figure 1.16: Debt Stock and Debt Service



Source: MoFED and WB Staff Estimate

28. About 71 percent of the total public debt stock is external and amortized in foreign currencies, indicating high vulnerability to exchange risks. External debt reached 43.0 percent of GDP (US\$1.51 billion) in 2017 from 41.3 percent (US\$1.34 billion) in the previous year, reflecting new borrowings from bilateral and multilateral creditors, with 75.2 percent of external debt being owed to multilateral creditors, such as the World Bank (WB), IMF, and the African Development Bank (AfDB). Of this debt, 11.8 percent is owed to bilateral creditors (China Exim Bank, the Kuwait Fund, the Saudi Fund for Development (SFD), and so forth) and 13.0 percent owed to commercial creditors. Domestic debt constitutes a smaller share (29 percent) of the total debt portfolio, with the portfolio concentrated in treasury securities with maturities of one year or less with significant rollover or liquidity risks. In 2016, total domestic debt rose to 17.8 percent of GDP (US\$0.65 billion) from 14.6 percent (US\$0.56 billion), due to increased government borrowing from the banking system to finance the fiscal deficit. A large amount (61 percent) of all domestic debt is held by commercial banks, with the Central Bank and nonbank entities accounting for the rest. Interest payments on domestic debt rose sharply to 1.9 percent of GDP in 2017 from 0.9 percent in 2016 due mainly to rollover of short-term debt at higher interest rates as well as to the accumulation of new short-term debt.

1.7 The Trade and Current Account Deficit

29. The current account deficit widened to 24.8 percent of GDP from 19.9 percent of GDP in the previous year driven largely by increased private consumption of imported items, which was worsened by weak export growth (1.6 percent). As a result, Sierra Leone's formal trade balance increased to 19.5 percent of GDP in 2017 from 12.0 percent in the previous year due mainly to increased imports of food, manufactured goods, and transportation equipment and machinery (Table 1.3).

Table 1.3: Sierra Leone's Trade and Current Account (US\$, Million)

	2013	2014	2015	2016	2017
Exports Total (Goods)	1542.6	1304.4	581.4	669.9	677.3
Exports Merchandise	1542.6	1304.4	581.4	669.9	677.3
O/w Mineral	1414.4	1108	380.3	473.1	421.4
Agriculture	11.8	28.4	20.5	21.5	30.9
Fishery	0.30	1.20	4.16	5.04	9.60
Reexports	24.70	61.89	24.50	4.75	5.40
Others	91.4	104.9	151.9	165.5	209.989
Imports Total	1,094.0	617.1	1,005.9	831.0	1,019.2
Imports Merchandise	1,570.3	1,643.7	1,346.6	1,134.0	1,385.8
O/w Mineral Fuel and Lubricants	366.1	431.0	244.6	161.7	300.6
Food Items	314.9	296.3	464.6	262.9	399.5
Manufacture goods, machinery and transport equipment	603.5	505.8	421.6	401.6	410.8
Others	285.8	410.6	215.9	185.6	274.9
Imports Services	-476.3	-1026.5	-340.7	-303.0	-366.6
Trade Balance	-27.7	-339.2	-765.3	-464.1	-708.5
% of GDP	-0.6	-6.8	-16.8	-12.0	-19.5
Current Account Balance	-859.2	-911.1	-741.9	-733.0	-903.6
% of GDP	-17.5	-18.2	-17.5	-19.9	24.8

Source: BLS and World Bank Staff Estimate

30. Total imports increased to 38.1 percent of GDP in 2017, up from 29.4 percent of GDP in 2016, driven mainly by increased importation of mineral fuel and lubricants, food items, and manufactured goods. Consistent with the increase in private consumption, imports of mineral fuel and lubricants increased by 85.9 percent in 2017 following the gradual increase in crude oil prices, while food imports increased by 51.9 percent, driven largely by higher imports of rice, the country's staple food. Imports of manufactured goods and transportation equipment in 2017 only increased by 2.3 percent, due mainly to the reduction in imports of transport equipment and machinery.

Figure 1.17: Trade and Current Account, Million \$

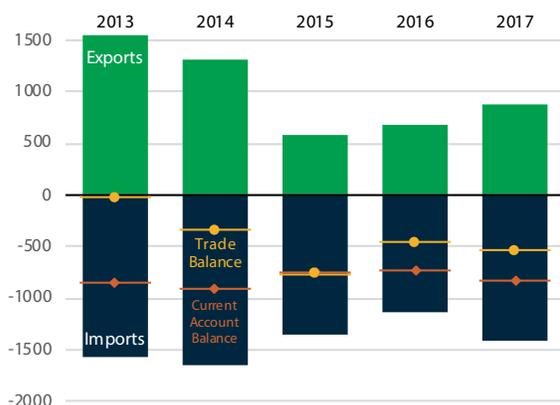


Figure 1.18: Reserve Position



Sources: BSL, SSL and WB Staff Estimates

31. Total exports increased to 18.6 percent of GDP in 2017 from 17.4 percent in 2016, attributable to the increase in agricultural and fisheries exports. Exports of minerals, such as iron ore, rutile, diamond, bauxite, and gold, accounted for 70.8 percent of total exports but declined by 10.9 percent following weak iron ore production, which constitutes the bulk of mineral exports. Agricultural exports increased by 43.7 percent in 2017, driven mainly by cocoa and coffee, while exports of fisheries products increased by 90.6 percent on account of reforms in the fisheries sector.
32. The current account deficit (Figure 1.17) was largely financed by increased inflows to the financial account. Specifically, inflows to the capital and financial account improved to 19.9 percent of GDP in 2017 from 16.3 percent in the previous year, driven mainly by long-term portfolio flows and foreign direct investment, especially in agriculture and mining. Volatile short-term flows remained limited, reflecting restrictions on nonresident investment in short-term financial instruments. However, the overall balance of payment deficit increased slightly to 4.9 percent of GDP (\$177.0 million) in 2017 from 4.0 percent in the previous year. The deficit was financed by a slight drawdown of reserves and use of IMF credit. Reserve coverage remained above 3.0 months of imports even though gross external reserves declined by 5.9 percent to about US\$500 million in 2017 (Figure 1.18).



2. Economic Outlook

33. Economic growth is projected to rise from 5 percent in 2018 to 6.5 percent by 2020. Growth will be driven by increased private sector investments in agriculture and mining supported by investment climate reforms. Improved spending on road construction and energy is expected to boost public investment and overall economic growth.
34. Agricultural growth is expected to reach 5.6 percent by 2020, supported by increased private investment in crop production and by new reforms in the fisheries sector. The growth of industry is expected to recover in 2018 and increase from 12.0 percent to 20.4 percent in 2020 due to the anticipated ramping up of iron ore production and investment in other mining activities. Services will remain above 3 percent by 2020 driven by an uptick of tourism, transportation, communications, and finance, as well as by investment climate reforms. On the demand side, private consumption and gross investment will be the main growth drivers. Private consumption will remain above 12 percent by 2020, reflecting robust growth of agriculture and stability of the exchange rate and consumer prices. The growth of gross fixed-capital investment will increase from 4.1 percent in 2018 to 8.1 percent in 2020 owing to increased private sector investment in agriculture and mining.
35. The Bank of Sierra Leone (BSL) is expected to continue tightening its monetary policy stance, complemented by policies aimed at exchange rate stability and fiscal consolidation, to bring inflation down from 15 percent to 8 percent over the medium term. Fiscal consolidation and exchange rate stability will significantly contribute to dampening inflationary pressures. Furthermore, the anticipated increase in agricultural output, particularly food crops, will also contribute to lower consumer prices. With the focus on low and stable inflation, BSL should maintain flexible market-determined exchange rates, and limit its intervention in the foreign exchange markets, in order to curb speculative activity and to stabilize the exchange rate.
36. Fiscal policy will continue to be challenged by lower revenue mobilization, buildup of unpaid arrears, and spending pressures to scale-up critical infrastructure and expand social protection. However, the fiscal deficit is expected to decline to 3.8 percent of GDP by 2020 on the backdrop of expenditure rationalization on goods and services, control of the government wage bill, implementation of the government's medium-term revenue mobilization strategy, and implementation of new public financial management reforms. Total expenditures will fall from 26.3 percent of GDP to 22.3 percent in 2020, driven mainly by public expenditure rationalization, especially recurrent spending, because capital expenditure is expected to remain strong given the need for infrastructure upgrades. Spending on goods, services, transfers, and wages and salaries are expected to decline in the medium term. Absent the anticipated stringent fiscal consolidation measures, the fiscal position will likely get worse in the medium term, with an adverse impact on economic growth, due to a rapidly rising public debt.
37. In the light of dwindling donor inflows occasioned by the end of the Ebola epidemic and limited available domestic financing, revenue mobilization is insufficient to finance effective service delivery, provide critical infrastructure, and expand social protection. However domestic revenue is expected to increase from 12 percent of GDP to 14.5 percent of GDP, reflecting reforms in tax policy and administration and in public financial management articulated in the government's medium-term Revenue Mobilization Strategy. The anticipated expansion of economic activities is expected to contribute to revenue mobilization. Income tax revenue is projected to reach 6.2 percent of GDP by 2020, driven largely by robust collection of corporate and personal income taxes, including tax arrears. Customs and excise duties and other revenues would increase to 8.3 percent of GDP due mainly to the anticipated increase in petroleum excise revenues and elimination of excessive duty exemptions.

Table 2.1: Sierra Leone/ Macro Poverty Outlook Indicators

	2015	2016	2017	2018 f	2019 f	2020 f
Real GDP growth, at constant market prices	-20,5	6,3	3,7	5,1	5,7	6,5
<i>Private Consumption</i>	-0,2	9,4	11,1	9,6	13,0	12,6
<i>Government Consumption</i>	24,2	37,9	21,5	7,3	1,5	8,7
<i>Gross Fixed Capital Investment</i>	-15,2	5,2	1,6	4,1	5,1	8,1
<i>Exports, Goods and Services</i>	-55,1	21,7	19,4	27,2	26,0	27,0
<i>Imports, Goods and Services</i>	-18,3	23,9	24,3	22,0	24,0	24,2
Real GDP growth, at constant factor prices	-21,2	6,3	3,9	5,1	5,7	6,6
<i>Agriculture</i>	3,5	3,8	4,5	5,0	5,4	5,6
<i>Industry</i>	-77,3	27,4	-5,9	12,0	12,2	20,4
<i>Services</i>	3,7	5,0	5,4	3,2	4,0	3,2
Consumer prices (end-of-period)*	10,1	17,4	15,3	9,5	9,0	8,0
Current Account Balance (% of GDP)	-17,6	-19,9	-22,6	-20,4	-16,3	-15,1
Fiscal Balance (% of GDP)	-4,5	-7,3	-8,4	-7,4	-5,4	-3,8
Debt (% of GDP)	45,3	53,8	54,5	54,8	53,1	50,4
Primary Balance (% of GDP)	-3,7	-6,4	-7,9	-5,8	-4,7	-3,5
International poverty rate (\$1.9 in 2011 PPP) ^{a, b, c}	49,5	48,7	48,3	47,7	47	46,2
Lower middle-income poverty rate (\$3.2 in 2011 PPP) ^{a, b, c}	80,6	80,3	80,2	80	79,8	79,5
Upper middle-income poverty rate (\$5.5 in 2011 PPP) ^{a, b, c}	94,8	94,9	94,9	94,9	95,0	95,1

Sources: World Bank, Macroeconomics and Fiscal Management Global Practice, and Poverty Global Practice.

Notes: e = estimate, f = forecast, *= IMF staff estimates.

(a) Calculations based on 2003-SLIHS and 2011-SLIHS.

(b) Projection n using point-to-point elasticity (2003-2011) with pass-through = 0.525 based on GDP per capita in constant LCU.

(c) Nowcast: 2015 - 2017. Forecast are from 2018 to 2020.

-
38. External sector performance will be supported by the narrowing of the trade deficit because of the anticipated expansion of exports. Exports of agriculture and minerals (especially iron ore) are expected to increase over the medium term due to increased private investment in both activities and to a positive outlook for international commodity prices. The growth in imports will mirror the expansion in economic activities. As a result, the current account deficit is projected to steadily decline to 15.1 percent by 2020, reflecting the positive outlook of commodity prices being expected to support export growth (Table 2.1). The expected improvement in the investment climate will contribute to improvement of the capital and financial accounts.
39. The projected increase in export receipts and the improvement in the current account will help to stabilize the exchange rate over the medium term. Furthermore, the continuation of foreign exchange market reforms, such as the suspension of the weekly foreign exchange auction and development of the interbank market, will reinforce exchange rate stability by offsetting short run volatility in the exchange rate, while improving its external reserve buffers. Gross international reserves are expected to remain above three months of imports, given the projected growth of exports.

Box 2.1: Diversify the Economy and Create Poverty-Alleviating Jobs

To limit volatility of economic growth, Sierra Leone must diversify its economy and create poverty-alleviating non-farm jobs outside the mineral sector. Employment growth in the formal sector is held back by a myriad of constraints, including low access to electricity, high transportation and communication costs, significant competition from imports and state-owned enterprises, lack of access to credit, an unfavorable regulatory environment, and low productivity in the informal sector limits income generation. There are few targeted interventions that could yield quick results in terms of inclusive economic growth and job creation while also improving the overall business environment. Current efforts to improve the business environment will only yield effects in the medium- to long- term. In the meantime, Sierra Leone could implement targeted interventions to increase the productivity of the informal sector and to encourage private investment in select value chains, such as food processing for rice and fish.

Facilitating access to credit and training programs for a targeted number of informal entrepreneurs could have significant productivity spillover effects. In addition to the improvement of the overall business environment to create conditions for the emergence of new enterprises, Sierra Leone should also tap into its potential for vertical diversification by promoting development food value chains, especially rice and fisheries. Given, the country's natural comparative advantage in rice production, developing the rice value chain is a plausible policy. Pursuing import substitution policies can benefit both rice producers and consumers, improve food security, and save the country's scarce foreign exchange (more than US\$100 million per year since 2012, or one-fifth of the international foreign reserves). For this to happen, there is a need to improve the productivity and the competitiveness of domestic rice, including reforming the regulatory framework that would attract strong private sector investment in rice milling and trading.

Moreover, Sierra Leone has a valuable marine ecosystem able to support populations of demersal fish and crustaceans and attract large and small pelagic stocks shared with regional countries. There is potential for increasing profitability in artisanal fishing. Promoting artisanal fishing offers an attractive path for economic development since the sector is labor intensive and therefore able to generate much-needed jobs. Effective environmental protections need to be put in place to safeguard the long-term health of the fisheries industry. Post-catch facilities should be improved to offset any reduction in total catch both onboard fishing vessels and after docking.

The government needs to provide the populace with access to affordable, reliable, and high-quality energy, and to the Internet, through infrastructure development in collaboration with the private sector, and should also advocate for a policy of open access and competition. A transparent, predictable, and genuinely competitive process is the key to sustainable private sector participation in energy and information and communication technology (ICT).

Source: World Bank Group (2018), Republic of Sierra Leone Priorities for Sustainable Growth and Poverty Reduction, Systematic Country Diagnostic (SCD)

2.1 Risks to Sierra Leone's Growth Outlook

40. The main risks to Sierra Leone's growth outlook are the persistent fiscal deficit, adverse debt dynamics, weaknesses in the banking sector, election and postelection uncertainty, and the undiversified nature of the economy. There are a number of relevant reasons. First, the near-suspension of the Extended Credit Facility (ECF) program of the IMF and the weak revenue outlook may hinder fiscal consolidation, leading to higher fiscal deficits. The financing of the deficit could limit monetary policy efforts to contain inflation. While the fiscal deficit is expected to decline to 3.8 percent of GDP by 2020, the financing gap remains large, with the government unable to meet its cash requirements. Absent substantial adjustment, the fiscal position will likely get worse in the medium term, which will have adverse impact on debt dynamics and economic growth.
41. Second, the government signed a new loan agreement of US\$318 million with China Exim Bank for the construction of a new airport, which coupled with new borrowings to finance the persistent fiscal deficit including high interest payments, could put the country at a high risk of debt distress. The adverse macroeconomic developments in 2017 undermine several of the baseline assumptions in the June 2017 Debt Sustainability Analysis, further amplifying the risks to debt sustainability.
42. Third, the large buildup of suppliers' arrears, a type of forced financing of the deficit, is weakening the loan portfolio of commercial banks, with nonperforming loans of the banking industry remaining high at 17.5 percent. This, combined with the preexisting weaknesses in the two state-owned banks, may undermine financial stability and increase the fiscal costs of resolution.
43. Fourth, the protracted presidential elections, which lasted for about a month, as well as the accompanying post-election violence, have produced significant uncertainties as economic activities have generally slackened. Businesses have adopted a wait-and-see attitude and this may slow down both private consumption and investment, potentially constraining growth.
44. Finally, economic growth remains volatile, reflecting a lack diversification of economy given the dependence on the mining sector. There have been large swings in growth – after growing by 20.7 percent in 2013, the economy contracted by 20.5 percent in 2015 owing to the shutdown of the two major iron mining companies precipitated by the fall in international iron ore prices. Following the recovery of economic growth to 6.3 percent in 2016 – driven mainly by the resumption in iron ore production – economic growth moderated to 3.7 percent in 2017, due largely to weak recovery of iron ore production. Medium-term growth could fall short of expectations if the outlook of commodity prices, especially iron ore prices, becomes unfavorable, which would hurt the mining sector.

2.2 Enhancing Macroeconomic Stability for Inclusive Growth

In reviewing the analysis in this paper of the Sierra Leone economy, and potential solutions to stabilize the macroeconomy, there are five specific macroeconomic and sectoral reforms that will need to be implemented. These are discussed in turn below.

(1) Diversify the economy and create poverty-alleviating jobs

45. Macroeconomic stability is a precondition for inclusive growth and poverty reduction. To limit the volatility of economic growth, Sierra Leone should diversify its economy away from the mining sector and create poverty-alleviating jobs (see Box 2.1). Diversifying the Sierra Leonean economy and creating poverty-alleviating jobs require improvement of the country's macroeconomic environment to better anchor expectations through the following steps: improve firms' decision making; foster substantial improvement of the country's business environment; provide greater access to credit and financial services; increase productivity in the informal sector; and reform the labor code to facilitate hiring in the formal sector.

(2) Consolidate the fiscal stance to safeguard macroeconomic stability

46. A robust and sustained fiscal consolidation program is needed to lower the fiscal deficit, to reverse the trend of rising public debt and to stabilize the economy. To achieve this kind of program, the government needs to take sustained measures on both the expenditure and revenue fronts. The main driver of total expenditures in recent years has been the growing wage bill, domestic capital spending, and transfers of goods and services. To address the situation, the government should take the following steps: reduce public sector wages by reforming and aligning the compensation structure in the public service and eliminating ghost workers; optimize and prioritize public investments; improve spending efficiency; and clear-out the huge stock of arrears. This would help boost the confidence of the private sector, spur private investment, reduce the cost of capital projects, and reduce the interest cost on short-term debt.
47. Sierra Leone's domestic resource mobilization efforts have been lethargic, with tax revenue remaining flat over the past five years at about 11 percent of GDP, far below the average for sub-Saharan Africa (SSA). Strengthening domestic resource mobilization would support the fiscal consolidation process. Initial steps are to improve the efficiency through modernization, automation, and integration of the tax collection system, and to restructure the National Revenue Authority (NRA) to radically change staff incentives. The removal of discretionary duty waivers and the liberalization of fuel prices should be top priorities if any meaningful gains in revenue mobilization are to be achieved. Also, the government should urgently implement the recommendations of the Medium-term Revenue Mobilization Strategy (RMS) that was approved by the last Cabinet, which could result in an increase of domestic revenues by up to 2.0 percentage points of GDP. The RMS includes the establishment of a Treasury Single Account (TSA); implementation of the new Tax Administration and Extractive Industry Revenue laws; implementation of the Economic Community of Western Africa States (ECOWAS) Common External Tariff (CET), whereby many products in Sierra Leone would see an upward tariff adjustment, including a 10 percent import duty on rice; and an increase in Prepayment of Income Tax upon Importation from 3 to 5 percent of CIF/Customs Value.

(3) Implement a debt management strategy that discourages non-concessional borrowing

48. Following the sharp increase in public debt in the last three years, the government should implement debt management strategies that discourage nonconcessional borrowing and reprofile the debt stock to enhance debt sustainability. The government should readjust the public debt portfolio to replace short-term high interest rate debt with longer-term debt at lower interest rates. The mix of domestic and external borrowing should be balanced to mitigate the risks related to interest cost and exchange rate volatility. It would be necessary to improve budget outturns by significantly reducing the fiscal deficits to help improve the debt dynamics.

(4) Continue to maintain a tight monetary policy stance to control inflation

49. Although inflation remained high at 15.3 percent in December 2017, it was on a declining trend. It is important to continue to maintain a tight monetary policy to reduce inflation to single digits (9 percent or less) and to sustain the suspension of the weekly foreign exchange auction by developing the interbank market. This should go hand-in-hand with the fiscal consolidation program to ensure that the BSL does not provide any bridge financing to the Ministry of Finance. In addition, BSL should improve its monetary policy implementation by enhancing its liquidity forecasting framework and introducing leading economic indicators

(5) Enhance financial stability by addressing weaknesses in two troubled state-owned banks

50. The weaknesses in the banking sector must be quickly addressed to enhance financial stability, particularly the two troubled state-owned banks. Given that previous efforts to address the situation of the two state-owned banks, including recapitalization with resources from pension funds, have not been successful, the BSL should implement a time-bound resolution or restructuring plan for both banks. All bad assets of both banks should be recognized and collected. BSL should also enhance corporate governance at a sectoral and bank-specific level, conduct independent Asset Quality Reviews for all banks to review loan classification and provisioning practices, develop time-bound supervisory action plans requiring capital increase by shareholders, and prepare, in consultation with the Ministry of Finance, resolution plans for vulnerable banks, aiming to minimize the use of public resources.



Part B:
*Reviving Urban
Development:
The Importance
of Freetown for
the National
Economy*

3. Urban Sector Review of Freetown

51. Because of the importance of cities to the economic development of a country, and because of the strategic importance of the Sierra Leone capital city, Freetown, this chapter of the Sierra Leone Economic Update report is aimed at providing a special Urban Sector Review of Freetown, with a particular focus on its potential contribution to inclusive economic growth. It will focus on the overall importance of the city for economic development, and on specific aspects of connectivity and density that are relevant to achieving economic transformation in the city. Finally, it will provide a series of policy options for Freetown which have relevance to the entire country.

3.1 The Importance of Freetown for the National Economy

52. As a major port city in Sierra Leone, Freetown has the potential to attract productive firms and skilled workers to cluster together as a hub for exports and to drive rising incomes and living standards across the whole country. Policy decisions made now will determine whether Freetown becomes an engine or an obstacle for economic transformation in the country. So far, policies have not made the most of this potential; the city instead risks becoming a bottleneck that fails to generate jobs and keeps Sierra Leone closed to the global economy. Active urban planning policy can change this. A summary of the policy options discussed below is contained in Table 3.2.

A. Cities

(1) The Importance of Cities for National Growth

53. Cities are where the real substance of economic development happens. In the West, and more recently in East Asian “growth miracles”, millions of people have been lifted out of poverty as a result of a structural transformation away from agricultural labor to high productivity jobs in urban manufacturing and services. No country has ever reached middle-income status without urbanizing.
54. The importance of Freetown to Sierra Leone’s economy is clear, with the city creating 30 percent of the country’s GDP despite housing only 15 percent of its population.³ Rapid urbanization is now Sierra Leone’s biggest growth narrative for the 21st century.
55. The tremendous power of cities to drive productivity growth stems from agglomeration - the clustering of businesses and individuals in an environment that promotes scale and specialization. Adam Smith conceptualized the importance of these through the lens of a pin factory. When pin factory workers specialize on particular tasks and become part of large-scale production processes, they can become 200 times more productive than when working alone. Scale and specialization become increasingly important as the goods or services being produced become more complicated. These forces have powered economic transformations from the industrial revolutions of Paris and London to the recent rise of Shenzhen from a small Chinese fishing village to a global hub for electronics production.

³ Data from Oxford Economics database.

56. Freetown has the potential to power a similar economic transformation for Sierra Leone. By bringing together large numbers of workers and entrepreneurs, the city has the potential to provide a hub for large-scale production in services, agro processing and retail that can complement and add value to existing mining and agricultural activities. The emergence of such industries would boost incomes across the whole country by providing national markets for processed crops, and putting service inputs into mining.

(2) Making Cities Work for Firms

57. But cities do not automatically generate scale and specialization. The default option is that people could continue to migrate to Freetown, but that the city would merely grow into a larger and even more congested version of its current makeup, offering low-income opportunities but few productive jobs. If a city is to generate productive jobs it needs to be attractive to firms. Only firms can organize workers to become productive, and they do this through the harnessing of the twin forces of scale and specialization. But firms do not automatically thrive in cities. Whether they do so depends upon whether the city provides them with access to reliable electric power, and easy physical connectivity to workers, customers, and other businesses. Electricity provision depends on national policies, which are not complicated, and which were put in place by most governments long ago. But providing connectivity depends upon urban planning and is more complicated. This will be the focus in this sector review of Freetown.

58. Good connectivity is valuable because it enables both scale and specialization. It enables scale by bringing large amounts of people and capital together in one area. It enables specialization by allowing firms to trade their specialized goods together, and by allowing workers to develop specific skills, confident that they will find a firm that requires them. There are two main ways through which this connectivity can be achieved, both of which are used in good urban planning:

- Through **dense development** that brings firm and workers closer together
- Through **transport links** that allow easy movement of people and goods

59. The gains that could be achieved from improved connectivity would be particularly significant for Freetown. This is because its strategic location allows it to offer not only internal connectivity between firms and workers, but external links with international markets. As Africa's largest natural port, the city has the potential to serve as a trade gateway to both the regional and the global economies. Access to international markets offers the opportunity for firms to produce at a large scale, and form specialized niches, such as food processing. Connectivity to international markets has been the foundation for many development strategies in small nations. Singapore was poorer than most African countries in 1960, but it then invested heavily in its port and airport infrastructure, and it now hosts the world's second busiest port and sixth busiest airport and is among the richest countries in the world.⁴

60. However, Freetown does not currently create or offer a similar hospitable environment for firms.

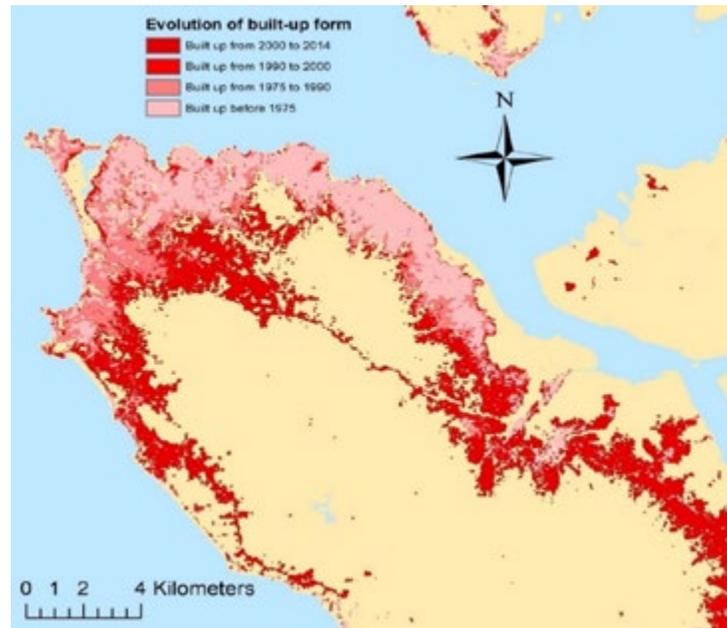
⁴ Data from American Association of Port Authorities (AAPA) and Airport Council International (ACI).

B. Connectivity

(1) Freetown's Connectivity

61. Freetown does not currently generate good connectivity, either through dense development or through transport links (Figure 3.1).

Figure 3.1: Freetown Build-up



Source: GHSL 1975-2014

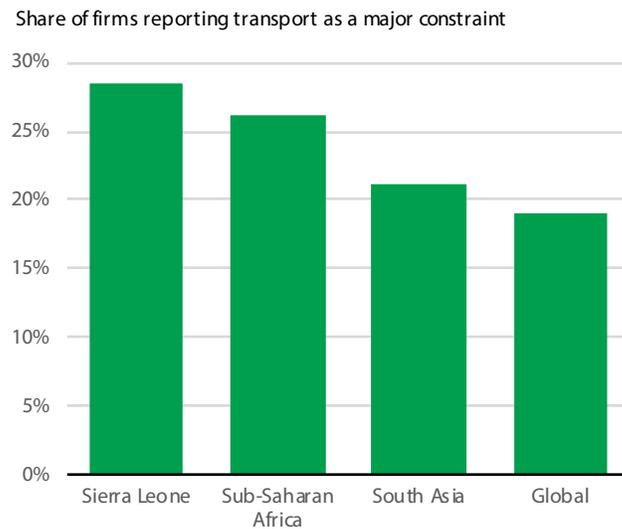
62. Even if it is relatively dense with people, the city is not dense with economic activity.⁵ Only 4 percent of land within 5km of Freetown's central business district is currently under commercial or industrial use, compared to 24 percent in other African cities.⁶ Instead of generating central clusters of activity, the city is expanding rapidly through urban sprawl.
63. As Freetown has grown rapidly, increasing pressure has been put on existing transport systems. Limited, poorly-maintained roads and the uncontrolled expansion of private and informal public transport have resulted in high levels of congestion and high emissions in the city. At peak hours, average traffic speeds in some central areas of the city reach just 3km per hour - lower than a walking pace.⁷

5 Population density at 9,500 people per km² is higher than average for an African city but still well below density levels in South Asia at approximately 15,000 people per km².

6 S.E. Antos, N. Lozano-Gracia, and S.V. Lall, "The Morphology of African Cities" (Draft) (Washington, D.C.: World Bank, 2016).

7 Adam Smith International, "Development of an Integrated Mobility Plan for Freetown," 2013.

Figure 3.2: Firms Reporting Constraints⁸



64. External transport links from the city are also poor, creating a bottleneck for investment across the country. (See Figure 3.2) Freetown's transport and trade logistics are a key reason why Sierra Leone is ranked 115th out of 137 countries in terms of transport infrastructure, and 162nd out of 190 countries in ease of international trade.⁹ Privatizing the operations of Freetown's port has resulted in significant progress being made towards the goal of making Freetown a trans-shipment hub for the region. However, Lungi airport is still poorly connected to the city, and roads to and from Freetown are a significant barrier to regional connectivity. The ECOWAS Trans–West Africa Coastal Highway is 80 percent completed, and much of the remaining sections are in Sierra Leone connecting to the capital.¹⁰ Recent estimates suggest that if Sierra Leone's road infrastructure could be improved to the levels of Mauritius, the country's annual growth in GDP per capita could rise by almost a percentage point.¹¹

(2) Electrical Power in Freetown

65. At the national level, low and unreliable electricity provision limits the productivity of competitive firms across Sierra Leone. In a World Bank survey of Sierra Leone's businesses, 27 percent of large businesses identified electricity as their largest constraint to growth. This was second only to corruption (34 percent).¹² These figures considerably understate the problem, because the larger and more productive firms that really need reliable energy supply simply do not set up in Sierra Leone. Sierra Leone's installed electricity capacity is astonishingly low relative to neighboring countries (See Figure 3.3 and Figure 3.4).¹³

⁸ *Enterprise Surveys*, World Bank, 2017, <http://www.Enterprisesurveys.Org>.

⁹ Data from World Economic Forum Global Competitiveness Report (2018) and World Bank Doing Business Report (2018).

¹⁰ N. Pushak, and V. Foster, "Sierra Leone's Infrastructure: A Continental Perspective (English)," *Africa Infrastructure Country Diagnostic (AICD) Country Report* (Washington, D.C.: World Bank, 2011).

¹¹ N. Pushak, and V. Foster, "Sierra Leone's Infrastructure: a Continental Perspective (English)," *Africa Infrastructure Country Diagnostic (AICD) Country Report* (Washington, D.C.: World Bank, 2011).

¹² World Bank, "Enterprise Surveys: Sierra Leone 2017 Country Profile" (Washington, D.C.: World Bank, 2017).

¹³ Latest figures from USAID, "Power Africa Data".

Figure 3.3: Electrical Capacity in Sierra Leone and Neighboring Countries

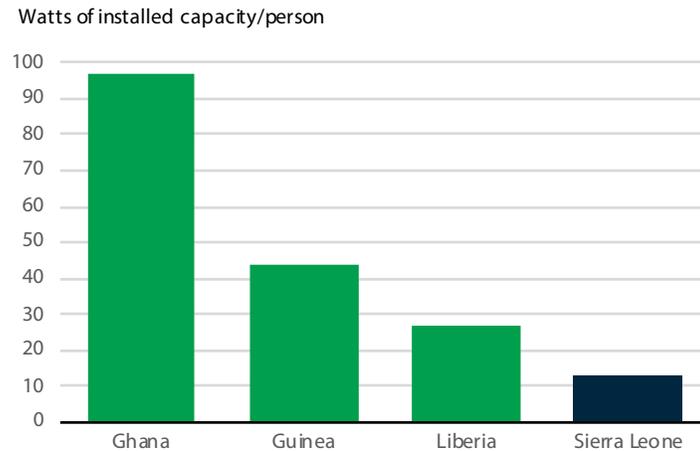
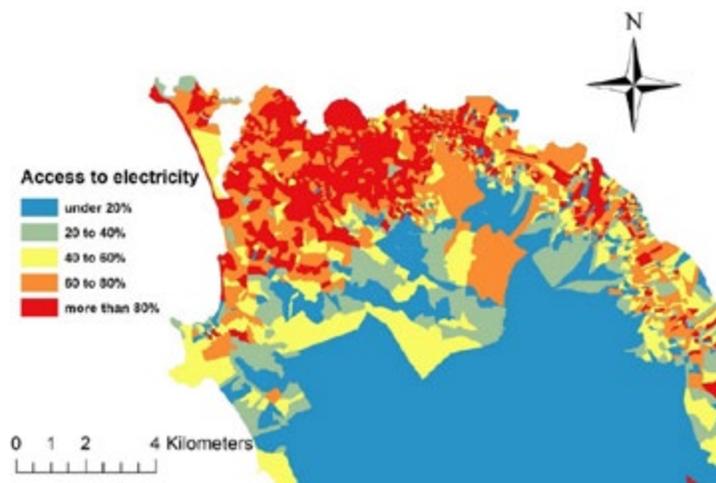


Figure 3.4 Access to Electricity



Source: Census 2015

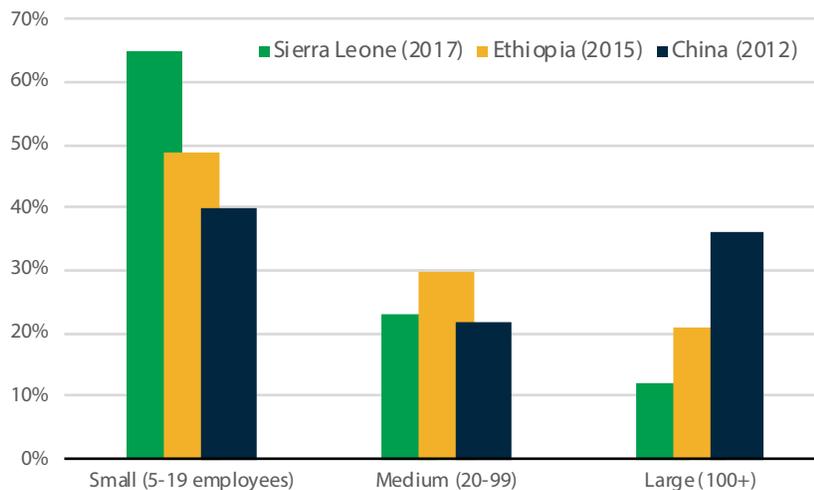
66. Firms lose the equivalent of 11 percent of total sales through electricity outages, more than double the losses elsewhere in Sub-Saharan Africa. Though low and unreliable energy supply affects firms across Sierra Leone, it is particularly damaging for Freetown, as it impedes the ability of the capital to sustain competitive large-scale production.

(3) Impact of Poor Connectivity and Power on Productivity

67. The result of poor connectivity and power is that there are too few firms in the city, and that those firms that manage to survive in the city lack sufficient scale and specialization, which means that the jobs they provide are not very productive. Businesses in the city are predominantly small in size (Figure 3.5) and offer low-value local services, such as informal retail and repairs. Only one firm out of 50 gets more than a tenth

of its revenues from exporting, compared to one firm in 12 in the other major cities of Sub-Saharan Africa.¹⁴ The contrast with the export-led, large-scale industrial growth that characterized East Asian urbanization, and that now drives China's rapid economic transformation is, of course, much starker. As Freetown has grown, Sierra Leone has actually *deindustrialized*; manufacturing is now only 2 percent of national GDP, down from 10 percent in 1994.¹⁵

Figure 3.5: Comparative Size of Sierra Leone's Firms¹⁶



68. Creating a hospitable environment for productive firms depends upon good and active public policy, both at the city level to improve connectivity, and at the national level to improve power supply. The new government provides a window of opportunity to reset policies around a few clear priorities.
69. Improving the connectivity of firms to workers, consumers, and other businesses depends upon increasing commercial and residential density while improving transport. Fortunately, improving either of them also helps the other. As a city becomes denser, infrastructure becomes more cost-effective: a road of a given length will serve more users. In large cities, the cost of providing roads per person approximately halves as density doubles. Similarly, as density doubles, the cost of providing electricity grids falls by approximately one sixth.¹⁷ Since Freetown already has much more density than anywhere else in the country, investing in improving its connectivity and energy is likely to offer a higher return than making equivalent investments elsewhere in the national economy.

C. Investment

(1) Freetown as a Symbol for Change

70. Sierra Leone needs a change of gear with the new government in 2018. Currently, widespread perceptions of corruption have left citizens unwilling to make the collective sacrifices required for national development (Figure 3.6).

14 Data from the World Bank Enterprise Survey for firms directly engaged in export show that 5.8 percent of Freetown's firms obtain more than 10 percent of their revenues from direct or indirect export activities, but this is still lower than the average of 13.5 percent in Sub-Saharan African main cities.

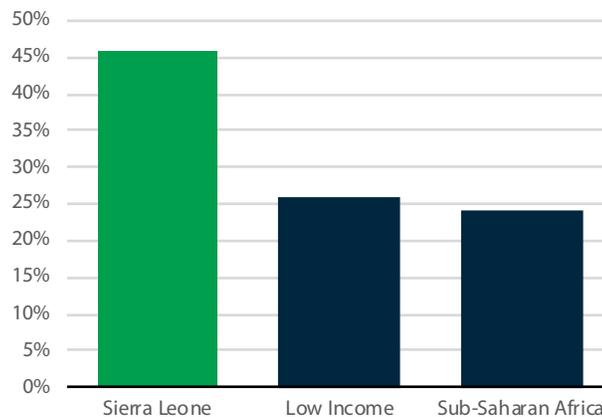
15 Data from http://www.theglobaleconomy.com/Sierra-Leone/Share_of_manufacturing/.

16 Data from World Bank Enterprise Survey.

17 Vivien Foster and Cecilia Briceño-Garmendia, "Africa's Infrastructure: A Time for Transformation," The International Bank for Reconstruction and Development, (Washington, D.C.: The World Bank, 2010).

Figure 3.6: Incidences of Bribery

(Percentage of firms experiencing at least one bribe payment request)¹⁸



71. To transform itself from poverty to a more prosperous future, Sierra Leone will need a prolonged phase of much higher public investment in economic infrastructure. Financing such an increase cannot depend entirely upon persuading donors and foreign investors to pay for it: citizens must accept a phase of sacrifice to demonstrate seriousness of purpose. Accepting the need to pay higher taxes will be a necessary step. Resistance to taxes reflects a coordination problem: first, no one is willing to pay unless they think that others will pay; but secondly, citizens are not willing to pay unless they are confident that the government will spend the money wisely on productive investments. Major cities are a good place to start the process of changing attitudes. For instance, since 1998, successive governors of Lagos have won the trust of citizens, raising city tax revenues very substantially, but also using the revenues for visible improvements in connectivity.
72. Similarly, in Sierra Leone, changing current attitudes depends on building a credible account of how the future will be decisively different. This involves two simultaneous actions: i. Making symbolic investments in the capital city that can signal a future of productive investment and growth ii. Supporting narratives that allow citizens to understand that these symbols form part of a wider plan for the city and the country as a whole.
73. Where investments provide credibility, narratives provide explanation. Step by step, visible and popular investments build up credibility for a government by showing that leaders are using their positions to invest in a national future, rather than abusing power to make money for themselves. These actions can then be matched with clear explanations of government economic strategy, expressed in simple terms and linked to predicted results that people will be able to see. The post-election months will be a good period to reset citizen expectations by these means, since people will be expecting change. Like Lagos, Cape Town is a good example of this process at work. In an effort to overcome the legacy of apartheid, concerted investments were made to improve inclusivity of public spaces. The city's central train terminal was redesigned for informal vendors from poorer communities to access 270,000 daily commuters.¹⁹ Such investments effectively communicated the city's commitment to making inclusivity a priority.
74. Policymakers in Sierra Leone currently face the decision of whether to build in and around Freetown or to focus policy on setting up a new administrative capital city near Mamamah airport. Both of these options deserves serious consideration, each sends a strong signal about the future of the country, and both require significant and long-lasting investments. However, international experience with megaprojects is overwhelmingly dismal: they vastly overrun both their budgets and their timetables, often leaving abandoned and use-

¹⁸ Enterprise Surveys, <http://www.Enterprisesurveys.Org>.

¹⁹ "Cape Town's Anti-Apartheid Urban Plan", accessed January 22, 2018, <https://nextcity.org/features/view/cape-towns-anti-apartheid-urban-plan>.

less infrastructure as a lasting symbol of incompetence. Experiences in new capital cities reveal no exception to this rule. Dodoma in Tanzania isolates the government from people and businesses and fosters accusations of a political class removed from the concerns of the broader population. Abuja in Nigeria only became viable when the global oil boom of 2003-13 provided the vast financial injection for abandoned projects to be completed. While keeping Mamamah as a long-term goal but first prioritizing investments in connectivity and energy in Freetown, the government could signal to citizens that it is committed to realistic steps to meet citizen needs within its term of office.

75. Freetown already provides 30 percent of the economy and will be the focal point for Sierra Leone's economic transformation. It would be risky to let low-risk, high-yield investments in Freetown's connectivity and power be crowded out by a gamble on a high-risk megaproject.
76. Section 3.2 of this report discusses potential investments to transform Freetown into a city that works, looking at options among which policy makers can choose to improve connectivity in particular.

3.2. Enhancing Connectivity in Freetown

77. Improving Freetown's connectivity depends upon new policies designed to increase the density of economic activity, and improve the transport links within and through the city.

A. Density

78. Currently, land is not being used effectively in Freetown. Instead of generating productive clusters of activity, the city continues to sprawl outwards through informal settlements. This dysfunctional process is due to urban planning failures, most notably the lack of clear land rights.

(1) Making land rights more secure and marketable

79. For a city to generate productive clusters of activity, land rights need to be both **secure** and **marketable**. Accomplishing these objectives is probably the single most important economic policy for the new government.
80. Secure land rights enable owners to make substantial and long-lasting property investments. Without security of ownership, commercial property investments are often not made, and residential investments are only made in temporary, single-story structures. Nobody benefits from the stalemate of confused ownership manifest in contested claims to land, because nobody can risk building valuable structures on land that might be claimed by several other people. The result is a city that cannot generate commercial clusters, and only generates residential density through crowding into shacks.
81. Marketable land rights enable people to transfer the ownership of a plot of land to the person or firm that will use it most productively. Through land markets, firms are able to buy up land to form productive clusters, and land use can transform as the city develops. Without marketable land rights, the city's land use freezes up and the city gradually becomes a vast museum of a long-past era, rather than a dynamic economy. In this situation, prime central land cannot be transferred to more productive uses, resulting in a massive waste of productive potential. An example is in Kibera, the vast slum area of inner-city Nairobi, where the inefficient use of land is estimated to have cost \$1 billion.
82. Land rights in Freetown are often insecure and extremely difficult to transact, even compared to elsewhere in Sub-Saharan Africa. This is due to (i) a lack of clear ownership records, and (ii) weak formal governance systems:

- A lack of clarity over ownership means firms and investors operate in constant fear of a counterclaim over land that they own, or land that they are about to purchase. This fear is not unwarranted; half of all court cases in Sierra Leone's lower courts relate to land disputes.²⁰ This is largely because land records are both corruptible and incomplete, with only 40 percent of the city's land titled.²¹ The result is a loss of security and marketability.
 - Inefficient administrative systems inhibit marketability. Although the recent Land Registration System Project has significantly reduced the time needed to register a property from 235 days in 2008 to under 20 days currently, property transfer is still a highly expensive process. Property transfers in Freetown typically cost almost 11 percent of property value, compared to an average of approximately 8 percent across Sub-Saharan Africa countries and 4 percent in high-income Organization for Economic Co-operation and Development (OECD) countries. This drives residents into making informal transactions. In 2006, there were only 200 registered property transactions in Freetown.²²
83. By charging such a high price, overall revenue from fees is probably lower than it would be if many more transactions were included. Furthermore, since there is a public benefit from registration, there is a good case to be made for the government to set the fees at below cost. Individual owners are often reluctant to pay the costs associated with formal land registration and effective administration. However, the public benefits of these systems are enormous: secure and marketable land rights that are legally enforced underpin a city's ability to provide connectivity, as well as the ability of governments to tax land for the public good. Government funding is therefore appropriate to capture these benefits. The significant initial investments in land registry and administration can be seen as a long-term investment in future revenues, enabling large and increased long-term revenue flows to be received through broad-based land taxation. For example, as part of Ghana's 2002 Land Administration Project, substantial investment was made in computerizing land records and decentralizing deed registries. The result was a decrease in the average time to register property transfers from 169 days in 2005 to just 34 days in 2011, and an increase in land-related revenue from \$12 million in 2003 to \$132 million in 2011.²³
84. Rwanda's 2009 Land Tenure Regularisation Programme, that formally registered almost all land in the country in the space of five years, used innovative community-based conflict resolution and mapping procedures to resolve competing ownership claims and to keep down costs. As a result, land in the country was surveyed at a cost of \$6 per parcel, compared to up to \$3,000 per parcel for individual cadastral surveys in other contexts. Alongside reforms to streamline land administration, this program has greatly enhanced Rwanda's investment environment. Rwanda's *Doing Business* ranking for ease of property registration went from 137th in the world in 2004 to 4th in 2018. Furthermore, as a consequence of formal land registration, land-related government revenues increased over fivefold from approximately Rwf 2bn (\$3.3 million) in 2011 to over Rwf10bn (\$15 million) in 2013.²⁴
85. In Sierra Leone, registering rural land can wait: the more urgent priority is to focus on registering land in the city of Freetown.

20 Ministry of Lands, Country Planning and the Environment, "Final National Land Policy of Sierra Leone," (Government of Sierra Leone, 2015).

21 2014 Sierra Leone Labour Force Survey.

22 S. Williams, and P. Oredola-Davies, P., "Land and Pro-poor Change in Sierra Leone" (2006). *Scoping Study*, prepared for joint EU-DFID Country Assistance Plan for Sierra Leone, July, 2006.

23 Frank F. K. Byamugisha, *Securing Africa's Land for Shared Prosperity: A Program to Scale-Up Reforms and Investments*, (Washington D.C.: The World Bank, 2013), <http://elibrary.worldbank.org/doi/book/10.1596/978-0-8213-9810-4>.

24 World Bank, *Rwanda Land Governance Indicators*, (Washington, D.C.: April 2014). These figures concern land lease fees, property taxes, rental income taxes, transaction fees including notary fees, issuance of building permits and so forth.

(2) The Limits of Land Markets and Potential for Active Intervention: What and Where?

86. Land market failures in Freetown demonstrate that land rights alone will not be able to improve productive density in the city. In some cases, it may be necessary for there to be interventions in land markets to increase efficiency of land use.

Land acquisition

87. Where ownership of land is fragmented into small and uncoordinated plot holdings, the market process of converting land to higher-value uses often faces a “hold-up” problem: developers often struggle to assemble land because each individual plot owner has an incentive to be the last to sell, in order to raise their bargaining power over the developer.
88. In many countries, the government can compulsorily acquire land for the developer so as to expedite this process. However, this often faces fierce resistance, particularly in a fragile state, and can come at a significant cost of compensating dispossessed owners and relocated residents. Because of these challenges, compulsory acquisition in Freetown is likely to be extremely difficult. Acquisition of land is only likely to be worthwhile in high-value central urban areas where land acquisition to lease out for commercial development can create much-needed jobs in the city.

Land readjustment schemes

89. Land readjustment schemes, by contrast, can be an effective way of enhancing and servicing residential density while unlocking land for public infrastructure, such as roads in the city. Under land readjustment schemes, landowners collectively agree to pool together privately-held land plots and to create a new land-use plan to increase efficiency of land use for the whole area. These plans include newly provided infrastructure from the government that can service higher density development, as well as official land and planning rights – both of which massively increase the value of land per square meter. This increase in land values means landowners are willing to accept smaller plots (often up to 60 percent smaller) than previously in exchange for this process. Governments are therefore able to retain selected, strategic land parcels for government ownership. These can either be used for planned infrastructure investments, or leased or sold to recover infrastructure costs. Infrastructure provision is thereby self-financed through “land payments” by landowners. When Seoul experienced rapid urbanization in the context of limited municipal revenues, over half of the city’s land area was redeveloped in this innovative and cost-effective way. The city’s landowners agreed to give up as much as 60 percent of their land for the scheme - with 30 percent of this land going towards space for public infrastructure such as roads, and 30 percent going directly to the government to fund the project.
90. The self-financing nature of these schemes mean that they offer a feasible option for policymakers in Freetown to improve efficiency of residential land use in a context of limited budgets. In Uganda, land readjustment schemes are being used to create space for roads around the city of Kampala at limited cost.
91. However, land readjustment schemes are fundamentally underpinned by a large amount of trust in the implementing institution. Owners need to be willing to give up substantial portions of their land in the hope of getting higher-value plots in return. At the same time, effectively implementing land readjustment programs requires strong institutions with the capacity to implement better planning. Angola offers a striking example of two diverging experiences with land readjustment based on different institutional structures. In one successful scheme, the local government was not only responsible for implementation, but also received the land payments required for financial sustainability. However, in a second scheme, the municipal authority was not able to collect land payments itself. This resulted in underfunding, undercapacity, and ultimately corruption as wealthy landowners gained lobbying power over the land replotting process. These landowners used the readjustment scheme to increase their landholdings, without affecting any notable improvement in overall neighborhood infrastructure or layout. As such, this is more likely to be a longer-term policy for Freetown that can form part of a wider narrative about empowering existing communities to improve land use. This can

be more effectively implemented once public trust is gained in the government's ability to provide infrastructure and to fairly distribute resources among communities.

(3) Managing the Downsides of Density

92. As well as being productive, a city needs to be livable. An increase in density makes livability more difficult, seen most graphically in outbreaks of cholera and mudslides. Active investment in enhancing density in the city will need to be accompanied by supporting infrastructure and enforceable land-use regulations against harmful development.

Infrastructure to Manage Density

93. Freetown's population has increased roughly tenfold in the last 50 years;²⁵ it took 150 years in similarly-sized European cities to achieve this increase. This rapid growth has outpaced the ability of policy to provide the supporting infrastructure required for rising productivity and livability. Infrastructure in the city is struggling to support current density levels, and if density is increased further, there will be an even greater need to provide additional infrastructure to support it. Improvements in infrastructure for water, sanitation, and waste collection are particularly important in improving livable density. Currently, only 22 percent of residents have access to improved, private sanitation facilities (Figure 3.7),²⁶ and only 40 percent of the city's waste is collected (Figure 3.8). Only 3 percent of urban households have access to piped indoor drinking water, with 39 percent of households instead relying on public taps.²⁷
94. While Sierra Leone has plentiful supplies of water, the transmission and distribution of water in the city remains poor. Forty percent of treated water in Freetown is lost through leakages, while informal and unmetered connections lead to further losses. Tariffs are only a third of the level received in similar water-abundant countries. This has rendered cost recovery impossible, resulting in a negative combination of poor service, poor coverage, and low willingness to pay.
95. Getting out of this negative situation in Freetown is entirely feasible. For example, cheap new technologies enable leaks to be detected rapidly and precisely, so that maintenance can be targeted. The financial sustainability of utility operators can be improved through raising tariffs and installing usage meters. Also, people are generally willing to pay for good quality access and this has been integral to transforming water utilities in many African cities.
96. By contrast, although the benefits of sanitation and waste collection services to society are massive, the benefits to each individual user are small relative to the cost of connecting to the system. One person's discarded waste or uncollected sewage becomes another person's health problem. The only ways in which this can be overcome are through a combination of substantial public funding for waste and sanitation, and strict enforcement of regulations requiring connection to the public system. Without these policies, density leads to diarrhea, cholera, and other infectious diseases. Historical experience from cities in the West shows that significant public investments were required to finance the initial construction of urban sewerage systems; similarly, waste collection has typically been financed through property taxes, not user fees.

25 Statistics Sierra Leone, "Sierra Leone 2015 Housing and Population Census: National Analytical Report," SSL, 2017.

26 WHO and UNICEF define improved sanitation as either a flush toilet, connection to a piped sewer system, connection to a septic system, flush pit latrine, pit latrine with slab, ventilated improved pit latrine, or composting toilet. Shared facilities are not considered to be improved.

27 Statistics Sierra Leone, "2015 Population and Housing Census, Sierra Leone".

Figure 3.7: Access to Improved Sanitation

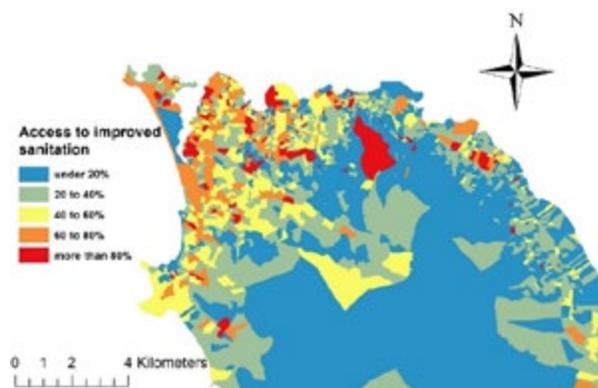
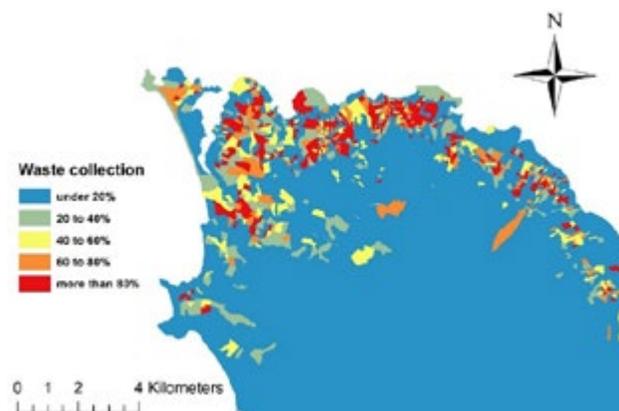


Figure 3.8: Waste Collection



Waste management % is the percentage of households whose waste is collected by a public or private company (rather than dumped, buried or burnt). Toilet quality % is the percentage of households with access to flush toilets.

Source: Census 2015

Land use planning

97. Since Freetown has lacked a coherent plan for the city, development has resulted in deforestation of hills and informal settlement on floodplains. The result is that large areas of the city are subject to regular flooding and natural disasters (Figure 3.10). Kroo Bay, one of the city's largest slums, has experienced flooding every year since 2008.²⁸

28 Jamie Hitchen, "Flooding in Freetown: A Failure of Planning?" Africa at LSE, 2015.

Figure 3.9: Population Density (inhabitants per 30 square meters)

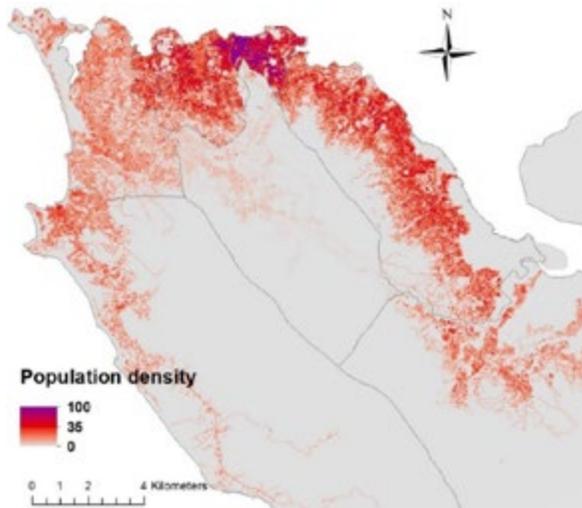


Figure 3.10: Landslide Hazards and Flood Hazards (Source: ARUP)



98. Though laws exist to prevent illegal construction in high-risk areas, these are often circumvented through bribes for construction permits or are ignored with regards to informal development. The problem is that by restricting central land supply for formal housing, these regulations raise the price of living on central formal land. Without adequately connected alternatives on the outskirts of a city, poorer residents have no choice but to live in unregulated high-density settlements, since they need to be near jobs and services. (See Figure 3.9 showing population density.) Previous attempts by authorities after flooding in Freetown to resettle individuals off of floodplains to areas 20 kilometers from the city have been resisted by residents for this very reason. With new housing lacking in basic services, opportunities, and social connections, the official “residents” often rent out their new accommodation and return to more central informal land. Policy reform will partly be a matter of better enforcement of construction limitations in areas that are high-risk. However, since this is very difficult, the more promising approach may be to encourage the urban density and transport that enable locations that are safe to become viable choices for settlement.

(4) Proactive Planning for Expansion with Affordable Infrastructure

99. All of these interventions aimed at improving and increasing density – land-right reform, land-use regulations, and infrastructure investment - can be delivered more easily and cost effectively through investment *before* settlement. Evidence from Latin America suggests that retrofitting infrastructure after settlement has occurred can be up to three times more expensive than installation while housing is being constructed.²⁹ Since Freetown is set to more than double in size in the next 20 years, proactive investments in infrastructure made now can ensure that urbanization in the next 20 years follows a different path. This can be done either by simply demarcating the road system of the future city, or by going further in providing sites and services for development.

29 Edesio Fernandes, “Regularization of Informal Settlements in Latin America,” Lincoln Institute of Land Policy, 2011.

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100. Providing core infrastructure, particularly when done in advance of settlement, can support residential and commercial settlement that is well connected to the rest of the city and can be easily serviced by utility companies. A prime example of this was the Commissioner's Plan developed by the City of New York in 1811. This plan mapped and demarcated a grid system of roads on undeveloped agricultural land in Manhattan, anticipating a sevenfold expansion of the city's footprint. Today, the same grid system created by this plan carries New York's traffic, with water and sewerage infrastructure built beneath. Cost estimates from Kigali suggest that acquiring a 1km by 1km road grid, with roads 30m in width, would cost only \$100 per household living within the grid. This compares to a cost of \$30,000 for a public housing unit.
 101. "Sites and services" programs offer a higher cost solution, but one which is likely to be much more attractive to settling households. With such a program, before settlement takes place, the city provides the core infrastructure for land that is already divided into serviced and registered land plots for households. Serviced plots often include on-site infrastructure for electricity, water and sanitation connections, as well as pavements for plots. This is more expensive than simply providing a road grid for urban expansion, but crucially is cheap enough to be feasible. Cost estimates from Kigali suggest that providing a 50m² plot, serviced with on-site infrastructure (including electricity, water and sanitation connections and pavement) costs about US\$3,500. This is still more than eight times cheaper than a public housing unit.
 102. Such serviced plots enable people to voluntarily settle in a way that is consistent with the city plan. They also provide an attractive relocation for people who by living informally near the center of the city are thereby blocking commercial use of valuable land. By providing an attractive option, it makes voluntary resettlement feasible, which in turn removes blocks to development. Research suggests that sites and services programs implemented in Tanzanian cities in the 1970s and 1980s have led to the formation of better planned, better connected, and ultimately higher-value neighborhoods than comparable greenfield areas which did not receive these investments. They have also been proven to create larger and more enduring improvements than with the widely-promoted strategy of "slum upgrading". Compared with those informal settlements that received similar scale infrastructure investments in "slum upgrading", land values in new "sites and services" areas are now up to 5-7 times higher.³⁰

(5) Estimating the Cost of Proactive Planning in Freetown

103. According to the 2015 census, the population of the Western Area Urban District is 1,055,964, with growth rates at about 4.2 percent. This translates to approximately 45,000 new residents in the next year, and 535,000 residents in the next decade. Assuming an average household size of five, this means the city needs to accommodate 9,000 households in the next year, and 107,000 in the next decade. Using the cost estimates from Kigali:
 - Accommodating these households simply by providing arterial roads would cost \$900,000 in the next year, and \$10.7 million in the next decade.
 - Accommodating these households by providing sites and services for development would cost \$31.5 million in the next year, and \$374.5 million in the next decade.
104. Both of these options are far more affordable than accommodating new households through a public housing scheme, which would cost \$270 million in the next year and \$3.21 billion in the next decade (based on cost estimates from Kigali).
105. A commitment of about \$30m per year for new plots properly equipped with electricity, water, sewerage, and roads, and with good transport facilities, could be matched by a land registration scheme for Freetown, modelled on what was done in Kigali, which could then be used to raise the tax revenue to finance the commitment. It would be a decisive step on the path being taken in Lagos.

30 Guy Michaels et al., "Planning Ahead for Better Neighborhoods: Long Run Evidence from Tanzania," (2018).

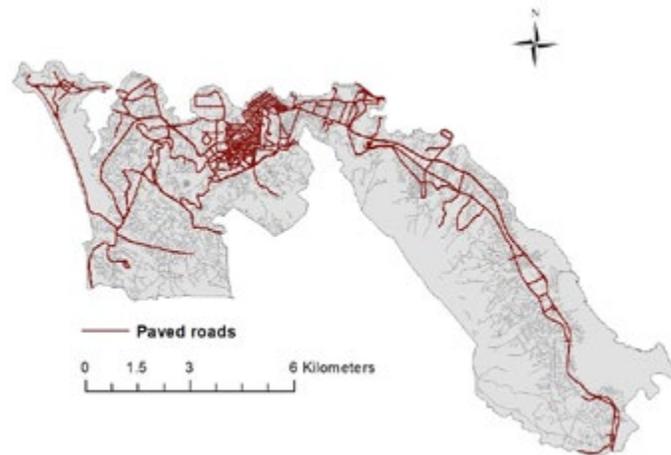
B. Transport

106. Freetown is currently poorly connected, both internally and externally. Interventions are needed at the city, national, and international level.

(1) Transport in the city

107. Current systems of mobility in the city are unable to effectively connect firms and workers across Freetown. The road network in the city, particularly in the eastern half, is extremely limited – estimates suggest that less than 5 percent of total land in Freetown is allocated to roads. This is compared with about 10 percent across other large African cities,³¹ International recommendations call for road allocation to be closer to 30 percent. The result in Freetown is limited accessibility across the city. Roads are often barely able to accommodate two vehicles at a time and are often in very poor condition due to backlogs in maintenance. Only 24 percent of all roads in the Western Urban Area are paved, as compared to 50 percent in Accra.³²

Figure 3.11: Paved and Unpaved Roads in the Western Urban Area



108. Because there are only 66 currently operational publicly-provided buses in the city, the result is low frequency of services. Congestion in the city means that higher capacity buses in the city are unable to transport enough people for revenues from fares to cover their costs. Public transport in the city is instead provided predominantly informally, largely through minibuses, taxis, and motorbikes. Though these services provide an essential means of mobility across the city by filling the gap left by a lack of formal public transport, their low capacity and irregular stops mean that they contribute significantly to congestion, alongside private cars.

109. Continued investment in Freetown's roads is important for expanding accessibility. Initial results from a study of 154 Indian cities suggest that about 70 percent of differences in car speeds in a city are not the result of traffic but of the extent and organization of road infrastructure (Figure 3.11).³³ However, congestion in the city is unlikely to improve through roads alone. Evidence from U.S. cities has revealed a fundamental law of highway traffic, whereby vehicle kilometers travelled increases proportionally with interstate highways.³⁴ Expanding the number of roads, though allowing for greater ease and access of transport for many citizens, will not

31 Paul Collier and Anthony J. Venables, "Urban Infrastructure for Development," *Oxford Review of Economic Policy* 32, no. 3 (2016): 391–409, <https://doi.org/10.1093/oxrep/grw016>.

32 Ajay Kumar and Fanny Barrett, "Stuck in Traffic: Urban Transport in Africa," *Africa Infrastructure Country Diagnostic*, (World Bank and SSATP, 2008).

33 Prottoy Akbar et al., "Accessibility and Mobility in Urban India" (2017).

34 Gilles Duranton and Matthew A. Turner, "The Fundamental Law of Road Congestion: Evidence from US Cities," Working Paper, (National Bureau of Economic Research, September 2009), <http://www.nber.org/papers/w15376>.

solve the city's central congestion problem, because as incomes and populations rise, vehicle use will also rise to fill these new roads. At the same time, investment in roads comes at significant cost, not the least because of the costs involved in urban land acquisition. New strategies that are both enforceable and affordable are needed to find viable ways of breaking the barriers to Freetown's internal connectivity problems and needs.

110. One such option is to establish dedicated bus lanes in highly congested areas. By allowing public transport services to bypass traffic from private vehicles, they will be better able to transport high volumes of passengers. (See Table 3.1).

Table 3.1: Urban Street and Bus Lane Capacity

Type of infrastructure	Capacity (persons/hour/direction)
Urban street (car use only)	800
Bus lane	10,000

Source: Rode et al., 2014³⁵, based on based on Rode and Gipp 2011, Litman 2009, Wright 2002, and Brilon 1994

111. Since there are only 66 public buses in the city, it would clearly be ridiculous to restrict "bus" lanes to these buses. The key analytic distinction is not between public buses and other vehicles, but between all public-use types of vehicle – whether they be buses, minibuses, motorbikes, or taxis, - or private-use vehicles such as cars. Furthermore, allowing existing informal minibuses and motorbikes to use these lanes would be politically smart and help enforcement. The drivers of these vehicles would gain from the restricted use lanes, and therefore would support and help enforce them. Soon, everyone sitting in a minibus that is sweeping past cars would be thanking the government for a smart move. In Lagos, the Fashola administration used a similar strategy to meet transport demand as part of the new Bus Rapid Transport (BRT) system. They allowed informal *molue* and *danfo* midi- and minibuses that were already in operation to use BRT corridors, but not to use the main roads. As a result, commuters had their choice of public transport systems on these bus service roads. Existing operators who did not retrain to operate BRT buses could continue to operate *molue* and *danfo* buses on these lanes. This arrangement proved instrumental in gaining political support from local communities for the BRT system. As a result, demand for public transport was met in the context of limited initial public investment capacity, while traffic on main roads was reduced due to the removal of minibuses from these roads. At the same time, informal bus operators were forced to improve the quality of their services to compete with BRT buses.

112. The key point here is to implement these lanes in limited areas that are (i) currently highly congested and (ii) where the regulations can be effectively enforced. These two features are related.

- In order to build support for restrictions on private transport, these restrictions need to be manifestly purposive – people need to clearly see the benefits they provide in reducing traffic. This is more likely to be the case when implementing regulations at peak times and in central areas. Only in these circumstances can the reciprocal obligation to adhere to these regulations make sense for citizens.
- Limiting bus lanes to those that can be effectively enforced is crucial. Poorly enforced regulations undermine the rule of law, and are therefore often worse than doing nothing. But enforcement doesn't have to rely on the city's police force alone. By implementing a clearly purposeful and useful restriction to improve people's mobility in a city, the government can begin to build a culture of compliance with these regulations – where it is in the interests of the majority to both comply with regulations and to report individuals who do not. Small-scale and modest policy interventions that target particular highly-congested areas at particular times of day can help to build this culture of voluntary compliance.

35 Phillip Rode et al., "Accessibility in Cities: Transport and Urban Form," *New Climate Economy Cities* (LSE Cities, 2014).

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113. By taking steps to prioritize both the needs of informal transport operators and the majority of Freetown's citizens who need access to jobs and opportunities over the desires of the few car owners, the government can demonstrate how it is taking seriously inclusive growth for the city and its different communities.
114. Lower levels of congestion in the center of the city are likely to improve the financial feasibility of higher capacity bus operations. But while high capacity buses can become more cost effective in areas where passenger volumes rise above 5,000 in each direction per hour, lower capacity vehicles are cheaper to invest in and therefore still more appropriate for lower-density, low-income areas. As such, even in the long run, minibuses are likely to provide a value means of connectivity to the sites and services that will accommodate Freetown's growing future residents.

Regulating bus schedules

115. There are also benefits to be gained by improving minibus services by smart regulation. Currently, informal minibuses in the city are regulated by transport unions that control vehicle departures from terminals. The majority of minibuses and taxis only leave terminals when they are fully loaded, in an effort to allow for an equitable distribution of revenue among members. As a result, minibuses sit idle for long periods; they clog up the terminals; there are long waiting times for passengers who catch these buses at bus stops and terminals; and commuters often cannot board the bus along its route. Overall, the number of passenger miles moved per minibus per day is much lower than if they were required to run to a schedule, departing from the terminal on time, even if only partly full.
116. In order to improve services for passengers, there is a role for a policy of working with unions to design minibus schedules that result in these vehicles not spending most of the day parked and idle. This may in fact be more profitable for operators themselves. Evidence from cities such as Kigali suggests that this can increase utilization of buses by up to fourfold. Creating a policy to address this issue could offer a win-win situation for informal operators and commuters alike.

Regulating private cars

117. In order to allow for sustainable public transport services in Freetown, creating a system of regulation of private cars to limit ownership and use, and to prevent use on certain lanes, is going to be necessary. Freetown is in a unique position where private car volumes in the city are still low as compared to other developing cities that are struggling with high levels of car ownership. This affords the city a unique opportunity to restrict the growth of private cars before they become a problem. People are less likely to resist restrictions on car use now than if the policy is delayed to a time when there are more car owners.
118. Evidently, not everyone will be delighted by restrictions on car use, and this has to be managed, and ultimately to be directly faced. Voluntary compliance with restrictions on private vehicle use are often best achieved when accompanied by (i) effective communication with the public in designing regulations and in communicating their benefits, and (ii) sufficient investment in public transport supply. Attempts to ban motorbikes to improve safety in Kigali in 2006, for example, without adequate affordable and timely alternatives for mass transportation, were met with strong political resistance. By contrast, the city of Oslo in 1990 decided to use 20 percent of revenues from toll charges for public transport investment to reduce resistance to the introduction of these charges.³⁶ Linking fees with public investment was instrumental in overcoming resistance to congestion and toll charges. By explicitly linking the fees paid as part of private vehicle restrictions to investments in public transport, the city can both expand funding for public investment but also overcome popular resistance to restrictions on private use. Instead of being seen as a money-making scheme by the government, fees paid become a worthwhile investment in making public transport more available and affordable for Freetown.

36 Orla Ryan and agencies, "New York Assembly Shelves Manhattan Congestion Charge", *The Guardian*, (April 8, 2008), sec. Politics, <https://www.theguardian.com/politics/2008/apr/08/congestioncharging.pollution>.

(2) Connecting Freetown to the Rest of the Country

119. External connectivity between the city and the rest of the country is also limited. Poor maintenance of roads across the country means that 40 percent of the classified national road network is in poor condition.³⁷ At the same time, traffic restrictions limit the movement of freight traffic in and out of the capital. Currently, large trucks are banned from the central business district between 6 a.m. and 6 p.m. to enhance safety and reduce congestion in the city. Though this has significant positive effects on mobility within the city, it also makes Freetown a bottleneck for the transport of goods at the national level. There are obvious negative implications for freight travel that has to get between western Freetown and its port (which operates 24 hours a day) and the rest of Sierra Leone – with knock-on effects on the operation of the port.³⁸ Policymakers therefore face a trade-off in improving livability and connectivity within the city, and also allowing for external linkages to the rest of the country. Ultimately, a policy of investment in Freetown can only be justified if it is genuinely an investment that serves the interests of the entire national economy.
120. One option to address this trade-off is to complement continued investment in road infrastructure with regulatory reform to better facilitate the movement of goods across the country. Truck-only lanes on arterial roads in the city are an example of this. Instead of banning trucks completely, by restricting trucks to specific lanes, it is possible to reduce congestion in the city when compared with unregulated traffic flows, while providing a 24-hour road for freight travel.³⁹ Roads that have to carry high-capacity trucks need to be built to higher road-design standards and therefore cost more to build and maintain. However, by restricting truck traffic to one particular lane, other roads in the city can be built at a lower cost.⁴⁰ By providing access to the port through specific national roads, such as the Inner Ring Road, while continuing to restrict freight traffic in residential areas, policymakers can limit the negative impact of freight transport in the city. A similar strategy is being proposed in the Greater Toronto and Hamilton Area of Canada, where urban freight trips that largely take place on local or regional roads have increased congestion for road users.⁴¹
121. However, the overall congestion benefits of transforming an existing road lane into a truck-only lane will depend on having sufficient truck volumes to make adequate use of their lanes and having a sufficiently higher value of travel time by freight traffic as compared to smaller vehicles. Evidence suggests that it is only under very particular conditions that these lanes improve outcomes in terms of the benefits of time saved by all road users.⁴² Instead, tolls that differentiate between vehicle types and routes (based on their congestion and emission effects) are likely to be more effective in improving overall outcomes by allowing heavy goods vehicles to adjust their behavior in response to an additional cost of traveling at particular times and on particular routes in the city.⁴³
122. As previously noted, complementary land use planning can help to reduce the costs of connectivity by bringing industrial firms closer to the city. By encouraging greater industrial development along the main Bai Bureh road to the east of Kissy Road, the city can minimize the distance travelled by trucks in and out of the city and therefore reduce the cost of monitoring or tolling high-capacity vehicle use.

37 Nataliya Pushak and Vivien Foster, *Sierra Leone's Infrastructure : A Continental Perspective* (World Bank, March 1, 2011),

38 Adam Smith International, *"Development of an Integrated Mobility Plan for Freetown."*

39 André de Palma, Moez Kilani, and Robin Lindsey, "The Merits of Separating Cars and Trucks", *Journal of Urban Economics* 64, no. 2, (September 1, 2008): 340–61., <https://doi.org/10.1016/j.jue.2008.02.005>.

40 J. Holguin-Veras et al., "Economic and Financial Feasibility of Truck Toll Lanes", *Transportation Research Record*, 2003.

41 Malvika Rudra and Matthew Roorda, "Truck-Only Lanes on Urban Arterials: A Value of Time Approach," *Procedia - Social and Behavioral Sciences*, Eighth International Conference on City Logistics, (June 17-19, 2013), Bali, Indonesia, 125, March 20, 2014.

42 Rudra and Roorda. "Lanes," 2014.

43 de Palma, Kilani, and Lindsey, "The Merits of Separating Cars and Trucks".

(3) Connecting Freetown to the World

Port

123. Sierra Leone benefits from one of the largest natural harbors in Africa, providing a great opportunity for cross-country trade.

124. There have been significant improvements to connectivity through both Freetown City Port and Peper Port. Through well managed privatization of Freetown's port since 2010, significant investment has been made in the expansion and modernization of infrastructure. This has meant that port terminal traffic capacity has increased by over 30 percent.⁴⁴ Ongoing investments in operations and logistics mean that unexamined consignments can be processed in less than four hours.⁴⁵ At the same time, allowing mining companies operating in the Tonkolili mines to have exclusive rights to reconstruct, manage, and operate the port of Peper for iron ore exports has encouraged significant private investment in increasing the throughput capacity of the port and railway connections between the Tonkolili mine and the port.



125. However, accusations of corruption and the use of bribes by the private sector to influence customs valuations and tariffs, and to speed up port operations, undermine the legitimacy of port operations and the Sierra Leone Ports Authority. The private sector is estimated to pay out approximately US\$45 million per year in port-associated bribes.⁴⁶ This represents a damaging leakage to productivity – a port can only be as efficient as its government's regulatory services. Addressing this means either improving transparency and accountability of the public sector through automation and systems of private sector feedback, or establishing an independent agency to manage customs. In Mozambique, an independent private development company took over management of customs services in 1997 in an effort to reverse serious deficits in public sector operations following the civil war. By making investments in staffing, automation, and financial controls to prevent internal fraud, as well as a review of customs regulations to enhance transparency of operations, Crown Agents have been able to expand customs revenue each year without needing to increase tariffs.

126. At the same time, past leniency towards resource extraction companies has limited the scope for the Port of Peper to serve the nation. In 2009, African Minerals Limited, which at the time was a majority stakeholder in the construction and operation of the Tonkolili mine, was issued a 99-year lease to rehabilitate the railway between the Peper and Marampa mine, and to build a 126km extension to the mine at Tonkolili. While this could have been highly beneficial, the operator, now Shandong Iron and Steel Group, was allowed to have *exclusive* rights to use and grant access to both Peper port and the railway lines between the iron ore mine at Tonkolili and Peper port. Providing one company with the exclusive rights both to use for itself and also to grant access to third party users for this infrastructure gives that company a considerable amount of the value of all the natural resources that may, in the future, be discovered and which would need to be transported over that rail line. This raises a number of concerns:

44 Bollre Ports, "Freetown Terminal Extension", 2016, <http://www.bollre-ports.com/en/media/news/freetown-terminal-extension.html>.

45 Clare Manuel and Laureen Katiyo, *Business Environment Reform Diagnostic-Sierra Leone* (Business Environment Reform Facility, 2017).

46 Manuel and Katiyo. "Diagnostic," 2017.

- **Costs of replicating rail are high.** Railway and port facilities for transporting iron ore are generally able to provide access to new users at an extremely low cost. Significant economies of scale mean that it is much cheaper to expand existing railways to accommodate more users than it is to build new ones. As such, restrictions on multi-user access to the existing railway are likely to be extremely inefficient.
- **Threat of hold-up discourages investment.** In addition, potential firms that may wish to invest in exploring other mining deposits face an obvious “hold-up” problem in their use of the port and railway line after these investments are made. As such, Shandong is in a strong negotiating position to extract for itself any investment that other companies might make, and this strongly discourages potential investment in exploration by other firms.
- **Capture of public rents.** Instead of the government being able to earn revenues from allocating rights to mining and production that are paid in exchange for future profit, this revenue will be captured by Shandong through charges for access to the port and the rail.

127. Requiring open access to rail lines, on reasonable terms, is therefore important for encouraging investment along the railway route, and in expanding government revenues.

128. However, were the government to insist on renegotiation of the current agreement, it would be likely to face significant resistance. Furthermore, actually implementing regulations probably requires more capacity that is readily available.⁴⁷ Instead, it might be better to wait until the current lease is up, and then set terms that ensure that other firms (including agricultural exporters, passenger services, and freight transportation) can access the port and the railway on reasonable terms.

Airport

129. Lungi International Airport is currently low in capacity and poorly connected to Freetown. In the longer term, the new airport at Mamamah has the potential to solve these problems and greatly boost Freetown’s international connectivity. Yet these gains are unlikely to be reaped in the near future, and in the meantime, Freetown’s international access remains a pressing challenge. This could be significantly eased through relatively minor upgrading to the ferry system. This would prove a popular and visible investment both to locals and to international visitors.

130. The actual boat journey time from the airport to the city is entirely comparable with airport journey times in most cities and could be seen as very attractive: a 20-30 minutes journey by taxi boat or 1 hour by ferry can be a relief after a long flight. What reduces connectivity – and creates a poor impression - is that currently passengers often arrive in Lungi to face a confusing array of different ticket vendors, a long wait for boat departure, and significant uncertainty on departure times, making it difficult to schedule meetings reliably. A streamlined, organized ticketing system with more regular and reliable services would go a long way to solving these problems. If the capacity levels of taxi-boats could reach those of Venice Marco Polo Airport’s “Alilaguna” boats (6 boats per hour carrying approximately 40 passengers), these boats alone could service 3,000 passengers per day as needed for an airport with an annual capacity of 1 million passengers. As of 2013, Lungi airport was only receiving 228,000 passengers.⁴⁸

131. Furthermore, such fast taxi-boat services could be complemented by a cheap but regular slower ferry system. As with bus systems within Freetown, both ferry and taxi-boat services would be more efficient if their schedules were effectively regulated.

47 Paul Collier and Glen Ireland, “Shared-Use Mining Infrastructure: Why It Matters and How to Achieve It”, *Development Policy Review* 36, no. 1, January 1, 2018: 51–68, <https://doi.org/10.1111/dpr.12231>.

48 Data from the Logistics Capacity Assessment (LCA), <http://dlca.logcluster.org/>.

ECOWAS Highway

132. In addition to improving Freetown's air and sea infrastructure to connect Sierra Leone to global markets, there is a crucial role for improving road infrastructure to connect Freetown to neighboring countries. Delays in completing the ECOWAS highway in Sierra Leone come at a significant cost to international connectivity and competitiveness: estimates suggest that a one-day increase in inland transit times reduces export values by 7 percent.⁴⁹ Ongoing political and financial support to complete this highway would underpin the ability of Freetown to act as a West Africa trade hub towards the rest of the world. It would also play a crucial role in promoting trade within a region where an inherited colonial infrastructure has historically under-prioritized regional connectivity.

49 Caroline Rocha Freund Nadia, *What Constrains Africa's Exports ?*, Policy Research Working Papers,(Washington, D.C.: World Bank, 2010), <https://doi.org/10.1596/1813-9450-5184>.

Table 3.2: Summary of Policy Options

Current problem	Policy option	Potential gains
Urban density		
<i>Increasing urban density</i>		
Inefficient, low density land use that is frozen in place	Clarify land rights through land registration, and invest in land administration systems	Increased private investment; land use that can adapt to changing needs of city; potential for land tax to finance urbanization
	Land assembly (acquisition or readjustment)	Coordinated change in land use; potential for easier and more cost-effective infrastructure provision
<i>Managing downsides of density</i>		
Lack of public infrastructure and services for liveable urban density	Investment in urban infrastructure, ideally in advance of settlement	Enhanced quality of life for Freetown's citizens
Unplanned urban sprawl	Enforceable limitations on high-risk development and higher-density development elsewhere	Avoidance of natural disasters, such as flooding
Enhancing transport links		
<i>In the city</i>		
High levels of congestion in the city and limited road access	Investment in roads	Enhanced access to jobs and services
	Dedicated "bus" lanes for public transport providers and regulation of private vehicles	Ease of movement of higher volumes of commuters in the city
	Working with minibuses unions to effectively regulate bus schedules	More regular (and potentially more profitable) minibus services
<i>Between the city and the rest of the country</i>		
Poor and irregular transport linkages between Freetown and the rest of the country	Investment in roads + dedicated truck-only lanes/truck tolls on regular routes	Uninterrupted connectivity between Freetown and its port and the rest of the country
<i>Between the city and external markets</i>		
Corruption and inefficiency in port operations	Automation and private sector feedback on port operations/independent agency to manage port	Reduced corruption in port operations and enhanced government legitimacy
Exclusive private use rights to surrounding ports and railways	Renegotiation to require open access use rights when current lease ends	Encouragement of other industries that can use these facilities; public revenues from use rights
Long journey times between Lungi International Airport and the city	Investment in streamlining and schedule regulation of ferry and taxi-boat system	Improved transport connections; increased professionalism of services
Poor road linkages between Freetown and external markets	Investment in the ECOWAS highway	Reduced costs for exports

3.3: Conclusions from Urban Sector Review of Freetown

133. With a superb natural harbor, plentiful rainfall, a three-dimensional site, and proximity to beautiful beaches, Freetown is an excellent natural location for a major city. It has the potential to become one of West Africa's most productive and livable cities. But currently it is far from achieving that potential. If the population of the city continues to grow ahead of vital infrastructure it will become a mega-slum that locks both the city itself and the country, of which it is the capital and serves as the primary connection to the world, into continued poverty.
134. Urbanization is critically dependent upon effective urban planning. Leaving the process to individual households and firms, as has been the case for the past 60 years, dooms the city to failure. For a city to generate productive jobs and provide livable homes, it needs connectivity and electricity. This review has focused primarily on connectivity, which depends upon both density and transport.
135. If density continues to be achieved merely by crowding, the city will become unlivable and will be subject to high-profile disasters. Instead, density can be achieved by changes in land use that enable plots to be used more intensively and efficiently. The only route to enhanced use is to create land rights that are secure, so that people can be confident about investments, and are marketable, so that land can be transferred to its most productive user. The infrastructure to manage urban density is best provided before settlement occurs. Policies such as sites and services enable the government to plan for the city-of-the-future, while enabling people to build homes that are affordable in the present. The city can also provide good transport connections – both internally and externally – but to do so, smart policies must combine substantial infrastructure investments with a few highly focused new regulations, with dedicated bus lanes, and regulated bus and ferry schedules being prime examples.
136. For decades, Freetown has lacked such focused and purposive policies. The result of this prolonged neglect is visible to all: the city has become locked into low productivity, and is increasingly a bottleneck to investment in the entire country. The new government provides a pivotal moment: a rare opportunity for smart new policies to transform Freetown into a platform for productivity and a gateway to the world. Freetown can become a city that works.

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Enhancing Macroeconomic Stability for Inclusive Growth and Poverty Reduction

Sierra Leone is at a momentous point in her history having elected its third President since the end of the civil war in 2002. The newly elected government faces grand expectations from its citizens to restore macroeconomic stability, improve public service delivery and reduce poverty through speedy economic development. It is against this backdrop that we have prepared and pleased to present the first edition the World Bank's Sierra Leone Economic Update—a report which seeks to contribute to the policy discourse on pertinent economic issues. The report's key messages are outlined below.

After recovering in 2016 from the twin shocks of the Ebola Virus Disease (EVD) epidemic and collapse of iron exports, Sierra Leone's economy witnessed sharp moderation in growth in 2017, reflecting weak recovery of mineral production, particularly iron ore. Economic growth remains volatile as a result of a lack diversification in the economy due to a dependence on the mining sector. Macroeconomic imbalance also worsened in 2017 due to high levels of fiscal deficit and rising debts, inflationary pressure, a fragile banking system, and current account pressures.

Stabilizing the macroeconomy is precondition for inclusive growth and poverty reduction. Key macroeconomic and sectoral reforms will need to be implemented to reduce the imbalances and to avert downside risks to economic growth. Predicated on robust policy reforms, economic growth is expected to reach 6.5 percent in the medium term (2020), driven by increased private sector investments in agriculture and mining coupled with improved spending on road construction and energy, as well by reforms in the investment climate. There remain significant downside risks which could impede economic growth. The main risks to Sierra Leone's growth outlook are the persistent fiscal deficit, adverse debt dynamics, weaknesses in the banking sector, and the volatility of economic growth.

A rich menu of policy options is presented in this maiden edition of the Sierra Leone Economic Update, including options for a robust and sustained fiscal consolidation program to lower the fiscal deficit, reverse the trend of rising public debt. This should be complemented by a tight monetary policy stance by the Central bank including the implementation of measures to address weaknesses in the banking sector. Finally, policy options to diversify the economy and create poverty alleviation jobs are needed to mitigate the volatility of economic growth.

The World Bank remains committed to working with the Government of Sierra Leone and other stakeholders to identify potential policy and structural issues that will restore macroeconomic stability and promote inclusive economic growth and poverty reduction. Going forward the Sierra Leone Economic Update will offer a forum for such discussions. You are welcome to join us in debating topical policy issues that can contribute to fostering growth shared prosperity and poverty reduction in Sierra Leone.

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