

## **Responding to the economic threat posed by the Ebola outbreak in Sierra Leone**

### ***Statement from the International Growth Centre***

The recent outbreak of Ebola in West Africa has generated global alarm, but while the policy response has, so far, rightly focused on the public health challenge, attention is now turning to the economic consequences which may add further to the damage caused by the disease itself.

Real GDP growth in Sierra Leone has averaged 7% since the end of the country's civil war in 2002, reaching 15.2% in 2012 as the beneficial effects of post-war reconstruction were reinforced by a surge of activity in mineral extraction. This growth trajectory has made possible essential investments in infrastructure, schools, and clinics as part of the development objectives set out in the government's 'Agenda for Prosperity'.

The Ebola outbreak, the fear it has engendered, and actions taken to help prevent the spread of the disease are imposing substantial economic costs throughout the country. Fear of infection, the *cordon sanitaire*, and restrictions on restaurants, bars, and transport at night are leading to a decline in economic activity. This means lower income in the middle of the rainy season, the time of the year when the population is most economically vulnerable. Uncertainty about the future is causing investment decisions to be postponed in the private, nonprofit, and government sectors which is likely to have important medium term consequences. In addition, tax revenues and foreign direct investment will likely fall at a time when the government needs to step up its expenditure to combat the outbreak and address its consequences.

The Government of Sierra Leone and its development partners must have valid, credible data and analysis to ensure that their policy responses are evidence-based and that corrective actions are effective and well targeted.

The International Growth Centre (IGC), as part of its mission to bring world-leading economic researchers to work in partnership with policy makers in Asia and Africa, is committed to providing the Government of Sierra Leone with accurate, timely evidence to support the development of effective policy responses.

As a first step, the IGC and Innovations for Poverty Action (IPA) are activating an existing, phone-based food-price-monitoring system to provide rapid feedback to the government on areas of critical need. We hope to present the first round of this monitoring to the government next week. We plan to supplement this with rapid, additional phone-based surveys to provide further information on the economic impact of Ebola over the coming weeks.



## Short-run impacts and the need for a rapid – but well-informed – response

August is the peak of the lean season and therefore the month in which the population of Sierra Leone is most vulnerable economically.<sup>1</sup> Food prices are at their highest and food stocks held by households from their previous harvest are at their lowest. The particularly low level of precautionary savings at this time of year makes the population highly vulnerable to negative shocks.

90 percent of farmers report that, by August, they have run out of their stocks of staple food from the previous harvest and thus become net purchasers of food in August and for most of September as they await the onset of the rice harvest in late September. This means that any disruption to transport routes could have serious humanitarian consequences. Markets in Sierra Leone are fragmented at the best of times,<sup>2</sup> but the Ebola outbreak has exacerbated this problem. Some districts have been shut off under a cordon sanitaire, and while food is being transported into these districts it will be a major challenge to ensure that it reaches all rural communities. Currently the police are providing special passes to traders to enter restricted areas but it will be important to monitor that these passes are achieving the intended result. Intra-district trade (usually carried out by small, informal traders) may well be disrupted if traders are restricting their travel due to fear of infection.<sup>3</sup>

Even outside the worst affected districts, the signs are that transport and trade is much reduced by these fears. In areas where the nearest market is often across an international border, normal trade is particularly disrupted. In this environment of highly fragmented markets even small shocks to supply can lead to very sharp spikes in the prices of food and other necessities, which can put them out of the reach of the poor. For this reason IGC are activating an existing food-price-monitoring system that will alert the authorities to spikes in food prices throughout the country, enabling a quick response.<sup>4</sup> We also propose reviewing current transportation restrictions (such as the closing of international borders) to see if there are ways to achieve the desired health objectives while reducing the economic impact of these measures.

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<sup>1</sup> Ninety-seven percent of rural households report at least one period of hunger during August.

<sup>2</sup> See Casaburi, Glennerster, and Suri (2013).

<sup>3</sup> There are also risks with the police being given responsibility for providing passes to traders to enter quarantined areas.

<sup>4</sup> FEWS NET has an existing monitoring system to alert for food security issues, mainly in urban areas, but the increased fragmentation of markets means that more localized monitoring is needed.

In urban areas, informal workers are likely to have been hit by a reduction in activity as people stay at home out of fear of infection and the atmosphere of uncertainty discourages consumption, trading, and investment. These impacts are heightened by the measures introduced under the national State of Emergency. These include restrictions on okada traffic and the closures of bars and restaurants at night. One concern is that young men will suffer disproportionately from these measures and could become the source of instability or increased criminal activity. It is important to understand the extent and nature of this reduction in economic activity so that an effective response can be designed based on careful analysis of empirical evidence.

### **Planning for the likely medium-term impacts of the crisis**

The uncertainty and fear associated with the Ebola outbreak, which is the main driver (along with transport disruption) of the economic impacts, are likely to persist for several months. Lower levels of economic activity will inevitably lead to lower tax revenues. Lower government monitoring may even exacerbate this. At the same time, higher government expenditures (especially in health) is likely to mean an increase in the government deficit. The balance-of-payments impacts of this deficit will be exacerbated by lower foreign investment and a drop in spending by foreigners as some agencies repatriate staff. Lower consumption domestically is unlikely to fully offset these balance-of-payments effects.

In recent years Sierra Leone has been very successful at attracting significant mining investments. However, new investments are likely to be put on hold potentially impacting current operations as well as expansion plans. Were there to be more substantial reductions in mining operations this would have large impacts on the macro-economy, although the numbers of individuals impacted would be much smaller.

50 percent of GDP and 60 percent of employment comes from agriculture<sup>5</sup> and the main harvest season is a month and a half away. Fortunately for many, the harvest may well proceed on schedule, although productivity is likely to be hit by the disruption to health facilities and people's reluctance to seek health care for non-Ebola-related illnesses. A major risk is that the disruption to trade and transport will lead to highly uneven prices, with farmers forced to sell low in surplus areas. Urban areas will therefore not see the low food prices they would normally see at this time of year. Transport disruptions will be particularly severe for farmers for whom cash crops (cocoa and coffee) form a large share of their incomes. Two of the three districts with the highest production of cash crops (Kailahun and Kenema) are also those worst affected by the Ebola outbreak. If the cordon sanitaire is still in place during the cocoa harvest, the implications could be severe.

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<sup>5</sup> Agenda for Prosperity, Government of Sierra Leone, 2013.

## Conclusion

It is too early to predict the potential long-run economic consequences of the Ebola outbreak in Sierra Leone, but short-run impacts are already being felt, and some of the negative medium-term consequences are predictable and the government and their partners need to prepare now to limit the likely impact. However, there is also a risk of hastily taken measures backfiring. The IGC is therefore committed to providing real-time information and analysis to the Government of Sierra Leone and its partners to help track the economic consequences of the Ebola outbreak and support effective policy responses.

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