SIERRA LEONE: EXPORT-DRIVEN GROWTH FOR PRIVATE SECTOR DEVELOPMENT

FORUM ON NEW DIRECTIONS FOR PRIVATE SECTOR EXPANSION

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“All of the sustained, high-growth cases prospered by serving global markets. The crucial role of exports in their success is not much disputed.”
EXPORTS DRIVE ECONOMIC GROWTH

• Exports allow a country to tap into global market and exploit their comparative advantage
• Sierra Leone’s domestic market = 1/3 of Aberdeen, Scotland
• No local demand for diamonds, iron ore, cocoa
• Export sectors attract foreign investors, with capital, technology and market access
• Exporting encourages productivity, quality and innovation to remain competitive
• Exports also finance critical imports and debt payments
WHAT IS SIERRA LEONE’S COMPARATIVE ADVANTAGE?

Natural resources:

• Minerals, fish, agricultural land, good climate, tourism assets
• Like Canada! (Well except for the climate.)
• Not everyone will follow Asian model of labour-intensive manufactures
• See “Industries without Smokestacks: Industrialization in Africa Reconsidered”
  • Africa will follow a more diversified path, including services and agro-business
• Mineral wealth means stronger exchange rate and higher wages
  • Undermines competitiveness in garments, etc.
IS ONE BETTER THAN THE OTHER?
WHAT ARE SIERRA LEONE'S MOST PROMISING OPTIONS?
IMPORT SUBSTITUTION: WHAT ROLE?

Yes, it has a role to play

• Can generate high growth rates by replacing imports while also serving expanding domestic market – in theory

• But, market still small, and limited in time once imports are eliminated

• And must be efficient – otherwise a tax on economy
  • Sierra Leone has significant inefficiencies

• Rice is one possibility
  • But will it be at the expense of blocking cheap imports, leading to higher food prices?

• Also encourages rent-seeking (protection) rather than innovation
WHAT ABOUT VALUE ADDITION?

- Raw cocoa adds value!
- $2500 per tonne - $1000 in imported inputs = $1500 added to SL
- Processed cocoa butter may have no value added
- Very capital-intensive, increases transport costs, small price increase
- $3000 per tonne - $2500 in imported inputs - $500 subsidy = 0
- Canada sells > $1bil. in raw lentils and chickpeas to India each year
  - $2bil. of canola oilseeds to China
POLICY: CROSS-CUTTING OR SECTOR-SPECIFIC

• Doing Business reforms, trade facilitation, infrastructure investments, education are all important, but list can get very long – where to start?

• May miss key constraints for priority sectors, especially in resource-based industries
  • Fisheries: controlling illegal fishing
  • Mining: tax code which accounts for price fluctuations
  • Cocoa: replacing old trees with high-yielding varieties
  • Tourism: allocation of ocean-front real estate

• Developing countries’ growth tends to be driven by a few leading sectors
  • Leading sector theory of growth: Harold Innis, Canadian history
The Gambia Liberia Sierra Leone Ghana Botswana Cabo Verde Cambodia Thailand Vietnam
WHAT DOES SIERRA LEONE EXPORT?
(US$ MILLIONS)

- Heavy reliance on minerals
- But what is other?
- Most fish exports and cross-border trade not included
- Doesn’t include services
- $42$m from tourism

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Diamonds</td>
<td>116</td>
<td>118</td>
</tr>
<tr>
<td>Iron ore</td>
<td>131</td>
<td>16</td>
</tr>
<tr>
<td>Rutile</td>
<td>111</td>
<td>71</td>
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<tr>
<td>Other minerals</td>
<td>14</td>
<td>25</td>
</tr>
<tr>
<td>Cocoa</td>
<td>15</td>
<td>10</td>
</tr>
<tr>
<td>Fish/shrimps</td>
<td>10</td>
<td>5</td>
</tr>
<tr>
<td>Other</td>
<td>107</td>
<td>347</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>565</td>
<td>640</td>
</tr>
</tbody>
</table>
HOW HAS TOURISM DONE SINCE 2006?

Tourist arrivals
SO NOT TOO BAD, BUT...

- These numbers represent all arrivals, including
  - business persons
  - Sierra Leoneans from diaspora visiting family and friends
  - official missions, including aid workers
  - conference attendees
  - vacationers

- Holiday tourists were only 13,338 in 2013 (16% of total)
  - This is the segment that can be promoted through sound policy

- Sierra Leone already had 200,000 tourists in 1982

- The Gambia receives 160,000, Cabo Verde 600,000

- Need better land management along Western Peninsula and control sand mining; avoid Senegal’s mistakes
HOW ABOUT COCOA?
SOME PROGRESS, BUT...

- Only back to level achieved in 1991
- And some of this is imported from other countries
- Ghana exports 800,000 mt up from 400,000 mt in 2000
- Côte d’Ivoire exported 2 million tons in 2017 up from 1.3 million (2010)
- Yields 400 kg/ha. versus 700 kg/ha. in Côte d’Ivoire
- Need replanting with high-yield varieties, better husbandry and drying
- But not processing
ABIDJAN WAS BUILT WITH COCOA AND COFFEE
## WHAT ABOUT OTHER CROPS?

<table>
<thead>
<tr>
<th></th>
<th>2005 (tonnes)</th>
<th>Possible in 2015 (tonnes)</th>
<th>Actual 2017 (tonnes)</th>
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<tbody>
<tr>
<td>Gari</td>
<td>10,000</td>
<td>20,000</td>
<td>15,000 ?</td>
</tr>
<tr>
<td>Palm Oil</td>
<td>0</td>
<td>5,000</td>
<td>1,578 + cross-border trade</td>
</tr>
<tr>
<td>Palm Kernel Oil</td>
<td>0</td>
<td>5,000</td>
<td></td>
</tr>
<tr>
<td>Cashew</td>
<td>0</td>
<td>10,000</td>
<td>0</td>
</tr>
<tr>
<td>Ginger</td>
<td>0</td>
<td>1,000</td>
<td>0</td>
</tr>
</tbody>
</table>
WHY CASHEW?

• Easy crop, well suited to West African agro-climatic conditions
• Some experience in Sierra Leone already
• Thrived in Guinea Bissau and Northern Côte d’Ivoire in spite of political problems
• Côte d’Ivoire now biggest exporter of raw cashews (600,000 mt), expanded in the north with no government support
• Guinea Bissau farmers prefer to grow cashew and buy imported rice
• Indian traders have played key role as buyers and exporters
• Good smallholder cash crop, but need high-quality seedlings
WHY GARI, PALM OIL AND GINGER?

- Past experience with all three in Sierra Leone
- Gari: cassava requires few inputs or husbandry, and good market in neighbouring countries; active trade already in 2005
- Palm oil and ginger: can attract private investment
- Gari and local palm oil are significant in cross-border trade
- Regional integration is happening
- But being discouraged by hassles, bribes, bans
- IGC report on cross-border trade
AGRICULTURAL CONCESSIONS

- Big new development
- 93 active projects (IGC report)
- Only 36 had completed at least one harvest
- Most common: cashew and rice, then cassava and ginger
- But also some big concessions for palm oil, rubber
- Ideally, investor works with smallholders through contract farming
  - Provides technical and financial support and secure market
  - But not always feasible
AGRICULTURAL CONCESSIONS
FISHERIES

More complicated

- Supply is limited and exports compete with domestic demand
- Benefits depend on who is exporting and what they export: foreign ships may add little or nothing to domestic economy (transshipment at sea)
- Illegal trawling stopped in 6-mile inner zone: catch $\uparrow \square$ 30% for some communities
- Public revenues $\uparrow \square$ 300% between 2008 and 2013
- But in Liberia, catch $\uparrow \square$ 100% and signed EU fisheries agreement
- In Sierra Leone landing infrastructure built but not used for many years
- Spoilage still estimated at 40-50%
- Still no obligation by foreign fleets to land all catch as in Namibia
HOW TO ADD VALUE?

The challenge: Getting the most value out of a fixed supply

1) Stop all illegal, unreported, unregulated fishing

2) Ideally, require all ships to unload catch in SL for further processing
   • But must have capacity to handle it

3) Maximize role of artisanal fishing sector

4) Reduce spoilage

5) Use high-value species for high-value purposes
   • Ideally fresh, not fishmeal

6) Take full advantage of regional market
   • For both high-value and dried, smoked fish
MINING

Major progress: iron ore boom, 36 concessions, EITI, NMA

• But has it distracted attention from agriculture and other growth sectors?

• Again, a problem of extracting maximum value from limited supply

• Export numbers look good but what is net gain to economy?
  • Significant for artisanal mining, less for modern mines?

• Important source of government revenue and spending
  • But is it used for higher wages (good or bad?) or more investment

• Can increase backward linkages to suppliers
  • IGC work on local content units (Tanzania, Ethiopia)

• Impact on local communities?
HOW TO PROCEED?

• Prioritize – human and capital resources are limited
• Leverage the private sector – follow their lead, don’t try to invent
• Listen to the private sector – regular consultations to identify problems and possible solutions, at industry/sector level
• But remain vigilant – not all investors are serious or competent
• Ensure accountability
  • Private sector: has investment begun in concessions, are they exporting?
  • Government: are promises made during consultations acted upon?
THANK YOU