

# Sierra Leone Policy Forum

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*Jobs Creation through private sector development, trade promotion, and regional integration: Lessons from empirical studies.*

IGC Sierra Leone

Over the past ten years, Sierra Leone's GDP more than doubled. Despite this, the country still suffers from widespread poverty, high unemployment for the majority of citizens, and growing income inequality.

The 4.2% official unemployment rate disguises the widespread under-employment, manifested by job informality and the economy's vulnerability to external shocks. Addressing the economy's complex problems requires a long-term vision characterised by significant reforms and consistent actions on various fronts. From the IMF presentations, the government is inheriting a large budget deficit combined with severe cash flow constraints, an alarming and increasing debt crisis, suspension of the IMF programme, and very high income inequality. Against this background, the high expectations of the population after the General Elections can easily turn to frustrations and disillusionment. Hence every measure taken to alleviate the current crises must analyse the distributional effects and specifically the impact on the poor.

One of the government's priorities, drawing from its political party manifesto, is no doubt to meet people's expectations for job creation. Jobs can provide a sustainable solution to address poverty and inequality in both the short and medium term. Viable solutions for job creation should aim at strengthening the nexus of private sector expansion, trade promotion, and regional integration. Studies undertaken locally and elsewhere point to a number of short term options while more durable solutions are being developed.

In 2017, the IGC organised a forum on jobs and inclusive growth which outlined the results of a body of research on how to facilitate job creation in weak markets. The evidence uncovered some popular myths of job creation that should be avoided, and pointed to some feasible options.

Much of the interventions aiming at job creation have revolved around a) provision of training (e.g. vocational training, business skills, apprenticeship); b) provision of capital (e.g. microfinance, cash grants, gift assets); or a combination of both. The

studies show that such training yields low returns for job creation, e.g., when unsolicited skills are provided, or in the absence of the appropriate business environment. Furthermore, there are now research results challenging the efficiency, or at least sustainability, of microfinance for long-term growth and job creation. The same goes for the combination of microfinance and training.

More viable options consist of creating optimal conditions for small business to develop, that in turn increase the demand for workers. However, in Sierra Leone, the market size is small and poverty widespread. Therefore opportunities for business expansion domestically are limited. Trade opens up the market, and an often forgotten obvious much larger market is the sub-region (Mano River Union). Promoting trade through greater integration in the sub-region is essential for market expansion.

The strategy for accessing the AGOA initiative, now in its final stages of preparation, would likely allow the opening up of opportunities in markets other than the US, for jobs, foreign exchange earnings, and diversification of exports. In this context, the IGC, Ministry of Trade, and SLIEPA have conducted a value chain analysis for exports to the US that revealed a number of weak links internally that strangle the expansion of the private sector and by extension exports.

Another recent IGC study on cross-border trade with Sierra Leone's neighbours, whose results will be presented shortly, identifies products, their volumes, trade bottlenecks, and opportunities for expanding small businesses. This research reveals the granular details of the country's regional trade, and provides information useful for planning and promoting exports, especially taking the gender dimension into account.

Finally, another study in 2017 on the effects of business reforms on the country's fragility shows worrying similarities to pre-conflict days. There is evidence of the adverse effects of some policies that require urgent action. Examples include contradictory laws, inappropriate policies, and poorly designed agreements.

This body of evidence can be used to develop a practical and viable blueprint for promoting private sector and jobs through addressing supply-side constraints, facilitating trade, eliminating administrative bottlenecks, and exploiting the sub-regional market.

Another set of measures could help increase the buffer to protect the poor as reforms unfold. These include:

- revisiting and or changing the tax regime, providing targeted subsidies, and expanding cash grants that are tied to increasing revenues from micro businesses,
- Identify key areas for subsidies to the poor, remove disguised subsidies to rich, and reduce effective taxes on the poor.

All of the above require a medium-term framework of reforms with short-term actions.

**The following are some practical suggestions for action needed now to embark on such reforms.**

1. Promotion of the private sector, especially small businesses so as to expand employment in both formal and informal sectors, by addressing constraints identified in various studies so far.
2. In practical terms, rationalise and, where necessary, eliminate administrative rules and regulations that raise the cost of doing business unnecessarily.
  - SLIEPA and MTI must facilitate and encourage domestic and even foreign businesses to expand production for eventual processing of certain crops such as garri, dried fruit, honey, turmeric using low-tech and low cost machines available from India/Ghana; results can be expected in about 18 months.
  - For trade facilitation, rationalise mandates of SLPMB and SLPMB.
  - Ministry of Finance (Mof) and Bank of Sierra Leone (BoSL) should work with banks to reduce current interest rates, improve financial intermediation and stimulate small businesses.
3. Other measures:
  - Targeting a reduction in the wage bill through:
    - Decentralising the screening of ghost workers in the public service
    - Introduce sub-contracts (enforce procurement rules) for many public services, to the private sector – e.g., bill payments and collection, messenger services, transportation, cleaning etc.
  - Conduct special reviews (forensic audit) of high income generating MDAs – Environmental Protection Agency, MMR/NMA, Petroleum Directorate, Sierra Leone Maritime Administration, Road Maintenance Fund Administration NATCOM, SLPMB etc.
4. Set up the Planning Commission urgently (already in the CRC report).

Addressing the macro economic imbalances and halting the economy's decline call for bold measures. Every effort must be deployed to mitigate the impact of such measures on the over 75% considered poor in multidimensional terms. Expanding the private sector to create jobs should be among the options to be considered. There are tremendous opportunities for doing so by eliminating legal, regulatory, administrative, and other barriers to trade, while exploiting the opportunities in the sub regional market.